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## **Fiscal Centralization through GST: Challenges to Cooperative Federalism and State Autonomy in India**

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### **ABSTRACT**

The introduction of the Goods and Services Tax (GST) in India marked a transformative shift in the country's indirect taxation system, aiming to streamline the tax structure, foster economic integration, and enhance revenue efficiency. However, this reform has also sparked significant debates regarding its implications for cooperative federalism and state autonomy. This paper explores the fiscal centralization trends induced by the GST regime and their consequences on the Indian federal structure. While the GST Council was envisioned as a collaborative institution to harmonize fiscal policymaking between the Centre and the states, its functioning has often been criticized for favoring the Centre, leading to an erosion of trust among stakeholders. The central government's increasing reliance on cesses and surcharges, which fall outside the divisible tax pool, has further strained the fiscal space of states, thereby exacerbating vertical fiscal imbalances. Moreover, the weakening of unconditional transfers and inadequate compensation mechanisms has curtailed the states' ability to finance development needs independently. Drawing from literature, policy analysis, and institutional frameworks, the study critically examines the functioning of the GST Council, the nature of fiscal transfers, and the broader implications for federal governance. It concludes with a call for institutional reforms such as strengthening the



role of the Finance Commission, reimagining fiscal devolution, and enhancing intergovernmental dialogue to restore a balanced and cooperative fiscal federalism. The findings underscore the need to recalibrate Centre-State relations in a manner that safeguards the constitutional vision of a federal India while pursuing economic efficiency.

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## 1. Introduction:

The adoption of the Goods and Services Tax (GST) in India marked a watershed moment in the country's fiscal history and economic governance. Envisioned as a unified tax regime to simplify indirect taxation, promote economic efficiency, and enhance revenue collection, GST represents one of the most significant economic reforms undertaken since liberalization in 1991. However, while GST has been lauded for fostering a seamless national market and enhancing tax compliance, it has also raised profound questions about the evolving nature of the Indian federal structure, especially concerning fiscal centralization, state autonomy, and the spirit of cooperative federalism. The Indian Constitution envisages a quasi-federal system, where powers and responsibilities are distributed between the Union and the states. Over the years, the balance of power between the Centre and states has been shaped through constitutional provisions, political dynamics, and economic imperatives. Fiscal federalism, a key pillar of Indian federalism, entails the division of taxation powers and revenue responsibilities between different levels of government. Traditionally, states in India had autonomy over several indirect taxes such as VAT, sales tax, entertainment tax, and entry tax, which provided them not only fiscal independence but also the ability to tailor policies to regional needs. With the implementation of GST through the 101st Constitutional Amendment in 2017, these individual taxes were subsumed into a uniform structure, fundamentally altering the landscape of fiscal governance in India. The introduction of GST, while a move towards greater efficiency and a unified national economy, has been accompanied by growing concerns over fiscal centralization. Under the new regime, states surrendered a significant portion of their taxation powers to the GST Council- an institutional body jointly constituted by the Centre and the states. The Council was designed to embody the principles of cooperative federalism, where both levels of government would jointly make decisions on tax rates, exemptions, and administrative procedures. However, in practice, the extent to which the GST Council functions as a truly federal body remains debatable. Critics argue that the decision-making process in the Council is heavily skewed in favor of the Centre, leading to an imbalance in Centre-State relations and constraining state



autonomy. This reconfiguration of fiscal power is most visible in the context of revenue sharing and fiscal transfers. One of the foundational principles of fiscal federalism is the equitable devolution of resources, taking into account the varying developmental needs and revenue capacities of states. The Finance Commission, constitutionally mandated to recommend tax devolution and grants-in-aid, plays a crucial role in maintaining this balance. However, with the centralization of indirect taxes under GST, states have become more dependent on the Centre for fiscal transfers, especially through mechanisms such as compensation cess. This dependency was starkly exposed during the COVID-19 pandemic, when delays in GST compensation payments led to financial distress in many states, reigniting the debate on fiscal imbalance and the erosion of federal principles. The promise of GST was underpinned by an assurance that the Centre would compensate states for any revenue losses for a period of five years. This compensation mechanism was meant to serve as a buffer during the transition phase. Yet, as revenue collections fell short of expectations, disputes emerged regarding the adequacy and timeliness of compensation payments. States, particularly those with limited internal resources, began voicing concerns about their shrinking fiscal space and the increasing intrusion of the Centre into their financial autonomy. The experience highlighted the structural weaknesses of the GST model, where fiscal centralization without adequate safeguards can exacerbate regional disparities and undermine the federal ethos of the Constitution. Moreover, the operational framework of the GST Council has also come under scrutiny. While the Council is meant to be a forum for consensus-building, there have been instances where key decisions were either delayed or imposed without full consensus, reflecting tensions within the federal compact. The weighted voting system in the Council, which gives the Centre one-third of the votes and the states two-thirds collectively, has been criticized for giving disproportionate influence to the Centre, particularly when states are politically fragmented. This raises important questions about the functioning of cooperative federalism and whether the existing institutional design is sufficient to uphold the principles of equitable federal governance. The challenges posed by GST to the Indian federal structure are not merely administrative but also constitutional and political. The 101st Amendment redefined the distribution of fiscal powers, yet it did not adequately resolve the tensions inherent in such a centralized tax regime. As states grapple with issues of revenue shortfall, lack of fiscal autonomy, and constrained policy-making capacity, the broader implications for state-led development and sub-national democracy become evident. Fiscal centralization, when unchecked, can stifle innovation at the state level, hinder effective public service delivery, and weaken the accountability of state governments to their electorates. Furthermore, the shifting dynamics of Centre-State fiscal relations have implications for long-term governance and political economy. States often bear the brunt of expenditure responsibilities in



critical sectors such as health, education, and infrastructure. A reduced capacity to mobilize resources independently can impair their ability to respond to local needs and priorities. In the absence of a robust and predictable fiscal transfer system, the mismatch between expenditure obligations and revenue capabilities can lead to fiscal stress and policy paralysis. This vertical fiscal imbalance, a recurring theme in Indian fiscal federalism, has become more pronounced in the GST era. The role of the Finance Commission in this evolving scenario also warrants examination. As an institution tasked with recommending tax devolution and grants, it must now grapple with a fundamentally altered revenue landscape. The shrinking divisible pool of taxes, owing to the GST framework and increasing cesses and surcharges retained by the Centre, challenges the efficacy of the Commission's recommendations. The growing reliance on non-divisible sources of revenue by the Centre further erodes the fiscal space available to states, undermining the spirit of equitable distribution and shared prosperity. The GST was conceived as a transformative reform to enhance economic efficiency and reduce tax cascading, its implications for India's federal structure have been far-reaching and complex. The move towards fiscal centralization, driven by the logic of national uniformity and ease of doing business, must be balanced against the constitutional imperative of state autonomy and the operational necessity of cooperative federalism. As the Indian economy navigates a post-pandemic recovery and addresses emerging developmental challenges, recalibrating Centre-State fiscal relations will be crucial to ensuring inclusive and resilient growth. Strengthening federal governance, institutionalizing greater transparency in the GST Council, and reimagining fiscal transfers in light of contemporary realities are vital steps toward preserving the federal character of the Indian Republic.

## 2. Literature Review:

The transformation of India's fiscal federal structure through the implementation of the Goods and Services Tax (GST) has ignited an important discourse in academic and policy circles. The implementation of GST has far-reaching implications on centre-state fiscal relations, revenue distribution, and federal autonomy. Scholars have critically evaluated the strengths and weaknesses of the evolving fiscal architecture, particularly focusing on the shift from a multi-tax system to a unified indirect taxation regime under GST. Vijay Kelkar (2019) advocates for a new fiscal federalism framework for India, emphasizing that the current structure heavily dependent on the Union Finance Commission needs recalibration to address vertical and horizontal imbalances. He proposes a four-pillar model that recognizes development imbalances and calls for a more balanced and dynamic structure of intergovernmental fiscal relations. Similarly, M. Govinda Rao (2022) highlights the governance challenges emerging from excessive centralization, particularly after the introduction of GST. He notes



that the absence of effective intergovernmental mechanisms has led to trust deficits, especially in light of disputes related to GST compensation. Rao stresses the importance of designing institutional structures that allow for intergovernmental bargaining and conflict resolution. Raghendra Jha (2013) provides a detailed analysis of India's fiscal federalism within the context of indirect tax reform. He argues for a comprehensive review of federal transfer formulas and the restructuring of fiscal relations to sustain state-driven growth. The need for an appropriately constituted GST system that respects state autonomy is central to his thesis. Asit Mohanty and Suresh Kumar Patra (2016) critique the Union Budget 2016–17 for failing to reflect the spirit of fiscal federalism. They assert that reductions in funding for centrally sponsored schemes (CSS) and increased reliance on non-divisible cess and surcharges have put additional pressure on states, thereby undermining fiscal decentralization and autonomy. Nirvikar Singh (2007, 2015) has been a consistent contributor to literature on Indian fiscal federalism. His works provide insights into decentralization, intergovernmental transfers, and accountability mechanisms. Singh reviews constitutional amendments and institutional reforms, stressing the need for a balanced approach to revenue and expenditure responsibilities among different tiers of government. Chanchal Kumar Sharma (2005) presents a conceptual overview of fiscal decentralization and the necessary conditions for its success. He argues that both over-centralization and excessive decentralization can be detrimental to constitutional federalism. A dynamic equilibrium must be maintained to ensure efficient governance. K. J. Joseph and L. A. Kumary (2023) analyze GST from a state-level perspective with a special reference to Kerala. Their findings reveal that GST has failed to ensure revenue neutrality, with many states witnessing a decline in revenue despite compensation guarantees. Issues around tax sharing and compensation highlight the limitations of cooperative federalism under GST. The dual GST model, analyzed by Pramod Kumar Pandey, brings both opportunities and challenges. While it supports cooperative federalism and promotes destination-based taxation, concerns remain regarding the fiscal sustainability of states after the five-year transition period of compensation. Lekha Chakraborty (2019) notes that Indian fiscal federalism is undergoing fundamental changes following the replacement of the Planning Commission with NITI Aayog, the introduction of GST, and a new framework for tax devolution by the 14th Finance Commission. These shifts demand new institutions and mechanisms to protect state interests and fiscal autonomy. Parthasarathi Shome (2021) evaluates the design and conceptual basis of Indian GST, highlighting issues of cascading taxes and tax evasion. He critiques the functioning of the GST Council and the challenges of managing interstate trade within the GST framework. Administrative and structural issues have also been studied extensively. S. Jain examines flaws such as rate multiplicity and dual taxation under the GST regime, noting that despite goals of



harmonization and enhanced compliance, the regime has not effectively addressed cascading tax effects. Hari Krishna Dwivedi (2024) emphasizes the need for second-generation GST reforms. While GST has reduced tax multiplicity and improved structure, challenges related to tax slab rationalization and base expansion persist, necessitating further reforms. The journey toward GST implementation, traced by Sanjay Prakash Srivastava and Manisha Patawari (2020), reflects a historical perspective starting from the L.K. Jha Committee to the 101st Constitutional Amendment. They assess the GST's potential to create a unified economic structure but also recognize the teething issues and transitional challenges. Mahesh C. Purohit and Vishnu Kanta Purohit (2010) explore revenue implications of GST, suggesting that a standard rate of 8% could ensure adequate revenue generation. However, they also note that achieving revenue neutrality depends on comprehensive GST coverage and compliance. In another contribution, Raghendra Jha and Azad Bali explore the design and policy spillovers of GST, linking its efficacy to broader issues of federal transfers and economic predictability. They advocate a comprehensive review of centre-state fiscal relations to sustain economic growth. C. Rangarajan and Dinesh Kumar Srivastava (2024) focus on the future of fiscal federalism in India, examining the recommendations of the Sixteenth Finance Commission. They suggest reforms in vertical and horizontal devolution criteria and debt sustainability for balanced fiscal governance. R. Srinivasan and S. Raja Sethu Durai (2024) analyze vertical fiscal imbalance (VFI) trends from 2005 to 2021. They propose reassigning commodity taxation powers to states as a solution to alleviate VFI and strengthen state finances. Sijbren Cnossen (2013) offers insights into pre-GST preparations and suggests the need for self-assessment systems and structured tax assignment. He emphasizes the role of checks and balances in ensuring efficiency in GST implementation. Finally, Amarnath and Singh (2019) evaluate the implications of the 14th Finance Commission's recommendations on states' autonomy and social sector investments. While increased tax devolution has brought gains, the withdrawal of central schemes and change in CSS sharing patterns have posed new fiscal challenges for states. Together, these scholarly contributions provide a comprehensive understanding of the evolution, challenges, and future directions of fiscal federalism in India. They highlight the tension between fiscal centralization under GST and the constitutional vision of cooperative federalism and state autonomy. The literature emphasizes the importance of institutional reform, equitable revenue sharing, and adaptive governance to restore balance in India's fiscal federal structure. The implementation of the Goods and Services Tax (GST) in India has been widely studied as a landmark fiscal reform with deep implications for the country's federal structure. While scholars recognize GST's potential to simplify the indirect tax regime, there is significant debate on its impact on fiscal federalism, state autonomy, and cooperative governance. A recurring theme in the literature is the



tension between the objectives of tax harmonization and the preservation of state fiscal independence. Kelkar (2019) argues for a “new fiscal federalism” in India, noting that the current framework heavily dependent on the Union Finance Commission requires recalibration to address vertical and horizontal imbalances. His four-pillar model emphasizes development equity and a more dynamic structure for intergovernmental fiscal relations. However, his analysis is largely normative, with limited empirical state-level insights, leaving unanswered questions about how these recommendations perform in practice. Rao (2022) highlights the governance challenges emerging from increased fiscal centralization post-GST, especially in the absence of robust intergovernmental bargaining mechanisms. The trust deficit between Centre and states—amplified by delayed GST compensation during crises such as COVID-19—illustrates the fragility of cooperative federalism. This finding resonates with state-specific cases: for example, Kerala faced substantial revenue shortfalls despite relatively high compliance rates, while Punjab’s fiscal stress worsened due to dependency on compensation grants. Jha (2013) provides a comprehensive examination of India’s fiscal federalism within the context of indirect tax reforms, identifying GST as a structural shift requiring balanced revenue-sharing frameworks. His work, however, predates the operational realities of GST, leaving room for updated empirical analysis. More recent state-level studies (Joseph & Kumary, 2023) on Kerala’s GST experience reveal tensions between revenue neutrality assumptions and ground realities, underscoring the need for data-driven federal negotiations. International experiences offer valuable lessons. Canada’s Harmonized Sales Tax (HST) model demonstrates how provinces can retain a degree of fiscal flexibility through negotiated revenue-sharing agreements, while Australia’s GST framework illustrates the role of an independent grants commission in ensuring equitable distribution. Germany’s value-added tax (VAT) system provides another example of integrating subnational fiscal needs into the central collection mechanism without severely compromising state autonomy. Yet, Indian literature often underutilizes these global comparisons, missing opportunities to contextualize reform pathways. Overall, the literature indicates consensus on GST’s potential economic efficiencies but reveals divergent perspectives on its political and fiscal consequences. Critical gaps include the lack of comprehensive state-level comparative studies, limited integration of international best practices, and insufficient analysis of institutional mechanisms for conflict resolution. This study aims to address these gaps by combining a critical review with empirical and comparative insights, thereby contributing to the ongoing discourse on fiscal centralization and cooperative federalism in India.

**Table 1: Summary Table of Reviewed Literature**

| Year | Author(s)                   | Key Findings   |
|------|-----------------------------|--|
| 2019 | Vijay Kelkar                | Proposed four-pillar federalism model; noted imbalances in fiscal structure.           |
| 2022 | M. Govinda Rao              | Identified governance issues due to centralization and GST compensation trust deficit. |
| 2013 | Raghbendra Jha              | Urged full-scale federal reform including GST structure and transfer mechanisms.       |
| 2016 | Mohanty & Patra             | Union Budget reduced state support; rise in non-divisible cesses.                      |
| 2007 | Nirvikar Singh              | Reviewed decentralization and fiscal accountability mechanisms.                        |
| 2015 | Nirvikar Singh              | Reviewed fiscal structures and constitutional amendments.                              |
| 2005 | C.K. Sharma                 | Emphasized balance in fiscal decentralization to protect federalism.                   |
| 2023 | Joseph & Kumary             | GST affected state revenues and revenue neutrality not achieved.                       |
| 2020 | P.K. Pandey                 | Destination-based tax promotes federalism but future revenues uncertain.               |
| 2019 | Lekha Chakraborty           | Stressed need for institutions post-Planning Commission and under GST.                 |
| 2021 | P. Shome                    | Analyzed GST design flaws and need for inter-state coordination.                       |
| 2024 | H.K. Dwivedi                | Called for second-generation reforms like rate rationalization.                        |
| 2020 | Srivastava & Patawari       | Traced GST's journey and highlighted implementation challenges.                        |
| 2010 | M.C. Purohit & V.K. Purohit | Suggested 8% GST rate for revenue neutrality; depends on coverage.                     |
| 2024 | Rangarajan & Srivastava     | Proposed reforms in fiscal devolution and institutional mechanisms.                    |
| 2024 | Srinivasan & Durai          | VFI increasing; recommended restoring states' tax powers.                              |
| 2013 | S. Cnossen                  | Recommended BOA-based monitoring for efficient GST rollout.                            |
| 2019 | Amarnath & Singh            | Post-14th FC, states gained devolution but lost scheme support.                        |

### 3. Research Objectives:

***RO1: To examine the impact of GST implementation on the fiscal autonomy of Indian states.***

The implementation of the Goods and Services Tax (GST) in India has substantially altered the fiscal landscape, particularly affecting the autonomy of state governments. This objective seeks to analyze the extent to which the GST regime has centralized fiscal powers and diminished the independent revenue-



raising capacities of states. Prior to GST, states had significant control over various indirect taxes such as VAT, sales tax, and entry tax. However, with these taxes subsumed under GST, states now rely heavily on revenue-sharing mechanisms managed by the GST Council, where the Centre plays a dominant role. Furthermore, the increasing use of cesses and surcharges by the central government which are excluded from the divisible pool has further limited the quantum of funds available to states. By focusing on these structural shifts, this objective will assess how state governments have coped with constrained financial autonomy, the implications for public service delivery and development spending, and whether the compensation mechanisms have been sufficient and sustainable. This exploration is crucial for understanding whether GST has compromised the federal principle of financial independence for sub-national entities in India.

***RO2: To evaluate the challenges faced by the GST Council in promoting cooperative federalism.***

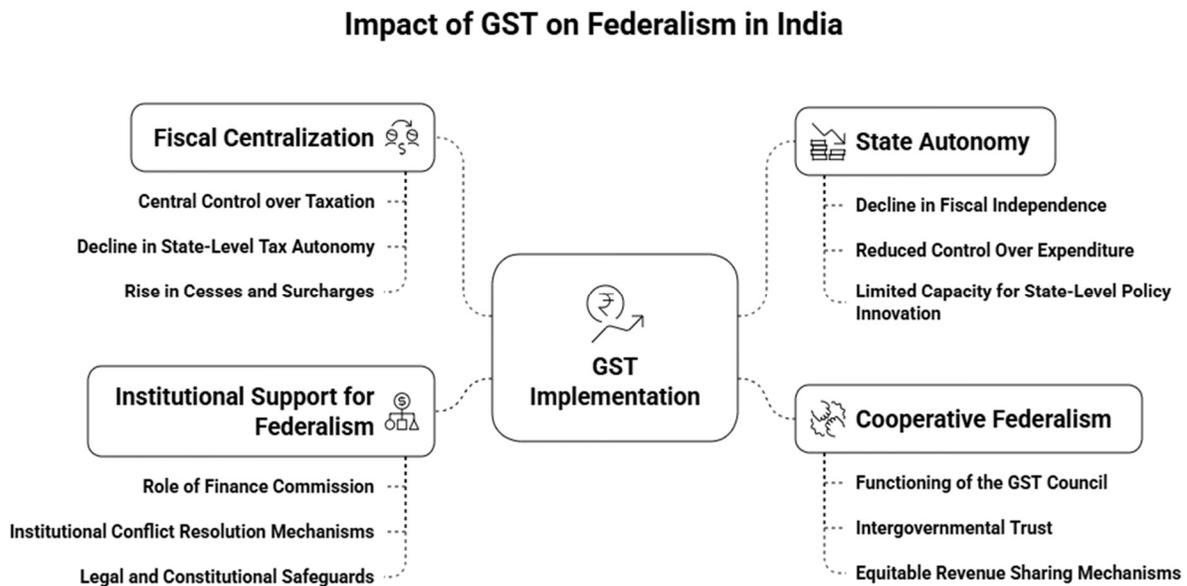
While the GST Council was constitutionally envisaged as a collaborative platform to ensure equitable fiscal policymaking, its operational dynamics have revealed several shortcomings. This research objective focuses on assessing the Council's role in upholding the principles of cooperative federalism and consensus-based decision-making. There have been growing concerns about the Centre's disproportionate influence in the Council's decisions, especially during times of fiscal stress such as the delayed compensation during the COVID-19 pandemic which have led to mistrust and intergovernmental tensions. This objective will analyze case studies of key Council decisions, the voting structure, conflict resolution mechanisms, and the degree of transparency in negotiations. Moreover, it will explore the trust deficit that has emerged due to unilateral actions by the Centre, such as changes in compensation formulas or delays in payments. The aim is to assess whether the Council is functioning as an inclusive and democratic body or if it is increasingly becoming a tool for fiscal centralization. Evaluating these dynamics is vital to propose reforms that can strengthen intergovernmental trust and ensure a more balanced fiscal relationship between the Union and the states.

***RO3: To propose institutional and structural reforms for strengthening fiscal federalism in the post-GST era through domestic and international best practices.***

Given the emerging challenges to state autonomy and cooperative federalism, this objective seeks to identify and recommend institutional and structural reforms capable of recalibrating India's fiscal federal architecture in the wake of GST. The post-GST landscape has increased state dependence on vertical transfers while reducing their fiscal autonomy. To address this imbalance, it is essential to reassess the design of fiscal transfers particularly the mandate of the Finance Commission, the formula for tax

devolution, and the structure of centrally sponsored schemes. Drawing on international experiences, the study will evaluate the Canadian model of the Harmonized Sales Tax (HST), where negotiated agreements allow provinces to maintain a measure of fiscal flexibility within a harmonized tax framework. The Australian GST system will also be examined for its use of an independent Commonwealth Grants Commission to ensure equitable revenue distribution among states. Similarly, Germany's value-added tax (VAT) allocation system where a fixed share of revenues is distributed to states based on population and fiscal capacity offers insights into balancing national tax uniformity with subnational fiscal needs. Incorporating these global lessons alongside Indian constitutional provisions, this objective aims to develop actionable reforms. These may include establishing a permanent Intergovernmental Fiscal Council for dispute resolution, enhancing transparency and accountability in the GST Council's decision-making, and placing constitutional limits on the use of non-divisible revenue instruments like cesses. Such measures are critical to safeguarding cooperative federalism, ensuring equitable growth, and preserving states' ability to implement development strategies without excessive central intervention.

#### 4. Conceptual Model:



#### 5. GST and the Indian Federal Balance: Unpacking the Challenges to Cooperative Federalism and State Autonomy:

##### *Centralization of Fiscal Power:*



The implementation of the Goods and Services Tax (GST) in India has raised significant challenges to cooperative federalism and state autonomy. While GST aims to streamline taxation and enhance revenue, it has inadvertently centralized fiscal power, leading to tensions between the central and state governments. This overview will explore the implications of GST on fiscal federalism, the challenges it poses to state autonomy, and the need for reform.

The implementation of the Goods and Services Tax (GST) in India has significantly reshaped the nation's fiscal landscape. While intended to unify and simplify the country's indirect taxation system, GST has also centralized substantial fiscal authority in the hands of the central government. According to Mohanty and Patra (2016), this transition has undermined the fiscal autonomy of the states, as many previously state-controlled taxes like VAT, octroi, and entry tax were subsumed under GST. This shift has limited states' ability to independently raise revenues and design tax policies tailored to their unique socio-economic contexts. One of the institutional mechanisms introduced to maintain federal balance was the GST Council, a body comprising representatives from both the Centre and states. Though created to embody the spirit of cooperative federalism, the Council's functioning has often leaned towards central dominance. Rao (2022) highlights instances where the central government has unilaterally delayed GST compensation payments promised to states, particularly during fiscal crises like the COVID-19 pandemic. These actions have resulted in a trust deficit between the Centre and the states, undermining the credibility of cooperative decision-making. Additionally, the Centre's growing reliance on cesses and surcharges which fall outside the divisible pool of central taxes shared with states has further tilted the fiscal balance. These instruments allow the central government to retain a higher share of tax revenues without formal consultation with states, effectively bypassing constitutional revenue-sharing mechanisms. Collectively, these trends point to a worrying shift away from fiscal federalism towards fiscal centralization, threatening the financial independence of India's states and raising concerns about the long-term viability of equitable intergovernmental relations.

### ***Challenges to State Autonomy:***

State governments in India are facing a multidimensional erosion of their autonomy in the wake of GST implementation. One of the most pressing challenges is the decline in unconditional transfers from the central government, coupled with increased financial responsibilities. Mohanty and Patra (2016) argue that the Centre's strategic use of cesses and surcharges revenue instruments not shared with states has significantly reduced the funds available to states for development and welfare programs. This has constrained their ability to independently formulate policies and execute state-specific development



agendas. The design of the GST system further compounds the issue. Although states have representation in the GST Council, they do not possess sufficient leverage to influence major decisions. The weighted voting structure disproportionately empowers the Centre, often marginalizing dissenting voices from the states. Moreover, the lack of robust intergovernmental bargaining mechanisms has limited states' capacity to negotiate terms, particularly in situations of fiscal distress. Rao (2022) emphasizes that the absence of a conflict resolution framework has allowed the Centre to override legitimate fiscal claims of states, such as the timely payment of GST compensation. This imbalance severely limits states' abilities to manage their own fiscal policies. Many states are forced to depend more on central transfers, thereby undermining the principles of federal autonomy enshrined in the Indian Constitution. As states shoulder significant expenditure responsibilities especially in health, education, and infrastructure diminished fiscal capacity can lead to under-provisioning of essential services and widening regional disparities. In essence, the current fiscal setup has curtailed states' freedom to act as independent policy laboratories, stifling innovation and weakening democratic accountability at the sub-national level.

### ***Need for Reform:***

The current trajectory of fiscal centralization through GST necessitates urgent and comprehensive reform to restore balance within India's federal framework. One of the most pressing areas for reform is the structure of fiscal transfers between the Centre and states. Jha (2013) advocates for a complete review of the current transfer mechanisms, arguing that predictable and equitable fiscal relations are crucial to enabling state-driven economic growth. Inadequate compensation mechanisms, over-centralized control, and opaque resource allocation processes not only reduce fiscal transparency but also disincentivize states from making proactive developmental investments. Another essential area of reform lies in strengthening institutional mechanisms that uphold fiscal federalism. Singh (2007) emphasizes the need for robust frameworks that foster transparency, inclusivity, and accountability in intergovernmental relations. This could involve reforming the GST Council to ensure fairer representation and decision-making procedures or establishing a permanent Intergovernmental Fiscal Council that could mediate fiscal disputes. Such institutions would act as neutral platforms for negotiation, helping to depoliticize fiscal matters and build trust among stakeholders. Moreover, enhancing the constitutional role of the Finance Commission in overseeing equitable distribution of resources and recommending grants-in-aid could serve as a corrective to excessive centralization. Reforms should also aim to rationalize the use of cesses and surcharges by the Centre, ensuring that all revenue instruments contribute to the divisible pool. In sum, meaningful reform must address both structural inefficiencies and power imbalances in India's fiscal federal system. A recalibrated model, based on mutual trust and shared responsibilities, is



critical to ensuring cooperative federalism and preserving the autonomy and vibrancy of India's states in the post-GST era.

## 6. Discussion:

The implementation of GST has fundamentally reshaped India's federal financial architecture, bringing both opportunities and challenges. While the reform aimed to unify and simplify the taxation landscape, its unintended consequence has been a growing centralization of fiscal power, with significant repercussions for the principles of cooperative federalism and state autonomy. A key theme emerging from the study is the shifting balance of power between the Centre and states. Although the GST Council was intended as a forum for collaborative decision-making, in practice, the structure has often privileged the Centre. The weighted voting system, the limited capacity of states to influence key decisions, and the Centre's unilateral decisions especially on compensation issues have strained intergovernmental relations. This erodes the very principle of consensus that underpins cooperative federalism. Another area of concern is the Centre's increasing reliance on cesses and surcharges, which are not part of the divisible pool of taxes. This practice not only reduces the overall pool of resources shared with states but also reflects a lack of transparency and predictability in fiscal transfers. As highlighted during the COVID-19 pandemic, delayed or insufficient compensation has severely affected state governments' financial planning and public service delivery. Many states, already constrained by limited taxation powers, found themselves overburdened and under-resourced. The discussion also reveals that these issues are not just fiscal or administrative in nature but have constitutional and political dimensions. The Indian federal structure, while quasi-federal, relies on a delicate balance of trust and cooperation. GST, without strong mechanisms for negotiation, conflict resolution, and institutional safeguards, risks undermining this balance. At the same time, the reform has also brought some positive outcomes. A uniform tax system across states has reduced tax cascading, simplified compliance, and created a broader tax base. These are important gains that must be preserved. However, to ensure sustainability, the architecture of GST must evolve to address emerging federal tensions. Hence, the path forward lies in a dual approach preserving the economic gains of GST while structurally reforming the federal fiscal framework. Strengthening institutions like the Finance Commission, reforming the GST Council to ensure equal participation, and making compensation mechanisms more predictable and legally binding are essential. Without such reforms, the potential benefits of GST could be outweighed by the long-term erosion of India's federal values.



## 7. Conclusion:

The Goods and Services Tax (GST) reform in India was introduced with the noble intent of creating a unified market, eliminating the cascading effect of multiple indirect taxes, and improving tax efficiency. While these objectives remain relevant and largely valid, the experience of implementation has revealed several unintended consequences most notably, the centralization of fiscal power at the expense of state autonomy and cooperative federalism. The 101st Constitutional Amendment restructured the country's fiscal federalism by subsuming a number of state and central taxes into a single regime. Although this simplification was welcomed, the erosion of independent revenue powers at the state level has posed serious challenges to the principles of federal governance. States, particularly those with limited internal revenue-generating capacities, have become increasingly dependent on the Centre for fiscal transfers. The promise of a compensation mechanism for revenue loss was a critical feature to ease this transition; however, delays, shortfalls, and lack of transparency in its implementation have diminished trust in the system. Furthermore, the reliance on non-divisible revenue instruments like cesses and surcharges by the Centre continues to deprive states of their fair share of tax revenues. This has increased vertical fiscal imbalance and reduced the predictability and transparency of resource flows. Consequently, states face a constrained fiscal environment, which hampers their ability to deliver essential public services, plan long-term development, and tailor policies to regional needs. deficit within the federal fiscal architecture. Going forward, a set of institutional and structural reforms is essential to recalibrate the Centre-State fiscal relationship. Strengthening the role of the Finance Commission to guide fair tax devolution, enhancing the autonomy and accountability of the GST Council, and establishing a permanent Intergovernmental Fiscal Council are vital steps. Equally important is the rationalization of the tax structure, including limiting the use of cesses and surcharges that bypass revenue-sharing norms. GST, while a transformative reform, must not become a vehicle for unchecked fiscal centralization. Its success lies not only in economic efficiency but also in its ability to uphold the constitutional values of federalism and participatory governance. A recalibrated fiscal system where both the Centre and states collaborate as equal stakeholders will not only strengthen cooperative federalism but also ensure inclusive, regionally balanced, and sustainable development across India.

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