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RECALIBRATING COOPERATIVE FEDERALISM: FISCAL IMPLICATIONS OF GST IN INDIA

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ABSTRACT

The introduction of the Goods and Services Tax (GST) in 2017 to establish a uniform indirect taxation system in India is a major reform towards removing the cascading effects of the multiple taxation system. Conceived with the framework of cooperative federalism, GST sought to coordinate the centre- state fiscal relations. However, its practical implications reflect a compromise with the state's autonomy and the dilution of the federal structure of the nation.

The article examines the pre- GST regime and the rationale behind the reform, while critically analysing the impact of the new regime on fiscal centralisation at different levels. The study argues that the GST Council's weighted decision-making mechanism enforces fiscal centralisation, thereby increasing revenue uncertainty among the states. It contends that the dependence of the local governments on higher tiers of government is due to the lesser decentralisation of power. Further, the paper analyses the taxation model of Canada to assess alternative approaches for federal tax harmonisation. Hence, achieving a sustainable federal balance requires an institutional recalibration, assuring meaningful participation of states in the GST framework.

Keywords: Fiscal federalism, Canada, decentralisation, cooperative federalism, GST Council, GST regime.

RESEARCH METHODOLOGY

The present study adopts a doctrinal research methodology to study the impact and implications of the Goods and Services Tax on the federal nature of India. It is primarily based on secondary data, including constitutional provisions (like Article 246A, Article 279A, 101st Constitutional Amendment, etc.), judicial pronouncements (Union of India v. Mohit Minerals (P) Ltd. (2022), Union of India v. VKC Footsteps (India) (P) Ltd. (2022)), government reports (Finance Commission Reports, Comptroller and Auditor General of India Report, etc.), and policy documents relating to Goods and Services Tax (GST) and fiscal federalism.

Within the doctrinal framework, the study further adopts a comparative and analytical analysis between the Canadian taxation model and the Indian uniform taxation policy to derive lessons applicable to the Indian context. It analyses fiscal data, including state-wise revenue shortfalls and the tax devolution to local government bodies. Limitations of the study include the fact that it does not incorporate primary data collection, as the focus is primarily on the constitutional debate over the dilution of fiscal federal relations. The research is limited to publicly available secondary data and does not engage in empirical fieldwork.

INTRODUCTION

India is a federal nation. The word ‘federalism’ is not explicitly used in the Indian Constitution, but it states that India is a union of states. It refers to the division of power of the government between different levels of government. Indian federalism is asymmetric because it tilts towards the Centre, producing a strong central government, which is referred to as quasi-federal in nature.¹

Fiscal federalism is the understanding of the economic relationship between the central, state, and local governments. It focuses on the practice of dividing taxing and spending powers within the federal structure.² Indian fiscal federalism is unique in that it involves a distribution of fiscal powers, yet with a strong central hold.

¹ Mineral Area Development Authority v. SAIL, (2024) 10 SCC 1.

² Daphne A. Kenyon, *Fiscal Federalism*, ENCYCLOPEDIA OF FEDERALISM (2018), <https://federalism.eu/encyclopedia/no-topic/fiscal-federalism/> (last visited Sept. 23, 2026).

The Indian Constitution, under Articles 268 to 293, sets out the financial relations among the tiers of government and enshrines centralised financial powers. Macroeconomic stability is generally a Union responsibility to be carried out, while the states undertake local and regional needs. This grants more autonomy to the central government, as main instruments like taxation remained centralised.³ India's tax system was complex due to the multiplicity of taxes. Hence, it led to a greater fiscal imbalance, as the centre retained more control through diverse direct and indirect taxes.⁴

To address these issues, the Goods and Services Tax (GST) was introduced under the 115th Amendment Bill, 2011, in the Lok Sabha.⁵ But the dissolution of the Lok Sabha in 2014 led to the lapse of the bill. It was again introduced under the 122nd Amendment Bill, 2014, in Parliament.⁶ The Bill was passed by both houses and was enacted as the 101st Constitutional Amendment Act, 2016.⁷ The core focus with respect to the GST law includes the levy of tax on inter-state supply of goods and services, the nature and place of supply,⁸ and the integration of composite supply in the framework.⁹ It was introduced on the lines of cooperative federalism to improve center- state fiscal relations and for uniformity in the indirect tax system of the country. It, however, transformed the fiscal environment of the country and increased the tensions between the Centre and State governments.¹⁰

The article examines how GST impacts the fiscal federalism of India and state autonomy. By analysing definitions, constitutional provisions, judicial decisions, and governmental reports, the paper aims to highlight the fiscal federalism gaps post- GST. The goal is to discuss how

³ See Daphne A. Kenyon, *Fiscal Federalism*, *ENCYCLOPEDIA OF FEDERALISM* (2018), <https://federalism.eu/encyclopedia/no-topic/fiscal-federalism/> (last visited Sept. 23, 2026) (traditional theory assigns macroeconomic stability to the central government and local needs to subnational governments); see also D. Ananda, *Goods and Services Tax and Its Implications for Fiscal Federalism in India*, 6 INT'L J. POL. SCI. & GOVERNANCE 95 (2024) (India's pre-GST tax system was complex due to the multiplicity of central and state taxes).

⁴ D. Ananda, *Goods and Services Tax and Its Implications for Fiscal Federalism in India*, 6 INT'L J. POL. SCI. & GOVERNANCE 95 (2024).

⁵ Annapoorna, *History of GST in India Explained with Timelines*, CLEAR TAX, <https://cleartax.in/s/history-of-gst> (last visited Sept. 23, 2026).

⁶ The Constitution (One Hundred and Twenty-Second Amendment) Bill, Bill No. 99 of 2014 (India).

⁷ Annapoorna, *History of GST in India Explained with Timelines*, CLEAR TAX, <https://cleartax.in/s/history-of-gst> (last visited Sept. 23, 2026).

⁸ The Integrated Goods and Services Tax Act, 2017, No. 13, Acts of Parliament, 2017, § 5 (India).

⁹ The Central Goods and Services Tax Act, 2017, No. 12, Acts of Parliament, 2017, § 10 (India).

¹⁰ Noopur Bhagat, *Fiscal Federalism in India After GST: Autonomy v/s Efficiency* (Aug. 30, 2025) (unpublished manuscript), <https://ssrn.com/abstract=5422576>.

GST was initially enacted with the goal of “One Nation, One Tax”, but ended up challenging the Nation’s federal structure.

BACKGROUND: INDIA’S FISCAL FEDERALISM BEFORE GST

The Constitution of India, under the 7th Schedule,¹¹ gives powers to both central and state governments to levy taxes on the subjects mentioned in the respective lists. The central government levied taxes such as excise duty, income tax, customs duty, etc., while the state government's financial resources included local service tax, local VAT, sales tax, etc.¹² This resulted in a multilayered taxation system. Initially, this system granted the state governments power to raise revenue and choose their own fiscal policy.¹³ However, over time, the indirect tax system resulted in inefficiencies and cascading taxation as several states were taxed by different states.¹⁴ This encumbered the levying of taxes on some goods and services (such as telecommunication services, industrial alcohol) due to the overlapping jurisdiction of the central and state governments. This resulted in economic distortion due to the cascading effect of taxes that emerged due to variations in the rate of taxes on the same products by different states.¹⁵ In *Bengal Immunity Co. Ltd. v. State of Bihar*,¹⁶ the Supreme Court of India stated that the imposition of multiple taxes on the same transactions hampers and discourages the free flow of trade within a region regarded as one economic unit.

These problems of the Indian tax system required reform. Hence, the introduction of the Goods and Services Tax (GST) through the 101st Constitutional Amendment Act, 2016,¹⁷ was considered a major reform in terms of uniformity. The amendment inserted Article 246A

¹¹ INDIA CONST. sched. VII (1950).

¹² Reserve Bank of India, *State Finances: A Study of Budgets of 2016-17* (2017), <https://www.cbgaindia.org/wp-content/uploads/2017/05/State-Finances-A-Study-of-Budgets-2016-17.pdf> (last visited Sept. 23, 2026); Empowered Committee of State Finance Ministers, *First Discussion Paper on Goods and Services Tax in India* (Government of India Nov. 10, 2009), https://gstcouncil.gov.in/sites/default/files/2024-02/first_discussion_paper_on_gst.pdf (last visited Sept. 23, 2026).

¹³ Dharendra Krishna, *Goods and Services Tax (GST) and Centre-State Financial Relations: An Analysis*, 15 INT'L J. RES. SOC. SCI. & HUMAN. (2025), <https://doi.org/10.37648/ijrssh.v15i05.006> (last visited Sept. 23, 2026).

¹⁴ Munish Swaroop, Anmol Tibrewal, Gurudev Sahil & Pratishtha Yadav, *Fiscal Federalism in the GST Era: Challenges and the Road Ahead*, 22 VEREDAS DO DIREITO 4 (2025), <https://doi.org/10.18623/rvd.v22.n4.3703>.

¹⁵ *Union of India v. VKC Footsteps (India) (P) Ltd.*, (2022) 2 SCC 603 (India).

¹⁶ *Bengal Immunity Co. Ltd. v. State of Bihar*, (1955) 1 SCC 763.

¹⁷ The Constitution (One Hundred and First Amendment) Act, 2016 (India).

in the Constitution,¹⁸ which grants legislative powers to both the Union and state legislatures to make laws regarding GST. It gives exclusive powers to the Centre to make laws over inter-state trade or commerce. The new provision regarding the levying and collection of GST on inter- state supplies was put forward under Article 269A.¹⁹ The article further continues to state that the tax proceeds are to be apportioned between the Union and the States as per the Parliament. The most controversial provision of the amendment is the insertion of Article 279A,²⁰ which institutionalises the formation of the GST Council. The article talks about the composition, voting structure, and formation of the dispute resolution mechanism.

The Supreme Court of India, in *Union of India v. VKC Footsteps Pvt. Ltd.*,²¹ focused on the purpose of GST, which is to replace several indirect taxes, to remove the cascading effect of taxes, and to provide for a common national market for goods and services.²² The court emphasised that the compelling economic and fiscal realities necessitated the harmonised structure of taxes.²³ The article argues that this simplified tax structure resulted in excessive centralisation in the fiscal federalism of the country, resulting in the deterioration of state autonomy.

KEY CHALLENGES AND ISSUES OF FISCAL FEDERALISM UNDER THE GST REGIME

While GST aims to streamline and unify the taxation system of India, it has certainly enhanced the central power, which leads to tensions between the Union and the sub-national entities of the country.²⁴ Certainly, as suggested by the Supreme Court in the landmark case of *S.R. Bommai v. Union of India* (1994),²⁵ the States are not mere appendages of the Centre but are supreme within their allotted spheres. The task force of GST imposes a risk on the fiscal

¹⁸ INDIA CONST. art. 246A.

¹⁹ INDIA CONST. art. 269A.

²⁰ INDIA CONST. art. 279A.

²¹ *Union of India v. VKC Footsteps (India) (P) Ltd.*, (2022) 2 SCC 603 (India).

²² *Id.*

²³ *Union of India v. VKC Footsteps India (Pvt.) Ltd.*, (2022) 2 SCC 603 (India) (compelling economic and fiscal realities necessitated the levy of GST and a harmonised structure of goods and services tax); *see also* *Union of India v. Mohit Minerals (Pvt.) Ltd.*, (2022) 10 SCC 700 (India).

²⁴ K. J. Joseph & L. Anitha Kumary, *India's GST Paradigm and the Trajectory of Fiscal Federalism: An Analysis with Special Reference to Kerala*, 71 IND. ECON. J. 187 (2023).

²⁵ *S.R. Bommai v. Union of India* (1994) 3 SCC 1 (India).

autonomy of states. GST, which initially promised to enhance the revenue system, has led to a decline in the fiscal collections by the third-tier governments.²⁶

1. IMPACT ON THE STATE'S AUTONOMY

The implementation of GST with the federal constitutional structure of India is a complex process due to policy differences in the government institutions at various levels. The commitment to a stable rate structure is required; this will compromise the fiscal autonomy of State Governments and deprive them of their macro-economic policy.²⁷

The GST Council comprises representatives from the central and state governments. The body is tasked with making recommendations on tax rates and their structures. The voting powers of the members are distributed: one-third to the centre and state governments hold two-thirds of the total.²⁸ Concerns were also raised regarding the weightage of the central vote and the proposal to reduce it to one-fourth. The authority of the states to determine their tax rates was important to maintain their revenue and expenditure autonomy.²⁹ However, this was also transferred to the Council. This had restricted the states' autonomy to unilaterally design and alter tax rates.³⁰ The Council needs a three-fourths majority to pass a decision, which gives veto power to the centre, as even with a full majority, the states collectively will not be able to pass a decision.³¹ This is critically examined, as in the future, the centre will have the upper hand in the council's deliberations.³² This collectively shows that even if there is a unanimous state opposition to a decision to be passed, they cannot override the central authority. Hence, the federal structure with a strong center is again emphasised.

²⁶ Pradeep N., *The Centre-State Relations and Tax Governance in India: An Analysis of Post GST Reforms* (Apr. 8, 2026), <https://zenodo.org/records/19471667>.

²⁷ Thirteenth Finance Commission, Report of the Thirteenth Finance Commission (2010–2015) (Dec. 2009).

²⁸ K. Ashok Vardhan Shetty, *Why India Needs GST 2.0*, FRONTLINE (Apr. 5, 2026), <https://frontline.thehindu.com/the-nation/gst-federalism-crisis-state-revenue/article70822816.ece>.

²⁹ Sathiya S., *Constitutional Implications of the Goods and Services Tax (GST): An Analysis of Federalism and Fiscal Autonomy*, 9 INT'L J.L. MGMT. & HUMANITIES 1838 (2025), <https://ijlmh.com/article/view/constitutional-implications-of-the-gst-federalism-fiscal-autonomy>.

³⁰ Chanchal Kumar Sharma, *The Political Economy of India's Transition to Goods and Services Tax* (GIGA German Institute of Global and Area Studies, Working Paper No. 325, 2021).

³¹ Dharendra Krishna, *Goods and Services Tax (GST) and Centre-State Financial Relations: An Analysis*, 15 INT'L J. RES. SOC. SCI. & HUMAN. (2025), <https://doi.org/10.37648/ijrssh.v15i05.006> (last visited Sept. 25, 2026).

³² K. Ashok Vardhan Shetty, *Why India Needs GST 2.0*, FRONTLINE (Apr. 5, 2026), <https://frontline.thehindu.com/the-nation/gst-federalism-crisis-state-revenue/article70822816.ece>.

This also shows that, even if the state governments have joint power to say in the council, no single state has the power to vary the tax rate of any commodity,³³ as per its state's needs and diversity. Hence, through this, the states become merely tax-collecting agents.³⁴ In this manner, the fiscal autonomy of the state will be compromised.

Other than this, the GST Council has the power to change tax rates to respond to sector-specific demands. However, it is difficult to come to an agreement on rate modifications,³⁵ which can have an impact on state financial planning and uncertainty in income estimates. Collectively, these trends show a worrying shift away from balanced fiscal autonomy towards financial centralisation, raising concerns about intergovernmental relations.³⁶

However, the Supreme Court of India took into account that the word “recommendation” used in clause 4 of Article 279A³⁷ was a point of controversy. In *Union of India v. Mohit Minerals (P) Ltd.*, 2022,³⁸ the Court struck down the Integrated Goods and Services Tax (IGST) on ocean freight as CIF imports. It also stated that the GST Council has an unequal voting structure. It is further noted that the absence of repugnancy provisions under Article 246A indicates that the recommendations of the Council are not binding.³⁹ The court further held that Parliament, by inserting Article 279A,⁴⁰ has intended for the recommendations only to have persuasive value. The reasoning given by the court was that provisions under Article 246A do not give the force to convert recommendations of the Council into legislation.⁴¹ Hence, the recommendations made by the Council under Article 279A are non-binding, but this hardly deters the states from central decisions due to administrative and political dynamics. This becomes favourable to states that have the same government as in the

³³ Ehtisham Ahmad & Satya Poddar, *GST Reforms and Intergovernmental Considerations in India* (Asia Research Centre, London School of Economics 2009), <https://eprints.lse.ac.uk> (last visited Sept. 25, 2026).

³⁴ Bihar Journal of Public Administration (R.K. Verma ed., Indian Institute of Public Administration 2022).

³⁵ INDIA CONST. art. 279A (1950) (India); *see also* Are States Being Shortchanged?, MINT (Feb. 9, 2020), <https://www.livemint.com/news/india/are-states-being-shortchanged-11581263118729.html> (last visited Sept. 25, 2026).

³⁶ Ramesh Malagi & Bhimarav Walikar, *Impact of GST on Federalism in India: An Analytical Review*, 7 INT'L J. FOR MULTIDISCIPLINARY RES. (2025), <https://doi.org/10.36948/ijfmr.2025.v07i05.55930>.

³⁷ INDIA CONST. art. 279A, cl. 4.

³⁸ *Union of India v. Mohit Minerals (P) Ltd.* (2022) 10 SCC 700.

³⁹ *Id.*

⁴⁰ INDIA CONST. art. 279A.

⁴¹ *Mohit Minerals*, (2022) 10 SCC 700.

Centre.⁴² But the states ruled by other parties face the continued problem. The issue of threat to states' autonomy due to revenue authority will further exacerbate due to lack of revenue certainty to the states.

2. REVENUE UNCERTAINTY AND COMPENSATION MECHANISM

States faced revenue shortages during the initial GST years. Implementation of GST in 2017 changed the indirect tax system, and the ability to raise revenue shifted from the origin states to the destination states.⁴³ This means that taxes on goods and services will be added to the revenue of the consumer state (making GST a destination-based tax).⁴⁴ Recent revenue trends show that some states, including Kerala, Himachal Pradesh, Uttarakhand, etc., have shown a decrease in revenue from the period of October 2024-2025.⁴⁵

Due to the revenue losses arising out of this transition, the GST (Compensation and Cess) Act, 2017,⁴⁶ was introduced. It provided for payment of 14% of annual growth in tax revenue to states for five years.⁴⁷ The concern that arose is the increase in the dependence of states on the Centre. The Supreme Court, in *Union of India v. Mohit Minerals (P) Ltd.*, 2022,⁴⁸ evaluated the legitimacy of the Compensation Act.

Other than the revenue instability, the Centre started to defer the payments, claiming that the cess collections were low.⁴⁹ States with limited internal resources began voicing opposition against the central intrusion in their economy, and their fiscal space shrank. The problem was further exacerbated by the COVID-19 pandemic in 2020.⁵⁰ The Union Finance Ministry held

⁴² Nagendrappa K.T., *Fiscal Federalism and Tax Devolution: Examining Centre-State Tensions in GST Compensation and Finance Commission Allocations*, 4 INT'L J. VERSATILE RES. & ANALYSIS (2026).

⁴³ See Damodar Nepram & James Konsam, *GST Unlocks Strong Revenue Potential of India's North Eastern States*, 2 INDIAN PUB. POL'Y REV. (2021), <https://doi.org/10.55763/ipp.2021.02.05.004>; Basavanagouda Nayaka & V. Panduranga, *Analysis of Impact of Goods and Services Tax on Indirect Taxes of Karnataka State*, INDIAN ECON. J. (2020), <https://doi.org/10.1177/0019466220941665>.

⁴⁴ Suyash Tiwari, *Cost of GST Compensation*, THE PRS BLOG (last visited Sept. 24, 2026), <https://prsindia.org/theprsblog/cost-of-gst-compensation>.

⁴⁵ GST Revenue Soars in October 2025, PRESS INFORMATION BUREAU, GOVERNMENT OF INDIA (last visited Sept. 24, 2026), <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2185839®=3&lang=2>.

⁴⁶ The Goods and Services Tax (Compensation to States) Act, 2017, No. 15, Acts of Parliament, 2017 (India).

⁴⁷ Compensation to States Act, 2017, § 3.

⁴⁸ *Union of India v. Mohit Minerals (P) Ltd.* (2022) 10 SCC 700.

⁴⁹ Dhananjay Kumar Singh & Binod Pratap Singh, *GST and Indian Federalism: Negotiating Central Authority and State Autonomy*, 5 SHODHKOSH: J. VISUAL & PERFORMING ARTS 2 (2024).

⁵⁰ R. Kavita Rao, *GST, End of Compensation Regime and Stress on State Finances* (National Institute of Public Finance and Policy Working Paper No. 376, Mar. 2022), https://www.nipfp.org.in/media/documents/WP_376_2022.pdf (last visited Sept. 25, 2026);

itself up through the defence of “Act of God” stated in the 41st meeting of the Goods and Services Tax (GST) Council.⁵¹ The states contested the centre’s decision to split the compensation into two parts, i.e., revenue loss due to GST implementation and due to “Act of God”, as against Article 293 guarantees.⁵² States like Punjab, Chhattisgarh, Odisha, Jharkhand, etc. still face revenue shortfalls after the end of the five-year GST compensation period in June 2022 due to cuts in these grants from the centre.⁵³ This can lead to a fall in the state budgets, and a consequent increase in the financial dependency of the states on the union. This had cushioned states during the transition period (2017–2022), but its expiry (in June 2022) exposed states with weaker or agrarian economies to fiscal stress.⁵⁴ The centre, however, in 2022, has taken steps to resolve the conflicts by extending the time period for GST compensation cess collection to March 31, 2026.⁵⁵

The issue was also taken into account by the 42nd GST Council meeting in 2020, where the centre decided to borrow 1.1 trillion rupees and pass it to the states as a “back- to- back” loan.⁵⁶ This step breaks the deadlock between both governments on the issue of borrowings and compensation, enforcing the idea of consensus-building. Hence, in light of the above text, the compensation mechanism can be said to be made on the anticipation of revenue shortfalls for the state.⁵⁷

⁵¹ Goods and Services Tax Council, Minutes of the 41st GST Council Meeting (Aug. 27, 2020), https://gstcouncil.gov.in/sites/default/files/Minutes/minutes_41st-gstc_meeting.pdf (last visited Sept. 25, 2026).

⁵² Rajeev Gowda & Manpreet Singh Badal, *In Bridging the GST Gap, the Centre Ought to Help States Through the Consolidated Fund of India*, THE HINDU (Aug. 29, 2020).

⁵³ Adrita Chatterjee & Siddharth Upasani, *Post GST Compensation Era, States Fall Back on Land and Liquor to Shore Up Revenues*, MONEYCONTROL (Aug. 3, 2023), <https://www.moneycontrol.com/news/business/post-gst-compensation-era-states-fall-back-on-land-and-liquor-to-shore-up-revenues-11091181.html> (last visited Sept. 24, 2026).

⁵⁴ GST, End of Compensation Regime and Stress on State Finances, NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY, Working Paper No. 376 (2022), https://www.nipfp.org.in/media/documents/WP_376_2022.pdf (last visited Sept. 24, 2026).

⁵⁵ Ministry of Finance, Government of India, GST Compensation Cess Levy Extended Till 31/03/2026, Notification No. 1/2022 (June 24, 2022), <https://www.cochinchamber.org/storage/circulars/July2022/IXLN3DNSZpgS0g4v4Ccw0.pdf> (last visited Sept. 24, 2026).

⁵⁶ Gulveen Aulakh, *GST Council Approves Increased Borrowing Limit of Rs 1.1 Lakh Crore Under Option 1*, THE ECONOMIC TIMES (Oct. 5, 2020).

⁵⁷ How Centre Has Bullied States Over GST Compensation Over the Years, THE FEDERAL (Sept. 8, 2025), <https://thefederal.com/the-federal-focus/how-centre-has-bullied-states-over-gst-compensation-over-the-years-205587> (last visited Sept. 25, 2026).

3. COOPERATIVE FEDERALISM AND FISCAL CENTRALISATION IN PRACTICE

Cooperative federalism is also called “marble cake federalism”⁵⁸ (coined by Morton Grodzins) due to its integrated approach to federal units. It is a principle where all federal units work together towards achieving the common goal of promoting welfare.⁵⁹ There is the principle of collaboration rather than federal units being rivals.⁶⁰ The vision enshrined in the Preamble to our Constitution beckons both the Union Government and the State Governments to have a holistic structure, i.e., to embrace a collaborative or cooperative federal architecture.⁶¹

In this context, the GST Council was designed to embody consensus-building, where both levels of government interact and make decisions on tax rates and fiscal administrative policies. However, there were instances when the decisions were imposed or delayed without consensus.⁶² On top of this, the weighted voting mechanism questioned the institutional design. Even though the states collectively have a two-thirds share of the votes, it doesn’t make the majority able to pass the decision. Hence, it gives veto powers to the centre. In the Mohit Minerals case,⁶³ the court acknowledged this imbalance and attempted to restore cooperative federalism.

Article 246A⁶⁴ of the Constitution was introduced to implement the dual GST model. To resolve the disputes, clause 11 of Article 279A was enacted,⁶⁵ which states the establishment of a dispute adjudication mechanism by the GST Council.⁶⁶ States used to approach the council even for small clarifications, which led to a backlog of work on the council.⁶⁷ Thus,

⁵⁸ *Federalism*, HISTORICAL SOCIETY OF THE NEW YORK COURTS,

<https://history.nycourts.gov/democracy-teacher-toolkit/federalism/> (last visited Sept. 24, 2026).

⁵⁹ Mary Hallock Morris, *Marble Cake Federalism*, CENTER FOR THE STUDY OF FEDERALISM (2006), <https://federalism.org/encyclopedia/no-topic/marble-cake-federalism/> (last visited Sept. 24, 2026).

⁶⁰ Ajitesh Kir, *India's Goods and Services Tax: A Unique Experiment in Cooperative Federalism and a Constitutional Crisis in Waiting*, 69 CAN. TAX J. 391 (2021).

⁶¹ State (NCT of Delhi) v. Union of India, (2018) 8 SCC 501 (India).

⁶² Gurmeet Singh, *Fiscal Centralization Through GST: Challenges to Cooperative Federalism and State Autonomy in India*, 3 INT’L J. OF MULTIDISCIPLINARY RESEARCH 289 (2025).

⁶³ Union of India v. Mohit Minerals (P) Ltd. (2022) 10 SCC 700.

⁶⁴ INDIA CONST. art. 246A.

⁶⁵ INDIA CONST. art. 279A, cl. 11.

⁶⁶ The Constitution (One Hundred and First Amendment) Act, 2016 (India).

⁶⁷ Editorial, *Justice on GST Disputes Will Now Be Fair, Fast, Transparent and Accessible: FM Sitharaman*, THE HINDU (Sept. 24, 2025).

to streamline the process, the Union government established the Goods and Services Tax Appellate Tribunal (GSTAT) in September 2025.⁶⁸ Recently, in September 2025, the Union Government established the tribunal in New Delhi (as a principal bench) and 31 state benches to unify the dispute resolution system.⁶⁹ The tribunal aims to establish a unified forum for resolving disputes related to the indirect tax system. It will act as a successor to the Customs, Excise and Service Tax Appellate Tribunal (CESTAT) and State VAT tribunals.⁷⁰

4. FISCAL DECENTRALISATION IN THE THIRD TIER

India operationalises the federal structure by the creation of local governments at the urban and rural level under the 73rd and 74th Constitutional Amendment Acts, 1992,⁷¹ enforced in April 1993. The Amendments added the 11th and 12th Schedules in the Constitution,⁷² and empowered the local bodies under Article 243G⁷³ (Panchayats' functions) and Article 243W⁷⁴ (Municipalities' functions). It is also recommended to make the State Finance Commission under Article 243I (for panchayats) and Article 243Y (for municipalities), which will make recommendations on the devolution of state taxes to local governments.⁷⁵ Fiscal decentralisation means devolution of tax authority to the local self-governments. It ensures local governments' accountability for the decisions they are making.⁷⁶ Thus, the states delegate tax-levying power to them.⁷⁷

GST has put constraints on the revenue collection of the local government bodies, as many states have removed certain taxes imposed by local authorities to lessen the burden of double

⁶⁸ Union Minister of Finance and Corporate Affairs Smt. Nirmala Sitharaman Launches Goods and Services Tax Appellate Tribunal (GSTAT) in New Delhi, *Today*, PRESS INFORMATION BUREAU, GOVERNMENT OF INDIA (Sept. 24, 2025), <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2170932&lang=2®=48> (last visited Sept. 25, 2026).

⁶⁹ *Id.*

⁷⁰ Goods and Services Tax Appellate Tribunal, *About GSTAT*, GSTAT.GOV.IN, <https://gstat.gov.in/about-overview>, (last visited Sept. 26, 2026).

⁷¹ The Constitution (Seventy-third Amendment) Act, 1992 & The Constitution (Seventy-fourth Amendment) Act, 1992 (India).

⁷² INDIA CONST. scheds. XI & XII.

⁷³ INDIA CONST. art. 243G.

⁷⁴ INDIA CONST. art. 243W.

⁷⁵ INDIA CONST. arts. 243I, 243Y.

⁷⁶ Gangadhar Jha, *Fiscal Decentralisation for Strengthening Urban Local Government in India: Lessons from Practices in Developing and Transitional Economies*, 2 INDIAN JOURNAL OF PUBLIC ADMINISTRATION (2013).

⁷⁷ INDIA CONST. arts. 243H, 243X.

taxation on people.⁷⁸ For instance, Kerala removed the entertainment tax collected by local authorities post-GST; the Municipal Corporation of Greater Mumbai had to abolish octroi (entry tax) post-GST, etc.⁷⁹ This weakens the autonomy of local government bodies, and they become more dependent on the state revenues.⁸⁰

The revenues under the GST regime were divided between the centre and the state, upon a pre-decided formula. But there is no such provision for the sharing of revenues between the state and the local bodies, leaving the latter cash-strapped.⁸¹ The source of revenue of urban local bodies was only 14 to 18 per cent of total revenue during the period of 2015-20.⁸² No compensation was provided to the Urban Local Bodies on account of the subsumed taxes under GST.⁸³ Hence, this raises a huge question about local bodies' autonomy as they become more dependent on the higher tiers of government due to a lack of incentives to mobilise their own resources.⁸⁴

DISCUSSION

The study helps to understand the gap between the theoretical expectation of GST on the federal structure of the nation versus the ground reality. GST was a necessary reform in the revenue system of the country. It initially emerged for uniformity and balance between the state and centre approaches in the taxation system.⁸⁵ It incorporated the idea of coordination and cooperation for a smooth fiscal flow between the tiers of the government. However, the

⁷⁸ Sayli Udas Mankikar, *The Impact of GST on Municipal Finances in India: A Case Study of Mumbai*, OBSERVER RESEARCH FOUNDATION (Sept. 17, 2018), <https://www.orfonline.org/research/the-impact-of-gst-on-municipal-finances-in-india-a-case-study-of-mumbai/> (last visited Sept. 25, 2026).

⁷⁹ Aangha Vinod & S. Aswathi Mohan, *Fiscal Devolution Essential to Strengthen Local Governments*, CENTRE FOR PUB. POL'Y RES. (June 27, 2019), <https://www.cppr.in/articles/fiscal-devolution-essential-to-strengthen-local-governments> (last visited Sept. 25, 2026).

⁸⁰ GST Impact on Local (Urban) Government Finance, NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY (2022), <https://nipfp.org.in/media/medialibrary/2022/12/OPM.pptx.pdf> (last visited Sept. 26, 2026).

⁸¹ Jitendra, *GST Regime Could Reduce Local Self-Governing Bodies to Mendicancy*, DOWN TO EARTH (June 16, 2017).

⁸² Comptroller and Auditor General of India, *Performance Audit on Implementation of 74th Constitutional Amendment Act in Chhattisgarh*, ch. IV (2022), https://cag.gov.in/uploads/download_audit_report/2020/14_Chapter-IV_CG_PA_74_CAA_5-04-22-062df9e9ab293.06662415.pdf (last visited Sept. 26, 2026).

⁸³ Comptroller and Auditor General of India, *Performance Audit Report on Implementation of 74th Constitutional Amendment Act* (Aug. 2024).

⁸⁴ Jitendra, *supra* note 81.

⁸⁵ Ananda, *supra* note 4.

study poses the question of whether the GST reforms were in line with the fiscal federalism dynamics of the country.⁸⁶

Has GST strengthened this nature of federalism? It has supported the ease of doing business, promoted uniform tax rates and a common market, but entrenched fiscal centralisation across different tiers.⁸⁷ The establishment of the GST Council under Article 279A⁸⁸ has led to questions about the centrality of the council. The weighted voting mechanism and veto power to the centre demonstrate that the council remains a tool for centralised fiscal policy. However, to neutralise this, the Supreme Court evaluated the concept of “recommendations” under Article 279A in *Union of India v. Mohit Minerals (P) Ltd.*, 2022.⁸⁹ This is due to the high dependence of the states on the centre’s compensation grants. The true deficit of revenue can be seen in the COVID-19 period, where the centre failed to provide compensation for revenue losses, showing a failure of cooperative federalism.⁹⁰ Due to the delay in compensation, the essential services such as education, health, etc., of states are also hampered.

International experiences offer valuable insights. The paper takes the example of Canada, a federal nation. India has taken insights from the Canadian model of federalism, particularly its emphasis on strong central government.⁹¹ Canada adopted a federal GST model in 1991.⁹² However, it continued to levy the Harmonised Sales Tax (HST) in the provinces, at rates which differ from province to province.⁹³ Hence, all provinces of Canada do not come under the single uniform system of GST.⁹⁴ The success of the Canadian model depends upon the fact that the provinces are independent, as they have access to direct taxes. Secondly, the tax-based sharing model has preserved the provisional autonomy for the nation’s economic growth.⁹⁵ This highlights that, unlike India’s uniform slabs for every state, Canada follows

⁸⁶ K. J. Joseph & L. Anitha Kumary, *supra* note 24

⁸⁷ Ramesh Malagi & Bhimarav Walikar, *supra* note 36

⁸⁸ INDIA CONST. art. 279A.

⁸⁹ *Union of India v. Mohit Minerals (Pvt.) Ltd.*, (2022) 10 SCC 700 (India).

⁹⁰ R. Kavita Rao, *supra* note 50.

⁹¹ Akhilesh Singh Tomar, *Designing Sustainable Fiscal Federalism: Lessons from GST Regimes in India, Canada, and Australia* (Zenodo 2026), <https://doi.org/10.5281/zenodo.21220090> (last visited Sept. 26, 2026).

⁹² Ajitesh Kir, *supra* note 60.

⁹³ *Id.*

⁹⁴ K. Vijaya Kumar & Jahangeer C., *A Comparative Study of India GST With Canada Model*, JOURNAL OF MANAGEMENT AND SCIENCES 253 (2017).

⁹⁵ Mehul Mor, *A Comparative Study of India's GST Regime With the Canadian GST Model With Special Emphasis on the Idea of Fiscal Federalism*, 4 INDIAN JOURNAL OF LAW AND LEGAL RESEARCH (2023).

more fiscal flexibility.⁹⁶ It reveals the contradiction of the Indian rigid model, which limits the scope of the state's fiscal experiments. Unlike the Canadian provinces model, Indian states under the GST model cannot unilaterally adjust the rates of any commodity. Hence, there is a centrally negotiated framework rather than fiscal federalism.

Hence, the path forward lies in reforming the fiscal federal framework while preserving the state's autonomy as a crucial element. Institutionalising equity in the GST Council for more balanced fiscal participation is necessary by changing the weighted vote mechanism and giving more autonomy to states.

COMPARATIVE ANALYSIS

The article helps to understand the gap between the theoretical expectation of GST on the federal structure of the nation, versus the ground reality. GST has no doubt supported the ease of doing business, promoted uniform tax rates and a common market, but entrenched fiscal centralisation across different tiers.⁹⁷ This is due to the high dependence of the states on the centre's grants. However, international experiences offer valuable insights.

The article takes the example of Canada, a federal nation.⁹⁸ India adopted the Canadian model of federalism, particularly the idea of a strong central government. Due to political similarities and legal system similarities of federalism, India chose to adopt a dual GST model similar to that of the Canadian model.⁹⁹ Canada adopted a federal GST model in 1991.¹⁰⁰ It dissolved the Manufacturers' Sales Tax (MST).¹⁰¹ This ended the unintended cascading effects of multiple tax rates. It continued to levy the Harmonised Sales Tax (HST) in the provinces, which is a consumption-based value-added tax (VAT), at rates which differ from province to province.¹⁰² Hence, all provinces of Canada do not come under the single

⁹⁶ *Id.*

⁹⁷ Comptroller and Auditor General of India, Performance Audit on Implementation of 74th Constitutional Amendment Act in Chhattisgarh, ch. IV (2022), https://cag.gov.in/uploads/download_audit_report/2020/14_Chapter-IV_CG_PA_74_CAA_5-04-22-062df9e9abab293.06662415.pdf (last visited Sept. 26, 2026).

⁹⁸ Tomar, *supra* note 91.

⁹⁹ Tripti Gautam, India's GST in Comparative Perspective: Lessons from Australia and Canada, 13 VISION J. OF INDIAN TAXATION (2026).

¹⁰⁰ Palak Jagtiani, Reshaping Fiscal Federalism: The Constitutional Evolution of Taxing Powers and Its Implications for Economic Governance, 13 SOCIAL SCIENCES & HUMANITIES OPEN (2026).

¹⁰¹ Bharti Raikwar, *Comparative Analysis of GST Frameworks: Australia, Canada, EU and India*, 7 INT'L J. FOR MULTIDISCIPLINARY RESEARCH (2025).

¹⁰² Jagtiani, *supra* note 100.

uniform system of GST.¹⁰³ The success of the Canadian model depends upon the fact that the provinces are independent, as they have access to direct taxes.¹⁰⁴ Secondly, the tax-based sharing model has preserved the provisional autonomy for the nation's economic growth.¹⁰⁵

The point of difference is that the Canadian provinces can decide the rates of sales tax on their own, whereas SGST and CGST have the same rates decided by the GST Council. Hence, Canada has given full say to the provinces as far as local taxes, but in India it has subsumed all major taxing powers from state and local authorities.¹⁰⁶ This highlights that, unlike India's uniform slabs for every state, Canada follows more fiscal flexibility. It reveals the contradiction of the Indian rigid model, which limits the scope of the state's fiscal experiments.

Hence, the path forward lies in reforming the fiscal federal framework while preserving the state's autonomy as a crucial element. Institutionalising equity in the GST Council for more balanced fiscal participation is necessary.¹⁰⁷ The changes can be made by changing the weighted vote percentage and giving the states autonomy to calibrate taxes on their state-specific sensitive goods.

CONCLUSION

The Constitution (One Hundred and First Amendment) Act, 2016, was introduced with the noble intent of removing the cascading effects of multiple indirect taxes and improving tax efficiency. GST was a necessary reform in the revenue system of the country. It initially emerged for uniformity and balance between the state and centre approaches in the taxation system. It incorporated the idea of coordination and cooperation for a smooth fiscal flow between the tiers of the government. However, the idea of moving towards a single tax system is significantly challenged on the grounds of fiscal federalism. The article poses the question of whether the GST reforms were in line with the country's fiscal federalist dynamics. Has GST strengthened this nature of federalism? The idea driven by the logic "One nation, One tax" must be balanced against the necessity of cooperative federalism and state autonomy. Although the collection of taxes has been simplified, difficulties have

¹⁰³ Sagar Sharma, Fiscal Federalism in India: Learning from Best Practices in Canada, INT'L SCI. J. OF ENGINEERING AND MGMT. (2024).

¹⁰⁴ Tomar, *supra* note 91.

¹⁰⁵ Raikwar, *supra* note 101.

¹⁰⁶ *Id.*

¹⁰⁷ Gautam, *supra* note 99.

emerged regarding the fiscal autonomy of states. The establishment of the GST Council under Article 279A, which incorporates a weighted voting mechanism and veto power for the centre, demonstrates that the council remains a tool for centralised fiscal policy. This attempt has increased the centre's influence, making it difficult to address regional objectives. Another emerging problem was the revenue deficit. The true deficit can be seen during the COVID-19 period, when the centre failed to provide compensation for revenue losses, showing a failure of cooperative federalism. Due to the delay in compensation, essential services such as education, health, etc., of the states were also hampered. The cooperative federal structure of the country imposes a need to find an equation between central coordination and state autonomy. Another issue is the autonomy of local bodies. Fiscal decentralisation must ensure autonomy for local bodies to levy taxes. This is ensured by state governments. However, states remove the taxes levied by panchayats and municipalities to reduce the unregulated double taxation burden. Hence, this hampers the autonomy of local bodies, as they become more dependent on the state-specified funds. The comparative model with Canada suggests that more autonomy to states should be given for flexibility in setting up taxation rates. There is a need for greater inclusivity of states in GST Council decision-making. Achieving the balance between the stakeholders will strengthen cooperative federalism, as well as ensure regional balance and development.