



KAMARAJ IAS ACADEMY
Only IAS Academy by Grandson of "Perunthalaivar Kamarajar"

Goods and Services Tax (GST): Nine Years of India's Indirect Tax Reform and the Next-Generation GST Reforms

Published On: 07-07-2026

Recent Developments:

- **The Goods and Services Tax (GST)** has completed **nine years** since its implementation on **1 July 2017**, marking a significant milestone in India's indirect tax reform journey.
- **The Next-Generation GST Reforms** have further simplified the tax structure by rationalising tax rates, easing compliance requirements, strengthening digital tax administration and enhancing support for households, **Micro, Small and Medium Enterprises (MSMEs)** and businesses.
- **Over the past nine years**, GST has emerged as a major structural reform by creating a unified national market, expanding the taxpayer base, improving revenue collections and promoting cooperative federalism.

Evolution and Significance of GST:

- **GST** is regarded as one of India's most significant post-Independence tax reforms because it replaced multiple Central and State indirect taxes with a unified, destination-based taxation system.
- **The Constitution (One Hundred and First Amendment) Act, 2016** introduced the constitutional framework for GST across India.
- **GST** has strengthened economic formalisation, improved tax compliance, reduced cascading taxation and enhanced transparency in the indirect tax system.
- **Technology-driven tax administration** through **Goods and Services Tax Network (GSTN)**, **e-invoicing**, automation, **Artificial Intelligence (AI)** and data analytics has modernised tax administration.

Major Achievements of GST in Nine Years:

Creation of a Common National Market:

- **GST** replaced India's fragmented indirect tax structure with a unified taxation framework based on the principle of "**One Nation, One Tax.**"
- It subsumed **17 indirect taxes** and **13 cesses**, thereby reducing tax fragmentation, eliminating cascading taxation and lowering hidden transaction costs.
- A common tax structure has facilitated smoother interstate trade and improved market integration across the country.

Expansion of the Taxpayer Base:

- **GST registration** increased from **66.5 lakh taxpayers in 2017** to **1.65 crore taxpayers by May 2026**, reflecting wider tax compliance.
- The expansion of the taxpayer base has contributed to greater formalisation of the Indian economy.

Kamaraj IAS Academy

Plot A P.127, AF block, 6 th street, 11th Main Rd, Shanthy Colony, Anna Nagar, Chennai, Tamil Nadu 600040

Phone: **044 4353 9988 / 98403 94477 / Whatsapp : 09710729833**

Growth in GST Revenue:

- **Gross GST collections** increased from nearly **₹7.4 lakh crore during 2017-18** to approximately **₹22.27 lakh crore during 2025-26**.
- During the last five years, GST revenues have consistently grown, indicating stronger tax compliance and expanding economic activity.
- GST collections reached nearly **₹4.37 lakh crore during April-May 2026**, making them an important indicator of economic momentum.

Promotion of Cooperative Federalism:

- **The GST Council** has institutionalised cooperative decision-making between the Union Government and State Governments.
- Periodic review of tax rates and procedures has enabled continuous improvement in the GST framework while addressing emerging policy challenges.

Digital Transformation of Tax Administration:

- **GSTN** has created a common digital platform connecting taxpayers, the Union Government and State Governments.
- **E-invoicing**, pre-filled returns, real-time validation and digital reconciliation have improved transparency, reduced manual errors and strengthened compliance.
- Increasing use of **Artificial Intelligence**, automation and data analytics has enhanced tax administration and detection of tax evasion.

Ease of Compliance for Small Taxpayers:

- Compliance has been simplified through higher exemption limits and the **Composition Scheme**.
- Quarterly return filing, **NIL** return filing through **Short Message Service (SMS)** and faster registration for low-risk applicants have reduced compliance costs for small taxpayers.

Key Features of GST:

Basic Features:

- **GST** is a **value-added tax** levied on the supply of goods and services throughout the country.
- It replaced several Central taxes including **Excise Duty**, **Additional Excise Duties** and **Service Tax**, along with State taxes such as **Value Added Tax (VAT)**, **Central Sales Tax** and **Luxury Tax**.
- GST taxes the **supply** of goods and services instead of manufacture, sale or service provision.

Destination-Based Taxation:

- **GST** follows a destination-based consumption tax system where tax revenue accrues to the State in which goods or services are consumed.
- This replaced the earlier origin-based taxation model.

Tax Structure:

- Following the **Next-Generation GST Reforms**, the rate structure has primarily been simplified into **5%** and **18%** tax slabs.
- A separate **40% GST rate** has been prescribed for specified luxury and sin goods to maintain revenue neutrality.

Dual GST Model:

Kamaraj IAS Academy

Plot A P.127, AF block, 6 th street, 11th Main Rd, Shanthy Colony, Anna Nagar, Chennai, Tamil Nadu 600040

Phone: **044 4353 9988 / 98403 94477 / Whatsapp : 09710729833**

- The GST framework follows a dual taxation model under which both the Union Government and State Governments levy tax simultaneously.
- **Central Goods and Services Tax (CGST)** and **State Goods and Services Tax (SGST)** apply to intra-State transactions.
- **Integrated Goods and Services Tax (IGST)** applies to inter-State supplies and imports of goods and services.

Institutional Framework:

- **The GST Council** functions as the principal policy-making body for GST.
- **Goods and Services Tax Network (GSTN)** provides the digital infrastructure supporting GST implementation and compliance.
- Rates relating to **CGST**, **SGST** and **IGST** are determined based on recommendations of the GST Council.

Next-Generation GST Reforms:

GST 2.0 Reform Initiative:

- The **56th GST Council Meeting** approved the **Next-Generation GST Reforms** aimed at simplifying the indirect tax system.
- The reforms focus on reducing compliance burden, improving ease of doing business and strengthening taxpayer convenience.

Simplified Tax Structure:

- The revised framework primarily adopts **5%** and **18%** tax slabs to simplify tax classification.
- A simpler rate structure improves predictability and reduces classification-related disputes.

Higher Tax on Luxury and Sin Goods:

- A **40% GST rate** has been introduced for luxury and sin goods to maintain revenue balance.
- The higher rate covers products such as lottery, online gaming, tobacco products, aerated beverages, high-end automobiles, yachts and private aircraft.

Relief for Households and Consumers:

- Lower GST rates and expanded exemptions seek to improve affordability of goods and services.
- Exemptions relating to insurance services and essential medicines strengthen household financial protection and healthcare access.

Support for MSMEs and Industry:

- Lower GST rates on important industrial inputs, including cement and handicrafts, reduce production costs.
- The reforms improve competitiveness of **Micro, Small and Medium Enterprises (MSMEs)**, artisans and manufacturers.

Correction of Inverted Duty Structure:

- The reforms aim to reduce tax distortions arising from inverted duty structures.
- Improved tax alignment supports domestic value addition, export competitiveness and manufacturing growth.

Simplified Compliance Framework:

- GST registration, return filing and refund processing have been made easier and faster.

Kamaraj IAS Academy

Plot A P.127, AF block, 6 th street, 11th Main Rd, Shanthy Colony, Anna Nagar, Chennai, Tamil Nadu 600040
Phone: **044 4353 9988 / 98403 94477 / Whatsapp : 09710729833**

- Reduced procedural requirements particularly benefit startups, **MSMEs** and small taxpayers.

Technology-Driven Tax Administration:

- Greater use of **GSTN, Artificial Intelligence**, machine learning, e-invoicing, pre-filled returns and data analytics strengthens compliance monitoring.
- Advanced digital tools improve fraud detection, minimise reporting errors and enhance tax administration efficiency.

Challenges in the Existing GST Framework:

Exclusion of Important Commodities:

- Alcohol for human consumption and five petroleum products remain outside the effective GST framework.
- Their exclusion limits seamless input tax credit and continues cascading taxation in several sectors.
- Dependence of States on revenue from these commodities makes their inclusion politically sensitive.

Rate and Classification Disputes:

- Despite simplification of tax slabs, disputes regarding exemptions, special categories and product classification may continue.
- Different interpretations of tax rates create compliance uncertainty.

Operational Challenges of GST Appellate Tribunal:

- Delays in fully operationalising the **GST Appellate Tribunal** may prolong litigation and increase uncertainty for taxpayers.
- Infrastructure gaps and transitional issues may affect timely dispute resolution.

Compliance Burden for MSMEs:

- Small businesses continue to face compliance challenges arising from frequent notifications, return filing requirements and reconciliation procedures.
- Constant procedural changes require continuous adaptation by taxpayers.

Persisting Inverted Duty Structure:

- Certain sectors continue to face higher taxation on inputs than outputs.
- This increases dependence on refunds and creates working capital pressures.

Centre-State Fiscal Concerns:

- Differences regarding tax rates, exemptions, compensation and revenue sharing may delay further GST reforms.
- Sustained cooperative federalism remains essential for long-term GST stability.

Measures to Further Strengthen GST:

Gradual Inclusion of Excluded Sectors:

- Petroleum products may be brought under GST in a phased manner beginning with relatively easier sectors such as natural gas and aviation turbine fuel.
- Appropriate revenue safeguards can facilitate consensus between the Union and States.

Further Rate Rationalisation:

- Future reforms should reduce residual classification disputes and review remaining exemptions.
- Rationalisation should also address sectors still affected by inverted duty structures.

Faster Refund Mechanism:

- Refund processing should become quicker and more predictable, especially for exporters.
- Better tax alignment can reduce working capital constraints.

Strengthening Dispute Resolution:

- The **GST Appellate Tribunal** should become fully operational across all States.
- Timely appointments, adequate infrastructure and clear circulars can reduce litigation.

Preparing GST for Emerging Sectors:

- Future reforms should establish clear taxation rules for digital goods, digital services, crypto-assets, carbon credits and other emerging sectors.
- A forward-looking GST framework should remain aligned with evolving global taxation practices.

Conclusion:

- **GST** has fundamentally transformed India's indirect taxation system by creating a unified market, expanding tax compliance, strengthening cooperative federalism and modernising tax administration through digital technology.
- Continued reforms focusing on broader tax coverage, simplified compliance, faster dispute resolution and deeper digital integration can make GST more transparent, efficient and growth-oriented.

Value Addition for UPSC:

Important Constitutional Provisions:

- **Article 246A** empowers Parliament and State Legislatures to make laws relating to GST.
- **Article 269A** governs levy and distribution of **Integrated Goods and Services Tax (IGST)** on inter-State supplies.
- **Article 279A** provides for the establishment and functioning of the **GST Council**.
- **The Constitution (One Hundred and First Amendment) Act, 2016** introduced the constitutional framework for GST.

Important GST Terminology:

- **Input Tax Credit (ITC):** Credit available for taxes paid on business inputs that can be adjusted against tax liability on outward supplies.
- **Composition Scheme:** A simplified taxation scheme enabling eligible small taxpayers to pay tax at prescribed rates with simplified compliance.
- **Inverted Duty Structure:** A situation where tax paid on inputs exceeds tax payable on final output, resulting in refund dependence.
- **Destination-Based Taxation:** A taxation principle under which revenue accrues to the jurisdiction where goods or services are consumed.
- **Tax Cascading:** A situation where tax is levied on a value that already includes previously paid taxes, increasing the overall tax burden