

GST 2.0 as a Catalyst for Structural Transformation in India's Tax Administration

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Abstract

The Goods and Services Tax (GST) represent one of the most significant structural reforms in India's fiscal and constitutional landscape, aimed at unifying a fragmented indirect tax system and strengthening the national market. While the initial phase of GST succeeded in subsuming multiple central and state taxes, its implementation exposed structural complexities, compliance burdens, and administrative inefficiencies that constrained its transformative potential. Against this backdrop, GST 2.0 has emerged as an evolutionary reform agenda focused on structural rationalisation, technology-enabled compliance, and facilitative tax governance. This paper examines GST 2.0 as a catalyst for structural transformation in India's tax administration from a legal and public policy perspective. It analyses the conceptual and constitutional foundations of GST 2.0, reviews contemporary academic and policy literature, and evaluates its implications for compliance mechanisms, economic formalisation, revenue mobilisation, and cooperative federalism. The study argues that GST 2.0 marks a critical shift from a revenue-centric and control-oriented tax framework toward a simplified, transparent, and trust-based governance model. By strengthening institutional stability, reducing administrative discretion, and leveraging digital technologies, GST 2.0 has the potential to enhance tax certainty, improve compliance legitimacy, and support India's long-term economic and constitutional objectives.

Keywords: *GST 2.0, Tax Administration Reform, Cooperative Federalism and Tax Governance*

Introduction

India's indirect tax system has undergone a long and complex evolution, shaped by the dual federal structure and the need to balance revenue autonomy with economic integration. Prior to the introduction of the Goods and Services Tax (GST), the indirect tax landscape was fragmented, with multiple central and state-level taxes such as excise duty, service tax, value-added tax, octroi, and entry tax. This multiplicity resulted in cascading taxation, higher transaction costs, compliance inefficiencies, and significant barriers to the creation of a unified national market. The introduction of GST in July 2017 represented a historic attempt to overcome these structural deficiencies by subsuming various indirect taxes into a single, destination-based tax system applicable across the country.

However, the operational experience of GST 1.0 revealed several structural and administrative shortcomings that limited its transformative potential. Multiple tax rate slabs, frequent amendments, complex return filing requirements, and technology-driven compliance challenges increased the cost of compliance, particularly for small and medium enterprises. These issues led to growing demands from policymakers, industry bodies, and scholars for a reformed and rationalised version of GST. GST 2.0 has thus emerged as an evolutionary reform agenda aimed at structural simplification, administrative efficiency, and technology-enabled governance, positioning itself as a catalyst for deeper transformation rather than a replacement of the existing GST framework. As a foundational pillar of this vision, the GST Council and the Central Board of Indirect Taxes and Customs (CBIC) introduced a landmark reform: GST 2.0. This reimagined framework simplifies the indirect tax regime into a streamlined three-tier structure—5% for essential goods, 18% for standard goods and services, and 40% for luxury and sin goods. The reform also phases out the compensation cess, with exceptions maintained for pan masala, tobacco, and related products.

GST 2.0 reaffirms a core economic principle: that simplicity and transparency in taxation are among the most potent catalysts for sustained growth. The reform promises to deliver tangible benefits to both businesses and consumers by fostering a more efficient, equitable, and predictable tax environment.

GST 2.0 marks a pivotal inflection point in India's industrial evolution.

By addressing long-standing structural inefficiencies, the reform introduces a rationalised tax structure and enhanced input tax credit (ITC) mechanisms—unlocking liquidity, easing cash flow constraints, and improving access to working capital. By dismantling legacy bottlenecks and streamlining compliance, the new regime empowers manufacturers to scale operations, bolster financial resilience, and sharpen global competitiveness. However, transitional challenges such as ITC reversals, pricing distortions, and litigation risks necessitate strategic foresight and sector-specific agility.

A uniform 18% GST now applies to most vehicles and components—including small cars, hybrids, two wheelers (up to 350cc), three wheelers, ambulances, buses, goods carriers, and auto parts—down from the previous 29–31% (inclusive of cess). This rationalisation reduces acquisition costs, stimulates demand, and resolves classification disputes. Meanwhile, a 40% GST on larger passenger vehicles, SUVs, luxury bikes, and high-capacity hybrids preserves a progressive tax structure aligned with environmental goals. However, the removal of compensation cess has led to stranded ITC worth INR 2,500 crore, prompting the Federation of Automobile Dealers Associations (FADA) to seek redress from the Supreme Court.

The rationalised GST structure aims to enhance affordability, stimulate consumption, and incentivise domestic production. Concessional rates on essentials such as food, beverages, and personal care items help mitigate inflationary pressures. Yet, concerns persist around the disruption of traditional MRP slabs (INR 5, INR 10, INR 20), which may require pricing recalibrations and consumer re-education. The reform is also expected to boost order volumes, improve capacity utilisation, and enhance competitiveness. A simplified registration process for small suppliers selling via e-commerce platforms lowers entry barriers, enabling informal vendors to formalise and integrate into the structured economy.

Further, in pharma, GST exemptions on 36 essential medicines, a reduced 5% tax on medical devices, and a cut in job work GST from 12% to 5% are poised to lower healthcare costs and improve access - especially in underserved regions. However, the inverted duty structure remains problematic, with inputs and R&D related services being taxed at 18% while finished drugs attract only 5%, leading to ITC accumulation and pricing complexities, particularly in related-party transactions. In service sector GST reductions on hotel stays, gyms, salons, and yoga services to 5% make wellness and lifestyle offerings more accessible. This not only boosts the hospitality and wellness sectors but also increases disposable income, creating a virtuous cycle of consumption-led growth.

GST 2.0 is a transformative leap in India's indirect tax architecture. By consolidating tax rates into 5% and 18% slabs, it eliminates the distortive inverted duty structure that previously hampered domestic value addition. This rationalisation reduces procurement and logistics costs, particularly with lower GST on cement, air conditioners, and small vehicles. Fleet operators benefit from reduced capital and operational expenses, while the original GST's removal of interstate checkpoints continues to streamline goods movement across state borders. A hallmark of GST 2.0 is its digital-first orientation. Automated invoice matching and real-time ITC reconciliation empower businesses to make agile decisions and facilitate seamless inter-state trade. These internal efficiencies help counterbalance external trade frictions, particularly those arising from shifting global dynamics.

This paper examines GST 2.0 as a catalyst for structural transformation in India's tax administration from a legal and public policy perspective. It explores the conceptual foundations of GST 2.0, analyses recent academic and policy literature, and evaluates the implications of proposed reforms for tax governance, compliance efficiency, and economic formalisation. By situating GST 2.0 within India's broader constitutional and macroeconomic framework, the study aims to contribute to the evolving discourse on sustainable and future-ready tax administration.

Review of Literature

Early studies (Keen, 2017; Rao & Chakraborty, 2019) viewed GST as a landmark reform aimed at eliminating cascading taxes and creating a unified national market. However, post-2020 empirical research presents a more nuanced assessment. Studies by Mukherjee (2020), Sengupta and Vaish (2021), and RBI (2022) indicate that while GST has enhanced tax transparency and improved inter-state trade efficiency, its complex rate structure and frequent procedural amendments have diluted efficiency gains. Multiple tax slabs, sector-specific exemptions, and classification disputes have increased compliance costs and litigation, undermining the principle of tax certainty. Recent econometric analyses (NIPFP, 2023; OECD, 2024) suggest that GST's long-term growth impact depends less on tax rates and more on structural simplification and administrative stability, reinforcing the case for a reformed GST 2.0 framework.

A significant body of post-2020 literature focuses on GST's compliance architecture and its implications for Micro, Small, and Medium Enterprises (MSMEs). Studies by World Bank (2020), Chandra and Mitra (2021), and Aggarwal (2022) reveal that technology-driven compliance, including e-way bills and return matching, has improved traceability but imposed disproportionate burdens on smaller firms. Empirical surveys indicate that MSMEs face higher relative compliance costs due to limited technological capacity and professional support. More recent policy-oriented research (NCAER, 2023; GST Council Secretariat, 2024) argues that digitalisation must be complemented by simplified legal provisions, fewer return filings, and automated reconciliations. Scholars increasingly advocate a shift toward risk-based compliance models using data analytics and artificial intelligence to target high-risk taxpayers while easing procedural requirements for compliant entities. This literature provides the conceptual basis for GST 2.0 as a facilitative, rather than enforcement-heavy, compliance regime.

Legal scholarship has extensively analysed GST within India's constitutional framework, particularly under Articles 246A and 279A. Early constitutional analyses (Datar, 2018; Sathe, 2019) highlighted GST as an unprecedented experiment in cooperative federalism. Post-2021 studies, however, raise concerns regarding institutional stability and predictability. Authors such as Rajamani (2021), Bhatia (2022), and Chandrachud (2023) note that frequent rate changes and ad hoc policy decisions by the GST Council have affected tax certainty and investor confidence. While acknowledging the Council's success in harmonising indirect taxes, recent legal commentary argues for clearer legislative drafting, reduced reliance on delegated legislation, and stronger dispute resolution mechanisms. Comparative constitutional analyses (Mukherjee & Rao, 2024) emphasise the need to balance centralised tax coordination with state fiscal autonomy, suggesting that GST 2.0 should focus on institutional consolidation and procedural restraint to strengthen cooperative federalism.

International comparative studies provide valuable insights into GST reform trajectories. Research comparing India's GST with VAT systems in New Zealand, Australia, Canada, and Singapore (OECD, 2019; Ebrill et al., 2020; IMF, 2022) consistently highlights the importance of broad tax bases, minimal exemptions, and stable rate structures. Recent comparative analyses (Ainsworth, 2023; Bird & Gendron, 2024) argue that excessive complexity increases administrative costs and incentivises evasion, particularly in developing economies. These studies caution against over-reliance on technology without corresponding legal simplification. The international experience suggests that second-generation GST reforms—often termed “GST 2.0” in policy literature—prioritise administrative efficiency, taxpayer trust, and legal certainty. This comparative evidence reinforces the argument that India's GST must evolve beyond revenue protection toward structural maturity and governance efficiency.

Overall, literature published between 2015 and 2025 converges on the view that while GST has delivered measurable gains in tax transparency and revenue collection, its transformative potential remains constrained by structural complexity, compliance fatigue, and institutional volatility. Economic studies emphasise efficiency and revenue buoyancy, legal scholarship highlights constitutional balance and certainty, and policy research focuses on administrative and technological reform. However, a clear research gap emerges in the integrated analysis of GST 2.0 as a holistic structural transformation of tax administration. Existing studies tend to examine economic, legal, or technological dimensions in isolation, with limited interdisciplinary synthesis. Moreover, there is insufficient doctrinal analysis of GST 2.0 as an evolutionary governance reform that reconciles revenue mobilisation with facilitative compliance and cooperative federalism. This paper addresses this gap by adopting a combined legal, administrative, and public policy perspective to evaluate GST 2.0 as a catalyst for structural transformation in India's tax administration.

Objectives of the Study

1. To examine the conceptual and structural foundations of GST 2.0 in the context of India's tax administration reforms.
2. To analyse the role of GST 2.0 in transforming compliance mechanisms, administrative efficiency, and tax governance.
3. To evaluate the implications of GST 2.0 for economic formalisation, revenue mobilisation, and cooperative federalism.

Research Methodology

The study adopts a doctrinal and analytical research methodology, drawing upon primary and secondary sources to examine GST 2.0 as a structural reform in India's tax administration. Primary sources include constitutional provisions, GST legislation, notifications, policy documents of the GST Council, and official reports issued by institutions such as the Reserve Bank of India, NITI Aayog, and the Central Board of Indirect Taxes and Customs. Secondary sources comprise scholarly articles, law review commentaries, policy briefs, and international comparative studies published between 2015 and 2025. The research employs qualitative content analysis to evaluate the conceptual foundations, compliance mechanisms, and governance implications of GST 2.0. A comparative approach is also used to contextualise India's GST reforms with international VAT frameworks. The study integrates legal, administrative, and public policy perspectives to provide a holistic assessment of GST 2.0 as an evolutionary reform.

Analysis of the Study

1. Conceptual and Structural Foundations of GST 2.0

1.1 Evolution from GST 1.0 to GST 2.0

The conceptual foundation of GST 2.0 lies in the recognition that GST 1.0, although constitutionally transformative, evolved into an administratively complex system. GST 1.0 primarily focused on tax unification and revenue protection, often at the cost of simplicity and predictability. Multiple rate slabs, frequent amendments, and complex compliance procedures reflected a cautious approach rooted in revenue safeguarding rather than facilitative governance. GST 2.0 emerges as a corrective response, seeking to rebalance the objectives of revenue mobilisation with administrative efficiency and taxpayer convenience.

GST 2.0 does not seek to dismantle the existing constitutional architecture but rather to rationalise it through structural refinement. This evolution reflects global best practices in indirect taxation, where reforms are incremental and adaptive. By acknowledging the limitations of GST 1.0, GST 2.0 lays the groundwork for a more coherent and stable tax administration framework capable of supporting long-term economic growth.

1.2 Structural Rationalisation and Simplification

A core structural element of GST 2.0 is the rationalisation of tax rates and exemptions. The existing GST framework, characterised by multiple slabs and sector-specific concessions, has increased classification disputes and compliance costs. GST 2.0 advocates a streamlined rate structure with minimal exemptions, enhancing neutrality and reducing administrative discretion. Such simplification aligns with constitutional principles of equality and certainty in taxation.

Structural simplification also extends to procedural aspects, including registration, return filing, and refund mechanisms. GST 2.0 emphasises fewer returns, standardised formats, and automated reconciliation, thereby reducing procedural bottlenecks. These changes represent a fundamental shift from process-heavy administration to outcome-oriented governance.

1.3 Legal and Institutional Foundations

From a legal perspective, GST 2.0 operates within the framework of Articles 246A and 279A of the Constitution, reinforcing cooperative federalism. The GST Council continues to play a central role in policy coordination, but GST 2.0 calls for greater stability and predictability in decision-making. Institutional strengthening and clearer legislative drafting are essential to reduce interpretational ambiguity and litigation.

By grounding reform in legal coherence and institutional stability, GST 2.0 strengthens the legitimacy of tax administration and reinforces the rule of law.

2: Transformation of Compliance Mechanisms and Tax Governance

2.1 Shift from Control-Based to Trust-Based Compliance

Traditional tax administration in India has largely followed a control-based compliance model, characterised by intensive reporting, inspections, and enforcement. GST 1.0 continued this legacy through extensive return requirements and matching mechanisms, often burdening compliant taxpayers. GST 2.0 marks a paradigm shift toward trust-based

compliance, recognising that excessive controls may discourage voluntary participation and foster adversarial relationships between taxpayers and authorities.

Trust-based compliance focuses on simplifying procedures, reducing intrusive checks, and encouraging self-assessment supported by post-facto risk analysis. This model aligns with modern administrative law principles, emphasising facilitation over coercion. By lowering compliance costs and reducing procedural harassment, GST 2.0 aims to enhance voluntary compliance and taxpayer confidence. The shift also reflects a governance philosophy that treats taxpayers as partners in revenue mobilisation rather than subjects of enforcement, strengthening the social contract underlying taxation.

2.2 Technology-Enabled Compliance Architecture

Technology constitutes the operational backbone of GST 2.0. The integration of e-invoicing, real-time transaction reporting, and advanced data analytics allows tax authorities to monitor compliance with greater precision and minimal human intervention. Artificial intelligence and machine learning tools enable risk-based profiling of taxpayers, identifying high-risk entities while allowing low-risk taxpayers to operate with minimal scrutiny.

This technology-enabled architecture enhances administrative efficiency and reduces discretion, a critical governance concern in tax administration. Automated systems minimise errors, speed up refunds, and improve audit targeting. However, GST 2.0 also necessitates safeguards related to data protection, cybersecurity, and algorithmic transparency to ensure compliance with constitutional privacy standards. When implemented responsibly, technology transforms GST into a smart, responsive, and accountable tax system aligned with digital-era governance norms.

2.3 Implications for Tax Governance

The transformation of compliance mechanisms under GST 2.0 has far-reaching implications for tax governance. Data-driven decision-making enhances transparency and accountability, reducing opportunities for rent-seeking and arbitrary enforcement. By embedding proportionality into compliance responses, GST 2.0 aligns enforcement actions with the severity of non-compliance, reinforcing administrative fairness.

Furthermore, predictable and transparent compliance systems improve institutional trust and reduce litigation. Clear audit protocols, automated notices, and standardised interpretations strengthen governance credibility. GST 2.0 thus redefines tax governance as a collaborative, technology-mediated process that balances revenue interests with taxpayer rights. This governance shift is essential for sustaining long-term compliance and reinforcing the legitimacy of the tax administration.

3: Economic Formalisation, Revenue Mobilisation, and Cooperative Federalism

3.1 GST 2.0 and Economic Formalisation

One of the central policy objectives of GST 2.0 is accelerating economic formalisation. Under GST 1.0, complex compliance requirements discouraged small businesses from entering the formal tax net. GST 2.0 addresses this challenge through simplified registration, threshold-based exemptions, and reduced reporting obligations for MSMEs. These measures lower entry barriers and encourage voluntary participation in the formal economy.

Formalisation enhances transparency, access to institutional credit, and integration into formal supply chains. For the State, it broadens the tax base without increasing rates. GST 2.0 thus positions formalisation not as coercive enforcement but as an incentive-driven transition, aligning economic inclusion with fiscal objectives.

3.2 Revenue Mobilisation and Fiscal Sustainability

GST 2.0 aims to strengthen revenue mobilisation through efficiency rather than rate escalation. Improved compliance, data analytics, and reduced evasion enhance revenue buoyancy while maintaining tax neutrality. By expanding the tax base and minimising leakages, GST 2.0 supports fiscal sustainability without imposing additional burdens on compliant taxpayers.

Stable and predictable revenue flows are essential for public expenditure planning and macroeconomic stability. GST 2.0 contributes to this objective by improving compliance quality and reducing volatility caused by administrative inefficiencies. In the long term, a simplified and transparent GST framework enhances investor confidence and supports sustainable economic growth.

3.3 Cooperative Federalism and Institutional Balance

GST represents one of the most significant experiments in cooperative federalism in India. GST 2.0 reinforces this framework by improving Centre–State coordination, data sharing, and administrative harmonisation. Transparent revenue reporting and uniform compliance standards reduce inter-state disputes and mistrust.

At the same time, GST 2.0 respects state fiscal autonomy by strengthening institutional consultation mechanisms within the GST Council. Balanced decision-making and predictable compensation frameworks enhance trust between federal units. By aligning fiscal governance with constitutional principles, GST 2.0 strengthens institutional balance and ensures the long-term stability of India's indirect tax regime.

Conclusion

GST 2.0 represents a decisive evolution in India's indirect tax regime, shifting the focus from tax unification toward structural consolidation and governance efficiency. By addressing the limitations of GST 1.0 through rate rationalisation, simplified compliance, and technology-enabled administration, GST 2.0 strengthens tax certainty, transparency, and institutional trust. From a constitutional and public policy perspective, the reform reinforces cooperative federalism while promoting economic formalisation and sustainable revenue mobilisation. If implemented with legislative clarity, institutional stability, and stakeholder consultation, GST 2.0 can serve as a durable pillar of future-ready tax administration and a model for governance-oriented fiscal reform in emerging economies.

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