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**A CRITICAL STUDY OF GST AS AN INSTRUMENT OF INDIRECT
TAX REFORM IN INDIA**

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Abstract

The introduction of the Goods and Services Tax (GST) on 1 July 2017 marked a significant milestone in India's indirect tax reform process. GST was introduced to replace multiple Central and State indirect taxes with a unified taxation system, thereby promoting the concept of "One Nation, One Tax." By subsuming taxes such as Central Excise Duty, Service Tax, Value Added Tax (VAT), Central Sales Tax, Entry Tax, Purchase Tax, and Luxury Tax, GST has simplified the tax structure and reduced the cascading effect of taxation. GST aims to create a common national market by ensuring uniform tax rates and procedures throughout the country. The reform has enhanced transparency, improved tax administration, and facilitated ease of doing business. It has also contributed to better tax compliance through a technology-driven framework that enables effective monitoring of transactions and return filings. The steady increase in the filing of GSTR-1 and GSTR-3B returns reflects the growing acceptance and effectiveness of the GST regime. This paper examines the evolution, objectives, and implementation of GST in India and analyses its impact on economic growth, tax compliance, revenue generation, and business development. It further evaluates the role of GST in removing economic barriers, promoting market integration, and strengthening India's position in the global economy. The paper also discusses recent GST revenue trends and highlights the challenges and opportunities associated with the GST framework. The study concludes that GST has emerged as a transformative fiscal reform that has significantly contributed to the development of a more transparent, efficient, and integrated taxation system in India.

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1. Introduction

A tax is a compulsory contribution imposed by the government for public purposes and is enforceable by law. Unlike fees, taxes are not paid in return for any specific service. Taxes are broadly classified into direct and indirect taxes. Indirect taxes are levied on the production, sale, or consumption of goods and services. Although they are initially collected from manufacturers, suppliers, or service providers, the burden is ultimately borne by the final consumer. Before the introduction of the Goods and Services Tax (GST), India's indirect tax structure consisted of multiple taxes such as Central Excise Duty, Service Tax, Value Added Tax (VAT), Central Sales Tax, Entry Tax, Purchase Tax, and Luxury Tax. The existence of numerous taxes, along with frequent notifications, circulars, and administrative orders, often made the system complex and difficult to understand. Tax reforms have always played an important role in strengthening a country's fiscal system and supporting economic development. Such reforms are generally undertaken to improve revenue generation, simplify tax administration, and respond to changing economic conditions. In developing countries, fiscal pressures and the need for greater revenue mobilisation have often been major drivers of tax reform. As noted by Bird (1993), '*fiscal crisis has been proven to be the mother of tax reform*'. Similarly, economic liberalisation and increasing global competition have encouraged many countries to redesign their tax systems to improve efficiency and competitiveness. Against this backdrop, India introduced the Goods and Services Tax on 1 July 2017 as a comprehensive indirect tax reform. GST sought to replace the fragmented tax structure with a unified system, thereby creating a common national market and reducing the cascading effect of taxes. This paper examines the evolution and objectives of GST, analyses its impact on revenue generation, business efficiency, and economic growth, and evaluates the extent to which it has achieved its intended goals. The study also considers existing challenges and offers recommendations for further strengthening the GST framework in India.

2. Research Methodology

This study is based on a doctrinal research methodology, which involves the examination and analysis of existing legal materials relating to the Goods and Services Tax (GST) in India. The research primarily relies on both primary and secondary sources to understand the

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evolution, legal framework, implementation, and impact of GST as a major indirect tax reform. The primary sources include constitutional provisions, GST-related legislation, judicial decisions, and official government documents. Particular emphasis has been placed on the Constitution (One Hundred and First Amendment) Act, 2016, the Central Goods and Services Tax Act, 2017, the Integrated Goods and Services Tax Act, 2017, and other related enactments. Relevant judicial pronouncements have also been examined to understand the interpretation and application of GST laws by the courts. The secondary sources consist of books, research articles, journal publications, government reports, committee reports, and academic writings on GST and indirect tax reforms. These materials have been used to analyse the objectives, advantages, challenges, and practical implications of GST in India. The study adopts a descriptive and analytical approach. It seeks to examine the transition from the pre-GST tax regime to the present GST framework and evaluates its impact on tax administration, economic growth, business operations, and fiscal federalism. The research also analyses the role of the GST Council, the constitutional changes introduced through GST, and the challenges faced in its implementation. Based on the findings, suitable suggestions have been offered for strengthening the GST framework and improving its effectiveness in the Indian taxation system.

3. Indirect Tax Framework in India Before GST

Overview of the Pre-GST Tax Regime

Before the implementation of the Goods and Services Tax (GST), India followed a complex indirect taxation system involving multiple taxes imposed separately by the Central and State Governments. The absence of a unified tax structure resulted in overlapping tax jurisdictions, diverse compliance requirements, and increased administrative complexities. Different taxes were levied at various stages of production, distribution, and consumption, making the overall tax framework difficult for businesses and consumers to navigate. The pre-GST regime comprised numerous indirect taxes. The Central Government levied taxes such as Central Excise Duty, Service Tax, and Customs Duty, whereas State Governments imposed Value Added Tax (VAT), Central Sales Tax (CST), Entry Tax, Octroi, Luxury Tax, Entertainment Tax, and Purchase Tax. Each tax was governed by separate legislation, procedures, and authorities, resulting in a fragmented taxation structure across the country. One of the most significant drawbacks of the earlier tax system was the cascading effect, commonly referred to as the “tax-on-tax” phenomenon. Since input tax credits were

generally unavailable across different categories of taxes, taxes paid at one stage became part of the taxable value at subsequent stages. This increased the overall tax burden on goods and services and ultimately raised prices for consumers. The cascading effect also distorted business decisions and reduced economic efficiency.

Compliance Burden and Administrative Challenges

The existence of multiple taxes required businesses to comply with various laws, maintain separate records, and file returns with different tax authorities. Companies operating across several states had to deal with diverse tax regulations and administrative procedures. This increased compliance costs, consumed significant time and resources, and created uncertainty in business operations. The movement of goods across state borders was often hindered by Central Sales Tax, entry taxes, and border check posts. Businesses experienced delays due to verification procedures, documentation requirements, and tax collection mechanisms at state boundaries. These barriers increased transportation costs and fragmented the national market, thereby affecting the smooth flow of trade and commerce.

Classification Disputes and Structural Inefficiencies

The division of taxing powers between the Centre and the States created several legal and practical difficulties. While goods were generally taxed by States through VAT, services were taxed by the Centre through Service Tax. As the economy evolved, especially with the growth of technology-based and digital transactions, disputes frequently arose regarding whether a transaction should be classified as a supply of goods or a supply of services. Such ambiguities often resulted in prolonged litigation and uncertainty for taxpayers. The limitations of the pre-GST tax regime highlighted the need for a more integrated and efficient indirect taxation system. Policymakers, economists, and expert committees recognised the necessity of eliminating cascading taxes, reducing compliance burdens, and establishing a common national market. Consequently, the concept of GST emerged as a comprehensive reform aimed at unifying the indirect tax structure, improving tax administration, enhancing compliance, and promoting economic growth.

4. Evolution and Introduction of Goods and Services Tax in India

Need for GST and Indirect Tax Reforms

The Goods and Services Tax (GST) was introduced as a landmark indirect tax reform with the objective of simplifying India's taxation framework and creating a more efficient tax

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system. Before GST, the country operated under a complex structure consisting of numerous Central and State taxes. The Central Government levied taxes such as Central Excise Duty and Service Tax, while State Governments imposed Value Added Tax (VAT), Entry Tax, Purchase Tax, Luxury Tax, and other levies. The absence of coordination between these taxes resulted in a cascading effect, whereby taxes paid under one system could not be fully offset against liabilities arising under another. Consequently, businesses and consumers bore the burden of multiple layers of taxation. GST was conceived as a comprehensive value-added tax that would subsume most indirect taxes into a single framework. The reform aimed to reduce tax complexity, eliminate cascading taxation, improve compliance, and facilitate the creation of a unified national market³.

Origin and Development of the GST Concept

The concept of GST in India was first recommended by the Kelkar Task Force on the implementation of the Fiscal Responsibility and Budget Management Act in 2004. The proposal gained momentum when the then Union Finance Minister announced, during the Union Budget Speech of 2006, the Government's intention to introduce a national GST. Initially, GST was proposed to be implemented from 1 April 2010. To facilitate the reform process, the Empowered Committee of State Finance Ministers was entrusted with the responsibility of developing the framework and roadmap for GST implementation. Subsequently, a Joint Working Group comprising representatives from both the Central and State Governments was constituted to examine critical issues relating to tax thresholds, exemptions, taxation of services, and interstate transactions.

The First Discussion Paper on GST

In November 2009, the Empowered Committee released its First Discussion Paper on GST. This document laid the foundation for discussions between the Centre and the States and outlined the key features of the proposed GST model. It proposed a dual GST structure wherein both the Central and State Governments would simultaneously levy GST on a common tax base while maintaining fiscal autonomy. The discussion paper marked an important step in building consensus among stakeholders and addressing concerns relating to revenue sharing, tax administration, and constitutional arrangements.

³Nayyar, A. & Singh, I. (2018) A Comprehensive Analysis of Goods and Services Tax (GST) in India. Indian Journal of Finance, 58-73.

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Recommendations of the Thirteenth Finance Commission

The Thirteenth Finance Commission (2010–2015) played a crucial role in shaping the GST framework. It examined the likely revenue implications of GST and endorsed the recommendations of its Task Force on Goods and Services Tax. The Commission advocated a broad-based consumption tax with minimal exemptions and a uniform structure across the country. To facilitate GST implementation, the Commission proposed a comprehensive agreement between the Centre and the States, commonly referred to as the "Grand Bargain."

Key Features of the Proposed Grand Bargain

The proposed Grand Bargain included several important elements:

1. GST would function as a destination-based consumption tax and would subsume the majority of indirect taxes imposed by both the Centre and the States.
2. Uniform tax laws, procedures, administrative practices, and dispute-resolution mechanisms would be established across the country.
3. A binding agreement would govern tax rates and future modifications, ensuring consistency while preserving cooperative federalism.
4. Mechanisms would be introduced to address violations of agreed principles and ensure adherence to the common framework.
5. GST would be implemented in phases to facilitate a smooth transition and accommodate sector-specific concerns.

GST and the Creation of a Common National Market

One of the principal objectives behind the introduction of GST was the establishment of a common national market. Under the earlier tax regime, interstate trade was often hindered by Central Sales Tax (CST), entry taxes, and varying state-level regulations. Businesses frequently established warehouses and depots in multiple States primarily for tax planning purposes rather than operational efficiency. GST sought to remove these distortions by creating a seamless tax structure across the country. By allowing the free flow of input tax credits and eliminating tax barriers between States, GST encouraged the efficient movement of goods and services. This integration of markets enhanced economic efficiency, reduced logistics costs, and improved the competitiveness of Indian businesses. The introduction of GST on 1 July 2017 represented one of the most significant fiscal reforms in independent

India. The reform not only simplified the indirect tax structure but also strengthened tax administration through technology-driven compliance mechanisms. By integrating various indirect taxes into a single framework, GST laid the foundation for a more transparent, efficient, and growth-oriented taxation system capable of supporting India's evolving economic needs.

5. Models of Goods and Services Tax

Before implementing the Goods and Services Tax (GST), policymakers and tax experts examined several GST models adopted across the world. Since India follows a federal system where taxation powers are shared between the Centre and the States, it was necessary to identify a model that could balance fiscal autonomy with national tax uniformity. Various experts proposed different GST frameworks to facilitate the successful implementation of tax reforms in India⁴.

The Kelkar-Shah Model

The Kelkar-Shah Model is based on the concept of a "Grand Bargain" between the Central and State Governments. The model proposes the integration of major indirect taxes such as Central Excise Duty, Service Tax, and Value Added Tax (VAT) into a common GST framework. It emphasises cooperation between different levels of government and suggests a phased implementation process.

According to this model, GST implementation involves four stages:

1. Development of robust information technology infrastructure.
2. Establishment of a Central GST framework.
3. Achievement of political consensus through a Grand Bargain.
4. Coordination and integration with State Governments.

The Bagchi-Poddar Model

The Bagchi-Poddar Model also advocates the integration of major indirect taxes under a comprehensive value-added tax structure. Similar to the Kelkar-Shah Model, it proposes the merger of Central Excise Duty, Service Tax, and VAT into a unified system. However, the principal distinction lies in the administration of tax collection. While the Kelkar-Shah

⁴Singh, K. S., Kumar, A., Pandey, K. P., & Goswami, D. K. (2018). Impact of GST after Its Implementation. Swaranjali Publication, 19-27.

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Model envisages tax collection by both the Centre and the States, the Bagchi–Poddar Model places greater emphasis on central administration. This approach aims to achieve greater uniformity and reduce administrative complexities. The Bagchi-Poddar Model shares similarities with the Quebec system of taxation in Canada, where significant tax administration functions are concentrated within a single authority.

The Australian Model

Australia follows a federal GST system in which the tax is levied and collected by the Central Government, and the revenue is subsequently distributed among the States and Territories. The model promotes uniformity in tax administration and simplifies compliance procedures. Although the Australian system has been successful in its domestic context, many scholars have argued that it may not be entirely suitable for India due to the country's diverse socio-economic conditions and strong federal structure. Indian States have traditionally exercised significant taxation powers, making a fully centralised model difficult to implement.

The Canadian Model

The Canadian GST system is often regarded as one of the most relevant models for India because both countries operate under federal constitutions. Canada's GST framework combines federal and provincial taxation powers through different arrangements across provinces. The Canadian model broadly consists of three forms:

(a) Federal GST and Provincial Sales Tax (PST): Under this arrangement, the Federal Government levies GST while individual provinces separately impose Provincial Sales Tax. Both taxes are administered independently.

(b) Harmonised Sales Tax (HST): Certain provinces have adopted a Harmonised Sales Tax system where federal and provincial taxes are combined and administered jointly by the Federal Government. This model simplifies compliance and administration.

(c) Quebec Sales Tax (QST): The Province of Quebec administers both federal and provincial value-added taxes through its own tax administration system. This model provides greater provincial autonomy while maintaining coordination with federal tax policies. India's dual GST structure, comprising Central GST (CGST) and State GST (SGST), closely resembles the Canadian approach because it allows both levels of government to levy and collect tax concurrently.

Relevance of GST Models to India

The examination of international GST models provided valuable guidance during India's tax reform process. Among the various alternatives, the dual GST model, influenced largely by the Canadian framework and certain elements of the Kelkar-Shah recommendations, was considered most suitable for India's federal structure. This approach enables both the Centre and the States to share taxation powers while ensuring the creation of a unified national market and a more efficient indirect taxation system⁵.

6. Dual GST Model in India

Concept of the Dual GST Model

India has adopted a Dual Goods and Services Tax (GST) model, under which both the Central Government and the State Governments have the authority to levy and collect GST on the same transaction. This model was designed in accordance with India's federal constitutional structure, where taxation powers are shared between the Centre and the States. Unlike countries that follow a single GST system administered by one level of government, India operates a dual taxation framework to ensure fiscal autonomy for both levels of government. Under the dual GST system, taxes are imposed simultaneously by the Centre and the States on the supply of goods and services. The division of taxing powers enables both governments to generate revenue while maintaining a harmonised indirect tax structure across the country.

Taxation of Intra-State and Inter-State Supplies

The applicability of GST depends on the nature of the transaction. Where the supply of goods or services takes place within the same State or Union Territory, the transaction is classified as an intra-state supply. In such cases, both Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST) or Union Territory Goods and Services Tax (UTGST) are levied simultaneously. Conversely, when the supply of goods or services occurs between two different States or Union Territories, it is treated as an inter-state supply. In such

⁵Lourdunathan, F., & Xavier, P. (2017). A study on implementation of goods and services tax (GST) in India: Prospectus and challenges. *International Journal of Applied Research*, 3(1), 626-629

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situations, Integrated Goods and Services Tax (IGST) is levied and collected by the Central Government, which subsequently distributes the appropriate share to the destination State⁶.

Components of the Dual GST Structure

The GST framework in India comprises four distinct components:

(a) Central Goods and Services Tax (CGST)

CGST is levied by the Central Government on intra-state supplies of goods and services. The revenue collected under CGST accrues to the Central Government. For instance, if a trader in Gujarat sells goods worth ₹5,000 to a customer within Gujarat and the applicable GST rate is 18%, the tax will be divided equally between CGST and SGST. Accordingly, 9% will be collected as CGST and 9% as SGST.

(b) State Goods and Services Tax (SGST)

SGST is imposed by the respective State Government on intra-state transactions. The revenue generated through SGST is retained by the State Government where the transaction occurs. The levy of SGST operates alongside CGST, ensuring concurrent taxation by both levels of government on the same transaction.

(c) Union Territory Goods and Services Tax (UTGST)

UTGST functions as the counterpart of SGST in Union Territories that do not have a legislative assembly. It is levied on the supply of goods and services within Union Territories such as Andaman and Nicobar Islands, Chandigarh, Dadra and Nagar Haveli and Daman and Diu, and Lakshadweep. In these territories, GST is collected in the form of CGST and UTGST.

(d) Integrated Goods and Services Tax (IGST)

IGST is levied on inter-state supplies of goods and services, as well as on imports and exports. The tax is collected by the Central Government and subsequently apportioned between the Centre and the destination State in accordance with statutory provisions. For example, if a trader in Uttar Pradesh sells goods worth ₹5,000 to a customer in Maharashtra and the applicable GST rate is 18%, IGST of ₹900 will be collected by the Central Government and later distributed according to the prescribed revenue-sharing mechanism.

⁶dhana, D.K. (2015). Goods and services tax (GST): A panacea for Indian economy. *International Journal of Engineering & Management Research*, 5 (4), 332 - 338.

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7. Establishment of GST Council

Constitution, Composition and Functions of the GST Council

The Goods and Services Tax (GST) Council is one of the most important institutional mechanisms established under the GST regime. The Constitution (One Hundred and First Amendment) Act, 2016 provided the constitutional foundation for the introduction of GST and the creation of the GST Council. Following the passage of the Constitutional Amendment Bill by the Rajya Sabha on 3 August 2016 and the Lok Sabha on 8 August 2016, the GST Council was formally constituted on 8 September 2016 after receiving Presidential assent⁷.

Article 279A of the Constitution mandates the establishment of the GST Council by the President within sixty days from the commencement of the constitutional amendment. The Council comprises the Union Finance Minister as its Chairperson, the Union Minister of State in charge of Revenue or Finance as a member, and the Ministers in charge of Finance or Taxation nominated by each State Government. The Council is empowered to make recommendations on a wide range of GST-related matters, including taxes, surcharges, and cesses to be subsumed under GST, exemptions from GST, threshold limits for registration, GST rates, special rates during natural calamities, the distribution of Integrated Goods and Services Tax (IGST), and special provisions for particular States, especially the North-Eastern States.³ Through these functions, the GST Council serves as the principal policy-making body governing India's indirect tax framework⁸.

GST Council as an Instrument of Cooperative Federalism

The GST Council is widely regarded as a landmark example of cooperative federalism in India. By providing constitutional status to a joint decision-making body comprising representatives of both the Union and State Governments, the Council has facilitated collaborative governance in tax administration. Unlike earlier advisory bodies, its recommendations carry significant authority and have contributed to the uniform implementation of GST across the country. The Council has played a crucial role in achieving consensus on important issues such as tax rates, exemptions, compliance procedures, and administrative arrangements. Through regular consultations and coordinated decision-making, it has strengthened fiscal cooperation between the Centre and the States

⁷ Constitution (One Hundred and First Amendment) Act, 2016

⁸ GST Council Secretariat, *GST Council: Genesis and Structure* (2017).

while promoting the objective of a common national market. Scholars have recognised the GST Council as a unique institutional innovation that balances national tax harmonisation with State fiscal autonomy⁹. Despite its successes, certain challenges have emerged in the functioning of the Council. Disputes concerning GST compensation payments, revenue-sharing mechanisms, and fiscal autonomy have occasionally created tensions between the Centre and the States. Some commentators argue that delays in compensation and increasing dependence of States on central transfers may affect the spirit of cooperative federalism. Nevertheless, the GST Council continues to function as an effective platform for dialogue, negotiation, and dispute resolution in matters relating to GST administration¹⁰.

8. Constitutional Framework of Goods and Services Tax in India

Constitutional Objectives Behind GST

The Goods and Services Tax (GST) was introduced through a constitutional amendment with the primary objective of reforming India's indirect tax system. The Statement of Objects and Reasons appended to the Constitution (One Hundred and First Amendment) Bill emphasized two key goals: the creation of a common national market and the elimination of the cascading effect of taxes. The reform aimed to improve the efficiency of tax administration, enhance transparency, and increase the competitiveness of Indian goods and services in both domestic and international markets. GST was conceived as a comprehensive tax reform capable of promoting economic growth by simplifying the indirect tax structure and reducing the burden of multiple taxation. The introduction of a unified taxation framework was expected to facilitate ease of doing business and encourage investment across the country.

The Constitution (One Hundred and First Amendment) Act, 2016

A major constitutional milestone was achieved with the enactment of the Constitution (One Hundred and First Amendment) Act, 2016, which came into force on 16 September 2016. This amendment fundamentally altered India's fiscal federal structure by granting concurrent powers to both the Central and State Governments to levy and collect GST on the supply of

⁹ Joseph & Kumari L.A., "GST and the Challenges of Cooperative Federalism in India" (2023).

¹⁰Taqvi, S. M. A., Srivastava, A. K., & Srivastava, R. K. (2013). Challenges and opportunities of goods and service tax (GST) in India. *Indian Journal of Applied Research*, 3(5), 413-415

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goods and services. Prior to this amendment, the Centre and the States exercised separate taxation powers over different aspects of economic transactions. The constitutional amendment enabled a dual GST model, allowing both levels of government to tax the same transaction while maintaining fiscal autonomy.

Constitutional Definition of GST

The constitutional amendment introduced Article 366(12A), which defines Goods and Services Tax as a tax on the supply of goods, services, or both, except taxes on the supply of alcoholic liquor for human consumption. This definition marked a significant departure from the earlier taxation system, which primarily focused on the manufacture, sale, or provision of goods and services. The concept of “supply” became the taxable event under GST, replacing multiple taxable events that existed under the previous regime. Consequently, transactions such as stock transfers and branch transfers across States also became subject to GST under the new framework.

Definition of Services under the Constitution

To remove ambiguity regarding the scope of services, Article 366(26A) was inserted into the Constitution. This provision defines “services” as anything other than goods. The broad definition was intended to accommodate the evolving nature of commercial transactions and ensure comprehensive taxation under the GST regime.

Legislative Framework for GST Implementation

The nationwide implementation of GST commenced on 1 July 2017. To operationalise the new tax system, Parliament enacted several key pieces of legislation:

1. The Central Goods and Services Tax Act, 2017 (CGST Act);
2. The Integrated Goods and Services Tax Act, 2017 (IGST Act);
3. The Union Territory Goods and Services Tax Act, 2017 (UTGST Act); and
4. The Goods and Services Tax (Compensation to States) Act, 2017. These statutes collectively establish the legal framework governing the levy, collection, administration, and distribution of GST throughout India.

State GST Legislations

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In addition to the central legislation, individual States enacted their respective State Goods and Services Tax (SGST) laws to facilitate the operation of the dual GST model. By 30 June 2017, most States and Union Territories with legislatures had enacted their GST laws, enabling a coordinated nationwide rollout of the new taxation system. The State of Jammu and Kashmir subsequently enacted its GST legislation shortly after the commencement of GST. The Constitution (One Hundred and First Amendment) Act, 2016 represents one of the most significant fiscal reforms in India's constitutional history. By restructuring the allocation of taxation powers between the Centre and the States, the amendment established the legal foundation for a unified indirect tax system. The constitutional framework not only facilitated the creation of a common national market but also strengthened cooperative federalism through shared taxation powers and coordinated tax administration. As a result, GST has emerged as a transformative reform aimed at enhancing economic integration, tax efficiency, and revenue mobilisation across the country.

9. Judicial Developments under the GST Regime

The judiciary has played an important role in interpreting and strengthening the legal framework of the Goods and Services Tax (GST) in India. Courts have consistently upheld the constitutional validity of GST while ensuring that the statutory safeguards provided under the GST legislation are properly followed by tax authorities.

In *Kanagasabapathy Sundaram Pillai v. Union of India*¹¹, the petitioner challenged the implementation of GST from 1 July 2017 on several grounds, including the absence of adequate parliamentary sanction, insufficient administrative preparedness, non-finalization of GST laws by certain States and Union Territories, and concerns regarding compensation to States. The petitioner sought directions to postpone the implementation of GST. The Madras High Court dismissed the Public Interest Litigation and held that the levy and collection of GST had proper constitutional and statutory sanction. The Court observed that substantial preparatory measures had already been undertaken by the Government, including the migration of millions of taxpayers to the GST Network, notification of tax rates, framing of rules, and extensive public awareness programmes. The Court concluded that there was no

¹¹ 2017 SCC OnLine Mad 16358

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justification for interfering with the Government's decision to implement GST from the scheduled date and refused to postpone its rollout.

Another significant decision is *Commercial Tax Officer v. Madhu M.B.*, 2017¹². In this case, goods transported by the respondent were detained under Section 129 of the Central Goods and Services Tax Act, 2017 on the ground that the accompanying documents did not correspond with the goods being transported. The Kerala High Court examined the statutory mechanism relating to detention, seizure, provisional release, and adjudication under Sections 67 and 129 of the CGST Act and Rule 140 of the CGST Rules. The Court held that when the statute itself provides a complete procedure for provisional release of detained goods, courts should not ordinarily deviate from the prescribed mechanism. Accordingly, the Court set aside the order directing release of goods on conditions different from those contemplated under the statute and directed the authorities to complete the adjudication process within one week. The judgment reaffirmed the principle that statutory procedures under GST must be strictly followed while ensuring expeditious adjudication to avoid unnecessary hardship to taxpayers. These decisions demonstrate the judiciary's balanced approach towards GST implementation. While courts have generally supported the legislative objective of creating a unified tax regime, they have simultaneously emphasised adherence to statutory safeguards, procedural fairness, and effective tax administration. Judicial interpretation has therefore contributed significantly to the stability, legitimacy, and practical functioning of the GST framework in India¹³.

10. GST as a Challenge to Fiscal Federalism in India

The distribution of legislative and financial powers between the Union and the States has always been a crucial aspect of India's federal structure. During the Constituent Assembly Debates, significant attention was given to balancing the need for a strong Central Government with the demand for State autonomy. The Constitution ultimately adopted a federal framework through the Seventh Schedule and Article 246, which divide legislative powers between the Union, States, and both levels of government. Taxation powers were also distributed separately to ensure that each level of government could generate revenue independently.

¹² SCC OnLine Ker 20507

¹³ Acharya Shankar, (2005): "Thirty years of Tax Reforms in India". Economic and Political Weekly, vol 40, pp 2061-2069

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The introduction of the Goods and Services Tax (GST) brought a significant change to this fiscal arrangement. Before GST, States enjoyed substantial autonomy in imposing and modifying taxes such as Value Added Tax (VAT), which constituted a major source of their revenue. However, GST required a constitutional restructuring because neither the Centre nor the States possessed the authority to levy a comprehensive tax on all goods and services across all stages of production and supply. Various models, including the Concurrent Dual GST, National GST, and State-Level GST models, were considered before India adopted the Dual GST Model. The new system consolidated multiple indirect taxes into a common framework and sought to create a unified national market while reducing cascading taxation and compliance complexities.

Concerns of States and the Role of Cooperative Federalism

Despite its economic advantages, GST has generated concerns regarding fiscal federalism. One of the primary apprehensions of the States is the loss of fiscal autonomy, particularly their inability to independently determine tax rates as they did under the VAT regime. States have also expressed concerns about potential revenue losses following the subsuming of several State taxes under GST. Although the GST Compensation mechanism was introduced to address these concerns, disputes relating to compensation payments have occasionally strained Centre-State relations. Another issue relates to the decision-making structure of the GST Council. Some States argue that the voting mechanism gives considerable influence to the Union Government, potentially limiting State participation in tax policy decisions. Concerns have also been raised regarding proposals to include petroleum products under GST, as taxes on petroleum continue to be an important source of State revenue. Nevertheless, the GST Council has emerged as an important institution of cooperative federalism. It provides a constitutional platform through which the Centre and the States jointly participate in policy formulation, revenue-sharing decisions, and dispute resolution. Through consensus-based decision-making and regular consultations, the Council has contributed to balancing national economic objectives with State interests. While GST has altered the traditional fiscal relationship between the Centre and the States, it has also created a framework for collaborative governance, making it a significant experiment in cooperative federalism within the Indian constitutional system¹⁴.

¹⁴Reddy Y.V. & Reddy G.R., Goods and Services Tax Council: A New Institution in Indian Fiscal Federalism in Indian Fiscal Federalism, pp 166-175, Oxford University Press, 2019

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11. Suggestions and Recommendations

Based on the analysis of the Goods and Services Tax (GST) regime in India, it is evident that GST has emerged as one of the most significant indirect tax reforms in the country's fiscal history. While the reform has successfully streamlined the indirect taxation system and promoted economic integration, certain areas still require further improvement to enhance its effectiveness and efficiency. The following recommendations are therefore proposed:

Enhancing Tax Awareness and Education

GST has significantly expanded the indirect tax base and contributed to increased revenue generation for both the Central and State Governments. However, the success of the system depends largely on the awareness and participation of stakeholders. Therefore, continuous education and training programmes should be conducted for taxpayers, dealers, tax practitioners, tax officials, and consumers to improve compliance and understanding of GST provisions.

Strengthening Tax Administration

Rather than focusing solely on increasing GST rates, greater emphasis should be placed on improving tax administration and compliance mechanisms. Effective implementation of e-governance initiatives such as e-filing, e-payment, e-invoicing, and digital return processing can enhance revenue collection while reducing compliance costs. A transparent and technology-driven tax administration system will contribute to long-term economic development and revenue stability.

Rationalisation of GST Rates

The GST Council may consider rationalising tax rates applicable to certain sectors, particularly entertainment and luxury goods. A balanced tax structure can encourage greater compliance, reduce tax evasion, and expand the tax base. Rationalisation of rates should be guided by economic considerations, consumer behaviour, and revenue implications.

Strengthening Human Resources in GST Administration

Efficient administration of GST requires adequate manpower and institutional capacity. The Government should strengthen GST administration by recruiting qualified personnel and providing regular training programmes. Dependence on outsourcing may not always ensure long-term administrative efficiency; therefore, dedicated recruitment and capacity-building measures should be prioritised.

Review of Customs Duty and Related Tax Policies

Considering the objective of creating a comprehensive and integrated taxation framework, policymakers may examine the possibility of further harmonising customs-related tax mechanisms with the GST structure wherever feasible. Any such reform should be undertaken after carefully assessing its impact on revenue, trade, and federal fiscal relations.

Timely Policy Formulation and Regulatory Guidance

The GST Council should continue to provide timely recommendations, policy clarifications, procedural guidelines, and regulatory updates. Prompt decision-making and clear communication can reduce uncertainty among taxpayers, improve compliance, and minimise revenue losses arising from interpretational disputes.

Towards a More Integrated Tax System

In the long run, efforts may be directed towards greater coordination between direct and indirect tax frameworks. Simplification and harmonisation of tax laws can reduce compliance burdens, improve tax administration, and contribute to a more coherent and efficient taxation system. While a fully unified tax structure may require extensive policy deliberation, progressive reforms towards tax simplification should remain a long-term objective.

12. Conclusion

The Goods and Services Tax (GST), popularly described by the slogan “One Nation, One Tax,” represents one of the most significant indirect tax reforms in India's fiscal history. Introduced with the objective of creating a unified tax structure, GST has transformed the fragmented indirect taxation system into a more transparent, technology-driven, and consumption-based regime. By subsuming multiple Central and State taxes into a single framework, GST has simplified tax administration, reduced the cascading effect of taxes, and promoted the creation of a common national market. The study reveals that GST has generated several benefits for the economy, businesses, and consumers. From an economic

perspective, it has broadened the taxpayer base, improved tax compliance, increased revenue collection, and strengthened the formal economy. The growing number of GST registrations and the steady rise in the filing of GSTR-1 and GSTR-3B returns indicate increasing taxpayer participation and improved compliance levels. Enhanced revenue generation has also provided greater fiscal capacity to both the Central and State Governments for developmental activities. For businesses, GST has reduced logistical barriers, facilitated seamless movement of goods across States, and encouraged a more competitive business environment. The adoption of technology-based compliance mechanisms such as e-registration, e-filing, and e-payment has further improved efficiency and transparency. At the same time, businesses continue to face challenges relating to compliance costs, frequent regulatory changes, and multi-state operational requirements. From the consumer's perspective, GST has improved the availability of goods and services and has the potential to reduce prices through the elimination of cascading taxes. However, concerns regarding anti-profiteering measures and price transmission continue to require regulatory attention. Although GST has achieved substantial progress since its implementation in 2017, it remains an evolving tax system that requires continuous reforms and policy refinements. Greater research, stronger administrative mechanisms, rationalisation of tax rates, and enhanced stakeholder awareness are essential for maximising its benefits. Overall, GST has significantly contributed to improving India's tax administration, enhancing economic competitiveness, and fostering greater transparency, thereby strengthening the foundation for sustainable economic growth and development.