GLOBAL WEALTH MANAGEMENT

RESEARCH & INSIGHTS

"One Nation, One Tax: The Journey of GST in India"

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The Goods and Services Tax (GST) represent a transformative reform in India's fiscal and economic framework. Prior to its implementation, the indirect tax regime was highly fragmented, comprising multiple levies such as excise duties, value-added tax, service tax, and other state-specific taxes, which often led to cascading effects and increased compliance complexities. The conceptualization of "One Nation, One Tax" sought to address these inefficiencies, streamline tax administration, and foster a unified national market. This article provides a comprehensive examination of GST's evolution from its conceptualization by the Kelkar Task Force and the recommendations of the Empowered Committee of State Finance Ministers, through its legislative enactment and nationwide rollout in 2017, to the continuous reforms implemented under the guidance of the GST Council. Additionally, it explores recent developments, including GST 2.0 reforms and the integration of digital technologies in compliance mechanisms. By analysing both the structural and functional dimensions of GST, the article aims to offer an informed understanding of its implications for economic growth, revenue mobilization, and market integration in India.

1. Introduction

Goods and Service Tax (GST) considered as one of the boldest economic reforms in independent India. For decades, the country's taxation landscape was riddled with complexity. Businesses and consumers alike had to deal with a patchwork of indirect taxes such as VAT, excise duty, service tax and entry tax, each with its own rules and rates. Moving goods from one state to another often meant higher costs, endless paperwork, and checkpoints that slowed down trade. The result was a fragmented economy where compliance was burdensome, transparency was limited, and efficiency suffered.

The need for a unified system was long overdue. India required a tax framework that could simplify processes, reduce duplication, and create a seamless national market. This vision materialized in July 2017 with the launch of the Goods and Services Tax (GST). By merging multiple taxes into a single structure GST made compliance easier eliminated the cascading effect of taxes and improved transparency.

But GST was more than a fiscal change-it was a *game-changer*. It boosted the ease of doing business, encouraged competitiveness, and fostered true economic integration. In many ways, GST has laid the foundation for a stronger, more connected, and forward-looking Indian economy.

2. Historical Background

Before the advent of the Goods and Services Tax (GST), India's indirect tax system was highly fragmented and complicated. The Centre levied taxes such as excise duty, service tax, and customs duty, while the states imposed value-added tax (VAT), ***octroi*** [1], entry tax, purchase tax, and luxury tax. This overlapping system created the problem of double taxation or the cascading effect where tax was charged on a value that already included previous taxes. The outcome was inflated costs, burdensome compliance, and inefficiencies that weakened the competitiveness of the Indian economy.

The idea of reform was first articulated in 2000, when the Kelkar Task Force on Indirect Taxes recommended the introduction of a comprehensive Goods and Services Tax. Around the same time, the then Prime Minister Atal Bihari Vajpayee recognized the significance of the proposal and set up a committee headed by the West Bengal Finance Minister, Asim Dasgupta to design a framework for GST. Vajpayee's support gave institutional backing to the reform and ensured that both the Centre and states began discussions on building consensus.

The momentum continued with the empowered committee of state finance ministers, which between 2009 and 2014 refined the design advocated for its implementation and addressed federal concerns. This committee's efforts were crucial in keeping the reform alive through successive governments.

A breakthrough came with the Constitution (122nd Amendment) Bill which provided the constitutional foundation for GST and established the GST Council. This body was entrusted with deciding key aspects such as tax rates, exemptions, and structure, balancing the interests of both Centre and states.

After nearly two decades of debate, consensus-building and preparation GST was officially rolled out on 1 July 2017. It marked a watershed in India's economic history, realizing Vajpayee's early vision of *One Nation, One Tax*.

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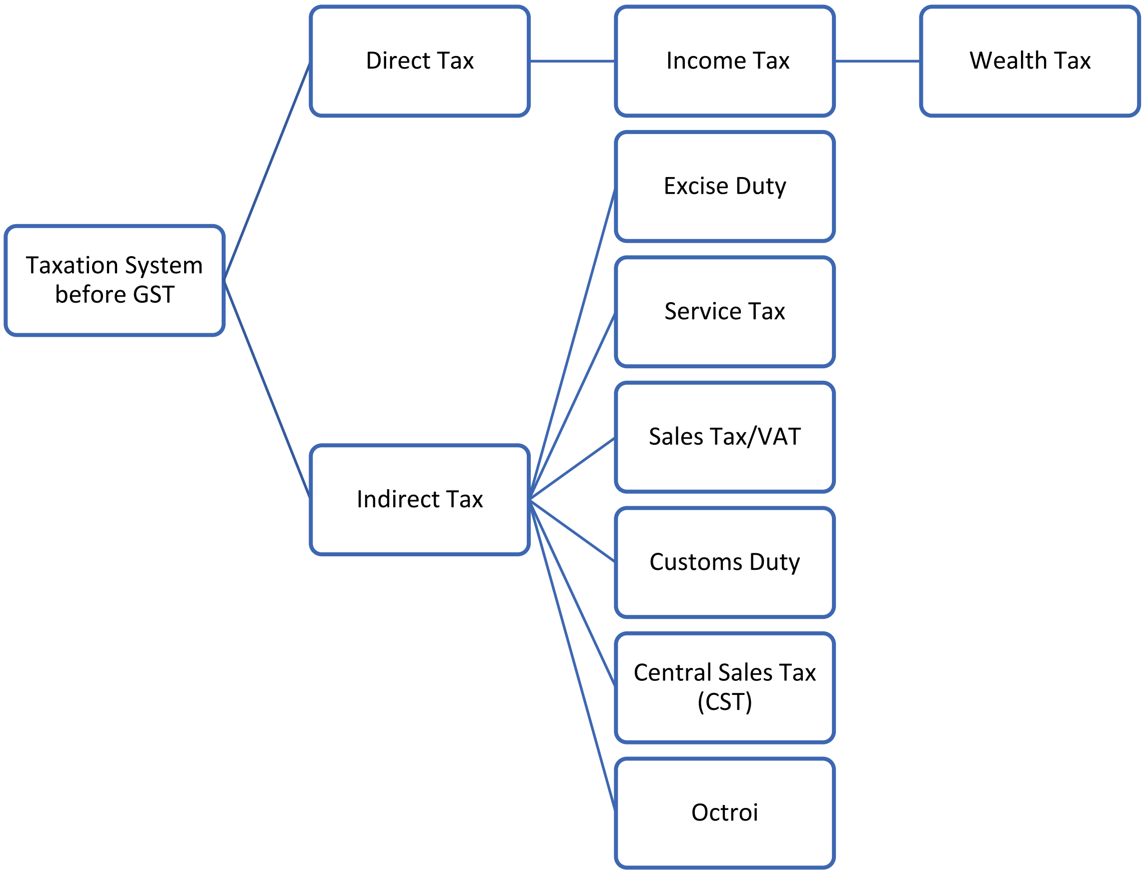
[1] ***Octroi*** - A fee for enabling goods to pass through a jurisdiction.



Taxation system before GST

Source: Article 246 of Constitution of India

3. Governing Body of GST

The Goods and Services Tax framework in India is anchored by the **GST Council**, which functions as its principal governing body. Instituted under **Article 279A of the Constitution** through the 101st Constitutional Amendment, the Council was conceived as an institutional mechanism to reconcile the fiscal interests of the Union and the states. By providing a structured forum for consultation and joint decision-making, it reflects the ethos of cooperative federalism and ensures that policy formulation in the domain of indirect taxation is based on consensus rather than unilateral authority.

The Council is chaired by the Union Finance Minister, while all state finance ministers and finance ministers of Union Territories with legislatures serve as members. This composition ensures equal representation, giving every state and union territory a voice in shaping India's tax regime. The institutional design reflects the balancing act between central authority and state autonomy, which is vital for a reform of such scale.

Decision-making within the Council follows a weighted voting structure that safeguards consensus. The Centre's vote has a weightage of one-third, while the states collectively hold two-thirds. Importantly, every decision requires a 75% majority, which prevents unilateral decisions and compels dialogue, negotiation, and compromise. This mechanism has played a key role in ensuring that GST policies are broadly acceptable to all stakeholders.

The Council's mandate is both wide-ranging and crucial. It recommends tax rates and exemptions, decides on thresholds for registration, and suggests procedures to simplify compliance. It also oversees the introduction of technological innovations to improve transparency and efficiency in tax administration. Equally important is its role in resolving disputes and ironing out differences between the Centre and the states, thereby ensuring smooth functioning of the system.

Over the years, the Council has emerged as the driver of reforms within GST. From rationalizing tax rates to easing compliance for small businesses, and from simplifying return filing to introducing digital tools like the e-way bill, the Council has guided key transitions. It has also played a critical role in addressing crises, such as providing relief measures during the COVID-19 pandemic.

Key Reforms Driven by the GST Council:

Year	Reform	Impact
2017	Rollout of GST with multiple tax slabs	Unified indirect tax system, end of cascading taxes
2018	Introduction of ***e-way bill*** [2]	Improved transparency in goods movement, reduced tax evasion
2019	Simplified return filing & rate rationalization	Reduced compliance burden; consumer-friendly reforms
2020	COVID-19 relief measures	Provided relaxations, extensions, and tax concessions during crisis
2021–22	Implementation of e-invoicing & ITC matching	Enhanced compliance, transparency, and digital record-keeping
Ongoing	Discussions on rate rationalization & simplification	Moving toward fewer slabs and a streamlined GST system

4. Structure of GST

The Goods and Services Tax in India was designed as a dual model to accommodate the country's federal system of governance, ensuring that both the Centre and the states retained their fiscal powers. Unlike a single unified tax, India's GST is shared between different levels of government, creating a balance of authority and revenue distribution. This framework comprises four distinct components. ***Central GST (CGST)*** is levied by the Central Government on the supply of goods and services within a state, while ***State GST (SGST)*** is imposed by the respective state governments on the same intra-state transactions. For inter-state supplies and trade across state borders, ***Integrated GST (IGST)*** is applied, with revenue collected by the Centre and later apportioned between the Centre and the destination state.

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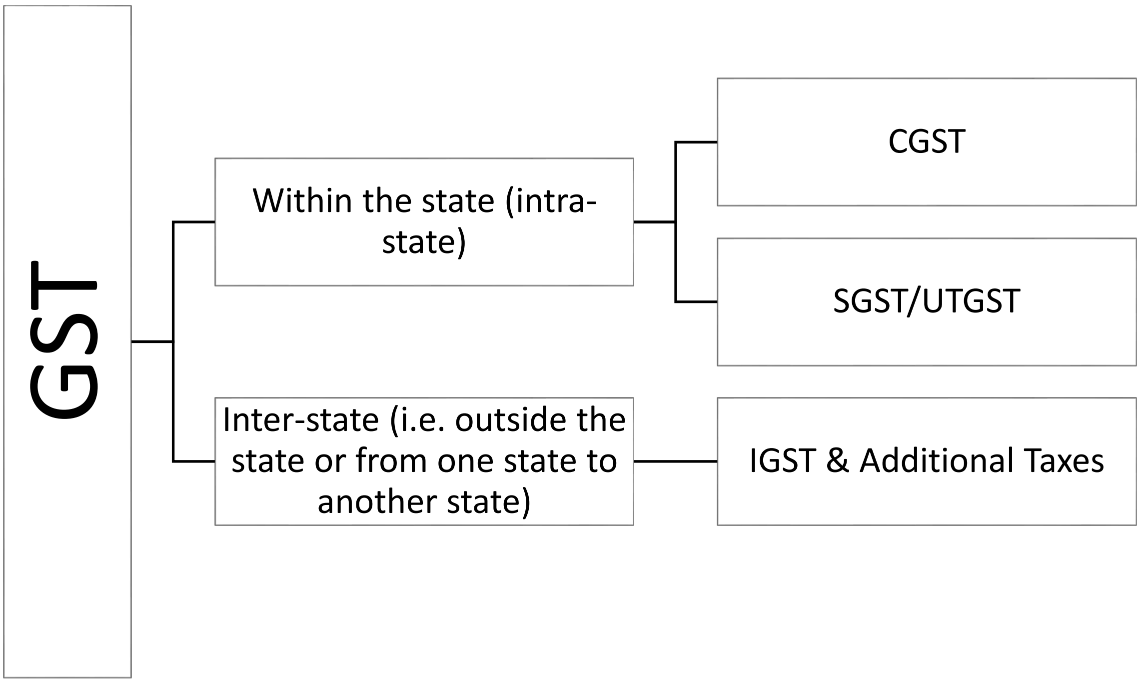
[2] ***E-Way Bill*** - Electronic way bill is an electronic document generated on the GST portal evidencing movement of goods.

In Union Territories without their own legislatures, ***Union Territory GST (UTGST)*** functions in place of SGST, operating on the same principles.
To address the diverse consumption patterns and revenue requirements of a vast economy, GST was initially structured with multiple tax slabs. Goods and services were categorized into four major brackets *5%, 12%, 18%, and 28%* with essential items kept in the lowest slab or exempted altogether to protect consumers, and luxury or sin goods placed in the highest slab, often with an additional cess. This multi-tiered structure, though criticized for its complexity, was considered necessary in the initial phase to balance fiscal needs with socio-economic equity.
One of the most transformative features of GST is the ***Input Tax Credit (ITC)*** [3] mechanism**.** Under this system, businesses can claim credit for the tax already paid on inputs used in the production or supply chain, ensuring that taxes are levied only on the value added at each stage. By eliminating the cascading effect of "tax on tax," ITC reduces overall costs, promotes transparency, and improves efficiency across industries.
The entire system is supported by the ***Goods and Services Tax Network (GSTN)****,* a robust digital platform that serves as the technological backbone of GST. GSTN enables seamless registration, return filing, tax payments, invoice matching, and ITC verification. Its technology-driven approach has not only enhanced transparency but also brought millions of taxpayers into a unified digital compliance framework.



5. *Initial Implementation Hurdles*

The rollout of the Goods and Services Tax (GST) on 1 July 2017 constituted a watershed moment in India's indirect taxation system. Nevertheless, as is characteristic of structural reforms of such magnitude, the initial phase of implementation was marked by significant operational and administrative challenges that constrained its effectiveness.

[3] ***Input-Tax Credit*** - The amount of GST paid by a registered person on the purchase of goods or services used for business purposes is known as input tax credit.

A foremost difficulty pertained to the **technological infrastructure**. The Goods and Services Tax Network (GSTN), envisaged as the digital backbone of the regime, experienced persistent technical malfunctions in its early months. Taxpayers frequently reported difficulties in registration, return filing, and invoice reconciliation, particularly during peak filing periods. The limited preparedness of the system to manage high volumes of concurrent transactions resulted in compliance disruptions and eroded confidence in the robustness of the platform.
Another challenge was the **compliance burden imposed on micro, small, and medium enterprises (MSMEs)** as well as small traders. Many of these entities lacked prior exposure to digital record-keeping and tax administration. The requirement for frequent return submissions, invoice-level reporting, and strict adherence to filing deadlines significantly raised transaction costs. For smaller businesses operating with limited resources, this transition from manual to digital compliance posed a formidable obstacle.

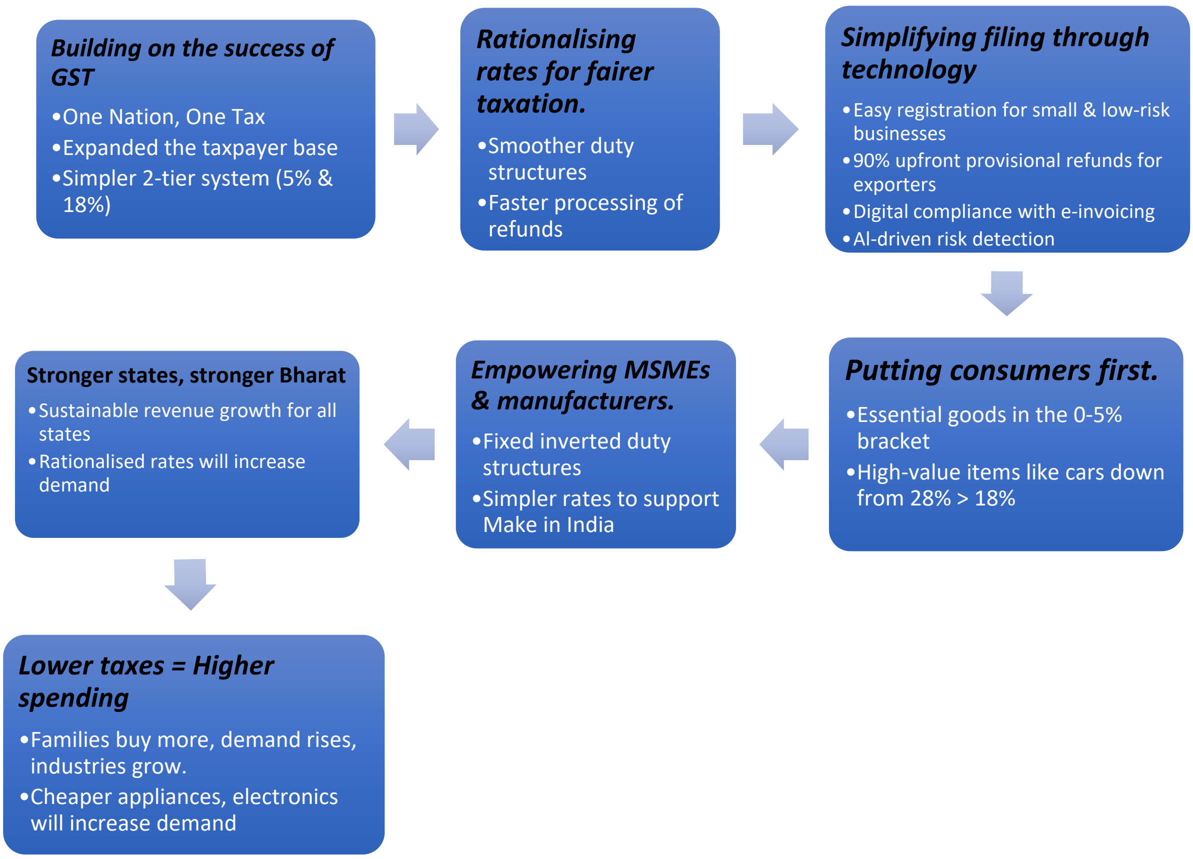
The issue of **refund delays** further complicated the implementation process. Exporters, in particular, were adversely affected as delays in processing refunds of Input Tax Credit (ITC) locked up substantial working capital. This liquidity constraint had implications for cost competitiveness, particularly in export-oriented sectors, and undermined one of GST's key objectives-facilitating ease of doing business.
Additionally, the **rate structure of GST** which initially incorporated multiple slabs of 5%, 12%, 18%, and 28%, along with additional cesses on select goods introduced a layer of complexity that contradicted the principle of simplification. Frequent revisions by the GST Council, though intended to rationalize the structure created uncertainty and compliance ambiguities for taxpayers.
Finally, **federal concerns regarding compensation to states** emerged as a point of contention. To build consensus for GST, the Centre had guaranteed compensation for revenue shortfalls over a five-year horizon. However, delays in the timely disbursal of compensation, particularly during periods of economic slowdown, generated friction between the Centre and the states and tested the cooperative federalism that underpinned the reform.
In sum, while GST marked a paradigm shift in India's tax system, its initial implementation underscored the challenges of institutional capacity, compliance readiness, and intergovernmental trust. These hurdles demonstrated the necessity of continuous adaptation and reform to stabilize and strengthen the system in subsequent years.

6. GST Council Reform 2025 (GST 2.0)

The 56th meeting of the GST Council, chaired by Union Finance Minister Smt. Nirmala Sitharaman marked the beginning of a new phase with the approval of *Next-Generation GST reforms* widely referred to as ***GST 2.0.*** These reforms seek to reduce the tax burden on citizens while ensuring ease of doing business for enterprises of all sizes from MSMEs to large corporations. In his Independence Day address, Prime Minister Narendra Modi had announced *"The government will bring Next-Generation GST reforms, which will bring down tax burden on the common man. It will be a Diwali gift for you."* The reforms he said would directly benefit the common man, farmers, MSMEs, women, youth, and middle-class families, while strengthening India's long-term growth.

In alignment with this vision, the GST Council has recommended a comprehensive reform package centred on simplification and fairness. A two-slab structure of *5% and 18%* will replace the earlier multiplicity of rates, reduce complexity and make taxation more predictable. A special *40%* GST slab is introduced for luxury and sin goods such as high-end cars and tobacco products. The reforms also provide sweeping rate reductions for labour-intensive industries, agriculture, healthcare, and other key drivers of the economy. The revised rates and exemptions will come into force on *22 September 2025* ensuring timely relief for households, farmers, and small businesses.

The reforms are anchored in the ***Seven Pillars of Next-Gen GST***, which focus on building a simplified, fair, and growth-oriented taxation system. They include a streamlined two-tier rate structure, consumer-focused tax relief, digital filing and faster refunds, empowerment of MSMEs, stronger revenue stability for states, and measures to boost consumption and manufacturing.



<u>Seven Pillars of Next-Gen GST Reforms (GST 2.0)</u>

(Source: Ministry of Finance, GOI)

By securing consensus among all Council members, GST 2.0 reflects the spirit of *cooperative federalism* that underpins the GST framework. The reform package signals a decisive step towards a more efficient and inclusive tax system one that balances the interests of consumers, businesses, and states. Positioned as a transformative measure GST 2.0 reaffirms

GST's dual role as both a ***fiscal stabiliser*** and a ***catalyst*** for long-term growth, ensuring that the benefits of economic progress reach all sections of society.

7. Revenue Trends and GST Collection

Since its inception, the Goods and Services Tax has emerged as a crucial pillar of India's fiscal architecture, not only simplifying indirect taxation but also contributing significantly to revenue mobilisation. The financial year 2024–25 has been particularly noteworthy, registering record-breaking collections that underscore both the maturity of the GST framework and the resilience of the Indian economy.

For the fiscal year 2024–25, gross GST collections reached ₹22.08 lakh crore, reflecting a robust 9.4% year-on-year growth. This performance highlights the effectiveness of ongoing reforms, better compliance mechanisms, and enhanced use of digital infrastructure, which have collectively strengthened revenue buoyancy.

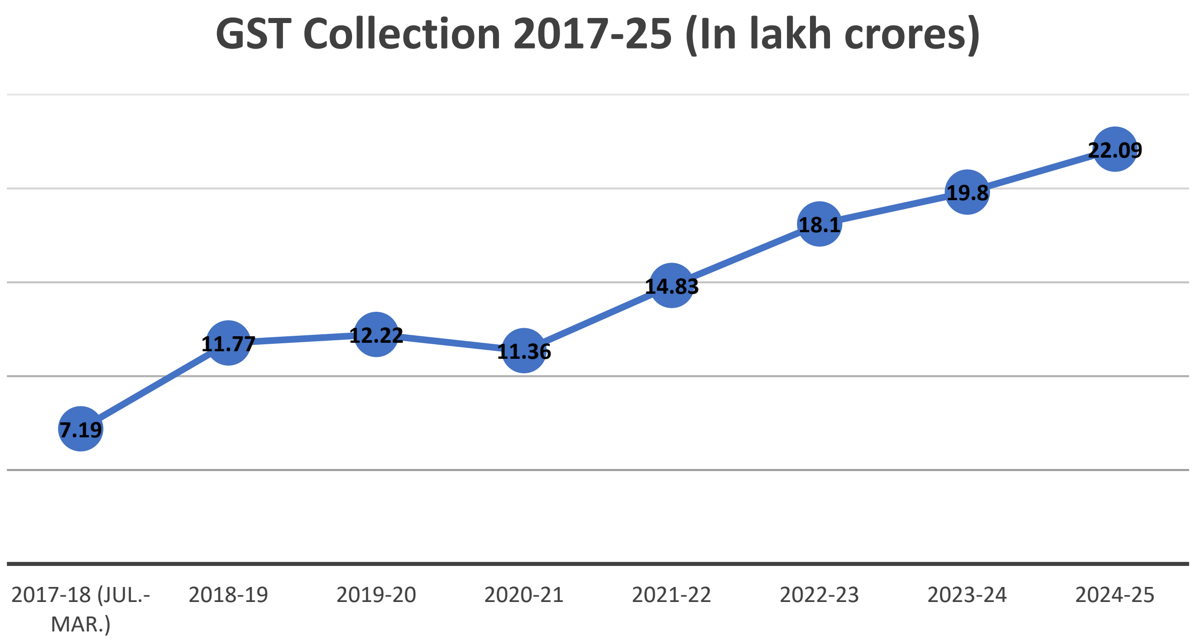
Monthly collection figures further demonstrate the strength of the system. In April 2025, gross collections touched an unprecedented ₹2.37 lakh crore, representing a 12.6% increase year-on-year. The net revenue stood at ₹2.09 lakh crore, marking a 9.1% growth compared to the corresponding period in the previous year. This peak, coinciding with the opening month of the fiscal cycle, is indicative of heightened economic activity and the successful integration of recent GST reforms.

The month of March 2025 also recorded strong momentum, with gross collections of ₹1.96 lakh crore a 9.9% rise year-on-year. Net revenue during this period stood at ₹1.76 lakh crore, reflecting 7.3% growth. Such figures are particularly significant as they illustrate stability in the system during the fiscal year-end, a time when reconciliations and filings often reveal the true depth of compliance and enforcement efficiency.

Similarly, February 2025 registered gross collections of ₹1.84 lakh crore, a 9.1% year-on-year increase, with net revenues at ₹1.63 lakh crore, translating to 8.1% growth. These steady figures reinforce the observation that GST collections have consistently maintained a strong upward trajectory, supported by better reporting, improved technology, and sectoral growth.

The combination of record annual revenues and sustained monthly increases demonstrates that GST has matured into a stable and productive source of revenue for both the Union and the states. Furthermore, these trends reflect the success of compliance initiatives such as e-invoicing, tighter return matching, and the drive toward digital filing, all of which have curbed leakages and widened the tax base.

Overall, the fiscal year 2024–25 signifies a milestone in India's GST journey. The revenue buoyancy achieved not only augments fiscal space for developmental expenditure but also validates the broader policy direction of simplifying tax structures, promoting compliance, and strengthening cooperative federalism in the realm of indirect taxation.



(*Goods and Services Tax Council | Goods and Services Tax Council*, n.d.)

8. Benefits and Ongoing Challenges

The outcomes over the past eight years reflect both significant benefits and persistent challenges, underscoring the dynamic nature of tax reform in a federal democracy.

- **Key Benefits**

One of the most notable advantages has been the ***simplification of the tax structure and compliance system*.** By subsuming a wide array of indirect taxes at the central and state levels into a unified framework, GST has replaced a fragmented and often overlapping system with greater uniformity and predictability. This simplification has reduced inefficiencies, streamlined interstate trade, and created a seamless national market.

A second benefit lies in the ***affordability of essential and consumer goods*.** Rationalised tax rates and the elimination of cascading taxes have moderated prices across multiple categories, benefitting households and stimulating consumption. The recent move toward a two-tier slab structure further strengthens this trend by placing common goods and services in lower tax categories.

Additionally, GST has played a pivotal role in ***boosting the formal economy, consumption, and the MSME sector.*** Digital compliance systems, e-invoicing, and input tax credit mechanisms have encouraged greater formalisation, thereby expanding the tax base. For MSMEs, access to input credits and a unified system of taxation across states have reduced operational barriers and enhanced competitiveness, particularly in manufacturing and labour-intensive industries.

- **Ongoing Challenges**

Despite these gains, several challenges persist. One pressing issue is the ***risk of revenue reduction for states,*** especially in the post-compensation era. With the expiration of the five-year guaranteed compensation window, states face heightened fiscal stress, making recalibration of fiscal federalism essential to maintain equity and cooperative governance.

Another concern is the ***compliance burden, particularly for small taxpayers***. While digitalisation has enhanced efficiency, the frequency of filings, technical requirements of GSTN, and invoice-matching obligations continue to pose difficulties for micro and small businesses with limited resources or digital literacy.

The ***timeliness of refunds*** remains a further challenge, particularly for exporters and MSMEs. Delays in processing refunds of Input Tax Credit affect liquidity, undermining the ease of doing business. Building trust in digital systems through robust infrastructure and predictable refund cycles is thus critical.

In sum, GST represents a balance of achievement and ongoing reform. While it has simplified taxation, reduced costs, and expanded the formal economy, it continues to evolve in addressing revenue sharing, compliance complexity, and operational efficiency. Sustained policy innovation, consensus-building through the GST Council, and robust digital capacity are essential to consolidating its long-term role as a cornerstone of India's fiscal and economic architecture.

9. Future Path of GST and Digital Transformation

As the Goods and Services Tax continues to evolve, its future trajectory is shaped by both policy refinement and technological innovation. Central to this progression is the GST Council, which remains the apex decision-making body responsible for setting rates, formulating policy guidelines, and resolving disputes between the Centre and states. The Council's ongoing deliberations are expected to steer the system towards further simplification, including the potential adoption of a single or dual rate model, thereby reducing complexity for taxpayers and enhancing predictability in revenue collection.

Technological advancement is poised to play a pivotal role in shaping the next phase of GST. The integration of *Artificial Intelligence (AI) and Big Data analytics* into the GST framework offers the potential to identify patterns of tax evasion and non-compliance, enabling targeted enforcement and enhanced monitoring. Simultaneously, e-invoicing and automated reconciliation systems are expected to further streamline compliance processes by reducing manual intervention, minimizing errors, and accelerating Input Tax Credit (ITC) claims.

Emerging technologies such as *blockchain* are also being explored for invoice authentication and fraud prevention, providing immutable records that strengthen trust between taxpayers and authorities. Moreover, the integration of GST with Unified Payments Interface (UPI) and other digital payment platforms is anticipated to enhance transaction efficiency and provide real-time tracking of payments, thereby reducing delays and administrative burdens.

The cumulative impact of these digital measures is significant. Simplified filing processes, lower compliance costs, and greater transparency are expected to improve taxpayer confidence and strengthen the credibility of the tax system. For businesses, particularly MSMEs, these reforms facilitate smoother operations and cash flow management, aligning GST more closely with the principles of Ease of Doing Business.

Beyond operational benefits, the digital transformation of GST also contributes to economic growth**.** By formalising more transactions, curbing tax evasion, and promoting transparency the system is likely to expand the tax base, enhance revenue stability, and support fiscal planning for developmental initiatives. In effect, GST is positioned not merely as a revenue instrument but as a strategic enabler of economic efficiency and inclusivity.

The integration of policy simplification with advanced digital infrastructure will continue to define GST's evolution. By combining regulatory foresight with technological innovation, India aims to create a tax ecosystem that is ***transparent, efficient, and growth-oriented***, thereby reinforcing GST's role as both a fiscal stabiliser and a catalyst for long-term economic development.

10. Conclusion

In conclusion, the Goods and Services Tax (GST) has emerged as a transformative and continuously evolving reform, redefining India's taxation landscape. By unifying multiple indirect taxes into a single framework it has simplified compliance, reduced cascading effects, and promoted greater economic integration across the nation. Central to this success is the GST Council which plays a pivotal role in shaping policies, resolving disputes, and balancing the interests of both the Centre and the States, ensuring that diverse stakeholders are fairly represented. Beyond policy, GST's ongoing evolution is closely connected with technology, leveraging digital tools such as e-invoicing, automated reconciliation, and data analytics to enhance transparency, efficiency, and ease of doing business. Together, these policy and technological advancements are steering India toward the vision of "One Nation, One Tax, One Market," fostering a more cohesive, efficient, and investor-friendly environment that supports sustainable economic growth and strengthens public trust in the taxation system.

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