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Constitutional Implications of the Goods and Services Tax (GST): An Analysis of Federalism and Fiscal Autonomy

SATHIYA S*

ABSTRACT

The Goods and Services Tax (GST), enacted under the Constitution (One Hundred and First Amendment) Act, 2016, is the biggest indirect tax reform in India since independence. It replaced various central and state-level levies with a single tax structure, but this reform gave rise to grave constitutional issues. The primary debate is whether GST strengthens or weakens the federal structure of India. India operates a form of cooperative federalism in which powers are shared between the Union and the States. Under Article 246 and the Seventh Schedule, the Constitution allocates taxation authority between the Union and the States with great care, and the introduction of GST has significantly affected this distinction. The newly inserted Article 246A now provides concurrent power for both the Union and the States to levy GST. While this appears to be a move towards cooperative federalism through the GST Council under Article 279A, it raises severe issues regarding the budgetary autonomy of the States. This paper investigates the impact of the constitutional architecture of the Goods and Services Tax on fiscal federalism in India. It examines the relevant constitutional provisions, the role of the GST Council, the loss of State autonomy over indirect taxation, the compensation mechanism, the Supreme Court's landmark judgment in Union of India v. Mohit Minerals Pvt. Ltd. (2022), and whether the current framework truly respects the spirit of Indian federalism. This paper argues that, while GST is an economic achievement in creating a single national market, it inherently sacrifices State fiscal authority and necessitates a more balanced constitutional framework.

Keywords: GST, Federalism, Fiscal Autonomy, Article 246A, Article 279A, GST Council, Cooperative Federalism, Seventh Schedule, Finance Commission, State Fiscal Powers, Constitutional Amendment, Indirect Taxation, Basic Structure Doctrine, India.

I. INTRODUCTION

India is a Union of States. This is not only a political remark; it is a constitutional fact. The Constitution of India, which came into force in 1950, provided for a federal system in which

* Author is an LL.M. student at School of Excellence in Law, The Tamil Nadu Dr. Ambedkar Law University, Chennai, Tamil Nadu, India.

powers were divided between the Union Government and the State Governments. The power to tax is the most significant of all powers, for governments cannot operate without tax revenue. Through Article 246 and the Seventh Schedule, the Constitution carefully divided taxing powers between the Union and the States.

For more than sixty years after independence, the Union and the States collected their own taxes separately. The Union collected central excise duty, service tax, and customs duty, while the States collected Value Added Tax (VAT), entry tax, octroi, amusement tax, and many others. This system was a complication: a single article moving from one State to another was taxed multiple times at different rates. This produced what economists called the cascading effect, namely a tax on already-taxed value, which increased prices and distorted the market.

GST was the answer. The Goods and Services Tax was legally established on 1 July 2017 following the passing of the Constitution (One Hundred and First Amendment) Act, 2016 by Parliament.¹ This amendment modified Articles 246, 268, 269, and 270 and inserted Articles 246A and 279A into the Constitution. This was a major move from a legal and constitutional point of view. The States relinquished their exclusive ability to tax the sale of goods; in return, they were given concurrent power to impose GST alongside the Union. This shared tax sphere was governed by a new constitutional authority, the GST Council.

This study addresses the constitutional consequences of this legislation. It asks: has GST strengthened Indian federalism or harmed it? Has the budgetary autonomy of the States been preserved or diminished? What does the Constitution say, and how have the courts responded? These are not merely scholarly questions. They determine the division of funds between the Union and the States, affecting citizens' access to services and which level of government provides them.

II. RESEARCH METHODOLOGY

This study uses the method of doctrinal legal research, based on primary and secondary sources of law. The major primary sources are the Constitution of India, constitutional amendment acts, central and state GST legislation, Supreme Court and High Court judgments, Finance Commission reports, and GST Council minutes. Constitutional law and federalism texts, peer-reviewed studies published in journals, government committee reports, and scholarly opinion constitute the secondary sources.

¹The Constitution (One Hundred and First Amendment) Act, 2016, Gazette of India, Extraordinary, pt. II, sec. 1, No. 53 (Sept. 8, 2016).

The doctrinal method entails reading and studying legal texts, interpreting constitutional provisions, and understanding how courts have interpreted them over time. This paper is also comparative in nature, deriving lessons from the federal tax systems of Australia, Canada, Germany, and the United States in order to understand how other federal constitutions have addressed the problem of unified indirect taxation and State fiscal autonomy.

III. CONSTITUTIONAL FRAMEWORK OF INDIAN FEDERALISM

A. The Federal Nature of the Indian Constitution

The term “federal” does not appear anywhere in the Indian Constitution, but the Supreme Court has often reaffirmed that federalism is a key component of it.² In *S.R. Bommai v. Union of India*, a nine-judge bench of the Supreme Court declared that federalism is a basic structure of the Constitution that cannot be eliminated even by a constitutional amendment.³ The Court held that the States are not mere agents of the Union; they have an autonomous constitutional existence and power.

Federalism is a method of partitioning powers so that the general and regional governments are each, within a sphere, coordinate and independent.⁴ Professor K.C. Wheare dubbed India a “quasi-federal” state because of its centralising tendencies. The Indian Supreme Court has gone further, however, holding that India has its own distinct model of cooperative federalism. As Professor Karthik Shiva observes, federalism in India is a blend of the ideas of “shared rule” and “self-rule,” both of which must be preserved for the system to work constitutionally.⁵

A significant issue for Indian federalism, extensively discussed in constitutional law scholarship, has been the vertical fiscal imbalance: the condition whereby the Union has a greater power to raise revenue than the States, while the States carry more expenditure responsibilities. The GST reform directly engages this discrepancy. The question examined in this study is whether it has made the situation better or worse for the States.

B. Distribution of Taxing Powers: Article 246 and the Seventh Schedule

Article 246 read with the Seventh Schedule is the core of the Indian federal framework.⁶ Article 246(1) provides that Parliament shall have exclusive power to make laws with respect to any of the matters enumerated in List I (the Union List). The State Legislature is empowered under

²*Minerva Mills Ltd. v. Union of India*, (1980) 3 S.C.C. 625; *Waman Rao v. Union of India*, (1981) 2 S.C.C. 362.

³*S.R. Bommai v. Union of India*, (1994) 3 S.C.C. 1.

⁴K.C. WHEARE, *FEDERAL GOVERNMENT* 10 (4th ed. 1963).

⁵Karthik Shiva, *New Challenges in Constitutional Law: An Introduction*, Essentials of Federal Comity, slide 6 (Tamil Nadu Dr. Ambedkar Law Univ. 2024) (unpublished lecture slides).

⁶INDIA CONST. art. 246.

Article 246(3) in respect of List II (the State List), and both may make law on List III (the Concurrent List). Tax entries were clearly split between the lists.

Before GST, Entry 83 of the Union List gave Parliament the power to charge customs duty, Entry 84 conferred control over central excise duties, and Entry 92C (inserted in 2003) empowered Parliament to charge service tax. On the other hand, Entry 54 of the State List conferred on State Legislatures the exclusive jurisdiction to collect taxes on the sale and purchase of goods within the State, Entry 55 empowered States to tax advertisements, and Entry 60 gave States control over taxes on professions.⁷

This split plainly safeguarded the fiscal sovereignty of the States. States such as Tamil Nadu, Maharashtra, and Karnataka extensively relied on Entry 54 to raise substantial revenue for development and welfare spending. The GST reform, however, substantially altered this constitutional framework by amalgamating two separately protected spheres into a shared one.

C. The Finance Commission and Fiscal Federalism

The Finance Commission is constituted under Article 280 of the Constitution by the President every five years.⁸ Its constitutional obligation is to recommend the distribution of tax revenue between the Union and the States, and it is the principal constitutional device for correcting the vertical budgetary imbalance. Its proposals are tabled in Parliament and carry constitutional weight.

The Fifteenth Finance Commission (2021-26) recommended 41% of the divisible pool of central taxes for the States. The States have contended that this portion is inadequate, as their own tax base has largely been merged into GST and they can no longer fix the rates of items sold in their territory. The Finance Commission now operates within a fiscal architecture that has been redefined by GST, and this poses significant issues for the old system of fiscal equalisation between States.

IV. A STUDY OF THE CONSTITUTIONAL SETUP OF GST

A. The Constitution (One Hundred and First Amendment) Act, 2016

The constitutional route for GST was laid by the Constitution (One Hundred and First Amendment) Act, 2016, which makes several key structural modifications to the Constitution. First, it added Article 246A, which confers concurrent power on Parliament and the State

⁷INDIA CONST. sch. 7, Lists I, II & III (as in force before the Constitution (One Hundred and First Amendment) Act, 2016).

⁸INDIA CONST. art. 280.

Legislatures to make laws on goods and services tax, generating a kind of constitutional power that had not existed before.⁹

Second, it inserted Article 269A for the imposition and collection of GST in the course of inter-State trade or commerce. Under Article 269A, the Integrated GST (IGST) on inter-State supply of goods and services is levied and collected by the Government of India but distributed between the Union and the States in the manner prescribed by Parliament on the recommendation of the GST Council.¹⁰

Third, it inserted Article 279A, which created the GST Council as a constitutional entity. The Council comprises the Union Finance Minister as Chairman, the Union Minister of State for Finance, and the Finance Minister (or any other Minister nominated by each State).¹¹ The Council provides guidance on tax rates, exemptions, threshold limits, principles of dispute resolution, and all other matters relevant to GST.

Fourth, the amendment eliminated and amended various entries in the Seventh Schedule. Entry 54 of the State List (taxes on the sale of goods) was curtailed, and Entry 55 (taxes on advertisements) and Entry 62 (taxes on luxuries) were removed from the State List altogether.¹² These taxing powers were permanently ceded by the States as the price of being part of the unified GST system.

B. Article 246A: Concurrent Power and Constitutional Significance

Article 246A provides: “Notwithstanding anything contained in Articles 246 and 254, Parliament, and, subject to clause (2), the Legislature of every State, shall have power to make laws with respect to goods and services tax imposed by the Union or by such State.” This is a non-obstante clause that overrides the customary Article 246 division of powers and Article 254, which addresses repugnancy between Union and State laws in the Concurrent List.

In effect, both the Union and the States may legislate on GST. But the substance of that legislation, namely the rates, the exemptions, and the taxable categories, is not set by each legislature independently; it is shaped by the GST Council under Article 279A. This is the basic constitutional tension: while the States have the nominal competence to act on GST, the substantive content of their legislation is shaped by a body in which the Union enjoys a structural advantage.

⁹The Constitution (One Hundred and First Amendment) Act, 2016, § 2 (inserting art. 246A) (India).

¹⁰*Id.* § 9 (inserting art. 269A).

¹¹INDIA CONST. art. 279A(2).

¹²The Constitution (One Hundred and First Amendment) Act, 2016, § 17 (amending the Seventh Schedule) (India).

The Supreme Court faced this tension squarely in *Union of India v. Mohit Minerals Pvt. Ltd.* (2022).¹³ In that judgment, the three-judge Bench held that the recommendations of the GST Council are not binding on either the Union or the States, both of which have independent legislative power over GST. The Court construed the word “recommend” in Article 279A in its natural sense, namely to counsel rather than to compel. This interpretation is constitutionally important because it guarantees State legislative sovereignty within the new GST regime.

C. The GST Council under Article 279A: Cooperative Federalism or Structural Centralisation?

The GST Council is often cited as the best example of cooperative federalism in independent India, bringing together the Union and all the States to decide collectively on tax policy. Under Article 279A(9), the voting arrangement gives one-third of the weight to the Union and two-thirds to the States, and three-fourths of the total votes cast constitute a decision.¹⁴

On the surface this appears democratic. In practice, however, the Union can block any move on its own, because reaching three-fourths without the Union’s vote is almost impossible; the Union thus has an effective veto. Moreover, all States have the same vote regardless of population or economic weight: Tamil Nadu, with roughly 77 million people, has the same vote as Mizoram, with about 1.2 million. This does not reflect economic or demographic reality.

As Professor Karthik Shiva points out, discussion and collaboration through bodies such as the GST Council are an important part of federal comity.¹⁵ But for federal comity to be real, the partnership must be legally equal, not structurally weighted towards one level of government. The present arrangement of the GST Council raises the fundamental question whether the States enjoy genuinely equal participation or whether they are merely technically present while the substantive choices are effectively driven by the Union Government.

V. THE FISCAL AUTONOMY OF THE STATES: CONSTITUTIONAL RAMIFICATIONS

A. The Meaning and Importance of Fiscal Autonomy

Fiscal autonomy means that a government can decide for itself how to raise revenue and how to spend it. Fiscal sovereignty at the State level is vital in a federal system, for without it the States become financially dependent on the Union, which defeats the purpose of genuine

¹³Union of India v. Mohit Minerals Pvt. Ltd., 2022 SCC OnLine SC 657 (India) (three-judge Bench).

¹⁴INDIA CONST. art. 279A(9).

¹⁵Karthik Shiva, *supra* note 5, Essentials of Federal Comity, pt. 2.

federalism. The constitutional literature stresses the need for specific protection of revenue sources for each level of government in order to guarantee financial autonomy.¹⁶

The power to tax is, in a real sense, the power to govern. A State that cannot determine its own tax rates has lost a key tool of self-governance, which is why the loss of State taxing power under GST is a fundamental constitutional concern. Before GST, the States could raise or lower VAT rates to respond to local economic conditions and could provide tax incentives for investment; they had real fiscal space. After GST, all these choices are routed through the GST Council, where the Union enjoys structural advantages.

B. Subsumed State Taxes and Loss of Revenue Sovereignty

Before GST, the States levied their own taxes, including State VAT, Central Sales Tax, entry tax, octroi, entertainment tax, luxury tax, and taxes on lotteries. All of these were brought under GST, and the States lost these revenue sources permanently. They now receive SGST (State GST) for transactions within their territory and a share of IGST for inter-State transactions, but they cannot change the rates without the recommendation of the GST Council.¹⁷

The impact was most severe in manufacturing States, which produce more goods than they consume. Tamil Nadu, Maharashtra, Gujarat, and Karnataka are clear examples. Under the old VAT system these States earned substantial revenue as production points, but they lost a large part of that revenue base under GST, which is a destination-based tax, so that revenue flows to where goods are consumed rather than where they are produced.

C. The Compensation Mechanism and Its Constitutional Fragility

To compensate for the revenue loss, Parliament enacted the Goods and Services Tax (Compensation to States) Act, 2017. This provided for reimbursement to the States for any shortfall in revenue below a compound annual growth rate of 14% on their protected base-year revenue of 2015-16, for a period of five years (2017-2022).¹⁸

During the COVID-19 pandemic years, receipts from the GST compensation cess fell far short of the amounts due to the States. The Union declined to make up the difference from its own Consolidated Fund, instead lending to the States in successive tranches, which meant that the

¹⁶Karthik Shiva, *supra* note 5, Features of Federalism, pt. (f).

¹⁷M. Govinda Rao & R. Kavita Rao, *Expanding the Base of GST: The Policy Options*, 53(40) ECON. & POL. WKLY. 36 (2018).

¹⁸The Goods and Services Tax (Compensation to States) Act, 2017, No. 15, Acts of Parliament, 2017 (India), § 7.

States had to borrow to make up for revenue loss caused by a constitutional reform sponsored and championed by the Union.¹⁹

That controversy revealed the constitutional fragility of the compensation process. The compensation was a legislative commitment contained in an ordinary Act of Parliament, not a constitutionally entrenched right, and the Union proved able to minimise its obligations as soon as they became inconvenient. Several States, including Kerala, West Bengal, Chhattisgarh, and Tamil Nadu, raised public objections. The episode demonstrates that the States entered GST on the promise of being made financially whole, but the constitutional architecture failed to provide them adequate protection when conditions worsened.

D. The Basic Structure Doctrine: Article 368 and Fiscal Federalism

The constitutional change that provided for GST was passed under Article 368(2), which requires that such an amendment be ratified by the Legislatures of not less than half the States before it can be assented to by the President.²⁰ This requirement was satisfied. But procedural compliance with the Constitution does not necessarily mean that the substance of the legislation is constitutional.

The basic structure doctrine laid down in *Kesavananda Bharati v. State of Kerala* (1973) holds that constitutional reforms must not damage the core structure of the Constitution.²¹ Federalism is a basic feature, as held in *S.R. Bommai*. In theory, therefore, if a constitutional change reduced State fiscal autonomy to the point of rendering federalism hollow, it could be challenged as violating the basic structure. No such challenge has yet prevailed before the Supreme Court. But the Court's focus in *Mohit Minerals* on the recommendatory nature of the GST Council's decisions, protecting State legislative independence, demonstrates the judiciary's recognition of this constitutional boundary.

VI. COMPARATIVE CONSTITUTIONAL ANALYSIS

A. Canada: Harmonisation and Provincial Autonomy

In 1991, Canada implemented a federal GST alongside provincial sales taxes. Some provinces signed agreements with the federal government for a Harmonised Sales Tax (HST) that effectively combined their sales tax with the federal GST, but Quebec chose to run its own

¹⁹MINISTRY OF FIN., GOV'T OF INDIA, BACK-TO-BACK LOANS TO STATES IN LIEU OF GST COMPENSATION CESS (Oct. 2020).

²⁰INDIA CONST. art. 368(2) proviso.

²¹*Kesavananda Bharati v. State of Kerala*, (1973) 4 S.C.C. 225.

Quebec Sales Tax (QST) independently, with its own rates and administration.²² The Canadian model allows real flexibility for the provinces, which can opt out of harmonisation altogether and retain their own tax systems. This flexibility is not available in India's model: Indian States cannot escape GST.

B. Australia: Central GST, Whole Revenue Devolution

In Australia, GST is a purely federal (Commonwealth) tax, with no sharing of legislative power by the States. But all GST revenue is transferred to the States under a horizontal fiscal equalisation formula administered by the Commonwealth Grants Commission.²³ The Australian States have no formal legislative power over GST but receive the full revenue. Indian States, by contrast, hold statutory concurrent legislative power but lack the real capacity to exercise it and do not receive the whole of GST revenue.

C. Germany: The Fiscal Constitution in the Constitution

The most instructive example for India is Germany, whose approach operates through the Finanzverfassung, or fiscal constitution. The German Basic Law (Grundgesetz), in Articles 104a to 115, entrenches revenue-sharing arrangements between the Federation (Bund) and the States (Länder) in the constitution itself.²⁴ The German States influence the financial decisions of the Federation through the Bundesrat, a second chamber with real legislative veto power and strong constitutional authority. The Indian GST Council, by contrast, is an advisory body constituted under Article 279A whose recommendations do not have the force of law. This structural difference indicates that Indian States are less protected than the German Länder in fiscal arrangements.

VII. THE JUDICIAL RESPONSE TO GST AND FEDERALISM

A. Union of India v. Mohit Minerals Pvt. Ltd. (2022)

The seminal judicial pronouncement on GST and federalism is the decision in *Union of India v. Mohit Minerals Pvt. Ltd.* (2022).²⁵ The immediate question was whether the GST Council's recommendation to impose IGST on ocean freight under the reverse charge mechanism was binding on the Union and the States. But the larger question posed was the legal status of GST Council recommendations under Article 279A.

²²RICHARD ECCLESTON, THE DYNAMICS OF GLOBAL ECONOMIC GOVERNANCE 88-91 (2012); Harmonised Sales Tax Framework Agreement (Can. 1997).

²³Neil Warren, *A Review of GST and the Division of Revenue in Australia* 14, 22 (Austl. Tax Rsch. Found. 2004).

²⁴GRUNDGESETZ [GG] [Basic Law] arts. 104a-115 (Ger.).

²⁵Mohit Minerals, *supra* note 13, paras 35-75.

The Court's response was historically significant. It held that the recommendations of the Council are not binding on either the Union or the State Legislatures, both of which have full and independent legislative authority over GST matters. The Court said that the word "recommend" in Article 279A bears its natural sense of advising rather than commanding, and that GST preserves the legislative sovereignty of Parliament and the State Legislatures.

The Court further observed that the constitutional arrangement does not subordinate the States to the Union on GST affairs; both are coequal in the legislative field of GST. This reasoning is important for the federalism question, since it confirms that the States may, in principle, decline to follow the GST Council's advice and enact their own SGST statutes with different provisions. The constitutional right exists, even if its exercise may be problematic given the practical constraints of political economy.

B. Other Court Decisions

High Courts have also addressed GST-related federalism problems. In *Kerala State Beverages (M&M) Corporation Ltd. v. Assistant Commissioner*²⁶, the Kerala High Court analysed the dual-control architecture under GST, under which the same taxpayer is subject to the jurisdiction of both the Union and State tax authorities. This dual control was meant to operationalise cooperative federalism but has in fact produced administrative overlaps and uncertainty for businesses. Courts have generally upheld the validity of GST while taking care to read down provisions that would grant the Union unlimited power over State taxation matters.

VIII. CRITICAL ANALYSIS: STRENGTHS AND WEAKNESSES

A. Constitutional Strengths of the GST Structure

The GST constitutional architecture has several real achievements. First, it created the GST Council, the first constitutionally created council in any federal country devoted exclusively to cooperative tax policy-making. Second, Article 246A expressly recognises the States as equal partners with Parliament in GST lawmaking. Third, the destination-based principle of Article 269A entitles consuming States to revenue from inter-State supply. Fourth, the GST Council has worked largely by consensus in its first seven years, which is a good omen for cooperative federalism in practice.

B. Constitutional Weaknesses and Concerns

The weaknesses are equally significant. First, the States sacrificed their sovereign power to tax

²⁶Kerala State Beverages (M&M) Corp. v. Assistant Comm'r (Intelligence), W.P.(C) No. 26226 of 2019 (Kerala H.C.).

goods without a constitutionally guaranteed replacement revenue stream; the compensation was merely a legislative commitment, and it broke down in an emergency. Second, the voting mechanism in the GST Council gives the Union an effective veto, substantially eroding equality among the States. Third, the absence of a constitutional independent dispute-settlement mechanism between the Union and the States on GST has been a sore point, especially during the compensation crisis of 2020-22.

Fourth, petroleum products, alcohol for human consumption, and electricity remain outside GST. These are goods that are still subject to State taxation, yet the industries manufacturing and distributing them pay GST on inputs but cannot claim input tax credit because the final product is outside GST. This produces a tax mismatch and higher costs. For a truly unified system, it is constitutionally desirable to bring these products fully under GST while protecting State revenue. Fifth, the enforcement architecture grants the Union primary authority over all assesseees with an annual turnover exceeding ₹1.5 crore, so that large firms, which generate the bulk of tax revenue, are governed mainly by the Union. The States are left with fewer taxpayers and greater administrative effort for less revenue, a vertical asymmetry that places them at a further fiscal disadvantage.

IX. TAMIL NADU AND SOUTHERN INDIA: THE IMPACT ON MANUFACTURING STATES

Tamil Nadu is one of the most industrially developed States in the country, a prominent manufacturer of cars, textiles, electronics, leather goods, and engineering products. Before GST, Tamil Nadu earned large VAT revenues from manufacturing activity within the State under Entry 54 of the State List. With GST's shift to a destination-based mechanism, under which the tax now accrues to the States where goods are consumed, often the less industrialised States of northern India, Tamil Nadu lost a large slice of this revenue.²⁷

The Government of Tamil Nadu has repeatedly expressed reservations about the inadequacy of the GST compensation concept. The State has pointed out that its protected revenue base (2015-16) already included levies that were subsequently merged under GST, and that the revenue actually realised by Tamil Nadu under GST in several years fell short of its expected protected revenue. The back-to-back loan scheme provided by the Union during 2020-21 effectively transferred the compensation burden from the Union to the States themselves through debt.

Tamil Nadu's experience is similar to that of other southern and western States, such as Karnataka, Andhra Pradesh, Kerala, Maharashtra, and Gujarat. These States are

²⁷TAMIL NADU FIN. DEP'T, STATE BUDGET 2022-23, IMPACT OF GST ON STATE REVENUE annex. I.

disproportionate contributors to national tax revenue but receive a reduced proportionate share under the present GST devolution and Finance Commission arrangement. This regional fiscal disparity, while not unlawful in itself, produces political friction that strikes at the cooperative spirit GST needs in order to work well.

X. RECOMMENDATIONS

The following proposals follow from the constitutional analysis in this paper and aim to make the GST framework more consistent with the federal spirit of the Indian Constitution.

1. **Constitutionally entrench the revenue guarantee.** The compensation mechanism should be moved from a statute into the Constitution itself. Article 279A should be amended to assign the States a firm minimum of GST revenue, to be determined and enforced by the Finance Commission, since a statutory guarantee does not suffice to protect what ought to be a constitutional entitlement.
2. **Reform the GST Council voting structure.** The voting system should be altered to prevent a structural veto by the Union. One option is to require a concurrent majority, namely both the consent of the Union and the approval of a majority of the States, for a recommendation to pass, which would more accurately reflect the cooperative nature of GST.
3. **Establish a constitutional GST dispute-resolution authority.** An independent, constitutionally created authority should resolve disputes between the Union and the States on GST matters without reliance on the ordinary courts or political bargaining.
4. **Phase in petroleum, electricity, and alcohol.** A constitutionally supported, phased plan should bring petroleum products and electricity under GST, with appropriate constitutional protections for State revenue, in order to remove the current anomaly and reduce input-tax-credit distortions.
5. **Allow flexibility in rate-setting within constitutional bands.** States should be permitted to determine SGST rates independently within a constitutionally protected band for specified categories of goods and services, preserving meaningful fiscal sovereignty without damaging the coherence of the GST system.
6. **Empower the Finance Commission in its post-GST role.** The scope of Article 280 should be expanded to require the Finance Commission to examine the impact of GST on State revenue in each quinquennial review and to make binding recommendations on corrective measures.

XI. CONCLUSIONS

The Goods and Services Tax is the biggest tax overhaul in India's history. It has created a unified national market, stopped the cascading effect of multiple taxes, and improved tax compliance through technology. These are real gains for Indian industry and consumers. But constitutional analysis compels the conclusion that GST has come at a heavy constitutional price, namely the price of State economic authority.

India's Constitution established a federal system in which the Union and the States held protected domains of power, the most vital of which, for the States, was the authority to tax. GST merged several such domains into a common space under the GST Council, within which the Union enjoys structural advantages. The States have seen a sharp reduction in their independent budgetary space, especially manufacturing States such as Tamil Nadu. The compensation mechanism was the constitutional bargain underlying this concession, but it failed the test of a crisis.

The Supreme Court's judgment in *Mohit Minerals* (2022) provided a vital constitutional protection by holding that the recommendations of the GST Council are not binding, thereby protecting the formal legislative autonomy of the States. But formal autonomy without real budgetary freedom is not enough for genuine federalism, and the key unresolved problem in India's GST framework is the gap between the law on paper and the law in practice.

The way forward is to develop a GST system that does not force the States to choose between national economic unity and their own budgetary dignity. This will require constitutional amendments that make State revenue protection a core constitutional commitment rather than a political pledge. Cooperative federalism must involve real structural equality between the Union and the States, not merely nominal consultation. Until that balance is achieved, GST will remain constitutionally incomplete: an economic success story with an unfulfilled federal commitment to the States of India.

XII. VALUE OF THE STUDY

This study contributes to constitutional law and fiscal federalism scholarship in India in several ways. It draws together constitutional text, Supreme Court jurisprudence, and fiscal data to create an integrated picture of GST's interaction with Indian federalism, a synthesis largely missing from existing scholarship. It focuses, in particular, on the experience of manufacturing States such as Tamil Nadu, which is typically absent from a discourse generally confined to either the Union viewpoint or the national aggregate. It adds to the doctrinal discussion of whether the basic structure doctrine can be used to defend State fiscal autonomy against future

constitutional or legislative changes to the GST regime. It offers tangible, constitutionally feasible reform proposals for legislators, policymakers, and legal experts to consider in future discussions of GST reform. Finally, it situates the Indian GST model in comparative constitutional context alongside Canada, Australia, and Germany, so that Indian policymakers can learn from the federal experience of other nations.
