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THE GOODS AND SERVICES TAX: ISSUES AND REFORMS IN INDIA

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ABSTRACT
The Goods and Services Tax (GST), implemented in India on 1 July 2017, marked a landmark shift in the nation's fiscal architecture by replacing a fragmented indirect tax regime with a unified, destination-based, value-added system. Conceived as a "one nation, one tax" initiative, GST has enhanced tax buoyancy, expanded formalisation, and curtailed the cascading effects of multiple levies. However, the reform has also exposed structural and operational challenges – ranging from complex multi-slab rates and frequent policy amendments to compliance burdens, technology bottlenecks, and centre–state revenue-sharing frictions. This paper critically examines the key issues in GST's design and implementation, reviews contemporary literature and policy debates, and analyses recent reform proposals such as slab rationalisation and sector-specific exemptions under deliberation in 2025. Drawing from qualitative policy analysis, it presents targeted recommendations to simplify GST, ensure revenue sustainability, strengthen federal cooperation, and enhance its role as a growth-friendly and equitable tax regime.
KEYWORDS: *GST, Tax Reform, Compliance, E-Invoicing, Rate Rationalisation, India, GST Council*

1. INTRODUCTION

The introduction of the Goods and Services Tax (GST) was one of the most ambitious fiscal reforms in post-independence India. By subsuming multiple central and state-level indirect taxes, GST sought to streamline the tax structure, create a seamless national market, and increase efficiency in tax administration. Administered through a unique cooperative federal structure—the GST Council—it aimed to strike a balance between uniformity and fiscal autonomy.

By 2025, GST had completed eight years of operation and had firmly established itself as the principal indirect tax in India's fiscal framework. Despite measurable successes such as widening of the tax base, increased formalisation of businesses, and consistent improvements in gross tax collections, the system has been criticised for its complexity and frequent procedural changes. The persistence of multiple slabs, compliance challenges, and disputes regarding centre–state fiscal relations continue to hinder its efficiency. Recognising these bottlenecks, the Indian government has initiated deliberations on structural reforms, including slab rationalisation and targeted sectoral reliefs, which could redefine the trajectory of GST in the coming decade.

2. OBJECTIVES OF THE STUDY

1. To identify and categorise the major issues associated with GST in India, including structural, administrative, compliance-related, and federal dimensions.
2. To examine contemporary reform proposals such as slab rationalisation, sector-specific exemptions, and IT-driven compliance mechanisms.
3. To provide pragmatic recommendations that ensure revenue neutrality while promoting ease of doing business and equity in taxation.

3. LITERATURE REVIEW

Academic and policy discourse on GST has evolved in two phases: **pre-implementation expectations** and **post-implementation assessments**. Early studies anticipated gains from eliminating cascading effects, improving compliance, and boosting economic efficiency. Subsequent empirical research, however, presents a more nuanced reality: while aggregate revenue buoyancy has improved, state-level variations remain significant; compliance is relatively easier for large enterprises but burdensome for micro, small, and medium enterprises (MSMEs); and while e-invoicing and digital filing enhance transparency, they also introduce technological hurdles.

Key themes from the literature include

- **Rate complexity:** The existence of multiple slabs (0%, 5%, 12%, 18%, 28%) has created frequent classification disputes, distorting consumption behaviour and increasing litigation.
- **Compliance burden and technological adaptation:** While e-invoicing and reconciliation strengthen transparency, many small taxpayers struggle with the costs of technology adoption.
- **Centre–state fiscal tensions:** States remain apprehensive about revenue volatility, especially in the absence of assured compensation mechanisms.
- **Operational design flaws:** Discrepancies between return formats (GSTR-1 vs GSTR-3B), invoice mismatches, and debates around "hard-locking" filings highlight the need for stronger administrative clarity**.(Santhosh Prabhu M, 2023, IJFMR)**

4. METHODOLOGY

The study employs a **qualitative policy analysis** approach by synthesising:

- Primary sources such as GST Council deliberations and Group of Ministers (GoM) recommendations;
- Reputable news reports and policy analyses capturing reforms under discussion during 2024–2025;
- Scholarly articles and practitioner insights on compliance and sectoral implications.

The paper does not include primary surveys or econometric modelling. Instead, it provides a structured analytical framework to evaluate existing challenges, weigh reform proposals, and suggest practical policy directions.

5. KEY ISSUES WITH GST IN INDIA

5.1 Complex rate structure and classification disputes

The multiplicity of tax slabs has imposed administrative costs and led to frequent disputes regarding product classification. Businesses face unpredictability, while lobbying for favourable classification proliferates. The 2025 reform agenda—proposing a simplified two-slab structure of 5% and 18%, with an additional luxury/sin slab—reflects the need to simplify and rationalise the rate system.

5.2 Compliance burden and return reconciliation

Digital compliance tools such as e-invoicing and auto-reconciliation have strengthened oversight but created operational difficulties for smaller businesses. Persistent mismatches between supplier and buyer filings undermine efficiency, while proposals like "hard-locking" GSTR-3B filings have sparked concerns regarding taxpayers' flexibility to rectify genuine errors.

5.3 Centre–state fiscal tensions

GST's cooperative federal structure requires consensus-building. Proposed changes to rates and exemptions significantly impact states' revenues. States remain cautious about reforms that may erode fiscal predictability, underscoring the need for transparent compensation mechanisms and stronger fiscal coordination.

5.4 Sectoral and distributive impacts

Certain sectors, such as insurance, face disproportionate consequences. For instance, exempting life and health insurance premiums may make insurance affordable but eliminate input tax credits for insurers, thereby compressing margins. Small businesses, on the other hand, continue to struggle with compliance costs, highlighting the need for differentiated approaches.

5.5 Litigation and taxpayer uncertainty

Ambiguities in classification, valuation, and place-of-supply rules contribute to a high volume of litigation. Frequent clarificatory circulars, though helpful, do not fully resolve interpretational disputes, thereby increasing compliance costs and discouraging investment.

6. RECENT REFORM PROPOSALS (2024–2025)

- **Slab rationalisation:** Simplifying the rate structure to two main slabs (5% and 18%) with a higher luxury/sin slab.
- **Sectoral exemptions:** Consideration of GST exemption on life and health insurance premiums to promote affordability, with implications for insurer margins.
- **Administrative and IT reforms:** Proposals for stricter reconciliation and "hard-locking" of returns to reduce fraud, albeit with legal and operational concerns.
- **Ease of doing business initiatives:** Phased introduction of e-invoicing thresholds, improved IT infrastructure, and enhanced taxpayer grievance redressal systems.

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7. ANALYSIS AND DISCUSSION

7.1 Revenue implications of slab rationalisation

While reducing slabs may simplify compliance and lower disputes, it also necessitates careful recalibration to ensure revenue neutrality. Eliminating intermediate slabs (e.g., 12%) may require higher taxes on luxury goods or a reduction in exemptions to maintain fiscal balance.

7.2 Compliance and administrative challenges

E-invoicing and automated reconciliation minimise leakages but can disproportionately affect small firms without adequate digital readiness. Hard-locking mechanisms, if not coupled with rectification provisions, risk fuelling disputes rather than preventing them.

7.3 Sectoral consequences

Exemptions in sectors like insurance may reduce consumer prices but weaken input credit chains, thereby straining supplier economics. Policymakers must weigh the long-term revenue and efficiency costs before implementing such exemptions.

8. FINDINGS

1. **Simplification is both necessary and delicate.** Slab rationalisation can significantly reduce complexity but requires consensus-building and robust modelling for revenue neutrality.
2. **Technology acts as a double-edged sword.** While digital compliance systems enhance transparency, they increase operational stress for SMEs.
3. **Sectoral exemptions have trade-offs.** While socially desirable, they risk destabilising input credit flows.
4. **Centre–state cooperation is indispensable.** The federal structure demands continuous negotiation and transparent compensation frameworks to ensure reform sustainability.

9. POLICY RECOMMENDATIONS

9.1 Rate structure and transition

- Adopt a phased approach to slab rationalisation, starting with the removal of one intermediate slab.
- Establish an independent tariff advisory board to issue authoritative classification guidelines.

9.2 Compliance and technology adoption

- Implement phased thresholds for e-invoicing and provide training support for SMEs.
- Introduce rectification windows alongside hard-locking mechanisms to safeguard against penalising genuine errors.

9.3 Sectoral adjustments

- Undertake a comprehensive impact assessment of sectoral exemptions, and design compensatory mechanisms (e.g., targeted subsidies or partial credit retention) to protect suppliers.

9.4 Fiscal federalism

- Design a transparent, rule-based compensation framework for states during transitional reforms to build trust and stability.

9.5 Taxpayer services

- Develop simplified return formats for small taxpayers.
- Enhance multilingual taxpayer support and strengthen grievance redressal platforms.

10. CONCLUSION

The Goods and Services Tax remains a watershed reform in India's fiscal history. Eight years since its inception, GST has delivered several tangible gains but continues to grapple with structural and operational challenges. The ongoing reform agenda—focused on slab rationalisation, sectoral exemptions, and administrative streamlining—presents a timely opportunity to correct inefficiencies and strengthen the regime. If pursued with evidence-based policy design, phased implementation, and strong centre–state cooperation, the next generation of GST reforms can achieve the dual objective of **simplification and stability**, ultimately positioning GST as a cornerstone of India's inclusive economic growth.

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