

SBI Research

The Good and Simple (Tax) unleashed....

The simpler GST 2.0 unleash plethora of benefits in the form of consumption boost primarily from the middle class, low inflation, ease of business and ease of living

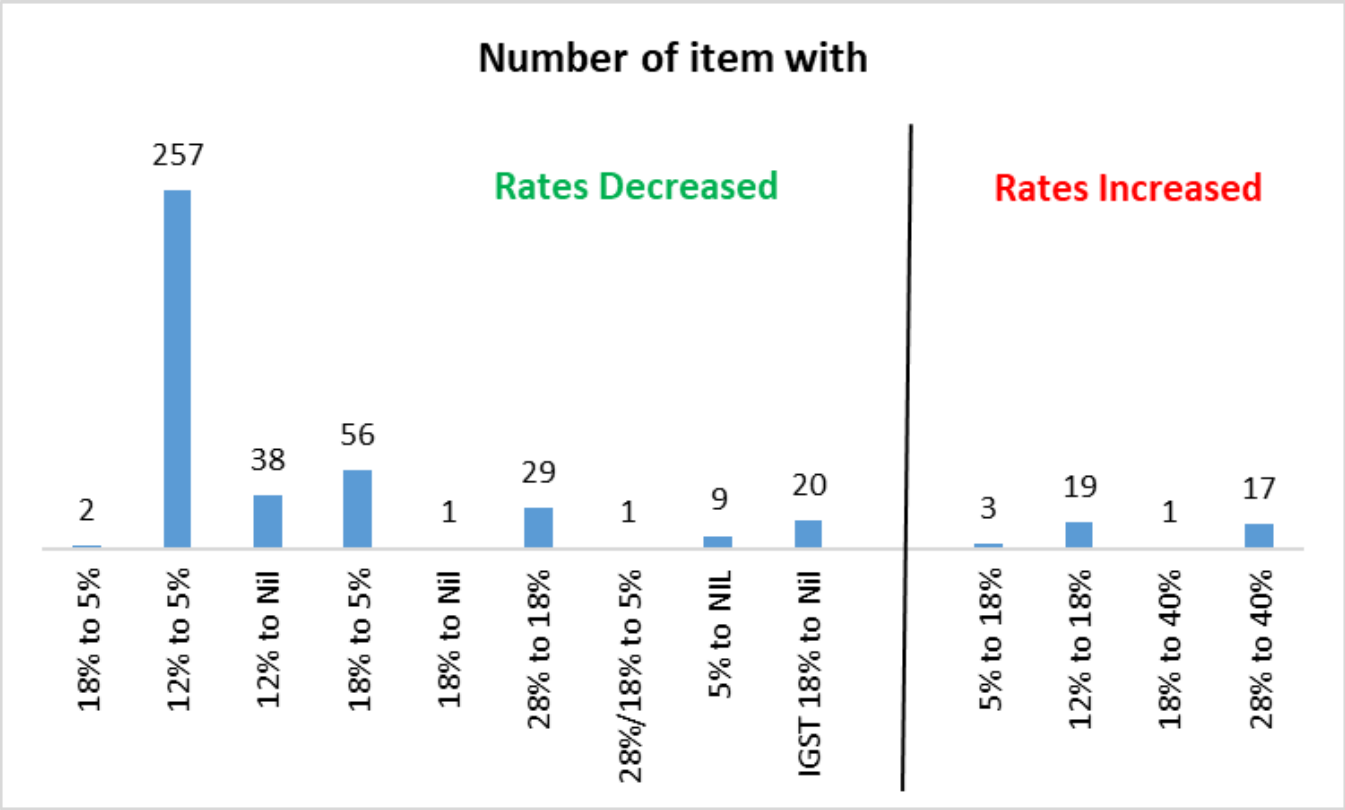
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- ❑ The 56th meeting of the GST Council has rationalised the current 4-tiered tax rate structure into a citizen-friendly 'Simple Tax' - a 2 rate structure with a Standard Rate of 18% and a Merit Rate of 5%; a special de-merit rate of 40% for a select few goods and services. **The decision represent a strategic, principled, and citizen-centric evolution of a landmark tax framework, which will enhance the quality of life of every last citizen**
- ❑ The rationalization of rates by the GST Council has brought down the effective weighted average GST rate from 14.4% at the time of inception to 11.6% in Sep'19; enhanced buoyancy has been achieved by widening the tax base and removing distortions. Given the current rationalization of rates, we believe that effective weighted average GST rate may come down to 9.5%
- ❑ Of the 453 goods where GST rate has changed, 413 goods exhibited decrease in rates while only 40 goods exhibited increase in rates. Almost 295 goods now have new GST rate of 5%/NIL from earlier 12%
- ❑ **The government estimates the net fiscal impact of this rationalisation at ₹48,000 crore on annualized basis. However, based on the trend growth and consumption boost, we expect almost minimal Rs 3,700 crore revenue loss in GST, which has no impact on fiscal deficit**
- ❑ **Since the GST rate of essential items (around 295 items) has declined from 12% to 5%/NIL, the CPI inflation in this category may also come down by 25-30 bps in FY26 after considering a 60% pass through effect on food items. Apart from this, the rationalization of GST rates of services also leads to another 40-45 bps reduction in CPI inflation on other goods and service items, considering a 50% pass through effect. Overall, we believe CPI inflation may be moderated in the range of 65-75 bps over FY26-27**
- ❑ GST rate rationalisation will have a largely positive impact on the banking sector, with important implications for the operating metrics of banks. For the banking sector in particular, the reform translates into meaningful cost efficiencies as most of the relevant rates have been brought down
- ❑ GST on individual health and life insurance premiums (including reinsurance) has been reduced to zero. Removal of GST would bring down the overall premium and improve affordability. **This may help in 2 ways: (i) existing households may increase the sum assured in health insurance, and (ii) may attract new buyers to purchase health and term insurance**
- ❑ Tobacco products had GST rate of 14%+14%=28% plus cess that ranges from 11% to 290%. The tobacco cess is likely to continue till the compensation cess is extinguished. As per current estimates, the back-to-back loans will be repaid by April 2026. Excise of tobacco and Alcohol for states can be imposed without GST Council's approval

- ❑ The 56th meeting of the GST Council has rationalised the current 4-tiered tax rate structure into a citizen-friendly ‘Simple Tax’ - a 2 rate structure with a Standard Rate of 18% and a Merit Rate of 5%; a special de-merit rate of 40% for a select few goods and services. The changes in GST rates of all goods/services except pan masala, gutkha, cigarettes, chewing tobacco products like zarda, unmanufactured tobacco and bidi, will be implemented with effect from 22nd September 2025
- ❑ The decision represent a strategic, principled, and citizen-centric evolution of a landmark tax framework, which will enhance the quality of life of every last citizen
- ❑ GST Council recommends operationalisation of Goods and Services Tax Appellate Tribunal (GSTAT) for accepting appeals before end of September and to commence hearing before end of December 2025
- ❑ The rationalisation of rates by the GST Council has brought down the effective weighted average GST rate from 14.4% at the time of inception to 11.6% in Sep’19; enhanced buoyancy has been achieved by widening the tax base and removing distortions. Given the current rationalization of rates, we believe that effective weighted average GST rate may come down to 9.5%

Number of Items with old and new rates

- Of the 453 goods where GST rate has changed, 413 goods exhibited decrease in rates while only 40 goods exhibited increase in rates
- Almost 295 goods now have new GST rate of 5%/NIL from earlier 12%



Sector-wise New Rates: Number of Items in Food, Health and Textiles have seen the largest cuts

Sector-wise Number of items having Change in GST rate					
Goods sector	Change in rate	# of Tariff item	Goods sector	Change in rate	# of Tariff item
Food	5% to NIL	5	Common Man Items	12% to 5%	25
	18% to Nil	1		18% to 5%	6
	12% to 5%	47	Consumer Electronics	28% to 18%	3
	18% to 5%	23	Paper Sector	12% to Nil	1
	18% to 40%	1		12% to 5%	10
	28% to 40%	4		12% to 18%	9
Tobacco	18% to 5%	2	Transportation Sector	28% to 18%	17
	28% to 18%	1		28% to 40%	6
	28% to 40%	5	Sports Goods And Toys	12% to 5%	5
Agriculture	12% to 5%	11	Dutiable Articles For Personal Use (For Imports)	28% to 18%	1
Fertilizer	18% to 5%	3	Leather Sector	12% to 5%	6
	12% to 5%	3	Wood Sector	12% to 5%	15
	18% to 5%	17	Defence	12% to 5%	2
Coal	5% to 18%	3	Footwear Sector	12% to 5%	1
Renewable Energy	12% to 5%	4	Miscellaneous Items	12% to 5%	24
Textile	12% to 5%	40		12% to 18%	5
	18% to 5%	5		28% to 40%	2
	12% to 18%	5	Construction Sector	12% to 5%	1
Health	5% to Nil	3		28% to 18%	1
	12% to Nil	33	Handicrafts Sector	12% to 5%	36
	12% to 5%	25	Other Machinery	12% to 5%	1
	18% to 5%	2		28% to 18%	6
Education	5% to Nil	1	Other Proposals	28%/18% to 5%	1
	12% to Nil	4	IGST	IGST 18% to Nil	20
	12% to 5%	1	Total Items		

Impact on Revenue is positive

- ❑ The government estimates the net fiscal impact of this rationalisation at ₹48,000 crore in FY26 on FY24 consumption base
- ❑ However, based on the trend growth and consumption boost, we expect Rs 3,700 crore revenue loss in GST, which is ~1 bps impact on Fiscal Deficit
- ❑ However, in the past episodes, rate cut has translated into additional revenues of nearly ₹1 trillion. Importantly, rationalisation should be seen less as a short-lived stimulus to demand and more as a structural measure that simplifies the tax system, reduces compliance burdens, and enhances voluntary compliance, thereby widening the tax base. In this broader sense, the Hon'ble PM's vision of a streamlined GST framework is best understood as a step towards long-term revenue buoyancy and greater efficiency in the economy

	For 12 months	
	FY24 base (Govt Estimate)	FY26 base (SBI Estimate)
Gross Loss	93,000	1,11,600
Revenue Gain	45,000	54,000
Consumption Boost	-	3,34,800
Tax revenue boost	-	31,806
Net Loss	-48,000	-25794
	For 6 months	
Net loss	-24,000	-12,897
Centre Share	-6960	-3,740
FD Impact (% of GDP)	-	-0.011%

Impact on Inflation could be at least 65-75 basis points on headline inflation numbers

- Since the GST rate of essential items (around 295 items) has declined from 12% to 5%/NIL, the CPI inflation in this category may also come down by 25-30 bps in FY26 after considering a 60% pass through effect on food items
- Apart from this, the rationalization of GST rates of services also leads to another 40-45 bps reduction in CPI inflation on other goods and service items, considering a 50% pass through effect
- Overall, **we believe CPI inflation may be moderated in the range of 65-75 bps over FY26-27**

Impact on Inflation			
Group/sub group Items	Weight(%)	Impact in bps*	Pass through in FY26 (bps)
Food and beverages	7.2	-46	-27.6
Fruits	0.2	-2	-
Milk and products	2.5	-13	
Non-alcoholic beverages	0.3	1	
Oils and fats	0.6	-4	
Prepared meals, snacks, sweets etc.	3.5	-28	
Sugar and confectionery	0.04	0	-
Pan, tobacco and intoxicants	2.0	11	
Clothing and footwear	0.6	-4	-2.0
Fuel and light	0.04	1	0.3
Miscellaneous	8.9	-75	-37.6
Household goods and services	0.3	-5	-
Health	4.2	-30	
Transport and communication	1.8	-16	
Recreation and amusement	0.3	-2	
Education	0.4	3	
Personal care and effects	1.9	-25	-
Grand Total	18.7	-114	-65 to -75

Source: SBI Research; * -ve indicate decline in inflation)

- ❑ GST rate rationalisation has had a largely positive impact on the banking sector, with important implications for the operating metrics of banks
- ❑ For the banking sector in particular, the reform translates into meaningful cost efficiencies as most of the relevant rates have been brought down. For example, the exemption of GST on health and life insurance premiums directly reduces the cost burden on banks, especially for employee-related insurance where the earlier levy of 18% is now fully removed
- ❑ Hotel accommodation is another important area, the rate cut from 12% to 5% means the effective cost to banks falls by 3.5%. Likewise, office infrastructure items such as air-conditioners and monitors, as well as medical essentials have become cheaper, further reducing expenses
- ❑ This rationalisation therefore improves operating efficiency, strengthens profitability, and creates space for banks to channel resources into growth and customer-centric innovation.

- ❑ GST on individual health and life insurance premiums (including reinsurance) has been reduced to zero in the 56th GST Council meeting, which will come into effect starting September 22, 2025. Additionally, GST on other medical items like glucometers, test-strips etc, has reduced to 5%
- ❑ At current GST regime, life insurance products are subjected to GST of 4.5% on first year premium, 2.5% on renewal premium and 1.8% on single premiums on saving products. While protection products and funds management charges on ULIP attracted a GST of 18%
- ❑ As per the latest available data, in FY24, GST collected from health and life insurance companies amounted to Rs 16,398 crore (Health: Rs 8263 crore and Life insurance: Rs 8135 crore). Additionally, Rs 2045 crore was raised as GST from re-insurance on life (Rs 1484 crore) and health insurance (Rs 561 crore)
- ❑ Removal of GST would bring down the overall premium and improve affordability. This may help in 2 ways: (i) existing households may increase the sum assured in health insurance, and (ii) may attract new buyers to purchase health and term insurance

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