
STRUCTURAL TRANSFORMATION AND ECONOMIC RECALIBRATION: AN ANALYSIS OF INDIA'S NEXT- GENERATION GOODS AND SERVICES TAX RATIONALISATION

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I. INTRODUCTION

The implementation of the Goods and Services Tax (GST) on July 1, 2017, marked the most profound structural shift in India's indirect tax framework since the nation attained independence.¹ By consolidating a fragmented landscape of numerous central and state levies into a unified, destination-based consumption tax, the reform achieved several critical objectives: the elimination of tax cascading, the creation of a seamless national market, enhanced compliance transparency, and increased formalization of economic activity.² The initial success of the GST was inextricably linked to the constitutional mandate enshrined in the 101st Constitution Amendment Act, 2016,³ which conferred simultaneous power upon the Parliament and State Legislatures and established the Goods and Services Tax Council (GST Council) under Article 279A to govern the system collaboratively.⁴ This foundational constitutional mechanism ensured that the new regime, despite its complexities, remained rooted in the principles of cooperative fiscal federalism.

However, the GST regime, in its initial eight years, presented persistent structural friction stemming largely from the compromise required to introduce such a sweeping reform in a diverse federal economy. The original four-tier rate structure (5 percent, 12 percent, 18 percent, and 28 percent), supplemented by special rates and the Compensation Cess, while politically necessary for initial consensus, inherently complicated the tax landscape. This multi-rate architecture led to ongoing classification disputes, administrative burdens, and reduced ease of

¹ Press Information Bureau, 'GST Reforms 2025: Relief for Common Man, Boost for Farmers, MSMEs and Middle Class' (PIB, 2025) <https://pib.gov.in> accessed 28 September 2025.

² Press Information Bureau, 'Record Gross GST collection in 2024–25; Survey finds 85% industry approval' (PIB, 2025) <https://pib.gov.in> accessed 28 September 2025.

³ Constitution (One Hundred and First Amendment) Act 2016; See also Goods and Services Tax Council, 'The GST Council' (GST Council) <https://gstcouncil.gov.in/> accessed 28 September 2025.

⁴ Constitution of India 1950, art 279A.

compliance, particularly for Micro, Small, and Medium Enterprises (MSMEs).⁵

Recognizing these limitations and seeking to realize the long-term goal of simplicity and efficiency, the Union Government announced the "Next-Generation GST reforms," often referred to as GST 2.0, focusing on achieving true rate rationalisation. The impetus for these reforms was driven by a commitment to simplifying compliance and directly improving the economic welfare of the populace, specifically targeting relief for the common man, farmers, MSMEs, and the middle class.¹ These comprehensive reforms, sanctioned by the GST Council in its 56th meeting, moved beyond mere incremental adjustments and sought a fundamental structural correction.

The necessity for GST 2.0 substantiates the initial critiques that the original structure fell short of the fundamental VAT principles of neutrality and administrative efficiency, principles exemplified in simpler VAT structures worldwide. The existence of numerous slabs inherently created boundaries where classification ambiguity could flourish. The current rationalisation is thus interpreted not simply as a policy change, but as an essential structural correction designed to move India's GST closer to the theoretical ideal of a unified, low-friction Value Added Tax system.

The strategic timing of the reform implementation, deliberately coinciding with the onset of the consumption-heavy festive period, suggests a clear political economy strategy aimed at maximizing public benefit and immediate demand stimulation. The intention extends beyond purely fiscal efficiency; by reducing taxes on high-consumption items and positioning the reforms as a direct benefit package, the government aimed to inject immediate purchasing power into household disposable income,⁶ thereby amplifying the visible impact of the reform package. This move transforms the GST from a technical fiscal instrument into a potent tool of consumer welfare policy.

II. THE NEW ARCHITECTURE OF FISCAL FEDERALISM: DECONSTRUCTING THE TWO-SLAB MECHANISM AND THE POLITICAL ECONOMY OF RATE MIGRATION

The core of the recent structural transformation lies in the move away from the four-tier

⁵ 'How GST 2.0 rationalisation will impact MSMEs' *India Today* (online, 2025) <https://indiatoday.in> accessed 28 September 2025.

⁶ ICRA Limited, 'GST Rationalisation' (ICRA) <https://www.icra.in> accessed 28 September 2025.

structure to a significantly simplified regime based primarily on two slabs: 5 percent and 18 percent. This ambitious rationalisation effectively phased out the 12 percent and 28 percent rates for the majority of goods and services, with the new rates coming into effect on September 22.⁷ This structural overhaul required meticulous planning concerning the strategic migration of hundreds of product categories across the new tax thresholds.

The rate migration strategy adopted by the GST Council was heavily skewed towards reduction, deliberately minimizing the scope for continued classification disputes and maximizing consumer benefit. Detailed estimates suggest a significant downward shift: approximately 99 percent of the goods previously classified under the 12 percent slab were moved down into the 5 percent category. This mass relocation instantly lowers the tax incidence on a broad range of intermediate and finished goods, providing expansive relief to labor-intensive industries. Similarly, products previously subjected to the 28 percent rate saw sweeping relief, with approximately 90 percent of these items migrating downwards into the standard 18 percent slab. Only a small fraction, estimated at 10 percent of the former 28 percent basket, was reserved for the newly established highest rate of 40 percent.

The strategic movement of goods underscores the policy's dual intent: stimulating consumption and achieving administrative simplicity. By minimizing the number of goods positioned ambiguously near a rate threshold, the likelihood of classification disputes is drastically reduced. For instance, the earlier regime often encountered interpretive difficulties concerning the taxation of discounted products, where a nominal price might push an item into a higher slab despite its actual transaction value being lower, leading to litigation. The new structure largely eliminates these borderline cases, lowering compliance costs and fostering greater certainty for both the manufacturer and the tax authority.

- **The Role of the Special 40 Percent Slab**

The introduction of the 40 percent special rate for specific categories of goods represents a crucial mechanism for fiscal stability within the rationalized structure. This highest slab is specifically applied to "sin goods" and certain super-luxury items, including tobacco, pan masala, gutka, aerated drinks, high-end motor vehicles (cars larger than 1,200 cc petrol or 1,500

⁷ GST Rationalisation Can Ignite Private Capex Cycle, Say Economists' *ET CFO* (online) <https://cfo.economictimes.indiatimes.com> accessed 28 September 2025.

cc diesel), yachts, and aircraft for personal use.⁸

The fiscal rationale behind the 40 percent slab is not merely punitive but fundamentally structural. Prior to this rationalisation, these demerit goods were subjected to the 28 percent GST rate supplemented by the GST Compensation Cess. With the constitutional provision for State Compensation Cess having expired post-FY2022, the government faced the challenge of maintaining the effective tax incidence on these inelastic items without compromising the revenue streams traditionally supported by the Cess. By consolidating the equivalent burden into a single statutory 40 percent GST rate, the government ensured that the revenue base derived from these items remained robust and largely unchanged, thereby mitigating the potential revenue dent caused by the massive rate cuts applied across mass consumption categories. This revenue-neutral maneuver on the 'sin' basket provided the necessary fiscal headroom to afford the significant tax reductions on essential and middle-class consumption goods.

The successful implementation of such sweeping rationalization, involving a consensus on the shifting tax burden across sectors, critically highlights the enduring functionality and maturity of the GST Council established under Article 279A. Achieving agreement among the Union and State Finance Ministers on a structure that fundamentally alters the fiscal trajectory of specific goods demonstrates a powerful commitment to unified, coherent fiscal policy. This consensus suggests that political stakeholders across the federal spectrum prioritized macro-economic stability and the long-term consumption stimulus over short-term, micro-level tax control, effectively reinforcing the collaborative nature of India's fiscal federalism.

The strategic repositioning of tax slabs is best illustrated by quantifying the scale of the adjustment:

Table 1: Movement of Goods from Previous Slabs to the Rationalized GST 2.0 Structure

Previous Slab (Old GST)	Migration Percentage (Est.)	New Primary Slab (GST 2.0)	Key Policy Outcome
28%	90%	18%	Significant tax relief for white goods, cement, and entry-level automobiles

⁸ 'GST Council approves highest tax rate of 40% on these goods' *The Economic Times* (online) <https://m.economictimes.com> accessed 28 September 2025; See also 'What Are Sin Goods And Why They Attract The Highest GST Rate' *NDTV* (online) <https://ndtv.com> accessed 28 September 2025.

Previous Slab (Old GST)	Migration Percentage (Est.)	New Primary Slab (GST 2.0)	Key Policy Outcome
28%	10%	40% (Special Rate)	Revenue consolidation on demerit/sin goods; Cess mechanism integrated
12%	99%	5%	Maximize affordability; targeted relief for labor-intensive sectors (Textiles, Footwear)
12%	1%	18%	Highly Value-Added Items and Select Services
5%	-	5% or Nil	Continued low taxation on household essentials, drugs, and life-saving items

This structured migration confirms that the core objective was simplicity coupled with maximized consumer benefit, leading to a cleaner delineation of tax rates and minimizing administrative gray areas.

III. MACROECONOMIC STABILIZATION AND GROWTH STIMULUS: ASSESSING THE NEXUS BETWEEN RATIONALISATION, INFLATION, AND CAPITAL FORMATION

The immediate macroeconomic consequences of the GST rationalisation are projected to be substantially positive, acting as a crucial intervention to bolster consumption and stabilize prices. The most tangible fiscal benefit relates to inflation control. By shifting numerous items, especially household essentials, intermediate goods, and common consumer durables, from higher tax brackets (12 percent and 28 percent) down to 5 percent and 18 percent, the structural reform is expected to dampen the headline Consumer Price Index (CPI). Analysts project that the GST rationalisation could reduce CPI inflation prints by at least 25 to 35 basis points (bps) spanning from the third quarter of Fiscal Year (FY) 2026 through the second quarter of FY 2027. This structural reduction in price pressure, initiated from the supply side through tax cuts, is a significant non-monetary tool for price stability.

The reduction in the tax burden is forecasted to unlock substantial household purchasing power, directly translating into increased consumption. Chief economists suggest that the rationalisation could spur consumption by approximately ₹1.98 lakh crore through the resultant boost in household disposable income. This deliberate policy choice positions the tax reform as a direct counter-cyclical fiscal measure, injecting necessary liquidity into household budgets, particularly crucial in an economic phase where investment-led growth, while strong, had not sufficiently translated into widespread employment or wage growth to sustain robust private demand.

This strategic fiscal injection addresses what economists have identified as India's "Achilles heel"—the weakness in household demand. The intended effect is a shift toward a more consumption-led recovery, which, in turn, is designed to resolve the current paradox where strong public investment coexists with sluggish private capital expenditure (Capex). If the tax cut successfully spurs domestic consumption, it is widely expected to trigger a virtuous investment cycle, particularly benefiting consumer-facing industries such as Fast-Moving Consumer Goods (FMCG), durables, and automobiles.⁹ Reflecting this optimism, analysts revised the FY 2026 GDP growth forecast upwards to 6.5 percent, from an earlier projection of 6.0 percent, anticipating a strong positive impact on growth in the later quarters of the fiscal year.

The projected CPI dampening effect also holds significant ramifications for monetary policy. A structural reduction in inflation (25-35 bps) provides the Reserve Bank of India (RBI) with enhanced flexibility. While robust GDP growth might otherwise limit the scope for interest rate reductions, the inherent deflationary impulse generated by the GST cuts mitigates this concern. This easing of the trade-off between growth support and inflation control potentially opens the door for further monetary accommodation, thereby providing an indirect boost to credit growth and overall investment sentiment.

Crucially, the government was able to undertake such sweeping rate reductions without risking a catastrophic collapse in revenue collections due to the underlying strength of the tax base. The years leading up to the rationalisation saw record fiscal performance, with gross GST collections hitting ₹22.08 lakh crore in 2024–25, marking a strong year-on-year growth of

⁹ 'GST Revenue Collection in India: A Comparative State-Level Analysis' (ResearchGate) accessed 28 September 2025.

9.4 percent. This buoyancy is widely credited to the systemic improvements in compliance, the growing formalization of the economy, and the stability provided by digital interventions like e-invoicing and e-way bills. This stable, growing revenue provides the essential fiscal cushion, allowing the government to accept the predicted temporary dent in revenue generation caused by the rate cuts, thereby accommodating the policy’s primary goal of consumption stimulus.

Despite the positive outlook for growth, economists have voiced necessary caution regarding the immediate impact on the Union government's fiscal position. The foregone revenue, moderate though it may be in the short term, is expected to place temporary pressure on the fiscal deficit, particularly when compounded by external factors such as prevailing uncertainty related to global trade tariffs and the need for continued support for key sectors. The challenge for policymakers will be to manage this short-term revenue pressure while ensuring that businesses transparently pass on the tax savings to the consumers, thereby fulfilling the intended consumption multiplier effect.

The expected outcomes are summarized in the following projection table:

Table 2: Macroeconomic and Fiscal Projections Post-GST Rationalisation (FY 2026 Estimates)

Indicator	Baseline/Pre-Reform Outlook (FY25)	Post-Rationalisation Forecast (FY26)	Impact Metric
Gross GST Collection (Annual)	₹22.08 Lakh Crore (FY25 Actual)	Expected to grow, despite short-term dent	Indicates strong compliance foundation
Consumption Boost (Annualized)	N/A	Up to ₹1.98 Lakh Crore	Projected increase in household disposable income
CPI Inflation Rate Impact	N/A	Dampened by 25 to 35 bps	Expected relief in headline inflation prints; potential monetary policy flexibility

Indicator	Baseline/Pre-Reform Outlook (FY25)	Post-Rationalisation Forecast (FY26)	Impact Metric
GDP Growth (FY26)	+6.0 percent (Pre-Reform ICRA Estimate)	+6.5 percent (Revised ICRA Estimate)	Anticipated stimulus from virtuous investment cycle

IV. MICROECONOMIC EFFICIENCY AND SECTORAL COMPETITIVENESS: STRATEGIC INTERVENTIONS FOR MSMEs AND LABOR-INTENSIVE INDUSTRIES

The implementation of GST rationalisation was meticulously targeted to address specific bottlenecks at the sectoral level, aiming to boost the competitiveness of labor-intensive industries and alleviate common structural anomalies that had previously impeded growth.

- **Resolution of Inverted Duty Structures and Export Competitiveness**

One of the persistent challenges of the multi-rate system was the prevalence of the inverted duty structure (IDS), where the tax on inputs was higher than the tax on finished outputs. This forced businesses, particularly exporters, to accumulate Input Tax Credit (ITC), locking up essential working capital and eroding global price competitiveness. The GST 2.0 reforms provided decisive action to resolve IDS in key manufacturing sectors.

For the textile industry, a critical employer and export sector, the GST on man-made fibres (MMF) was sharply reduced from 18 percent to 5 percent, and on man-made yarns from 12 percent to 5 percent. This dramatic reduction directly addresses the inverted duty problem, immediately unlocking blocked working capital and allowing Indian MMF-based garment manufacturers to achieve greater price parity in international markets, thereby supporting the national goal of becoming a global textile hub. Furthermore, the GST on ready-made apparel up to ₹2,500 per piece was standardized at 5 percent, raising the earlier limit of ₹1,000, benefiting consumers and streamlining classification within the garment sector.¹³ Similar targeted relief was extended to the leather and footwear sector, another major employer with a strong export base. GST was reduced from 12 percent to 5 percent on several forms of processed leather and on job work related to hides and skins. Crucially, footwear priced up to

₹2,500 per pair now attracts only 5 percent GST, significantly enhancing affordability for the mass market and providing relief to young consumers and manufacturers alike. These cuts are not merely domestic policy adjustments; they are structural interventions strategically positioned to enhance India's global trade competitiveness.

- **Relief for MSMEs and Logistics Costs**

Recognizing the disproportionate burden that compliance complexity and logistics costs place on small manufacturers, the rationalisation included measures specifically designed to aid MSMEs. The GST on essential packaging materials, including packing paper, corrugated boxes, cartons, and paper pulp molded trays, was reduced to 5 percent. This measure is expected to reduce overall logistics and packaging costs, lowering production expenses for businesses and making the final products cheaper for customers. For small businesses dependent on affordable packaging solutions, this tax cut provides immediate operational relief.

Beyond rate adjustments, the simplification of the overall slab structure inherently reduces the operational compliance burden for MSMEs. Fewer classifications translate directly into simpler tax calculations and less ambiguous filing processes, enabling small sellers and e-commerce participants to operate more smoothly with reduced paperwork and accounting complexities. The move facilitates greater participation of MSMEs in the formal economy, especially within the rapidly growing e-commerce ecosystem, where streamlined compliance is critical for transparent and fair pricing.

- **Stimulus for Key Domestic Sectors and Social Welfare**

The shift of high-value, high-volume domestic consumption goods from the 28 percent to the 18 percent slab is designed to provide powerful domestic economic stimulus. Consumer durables like air conditioners, refrigerators, and televisions, as well as two-wheelers and entry-level cars, will see tax reductions of 10 percent.¹ This affordability boost is projected to drive an increase in consumer demand. Furthermore, the reduction of GST on cement from

28 percent to 18 percent delivers a significant fillip to the housing and construction sector, especially valuable amid rising construction costs, directly benefiting the real estate value chain.¹

Moreover, the GST rationalisation was leveraged as a tool for social welfare and human capital development. Formal education, encompassing school and university tuition, remains fully exempt from GST.¹³ The reforms extended this benefit by drastically reducing the tax burden on essential learning materials: GST on items such as pencils, sharpeners, exercise books, graph books, maps, and charts was reduced from 12 percent or 5 percent to Nil, while erasers were also moved to Nil. Similarly, tax cuts were directed at supporting young families, with GST on essential childcare products, including baby napkins, liners, feeding bottles, and thermometers, reduced from 12 percent or 18 percent down to 5 percent or Nil (for UHT Milk). By making healthcare and learning materials more affordable, the policy aligns fiscal incentives with broader goals of public health and human capital formation.

A summary of the targeted sectoral adjustments demonstrates the comprehensive nature of the intervention:

Table 3: Summary of Targeted Rate Adjustments for Sectoral Competitiveness

Industry/Sector	Old GST Rate	New GST Rate	Rationale/Economic Benefit
Man-Made Fibres (MMF)	18%	5%	Resolves inverted duty structure, boosts exports and textile competitiveness
Chamois/Composition Leather Job Work	12%	5%	Reduces MSME production costs in employment-intensive sector
Packaging Paper/Cartons	18%	5%	Reduces logistics costs for all manufacturers, aiding small businesses
Rice Husk/Eco Boards	12%	5%	Promotes sustainable, agro-based MSMEs and eco-friendly alternatives
Exercise Books, Pencils, Maps	12% or 5%	Nil	Enhances affordability of education and childcare; social welfare measure

This targeted approach confirms that tax rationalization is utilized not only to collect revenue but also to actively shape industrial behavior, incentivize sustainable practices (e.g., lower tax on agro-based wood substitutes), and improve social equity.

V. THE JURISPRUDENTIAL CONTOURS OF THE RATIONALIZED REGIME: CONSTITUTIONAL CHALLENGES, JUDICIAL REVIEW, AND LEGISLATIVE INTEGRITY

The implementation of any major fiscal reform, especially one involving a complex federal structure like the GST, inevitably generates significant legal scrutiny, testing the delicate balance between legislative prerogative and constitutional integrity. The recent rationalisation, particularly the new differentiated rate structure (5 percent, 18 percent, and the 40 percent special rate), must satisfy the constitutional safeguard of reasonable classification, a core component of Article 14 of the Constitution of India.¹⁰

The established legal position grants the legislature wide latitude in matters of taxation.¹⁸ The courts have consistently held that the inherent complexity of fiscal adjustment requires legislative freedom to classify objects, persons, or things for the purpose of taxation, provided there exists an intelligible differentia forming the basis of the classification, and that this differentia bears a rational nexus with the legislative object. Given that the new two-slab structure is aimed at simplicity, consumer welfare, and discouraging consumption of demerit goods through the 40 percent rate, the classifications are generally deemed to meet this test of reasonableness. For instance, classifying large luxury vehicles and sin goods under a 40 percent slab, separate from mass consumption goods, is readily defensible as an objective classification linked to discouraging negative externalities and ensuring revenue buoyancy.

• The Challenge of Retrospective Amendments

A significant area of tension arises from the legislature's utilization of retrospective amendments to alter tax laws, often to clarify perceived ambiguities or, more contentiously, to neutralize unfavorable judicial interpretations. A highly debated instance involves a proposed retrospective amendment to the Central Goods and Services Tax Act, 2017, specifically

¹⁰ Constitution of India 1950, art 14.

targeting Section 17(5)(d) concerning the eligibility of Input Tax Credit (ITC).

The proposed change seeks to substitute the word 'or' with 'and' between 'plant' and 'machinery' in the relevant provision.¹¹ This seemingly minor alteration has profound consequences. It is aimed at nullifying a significant Supreme Court judgment, the *Safari Retreats* case (2024),¹² which had previously upheld the right of taxpayers to claim ITC in scenarios involving immovable property and services used in construction. Legal scholars argue that using retrospective power to overturn definitive judicial declarations—especially where there was no prior ambiguity in the original legislative text—undermines the principle of legal certainty and predictability. When the legislature uses its power to retrospectively change the law, it risks eroding taxpayer confidence, forcing businesses to factor a higher risk premium into their long-term decisions due to the possibility of established legal interpretations being overturned *ex post facto*.

The systemic importance of this judicial-legislative tension cannot be overstated. While the courts acknowledge the complexity of economic legislation and grant "greater freedom and greater play in the joints" to the legislature, the repeated attempt to exercise retrospective nullification suggests an underlying struggle for control over the legal interpretation of fiscal provisions.

- **Judicial Affirmation of Procedural Justice**

Despite the focus on legislative amendments, recent judicial pronouncements underscore the essential role of the courts in safeguarding fundamental taxpayer rights under the GST regime. Judicial trends in 2024 demonstrate a strong affirmation of the right to procedural justice and fair hearing, with courts intervening in cases of procedural lapses during assessment and upholding the right to rectify errors in filings like GSTR-3B. Landmark decisions have also reinforced the entitlement to GST refunds, even in complex scenarios involving multiple input and output tax rates under inverted duty structures. Furthermore, the Supreme Court has backed High Court stances that preclude the automatic reversal of Input Tax Credit (ITC) from buyers solely due to supplier defaults, underscoring the legal principle that taxpayers should not be penalized for circumstances beyond their control. These rulings confirm that regardless of the

¹¹ 'An analysis of the constitutional validity of retrospective amendments in tax' (Index Copernicus) <https://journals.indexcopernicus.com> accessed 28 September 2025.

¹² *Safari Retreats Pvt Ltd v Chief Commissioner of Central Goods & Service Tax* [2024] INSC 756.

automation and efficiency achieved by the digital GST portal, the judicial system remains a necessary check against administrative overreach, ensuring that the constitutional mandate of fairness persists.

The continuous function of the GST Council, as provided by Article 279A, provides the necessary constitutional ballast for the new rationalized rates. The fact that sweeping changes are implemented only after consensus among the Union and State Finance Ministers provides a powerful layer of legislative legitimacy. This collaborative structure helps to shield the new slabs against potential constitutional challenges based on arguments of arbitrary differential treatment, demonstrating collective political will in the pursuit of national fiscal unification.

VI. GLOBAL PERSPECTIVE AND FUTURE TRAJECTORY: INDIA'S GST 2.0 IN COMPARATIVE CONTEXT

Placing India's recent GST rationalisation in a global context reveals that the country's fiscal journey is a complex, yet pragmatic, convergence toward international best practices, tailored to its unique federal complexity. The ideal Value Added Tax (VAT) structure, as seen in many unitary states, is characterized by a single, uniform rate across a broad base to maximize neutrality and simplicity. India's initial multi-rate structure was a necessity borne out of federal compromise and historical taxation habits. The shift to a primary two-slab system (5 percent and 18 percent) represents a significant, practical step toward reducing the divergence from the single-rate ideal, balancing political feasibility (maintaining a low rate for essentials) with economic efficiency (a standard rate for most goods).

The complexity faced by India is mirrored, and in some respects surpassed, by other major developing economies attempting similar transformations. For decades, Brazil, for instance, struggled with an indirect tax system marked by fragmented tax bases, a severe cascading effect, and the administrative nightmare of three levels of government (Federal, States, Municipalities) applying differing tax bases and rates.⁶ While Brazil recently approved a landmark reform to introduce a modern VAT, its protracted difficulty underscores the challenge of unifying taxes in a deeply federal environment. India's successful implementation and subsequent maturity of its dual GST structure (CGST/SGST/IGST), while inherently more complex than a unified VAT, demonstrates the strength of its collaborative fiscal federalism model in achieving structural reform sequentially.

- **Next Frontiers for Institutional Efficiency**

With the structural complexities of rate rationalisation largely addressed by GST 2.0, the focus of future reform—often termed GST 3.0—must pivot toward institutional efficiency and dispute resolution. Industry sentiment, which has seen a steady rise in positive perception of the GST system (from 59 percent in 2022 to 85 percent in 2024), highly commends the progress in compliance automation, particularly e-invoicing and e-way bill functionalities.

However, the industry's continued expectations highlight areas where technological efficiency is bottlenecked by sluggish administrative and legal processes. Top recommendations for the next phase of reforms consistently include: enabling a swift and effective dispute resolution mechanism, removing remaining restrictions on Input Tax Credit (ITC), liberalizing rules to promote exports, and moving towards faceless audits and assessments. The fact that litigation and dispute resolution costs remain high indicates that the efficiency gains achieved through compliance automation are being undermined by bureaucratic delays in tax adjudication. A modernized, efficient, and transparent dispute resolution mechanism is critical to unlocking the full potential of compliance simplification, particularly for MSMEs.

Furthermore, while GST has stabilized national revenue collection, research indicates that the promise of equity across states remains unmet. Given that GST is a destination-based tax, disparities exist between consuming and manufacturing states, and differential compliance levels across state economies persist. This ongoing challenge necessitates continuous administrative improvement and potential adjustments to fiscal transfers to bridge these equity gaps, ensuring the long-term stability and fairness of the federal fiscal structure.

The GST rationalisation represents a crucial paradigm shift, signalling the government's acceptance of a short-term fiscal dent in favor of securing long-term economic benefits rooted in simplicity, consumption stimulus, and global competitiveness. By strategically lowering rates on inputs and final goods, the reform has acted as a potent anti-inflationary measure while simultaneously serving as a mass stimulus package for private consumption and capital formation. The targeted sectoral relief, particularly in textiles and packaging, addresses chronic structural anomalies like the inverted duty structure, enhancing the competitiveness of labor-intensive export sectors. The foundation of this success lies in the earlier, persistent administrative efforts that led to record revenue buoyancy, proving that effective digitalization and formalization provide the necessary buffer for aggressive rate cuts. However, the future

success and integrity of the regime now critically depend on resolving the persistent legal uncertainties stemming from proposed retrospective amendments and, most pressingly, establishing a world-class, swift, and transparent dispute resolution framework to match the efficiency of the digital compliance systems already in place. The transition to GST 2.0 is a testament to the maturation of India's fiscal federalism and sets the stage for the next decade of indirect tax governance, one where institutional efficiency must take precedence over further structural complexity.

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