

UPDATE

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GST reforms

1. Introduction

The Goods and Services Tax Council ('GST Council') in its 57th Meeting held in the National Capital on 8 October 2026 has proposed various measures involving process reforms, trade facilitation, resolution of certain teething issues for the industry. Such reforms have been proposed with the primary objective to facilitate the trade and enhance easy compliance. These proposals shall need detailed analysis once the same are notified.

No rate changes have been proposed. It has been stated that rate changes shall happen generally once a year to be applicable from the 1st of April of a particular year.

This edition of *nota bene* summarises the key recommendations of the GST Council.

2. Process reforms

a. Registration related

- Further streamlining of automatic registration under Rule 14A of the Central Goods and Services Tax Rules, 2017 ('CGST Rules') for low risk and other eligible applicants within 3 days.
- Automatic acceptance of routine changes in GST registration, including additional place of business. For applicants eligible for automatic registration, principal place of business also included under automatic approval.
- Cancellation application by the taxpayer to be made smoother. Suo-moto cancellation by tax-officers also to be streamlined.
- A simplified GST registration mechanism for small sellers on the electronic commerce operators' platform will be rolled out to enable small businesses to sell without establishing a place of business in each state.

b. Return related

- Amendment in rules proposed for implementation and modification of IMS.
- Enhancements in return filing mechanism for amendment in liability and ITC and amendment in Form DRC-03 to declare the underlying invoices against which payment is being made.

c. Refund related

- Refund of accumulated ITC on **input services** for refunds pertaining to inverted duty structure shall be available in respect of ITC availed on input services on or after 1 November 2026.
- With respect to refund of ITC on **capital goods** pertaining to zero rated supplies and inverted duty structure, refund of ITC on capital goods will be spread over 60 months and shall be available in respect of ITC availed on capital goods on or after 1st April 2027.
- Amendment in refund mechanism also proposed to phase out the need for uploading scanned documents for zero-rated and inverted duty refunds.
- Removal of restriction on maximum amount of turnover for zero-rated supply (currently capped at 1.5 times of the value of domestic supply).
- Interest on refund of pre-deposit to be made a standalone provision for removal of doubts and refunds of excess cash ledger imbalances or balances shall be automatic.
- Acknowledgement period to come down from 15 days to 10 days, deemed acceptance when no response issued. Based on risk assessment, it is expected that the system will sanction 90 percent of all the claims within 3 working days of acknowledgment.

3. Input Tax Credit

- **ITC has been proposed to be allowed on:**
 - Employee's health and life insurance
 - Telecom towers and pipelines laid outside the factory premises
 - Outdoor catering
 - Free samples
 - Goods destroyed or written off on expiry of shelf life if required under law

4. Trade Facilitation and disputes reforms

- **Reduction / modification in penalties:**
 - Reclassification of penalty as to 'charge' where tax and interest along with such charge is paid within specified time limit.
 - Reduction in penalty from 10% to 5% in non-fraud cases where tax and interest along with such charge is paid within specified time limit.
 - Removal of condition of minimum penalty of ₹ 10,000 in non-fraud cases.
 - General penalty under Section 125 of the CGST Act proposed to be reduced to ₹10,000.
- **Disputes:**
 - All notices below proposed tax demand of ₹ 10,000/- to be withdrawn.
 - Decriminalisation – arrest powers of tax officers scrapped.
 - Prosecution threshold raised from ₹ 1 Cr to ₹ 5 Cr.

- **Relief for Small taxpayers**
 - Annual return facility proposed for eligible taxpayers with turnover up to ₹ 5 crore, with quarterly tax payments.
 - Late fee waived for taxpayers having turnover up to ₹ 5 Crores turnover for returns under Section 39(1) if filed within the month in which it was due.
- **E-way bill and interception (sections 68, 129, 130):**
 - Interception only on specific intelligence, authorised by an officer not below Joint Commissioner.
 - Inspection, detention or seizure only if the supplier or recipient is located or registered in the intercepting State, so **no interception in transit States**.
 - Where there is no e-way bill or no document showing origin or destination, goods can be inspected, detained or seized irrespective of jurisdiction.
 - Confiscation under section 130 will not apply to goods and conveyances in transit.
- **Exports and zero-rating:**
 - The condition of supplier and recipient of services not being establishments of a distinct person for a supply of services to qualify as an “export of services”, removed.
 - Place of supply for services in cases where goods are made physically available by the recipient of services to the supplier will now be determined as per the default provision under section 13(2) of the IGST Act, 2017 (i.e. the location of the recipient of such services)
 - Supply of goods to overseas buyers but delivered in an SEZ or FTWZ are deemed to be supply of goods to an SEZ/FTWZ.
- **IPR:** transfer of title, temporary or permanent, uniformly treated as a supply of services.
- **Ease of doing business**
 - Rule 86A of the CGST Rules, 2017 to provide a mechanism for enabling a taxpayer to file an objection against blocking of any amount in electronic credit ledger and to avail a personal hearing before the proper officer takes a decision on such objection
 - Issuance of clarification in respect of various issues pertaining to distribution of input service credit by ISD, availment of ITC by banking companies and financial institutions, issues relating to payment of pre-deposits, admissibility of ITC in respect of demonstration vehicles
 - Omission of rule 96 (10) of the CGST Rules, 2017 to be effective from 23 October 2017 (in line with the decision of Hon’ble Supreme Court in case of M/s Goodluck India Limited & Anr. vs. UOI)

5. Other Clarifications proposed

- Introduction of Validation clause to validate notices held as invalid by various courts on the ground of having been issued for multiple years (to counter the issue of bunching of Show Cause Notices for multiple years).
- Extension of e-invoicing for domestic supplies received from unregistered suppliers and for import of services, tax for which is payable under RCM, for taxpayers having turnover exceeding ₹ 5 Crores.
- Waste and scrap of plastics, e-waste, tyres and used cooking oil brought under **RCM** when supplied by unregistered persons, plus **2% TDS** on B2B supplies.
- **5% GST (restricted ITC)** as an option for passenger transport and rental of motor vehicles with operators using electric vehicles, where battery charging cost is included.
- **5% GST (no ITC)** on delivery services through ECOs, and on delivery services for goods ordered through ECOs.
- **Exemptions:** helicopter seat-sharing services from and to the North-East, Sikkim and Bagdogra; seed storage and warehousing; coffee curing; Seamen's Provident Fund Organisation services; upfront toll-right payments under the NHAI Toll Operate Transfer model; certain imports by foreign shipping lines' Indian establishments (with past regularisation)
- Clarifications on GST implication on motor vehicle leasing recoveries (viz. registration, road tax, insurance, FASTag etc.), O&M services under the TOT model, and Funds Transfer Pricing in banks

6. Items delegated to deliberation for standing committee

- The much-awaited agenda item of streamlining of the implications of section 16(2)(c) of the CGST Act has been delegated to the standing committee of members of the GST Council for further deliberation to decide on the protection to be provided to genuine purchasers against the defaults of the suppliers.
- Although not part of the agenda, announcement was made for the roadmap of introduction of faceless taxpayer administration and centralised registration of taxpayers under the exclusive jurisdiction of Centre. The committee shall deliberate on it, post which a framework for public consultation shall be released.

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