

## **GST 2.0 and the Changing Face of Household Budgets *A Study of Consumer Price Dynamics and Fiscal Redistribution in India***

**Dr. B. Lakshmana Rao, Dr. S. Ramesh**

Associate Professor of Economics, SR&BGNR Government Arts & Science College (A): Khammam Telangana

[lakshman4372@gmail.com](mailto:lakshman4372@gmail.com)

Associate Professor of Commerce, Government Degree College: Nelakondapally Telangana

[srameshmcomphd@gmail.com](mailto:srameshmcomphd@gmail.com)

### **Abstract**

The introduction of the Goods and Services Tax (GST) in India in July 2017 represented the most sweeping indirect tax reform in the country's post-independence history. While its first phase consolidated a fragmented tax structure, a number of structural inefficiencies — including the inverted duty structure, cascading effects on certain commodities, and the exclusion of petroleum products — have persisted. The proposed GST 2.0, a term increasingly used to describe the next phase of GST rationalisation, aims to address these concerns through a streamlined rate architecture, broader base, and enhanced digital compliance. This article examines the potential impact of GST 2.0 on household budgets across income categories, with a focus on essential commodities, housing, healthcare, and education. The study argues that while GST 2.0 may reduce the overall tax burden for certain segments, its net impact on household expenditure depends critically on rate rationalisation decisions and the degree to which benefits are passed on by businesses. Drawing on secondary data from the National Sample Survey and Consumer Price Index reports, the paper presents a consumer-centric assessment of GST 2.0 and outlines recommendations for an equitable, pro-poor rate structure.

**Keywords:** *GST 2.0, household budget, consumer prices, rate rationalisation, indirect taxation, India, fiscal policy*

### **1. Introduction**

Indirect taxation exerts a profound influence on household consumption patterns. In India, the introduction of GST in 2017 aimed to unify the country into a single market, eliminate the cascading effect of multiple levies, and reduce the compliance burden on businesses. While early assessments indicated improvements in supply chain efficiency and a gradual formalisation of the economy, the impact on household budgets has been uneven. Households in lower income deciles, which spend a higher proportion of income on food, fuel, and daily necessities, have been disproportionately affected by GST applicability and rate anomalies.

GST 2.0 is positioned as a corrective evolution. The proposed changes include reducing the number of tax slabs, rationalising rates on common household goods, addressing the exclusion of petroleum and real estate from the GST framework, and incorporating simplified compliance mechanisms for

small taxpayers. These reforms, if implemented judiciously, could significantly alter the pattern of household expenditure — both in urban and rural settings. This article evaluates these dynamics with reference to income-differentiated consumption baskets.

### **2. GST and Its Impact on Consumer Prices: A Retrospective**

Since its implementation, GST has had a mixed record on consumer prices. The initial months saw price volatility as businesses adjusted to the new system. Over time, however, several categories of goods witnessed effective price reductions owing to input tax credit (ITC) availability and competitive market pressures. According to National Statistical Office data, items such as processed food products, household appliances, and certain textiles saw reduced effective rates post-GST compared to the

pre-GST combined incidence of VAT, excise duty, and CST.

However, services — including dining, entertainment, and professional services — became more expensive, affecting urban middle-class households significantly. Housing-related services remained partially outside the GST net, creating complications for buyers in the real estate market. Healthcare and education, though largely exempt or zero-rated, were subject to GST on inputs, leading to an inverted duty structure that effectively increased costs for service providers, some of which were passed on to consumers.

### **3. GST 2.0 Rate Rationalisation: Implications for Essential Goods**

The GST Council's deliberations on rate rationalisation have centred on collapsing the existing four-rate structure (5%, 12%, 18%, 28%) into a simpler three-rate framework. Proposals suggest a merged 12–15% standard rate, retention of a lower slab for necessities, and a higher slab for luxury and demerit goods. For households, the critical question is how the standard rate will be applied to commonly consumed goods.

If items currently in the 12% bracket — such as packaged food products, readymade garments, and common medicines — are moved to a lower slab, households across income groups stand to benefit. Conversely, upward rationalisation of items from the 5% to a higher slab, in the interest of revenue neutrality, could hurt lower-income households whose consumption is concentrated in such categories. Simulations based on the Household Consumption Expenditure Survey (HCES) 2022-23 suggest that rate reductions on staple categories could save an average rural household approximately Rs. 1,200–1,800 per annum.

### **4. Housing, Healthcare and Education: The Unfinished Agenda**

Three significant areas remain inadequately addressed under the existing GST regime: housing, healthcare, and education. Real estate transactions continue to carry a complex overlay of stamp duty,

registration charges, and partial GST applicability on under-construction properties. GST 2.0 is expected to bring a more coherent framework, potentially through a revenue-sharing mechanism between the Centre and states that replaces the current patchwork of levies.

In healthcare, the existing zero-rating of hospital services coexists with GST on medical equipment and inputs, imposing hidden cost burdens on patients. Rationalisation of the ITC mechanism for healthcare providers under GST 2.0 could reduce operational costs and ease pricing pressures. Similarly, in education, input costs for private institutions — including construction, stationery, and digital tools — attract GST, which ultimately feeds into fee structures. Addressing these input-side distortions is crucial for ensuring that the social sectors remain affordable.

### **5. Revenue Neutrality vs. Household Relief: The Policy Dilemma**

One of the central tensions in designing GST 2.0 is the trade-off between revenue neutrality and consumer relief. The Fifteenth Finance Commission has highlighted the need for states to maintain fiscal autonomy, and any rate rationalisation that significantly erodes GST collections would be politically contentious. However, as several economists have argued, broader compliance and reduced evasion under a simpler rate structure could offset the static revenue loss.

International precedents, including the VAT reforms in the United Kingdom and the GST evolution in Australia, suggest that streamlined systems with fewer exceptions and lower rates often generate higher long-run revenues due to improved compliance. For India, the introduction of AI-driven audit mechanisms and e-invoicing mandates under GST 2.0 could enhance the effective tax base even as headline rates are moderated, offering a potential win-win for both the fisc and the household.

### **6. Distributional Analysis: Who Benefits Most?**

Using data from the HCES 2022-23 and the PLFS 2022, it is possible to model the distributional

implications of proposed GST 2.0 changes. Lower-income quintiles spend a higher share of total consumption on food (approximately 55–60% for the bottom quintile versus 30–35% for the top quintile). Since most unprocessed food is exempt and processed food attracts 5–12% GST, the net burden on lower quintiles is relatively limited but still significant in absolute terms.

Middle-income households, which consume a broader basket of manufactured goods and services, would benefit most from the proposed slab merger at 12–15%. Upper-income households, which contribute disproportionately to luxury and demerit goods revenue, would be relatively unaffected. The key policy recommendation is that any rate increases for revenue neutrality must be confined to the luxury bracket, while the essential and semi-essential categories should be unambiguously protected.

## 7. Conclusion

GST 2.0 presents a historic opportunity to align India's indirect tax system more closely with the welfare of its household consumers. The success of this reform will depend on the precision of rate rationalisation, the safeguarding of essential commodity categories, and the ability of the tax administration to expand the compliance base without placing additional burdens on honest taxpayers. Policymakers must be guided by distributional evidence and consumer price data, ensuring that the changing face of GST results in

genuine relief for Indian households across the income spectrum.

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