

Did GST 2.0 Reduce Classification Disputes, or Relocate Them?

Chetan Chopra

Welham Boys' School, 5 Circular Road, Dalanwala, Dehradun, Uttarakhand 248001, India

Abstract

The GST (Indirect Goods and Services Tax) 2.0 reform of 22 September 2025 replaced India's four-rate schedule with two principal slabs. The government's stated rationale was that fewer rates would mean fewer classification disputes. This paper tests that argument against a census of 3,071 published Authority for Advance Ruling (AAR) decisions from July 2017 to May 2026, each coded by statutory issue under Section 97(2) of the CGST Act, 2017.

Rulings decided up to and including December 2025 form the pre-reform window (a 3-month buffer from the reform date, September 2025, is maintained since the data set dates are of when the decision came, not when the GST ARA01 was filed). Those from January 2026 onward form the post-reform window. Classification shares across the two windows were compared using two-proportion z-tests and test the pre-reform annual series for linear trend to establish whether any post-reform change amounts to a genuine break, and not a pre-existing pattern.

The classification share rose rather than fell, from 69.3 per cent before the reform to 77.8% per cent after it. The result is unchanged under the stricter coding rule. The pre-reform series shows no statistically significant trend (slope = +0.46 percentage points per year, $p = 0.580$), indicating that the post-reform increase is better understood as a break rather than a continuation of an earlier trend.

On this record, the government's dispute-reduction claim is not supported. Classification questions occupy a larger share of the advance-ruling docket after the reform than before it, and the reform has worsened a second dispute front on the Inverted Duty Structure part.

Keywords: Economics; Public Finance; GST; Indirect Tax; Government Claim Verification.

1. Introduction

On 3 September 2025 the 56th GST Council recommended and CBIC notified on 17 September 2025, with effect from 22 September 2025 the largest restructuring of India's Goods and Services Tax since its launch in July 2017.^{2,4} The four principal rates of 5, 12, 18 and 28 per cent were compressed into a 5 per cent "merit" rate and an 18 per cent "standard" rate, with a third slab at 40 per cent reserved for sin and luxury goods.⁹ The government's stated rationale was that fewer slabs would produce fewer classification disputes.^{1,10}

The counter-intuition is equally mechanical. When the 12 per cent slab is abolished and its contents is redistributed between 5 and 18 per cent. This widens the merit-to-standard gap from roughly six to thirteen percentage points and raises the financial stakes of every misclassification for general public. And rate cuts that leave inputs taxed above outputs create inverted duty structures for producers, whose

blocked credit must be recovered through the Section 54(3) refund queue. On this view, simplification does not eliminate disputes, rather, it relocates them.

The Authority for Advance Ruling, established under Chapter XVII of the CGST Act, 2017, provides a useful setting for this test. Under Section 97(2), it can issue binding rulings on seven categories of questions, with classification of goods and services and the applicability of rate notifications among the most prominent (Table 1). The decisions are published on the GST Council portal (<https://gstcouncil.gov.in/authority-for-advance-ruling>) and cover the formal advance-ruling record.⁵

2. Hypotheses

H_0 (null). The post-reform classification share is equal to or lower than the pre-reform baseline.

H_1 (relocation). The post-reform classification share is higher than the pre-reform baseline.

3. Data

3.1 Extraction and coding

The population is the complete set of published AAR decisions under Indian GST, extracted from the GST Council portal in June 2026. The census contains 3,071 rulings covering July 2017 to May 2026. Each ruling was coded by statutory issue from the question text in the "Brief of Order" field. Extraction was automated using a custom Python routine; the code used to extract the ruling-level dataset are available on author's GitHub.⁶

A ruling is coded CLASS = 1 where its issue tags include (a) the classification of a good or of a service, or (b) the applicability of a rate or exemption notification (Table 1). Other issue types, including input-tax-credit admissibility, valuation, time of supply, registration, characterisation of supply, and liability turning on the person liable rather than the rate, are coded CLASS = 0.

Table 1. Section 97(2) statutory questions and CLASS coding.

Clause	Statutory question (Section 97(2))	CLASS	Rule
(a)	Classification of any goods or services or both	1	Primary + Strict
(b)	Applicability of a notification issued under the Act	1	Primary only
(c)	Determination of time and value of supply of goods or services or both	0	n/a
(d)	Admissibility of input tax credit	0	n/a
(e)	Determination of liability to pay tax	0	n/a
(f)	Whether the applicant is required to be registered	0	n/a
(g)	Whether any particular thing amounts to a supply	0	n/a

Note: Primary rule: CLASS = 1 on clauses (a) or (b). Strict rule: CLASS = 1 on clause (a) only. Source: CGST Act, 2017, Section 97(2).

3.2 Pre and Post reform definition

The reform took effect on 22 September 2025. The AAR records, however, are based on the date of the ruling and not the date on which the application was filed. This is relevant because Section 98(6) of the

CGST Act, 2017 provides a period of up to 90 days for the Authority to issue a ruling. I have therefore kept the rulings issued up to December 2025 in the pre-reform period. This leaves 2,913 rulings in the pre-reform group and 158 rulings from January 2026 onwards in the post-reform group.

The pre-reform window comprises every ruling up to and including December 2025 (2,913 rulings). The post-reform window comprises January 2026 onward (158 rulings).

4. Results and Discussion

4.1 Census summary

The census decomposition by window and coding rule is set out in Table 2.

Table 2. Census decomposition by window and coding rule.

Window	n	Primary CLASS=1	Primary %	Strict CLASS=1	Strict %
Pre-reform	2,913	2,018	69.3%	1,357	46.6%
Post-reform	158	123	77.8%	112	70.9%
Total	3,071	2,141	69.7%	1,469	47.8%

Note: Source: GST Council portal. Accessed June 2026.

4.2 two-proportion z-test

Under both coding rules, the post-reform classification share is higher than the pre-reform baseline (Table 3). Under the primary rule, the share rises from 69.3% to 77.8%, an increase of 8.6 percentage points ($z = +2.28$, $p = 0.022$). Under the stricter rule, it rises from 46.6% to 70.9%, an increase of 24.3 percentage points ($z = +5.96$, $p < 0.001$).

Table 3. Pre and post reform comparison using z-test.

Coding rule	Pre-reform %	Post-reform %	Δ (pp)	z	p
Primary (a + b)	69.3	77.8%	+8.6%	+2.28	0.022
Strict (a)	46.6	70.9	+24.3	+5.96	<0.001

Note: Results are significant at $p < 0.001$ for strict and, $p = 0.022$ for primary. Source: GST Council portal. Accessed June 2026.

4.3 pre-reform trend test

The obvious question is whether the post-reform jump is simply continuation of a movement already underway? Table 4 gives the classification share year by year across the pre-reform period.

Table 4. Year-wise classification share, pre-reform period.

Period	Total (n)	Primary CLASS = 1	Primary %	Strict CLASS = 1	Strict %
2017 (Jul to Dec)	53	46	86.8%	27	50.9%
2018	420	277	66.0%	208	49.5%
2019	486	333	68.5%	238	49.0%

Period	Total (n)	Primary CLASS = 1	Primary %	Strict CLASS = 1	Strict %
2020	386	262	67.9%	166	43.0%
2021	442	299	67.6%	189	42.8%
2022	387	270	69.8%	187	48.3%
2023	334	258	77.2%	135	40.4%
2024	180	109	60.6%	80	44.4%
2025 (Jan–Dec)	225	164	72.9%	127	56.4%
Pre-reform total	2,913	2,018	69.3%	1,357	46.6%

Note: Source: GST Council portal, June 2026.

For 2018–2025, the annual primary share has a slope of +0.46 percentage points per year ($r^2 = 0.054$, $p = 0.580$). Before the reform, the share varied between about 60% and 77%, with no clear upward or downward pattern. If the share had been increasing by two or three percentage points each year, the post-reform increase could reasonably be seen as part of an existing trend. However, that was not the case, and the post-reform figure falls outside the pre-reform range under both coding rules.

4.4 Absolute counts

A share can rise because the count of CLASS = 1 rulings grows or because total rulings fall. If non-classification filings fell faster than classification filings, the share would rise even with classification volumes flat or falling. Table 5 addresses this by comparing monthly counts.

Table 5. Late pre-reform vs. post-reform: monthly averages and Welch's t-test.

Measure	Late pre-reform (24 mo.)	Post-reform	Welch t	p
Total rulings per month	16.9	31.6	n.s.	>0.05
Primary classification rulings per month	11.4	24.6	-	-
Strict classification rulings per month	8.6	22.4	2.18	0.062

Note: Welch's t and p are not reported for Primary row. n.s. = not significant.

Total rulings per month are little changed and not statistically significant across the two windows. Strict-classification rulings per month increased. On five post-reform months that difference does not reach conventional significance (Welch $t = 2.18$, $p = 0.062$), so the comparison is suggestive, and not decisive. The direction of the monthly counts indicates the share-based result is not driven by a shrinking denominator.

4.5 Verdict

H_0 is rejected. The post-reform classification share does not fall, and it rises significantly under both coding rules, supporting H_1 . Therefore, the strong form of Government's claim of reduction in classification disputes is not supported by the data.

5. The Worsening Inverted Duty Structure

The reform also opened a dispute front on the refund side. An inverted duty structure (IDS) arises when

the GST rate on inputs is higher than the rate applicable to the finished product. Although this issue existed before the reform, the financial impact has become more significant where the gap between the two rates has widened.

For instance, a corrugated box manufacturer may buy paper and other raw materials on which GST is charged at 18 per cent, while the finished corrugated box is subject to GST at only 5 per cent. As a result, the manufacturer may accumulate input tax credit that cannot be fully adjusted against the output tax liability. The unutilised credit then has to be claimed as a refund under Section 54(3). A similar situation arises where products earlier taxed at 12 per cent were moved to 5 per cent while their inputs continued to attract GST at 18 per cent. The wider rate gap can consequently leave a larger amount of credit locked up with the taxpayer.

Practitioner commentary reports that inverted-duty refund claims increased sharply in April 2026.⁷ Thus, while reducing the number of rate boundaries may help avoid some classification and rate disputes, part of that benefit may be offset by the greater amount of input tax credit that taxpayers are required to recover through the refund process.

6. Conclusion

Across 3,071 rulings, the classification share of GST advance rulings rises after the reform, from 69.3 to 77.8% per cent ($z = +2.28$, $p = 0.022$). Eight years of annual data show no pre-existing trend that could account for the movement, with a slope that is statistically indistinguishable from zero. Monthly counts of strict-classification rulings point the same way, though they fall short of significance on the window available.

The reform also made Inverted Duty Structure worse. Inverted-duty claims increased in April 2026,⁷ and CBIC moved within eleven days of the reform to put a provisional refund mechanism in place, describing it as an interim measure pending legislative amendment.^{3,8}

The strong form of the government's dispute-reduction claim is not supported by this record. H_0 is rejected at $p = 0.022$ on primary, $p < 0.001$ on strict, and the evidence is consistent with relocation: GST 2.0 appears to have changed where classification disputes arise and raised the stakes at each surviving boundary rather than reducing their incidence.

The main constraint on this conclusion is the size of the post-reform sample. Five months and 158 rulings are sufficient to establish a significant shift in shares, but not to settle the absolute-count question, and not to distinguish a durable change from an early rush of applications following a rate change. Re-running the census each quarter as the post-reform record lengthens is the natural next step moving forward.

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