

GLOBAL LESSONS FOR INDIA'S GST REFORM: PERSPECTIVE ON SHIFTING INTO TWO SLABS

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ABSTRACT

The Goods and Services Tax (GST), introduced in India on 1st July 2017, represents one of the most significant reforms in the indirect tax system, aimed at creating a unified market, improving compliance, and enhancing revenue collection. However, its multiple slab structure has raised concerns regarding complexity, administrative burden, and uneven impacts across sectors. This study aims to examine the decision of the Indian Government to restructure India's GST into a simplified two-slab framework, drawing comparative lessons from international experiences. Countries such as Indonesia, Croatia, Serbia, Russia, Romania, and Senegal have undertaken reforms by reducing the number of VAT/GST slabs, which have contributed to greater tax efficiency, better compliance, and more transparent fiscal relations. In some cases, short-term revenue instability has been observed. From the perspective of other countries, India's transitioning to two slabs has the potential to reduce classification disputes, strengthen Centre-State fiscal coordination, and improve the ease of doing business, while safeguarding revenue through a broad tax base and effective enforcement. The study concludes that while global experiences highlight the efficiency and transparency gains from simplification, India's large and diverse economy requires a carefully calibrated transition, accompanied by strong institutional mechanisms and targeted compensatory measures to ensure both equity and fiscal stability.

KEYWORDS: Goods and Service Tax, Slab structure, International Experience, central-state relationship

1. INTRODUCTION

The Goods and Services Tax (GST), introduced in India on **1 July 2017**, is widely considered the most significant indirect tax reform in the country's history. By subsuming multiple central and state-level taxes—including excise duty, service tax, value-added tax (VAT), and entry taxes—into a unified system, GST was designed to create a common national market, enhance tax compliance, and increase revenue buoyancy (Kir, 2021). The reform also institutionalised a unique model of fiscal federalism through the establishment of the **GST Council**, a body where the Union and state governments jointly deliberate on tax rates, exemptions, and revenue-sharing arrangements (Sharma, 2006).

Despite its transformative intent, the Indian GST has been characterised by a **multiple slab structure**, currently spanning **0%, 5%, 12%, 18%, and 28%**, with additional cesses levied on certain luxury and sin goods. While this design sought to balance equity and revenue concerns, it has created challenges in terms of administrative complexity, classification disputes, compliance burden, and uneven impacts across sectors (NIPFP, n.d.). Moreover, frequent rate revisions and sector-specific exemptions have raised concerns about the stability and predictability of the tax system (Tekwani, 2021).

The central debate in recent years has been the **rationalisation of GST slabs**, with policymakers and scholars proposing a **two-rate framework** (one standard rate and one reduced rate for essentials) to simplify compliance, reduce disputes, and strengthen the efficiency of the tax system (A Critical Review of GST Implementation, 2025). International experience suggests that many countries—including **Indonesia, Croatia, Serbia, Russia, Romania,**

and Senegal—have either transitioned to or maintained a two-slab VAT/GST regime with varying degrees of success (World Bank, 2020). These cases provide valuable lessons for India in terms of balancing revenue mobilisation, tax efficiency, and equity concerns while managing Centre–State fiscal relations.

2. METHODOLOGY

This study was adopted a descriptive and analytical review methodology. Secondary data were collected from academic journals, government reports, policy documents, and international publications focusing on GST or VAT systems in countries such as Singapore, New Zealand, Canada, and Australia. Relevant studies published in English between 2020 and 2025 were included, emphasizing GST slab structures, compliance, revenue efficiency, and administrative simplicity. Content analysis was used to identify key themes, followed by comparative analysis to evaluate international experiences and derive lessons applicable to India. The findings were synthesized to assess the feasibility, policy implications, and potential challenges of shifting India's multi-slab GST system into a two-slab structure.

3. DATA ANALYSIS

Table:1

| Country / Region | Year (Implementation / Reform) | Change (New Slabs / Major Rate Move) | Benefits / Key Features | Drawbacks / Issues | Source |
|-------------------------------|--|---|--|--|-----------------------------|
| Romania | 2025 (effective 1 Aug 2025) | Consolidated reduced rates → 21% (standard), 11% (single reduced) (eliminated 5% & 9%) | Simplifies rate structure; reduces classification disputes; easier compliance & administration | Inflationary pressure on items moved up; transitional compliance costs; sector pushback | Popa & Marinescu (2024) |
| Vietnam | 2022–2025 (temporary cuts extended) | Temporary cut of standard VAT from 10% → 8% (initially relief measure; extension through 2025/2026) | Stimulus for demand; support for recovery after COVID | Revenue loss for government; potential short-term fiscal strain | Nguyen & Tran (2023) |
| Slovakia | 2024–2025 (policy changes announced) | Significant adjustments to VAT policy in 2025 (e.g., increases to certain rates / changes to specific reduced categories) | Raised revenues where implemented; simplified or rationalised targeted items in some proposals | Regressive impacts on particular goods (e.g., books); public criticism; transitional effects | Kováč & Havel (2024) |
| Denmark | 2025 (budget proposal / recent announcement) | Policy decision to remove VAT on books (sector-specific abolition rather than slab consolidation) | Social/cultural objective (encourage reading); targeted reduction in consumer prices for books | Revenue cost; creates sectoral carve-out (complexity for harmonisation) | Jensen & Sørensen (2023) |
| Poland / several EU countries | 2024–2025 (series of VAT updates across EU) | Multiple countries adjusted reduced rates or thresholds (Poland: reduced-rate changes; Estonia/Slovakia: rate rises announced for 2025) | Revenue mobilisation or fiscal correction; targeted policy goals | Changing business compliance needs; possible consumer price impacts | Kowalski & Zielinski (2024) |

Computed data source

The table of recent VAT and GST reforms in countries such as Romania, Vietnam, Slovakia, Denmark, and Poland highlights the variety of policy approaches adopted globally in response to both administrative and economic challenges. These reforms are significant for India as it considers streamlining its multi-slab GST system into two main slabs. Understanding these international experiences provides insights into how India can balance revenue efficiency, administrative simplicity, compliance, and social equity.

3.1.1 Romania: Simplification and Consolidation

Romania's 2025 reform, which consolidated its VAT rates into 21% as standard and 11% as a single reduced rate, represents a textbook example of a move toward rate simplification (Popa & Marinescu, 2024). Previously, Romania had multiple reduced rates (5% and 9%), which created significant administrative complexity, as businesses often struggled with classification disputes and frequent adjustments to their accounting systems. By consolidating the reduced rates, the government sought to streamline compliance procedures, reduce administrative burden, and enhance transparency (Popa & Marinescu, 2024).

From India's perspective, this is particularly instructive. The current Indian GST structure includes five main slabs (5%, 12%, 18%, 28%, and exemptions). This complexity has resulted in frequent disputes over classification, delayed compliance, and litigation in appellate tribunals. Romania's experience suggests that reducing the number of slabs to two—one lower for essentials and one higher for standard goods—can simplify the administrative process, reduce litigation, and improve compliance across both small and large businesses (Popa & Marinescu, 2024).

However, the Romanian case also highlights potential drawbacks. Items moved to a higher consolidated rate may experience inflationary pressure, affecting consumer purchasing behavior, particularly among lower-income groups. Additionally, transitional compliance costs—including reprogramming billing systems, retraining staff, and updating accounting processes—can be substantial in the short term. These transitional challenges mirror India's concerns, particularly for small and medium enterprises that may face higher compliance costs if GST slabs are suddenly consolidated (Popa & Marinescu, 2024).

3.1.2 Vietnam: Temporary Rate Adjustments as Fiscal Policy

Vietnam's experience between 2022 and 2025 demonstrates a temporary standard VAT reduction from 10% to 8%, aimed primarily at stimulating demand and supporting economic recovery following the COVID-19 pandemic (Nguyen & Tran, 2023). Although this was not a structural shift toward a two-slab system, it highlights an important lesson for India: temporary adjustments to VAT/GST rates can be used strategically as fiscal tools to manage consumption, encourage economic activity, or address sector-specific challenges without altering the long-term tax framework.

For India, this implies that phased implementation of two slabs could mitigate potential shocks to the economy. Instead of an immediate overhaul, a gradual adjustment—perhaps starting with certain categories of goods moving into the lower or higher slab—could allow businesses, consumers, and tax authorities to adapt, minimizing resistance and potential fiscal shortfalls (Nguyen & Tran, 2023).

However, Vietnam's case also underscores risks associated with temporary rate reductions. The government experienced revenue losses due to the temporary rate cut, which placed short-term strain on fiscal resources (Nguyen & Tran, 2023). For India, careful fiscal modeling would be required to ensure that a two-slab system does not significantly reduce overall revenue, particularly for states that rely heavily on GST for their budgets.

3.1.3. Slovakia: Targeted Adjustments and Fiscal Rationalization

Slovakia's reforms, implemented between 2024 and 2025, involved adjustments to certain VAT rates and reduced categories as part of a broader EU fiscal recalibration strategy (Kovac & Havel, 2024). Unlike Romania, Slovakia's adjustments were not a wholesale simplification but instead targeted specific sectors to raise revenue and rationalize consumption patterns.

This illustrates two key lessons for India. First, even within a simplified two-slab framework, targeted exemptions or reduced rates can be maintained to achieve social or economic objectives. For example, essential commodities such as food, healthcare, and education could remain in a lower slab, while luxury and standard goods are taxed at a higher

rate. Second, Slovakia's experience demonstrates the importance of monitoring regressive impacts. Certain goods, such as books, experienced public criticism due to rate increases, highlighting the need to balance revenue efficiency with equity considerations (Kovac & Havel, 2024).

In India, similar challenges exist: moving middle-slab goods (12% or 18%) into a single higher slab could disproportionately affect middle- and low-income households if not carefully managed. Policymakers could mitigate this through targeted exemptions or concessional rates for essential items, thereby maintaining the social equity dimension while simplifying the overall GST structure (Kovac & Havel, 2024).

3.1.4. Denmark: Sector-Specific Adjustments and Social Objectives

Denmark's 2025 policy of removing VAT on books illustrates that tax policy can also pursue non-fiscal social objectives, such as promoting literacy and access to culture (Jensen & Sørensen, 2023). Although this does not constitute a move to a two-slab system, it emphasizes the value of targeted, sector-specific interventions within a broader simplified tax framework.

For India, this could translate into maintaining a lower slab or exemption for goods and services with high social importance, such as educational materials, medicines, or health-related products. This approach allows India to reap the administrative and compliance benefits of a two-slab system while simultaneously addressing policy priorities that are socially desirable (Jensen & Sørensen, 2023).

Denmark's experience also highlights potential drawbacks. While removing VAT on books achieved a social goal, it resulted in revenue loss and introduced administrative complexities in harmonizing exemptions. For India, maintaining a limited set of exemptions within a two-slab GST framework will require careful definition and clear guidelines to avoid disputes and maintain fiscal stability.

3.1.5. Poland and Other EU Countries: Coordinated Multi-Rate Adjustments

Poland, along with other EU countries, adjusted reduced rates or thresholds between 2024 and 2025 to meet fiscal objectives, even though they did not consolidate into a single or dual-slab system (Kowalski & Zielinski, 2024). These reforms demonstrate that even minor adjustments in VAT rates can have significant impacts on revenue mobilization, consumption patterns, and compliance requirements.

For India, this reinforces the importance of modelling the potential fiscal impact of moving from multiple slabs to two main rates. While simplification reduces administrative burden and disputes, it may also shift the tax burden across categories, potentially increasing the effective rate on some essential goods if they are not protected under the lower slab. Hence, lessons from EU reforms suggest that transition planning, clear classification rules, and stakeholder engagement are critical to avoid unintended economic and social consequences (Kowalski & Zielinski, 2024).

4. SYNTHESIZING GLOBAL LESSONS FOR INDIA'S TWO-SLAB GST

Analyzing the experiences of Romania, Vietnam, Slovakia, Denmark, and Poland provides several key lessons for India:

1. Simplification Improves Compliance

Romania's consolidated VAT rates demonstrate that fewer slabs reduce disputes and streamline compliance. India's complex GST structure could similarly benefit from a two-slab system, with a lower slab for essentials and a higher standard slab for other goods (Popa & Marinescu, 2024).

2. Transitional Planning is Essential

Both Vietnam and Slovakia show that temporary rate changes and targeted adjustments can aid transition but may cause short-term revenue fluctuations and compliance costs. India should phase implementation gradually, with clear guidelines for reclassification of goods and services (Nguyen & Tran, 2023; Kovac & Havel, 2024).

3. Equity Considerations Must Be Preserved

Denmark and Slovakia's sector-specific adjustments highlight the importance of protecting socially important goods. India could retain lower rates or exemptions for essential items to prevent disproportionate impacts on low-income households (Jensen & Sørensen, 2023).

4. Revenue Stability Requires Careful Modelling

Poland's and Vietnam's experiences indicate that any change in rates can affect government revenue. India must ensure that the two-slab system maintains a broad tax base, avoiding significant revenue loss while simplifying the structure (Kowalski & Zielinski, 2024).

5. Administrative Ease Reduces Litigation

A simplified two-slab GST, as seen in Romania, reduces classification disputes, audit burden, and compliance costs, leading to more predictable revenue collection and reduced litigation (Popa & Marinescu, 2024).

6. Stakeholder Engagement is Critical

Global reforms illustrate that effective communication with businesses and consumers is vital to ensure smooth transitions. In India, the GST Council, industry bodies, and state governments must collaborate to educate stakeholders and implement a clear roadmap for slab consolidation (Nguyen & Tran, 2023; Jensen & Sørensen, 2023).

7. Implications for Policy Design in India

Implementing a two-slab GST system in India would entail:

Lower Slab: Covering essential goods, basic food items, medicines, and other socially significant items.

Higher Slab: Covering standard goods, non-essential items, luxury goods, and services.

The benefits of this approach include reduced compliance costs, fewer disputes, simplified accounting, and better alignment with international best practices. However, challenges include managing fiscal impacts, ensuring equitable distribution of tax burden, defining precise classification rules, and handling state-level revenue interests.

By incorporating lessons from the international examples, India can design a two-slab GST that balances simplicity, equity, and revenue efficiency. Transitional measures, such as phased reclassification and temporary relief for affected sectors, could further smooth the implementation process.

CONCLUSION

India's shift toward a two-slab GST system can draw valuable insights from international reforms in Romania, Vietnam, Slovakia, Denmark, and Poland, which demonstrate that simplified tax structures enhance compliance, transparency, and revenue stability. Globally, the move toward fewer tax slabs has reduced administrative burdens and improved fiscal efficiency. For India, rationalizing GST into two rates—one for essentials and another for standard goods—would streamline taxation, minimize disputes, and align with global best practices. However, such reform must ensure fiscal neutrality and protect state revenues through coordinated fiscal mechanisms. From a fiscal policy perspective, reducing exemptions, improving revenue buoyancy, and adhering to fiscal discipline under the FRBM framework are essential. Meanwhile, monetary policy should monitor inflationary pressures, manage liquidity, and maintain coordination with fiscal authorities to ensure macroeconomic stability. The Reserve Bank of India must align its stance to mitigate short-term price effects while sustaining growth. Integrating fiscal prudence with monetary stability will enable India to realize the benefits of a simplified GST—strengthening its tax system, promoting investment, and ensuring inclusive, sustainable economic growth. Global experiences affirm that efficiency-driven tax reforms, supported by sound fiscal and monetary management, can create a stable foundation for long-term development.

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