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Next-Generation GST Reforms: Compliance Simplification, Rate Rationalisation and Growth After Nine Years

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Recent Developments:

- After nine years of Goods and Services Tax implementation, the government is moving towards the **next phase of GST reforms**, with the emphasis shifting from primarily restructuring tax rates to **reducing compliance costs, improving taxpayer services and supporting consumption-led growth**.
- The **56th GST Council meeting** in 2025 approved major rate rationalisation and related measures, with the revised structure taking effect from **22 September 2025**. The post-reform framework primarily consists of **5% and 18% rates**, while a special **40% rate** applies to specified luxury and sin goods.
- The next phase is expected to focus on **simpler registration, easier return filing, faster refunds, better utilisation of input tax credit and quicker dispute resolution**, particularly for small businesses and other taxpayers facing high compliance costs.
- The reform agenda comes amid strong post-rationalisation performance: reported taxable supplies increased by **25.8% between October 2025 and July 2026**, while reported business-to-consumer sales increased by **26.7%** over the comparable period.
- Gross GST collections during **April–September 2026** reached about **₹12.46 lakh crore**, registering an **11.6% year-on-year increase**, while net collections rose by about 10.4%.

GST: Constitutional and Structural Framework:

Introduction and Constitutional Basis:

- The **Goods and Services Tax** was introduced on **1 July 2017** through the **Constitution (One Hundred and First Amendment) Act, 2016**, replacing multiple central and state indirect taxes with an integrated framework.
- GST is a **destination-based tax on the consumption of goods and services**, under which revenue ultimately accrues to the jurisdiction where consumption takes place.
- GST is levied on the **supply of goods and services**, rather than separately taxing manufacture, sale and provision of services as under the pre-GST system.
- The tax is designed to operate through a **value-added mechanism**, under which eligible input tax credit prevents cascading and the final tax burden is generally borne by the consumer.

Dual GST Structure:

- India follows a **dual GST model**, under which the Union and State Governments simultaneously exercise taxation powers over intra-State supplies.
- **Central Goods and Services Tax:** Levied by the Union Government on intra-State supplies.
- **State Goods and Services Tax:** Levied by State Governments on intra-State supplies.

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- **Union Territory Goods and Services Tax:** Levied on intra-Union Territory supplies where applicable.
- **Integrated Goods and Services Tax:** Levied and collected by the Union Government on inter-State supplies and imports, with the proceeds apportioned between the Union and destination States according to the constitutional and statutory framework.

Constitutional Articles:

- **Article 246A** gives Parliament and State Legislatures concurrent power to make GST laws, while Parliament has exclusive power over GST on inter-State supplies.
- **Article 269A** provides for the levy and collection of GST on inter-State supplies and its apportionment between the Union and States.
- **Article 279A** provides for the establishment of the **GST Council**, making GST a major institutional example of cooperative federalism.
- **Article 366(12A)** constitutionally defines GST as a tax on the supply of goods, services or both, except the supply of alcoholic liquor for human consumption.

GST Council and Cooperative Federalism:

Composition and Role:

- The **GST Council** is a constitutional body established under **Article 279A** and consists of the Union Finance Minister as Chairperson, the Union Minister of State in charge of Revenue or Finance, and the Finance or Taxation Minister nominated by each State Government.
- The Council recommends GST rates, exemptions, model laws, principles governing place of supply, special provisions for specified States and other major aspects of GST administration.
- Its functioning makes GST a significant example of **fiscal cooperative federalism**, because major tax decisions require coordination between the Union and State Governments.

Importance of Consensus:

- GST directly affects **State revenues, Union revenues, business compliance and consumer prices**, making intergovernmental consensus essential for stable tax administration.
- The continued evolution of GST therefore demonstrates that tax reform in India involves not only legislative change but also **institutional coordination between multiple levels of government**.

Next-Generation GST: Shift from Rate Reform to Compliance Reform:

First Pillar: Rate Rationalisation:

- The first major phase of Next-Generation GST reforms focused on **rationalising tax rates and exemptions**, with the objective of reducing classification disputes, simplifying the rate structure and lowering the tax burden on several categories of goods and services.
- The reformed structure primarily moved towards **5% and 18% rates**, while a special 40% rate was introduced for specified luxury and sin goods to preserve revenue balance.
- The reform also addressed **inverted duty structures** in sectors such as textiles and fertilisers and reduced rates on several common-use and labour-intensive goods and services.
- Rate rationalisation is intended to reduce the complexity arising from multiple rates, improve tax certainty and reduce incentives for misclassification.

Second Pillar: Ease of Compliance:

- The next phase is increasingly focused on **taxpayer-centric administration**, particularly because procedural complexity can impose disproportionate costs on small businesses.

- The major areas of reform include **registration, returns, refunds and input tax credit**, supported by greater automation and risk-based administration.

Simpler GST Registration:

- Registration procedures should become **technology-driven, predictable and time-bound**, especially for low-risk small businesses and startups.
- Risk-based verification can allow genuine taxpayers to obtain registration quickly while directing administrative scrutiny towards higher-risk cases.
- Such reform can reduce the **entry cost of formalisation** and encourage smaller enterprises to participate in the formal economy.

Simpler Return Filing:

- GST return filing can be made easier through **pre-filled returns, greater automation and reduced manual intervention**.
- Reducing reconciliation problems and unnecessary procedural requirements can lower the time and administrative resources spent by businesses on compliance.
- Higher on-time filing can simultaneously improve **tax administration, data quality and revenue predictability**.

Faster Refunds:

- Timely GST refunds are particularly important for **exporters and businesses facing accumulated input tax credit**, because delayed refunds can lock up working capital.
- Automated and risk-based refund processing can improve liquidity without weakening scrutiny of fraudulent or ineligible claims.
- During April–September 2026, total GST refunds were approximately **₹1.80 lakh crore**, highlighting the importance of efficient refund administration for the tax system.

Better Input Tax Credit:

- A predictable and timely flow of eligible **input tax credit** reduces embedded taxation throughout the supply chain and improves business cash flow.
- Credit-related mismatches, verification delays and disputes can otherwise convert GST into a source of working-capital stress.
- Improved digital reconciliation can therefore support both **compliance and economic efficiency**.

Faster Dispute Resolution:

- Prolonged disputes concerning **classification, valuation, exemptions and input tax credit** increase litigation costs and reduce certainty for taxpayers.
- Faster appellate mechanisms, clearer rules and technology-enabled case management can reduce the duration and cost of GST disputes.
- The broader objective is to shift GST administration from a predominantly enforcement-oriented model towards **predictable, transparent and service-oriented tax administration**.

Performance After GST Rate Rationalisation:

Revenue and Taxpayer Base:

- GST collections have continued to expand despite rate rationalisation, indicating that lower or simplified rates need not necessarily imply a proportionate decline in revenue when compliance and the tax base

improve.

- Gross GST collections during **April–September 2026 reached ₹12.46 lakh crore**, compared with ₹11.17 lakh crore in the corresponding period of the previous year, representing **11.6% growth**.
- Net GST revenue during the same period reached approximately **₹10.66 lakh crore**, registering **10.4% growth** after accounting for refunds.
- GST registrations reached approximately **1.71 crore by the end of August 2026**, around **15% higher** than a year earlier, indicating continued expansion of the formal taxpayer base.
- The GST taxpayer base had already increased from **66.5 lakh in 2017 to 1.65 crore in May 2026**, demonstrating substantial formalisation since GST implementation.

Taxable Supplies and Consumption:

- The value of reported taxable supplies increased by **25.8% between October 2025 and July 2026** compared with the corresponding period of the previous year.
- Growth was reported across **all 11 sector groups and major States**, indicating that the post-rationalisation expansion was not confined to a narrow group of economic activities.
- Reported **business-to-consumer sales increased by 26.7%**, suggesting stronger consumer-facing economic activity following the rate changes.
- Timely filing of **GSTR-3B returns** for the April–July 2026 tax periods increased by **12.6%**, indicating improvement in compliance behaviour.

Challenges in the Next Phase:

Small Business Compliance:

- Despite digitalisation, small businesses may continue to face difficulties in understanding changing rules, maintaining digital records, reconciling invoices and filing periodic returns.
- Excessive procedural complexity can disproportionately affect **micro and small enterprises**, because they generally have fewer dedicated tax professionals and compliance resources.

Input Tax Credit and Working Capital:

- Disputes over eligibility, invoice matching and credit reversals can block working capital and increase the effective cost of doing business.
- A balance is required between preventing **fake or fraudulent input tax credit** and ensuring that genuine taxpayers receive legitimate credits without unnecessary delay.

Refund Administration:

- Exporters and businesses with accumulated credits remain sensitive to refund delays because prolonged processing can increase financing requirements.
- Automated refunds should therefore be accompanied by **risk-based verification**, rather than uniform manual scrutiny of all claims.

Litigation and Tax Certainty:

- Frequent disputes over classification, valuation, exemptions and input tax credit can undermine the objective of a simplified indirect tax regime.
- Stable rules, clear interpretative guidance and faster appellate resolution are necessary for improving **tax certainty and ease of doing business**.

Centre-State Fiscal Coordination:

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- GST reforms directly affect both Union and State revenues, making **GST Council consensus** critical for future rate changes and administrative reforms.
- The success of future reforms will therefore depend on maintaining **cooperative federalism** while balancing taxpayer relief, economic growth and the revenue requirements of States.

Broader Economic Significance:

Formalisation and Common National Market:

- GST has replaced a fragmented indirect tax structure with a common framework and has strengthened the integration of India's domestic market.
- The increase in GST registrations reflects expansion of the **formal tax base**, although registration growth must be accompanied by genuine economic activity and sustainable compliance.
- A unified tax framework can reduce tax-related barriers between States and facilitate the expansion of businesses across regional markets.

MSMEs and Working Capital:

- Simplified registration, return filing, refunds and input tax credit can particularly benefit **micro, small and medium enterprises**, which are more sensitive to compliance costs and cash-flow constraints.
- Lower compliance costs can encourage firms to formalise, access organised supply chains and expand beyond local markets.
- Better working-capital availability can support **production, employment and investment**, strengthening the transmission from tax reform to economic growth.

UPSC Significance:

General Studies II: Polity and Governance:

- **Article 246A, Article 269A and Article 279A** illustrate the constitutional restructuring of fiscal relations between the Union and States.
- GST provides an important case study of **cooperative federalism**, because tax policy is jointly shaped through an institution representing both levels of government.
- The GST Council demonstrates how constitutional institutions can facilitate consensus-based economic governance.

General Studies III: Indian Economy:

- GST is central to understanding **indirect taxation, fiscal federalism, formalisation, tax buoyancy, working capital and ease of doing business**.
- Rate rationalisation demonstrates the trade-off between **tax simplicity, revenue mobilisation and consumer welfare**.
- Compliance reform highlights the importance of technology, risk-based administration and taxpayer services in improving tax efficiency.

Governance and Inclusive Growth:

- The next phase of GST reform should measure success not only through revenue collection but also through **compliance cost, refund time, dispute duration, taxpayer satisfaction and formalisation**.
- A taxpayer-centric GST administration can improve the relationship between the State and taxpayers while simultaneously strengthening revenue mobilisation.

Value Addition for UPSC:

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Key Terms:

- **Destination-Based Tax:** Tax revenue accrues primarily to the jurisdiction where final consumption takes place.
- **Input Tax Credit:** Credit of eligible GST paid on inputs against GST liability on outward supplies, thereby reducing cascading.
- **Inverted Duty Structure:** A situation where the tax rate on inputs is higher than the tax rate on the corresponding output, potentially creating accumulated input tax credit.
- **Tax Buoyancy:** The responsiveness of tax revenue to changes in economic activity, reflecting the combined effect of economic growth and tax-system performance.
- **Cooperative Federalism:** Institutional cooperation between the Union and States in areas of shared constitutional and fiscal responsibility.

Mains-Ready Analytical Framework:

- **Issue:** After nine years of GST, the central challenge is shifting from establishing a unified tax structure to making that structure simpler, predictable and taxpayer-friendly.
- **Achievement:** GST has created a common indirect-tax framework, expanded the formal taxpayer base and generated sustained revenue growth.
- **Reform:** Rate rationalisation has reduced the complexity of the earlier multi-rate structure, while the next phase focuses on **registration, returns, refunds, input tax credit and dispute resolution**.
- **Challenge:** Small-business compliance costs, credit disputes, refund delays, litigation and Centre-State revenue concerns continue to constrain the full efficiency gains of GST.
- **Way Forward:** GST reforms should prioritise **simplicity, predictability, automation, risk-based enforcement, faster dispute resolution and cooperative federalism**, while ensuring that tax simplification does not weaken revenue sustainability.
- **Conclusion:** The next generation of GST reform should evolve from a **revenue-centred tax administration towards a taxpayer-centric and growth-supportive system**, in which ease of compliance, formalisation and fiscal sustainability reinforce one another.