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Popular Article

## GST Reforms in India's Cooperative Federalism

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### *Abstract*

The new GST regime is designed to be simpler and less burdensome for common people, thereby being more business-friendly, especially for farmers, small traders, and MSMEs. The paper throws light on important changes, such as reducing the GST rates on food items of mass consumption, farming equipment, medicines, and commodities of daily use, and also moving towards a two-slab tax system. Recent trends in GST collection are reviewed, which indicate improved revenue, better compliance, and an expanding taxpayer base. Although GST has brought more transparency and efficiency into the tax system, it suffers from complex rates, delays in dispute resolution mechanisms, and the exclusion of major commodities from within its ambit. It concludes that only further simplification and increased coverage will make the goods and services tax work as a genuinely unified and growth-friendly tax for India.

**Keywords:** GST Reforms, GST Council, Revenue Sharing, trends in GST

### **Introduction**

The Goods and Services Tax (GST) has completed eight years since its introduction on July 1, 2017, marking a significant milestone in India's indirect tax reform journey. This unified tax system has streamlined multiple central and state taxes, creating a common national market, reducing tax cascading, and enhancing transparency. The 56th GST Council meeting, led by Union Finance Minister Smt. Nirmala Sitharaman, has approved Next-Gen GST reforms aimed at easing the tax burden on common people and improving business operations, particularly for small traders and MSMEs. These reforms align with Prime Minister Narendra Modi's vision to boost economic growth and benefit various segments, including farmers, women, youth, and middle-class families.



The major highlights of the reforms include a simplified two-slab tax structure (5% and 18%), rate reductions across sectors, and exemptions on essential items. These changes are expected to provide relief to households, farmers, and businesses, effective from September 22, 2025. Exceptions include specific goods like tobacco products, beedi, cigarettes, etc. where existing rates will apply until further notice.

### Objectives of Tax Reform

The tax system should be economically efficient, treat everyone fairly, and be easy to run. Another key objective of tax reform is to make tax administration and compliance simpler. This depends on three things. The first and most important factor is the design of the tax system. In general, the more logical and neutral the tax design is, the easier it becomes to administer and the more it encourages people to comply. If a tax is applied to a broad base at a single rate, there will be fewer classification disputes, and vendors will have fewer tax-specific record-keeping requirements. A tax return under such a system can be as short as a postcard. This makes enforcement easier and encourages voluntary compliance.

Fiscal autonomy allows the Centre and the States to set their own tax rates based on their revenue needs. Harmonizing tax laws and administrative procedures is necessary to make compliance and enforcement easier. It also helps ensure that differences in policies and procedures across states do not create extra economic distortions. The key issue, therefore, is deciding how much harmonization is needed and how it should be achieved.

### Current trends in GST

Indicator / Component	Oct-2025 (in crores)	Oct-2024 (in crores)	YoY growth % (Oct-25 vs Oct-24)
Gross GST collections (all India, total)	₹ 1,95,936	₹ 1,87,346	+ 4.6
Domestic GST revenue (Gross, excluding imports)	₹ 1,45,052	₹ 1,42,251	+ 2.0
GST on imports (Gross)	₹ 50,884	₹ 45,096	+ ~12.8



Net GST collections (after refunds)	₹ 1,69,002	₹ 1,68,054	+ 7.1
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### Long-Term and Annual Trend (FY 2024–2025 and beyond)

Beyond October alone, the more comprehensive GST data reveals a significant upward trend over the previous few years: Gross GST collections for the fiscal year 2024–2025 hit a record high of 22.08 lakh crore, up 9.4% from the previous year. Compared to approximately 1.68 lakh crore in FY24, the average monthly GST collection in FY25 was 1.84 lakh crore. Gross annual GST collections have doubled over the last five years, from ₹11.37 lakh crore in FY21 to ₹22.08 lakh crore in FY25. As of April 2025, there were over 1.51 crore active GST registrations in India (including TDS accounts, composition taxpayers, and regular taxpayers), indicating a growing number of taxpayers.

A steady rise in both domestic and import-related GST revenue shows that people are spending more and that trade activity is picking up. This is a positive sign, especially at a time when the global economy is facing uncertainty. India's GST collections have hit record highs this year, and the fact that the numbers have doubled in just five years suggests that compliance has improved, the taxpayer base has grown, and digital systems and enforcement measures are working more effectively. What's noteworthy is that GST revenues remain strong even after some tax rates were reduced in October 2025. This means higher consumption is helping offset the lower rates—a classic “volume over rate” scenario where more transactions ultimately lead to greater revenue.

However, the growth isn't uniform across all states. A handful of industrial and high-consumption states continue to contribute a disproportionately large share of GST income. As per PIB, Maharashtra, Karnataka, Gujarat, Tamil Nadu, and Haryana alone account for more than 40% of the total GST collection, highlighting their importance as the country's major hubs of production and consumption.

### GST Reforms in Food sector:

The government is working to improve food affordability by placing most food products in the 5% or NIL GST category. Essential Indian staples such as Paratha, Parotta, and Roti have been exempted from GST, reinforcing their importance in everyday diets.



## GST rate changes in food and logistics



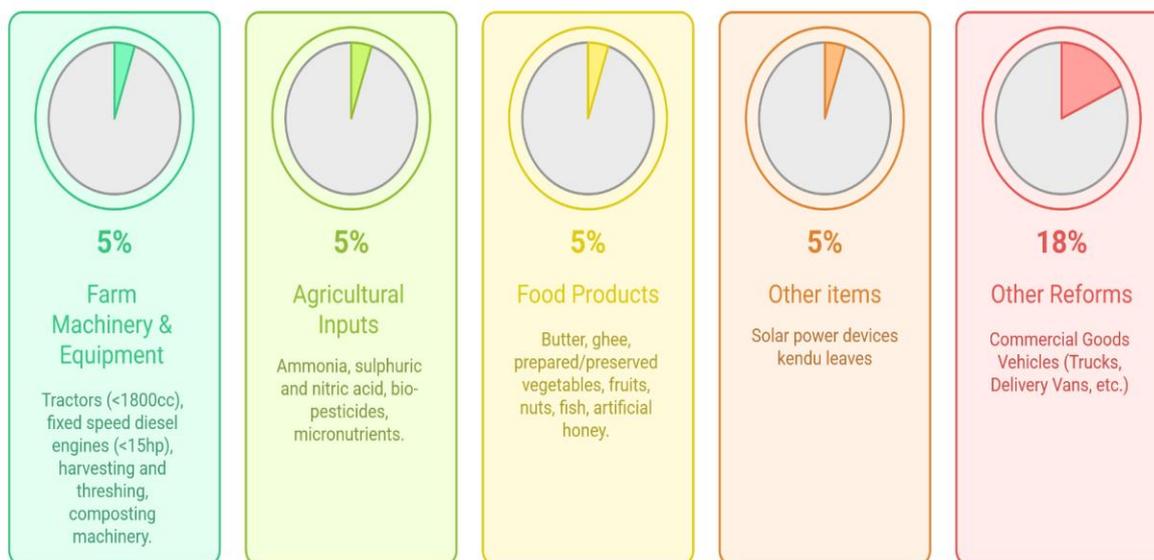
Lowering GST on food items to 5% or NIL supports consumers as well as young people engaged across the food processing value chain—including farmers, cooperatives, MSMEs, retailers, and exporters. This rationalisation of GST is expected to strengthen India’s food processing sector, milk cooperatives, and private dairies by cutting input costs and increasing production levels. In turn, it will motivate more young entrepreneurs to start businesses in this field. Additionally, the move will help stimulate demand in semi-urban and rural regions, boosting MSMEs and regional brands that are operated by—or provide employment to the youth.

### GST reforms in agriculture sector

*“The thrust of the government has been to help industries that are agriculture-related, agro-based, affecting the common man, and also labour-intensive. Why so? Because the common man should not be burdened with the high cost of goods due to taxation...” - Financial Analyst and Economist Rajeev Sahu*



### GST Reforms in Agriculture Sector



The changes in the agriculture sector aims to benefit farmers, rural communities, and allied-agriculture sectors. These GST reforms will help the agriculture sector by sharply reducing taxes on essential farm machinery, inputs, and allied-sector products. Tractors, tractor parts, irrigation systems, and other farm equipment now attract only 5% GST, making mechanisation cheaper and boosting productivity for small and marginal farmers. Fertiliser raw materials, bio-pesticides, and micronutrients also see GST reduced to 5%, lowering input costs, ensuring stable supply, and promoting sustainable and soil-friendly farming. Allied sectors such as dairy, aquaculture, beekeeping, and food-processing benefit from GST cuts on products like butter, ghee, preserved fish, honey, and processed fruits and vegetables, encouraging diversification and higher value-addition. Lower GST on commercial goods vehicles reduces transportation costs, improving market access and reducing post-harvest losses. Overall, these reforms support sustainable agriculture, strengthen cooperatives and FPOs, enhance the entire agricultural value chain, and help farmers increase income, reduce risks, and access modern farming practices.



Item / Category	Previous GST rate	New GST rate / Status
Luxury/sin goods (pan masala, tobacco, high-end cars, private aircraft, yachts, etc.)	28% (and Cess)	40% (demerit rate)
Cement / major construction materials	28%	18%
Marble / Granite / Sand-lime bricks / related building materials	12%	5%
Tractor tyres / parts / agricultural machinery & equipment (e.g. harvesting / drip-irrigation equipment / fertiliser inputs / bio-pesticides / micronutrients / diesel engines ≤ 15 HP)	12%–18% (depending on item)	5%
Household goods / consumer-durables (e.g. TVs (LCD/LED > 32"), ACs, dishwashers, monitors, etc.)	28%	18%
Daily-use consumer goods / FMCG (soaps, shampoos, toothpaste, toothbrushes, hair oil, toiletries, etc.)	18% (or 12% in some)	5%
Packaged food / snacks / instant foods / processed items (namkeens, chocolates, sauces, pasta, etc.)	12% or 18%	5%
Stationery / Educational materials (exercise books, pencils, crayons, erasers, geometry boxes, school supplies, etc.)	12% (some items) / 5% (others)	0% (nil) for many items like pencils, erasers, exercise books; 5% for others like geometry boxes, school cartons/trays.

Toys, handicraft items, handicraft idols/statues, wooden/metal/textile dolls & toys, paintings/sculptures, handmade artware, decorative items, wood-based products, eco-friendly boards/wood substitutes, packaging paper/boxes, etc.	Generally, 12%	5%
Textiles / Man-made fibres (MMF) & yarns / Ready-made apparel (subject to price limits), carpets/floor-coverings, packaging materials, etc.	12% or 18% (depending)	5%
Baby & childcare items (baby diapers, napkins, feeding bottles, etc.)	12%	5%
Medical sector: 33 life-saving drugs & diagnostic kits, medical oxygen, thermometer surgical instruments & medical devices (incl. dental & veterinary devices), spectacles / corrective goggles, other medicines (Ayurveda, Unani, Homoeopathy, etc.)	Mostly 12% / 18% / 28% (depending on item)	0% (nil) for 33 selected life-saving drugs & diagnostic kits; 5% for many other medicines, medical devices; spectacles/goggles: 28% → 5%.
Life & Health Insurance premiums (individual life insurance, health insurance, floater plans, senior-citizen policies, etc.)	18%	Exempt / 0% GST

## Challenges in GST Framework

The current GST system faces several practical issues that continue to affect both businesses and governments. One major problem is that petroleum products and alcohol for human consumption are still kept outside GST. Since states continue to tax them under VAT, this creates double taxation and prevents businesses from claiming input tax credit (ITC). States also worry that including these items under GST may reduce their revenue and limit their financial independence. Another issue is the long delay in setting up the GST Appellate Tribunal (GSTAT). Although it has been officially announced, it is still not functioning in many states. Because of this, appeals are piling up in High Courts, causing long waiting periods and uncertainty for taxpayers.

GST also has a very complex tax-rate structure. It includes five major slabs as well as special low rates like 0.25%, 1%, and 3% for items such as gold and diamonds. This often leads to confusion, disputes over classification, and increased litigation. In some sectors, the rate structure also blocks working capital. Even though experts and the GST Council earlier planned to reduce GST to just three simple slabs, there has been little progress. Compliance issues also remain common. Despite improvements in technology and online processes, taxpayers still face difficulties due to frequent rule changes, lengthy procedures, and large disputes arising from small issues. These problems often overshadow the government's attempts to make GST simpler.

There are also several grey areas in interpretation. Confusion still exists around topics such as intermediary services, transactions between units of the same company, and the tax treatment of employee secondment. Even with clarifications from the government, these issues continue to create uncertainty, make day-to-day operations difficult for businesses, and increase the chances of disputes and litigation.

## GST Achievements

GST revenues have consistently grown and reached an all-time high of Rs 22.08 lakh crore in the financial year 2024-25, at an average of Rs 1.84 lakh crore every month. This growth is outpacing nominal GDP, reflecting improved compliance, reduced tax evasion, and increased formalization of the economy. Digital Transformation & Compliance Efficiency: GST has undergone digitization-from manual filings to e-invoicing, real-time credit matching, automated returns, and e-way bills-thus reducing errors and fraud. While MSMEs that were



once reluctant now use it as a gateway to credit, government procurement, and national market access. Larger Taxpayer Base: As on 30th April 2025, India has more than 1.51 crore active GST registrations compared to 65 lakhs in 2017. This growth underlines the success of GST in formalizing the economy and improving tax compliance.

Ease of Doing Business: GST removed inter-state tax barriers, reducing logistic costs and improving supply chain efficiency. Elimination of entry taxes and octroi resulted in further savings in the cost of doing business. The multi-layered tax system was replaced with the GST framework, which had its underlying philosophy of 'One Nation, One Tax'. It reduced cascading effects. Seamless flow of credit was ensured by the ITC mechanism, which lowers business costs and enhances competitiveness.

Efficient Refund Processing: Automated Integrated GST (IGST) refunds through the ICEGATE portal of customs have facilitated processing in less than a week, and ₹1.18 lakh crore was paid as refunds in FY25, improving liquidity for exporters.

## **Conclusion:**

GST has undoubtedly modernized India's indirect tax system and brought in more transparency, several gaps remain to be bridged for it to achieve its full potential. Issues related to the exclusion of major products from GST, delay in establishment of the appellate tribunal, complicated rate structure, and other procedural and interpretational issues continued to bug the taxpayers. These would, therefore, call for a gradual inclusion of all excluded items within their ambit, simplification of tax slabs, timely operationalization of dispute-resolution mechanisms, and more certain and stable rules for compliance. Such reforms will go a long way in strengthening GST as a truly unified tax system and in supporting broader economic growth goals for India.

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