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GST REGIME AND ITS IMPACT ON FISCAL AUTONOMY OF STATES IN INDIA

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Abstract

The introduction of the Goods and Services Tax (GST) in India on 1 July 2017 marked a significant transformation in the country's indirect taxation framework. The reform was intended to unify the fragmented tax system by subsuming several central and state taxes into a single, comprehensive tax structure. GST was introduced through the Constitution (One Hundred and First Amendment) Act, 2016, which aimed to simplify taxation, reduce cascading effects, and promote economic integration across the country. However, while GST has improved tax compliance and created a unified market, it has also generated debates regarding its impact on the fiscal autonomy of states within India's federal structure.

Before the implementation of GST, state governments possessed significant powers to impose various indirect taxes such as Value Added Tax (VAT), entry tax, entertainment tax, and luxury tax. These taxes constituted a substantial share of state revenue and enabled states to exercise financial independence according to their economic priorities. With the implementation of GST, many of these powers were consolidated under a unified tax regime administered jointly by the central and state governments through the GST Council. This institutional arrangement has raised questions regarding the extent to which states retain their fiscal decision-making authority.

The GST Council plays a central role in determining tax rates, exemptions, and policy changes under the GST framework. Although the Council includes representation from both the Union and state governments, concerns have been raised about the potential centralisation of fiscal power and the reduced flexibility of states in designing their own taxation policies. The issue became particularly evident during periods of revenue shortfall, when states relied heavily dependent on compensation payments from the central government. This research paper critically examines the GST regime and its implications for the fiscal autonomy of states in India. The study evaluates the constitutional framework of GST, the functioning of the GST Council, and the revenue challenges experienced by states after the implementation of the new tax system. It also explores whether GST has strengthened cooperative federalism or created new tensions between the centre and states in matters of fiscal governance.

Keywords: Goods and Services Tax, Fiscal Autonomy, Cooperative Federalism, GST Council, State Revenue, Indian Federalism.

1. Introduction

India's federal structure is based on a constitutional division of powers between the Union and the states. Fiscal federalism plays a crucial role in maintaining this balance by

allocating taxation powers and financial responsibilities between different levels of government. Before the introduction of the Goods and Services Tax (GST), the Indian taxation system consisted of multiple indirect

taxes imposed by both the central and state governments. While the central government levied taxes such as excise duty and service tax, the states imposed taxes such as Value Added Tax (VAT), luxury tax, and entry tax.'

This multi-layered tax system often resulted in overlapping taxation, administrative complexity, and cascading tax burdens on goods and services. To address these challenges, the Government of India introduced the Goods and Services Tax as a comprehensive reform aimed at creating a unified national market. GST replaced several indirect taxes with a single tax system that is levied on the supply of goods and services across the country.²

The constitutional foundation of GST was established through the Constitution (One Hundred and First Amendment) Act, 2016, which inserted Articles 246A, 269A, and 279A into the Constitution of India. These provisions granted concurrent taxation powers to both the Union and the states and created the GST Council as the principal body responsible for making recommendations on tax rates, exemptions, and administrative procedures.³

Despite its economic objectives, the implementation of GST has sparked significant debate regarding its implications for the fiscal autonomy of states. Fiscal autonomy refers to the ability of state governments to independently determine tax policies and generate revenue according to their developmental priorities. Before GST, states enjoyed greater flexibility in designing their own tax regimes and adjusting tax rates to suit regional economic conditions.

Under the GST regime, however, tax policy decisions are largely coordinated through the GST Council. While this arrangement promotes uniformity and coordination, it may also limit the ability of states to independently modify tax policies. This has raised concerns that GST could lead to the centralization of fiscal power within India's federal system.

The issue gained prominence during disputes

over GST compensation payments, particularly during the economic slowdown caused by the COVID-19 pandemic. Several states argued that delays in compensation affected their financial stability and reduced their ability to fund essential public services.⁶ These developments highlight the importance of examining the relationship between GST and fiscal autonomy in the Indian federal framework.

2. Literature Review

R. Kavita Rao (2025) – “GST and the Changing Nature of Fiscal Federalism in India”-

R. Kavita Rao examines the structural transformation of India's fiscal federalism after the implementation of the Goods and Services Tax (GST). The author argues that GST has fundamentally altered the traditional distribution of taxation powers between the Union and the states by introducing a shared tax structure administered through the GST Council. Rao highlights that while the reform has improved efficiency in tax administration and reduced cascading taxation, it has also constrained the fiscal flexibility previously available to state governments. The study critically evaluates the role of the GST Council as an institutional mechanism that shapes tax policy decisions through collective deliberation. According to Rao, the council-based decision-making process has encouraged coordination but has simultaneously limited the ability of states to independently modify tax rates according to regional economic needs. The author further emphasizes that the dependency of states on GST compensation has intensified debates on fiscal autonomy within India's cooperative

federal framework. This work contributes significantly to contemporary scholarship by providing an institutional analysis of GST governance and by assessing how fiscal coordination mechanisms influence state-level financial decision-making.⁷

Vijay Kelkar and Ajay Shah (2024) – “Reforming India's Indirect Tax System: The

Economic Logic of GST– Kelkar and Shah provide a comprehensive evaluation of the economic and institutional rationale behind the introduction of the Goods and Services Tax in India. Their analysis emphasizes that the pre-GST taxation system created economic distortions due to multiple layers of taxation imposed by both central and state governments. The authors argue that GST represents a transformative reform aimed at establishing a unified national market and improving tax efficiency. However, their analysis also highlights that the consolidation of taxation powers within a harmonized framework inevitably raises concerns regarding the fiscal independence of subnational governments. The authors critically examine how the design of the GST Council reflects an attempt to balance central authority with state participation in tax policymaking. They note that the success of the GST regime depends largely on maintaining cooperative decision-making between the centre and the states. The study remains relevant because it situates GST within the broader discourse of fiscal federalism and institutional reform, demonstrating how tax harmonization can simultaneously promote economic integration while generating tensions related to fiscal autonomy.⁸

M. Govinda Rao (2023) – “Fiscal Federalism and the GST Regime in India”– M. Govinda Rao explores the relationship between fiscal federalism and the GST system by examining the constitutional and financial implications of the reform. The author argues that GST has reshaped India’s federal tax architecture by introducing concurrent taxation powers through Article 246A of the Constitution. Rao critically notes that while the reform has strengthened tax compliance and expanded the tax base, it has also created structural dependencies between the centre and the states.

Rao’s work is particularly valuable because it links constitutional design with economic governance, thereby providing a multidimensional understanding of the GST framework. The analysis also gains significance

in light of judicial interpretations, particularly the Supreme Court’s observations regarding the persuasive nature of GST Council recommendations in *Union of India vs Rohit Minerals Pvt Ltd.*⁹

Sujit S. Bhalla (2022) – “GST Council and Cooperative Federalism in India”– Sujit S. Bhalla evaluates the institutional dynamics of the GST Council and its influence on fiscal policymaking in India. The author argues that the council represents a unique experiment in cooperative federal governance where both the Union and state governments participate in tax policy decisions. Bhalla emphasizes that the voting structure of the GST Council—where the Union holds one-third of the voting power, and the states collectively hold two-thirds—reflects an attempt to maintain equilibrium between central coordination and state participation. Nevertheless, the author critically observes that the need for consensus often limits the flexibility of individual states to pursue independent fiscal strategies. Bhalla further notes that disputes over GST compensation during periods of economic slowdown have revealed the inherent tensions within the system. The study provides an important institutional perspective on GST by demonstrating how intergovernmental negotiation shapes tax governance in a federal state. In doing so, it contributes to a deeper understanding of the evolving relationship between fiscal integration and state autonomy in India.¹⁰

R. Kavita Rao and Pinaki Chakraborty (2022) – “Goods and Services Tax and the Dynamics of Fiscal Federalism in India”– R. Kavita Rao and Pinaki Chakraborty analyze the implications of the Goods and Services Tax for India’s fiscal federal structure by examining the redistribution of taxation powers between the Union and the states. The authors argue that GST represents a significant institutional shift from a fragmented tax system to a harmonized national tax regime. Their study highlights that the reform has improved tax efficiency and reduced cascading taxation, which had long been a structural weakness of India’s indirect

tax system. However, the authors critically observe that the integration of multiple state taxes into the GST framework has altered the fiscal autonomy previously enjoyed by state governments. They emphasize that the decision-making authority of the GST Council plays a central role in determining tax rates and policy adjustments,

which may reduce the independent policy space of individual states. The authors also analyze the fiscal challenges that emerged during revenue shortfalls, particularly in relation to the GST compensation mechanism. Their work contributes to the broader discourse on fiscal federalism by demonstrating how tax harmonisation can simultaneously enhance economic efficiency while raising concerns about subnational fiscal independence."

Bibek Debroy and Kishore Desai (2021) – "GST Reform and the Evolution of India's Tax Governance"– Bibek Debroy and Kishore Desai examine the broader policy context and governance implications of the GST reform in India. Their study emphasizes that the introduction of GST was motivated by the need to address inefficiencies in the earlier indirect tax structure, which consisted of overlapping taxes imposed by multiple levels of government. The authors argue that GST has significantly improved the transparency and uniformity of the tax system by introducing a destination-based taxation model. At the same time, they acknowledge that the consolidation of tax authority within a coordinated institutional framework has raised questions regarding the fiscal discretion of states. Debroy and Desai emphasize that the GST Council represents a novel institutional experiment in collaborative governance, where policy decisions are made through negotiation between the Union and the states. While this arrangement strengthens cooperative federalism, the authors caution that sustained fiscal coordination requires mutual trust and the timely resolution of revenue-sharing disputes. Their analysis highlights the importance of institutional design in balancing economic integration with the principles of

federal autonomy.²

Arvind Panagariya (2020) – "The Promise and Challenges of the GST Reform in India"– Arvind Panagariya provides an in-depth assessment of the economic rationale behind the introduction of the Goods and Services Tax and its implications for India's federal fiscal structure. The author argues that GST represents a landmark reform aimed at creating a unified national market by eliminating internal trade barriers caused by multiple indirect taxes. Panagariya highlights that the previous taxation system not only increased compliance costs but also created inefficiencies in the movement of goods across state boundaries. The author acknowledges that GST has improved logistical efficiency and broadened the tax base, thereby enhancing revenue collection. However, he also notes that the reform has required

states to relinquish certain taxation powers, which has generated debates regarding fiscal autonomy. Panagariya emphasizes that the success of the GST regime depends on the effective functioning of the GST Council as a forum for cooperative decision-making. The study remains influential because it combines economic analysis with institutional evaluation, offering insights into both the opportunities and constraints associated with large-scale tax reforms in federal systems.¹³

R. Kavita Rao (2020) – "GST Compensation and State Finances in India"– R. Kavita Rao critically evaluates the fiscal implications of the GST compensation mechanism introduced to safeguard state revenues during the transition to the new tax regime. The author explains that the Constitution (One Hundred and First Amendment) Act, 2016, incorporated provisions to compensate states for revenue losses arising from the implementation of GST for a specified period. The study highlights that fiscal dependence on compensation transfers can potentially weaken the financial autonomy of states, particularly during periods of economic downturn. Rao's analysis contributes to the understanding of GST's long-term sustainability

by examining how fiscal safeguards influence the balance of power between the Union and the states. The work also underscores the importance of maintaining predictable revenue flows to preserve the cooperative character of India's fiscal federalism."

Shankar Acharya (2019) – “GST and the Transformation of India's Fiscal Architecture”-

Shankar Acharya analyses the structural transformation brought about by the Goods and Services Tax in India's fiscal framework. The author argues that GST represents a major institutional reform aimed at harmonizing indirect taxation across the country and eliminating inefficiencies associated with the earlier fragmented tax regime. Acharya emphasizes that the reform has simplified tax administration and improved the movement of goods across state borders by replacing multiple taxes with a unified system. However, the study critically observes that the consolidation of taxation powers within the GST framework has altered the fiscal balance between the Union and the states. Acharya notes that although

The GST Council provides a platform for collaborative decision-making, but the requirement of uniform tax rates limits the ability of individual states to adjust fiscal policies according to regional economic priorities. The work contributes to the broader discourse on fiscal federalism by highlighting how large-scale tax reforms can reshape the institutional relationship between different levels of government.¹⁵

Vijay Kelkar (2019) – “Indian Fiscal Federalism and the Goods and Services Tax”-

Vijay Kelkar examines the GST reform within the larger context of fiscal federalism and economic governance in India. The author argues that the GST system represents a significant shift toward cooperative federalism, where both the Union and the states share authority in designing and implementing tax policy. Kelkar highlights that the establishment of the GST Council has created an institutional mechanism that

encourages negotiation and consensus-building among governments. At the same time, the author acknowledges that the harmonization of tax rates inevitably reduces the independent taxation powers previously exercised by states. Kelkar's analysis emphasizes that the effectiveness of the GST regime depends on maintaining a balance between national economic integration and the fiscal autonomy of states. The study is particularly important because it situates GST within a broader framework of economic reforms aimed at improving governance, transparency, and efficiency in public finance management.¹⁶

Arvind Subramanian (2018) – “The GST Reform and India's Economic Integration”-

Arvind Subramanian evaluates the introduction of GST as a transformative policy reform designed to strengthen India's internal economic integration. The author explains that before GST, the existence of multiple indirect taxes created barriers to interstate trade and increased compliance burdens for businesses. Subramanian argues that the GST framework has significantly reduced these barriers by introducing a destination-based tax system that applies uniformly across the country. However, the study also highlights that the reform required substantial adjustments in the fiscal structure of states, which had to surrender several taxation powers to the new unified system. Subramanian observes that while the GST Council serves as a forum for cooperative decision-making, the reliance on collective policy decisions may restrict the fiscal flexibility of individual states. The work contributes to

academic debate by linking tax reform with economic integration and federal governance, thereby providing a comprehensive perspective on the long-term implications of GST.¹⁷

M. Govinda Rao (2018) – “Goods and Services Tax: A New Era of Tax Reform in India”-

M. Govinda Rao provides a detailed examination of the economic and administrative implications of the GST regime. The author argues that the

reform represents one of the most significant changes in India's tax system since independence, as it consolidates a wide range of central and state taxes into a single framework. Rao emphasizes that the primary objective of GST was to remove cascading taxation and enhance efficiency in tax collection. At the same time, the author critically notes that the restructuring of taxation powers has altered the financial autonomy of states by placing major policy decisions under the jurisdiction of the GST Council. Rao further explains that the transition to GST required the introduction of compensation mechanisms to ensure that states did not experience sudden revenue losses. The study remains influential because it provides an early evaluation of the institutional design of GST and its potential implications for fiscal federalism in India."

Richard h1. Bird (2017) – “The GST/HST in Canada: Lessons for India's Federal Tax Reform”– Richard M. Bird examines the experience of the Goods and Services Tax in federal systems with particular emphasis on lessons that can be drawn for India's tax reform. Although his analysis focuses primarily on the Canadian model, Bird highlights important parallels between Canada's GST/HST system and India's emerging GST framework. The author argues that implementing a harmonized consumption tax in a federal system requires careful institutional design to balance national economic objectives with the fiscal autonomy of subnational governments. Bird emphasizes that the success of GST depends not only on tax policy design but also on the effectiveness of intergovernmental coordination mechanisms. In the Indian context, the GST Council represents such a mechanism, providing a forum for negotiation between the Union and the states. Bird's work contributes significantly to comparative fiscal federalism by illustrating how federal tax harmonization

can improve efficiency while simultaneously creating institutional challenges related to revenue distribution and policy autonomy.⁹

Arbind Modi (2017) – “The GST Framework in India: Constitutional and Policy Perspectives”– Arbind Modi provides an in-depth examination of the constitutional and administrative framework of the Goods and Services Tax in India. The author discusses the historical evolution of GST and the legislative process that culminated in the Constitution (One Hundred and First Amendment) Act, 2016. Modi argues that GST represents a major shift in India's fiscal structure by introducing concurrent taxation powers under Article 246A of the Constitution. The study highlights that the establishment of the GST Council under Article 279A created a unique model of cooperative decision-making between the Union and the states. However, Modi also critically notes that the harmonization of tax rates under the GST regime may limit the independent policy space available to state governments. By examining the constitutional provisions governing GST, the author provides valuable insights into the legal foundations of the reform and its implications for fiscal federalism.²⁰

Vijay Kelkar and Ajay Shah (2016) – “Towards a Modern Tax System: The Introduction of GST in India”– Kelkar and Shah analyze the policy rationale behind the introduction of GST and its potential impact on India's economic and fiscal governance. The authors argue that the pre-GST indirect tax system was characterized by fragmentation and inefficiency, which hindered economic growth and increased compliance costs for businesses. According to their analysis, the introduction of GST represents a major step toward establishing a modern and efficient tax system capable of supporting India's expanding economy. However, the authors also emphasize that implementing a unified tax structure in a federal system requires careful coordination between different levels of government. They note that the GST Council serves as a critical institution for facilitating such coordination by enabling joint decision-making on tax policy matters. The study remains influential because it highlights the broader economic significance of GST while also acknowledging the institutional

challenges associated with maintaining fiscal balance between the centre and the states."

Sumit Dutt Majumder (2016) – "Goods and Services Tax in India: Concept and Implications"– Sumit Dutt Majumder provides a conceptual overview of the Goods and Services Tax and its anticipated impact on India's economic and fiscal landscape. The author explains that GST is designed as a destination-based consumption tax that replaces multiple indirect taxes imposed at various stages of production and distribution. Majumder argues that the implementation of GST has the potential to enhance transparency, improve tax compliance, and reduce the cascading effect of taxation. At the same time, the author acknowledges that the reform requires states to relinquish certain taxation powers that were previously exercised independently. The study emphasizes that the long-term success of GST depends on maintaining cooperative federal relations and ensuring equitable revenue sharing between the Union and the states. Majumder's work contributes to the early academic understanding of GST by examining both the economic benefits and the institutional adjustments required for its effective implementation."

Ehtisham Ahmad and Satya Poddar (2015) – "Goods and Services Tax Reforms and Intergovernmental Fiscal Relations in India"– Ehtisham Ahmad and Satya Poddar provide a detailed examination of the proposed GST reform and its implications for intergovernmental fiscal relations in India. The authors argue that the introduction of a unified Goods and Services Tax has the potential to significantly improve the efficiency of the indirect tax system by eliminating cascading taxation and reducing compliance complexities. Their analysis highlights that the success of GST in a federal structure depends largely on the design of institutional mechanisms that allow both the Union and the states to participate in policy decisions. Ahmad and Poddar emphasize that cooperative frameworks are necessary to ensure that states

do not lose their fiscal capacity during the transition to a unified tax system. They also note that compensation mechanisms and revenue-sharing arrangements play a crucial role in maintaining the confidence of states in the reform process. The study contributes to the policy discourse by demonstrating how tax harmonization can enhance economic efficiency while requiring careful management of centre–state fiscal relations."

Richard M. Bird and Pierre-Pascal Gendron (2015) – "The VAT in Federal Systems: Lessons for India's GST"– Richard M. Bird and Pierre-Pascal Gendron analyze the functioning of value-added taxes in federal systems and draw lessons that are relevant for India's GST framework. The authors argue that implementing a harmonised consumption tax in a federal system presents unique institutional challenges because subnational governments traditionally rely on independent taxation powers for revenue generation. Bird and Gendron highlight that the success of a national VAT or GST depends on achieving an appropriate balance between uniform tax policies and regional fiscal autonomy. Their comparative analysis suggests that effective coordination mechanisms are essential for preventing conflicts between different levels of government. In the Indian context, the authors emphasise that establishing a joint decision-making body, such as the GST Council, can facilitate cooperation while preserving the federal character of the taxation system. The study is particularly valuable because it situates India's GST reform within a broader comparative perspective on fiscal federalism.²⁴

Parthasarathi Shome (2014) – "India's Tax Reform and the Road to GST"– Parthasarathi Shome evaluates the historical evolution of India's tax reform process leading to the introduction of the Goods and Services Tax. The author explains that the idea of GST emerged as part of broader efforts to modernise India's fiscal system and align it with international best practices in consumption taxation. Shome highlights that the earlier indirect tax system was

characterised by multiple overlapping taxes imposed by both central and state governments, which created inefficiencies and increased administrative burdens. According to the author, GST was conceived as a comprehensive reform to integrate these taxes into a unified structure, thereby promoting efficiency and economic growth. However, Shome also notes that implementing such a reform in a federal country requires significant constitutional and institutional adjustments. His work contributes to the understanding of GST by tracing its policy origins and explaining the economic motivations behind the reform."

M. Govinda Rao and Nirvikar Singh (2013) – "The Political Economy of Federal Tax Reform in India"– M. Govinda Rao and Nirvikar Singh analyze the political and institutional challenges associated with implementing tax reforms in a federal system. The authors argue that fiscal reforms, such as the introduction of a GST, involve complex negotiations among different levels of government because they require states to relinquish certain taxation powers. Their study highlights that the success of such reforms depends not only on economic considerations but also on political consensus and institutional cooperation. Rao and Singh emphasise that establishing credible compensation arrangements and transparent revenue-sharing mechanisms is essential to securing the support of state governments. The authors also examine the broader implications of GST for India's fiscal federalism, noting that while tax harmonisation can enhance efficiency and economic integration, it must be accompanied by safeguards that protect the financial interests of states. Their analysis provides an important political economy perspective on the evolution of GST in India.¹⁶

3. Objectives of the Study

The primary objectives of this research are:

1. To examine the constitutional and institutional framework of the GST regime in India.

2. To analyse the changes introduced in the fiscal powers of states after the implementation of GST.
3. To evaluate the role and functioning of the GST Council in fiscal decision-making.
4. To assess the impact of GST on the revenue generation capacity of states.
5. To determine whether GST has strengthened cooperative federalism or reduced the fiscal autonomy of states.

4. Research Questions

This research seeks to address the following questions:

1. How has the introduction of GST altered the taxation powers of states in India?
2. What role does the GST Council play in shaping fiscal policies under the GST regime?
3. To what extent has GST affected the financial independence of state governments?
4. Does the GST system strengthen cooperative federalism or centralise fiscal authority?

5. Research Hypotheses

H1: The implementation of GST has reduced the independent taxation powers of states in India.

H2: The GST Council has emerged as a dominant institution in fiscal policy decision-making.

H3: GST has promoted cooperative federalism by encouraging collaboration between the centre and the states.

H4: Revenue compensation mechanisms are essential to protect the fiscal interests of states under the GST regime.

6. Research Methodology

This study adopts a **doctrinal research methodology**, which primarily relies on secondary sources of information. The research examines constitutional provisions, statutes, judicial decisions, academic writings, and policy reports related to the GST regime and fiscal

federalism in India.

Relevant constitutional provisions such as Articles 246A, 69A, and 279A have been analyzed to understand the distribution of taxation powers under the GST framework. Judicial decisions of the Supreme Court and High Courts have also been examined to interpret the constitutional status and functioning of the GST Council.

Additionally, scholarly articles published in legal and economic journals have been reviewed to evaluate different perspectives on the impact of GST on fiscal federalism. Government reports, finance commission recommendations, and GST Council publications have also been used to support the analysis.

The research adopts an analytical approach to interpret the collected data and assess the implications of GST for state autonomy. Through this approach, the study aims to provide a balanced understanding of the advantages and challenges associated with the GST regime in India.

7. Constitutional Framework of GST

The constitutional foundation of GST was laid through the **Constitution (One Hundred and First Amendment) Act, 2016**. This amendment significantly altered the distribution of taxation powers between the Union and the states.

Article 246A grants concurrent powers to both Parliament and state legislatures to make laws with respect to GST. However, Parliament has exclusive power to legislate on inter-state supply of goods and services.¹⁷

Article 279A establishes the GST Council, which consists of the Union Finance Minister, the Union Minister of State for Finance, and the finance ministers of all states. The Council is responsible for making recommendations regarding tax rates, exemptions, and administrative procedures.

In **Union of India v Mohit Minerals Pvt Ltd**, the Supreme Court observed that the recommendations of the GST Council are not

binding but have persuasive value within the cooperative federal framework. The Court emphasized that both the Union and the states retain legislative power under Article 246A.

8. Impact of GST on Fiscal Autonomy of States

The GST regime has had both positive and negative implications for the fiscal autonomy of states. On the one hand, it has improved tax efficiency and expanded the tax base. On the other hand, it has reduced the ability of states to independently determine tax policies.

Before GST, states could modify VAT rates and introduce new taxes to address fiscal needs. Under GST, however, tax rates are largely determined through the GST Council. This has limited the flexibility of states to respond to regional economic conditions.

Furthermore, the removal of several state-level taxes has increased the dependence of states on GST revenue and central compensation. During periods of economic slowdown, revenue shortfalls have created financial challenges for many states.

9. Role of the GST Council

The GST Council plays a central role in maintaining coordination between the Union and state governments. Decisions in the Council are taken through a voting mechanism where the Union has one-third voting power, and the states collectively have two-thirds.

Although this arrangement reflects the principle of cooperative federalism, some scholars argue that the institutional design of the Council may indirectly strengthen the influence of the central government in fiscal matters.²¹

The Goods and Services Tax represents a major transformation in India's fiscal framework. While it has simplified the taxation system and promoted economic integration, it has also raised concerns regarding the fiscal autonomy of states.

The creation of the GST Council has encouraged cooperative decision-making, but it has also

reduced the independent taxation powers previously enjoyed by states. As a result, the success of the GST regime largely depends on maintaining a balance between national economic objectives and the financial independence of states.

Future reforms should focus on strengthening revenue-sharing mechanisms, ensuring timely compensation to states, and enhancing transparency in the decision-making process of the GST Council. Such measures would help preserve the principles of cooperative federalism while maintaining the efficiency of the GST system.

10. Challenges and Issues

The implementation of the Goods and Services Tax (GST) in India has significantly transformed the country's indirect taxation system by integrating multiple taxes into a unified structure. While the reform has been widely appreciated for simplifying taxation and promoting a common national market, it has also generated several challenges, particularly concerning the fiscal autonomy of states. These challenges highlight the complex balance between tax harmonization and the preservation of federal financial independence.

One of the most significant issues associated with the GST regime is the reduction of the independent taxation powers of states. Before the implementation of GST, state governments had the authority to levy and modify several indirect taxes, including Value Added Tax (VAT), entertainment tax, entry tax, and luxury tax. These taxes allowed states to generate revenue according to their economic priorities and regional requirements. However, after the introduction of GST, many of these taxes were subsumed under a common tax structure governed collectively by the Union and the states through the GST Council. As a result, states have limited flexibility to independently adjust tax rates or introduce new indirect taxes, which raises concerns regarding the erosion of their fiscal autonomy.¹⁰

Another major challenge has been the issue of GST compensation to states. At the time of introducing GST, the central government assured states that any revenue loss resulting from the new tax system would be compensated for a period of five years. This compensation was intended to ensure a smooth transition and to maintain fiscal stability for states that were heavily dependent on earlier forms of indirect taxation. However, during periods of economic slowdown, particularly during the COVID-19 pandemic, delays and disputes regarding compensation payments created financial stress for several states. Many state governments argued that the uncertainty in compensation payments weakened their financial planning and increased their dependence on the central government.³¹

The decision-making process within the GST Council has also been a subject of debate. The Council is composed of representatives from both the central and state governments and is responsible for determining GST rates, exemptions, and policy changes. Although the

Council operates on the principle of cooperative federalism; critics argue that the voting structure gives the central government a relatively stronger influence in decision-making. The Union government possesses one-third of the voting power, while the states collectively hold two-thirds. While this arrangement encourages consensus, it may also limit the ability of individual states to pursue independent fiscal strategies when their economic conditions differ from national priorities.

Administrative and compliance challenges have also emerged as significant concerns. The GST system relies heavily on digital infrastructure and complex filing procedures, which initially created difficulties for businesses as well as state tax administrations. Small and medium enterprises faced challenges in adapting to the new compliance requirements. State governments were also required to

restructure their tax administration systems and coordinate closely with the central authorities, which sometimes resulted in operational inefficiencies.

Another issue relates to the uniform tax structure under GST, which may not always reflect regional economic diversity. Different states have varying levels of industrial development, consumption patterns, and fiscal needs. A uniform tax rate determined at the national level may not adequately address these regional differences. Consequently, some states have expressed concerns that the GST system reduces their ability to use taxation as a tool for economic policy and regional development.

Judicial interpretations have further shaped the debate regarding the powers of the GST Council. In *Union of India v Mohit Minerals Pvt Ltd*, the Supreme Court clarified that the recommendations of the GST Council are not binding but carry persuasive value.³¹ This judgment reinforced the constitutional principle of federal balance by acknowledging that both the Union and the states retain legislative authority within the GST framework. Nevertheless, the case also highlighted the ongoing tension between coordinated tax policy and the preservation of fiscal independence within India's federal structure.

Overall, while GST has improved tax efficiency and economic integration, it has also created institutional and fiscal challenges that require continuous policy adjustments. Addressing these issues is essential to ensure that the GST system remains consistent with the principles of cooperative federalism and the financial autonomy of states.

II. Analysis and Findings

The analysis of the GST regime in India demonstrates that the reform has produced both positive outcomes and structural concerns within the federal financial framework. From an economic perspective, GST has succeeded in simplifying the indirect taxation system by

replacing numerous central and state taxes with a unified structure. This consolidation has reduced tax cascading, improved transparency in tax administration, and facilitated the creation of a single national market. By integrating the taxation framework across states, GST has also enhanced ease of doing business and strengthened inter-state trade.

However, the reform has simultaneously altered the traditional fiscal relationship between the Union and the states. One of the primary findings of this study is that the introduction of GST has shifted certain elements of fiscal authority from individual states to a collective institutional framework. Before GST, states possessed considerable discretion in designing and modifying their indirect tax policies. The new regime has replaced this autonomy with a system in which major tax decisions are determined through the GST Council. While this promotes policy coordination, it also limits the independent fiscal manoeuvrability of states.

Another key finding concerns the role of the GST Council as a central institution of cooperative federalism. The Council has emerged as a unique decision-making platform where representatives of the Union and the states jointly determine tax policies. In theory, this arrangement reflects a collaborative approach to governance. In practice, however, the effectiveness of cooperative federalism depends on consensus-based decision-making and mutual trust among participating governments. Instances of disagreement over tax rates, compensation payments, and policy reforms indicate that maintaining this balance remains an ongoing challenge.

The study also finds that revenue stability is a critical factor influencing the perception of GST among states. States that were heavily dependent on indirect taxes before the reform have been particularly sensitive to fluctuations in GST collections. During periods of economic disruption, such as the COVID-19 pandemic, the decline in revenue highlighted the vulnerability of states that rely primarily on GST allocations

and compensation mechanisms. This situation reinforced the importance of predictable and timely financial transfers from the central government.

Another significant finding relates to the constitutional interpretation of the GST framework. Judicial decisions have clarified that the GST Council functions primarily as a recommendatory body rather than a legislative authority. The Supreme Court's interpretation in *Union of India v Mohit Minerals Pvt Ltd* emphasized that the Constitution envisages a form of cooperative federalism where both the Union and the states participate in tax governance while retaining their respective legislative powers. This interpretation reinforces the idea that GST does not eliminate fiscal autonomy but modifies the manner in which such autonomy is exercised.

Furthermore, the analysis indicates that the success of GST depends on institutional adaptability. As a relatively new tax regime, GST continues to evolve through amendments, rate adjustments, and administrative reforms. The dynamic nature of the system requires continuous coordination between the central and state governments. Effective communication, transparent decision-making, and equitable revenue distribution are essential for sustaining trust within the federal structure.

In summary, the findings suggest that GST represents a significant shift in India's fiscal federalism. While it has enhanced economic integration and administrative efficiency, it has also redefined the fiscal relationship between the Union and the states. The long-term success of the GST regime will depend on maintaining a balance between national tax uniformity and the financial independence of states.

12. Conclusion and Suggestions

The introduction of the Goods and Services Tax marks one of the most significant fiscal reforms in the history of India's taxation system. By replacing multiple indirect taxes with a unified tax structure, GST has simplified the tax

framework and strengthened the integration of the national market. The reform has contributed to improved transparency, reduced tax cascading, and enhanced efficiency in tax administration. At the same time, the GST regime has reshaped the fiscal relationship between the central and state governments, raising important questions about the extent of fiscal autonomy within India's federal structure.

This study demonstrates that GST represents a complex model of cooperative fiscal federalism. Through the GST Council, the Union and the states participate jointly in tax policy formulation, which promotes coordination and consistency across the country.

However, the transition to a centralized decision-making framework has also reduced the independent taxation powers previously exercised by states. The reliance on collective decision-making mechanisms has created concerns among some states regarding their ability to design fiscal policies tailored to their regional economic needs.

The issue of revenue compensation further illustrates the challenges associated with this transition. The compensation mechanism was introduced to protect states from potential revenue losses during the initial years of GST implementation. While this arrangement provided temporary financial security, disputes over compensation payments revealed structural tensions within the system. These tensions highlight the need for a more stable and predictable fiscal framework that ensures financial security for states while maintaining national tax uniformity.

Judicial interpretation has played an important role in clarifying the constitutional position of the GST Council. The Supreme Court's decision in *Union of India v Mohit Minerals Pvt Ltd* reaffirmed that the Council's recommendations are not binding and that the Constitution preserves the legislative authority of both the Union and the states." This interpretation reinforces the principle that GST should function as a collaborative mechanism rather than a

centralised authority dominating fiscal policy.

In addition, improving the technological infrastructure and administrative capacity of tax authorities can further enhance the efficiency of the GST system. Simplifying compliance procedures for businesses, particularly small and medium enterprises, will also contribute to better tax collection and economic growth. Finally, continued dialogue between the central and state governments are essential to ensure that the GST framework evolves in a manner consistent with the principles of federalism and democratic governance.

In conclusion, the GST regime has fundamentally transformed India's fiscal architecture. While it has achieved significant progress in harmonizing the tax system, its long-term sustainability depends on maintaining an appropriate balance between national economic integration and the fiscal autonomy of states. By strengthening cooperative institutions and addressing existing challenges, India can ensure that the GST system continues to support both economic development and federal stability.

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