NEW ZEALAND
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Manatū Aorere

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India's GST reforms

MARKET INTELLIGENCE REPORT

Summary

- India implemented significant Goods and Services Tax reforms (dubbed GST 2.0) on 22 September 2025, following approval of the reforms by the GST Council on 3 September 2025.

- The overhaul simplifies the goods and services tax structure, reducing a complex system into two main rates - 5% and 18% - while introducing a 40% rate for luxury and “sin” goods.

Report

India implemented significant Goods and Services Tax reforms on 22 September 2025. Prime Minister Narendra Modi has branded the reforms as “Next-Gen GST reform” – and the media has dubbed them “GST 2.0”.

The reforms consolidate the earlier four-tier system into a largely two-tier structure of a 5% rate (called the “merit rate”) and an 18% rate (called the “standard rate”). There is also a 40% “demerit” rate for high-end and so-called “sin” goods, and a number of staples are now exempt at 0% (including UHT milk, paneer, and some breads). The aim is to simplify compliance, reduce cascading taxes, and restore momentum behind consumption.

Everyday goods turn cheaper

The new rates bring visible relief to consumers. Everyday products like packaged food, soaps, and personal care items now attract a 5% GST, down from 12–18%. Automobiles such as two-wheelers, small cars, buses, ambulances, and auto parts have also seen their GST drop from 28% to 18%, potentially reducing retail prices by 8–9%. Consumer durables like air conditioners, refrigerators, and dishwashers now fall under the 18% bracket.

Healthcare wins big

In a major shift, health insurance and life insurance premiums are now exempted from GST (they previously attracted an 18% rate), alongside 33 essential drugs including treatments for cancer and rare diseases. Basic food staples such as UHT milk, paneer, and Indian breads are also tax-free (reduced from 5%). This is a substantial category at 0%, as these items make up a large share of everyday household consumption, and the change is expected to ease costs for consumers and support food affordability.

Luxury faces the heat

In counterbalance, the government introduced a 40% GST rate for “luxury, sin, and demerit” goods.

Included in this category are products such as tobacco, gutka (a chewable mix of tobacco and areca nut), pan masala (a non-tobacco mouth freshener made of areca nut and flavouring agents), high-end vehicles, and online gaming - intending to curb consumption while protecting revenue.

Shielding growth amid global pressures

The reforms are aimed at reducing complex tax compliance and high logistics costs, while mitigating external pressures and strengthening MSME performance. They reflect India's effort to buffer against slowing exports and global headwinds. The latter, combined with a weak rupee and softening investment, have put pressure on India's growth. By lowering taxes on essentials, while also easing compliance costs for MSMEs, India aims to stimulate domestic consumption (which accounts for more than 50% of GDP) and thus to offset export losses through stronger domestic demand.

Analysts expect GST 2.0 to add 0.7 to 0.8 percentage points to GDP growth, while easing inflationary pressures, and over time enable higher compliance, stronger consumption, and expanded economic activity. And over the longer term, the reforms are expected to accelerate formalisation of the economy and improve tax predictability, aligning India closer to international best practices. Expected advantages for businesses include a more stable business environment, with simplified filings and clearer classification reducing disputes and delays.

The IMF has also taken note, raising India's growth outlook in October to 6.6% in FY 25-26, up from 6.5% in FY 24-25, citing the GST 2.0 reforms as a key driver by supporting resilience and offsetting US trade friction.

Government Framing

Finance Minister Nirmala Sitharaman described the reform as part of a long term "rationalisation process" rather than a short-term stimulus. A member of Prime Minister's Economic Advisory Council Sanjeev Sanyal called it the culmination of "eight years of steady refinement," while Commerce Minister Piyush Goyal has said it reflects India's maturing tax system.

Comment

GST 2.0 creates clear opportunities emerging in sectors where demand is likely to rise. These include automobiles, Fast Moving Consumer Goods (FMCG), consumer durables, apparel, and insurance. The reforms are expected to make doing business in India easier, with faster refunds, fewer compliance hurdles, and more predictable timelines. For sectors like textiles, fertilisers, and renewables, lower taxes will likely free up working capital and encourage investment. All of this is aimed at increasing household spending, growing rural and semi-durable consumption, and improving operational efficiency.

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