

How GST 2.0 sets the stage for the next wave of reforms

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The focus is on faster decisions, lower compliance costs, automated refunds and trust-based administration, write Trilegal's Jitendra Motwani and Ginita Bodani.



When the Goods and Services Tax was introduced in 2017, its promise was simple. It would create one national market, a common indirect tax framework and fewer barriers to doing business. Nine years on, GST has entered a new chapter. The 56th GST Council meeting tackled the most visible part of that journey through rate rationalisation. The 57th meeting has now turned to the machinery through which GST is administered, reforming registration, input tax credit, refunds, enforcement and dispute resolution.

This reflects the broader reform agenda set out by Honorable Prime Minister Narendra Modi in his Independence Day address last year. He identified lower compliance costs for startups, MSMEs and entrepreneurs, freedom from arbitrary legal action and simpler laws for ease of doing business as the goals of the next generation of reforms. His response to the GST recommendations of 8 October 2026 was equally clear. The focus is on faster decisions, lower compliance costs, automated refunds and trust-based administration.

That is precisely where GST 2.0 is headed.

1. The end of the fear factor as enforcement moves from coercion to proportionality

The headline change is the Council's recommendation to omit Section 69, which removes the power of GST officers to arrest. The threshold for prosecution has also been raised from ₹1 crore to ₹5 crore. Criminal action will now be reserved for genuine, large-scale fraud rather than ordinary tax disputes.

The same thinking runs through the proposed limits on interception, inspection and confiscation of goods in transit, so that trade can move freely. Taxpayers whose credit is blocked will now also have the opportunity to seek a hearing.

The general penalty is proposed to come down from ₹25,000 to ₹10,000. Notices for amounts below ₹10,000 would not ordinarily be issued, and pending low-value notices would be withdrawn.

For smaller enterprises that have lived under the shadow of investigation, and for larger companies whose employees often carried personal exposure, the message is decisive. The Government is choosing to trust its taxpayers, and enforcement is moving from a default setting to one based on risk.

2. Refunds in three days bring fresh oxygen to every balance sheet

Working capital is the lifeblood of business. For too long, exporters and inverted-duty taxpayers have borne the brunt of delayed refunds, and of refunds restricted to inputs alone. The Council has now addressed this at the level of system design.

The acknowledgement window shrinks from 15 days to 10, with deemed acknowledgement on the eleventh day. In both zero-rated and inverted-duty cases, 90% of the provisional refund will be sanctioned automatically within three working days, using system-based risk evaluation and without officer intervention. In a phased rollout, inverted-duty refunds will extend to input services from 1 November 2026 and to capital goods from 1 April 2027.

This will release trapped credit across textiles, footwear, pharmaceuticals, chemicals, electronics and heavy manufacturing. It will give fresh momentum to Make in India and the PLI programme, improve liquidity and bring the idea of GST neutrality much closer to economic reality.

3. Credit is the real reform for India Inc

For large businesses, the most persistent GST difficulty has rarely been the headline rate. It has been the availability and timing of input tax credit, and the processes involved in claiming it.

The 57th Council has heard that concern. The list of blocked credits under Section 17(5) is recommended to be relaxed, allowing input tax credit on outdoor catering, group health and life insurance for employees, telecom towers, pipelines running outside factory premises, free samples, and goods written off on statutory expiry.

This is among the most important recommendations of the meeting. The real promise of a destination-based consumption tax is seamless credit across the supply chain, and a clearer credit framework strengthens the core GST principle of preventing cascading.

Alongside this, the Council has recommended changes to returns and reconciliation to reduce mismatches between outward supplies, tax liabilities and credit claimed. The stated aim is fewer system-generated notices and stronger integrity of credit across the supply chain. Broader legitimate credit, together with better reconciliation, can remove much of the hidden cost that blocked credits impose on business.

4. A system built for the small seller and the aspiring entrepreneur

The Council has recommended clearer registration requirements, a more user-friendly portal, automatic acceptance of several registration amendments and greater system-based handling of cancellation and revocation. Small suppliers selling through e-commerce operators could also obtain simplified registration in States where they have no physical presence, subject to prescribed conditions, by using the operator's warehouse as their principal place of business.

In the same spirit, the Council has proposed a waiver of late fees for eligible taxpayers with turnover up to ₹5 crore, provided they file within the specified window. It has also recommended an Annual Return Quarterly Payment scheme for qualifying B2C businesses.

Together, these measures show a system being designed around the everyday realities of smaller businesses.

5. Everyday wins for the aam aadmi that the headlines might miss

Several decisions will quietly improve daily life. Specified Delivery services supplied through e-commerce operators are recommended to be rationalised at 5%. Hotels charging up to ₹7,500 per night, restaurants and gyms will now be able to claim limited input tax credit within the same line of business, which should ultimately be reflected in the prices consumers pay.

6. The real test is implementation

The Council's recommendations are significant, but they do not mark the end of the reform process. Many will require amendments to the CGST Act and Rules, along with notifications, circulars and matching changes to the GST technology platform. The quality of implementation will decide whether policy intent translates into a better experience for taxpayers.

In 2017, the Prime Minister described GST as a "Good and Simple Tax". Nine years on, with the 56th and 57th meetings taken together, that description is beginning to feel earned. Addressing industry recently, the Prime Minister spoke of India's "Reform Express" running at full speed, and the 57th Council has laid fresh track for that train.

The Government's vision of a supportive ecosystem for innovation, entrepreneurship and growth, and a more efficient, citizen-friendly economy, is visibly taking shape. A tax regime that can carry the weight of the Viksit Bharat 2047 ambition is no longer just an aspiration. It is being built, meeting by meeting, in full view of the country.

For trade and industry, this is a progressive and forward-looking reform. The 57th Council has delivered relief where business has long felt the pinch. Arrest powers are set to go, prosecution is reserved for serious fraud, and penalties and petty notices are being cut back. Refunds are moving to a three-day automated cycle, and credit is opening-up on items that were blocked for years. Small sellers gain simpler registration and lighter compliance, and consumers stand to benefit through fairer pricing. Taken together, GST 2.0 reflects a mature, business friendly tax system that trusts taxpayers, frees up working capital and backs growth. It is a reform trade can welcome with confidence.

The Reform Express has left the station, and this time every Indian has a seat on it.

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