ARTICLE

India's GST 2.0: From Compliance Control to Trust-Based Digital Tax Governance for Viksit Bharat 2047

Nine years after its introduction, India's Goods and Services Tax has moved well beyond the stage of transition. It is now the country's principal indirect tax architecture and a live governance system for invoices, credit, movement of goods, refunds, audits and disputes. The next phase of reform, however, cannot be measured only by higher collections or wider digital control. GST 2.0 must be judged by a more practical standard: whether an honest taxpayer can comply with confidence, whether technology reduces avoidable disputes, whether MSMEs can formalise without disproportionate cost, and whether enforcement is sharp enough to target fraud without treating every mismatch as guilt. This article discusses for a trust-based model of digital tax governance, built on e-invoicing, e-way bill integration, responsible AI, input tax credit certainty, classification discipline, MSME facilitation, measured use of cesses and a mature GSTAT-led dispute resolution framework. The objective is not a softer GST, but a fairer, clearer and more future-ready GST aligned with Viksit Bharat 2047.

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INTRODUCTION

GST AT NINE: A REFORM READY FOR ITS SECOND DESIGN

GST was introduced on 1 July 2017 with a large institutional promise: a common national market, removal of cascading taxes and a harmonised tax on supply. That promise was never merely about replacing old laws. It was about changing the way Indian business records, reports and proves indirect tax compliance. Nine years later, GST is no longer a new regime searching for acceptance. It is the everyday tax language of invoices, contracts, supply chains and working capital.

This makes the July 2026 moment important. The first phase of GST was necessarily concerned with migration, registration, return formats, transitional credits, rate entries and technology stabilisation. The second phase must ask a different question: how should a mature GST system behave? In my view, GST 2.0 must be less about adding another layer of control and more about improving the quality of control. A tax system is not mature merely because it collects more. It is mature when it collects revenue with predictable rules, proportionate enforcement and credible remedies.

For businesses, GST is not an isolated levy. It affects pricing, vendor selection, contract drafting, refund cycles, credit lines, ERP design and litigation risk. For the administration, it is a revenue and data system. For the economy, it is a competitiveness tool. The next design of GST should therefore balance these three perspectives: the State's legitimate interest in revenue, the taxpayer's right to certainty, and the economy's need for low-friction formalisation.

FROM RETURN FILING TO DIGITAL TAX GOVERNANCE

The early years of GST were return-centric. A taxpayer was expected to report outward supplies, discharge liability, claim credit and reconcile data. Gradually, the system has moved into a data-driven governance model. E-invoicing, e-way bills, auto-populated returns, GSTR-2B, risk-based scrutiny and analytics now allow the department to compare invoice data, movement data, payment behaviour, registration profile and counterparty risk.

This is a powerful development, and it has helped the administration to identify fake invoicing, circular trading and abnormal credit chains. But the strength of a digital system is also its risk. A portal mismatch, by itself, is not proof of fraud. A delayed invoice upload is not automatically suppression. A supplier's default does not always mean recipient collusion. The system may indicate risk; it cannot, without evidence and legal reasoning, determine liability.

GST 2.0 should therefore adopt a simple discipline: technology may select the case, but law must decide the case. Notices should not be a printout of differences. They should state the transaction, the provision invoked, the evidence relied upon, the computation of demand and the precise allegation. That single change would humanise digital enforcement and reduce unnecessary disputes.

This is also where the experience of practitioners becomes relevant. In many matters, the first contest is not about a complex point of law; it is about understanding why the system has produced a difference and whether the taxpayer has been given enough particulars to answer it. If the notice itself is clearer, a significant portion of avoidable litigation can be resolved at the reply or adjudication stage. GST 2.0 should therefore invest as much in the quality of communication as it does in the quality of analytics.

E-INVOICING AND E-WAY BILLS: INTEGRATION WITHOUT PROCEDURAL TRAPS

E-invoicing is among the most significant reforms within GST. Its expansion to taxpayers with aggregate turnover of Rs. 5 crore and above from 1 August 2023 brought a larger segment of organised and mid-sized businesses into authenticated invoice-level reporting. The policy logic is sound: if invoice data is captured closer to the point of supply, return data becomes cleaner and manipulation becomes more difficult.

The next natural step is deeper integration between e-invoicing and e-way bills. Commercially, an invoice records the supply and an e-way bill records the movement. Administratively, both are part of the same compliance story. A taxpayer should not be required to repeatedly feed the same data into different systems. Once an e-invoice is generated, relevant particulars should flow into the e-way bill system, GSTR-1 and recipient-facing credit statements, subject to necessary validations.

The caution is equally important. Integration should not become a trap for honest businesses. Vehicle changes, clerical errors, system downtime, cancellation and reissue of invoices, transporter-level mistakes and practical supply-chain changes are common commercial realities. GST 2.0 should build a correction-first pathway for low-risk errors and reserve strict consequences for deliberate abuse. The design principle should be seamless compliance, not perfect paperwork at the cost of business reality.

AI-ASSISTED INVOICE MATCHING: INTELLIGENCE MUST REMAIN ACCOUNTABLE

Artificial intelligence can add real value to GST administration. It can identify unusual invoice patterns, compare margins with sectoral behaviour, flag high-risk registrations, detect circular movement and prioritise audit cases. For taxpayers, AI can also be useful in reconciliations, credit checks, document review and early warning systems. Used properly, it can reduce disputes before they mature into notices.

The legal concern is not the use of AI; it is opacity. A taxpayer cannot meaningfully answer an allegation if the basis of the allegation is hidden inside an undisclosed model. Natural justice still requires the taxpayer to know the case to be met. If the department relies on invoice mismatch, chain analysis, third-party information or behavioural risk indicators, the taxpayer-specific material must be disclosed in a usable form.

GST 2.0 should therefore prefer AI-assisted scrutiny over algorithmic adjudication. AI may help to identify the file, but the officer must independently examine documents, apply the statute and deal with the taxpayer's reply. No demand, credit restriction, registration cancellation or penalty should stand merely because the system flagged the transaction. Technology should make adjudication better reasoned; it should not make it less accountable.

INPUT TAX CREDIT CERTAINTY: PROTECTING THE VALUE-ADDED CHARACTER OF GST

Input tax credit is the operating heart of GST. Without reliable credit, GST begins to resemble a cascading tax in substance, even if the statute describes it as a value-added tax. Businesses price contracts and manage working capital on the assumption that eligible tax paid in the chain will flow as credit. When that assumption becomes uncertain, the cost is not only legal; it is commercial.

The last nine years have produced a wide range of ITC disputes: supplier default, mismatch between returns, blocked credits, cancelled registrations, construction-related restrictions, delayed filings and evidentiary burdens on recipients. The Supreme Court's decision in Safari Retreats has again shown how commercially significant credit interpretation can be, especially where statutory restrictions interact with business use of immovable property and output supplies.

GST 2.0 should develop a more balanced ITC certainty framework. A bona fide recipient who has received goods or services, paid consideration and tax to the supplier, and maintained reasonable documentation should not be treated as an insurer of the entire supply chain. Where there is collusion, knowledge or lack of diligence, denial may be justified. But mechanical denial on account of another person's default weakens the very character of GST as a credit-based tax.

CLASSIFICATION: THE QUIET ENGINE OF LITIGATION

Classification disputes rarely attract public attention, but they are among the most persistent sources of GST litigation. Disputes continue around composite supplies, mixed supplies, food products, software, online services, works contracts, vouchers, renewable energy contracts, hospitality models, intermediary services and bundled commercial arrangements. In many cases, the dispute is not about tax avoidance; it is about fitting modern business models into rate entries that were not drafted with those models in mind.

Rate rationalisation would help, but it is not the only answer. India needs an official classification certainty mechanism. A national digital compendium could consolidate rate entries, HSN/SAC references, circulars, advance ruling trends and important judicial decisions. If a taxpayer can see the official position clearly before issuing invoices, disputes will reduce at the source.

The advance ruling mechanism also needs greater consistency. Divergent rulings on similar facts create uncertainty, particularly for businesses operating across States. GST 2.0 should treat repeated classification disputes as a policy signal. When the same issue repeatedly reaches officers, appellate authorities and courts, the correct response should be clarification, not endless litigation.

MSMEs: FORMALISATION MUST NOT BECOME FATIGUE

MSMEs are central to GST's success. GST has helped many small businesses to enter formal supply chains, create digital records and access larger customers. Yet the compliance burden is not felt equally. A large corporation may have tax teams, ERP systems and external advisors. A small trader or service provider may depend on one accountant, one consultant and a portal that must work when the return is due.

This difference should guide reform. GST 2.0 must distinguish a small taxpayer from a risky taxpayer. Size by itself is not a risk factor. Compliance history, transaction pattern, nature of suppliers, frequency of amendments and evidence of intent should matter more than turnover alone. Formalisation will deepen only if honest small businesses feel that the system is understandable and correctable.

A practical MSME package can include simplified annual reconciliation for low-risk taxpayers, clearer notices in plain language, longer correction windows for non-fraud errors, faster refunds, sector-wise helpdesks, vernacular guidance and safe harbour for minor procedural mistakes. The test is simple: can an honest small business comply without fear and without disproportionate professional cost? If yes, GST becomes a growth enabler. If not, formalisation becomes fatigue.

> India's Viksit Bharat 2047 vision requires a tax system that supports manufacturing, services, exports, digital commerce, domestic consumption and investor confidence. GST touches each of these. It determines supply-chain efficiency, working-capital cost, pricing, documentation standards and the ease with which a business can scale across States.

ANTI-PROFITEERING SUNSET: FROM PRICE POLICING TO PRICE TRANSPARENCY

Anti-profiteering was introduced to ensure that the benefit of rate reduction or input tax credit was passed to consumers. The objective was understandable in the early years of GST, when rate changes were frequent and consumer trust was important. Over time, however, implementation raised difficult questions: the correct base period, product-level computation, inflation, inventory cycles, discounts and the difference between tax benefit retention and ordinary business pricing.

The sunset of anti-profiteering rules should be used as a policy transition, not as a retreat from consumer protection. Future rate reductions should be accompanied by prospective guidance on pass-through, documentation and reasonable price behaviour. Businesses should maintain internal workings where major rate changes occur, but enforcement should focus only on cases where there is clear evidence of unjust enrichment.

A mature GST system should prefer price transparency over retrospective price policing. It should recognise that pricing is affected by tax, input cost, demand, logistics, credit terms and competition. A predictable framework will protect consumers without converting every pricing decision into a tax controversy.

PERIPHERAL CESSES AND THE INTEGRITY OF THE GST BASE

The discussion around health and national security-oriented cesses shows that GST's simplicity can be tested by wider fiscal and social objectives. Cesses on demerit goods may be justified where the purpose is clear, the coverage is limited and the levy is linked to public health or national security considerations. Budget materials for 2026-27 refer to the Health Security and National Security Cess under the 2025 legislation on pan masala and other notified goods.

The caution is that excessive use of peripheral levies can dilute the simplicity of GST and create parallel compliance. The more such levies stand outside the normal credit chain, the more they affect pricing and predictability. Therefore, any such cess should be narrowly drafted, transparently justified and periodically reviewed.

GST 2.0 should protect the integrity of the GST base while allowing exceptional levies only for exceptional reasons. The discipline should be limited coverage, clear purpose, measurable outcome and sunset review.

GSTAT AND LITIGATION DISCIPLINE: THE INSTITUTIONAL TEST

No tax system can avoid disputes completely. A mature system resolves them consistently, quickly and fairly. GST litigation over the past nine years has covered ITC, classification, valuation, refunds, cancellation of registration, natural justice, summons, arrest, limitation, transitional credit and constitutional issues. The long absence of a fully functional second appellate forum pushed many disputes toward High Courts and prolonged uncertainty.

The formal launch and operationalisation of the GST Appellate Tribunal is therefore an important institutional moment. The GSTAT e-Courts portal and the staggered filing window for backlog appeals up to 30 June 2026 are practical steps toward building an appellate infrastructure. A specialised tribunal can improve consistency and predictability, provided it is adequately staffed, digitally efficient and disciplined in its reasoning.

GSTAT, however, cannot alone cure litigation culture. The quality of show cause notices and adjudication orders must improve. A notice should contain facts, law, evidence and computation. An order should deal with the taxpayer's reply, not merely reproduce the notice. Recovery should remain proportionate where statutory remedies are available. Most importantly, repeated disputes on the same issue should trigger policy clarification. A litigation feedback loop is essential for a mature GST system.

The tribunal should also develop a distinctly GST-sensitive jurisprudence. GST disputes often involve real-time commerce, reconciliations, movement documents and electronic trails. A tribunal that understands both the statute and the practical architecture of GST can produce decisions that are not only legally correct but commercially usable. That will be essential if GSTAT is to become more than an appellate destination and instead become a stabilising institution for the GST ecosystem.

GST 2.0 AND VIKSIT BHARAT 2047

India's Viksit Bharat 2047 vision requires a tax system that supports manufacturing, services, exports, digital commerce, domestic consumption and investor confidence. GST touches each of these. It determines supply-chain efficiency, working-capital cost, pricing, documentation standards and the ease with which a business can scale across States.

A credible GST 2.0 roadmap should rest on five pillars. First, the rate structure should be simpler and economically rational. Second, ITC should be protected as the central design feature of GST. Third, technology should reduce duplication: data submitted once should flow across systems. Fourth, adjudication should be reasoned and accountable. Fifth, MSME compliance should be proportionate to risk and capacity.

These reforms are not concessions to taxpayers. They are investments in compliance quality. When the law is clear, taxpayers comply better. When notices are reasoned, disputes narrow. When credit is predictable, supply chains become efficient. When MSMEs are supported, formalisation deepens. When tribunals decide consistently, markets receive legal certainty. That is the real economic value of GST 2.0.

CONCLUSION: FIRM, FAIR AND FUTURE-READY

GST at nine stands at an important threshold. It has achieved scale, demonstrated revenue capacity and created a national indirect tax framework. The next phase must be judged by a higher standard: whether the system becomes simpler for honest taxpayers, sharper against genuine evasion and fairer in dispute resolution.

The most successful version of GST 2.0 will not be a soft tax regime. It will be a smarter tax regime. It will use AI and analytics without sacrificing natural justice. It will integrate e-invoicing and e-way bills without multiplying procedural traps. It will protect input tax credit while targeting fraud. It will treat MSMEs as partners in formalisation, not as compliance outliers. It will use GSTAT to build jurisprudential discipline, not merely reduce backlog.

If this balance is achieved, GST will move beyond being a revenue law. It will become a governance platform for India's next stage of development. That is the opportunity in GST and indirect taxes as India moves toward Viksit Bharat 2047.

PRACTICAL REFORM MATRIX FOR GST 2.0

The following matrix captures the institutional direction proposed in this article:

Area	Issue	Risk in Present Framework	GST 2.0 Reform Direction
Technology	E-invoicing, e-way bills and analytics	Duplicate entry; mechanical mismatches	One-data-entry principle; taxpayer-facing error reports; correction-first model for low-risk errors
AI and risk profiling	Invoice matching, fraud detection and audit selection	Opaque risk scores; algorithmic notices	AI-assisted scrutiny with disclosure of taxpayer-specific material and human adjudication
Input tax credit	Credit eligibility and recipient diligence	Credit denial despite bona fide documentation	Evidence-based denial; collusion, knowledge or lack of diligence standard for recipient exposure
MSMEs	Compliance burden and notices	Formalisation fatigue and professional cost	Simplified reconciliation, plain-language notices, safe harbour and faster refunds
Classification	Rate entries, composite supplies and sector disputes	Inconsistent rulings and scattered guidance	National classification compendium; timely clarifications; effective national appellate mechanism
Dispute resolution	GSTAT, adjudication and recovery	Backlog, template notices and uneven reasoning	Digitally efficient GSTAT; better SCNs; reasoned orders; litigation feedback loop

REFERENCES:

i. *Central Goods and Services Tax Act, 2017; Integrated Goods and Services Tax Act, 2017; and Central Goods and Services Tax Rules, 2017.*

ii. *Chief Commissioner of CGST & Ors. v. Safari Retreats Private Limited & Ors., Civil Appeal No. 2948 of 2023, Supreme Court of India, judgment dated 3 October 2024.*

iii. *GST Council, recommendations of the 56th Meeting, September 2025, including GSTAT operationalisation and backlog appeal timelines.*

iv. *GST e-Invoice System advisory dated 27 March 2025 on 30-day reporting restriction for taxpayers with AATO of Rs. 10 crore and above from 1 April 2025.*

v. *India Budget 2026-27, Receipt Budget, reference to Health Security and National Security Cess under the 2025 legislation.*

vi. *Notification No. 10/2023-Central Tax dated 10 May 2023, appointing 1 August 2023 for e-invoicing applicability to registered persons with aggregate turnover exceeding Rs. 5 crores, subject to exclusions.*

vii. *Official GST revenue data for April 2026 published through GST portal/Government materials, recording gross GST revenue of approximately Rs. 2.43 lakh crore for April 2026.*

viii. *Press Information Bureau, Ministry of Finance, release dated 24 September 2025 on launch of GST Appellate Tribunal and GSTAT e-Courts portal.*