GST 2.0 and the Union Budget 2026-27: A Paradigm Shift

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Introduced in 2017, GST replaced many indirect taxes and brought the country's markets together, but its multi-slab structure made things complicated for both consumers and businesses. Through the simplification of rates into mainly two slabs, the reduction of compliance burdens, and the improvement of transparency, as Prime Minister Narendra Modi announced, *"The Government will bring Next Generation GST reforms, which will bring down tax burden on the common man. It will be a Diwali gift for you."* (Press Information Bureau, 2025), the 2025 GST 2.0 reforms represent a significant shift toward clarity and efficiency, and this reform brings India closer to international best practices, especially Canada's more straightforward dual model, while maintaining the dual GST framework to maintain federal balance. Beyond revenue, the effects are evident: middle-class families benefit from lower, more understandable bills, small retailers easily handle compliance online and farmers encounter fewer obstacles in inter-State commerce. The reform exhibits increased formalisation, better compliance and inclusive growth. GST 2.0 is further strengthened by the Union Budget 2026-27 in the form of tax administration rationalisation, digital compliance architecture and cut-down on litigation, making GST a central pillar of next-generation fiscal governance in India. The system is reaffirmed as a pillar of New India's economic future with GST 2.0, which changes its complicated structure into a framework that is people-centric, business-friendly, and growth-oriented.

Introduction

Consider GST before 2025 as navigating a city with numerous winding roads, toll booths, and detours, each one adding more time and expense, while GST 2.0 as an expressway that leads you directly to your destination and has more readable signage. The 2025 reforms accomplished just that; they cleared the path, made it easier to navigate and improved the experience for both consumers and businesses.

(Modi, 2025) "GST 2.0 is a path-breaking legislation for New India," and declared it as a Diwali gift for the common people of India. In his speech, he also convinced common people that this would make tax compliance easier, reduce costs for businesses, and allow goods to move freely across States. The data of 2024–25 may take his notation one step ahead, with gross GST collections hitting a record ₹22.08 lakh crore, marking a year-on-year growth of 9.4%. This rise reflects the growing formalisation of the economy and improved tax compliance (Press Information Bureau, 2025). The Union Budget 2026-27 makes this vision a reality through the complementation of GST 2.0 with clarity in tax laws and reduction in compliance cost. Strategies like combined evaluation and penalty action, increased digital foundation and rationalised indirect tax regulation reinforce GST to facilitate convenience of doing commercials and transparency of prices. By improving transparency and efficiency, GST laid the foundation for a stronger and more integrated economy.

Figure 1: Key Takeaways in 2024-25

Key Takeaways
■ Gross GST Collection Hit ₹ **22.08 lakh crore** in 2024-25, up 9.4% from last year.
■ **85%** respondents in Deloitte survery had a positive GST experience.
■ Number of active GST Taxpayers rose to over **1.51 crore**.

Source: Press Information Bureau, 2025

"Until the National Appellate Authority (NAA) is constituted, the Government can authorise an existing authority or tribunal to hear appeals under Section 101B. This change takes effect from 1 April 2026 and ensures there is no gap in the appellate process."

The GST, enforced from July 1, 2017, is one of India's most significant tax reforms since independence. It consolidates a common national market by combining 13 cess and 17 Central and State taxes into a single unified and cohesively structured system (Government of India, 2017). Following eight years of steady evolution, the Next-Gen GST amendments were adopted at the 56th GST Council Meeting in 2025 with the goal of reducing the burden on middle-class individuals, households, farmers, and MSMEs.

Transitional Provision

GST Rates Change and ITC Provisions, Transitional Provisions

A. Determination of Applicable Tax rate (Billing Rule)

When a change in the rate of GST occurs (such as, on 22 September), the question arises as to which rate shall apply, old or new?

The solution would be the time-liking of three key events: *supply, invoice,* and *payment.*

Cases	Pre-22/09/2025 events	Post-22/09/2025 events	Rates applicable
Case 1	Supply	Invoice and Payment	New rate
Case 2	Supply and Invoice	Payment	Old rate
Case 3	Supply and Payment	Invoice	Old rate
Case 4	Invoice	Supply and Payment	New rate
Case 5	Invoice and Payment	Supply	Old rate
Case 6	Acceptance of Payment	Supply and Invoice	New rate

Interpretation:

In case where the invoice is issued and the payment is received following the revision in the rate, it is the new rate which applies.

When both the events occur before the change, the previous rate subsists.

Where the events are split across the rate revision, this rate is based on the last event (invoice/payment/supply).

Transitional rules, therefore, guarantee fairness and clarity in the process of transition between the old and the new tax rate.

B. Input Tax Credit (ITC) Transitional Treatment

In the event of the nature of the supply to be revised following the revised rate, the eligibility and treatment of ITC is regulated under **Section 18** of the CGST Act.

Case	Nature of Change	ITC Treatment
Case 1	Goods are not exempt to taxation	Keep on availing ITC normally
Case 2	Goods become exempted	ITC should be reversed according to Section 18(4)
Case 3	Goods have been zero-rated	ITC is not withdrawn; taxpayer can claim refund
Case 4	If the goods are transferred between zero-rated - exempted	There is no ITC and no refund is allowed

Interpretation:

Transitional ITC is used to protect the tax chain, and the credit benefits will be held or reclaimed in accordance with the taxability of supplies.

C. Essence of Transitional Provisions

As GST 2.0 seeks to consolidate multiple tax rates into two to three rates, it is very essential to have a transitional provision to ensure that the transition from GST 1.0 to GST 2.0 is very smooth and hassle-free.

Transitional compliance measures for the 2025 GST 2.0 include:

1. Continue claiming input tax credit (ITC) on supplies that shift from a higher GST rate to a lower rate as long as they remain taxable.
2. Reverse ITC on supplies that become exempt from GST post

the rate change, in proportion to the value of exempt supplies as per GST rules.

3. Businesses should regularly check their inventory and the GST input credits they have claimed, especially if new tax exemptions for certain sectors are announced.
4. Maintain complete documentation for rate transitions, eligible ITC and reconciliation.

D. The focus on Union Budget 2026-27 to eliminate multiplicity of proceedings and system-driven compliance is consistent with GST 2.0 transitional rule by reducing interpretational controversy in the process of rates migration.

GST: From Global to Local

GST was first introduced in France in 1954, and as of right now, over 160 nations have adopted it in various ways (OECD, 2020). There are two main categories of GST systems in the world. Countries like Singapore and Australia have a single GST system, whereas Canada and India follow dual systems i.e., involving both the federal and State Governments (Keen, 2013). Since e-way bills, e-invoicing, and online returns increase transparency,

> "Considering it in conjunction with the Union Budget 2026-27, GST 2.0 does not just appear as an indirect tax reform but a pillar of the next-generation fiscal system in India. Jointly, they are an indicator of a change towards revenue extraction into revenue facilitation based on simplicity, technology, and trust of the taxpayer."

India's GST stands out as one of the world's most digital and complex tax systems (The Economic Times, 2023).

The digital backbone continues to be enhanced by the Budget 2026-27 with AI-enabled risk analysis, integrated digital windows, and minimal human intervention supporting the role of GST as one of the most technology-focused consumption tax systems in the world.

2017: In 2017, the 'one nation, one tax' (GST) was implemented, replacing thirteen cesses and seventeen Central and State taxes.

2018-2024: E-way bills, e-invoicing, compliance modifications, and slab revisions are examples of incremental reforms that took place between 2018 and 2024.

2025: GST 2.0 was introduced (easier bills, more robust compliance, and simplified slabs).

2026: Union Budget 2026-27 & GST 2.0

Amendment of Sections 15 & 34 of the CGST Act: Businesses will no longer need a pre-existing agreement to claim GST benefits on post-sale discounts. As long as a credit note is issued under Section 34 and the recipient reverses the related ITC, the discount can be excluded from the taxable value.

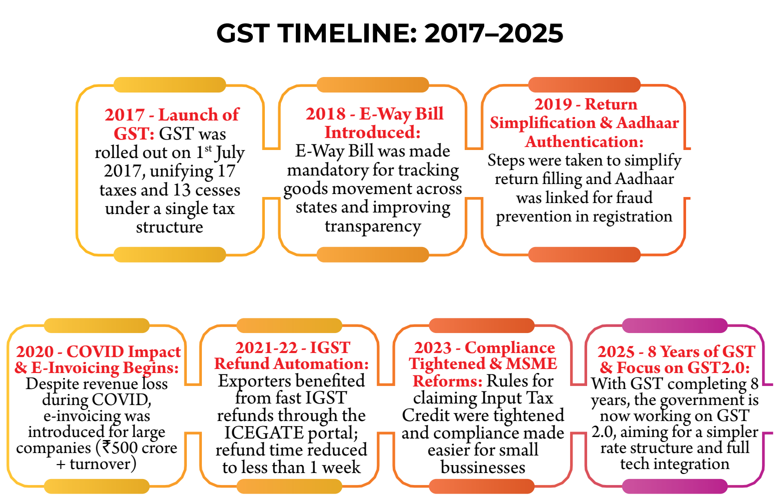
Amendment of Section 54(6) of the CGST Act: Taxpayers claiming refunds due to an inverted duty structure will now be eligible for provisional refunds, improving cash flow while the final refund is processed.

Amendment of Section 54(14) of the CGST Act: The minimum threshold for sanctioning refund claims is being removed for exports made with the payment of GST, allowing refunds to be processed regardless of the amount.

Amendment of Section 13 of the IGST Act: The special rule for intermediary services is being removed. So, the place of supply will be determined using the general rule (location of the recipient), which may reduce disputes and improve export clarity.

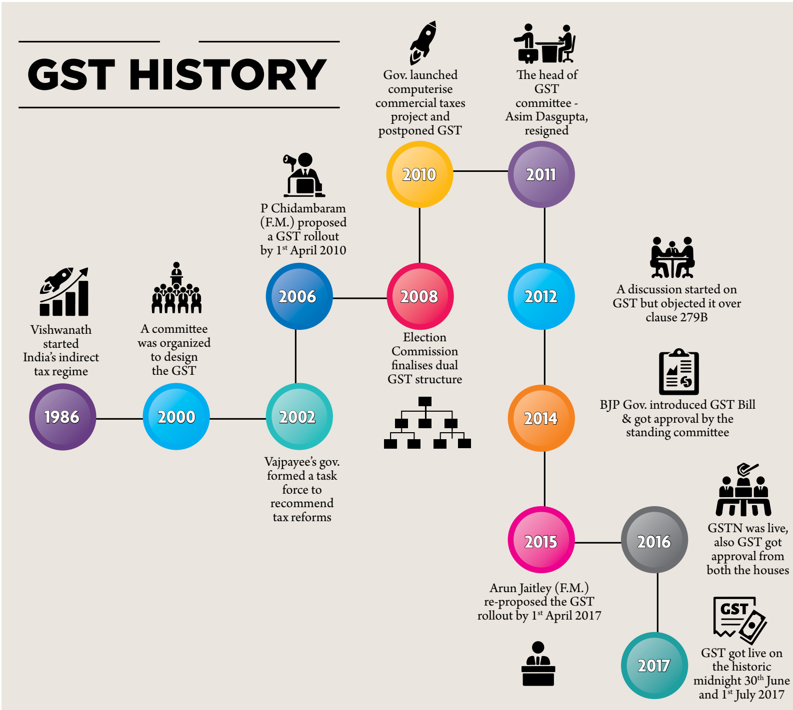
Insertion of Section 101A(1A): Until the National Appellate Authority (NAA) is constituted, the Government can authorise an existing authority or tribunal to hear appeals under Section 101B. This change takes effect from 1 April 2026 and ensures there is no gap in the appellate process.

Figure 2: GST Timelines: 2017-2025



Source: Insights IAS, 2025

Figure 3: GST History



Source: Gajendra Singh Godara, 2025

GST Journey: From Canada and India

The GST reforms that take effect after 2025 make the system clearer, more equitable, and simpler, which directly benefits the general public by lowering the cost of goods and services and minimising confusion on bills.

Dual GST System: Meaning and Perspective

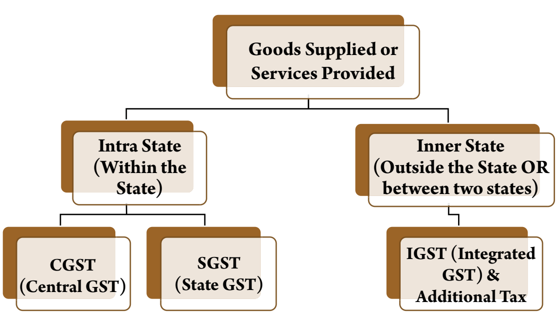
According to the Dual GST model, taxes are levied simultaneously by the Central Government and the State Government. The buyer must pay two parts of GST if the sale occurs within the same State: CGST (to the Centre) and SGST (to the State).

In the event of a sale between two states, an integrated GST (IGST) is assessed instead of separate CGST and SGST. After collecting the IGST, the Centre distributes the State's share to the State in which the products or services are ultimately utilized. To put it briefly, IGST is applied to transactions between States and CGST + SGST is applied to transactions within a State. In Canada, the GST is a consumption-based sales tax that is applied to the exchange of goods and services between individuals, businesses, and organizations. The basic tenet states that the customer is in charge of paying taxes, while the vendor collects them and submits them to the Government. For instance, after 6% GST is applied, a book purchased for $10 will cost $10.60.

Dual GST System in India, Before the Amendment of 2025

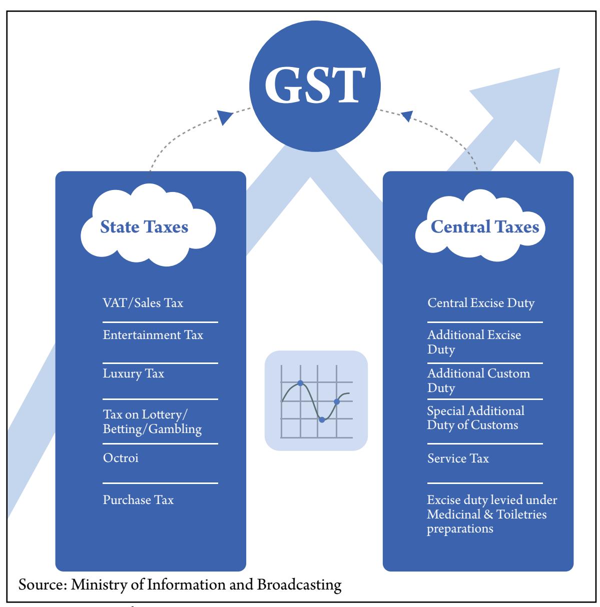
Before 2025, India's dual GST had multiple slabs and cess, causing confusion and compliance burdens, yet ensured Centre–State revenue sharing through CGST, SGST and IGST. Managing GST was challenging, particularly for small businesses and traders, due to classification disputes, compliance obstacles, and high administrative expenses. But with IGST applied to inter-State transactions and CGST and SGST applied to intra-State supplies, the dual GST model guaranteed that the Centre and States received a portion of the

Figure 4: Bifurcation of GST



Source: Insights IAS, 2022

Figure 5: Sales Taxes and Central Taxes



Source: Press Information Bureau, 2025

revenue. Although this framework was burdened by operational complexity, it reflected India's federal nature.

Post Amendment 2025

GST 2.0 simplified tax slabs to 5% and 18%, introduced a 40% levy on luxury goods, strengthened compliance through stricter invoicing, ISD registration, faster refunds, and retained the dual GST structure to improve transparency and ease of compliance.

The Price Clarity of GST 2.0 from the Price Puzzle of GST 1.0

GST 2.0 simplifies tax slabs to 5%, 18%, and 40%, improving transparency and reducing compliance costs. Beyond revenue, it positively impacts daily life by easing billing, lowering costs, and making taxation fairer for families, businesses, and farmers.

Professional Effect: Compliance Implementation to Strategic Advisory

GST 2.0 shifts from manual to system-driven and intelligent tax administration, which increases the professional environment of CAs and consultants. Smoother invoice acceptance and validation have become a more efficient method in the introduction of the Invoice Management System (IMS) that minimizes ITC disputes and contributes to the real-time invoice data transfer between suppliers and recipients.

Besides, Form ITC-03 streamlines the reversal of credit by taxpayers who switch to the Composition Scheme or those who have no other choice than to demand and recover. These actions have opened new professional frontiers in digital compliance architecture, transition auditing, credit optimization, and dispute mitigation and re-introduce tax practitioners as strategic business finance and governance advisors.

The Union Budget 2026-27 facilitates this shift professionally by incorporating assessment and penalty processes, and cutting down pre-deposit needs, and enhancing automated rule-based approvals. The changes decrease adversarial tax practice, and re-brand professionals as compliance architects, risk advisors and governance partners.

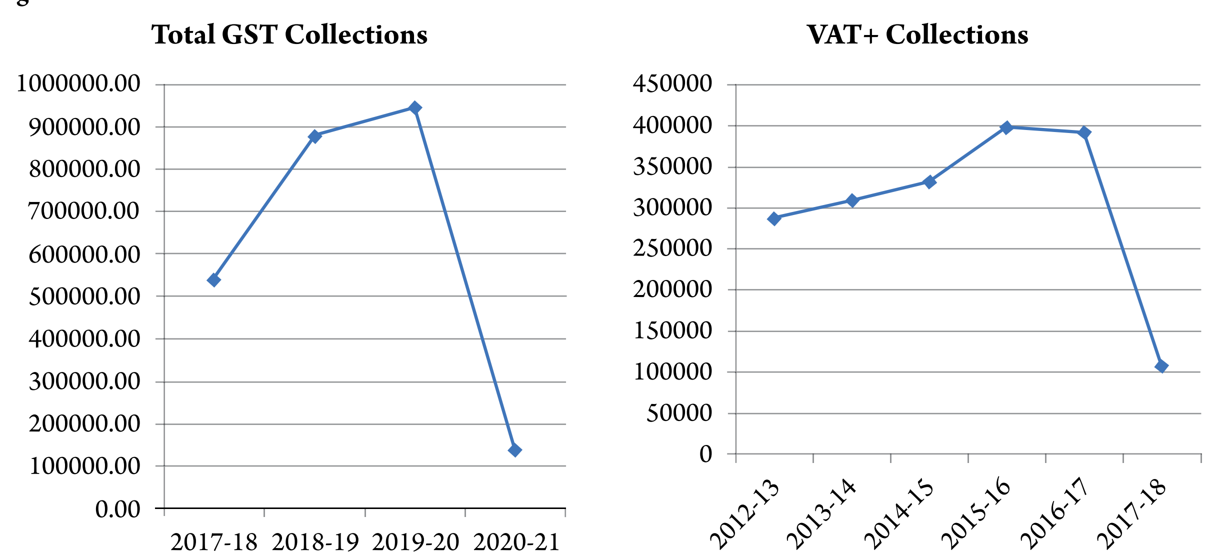
Post Amendment Effect on Common People, 2025

The 2025 amendment has made GST much easier to understand by reducing many slabs to a simpler rate structure, and it helps common people as well. It has increased tax administration efficiency, reduced disputes, and simplified compliance. While the simplified structure lowers friction and encourages uniformity throughout the country, the dual GST framework maintains India's federal character by guaranteeing that the Centre and States have separate revenue sources.

MSME Simplification in the Structure of Ease of Doing Business

GST reforms in 2025 have been beneficial, especially to MSMEs, in the effort of achieving the ease-of-doing-business goals in India. The composition limit has been raised to ₹ 1.5 crore and ₹ 50 lakh to suppliers of goods & services respectively (PIB, 2025). Further, QRMP scheme coupled with rapid refunds have also significantly lowered compliance expenses and enhanced liquidity among small taxpayers. These will help MSMEs to focus on productivity as opposed to procedure complexity.

Figure 6: Total GST Collection



Source: Arun Kumar Deshmukh, Ashutosh Mohan & Ishi Mohan, 2022

Budget 2026-27 supports GST 2.0 MSME relief with a ₹ 10,000 crore SME Growth Fund, simplified custom procedures and enhanced refunds, which offers a nearby indirect tax-credit-liquidity ecosystem to the small entrepreneurs.

A Farmer's Perspective

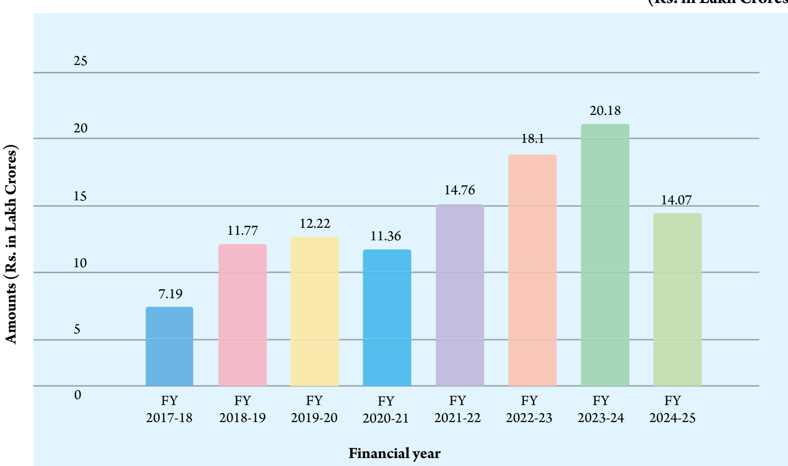
Before 2025, a rice farmer in Chhattisgarh had to deal with numerous tax layers and innumerable checkpoints when shipping his produce to Maharashtra. His earnings were reduced by transportation expenses, and his crop's prices dropped as a result of delays.

Following the implementation of GST 2.0, trucks transporting his produce now travel across borders more quickly due to fewer slabs and more seamless inter-State commerce. While consumers get better deals on fresher food, he makes more money from the same crop due to lower costs.

The Relief of Small Traders

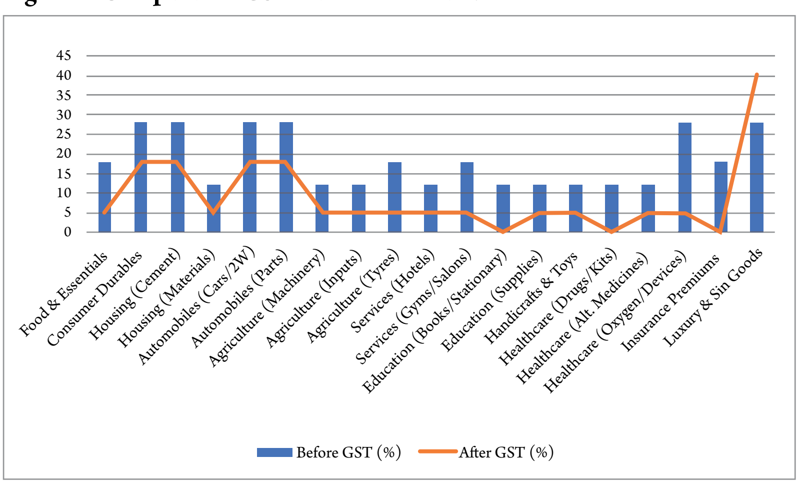
Before 2025, a local retailer had to contend with perplexing GST slabs requiring an accountant to file returns, which increased costs for small businesses. Following GST 2.0, he now files return digitally in minutes, with only two major slabs (5% and 18%). He can concentrate on managing his store rather than fumbling with tax codes, and compliance is simpler and requires less paperwork.

Figure 7: FY-wise GST Collection since Inception



Source: Annapoorna, 2024

Figure 8: Comparative GST Rates: Before and After Reform



Source: Author's Compilation

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The Budget of the Middle-Class Family

Before 2025, it was frequently difficult for middle-class families to determine how much tax they were actually paying because their grocery bills were padded with several tax rates i.e., 12% here, 18% there. After the implementation of GST 2.0, necessities like paneer, bicycles, and toothpaste are now subject to the 5% slab. Monthly household expenses are lower, and bills are easier to read. The family's budget has changed, and they can actually see it.

This is in line with the objective of the Union Budget 2026-27 to have a smaller tax burden on the common man with more transparency and compliance.

Conclusion

India, from its detailed multi-slab structured GST system in 2017 to its streamlined GST 2.0 of 2025, signifies a clear shift toward efficiency, fairness and transparency. 2025 reforms have greatly lessened the difficulties that the previous system presented, helps in achieving a balance between inclusivity and simplicity by maintaining the dual GST framework to maintain India's federal character through streamlining slabs, and bolstering compliance procedures. The overall transition to the GST 2.0 shows how the Indian tax regime is changing into a transparent, technology-driven, and inclusive regime. The transitional credit system protects fiscal equity, whereas digital reforms like IMS and Section 74A make it easier to comply. As per MSMEs, improved thresholds and simplified refunds will create ease in operations. For professionals, the amendments transform the practice from being less compliance-driven to more aligned with strategic financial stewardship, thereby strengthening the presence and purpose of GST as an anchor of India's formal economic growth story.

India's revised GST structure closely resembles global best practices like Canada and other developed economies. The general public will benefit from simpler bills, less misunderstanding, and the potential for lower prices giving consumers more purchasing power capacity and spending capacity, which will turn GST into more than just a tax reform. It will also serve as the cornerstone of a more unified and growth-oriented economy which will be more beneficial for the common citizens especially poor, middle class, youths and neo middle-class people. Considering it in conjunction with the Union Budget 2026-27, GST 2.0 does not just appear as an indirect tax reform but a pillar of the next-generation fiscal system in India. Jointly, they are an indicator of a change towards revenue extraction into revenue facilitation based on simplicity, technology, and trust of the taxpayer. This convergence boosts the federalism of India and encourages inclusive development and build GST as a fundamental pillar to the Indian economic system.

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