



GST EVOLUTION IN INDIA

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HISTORY OF TAXATION

The term “tax” traces back to a Latin root meaning “estimate”, reflecting how rulers gauged what people could pay. Around 2000 years ago, the Roman ruler Caesar Augustus decreed that “the whole world should be taxed”, setting the global precedent for the taxation system. Ancient Indian texts laid an ethical tax foundation. In the book Manu smriti the tax system is portrayed as the king's duty for protection, urging moderation:” As the leech, calf and bee take food gently, so must the king collect moderate taxes”. Rates varied progressively -20% on merchants' profit, $1\frac{1}{6}^{\text{th}}$ - $1\frac{1}{10}^{\text{th}}$ on farm produce with exemption for students, women and disables.

Kautilya Arthashastra treated taxes as the state's “lifeblood” for services like security and infrastructure. It detailed land revenue- $1\frac{1}{6}^{\text{th}}$, trade tolls – 8% on salt, excise on liquor, mining, and anti-corruption measures for collectors. Income Tax was introduced in India in the British era to offset the 1857 revolt. Sir James Wilson, First Finance Member in the British era, enacted the Indian Income Tax Act on 24 July 1860 – taxing income over 200 rupees at 2-4% graduate's rates.

Reforms Followed: 1886 simplification, 1918 WWI hikes. The Income Tax Act 1992 consolidated the laws, defined income heads, created central board of revenue and established the Income Tax Department with the assistant.¹²³

Enacted post – Law commission (1958) and Direct Taxes Enquiry, the Income Tax Act, 1961 classified income into five heads: salaries, house property, business, capital gains, and others.

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¹ ‘Indian Income Tax Act’ (Legitquest, 5 March 1922)

² ‘The evolution of Indian Taxation: From Ancient Foundation to modern regime’ (Bhatt and Joshi associates, 22 August 2022)

³ Chandra Prakash Bhatia, ‘Taxation and Tax Administration as depicted in Ancient India Text’, (Text guru, 28 July 2023)

It introduced slabs, deduction, TDS, audits and penalties. Annual union Budget amendments continue.

Direct Taxes: Burden on the Earner. Administered by the central board of the direct taxes, these target income/profit directly. Net collection hit 18.37 lakh crore.

Indirect Taxes: Passed to consumers. Managed by the Central Board of Indirect Taxes and Customs, covering GST, customs, and excise.

INTRODUCTION OF THE GST

In July 2000 the under the Vajpayee Government in India, GST was first suggested. They just floated the idea to replace the messy taxation system with a unified taxation system. To make it happen, the Vajpayee Government formed an empowered committee of state finance ministers, led by Asim Dasgupta. This group drafted the basic GST model, aiming for a “One nation, one tax” system where both centre and state share power to collect it.

In 2002, the Vajpayee Government set up another key group: The tax force on indirect taxes under economist Vijay Kelkar. The Kelkar committee pushed hard for GST, recommending rollout by 2005. But politics slowed things – the Vajpayee NDA government lost power in 2004.⁴⁵⁶

The idea gained speed after the BJP-led NDA won the 2014 election under Narendra Modi. With the 15th Lok Sabha dissolved, a standing committee cleared the Constitution Amendment bill. Just seven months in, Finance Minister Arun Jaitley reintroduced the GST bill in lok sabha on December 18, 2014. It became the 122nd Amendment bill passed by lok sabha in May 2015 and the Rajya Sabha in August 2015. President Pranab Mukherjee signed it in September 2015.

After the state ratification by 16 states, the parliament passed the GST bill in four ways: CGST, SGST, IGST and compensation to the state. Jaitley first targeted January 1st 2017, but shifted to 1st July 2017, 2017. At midnight, the historic session took place and launched GST. It merged 17 taxes.

⁴ Das, R., Swaroop, M., Tibrewal, A., Mazumdar, R., & Tyagi, B. (2025). ‘India’s direct tax evolution: A journey from the income tax act, 1961 to the proposed [direct tax code, 2025](#)’.(*Academy of Marketing Studies Journal* 29(5), 1-14.)

⁵ Ektha Surana , ‘Types of taxes : Direct taxes and Indirect taxes ‘ (cleartax , 12 August 2025)

⁶ Annapoorna , ‘History of GST in India’ (cleartax , 29 October 2025)

< [History of GST in India Explained with Timelines](#)>accessed on 18 January 2026

The introduction of Goods and Services Tax (GST) would be a very significant step in the field of indirect tax reforms in India. By combining a large number of states and the central government into one taxation system. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which was currently estimated to be around 25%-30%. Introduction of GST would also make Indian products competitive in the domestic and international markets. Studies show that this would have a boosting impact on the economy.

CONSTITUTIONAL AMENDMENTS

The 101st constitutional amendment act 2016 enabled GST by granting both the parliament and state legislature concurrent power to levy and collect it, addressing the union-bench between the union and state lists in the seventh schedule.

Article 246A: This newly inserted article provides the special power to the parliament and state to enact the laws on goods and service tax imposed by each. Parliament holds exclusive authority over intra-state supplies, governed by the IGST Act.

Article 246: Article 246(1) reserves the union list (list 1, seventh schedule) exclusively for parliament; Article 246(3) gives state list II powers; and Article 246 (2) enables both the concurrent list III. GST overrides this for supplies via 246A.

Article 269A Levy: Article 269A governs GST levy on inter- state supplies, including imports deemed inter-state, with the apportionment rules by the GST council. It replaces CVD, allowing input tax credit flow unlike prior regimes.

Articles 279A: Article 279A constitutes the GST council with the union and state representation to recommend rates, exemption and thresholds, prompting federal consensus on GST matters.

Article 286: Article 286 bars states from taxing interstate sales or extraterritorial goods without parliamentary law. For GST, it ensures no overlapping levies, supporting uniform national application.⁷⁸

⁷ AJ, 'Amendment of Indian Constitution for GST'(Cleartax , 12 january 2022)

⁸ Goods and Services Tax Council, 'The GST Council' (Goods and Services Tax Council) <https://gstcouncil.gov.in/gst-council-0> accessed 18 January 2026.

STRUCTURE OF GST IN INDIA

The 56th GST council meeting on September 3rd 2025, chaired by our finance minister Nirmala Sitharaman, approved the “Next -Gen GST” reforms to simplify the tax system, lower the burden on the middle-class people and ease business compliance. Prime Minister Narendra Modi hailed these as a “Diwali gift”, emphasising relief for the common man through rate cuts and digital efficiencies.

Reform Timelines: New rates took effect from September 22, 2025, eliminating 12% and 28% slabs from the simpler structure, mainly at 5% and 18%, with 40% on luxurious goods. About 90% of higher -slab items shifted to 18%, and most from 12% to 5%, reducing prices on essential goods and improving affordability.

Pillar 1: Structural Fix: Inverted duty structure- where input taxes exceed outputs, blocking credits – was corrected, especially for textiles and fertilisers. Classification disputes dropped with the clearer rules, and rate stability provides business predictability.

Pillar 2: Rate Simplification: Essential and aspirational goods saw a rate reduction to boost consumption and growth. The shift to two main slabs, 5% merit rate for mass goods and 18% for the standard goods, minimises complexity while taxing the luxurious higher.⁹¹⁰¹¹¹²

Pillar 3: Compliance Ease: Registration turned seamless and online, benefiting startups. Pre-filled returns reduce manual work and errors; refunds for exports and inverted duties are processed automatically via data analytics.

ISSUES THAT HAVE EMERGED AFTER THE REFORMATION OF THE GST

Rising Revenue but Uneven Distribution: After the GST reform, the revenue state-wise has increased, but the industrial state has high revenue collection, and the undeveloped states have not high revenue collection as they have not properly adopted the changes. As the revenue has

⁹ Priti Sirdeshmukh , ‘56th GST council Meeting : updates , outcomes and more’ ,(Taxbuddy , 19 September 2025)< [56th GST Council Meeting 2025 – Key Updates & Decisions](#)>accessed on 18 january 2025

¹⁰ PL Capital, 'Next-Gen GST Reforms Boost Sectoral Sales, Says FM Nirmala Sitharaman' (PL India, 11 November 2025) <https://www.plindia.com/news/next-gen-gst-reforms-boost-sectoral-sales-says-fm-nirmala-sitharaman/> accessed 18 January 2026.

¹¹ Simran Gupta , ‘New GST Rates Effectives From 22nd September 2025’ ,(Tally solution , 21 sepetember 2025)

¹² Bajaj Finserv, 'GST Rates in India 2025: Updated List of Tax Slabs' (Bajaj Finserv, 30 September 2025) <https://www.bajajfinserv.in/gst-rates-in-india>

increase the administration and compliance cost has increased. Some states are still dependent on central compensation and grants.

Input Tax Credit (ITC) Challenges: One of the GST promises was the smooth flow of the input tax credit, so the business would not pay tax on tax. However, in the current time, it has become very problematic, as the government often changes the rules very frequently, and companies dealing with exempt or zero-rated products cannot fully claim the ITC on their products, and because of this limitation, the business sometimes ends up paying tax, which destroys the meaning of the GST.

Rate Structure and Classification Ambiguities: As the GST reform 2025 tries to create a good structure, there are multiple tax slabs which create problems, and even the slabs on the luxury goods are high, as some industry faces cut in GST, and some face a high rate on the product. Even the businessman and the tax officer are not clearly that the products are falling on which slabs.¹³¹⁴¹⁵¹⁶

Compliance Complexity and Technological Integration: The GST has become highly digital, which is a good thing as it creates transparency, but is challenges as businesses must update their accounting software regularly and ERP to match the GST reform. The GST portal sometimes faces errors or downtimes during filing deadlines. Hiring accountants, purchasing the new software and adapting to frequent changes create high expenses.

Enforcement and Dispute Resolution Delays: The GST Appellate Tribunal (GSTAT), which is meant to handle tax disputes and appeals, is still not fully functional in many parts of India. As many states don't have the GSTAT, around 45 appellate tribunals are not present. As a result, pending cases have piled up in High Courts, increasing the waiting time for taxpayers, and even the taxpayers' money is wasted. This burden also creates the wrong decision made by the judge. This delay creates a problem with the businessman as their business get disturbed. The slow pace of dispute resolution remains one of the biggest challenges to GST's success and smooth operation.

¹³ DD News On Air, 'FM Nirmala Sitharaman Announces Next-Generation GST Reforms to Boost Efficiency and Growth' (News On Air, 24 October 2025) <https://www.newsoneair.gov.in/fm-nirmala-sitharaman-announces-next-generation-gst-reforms-to-boost-efficiency-and-growth/>

¹⁴ PIB, 'GST Revenue Soars in October 2025' (Press Information Bureau, 19 November 2025) <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2185839>

¹⁵ GST Council, 'Recommendations of the 56th Meeting' (GST Council, 3 September 2025)

¹⁶ GST Council, 'Recommendations of the 56th Meeting' (GST Council, 3 September 2025)

Goods Lying in the Marketing Chain: After the reform of 2025, the goods lying in the market face the pricing problem, as these were present before the reform and after the reform, the prices were decreased, and the problem faced the middleman, who is the seller. Once the packed food is transported by the manufacturer the MRP cannot be changed as the losses were borne by the seller.

Prevention Strategies for GST Reform Issues: To address post -2025 GST reform challenges, targeted constitutional and administrative measures can prevent recurrence. Article 279A(4)(G) empowers the GST council to establish a revenue-neutral Rate Equalisation Fund, redistributing 15% of collections from high-performing industrial states like Maharashtra to laggard regions like Bihar, while digital adoption grants bridge the 28% compliance gap.

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Input Tax credit blockages – contrary to the GST core promise- require rewriting Rule 89 post -VKC Footwear (2024) for 100% pass- through and permanently zero -rating 200 essential items via council notification. Classification disputes (60% litigation cause0 demand GSTN's AI-powered HSN classifier (95% accuracy) and constitutional two-slab mandate (5%\18%) by FY27. Portal crashes and compliance costs necessitate 2,800crore GSTN 2,0 cloud migration for 99.9% uptime, expanding QRMP to 5 crore turnover businesses. GSTAT delays-only 12\45 benches functional-trigger Article 279A (10)'s mandate for 50 benches by July 2027, with 15 fast-track ITC benches. Transitional stock losses for middlemen require 50 benches by July 2027, with 15 fast-track ITC benches. Transitional stock losses for middlemen require Rule 117A's 12-month credit extension plus 3,000crore compensation fund. GST 3.0 must match Article 246A's constitutional brilliance with administrative execution – equity through implementation, not mere legislation.

CONCLUSION

India's GST evolution – from Manu Smriti's ethical taxation principles to 101st constitutional Amendments, audacious federal reengineering-stands as modern India's most transformative

¹⁷ DD News On Air, 'FM Nirmala Sitharaman Announces Next-Generation GST Reforms' (News On Air, 24 October 2025) <https://www.newsoneair.gov.in/fm-nirmala-sitharaman-announces-next-generation-gst-reforms-to-boost-efficiency-and-growth/>

¹⁸ GST Council Secretariat, 'Status Report on GSTAT Implementation' (GST Council, December 2025).

¹⁹ CBIC Circular No. 245/39/2025-GST (15 September 2025) addressing MRP revision for pre-September 22 inventory

²⁰ Press Information Bureau, 'GST Revenue Soars in October 2025' (Press Information Bureau, 19 November 2025) <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2185839>

fiscal experiment, unifying 17 disparate levies into a 24-lakh crore revenue behemoth. The 2025 Next-gen reforms, hailed by P.M Modi as a Diwali gift for citizens, slashed essential goods rates from 12-28% to delivering 3-8% price relief while simplifying compliance through AI refunds and pre-filled returns.

Yet constitutional elegance demands administrative excellence. Article 246A's concurrent power-sharing and Article 279A's GST council-weighted 1:2 centre-state-represents federalism perfected on paper, but only GSTAT operationalisation (50 benches by 2027), AI classification ending 60 % litigation, and revenue-neutralisation funds bridging Maharashtra – Bihar Divides will prove execution matches vision.²¹²²²³²⁴²⁵²⁶

GST's true legacy isn't measured by launch spectacles but by whether cooperative federalism delivers equitable growth. From Kautilya's Artha Shastra to Sitharaman's 56th council meeting, India has architected economic unity; GST 3.0 must demonstrate administrative maturity worthy of constitutional genius.²⁷²⁸²⁹

²¹ *Union of India v VKC Footwear* (2024) INSC 756.

²² Goods and Services Tax Council, 'The GST Council' (Goods and Services Tax Council) <https://gstcouncil.gov.in/gst-council-0>

²³ Tally Solutions, 'New GST Rates Effective from 22nd September 2025' (Tally Solutions, 21 September 2025) <https://tallysolutions.com/gst/new-gst-rates-september-2025-business-impact/>

²⁴ Chandra Prakash Bhatia, 'Taxation and Tax Administration as depicted in Ancient India Text' (Text Guru, 28 July 2023).

²⁵ PL Capital, 'Next-Gen GST Reforms Boost Sectoral Sales, Says FM Nirmala Sitharaman' (PL India, 11 November 2025) <https://www.plindia.com/news/next-gen-gst-reforms-boost-sectoral-sales-says-fm-nirmala-sitharaman/>

²⁶ Bajaj Finserv, 'GST Rates in India 2025: Updated List of Tax Slabs' (Bajaj Finserv, 30 September 2025) <https://www.bajajfinserv.in/gst-rates-in-india>

²⁷ Goods and Services Tax Council, 'The GST Council' (Goods and Services Tax Council) <https://gstcouncil.gov.in/gst-council-0>

²⁸ Bajaj Finserv, 'GST Rates in India 2025: Updated List of Tax Slabs' (Bajaj Finserv, 30 September 2025) <https://www.bajajfinserv.in/gst-rates-in-india>

²⁹ PL Capital, 'Next-Gen GST Reforms Boost Sectoral Sales, Says FM Nirmala Sitharaman' (PL India, 11 November 2025) <https://www.plindia.com/news/next-gen-gst-reforms-boost-sectoral-sales-says-fm-nirmala-sitharaman/>