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A DECADE IN THE MAKING OF THE GST (GOODS & SERVICES TAX): BALANCING NATIONAL MARKET AND FEDERAL AUTONOMY

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ABSTRACT

The implementation of the Goods and Services Tax (GST) represented a profound structural re-engineering of India's fiscal federalism. This paper evaluates the decade-long trajectory of the GST framework, analyzing its dual objectives: accelerating national market integration and preserving sub-national fiscal autonomy. By subsuming a fragmented web of indirect levies into a single destination-based tax, the GST successfully dismantled interstate trade barriers, optimized supply chains, and fostered a unified national market. However, this integration came at a distinct constitutional cost. In ceding localized taxing powers, states experienced a structural contraction of their sovereign revenue capacities, a vulnerability exacerbated by the expiration of the GST Compensation Cess. Furthermore, the paper examines the GST Council, where asymmetric voting structures have caused political friction regarding revenue sharing. The study concludes that while the GST has delivered economic efficiency, long-term sustainability requires structural reforms to safeguard state autonomy and restore balance to cooperative federalism.

Keywords: Goods and Services Tax, Value Added Tax (VAT) Mechanism, National Market, Cooperative Federalism, Constitution of India.

OBJECTIVE AND SCOPE OF THE ESSAY

The primary objective of the paper is to study the critical examination of the Goods and Services Tax (GST) as a landmark fiscal reform in India, analysing its dual role as an instrument of economic integration and its implications for federal governance. The primary objective is to assess whether GST has succeeded in creating a unified national market or whether it has, in the process, generated challenges to the federal structure by altering the balance of fiscal powers between the Union and the States.

One of the key objectives of this essay is to trace the historical evolution of GST, highlighting the prolonged process of policy formulation, negotiation, and consensus building that preceded its implementation. This historical perspective provides insight into the complexities of introducing a uniform tax regime within a diverse federal polity. Another important objective is to examine the structural features of GST, including its dual model (CGST, SGST, and IGST), the input tax credit mechanism, and its destination-based nature, in order to evaluate its effectiveness in addressing inefficiencies such as tax cascading and compliance burdens.

The scope of this study is primarily analytical and conceptual, focusing on constitutional provisions, institutional frameworks, and policy implications rather than empirical data. It is confined to the Indian context and aims to provide a balanced understanding of GST as both a unifying reform and a potential challenge to the federal fabric of the nation.

INTRODUCTION

The evolution of taxation policy in India reflects the broader dynamics of its political economy, particularly the delicate balance between economic efficiency and federal autonomy. Among the most far-reaching fiscal reforms in independent India is the introduction of the Goods and Services Tax (GST), implemented on 1 July 2017. Conceived as a comprehensive, destination-based indirect tax, GST subsumed a multiplicity of central and state levies into a unified framework, thereby marking a paradigm shift in the country's taxation architecture. The coexistence of central taxes such as excise duty and service tax alongside state-level taxes like Value Added Tax (VAT), entry tax, and octroi resulted in a cascading effect, wherein taxes were levied upon taxes. This not only inflated the final cost of goods and services but also impeded the seamless movement of trade across state boundaries, thereby undermining the vision of a common national market. In such a context, the need for a harmonized tax regime became increasingly evident, particularly in light of India's aspirations for accelerated economic growth and global competitiveness.

The conceptual foundation of GST lies in the principle of value-added taxation, wherein tax is imposed only on the incremental value at each stage of production and distribution, facilitated through an input tax credit mechanism. By eliminating the cascading burden and ensuring tax neutrality, GST seeks to enhance efficiency, transparency, and compliance within the fiscal system. More importantly, it aspires to integrate the Indian economy by dismantling fiscal barriers between states, thus fostering the ideal of "One Nation, One Tax."

Moreover, the implementation of GST required a significant reconfiguration of this arrangement through the 101st Constitutional Amendment, which introduced a concurrent taxing power and established the GST Council as a federal decision-making body. This institutional mechanism embodies the principle of cooperative federalism, wherein both tiers of government participate in the formulation and administration of tax policy.

At the same time, the reform has engendered critical debates regarding its implications for fiscal federalism. While GST promotes uniformity and coordination, it also entails a partial surrender of fiscal sovereignty by the states, raising concerns about centralization and the erosion of state autonomy. Issues such as revenue dependency, compensation mechanisms, and decision-making dynamics within the GST Council have further accentuated these tensions. It stands at the intersection of two competing imperatives: the creation of an integrated national market and the preservation of a decentralized federal structure. Understanding this duality is essential to evaluating whether GST serves as a gateway to economic unity or poses a challenge to the federal fabric of India. [1]

GENESIS AND EVOLUTION: A LONG DECADE NEGOTIATION

The Goods and Services Tax (GST) in India represents not merely a fiscal innovation but the culmination of a long and intricate process of policy evolution, institutional negotiation, and constitutional transformation. Its journey from conception to implementation reflects the inherent complexities of reforming a deeply entrenched and fragmented indirect tax system within a federal polity. The phrase "a decade in the making" is, in fact, a modest characterization, for the GST project spanned over sixteen years of sustained deliberation, marked by shifting political priorities, economic compulsions, and the continuous search for consensus between the Union and the States. [2]

The following points will describe the stages from the genesis to the evolution of the GST (Goods and Services Tax) in India:

STAGE I: The genesis of GST can be traced to the early 2000s, a period characterized by economic liberalization and increasing integration of India with the global economy. It was during the tenure of Prime Minister Atal Bihari Vajpayee that the idea of a comprehensive

[1] Government of India, The Constitution (One Hundred and First Amendment Act 2016 (Ministry of Law and Justice 2016) (India).
[2] Shinghania VK and Singhania M, Students' Guide to Income Tax including GST (Taxmann 2024).

indirect tax reform first gained institutional recognition. In 2000, the government constituted an Empowered Committee of State Finance Ministers to design a framework for harmonizing state-level taxes, particularly the Value Added Tax (VAT). This committee, initially tasked with implementing VAT, later became instrumental in shaping the contours of GST.

STAGE II: A significant intellectual impetus to the reform was provided by the Kelkar Task Force on indirect taxes in 2003, chaired by Vijay Kelkar. The Task Force strongly recommended the adoption of a unified Goods and Services Tax, arguing that such a system would eliminate cascading taxation, broaden the tax base, and enhance revenue productivity. It emphasized the need for a comprehensive tax that integrates goods and services, thereby aligning India's taxation system with global best practices.

STAGE III: The formal political articulation of GST occurred in 2006, when the then Union Finance Minister P. Chidambaram announced in the Union Budget the government's intention to introduce GST by April 1, 2010. This announcement marked a decisive shift from conceptual discussion to policy commitment. However, the proposed timeline proved overly ambitious, as the reform required extensive negotiations with states, many of which were apprehensive about potential revenue losses and erosion of fiscal autonomy.

STAGE IV: Between 2007 and 2010, significant groundwork was undertaken. The Empowered Committee released discussion papers outlining the structure of GST, advocating a dual model that would allow both the Centre and the States to levy taxes concurrently. This period also witnessed intense debate over critical issues such as revenue sharing, tax rates, exemptions, and administrative control. Despite these efforts, consensus remained elusive, and the initial deadline for implementation was deferred.

STAGE V: The next major milestone in the evolution of GST was the introduction of the Constitution (115th Amendment) Bill in 2011 by the United Progressive Alliance (UPA) government. This Bill sought to amend the Constitution to enable the introduction of GST by conferring concurrent taxing powers on the Centre and the States. However, it lapsed with the dissolution of the 15th Lok Sabha, reflecting the persistent political disagreements surrounding the reform.

STAGE VI: The momentum for GST was revived after 2014 under the leadership of Prime Minister Narendra Modi. The new government demonstrated renewed commitment to the reform, reintroducing the constitutional amendment as the Constitution (122nd Amendment) Bill in 2014. Unlike earlier attempts, this phase was marked by a more pragmatic approach to consensus-building. The Centre engaged actively with states, addressing their concerns through mechanisms such as compensation for revenue losses and greater participation in decision-making.

STAGE VII: A breakthrough was achieved in 2016 with the passage of the Constitution (101st Amendment) Act, 2016. This landmark amendment laid the constitutional foundation for GST by introducing Article 246A, which granted concurrent taxing powers to the Union and the States, and Article 279A, which established the GST Council. The amendment also provided for compensation to states for any revenue losses arising from the implementation of GST for a period of five years, thereby alleviating one of the principal concerns of state governments. The establishment of the GST Council marked a significant institutional innovation in India's federal framework. Comprising representatives from both the Centre and the States, the Council was entrusted with the responsibility of making recommendations on key aspects of GST, including tax rates, exemptions, and administrative procedures. Its functioning exemplified the principle of cooperative federalism, as decisions were largely taken through consensus rather than formal voting.

STAGE VIII: Following the constitutional amendment, the focus shifted to the enactment of enabling legislation. In 2017, Parliament passed the Central Goods and Services Tax (CGST) Act, the Integrated Goods and Services Tax (IGST) Act, and the Union Territory GST Act, while states enacted their respective State GST (SGST) laws. These legislative measures provided the operational framework for GST, translating constitutional provisions into actionable policy. The culmination of this prolonged process occurred on 1 July 2017, when GST was formally launched across India. The event symbolized the transition from a fragmented tax regime to a unified system, often described as the realization of the vision of "One Nation, One Tax." The implementation involved the integration of multiple taxes, including excise duty, service tax, VAT, and entry taxes such as octroi, into a single comprehensive framework.

However, the historical evolution of GST does not conclude with its implementation. Rather, it marks the beginning of an ongoing process of refinement and adaptation. The initial years of GST were characterized by challenges related to technological infrastructure, compliance complexities, and rate rationalization. The GST Council has continued to play a crucial role in addressing these issues, periodically revising tax rates and simplifying procedures. In retrospect, the evolution of GST underscores the dynamic interplay between economic imperatives and federal considerations. The reform required not only technical expertise but also political will and institutional innovation. It necessitated a reimagining of fiscal federalism, balancing the need for national integration with the preservation of state autonomy.[3]

STRUCTURAL FEATURES OF GOODS AND SERVICES TAX (GST)

The Goods and Services Tax (GST) represents a fundamental restructuring of India's indirect taxation system, designed to harmonize the complex network of central and state taxes into a unified and coherent framework. Introduced through the Constitution (101st Amendment) Act, 2016, GST reflects a carefully calibrated balance between the imperatives of economic efficiency and the constitutional mandate of federal governance. Its structural features are thus not merely technical components but integral elements that define the functioning and objectives of the tax regime.

- At the heart of the GST framework lies its dual model, which is uniquely suited to India's federal structure. Under this system, both the Centre and the States possess the authority to levy and collect taxes concurrently on the same transaction. This is operationalized through the Central Goods and Services Tax (CGST) and the State Goods and Services Tax (SGST) for intra-state supplies, while the Integrated Goods and Services Tax (IGST) is levied on inter-state transactions and imports. This tripartite arrangement ensures that fiscal powers are shared rather than centralized, thereby preserving the essence of federalism while eliminating the inefficiencies associated with overlapping and cascading taxes. According to the Government of India, this model enables uniformity in taxation without undermining the autonomy of states.
- A central pillar of the GST system is the Input Tax Credit (ITC) mechanism, which ensures that tax is levied only on value addition at each stage of the supply chain. By allowing taxpayers to claim credit for taxes paid on inputs, GST effectively eliminates the cascading "tax-on-tax" effect that characterized the pre-reform regime. This not only reduces the overall tax burden but also enhances transparency and compliance, as each transaction is documented and linked through a chain of credits. The ITC mechanism thus serves as a cornerstone of GST's efficiency and rationality.
- An important institutional innovation under GST is the establishment of the GST Council, constituted under Article 279A of the Constitution. Created by the Constitution (101st Amendment) Act, 2016, the Council comprises representatives from both the Union and State governments and functions as the apex decision-making body for GST related matters. It is responsible for recommending tax rates, exemptions, and administrative

[3] Shinghania VK and Singhania M, Students' Guide to Income Tax including GST (Taxmann 2024).

procedures. The Council operates on the principle of cooperative federalism, with decisions largely taken through consensus, thereby fostering collaboration between different levels of government. Policy analyses, including those by the Research and Information System for Developing Countries, regard the GST Council as a significant experiment in shared governance.

- Another notable feature is the technology-driven administration of GST through the GST Network (GSTN), which serves as the digital backbone of the system. The GSTN facilitates online registration, return filing, tax payment, and reconciliation of transactions, thereby enhancing efficiency and reducing the scope for human error and corruption. This technological integration ensures greater transparency and enables real time monitoring of tax compliance.
- Finally, the GST incorporates provisions such as threshold exemptions and the composition scheme to accommodate small taxpayers. Businesses below a specified turnover limit are exempt from mandatory registration, while the composition scheme allows small enterprises to pay tax at a concessional rate with simplified compliance requirements. These measures aim to promote inclusivity and reduce the compliance burden on micro, small, and medium enterprises.

CONSTITUTIONAL FRAMEWORK OF THE GOODS AND SERVICES TAX (GST)

The Goods and Services Tax (GST) is one of the most significant constitutional and fiscal reforms in India. It was introduced with the objective of creating a unified and integrated indirect taxation system throughout the country. Prior to GST, the Indian taxation structure was highly fragmented, with separate taxes being levied by the Union and the State Governments. The implementation of GST required a major restructuring of the constitutional distribution of taxation powers between the Centre and the States.[4]

Moreover, the GST aims to create a unified taxation system and establish the concept of "One Nation, One Tax, One Market." The constitutional foundation of GST was laid through the Constitution (One Hundred and First Amendment) Act, 2016.[5]

[4] Jain MP, Indian Constitutional Law (9thedn. LexisNexis 2023).
[5] The Constitution (One Hundred and First Amendment) Act 2016 (India).

ISSN: 2582-6433

NEED FOR CONSTITUTIONAL AMENDMENT

The Constitution of India originally distributed legislative powers between the Union and the States through the Seventh Schedule under article 246 of the Constitution of India[6]. The Union List empowered Parliament to levy taxes such as excise duty and service tax, whereas the State List empowered State Legislatures to impose taxes such as value added tax (VAT), entry tax, luxury tax, and entertainment tax. This separation of powers often resulted in overlapping taxation, multiplicity of taxes, and the cascading effect of taxes, where tax was levied upon tax. To remove these inefficiencies and to establish the concept of "One Nation, One Tax", GST was introduced as a comprehensive indirect tax system.

CONSTITUTION (101st AMENDMENT) ACT, 2016

The Constitutional basis of GST lies primarily in the Constitution (101st Amendment) Act, 2016. This amendment introduced several important changes in the Constitution to accommodate the new taxation framework.

One of the most significant provisions introduced was article 246A of the constitution of India[7]. This article grants concurrent powers to the Parliament and State Legislatures to make laws with respect to GST. Prior to GST, taxation powers were distinctly divided between the Centre and the States. However, article 246A created a unique arrangement by allowing both levels of government to legislate on GST simultaneously. Parliament has exclusive power to make laws relating to inter-State trade or commerce, whereas both Parliament and State Legislatures can legislate on intra-State supply of goods and services.

Another important constitutional provision is article 269A of the Constitution of India[8] which deals with the levy and collection of GST on inter-State trade or commerce. According to this article, GST on supplies occurring during inter-State trade is to be levied and collected by the Government of India. This tax is known as Integrated Goods and Services Tax (IGST). The revenue collected from IGST is distributed between the Union and the States in a manner prescribed by the Parliament on the recommendation of the GST Council. Article 269A also considers imports as inter-State supplies, thereby bringing imported goods and services within the ambit of IGST.

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[6] Constitution of India 1950 (India), art. 246.
[7] Constitution of India 1950 (India), art. 246A.
[8] Constitution of India 1950 (India), art. 269A.

ISSN: 2582-6433

The 101st Constitutional Amendment also inserted the article 279A of the Constitution of India[9], which established the Goods and Services Tax Council. The GST Council is considered the most important institutional mechanism under the GST regime. It is a constitutional body entrusted with the responsibility of making recommendations regarding GST policies. The Council consists of the Union Finance Minister as the Chairperson, the Union Minister of State for Finance, and the Finance Ministers of all States.

The GST Council makes recommendations on various matters, including tax rates, exemptions, threshold limits, model GST laws and special provisions for certain States. The decisions of the Council are taken through a voting mechanism in which the Central Government has one-third of the total voting power, while the States collectively possess two-thirds voting power. A three-fourths majority is required for the adoption of decisions. The GST Council reflects the principle of cooperative federalism because it requires coordination and cooperation between the Centre and the States.[10] The amendment further introduced compensation provisions for States through the GST (Compensation to States) Act, 2017[11].

JUDICIAL INERPRETATION

The judicial interpretation has also played an important role in defining the constitutional framework of GST. In Union of India v. Mohit Minerals Pvt. Ltd. (2022)[12], the Supreme Court held that the recommendations of the GST Council are not binding on Parliament or State Legislatures. The Court emphasized that GST operates on the principle of cooperative federalism and that both the Centre and the States retain independent legislative powers under article 246A.

OBJECTIVE OF GST

The Goods and Services Tax (GST) was introduced in India with the primary objective of reforming and simplifying the indirect taxation system. Before GST, multiple indirect taxes such as excise duty, service tax, value added tax (VAT), entry tax and luxury tax were imposed separately by the Central and State Governments. This created complexity, tax cascading and economic inefficiency. GST aimed to replace these multiple taxes with a single unifies tax

[9] Constitution of India 1950 (India), art. 279A.
[10] Shukla VN, Constitution of India (14thedn, Lexis Nexis 2023).
[11] Goods and Services Tax (Compensation to States) Act 2017 (India).
[12] Union of India v. Mohit Minerals Pvt. Ltd. (2022) 10 SCC 700 [144] (India).

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system.

- One of the major objectives of GST is to create a single national market by ensuring uniform taxation throughout the country. It seeks to eliminate barriers to inter-State trade and promote free movement of goods and services across India. GST also aims to remove the cascading effect of taxes through the Input Tax Credit (ITC) mechanism, thereby reducing the overall tax burden on consumers.
- Furthermore, GST seeks to promote ease of doing business, enhance economic growth, strengthen cooperative federalism, and integrate the Indian economy into a more efficient and competitive market structure.[13]

GST AS A GATEWAY TO A SINGLE NATIONAL MARKET

The Goods and Services Tax (GST) is regarded as one of the most significant economic reforms in independent India. Introduced on 1st of July, 2017 through the Constitution (One Hundred and First Amendment) Act, 2016[14], GST transformed India's indirect taxation system by replacing multiple Central and State taxes with a unified tax structure. One of the principal objectives behind the introduction of GST was the creation of a single national market, often described through the slogan "One Nation, One Tax, One Market". GST sought to remove economic barriers among States and establish a common market that would facilitate the free movement of goods and services throughout the country.

Before the implementation of GST, India's taxation system was highly fragmented. Different States imposed varying rates of Value Added Tax (VAT), entry tax, octroi, luxury tax, and entertainment tax. At the Central level, taxes such as excise duty and service tax were imposed separately. This multiplicity of taxes created complications for businesses operating across different States. The existence of border taxes and check posts also caused delays in transportation and increased the cost of goods and services. As a result, the Indian market functioned more like a collection of separate State markets rather than a unified national economy.

GST addressed these problems by subsuming numerous indirect taxes into single tax regime. Under GST, goods and services are taxed, uniformly throughout the country, thereby reducing

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[13]Shinghania VK and Singhania M, Students' Guide to Income Tax including GST (Taxmann 2024).
[14]Government of India, The Constitution (One Hundred and First Amendment Act 2016 (Ministry of Law and Justice 2016) (India).

regional disparities in taxation. The introduction of a common tax structure has significantly promoted economic integration and facilitated the creation of a uniform domestic market.

One of the most important contributions of GST toward establishing a single national market is the elimination of the cascading effect of taxes. Under the previous system, taxes were often imposed upon already taxed goods and services, resulting in a "tax on tax" burden. GST introduced the Input Tax Credit (ITC) mechanism, which allows businesses to claim credit for taxes already paid on inputs. This system has reduced the overall tax burden and lowered the cost of production, thereby increasing efficiency and competitiveness in the economy.

GST has also simplified inter-State trade and commerce. Earlier, businesses had to comply with different tax laws and procedures in each State. The existence of entry taxes and check posts created administrative obstacles and delays in transportation. Under GST, Integrated Goods and Services Tax (IGST) is levied on inter-State transactions, ensuring seamless movement of goods across State boundaries. The removal of internal trade barriers has improved supply chain efficiency and reduced logistics costs.

The constitutional framework of GST also supports the idea of a single national market. Articles 246A[15] and 269A[16] of the Constitution grant powers to the Centre and States to levy GST while ensuring coordinated taxation of inter-Sate transactions. The GST Council established under article 279A[17] acts as a common decision-making body where both the Centre and States collectively determine tax policies, rates, and exemptions. This institutional mechanism promotes cooperative federalism and uniformity in taxation throughout India.

GST AS A CHALLENGE TO FEDERALISM

The Goods and Services Tax (GST), introduced in India on 1st July 2017 through the Constitution (One Hundred and First Amendment) Act, 2016[18] is considered one of the most significant indirect tax reforms in the country. While GST has contributed to economic integration and the creation of a single national market, it has also generated serious constitutional debates regarding Indian federalism. Federalism is a fundamental feature of the

[15]Constitution of India 1950 (India), art. 246A.
[16]Constitution of India 1950 (India), art. 269A.
[17]Constitution of India 1950 (India), art. 279A.
[18] The Constitution (One Hundred and First Amendment Act 2016 (Ministry of Law and Justice 2016) (India).

Indian Constitution, characterized by the division of powers between the Union and the States. Since taxation is an important aspect of State autonomy, the implementation of GST has raised concerns regarding the erosion of fiscal powers of the States and the growing dominance of the Central Government.

One of the major constitutional concerns regarding GST arises from Article 279A, which established the GST Council. The GST Council is responsible for making recommendations regarding tax rates, exemptions, threshold limits and other important aspects of GST administration. Although the Council is projected as a symbol of cooperative federalism, critics argue that it has centralized taxation powers in the hands of the Union Government.

The voting structure of the GST Council reflects this concern. The Central Government possesses one-third of the total voting power, while all States collectively hold two-thirds voting power. Decisions require a three-fourths majority. In practice, this structure gives the Centre significant influence over GST decisions. Smaller States often have limited bargaining power, and the States are unable to make independent taxation policies outside the framework of the GST Council.

Another important challenge to federalism is the reduction of legislative freedom of States. Under the earlier taxation regime, States could independently alter tax rates according to their economic needs and developmental priorities. Under GST, however, tax rates and exemptions are largely determined collectively through the GST Council. This has restricted the capacity of States to exercise independent fiscal policy.

The issue of compensation to States further intensified federal tensions. The GST (Compensation to States) Act, 2017[19] guaranteed compensation to States for any revenue loss arising from GST implementation for a period of five years. However, during the COVID-19 pandemic, disputes emerged between the Centre and States regarding delayed compensation payments. Several States argued that the Centre failed to fulfil its constitutional and statutory obligations. This controversy exposed the financial dependence of States upon the Union Government under the GST regime.

[19]Goods and Services Tax (Compensation to States) Act 2017 (India).

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The Supreme Court addressed some of these federal concerns in:

In a landmark judgement[20], the Court held that the recommendations of the GST Council are not binding on Parliament or State Legislatures. The Court emphasized that GST operates within the framework of cooperative federalism and that both the Centre and the States possess simultaneous legislative powers under Article 246A of the Constitution of India. The judgement reaffirmed the constitutional principle that federalism forms part of the basic structure of the Constitution of India.

The relevance of federalism as a constitutional principle was earlier recognized in:

where the Supreme Court held that the basic structure of the Constitution cannot be altered even through constitutional amendments.

Critics also argue that GST has transformed cooperative federalism into what is sometimes described as "coercive federalism". Since States rely heavily on GST revenue and compensation mechanisms, they are increasingly dependent upon the Centre for financial stability. This dependence may weaken the constitutional balance between the Union and the States.

IMPORTANT STATUES RELATING TO GST

The Goods and Services Tax (GST) framework in India is governed by several important statues enacted after the implementation of the Constitution (One Hundred and First Amendment) Act, 2016. These statues collectively regulate the levy, collection, administration, and distribution of GST throughout the country.

1. Central Goods and Services Tax Act, 2017 (CGST Act, 2017)[21]:

   The Central Goods and Services Tax Act, 2017 is the principal legislation governing the levy and collection of Central GST (CGST) on intra-State supply of goods and services. It contains provisions relating to registration, input tax credit, returns, assessment, penalties, inspection and appeals. The Act provides the legal framework for administration of GST by the Central Government.

2. State Goods and Services Tax Acts, 2017 (SGST Acts)[22]:

   Each State enacted its own State Goods and Services Tax Act, 2017 to regulate the levy and collection of State GST (SGST) on intra-State transactions. These Acts operate

[20] Jain M, Union of India v. Mohit Minerals Pvt. Ltd. – GST Validity Analysis (2019) 1(2) Journal of Taxation and Regulatory Framework 45-58.

[21] Central Goods and Services Tax Act 2017 (India).

[22] State Goods and Services Tax Act 2017 (India).

ISSN: 2582-6433

simultaneously with the CGST Act and enable States to collect revenue under the GST regime.

3. Integrated Goods and Services Tax Act, 2017 (IGST Act, 2017)[23]:
   The Integrated Goods and Services Tax Act, 2017 governs the levy and collection of Integrated GST (IGST) on inter-State supply of goods and services. It also regulates imports and exports and ensures proper distribution of tax revenue between the Centre and the States under Article 269A of the Constitution of India.
4. Union Territory Goods and Services Tax Act, 2017 (UTGST Act, 2017)[24]:
   The Union Territory Goods and Services Tax Act, 2017 applies to Union Territories without legislatures, such as Chandigarh and Lakshadweep Islands. It provides for the levy and collection of UTGST or intra-Union Territory transactions.
5. Goods and Services Tax (Compensation to States) Act, 2017[25]:
   The GST (Compensation to States) Act, 2017 was enacted to compensate States for revenue losses arising due to the implementation of GST. It guaranteed compensation for a period of five years and aimed to maintain fiscal balance between the Centre and the States.

These statues together form the legal and administrative foundation of the GST system in India.

COOPERATIVE FEDERALISM UNDER GST

The Goods and Services Tax (GST) is regarded as one of the most important examples of cooperative federalism in India. Cooperative federalism refers to a system in which the Central and the State Governments work together in matters of governance and policy-making while maintaining constitutional balance. The GST framework reflects this principle because it involves joint participation of both the Centre and the States in taxation and fiscal administration.

The constitutional foundation of cooperative federalism under GST is found in Article 246A and Article 279A of the Constitution of India. Article 246A grants concurrent powers to Parliament and State Legislatures to make laws relating to GST. Article 279A established the GST Council, which serves as the principal institutional mechanism for cooperation between the Centre and the States.

[23]Integrated Goods and Services Tax Act 2017 (India).
[24]Union Territory Goods and Services Tax Act 2017 (India).
[25]Goods and Services Tax (Compensation to States) Act 2017 (India)

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The GST Council consists of the Union Finance Minister, Union Minister of State for Finance, and the Finance Minister of all States. The Council makes recommendations regarding GST rates, exemptions, threshold limits, and model laws. Its decision-making process reflects collective participation and consultation.

GST also promotes cooperative federalism through revenue-sharing arrangements. Taxes collected under Integrated GST (IGST) are distributed between the Centre and the States, ensuring financial coordination. Furthermore, the GST (Compensation to States) Act, 2017[26] was enacted to compensate States for revenue losses caused by GST implementation.

ECONOMIC IMPACT OF GST

The Goods and Services Tax (GST), introduced in India on 1st of July 2017, has significant impact on the Indian economy. As a comprehensive indirect tax reform, GST replaced multiple Central and State taxes with a unified taxation system. Its economic impact can be analysed in terms of increased efficiency, market integration, revenue generation, and formalization of the economy.

One of the most important economic impacts of GST is the creation of a single national market. Before GST, different States imposed varying tax rates and entry barriers, which increased the cost of doing business. GST removed these barriers and facilitated the free movement of goods and services across the country. This improved trade efficiency and strengthened economic integration.

Another major impact of GST has been the formalization of the economy. The technology-driven GST system, including online registration, return filing, and invoice matching, has increased transparency and reduced tax evasion. Many businesses entered the formal sector to avail input tax credit benefits, thereby widening the tax base.

CRITICAL ANALYSIS

The Goods and Services Tax (GST) is considered one of the most important tax reforms in India. Introduced through the Constitution (One Hundred and First Amendment) Act, 2016 and implemented on 1st July 2017, GST replaced multiple indirect taxes imposed by the Central

[26]Goods and Services Tax (Compensation to States) Act 2017 (India)

and State Governments. It aimed to create a unified national market, simplifying taxation, and improve economic efficiency. However, GST has produced both positive and negative consequences, making it a subject of critical analysis.

One of the major achievements of GST is the creation of a single national market. By subsuming taxes such as excise duty, service tax, and value added tax (VAT), GST reduced tax barriers among States and promoted free movement of goods and services. The Input Tax Credit (ITC) mechanism removed the cascading effect of taxation and reduced the overall tax burden on businesses and consumers.

GST has also improved transparency and tax compliance through a technology-driven system of online registration, return filing, and invoice matching. This has widened the tax base and contributed to greater formalization of the economy.

In Union of India v. Mohit Minerals Pvt. Ltd. (2022)[27]:
The Supreme Court held that GST Council recommendations are not binding, thereby reaffirming cooperative federalism.

SUGGESTION AND REFORMS

The Goods and Services Tax (GST) has played a major role in creating a unified national market and modernizing India’s indirect taxation system. However, challenges relating to federalism, fiscal autonomy, and compliance procedures require important reforms to strengthen the GST framework.

- One of the most important reforms required is the strengthening of cooperative federalism. The GST Council established under article 279A should function through greater consultation and consensus between the Centre and the States. States should be given a more effective role in decision-making to maintain constitutional balance.
- Another important reform is the improvement of fiscal autonomy of States. Under the GST regime, States have lost significant taxation powers. Limited flexibility should therefore be provided to States to adjust tax rates on certain goods and services according to regional economic needs.
- Finally, the GST Network (GSTN) portal should be strengthened to improve

[27]Union of India v. Mohit Minerals Pvt. Ltd. (2022) 10 SCC 700 [144] (India).

technological efficiency and accessibility. Greater transparency in GST Council proceedings and inclusion of petroleum products within the GST would further strengthen the goal of creating a true single national market while preserving cooperative federalism.

CONCLUSION

The Goods and Services Tax (GST) stands as a landmark reform in the constitutional, economic, and fiscal history of India. Conceived after nearly a decade of political deliberation and constitutional negotiation, GST transformed the fragmented indirect taxation structure into a unified system aimed at achieving the vision of “One Nation, One Tax, One Market.” By subsuming numerous Central and State taxes, GST reduced the cascading effect of taxation, simplified compliance procedures, enhanced transparency, and facilitated the free movement of goods and services across the country. In this sense. GST has emerged as a powerful instrument for economic integration and the creation of single national market.