Eight years of GST: A time to reflect, a time to reform

July 2025

Foreword

The implementation of the Goods and Services Tax (GST) stands as one of the most transformative milestones in India's fiscal landscape. From the outset, it was envisaged not as a one-time shift, but as a continuing journey of learning, refinement, and systemic improvement – and it has indeed lived up to that vision. Over the past eight years, the reform has demonstrated steady and encouraging progress, reflected in increased stakeholder confidence, improved compliance levels and enhanced certainty. Sustained dialogue between the Government and industry has fostered this progress. A notable indicator of GST's success is the record-breaking gross GST collection of INR 2.37 lakh crore in April 2025,[1] which highlights its growing role in bolstering India's revenue framework.

The eighth anniversary of GST is an appropriate time for reflection on the key milestones, policy achievements and transformative changes under the GST law. The GST Council's functioning has exemplified cooperative federalism, enabling consensus-driven policymaking between the Centre and states. Digitisation has been central to improving transparency, with reforms such as e-way bills, e-invoicing, Invoice Management System (IMS) and scrutiny based on data analytics playing a crucial role. Proactive engagement with industry has shaped a responsive tax policy framework, aided by timely clarifications. This has contributed to the resolution of several disputes and minimised litigation.

1 July 2027 will mark a decade of GST. This will be a timely opportunity to initiate discussions on reforms considering global trade and tariff headwinds, as well as the need of the domestic economy to boost private investment, stimulate consumption, and drive growth and employment generation. The future of GST is expected to be shaped by the adoption of new-age technologies in tax governance. Other key reforms may include rate rationalisation, aimed at creating a more balanced tax structure, and the broadening of input tax credit eligibility parameters with minimal restrictions. Further, there is growing momentum to cover aviation turbine fuel (ATF) and natural gas under the GST regime. Additionally, a forward-looking tax policy is anticipated in response to the growing economy and emergence of new sectors coupled with rising international trade headwinds, as well as to promote ease of doing business.

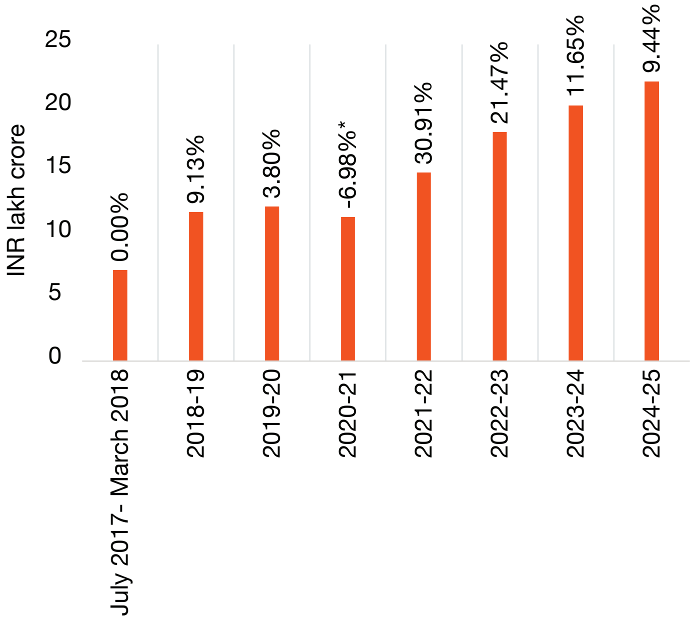
1. https://www.thehindu.com/business/Economy/gst-revenue-hits-record-high-of-237-lakh-crore-in-april-up-126/article69521636.ece

Year in review: Highlights from the eighth year of GST

Strengthening GST revenue collections through technological enhancements for tax enforcement and clarity in law

- Goods and Services Tax (GST) revenue collections have witnessed a sustained upward trajectory over the years. In comparison to the average monthly GST collection of INR 0.9 lakh crore in 2017–18, monthly gross GST collections have significantly increased to INR 1.84 lakh crore in 2024–25. April 2025 – when the GST collections reached a record high of INR 2.37 lakh crore – was a key highlight, reflecting 12.6% year-on-year growth. This growth was underpinned by a 25.2% rise in revenues from imports and a 13.7% increase from domestic transactions, indicating robust consumption and trade activity in all sectors.[2]

GST collections in INR lakh crore



Source: GSTN portal

*Year 2019-20 and 2020-21 were the years of the COVID-19 pandemic

- This steep rise in revenue collection is not only a function of increased economic growth, consumption and changes in global trade but also a result of proactive policy and enforcement measures. Technology enhancements such as e-invoicing, real-time data integration, AI-driven enquiries, and risk-based audits have created a robust GST compliance framework. These concerted efforts have helped position India's GST regime as one of the most advanced and data-driven indirect tax systems globally.

Consensus-based policymaking through continuous stakeholder engagement

- The GST ecosystem has actively encouraged representations from various stakeholders to highlight the concerns and challenges faced by taxpayers, including sector-based issues. The responsiveness of the administration in addressing these concerns through various policy changes and clarity through circulars reinforces the adaptability of the GST law to cater to business challenges.
- During the course of the past year, policy changes and clarifications were issued on various critical aspects, such as Input Service Distributor (ISD) vs cross charge, scope of Online Information Database Access and Retrieval (OIDAR) services, taxability of corporate guarantees, compliance simplifications, availment and distribution of input tax credit, and refunds. Additionally, in order to address the ambiguity surrounding the powers of the Revenue to regularise past practices by issuing circulars based on the recommendations of the GST Council, Section 11 A of the Central Goods and Services Tax Act, 2017, was introduced. By virtue of this amendment, the Government has been empowered to issue notifications to waive tax which remained unpaid or short paid as a result of genuine interpretation and general practice.

2. GSTN portal and PIB

- The GST waiver scheme was another significant measure to facilitate voluntary disclosures and payment of tax along with interest with a view to limiting any protracted litigation and reducing pendency before appellate authorities.

- Guidelines were also issued to Directorate General of GST Intelligence (DGGI) officers and Central GST officers respectively, with a continued emphasis on ease of doing business while undertaking investigations with taxpayers. The said guidelines also addressed issues of multiple and parallel proceedings.

Major steps to operationalise the dispute resolution appellate framework

- The operationalisation of the GST Appellate Tribunal (GSTAT) marks a pivotal shift in the dispute resolution landscape under the GST regime. With the formal notification of the procedural rules, appointment of the President of GSTAT, and notification of state benches across the country, the appellate structure is almost operational.

- Additionally, the entire appellate process will be digitised – from filing of appeals and tracking of cases to service of notice and issuance of orders. This is expected to reduce dispute resolution timelines.

The operationalisation of GSTAT addresses the long-standing gap in the appellate framework, which had resulted in an increased burden on the High Courts. Having said this, the GSTAT is yet to appoint its members and commence operations.

Milestones in the GSTAT journey

July 2017

GST introduced

Sep 2019 to Dec 2023

1. Challenge to constitutionality of GSTAT before courts
2. Amendments in GST law to cure defects

May 2024

President of GSTAT took oath

July 2024

CBIC circular for payment of pre-deposit with undertaking to file appeal

Aug 2024

1. Principal bench at New Delhi notified
2. Time limit to file appeal to start from notified date

Nov 2024

Various state benches notified

Apr 2025

GSTAT Rules notified

Technology enhancements facilitate robust tax enforcement

- Auto-populated returns and enhanced reconciliation mechanisms have contributed to better compliance across the GST ecosystem. The introduction of the Invoice Management System (IMS) further strengthens this framework by introducing system-based controls on the availment of input tax credit. Moreover, the use of data analytics, artificial intelligence and machine learning has enabled the tax administration to identify anomalies in tax disclosures on a real-time basis.

Significant role of the judiciary in shaping the GST jurisprudence

The judiciary has played a vital role in shaping GST jurisprudence in India, with its timely interventions significantly enhancing taxpayer confidence, reducing ambiguity and promoting uniform interpretation of the GST law. The consultative approach adopted by the Government has also possibly contributed to a decline in writ petitions before the courts, particularly when compared to the initial years of GST implementation.

GST 2.0: The road ahead

GST in India now stands at a critical juncture where aligning with global trade dynamics is essential. The evolving landscape of international trade, coupled with the growing need to attract investments in the manufacturing and global capability centre (GCC) sectors, calls for a GST framework that is agile, investor-friendly, and globally competitive. A forward-looking GST regime must reinforce India's position as a preferred investment destination. At the same time, continued efforts to simplify GST compliance, reduce procedural burdens and enhance digital integration will play a pivotal role in improving ease of doing business. With these objectives in focus, GST is poised to evolve into a more robust, transparent, and business-enabling tax system that supports India's economic growth and global integration.

1. Rate rationalisation

Reducing GST rate slabs

At the 45th GST Council Meeting held on 17 September 2021, the Council acknowledged the need to streamline the GST rate structure with the objective of simplifying rates, in order to reduce classification-related disputes and enhance GST revenues.[3] For this purpose, it also constituted a Group of Ministers (GoM) on rate rationalisation. The group's objectives included review of instances of inverted duty structure, elimination of breakage of ITC chain and expanding the tax base.

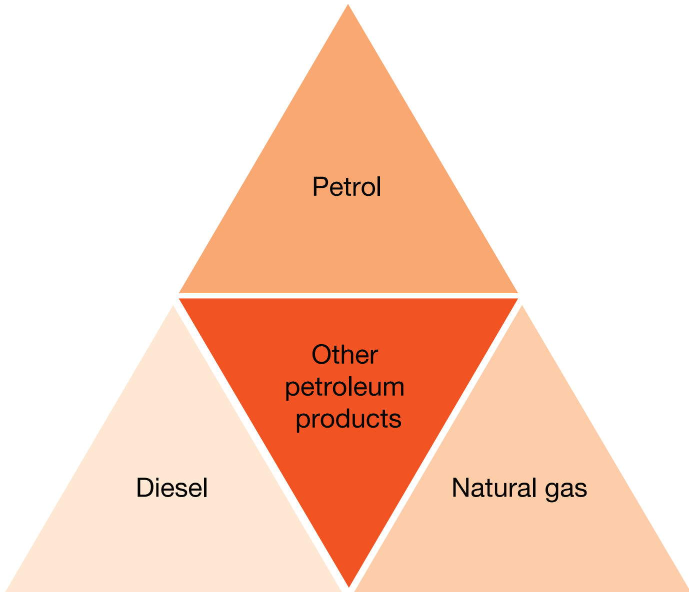
Currently, there are various tax rate slabs under the GST law. A transition from 4-tier to a 3-tier rate structure would reduce interpretational disputes, improve tax certainty and simplify compliance.

A comprehensive review of GST rate slabs is required to minimise the disparity between the GST rate on inputs as against that on output, especially for sectors such as electronic vehicle, aviation and e-commerce, which face credit accumulations on account of the inverted tax structure.

Broadening of the tax base

Petrol, diesel, natural gas and other petroleum products continue to be excluded from the GST regime and remain subject to central excise duty and state VAT. Such products can be brought within the ambit of GST only upon a specific recommendation by the GST Council and a corresponding notification by the Government. The primary concern, particularly among states, is that subsuming these commodities under GST would lead to a revenue shortfall.

Petroleum products are currently not subject to GST



Excluding these products, which make up a large part of costs for industries such as oil and gas, transport and logistics, has resulted in significant tax cascading and caused cash flow problems for businesses. A policy change that includes these items under GST, along with a system to protect state revenues would simplify the tax structure, ease cash flow issues for businesses, and support the original goals of GST.

3. Office memorandum dated 24 September 2021 S-31011/12/2021 DIR (NC)

Reaching an agreement among all stakeholders, including state governments, may be challenging, but a practical approach could start by including aviation turbine fuel (ATF) and natural gas under GST. This would reduce the tax cascading effect on these products and promote smoother inter-state trade.

Future of compensation cess

Originally, compensation cess was introduced for a period of five years with the objective of indemnifying states against any shortfall in revenue occasioned by the implementation of GST. The levy was subsequently extended up to March 2026. This cess is levied on a narrow band of so-called 'sin' or luxury goods, primarily tobacco products, cigarettes, motor vehicles, coal and aerated water.

This creates working capital blockage for taxpayers whose inputs are subject to the levy of compensation cess, but whose output is not (as the same is non creditable). In an environment where the GST Council has consistently championed the twin objectives of simplification and removal of cascading effect, continuation of a parallel levy of cess appears misaligned with the overarching policy framework.

With strong GST collections addressing fiscal concerns, the reasons for the introduction of the cess in 2017, no longer apply. The levy of the compensation cess may be removed or, if needed, may be incorporated in the GST rate structure. This would simplify the tax system, reduce distortions, free up stranded credits and supporting ease of doing business.

2. Need for legislative reforms

Revisiting the GST law for clarifying taxability-related aspects

Since the implementation of GST in India, the tax framework has undergone significant evolution, with many aspects already streamlined. However, there remain certain areas – such as the taxability of long-term leases, assignment of leases and transfer of development rights (TDRs) – where further clarity would help in ensuring consistent interpretation and application. Similarly, provisions related to valuation in related party transactions, including the interpretation of the proviso to Rule 28 (particularly in cases involving actual consideration), present opportunities for clearer guidance. Additionally, distinguishing between transactions that require routing through the ISD mechanism and those necessitating cross-charging continues to be a nuanced area, owing to some overlap in the conceptual framework.

Addressing these areas through detailed clarifications and practical guidance would further enhance compliance and operational efficiency under GST.

Input tax credit related reforms

The Organisation for Economic Co-operation and Development (OECD), in its International VAT/GST Guidelines, places the principle of tax neutrality at the core of any modern value-added tax system. The guidelines emphasise that at every stage in the supply chain, a supplier ought to enjoy an unfettered right to deduct input tax so that the economic burden of the tax ultimately falls on the final consumer rather than on business intermediaries.

The GST legislation, however, significantly departs from this norm. Section 17(5) of the CGST Act prescribes an extensive and steadily expanding catalogue of 'ineligible credits'. In the eight years since the inception of GST, the legislature has often amended this provision to make additions, which has further attenuated the neutrality principle.

Aligning the provisions of the GST law with the internationally accepted neutrality principle would enhance ease of doing business, reduce litigation, and ensure that GST functions as a pure consumption tax rather than a cost to enterprise. Key examples of this could be to allow input tax credit for construction services, credit on employee-related expenses, etc.

The Government may also consider introducing mechanisms for addressing working capital issues such as through cross-utilisation of various state CGST credits, refund of credits of capital goods and conversion of input credit into duty scrips. This would help in further liquidating legitimate business-related credits and reducing costs.

3. Trust-based audit mechanism and other dispute resolution related reforms

Given the substantial number of cases currently pending before various GST authorities – exacerbated in part by the absence of GSTAT – there is an opportunity to revisit and strengthen the dispute resolution framework under the GST law to enhance efficiency and timely redressal.

- Implementing a trust-based audit framework
    - Tax administrations globally – including those in Australia, the UK, Ireland and Singapore – are increasingly embracing the 'co-operative compliance framework,' which emphasises building mutual trust and transparency between taxpayers and tax authorities.
    - A similar framework could be implemented in India, where the audit process is restructured to align with key principles of co-operative compliance. This might include practices such as assurance risk reviews, a reduced level of compliance interventions based on higher assurance ratings, and a closer focus on tax governance and internal controls.
    - The framework would primarily depend on self-declarations by taxpayers, with ratings assigned based on internal control testing, risk analysis, and a high-level review of transactions. Taxpayers with higher ratings would face fewer interventions during audits. Moreover, these ratings could also make them eligible for benefits such as less frequent audits, faster refunds, and expedited advance rulings.
    - Currently, under the GST framework, audits are initiated by each state, implying that an entity with multiple state registrations could undergo multiple audits for the same transaction, with authorities potentially taking different positions on the same matter. To address this, a multi-locational co-audit approach, as suggested in the 'Model All India GST Audit Manual 2023', could be implemented, ensuring a single governing authority for audits across all states.

To standardise tax audits and help taxpayers conduct internal reviews based on past audits, a common GST analytical tool or app like the current e-Shodhane Audit Module in Karnataka – could be made available across India.

- Introducing pre-adjudication mediation
    - This can provide parties with an opportunity to resolve disputes amicably before formal proceedings, thereby reducing litigation and fostering a collaborative approach.
- Publishing audit findings
    - The authorities may also consider publishing common findings in a redacted manner to address privacy concerns during audits and investigations and the view taken, to help the taxpayer review the tax positions adopted by them. These findings may be published sector-wise.

Collectively, these measures can be expected to expedite dispute resolution, enhance taxpayer confidence and build greater trust in the GST ecosystem.

4. Technology-driven approach

Over the last eight years, the Government has achieved significant progress in adopting digital solutions and building a high-quality infrastructure, led by Goods and Service Tax Network (GSTN).

Despite these advances, many in the industry believe there is still untapped potential for technology to ease compliance challenges. Key opportunities include ease of retrieval and navigation in the common portal – particularly in areas where gaps remain, such as retrieving official notices through online platforms – and boosting the efficiency of dispute resolution mechanisms like GSTAT. Given the volume of transactional data furnished through the GSTN each month, AI-enabled analytics may be deployed by tax officers to perform real-time matching, trend analysis, anomaly detection, and gap identification with a degree of speed and precision unattainable through conventional manual review. This is an opportunity to leverage AI within a responsible and accountable framework with appropriate guardrails.

To keep pace with rapidly evolving technology, both the Government and industry must act swiftly and stay agile, fostering collaboration and adaptability in shaping future-ready solutions.

5. Taxability of emerging sectors

With the rapid evolution of technology and business models, sectors such as e-commerce, cryptocurrency, artificial intelligence, online gaming and electric vehicles (EVs) have grown significantly, often outpacing the current legislative framework under GST. These sectors present unique challenges in terms of valuation, place of supply, and classification, which has led to uncertainty and litigation.

Similarly, AI-driven services and EV-related supply chains, including battery swapping and charging infrastructure, lack uniform tax treatment.

To ensure a stable and predictable tax environment, it is imperative for the GST Council and policymakers to proactively address these gaps by issuing clear guidelines, clarifications and, if necessary, legislative amendments.

6. Further boost to ease of doing business

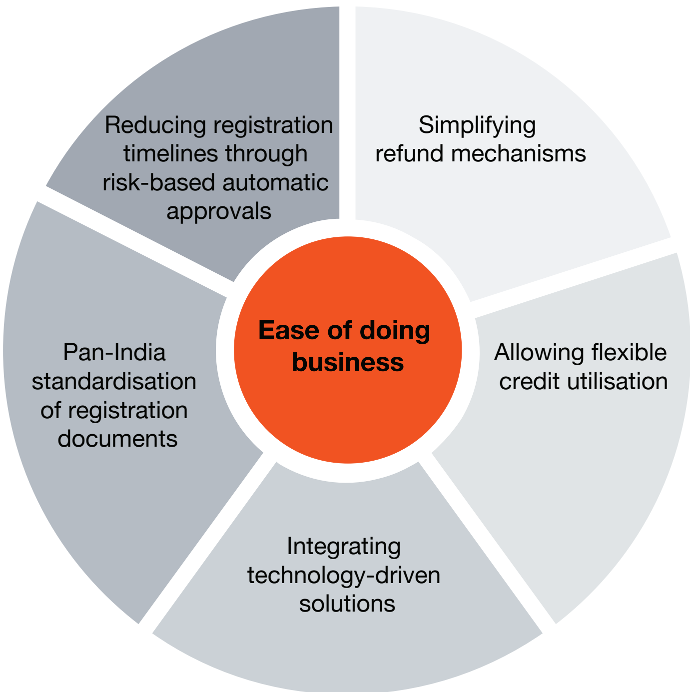
A key pillar for the future of GST is going to be a continued focus on ease of doing business reforms that enhance tax compliance for business and administration for the government. To truly enhance ease of doing business, the GST framework must prioritise pan-India standardisation of registration documents, enable simultaneous amendments, and reduce registration timelines through risk-based automatic approvals. Additionally, simplifying refund mechanisms, allowing flexible credit utilisation, and integrating technology-driven solutions such as auto-population of returns and unified dashboards can significantly reduce manual intervention and administrative burdens.

Recently, the Central Board of Indirect Taxes and Customs (CBIC) launched an awareness drive ahead of the eighth anniversary of GST to raise awareness and assist and guide taxpayers. This initiative was much appreciated by stakeholders. By fostering a more predictable, transparent and user-friendly GST environment, these reforms will not only improve compliance but also unlock business growth, support taxpayer participation, and strengthen India's position as a competitive global economy.

Key takeaways

As GST completes eight transformative years, it stands as a testament to India's commitment to creating a unified, transparent and technology-driven indirect tax system. The regime has delivered substantial progress in integrating markets, enhancing compliance, and leveraging digital tools for administration and enforcement. However, the journey ahead demands a renewed focus on simplification of the tax structure, ensuring stability in policies and building deeper trust among all stakeholders – taxpayers, industry and government alike.

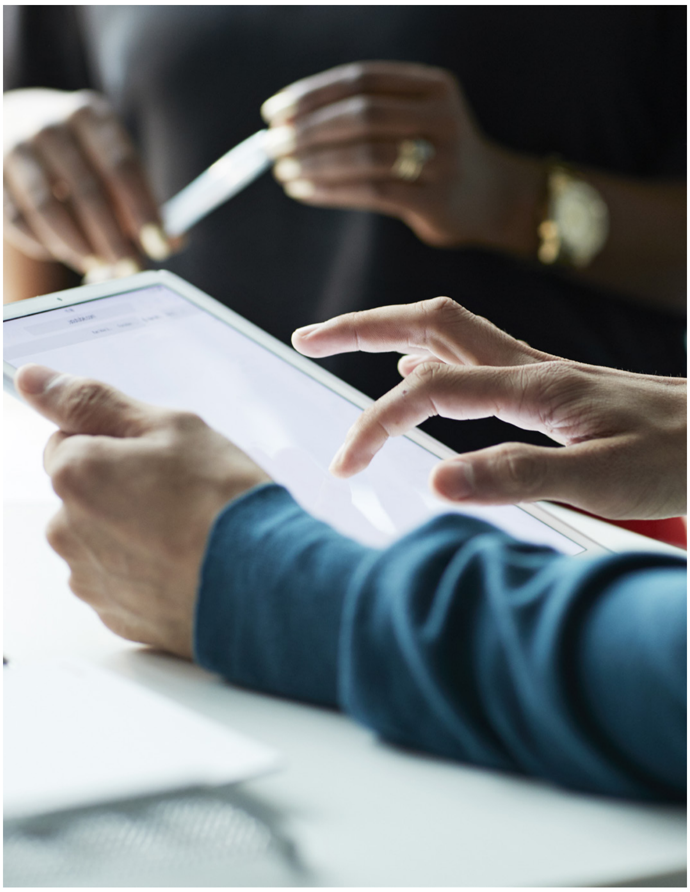
Boost to ease of doing business



The next phase of GST must prioritise rationalising rates, reducing blocked credits in line with the neutrality principle, broadening the tax base, and removing procedural bottlenecks and to restore the originally intended neutrality and efficiency of the system. Embracing global best practices, dispute resolution, and digital economy alignment will be crucial to minimise litigation and foster a business-friendly environment. Leveraging advanced technologies such as artificial intelligence can further streamline compliance and administration, provided robust safeguards are in place.

A forward-looking, globally harmonised GST regime will be instrumental in driving India's 'Amrit Kaal' growth story, fostering innovation, competitiveness, and inclusive economic development. By addressing persistent challenges and embracing reform, GST can truly fulfil its promise as a catalyst for India's next era of growth and prosperity.

As GST looks to complete its first decade in the next two years, it will lay a secure foundation for shaping India's fiscal regime for many decades to come!



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