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POLICY BRIEF - 75

India's GST 2.0: A Policy Agenda for Consolidating Gains and Deepening Reforms

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The Context:

The idea of a unified Goods and Services Tax (GST) in India emerged from a long-standing need to reform a fragmented indirect tax system plagued by cascading taxes and complicated compliance (Sharma, 2020; Bhushan, 2018; Shah, 2024). Emerging from formal design work such as the Kelkar Task Force and sustained negotiations between the Centre and states (Drabu, 2023), GST was conceptualised as a structural reform to consolidate multiple central and state levies (such as central excise, service tax, state VATs, entry taxes, etc.) into a unified, destination-based dual tax system. Its core design sought to delicately balance a critical objective: Creating an integrated national market while preserving the fiscal autonomy of states. This inherent tension of managing national integration against federal independence has defined the GST project from its inception. The key institutional innovation to manage this balance was the establishment of the GST Council in 2016. This permanent, transformative forum, where the Centre and states jointly decide tax policy, has been instrumental in translating the constitutional mandate into an operational framework and stands as a model for cooperative federalism (Kir, 2021; Yadav, 2022 and Ajay, 2015).

With the introduction of GST in July 2017, India embarked on a new and complex phase of taxation. The initial years soon revealed several operational challenges, including multiple tax rate slabs, disputes related to input tax credits, and increased compliance burdens. These issues highlighted the difficult trade-offs embedded in the design of the system, along with concerns regarding compensation to states for revenue losses arising from the reform (Nayak & Pandurang, 2019; Kelkar, 2019; Sureka & Bordoloi, 2024).

The GST is best understood as a process rather than a one-time event. Its design and implementation have unfolded gradually, shaped by constitutional amendments, political negotiations, and continuous refinements through the GST Council. On the positive side, GST has unified a fragmented indirect tax system by replacing multiple levies with a single destination-based tax, thereby simplifying compliance and reducing cascading effects. It has enabled the seamless movement of goods and services across state borders, abolished check posts, and improved supply chain efficiency. Revenue collections have grown, and the GST Council itself has emerged as a transformative institution of cooperative federalism, offering a model for inter-governmental negotiation and consensus building (Garg et al, 2025).

At the same time, GST's shortcomings reveal why it remains a work in progress. The multiplicity of rate slabs complicates classification and compliance, while numerous exemptions disrupt the flow of input tax credit. Key commodities such as petroleum products and alcohol remain outside its ambit, creating distortions and arbitrage opportunities. Dispute resolution mechanisms are fragmented, with

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multiple tribunals and state-level advance ruling committees leading to inconsistency (Srivastava & Kumar, 2012). States have also expressed concerns about compensation, revenue neutrality, and the destination-based nature of GST, which they argue reduces fiscal autonomy. Industry resistance to measures like the anti-profiteering law further highlights the tension between policy intent and market realities (Mukherjee, 2020). Taken together, GST has delivered significant gains in simplification, revenue productivity, and national integration, but its weaknesses underscore the need for constant restructuring and institutional strengthening.

Despite its shortcomings, GST has delivered important gains such as the simplification of the indirect tax structure, removal of inter-state check-posts, smoother movement of goods across state borders, and an expanded tax base that has contributed to higher revenue collections (Sharma, 2020). At the same time, critics and practitioners point to unresolved issues such as the multiplicity of rate slabs, inverted duty structures that restrict input credit, exclusion of certain petroleum products and alcohol, and issues surrounding compensation and destination-based revenue sharing. These challenges have strengthened calls for a GST 2.0 that would focus on rate rationalisation, broadening the tax base, and improving mechanisms for dispute resolution and data transparency mechanisms (Kelkar, 2019).

GST Reforms: The GST 2.0

In response to the operational challenges that surfaced during its initial years, the GST Council introduced “GST 2.0” in 2025 as a significant course correction. Through a series of Council decisions, this phase marked a deliberate departure from the original framework, demonstrating the reform process’s responsiveness to ground-level realities. The initiative focused on addressing two critical shortcomings of the first generation. First, on the rate front, GST 2.0 has pursued significant consolidation. The framework has moved toward a leaner structure (5%, 18%, 40%, replacing the old 5%, 12%, 18%, and 28% slabs). It is built around a lower merit rate and a standard rate supplemented by a higher demerit rate for sin and luxury goods (40%), while simultaneously lowering rates to 5% on many household essentials (such as toothpaste, hair oil, soaps, shampoos, and pressure cookers) and electronics (TVs, ACs, washing machines), cement, and auto parts to 18%. By simplifying the rate architecture and reducing exemptions, GST reform 2.0 aims to restore the seamless flow of input tax credit, reduce classification disputes, and ease compliance burdens.

Second, the digital management of taxation has been substantially upgraded. To increase compliance and curb tax evasion, the GST administration now increasingly relies on technical instruments, including e-invoicing, e-way bills, invoice-matching systems, and integrated data analytics. By linking GST systems with digital payment platforms and other government databases, authorities can better identify fraudulent input tax credit claims and improve transaction traceability. These digital infrastructure and improvement in tax administration have been crucial in enhancing transparency and bolstering tax compliance (Dikshit et al., 2022; Shukla & Kumar, 2019).

The implications of GST 2.0 for federal fiscal relations and administration are significant. The Council’s central role in designing and implementing these changes reinforces its status as a model forum for intergovernmental negotiation. At the same time, the reforms have renewed debates about state compensation, destination-based revenue sharing, and the balance of authority between the GST Council and other fiscal institutions. It highlights the ongoing need to balance political trade-offs in order to safeguard states’ fiscal autonomy and ensure revenue stability.

Looking ahead, GST 2.0 should be read as the next stage in an ongoing process rather than a final settlement. While it successfully addresses first-generation shortcomings, such as rate multiplicity, inverted duties, and excessive exemptions, it simultaneously opens new priorities for the next phase of reform. These include ensuring consistent interpretation through a stronger national advance ruling mechanism, improving dispute resolution to reduce tribunal fragmentation, and transparently sharing GST data to build trust among stakeholders. However, as discussions reveal, even these significant strides in rate consolidation and digital infrastructure are insufficient to address the full spectrum of challenges. Whether GST 2.0 delivers durable gains in efficiency, equity, and revenue stability will ultimately depend on how well these new priorities are pursued through continued iterative refinement, strengthened institutional capacity, and sustained cooperative federalism. Recognising GST as a dynamic and evolving framework is therefore essential for understanding its trajectory, from its initial phase to the emerging GST 2.0, and for identifying the direction of future reforms. The following recommendations build on GST 2.0’s foundation, identifying areas where further action is required to translate initial gains into a durable and equitable system.

A Way Forward

The two-day conference organised by the Centre for Economic Studies and Policy (CESP), ISEC on "**The GST Conundrum: Unravelling Impacts on Economy and Society**" clearly established that India's GST reform is best understood as a dynamic, ongoing process rather than a concluded event. While the initial phase successfully delivered the structural achievement of "One Nation, One Tax," and GST 2.0 has initiated a critical course correction, the challenges identified across federal tensions, compliance burdens, and distributional impacts reveal that the system remains a "work in progress." Building on the conference's diagnosis that "GST is here to stay," the way forward must treat GST as an evolving project to address operational inefficiencies, structural distortions, and institutional weaknesses.

1. **Simplify the rate architecture:** The multiplicity of tax slabs (5%, 18%, 40%) and the presence of an inverted duty structure were identified as primary sources of classification disputes, compliance burden, and litigation. The GST reforms can address these structural distortions with greater simplification of rates having clear guidelines. These are quintessential to reduce administrative and legal costs for both businesses and the tax department. However, any simplification exercise must be mindful of creating a "large difference" between rates (such as 5% and 18%) as it may itself become a source of distortion and arbitrage.
2. **Complete rate rationalisation:** The future policy agenda needs to move toward a leaner structure with a stable rate architecture safeguarding against tax evasion and arbitrage.
3. **Phase out exemptions:** The proliferation of exemptions is one of the stumbling blocks towards free flow of credit and leads to fragmentation of the ITC chain. A systematic phasing out of exemptions could be taken in the medium term, starting with the most distortionary to restore the seamless flow of credit and improve the system's overall efficiency.
4. **Broaden the tax base with a time-bound roadmap:** The exclusion of petroleum products (including ATF) and alcohol remains one of the fundamental weaknesses of the current GST framework. Exclusion perpetuates cascading of taxes, breaks in the ITC chain, and creates significant arbitrage opportunities. A clear, time-bound path to bring petroleum products and alcohol into the GST net is essential.
5. **Professionalise the GST Council:** The GST Council holds huge potential for cohesive federal relations, negotiations on key disputes, and cooperative decision-making. However, the Council suffers from the perceptions of unprofessionalism and Union Government dominance. The effectiveness of the Council can be further professionalised with a proper standing technical secretariat staffed by independent experts. This would equip all states, irrespective of their administrative capacity, with data-driven analysis to inform their negotiating positions. A feedback mechanism on revenue and distributional impacts of proposed changes would also foster greater trust and consensus.
6. **Create a National Authority for uniform interpretation:** The current system of fragmented dispute resolution with multiple state-level tribunals and advance ruling committees leads to litigation and uncertainty. To reduce litigation and improve predictability for businesses, a single national authority for advance rulings should be established. This body would provide binding, uniform interpretations of GST law, ensuring businesses operating across state borders are subject to a consistent set of rules. Consolidating dispute resolution and setting strict timelines for appeals would further reduce litigation.
7. **Mandate transparent data sharing:** Anonymised, high-frequency GST data should be made available for independent research and analysis. Such transparency would enable evidence-based policy-making, allow for real-time monitoring of distributional impacts, and build greater public trust in the system. It would empower stakeholders from state governments to academic researchers to contribute to the ongoing refinement of GST with empirical rigor.

Concluding Remarks

If GST's first generation delivered "One Nation, One Tax," the next phase must translate that structural achievement into a simpler, fairer, and more durable system. This requires a multi-pronged approach: immediate technical fixes to ease compliance and working capital stress, medium-term structural reforms to broaden the tax base, and sustained institutional strengthening to build trust and ensure uniformity. The GST Council, as India's innovative forum for cooperative federalism, must be further professionalised to lead this evolution. The ultimate measure of success will be a system that not only collects revenue efficiently but also commands the trust of taxpayers, respects the autonomy of states, and delivers equitable welfare outcomes for all households. Going forward, ongoing and future reforms should focus on strengthening cooperative federalism, broadening the tax base, and simplifying the rate structure, while gradually eliminating inefficiencies that undermine the system's overall effectiveness.

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