Goods and Services Tax (GST) Act 2017, Need, Features, Significance

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The **Goods and Services Tax (GST) Act 2017** created the legal framework for India’s GST regime, replacing several indirect taxes with a common, destination-based tax system from 1 July 2017.

About Goods and Services Tax (GST) Act 2017

The **Goods and Services Tax (GST) Act 2017** introduced a common indirect tax framework in India, replacing a fragmented system of central and State taxes with a unified, destination-based tax on the supply of goods and services.

- **Launch**: GST was rolled out on 1 July 2017, marking a major reform of India’s indirect taxation system.
- **Taxes replaced**: GST subsumed several central and State levies, including excise duty, service tax, VAT, Central Sales Tax (CST), entry tax, octroi and purchase tax.
- **Nature of tax**: GST is a multi-stage, destination-based consumption tax, meaning the tax ultimately accrues to the place where goods or services are consumed.

- **Core objective**: GST seeks to reduce tax cascading, simplify compliance and create a unified national market, reflecting the principle of **"One Nation, One Tax, One Market."**

Goods and Services Tax (GST) Act 2017 Constitutional Basis

The **101st Constitutional Amendment Act, 2016** created the constitutional foundation for GST by changing how the Centre and States exercise their taxation powers.

- **Article 246A**: Gives Parliament and State Legislatures concurrent power to make GST laws, while Parliament has exclusive power over inter-State supplies.
- **Article 269A**: Provides for the levy and collection of IGST on inter-State supplies by the Centre, with the revenue apportioned between the Centre and States.
- **Article 279A**: Provides for the GST Council, to be constituted by the President within 60 days of the commencement of the Amendment.
- **Article 279A(4)**: Specifies matters on which the GST Council makes recommendations, including GST rates, exemptions, threshold limits, model laws and special provisions for certain States.
- **Article 366(12A)**: Defines GST as a tax on the supply of goods, services or both, excluding alcoholic liquor for human consumption.
- **Changes to Seventh Schedule**: The Amendment redistributed taxation powers, while alcohol for human consumption remained outside GST and petroleum products continued under the existing tax system until brought within GST as constitutionally provided.

The constitutional framework enabled compensation to States for revenue losses arising from GST implementation, followed by the **GST (Compensation to States) Act, 2017.**

Goods and Services Tax (GST) Act 2017 Need

Before GST, India had a complex indirect tax system in which the Centre and States imposed different taxes, making goods costlier and business operations more difficult.

- **Multiplicity of taxes**: Businesses had to pay several taxes such as Central Excise Duty, Service Tax, Value Added Tax (VAT), Central Sales Tax (CST), Entry Tax and Octroi, each with different rules and procedures.
- **Cascading of taxes**: A tax could be charged on a value that already included another tax; for example, VAT could be imposed on a price that included Central Excise Duty, creating a "tax on tax" effect.
- **Limited tax credit**: Tax paid to the Centre could not be freely adjusted against State taxes, and vice versa, causing additional tax costs at different stages of production and sale.
- **Different State tax rates**: States had different VAT rates and exemptions, so the same product could have different tax burdens and prices in different States.
- **Fragmented national market**: Different State taxes and inter-State check-posts made movement of goods across States slower and more expensive.
- **High compliance burden**: Businesses operating in several States had to follow different tax laws, registrations, returns and procedures.

- **Tax evasion**: Multiple tax systems and limited coordination made it harder to track transactions across States, creating opportunities for tax evasion.
- **Impact on competitiveness**: Additional and non-creditable taxes increased the cost of Indian goods, affecting their competitiveness in domestic and international markets.

Goods and Services Tax (GST) Act 2017 Features

The **Goods and Services Tax (GST) Act 2017** introduced a common tax system in which goods and services are taxed through a coordinated Centre-State framework.

- **Multiple-rate structure**: The GST regime introduced in 2017 had **four main tax slabs of 5%, 12%, 18% and 28%**, along with Nil-rated/exempt supplies and special rates such as 3% for gold and certain precious metals; Compensation Cess was additionally imposed on specified luxury and demerit goods.
- **Dual GST structure**: Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST) are levied on intra-State supplies (18% GST = 9% CGST + 9% SGST). For inter-State supplies, Integrated Goods and Services Tax (IGST) is levied by the Centre and the revenue is shared with the destination State. **Union Territory Goods and Services Tax (UTGST)** applies in Union Territories without legislatures.
- **Destination-based taxation**: GST revenue ultimately goes to the State where goods or services are consumed, rather than the State where they are produced.
- **Value-added taxation**: GST is collected at different stages of the supply chain, but the tax burden at each stage is limited to the value added by that business.
- **Input Tax Credit (ITC)**: A business gets credit for the GST paid on its inputs and can use this credit to reduce the GST payable on its output, preventing the cascading “tax on tax” effect.
- **Taxation of imports**: Imports are treated as inter-State supplies and attract IGST along with applicable customs duties, ensuring that imported goods face a tax treatment comparable to domestic supplies.
- **Zero-rated exports**: Exports and supplies to **Special Economic Zone (SEZ)** developers or units are zero-rated, allowing eligible suppliers to claim refunds of input taxes and ensuring that domestic GST does not become part of export costs.
- **Specified items outside GST**: The Goods and Services Tax (GST) Act, 2017 does not apply to alcoholic liquor for human consumption. Crude petroleum, petrol, diesel, natural gas and Aviation Turbine Fuel (ATF) are also not currently taxed under GST; they remain subject to existing Central and State taxes until brought under GST.
- **Digital tax administration**: The Goods and Services Tax Network (GSTN) provides the common digital infrastructure for registration, return filing, tax payment and other GST-related compliance.
- **E-Way Bill**: The **electronic way bill** records the movement of goods above the prescribed threshold and helps authorities track consignments and check tax evasion.
- **Composition Scheme**: Eligible small taxpayers can opt for a simplified tax mechanism with lower compliance requirements, subject to prescribed conditions; taxpayers under the scheme generally cannot claim Input Tax Credit.
- **GST Council**: The **GST Council** under **Article 279A** provides a constitutional platform where the Centre and States jointly make recommendations on rates, exemptions, thresholds and other major aspects of GST.

About Goods and Services Tax (GST) Council

The GST Council is the constitutional institution through which the Centre and States jointly shape the GST framework.

- **Constitutional basis**: The GST Council is established under Article 279A of the Constitution.
- **Chairperson**: The Union Finance Minister heads the Council.
- **Members**: The Union Minister of State in charge of Revenue or Finance and the Minister in charge of Finance or Taxation, or another nominated Minister, from each State are members.
- **Voting**: A proposal requires at least three-fourths of the weighted votes of members present and voting; the Centre has one-third of the weighted votes and all States together have two-thirds.
- **Recommendations**: The Council recommends GST rates, exemptions, model GST laws, threshold limits, special provisions and other matters specified in Article 279A.

The Council institutionalises cooperative federalism by bringing the Centre and States together to decide on a common indirect tax framework.

Goods and Services Tax (GST) Act 2017 Significance

GST strengthened India's indirect-tax system by simplifying taxation, improving compliance and creating a common national market.

- **Unified tax system**: Common GST rules reduced the earlier differences between Central and State indirect taxes.
- **Simpler compliance**: Online registration, returns and payments through the GSTN reduced multiple tax procedures.
- **Reduced cascading**: Input Tax Credit (ITC) allows tax paid on inputs to be adjusted against output tax, reducing the "tax on tax" effect.
- **Lower business costs**: Better credit flow and removal of cascading reduced the tax burden embedded in production costs.
- **Better tax compliance**: Digital records, invoice-based reporting and E-Way Bills improved transaction tracking and discouraged evasion.
- **Wider tax base**: More businesses entered the tax net, increasing formalisation and improving revenue efficiency.
- **Cooperative federalism**: The GST Council created a common platform for the Centre and States to jointly decide major tax matters.
- **Consumer benefit**: Greater transparency and reduced cascading helped lower hidden tax costs in the prices of goods and services.

Goods and Services Tax (GST) Act 2017 Challenges and Criticism

The implementation of GST also revealed issues that required continuous rationalisation and policy adjustments.

- **Rate complexity**: The original 5%, 12%, 18% and 28% slabs, along with exemptions and cesses, created classification and compliance difficulties.
- **Incomplete coverage**: Alcohol for human consumption and major petroleum products remain outside the operational GST framework, limiting tax integration.
- **MSME burden**: Digital compliance, accounting and filing requirements can be difficult for small businesses with limited resources.
- **Inverted duty structure**: Higher GST on some inputs than the final product can lock up working capital through accumulated Input Tax Credit.
- **State revenue concerns**: States surrendered several taxation powers and became more dependent on the GST framework for revenues.
- **Digital dependence**: Technology-related difficulties and limited digital capacity affected compliance, particularly during the initial years.

GST 2.0 (2025 Reforms)

The above challenges, particularly the complexity of the original rate structure, encouraged further rationalisation. The **56th GST Council meeting** in September 2025 introduced major rate reforms, with the revised structure taking effect from 22 September 2025, marking the next phase of GST as **GST 2.0.**

- The earlier 5%, 12%, 18% and 28% slabs were rationalised into 5% and 18%, with a 40% special rate for selected luxury and demerit goods.
- Selected luxury and sin goods, such as high-end cars, pan masala and certain tobacco and aerated beverage products, were placed under the 40% rate.
- Several food items, medicines and other commonly used goods were moved to Nil or 5% GST, reducing the tax burden on consumers.
