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Central Goods and Services Tax Act, 2017

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SUBJECTS COVERED

ECONOMY**POLITY**

CURATED & WRITTEN BY

**Bharat Choudhary**

UPSC Educator & Content Creator

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ACT NUMBER YEAR ENACTED

Act No. 12 of 2017 2017

REPLACES

Central Excise Act 1944, Service Tax (Finance Act 1994), multiple state VAT/sales tax laws, Entry Tax, Octroi, Purchase Tax, Luxury Tax, Entertainment Tax

KEY PROVISIONS

- 1 One nation, one tax — subsumes 17 Central and State indirect taxes into a single GST
- 2 Dual GST structure: CGST (Centre) + SGST (State) on intra-state supplies; IGST on inter-state supplies
- 3 Two-tier rate structure: 5% and 18% (restructured from four slabs by 56th GST Council, September 2025); 40% de-merit rate for sin goods
- 4 GST Council (Article 279A) as constitutional body with Union Finance Minister as Chair and all State FMs as members
- 5 Input Tax Credit (ITC) mechanism across the value chain eliminating cascading effect
- 6 Compensation to states for revenue loss for 5 years (2017-2022) through compensation cess
- 7 E-way bill mandatory for inter-state movement of goods exceeding Rs 50,000

BACKGROUND

The Goods and Services Tax (GST) was introduced in India on July 1, 2017 through the 101st Constitutional Amendment Act, 2016 (passed September 8, 2016) and the Central Goods and Services Tax Act, 2017. GST replaced a complex web of 17 indirect taxes levied by the Centre and states — including Central Excise Duty, Service Tax, State VAT, Entry Tax, Octroi, Purchase Tax, Luxury Tax, and Entertainment Tax (except those levied by local bodies) — with a single unified tax on the supply of goods and services.

The idea of a comprehensive indirect tax reform was first proposed by the Kelkar Task Force on Indirect Taxes (2004). The 13th Finance Commission (2009) recommended GST implementation and earmarked Rs 50,000 crore for compensation to states. The first Constitution Amendment Bill was introduced in 2011 (115th

Amendment) but lapsed. A revised bill (122nd Amendment, later renumbered 101st) was introduced in 2014 and finally passed in 2016 after years of negotiation with states, particularly on the issues of revenue neutrality, compensation, and the inclusion of petroleum and alcohol.

GST is structured as a dual tax — the Centre levies CGST and states levy SGST on intra-state supplies, while the Centre levies IGST on inter-state supplies (which is then apportioned between the Centre and destination state). This dual structure was necessitated by India's federal framework where both the Centre and states had constitutional authority over indirect taxation. Five products — petroleum crude, natural gas, aviation turbine fuel, motor spirit (petrol), and high-speed diesel — are constitutionally under GST but have not yet been brought under the GST regime.

KEY CONCEPTS

- **Supply:** The taxable event under GST — includes sale, transfer, barter, exchange, licence, rental, lease, or disposal of goods/services for consideration in the course of furtherance of business (Section 7, CGST Act)
- **Input Tax Credit (ITC):** The credit available to a registered person for the GST paid on inputs (goods/services) used in the course of business — ensures tax is levied only on the value added at each stage, eliminating the cascading “tax on tax” effect (Section 16, CGST Act)
- **Reverse Charge Mechanism (RCM):** In specified cases, the liability to pay GST shifts from the supplier to the recipient — applies to imports, specified services (legal, GTA), and purchases from unregistered dealers above threshold (Section 9(3) and 9(4), CGST Act)
- **Composition Scheme:** Simplified scheme for small taxpayers with turnover up to Rs 1.5 crore (Rs 75 lakh for special category states) who pay tax at a flat rate (1-6%) without ITC benefit (Section 10, CGST Act)
- **GST Council:** Constitutional body established under Article 279A, comprising Union Finance Minister (Chair), Union Minister of State for Revenue, and Finance Ministers of all states/UTs with legislature — decides on rates, exemptions, model laws, thresholds, and dispute resolution
- **E-way Bill:** Electronic document generated on the GST portal for movement of goods exceeding Rs 50,000 in value — mandatory for inter-state movement, states may prescribe for intra-state movement (Rule 138, CGST Rules)

IMPORTANT PROVISIONS

Article 246A (Constitution) — Special Provision for GST: Inserted by the 101st Amendment, this article gives both Parliament and state legislatures the concurrent power to make laws with respect to GST. This is a departure from the earlier exclusive taxing powers — Centre's exclusive power over excise and service tax (Union List) and states' exclusive power over sales tax (State List).

Article 269A — Levy and Collection of IGST: IGST on inter-state supply of goods/services is levied and collected by the Central Government and apportioned between the Centre and states based on the place of supply. The destination principle applies — revenue accrues to the consuming state.

Article 279A — GST Council: The Council’s recommendations on rates, exemptions, laws, thresholds, and dispute resolution guide both Centre and states. The voting structure: Centre has one-third weightage, all states together have two-thirds. A decision requires three-fourths majority of the weighted votes of members present and voting. In practice, all decisions till date have been taken by consensus.

Section 9 (CGST Act) — Levy and Collection: CGST is levied on all intra-state supplies of goods/services at rates not exceeding 20% (as recommended by GST Council). Corresponding SGST/UTGST is levied by states/UTs. IGST (not exceeding 40%) is levied on inter-state supplies under the IGST Act, 2017.

Section 16 — Input Tax Credit: Every registered person is entitled to take credit of input tax charged on supply of goods/services used in the course of business, subject to conditions: possession of tax invoice, receipt of goods/services, tax actually paid to the government by the supplier, and filing of return.

Section 54 — Refund of Tax: Registered persons may claim refund of tax paid on zero-rated supplies (exports), inverted duty structure (where input tax rate exceeds output tax rate), and excess balance in electronic cash ledger. Refund must be processed within 60 days of application.

LANDMARK JUDGMENTS

Union of India v. Mohit Minerals Pvt. Ltd. (2022): The Supreme Court held that the recommendations of the GST Council are not binding on Parliament or state legislatures — they are recommendatory in nature. Article 246A confers equal and simultaneous power on both Parliament and state legislatures to legislate on GST. The GST Council operates as a collaborative federal body, not a supreme authority whose recommendations override legislative sovereignty. This was a landmark on cooperative federalism.

Skill Lotto Solutions v. Union of India (2020): The Supreme Court upheld the levy of GST on lotteries. The Court held that actionable claims (including lottery) are “goods” under Section 2(52) of the CGST Act and the classification under Schedule III Entry 6 does not apply to lottery, betting, and gambling which are specifically included.

Union of India v. VKC Footsteps India Pvt. Ltd. (2021): The Supreme Court upheld the validity of Rule 89(5) of the CGST Rules, ruling that refunds for unutilised ITC under inverted duty structure apply only to input goods, not input services. The Court held that refund is a statutory right (not constitutional) and the legislature’s use of the word “inputs” in Section 54(3) proviso (ii) means only input goods. While acknowledging the formula may lead to inequitable outcomes for some businesses, the Court advised the GST Council to review the formula and consider policy-level corrections.

Tvl. Kavin HP Gas Gramin Vitrak v. Union of India (2024, Madras HC): The High Court held that Section 16(4) which prescribes the time limit for availing ITC (annual return filing date of the financial year) is not arbitrary and is a reasonable restriction to ensure timely compliance.

RECENT AMENDMENTS / DEVELOPMENTS

56th GST Council Meeting — Two-Slab Rate Restructuring (September 3, 2025): The GST Council, chaired by Union Finance Minister Nirmala Sitharaman, approved a historic restructuring of the GST rate structure from four slabs (5%, 12%, 18%, 28%) to a simplified two-tier system of **5% and 18%**. Most items in the 28% slab (except sin goods) were moved to 18%, and items in the 12% slab were moved to 5%. A special 40% de-merit rate was introduced for 6-7 sin/demerit goods. This made approximately 175 items cheaper (processed foods, dry fruits, dairy, packaged snacks, refrigerators, ACs, automobiles, tractors, etc.). The average GST incidence is expected to drop from 11.5% to below 10%. CBIC issued notifications on September 17, 2025, with most rate changes effective from September 22, 2025.

Compensation Cess Elimination (March 2026): The compensation cess on specified goods (motor vehicles, caffeinated beverages, etc.) was reduced to Nil. The cess was scheduled for complete elimination by March 2026. Exception: for cigarettes, chewing tobacco products, unmanufactured tobacco, and beedi, existing GST rates and compensation cess continue to apply, with new rates to be implemented at a later date after entire loan and interest liabilities from the compensation period are discharged.

Finance Act, 2025 Amendments: Amendments to the CGST Act made through the Finance Act, 2025 were notified effective from October 1, 2025, aligning legislative provisions with the new rate structure.

GST Revenue Performance (FY 2025-26): GST collections for April 2025 reached Rs 2.37 lakh crore (12.6% YoY growth from Rs 2.10 lakh crore in April 2024). May 2025 crossed Rs 2.01 lakh crore. For April-December 2025-26, gross GST collections grew 8.6% to approximately Rs 16.5 lakh crore (vs. Rs 15.2 lakh crore in the same period of FY 2024-25). FY 2025-26 is on track to cross the Rs 22 lakh crore mark. The tax base has expanded from 66 lakh registered taxpayers at launch to over 1.46 crore in 2024.

GST on Online Gaming and Casinos: The 51st GST Council Meeting (August 2023) decided to levy 28% GST on the full face value of bets placed in online gaming, casinos, and horse racing (not on gross gaming revenue). This was implemented from October 1, 2023 through amendments to the CGST Act and IGST Act.

UPSC RELEVANCE

101st Amendment, Article 246A/269A/279A, CGST+SGST+IGST structure, two-tier rate structure (5% and 18%, restructured from four slabs by 56th GST Council September 2025), 40% de-merit rate, GST Council composition and voting (1/3 Centre, 2/3 states, 3/4 majority), products outside GST (5 petroleum products + alcohol), compensation cess elimination (March 2026), Rs 1.5 crore composition scheme threshold **Mains GS-3:** GST as indirect tax reform, elimination of cascading effect, impact on inflation and GDP, rate rationalisation debate, revenue buoyancy, impact on Centre-state fiscal relations, inverted duty structure issues **Mains GS-2:** GST Council as a model of cooperative federalism, Mohit Minerals judgment (recommendatory vs. binding nature), Centre-state revenue sharing, dispute resolution mechanism **Interview:** “Is GST truly ‘One Nation, One Tax’? How has it impacted the federal fiscal architecture of India?”

RELATED TERMS

[Cooperative Federalism](#)[Gst Council](#)



CURATED & WRITTEN BY

Bharat Choudhary

UPSC Educator & Content Creator

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