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Tax Reform and Household Welfare: The Impact of GST 2.0 on India's FMCG Sector

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Abstract

This paper examines the impact of India's GST 2.0 (Goods and Services Tax) reform on the Fast-Moving Consumer Goods (FMCG) sector, with a particular focus on consumer welfare, consumption patterns, and tax pass-through dynamics. Implemented in September 2025, GST 2.0 rationalised India's indirect tax structure by consolidating multiple slabs into three primary rates: 5% for essential goods, 18% for standard goods, and 40% for luxury and sin goods. Given the FMCG sector's high volume, low margins, and central role in household consumption, these changes have had direct implications for prices, affordability, and expenditure distribution across households. Using secondary data, policy documents, and a hypothetical consumption-basket analysis, this study evaluates both the benefits and limitations of GST 2.0. The findings suggest that while the reform improves affordability and equity for necessity-heavy consumption baskets, implementation frictions and incomplete pass-through limit its full consumer-welfare potential.

Keywords: GST 2.0, FMCG sector, tax rationalisation, consumer welfare, consumption patterns

Introduction

With a significant portion of household spending, manufacturing output, employment, and indirect tax revenues, the Fast-Moving Consumer Goods (FMCG) sector plays a crucial role in India's economy. Even during economic slowdowns, the demand for goods like food staples, personal hygiene products, and household necessities is comparatively steady. Therefore, consumer prices, purchasing power, and general welfare are directly impacted by any structural change in indirect taxation. When India's Goods and Services Tax (GST) was implemented in 2017, it replaced numerous state and federal levies, marking a significant change in indirect taxation. However, pricing distortions, compliance burdens, and unequal tax incidence in high-volume industries like FMCG resulted from the original GST framework's (GST 1.0) numerous slabs and intricate classifications.

In response to these challenges, the government introduced GST 2.0 in 2025, substantially rationalising tax rates and reclassifying hundreds of goods. Despite its economic significance, GST 2.0 remains relatively understudied due to its recent implementation. This study therefore assesses how GST 2.0 has affected consumer welfare and consumption patterns in India's FMCG sector, with particular attention to whether reductions in tax rates on essential goods have been successfully passed on to households through lower prices. By examining price changes, consumption behaviour, and distributional outcomes, the paper addresses an important empirical and policy gap in the literature, contributing to a clearer understanding of real-world consumer outcomes and implementation challenges in India's largest consumption-driven industry.

Main Findings

This paper finds that GST 2.0 has reduced prices and improved consumer welfare for FMCG goods classified as necessities, while increasing the tax burden on baskets containing sin and luxury goods. The welfare impact of the reform depends primarily on consumption basket composition rather than income levels, with necessity-dominated baskets benefiting the most. However, incomplete pass-through and implementation frictions limit the full realisation of these benefits for all consumers.

Structure of the Paper

This paper begins with a literature review, followed by an overview of the FMCG sector in India and its economic significance. It then examines the transition from GST 1.0 to GST 2.0 and discusses the rationale and complexities of GST rate rationalisation. The core analysis evaluates the impact of GST 2.0 on FMCG consumers, price elasticity, and household welfare using a hypothetical consumption basket framework. Subsequent sections analyse government revenue from sin goods, the role of quick commerce in price adjustment, and lapses in tax pass-through and consumer awareness, before concluding with policy prescriptions and a summary of findings.

Literature Review

FMCG Sector and the Rationale for GST Reforms:

Numerous studies emphasise that the FMCG sector is one of the largest and most tax-relevant sectors in the Indian economy. Naik and Sudina (2017) and Bathula (2018) describe FMCG as the fourth-largest sector in India, contributing significantly to both direct and indirect tax revenues and comprising food, beverages, personal care, and household products across urban and rural markets. Bathula (2018) further highlights that FMCG firms provide huge employment and have deep market penetration into interior rural areas, making any change in the indirect tax system significantly consequential for both firms and consumers. Due to this scale, the introduction of GST was viewed as a structural reform aimed at simplifying the fragmented pre-GST system of excise, service tax and state VAT and at reducing the cascading effects. Both Naik and Sudina (2017) and Bathula (2018) argue that a unified GST framework would lower overall tax incidence on FMCG products, improve efficiency and potentially increase the government revenue by widening the tax bases and improving compliance even if the individual rates fell.

Early Evidence on GST 1.0 and the FMCG sector:

This part of the literature concentrates on GST 1.0 (post 2017) and assesses its implications for the FMCG sector under the original multi slab structure (0%, 5%, 12%, 18% and 28%). Bathula (2018) conducts a comparative analysis of particular FMCG companies, and findings show that on average, the effective tax rate on many FMCG goods dropped from roughly 22-24% pre-GST to 18-20% post-GST. This reduction was expected to benefit both businesses and consumers through lower tax burdens, although some categories remained in higher slabs of 28%. Naik and Sudina (2017) frame the sector as highly sensitive to changes in indirect taxation because of its extensive warehousing networks, high turnover and thin margins. They argue that replacing multiple state and central taxes with GST should, in theory, reduce logistics costs, improve credit flow along the value chain and create efficiency gains, but also warn that design flaws, especially around input tax credits, could undermine these benefits for firms and consumers.

GST, Consumer purchasing power and Behaviour:

Ramkumar and Chitra (2021) conducted a quantitative study using both primary survey data and SPSS-based analysis to explore how GST affected consumer purchasing ability and firm performance. A significant and positive relationship between GST and consumers' spending ability is revealed, which is interpreted as GST contributing to increased purchasing power while simultaneously identifying an opposite relationship between GST and certain performance indicators of the FMCG sector, such as profitability or growth parameters. Their literature review also synthesises multiple studies showing that GST has reduced logistics and warehousing costs and encouraged companies to redesign supply chains, yet it has also raised technical and legal compliance costs and increased working capital requirements in some cases. From the consumer side, survey-based studies summarised by Ramkumar and Chitra (2021) reveal mixed perceptions; consumers generally hold a positive attitude towards GST as a simplification tool, however, many report confusion about slab structures, tax incidence and the real extent of price changes, especially for essential foods and small packs.

Pass-through, supply chain and sectoral adjustment:

Across these studies, a recurring theme is the pass-through of GST benefits and the role of supply chain restructuring. Naik & Sudina (2017) emphasise that if GST credits "do not stick to the business" but flow smoothly along the value chain, FMCG can gain from efficiencies and consumers may benefit from lower prices. Bathula (2018) highlights that large FMCG firms such as Hindustan Unilevel Limited(HUL), Imperial Tobacco Company of India Limited (ITC) and Dabur began advertising revised and lower prices after GST 1.0, suggesting at least partial pass-through. However, both authors recognise that the degree of pass-through is uneven, particularly for different product groups and firm sizes, and that some categories (e.g. beverages, premium products) may see limited net relief due to high slab placement. Ramkumar and Chitra (2021) further broaden this by highlighting that tax policy can reshape consumer spending patterns and that FMCG companies must understand how changes in indirect taxes alter both the demand (through prices and purchasing power) and supply (through costs and compliance). Their conceptual framework explicitly links GST to consumer spending ability, market size and FDI inflows, which signals that GST is not merely a fiscal tool but a demand-side instrument with behavioural consequences.

Emerging Work on GST Rationalisation and GST 2.0:

Recent policy and media analyses capture a second wave of reform, the GST 2.0 (2025). Indian Express (The Indian Express) and other policy commentators describe GST 2.0 as a "rate rationalisation" move consolidating the earlier 5%, 12% 18% and 28% tax structure into 5% for essential goods, 18% for standard goods and 40% for sin or luxury goods. Reuters (Reuters) notes that every day, FMCG items such as packaged food, medicines, toiletries and basic personal care products have been shifted from the 12-18% slab into the lower 5% slab, while demerit goods and luxury products (including aerated beverages and some premium FMCG items) now face the 40% rate. Projected short-term revenue losses and an estimated reduction in measured retail inflation by around 1.1 percentage points are also highlighted by The Indian Express, framing GST 2.0 as a deliberate attempt to boost consumption while maintaining the fiscal space via higher sin taxation. Rationalisation is suggested to leave more disposable income with households, especially lower and middle income consumers whose baskets are dominated by essentials, and to stimulate demand in sectors like FMCG, autos, electronics and construction. Alongside, tiger taxation of sin goods and some luxury segments is expected to moderate harmful consumption and partially offset revenue losses from cuts on essentials.

What the FMCG Sector Is: Scale and Role

The fast-moving consumer goods (FMCG) sector is a cornerstone of India's domestic economy and consumption patterns. The FMCG sector comprises consumer products purchased frequently and sold at relatively low prices. They include household staples (food and beverages), personal care items (soap, toothpaste, and shampoo), home-care goods (detergent and cleaning agents), and sometimes packaged consumables. This sector plays a macro-stabilising role, as even during economic downturns, demand for essential goods such as soap, detergent, and packaged food remains steady, cushioning consumption volatility.

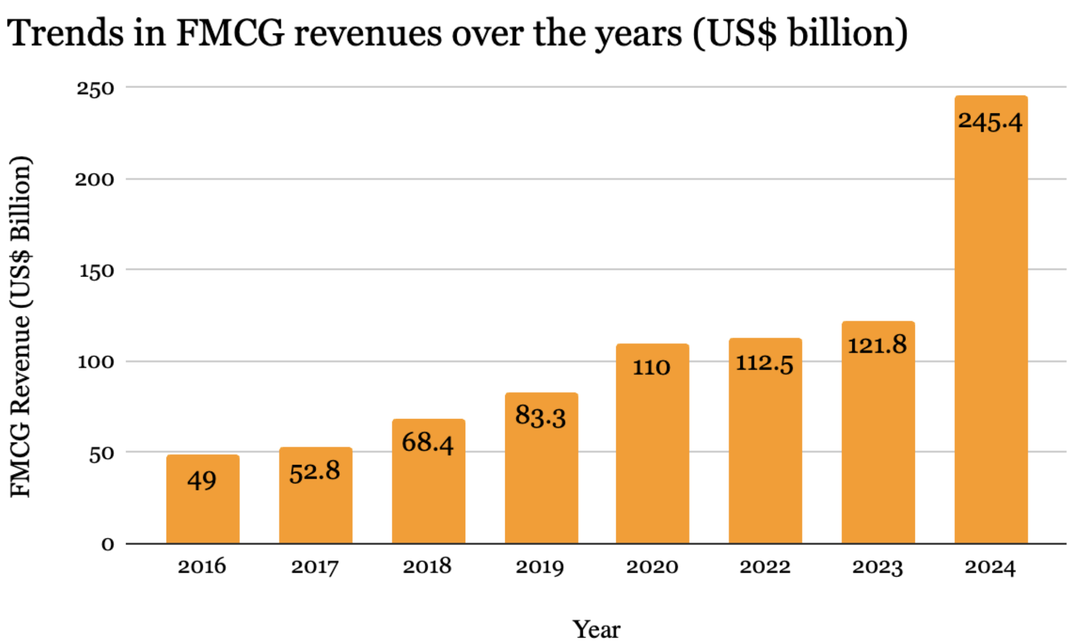
The FMCG industry contributed significantly to India's GDP[1] and is a notable driver of employment and consumption, accounting for around 10% of total manufacturing output and employing about 3 million people across manufacturing, packaging, distribution, and retail (India Brand Equity Foundation [IBEF], 2024). It makes up around 5% of all factory jobs in the nation, making it a major source of indirect tax revenues because of the enormous volumes of everyday consumption items it covers (IBEF, 2024). Nestlé India is a tangible example of the employment and tax significance of the FMCG sector. In addition to directly employing about 8,419 permanent staff in FY25[2] at its nine manufacturing facilities in India, the company's procurement and distribution operations support a much larger supply-chain population (Nestlé India, 2025). When farmers and suppliers are taken into account, the company estimates that its operations support the livelihoods of approximately one million people (Nestlé India, 2025). Nestlé India reported over Rs. 20,000 crore sales in FY25, and its prompt public commitment to pass GST-2.0 benefits to consumers demonstrates why FMCG matters for indirect tax revenues (Nestlé India, 2025). As such, the FMCG sector has enormous economic significance.

According to the India Brand Equity Foundation (IBEF), the FMCG sector was valued at approximately US$110 billion in FY24 and is projected to reach US$220–260 billion by 2025–27, and the sector grew 10.6% year over year in the October–December quarter of 2024, with rural sales increasing 9.9% and urban sales growing just 2.6% (IBEF, 2024). As a result, Tier-2, Tier-3 and rural consumers now have more disposable income, which allows them to purchase packaged and branded FMCG goods in addition to necessities. Additionally, the rise of e-commerce and quick-commerce platforms' logistics and the acceptance of UPI have greatly enhanced product accessibility and market reach. The traditional rural-urban gap in purchasing behaviour has been further narrowed by shifting ambitions, increased exposure to national media, and the premiumization of rural consumption. As a result of this structural shift, almost 50% of FMCG demand currently comes from rural and semi-urban areas of India, making rural consumption the sector's main driver of volume growth in 2024–2025 (IBEF, 2024). As India's fourth largest sector, FMCG plays a vital role, with household and personal care products alone contributing 50% of total FMCG sales, while healthcare accounts for 31% of the FMCG sector sales and food and beverages make up 19% (IBEF, 2024). Quick commerce channel sales for major FMCG companies in FY2025 grew

[1] Gross Domestic Product
[2] Financial Year (In India, the Financial Year (FY) runs from April 1st to March 31st of the next calendar year)

by 50-100% but still represent only about 2-4% of overall sales for large FMCG firms (IBEF, 2024). In the future, a slight increase in revenue of the FMCG sector in India is forecasted to bring growth from 6 to 8% in FY2026, which is backed by stable rural demand and a revival in urban markets (IBEF, 2024). The urban segment contributed around 62% to annual FMCG sales, while rural India accounted for more than 38% of the FMCG sales in 2024, highlighting the significance of both markets in driving growth for the FMCG sector in India (IBEF, 2024). Semi-urban and rural regions now account for 50% of total rural spending on FMCG, as rural India has emerged as a stronger growth driver in recent years due to rising incomes, evolving consumer preferences, which narrows the urban-rural gap. Due to low product distinction and strong competition between brands in sectors like snacks, packaged meals, soap, and detergents, advertising is strategically important in India's FMCG industry.

As firms focus on both broad exposure and personalised demand shaping, FMCG brands continue to be the largest advertisers in India, with digital advertising growing significantly. Psychological differentiation through frequent visibility, where differences in functions are small, causes brands to demand loyalty and price power. Advertising plays a crucial role in influencing consumer behaviour by nudging consumers to choose branded items over local or unbranded alternatives, as brand penetration in rural areas is still growing and developing. Marketing is a crucial economic lever in high-volume categories since even modest increases in market share translate into large revenue growth. Strong brand presence guarantees that consumers continue to upgrade toward premium or packaged varieties as purchasing expectations rise across demographics, supporting long-term success for organised FMCG firms.



Data Source: India Brand Equity Foundation (2024), *FMCG industry in India*.
Figure 1: Trends in FMCG revenues over the years (UB$ billion)

With about one-third of the nation's ad market, the FMCG sector in India continues to be the largest advertiser, spending Rs. 31,000 crore (US$3.75 billion) in 2023. With rising incomes, shifting consumer preferences, increased internet penetration and effective legislative support, the sector is in a good position to remain one of the main drivers of India's consumption-led economic narrative. However, changes in transparent consistent taxation, such as GST rationalisation, which ensures pricing stability, streamlines business operations, and fosters long-term competitiveness in both domestic and international markets, are crucial to sustaining this growth trajectory and investor confidence.

Transition from GST 1.0 to GST 2.0: Slab Changes

The Goods and Services Tax (GST) is a comprehensive indirect tax levied on the supply of goods and services throughout India. It is designed to replace multiple Central and State-level indirect taxes (such as excise duty, service tax, value-added tax), which streamlines India's tax architecture. GST 1.0 was implemented post-2017 in India and was the original Goods and Services Tax regime. It included five tax slabs: 0%, 5%, 12%, 18% and 28% (with additional cesses on certain "sin" or luxury items). Structural tax reforms such as the Goods and Services tax (GST) have been instrumental in supporting this growth by standardising India's indirect tax system, lowering the price ripple effect and establishing a more cohesive national market. This is especially vital for high-volume industries such as FMCG, where even small tax disparities may have a substantial impact on distribution, affordability, and overall consumption patterns.

The complex nature of having numerous slabs, fragmented classification, created confusion for consumers and businesses, which often led to disputes over tax classifications. Further, it was frequently cited as a barrier to ease of doing business in the FMCG sector. As the tax burden varied widely across product categories, it often led to price volatility. A fragmented slab system meant that companies maintained larger margins or delayed pass-through to consumers, particularly in small pack sizes or unorganised channels. The 56th GST Council, led by Union Finance Minister Nimala Sitharaman in New Delhi on September 3rd, 2025, announced the major 2025 reform, "GST 2.0". This reform, effective September 22, 2025, substantially rationalised rates, compressing multiple slabs into largely 5% for essentials, 18% for standard goods and a high-rate bracket of 40% for luxury or sin goods. This reform required hundreds of products to be reclassified to lower consumer prices and increase demand. Hundreds of common FMCG products that had previously been in the 12–18% bands, such as many packaged foods, teas, coffees, personal care products, and some dairy packs, were moved into the 5% slab from the 12-18% range. Conversely, products classified as "sin" or luxury goods, such as some aerated or soft drinks, premium confectionery, and tobacco products, were moved into the 40% slab to maintain revenue and discourage harmful or discretionary consumption. This rationalisation is especially important and significant to the FMCG sector because it directly modifies price structures in a market where margins are narrow, consumption is extremely price sensitive as demand is price elastic, and minor price changes can affect household purchasing behaviour at the national level. The reform intends to reduce retail prices in rural and urban India by classifying necessities and mass-consumption goods under the 5% category. This leads to increased purchasing power, especially for lower-income people who spend a higher proportion of their monthly income on FMCG staples to survive. These households are anticipated to benefit from increased affordability and access to branded and packaged goods as tax rates decline and manufacturers pass on benefits. This will increase consumption volumes, improve nutritional possibilities and bridge the gap between urban and rural consumption.

Category	Before GST 2.0 (Old GST)	After GST 2.0 (2025)	Impact Summary
Slabs	0%, 5%, 12%, 18%, 28%	5%, 18%, 40%	Simplified structure, easier compliance
Essentials (e.g. packaged food, soap)	12%–18%	5%	Prices dropped 5–10%; increased volume sales
Standard goods	18%	18%	Some goods remained unchanged
Luxury / Sin goods	28% + cess	40%	Higher effective tax discourages consumption

Data Source: Compiled by the author using GST Council notifications and Ministry of Finance reports **(2024–2025).**

Figure 2: Before and After GST 2.0 Comparisons

The above table highlights the comparisons between GST 1.0 and GST 2.0. Before, GST had multiple slabs (0%, 5%, 12%, 18%, 28%), while now most FMCG goods are at 5% or 18% with the sin or luxury goods at 40%. Many consumer items experience lower GST rates with GST 2.0; for example, packaged food, toothpaste, and milk products have been shifted to 5%. Analysts expect that these cuts in GST may reduce the retail inflation by up to 1.1 percentage points in the short run. The government anticipates a revenue loss of around Rs. 4800 crore due to the broad cut; however, they hope that increased consumption of these essential goods and higher taxes on sin and luxury goods will offset much of it.

The GST 2.0 reform's headline mechanics were: consolidation of multiple slabs toward primarily 5% and 18%, most items earlier at 12% were moved to 5%, and many items earlier at 18% were moved to 5% where designated essential/household categories applied (e.g. certain packaged foods, personal care items). The Centre-issued press release, the GST Council communiqué and major media outlets have published an item-wise list and examples highlighting which product categories moved down to 5% and which remained at 18% or were moved into the higher luxury or sin rate. The table below lists 15 commonly discussed FMCG items with the changes in the GST rates (rates that were applied when GST 1.0 was implemented and the rates effective 22 September 2025)

No.	FMCG product/category	Typical GST rate — Before (mid-2025)	GST rate — After (GST 2.0, 22 Sep 2025)
1	Bathing soaps	18%	5%
2	Shampoo and hair oils	18%	5%
3	Toothpaste/toothbrushes	18%	5%

4	Biscuits (packaged)	18% (some packs 12%)	5%
5	Packaged savoury snacks	18%	5%
6	Instant noodles (packaged)	18%	5%
7	Butter, ghee, basic cheese, paneer	12%	5%
8	Chocolate/confectionery (packaged)	18%	5%
9	Jams, sauces, spreads	12–18%	5%
10	Baby diapers	12%	5%
11	Baby wipes (wet wipes)	18%	5%
12	Toothpowder/talcum/face powders	18%	5%
13	Soaps for washing/detergents (select categories)	18%	18%
14	Packaged edible oils (consumer packs)	5–12%	5%
15	Ready-to-eat food (pre-packaged meals/snacks)	18% (some 12%)	5%

Data Source: The Economic Times, 2024; The Times of India, 2024; Goods and Services Tax Council, 2025; ClearTax, 2024; Finvest, 2024

Figure 3: GST Rate Changes for Selected FMCG Products under GST 2.0 (Pre- and Post-Reform Comparison)

GST Rationalisation- Relation to the FMCG sector & The Need

GST rationalisation means simplifying, restructuring or "rationalising" the GST rate system to make it more coherent, fair and efficient. India's system originally had multiple tax slabs of 0%, 5%, 12%, 18% and 28%, with some "cess" rates added on top. Over time, this became complicated for both producers and consumers as essential goods and luxury goods sometimes shared similar slabs, businesses faced classification disputes (for example, is chocolate a food or a luxury item?), and consumers paid uneven taxes across comparable items. So the GST rationalisation aims to reduce the number of slabs (for example, merging 12% and 18% into one "standard rate"), moving essential FMCG products like milk, soap, toothpaste, biscuits into lower slabs like 5% and keep luxury or "sin goods" (alcohol, cigarettes, high-end cosmetics) in the higher slabs 28-40%. In short, it's a reconstruction that makes the GST system simpler, fairer and more consumer-friendly.

The FMCG sector is uniquely affected by tax structure because it deals with high volume, low-margin products (so even small tax changes affect prices), it includes daily essentials like food, personal care, hygiene, which impacts every household, it has complex supply chains that cross multiple states, so compliance complexity equals higher cost. The GST rate rationalisation is integral to provide structural simplification of GST rates, as the 4 tax slabs are much more simplified compared to the multiple slab GST 1.0. However, most countries that successfully implemented the FST only follow one or two tax slabs, so the Indian GST system has a lot of room for improvement in terms of making GST slab rates simpler for society. GST is a consumption-driven taxation system, and changing consumption patterns require regular review and revision of GST rates to keep the system relevant to the evolving micro and macroeconomic realities. GST rate rationalisation also helps lower tax burden on essential consumer items, which in a democratic country like India, where central and state governments control price inflation to reduce the population's burden, is necessary. Lastly, rationalisation improves voluntary acceptance of GST among taxpayers and increases voluntary tax payments due to the simplified nature of the tax structure. This structural simplification not only lowers final consumer prices but also eases compliance for firms, enabling faster distribution and better inventory management. As a result, both urban and rural households experience higher affordability and access to branded products, reflecting a more inclusive consumption pattern. From an economic standpoint, GST rationalisation in the FMCG sector increases consumer surplus as it reduces indirect tax incidence, and it promotes allocative efficiency by aligning tax rates with consumption priorities. It enhances price transparency and market efficiency, and it supports demand-side growth as lower taxes lead to lower prices, resulting in higher consumption, called the multiplier effect. It improves allocative efficiency as there are fewer distortions in what goods consumers choose.

Complexity of the Rationalisation of GST Rates

White rationalisation simplifies the system; it also introduces new layers of transition complexity. Rationalising GST rates in India is a complex task, which is sculpted by political, economic, administrative and structural challenges. India's consumption habits differ greatly between states, income brackets and geographical areas, which makes it challenging to create a single tax system that fairly distributes the advantages and disadvantages. Reaching an agreement is challenging since the state holds two-thirds of the voting power in the GST council, particularly when the proposed rate changes could have a detrimental impact on state revenues. A key example is the long-standing plan to include petroleum products under the Goods and Services Tax (GST). Even though the centre supports this measure for efficiency and uniform taxation, many states are against it due to the result in the loss of significant VAT revenues, which are an essential component of their budget. Therefore, reforms that require unanimous approval are complicated by asymmetric revenue dependencies and divergent political priorities.

Overall, tax revenue neutrality must also be carefully considered as part of rationalisation. Flexibility is limited because any decrease in GST rates for necessities or mass consumption items must be offset by increases elsewhere. Increasing the tax rates on luxury or sin goods, which are already subject to the highest tax bracket, offers diminishing fiscal returns. Proposals to combine the 12% and 18% slabs into a median rate (e.g. 15%) highlight this tension further. Even though this would simplify the tax structure, it would increase the tax burden on goods that are currently subject to a 12% tax, which could lead to price increases and put households under more inflationary pressure. Therefore, policymakers must weigh the benefits of increased efficiency against the risks of inflation and distributional effects.

Significant operational and administrative complexity is introduced by the logistics of implementing GST rationalisation. The GST Council, CBIC, state tax departments, and industry regulators must all work together to implement any change, including merging slabs, reclassifying goods or moving items between rates. The reform is expensive, time-consuming, and possibly disruptive to short-term market functioning because businesses must simultaneously update classification codes, update invoicing systems, reprint MRPs, clear out old stock and reorganise supply chains.

Moreover, sectoral competitiveness, consumer welfare, and inflation are all directly impacted by GST rationalisation. Even a simpler structure may cause transitional disruptions, and a tax adjustment that helps one group of stakeholders may increase costs or create difficulties for another. Lastly, one of the most difficult parts of GST reform in India is still achieving rationalisation without causing price shocks or jeopardising state revenues.

Impact of GST 2.0 on the FMCG sector in India

The introduction of GST 2.0, effective 22 September 2025, marked a major pivotal point in India's indirect tax framework, especially for households consuming Fast-Moving Consumer Goods (FMCG). The reform aimed to improve affordability, increase transparency and change consumption patterns across income groups by rationalising the original five-slab system into a simplified structure of 5% for necessities, 18% for standard goods and 40% for sin and luxury goods. As the FMCG purchases form a large share of monthly expenditure for Indian households, particularly low and middle-income families, the structural changes under GST 2.0 have had a direct and measurable effect on consumer welfare, spending patterns and access to goods.

One of the most immediate and observable impacts has been the reduction in retail prices of essential FMCG goods. Soaps, Shampoos, cooking oil, biscuits, packaged foods, butter, cheese and household cleaning products were among the hundreds of mass-consumption goods that were moved into the 5% slab after previously being taxed at 12% or 18%. Essentials such as bread, paneer, milk, and some dairy products continued to be exempt in several instances. The key FMCG companies announced price reductions across major brands as a result of this tax reduction, which also resulted in an estimated decline in retail prices of about 5-12% on many essential goods. Beyond price reductions, improved affordability and consumption expansion are key outcomes. Reports (The Economic Times) estimate that grocery essentials such as biscuits, noodles, coffee, soap and butter may become "cheaper by nearly 10-15%". These cuts result in significant monthly savings for consumers, especially those who live in rural and semi-urban areas. Because low-income families devote a larger portion of their budget to household necessities, food and hygiene, even a minor percentage reduction in price leads to increased purchasing power, increased real incomes, better affordability and the opportunity to upgrade or expand their consumption basket.

Rural households, which account for almost half of the growth in FMCG volumes in India at the moment, stand to gain the most from GST 2.0. Due to improvements in employment, growing incomes, and a greater penetration of organised retail and digital platforms, rural markets have been growing more quickly than urban ones. By reducing the tax burden on mass essential goods, GST 2.0 supports this trend by making branded staples more affordable and accessible. This enhanced affordability through GST 2.0 can also be viewed as supportive of broader government goals to boost household welfare. A typical rural household purchasing a basket of essential FMCG goods could see monthly savings of about 5% improving their capacity to spend on other needs or increase consumption volumes, which in turn stimulated the FMCG sector's growth. In this way, GST 2.0 strengthens consumption-led economic growth by reducing the consumption gap between urban and rural areas.

Another major benefit to consumers is simplified and more uniform pricing. Under the earlier GST 1.0 structure, multiple slabs complicated pricing and created ambiguity for both firms and consumers. GST 2.0 improves transparency and predictability by consolidating slabs and mandating the pass-through of tax benefits. Consumers thus see more consistent MRPs across channels, lower search costs, and clearer expectations. Although companies have had to adjust pack sizes and grammages to accommodate the new structure, medium-term pricing stability is expected as manufacturers complete their transition.

Furthermore, GST 2.0 has increased product availability, particularly in underserved areas. FMCG companies have been encouraged to push higher sales volumes, expand distribution networks, and introduce new stock-keeping units (SKUs) in semi-urban and rural markets as a result of lower taxes, improved margins on necessities. It is also anticipated that the availability of cheaper goods will gradually improve as retailers clear our older inventory and rural distribution systems adapt. As a result, the reform not only lowers prices but also expands access to branded products, supporting growth in consumption across a range of socioeconomic groups.

However, the effects of GST 2.0 are not without difficulties. Pass-through delays and irregularities were a major source of friction, particularly in unofficial retail environments. Manufacturers, distributors and retailers disagreed over who should absorb or pass on the tax savings as a result of the shift, despite the fact that large FMCG companies publicly pledged to lower Maximum Retail Price (MRPs). Consumers in smaller towns and rural areas frequently experienced partial or delayed price reductions due to their reliance on unofficial retail, whereas urban consumers benefited more quickly because of the flexibility of online and organised channels. Additionally, the coexistence of old and new MRPs due to inventory lags resulted in confusion and short-lived distortions in consumer spending.

GST 2.0 offers significant long-term welfare benefits in spite of these transitional problems. It directly increases real disposable income and improves consumption capacity by reducing taxes on necessities. This is adequately demonstrated by an analysis of representative households: A household with only necessities could save roughly 5% a month, which could add up to significant annual savings and possibly enable higher-quality foods to be consumed more frequently or redirected toward spending on health and education. On the other hand, as luxury and harmful products are subject to higher taxes, a household that purchases both necessities and sin/luxury goods is likely to see an increase in monthly spending. This highlights the progressive nature of the reform as the higher income households contribute more through taxes on discretionary consumption, while lower income households gain the most from lower taxes on necessities.

According to estimates, GST 2.0 may also contribute to a medium-term decrease in measured retail inflation of up to 1.1 percentage points, boosting consumer confidence and strengthening demand. Efficiencies of scale may appear as businesses increase production and distribution to meet growing demand, which could further reduce unit costs and benefit customers.

All things considered, GST 2.0 is a change in Indian tax policy that is focused on the needs of the consumer. The reform improves affordability, encourages fair access to FMCG products, boosts demand in both rural and urban areas, streamlines pricing and supports long-term consumption leg growth, despite transitional challenges. Its effects are particularly significant for households where necessities account for the majority of spending, illustrating how rationalised taxation can promote both inclusive welfare gains and economic efficiency.

Price elasticity and FMCG goods

Price elasticity shapes the way consumers respond to changes in GST rates, affecting the price of goods and services. Price elasticity of demand (PED) is the percentage change in quantity demanded resulting from a percentage change in price. It provides the right analytical lens for predicting how GST 2.0 translates into consumption outcomes across product types.

Essentials like toothpaste, soap, basic dietary staples and inexpensive cooking oil are usually price-inelastic, indicating that changes in prices usually lead to a small change in quantity demanded of these products. Households allocate a fixed necessity-driven share of expenditure to these goods, so a 5-10% price reduction mostly results in welfare gains by increasing real income and lowering expenditure burden for low-income households, instead of a significant increase in the number of goods demanded or consumed. However, discretionary FMCG goods such as many packaged snacks, premium chocolates, and a few prepared foods are comparatively price elastic; even a small reduction in price can lead to a significant increase in their quantity demanded. “Sin” goods occupy a mixed position as tobacco is usually price-inelastic due to addiction (tax increases reduce consumption but not proportionally), whereas aerated soft drinks and some premium confectionery are more elastic and therefore more responsive to 40% tax hikes. While the 40% sin-goods slab is a revenue and behavioural tool that will reduce discretionary consumption more noticeably in elastic categories, but less so for highly addictive goods like cigarettes, this heterogeneity suggests that the 5% cuts on essentials in GST 2.0 produce significant welfare gains (especially for lower income households) even if volume responses are minimal.

Hypothetical Consumption Basket Scenario under GST 2.0

This study builds a fictitious monthly consumption basket for two representative households in order to assess the consumer-level effects of GST 2.0 in a tangible and quantifiable way. Instead of comparing socioeconomic status or income levels, the goal of this exercise is to determine how various consumption patterns—that is, baskets with a large proportion of luxury and sinful FMCG goods versus baskets dominated by essential FMCG goods—react to the new GST rate structure. This scenario makes it easier to evaluate how GST 2.0 redistributes consumer welfare based on what households consume rather than how much they earn by keeping household size and consumption needs broadly realistic and concentrating on tax-induced price changes. Based on publicly available data from FMCG company price announcements, e-commerce and quick-commerce listings, and reporting by major business news outlets like The Economic Times, Business Standard, NDTV, and Times of India, the prices used in the hypothetical consumption baskets are derived from average market prices observed in September 2025. While post-reform prices include estimated pass-through of GST 2.0 rate reductions or increases, in line with reported price reductions and revisions announced by FMCG companies after the September 22 rollout, pre-reform prices reflect prevailing MRPs under GST 1.0.

Household A: The Essentials-Only Family

This family of 4 members, purchases a typical basket of essential FMCG goods every month, most of which are now taxed at the 5% slab under GST 2.0.

Item	Pre-GST 2.0 Tax Rate	New GST 2.0 Rate	Average Market Price Before Reform (₹)	Price After Reform (₹)	Monthly Quantity	Total Before (₹)	Total After (₹)
Packaged Wheat Flour (5 kg)	12%	5%	250	235	2	500	470
Toothpaste (150 g)	18%	5%	70	63	2	140	126
Bath Soap (125 g)	18%	5%	45	40	2	90	80
Washing Powder (2 kg)	18%	5%	220	205	1	220	205
Cooking Oil (1 L)	12%	5%	190	178	3	570	534
Instant Noodles (70 g)	12%	5%	20	18	10	200	180
Packaged Biscuits (100 g)	18%	5%	15	14	15	225	210
Milk (1 L)	Exempt	Exempt	60	60	20	1,200	1,200
Ghee (500 g)	12%	5%	285	265	2	570	530

Detergent Bar (250 g)	18%	5%	25	23	6	150	138

Figure 4: Hypothetical Monthly Consumption Basket for an Essentials-Only Household under GST 2.0

Total Monthly Spend Before Reform: ₹3,865
Total After Reform: ₹3,673
Net Monthly Saving: ₹192 (≈ 5%)

This household benefits moderately from GST rationalisation, especially on everyday essentials. The increase in real income and purchasing power due to the overall savings is particularly valuable for low income to mid-income families in semi-urban and rural India.

Household A's monthly spending basket highlights how GST 2.0 has resulted in modest but significant savings by lowering the overall tax burden on necessary FMCG goods. As most of the goods like soap, detergent, noodles, and packaged foods were reduced from 12-18% GST under GST 1.0 to the rationalised 5% slab, this household's monthly expenses have reduced by about Rs. 192 or about 5%. These goods are essential to everyday consumption, especially for lower-class and middle-class families that spend a significant portion of their income on essentials and basics. Hence, lower tax rates are directly responsible for the increase in disposable income and higher purchasing power. Additionally, GST 2.0 promoted consumption stability and helped make things more affordable in rural and semi-urban areas by keeping goods like milk tax-exempt and lowering charges on necessities like cooking oil and toothpaste. This supports the government's objective of rationalising taxes on everyday-use goods to advance equity and consumption-driven growth. Over time, even modest monthly savings of ₹192 can add up to significant yearly relief over time, allowing households to either increase their consumption or higher quality goods or redirect savings toward education, health, and precautionary financial buffers, therefore improving long-term welfare.

Household B: The Mixed Consumption Family

This family's monthly basket includes both essentials and several sin/luxury goods now placed under the 40% GST slab, which highlights how higher-income households tend to maintain or even increase consumption of luxury or sin goods despite higher taxes, demonstrating their lower price sensitivity and the inelastic nature of demand relative to essential goods. This pattern also reflects basic principles of income elasticity and consumer behaviour.

Item	Pre-GST 2.0 Rate	New GST 2.0 Rate	Average Market Price Before (₹)	Price After (₹)	Monthly Quantity	Total Before (₹)	Total After (₹)
Packaged Bread	12%	5%	40	37	10	400	370

Toothpaste	18%	5%	80	72	2	160	144
Bath Soap	18%	5%	55	50	2	110	100
Detergent	18%	5%	250	230	1	250	230
Milk	Exempt	Exempt	60	60	20	1,200	1,200
Instant Coffee (200 g)	18%	5%	550	510	1	550	510
Shampoo	18%	5%	250	230	2	500	460
Chocolates (Luxury)	28%	40%	200	230	5	1,000	1,150
Soft Drinks (1 L)	28%	40%	120	140	8	960	1,120
Premium Face Cream	18%	40%	600	720	1	600	720
Cigarettes (per pack)	28% + cess	40% + cess	350	400	4	1,400	1,600

Figure 5: Hypothetical Monthly Consumption Basket for a Mixed Consumption Household under GST 2.0

Total Monthly Spend Before Reform: ₹7,130
Total After Reform: ₹7,704
Net Monthly Increase: ₹574 (≈ +8.1%)

This household's overall monthly spending has grown noticeably as a result of the higher GST on luxury and sinful goods. Lower tax rates for necessities are countered by lower tax rates for luxury and discretionary goods, demonstrating the uneven welfare effects of GST 2.0.

The basket of Household B shows how GST 2.0 has a varied effect on households with mixed consumption patterns that include a higher share of discretionary and sin goods. Similar to Household A, basic commodities such as soap, bread, and detergent enjoy lower tax rates; however, these benefits are offset by a significant increase in tax rates on sin and luxury items like chocolates, soft drinks, cosmetics, and cigarettes, which are now subject to a 40% tax. As a result, net monthly spending for Household B rises by ₹574, or about 8.1% compared to the pre-GST 2.0 period. For households whose consumption baskets include a larger proportion of sin and luxury items, GST 2.0 therefore results in a higher overall tax incidence. The comparative results of the two households highlight the redistributive function of GST 2.0 based on consumption basket composition rather than income levels. A basket dominated by essential FMCG goods, as in Household A, benefits directly from lower effective tax rates, resulting in measurable savings and higher purchasing power for necessities. In contrast, a basket with a substantial share of sin and luxury FMCG goods, as in Household B, experiences a net increase in expenditure despite tax reductions on essentials. This demonstrates that GST 2.0 disproportionately benefits households that concentrate spending on necessities while imposing a higher burden on consumption baskets tilted toward discretionary and harmful goods. Overall, the reform reshapes household expenditure by lowering the cost of essential consumption and raising the cost of non-essential consumption, reinforcing a more progressive and consumption-sensitive tax structure in India.

Total Government Revenue from Sin Goods & Impact on Consumer Behaviour

Under GST 2.0, sin, luxury and demerit goods, including high-end cars, tobacco products, aerated and caffeinated beverages, and premium discretionary items, have been moved into a steep 40% GST slab rate. This reorganisation aims to increase fiscal revenue in order to partially offset the government's loss from lowering the GST rates on necessities. In FY 2025-2026, revenue from sin goods is forecasted to rise by about ₹62,000 crore, according to projections published by The Indian Express and Reuters. This will help make up for the about ₹48,000 crore shortfall caused by decreasing taxes on necessities. This creates a framework for two levels of consumption. Lower taxes make necessities cheaper, giving households, especially lower and middle-income families, higher disposable incomes, increasing their real income. Alongside luxury and sin goods face significant financial disincentives due to the increased taxes, this causes consumers to cut back on their purchases of sinful goods (not to a great extent due to the inelastic nature of demand), switch to less expensive options, or price-conscious households decrease the proportion of income allocated to the purchase of sinful goods.

Quick commerce, FMCG and GST 2.0 in India

In India's FMCG distribution ecosystem, quick-commerce platforms like Swiggy Instamart, Blinkit and Zepto are crucial because they rely on high-volume, quick turnover of necessities and operate on narrow profit margins. These sites were among the first to change retail prices when GST 2.0 lowered the tax rates on numerous frequently purchased FMCG products from 12%-18% to 5%. According to the Times of India, e-commerce and quick commerce companies started instantly passing on tax savings with several necessities showing up on shelves and apps at lower costs prior to the countrywide deployment. Additionally, the reduced tax burden made it possible for platforms to increase price transparency and promotional competitiveness by streamlining input tax credit procedures and lowering pricing frictions for frequent transactions. According to industry reports, major FMCG firsts such as Hindustan Unilever Limited (HUL), Procter & Gamble (P&G), and Emami Limited, reduced MRPs and wholesale costs by updating their price lists in reaction to the GST 2.0. Quickcommerce platforms used the changeover period to run promotional prices and boost consumer interaction, incorporating these changes into their catalogues. However, different firms have different levels of passthrough, while some platforms kept some of the profit to cover operating expenses, others fully transferred the benefits to customers. Such strategic diversity is expected and influences how soon people perceive and receive the benefits of tax change, since rapid commerce mainly relies on tight margins. According to reporting by Swiggy's Instamart, by late September 2025, many daily essentials experienced reduced prices as companies updated MRPs and listing prices to reflect the new 5% slab.

Lapses in pass-through: why tax cuts do not always reach the consumer

Despite tax cuts, actual consumer savings depend on the effective pass-through and market dynamics, which may be inconsistent. Although GST 2.0 was designed to deliver broad-based consumer benefits primarily through lower tax rates on essential FMCG goods, the actual realisation of these benefits has been uneven. Several implementation lapses limited the effectiveness of pass-through, resulting in inconsistent consumer experiences across markets. These lapses occurred mainly due to incomplete pass-through of tax benefits, low consumer awareness, disruptions in small-pack pricing, stock-transition delays, and challenges in enforcing anti-profiteering regulations.

One of the most significant lapses was the delay and incompleteness of price pass-through. Despite the fact that 100% pass-through of tax savings is required by statutory rules, surveys reveal that consumers' experiences differed greatly. According to a LocalCircles survey, in the first week of GST 2.0, barely 40% of families reported receiving the anticipated reductions, and nearly a quarter reported no change at all. In the fragmented informal retail networks, where control is not strict and price updates are delayed, this tension is aggravated, demonstrating how partial pass-through compromises the primary objective of increasing affordability for low-income families.

Consumers' lack of awareness also contributed significantly to lapses. Many households, especially in semi-urban and rural regions, remained unaware of which products had moved to lower GST slabs or how much prices should fall. This information asymmetry allowed intermediaries to retain part of the tax savings rather than passing them on. Without adequate knowledge of expected MRPs, consumers lacked bargaining power and often accepted unchanged prices despite lower tax burdens. The Financial Express reported examples where, rather than lowering MRP, some companies increased grammage or slightly adjusted pack-weight, making consumer benefit ambiguous and harder to evaluate.

Small-pack disruptions represented another major lapse affecting affordability for vulnerable consumers. FMCG companies faced difficulties in maintaining fixed low-price packs (₹5, ₹10) under the new tax structure due to cost configurations. As a result, companies reintroduced odd-price SKUs (₹4.45, ₹7.80), confusing consumers accustomed to fixed price points that anchor their purchase behaviour. These small packs are crucial for low-income households who purchase in micro-quantities due to liquidity constraints. Their temporary disappearance or modification, therefore, reduced effective access to affordable units during the transition period.

Inventory transition challenges further contributed to inconsistent consumer experiences. Retail markets, especially informal outlets, continued selling old stock alongside newer GST-adjusted stock, creating a coexistence of MRPs. Because small retailers often maintain longer inventory cycles, the diffusion of new prices was slower. FMCG companies had requested extensions before the rollout due to packaging reprints and stock reclassification requirements (Economic Times), confirming the operational burdens that delayed full implementation.

Overall, these lapses, partial pass-through, low awareness, disruptions in low-unit packs, inventory transition frictions and weak enforcement have constrained the full consumer welfare gains promised by GST 2.0. Addressing these issues through stricter monitoring, clearer communication, and focused regulatory oversight is essential to ensure the reform achieves its intended objectives.

Policy prescription

To ensure that GST 2.0 achieves its intended consumer-welfare objectives, targeted policy interventions are required.

First, consumer awareness must be strengthened. The government should establish a dedicated GST 2.0 consumer helpdesk and an online grievance-redressal portal where consumers can report non-compliance or pricing irregularities. Increased visibility of GST rate changes through public campaigns would reduce information asymmetry between consumers and retailers.

Second, stricter enforcement of pass-through mechanisms is necessary. Regulatory bodies such as the CBIC should intensify monitoring, particularly in informal retail channels and low-unit FMCG packs where lapses are most prevalent. Penalties for non-compliance should be applied consistently to deter profiteering.

Third, mandatory disclosure of GST information at retail points should be introduced. Requiring retailers to display updated GST rates or revised MRPs for key FMCG categories would improve transparency and empower consumers to make informed purchasing decisions.

Collectively, these measures would enhance trust, improve compliance, and ensure that GST rationalisation translates into tangible welfare gains.

Conclusion

GST 2.0 represents a significant shift in India's indirect tax framework, particularly for the FMCG sector that underpins everyday consumption. By lowering taxes on essential goods and increasing levies on luxury and sin items, the reform aims to improve affordability, promote equity, and reshape consumption patterns. Evidence from price trends and hypothetical consumption baskets suggests that households with necessity-heavy baskets benefit meaningfully through reduced expenditure and increased purchasing power. However, incomplete pass-through, low consumer awareness, and transitional disruptions have constrained the full realisation of these benefits. The reform's success ultimately depends not only on tax design but also on effective implementation, enforcement, and communication. With targeted policy support, GST 2.0 has the potential to become a durable, consumer-centric reform that strengthens India's consumption-led growth trajectory.

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