

ERGO

KEY HIGHLIGHTS | 57TH GST COUNCIL MEETING





Introduction

The 57th meeting of the GST Council was held in New Delhi on 8 October 2026 under the chairpersonship of the Union Finance & Corporate Affairs Minister, Smt. Nirmala Sitharaman. While the 56th meeting focused on rate rationalisation and reduction of rates, the 57th meeting made recommendations on process reforms covering registration, returns, refunds and adjudication; clarifications on the applicability of GST to certain goods and services; and other trade facilitation measures. No GST rates were changed at this meeting, and the GST Council has decided that rate matters will henceforth be taken up once a year at a meeting set aside for that purpose. This ERGO sets out each recommendation, as reported in the press release and the press conference, followed by our comments on the background, rationale and likely impact.

For ease of reference, the recommendations of the 57th GST Council meeting have been grouped in this ERGO under seven broad thematic heads, namely, Rationalisation of ITC, Litigation, Ease of Living, Refunds, Returns, Registration and Other Recommendations. A single recommendation may touch more than one theme; in such cases, it has been placed under the head that best reflects its primary thrust.

Recommendations of the 57th GST Council Meeting

Rationalisation of ITC

Rationalisation of blocked credits under Section 17(5): The GST Council has recommended amending Section 17(5) of the CGST Act to remove the restrictions on ITC on, inter alia, outdoor catering, health and life insurance, telecommunication towers, pipelines laid outside the factory premises, free samples, and goods destroyed or written off on expiry of shelf life as required by law. In a related measure, limited ITC in the same line of business will be allowed for restaurant and outdoor catering services, hotel accommodation up to INR 7,500 per unit per day, and gym or fitness services, in the same manner as currently available for passenger transport, tour operator and motor vehicle renting services.

Comments: Section 17(5)(b) blocks credit on outdoor catering and health and life insurance, except where the employer is obliged by law to provide them. The Explanation to Section 17, inter alia, excludes telecommunication towers and pipelines laid outside the factory premises from 'plant and machinery'. Section 17(5)(h) blocks credit on goods disposed of as free samples or destroyed. These restrictions have caused sustained disputes: telecom operators on towers, oil and gas companies on cross-country pipelines, pharmaceutical and FMCG companies on physician samples and expired stock, and employers generally on group insurance. Amending Section 17(5) and removing many of the specified restrictions is likely to positively impact companies across various industries. In the FMCG and pharma sectors, distribution of free samples is a key commercial consideration. Similarly, ITC allowance on health and life insurance, goods destroyed, etc., is expected to unlock potential cash optimisation and savings for various companies across sectors. The 55th meeting tightened Section 17(5)(d) retrospectively after the Supreme Court's Safari Retreats ruling, so this marks a deliberate move in the opposite direction for ordinary business expenditure. The changes will reduce



cascading for these sectors, but unless they are made retroactive or accompanied by an 'as is where is' regularisation, past demands may continue to be contested under the existing law.

Protection of credit for the honest buyer: During the press briefing following the conclusion of the meeting, the Union Finance Minister announced that a Committee of Officers will be constituted to examine the protection of a genuine buyer who holds a proper invoice, has received the goods and has paid the supplier in full. The Committee is expected to complete its study within three months, and an agenda item will be placed before the next GST Council meeting.

Comments: Section 16(2)(aa) and (c) of the CGST Act make the recipient's ITC conditional on the supplier furnishing the invoice in GSTR-1 and actually paying the tax. Read with Section 16(4) and the GSTR-2B linkage under Section 38, this has meant recovery of ITC from bona fide buyers for the supplier's default, often in proceedings under Section 74 or 74A. High Courts have, in several cases, read down or limited such recovery where the buyer establishes the genuineness of the transaction, following the approach adopted under VAT laws. The CBIC's circulars on mismatch cases have taken a similar line in limited situations. No change has been recommended yet, but the GST Council's express acknowledgement is significant for distributors, traders and manufacturers with large MSME supplier bases. It was hoped that the GST Council would make some definitive recommendations to strike a balance. However, for the time being, the proposal is to constitute a committee to study and examine the issue. Until further clarity is achieved at the GST Council level, taxpayers will have to curate their defence strategies basis on the 14-point guidelines recently issued by the Punjab & Haryana High Court in *Shaurya Alloys Pvt. Ltd. v. State of Punjab and Another* [CWP No. 34296 of 2024 (O&M)].

ITC under the margin scheme for second-hand vehicles: The GST Council has recommended issuing a circular to clarify that suppliers of second-hand vehicles under the margin scheme (Notification No. 8/2018-Central Tax (Rate) as amended from time to time) may avail ITC on inputs other than second-hand vehicles, and on input services such as spares, repair and maintenance, technology, rent, marketing and advertising. The restriction on ITC applies only to tax paid on the second-hand vehicles procured.

Comments: The margin scheme lets dealers pay GST only on the margin, on condition that no ITC is availed. The department has interpreted this condition to deny credit on all inputs and input services, including rent and marketing, and has raised demands on used-car platforms and dealers. The 55th meeting increased the GST rate on all used vehicles under the margin scheme to 18% with effect from 16 January 2025, making the credit question more pressing. The clarification confines the restriction to its intended scope and should remove a significant source of disputes for organised used-car businesses.

Litigation

Guidelines for demand notices, adjudication and appeal orders:

The GST Council has recommended a circular laying down comprehensive guidelines for tax officers on the issuance of demand notices, adjudication orders and appeal orders. It will cover the quality and timely issuance of notices and orders, invocation of fraud, wilful misstatement or suppression of facts only on the merits of each case, and adherence to natural justice, including the conduct of personal hearings.



Comments: A large share of GST writ litigation concerns procedural infirmities rather than merits. The recommendation to issue a circular detailing guidelines for the issuance of GST notices and adjudication is a welcome step. Frivolous, sketchy notices lacking in basic details have been a major pain point requiring repeated judicial review across the country. Recently, the Supreme Court, in *Tata Steel Limited v Union of India*, 2026 INSC 920, and *GR Infra Projects Limited v State of Madhya Pradesh*, CA No. 11277 of 2026, set aside proceedings involving bald allegations of intentional evasion without supporting proof or explanation. A detailed circular, implemented rigorously, can go a long way towards ensuring that adjudication and appellate processes are conducted fairly, thereby enhancing the taxpayer experience.

Threshold for notices and rationalisation of penalty: The GST Council has recommended amendments to Sections 73, 74 and 74A of the CGST Act to provide for

- i. A minimum threshold of INR 10,000 (CGST, SGST, IGST and cess taken together) for issuing show cause notices, with notices and appeals below the threshold that are pending on the date of commencement to be decided as if the threshold had always applied
- ii. The penalty to be treated as 'concluded' where the full tax, interest and penalty is paid voluntarily within the specified time
- iii. A reduced penalty of 5% in non-fraud cases where tax and interest are paid within 30 days (Section 73) or 60 days (Section 74A) of the adjudication order
- iv. Removal of the minimum penalty of INR 10,000 in non-fraud cases. The maximum general penalty under Section 125 is to be reduced from INR 25,000 to INR 10,000.

Comments: Sections 73 and 74 apply to periods up to FY 2023-24, and Section 74A was inserted by the Finance (No. 2) Act, 2024 for FY 2024-25 onwards. In non-fraud cases these provisions prescribe a penalty of 10% of the tax or INR 10,000, whichever is higher. This has meant a penalty several times the tax on small demands, and the volume of low-value, system-generated notices has made the cost of contesting them disproportionate. The INR 10,000 threshold and the retrospective treatment of pending matters should clear a large number of small notices and appeals. Section 125, the residuary penalty provision, has often been invoked for technical lapses such as e-way bill errors, and reducing its maximum is consistent with the decriminalisation measures discussed below. Taxpayers with pending small demands should track the commencement date so that they can seek closure of such matters.

Cap on pre-deposit in penalty-only appeals: The GST Council has recommended amending the provisos to Sections 107(6) and 112(8) of the CGST Act to cap the pre-deposit for appeals before the Appellate Authority and the Appellate Tribunal at INR 40 crore (INR 20 crore each under CGST and SGST/UTGST) in cases where the order involves only a penalty and no demand for tax.

Comments: Following the 55th meeting, the pre-deposit in penalty-only appeals was reduced from 25% to 10% of the penalty, but no monetary ceiling was prescribed, unlike in appeals involving tax. The recommendations to reduce the penalty burden and provide a cap for pre-deposit in penalty-based appeals aim to reduce the burden on taxpayers and are a welcome step. Especially in the context of penalties under Section 122(1A), including standalone penalty matters, the quantum of which can vary widely, a cap on the pre-deposit will help taxpayers contest the same. The cap brings parity with tax



appeals and will matter most to large groups and their directors or employees facing penalty-only orders in investigation-led cases.

Opportunity of hearing before blocking of ITC under Rule 86A: The GST Council has recommended amending Rule 86A of the CGST Rules to allow a taxpayer to file an objection against the blocking of any amount in the electronic credit ledger and to be given a personal hearing before the proper officer decides the objection.

Comments: Rule 86A allows the Commissioner or an authorised officer to block credit in the electronic credit ledger for up to one year where the officer has reasons to believe that the credit was fraudulently availed or is ineligible. The rule contains no express provision for a pre-decisional or post-decisional hearing. Several High Courts have held that the power is drastic, must be exercised on recorded reasons and cannot extend to negative blocking beyond the available balance, and have insisted on adherence to the principles of natural justice. The amendment codifies these safeguards and will give businesses whose credits are blocked during supplier-related investigations a statutory route to challenge the blocking without immediately approaching the High Court.

Ease of Living

Rationalisation of arrest and prosecution:

The GST Council has recommended complete withdrawal of the power of arrest by omitting Section 69 of the CGST Act. It has further recommended

- i. Raising the monetary threshold for prosecution from INR 1 crore to INR 5 crore
- ii. Omitting clause (i) of Section 132(1), and deleting the words 'evades tax' in clause (e) and 'or in any other manner deals with' in clause (h)
- iii. Amending clause (c) of Section 132(1) to cover only fraudulent availment of ITC without receipt of goods or services or without an invoice or bill
- iv. Rationalising the punishment for various offences under Section 132.

Comments: Section 69 empowers the Commissioner to authorise arrest where they have reasons to believe that specified offences under Section 132 have been committed. Frequent and often disproportionate invocation of the power of arrest under GST laws has led to an erosion of trust among the taxpayers. While Section 69 and the allied guidelines contained sufficient checks and balances on paper, in practice, the power had become a tool to coerce taxpayers into submission during investigations. Upon its deletion, arrest under GST laws will no longer remain an option available to tax officers under Section 69. However, this does not mean that arrest cannot be resorted to at all. Exposure under general criminal laws (including the Bharatiya Nyaya Sanhita, 2023 for fraud and related offences) remains, subject to the checks and balances under those laws. By enhancing the prosecution threshold and rationalising various provisions of Section 132, the intent appears to be to enhance proportionality in enforcement actions. This is a much needed and welcome step.



Rationalisation of e-way bill provisions: The GST Council has recommended amending Sections 68, 129 and 130 of the CGST Act to provide that

- i. A conveyance can be intercepted only on the basis of specific intelligence and with the authorisation of an officer not below the rank of Joint Commissioner
- ii. Inspection, detention or seizure may be undertaken only where the supplier or recipient is located or registered in the State of interception, with no interception in transit States
- iii. Goods may be inspected, detained or seized irrespective of jurisdiction where no e-way bill has been generated or no document establishes the origin or destination
- iv. Confiscation under Section 130 will not apply to goods or conveyances in transit.

Comments: Section 68 read with Rule 138 permits interception of conveyances anywhere in India. Detention under Section 129, carrying a penalty of 200% of tax after the Finance Act, 2022, has frequently been invoked for technical lapses such as expired e-way bills, minor errors in vehicle numbers or Part B details. Section 130 has been invoked for goods in transit, a practice that High Courts have repeatedly criticised where there is no intent to evade tax. A consignment crossing five States was open to checks in each state, which caused transit delays and rent-seeking. Restricting interception to source and destination States, with prior authorisation and specific intelligence, should substantially reduce such disputes for FMCG distributors, auto component suppliers, steel and building material traders, and logistics companies. The retained power to act anywhere where no e-way bill or document exists preserves deterrence against clandestine movement.

Relief for small taxpayers on late fees: The GST Council has recommended waiving the late fee for delayed filing of returns under Section 39(1) of the CGST Act for taxpayers with an aggregate turnover of up to INR 5 crore in the preceding financial year, where the return is filed by the end of the month in which it was due.

Comments: Late fees under Section 47 have been waived from time to time under Section 128 through amnesty notifications, but no standing relief exists for short delays. The measure recognises that small taxpayers commonly miss the GSTR-3B due date by a few days because of cash flow or reconciliation constraints, and it will reduce their compliance costs. It remains to be seen whether interest under Section 50 will continue to apply, and whether such delays may affect the buyer's ability to claim ITC within the time limit under Section 16(4).

Refunds

Faster, system-based processing of refunds: The GST Council has recommended amendments to Section 54 of the CGST Act and the CGST Rules for system-based processing of refunds relating to excess cash ledger balance, zero-rated supplies and inverted duty structure. In Phase 1,

- i. Refunds of excess cash ledger balance will be sanctioned automatically
- ii. The time limit for acknowledgement or a deficiency memo will be reduced from 15 days to 10 days, with deemed acknowledgement thereafter
- iii. 90% of zero-rated and inverted duty structure claims will be sanctioned provisionally by the system based on risk evaluation. In Phase 2, acknowledgement will be automated and, for zero-rated supplies, the full refund will be sanctioned automatically after adjusting pending dues.



Comments: Section 54(6) of the CGST Act and Rule 91 of the CGST Rules have long provided for 90% provisional refunds to exporters, but in practice its grant depended on officer discretion. Pursuant to the 56th meeting, Rule 91(2) was amended in effect from 1 October 2025 to move to system-based risk evaluation, and the Council had also recommended extending provisional refund to inverted duty structure claims. The present package goes further by automating acknowledgement under Rule 90, the stage at which delays and repeated deficiency memos have postponed the start of the 60-day period under Section 54(7) and the interest liability under Section 56. Deemed acknowledgement after 10 days removes that bottleneck. Exporters of goods and services and manufacturers in sectors with an inverted duty structure, such as textiles, fertilisers, pharmaceuticals and EVs, should see a material working capital benefit. Its success will depend on transparent risk parameters and a clear route for claims flagged as high-risk.

Other measures to expedite refunds: The GST Council has recommended

- i. Amendment of FORM GST RFD-01 to capture details in a system-readable format and dispense with the uploading scanned documents for zero-rated and inverted duty structure claims
- ii. Amendment of Rule 89(4)(C) of the CGST Rules to remove the cap that limits the value of zero-rated supply of goods to 1.5 times the value of like goods supplied domestically
- iii. An Explanation to Section 54(14) of the CGST Act providing that the INR 1,000 threshold applies to the total refund across CGST, SGST/UTGST and IGST. To bring clarity to interest on refunds of pre-deposits, Section 115 is to be amended to make it a standalone provision on the applicable rate of interest, and a circular will be issued.

Comments: The 1.5 times cap in the definition of 'turnover of zero-rated supply of goods' in Rule 89(4) (C) has caused significant disputes. Exporters selling at higher prices abroad, or with no domestic sales of like goods, have faced curtailed refunds and been required to justify comparisons with domestic prices that have no commercial basis. Its removal will benefit exporters of branded goods, pharmaceuticals and engineering products in particular. The 56th meeting had recommended removing the Section 54(14) threshold for exports of goods with payment of tax, and the Explanation now settles how the threshold is computed for other claims. On pre-deposit refunds, Section 115 currently ties interest to the rate under Section 56, and the department and taxpayers have disputed whether 6% or 9% applies. A standalone provision should end that controversy, which has become pressing as GSTAT disposals increase.

Refund of accumulated ITC on capital goods and input services: The GST Council has recommended amending clause (ii) of the proviso to Section 54(3) of the CGST Act and the CGST Rules to provide for refund of accumulated ITC on capital goods in zero-rated supplies, and on input services and capital goods in cases of inverted duty structure. Refund on input services will be available for ITC availed on or after 1 November 2026. Refund of ITC on capital goods will be spread over 60 months and will be available for ITC availed on or after 1 April 2027.

Comments: Refund rejection on account of inverted duty structure has been a thorny issue ever since GST was implemented. Especially for capital-intensive sectors or sectors with high advertising or marketing expenditure, the accumulated credit was a serious drag on working capital. Clause (ii) of the proviso to



Section 54(3) confines inverted duty structure refunds to cases where the rate on 'inputs' is higher than on output supplies. Rule 89(5) defines 'Net ITC' as ITC on inputs only, and Rule 89(4) excludes capital goods even from export refunds. The Supreme Court upheld this restriction in *Union of India v. VKC Footsteps* [(2022) 2 SCC 603] and observed that any change was a matter of policy for the GST Council. Our 56th ERGO had flagged that the rate cuts would intensify the accumulation of credit on input services in sectors such as textiles, pharmaceuticals and job work. The amendment answers long-standing industry representations and will benefit manufacturers with service-heavy cost structures, exporters of services (whose costs largely comprise services and equipment), and capital-intensive exporters setting up new lines. The intent now seems to be to allow refunds even for credit accumulation on account of higher GST rates on input services and capital goods too – this was so far only restricted to 'inputs'. The best way to implement the foregoing would be to insert the words 'input services and capital goods...' after the words 'rate of tax on inputs' currently occurring in the provision. However, one has to await the final text of the amending provision to assess whether the amendment goes the whole distance. As the benefit applies only to ITC availed after the cut-off dates, businesses should consider tracking ITC by date of availment and factoring the 60-month spread into capex planning, since it is a timing benefit rather than an immediate refund.

Returns

Alternate mechanism for amendment of liability and ITC in returns: The GST Council has recommended

- i. Enhancements to FORM GSTR-1, GSTR-1A and IFF for better reconciliation with FORM GSTR-3B
- ii. A new Rule 86D providing an 'Electronic Statement of tax paid on Reverse charge basis and input tax credit claimed'
- iii. A new sub-rule (1A) in Rule 61 for correction of liability in GSTR-3B to align it with GSTR-1/1A/IFF; (iv) amendment of FORM GST DRC-03 to capture the underlying invoice details
- iv. A new sub-rule (6A) in Rule 60 giving statutory backing to the Invoice Management System (IMS), including the period for which a credit note can be kept pending
- v. A new Rule 86C providing an 'Electronic Credit Reversal and Reclaim Statement'
- vi. A new sub-rule (1B) in Rule 61 for correction of ITC in GSTR-3B to align it with GSTR-2B
- vii. A clarificatory circular. These provisions are to apply from the return for April 2027 and will be placed in the public domain for time-bound consultation.

Comments: Sections 37, 38 and 39 of the CGST Act do not currently allow amendment of a filed GSTR-3B, so errors could only be corrected in later returns or through DRC-03. That gave rise to mismatch intimations under Rules 88C and 88D and, eventually, demands under Sections 73, 74 and 74A. The 54th meeting introduced the IMS together with the RCM ledger and the ITC reclaim ledger, and the 55th meeting recommended legal backing for generating GSTR-2B from IMS actions; this package completes that architecture. Once credit flows only through IMS acceptance and the correction window closes, taxpayers lose the flexibility of claiming credit outside GSTR-2B. Large buyers in manufacturing, FMCG and real estate will need to put robust vendor reconciliation and IMS action protocols in place before April 2027 and should use the consultation window to flag operational issues.



Concept note on the Annual Return Quarterly Payment (ARQP) scheme: The GST Council has approved in principle a concept note for an optional ARQP scheme for taxpayers with an aggregate turnover of up to INR 5 crore in the preceding financial year who make supplies exclusively to unregistered persons (B2C). The detailed framework will be placed before the next meeting.

Comments: The existing QRMP scheme under the proviso to Section 39(1) of the CGST Act and Rule 61A of the CGST Rules still requires quarterly returns and monthly payments. The composition scheme under Section 10 restricts inter-State supplies and ITC. ARQP would offer small B2C retailers, restaurants and service providers a lighter alternative without the limitations of composition. Because no credit passes to buyers, the revenue risk is minimal, and the measure is consistent with the GST Council's focus on concentrating administrative resources on higher-risk segments. Eligibility conditions, particularly the 'exclusively B2C' requirement, will need careful drafting so that occasional B2B supplies do not disqualify taxpayers.

Registration

Streamlining the registration process: Automatic registration without officer intervention is already being granted under Rule 14A of the CGST Rules to applicants who do not intend to pass on ITC of more than INR 2.5 lakh a month. For the remaining cases, the GST Council has recommended

- i. A comprehensive circular, with FAQs, specifying the documents and information required for registration
- ii. Amendment of FORM GST REG-01 to provide drop-down boxes for selecting prescribed documents
- iii. A more user-friendly interface on the GST portal with navigational paths, drop-down lists and contextual guidance.

Comments: Grant of registration under Section 25 of the CGST Act read with Rule 9 of the CGST Rules has been marked by repeated queries, inconsistent document demands across jurisdictions and rejections on grounds not prescribed by the law, particularly around proof of the principal place of business. Rule 14A was introduced pursuant to the 56th meeting to grant registration within three working days to low-risk applicants. A circular that exhaustively lists permissible documents should give applicants a firm basis to resist arbitrary queries and should help new projects, special purpose vehicles in real estate and greenfield manufacturing units get registered faster.

Rationalisation of the procedure for amendment of registration: The GST Council has recommended an amendment to Rule 19 of the CGST Rules to provide for automatic acceptance of amendments to all registration particulars on the portal, except those relating to the principal place of business (PPoB). For taxpayers registered under Rule 14A, amendments to all particulars, including the PPoB, will be accepted automatically.

Comments: At present, Rule 19 of the CGST Rules read with Section 28 of the CGST Act requires officer approval for amendments to 'core fields' such as legal name, address of the principal or additional place of business and addition or deletion of partners or directors. Delays here have practical consequences, since an outdated address or authorised signatory affects e-way bills, e-invoices and the



validity of notices served under Section 169. Routine corporate changes such as board reconstitution, relocation of warehouses and post-merger name changes will now be reflected almost in real time. The carve-out for the PPOB in ordinary cases means that relocation of the principal place of business will continue to attract officer verification.

Rationalisation of the registration cancellation process: The GST Council has recommended amendments to the CGST Act and CGST Rules so that applications for cancellation in FORM GST REG-16 are accepted automatically once all returns are filed and dues paid. In Phase 1, this will apply where the taxpayer has never passed on ITC above INR 2.5 lakh in any month, or has filed the final return in FORM GSTR-10 within the specified time. In Phase 2, all applications will be accepted automatically, and REG-16 will be amended so that GSTR-10 details are furnished in the application itself. Rule 21 is to be amended to omit certain grounds for suo moto cancellation, and Rules 21A and 22 are to be amended, with a new Rule 23A, to provide for system-based cancellation and revocation linked to non-filing of returns or non-furnishing of bank account details.

Comments: Cancellation under Section 29 of the CGST Act read with Rules 20 to 22 of the CGST Rules, and revocation under Section 30 read with Rule 23, have generated significant litigation. Registrations have been cancelled, often retrospectively, on vague show cause notices and without a hearing, and High Courts have repeatedly set aside such orders. Merging the GSTR-10 final return under Section 45 into the cancellation application removes a separate step that was frequently missed and led to best judgment assessments under Section 62. System-based restoration of registration once the default is remedied will particularly help MSMEs and their buyers, whose ITC was otherwise put at risk under Section 16(2) by a supplier's cancelled registration. Businesses winding down group entities after a merger or demerger should also find closure quicker and more certain.

Simplified registration for small sellers on e-commerce platforms: Following the in-principle approval at the 56th meeting, the GST Council has recommended inserting Rule 14B in the CGST Rules. Under it, small suppliers of goods through e-commerce operators (ECOs) may register in a State or Union Territory where they have no physical presence by declaring the ECO's warehouse in that State as their PPOB, provided they do not intend to pass on ITC above INR 2.5 lakh a month (excluding stock transfers between distinct persons). Registration will be granted automatically, subject to conditions.

Comments: Section 24(ix) of the CGST Act requires every person supplying goods through an ECO to register, and Section 25 read with Rule 8 of the CGST Rules requires registration in each State from which supplies are made, backed by proof of a place of business there. Small sellers have therefore been unable to use fulfilment centres of marketplaces in other States without setting up premises in each State, while larger sellers could do so. The 56th meeting had already granted in-principle approval for a simplified mechanism, and Rule 14B gives it effect. Small D2C brands, artisans and MSME manufacturers selling through marketplaces stand to benefit most. ECOs will, however, need to manage the compliance and record-keeping consequences of hosting multiple sellers' PPOBs in their warehouses, including inspection and stock-verification exposure under Sections 35 and 67.



Other Recommendations

Exports and zero rating

Export of services through a foreign branch: The GST Council has recommended omitting sub-clause (v) of Section 2(6) of the IGST Act, which requires that the supplier and recipient of services are not merely establishments of a distinct person under Explanation 1 to Section 8, for a supply to qualify as an export of services. A circular will also clarify issues relating to receipt of payment in foreign exchange or Indian rupees, as permissible, for exports of goods and services.

Comments: Removal of Section 2(6)(v) of the IGST Act will help branch offices of Indian entities servicing customers abroad to take the benefit from zero-rating. The concept of 'distinct persons' in the context of export-related aspects had been a litigative issue with refunds being rejected solely on this basis. With the removal of the condition, exports are certainly expected to get a boost. While Circular No. 161/17/2021-GST dated 20 September 2021 clarified the ambit of the condition, with this recommendation, the entire dispute is expected to be done away with. The amendment will benefit IT and ITeS companies, engineering consultancies, analytics firms, design studios and global capability centres organised as branches, by enabling zero-rating and refunds. Together with the omission of Section 13(8)(b) recommended at the 56th meeting, it substantially aligns India's place of supply and export rules with competing service hubs. For pending disputes relating to past periods, it remains to be seen whether the amendment will apply retrospectively.

Place of supply of services on goods made available by the recipient: The GST Council has recommended omitting clause (a) of Section 13(3) of the IGST Act, so that the place of supply of services where goods are made physically available by the recipient to the supplier is determined under the default rule in Section 13(2), i.e., the location of the recipient.

Comments: Under Section 13(3)(a), services such as testing, repair, certification, research or processing performed on goods supplied by a foreign client are deemed to be supplied where performed, i.e., in India. This denied export status unless the narrow carve-out for goods temporarily imported for repair and re-export applied, and placed Indian contract research, testing and processing providers at a tax disadvantage compared with competing locations. The omission will allow such services to qualify as exports where the recipient is located abroad. Contract research organisations, clinical trial providers, testing laboratories, MRO service providers and job workers serving foreign principals stand to gain the most.

Supplies to overseas buyers delivered in SEZ or FTWZ: The GST Council has recommended inserting an Explanation to Section 16(1) of the IGST Act to provide that, where goods are supplied to an overseas buyer but delivered to that buyer in an SEZ or FTWZ, and payment is received in convertible foreign exchange or in Indian rupees where permitted by the RBI, the supply will be deemed to be a supply of goods to an SEZ or FTWZ.



Comments: In 'bill to overseas buyer, ship to SEZ' transactions, the department has questioned zero-rating on the ground that the recipient named on the invoice is not the SEZ unit or developer, and that the goods do not leave India. The 55th meeting clarified that supplies of goods warehoused in an SEZ or FTWZ before clearance are neither supply of goods nor services through the insertion of paragraph 8(aa) to Schedule III of the CGST Act with effect from 1 July 2017. The present Explanation addresses the preceding leg, from the Indian manufacturer to the overseas buyer's SEZ or FTWZ location. It will give certainty to manufacturers supplying global buyers who use Indian FTWZs as regional distribution hubs, and to logistics and warehousing operators in these zones. On receipt of export consideration in INR, Circular No. 202/14/2023-GST dated 27 October 2023 clarified the issue. Issuance of an additional circular is expected to clarify nuanced procedural aspects.

Other measures

Treatment of transfer of title in intellectual property rights: The GST Council has recommended amending Schedule II of the CGST Act to provide that transfer of title in IPRs, whether temporary or permanent, will be uniformly treated as a supply of services.

Comments: Paragraph 5(c) of Schedule II treats temporary transfer or permitting the use or enjoyment of IPR as a supply of services. Permanent transfer has, however, been treated as a supply of goods in some cases, given the rate entry for 'permanent transfer of Intellectual Property Right in respect of goods'. This has created uncertainty over classification, rates, place of supply under the IGST Act and the availability of export benefits, particularly in cross-border assignments of trademarks, patents and software. Uniform treatment as services will simplify group restructurings, brand transfers in M&A transactions and technology licensing, though the effect on the applicable rate and place of supply should be reviewed once the amendment is notified.

Clarifications through circulars: The GST Council has recommended circulars to remove ambiguities on

- i. The Input Service Distributor (ISD) mechanism
- ii. ITC availment by banking companies and financial institutions, including NBFCs, opting for Section 17(4) of the CGST Act
- iii. Payment of pre-deposits
- iv. Admissibility of ITC on demonstration vehicles in certain situations
- v. Omission of Rule 96(10) of the CGST Rules with effect from 23 October 2017, in accordance with the Supreme Court's decision.

Comments: The ISD mechanism under Section 20 of the CGST Act became mandatory for distribution of common input service credit from 1 April 2025, following the 50th and 55th meetings, and disputes have arisen over cross-charge versus ISD treatment and the valuation of internally generated services. Banks and NBFCs opting for the 50% credit reversal under Section 17(4) have faced disputes on whether credit is to be computed before or after other blocked credits. Circular No. 231/27/2024-GST dated 10 September 2024, issued pursuant to the 54th meeting, clarified the allowance of ITC on demonstration vehicles used for further supply but left open the treatment of vehicles used for testing and R&D, a gap our 54th ERGO had flagged. On Rule 96(10), the 54th meeting had provided relief only



where IGST and cess on imported inputs were subsequently paid. Making the omission effective from 23 October 2017, in line with the Supreme Court's decision in *Goodluck India Limited v. Union of India* [2026 INSC 821], should finally end refund recovery proceedings against exporters who availed advance authorisation or EOU benefits.

Other recommendations to streamline compliance: The GST Council has recommended

- i. Amendments to Sections 16, 37 and 39 of the CGST Act to align the time limits for furnishing GSTR-1 and GSTR-3B with the time limit for availing ITC under Section 16(4)
- ii. A validation clause in the CGST Act for notices held invalid by courts on the ground that they were issued for multiple financial years
- iii. Extension of e-invoicing to inward supplies from unregistered persons under reverse charge, and to imports of services, for taxpayers with an aggregate annual turnover of INR 5 crore or more.

Comments: Since the Finance Act, 2023, returns cannot be filed after three years from their due date under Sections 37(5) and 39(11) of the CGST Act. ITC, however, must be availed by 30 November following the end of the financial year under Section 16(4), and the two timelines have not been reconciled. The validation clause is significant, as several High Courts have quashed consolidated show cause notices covering multiple years, given that Sections 73(10), 74(10) and 74A(10) prescribe limitation by reference to each financial year. With High Courts taking contrary views on the issue and the matter currently pending before the Supreme Court, a validation clause (most likely with retrospective effect) might render the pending litigation moot. A recalibrated approach will be required in the pending cases and it will need to be assessed whether the validating enactment itself can be challenged or not. Extending e-invoicing under Rule 48(4) to RCM and import-of-services transactions will require ERP changes for taxpayers with an aggregate annual turnover of INR 5 crore or more.

Alignment of GSTAT provisions: The GST Council has approved amendments to the CGST Act and the GSTAT (Appointment and Conditions of Service of President and Members) Rules, 2023 to align the provisions on the GST Appellate Tribunal with the Tribunals Reforms Act, 2026 and the rules framed under it.

Comments: The GSTAT began accepting appeals pursuant to the 56th meeting, with a deadline of 30 June 2026 for backlog appeals. The constitutional validity of tribunal service conditions has repeatedly been tested before the Supreme Court, notably in the Madras Bar Association line of cases. Aligning the GSTAT provisions with the Tribunals Reforms Act, 2026 should reduce the risk of challenges to appointments and tenure that could disrupt the tribunal's functioning, which matters to taxpayers with large appellate dockets.



Clarifications relating to GST rates

Goods

Classification and rate clarifications on goods: The GST Council has recommended clarifications that

- i. Sublimation paper is classifiable under heading 4809, with past cases regularised on an 'as is where is' basis
- ii. The toy entries in Notification No. 09/2025-CTR cover all toys under heading 9503 and are not restricted to tricycles, scooters and pedal cars
- iii. Seaweed extract-based bio-stimulants registered under Schedule VI to the Fertiliser Control Order, 1985, are classifiable under heading 3101 as fertilisers, with past cases regularised on an 'as is where is' basis
- iv. Psyllium seeds attract nil GST whether fresh, chilled, frozen or dried
- v. Re-treaded tractor tyres attract the same rate as new tractor tyres.

Comments: These clarifications address classification disputes that surfaced or intensified after the restructuring of rate schedules under Notification No. 09/2025-CTR dated 17 September 2025, where certain entries were drafted narrowly. The 'as is where is' regularisation for sublimation paper and bio-stimulants should, in line with the Gujarat High Court's reading of that expression in JK Papad Industries [TS-568-HC(GUJ)-2024-GST] discussed in our 54th ERGO, protect taxpayers from demands for past periods. Manufacturers and traders in the textile printing, agri-inputs and toy sectors should review pending notices in light of these clarifications.

Reverse charge and TDS on specified waste and scrap: The GST Council has recommended bringing waste and scrap of plastics, electrical and electronic waste and scrap, waste and scrap of tyres, and used cooking oil under reverse charge when supplied by an unregistered person to a registered person. The supplier must register on crossing the threshold, and the recipient must pay tax under RCM even if the supplier is below the threshold. TDS at 2% is to apply to B2B supplies of such waste and scrap.

Comments: The 54th meeting brought metal scrap supplied by unregistered persons under reverse charge vide Notification No. 06/2024-CTR dated 8 October 2024, together with TDS on B2B metal scrap supplies vide Notification No. 25/2024-CT dated 9 October 2024, to counter fake invoicing in the scrap trade. The present recommendation extends the same model to other evasion-prone scrap streams. Recyclers, tyre retreaders, e-waste processors and biofuel producers will need to build RCM compliance and TDS deduction under Section 51 into their procurement processes, and will bear a working capital cost until the TDS is credited.

Compensation cess on supplies by Canteen Stores Department: The GST Council has recommended exempting compensation cess not levied by the Canteen Stores Department (CSD) on two and four wheelers for 1 July 2017 to 30 September 2022, and by CSD and Unit Run Canteens on aerated drinks for 1 July 2017 to 31 March 2022.



Comments: This retrospective exemption regularises the CSD's past practice of not levying cess on supplies to defence personnel and closes the related demands. It has no wider impact on industry, apart from relieving vehicle and beverage manufacturers of any downstream contractual claims linked to these demands.

Services

Passenger transport and rental of motor vehicles using EVs: The GST Council has recommended an option to pay GST at 5% with restricted ITC on passenger transport and rental of motor vehicles with operators, where the service is supplied using an electric vehicle and the cost of battery charging is included in the consideration.

Comments: The concessional 5% rate for passenger transport and renting of motor vehicles applies where the cost of fuel is included in the consideration. Whether battery charging qualifies as 'fuel' has been uncertain, and EV fleet operators have been pushed to the 18% rate, which the 56th meeting raised from 12% vide Notification No.15/2025-CTR dated 17 September 2025. The clarification removes that uncertainty and supports the economics of EV fleet operators, ride-hailing platforms and corporate employee transport providers.

Sector-specific recommendations with respect to Electronic Commerce operators: The GST Council has recommended an amendment to Section 9(5) to clarify that an ECO is liable to pay GST on the underlying service irrespective of the nature of business model followed and also recommended bringing delivery services (other than courier and postal) supplied through an ECO under Section 9(5) of the CGST Act, where the supplier is not liable to register under Section 22(1), at a rate of 5% without ITC. It has also recommended a rate of 5% without ITC for delivery services relating to goods supplied or ordered through an ECO, and excluding from the GTA exemption under Entry 21A of Notification No. 12/2017-CTR transportation of goods to unregistered persons where the goods are supplied or ordered through an ECO.

Comments: The 56th meeting notified local delivery services through ECOs under Section 9(5), and our ERGO noted that the outcome could differ depending on whether the platform operated on a software-as-a-service model or a commission model. E-commerce players across various sectors have recently been experimenting with pared-down, low-involvement subscription-based models where GST was being paid on the subscription fee and not on the main service as a platform - on the basis that in a subscription model, the services of passenger transportation are not provided 'through' the ECO. The Karnataka High Court had passed interim orders in a batch of petitions before it in this context and had repeatedly directed the Government to provide clarifications on the correct GST position in this context given the contrary industry positions adopted. Once the recommendation is implemented through necessary amendment, the distinction between SaaS and non-SaaS models is likely to be obliterated from a GST perspective. The intent seems to be that the very presence of an e-commerce platform in the delivery of the notified services is sufficient for making such platform liable irrespective of the level of involvement. However, unless an 'as-is basis regularization' or exemption is granted for the



past, bona fide taxpayers who took a no-GST position may be exposed to demands for past periods. One has to therefore await the fine print of the amendment and carefully assess the way forward.

Pursuant to the recommendations of the 56th GST Council meeting, amendments were made to Notification No. 11/2017-CTR dated 28 June 2017 to exclude “local delivery service” from the scope of GTA and to the Service Exemption Notification to clarify that the exemption available to a GTA providing services to an unregistered person shall not be available to ‘local delivery services’ (Entry 21A of the notification). However, the scope of ‘local delivery services’ appeared limited to transportation of goods by the ECO itself, or by an unregistered persons ‘through’ the ECO, that too, when the scope of delivery is confined to a ‘local area. This left a grey area. It was unclear whether a registered person (such as various logistics companies), especially a GTA, fulfilling delivery of an order placed on an ECO that too when scope of delivery is beyond a local area (inter-city or inter-state movement) was covered. Such a GTA could arguably continue to claim the exemption for deliveries to unregistered end customers, even though the service was functionally identical to the delivery through the ECO. The proposal to cover delivery services (and not only ‘local delivery services’) “in relation to goods supplied/ordered through an ECO” settles this position. Consequently, GTAs and logistics players undertaking delivery for e-commerce orders will no longer be able to claim the exemption under Entry 21A. At the same time, the 5% without ITC rate otherwise available to GTAs has been extended to such delivery service providers. This aligns their tax cost with GTAs and reduces the tax arbitrage between different delivery models. Businesses in the e-commerce supply chain should review their contracts, pricing, invoicing and registration positions once the notifications are issued.

Motor vehicle leasing transactions: The GST Council has recommended clarifying the GST treatment of statutory and ancillary recoveries, such as registration charges, road tax, insurance and FASTag charges, incurred by a lessor and recovered from the lessee in connection with motor vehicle leasing.

Comments: Whether such recoveries are reimbursements excludable as pure-agent costs under Rule 33 of the CGST Rules, or form part of the value of the leasing service under Section 15(2), has been disputed, with leasing companies facing demands on the full recovery amount. The clarification will affect fleet and employee car-leasing companies and their corporate customers, and pending demands should be reviewed against it.

Exemptions and other service-related clarifications: The GST Council has recommended

- i. Exempting passenger transport by helicopter on a seat-sharing basis to and from airports and helipads in the north-eastern States, Sikkim and Bagdogra
- ii. Exempting storage or warehousing of seeds meant for sowing
- iii. Exempting coffee curing services provided by curers to cultivators
- iv. Exempting services of the Seamen’s Provident Fund Organisation to persons governed by the Seamen’s Provident Fund Act, 1966
- v. A self-certification mechanism by the head of the institution for the R&D exemption under Entry 44A of Notification No. 12/2017-CTR
- vi. Exempting import of services by an Indian establishment of a foreign shipping company from a related person outside India without consideration, with past periods regularised on an ‘as is where is’ basis



- vii. Exempting the grant of toll collection rights by government entities to concessionaires in highway projects
- viii. A special procedure on valuation and time of payment for O&M services by concessionaires under the TOT model
- ix. Clarifying that notional interest under Funds Transfer Pricing between bank branches is covered by the definition of 'interest' in Notification No. 12/2017-CTR.

Comments: Several of these recommendations are built on earlier decisions. The 54th meeting set seat-sharing helicopter services at 5% and exempted R&D services funded by grants, as well as import of services by foreign airlines from related parties without consideration. The shipping-line exemption now extends the airline relief to a sector facing similar demands under Schedule I of the CGST Act read with the provisions governing imports of services. Self-certification under Entry 44A should end disputes, raised largely in DGGI investigations of universities and research institutes, over whether grant-funded activity amounts to consultancy. The NHAI TOT measures address demands on upfront concession fees and the timing of tax on O&M services in road infrastructure projects. The Funds Transfer Pricing clarification addresses notices issued to banks treating inter-branch fund allocation as a taxable supply between distinct persons.

Way forward: Most of the 57th meeting's recommendations require amendments to the CGST Act, the IGST Act and the State GST laws, which can be expected in the next Finance Bill, followed by changes to rules, forms and the GSTN portal. Some measures, including the return mechanism from April 2027, the ARQP scheme and protection of credit for honest buyers will undergo further consultation or come back to the GST Council. In the meantime, businesses may consider:

- **Proposal for faceless assessment:** While not a part of GST Council press release, it has been indicated in the course of press interactions that a proposal to introduce faceless assessment in GST is also being contemplated. While the intent behind faceless assessment is laudable, the string of litigations which it has given rise to under the Income Tax Act, 1961 might even follow into the GST regime as well. Businesses expect that prior to any rushed implementation, proper assessment is undertaken to ensure that the learnings from the experiences under Income Tax are not forgotten.
- **Credit tracking:** Track ITC on input services and capital goods by date of availment ahead of the 1 November 2026 and 1 April 2027 cut-off dates.
- **Litigation review:** Re-examine pending disputes on blocked credits, export of services through branches, Section 13(3)(a), Rule 89(4)(C), Rule 96(10), e-way bill penalties and penalty-only appeals in light of the recommendations.
- **System readiness:** Prepare ERP and reconciliation processes for the IMS-based credit mechanism and the extended e-invoicing requirements, and use the consultation window to raise operational concerns.
- **Contract review:** ECOs, platforms and service exporters may need to restructure contracts once the detailed provisions are notified.



List of abbreviations

Abbreviation	Meaning
CBIC	Central Board of Indirect Taxes and Customs
CGST Act	Central Goods and Services Tax Act, 2017
CGST Rules	Central Goods and Services Tax Rules, 2017
ECO	Electronic Commerce Operator
IDS	Inverted Duty Structure
GST	Goods and Services Tax
GST Council	Goods and Services Tax Council
GTA	Goods Transport Agency
IMS	Invoice Management System
ITC	Input Tax Credit
IGST Act	Integrated Goods and Services Tax Act, 2017
SGST Act	State Goods and Services Tax Act, 2017
RBI	Reserve Bank of India

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