

India's Modi Proposes Tax Cuts Amid US Tariff Threat

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NEW DELHI, Prime Minister Narendra Modi outlined sweeping Goods and Services Tax (GST) reforms in his Independence Day address, aiming to simplify tax structures and deliver a “Diwali gift” of relief to consumers by the festival later this year.

The ambitious changes rest on three pillars: rate rationalisation, structural reform, and ease of living. Key provisions include merging GST into just two slabs: a standard rate and a merit

rate, replacing the current four-tier system, and correcting inverted duty structures to streamline compliance.

These reforms come as India confronts escalating U.S. tariffs, which could impose a 50% duty on select exports, a combination of a 25% reciprocal tariff and an additional 25% penalty linked to India's acquisition of Russian oil. The Indian government has condemned the measures as "unfair, unjustified, and unreasonable."

Industry and economic analysts warn that such tariffs threaten sectors vital to Indian exporters. Exports worth up to USD 48.2 billion could be affected, while earnings forecasts across large and mid-cap firms have already dropped sharply, marking the steepest earnings downgrade in Asia. With GDP projections signaling a potential contraction of 1 percentage point, the stakes are high.

However, the proposed GST overhaul may offset some of the damage, furnishing fiscal stimulus that could contribute between 0.35 and 0.45 percentage points to GDP growth by FY 2027. Financial institutions describe the reform package as a bold step to shore up consumption: Emkay Global called it a "welcome reform toward boosting domestic consumption." At the same time, Motilal Oswal highlighted the "sizeable savings" households could see.

The reform's fate rests with the GST Council, where state representatives must approve proposals. The Centre has submitted its suggestions to a Group of Ministers for deliberation. Analysts caution that while GST simplification can boost demand and correct inefficiencies in tax policy, it will also strain public finances in the short term.

As India navigates external trade pressures, the Modi government's strategy is clear: strengthen domestic demand through tax relief while seeking global trade resilience.