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EDITORIAL ANALYSIS

Nine Years of GST: The Road to GST 2.0

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Nine Years of GST: The Road to GST 2.0

 **Mint**

24 June 2026

GS3
GS2

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INTERVIEW ANGLE

"Has GST genuinely advanced cooperative federalism, or has the weighted-voting structure of the GST Council quietly centralised fiscal power away from states?"

✓ Every fact web-verified against primary sources (<https://ujjyari.com/how-we-verify/>)

WHY THIS EDITORIAL MATTERS

On 1 July 2026, the Goods and Services Tax completes nine years. The anniversary arrives at an [inflection](https://ujjyari.com/vocab/inflection/) point. Negative business sentiment, once the dominant note in GST commentary, has fallen sharply. The registered taxpayer base has swelled from roughly 60 lakh at rollout in 2017 to over 1.5 crore today. And the much-debated “GST 2.0” rate rationalisation, effective from September 2025, has collapsed the old four-slab maze into a leaner structure built around a 5% merit rate, an 18% standard rate, and a 40% rate for sin and luxury goods.

For a UPSC aspirant, this is not merely an economy story. GST sits at the precise intersection of GS3 (Indian economy, mobilisation of resources, taxation) and GS2 (federalism <https://ujjyari.com/terms/federalism/>), devolution, Centre-State financial relations). The challenge in the exam hall is to move past celebratory data and interrogate the two questions that genuinely divide policymakers: is GST 2.0 revenue-neutral, and is the GST Council a federal partnership or a managed consensus?

THE ARGUMENT: FORMALISATION HAS WORKED, THE FEDERAL BARGAIN IS STRAINED

The Mint commentary’s core claim is twofold. First, GST has succeeded as a formalisation engine. Second, that success now rests on resolving design tensions that GST 2.0 eases but does not eliminate.

What GST Actually Is (Get the Definition Exam-Perfect)

GST is a **destination-based, multi-stage, value-added tax** on the supply of goods and services. Three descriptors carry full marks if used precisely:

- **Destination-based:** tax accrues to the state where goods or services are *consumed*, not produced. This reshaped Centre-State revenue geography, favouring consuming states.
- **Multi-stage:** levied at every stage of the supply chain, from manufacture to final sale.
- **Value-added:** through **Input Tax Credit (ITC)**, tax is effectively paid only on the value added at each stage, removing the cascading “tax on tax” that plagued the pre-GST system of VAT, excise, service tax and a host of cesses.

GST was brought in by the **101st Constitutional Amendment Act, 2016**, which conferred simultaneous (concurrent) taxing power on Parliament and State Legislatures and inserted **Article 246A** and **Article 279A**.

The Formalisation Evidence

The headline metric is the taxpayer base: from about 60 lakh registrants in 2017 to over 1.5 crore in 2026. This matters because each new registrant is, in principle, a business entering the formal credit chain, generating an audit trail, and becoming eligible for institutional finance. Reinforcing tools include:

- **Input Tax Credit (ITC):** the self-policing mechanism. A buyer claims credit only if the seller has paid tax, which incentivises both parties to come on record.
- **E-way bills:** mandatory electronic documentation for the movement of goods above a **threshold** (<https://ujiyari.com/vocab/threshold/>) value, sharply reducing the under-invoicing and “kachcha bill” leakage of the old regime.
- **Buoyant collections:** record monthly gross collections in the range of around Rs 1.8 to 2 lakh crore, signalling improved compliance and a wider net rather than merely higher rates.

HOW TO THINK ABOUT IT: THE REVENUE-NEUTRALITY TENSION

Here is the analytical hinge most aspirants miss. When GST was designed, the implicit benchmark was the **Revenue Neutral Rate (RNR)**, the single rate at which government revenue would be unchanged relative to the taxes GST replaced. The original RNR estimates clustered around 15 to 15.5%.

GST 2.0 cuts rates on a large basket of mass-consumption goods. That is excellent for consumers and for taming inflation, but it raises an unavoidable question: **if the effective average rate falls below the revenue-neutral level, where does the lost revenue come from?**

The standard counter is the **Laffer-style buoyancy argument**: lower rates plus simpler compliance widen the base and improve collections, so revenue need not fall. There is genuine evidence for this in the rising taxpayer count and collections. But the magnitude and durability of that offset are uncertain, and this is

exactly the kind of “it depends” judgement a top answer should flag rather than assert.

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THE FEDERALISM DIMENSION (THE GS2 CORE)

This is where GST graduates from an economy topic to a polity topic.

The GST Council in One Diagram (In Words)

Picture a single table under **Article 279A**:

- **Chair:** the Union Finance Minister.
- **Members:** the Union Minister of State for Finance, plus a minister nominated by each state government.
- **Voting weight:** the **Centre carries one-third** of the weighted votes; **all states together carry two-thirds**.
- **Decision threshold:** a resolution passes only with a **three-fourths majority** of the weighted votes present and voting.

The arithmetic is *deliberate* (<https://ujijari.com/vocab/deliberate/>). The Centre alone cannot pass a measure (one-third is below three-fourths), and the states alone cannot either. Every decision requires a coalition straddling the Centre-State line. On paper, this is **cooperative federalism** (<https://ujijari.com/terms/cooperative-federalism/>) in its purest institutional form.

The Counter-View: Consensus or Coercion?

Critics, including several state finance ministers, argue the reality is more centralised than the design suggests. Two grievances recur:

- ❶ **Loss of autonomy:** states surrendered their constitutional power to independently levy major indirect taxes. They can no longer use tax rates as a counter-cyclical or developmental lever.
- ❷ **The compensation cliff:** the **GST Compensation Cess**, which guaranteed states a 14% annual revenue growth for five years (later extended to service the COVID-era borrowing), has wound down. With that safety net gone, deep GST 2.0 rate cuts land directly on state revenues, and states fear a structural squeeze on their fiscal space without a successor guarantee.

The honest verdict: the Council *has* functioned largely by consensus for nine years, but the few divisive votes and the compensation dispute reveal that the federal bargain holds best when revenues are buoyant and frays when they are not.

WAY FORWARD

A balanced answer should propose institutional fixes, not slogans:

- 1 **A transparent revenue-neutral framework:** publish the data and methodology behind rate decisions so cuts are evidently affordable, not politically timed.
- 2 **Strengthen the Council as a deliberative body:** lean on consensus and structured dispute-resolution rather than letting weighted voting decide contested questions.
- 3 **A post-compensation stabilisation mechanism:** consider a fiscal stabilisation fund or a formula-based assurance to cushion states through revenue shocks.
- 4 **Finish the plumbing:** speed up refunds (a recurring exporter and MSME pain point), rationalise audits, and make the **GST Appellate Tribunal** fully operational to clear the litigation backlog.

PYQ LINKAGE

- **2019 (GS3):** “Enumerate the indirect taxes which have been subsumed in the Goods and Services Tax (GST) in India. Also, comment on the revenue implications of the GST introduced in India since July 2017.” This editorial directly updates that answer with nine years of collections and the GST 2.0 reform.
- **2017 (GS3):** “Explain the salient features of the Constitution (One Hundred and First Amendment) Act, 2016. Do you think it is efficacious enough to remove cascading effect of taxes and provide for common national market for goods and services?” Use the ITC and destination-based arguments above.
- **Prelims hook:** Article 279A (GST Council), Article 246A (concurrent taxing power), the one-third / two-thirds voting weight, and the three-fourths majority rule are high-frequency factual targets.

FACTS CORNER

- **Rollout:** 1 July 2017, celebrated annually as **GST Day**; ninth anniversary on 1 July 2026.
- **Constitutional basis:** 101st Constitutional Amendment Act, 2016 (Articles 246A, 269A, 279A).
- **GST Council:** Article 279A; chaired by Union FM; Centre one-third and states two-thirds of weighted votes; decisions need a three-fourths majority.
- **GST 2.0 (effective 22 September 2025):** rationalised slabs to a 5% merit rate, an 18% standard rate, and a 40% demerit rate for sin and luxury goods (alongside the 0% exemption).
- **Taxpayer base:** grown from roughly 60 lakh (2017) to over 1.5 crore (2026).
- **Collections:** record monthly gross GST in the range of around Rs 1.8 to 2 lakh crore.
- **Key concepts:** destination-based tax, Input Tax Credit (ITC), e-way bills, Revenue Neutral Rate (RNR), compensation cess.
- **GS mapping:** GS3 (economy, taxation, resource mobilisation) and GS2 (fiscal federalism (<https://ujivari.com/terms/fiscal-federalism/>), Centre-State relations).

● **KEY ARGUMENTS AT A GLANCE**

Nine years on, GST has succeeded as an instrument of formalisation and tax simplification, but its long-term legitimacy now depends on resolving the twin challenges of revenue-neutrality and genuine fiscal federalism, which GST 2.0 addresses only partially.

✓ **SUPPORTING**

- The taxpayer base has expanded from roughly 60 lakh registrants at rollout to over 1.5 crore, evidence of deepening formalisation and a wider tax net.
- The GST 2.0 two-rate architecture (merit 5%, standard 18%, with a 40% demerit rate) reduces classification disputes and lowers tax incidence on mass-consumption goods, easing the compliance burden the multi-slab regime imposed.
- Record monthly collections of around Rs 1.8 to 2 lakh crore, supported by e-way bills and input tax credit matching, show improved buoyancy and a narrowing of leakages relative to the pre-GST indirect tax maze.

⚠ **COUNTER**

Critics argue GST 2.0 sacrifices revenue-neutrality for political optics: deep rate cuts may erode the revenue base just as the compensation cess safety net has wound down, and states, having surrendered taxation autonomy, fear shrinking fiscal space without a guaranteed protection mechanism.

→ **WAY FORWARD**

Institutionalise a transparent, data-driven revenue-neutral rate review; strengthen the GST Council as a deliberative federal body rather than a majority-vote forum; explore a fiscal stabilisation fund post-compensation; and complete reforms on refunds, audits and the Appellate Tribunal.


MAINS ANSWER FRAMEWORK

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QUESTION

Nine years after its rollout, the Goods and Services Tax has deepened economic formalisation but left unresolved tensions over revenue-neutrality and fiscal federalism. In light of the GST 2.0 rate rationalisation, critically examine whether GST has delivered on its promise of "one nation, one tax" while preserving the fiscal autonomy of states. (250 words)

INTRODUCTION

Introduced on 1 July 2017 under the 101st Constitutional Amendment Act, 2016, GST replaced a fragmented web of central and state indirect taxes with a single destination-based, multi-stage value-added tax. Nine years on, it is best judged on two axes: economic formalisation and fiscal federalism.

BODY

On formalisation, GST has clearly delivered. The registrant base has grown from about 60 lakh to over 1.5 crore, input tax credit has incentivised voluntary compliance, and e-way bills have curbed leakage, lifting monthly collections to around Rs 1.8 to 2 lakh crore.

The GST 2.0 rationalisation (effective September 2025) into broadly a merit rate of 5% and a standard rate of 18%, with a 40% demerit slab, reduces classification litigation and lowers incidence on essentials, addressing a long-standing complexity criticism. On federalism, the record is mixed.

The GST Council under Article 279A embodies cooperative federalism, with the Union holding one-third and the states two-thirds of the weighted vote and decisions needing a three-fourths majority. Yet states surrendered significant taxation autonomy, and with the compensation cess regime winding down, the central worry is whether rate cuts compromise revenue-neutrality and squeeze state finances without a durable protection mechanism.

CONCLUSION

GST 2.0 is a welcome simplification, but its success hinges on pairing lower rates with a credible revenue-neutral framework and a more deliberative GST Council. Only then can "one nation, one tax" coexist with the fiscal autonomy that genuine federalism demands.


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