

Economic Research | India

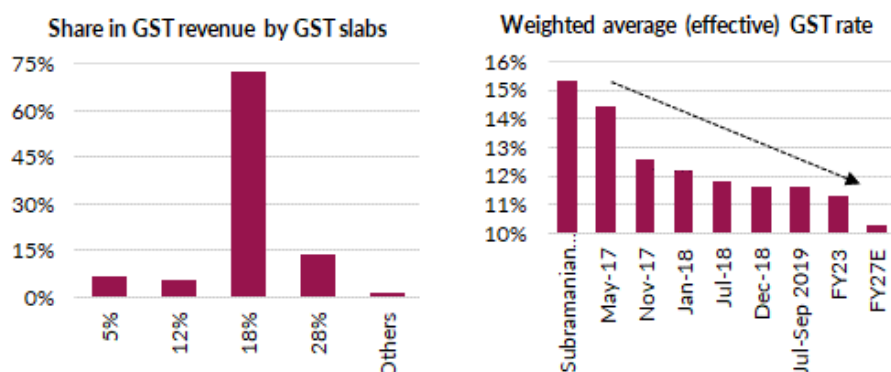
GST redesign after 8-Years: A structural reform to boost growth

The announced GST simplification is a major reform, in our view, making India's indirect tax structure one of the cleanest globally. If all items at 12% move to 5%, and items at 28% to 18%, GST receipts would fall 8.5% (Rs1.8tn/year, 0.5% of GDP). This would be spread over FY26 and FY27, and between centre and states. FY26 revenue loss for the centre could be Rs450bn/yr (0.12% of GDP). Better compliance/higher volumes should offset some of that over time. This is not final yet but may be politically difficult to oppose. GST Council meets September 18-19. Some de-stocking may occur in the run-up; a fast rebound thereafter.

August 17, 2025

Fiscal, Growth

Exhibit 1 - ~75% of GST tax receipts via 18% rate; avg. GST rate may fall by 1pp



Source: Finance Ministry, RBI, IMF, XV Fin. Commission, GST RNR Committee, Axis Bank Research estimates

The Prime Minister announced GST reforms by Diwali (25 Oct) in his Independence Day speech; the press release ([link](#)) mentions a two-rate structure. As per news reports ([link](#)) the centre has recommended to the GST Council two rates of 5% and 18%, and a 40% rate for sin and demerit goods, discontinuing the 12% & 28% slabs, among other procedural reforms.

Discontinued slabs 18-20% of GST receipts; Compensation cess likely to end

News reports ([link](#)) suggest ~99% of 12%-rated items will move to the 5% slab, and 90% of 28%-rated items to 18%. The 28% slab is 13-15% to GST collections (Fig 2, 6), and the 12% slab 5-6% as per Ministry of Finance disclosure in the Lok Sabha in Dec-2024 (Fig 2, [link](#)). We estimate GST collections to be affected by 8.5% of FY26 budget, or Rs1.8tn/year (0.5% of GDP). General government revenue impact would be 0.25% in FY26 (rest in FY27), skewed slightly towards the central government. The effective rate may fall to 10.3% (Fig 3).

Laffer curve benefits on higher slabs; clean structure to lower compliance costs

We expect the short-term revenue loss to be offset over time by improvement in compliance for goods in the two discontinued slabs (more for the 28% slab), helping lift the GST to GDP ratio (Fig 4). A 7-10% fall in prices should also boost volumes in some of these categories.

Procedural changes recommended by the centre can also simplify the filing burden: some reports (NIPFP VAT study) note that India has very high GST return filing burden; smaller firms are disproportionately impacted ([link](#)). The compensation cess (Rs1.6tn/yr, Fig 5), was anyway to be discontinued post FY26. Revenue loss may be minimal: cess on cigarettes and coal may persist, and other items (like large cars, sugary drinks) would shift to the 40% slab.

Only the first step: federal politics and channel inventory uncertainty ahead

Rates are to be finalised by the GST Council (needs 75% of votes, though all but one decisions thus far have been by consensus), most likely in the September 18-19 meeting. The decisiveness of the announcement, especially the promise of price cuts for consumers should reduce political pushback from states. However, some states may lose more revenue than others and are likely to resist. Separately, near-term there is likely to be some economic disruption as the channel may now be reluctant to build inventory ahead of Diwali in categories seeing rate cuts. Post the cuts the economic momentum should pick up sharply.

Neelkanth Mishra

Neelkanth.Mishra@axisbank.com

Prateek Ancha

Prateek.Ancha@axisbank.com

Vipul Jindal

Vipul.Jindal@axisbank.com

Tanay Dalal

Tanay.Dalal@axisbank.com

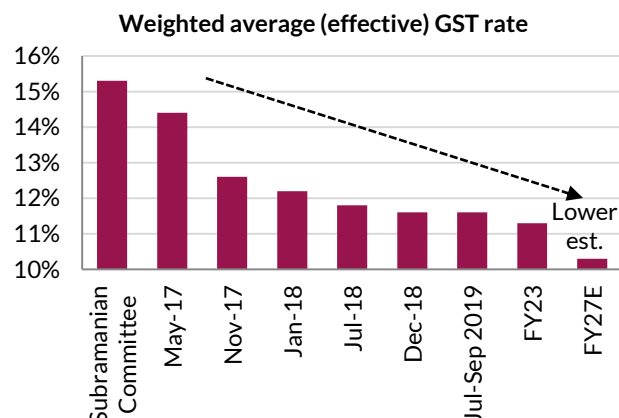
Pulkit Kapoor

Pulkit1.Kapoor@axisbank.com

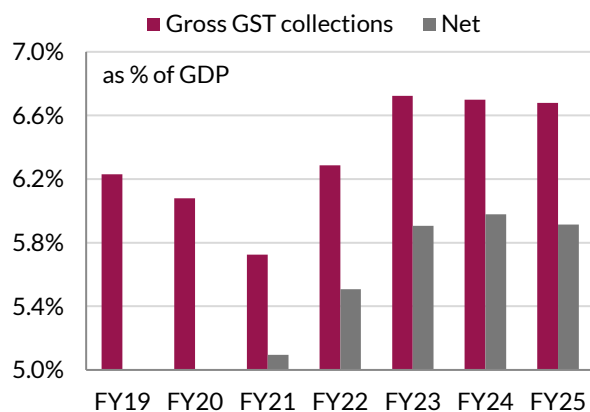
Exhibit 2 - The discontinued slabs account for 18-20% of GST

GST rate slab	Share of revenue
5%	6-8%
12%	5-6%
18%	70-75%
28%	13-15%
Others	1-2%

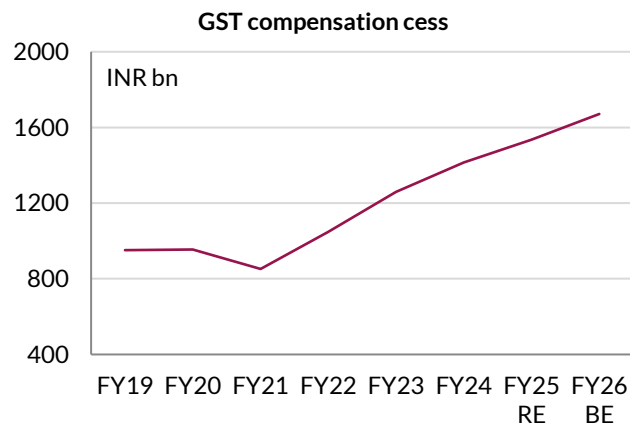
Source: Lok Sabha proceedings (2 Dec 2024), Axis Bank Research

Exhibit 3 - Effective GST rate may fall by another 1pp


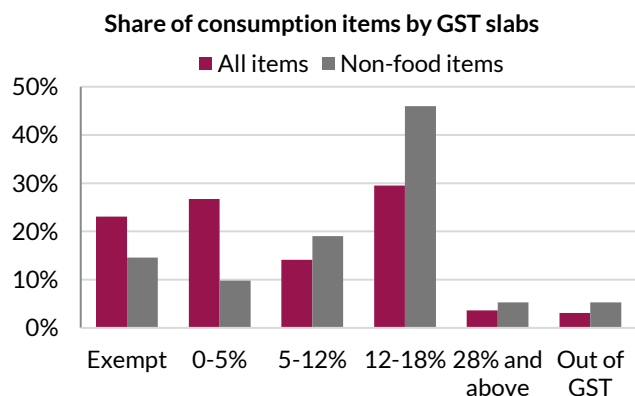
Source: RBI (2019), Media reports, Axis Bank Research

Exhibit 4 - As % of GDP, the decline may be <15bps


Source: GSTN, Axis Bank Research

Exhibit 5 - Discontinuation of compensation cess is likely too


Source: CGA, Axis Bank Research

Exhibit 6 - Removal of 12% slab may spur non-food spending


Source: S. Mukherjee (NIPFP, 2025), Axis Bank Research

Exhibit 7 - GST revenue loss breakdown by sectors

Items	Expected reduction in GST rates	Estimated revenue loss (Rs. Bn)
Items moving from 12% to 5% slab	7%	700
Cement	10%	250
Small autos	10%	250
Large autos	4.5%	75
Two-wheelers	10%	140
Commercial vehicles	10%	9
Rest (including other durables)	10%	376
Total		1800

Source: Axis Bank Research estimates

Disclaimer: The report and information contained herein is of confidential nature and meant only for the selected recipient and should not be altered in any way, transmitted to, copied, or distributed, in any manner and form, to any other person or to the media or reproduced in any form, without prior written approval of Axis Bank. The material in this document/report is based on facts, figures and information that are obtained from publicly available media or other sources believed to be reliable and hence considered true, correct, reliable and accurate but Axis Bank does not guarantee or represent (expressly or impliedly) that the same are true, correct, reliable and accurate, not misleading or as to its genuineness, fitness for the purpose intended and it should not be relied upon as such. The opinion expressed (including estimates, facts, figures and forecasts) is given as of the date of this document is subject to change without providing any prior notice of intimation. Axis Bank shall have the rights to make any kind of changes and alterations to this report/ information as may be required from time to time. However, Axis Bank is under no compulsion to maintain or keep the data/information updated. This report/document does not mean an offer or solicitation for dealing (purchase or sale) of any financial instrument or as an official confirmation of any transaction. Axis Bank or any of its affiliates/ group companies shall not be answerable or responsible in any way for any kind of loss or damage that may arise to any person due to any kind of error in the information contained in this document or otherwise. This document is provided for assistance only and should not be construed as the sole document to be relied upon for taking any kind of investment decision. The recipient is himself/herself fully responsible for the risks of any use made of this information. Each recipient of this document should make his/her own research, analysis and investigation as he/she deems fit and reliable to come at an independent evaluation of an investment in the securities of companies mentioned in this document (including the merits, demerits and risks involved), and should further take opinion of own consultants, advisors to determine the advantages and risks of such investment. The investment discussed or views expressed herein may not suit the requirements for all investors. Axis Bank and its group companies, affiliates, directors, and employees may: (a) from time to time, have long or short positions in, and deal (buy and/or sell the securities) thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn commission/brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The applicable Statutory Rules and Regulations may not allow the distribution of this document in certain jurisdictions, and persons who are in possession of this document, should inform themselves about and follow, any such restrictions. This report is not meant, directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would not be in conformation to the law, regulation or which would require Axis Bank and affiliates/ group companies to obtain any registration or licensing requirements within such jurisdiction. Neither Axis Bank nor any of its affiliates, group companies, directors, employees, agents or representatives shall be held responsible, liable for any kind of consequential damages whether direct, indirect, special or consequential including but not limited to lost revenue, lost profits, notional losses that may arise from or in connection with the use of the information. Prospective investors and others are cautioned and should be alert that any forward-looking statements are not predictions and may be subject to change without providing any notice. Past performance should not be considered as a reference to future performance. The disclosures of interest statements if any included in this document are provided only to enhance the transparency and should not be construed as confirmation of the views expressed in the report. The views expressed in this report reflect the personal views of the author of the report and do not reflect the views of Axis Bank or any of its associate and group companies about the subject company or companies and its or their securities.

Disclaimer for Singapore clients: This document is published by Axis Bank Limited, India ("Axis Bank") and is distributed in Singapore by Axis Bank. This document is not a research analysis or report concerning any investment product. This document does not provide or purports to provide individually tailored investment advice, commentary or opinion. The contents in this document have been prepared and are intended for general distribution strictly to accredited investor, expert investor or institutional investor. A recipient of this document shall not provide or circulate this document to any other person. The contents in this document do not take into account the specific investment objectives, financial situation, or particular needs of any particular person. The instruments and product types mentioned in this document may not be suitable for all investors. You should independently evaluate particular investments or product types and seek independent advice from a financial adviser regarding the suitability of such instruments or product types, taking into account your specific investment objectives, financial situation and particular needs, before making a commitment on any instruments or product types. This is because the appropriateness of a particular instrument or product type will depend on your individual circumstances and investment objectives, financial situation and particular needs. The instruments and product types mentioned in this document may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Disclaimer for DIFC clients: Axis Bank Limited (DIFC branch) is duly licensed and regulated in the Dubai International Financial Centre by the Dubai Financial Services Authority ("DFSA"). This document is intended for use only by Professional Clients (as defined in the Rule 2.3 of the Conduct of Business Module of the DFSA Rulebook) who satisfy the regulatory criteria set out in the DFSA Rules, and should not be relied upon, acted upon or distributed to any other person(s) other than the intended recipients