

TAX CHRONICLE

TASK FORCE MEMBERS GST AND INCOME TAX

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Inside the October 2025 Edition

- **GST UPDATES & JUDICIAL PRONOUNCEMENTS: RECENT CHANGES AND IMPLICATIONS**
- **INCOME TAX RETURN FILING 2025-26: TIPS, COMMON ERRORS & BEST PRACTICES**
- **TAX PLANNING STRATEGIES FOR BUSINESSES: MID-YEAR CHECK**
- **GSAT - A NEW AVENUES FOR COST ACCOUNTANT - SCOPE AND CHALLENGES**
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Institute Motto

From ignorance, lead me to truth
From darkness, lead me to light
From death, lead me to immortality
Peace, Peace, Peace...

असतो मा सद्गमय ।
तमसो मा ज्योतिर्गमय ।
मृत्योर्मा अमृतं गमय ।
ॐ शान्तिः शान्तिः शान्तिः

Vision Statement

The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally.

Mission Statement

The Cost and Management Accountant professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting.

From the Desk of the Chairman

CMA MIHIR VYAS
Chairman, ICAI-WIRC



Dear Professional Colleagues,

It is with immense gratitude and responsibility that I pen my first Tax Chronicle Communique as Chairman of the Western India Regional Council of The Institute of Cost Accountants of India. I am deeply honoured to lead a region that continues to set benchmarks in professional excellence and thought leadership.

I am pleased to share that **CMA Nanty Shah** will continue his esteemed role as **Chairman of the Taskforce on Income Tax and GST** this year as well. His dedication, deep subject expertise, and sharp insights have made him an irreplaceable **knowledge pillar of taxation** at WIRC. I have full faith that under his guidance, the taskforce will reach even greater heights in technical advocacy and policy support.

India's tax ecosystem is currently undergoing transformative reforms, aimed at **simplification, digitisation, and transparency**. With the introduction of measures such as GST 2.0, enhanced data integration, faceless proceedings, and pre-filled returns, the government's efforts are clearly aligned with the broader vision of **Viksit Bharat 2047**, as articulated by Hon'ble Prime Minister Shri Narendra Modiji.

As professionals, **CMAs have a crucial role to play** in this evolving framework – not only as tax advisors but as strategic partners in ensuring regulatory compliance, cost optimisation, and informed decision-making for businesses. CMAs are uniquely positioned to support businesses and the government in implementing fair, transparent, and growth-oriented tax strategies. Our profession must continue to adapt, lead, and contribute to India's journey towards a developed, inclusive economy.

The theme of this quarter's Tax Chronicle focuses on empowering members with relevant knowledge, case updates, and strategic insights. Key articles in this edition include:

- ✓ **GST updates & key judicial pronouncements**
- ✓ **Income Tax filing 2025–26: Tips & best practices**
- ✓ **Mid-year tax planning strategies for individuals & businesses**
- ✓ **GSAT – Scope & challenges for CMAs**
- ✓ **Case studies on recent tax notices & litigation**
- ✓ **GST 2.0 reforms – The road ahead**

Each article is designed to equip members with both strategic insights and practical guidance. Whether you're preparing for the upcoming filing season or re-aligning your tax strategies mid-year, this edition will serve as a valuable tool.

We are entering a new era of taxation, where data, technology, and knowledge will play a decisive role. As professionals, our ability to adapt and contribute will shape not just our growth, but the broader goal of a prosperous, developed India by 2047.

I encourage all members to contribute articles, insights, and new ideas to the Tax Chronicle. Together, let's make this a vibrant knowledge-sharing platform for the entire fraternity.

With warm regards,

CMA Mihir Narayan Vyas

Chairman

Western India Regional Council of

The Institute of Cost Accountants of India

Address by Chairman Task Force of GST & Income Tax

CMA NANTY SHAH

Chairman, WIRC Task Force on Income Tax and GST
Vice Chairman, ICAI – WIRC



"Taxation is not just about compliance, it is about contributing to the nation's growth."

Dear Professional Colleagues,

With great enthusiasm and positive energy, I am delighted to pen down this communique for the Tax Chronicle. It is indeed a privilege to be reappointed as Chairman of the Taskforce on Income Tax & GST for the year 2025–26, and I sincerely thank WIRC Chairman CMA Mihir Vyas and my esteemed council colleagues for their trust, faith, and continuous support in carrying forward this important responsibility. Together, we will continue to raise the bar and make this Chronicle a knowledge powerhouse.

This quarter has been a significant one for the tax ecosystem. The Union Finance Minister, Smt. Nirmala Sitharaman, has highlighted the government's commitment towards simplification, digitisation, and ease of compliance in both Income Tax and GST. Under the dynamic vision of our Hon'ble Prime Minister Shri Narendra Modi ji, the GST Council has been consistently working on reforms and rationalisation, laying the foundation for a futuristic and robust indirect tax system. The new discussions around GST 2.0 and evolving policies promise greater transparency, efficiency, and opportunities for professionals like us to play a more proactive role.

The theme for this quarter's Chronicle is a comprehensive blend of practical insights, expert guidance, and analytical perspectives, covering:

- Latest GST updates & judicial pronouncements
- Income Tax filing tips & best practices for FY 2025–26
- Mid-year tax planning strategies
- GSAT – Scope & challenges for CMAs
- Case studies on recent notices & litigation
- GST 2.0 reforms – Opportunities & way forward

We aim to make this Chronicle not just an update, but a practical toolkit for professionals, enabling members to stay ahead in compliance, advisory, and litigation support.

Colleagues, we are entering a new era of Income Tax & GST, where data analytics, automation, and policy reforms will reshape the future of our profession. Let us equip ourselves to play a larger role in nation-building through taxation expertise.

I urge all members to continue their active support, share their valuable feedback, and contribute articles, experiences, and case studies to enrich this platform further. Together, let us make the Tax Chronicle not just an update, but a true guide and torchbearer for the CMA fraternity.

Let us embrace change, lead with knowledge, and step confidently into the future of taxation.

With warm regards and best wishes,

CMA Nanty Nalinkumar Shah

Chairman, WIRC Task Force on Income Tax and GST
Vice Chairman, ICAI – WIRC

GST 2.0 Reforms: Ushering a New Chapter in India's Taxation Journey

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The Goods and Services Tax (GST) introduced in 2017 was nothing short of a revolutionary moment in India's fiscal history. It unified a complex maze of indirect taxes into a coherent, transparent, and technology-driven tax system aimed at creating "One Nation, One Tax." While GST succeeded in many respects, simplifying tax administration, broadening the tax base, and digitizing compliance, it was far from perfect. Several structural complexities and operational challenges surfaced as India's diverse economy adjusted to this sweeping change.

Fast forward to 2025, the government has unveiled GST 2.0, a next-generation reform package designed to address these challenges, unlock economic potential, and empower households and businesses alike. This article dives deep into the history, evolution, challenges, and sweeping GST 2.0 reforms, enriched with examples and insights from policymakers and industry, illustrating how this reform will fuel India's growth story.

The Historical Tapestry of GST in India

GST's roots trace back to recommendations from the Kelkar Task Force in 2000, which envisaged the elimination of tax cascading and a unified indirect tax regime. However, India's federal structure and diverse states meant this was no easy feat. The India Constitution had to be amended (101st Amendment) and years of consensus-building took place.

The historic launch on July 1, 2017, introduced a dual GST system consisting of Central GST (CGST), State GST (SGST), and Integrated GST (IGST) for inter-state trade. This replaced a plethora of central and state taxes like excise duty, sales tax, and service tax.

GST's early years witnessed impressive growth in tax collections, reaching over ₹22 lakh crore by 2024-25, reflecting increasing compliance and formalization. Meanwhile, the GST Council, a unique collaborative forum of central and state finance ministers, played a pivotal role in rate-setting and dispute resolution.

The Growing Pains: Challenges of GST's First Version

Despite these achievements, real-world implementation revealed several issues:

Complexity in Tax Rates and Slabs

With four main tax slabs (5%, 12%, 18%, 28%) plus cesses, confusion over classification and disputes became rampant. For example, differentiating whether a bicycle attracted 5% or 12% GST was often contested, leading to litigation and compliance burdens.

GST 2.0 aims to simplify and improve the tax system.



Compliance Overload

Constant rule changes and complex filing requirements stretched MSMEs thin. Many small businesses struggled to keep pace, leading to unintended non-compliance or costly professional help.

Cash Flow Challenges

Burdened by an inverted duty structure, where inputs taxed higher than outputs, manufacturers in textiles and chemicals faced blocked liquidity, resulting in refund delays and operational slowdowns.

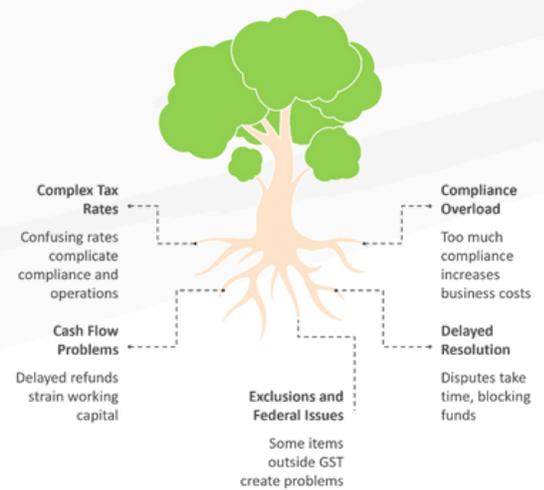
Delayed Litigation Resolution

The lack of a functional GST Appellate Tribunal caused three to four years of pendency on tax disputes. This uncertainty discouraged investment and impacted business confidence.

Exclusions and Federal Issues

Key sectors such as petroleum and alcohol remained outside GST, complicating interstate commerce and revenue-sharing, and occasionally straining Centre-State relations.^[4]

GST First Version Challenges



Enter GST 2.0: A Citizen-Centric Overhaul

Recognizing these systemic issues, the Indian government documented and engaged in broad stakeholder consultations for over a year before launching GST 2.0 on Independence Day, August 15, 2025. Prime Minister Narendra Modi called it a "bold leap" towards economic self-reliance and simplification.

Key Pillars of Reforms

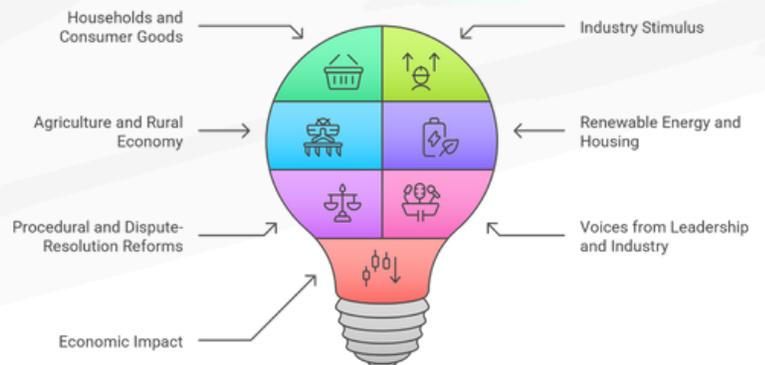


Real-World Implications and Examples

Households and Consumer Goods

Imagine waking up to find that your morning staples, such as ultra-high-temperature (UHT) milk, paneer, roti, and paratha, are now free from GST or taxed at minimal rates. This directly deflates the inflationary pressure on essential food items, leaving more money in the pockets of the average family. Similarly, soaps, toothpaste, and bicycles now attract just 5% or nil GST, bringing consumer essentials within easier reach.

Life and health insurance premiums, previously burdened with GST, have been fully exempted now.



This reform, highlighted by Finance Minister Nirmala Sitharaman, is expected to increase insurance penetration in a country where only around 30% have any form of coverage, especially critical for lower and middle-income groups. Public sector insurers have pledged to pass on the tax cut benefits to policyholders promptly.

Industry Stimulus Across Sectors

The automotive and consumer durables industries are set to benefit significantly from the slab reduction. Small cars and motorcycles with engine capacities up to 350cc, air conditioners, dishwashers, and televisions (up to 32 inches) have all seen their GST rates drop from 28% to 18%. This adjustment is projected to fuel consumer demand, especially among the aspirational middle class.

Companies are already responding proactively: Tata Motors declared they would pass on the GST cut benefits in pricing. Similarly, electronics manufacturers anticipate a surge in sales, a welcome boost after the challenges posed by global supply chain disruptions.

Agriculture and Rural Economy

Tractors, fertilizers (sulphuric acid, ammonia), and farming machinery now attract a reduced GST rate of 5%, directly aiding rural farmers by lowering input costs and improving profitability. This is expected to stimulate capital investments in agriculture technology and mechanization, vital for productivity.

Labour-intensive industries like handicrafts, marble, and leather will enjoy simplified GST rates at 5%, providing much-needed support to cottage industries and rural employment, culturally significant sectors for India's rural landscape.

Renewable Energy and Housing

GST 2.0 prioritizes sustainability by reducing GST on renewable energy equipment and components like solar panels and batteries to 5%. This complements India's commitment to its net-zero ambitions and could expedite renewable adoption.

Cement, a cornerstone of construction, sees a rate reduction to 18%, meaning lower housing construction costs and more affordable homes for many. This could catalyze growth in the real estate and infrastructure sectors, aligning with government goals to boost affordable housing.

Procedural and Dispute-Resolution Reforms

Efforts to simplify GST compliance include fast-tracked registrations, indeed, 96% of new low-risk applicants receive registration within three days. Refund claims under ₹1,000 crore are automated to ease cash flow constraints.

Perhaps most awaited is the full operationalization of the GST Appellate Tribunal, which began hearings by December 2025. This is a game-changer for resolving disputes quickly, reducing backlog, and instilling confidence in taxpayers.^{[7][6]}

Voices from Leadership and Industry

Finance Minister Sitharaman described GST 2.0 as "the final piece in a big tax reform puzzle," noting that "this reform touches the lives of every Indian, whether buying household items or vehicles". She emphasized that the reforms are "rooted in affordability, self-reliance, and easing burdens for the common man."^[12]

Similarly, Prime Minister Modi acknowledged the new GST's comprehensive nature during an Independence Day address: "These are not tweaks. These are well-considered, citizen-centric changes that will propel India's economic growth and enhance ease of doing business."

Business leaders have echoed optimism. The Confederation of Indian Industry (CII) praised the tax rationalization and simplification, forecasting increased investments and a revived manufacturing spirit, especially under the "Make in India" initiative.

Economic Impact: Data-Driven Insights

Market projections estimate a ₹48,000 crore short-term revenue impact due to tax cuts, a manageable gap expected to be offset by rising consumption and formalization. Early indicators suggest a potential 0.5–1% reduction in consumer inflation due to lower GST on essential goods.

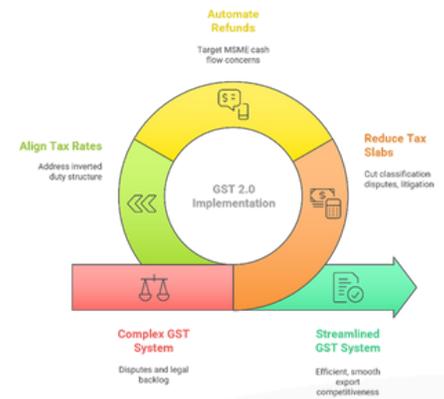
India’s GDP growth prospects, hovering around 7–8% annually, could benefit significantly from GST 2.0 through increased household spending and liquidity release. MSMEs, employing over 120 million people, stand to gain from streamlined compliance and quicker refunds, strengthening India’s employment engine.

The reforms dovetail with the Production Linked Incentive (PLI) scheme, which incentivizes sectors like electronics, pharmaceuticals, and textiles, creating a more resilient and export-competitive ecosystem.

Overcoming Systemic Issues: How GST 2.0 Addresses Past Challenges

By sharply reducing tax slabs from five to three (merit, standard, and demerit), GST 2.0 drastically cuts down classification disputes and litigation. The establishment of an adjudicating tribunal further unclogs the legal backlog.

Automation of refunds and fast track registrations directly target MSME concerns around cash flow and bureaucratic red tape. Meanwhile, aligning input and output tax rates addresses inverted duty structure problems prevalent in textiles and fertilizers, enabling smoother export competitiveness.



A Transformative Tax Policy Toward Inclusivity and Growth

GST 2.0 reaffirms India's commitment to fiscal prudence without weighing down households and MSMEs. By reducing taxes on essentials, healthcare, and agriculture, the reform supports inclusive growth, benefiting the poorest and reinforcing social security nets.

Luxury and sin goods are taxed at 40%, reflecting a principled use of taxation to promote healthier behaviors while shoring up revenues for welfare programs

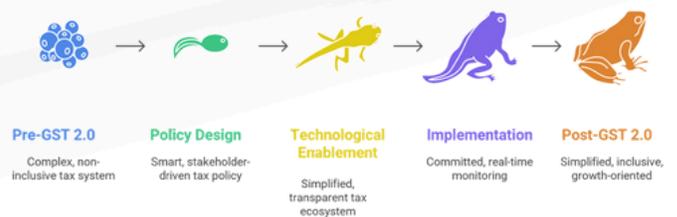


Conclusion: Looking Ahead

GST 2.0 represents more than a tax reform, it is a socio-economic catalyst poised to fuel India’s growth, ease doing business, and secure welfare for millions. With smart policy design, extensive stakeholder consultation, and technological enablement, GST 2.0 delivers on the promise of a simplified, transparent, and inclusive tax ecosystem.

As India gears to become a \$5 trillion economy, GST 2.0 is a critical tool, unlocking consumption, boosting formalization, supporting MSMEs, and enhancing public revenues. The success of this ambitious reform rests on committed implementation, real-time monitoring, and collaborative federalism.

GST 2.0: India's Socio-Economic Catalyst



In sum, GST 2.0 combines the best of tax policy theory and India's unique socio-economic realities to script a resilient and prosperous future for all Indians.

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GST 2.0: The Next Big Leap for India's Tax System

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Introduction: The Half-Finished Revolution

On the midnight of July 1, 2017, India rolled out what was hailed as its most ambitious tax reform since Independence – the Goods and Services Tax (GST). Touted as “One Nation, One Tax, One Market,” GST promised to end the maze of indirect taxes that once made doing business in India a nightmare. For the first time, truck drivers didn't have to stop at state borders for endless paperwork, and a trader in Jaipur could sell to a buyer in Kochi without getting lost in a tangle of VAT, excise, and service tax rules.

But seven years down the line, the excitement has mellowed. While GST has undeniably streamlined India's taxation, it was still a **work in progress**. Multiple tax slabs, compliance headaches, and IT glitches often leave both businesses and consumers frustrated. The system that was meant to simplify sometimes felt complicated.

Enter the debate around **GST 2.0** – a refreshed, re-engineered version of the tax regime. If GST 1.0 was India's “tax revolution,” GST 2.0 could be its **second innings – more mature, tech-savvy, and globally competitive**.

Why Do We Need GST 2.0?

Every reform, no matter how pathbreaking, eventually needs an upgrade. GST was no exception. While it helped unify India's fragmented indirect tax structure, the first version left many gaps.

Take the case of **Mr. A**, who runs a mid-sized textile unit in Surat. When GST was announced, he was hopeful. “Finally, I won't have to hire three different accountants to handle VAT, excise, and service tax,” he recalls. But reality was different. Multiple filings every month, delays in input tax credit refunds, and shifting rules kept him on edge. “Sometimes it felt like the system was designed for large corporations, not for small manufacturers like us,” he says.

This frustration is not unique. Across the country, SMEs, the backbone of India's economy struggle with GST's compliance-heavy processes. For them, GST 2.0 is not just desirable; it's essential.

The **need for GST 2.0** stems from several pain points:

1. **Too many tax slabs** – India's GST has five main slabs (0%, 5%, 12%, 18%, 28%). By contrast, Singapore runs smoothly on a single rate of 9%, and Canada has two and some provinces having Harmonized Sales Tax which is more of a consumption tax. Multiple slabs create confusion, lobbying, and disputes.
2. **Compliance burden** – Monthly filings, invoice-matching, and IT glitches consume time and money. For small firms, compliance costs often outweigh benefits.
3. **Unfinished agenda** – Petroleum, electricity, and alcohol remain outside GST. Their exclusion weakens the idea of “One Nation, One Tax.”
4. **Centre-State tussles** – States complain about reduced fiscal freedom and compensation delays.
5. **Litigation overload** – Frequent rule changes and lack of clarity have triggered a surge in disputes, clogging tribunals and courts.

Without addressing these, GST risks becoming a **“half-built bridge”** better than before, but still not seamless.

What Would GST 2.0 Look Like?

Think of GST 2.0 as a software upgrade – fixing bugs, streamlining features, and adding new capabilities. Experts and policymakers envision it with several key reforms:

- **Fewer tax slabs** – Moving towards two or three simple rates (say, 5%, 18% and 40%) to make classification straightforward.
- **Smoother input tax credit (ITC)** – Automating and speeding up ITC refunds so that businesses don't suffer liquidity crunches.
- **Stronger technology backbone** – A GSTN 2.0 powered by AI, real-time analytics, and e-invoicing for compliance ease and fraud detection.
- **Bringing petroleum, electricity, alcohol into GST** – To eliminate cascading taxes and unify the market fully.
- **Better dispute resolution** – Fast, tech-enabled redressal mechanisms to reduce litigation.
- **Incentives for digital compliance** – Lower filing fees or faster refunds for transparent taxpayers.

In short, GST 2.0 would be **simpler, smarter, and more inclusive**.

Impact of GST 2.0

1. On Businesses

For corporates, GST 2.0 means **predictability and ease of planning**. Today, CFOs spend countless hours interpreting tax circulars and preparing for audits. A simplified GST structure will cut compliance costs.

For MSMEs, which account for nearly 30% of India's GDP, the impact will be transformative. Lower paperwork, seamless ITC, and fewer filings could free up precious time and working capital. Imagine a small furniture-maker in Jodhpur who currently files 37 returns a year; under GST 2.0, this could be cut by half.

Startups, too, will benefit. Many digital companies face challenges in cross-border transactions and multiple registrations across states. GST 2.0, with a unified digital-first approach, could remove these roadblocks, giving India's tech ecosystem more room to thrive.

2. On Consumers

Consumers stand to gain from **price transparency and stability**. Multiple slabs often lead to arbitrary classification: is a paratha 5% or 18% GST? Court cases over food, footwear, and services confuse buyers and sellers alike. Simplified slabs mean fewer such disputes and clearer pricing.

Moreover, as businesses save costs on compliance and working capital, some of that relief could trickle down to customers in the form of lower prices or better services.

3. On Government Revenue

For the government, GST 2.0 promises **widened tax base and higher buoyancy**. AI-driven compliance, e-invoicing, and integration with digital payments can minimize evasion. More sectors under GST, like petroleum, would expand the revenue pool significantly.

4. On the Economy

GST 2.0 could boost India's **Ease of Doing Business rankings**, attract FDI, and strengthen India's global competitiveness. A cleaner, simpler tax system is a magnet for investors who otherwise hesitate due to uncertainty.

For example, global firms setting up supply chains in India often complain about unpredictability in tax compliance. A GST 2.0 that resembles Singapore's efficiency or EU's VAT clarity could change that narrative.

5. On Federal Structure

India's GST is unique – a dual system with shared authority between Centre and States. This design, while cooperative, has often been fraught with tensions. GST 2.0 offers an opportunity to rebuild **trust through transparent revenue-sharing mechanisms**.

Stronger federal cooperation will also ensure states don't feel shortchanged. In the long run, this builds political consensus and stability around GST.

Benefits of GST 2.0

- **One Nation, One Market, One Tax – strengthened.** No more exclusions or slab confusion.
- **Reduced compliance cost.** Small firms save money on accountants, lawyers, and IT systems.
- **Revenue buoyancy.** Higher collections with lower evasion.
- **Formalization of economy.** Digital-first compliance brings more firms into the tax net.
- **Investor confidence.** Predictable, transparent taxation improves India's global attractiveness.
- **Growth push.** A stronger tax base funds infrastructure and welfare without raising rates.

Conclusion: GST 2.0 and India's \$5 Trillion Dream

India aspires to be a **\$5 trillion economy** in the coming years. For that, taxation must not be a roadblock but a growth enabler. GST was a bold first step, but like any ambitious reform, it needs refinement.

GST 2.0 is not about undoing the past; it's about **finishing the journey**. By simplifying rates, embracing technology, widening the net, and rebuilding federal trust, GST 2.0 can truly deliver on its original promise.

As India prepares for this next big leap, one thing is clear: **a mature, smart, and inclusive GST is not just good tax policy, it is nation-building in action.**

GST Applicability on Transfer of Leasehold Rights of Industrial Plots – Gujarat High Court Judgment and Legal Position

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1. Introduction: Industrial Land Development in India

Industrial development in India is often promoted through state industrial development corporations such as GIDC and MIDC, which acquire, develop, and lease land to industrial units. The objectives of such development include:

1. **Promoting investment in manufacturing and services** – Attracting industries by providing developed plots with infrastructure.
2. **Creating industrial estates** – Offering roads, drainage, electricity, water, and other essential facilities.
3. **Providing a legal framework for long-term leases** – Ensuring certainty and security for industrial tenants through formal allotments and lease agreements.

Long-term leases in industrial estates are often treated differently from conventional property sales because of the underlying policy objective of encouraging industrial investment.

2. GST Framework – Understanding the Basics

GST, implemented from 1st July 2017, created a uniform indirect tax regime across India, subsuming multiple indirect taxes such as VAT, service tax, excise duty, and others. A key feature of GST is its broad definition of “supply,” which extends to both goods and services, unless specifically excluded.

2.1 Definition of Supply

Under Section 7 of the CGST Act, 2017, supply is defined as:

“Supply includes all forms of supply of goods or services made for consideration in the course or furtherance of business.”

This includes:

- Sale, transfer, barter, exchange, license, rental, lease, or disposal of goods or services;
- Both goods and services, whether movable or immovable, unless explicitly excluded.

2.2 Important Definitions

| Term | Section | Definition | Implication for Leasehold Rights |
|----------|---------|--|--|
| Business | 2(17) | Includes trade, commerce, manufacture, profession, or any activity undertaken by a person for economic benefit | Leasing of industrial land is considered an economic activity. |
| Goods | 2(52) | All movable property, excluding money and securities | Land and buildings are immovable, hence treated differently. |
| Services | 2(102) | Anything other than goods, including facilitating or arranging transactions | Leasing of land generally qualifies as a service. |

2.3 Schedule II vs. Schedule III

Schedule II – Deemed Supply of Services

- Para 2(a): “Any lease, tenancy, easement, license to occupy land is a supply of services.”
- This covers original leases granted by authorities like GIDC or MIDC.

Schedule III – Exclusions

- Para 5: “Sale of land and, subject to clause (b) of paragraph 5 of Schedule II, sale of building” are not treated as supply of goods or services.
- Subsequent transfers of leasehold rights may fall under Schedule III, thereby exempting them from GST.

Illustration:

- GIDC grants a 99-year lease to Company A → GST exempt under Notification 12/2017.
- Company A transfers the lease to Company B → Not a service; resembles sale of immovable property → outside GST.

3. Notification No. 12/2017–Central Tax (Rate) – Exemption Framework

Notification No. 12/2017–C.T. (Rate) dated 28 June 2017, Entry 41, exempts certain upfront charges for long-term industrial leases:

“One-time upfront amount payable in respect of service by way of granting of long-term lease of industrial plots to an industrial unit or developer in an industrial or financial business area is exempt from GST.”

Key Points:

- Lease must be 30 years or more.
- Applies only to original allotment by government development authorities.
- Exemption ensures investment viability and prevents unnecessary tax burden on new industrial units.

4. The Controversy – Subsequent Transfers of Leasehold Rights

While original leases are clearly exempt under Notification 12/2017, disputes arose when:

1. Original allottees assigned or sold their leasehold rights to third parties.
2. Tax authorities claimed such assignments constituted “supply of services” under Schedule II, Para 2(a).
3. GST at 18% was demanded retrospectively, resulting in cumulative tax demands approaching ₹8,000 crore.

Allottees’ Arguments:

- Subsequent transfers are akin to sale of immovable property, falling under Schedule III → outside GST.
- GST should not apply to an already vested capital asset.

5. Gujarat High Court – Landmark Judgment

On 3rd January 2025, the Gujarat High Court decided a batch of petitions, including:

- GCCI & Ors. vs. Union of India
- Suyog Dye Chemie Pvt. Ltd. vs. State of Gujarat
- Tirth Agro Technology Pvt. Ltd. vs. State of Gujarat

5.1 Court Observations

- a. Original Lease by GIDC
 - Covered under Schedule II → GST generally applicable.
 - Exempt under Notification 12/2017 for long-term industrial leases.
- b. Subsequent Transfer/Assignment
 - Not a fresh lease → assignment of a capital asset (immovable property).
 - Covered by Schedule III, Para 5 → excluded from GST.
 - Tax authorities’ arguments rejected → subsequent transfer does not automatically inherit GST liability.
- c. Nature of Leasehold Rights
 - Rights are more than mere possession → resemble ownership for the lease period.
 - Treated as capital assets under accounting and tax laws.
- d. Service Tax Precedents
 - Under the Service Tax regime, development rights or transfers of immovable property were not taxable.

- Court reasoned that GST follows the same principles.

5.1 Decision

1. GST not applicable on transfer of leasehold rights in industrial plots allotted by GIDC.
2. All show cause notices and tax demands (~₹8,000 crore) were quashed.
3. Authorities were directed to refund GST already collected within 3 months.

6. Legal Reasoning – Schedule II vs. Schedule III

- Schedule II: Governs original grant of lease → considered taxable service; exempt via Notification 12/2017.
- Schedule III: Governs subsequent transfers/assignments → considered sale of immovable property → outside GST.

Court's Interpretation:

"Once leasehold rights are vested in an allottee, their subsequent transfer resembles a sale of land rather than a supply of service."

7. Practical Implications

7.1 For Industrial Units

- No GST liability on assignment of leasehold rights.
- Refund claims possible if GST was already paid.
- Maintain clear documentation, specifying transaction as assignment of immovable property.

7.2 For Authorities

- Avoid unnecessary GST notices → align taxation with Schedule III principles.
- Update compliance guidance for long-term leases.

7.3 Compliance Strategies

- Maintain original lease deeds, approvals, and consideration details.
- Clearly distinguish initial allotment vs subsequent transfer in agreements.
- Seek advance rulings in cases of ambiguity.

8. Illustrative Example

| Transaction | GST Applicability | Notes |
|------------------------------------|-------------------|---|
| Original lease (GIDC → Company A) | Nil | Exempt under Notification 12/2017 |
| Assignment (Company A → Company B) | Nil | Treated as sale of capital asset (Schedule III) |

Scenario:

- GIDC grants a 99-year lease to Company A with an upfront premium of ₹50 lakh → GST exempt.
- Company A assigns lease to Company B for ₹1 crore → outside GST.

This demonstrates the practical benefit for allottees and ensures business certainty.

9. Economic and Legal Rationale

1. Avoid Double Taxation: Assignments already include consideration → taxing again is unfair.
2. Capital Asset Treatment: Leasehold rights are long-term immovable property → aligns with property law principles.
3. Continuity from Service Tax Era: Historical treatment of development rights supports non-taxation.
4. Encouraging Industrial Investment: Prevents cascading tax → encourages industrial expansion in state industrial estates.

10. Broader Implications

- Precedent for Other States: Similar issues with MIDC or other state industrial bodies may follow this reasoning.
- Policy Clarity: Highlights need for explicit legislative guidance → avoid disputes over long-term lease transfers.
- Risk Mitigation: Businesses should proactively document transfers as assignments of immovable property.

11. Conclusion

The Gujarat High Court judgment provides much-needed clarity on GST treatment for leasehold rights in industrial plots:

- Original lease by GIDC: taxable service but exempt under Notification 12/2017.
- Subsequent transfer by allottee: outside GST scope, treated as sale of immovable property (Schedule III).

This decision reinforces legal certainty for industrial units, ensures consistent application of GST principles, and prevents unnecessary financial burdens arising from retrospective tax demands.

Tax Planning Strategies for Businesses: A Mid-Year Check

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Tax Planning

Abstract

Tax planning is one of the most essential aspects of business strategy ensuring both compliance with the law and maximization of financial efficiency. While many businesses undertake tax planning at the end of the financial year, a mid-year check offers opportunities for realignment, error correction, and proactive decision-making. This article explores the importance of mid-year tax planning, key strategies businesses can adopt, challenges they may encounter, and the role of cost accountants in facilitating the process. Case-based illustrations are provided to demonstrate practical applications, followed by key takeaways that reinforce the importance of proactive tax management.

Introduction

In an increasingly complex and rapidly changing tax environment, businesses can no longer afford to treat tax planning as a once-a-year exercise. With the introduction of evolving GST provisions, stricter compliance under the Income Tax Act, and the growing emphasis on technology-driven reporting systems such as AIS (Annual Information Statement), Form 26AS, and GSTR-2B, the tax landscape in India demands continuous attention.

A mid-year review of tax planning is not just a corrective tool but also a forward-looking exercise. It enables businesses to assess their financial position, identify gaps in compliance, and optimize tax savings strategies before it is too late. Unlike year-end planning, where time is short and opportunities are limited, mid-year planning provides sufficient scope to restructure, plan investments, and minimize risks.

Importance of Mid-Year Tax Planning

- Real-time corrections:** Businesses often commit errors in tax deduction, credit claims, or reporting. A mid-year review allows timely rectification.
- Avoidance of penalties:** Advance tax shortfalls, mismatches in GST returns, or late TDS deposits can lead to heavy penalties. Reviewing mid-year ensures preventive action.
- Cash flow management:** Tax obligations directly impact liquidity. Aligning tax outflows with business cycles is crucial for working capital optimization.
- Strategic alignment:** Business expansions, restructuring, or investments made during the year can be aligned with tax benefits.
- Regulatory preparedness:** With frequent amendments by CBDT and the GST Council, mid-year planning helps businesses stay up to date.

Key Strategies for Mid-Year Tax Planning

1. Review of Advance Tax and Provisional Assessment

- Advance tax obligations under the Income Tax Act require businesses to pay tax in installments throughout the year. Failure to pay adequate advance tax attracts interest under sections 234B and 234C.
- A mid-year review allows businesses to
 - Reassess income projections.
 - Adjust for unexpected profits or losses.

- Avoid overpayment that locks funds unnecessarily.

Example: A company projected ₹10 crore profit in April but due to market slowdown, mid-year projections fell to ₹7 crore. Without correction, excess advance tax would be paid. A mid-year check prevents this misallocation.

2. Optimization of GST Input Tax Credit (ITC)

GST compliance remains one of the most dynamic areas of taxation. Errors in ITC claims are common, leading to financial and legal consequences.

• Steps in mid-year review

- Match ITC claimed with GSTR-2B.
- Ensure vendor compliance if the supplier has not filed returns, ITC may be denied.
- Avoid ineligible ITC (personal expenses, blocked credits).

• Benefits

- Reduces risk of GST audit disputes.
- Improves working capital efficiency.

Illustration: A manufacturing firm identified mismatched ITC of ₹15 lakh during a mid-year review due to vendor non-compliance. Early detection allowed corrective action, avoiding disallowance in annual GST return.

3. Review of TDS/TCS Compliance

TDS (Tax Deducted at Source) and TCS (Tax Collected at Source) are vital compliance requirements. Errors in deduction or delays in deposit can result in penalties and disallowance of expenses.

- Mid-year checks ensure
 - Correct deduction rates (updated by Finance Act 2025 changes).
 - Cross-verification of TDS deposits with Form 26AS and AIS.
 - Avoiding mismatches between books and government records.

Example: An SME noticed during its October review that certain vendor payments were made without deducting TDS under Section 194C. Immediate correction saved penalties and allowed expense claims.

4. Tracking Deductions and Exemptions

Mid-year review helps in effective utilization of deductions and exemptions available under the Income Tax Act.

- **For businesses**
 - Section 35 for R&D expenditure.
 - Section 80JJAA for employment generation.
 - Section 80G for donations.
- **For promoters and employees**
 - 80C investments, medical insurance under 80D, and others.

Planning these mid-year ensures sufficient time to make eligible investments.

5. Investment and Capital Structuring Strategies

- **Depreciation planning:** Timing of asset purchase can influence depreciation claims. Assets bought before September 30 are eligible for full depreciation in that year, while later purchases get half.
- **R&D incentives:** Companies can structure R&D spends mid-year to maximize deductions.
- **Corporate restructuring:** Mergers, acquisitions, or change in capital structure should consider tax neutrality provisions.

6. Cash Flow and Working Capital Management

Taxes affect cash flow significantly. A mid-year review ensures

- Synchronization of tax outflows with revenue inflows.
- Proper planning for GST refunds.
- Financing decisions aligned with tax efficiency (e.g. choosing debt vs equity).

7. Transfer Pricing and International Taxation

For multinational businesses, mid-year review of transfer pricing policies is essential.

- Ensures inter-company pricing is in line with arm's length principles.
- Avoids last-minute rush in documentation and compliance.
- Identifies potential exposure to double taxation.

Challenges Faced by Businesses

1. **Frequent regulatory changes:** Amendments by CBDT or GST Council often create confusion.
2. **Technology integration:** Small and medium businesses struggle with automated reconciliation tools.
3. **Limited awareness:** Many SMEs still treat tax planning as a year-end task.
4. **Resource constraints:** Smaller firms lack in-house experts and depend on external advisors.

Role of Cost Accountants in Mid-Year Tax Planning

Cost accountants are uniquely positioned to support businesses in mid-year tax reviews.

- **Advisory role:** Guiding management on deductions, exemptions, and tax-efficient investments.
- **Compliance monitoring:** Ensuring advance tax, GST, and TDS obligations are met.
- **Forecasting and budgeting:** Linking tax strategy with cost optimization.
- **Risk management:** Minimizing exposure to penalties and litigation.
- In the current environment, cost accountants act as not only compliance managers but also strategic partners in business growth

Case Examples (Illustrative)

1. **SME with TDS Errors:** A small construction company detected that TDS was missed on subcontractor payments. Correction mid-year prevented disallowance of ₹50 lakh expenditure.
2. **Manufacturing Firm and ITC Mismatch:** Early reconciliation saved the firm from losing significant ITC and improved cash flow.
3. **Service Sector Advance Tax:** A consultancy firm realigned advance tax payments after unexpected slowdown, freeing up liquidity.

Conclusion

Mid-year tax planning is no longer optional; it is an essential tool for modern businesses to stay compliant, agile, and financially efficient. By reviewing advance tax, optimizing GST ITC, monitoring TDS/TCS compliance, and restructuring investments, businesses can unlock significant benefits.

The role of cost accountants is pivotal in this process as they provide both technical expertise and strategic insight. A proactive mid-year review ensures not only compliance but also competitive advantage in a challenging business environment.

References

- Income Tax Act, 1961 – Provisions on Advance Tax, TDS, Deductions.
- Finance Act, 2025 – Relevant amendments.
- GST Council Notifications & CBIC Circulars (2024–25).
- CBDT Circulars on compliance and reporting.

Income Tax Filing for Assessment Year 2025–26: A Comprehensive Guide for CMA Professionals

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Introduction

The Assessment Year 2025–26 represents a pivotal period in India's income tax landscape, marked by significant regulatory changes, extended deadlines, and enhanced compliance requirements. As Cost and Management Accountant (CMA) professionals, understanding these developments is crucial for ensuring accurate tax compliance and optimal client service delivery. This comprehensive guide provides essential insights into ITR filing procedures, common pitfalls, and best practices tailored specifically for CMA practitioners handling diverse client portfolios.

Key Changes and Deadlines for AY 2025–26

Extended Filing Deadlines

The Central Board of Direct Taxes (CBDT) made unprecedented extensions to the ITR filing timeline for AY 2025–26. The original deadline of July 31, 2025, was first extended to September 15, 2025, and subsequently extended by one additional day to September 16, 2025. This extension was primarily attributed to:

- **System Updates:** Implementation of revised ITR forms requiring additional testing and deployment time
- **TDS Reflection:** Ensuring adequate time for TDS details to reflect in taxpayer accounts after the May 31 deadline
- **Stakeholder Feedback:** Addressing concerns from taxpayers and professionals regarding preparation time

Category-Specific Due Dates

The filing deadlines vary based on taxpayer categories and audit requirements:

- **Individuals and HUFs (no audit required):** September 16, 2025
- **Companies/Firms requiring audit:** September 30, 2025
- **Taxpayers with international transactions:** November 30, 2025
- **Belated return filing:** December 31, 2025
- **Revised return filing:** December 31, 2025

New Tax Regime Developments

Default Regime Status

For AY 2025–26, the new tax regime continues as the default option, requiring taxpayers to actively opt out if they prefer the old regime's deductions and exemptions.

Current Tax Slabs for FY 2024–25 (AY 2025–26)

The applicable tax slabs under the new regime for the current filing are:

- **₹0 to ₹3,00,000:** Nil tax
- **₹3,00,001 to ₹7,00,000:** 5% tax rate
- **₹7,00,001 to ₹10,00,000:** 10% tax rate
- **₹10,00,001 to ₹12,00,000:** 15% tax rate
- **₹12,00,001 to ₹15,00,000:** 20% tax rate
- **₹15,00,001 and above:** 30% tax rate

Enhanced Deductions in New Regime

Recent amendments have made the new regime more attractive with:

- **Standard Deduction:** Increased to ₹75,000 from ₹50,000
- **Family Pensioner Deduction:** Enhanced to ₹25,000 from ₹15,000
- **NPS Employer Contribution:** Deduction limit raised to 14% from 10%

ITR Form Selection and Classification

Form Selection Matrix

Selecting the appropriate ITR form remains critical for compliance. The classification for AY 2025-26 follows established patterns:

ITR-1 (Sahaj):

- Resident individuals with total income up to ₹50 lakh
- Income sources: Salary, pension, one house property, other sources (interest), agricultural income up to ₹5,000
- Long-term capital gains under Section 112A up to ₹1.25 lakh

ITR-2:

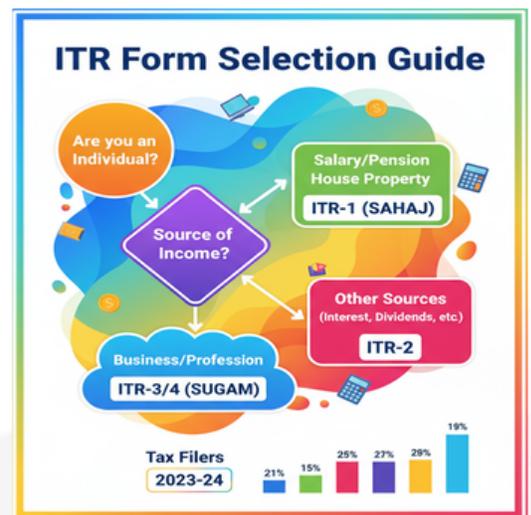
- Individuals and HUFs without business/profession income
- Applicable for capital gains, foreign income, or multiple house properties

ITR-3:

- Individuals and HUFs with business/profession income
- Required for trading income, professional practice income

ITR-4 (Sugam):

- Presumptive taxation under Sections 44AD, 44ADA, or 44AE
- Total income up to ₹50 lakh with specific business income criteria



Consequences of Incorrect Form Selection

Filing with an incorrect ITR form results in the return being deemed "defective" under Section 139(9). This can lead to:

- Return being treated as "not filed"
- Requirement for rectification filing
- Potential penalties and scrutiny
- Delayed processing and refunds

Common Filing Errors and Mitigation Strategies

Critical Documentation Errors

Personal Information Discrepancies:

- Mismatched PAN and Aadhaar details leading to processing delays
- Incorrect correspondence addresses affecting notice delivery
- Invalid email IDs preventing ITR-V receipt

Banking Information Mistakes:

- Incorrect account numbers or IFSC codes delaying refunds
- Failure to pre-validate bank account details

Income Reporting Failures

Incomplete Income Declaration:

- Missing freelancing or consulting income
- Unreported interest from multiple bank accounts
- Omitted dividend income or capital gains
- Virtual Digital Asset (VDA) income not reported in Schedule VDA

TDS/TCS Mismatches:

- Discrepancies between Form 16, Form 26AS, and AIS
- Missing TDS certificates from various deductors
- Incorrect TCS reporting on foreign remittances

Deduction and Exemption Errors

Regime Confusion:

- Claiming old regime deductions while filing under new regime
- Incorrect HRA claims without proper documentation
- Overstated investment proofs under Section 80C

Documentation Inadequacy:

- Submitting fake rent receipts for HRA exemption
- Inflated medical insurance premiums under Section 80D
- Missing Form 10E for salary arrears relief under Section 89(1)

Form 26AS, AIS, and TIS Reconciliation

Understanding Document Hierarchy

Form 26AS:

- Consolidated tax statement showing TDS/TCS transactions
- Generated through TRACES system
- Primary source for tax credit verification

Annual Information Statement (AIS):

- Comprehensive financial transaction summary
- Includes SFT data, GST turnover, foreign remittances
- Provides feedback mechanism for discrepancy reporting

Tax Information Summary (TIS):

- Summary statement derived from AIS
- Categorized presentation of salary, interest, and dividends

Reconciliation Process

Step-by-Step Verification:

- Download all three documents from the e-filing portal
- Cross-verify salary income between Form 16 and Form 26AS
- Match investment details reported in Form 16 with AIS data
- Identify and address discrepancies before final submission

Common Discrepancy Types:

- TDS amount differences between documents
- Missing interest income in ITR but shown in AIS
- Incorrectly mapped PAN by reporting entities
- Capital gains duplication or misreporting

Presumptive Taxation Provisions

Section 44AD Implementation

Eligibility Criteria:

- Individuals, HUFs, and partnership firms (excluding LLP)
- Annual turnover not exceeding ₹2 crore (₹3 crore for 95% digital receipts)
- Exclusions: Transport business under Section 44AE, agency business

Income Computation:

- 8% of gross receipts for normal transactions
- 6% for digital mode transactions (non-cash)
- No expense deductions permitted under Sections 30-37

Compliance Requirements:

- ITR-4 filing mandatory
- Advance tax payable in full by March 15
- Five-year continuity rule upon opting in

Section 44ADA for Professionals

Applicable Professionals:

- Legal professionals, medical practitioners, engineers, chartered accountants
- Income presumed at 50% of gross receipts
- Annual receipts limit of ₹75 lakh

Capital Gains Reporting Complexities

Short-Term Capital Gains (STCG)

Post-July 23, 2024 Changes:

- New tax rules requiring transaction segregation
- Separate reporting for pre and post-July 23 transactions
- Enhanced documentation requirements in ITR-2

Reporting Methodology:

- Consolidated reporting for transactions of similar nature
- Individual transaction details for LTCG on shares purchased before January 31, 2018
- Quarterly breakup mandatory for systematic reporting

Long-Term Capital Gains (LTCG)

Schedule 112A Requirements:

- Detailed transaction-wise reporting for pre-2018 acquisitions
- ISIN, purchase dates, sale dates, and indexed cost details
- Exemption limit of ₹1.25 lakh for equity shares and mutual funds

TDS and TCS Rationalization Impact

Key Changes for FY 2024-25

Threshold Enhancements:

- Revised TDS limits on various payment categories
- Increased TCS thresholds on foreign remittances
- Relief from higher TDS/TCS rates for non-filers

Compliance Simplifications:

- Removal of Sections 206AB and 206CCA
- Exemption from prosecution for delayed TCS payments in specific cases
- Reduced compliance burden for deductors and collectors

Penalty Provisions and Consequences**Section 234F – Late Filing Fees****Fee Structure:**

- ₹5,000 for total income exceeding ₹5 lakh
- ₹1,000 for total income up to ₹5 lakh
- Applicable for returns filed after due date but before December 31

Corporate Penalties:

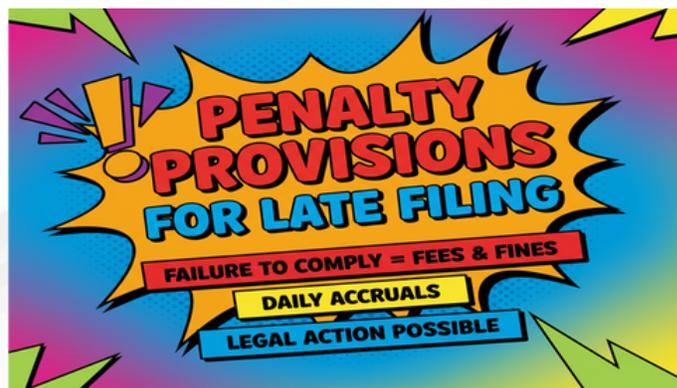
- ₹10,000 flat penalty for companies under Section 234F
- Section 271F: ₹5,000 per day until compliance
- Section 271BA: ₹10,000 for conducting business without filing

Interest Provisions**Section 234A Interest:**

- 1% per month on unpaid tax from original due date
- Calculated until actual tax payment date
- Compounds monthly for extended delays

Loss Carry-Forward Restrictions**Critical Implications:**

- Business and capital losses cannot be carried forward if ITR filed late
- House property losses remain eligible for carry-forward
- Significant tax planning impact for loss-making entities

**Advance Tax Obligations****Payment Schedule for FY 2025–26****Regular Taxpayers:**

- June 15, 2025: 15% of estimated liability
- September 15, 2025: 45% cumulative
- December 15, 2025: 75% cumulative
- March 15, 2026: 100% of total liability

Presumptive Taxation Taxpayers:

- Single payment by March 15, 2026: 100% of liability
- Alternative payment by March 31, 2026, permitted

Exemptions and Special Cases**Senior Citizen Relief:**

- Individuals aged 60+ without business income exempted from advance tax
- Applies only to pension and investment income recipients

E-Verification Procedures

Available Methods

Digital Verification Options:

- Aadhaar OTP verification
- Net banking through registered banks
- Digital Signature Certificate (DSC)
- Electronic Verification Code (EVC)

DSC Verification Process

Prerequisites:

- Valid Class 2 or Class 3 DSC certificate
- Emsigner utility installation
- DSC USB token from certified authority

Implementation Steps:

- Selection during immediate verification (not available for later verification)
- Provider and certificate selection
- Password authentication and digital signing
- Transaction ID generation for record-keeping

Updated Return Provisions – Section 139(8A)

Eligibility and Restrictions

Permitted Scenarios:

- Correction of omissions or errors in original return
- Additional income declaration increasing tax liability
- Filing within two years from end of relevant assessment year

Prohibited Uses:

- Cannot reduce tax liability or claim additional refunds
- Not available if assessment proceedings initiated
- Restrictions during search/survey operations under Sections 132/133A
- Cannot file nil returns or loss returns

Technology and Digital Initiatives

Pre-filing Enhancements

Automated Data Population:

- Salary income from Form 16 integration
- Bank interest from AIS synchronization
- Investment details from mutual fund registries

JSON File Handling:

- Offline utility support for pre-filled data
- Cross-platform compatibility for Windows and Mac
- Import/export functionality for professional use

Portal Improvements

User Experience Enhancements:

- Simplified navigation and form selection
- Real-time validation and error detection
- Mobile responsiveness for basic functions

Best Practices for CMA Professionals

Client Advisory Framework

Pre-Filing Consultation:

- Comprehensive income source analysis and documentation review
- Tax regime optimization analysis comparing old vs. new benefits
- Investment planning alignment with available deductions

Documentation Management:

- Systematic collection of Form 16, investment proofs, and bank statements
- AIS and Form 26AS reconciliation before filing commencement
- Digital record maintenance for audit trail purposes

Quality Assurance Measures

Multi-Level Verification:

- Cross-referencing all income sources with supporting documents
- Mathematical accuracy checks on calculations and tax computations
- Compliance verification against applicable sections and provisions

Risk Mitigation Strategies:

- Early identification of potential scrutiny areas
- Proper documentation of all claimed deductions and exemptions
- Timely communication with clients regarding discrepancies

Technology Integration

Software Utilization:

- Leveraging tax software for accuracy and efficiency
- Automated bank statement analysis for income identification
- Integration with mutual fund platforms for capital gains reporting

Cloud-Based Solutions:

- Secure document storage and client access portals
- Real-time collaboration tools for large client portfolios
- Automated reminder systems for compliance deadlines

Sector-Specific Considerations

Manufacturing and Trading Entities

Presumptive Taxation Applicability:

- Careful evaluation of Section 44AD eligibility for small manufacturers
- Digital transaction percentage analysis for rate determination
- Five-year commitment implications assessment

Inventory Valuation Issues:

- Proper stock valuation methodology adherence
- Work-in-progress assessment for manufacturing units
- Inter-company transaction pricing documentation

Professional Service Firms

Section 44ADA Optimization:

- Income estimation accuracy for professional practices
- Expense documentation maintenance despite presumptive scheme
- Client billing and receipt management systems

Real Estate and Construction

Capital Gains Complexity:

- Long-term vs. short-term classification accuracy
- Indexation benefit calculations for property sales
- Section 54 exemption documentation requirements

Regulatory Updates and Future Outlook

Compliance Automation Trends

Artificial Intelligence Integration:

- Automated anomaly detection in financial data
- Predictive analytics for tax liability estimation
- Machine learning-based deduction optimization

Blockchain Implementation:

- Immutable audit trails for transaction verification
- Smart contracts for automatic compliance monitoring
- Decentralized identity verification systems

Policy Evolution Expectations

Simplification Initiatives:

- Further rationalization of TDS/TCS provisions
- Enhanced pre-filing capabilities expansion
- Reduced compliance burden for small taxpayers

Digital Economy Adaptation:

- Cryptocurrency taxation framework refinement
- Digital asset reporting standardization
- Cross-border transaction monitoring enhancement

Conclusion

The Assessment Year 2025-26 presents both opportunities and challenges for CMA professionals in the income tax compliance landscape. The extended deadlines provide additional preparation time, while the evolving regulatory framework demands enhanced technical competency and strategic advisory capabilities. Success in this environment requires a combination of thorough technical knowledge, systematic process implementation, and proactive client communication.

Key success factors include mastering the nuances of the new tax regime default status, implementing robust reconciliation procedures for Form 26AS and AIS, and maintaining current knowledge of presumptive taxation provisions. The emphasis on digital compliance and automated verification systems necessitates continuous technology adoption and process refinement.

CMA professionals must position themselves as strategic advisors, going beyond mere compliance to provide value-added services in tax optimization, risk mitigation, and future planning. This comprehensive approach ensures not only current year compliance but also establishes a foundation for long-term client relationships and professional growth in an increasingly complex tax environment.

The regulatory landscape will continue evolving, with increased digitization, enhanced automation, and greater emphasis on real-time compliance monitoring. Staying ahead of these trends while maintaining the highest standards of professional excellence will distinguish successful CMA practitioners in the competitive tax advisory marketplace.

As we navigate through AY 2025-26 and prepare for future assessment years, the fundamental principles of accuracy, timeliness, and client-centricity remain paramount. By combining these principles with technological proficiency and regulatory awareness, CMA professionals can continue delivering exceptional value to their clients while contributing to the broader goal of improved tax compliance and economic transparency in India.

Mid year tax planning strategies

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Before exploring tax planning strategies, it is important to first understand the meaning of tax planning.

Tax planning means reducing the tax liability by taking advantage of deductions and exemptions as provided in the Income tax law. It also includes reviewing tax compliance. It is totally different from tax evasion which is considered as an illegal activity. For each and every person, mid-year tax planning is an important aspect. It helps not only in smooth taxation compliance but also help in effective and efficient running of business operation. There are various mid-year tax planning strategies which are as follows:

1. Computation of Advance tax :

- Generally, income tax on earnings of current financial year shall be paid in next financial year i.e. in Assessment year. However, Income tax Act requires payment of advance tax.
- **Taxpayers are required to estimate their current year's income and pay taxes thereon in advance in 4 installments. By 30th September, two installments of advance tax are due.**
- First installment is due on 15th June (up to 15% of advance tax liability)
- Second installment is due on 15th Sep (up to 45% of advance tax liability).

Every taxpayer should ensure that they have paid both installments of advance tax on time to avoid any interest. Any shortfall or delay of advance tax may attract interest u/s 234B and u/s 234C @1% per month or part of the month. **However, Assessee is required to pay Advance tax only if his tax liability is Rs. 10,000 or more.**

2. Reconcile the tax deducted by Payers with the entries in Form 26AS

- It is also a crucial aspect of tax planning. Several Sections of Income tax Act such as Section 194, 194A, 194C, 194J, 194H, 194Q etc. mandate deduction of tax at source (TDS) from payment made to supplier. **It is very important to verify, whether the tax deducted by customer has actually been deposited to the government or not. To ensure it, every person should reconcile the amount of TDS recorded in books of account with the details reflected in Form 26AS.** If amount is not deposited by customer then request the customer to immediately deposit the amount with the government.
- Practically, I have observed where customers either fail to deposit the TDS amount to the government or deposit a lesser amount than required. Sometimes, customers also deduct wrong amount of tax which may create discrepancies, if not addressed promptly.

3. Checking residential status

- Determining residential status is also an important strategy of mid year tax planning. Total Income of an assessee cannot be determined without knowing his residential status. **If any person becomes a resident of India then his whole income is taxable in India. But if a person become a non resident then only Indian income is taxable.** Let us understand the importance of residential status in tax planning with an example.

- Suppose in the current Financial year, Mr. A has stayed in India up to 27th Sep 2025 and plans to travel outside India on 1st October 2025 for an uncertain time. As of 27th September, his stay in India is 180 days. **From tax planning perspective, it would be advisable for him to go outside India on or before 28th Sep 2025.**
- The reason is that, if he goes outside India after 28 September 2025 then he will become resident of India by satisfying basic condition as provided in Section 6(1) of Income Tax Act, 1961 and his whole income will be taxable. However if he prepones his departure by just 2 days then he will become a non resident (subject to other conditions being satisfied). With this strategy, an individual can save a lot of taxes with legal means.

4. Maintain proper invoices for all expenses

In case of business, expenses can be claimed as a deduction only if they are supported by proper invoices and are incurred wholly and exclusively for business purpose. At mid year, an assessee should review all expenses intended to be claimed as deduction to ensure that they are legitimate and fully compliant with the provisions with the Income tax Act 1961.

5. Timely filing of return and payment of taxes

- Every taxpayer must ensure that they are filing return of income within the time limit as prescribed in the Income tax Act 1961 and that taxes are paid on time to avoid any legal consequences.
- For Instance, **TDS returns** shall be filed quarterly while payment of **TDS deducted** by assessee is required to be deposited with the government on a monthly basis. Therefore, as a part of **mid year tax planning**, an assessee should verify whether TDS payments have been deposited regularly each month and whether TDS return for Quarter 1 has been filed on time.

6. Opting between the old tax regime and new tax regime

For individuals, there are two tax regimes available for paying taxes ; the **Old Regime** and the **New Regime** under Section 115BAC. By mid-year, it is important for an individual to decide which regime to opt for. This choice is crucial because if a person wishes to remain under the Old Regime, they must plan in advance to claim deductions under **Chapter VI-A**. **For example**, to avail deduction under **Section 80C**, the necessary investments must be made within the year and on time.

7. HRA and rent documentation

If a salaried individual opts for the **old tax regime**, they are eligible to claim **HRA exemption under Section 10(13A)**. The exemption is minimum of the following:

- (a) Actual HRA received,
- (b) Rent paid minus 10% of salary,
- (c) 40% of salary (non-metro cities) or 50% of salary (metro cities).

However, to avail this benefit, the individual must maintain **rent receipts and supporting documents**. Mid-year is the right time to arrange these records to ensure smooth claim at year-end.

Sin Tax – CMA's Fiscal Lens A Fiscal weapon against Disease, Decay & Disorder: –a Comprehensive Analysis

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Abstract

This article presents a comprehensive analysis of the Sin Tax in India, examining its historical roots, scope, economic rationale, and policy implications. A sin tax, levied on goods and services deemed harmful—such as tobacco, alcohol, pan masala, sugary beverages, gambling, and emerging categories like e-cigarettes, junk food, and carbon-intensive products—serves the dual purpose of discouraging harmful consumption while generating substantial public revenue. Grounded in Pigouvian taxation theory, it reflects both corrective justice and fiscal necessity.

The discussion explores the merits (reduction in harmful habits, revenue for healthcare, environmental gains) and demerits (regressivity, black markets, revenue dependency, ethical dilemmas). A cost-benefit perspective suggests that long-term health savings and productivity gains surpass the short-term economic disruptions in industries linked to sin goods. Special attention is given to the forthcoming GST revisions effective 22 September 2025, which may alter consumption patterns and revenue streams, requiring nuanced analysis.



The article further highlights the strategic role of Cost and Management Accountants (CMAs) in structuring effective sin tax policies, ensuring transparency, conducting impact audits, and integrating advanced technologies like AI, blockchain and IoT for compliance and forecasting. The conclusion underscores that with reforms, empathy, and innovation, sin tax can become a sustainable instrument promoting public health, fiscal balance and social responsibility.

1. What is Sin Tax?

A Sin Tax is a targeted levy imposed on goods and services deemed harmful to public health, morality, or society at large. Often classified as excise duties, cesses, or surcharges, these taxes are designed not only to collect revenue but also to discourage unhealthy consumption.

Examples include tobacco, alcohol, pan masala, aerated drinks, gambling, and junk food. More recently, the definition is broadening to cover sugar-rich items, e-cigarettes, and even environmental pollutants like carbon emissions.

Unlike conventional taxes that raise funds for general expenditure, a sin tax carries a moral and corrective dimension, signaling disapproval of the taxed product or behavior.

2. Origin of Sin Tax

The roots of sin tax can be traced back to ancient civilizations:

- China (6th century): Alcohol taxation was widely used.
- Europe: In medieval times, alcohol and gambling were taxed both to raise funds and to regulate moral behavior.
- Colonial India: The British levied high duties on opium, salt and liquor, partly to discourage consumption and partly to fund administration.

In modern economics, sin taxes are justified by Pigouvian theory, named after economist Arthur Pigou, who argued that markets often fail to account for negative externalities—such as the burden of smoking-related illnesses on public healthcare.

Post-independence India used excise duties on liquor and tobacco as a major state revenue source. After GST implementation in 2017, sin goods were placed in the highest 28% slab, often with additional compensation cess.

3. Goods & Services Attracting Sin Tax in India

Currently, sin taxes in India are levied on:

- Tobacco Products: Cigarettes, bidis, chewing tobacco (28% GST + cess + NCCD).
- Alcohol for Human Consumption: Outside GST, but heavily taxed at the state level.
- Pan Masala & Gutkha: High cess burden.
- Aerated Drinks / Sugary Beverages: 28% GST + 12% cess.
- Luxury & Vice-Linked Activities: Casinos, betting, gambling.
- Emerging Targets: Junk foods, energy drinks, e-cigarettes, carbon-intensive products.

4. Necessity of Sin Tax

The necessity of sin tax in India is rooted in multiple realities:

- Public Health Burden: 1 million tobacco-related deaths annually in India (ICMR).
- Revenue Dependency: Liquor and tobacco account for up to 15–25% of some states' revenues.
- Behavioral Economics: Raising prices nudges citizens away from harmful goods.
- Corrective Justice: Compensating society for damages (healthcare, law enforcement).
- Preventive Economics: Reducing future costs of NCDs like diabetes, hypertension, and cancers.

Without such taxes, both consumption and health costs would spiral uncontrollably.

5. Merits and Demerits of Sin Tax

Merits

- Discourages Harmful Habits: Proven to reduce smoking and drinking rates.
- Revenue Generation: Earmarked for health, education, or infrastructure.
- Positive Externalities: Less disease, fewer accidents, healthier workforce.
- Environmental Gains: Green sin taxes on carbon can reduce pollution.
- Moral Signaling: Governments show disapproval of unhealthy lifestyles.

Demerits

- Regressive Burden: Falls disproportionately on the poor.
- Black Market Growth: Smuggling of liquor, illegal cigarette trade.
- Revenue Addiction: States grow dependent on harmful consumption for income.
- Ethical Dilemma: Governments profit from vices.
- Limited Effectiveness: Addictive goods may show low elasticity.

6. Cost-Benefit Analysis of Sin Tax

Benefits

- Revenue: Liquor excise contributes ₹2.5 lakh crore+ annually.
- Health Savings: Reduced cases of cancers, liver cirrhosis, diabetes.
- Social Benefits: Lower domestic violence, reduced crime rates.

Costs

- Job Losses: Tobacco farmers, vendors, small traders.
- Compliance Costs: Smuggling checks, litigation.
- Consumer Hardship: Especially in rural areas dependent on low-cost alcohol or bidis.
- Net Result: Long-term societal savings (health + productivity) far exceed short-term industry losses.

Here’s a concise insertion you can add in the article at an apt place – just after the section on Cost-Benefit Analysis (point 6), because GST rate changes directly affect the economics of Sin Tax.

6A Effect of Forthcoming GST Changes on Sin Tax (w.e.f. 22nd September 2025)

The landscape of sin taxation in India is set to witness significant shifts due to the forthcoming GST rate revisions effective 22nd September 2025. Since excise duties and GST together form the backbone of tax collection on tobacco, liquor, and certain luxury items, even marginal alterations in GST rates will impact both consumer pricing and government revenues. A reduction in GST slabs may lower the overall burden on some sin goods, potentially undermining the deterrent intent of sin tax. On the other hand, rationalization of rates may help curb tax evasion and simplify compliance for businesses, ensuring more transparent collection. For policymakers and CMAs, the challenge lies in ensuring that revised GST structures continue to discourage harmful consumption while sustaining the public health and revenue objectives of sin tax.

6B Quantitative Perspective on GST Change Impact (including GST 2.0 Reforms w.e.f. 22 September 2025)

Historically, sin goods such as cigarettes, pan masala, and aerated beverages were placed in the 28% GST slab, along with an additional compensation cess or National Calamity Contingent Duty (NCCD) in the case of tobacco. This dual taxation ensured high effective rates, serving both revenue and deterrence purposes.

With the introduction of GST 2.0 from 22 September 2025, the tax landscape is undergoing a major restructuring. India is moving to a simplified three-slab structure: 5% for essentials, 18% for most standard goods, and a newly introduced 40% slab for luxury and sin goods. While everyday food, healthcare, and education-related goods have been shifted downward (to 0% or 5%), sin goods remain deliberately excluded from relief. Instead, many are migrating from the older 28% + cess model into the flat 40% slab, significantly raising their overall tax burden.

The government estimates a ₹93,000 crore revenue loss due to general GST cuts but projects partial offset through higher collections from the 40% slab, with a net estimated shortfall of ~₹48,000 crore on the FY23-24 base. For consumers, this implies higher retail prices for alcohol surrogates, tobacco, pan masala, and sugary drinks. For policymakers and CMAs, the implication is clear: while deterrence will likely strengthen, monitoring unintended consequences such as illicit trade or cross-border smuggling will become even more critical. CMAs must recalibrate elasticity models, revenue forecasts, and healthcare cost projections under the new GST regime to strike the right balance between fiscal needs and public health objectives.

| Category | Old GST Structure (Pre-Sept 2025) | New GST 2.0 Structure (Post-Sept 2025) | Impact on Sin Tax |
|---|------------------------------------|---|--|
| Tobacco Products (Cigarettes, bidis, chewing tobacco) | 28% GST + Compensation Cess + NCCD | 40% GST Slab (cess merged/ adjusted into higher rate) | Higher overall burden; stronger deterrence but risk of illicit trade |
| Pan Masala/ Gutkha | 28% GST + Compensation Cess | 40% GST slab | Significant price hike; expected fall in legal sales, possible black-market growth |
| Aerated/ Sugary Drinks | 28% GST + 12% Cess | 40% GST slab | Sharper disincentive on consumption; stronger alignment with public health goals |
| Alcohol for Human Consumption | Outside GST; State excise driven | Remains outside GST; but many states revising excise to align with GST 2.0 spirit | Limited direct change, but indirect pressure for higher excise |
| Casinos, Betting, Gambling | 28% GST on gross gambling revenue | 40% GST slab | Higher effective burden; industry push back expected |
| Essential Items (for consumption) | 5%, 12%, 18%, 28% slabs | 0%, 5%, 18%, 40% | Relief for essentials widens the tax gap between sin goods and essentials |

6C Info graphic Summary – GST 2.0 & Sin Tax (Effective 22 Sept 2025)

To complement the detailed discussion and comparative table, the key highlights of GST 2.0's impact on Sin Tax can be visualized in a crisp, info graphic-style summary:

- Shift to 3-Slab GST – 0%, 5%, 18%, and 40% (luxury & sin goods)
- Sin Goods Hit Hardest – Tobacco, pan masala, sugary drinks, casinos migrate to 40% slab
- From 28% + Cess → Flat 40% – Simplified but more expensive; sharper deterrence for harmful products
- Revenue Trade-off – While GST cuts cause an estimated ₹93,000 crore revenue loss, the 40% slab on sin goods partially offsets this (net shortfall ~₹48,000 crore).
- Public Health Boost – Higher taxation expected to reduce consumption, improve health outcomes, and fund healthcare schemes.
- CMA Role – Essential in forecasting consumption elasticity, detecting illicit trade risks, and balancing fiscal policy with social welfare imperatives..

7. Can Sin Tax Be Nullified?

Complete nullification is impractical and risky.

However, rationalization is possible:

Reduce rates if illicit trade surges.

Balance between discouragement and excessive punishment.

Replace high taxation with education + positive incentives (e.g., subsidies on healthy food).

8. Guiding Tips of Cost & Management Accountants (CMA) on Sin Tax

CMAs can guide the effective structuring of sin taxes:

- Study elasticity of demand across income groups.
- Develop lifecycle costing models for sin goods.
- Map healthcare costs vs. revenue generated.
- Conduct equity analysis—who bears the burden.
- Audit utilization of sin tax funds.
- Design predictive models for tax adjustments.

9. Can CMA Draft an Effective Action Plan for Sin Tax?

Yes. CMAs can create a multi-pronged plan:

- Data Research: Consumption, income burden, illicit trade.
- Tax Structure: Tiered cess (mild, moderate, strong).
- Revenue Earmarking: At least 50–70% for health & wellness.
- Cross-Subsidization: Sin tax revenue funds gym memberships, yoga centers, anti-addiction campaigns.
- Monitoring: Annual transparent audits.
- Policy Training: Workshops for lawmakers.
- Digital Tools: GSTN + AI for compliance tracking.

9A Role of Advanced Technology in Sin Tax Management

Innovative technology can revolutionize sin tax governance:

- AI & Big Data: Predict demand response, identify evasion patterns.
- Blockchain: Transparent revenue utilization, supply chain traceability (especially liquor/tobacco).
- IoT & Geo-Mapping: Detect illegal brewing or cross-border smuggling.
- Digital Twins: Simulate different tax rates' effects on behavior and revenue.
- Mobile Apps: Track consumer health impact, integrate with reward schemes for quitting harmful habits.

By embedding technology, India can make sin tax smarter, fairer and more impactful.

10. Future of Sin Tax in India

- (a) Expanded Base - Likely to cover energy drinks, ultra-processed foods, single-use plastics, carbon emissions.
- (b) ESG Alignment - Sin tax tied to sustainability & UN SDGs.
- (c) Tech-Driven Enforcement - AI, blockchain, GSTN integration for fraud detection.
- (d) Dynamic Rates - Flexible cess tied to public health KPIs (e.g., smoking prevalence).
- (e) Global Harmonization - WHO, WTO-led sin tax standards to avoid trade disputes.
- (f) Positive Incentives - Tax breaks for healthy choices (gym fees, fitness devices).

11. International Comparisons & Lessons for India

- Philippines: Sin tax on alcohol/tobacco funds universal healthcare.
- Mexico: Sugar tax reduced soda consumption by 7.5% in two years.
- Nordic Nations: High alcohol taxes coupled with rehab support.

Lesson: Tax is effective only when paired with awareness, subsidies for alternatives and transparent fund utilization.

12. Ethical & Philosophical Debate

Critics argue sin taxes:

- Treat adults as incapable of making free choices.
- Create moral policing by the state.
- Exploit addiction for revenue.

Proponents argue:

- Freedom must be balanced with responsibility.
- Society shouldn't subsidize reckless lifestyles.

A fair "polluter pays" principle justifies it.

13. CMA's Strategic Roadmap for Policymakers

- Impact Audits: Track real benefits vs. promised ones.
- Public-Private Partnerships: Joint anti-addiction drives funded by sin tax.
- Transparency Portals: Publish where every rupee of sin tax revenue goes.
- International Benchmarking: Learn from successful models abroad.
- Dynamic Policy: Regular review every 2–3 years.

Conclusion

The Sin Tax is both an economic tool and a moral nudge. It has merits of discouraging vices, funding healthcare, and correcting externalities, but suffers from regressivity, illicit trade risks and ethical dilemmas.

The way forward is not abolition, but reform and innovation. CMAs, with their analytical and ethical lens, can play a transformative role by designing data-driven, transparent and technology-enabled sin tax policies.

With AI, blockchain, IoT and digital tools, sin tax in India can evolve into a smart, fair and sustainable instrument—promoting both public health and fiscal responsibility.

If designed with empathy, evidence, and efficiency, sin tax can become not just a levy on vice, but a pathway to a healthier, more responsible and prosperous India.

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Mid-Year Tax Planning Strategies Every Business Should Follow

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For many businesses, tax planning is chaotic in March, and even more frantic is the auditing that happens in September. Decisions are rushed, deductions are often missed, and compliance gaps can lead to penalties or interest. However, all this stress can be avoided by conducting smart tax planning in the middle of the year. By September or October, businesses already have six months of financial data that can be used to project profits, optimize expenses, and catch compliance issues early. This proactive strategy allows businesses to maximize deductions, manage cash flows, and ensure a smooth statutory audit.

In this article, I cover comprehensive mid-year strategies that every business should implement to make tax planning both strategic and effective.

1. Project Profits and Manage Expenses

One of the first steps in mid-year tax planning is projecting profits for the remainder of the financial year. Using actual figures from the first six months, businesses can estimate year-end profits and plan expenses accordingly.

If profits have already exceeded projections, advancing certain expenses like marketing campaigns, equipment repairs, or staff training can help reduce taxable income for the year. Conversely, if profits are below expectations, some discretionary expenses may be deferred to the next year. **Example:** A retail business noticing higher-than-expected sales in the first half of the year may decide to stock additional inventory or prepay rent for warehouse space before year-end. This not only supports operations but also increases deductible expenses, helping reduce taxable income. Accurate profit projections also inform other critical decisions, such as whether to raise or defer invoices and how much tax liability to plan for in advance.

2. Estimate Tax Liability in Advance

Proper tax planning requires estimating your tax liability well before year-end. Mid-year is the ideal time to review your projected profits and calculate the advance tax payable for the remainder of the financial year. This proactive approach prevents interest under sections 234B and 234C and ensures that funds are arranged gradually rather than creating a cash crunch in March. **Example:** A manufacturing business expecting higher sales in Q3 can calculate the additional advance tax due and deposit it with the government in September, avoiding last-minute interest charges and ensuring smooth compliance.

3. Plan Revenue Recognition and Invoicing

Revenue recognition and invoicing play a key role in tax planning. The timing of invoices can impact turnover, taxable profits, and compliance thresholds. If profits have already exceeded projections, businesses may consider deferring certain invoices—where contract terms allow—to the next financial year. Conversely, if revenue is lagging, advancing invoice issuance can help balance projections. **Important:** All decisions must comply with accounting standards and contractual obligations. Misclassification or manipulation of revenue recognition can lead to legal and regulatory issues. **Example:** A consulting company with multiple ongoing projects may choose to issue milestone-based invoices strategically, aligning revenue recognition with expected taxable income.

4. Review Investments and Deductions

Maximizing deductions is central to mid-year tax planning. Sections such as 80C, 80D, and 35 (R&D expenditure) often go underutilized until the last quarter of the year. Mid-year is the perfect time to check whether you're making the most of eligible deductions.

Employee welfare contributions, National Pension System (NPS) investments, or donations to charitable institutions under Section 80G can also reduce taxable income significantly. **Example:** A proprietorship planning to invest in an Equity Linked Savings Scheme (ELSS) can make mid-year contributions, spreading investments over several months instead of rushing at the end, which also improves cash flow management.

5. Conduct a Pre-Audit Review of Books

Pre-audit reviews of books ensure accuracy and compliance well before the statutory audit. Waiting until the audit period often leads to errors being discovered late, causing delays and possible disallowances. A mid-year pre-audit review should include reconciling ledgers, verifying invoices, and correcting misclassifications. Early action reduces the risk of disputes with auditors and facilitates smoother reporting at year-end.

Example: A trading firm reviewing its purchase ledger mid-year may identify unrecorded supplier credits, which, if corrected, optimizes working capital and prevents audit queries.

6. Match ITC Claimed with GST Portal

For GST-registered businesses, reconciling Input Tax Credit (ITC) claimed in books with data on the GST portal is essential. Any mismatch could result in ITC reversals or additional liability during GSTR-9/9C filing. A mid-year reconciliation ensures no excess ITC is claimed and allows time to correct discrepancies with vendors. It also protects cash flow and avoids penalties. **Example:** A manufacturing company discovers that ITC on certain services was claimed twice in books. Reconciling mid-year allows timely correction, avoiding complications during the annual return filing.

7. Ensure Proper TDS and Compliance Checks

TDS compliance is critical and often overlooked until year-end. Businesses should review whether TDS is being correctly deducted, deposited, and reflected in Form 26AS or AIS. Additionally, check whether any expenses are at risk of disallowance for example, cash payments beyond permissible limits or incomplete documentation. Mid-year identification allows corrective action without impacting operations. **Example:** A construction company realizes mid-year that TDS was not deducted on a subcontractor payment. Rectifying this immediately avoids penalties and interest.

8. Plan Capital Investments Strategically

Capital expenditure provides valuable tax benefits via depreciation. However, assets purchased and put to use for more than 180 days in a financial year qualify for full depreciation; those used for less qualify for only half. Timing capital investments strategically mid-year ensures maximum deduction while supporting operational needs.

Example: A manufacturing company buying machinery in September qualifies for full-year depreciation, reducing taxable profits and improving cash flow.

9. Reclassify Expenses for Better Tax Benefits

Expense classification can significantly impact tax treatment. Certain costs, such as software subscriptions, employee training, or staff welfare, may yield higher deductions if classified correctly. Mid-year is the ideal time to review expense heads and reclassify them where permissible, ensuring the business maximizes every deduction. **Example:** Software development expenses initially recorded as maintenance can be reclassified as capital expenditure to claim depreciation benefits.

10. Optimize Profit Distribution

Remuneration, bonuses, or dividends need careful planning to ensure tax efficiency and compliance. Mid-year reviews allow businesses to structure payouts strategically, spreading them across the year to ease cash flow and align with taxable income. **Example:** A partnership firm may pay part of the partner's remuneration mid-year and adjust the remainder in December based on updated profit projections.

11. Explore Loss Harvesting Opportunities

If certain segments or assets are operating at a loss, consider booking these losses strategically. Losses can be offset against current-year profits or carried forward for up to eight years. Mid-year planning ensures losses are properly recorded and maximized to reduce future tax liability. **Example:** A startup's R&D division running at a loss can offset those losses against other profitable divisions, reducing the overall tax burden.

12. Evaluate Tax Incentives and Schemes

Businesses may qualify for government schemes like Start-up India, SEZ exemptions, or state-specific subsidies. Mid-year is the right time to review eligibility and submit applications where required. **Example:** A renewable energy company applying for Section 80-IA benefits mid-year ensures approvals and documentation are in place before the financial year-end.

13. Review Related Party Transactions

For companies with group entities or foreign affiliates, related party transactions must follow arm's length pricing. Mid-year reviews help identify documentation gaps and allow adjustments to avoid transfer pricing penalties.

Example: Inter-company service fees may need adjustment if mid-year review indicates deviation from arm's length pricing.

14. Check MAT/AMT Applicability

Companies subject to Minimum Alternate Tax (MAT) or Alternative Minimum Tax (AMT) should review mid year calculations to plan payments and utilize credits effectively. Early assessment prevents surprises at year end and allows for structured payments.

15. Plan CSR Spending (If Applicable)

Companies covered under CSR regulations should plan the timing and amount of CSR expenditure. Gradual spending across the year ensures compliance and avoids last-minute spending that may not align with strategic objectives.

16. Review Loans and Interest Deductions

Interest on borrowings is deductible only if properly documented and used for business purposes. Mid-year reconciliation ensures interest is accurately recorded and allows for restructuring of high-cost loans if necessary.

Example: A company refinancing a high-interest working capital loan in October can maximize interest deductions and reduce cost.

17. Employee-Related Tax Benefits

Employer contributions to PF, gratuity, or superannuation funds reduce taxable profits. Mid-year review ensures contributions are within statutory limits and properly accounted for to avoid disallowances.

18. Prepare for Audit-Linked Reporting

Businesses subject to tax audit or CARO reporting should begin preparations mid-year. This includes ensuring compliance with reporting clauses related to loans, payments, and TDS, which reduces year-end workload and potential audit issues.

Additional Compliance and Industry-Specific Reviews

- **Foreign exchange transactions:** Hedge exposures to manage gains/losses and protect profitability.
- **Industry-specific deductions:** Sections like 80-IA/80-IB for infrastructure or manufacturing projects.
- **Employee stock options or ESOPs:** Plan timing of grants and exercises for tax efficiency.

Conclusion

Mid-year tax planning is not just about compliance it is a strategic opportunity to optimize profits, reduce tax liability, and strengthen financial management. By projecting profits, managing expenses, timing revenue recognition and capital investments, reviewing deductions, reconciling ITC, and ensuring compliance with TDS,

Twin Rated GST : Reshuffled And Reshaped

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Another wave of Tax Reforms after July, 2017 escalated the festive season of India in the name of “GST BachatUtsav”. As announced by the PM on the Independence Day, the Divali Gift the the citizen has been brought on the first day of the SharadNavratriin form of GST 2.0. One Nation One Tax brought in 2017 was a beginning of a new era of Indirect Tax in the country. However, the justifiability of the imposed rates had always been in question. This time rates are possibly improved and things seem simpler.

(A) Summary Of The New Regime is as under

1. The most awaited 56th GST Council meeting happened 3rd September 2025. The council rationalized the GST rate structure from four GST slabs (5%, 12%, 18%, 28%) to a simplified structure:
 - Standard rate: 18% - Applicable to most goods and services
 - Merit rate: 5% - For essential items and priority sectors
 - Demerit rate: 40% - Selective application to sin goods and luxury items
2. GST on leather, footwear, textiles, handicrafts, and toys reduced to 5% to boost youth-led MSMEs and exports.
3. Essential learning materials like pencils, erasers, and exercise books made GST-free to ease education costs.
4. GST on gyms/fitness centres slashed from 18% to 5%, making fitness more affordable and accessible.
5. GST on two-wheelers ($\leq 350\text{cc}$) and small cars cut from 28% to 18%, enhancing youth mobility.
6. GST on cement reduced from 28% to 18%, lowering housing and infrastructure costs.
7. Healthcare made affordable with GST on medicines cut to 5%/Nil, while health insurance is made exempted from GST.
8. Uniform 5% GST on drones introduced, supporting startups and the Make in India initiative.
9. Daily food items like UHT milk, roti, paratha, paneer, and packaged snacks brought under 5% or Nil GST, easing household expenses.
10. Reforms promote affordability, healthier lifestyles, and improved ease of living for youth and households.
11. All these GST rate changes will be effective from 22nd Sept 2025 except tobacco products.
[source: pib.gov.in]

UNDER THIS NEW FRAMEWORK:

- ITC is not allowed for most services like brokerage, commissions, and office-related expenses.
- ITC is still allowed for reinsurance-related services.
- Any ITC balance had to be used up before September 21, 2025, as per GST rules.

(B) Impact Of Rate Rivision:

For Consumers:

1. Bring down grocery bills: More than 350 items got less expensive that will enable buyers to save 13% in the household bills for groceries and daily essentials as the GST ‘next-Gen’ reform kicked in. These include groceries, agri-equipments, clothing, medicines and automobiles.

2. Savings on other essentials: According to government estimates, stationery, clothing, footwear and medicines purchases would bring in savings in the range of 7-12%, while the savings would go up to 18% in the case of individual health and life insurance policies, which have been exempt from GST effective from September 22, 2025.
3. Smart Home Appliances are cheaper: Further gains come from appliances integrated with smart features. Smart washing machines, connected air conditioners and IoT-enabled dishwashers now covered under the lowered 18% GST slab. This change allows broader adoption of automation and energy-efficient technologies in urban households without the typical premium pricing.
4. Vehicles In The Savings Wave: The government has estimated that there would be a savings of ₹40,000 on the purchase of tractors up to 1800 cc. as GST rate has been brought down to 5% on tractors from the earlier 12-18%. In case of bikes/scooters (up to 350 cc) buying, savings would be ₹8,000, while in TV (above 32 inches), there would be savings of ₹3,500. Air Conditioner buying would outcome in a saving of ₹2,800 as the GST rate of these items has been reduced from 28% to 18%.
5. Tax free Insurance Premium for Individuals: Individual Health Insurance Premium would be tax free. It is presumed that cost may rise in terms of ineligible to claim ITC on many of their expenses.
6. Education Supplies at 0%: The Educational Supplies observes a drop to zero percent GST.

For Businesses:

1. Easy tax structure: Adopting a simpler two-slab system (5% and 18%) reduces classification disputes and streamlines operations.
2. Augmented working capital: Easing working capital burden, especially in sectors like textiles, allows for more efficient cash flow.
3. Enhanced ITC refunds: Faster Input Tax Credit (ITC) refunds improve business cash flow.
4. Lower compliance load: A simplified tax structure results in reduced compliance burdens for businesses.
5. Counter U.S. Tariffs: This is a strategic response to high U.S. Tariffs on Indian Goods.

For Key Sectors:

1. Textiles: Lower GST rates will increase competitiveness in global markets.
2. Automobile: Price cuts are probable to boost demand and domestic manufacturing.
Real Estate: Reduced GST on construction materials and cement lowers costs for homes and infrastructure projects.
3. Farming: Reduced cost for farm inputs like equipment are anticipated.

Overall Impact:

1. Economic Growth: The reforms target to encourage demand, upkeep manufacturing, and drive overall economic growth.
2. Inflation Control: The tax reduction facilitates release from inflation and increase household disposable incomes.
3. Fiscal Prudence: The changes balance growth promotion with the need for fiscal stability.

HOW IS THIS TAX CUT BEING FUNDED? :

India has decided to adopt twin rated GST regime to overcome the economic attack of high tariff by USA. It has made vital changes in GST which is going to reduce Government's revenue in future. The question rises that how India is going to fund this loss. No clear information is published anywhere or easily accessed on internet. Is this temporary relief going to bring a big pain to the country? In 2020, when tax revenues dropped due to the COVID-19 pandemic, the federal government borrowed funds and compensated states through market loans, and also extended the additional levy until June 2026 to repay these borrowings. Opposition-ruled states are proposing a new levy to protect state revenue losses stemming from the GST reorganization, which comes at a time when an earlier compensation cess is also set to lapse.

Anonymous sources reveal that GST cut is primarily funded by increased tax revenue expected from economic growth motivated by lower rates, a new high 40% tax on luxury and sin goods, and upgraded compliance, rather than new government borrowing or explicit funding sources for the short-term revenue loss. The government aims to offset the estimated ₹48,000 crore annual revenue implication of the cuts through higher consumption and business activity.

What This Means for the Government and States

- Central and State Government: The anticipated revenue loss from the rate cuts is expected to be shared between the Central and State governments.
- No Compensation Cess: Unlike previous arrangements, a compensation cess for states is not being reinstated to compensate revenue shortfalls. Rather, states will have to rely on their own revenue sources and the recommendations of the 16th Finance Commission.

THE ANTICIPATED FUNDING MODES ARE:

- Enhanced economic activity: The lowered GST rates are believed to increase demand, resulting in higher production and sales across various sectors. This, in turn, increases overall tax revenue. In other words, Rate cuts are anticipated to encourage manufacturing and investment as overall demand increases, contribution to GDP growth and more strong economy that can generate more tax revenue.
- Luxury and sin goods tax: A new 40% tax rate on luxury and "sin" goods like tobacco, high-end cars, and yachts is intended to make significant revenue and balance the fiscal impact of rate cuts on essential items.
- Better compliance and administration: The GST 2.0 reforms also bring efficiency in workings, like simplified paperwork, faster refunds, and business-friendly processes, which are supposed to enhance tax resilience and compliance, resulting in more revenue.
- Taxation of luxury and sins items: high-ended luxury and sin goods, such as pan masala, tobacco products and large cars, taxes are levied at high rates including a special 40% rate at high rates. The revenue generated from these areas helps to overcome the lack of revenue from low rates on other items.

And finally,

- Use of borrowed funds: The central government is supposed to repay the debt borrowed for the preventive shortfall of states, mainly to free resources or reduce future interest burden, which may contribute to indirect financing

STATEMENTS AND REACTIONS ON GST 2.0:

The Prime Minister Modiji described it as a Diwali Gift to citizens while the Finance Minister Sitaramana believes it will put more money in consumer's hands by shifting most goods to lower tax brackets. The Union Home Minister Amit Shah called it a "Trust Based Tax System" to reduce burden of citizens. Industry leaders, such as the ITC Chairman, have called it a historic moment that will energize businesses and accelerate India's economic journey.

As per an article published in livemint.com by Gireesh and Rituraj titled "Price cuts, buyers' rush: How India welcomed Day One, GST 2.0", Maruti Suzuki India Ltd, India's largest carmaker, said customer response to price cuts has been phenomenal, something the company has not seen in the last 35 years. "On the very first day, we recorded 80,000 enquiries, and have already delivered over 25,000 cars, with deliveries expected to touch 30,000 shortly. Since 18 September, when we announced additional price reduction (over and above GST), we have received 75,000 bookings, with nearly 15,000 bookings coming in every day—about 50% higher than usual," said Partho Banerjee, senior executive officer (marketing and sales). Demand for small cars has jumped 50%, and enquiries remain "very high," Banerjee said, adding Maruti Suzuki may even run out of stock for certain variants. "Dealers are staying open late into the night to deliver cars to customers. Compared to last year, the overall response has been exceptionally strong," he said.

"Trends of primary regular sales are encouraging. Till 5 pm in the evening, our dealers have reported almost double sales, compared to any other Monday," Haier India president N.S. Satish told PTI. Blue Star managing director B. Thiagarajan termed the mood "upbeat", citing enquiries. "Rough estimate is that growth compared with September last year will be around 20%. E-commerce players' big sale begins today and the prices will be watched by many consumers before deciding to buy," he told PTI

Chief economic advisor V. AnanthaNageswaran said at a Network18 event in the capital that the country's economy is likely to grow closer to the upper end of the government's projected range, aided by GST reforms. The Economic Survey had projected India's economy to expand between 6.3% and 6.8% in FY26.

Amit Paithankar, CEO and whole-time director, Waaree Energies Ltd said, "The reduction of GST on renewable energy devices and equipment to a uniform 5% will lower project costs and accelerate the capacity addition needed to meet India's clean energy targets. This development will directly help reduce the overall cost of solar modules. While the exact reduction depends on project specifications and configurations, customers can expect a tangible decrease in module prices, further strengthening the case for solar adoption." Paithankar said that while the new rate may temporarily increase the issue of inverted taxation, the government's focus on faster input tax credit (ITC) refunds should help address this.

Pinaki Bhattacharya, founder, MD and CEO, Ampin Energy Transition said, "While the focus on domestic manufacturing has contributed to rising energy costs, the recent GST rationalization provides timely relief. By helping to moderate cost pressures, it will accelerate the wider adoption of renewable energy, green hydrogen, and energy storage solutions."

Opposition Congress Party, although, described it as a 'delayed GST reform' and blamed the ruling party for "making everything into an even".

Mamta Banerjee Ji sounded worried about tax revenue loss due to this regime.

QUICK REVIEW OF ITEM-WISE RATE CHANGES:

RATE REDUCTIONS:

| Category | Items | From (%) | To (%) |
|---------------------------------|---|----------|--------|
| Daily Essentials | Hair Oil, Shampoo, Toothpaste, Toilet Soap Bar, Tooth Brushes, Shaving Cream | 18 | 5 |
| | Butter, Ghee, Cheese & Dairy Spreads | 12 | 5 |
| | Pre-packaged Namkeens, Bhujia & Mixtures | 12 | 5 |
| | Utensils | 12 | 5 |
| | Feeding Bottles, Napkins for Babies & Clinical Diapers | 12 | 5 |
| | Sewing Machines & Parts | 12 | 5 |
| Uplifting Farmers & Agriculture | Tractor Tyres & Parts | 18 | 5 |
| | Tractors | 12 | 5 |
| | Specified 12 bio-pesticides and micro-nutrients | 12 | 5 |
| | Drip Irrigation System & Sprinklers | 12 | 5 |
| | Agricultural, Horticultural or Forestry Machines (Soil Preparation, Cultivation, etc.) | 12 | 5 |
| Healthcare Sector | Individual Health & Life Insurance | 18 | Nil |
| | Thermometer | 18 | 5 |
| | Medical Grade Oxygen | 12 | 5 |
| | All Diagnostic Kits & Reagents | 12 | 5 |
| | Glucometer & Test Strips | 12 | 5 |
| | Corrective Spectacles | 12 | 5 |
| | 33 drugs and medicines, listed in the press release | 12 | Nil |
| | Agalsidase Beta, Imiglucerase and Eptacogalfa activated recombinant coagulation factor VIIa drugs | 5 | Nil |
| Automobiles | Drugs and medicines such as Faricimab, Pertuzumab, Fluticasone Furoate + Umeclidinium + Vilanterol FF/UMEC/VI, Ocrelizumab, and Brentuximab Vedotin | 12 | 5 |
| | Petrol & Petrol Hybrid, LPG, CNG Cars (≤1200cc & ≤4000mm) | 28 | 18 |
| | Diesel & Diesel Hybrid Cars (≤1500cc & ≤4000mm) | 28 | 18 |
| | Three wheelers | 28 | 18 |
| | Motorcycles (≤350cc) | 28 | 18 |
| Education | Motor Vehicles for the transport of goods | 28 | 18 |
| | Maps, Charts & Globes | 12 | Nil |
| | Pencils, Sharpeners, Crayons & Pastels | 12 | Nil |
| | Exercise Books & Notebooks | 12 | Nil |
| Electronic Appliances | Eraser | 5 | Nil |
| | Air Conditioners | 28 | 18 |
| | Television (above 32") (inc. LED & LCD TVs) | 28 | 18 |
| | Monitors & Projectors | 28 | 18 |
| Mining | Dish Washing Machines | 28 | 18 |
| | Coal, lignite, peat | 5 | 18 |
| | tobacco/ pan masala* | 28 | 40 |
| | Aerated waters | 28 | 40 |

| | | | |
|--------------|--|--------------|--------------|
| Sin goods | Carbonated beverages of fruit drinks / with fruit juice | 28 | 40 |
| | Other non-alcoholic beverages | 18 | 40 |
| | Motor cars and larger hybrids (beyond small-car thresholds) | 28 | 40 |
| | Motorcycles exceeding 350cc | 28 | 40 |
| | Aircraft for personal use | 28 | 40 |
| | Yachts and vessels for pleasure/sports | 28 | 40 |
| | Smoking pipes and cigarette/cigar holders | 28 | 40 |
| | Revolvers & pistols | 28 | 40 |
| | Admission to casinos, race clubs, and sporting events like IPL | 28% with ITC | 40% with ITC |
| | Licensing of bookmakers by race clubs | 28% with ITC | 40% with ITC |
| | Specified actionable claims (betting, casinos, gambling, horse racing, lottery, online money gaming) | 28% with ITC | 40% with ITC |
| | Leasing/rental without operator of goods attracting 40% GST | 28% with ITC | 40% with ITC |
| Paper sector | Dissolving-grade chemical wood pulp | 12 | 18 |
| | Various papers/paperboards, other than exercise-book paper | 12 | 18 |
| HBA | Apparel/Made-ups >Rs 2,500 per piece | 12 | 18 |
| | Quilted/cotton quilts and quilted products more than Rs.2,500 per piece | 12 | 18 |

NIL RATED ITEMS IN NEW REGIME:

| Sector | Description of Goods and Services | Old Rate | New Rate |
|---|---|--------------|----------|
| Education | Erasers | 5% | Nil |
| | Printed maps, hydrographic charts, atlases, globes | 12% | Nil |
| | Pencil sharpeners | | |
| | Writing instruments (pencils, crayons, pastels, drawing charcoals, tailor's chalk) | | |
| | Notebooks (exercise, graph, laboratory) | | |
| Food | UHT milk, pre-packaged paneer, pizza bread, khakhra, chapathi, roti | 5% | Nil |
| | Paratha, parotta, and other Indian breads | 18% | Nil |
| Health | Specific recombinant therapeutic drugs (Agalsidase Beta, Imiglucerase, Eptacogalfa) | 5% | Nil |
| | Advanced biotechnological medicines (Onasemnogene, Mepolizumab, etc.) | 12% | Nil |
| Life and Health Insurance | All individual health and life insurance policies and reinsurance | 18% with ITC | Exempt |
| Other Proposals | Technical documentation for goods exempted under Customs Notification No.19/2019 | IGST 18% | Nil |
| | Natural cut and polished diamonds up to 1/4 carats (imported under Diamond Imprest Authorization) | | |
| | Works of art and antiques | | |
| | Flight motion simulator and parts | | |
| | Target motion simulator and parts | | |
| | Parts and sub-assemblies of HACFS | | |
| | Low noise amplifiers and vent guide assemblies for MRSAM system | | |
| | Parts and sub-assemblies of IADWS | | |
| | Military transport aircraft (C-130, C-295MW) | | |
| | Deep submergence rescue vessels | | |
| | Unmanned underwater vessels/platforms | | |
| | Ejection seats for fighter aircrafts | | |
| | High-performance batteries for drones and special equipment | | |
| | Communication devices including software-defined radios and accessories | | |
| | Air diving, rebreather sets, diving systems, components, and accessories | | |
| | Sonobuoys for naval air assets | | |
| | Ship-launched missiles | | |
| Rockets with caliber over 100mm | | | |
| RPA (Remote Piloted Aircraft) for military use | | | |
| Parts, sub-assemblies, spares, accessories, tools, testing equipment, and literature for various military goods except specified exceptions | | | |
| Paper | Uncoated paper and paperboard for exercise, graph, laboratory notebooks | 12% | Nil |

7 PILLARS OF NEXT-GEN GST REFORMS

- Building on the success of GST:** One Nation, One Tax. Expanded the taxpaying base (Simpler 2-tier system 0% & 18%).
- Rationalising rates for faster taxation:** Smoother duty structures. Faster processing of refunds.
- Simplifying filing through technology:** Easy registration for small & MSME businesses. 90% online processing of refunds for exporters. Digital compliance with AI-enabled AI-driven risk detection.
- Putting consumers first:** Essential goods in the 0% tax bracket. High value items like cars down from 28% to 18%.
- Empowering MSMEs & manufacturers:** Faster invoiced duty structures. Simpler rates to support sales in India.
- Stronger states, stronger Bharat:** Sustainable revenue growth for all states. Rationalised rates will increase demand.
- Lower taxes = higher spending:** Families buy more, demand rises, industries grow. Cheaper appliances, electronics will increase demand.

© Ministry of Finance

Making Childcare More Affordable

- Napkins and napkin liners for babies: 12% → 5%
- Feeding bottles: 12% → 5%
- Thermometers: 18% → 5%
- UHT Milk: 5% → NIL

Source: Ministry of Women and Child Development

GST 2.0 And It's Impact On Printing And Stationery Sector: Challenges, Adaptation And Opportunities

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Introduction

The printing and stationery industry is an essential part of daily life, touching classrooms, offices, and homes. With the rollout of **GST 2.0**, companies in this sector are facing both opportunities and challenges. While the rationalization of GST rates aims to simplify taxation and make essential products more affordable, it has also created **complex operational and pricing challenges**, particularly for items that are now **zero-rated**.

This article examines the impact of GST 2.0 on the printing and stationery industry. GST 2.0 **rationalized rates** for essential stationery items.

Key Highlights:

- Some products are now **exempt**, so companies **lose Input Tax Credit (ITC)**.
- GST 2.0 rationalized rates for essential stationery items.
- Firms must **update systems, manage supply chains, and optimize costs**.
- Price reduction is not automatic—efficiency and smart cost management are critical.

Pull-Quote: “Exempt items may reduce taxes for consumers, but they increase costs for companies.”

GST Rate Comparison for Stationery Items

| Product | GST 1.0 (2017) | GST 2.0 (Revised) | Key Insight |
|---|----------------|-------------------|---|
| Pencils | 18% | 0% | Zero-rated; ITC lost, cost directly impacts company |
| Notebooks / Exercise books | 12% | 5% | Major reduction; supports education sector |
| Erasers / Sharpeners | 18% | 0% | Zero-rated; ITC lost, cost directly impacts company |
| Printed Educational Books | Nil | Nil | No change; continues literacy support |
| Office Stationery (Files etc.) | 18% | 12% | Rationalized, better affordability |
| Printed Materials (Brochures, Leaflets) | 18% | 12% | Boosts printing industry |

Insights:

- Exempt items like pencils and erasers create challenges because ITC cannot be claimed.
- Products with reduced GST rates (notebooks, office stationery) allow some cost reduction, but companies must balance affordability and margins carefully.

Operational Challenges For Companies

Implementing GST 2.0 requires significant operational adjustments. Companies face challenges such as:

- **System and ERP Overhaul:** Billing, ERP, and accounting systems must reflect revised GST rates across thousands of SKUs. For large manufacturers, this is a major task requiring planning, testing, and employee training.
- **Supply Chain Coordination:** Distributors, wholesalers, and retailers must be updated on new rates to ensure smooth tax credit flow. Misalignment can result in delayed credits, stock issues, or compliance problems.

- **ITC Loss and Cost Pressure:** Zero-rated items now remove ITC benefits. This increases procurement costs, making it harder for companies to reduce prices and maintain margins.
- **Workforce Training:** Finance, sales, and taxation teams must be trained to understand new GST rules, compliance requirements, and pricing strategies. This adds operational cost and requires ongoing monitoring.

Pricing Strategy Under GST 2.0

Reduced GST rates do not automatically mean lower prices for consumers. Companies must carefully consider:

1. **ITC Impact:** Exempt products like pencils and erasers increase direct costs. Price reductions must be balanced against profitability.
2. **Operational Efficiency:** Streamlining procurement, reducing wastage, and optimizing logistics are key levers to manage costs.
3. **Consumer Expectations:** Companies are expected to pass on benefits to consumers, especially for educational products.
4. **Competitive Positioning:** Pricing decisions must maintain affordability while protecting margins.

Example: A pencil box earlier priced at ₹100 + 18% GST = ₹118. Under GST 2.0, it is sold at ₹100 (0% GST). However, if the manufacturer loses ₹15 worth of ITC on inputs, the effective cost rises, reducing profit margins.

Industry Adaptation Strategies

Leading stationery manufacturers are adopting several strategies to cope with GST 2.0:

1. **System Upgrades:** Updating ERP, billing, and accounting systems for accurate tax calculation.
2. **Supply Chain Realignment:** Ensuring distributors and retailers are fully informed of GST changes.
3. **Cost Management:** Optimizing raw material sourcing, reducing wastage, and negotiating better deals with suppliers.
4. **Operational Efficiency:** Leveraging scale advantages to reduce costs while maintaining price competitiveness.
5. **Training & Awareness:** Educating employees on new GST rules and compliance requirements.

Broader Lessons For The Sector

The experience of the printing and stationery sector under GST 2.0 offers important lessons:

- **Adaptability is Critical:** Rapid response to tax changes ensures compliance and operational stability.
- **Efficiency Drives Competitiveness:** Companies must innovate in procurement, production, and logistics to manage costs without ITC benefits.
- **Consumer-Centric Approach:** Balancing lower GST rates with sustainable pricing is essential for customer satisfaction.
- **Strategic Planning is Key:** Tax changes are not just compliance exercises—they affect pricing, cost management, and long-term strategy.

Future Outlook And Recommendations

Looking forward, companies in the printing and stationery sector should focus on:

1. **Digital Transformation:** Implementing GST-compliant ERP, invoicing software, and inventory management systems.
2. **Cost Optimization:** Exploring alternative raw materials, better supplier agreements, and production efficiencies.
3. **Pricing Innovation:** Bundling products, offering value packs, and leveraging economies of scale to maintain affordability.
4. **Policy Awareness:** Staying updated with GST notifications and actively engaging with industry forums.
5. **Sustainability Initiatives:** Environmentally friendly production can reduce costs and improve brand value.

Pricing Strategy Under GST 2.0 – A Deeper Dive

Lower GST rates do not always mean cheaper products. For exempted items like pencils and erasers, manufacturers lose Input Tax Credit (ITC) on raw materials and services, increasing actual costs.

Example: If raw materials cost ₹50,000 + 18% GST, earlier ₹9,000 ITC reduced the cost to ₹50,000. Under GST 2.0 (pencils exempt), no ITC can be claimed, so the cost stays at ₹59,000 – margins shrink.

Companies are adapting by:

- **Tiered pricing:** Budget SKUs for retail buyers and premium variants for schools/offices.
- **Product bundling:** Combining items (e.g., school kits) to spread ITC loss.
- **Transparent communication:** Explaining why prices may not drop despite lower tax.
- **Data-driven revisions:** Quickly adjusting price lists when raw material costs change.

Smart pricing protects profitability while keeping products affordable and competitive.

Conclusion

GST 2.0 has simplified and rationalized taxation in the printing and stationery sector. However, zero-rated items mean companies cannot claim ITC, which makes reducing prices challenging.

Success under GST 2.0 depends on:

- Efficient operational management
- Strategic pricing and procurement
- Adaptation to system and compliance requirements

Consumers benefit from greater transparency and affordability, but companies must innovate, streamline operations, and carefully manage costs to thrive in this environment.

Key Takeaways

- Lower GST rates do not automatically reduce product prices.
- Zero-rated items like pencils and erasers remove ITC, increasing direct costs.
- Operational efficiency, system updates, and supply chain management are critical.
- Adaptability and strategic planning are central to thriving under GST 2.0.
- Companies must innovate in procurement, production, and logistics to maintain affordability and profitability.

INCOME TAX FILING 2025–26: TIPS, COMMON ERRORS & BEST PRACTISES

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As the financial year 2025–26 begins, it is essential especially for students entering internships, part-time roles, or freelance gigs to understand the fundamentals of filing an Income Tax Return (ITR). Although the process may initially seem overwhelming, with the right approach, it becomes both manageable and a valuable step towards financial independence.

An ITR is a formal declaration submitted to the government that outlines your income, expenses, assets, and tax liabilities for the year. Individuals who meet specific criteria are legally required to file their returns annually. For those not subject to a tax audit, the deadline to file is 31st July of the following financial year. Failure to file by this deadline can result in interest charges and penalties.

This guide will walk you through essential tips, highlight common mistakes to avoid, and share best practices to ensure a smooth and accurate tax filing experience in 2025–26.

Why should we file ITR?

ITR serves as a gateway to financial credibility, informed money management, and long-term opportunities. Whether you are a salaried employee, a self-employed professional, or an investor, filing your ITR is a strategic step toward establishing a strong financial foundation. Here's why it matters.

1. Proof of Income
2. Carry Forward of Losses
3. Avoid Penalties
4. Easier Loan Approvals
5. Claiming Refunds
6. Visa Applications
7. Financial Discipline

Essential Documents for Filing Your ITR

Before you begin the ITR filing process, ensure you have the following documents and details organized:

- 1. PAN & Aadhaar cards** – Mandatory identification documents
- 2. Bank details** – Including account number and IFSC code
- 3. Form 16 / 16A / 26AS / AIS / TIS** – For income, tax deductions, and annual information summaries
- 4. Investment proofs** – Under sections 80C, 80D, 80G, etc., for claiming deductions
- 5. Loan certificates** – For home or education loans to claim interest benefits
- 6. Capital gains statements** – From stocks, mutual funds, or real estate transactions
- 7. Rent receipts** – Required for claiming House Rent Allowance (HRA)
- 8. Books of accounts & GST returns** – Applicable for business owners and professionals
- 9. Interest certificates** – From banks and post office savings for income reporting

- **Tips for Income Tax Filing 2025–26 :**

Know Your Income Sources – When filing your Income Tax Return, it is important to report all sources of income under the appropriate heads i.e. salary, house property, business/profession, capital gains, and other sources. Exempt income should also be disclosed to ensure full transparency and compliance.

Choose the Correct ITR Form – Selecting the appropriate Income Tax Return (ITR) form is crucial for accurate filing.

ITR-1: For salaried individual with income below ₹50 lakh, 1 house property, other sources and capital gain upto ₹1.25 lakh under Section 112A

ITR-2: For individual and HUFs those with capital gains more than ₹1.25 lakh , multiple properties, or foreign income

ITR-3: For individuals and HUFs with income from business or profession, including freelancers and proprietors. Key changes include split capital gains reporting, buyback income disclosure, and mandatory tax regime declaration via Form 10-IEA.

ITR-4: For presumptive income under Sections 44AD or 44ADA or 44AE

ITR-5: For non-individual taxpayers like firms, LLPs, Association of Persons (AOPs), and Body of Individuals (BOIs).

ITR-6: For companies not claiming exemption under Section 11

ITR-7: For entities like trusts, political parties, and institutions eligible for exemption under Sections 139(4A), 139(4B), 139(4C), or 139(4D).

Understand Deductions You Can Claim – Tax deductions help lower your taxable income when claimed correctly. Key sections like 80C, 80D, 80CCD(1B), and 24(b) offer savings on investments, insurance, pension contributions, and home loan interest. Smart planning helps you maximize benefits.

Compare Old vs New Tax Regime – The new tax regime offers lower rates but fewer deductions, while the old regime allows more exemptions that may lead to higher savings.

Keep All Documents Handy – Before filing your Income Tax Return, keep essential documents like Form 16, Form 26AS, AIS, bank statements, investment proofs, rent receipts, and insurance papers ready. This ensures a smooth process and accurate deduction claims.

Link PAN with Aadhaar – Linking PAN with Aadhaar is mandatory for filing your Income Tax Return. Without it, your return won't be processed.

File Before the Deadline – File your Income Tax Return before the deadline to avoid late fees and stress. For AY 2026–27, the due date is 31st July 2026, unless extended by the Income Tax Department.

Use Trusted Platforms – For a secure and hassle-free filing, use trusted platforms like the Income Tax Department portal or reliable e-filing services.

Save Acknowledgment & Track Refunds – After filing your ITR, download the acknowledgment and track your refund on the Income Tax portal. Staying updated helps resolve issues quickly.

Consult a Tax Expert for Complex Cases – For complex cases like capital gains, foreign income, or business earnings, consult a tax expert. They'll help you navigate rules, report accurately, and avoid costly errors.

- **Common Errors in ITR Filing**

Incorrect ITR Form Selection – Using the wrong ITR form, like ITR-1 instead of ITR-3 for business or freelance income, can trigger defect notices and delay processing by the Income Tax Department.

Incorrect Assessment Year – Always quote the correct assessment year, AY 2025-26 applies to income from FY

2024-25. A wrong entry can cause issues like refund delays, double taxation, or return rejection.

Incorrect Taxpayer Information – Errors in personal information such as PAN, Aadhaar, IFSC code, or bank account number can lead to delays in processing your Income Tax Return and issuing refunds.

Incomplete Income Disclosure – Not reporting all income like savings interest, FD interest, rental income, or

Exempt LTCG under ₹1.25 lakh – can cause discrepancies and attract tax department scrutiny.

Mismatch in Form 16, AIS, and 26AS – Discrepancies between Form 16, the Annual Information Statement (AIS), and Form 26AS can trigger scrutiny or notices from the Income Tax Department.

Deduction & Exemption Errors – Skipping deductions under sections like 80C, 80D, 80CCD, or home loan interest can lead to higher tax payments. Always review your investments, insurance premiums, and loan repayments to ensure you're maximizing your tax benefits.

Incorrect Tax Regime Choice – Choosing the wrong tax regime without comparison can lead to missed savings and higher taxes. Always evaluate both Old and New regimes before filing.

Missing Advance Tax Payments – Missing advance tax payments may attract interest under Sections 234B and 234C of the Income Tax Act. This applies to taxpayers with non-salaried income such as business, profession, or capital gains.

Last-Minute Filing Risks – Filing your Income Tax Return at the last minute increases the risk of errors, missing important documents, and encountering technical glitches on the portal.

- **Best Practices to Avoid Errors/Mistakes**

Select the Correct ITR Form – Choose the correct ITR form for accurate filing. Use official guidelines from Income Tax Department or trusted platforms like ClearTax or Quicko to avoid errors and ensure smooth processing.

Verify AY & Personal Details – Before filing your Income Tax Return, make sure that the assessment year, PAN, Aadhaar, and bank account details are accurate and match the official records. Any mismatch can result in processing delays, refund complications, or even rejection of your return.

Reconcile Form 16, AIS, and 26AS – Before filing your ITR, download and cross-check Form 16, AIS, and 26AS for consistency across all documents. Mismatches can trigger scrutiny, delays, or tax notices.

Disclose Every Income Source – While filing your Income Tax Return, it's important to report all sources of income, including those that are partially or fully exempt. This includes interest from savings accounts, dividends, capital gains, and foreign income, if applicable. Accurate disclosure ensures compliance and reduces the risk of scrutiny or notices from the tax department.

Claim Eligible Deductions – claim all eligible deductions like insurance, tuition, NPS, ELSS, donations, and report STCG accurately to reduce taxable income and ensure smooth filing.

Choose the Right Tax Regime – Before filing your return, it's important to compare the Old and New tax regimes to determine which one offers greater savings. Use reliable online calculators to evaluate your tax liability under both options based on your income, deductions, and exemptions. This helps you make an informed and financially beneficial choice.

Timely Payment of Advance Tax – Pay advance tax on time to avoid penalties under Sections 234B and 234C. Use quarterly reminders or consult a CMA or tax experts to plan payments based on projected income.

Early Filing – File your ITR early to avoid errors, tech issues, and missing documents. It gives you time to review and correct, ensuring a smooth, stress-free process.

As we navigate the 2025-26 tax season, staying informed and organized is more than just good practice, it's essential. By embracing digital tools, understanding the latest tax provisions, and avoiding common pitfalls, taxpayers can ensure a smooth and stress-free filing experience. Whether you're a salaried employee, a freelancer, or a business owner, proactive planning and attention to detail can save you time, money, and potential legal trouble. Remember, income tax filing isn't just a financial obligation it's an opportunity to reflect on your financial health and make smarter decisions for the year ahead.

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The GST 2.0 Reforms in India: An In-Depth Guide

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Introduction

The Goods and Services Tax (GST), introduced in 2017, marked independent India's most ambitious taxation reform, fusing myriad central and state indirect taxes into a unified, destination-based levy. Eight years later, in September 2025, India rolled out GST 2.0 – a transformational upgrade designed to make the tax system leaner, fairer, and more growth-oriented in light of evolving economic realities.

This article explores GST 2.0's origins, rationale, innovations, and impact, presenting a comprehensive, easy-to-understand reference for students, professionals, and citizens seeking clarity on India's next-generation indirect tax system.

Understanding the Legacy: GST's Journey from 2017–2025

GST's 2017 introduction was hailed as a "one nation, one market, one tax" revolution. By being destination-based and credit-linked, GST sought to eliminate the cascading tax effect, thereby reducing prices, improving logistics, and boosting the formal economy. It replaced over a dozen taxes, including VAT, excise, and service tax.

However, the system's complexity soon became apparent:

- **Multiple Tax Slabs:** Four main rates: 5%, 12%, 18%, and 28% created administrative and classification confusion. Exemptions and "compensation cess" for select goods added complexity.
- **Frequent Disputes:** Product classification led to endless disputes (e.g., whether an item like "paratha" or "popcorn" qualified for 5%, 12%, or 18%).
- **Inverted Duty Structure:** In sectors like textiles and fertilizers, input taxes exceeded output taxes, disrupting cash flows for manufacturers.
- **Compliance Pain Points:** Micro, Small and Medium Enterprises (MSMEs) grappled with detailed filings and complex credit claims.
- **Digital Divide:** Tech-dependent compliance—good in theory—sometimes left behind the digitally less literate.

Despite achievements in unifying the market and boosting formalization, these pain points demanded a thorough, holistic overhaul.

GST 2.0: The Reform Imperative

Acknowledging shortcomings and aiming for simplicity, India's GST Council approved the next generation of reforms in September 2025. The core objectives:

- Streamline the rate structure by consolidating multiple slabs.
- Correct inverted duty structures (IDS) and chronic sectoral issues.
- Resolve classification disputes, thus reducing litigation.
- Simplify compliance for businesses of all sizes, especially MSMEs.
- Boost domestic demand and disposable income during a period of subdued consumption post-pandemic.
- Ensure the system's revenue neutrality and fairness for all.

GST 2.0: Key Changes and Their Rationale

1. Rate Rationalization: Two-Slab System

One of the boldest changes: GST 2.0 merges the earlier four-slab structure (5%, 12%, 18%, 28%) into just two principal rates:

- **5% (Merit/Essential Rate):** Over 500 items, mostly food staples, basic household goods, certain agricultural machinery, and some medical devices.
- **18% (Standard Rate):** ~640 items, including industrial goods, most services, small cars, household appliances, electronics, construction items.
- **Special Slabs/Zero/Nil Rates:**
 - 0% (Nil): Most unprocessed essentials, fresh food, individual life and health insurance policies, and certain critical pharmaceuticals.
 - 0.25%, 1.5%, 3%: Gems, precious metals, semi-precious stones.
 - **40% (Sin/Luxury Rate):** For demerit goods such as pan masala, tobacco, aerated drinks, luxury cars, yachts.

Why This Matters

Rate rationalization provides transparency. Similar goods now sit in the same slab, reducing disputes and interpretation-dependent litigation (e.g. confusion over “bread” versus “biscuit” or “popcorn”).

It also makes pricing more predictable for businesses and consumers, and simplifies accounting, audits, and the IT system for everyone involved.

2. Focused Relief for Essentials and Key Sectors

GST 2.0 prioritizes sectors that impact millions:

- **Food & FMCG:** Products like hair oil, soap, toothpaste, namkeens, packaged foods, and tableware are now at 5% instead of 12–18%.
- **Healthcare & Insurance:** Lifesaving drugs (including cancer medicines and rare disease therapies) are either GST-exempt or set to 5%; all individual life/health insurance is now GST-free.
- **Agriculture and Rural Economy:** Tractors, harvesters, composters, fertilizers (inputs like sulphuric acid), and tools are now at 5%.
- **Labour-Intensive Manufacturing:** Handicrafts, marble and leather items (from 12% now to 5%), providing a boost to artisans and employment.
- **Renewable Energy:** Devices like solar panels and batteries shift from 12% to 5%, supporting green energy goals.

3. Sin/Luxury Goods: Ensuring Revenue and Equity

While essentials got relief, “sin” and luxury items faced a sharp hike—now steep 40% GST for:

- Pan masala and tobacco products
- Aerated beverages, luxury cars, yachts, and private jets

Revenue neutrality is protected by targeting excessive consumption of luxury or demerit goods, keeping the tax base strong.

4. Trade Facilitation, Refund, and Compliance Overhaul

The reforms are not just about rate cuts. GST 2.0 brings:

- **Automated, pre-filled returns:** Harnesses e-invoicing data to pre-populate filings, making life easier for honest filers.
- **Faster Refund Mechanism:** Particularly for exporters and startups, refunds will return within 15 days through automation, supporting cash flows.
- **Simplified Registration:** MSMEs face a single-window, online registration process, boosting formalization and growth.
- **Dispute Redressal:** The upcoming Goods and Services Tax Appellate Tribunal (GSTAT) will streamline dispute resolution, aiming for operations by December 2025.
- **Enhanced IT Infrastructure:** GSTN upgrades offer real-time analytics, reducing mismatches and making fraud detection easier while minimizing manual intervention.

India's GST 2.0 Rate Table: Illustrative List

| Item Category | Common Examples | Old GST % | New GST % |
|------------------|---|--------------|--------------|
| Daily Essentials | Hair oil, packaged namkeens, toothpaste, soaps | 12-18% | 5% |
| Packaged Foods | Cheese, ghee, butter, bhujia | 12-18% | 5% |
| Dairy | UHT milk, paneer, Indian breads | 12% | Nil or 5% |
| Healthcare | Life/health insurance, thermometer, oxygen, 33 lifesaving drugs | 12-18% | Nil or 5% |
| Automobiles | Small cars, two-wheelers, auto parts | 28% | 18% |
| Electronics | TVs (over 32"), refrigerators, Acs | 28% | 18% |
| Agriculture | Tractors, irrigation equipment, fertilizers | 12-18% | 5% |
| Renewable Energy | Solar panels, batteries | 12% | 5% |
| Sin/Luxury | Tobacco, certain SUVs, pan masala | 28%+cess | 40% |
| Jewellery | Gold, silver, diamonds | 3% (special) | 3% (special) |

Sectoral Impact: GST 2.0 Across the Indian Economy

1. Households

Direct benefits for household budgets through lower taxes on essentials. Consumption on food, home, and basic goods is expected to rise, with leading FMCG companies already announcing price cuts. For example, prices of products from brands like HUL, Dabur, Amul, and Nestle have dropped.

2. Farmers and Agri Businesses

Agricultural tools and fertilizer input relief increase savings for farmers, encouraging investment in modern equipment and increasing profitability. With fertilizers and input chemicals now at 5%, farming becomes more affordable and productive.

3. MSMEs and Manufacturers

Simplified slabs and registration plus faster refunds mean improved cash flow, lower working capital needs, and easier compliance—helping MSMEs compete in domestic and global markets. Labour-intensive industries gain the most, supporting job creation.

4. Healthcare

GST exemption or reduction on medicines, devices, and health insurance makes healthcare and financial protection more accessible. Critical drugs are now even more affordable for the needy.

5. Automobiles and Electronics

Big-ticket items (cars, scooters, TVs, air-conditioners) see prices cut, which could revive stagnant segments in the manufacturing sector and encourage consumer spending.

6. Green Economy

The renewable energy sector receives a boost as input costs fall and adoption of clean technologies becomes more affordable.

7. Luxury and Demerit Goods

Companies in luxury or "sin" segments face higher costs and potentially reduced demand, aligning with public health and equity goals.

Macroeconomic Impact

Growth Impetus

The government relies on the fiscal "multiplier" effect—GST cuts boost disposable income, fueling spending, reinvigorating demand, and, ultimately, industrial growth. A NIPFP study finds GST reductions offer the strongest impact on consumption among all tax levers.

Inflation Control

Cheaper essentials and lower rates on goods with high weight in the CPI basket could shave 1–1.2% off annual retail inflation, stabilizing consumer sentiments.

Fiscal Prudence

While immediate GST revenues may fall (projected loss: ₹48,000 crore in FY26), gains from increased economic activity and a broader tax base are expected to offset this. The focus is on medium-term health over short-term targets.

GST 2.0 vs. International VAT Regimes

India's reform mirrors global "best practices." Most countries (e.g., Canada, UK, New Zealand) use 1–3 slabs, unlike India's earlier four+ system. GST 2.0's streamlined slabs and automation bring Indian GST in line with international peers, strengthening competitiveness and attracting global investment.

| Country | VAT Slabs | Standard Rate | Exemptions on Essentials? |
|-----------|--------------|--------------------------------|---------------------------|
| India | 2 (+special) | 5%, 18% (plus 40% for demerit) | Yes |
| Australia | 1 | 10% | Yes |
| UK | 3 | 0%, 5%, 20% | Yes |
| Canada | 2 | 5%, 13% | Yes |
| Singapore | 1 | 8% (2025) | Limited |

The GST 2.0 Compliance Experience: Practical Steps Explained

1. Registration

Businesses obtain GST registration through a newly designed online portal using PAN, Aadhaar, and minimal documentation. Turnaround time is cut to just 2 working days for most applicants.

2. Filing Returns

GST returns are now mostly pre-filled based on e-invoicing and e-way bill compliance. Businesses view, verify, and edit if required, then submit returns in minutes.

- **Monthly filers:** Companies with yearly turnover above ₹5 crore.
- **Quarterly filers:** All others, with an annual reconciliation.

3. Input Tax Credit (ITC)

ITC claims are automated and validated via digital cross-matching of supply chain transactions. This reduces errors and prevents fraudulent claims.

4. Refunds

Exporters and MSMEs receive refunds in 15 days. Automated verification accelerates working capital cycles and supports capital-intensive sectors.

5. Dispute Resolution

The GSTAT, operative from December 2025, offers an independent, specialized platform for resolving classification and credit disputes, reducing litigation duration and costs.

Opportunities & Challenges Ahead

Opportunities

- **Increased Compliance:** Automated filing, pre-filled returns, and easier registration are expected to raise formalization rates.
- **Greater Consumption:** Lower costs for essentials and consumer durables may revive demand across sectors.
- **Sectoral Competitiveness:** Labour-intensive and agri-based industries could see an employment and output boom.
- **Ease of Doing Business:** Smoother refunds and dispute resolution enhance India's business climate, aiding global rankings.

Challenges

- **Short-Term Revenue Dip:** Managing state finances will require strong fiscal discipline and timely central compensation.
- **Limited Digital Access:** Rural/digital illiteracy could hinder adoption; continued handholding and offline options remain vital.
- **Residual IDS:** Some complex sectors, notably electronics, still face IDS, needing phased resolution.
- **Cooperative Federalism:** Maintaining consensus among 28 states/UTs will require sustained dialogue to address region-specific issues.

Conclusion: The Way Forward

GST 2.0 marks a paradigm shift—simpler, more predictable, and genuinely pro-consumer. By prioritizing clarity, fairness, and technology-driven services, the reforms lay the groundwork for a more vibrant, inclusive, and investment-friendly Indian economy. As the country continues to refine its tax structure, GST 2.0 stands as a testament to consensus-driven, forward-looking governance.

For students and young professionals, mastering GST 2.0 is essential not only for examinations and career prospects but also for becoming informed citizens in a rapidly transforming economic landscape.

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Tax Planning Strategies for Businesses: Mid-Year Check

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1. Introduction:

Tax planning is frequently considered a last-minute ritual in India, particularly at the end of the financial year, with businesses taking the time to close off accounts, maximise deductions and fulfil statutory deadlines in February and March. However, there is little room for tax planning when several other things are on your plate. This is similar to planning for a marathon of 42 kilometres where you only begin to pace yourself at the 40-kilometre mark.

Viewing tax planning as an ongoing process with periodic checkpoints is much wiser. One of those checkpoints is the mid-year, generally occurring between September and October, which has particular significance. By this point in time, the first half of the year has closed, and businesses have a better understanding of revenue patterns, cost structures, and profitability, plus there is still plenty of time to refine strategies before the end of the year.

The mid-year stage is also purposeful, particularly from a compliance perspective. The most relevant statutory obligations or compliance requirements occur in this timeframe and include the first two advance tax instalments (due June and September), the filing of quarterly TDS returns and matching input credit for GST purposes. If compliance is ignored at the mid-year stage, it can have consequences including interest and penalties, blocked working capital or notices issued under faceless assessment.

Therefore, a mid-year tax planning exercise reduces tax liability and ensures **financial discipline, regulatory preparedness, and better cash-flow management.**

1.1 Why Mid-Year Planning Matters

- **Compliance Health Check**

Businesses have filed GST returns for at least five months by September and TDS returns for the first quarter. Reviewing these filings against the books of accounts can detect mismatches early. For instance, a mismatch between GSTR-2B (auto-populated ITC) and GSTR-3B (self-declared ITC) caught in September can be rectified within the financial year, preventing denial of credit or unnecessary litigation.

- **Course Correction in Cash Flow**

Taxes constitute one of the most significant cash outflows for businesses. Mid-year planning enables companies to accurately forecast the remaining advance tax instalments (due in December and March), aligning tax outflows with operational cash flows. This exercise can mean the difference between a liquidity crunch and smooth operations for working-capital-intensive industries such as construction, logistics, or retail.

- **Leverage Budget Announcements**

The Union Budget usually introduces new tax incentives, deductions, or compliance requirements that take effect from April 1st. By mid-year, the fine print of these changes is clearer thanks to CBDT circulars, clarificatory notifications, and GST Council press releases. This allows businesses to integrate them proactively. For example, an SME in the electronics sector may realise in September that accelerated depreciation benefits for green technology can be availed if specific machinery is acquired before March.

- **Strategic Resource Allocation**

Tax planning is intertwined with business strategy. Decisions like setting up a new subsidiary, entering cross-border transactions, or launching employee stock option plans (ESOPs) all have tax implications. By reviewing these plans mid-year, businesses can align growth decisions with optimal tax outcomes.

Action Points for Businesses

- Schedule a **formal mid-year tax review meeting** involving finance, HR, and legal teams.
- Reconcile **all GST returns, TDS filings, and advance tax payments** with books.
- Assess the **impact of the Budget changes** announced earlier in the year.
- Identify opportunities for **capital expenditure, R&D incentives, or startup tax holidays** that are available before March.
- Prepare a **cash-flow forecast** incorporating tax outflows for the remainder of the year.

2. Key Income Tax Considerations

The Income Tax Act, 1961, remains the backbone of corporate taxation in India. While GST dominates indirect tax discussions, **direct taxes still constitute a significant component of business tax liability.** Mid-year is the perfect time to re-examine a company's income tax position, identify optimisation opportunities, and ensure compliance with advance tax obligations.

2.1 Choosing the Right Corporate Tax Regime

Since the **Taxation Laws (Amendment) Act, 2019**, businesses can choose between multiple corporate tax regimes like **the Normal Regime (Section 115BA), the Concessional Regime (Section 115BAA), and the New Manufacturing Companies (Section 115BAB).** The decision, however, is not always straightforward and depends on exemptions, deductions, and long-term profitability.

Mid-Year Check:

Businesses should prepare a **comparative tax liability statement** under each regime based on half-year performance and projected profits. For example, a company claiming heavy deductions under Section 80JJAA (new employment) and Section 35 (R&D) may still benefit from the old regime, whereas a services firm with minimal deductions may benefit from 115BAA.

2.2 Loss Utilisation and Set-Off Planning

Losses are valuable tax shields but come with **expiry limits and usage conditions.**

Business Losses can be carried forward for 8 years, set off only against business income. Unabsorbed depreciation can be carried forward indefinitely, against any income head (except salary). In the case of capital losses, short-term losses can be set off against STCG and LTCG, whereas long-term losses can only be set off against LTCG. **Speculative Losses can be** set off only against speculative income.

Mid-Year Check:

- Review carried-forward losses from past years and prioritise their use.
- Assess if **group restructuring, mergers, or demergers** may affect continuity conditions.
- If large profits are expected in H2, strategies like advancing depreciation or deferring income should be considered to optimise set-offs.
- Example: A manufacturing SME realised in its September review that ₹1.2 crore of carried-forward business losses would lapse in FY 2025–26. By timing asset sales and deferring certain receipts, it ensured maximum utilisation

2.3 MAT (Minimum Alternate Tax) and MAT Credit

Even if a company reduces taxable income via incentives, it may still be liable under **MAT.** MAT credit can be carried forward for 15 years.

Mid-Year Check:

- Assess book profits under Schedule III of the Companies Act vs. taxable profits.
- Track MAT credit utilisation before expiry.

2.4 Timing of Depreciation and Capital Expenditure

Depreciation is one of the most effective non-cash tax shields. However, timing plays a critical role. Full depreciation is available if an asset is used for 180 days or more. If used for less than 180 days, only 50% depreciation is allowed.

Mid-Year Strategy:

- Acquire and install machinery before September 30th to avail full depreciation for the year.
- For second-half acquisitions, plan for usage that maximises ITC under GST while balancing depreciation impact.

2.5 Advance Tax Compliance

Advance tax ensures that businesses pay taxes as they earn, rather than deferring all payments to March. Failure attracts **interest and a penalty**.

Mid-Year Check:

- Re-evaluate profit forecasts for the December and March instalment periods
- Re-factor one-off income like capital gains or dividends
- Ensure book entries like write-backs of provisions or the impact of foreign exchange gain have been accounted for

3. Goods and Services Tax (GST) Strategies

The Goods and Services Tax (GST) has dramatically altered how companies administer indirect tax. For businesses, GST is more than a tax; it is also a working capital issue, because delays in claiming Input Tax Credit (ITC), returns mismatches, or blocked credits can be very costly for businesses to manage cash flow. Halfway through the financial year, it is prudent for businesses to review their GST compliance and aim to optimise it to prevent revenue leakages and cash-flow disruptions.

3.1 Input Tax Credit (ITC) Reconciliation

One of the most critical mid-year reviews involves reconciling input tax credit (ITC). The CGST Act provides for the availability of ITC, provided the supplier makes the corresponding upload in GSTR-1, which then populates in the recipient's GSTR-2B.

If vendors fail to upload the required invoices, the ITC claimed on their GSTR-3B may be disallowed. A blocked ITC has the effect of 'blocked' working capital, which may also lead to interest demands.

Mid-Year Strategy:

- Conduct a vendor-wise reconciliation of ITC between **GSTR-2B vs. GSTR-3B vs. the books of accounts**.
- Follow up with defaulting suppliers to file returns.
- Use ERP or GST reconciliation software for automation.

3.2 Reverse Charge Mechanism (RCM)

Under RCM, the liability to pay GST shifts from the supplier to the recipient. Businesses often overlook RCM liability, which can lead to penalties.

Common RCM Transactions:

- Import of services (consulting, cloud subscriptions).
- Legal services from advocates.
- Transport services (GTA).
- Security services.

Mid-Year Strategy:

- Review expense ledgers to identify RCM-applicable entries.
- Ensure GST is paid under RCM and ITC is availed in the same return cycle.
- Conduct a vendor-wise review, especially for legal and transport services.

3.3 Refunds and Export Incentives

Mid-year is the right time to review pending refund claims for exporters and SEZ units.

Refund Options:

- Export with payment of IGST and claim a refund of IGST paid.
- Export under Letter of Undertaking (without IGST) and claim refund of unutilised ITC.

Common Issues:

- Delays in filing refund applications (two-year limit).
- Mismatches in shipping bills and GSTR-1 entries.

Mid-Year Strategy:

- File pending refund applications to avoid accumulation.
- Reconcile shipping bill data with GST returns.
- Track timelines to ensure refund claims are not time-barred.

3.4 GST Compliance Health Check

At mid-year, businesses should verify:

Action Points for Mid-Year GST Planning

- Reconcile **ITC with GSTR-2B** and chase defaulting suppliers.
- Verify **RCM liabilities** and ensure ITC is claimed.
- File pending **export refunds** to free up cash flow.
- Conduct **sector-specific GST reviews** (real estate, IT, e-commerce, hospitality).
- Test **E-invoicing systems** for compliance.
- Begin **GSTR-9/9C reconciliations** early.
- Verify GSTINs of all vendors.
- Avoid credit from fake or deregistered suppliers.

4. TDS/TCS Compliance Review

Mid-year compliance checks on TDS/TCS are essential for businesses of all sizes to avoid year-end mismatches and scrutiny notices.

4.1 TDS

Mid-year review ensures avoiding the Disallowance of Expenses. Preventing Interest and Penalties, Smooth Form 26AS/AIS Reconciliation, etc.

Mid-Year Strategy:

- Prepare a ledger-wise analysis of payments to identify TDS-applicable transactions.
- Watch out for thresholds and review new provisions.

4.2 TCS Obligations

Mid-Year Strategy:

- Verify whether turnover has crossed thresholds for applicability.
- Reconcile TCS collected vs. deposited.
- Ensure that customers' correct PAN details are correct to avoid mismatches.

4.3 Reconciliation with AIS and 26AS

With the introduction of the Annual Information Statement (AIS), the tax department now has a comprehensive view of all TDS/TCS credits. Mid-year reconciliation is crucial:

Action Points for Businesses

- Conduct a **ledger review** to identify missed TDS transactions.
- Verify **vendor compliance** (PAN, return filing status).
- Reconcile **deductor** vs. **deductee records** with AIS/26AS.
- File or revise quarterly TDS/TCS returns if errors exist.
- Automate compliance with ERP-based deduction systems.

5. Transfer Pricing and International Transactions

Transfer Pricing (TP) is one of India's most scrutinised areas of taxation. With globalisation, many Indian businesses transact abroad with group companies or related entities. The **Income-tax Act, 1961 (Sections 92–92F)** lays down TP provisions to ensure that such transactions are priced at an **Arm's Length Price (ALP)**. Non-compliance can lead to **heavy adjustments, penalties, and prolonged litigation**.

Mid-year is the ideal time for businesses to conduct a TP health check, because the statutory deadline for **filing Form 3CEB (TP report)** is 31st October.

Mid-Year Strategy:

- Identify all Associated Enterprises transactions by reviewing trial balances and intercompany agreements.
- Confirm whether any new domestic or international transaction qualifies for TP compliance.

6. Employee Benefits and Payroll Tax Optimisation

Employee compensation is one of the largest expense heads for most businesses. From a tax perspective, structuring salaries and benefits smartly improves employee take-home pay and ensures employers' tax efficiency. A mid-year payroll tax review allows one to realign structures, fix compliance errors, and introduce new benefit schemes before the financial year closes.

6.1 TDS on Salaries (Section 192)

Mid-Year Strategy: Reconcile salary projections with actual tax deducted. Correct under/over-deductions now to avoid significant year-end adjustments.

6.2 Salary Structuring for Tax Efficiency

A well-structured salary package balances **cash components, allowances, and reimbursements**.

Mid-Year Strategy:

- Conduct a payroll audit to check whether employees are utilising exemptions.
- Offer flexible benefit plans (FBPs) allowing employees to allocate components based on personal tax planning.

6.3 Retirement Benefits and Employer Contributions

Employer contributions to retirement funds are deductible under income tax, subject to limits:

Mid-Year Strategy:

- Ensure contributions are within limits to avoid perquisite taxation.
- Encourage employees to utilise the NPS contribution benefit (which does not fall under the ₹1.5 lakh 80C ceiling).

6.4 Taxation of Perquisites

Perquisites such as company cars, accommodation, stock options, and concessional loans are taxable for employees.

Mid-Year Strategy:

- Recalculate perquisite values based on actual usage till September.
- Communicate tax impact to employees to avoid surprises in March payroll.
- For ESOPs, plan exercise dates while considering the implications of perquisite tax and capital gains.

6.5 Fringe Benefits through Reimbursements

Certain reimbursements can be structured as tax-free:

- Medical insurance premium paid by the employer (deductible under Section 80D for employees).
- Telephone and internet reimbursements.
- Uniform expenses.

7. Tax Incentives

Tax incentives and deductions under the Income-tax Act, 1961, are powerful tools for reducing taxable income. However, many businesses either underutilise them or realise their significance only at the year-end, when it is too late to restructure transactions. Conducting a **mid-year review of available deductions** ensures that companies capture all opportunities, stay compliant, and align tax savings with strategic goals.

7.1 Startups and Section 80-IAC Benefits

Eligible startups (recognised by DPIIT) can claim a **100% deduction of profits for three consecutive years out of 10** under Section 80-IAC.

Mid-Year Strategy:

- Reassess eligibility and decide when to claim a deduction.
- Ensure compliance with shareholding continuity conditions.
- Align funding rounds to minimise loss of benefits due to ownership changes.

7.2 Deductions for Infrastructure and Capital Expenditure

Section 35AD: Investment-linked deduction for specified businesses (cold chains, warehousing, hospitals, hotels, affordable housing, etc).

Section 32AD: Additional depreciation for new plant and machinery investment in notified backward areas.

Mid-Year Strategy:

- Evaluate whether capital expenditure can be advanced before March 31st to claim a deduction in the current year.
- Assess the benefit of claiming investment-linked deduction vs. opting for the concessional corporate tax regime (which disallows many deductions).

7.3 ESG, Sustainability, and Tax Incentives

Tax planning has recently transformed from a compliance and revenue protection framework to one encompassing sustainability goals. Environmental, Social and Governance (ESG) priorities are transforming how businesses function, with tax incentives being an increasingly important strategic lever to align profitability and responsibility.

In the Indian context, ESG-based taxation interacts with policies around renewable energy, CSR commitments, SEBI's BRSR, and international climate accords. The calendar year's mid-point allows enterprises to combine their sustainability initiatives and improve tax efficiency.

7.3.1 Tax Incentives for Green Investments

The government offers a range of tax entitlements to support clean energy and environmentally friendly initiatives.

Accelerated depreciation: Solar panels, wind turbines, and bioenergy equipment all qualify for accelerated depreciation rates in capital costs, reducing taxable income in the earlier years compared to traditional assets, increasing the project IRRs.

GST concessions: Relevant renewable energy equipment attracts concessional GST rates that reduce the cost of acquiring the asset.

Mid-Year Strategy:

- Assess whether capex in renewable energy (e.g., solar rooftops, EV fleets) can be advanced before March to claim depreciation.
- Reconcile GST input credits for such investments.
- Explore vendor financing models that provide tax-efficient leasing of green assets.

7.3.2 Carbon Credits and Green Taxation

India is developing its carbon market framework and trading carbon credits as commodities. Income earned through the sale of carbon credits is taxable at a concessional 10% rate under Section 115BBG of the Income Tax Act.

Firms can consider integrating carbon credit generation into mid-year tax planning opportunities, particularly in energy, steel, and cement sectors.

Mid-Year Tax Strategy:

- Identify carbon credit-eligible projects currently underway (renewable energy, afforestation, energy efficiency).
- Register early with designated agencies to ensure credits accrue within the year.

7.4 Corporate Social Responsibility (CSR) Expenditure

Under Section 135 of the Companies Act, 2013, CSR was made mandatory; however, Section 37 **disallows CSR expenses as a** business deduction. Certain CSR-related expenses (e.g., contribution to PM CARES Fund, scientific research, rural development under specified sections) may qualify separately.

Mid-Year Strategy:

- Classify CSR spend carefully to segregate deductible components.
- Document CSR outlays for both compliance and ESG reporting.

8. Litigation and Dispute Management

Tax litigation in India is both frequent and complex. Despite the government's efforts to simplify and digitise compliance, disputes remain a significant challenge for businesses. Cases often arise from differing interpretations of law, aggressive tax positions, or procedural lapses. According to CBDT data, lakhs of income tax and GST cases are pending before appellate forums, locking up substantial revenue.

For businesses, litigation concerns **tax outflows, reputation, compliance risk, and cash flow blockages**. Mid-year is appropriate for reviewing litigation status, assessing provisioning, and contemplating resolution before year-end.

Mid-year Strategy: Conduct a Legal review of GST positions in various returns filed for the year. Review pending show cause notices (SCNs) or adjudications, and if needed, obtain legal views to support positions in advance of audit.

Conclusion

A mid-year tax review is not only about tax minimisation but will incorporate financial discipline, tax compliance preparation, and tax strategy into the organisation's practice. By mid-year (September), organisations will have some understanding of their revenue trends and cash flow, as well as the potential timing of legislative or regulatory changes – generally a good time to strategise. A forward-looking consideration of GST, advance tax instalments, TDS/TCS, payroll, and parts of financial incentives will streamline the organisation and anticipate compliance or procedural issues at year-end. It will also encourage organisations to consider sustainability-linked tax benefits (where they are available), escalate disputes early, and ensure that tax outcomes align with wider growth decisions. Ultimately, a diligent mid-year tax check will turn taxes from reactive burdens to proactive enablers of efficiency, compliance, and longer-term competitiveness.

Finally, we can say: –

"Smart businesses do not wait for March." "Half-year review, full-year advantage"

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GST 2.0 Reforms

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Introduction: The Genesis of GST 2.0

The Goods and Services Tax (GST) was launched in India in July 2017 with the ambition to unify the country's fragmented indirect tax regime. Despite significant achievements, the first version of GST faced persistent criticisms: complexity in slab structures, compliance pressures on MSMEs, sectoral disparities, and limited inclusion of sectors like petroleum and real estate. GST 2.0, announced by the 56th GST Council Meeting and effective from September 22, 2025, boldly addresses these pain points by simplifying tax rates, streamlining processes, and widening the tax base while emphasizing relief for the common citizen and boosting growth.^[1]
^{[2][3]}

The Rationale Behind GST 2.0

The need for GST 2.0 arose from several persistent challenges:

- Fragmented slab structure leading to classification disputes and litigation.
- Heavy compliance burdens especially for MSMEs.
- Exclusion of significant sectors affecting the comprehensiveness of the tax base.
- Cumbersome refund and dispute resolution mechanisms.
- Economic pressures post-pandemic and growing digitalization demands.^{[2][3][4]}

GST 2.0 aims to fulfill the GST promise—a “Good and Simple Tax”—by rationalizing rates, reducing compliance load, and ensuring a more equitable distribution of the tax burden.^{[4][5][6]}

Key Features and Reforms in GST 2.0

Three-Slab Structure

- The four major GST slabs (5%, 12%, 18%, 28%) have been eliminated.
- Now, three slabs exist: 5% (merit/essentials), 18% (standard goods/services), and 40% (luxury, sin, or demerit goods).
- 12% and 28% categories are abolished and items have been realigned to 5% and 18% slabs; 40% applies for goods like tobacco, pan masala, and luxury cars.^{[7][2][4]}

Focused Exemptions and Lower Rates on Essentials

- Full GST exemption on individual life and health insurance policies.
- Nil or 5% GST for essential goods such as UHT milk, paneer, and Indian bread.
- 33 lifesaving drugs and specific healthcare inputs are now tax-exempt.
- Major consumer goods (e.g., small cars, ACs, TVs, cement) previously in higher slabs now reclassified at 18%.^{[8][2][4]}

Sectoral Support and Rural Focus

- Reduced GST on agricultural machinery, fertilizer inputs, and labor-intensive goods (e.g., handicrafts, marble, leather).
- GST on farm machinery and fertilizer inputs down to 5%, expected to propel rural and agri-economy growth.^{[2][4]}

Business and MSME Facilitation

- Faster and digital-friendly GST refunds, easier registration protocols, and a new GST Appellate Tribunal (GSTAT) to be operational by December 2025.
- Simplified compliance with tiered norms and a MSME-friendly approach to returns and amendments.^{[5][6][2]}
- Structure Correction and Widening of GST Base
- Correction of the inverted duty structure, which previously caused refund delays and working capital blockage.
- Indication of broadened coverage for previously excluded sectors (petroleum products, insurance, natural gas), though with staggered implementation.^{[9][5]}

Technology-Driven Administration

- Enhanced digital integration, real-time sync for e-way bills, AI-enabled tracking, and reduced data duplication.
- Auto-filled returns and longer windows for return corrections and amendments, making the system more user-friendly and accurate.^{[6][4][5]}

Comparison: GST 1.0 vs GST 2.0

| Feature | GST 1.0 (2017-2025) | GST 2.0 (2025 onwards) |
|-----------------------|-------------------------------|---------------------------------------|
| Slab Structure | Four slabs: 5%, 12%, 18%, 28% | Three slabs: 5%, 18%, 40% |
| Compliance Complexity | Multiple return forms | Digital migration, auto-filled forms |
| MSME Support | Limited | Tiered and MSME-friendly |
| Healthcare Exemptions | Limited | 33 drugs, life insurance at Nil |
| Sectoral Coverage | Limited | Broader, focus on agriculture/MSMEs |
| Dispute Resolution | Largely court-based | GST Appellate Tribunal (GSTAT) |
| Refunds | Manual, delayed | Automated, faster |
| Technology | Low digital integration | AI-enabled, real-time, E-way bill 2.0 |

Benefits and Impact

Relief for Common Citizen

- Lower prices for essentials, reduced GST on daily-use consumer goods.
- Greater affordability in sectors like healthcare and life insurance.^{[3][2][4]}

Boost to Economic Growth

- Rationalization of slabs fosters growth in manufacturing (electronics, cement, consumer goods).
- GST relief on agricultural inputs and machinery expected to enhance rural incomes and support food processing industries.
- Lower compliance costs and faster refunds support working capital for industries and MSMEs.^{[10][3][4]}

Enhanced Ease of Doing Business

- Simpler digital returns and refund processes make GST compliance less painful and time-consuming.
- More predictable and timely dispute resolution through the operational GSTAT.^{[5][6][2]}

Improved State Revenues and Fiscal Prudence

- Rationalizing slabs preserves revenue through a higher 'sin' tax while lowering burden on mass consumption goods.
- State compensation mechanisms are being revisited for fairer distribution, preventing revenue shocks.^{[8][10]}
[5]

Sectoral Case Studies

FMCG and Consumer Durables

- Price rationalization is expected to increase consumption demand by lowering taxes on essentials and daily-use appliances.
- Reclassification of air conditioners and small cars from 28% to 18% GST should spur auto sector and consumer appliance sales.^{[10][2][4]}

Healthcare and Insurance

- Exemption for health and life insurance premiums and nil GST on several life-saving drugs is projected to make healthcare more accessible, enhancing social security.^{[2][4]}

Agriculture and Rural Economy

- Lower taxation on machinery and fertilizer inputs reduces input costs for farmers, thereby improving margins and making Indian agriculture more competitive and sustainable.^{[10][2]}
- MSMEs
- Tiered compliance, digital support, and faster input credits will ease liquidity stress and promote formalization among small and medium businesses.^{[3][2][10]}

Digitalization and Governance

The deployment of digital-first protocols—auto-generated forms, AI-based tracking for logistics (e-way bills), and AI-enabled scrutiny for compliance—marks a leap forward in India's approach to indirect tax governance. The real-time reconciliation and enhanced analytics support both taxpayer convenience and government oversight.^{[11][6][5]}

Challenges Ahead

- **Broader Coverage:** Full integration of petroleum, electricity, and real estate will take time and require further policy measures.^{[9][5]}
- **Technological Adoption:** Rapid scaling of digital systems may create transition hurdles, especially for MSMEs and rural businesses.
- **State Revenue Concerns:** Adjusting to new compensation frameworks may prompt friction in fiscal federalism.^{[5][10]}
- **Dispute Resolution:** While GSTAT is a step forward, its effectiveness will depend on timely setup and capacity.^{[7][2]}

The Road Ahead: Recommendations and Future Vision

To consolidate the gains of GST 2.0, continuous improvements are recommended:

- Ensure capacity-building and digital literacy for MSMEs and micro-enterprises.
- Phase-wise inclusion of sectors like petroleum and real estate for true GST unification.
- Ongoing review of rates based on economic realities and buoyancy data.
- Strengthen GSTAT to handle next-gen litigation efficiently.
- Invest in seamless digital infrastructure with user support and problem resolution.^{[7][10]}

Conclusion: GST 2.0 as an Economic Reset

GST 2.0 isn't simply a tax reform—it's an economic reset for India, emphasizing growth, fairness, and simplicity. By balancing revenue needs with citizen support, and business convenience with state priorities, GST 2.0 is poised to unlock India's next phase of economic development. Its success, though, will depend on collaborative execution, active public participation, and a willingness to adapt to evolving economic landscapes.^{[3][4][2][10]}

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Financial Mechanisms for Environmental Responsibility: Driving Sustainable Business Practices

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Introduction

Environmental responsibility has emerged as a critical criterion for modern businesses. The escalating threats of climate change, resource depletion, and biodiversity loss have made sustainability an integral part of corporate strategy. Governments, investors, and consumers increasingly expect businesses to adopt practices that minimize ecological impact while maintaining profitability.

Financial mechanisms—ranging from green bonds and sustainability-linked loans to carbon credits, fiscal incentives, and ESG-linked financing—have become pivotal in promoting environmentally responsible practices. These tools incentivize organizations to align financial objectives with ecological sustainability, making environmental stewardship not just a moral imperative but also a strategic business advantage.

India, committed to achieving Net Zero by 2070 under the Paris Agreement, is actively integrating these mechanisms into its regulatory and financial frameworks. Financial institutions, regulatory bodies, and companies must collaborate to ensure that sustainability becomes an actionable and measurable outcome, rather than just a corporate slogan.

This article explores the diverse financial mechanisms fostering environmental responsibility, their impact on businesses, global best practices, challenges, and opportunities for sustainable growth.

Green Financing

Green financing serves as a primary tool to channel capital toward environmentally beneficial projects. It encompasses instruments such as green bonds, sustainability-linked loans, and equity financing for sustainable initiatives, enabling businesses to raise funds while reducing ecological footprints.

Green Bonds

Green bonds are debt instruments whose proceeds are earmarked for projects that deliver environmental benefits. Eligible projects include renewable energy plants, energy-efficient infrastructure, water and waste management, and pollution control technologies.

Indian Context:

- In 2022, NTPC Ltd issued green bonds to finance renewable energy projects, signaling a growing trend in corporate India.
- SEBI has laid down green bond disclosure requirements to ensure transparency, including impact reporting and independent verification.

Benefits:

- Lower interest rates for companies meeting sustainability criteria
- Enhanced credibility among investors focused on ESG (Environmental, Social, Governance) metrics
- Access to global markets for companies with certified green projects

Challenges:

- High due diligence requirements
- Monitoring and reporting of environmental impact
- Limited awareness among SMEs about issuing green bonds

Sustainability-Linked Loans

Unlike traditional loans tied solely to financial metrics, sustainability-linked loans adjust interest rates based on a borrower's achievement of pre-determined environmental targets, such as reducing greenhouse gas emissions or improving water efficiency.

Advantages:

- Encourages measurable improvements in environmental performance
- Provides flexibility for companies compared to project-specific financing
- Strengthens corporate reputation among investors, customers, and regulators

Case Study:

- Tata Steel secured a sustainability-linked loan where the interest margin decreased if it met annual emission reduction targets. This encouraged investment in energy-efficient technologies and process optimization.

Opportunities:

- Growing demand for green financing among international investors
- Potential for lower capital costs for companies demonstrating strong environmental performance

Carbon Credits and Emission Trading

Carbon credit systems are market-based mechanisms designed to control greenhouse gas emissions. They assign financial value to reducing carbon emissions, creating incentives for businesses to adopt cleaner technologies.

Types of Carbon Markets

1. Compliance Markets: Regulated by governments; companies exceeding emission limits must purchase credits.
2. Voluntary Markets: Companies voluntarily purchase credits to offset emissions or improve ESG rankings.

Indian Scenario:

- India has initiated pilot carbon trading platforms, particularly targeting industries with high emissions such as cement, power, and steel.
- Companies reducing emissions can sell surplus credits, turning sustainability into a revenue-generating activity.

Benefits:

- Financial reward for reducing emissions
- Promotes investment in energy-efficient and low-carbon technologies
- Supports national and international climate commitments

Challenges:

- Accurate monitoring and verification of emission reductions
- Regulatory complexity and integration with international carbon markets

Tax Incentives for Environmental Responsibility

Fiscal policies play a crucial role in nudging businesses toward environmental responsibility. Tax incentives reduce the cost of adopting sustainable practices while signaling governmental support for green initiatives.

GST Concessions

The Goods and Services Tax (GST) framework offers reduced rates for eco-friendly products and technologies, encouraging adoption at scale. Examples include:

- Electric vehicles (EVs): Reduced GST rates promote EV adoption, lowering carbon emissions from transportation.
- Solar panels and renewable energy equipment: Lower GST incentivizes renewable energy deployment across sectors.

Income Tax Benefits

- Accelerated Depreciation: Companies can claim faster depreciation on renewable energy assets, reducing taxable profits and encouraging investment.
- Section 35AD Deductions: Expenditure on eligible environmental projects, such as waste-to-energy plants or water conservation initiatives, can be deducted from taxable income.
- CSR Compliance: Environmental CSR spending contributes to sustainable development goals and aligns with governance expectations.

International Comparisons:

- United States: Production Tax Credits (PTC) for renewable energy projects incentivize corporate participation.
- European Union: Tax credits and subsidies support green infrastructure investments, facilitating alignment with climate targets.

Corporate Social Responsibility (CSR) and Environmental Spending

CSR mandates in India, governed under Section 135 of the Companies Act, require certain companies to allocate 2% of average profits to social and environmental initiatives. Environmental CSR projects include:

- Tree plantations and afforestation programs
- Clean water and sanitation projects
- Renewable energy and energy efficiency initiatives

Benefits:

- Strengthens corporate reputation
- Complements financial incentives and green financing
- Encourages measurable environmental impact

Case Example:

- ITC Ltd invests in water stewardship and sustainable agriculture as part of CSR, simultaneously benefiting communities and reducing ecological risk to operations.

Monitoring and Impact Measurement:

- Use of Key Performance Indicators (KPIs) such as energy saved, emissions reduced, or water conserved
- Independent verification ensures credibility and transparency in reporting

ESG-Linked Investments

ESG investing links financial performance with environmental, social, and governance outcomes. Investors increasingly prefer companies demonstrating responsible environmental practices.

Mechanisms:

- ESG-linked mutual funds and ETFs
- Corporate bonds with ESG performance covenants
- Investor-driven sustainability benchmarks influencing capital allocation

Benefits for Companies:

- Access to capital at lower cost
- Enhanced investor confidence
- Improved long-term financial performance and risk management

Challenges:

- Standardizing ESG metrics
- Avoiding greenwashing
- Ensuring robust reporting and verification frameworks

International Best Practices**European Union (EU):**

- EU Green Deal integrates sustainability criteria into funding and investment decisions.
- The EU Taxonomy provides a standardized definition of “green” economic activities, improving transparency and comparability.

United States:

- PTCs and Investment Tax Credits (ITCs) incentivize renewable energy adoption.
- Federal sustainability reporting requirements ensure accountability and alignment with ESG principles.

Japan, Canada, and Australia:

- Provide financial incentives for renewable energy, energy efficiency, and low-emission transportation.
- Promote voluntary carbon trading and reporting standards, complementing regulatory frameworks.

Lessons for India:

- Establish clear reporting frameworks
- Integrate fiscal incentives, green financing, and carbon trading into a coherent ecosystem
- Encourage private sector participation while ensuring accountability

Challenges in Implementing Financial Mechanisms

Despite significant progress, businesses face several hurdles:

- Awareness Gaps: Many SMEs lack knowledge of available green financing instruments.
- Monitoring and Verification: Accurately measuring environmental impact remains challenging.
- Regulatory Uncertainty: Frequent policy changes can deter long-term investment.
- Financial Risk: Initial capital expenditure for sustainable projects can be high, requiring careful planning.

Opportunities:

- Growth in ESG-linked investment funds and green fintech solutions
- Expansion of government-backed guarantees for green projects
- Use of AI and digital tools for real-time monitoring and reporting

Future Outlook

Financial mechanisms will continue to evolve as sustainability becomes central to global economic planning.

Key trends likely to shape the future include:

- Greater integration of technology and finance to track sustainability outcomes
- Increased investor focus on ESG performance and green returns
- Expansion of voluntary carbon markets alongside compliance-driven schemes
- Strengthening of policy frameworks to incentivize environmentally responsible practices

Businesses that adopt these mechanisms proactively will benefit from cost savings, enhanced reputation, and alignment with global sustainability goals.

Conclusion

Financial mechanisms are transforming environmental responsibility from an aspirational goal into a measurable, incentivized practice. Green bonds, sustainability-linked loans, carbon credits, and fiscal incentives empower companies to invest in environmental stewardship while maintaining financial performance.

Integrating these mechanisms with CSR initiatives, ESG-linked investments, and global best practices ensures long-term sustainability, mitigates risk, and strengthens competitiveness. India's journey toward a sustainable future depends on the synergy between finance, regulation, and corporate responsibility, making environmental stewardship a strategic imperative rather than an optional initiative.

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GST Reform 2.0: A Transformative Reset for India's Tax Landscape

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The implementation of the Goods and Services Tax (GST) in July 2017 was hailed as India's single biggest tax reform since independence, unifying the country into a single market. The subsequent phase of restructuring, often termed GST Reform 2.0 or Next-Generation GST Reforms, represents a pivotal milestone, moving beyond mere procedural tweaks to a fundamental reconfiguration of the tax framework.

This new wave of reforms, primarily driven by the decisions of the 56th GST Council, focuses on simplicity, affordability, and the correction of structural anomalies, setting the stage for a more robust and consumption-led Indian economy.

I Key Pillars of GST Reform 2.0

The core of GST Reform 2.0 is built upon seven guiding pillars, with the most significant being the radical simplification of the tax slab structure:

1. Simplified Two-Tier Rate Structure

The most notable change is the collapse of the earlier four-tiered structure (5%, 12%, 18%, and 28%) into a predominantly **two-tier system**:

- **Merit Rate:** 5% (for essentials, mass consumption goods, and certain priority sectors).
- **Standard Rate:** 18% (for most standard goods and services).
- **Demerit/Sin Rate:** A new **40%** rate is reserved for luxury and "sin goods" like tobacco products, pan masala, and aerated drinks, ensuring revenue protection while aligning with social objectives. The 12% and 28% slabs have largely been eliminated, with items migrating to the 5% or 18% slab, or in the case of luxury items, the 40% slab.

2. Comprehensive Rate Reductions for Consumers

The reform is heavily consumer-centric, aiming for '**Ease of Living**' alongside 'Ease of Doing Business'. Key sectors seeing rate cuts include:

- **Daily Essentials:** Many household items (like packaged foods, toiletries, and footwear up to ₹2,500) have moved to the 5% slab.
- **Healthcare:** Life-saving drugs, medicines, and individual life/health insurance premiums have seen significant rate cuts or complete exemptions, making healthcare and financial protection more accessible.
- **Consumer Durables:** Products like air conditioners, large-screen televisions, and dishwashers have moved from the 28% slab to the 18% standard rate.
- **Automobiles:** Small cars and two-wheelers ($\leq 350\text{cc}$), which form the backbone of personal transport, have been shifted from 28% to the 18% slab, providing significant relief to the middle class.

3. Correction of Inverted Duty Structure (IDS)

A major structural objective is the correction of IDS, where the tax on inputs is higher than the tax on the final product. By reducing the rates on inputs for key sectors like textiles (Man-Made Fibres/Yarns), pharmaceuticals, and agriculture machinery, the reforms aim to:

- **Unlock Working Capital:** Prevent the accumulation of Input Tax Credit (ITC) refunds.
- **Boost Competitiveness:** Make domestic manufacturing more price-competitive, supporting the 'Make in India' initiative and exports.

4. Simplification of Compliance and Processes

The next-gen reforms focus on leveraging technology to simplify compliance for businesses, especially Micro, Small, and Medium Enterprises (MSMEs):

- **Faster Refunds:** Streamlined and time-bound online refund processes.
- **Pre-filled Returns:** Increased reliance on e-invoicing data to pre-fill GST returns, minimizing errors and compliance burden.
- **Reduced Litigation:** A simpler rate structure inherently reduces classification disputes and tax litigation.

II Economic Impact of GST Reform 2.0

The combined effect of rate cuts and structural simplification is projected to provide a significant stimulus to the Indian economy, driving both consumption and production.

A. Boost to Consumption and GDP Growth

The most immediate and direct impact is on household budgets.

- **Increased Disposable Income:** Lower prices on essentials and consumer durables directly translate into higher household savings and increased disposable income.
- **Consumption Catalyst:** Reduced GST on high-value, high-frequency purchase items like electronics and automobiles is expected to spur demand, especially during the festive season. The Reserve Bank of India (RBI) has noted that these reforms should progressively result in a sustained positive impact and strengthening of consumption growth drivers. Government estimates project a stimulus of around ₹2 lakh crore into the economy.
- **Affordability of Core Sectors:** Rate cuts on cement (from 28% to 18%) will lower housing and infrastructure costs, directly boosting the Real Estate and Construction sectors, which are major employment generators.

B. Enhanced Competitiveness and Manufacturing

The correction of the Inverted Duty Structure (IDS) and rationalized rates for manufacturing inputs provide a substantial tailwind to Indian industry.

- **Manufacturing Revival:** Lower input costs for raw materials, machinery, and components boost the profitability and global competitiveness of Indian manufacturers. Sectors like textiles, automotive parts, and capital goods benefit significantly.
- **Export Competitiveness:** Streamlined processes for ITC refunds and clearer rules for 'zero-rating' of exports improve cash flow for exporters, making Indian goods and services more competitive in the global market.
- **Formalisation of MSMEs:** Simpler tax slabs and reduced compliance friction lower the entry barrier, encouraging smaller, unorganised businesses to formalise, thus widening the tax base.

C. Inflationary and Fiscal Implications

- **Lower Inflationary Pressure:** By lowering the effective tax rate on a wide basket of consumer goods, the reforms are expected to ease price pressures and help keep Consumer Price Index (CPI) inflation stable, benefiting both households and the macroeconomic stability of the nation.
- **Tax Buoyancy:** While initial rate cuts might lead to a temporary dip in revenue collections for some states, the long-term simplification and widening of the tax net due to increased compliance are expected to lead to higher tax buoyancy and stronger revenues overall. The creation of the 40% sin goods slab also acts as a revenue safeguard.

III. The Future Trajectory: GST 3.0 and Beyond

GST Reform 2.0 is a significant step, but the journey toward a perfect, globally benchmarked indirect tax system continues. The future trajectory, often informally dubbed GST 3.0, will likely focus on three critical, unfinished agenda items:

1. Inclusion of Excluded Items

The single biggest structural reform pending is the inclusion of **Petroleum Products (Crude oil, Petrol, Diesel, Natural Gas, and Aviation Turbine Fuel - ATF) and Electricity** within the GST framework. Their continued exclusion necessitates the payment of non-creditable taxes (Excise Duty and VAT), maintaining the cascading effect that GST was designed to eliminate. Phased inclusion, perhaps starting with Natural Gas and ATF, would provide a massive boost to the logistics and manufacturing sectors by allowing seamless ITC across the entire economy.

2. A Single, Revenue-Neutral Rate (RNR)

The eventual, long-term goal of a truly unified GST is a **single rate** (or a dual-rate system of a standard rate and a sin/luxury rate). As tax revenues stabilise and the tax base widens, the goal will be to further merge the 5% and 18% slabs into one Revenue-Neutral Rate (RNR). This will eliminate almost all classification disputes and fully realise the 'One Nation, One Tax' vision.

3. Advanced Litigation Management

With a simplified rate structure, the next operational challenge is to streamline the dispute resolution mechanism. The establishment of the **GST Appellate Tribunal (GSTAT)** and the adoption of technology-driven solutions for litigation management will be crucial to providing businesses with timely and predictable legal outcomes.

Conclusion

GST Reform 2.0 is more than a rate adjustment; it is a strategic economic intervention designed to unlock pent-up demand and boost domestic manufacturing capabilities. By simplifying the tax structure, correcting duty anomalies, and focusing on affordability, the reforms inject a much-needed shot of confidence into consumers and businesses alike. While challenges remain in ensuring the benefits are fully passed on to consumers (anti-profiteering measures) and managing the transition for businesses, this new phase of GST marks a decisive and optimistic step toward transforming India into a more competitive, consumption-led, and globally integrated economy.

Seamless Compliance : The Path way towards GST 3.0

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GST 2.0 Reforms mark another watershed in India's indirect tax journey. They address longstanding demands for simplification of the tax structure and rationalisation of rates across industries. This aligns with the original vision of GST as a transformative tax, replacing a complex web of levies with a unified system. In many ways, this promise has been delivered by harmonising rates, reducing cascading effects, and fostering a common national market. These reforms are expected to ease the burden on consumers and boost demand.

Reforms, however, are a continuous process, evolving with the needs of industry. GST compliance remains one such area requiring focused attention to reduce taxpayer burden and enhance ease of doing business. Within this continuum, the evolution of GST can be seen in three phases:

- **GST 1.0:** focused on unification of the indirect tax system under a single framework.
- **GST 2.0:** emphasises simplification, rationalisation of rates, promoting affordability, and improving ease of living.
- **GST 3.0:** should focus on seamless compliance: strengthening credit flow, removing procedural hurdles, leveraging technology, and positioning GST as an enabler of business rather than a compliance load.

This article explores further reforms required in GST, with emphasis on inverted duty structures, petroleum inclusion, flawless credit flow, digital infrastructure, and dispute resolution.

1. Further Rate Rationalisation for Eliminating the Inverted Duty Structure

An inverted duty structure arises when tax rates on inputs are higher than those on finished goods. For instance, in the utensils industry, input metals are taxed at 18% while the finished product is taxed at only 5%. This mismatch leads to accumulation of input tax credit (ITC) and higher working capital requirements for businesses. Although provisions exist for refund of accumulated ITC, the process involves extensive documentation, calculations, scrutiny, and correspondence with the GST Department, thereby increasing compliance costs in both time and money.

Over the years, the government has undertaken several rounds of rate rationalisation (including under GST 2.0) to reduce such instances. However, a comprehensive rationalisation exercise is still required: one that carefully assesses supply chains and industry demands to design a rate regime that eliminates inverted duty structures to the maximum extent possible.

It is also important to note that simply exempting GST on a final product may not benefit the end consumer if inputs continue to attract GST, since such costs eventually pass through to consumers. This is why many sectors, such as health insurance and book publishing, do demand GST rate, albeit a low one, on their final products, enabling them to utilise Input Tax Credit. Thus, any rationalisation exercise must not only correct inverted structures but also impose GST where needed to ensure a seamless flow of credit across industries.

2. Bringing Petroleum Products under GST

At present, five key petroleum fuels (petroleum crude, high-speed diesel, motor spirit, natural gas, and aviation turbine fuel) remain outside GST and continue to attract Central Excise Duty and State levies. Article 279A (5) of the Constitution empowers the GST Council to recommend the date of their inclusion. These fuels generate substantial revenues for both the Centre and the States, which has delayed their integration despite eight years of GST implementation. However, this exclusion undermines the core principle of “One Nation–One Tax.”

The current system also creates inefficiencies for petroleum companies and allied industries, which face cascading taxes and fragmented credit chains on significant investments in plant, machinery, inputs, and input services.

While the fiscal sensitivity of petroleum inclusion is undeniable given its revenue contribution to States, a phased approach can be a way forward towards inclusion. Currently, 40–50% of the retail price of petrol comprises taxes (amounting to nearly 80% on base price). The maximum rate permissible under GST is 40%. To bridge revenue gaps, States could be compensated during transition through a special cess, similar to the mechanism used during the GST roll-out. Alternatively, share of States in Vertical Devolution can be increased as a compensation.

Bringing petroleum products under GST would unlock seamless input credits across sectors, curb cascading, lower costs, and generate a buoyant impact across industries, making GST a truly comprehensive indirect tax system.

3. Ensuring Seamless Flow of Input Tax Credit (ITC)

The seamless availability of Input Tax Credit (ITC) was one of the core promises of GST. In practice, however, placing the onus on recipients to ensure supplier compliance has led to mismatches, frequent notices, and ITC reversals, making credit flow cumbersome. The suspension of GSTR-2 and the reliance on GSTR-2B have further restricted the scope for genuine two-way matching.

There is a clear need to revamp the ITC availment mechanism. Recipients should be provisionally allowed to claim credit on valid tax invoices, with safeguards built into the system. A robust framework for auto-matching invoices is essential. With the successful rollout of e-invoicing through Invoice Registration Portals (IRPs), India now has the technological foundation to reintroduce a simplified version of GSTR-2. Automated credit validation, real-time invoice data, and provisional ITC for compliant taxpayers can together ensure predictability, fairness, and ease of credit flow.

A comparative study of credit availment systems in other GST jurisdictions can also guide reforms to design a more transparent, efficient, and taxpayer-friendly mechanism.

4. Streamlining Registration and Cancellation Processes

Businesses, particularly small and medium enterprises (SMEs), face hurdles in registration and frequent disruptions due to sudden cancellations. The process for revocation is time-consuming and litigation-prone.

Registration should be near-instant through API integration with PAN, Aadhaar, and bank accounts. Cancellation and revocation must be transparent, with clear timelines, online hearings, and automated communication. Safeguards against arbitrary action can improve trust in the system.

5. Ensuring Parity Between Centre and State GST Jurisdictions

Under GST, taxable persons are assigned jurisdiction either to the Central or the State GST department. While the law is uniform across both, departmental practices often vary in their interpretation and approach to transactions, issuance of notices, conduct of audits, and application of standard operating procedures.

5. This inconsistency creates particular challenges for businesses operating across multiple states, where some units fall under Central jurisdiction and others under State jurisdiction. The lack of uniformity increases compliance burden, adds uncertainty, and undermines the principle of a harmonised tax system.

To address this, greater parity is required between Centre and State GST administrations. Common SOPs, standardised audit practices, and consistent interpretative guidance can ensure predictability and fairness, making GST administration truly uniform across jurisdictions

6. Towards a Taxpayer-Friendly Dispute Resolution System

The success of any tax system rests on trust, predictability, and ease of compliance. Under GST, litigation is steadily mounting, with disputes ranging from classification issues to ITC mismatches. Lengthy appeals processes drain resources for both taxpayers and authorities, creating uncertainty and increasing compliance costs.

To address this, a taxpayer-friendly dispute resolution framework is essential. Introducing a fast-track mechanism for small taxpayers can ensure quicker, uniform decisions and reduce litigation backlog. At the same time, enhanced taxpayer services, such as AI-powered chatbots, guided return filing, and proactive compliance alerts, can prevent disputes at the source by clarifying doubts and reducing errors.

A balanced approach that combines speedy resolution with preventive support systems will go a long way in strengthening trust and making GST administration truly taxpayer-centric.

Such reforms would make GST not just a revenue tool but also an enabler of formalisation, competitiveness, and trust.

It is important to recognise that GST reform is a journey:

- **GST 1.0 (2017 onwards):** The **unification phase**,
- **GST 2.0 (2025 onwards):** The **simplification phase**
- **GST 3.0 (next phase):** The **seamless compliance phase**, where the focus shifts to automation, ease of doing business, and strengthening compliance rather than merely reducing tax rates.

GST 3.0 will not be about lowering revenue or weakening the tax net. Instead, it will be about making compliance effortless, reducing litigation, and ensuring a system that works for both taxpayers and governments.