

TAX ALERT

INDIRECT TAX - GST

Key Recommendations of 57th GST Council Meeting



The 57th meeting of the GST Council was held on October 8, 2026 in New Delhi, under the chairpersonship of the Union Finance Minister. It is the first Council meeting since the 56th GST Council meeting in September 2025, which delivered the GST 2.0 rate rationalization and reduction of rates.

With rates now settled, the GST council meeting turned to the working of the law. The Council made recommendations on process reforms covering registration, returns, refunds and adjudication, along with clarifications on rates and other trade facilitation measures. The headline items include withdrawal of arrest powers, a higher prosecution threshold, lower penalties and wider ITC and refund eligibility.

This alert summarises the key recommendations on dispute resolution, ITC, exports and ease of doing business. These are recommendations only. They will take effect through law amendments, rules, notifications and circulars, and the final text may differ.

Legislative Changes

1. Notices, Penalties and Appeals

There are several reforms that have been suggested to bring change in the dispute resolution mechanism:

- Circular to provide comprehensive guidelines on quality and timely issuance of notices and orders, fraud invocation only on merits, and personal hearings.
- Amendment to Sections 73, 74 and 74A of CGST Act:
 - to provide a minimum limit of INR 10,000 for issuing a show cause notice. Further, the pending notices and appeals involving tax amount below INR 10,000 be decided as if the threshold was in force on the SCN issuance date
 - to deem penalty as a 'charge' where tax, interest and penalty are voluntarily paid in time
 - to remove non-fraud penalty of INR 10,000
 - to reduce penalty at 5%, if tax and interest are paid within 30 days (Section 73) or 60 days (Section 74A) of the order
- General penalty under Section 125 of CGST Act to be reduced from INR 25,000 to INR 10,000.
- Amendment to provisos to Secs 107(6) and 112(8) of CGST Act, to provide an upper limit of INR 40 crore (CGST+SGST) on pre-deposit for appeals to the Appellate Authority and Tribunal where the order involves only penalty and no tax demand.

I. Refund of accumulated ITC on capital goods and input services

- Section 54(3) of the CGST Act to be amended to allow refund of accumulated ITC on capital goods used for zero-rated supply and inverted duty structure. The refund of ITC will be over 60 months for ITC availed on or after April 1, 2027.

- Refund of ITC availed on input services in case of inverted duty structure, to be made available on services received after November 1, 2026.

II. Blocked credits under Section 17(5) of CGST Act

- Amendment to Section 17(5) of the CGST Act, to remove the ITC restriction on outdoor catering, health and life insurance, telecom towers, pipelines outside factory premises, free samples, and goods written off on expiry of shelf life as required by law.

III. Export of services and zero-rated supplies

- Section 2(6)(v) of the IGST Act to be omitted to remove the distinct person condition and allow the supply of services to foreign offices or branches to qualify as exports and allow refund of ITC.
- Circular to be issued to clarify issues on receipt of payment in foreign exchange or Indian rupees for export of goods and services
- Section 13(3)(a) of the IGST Act (pertaining to services rendered in relation to 'goods') to be omitted and the place of supply to be governed by Section 13(2) of the IGST Act, whereby the place of supply is the recipient's location. This will enable the supplier to claim export benefits.
- Explanation to Section 16(1) of IGST Act to be inserted to provide that the goods supplied to an overseas buyer but delivered in an SEZ / FTWZ, against foreign exchange or permitted INR payment, will be deemed to be a supply to an SEZ / FTWZ.

IV. Arrest and prosecution

- Section 69 of the CGST Act be omitted for complete withdrawal of arrest powers.
- Prosecution thresholds should be raised from INR 1 crore to INR 5 crore and that punishment under Section 132 of the CGST Act, should be rationalized.
- Section 132(1) of the CGST Act, which lists the offences punishable with imprisonment, is to be amended as follows:
 - i. clause (i) is omitted,
 - ii. in clause (e), the words "evades tax" are deleted,
 - iii. in clause (h), the words "or in any other manner deals with" are deleted,
 - iv. clause (c) is now restricted to fraudulent availment of ITC without receipt of goods or services, or without an invoice or bill.

V. Transfer of title in IPR

As per Schedule II para 5(c), temporary transfer or permitting the use or enjoyment of IPR as a supply of services; however permanent transfer is not expressly covered. Amendment is recommended to include permanent transfer of title in IPR.

Compliance Changes

I. Registration & Amendment of Registration

- Comprehensive circular to be issued listing the documents and information required for each field of the registration application, with FAQs.
- Amendment to FORM GST REG-01 to include drop-down boxes for selecting the prescribed documents, and the GST portal to provide clear navigation and contextual guidance.
- Rule 19 of CGST Rules, to be amended to allow automatic acceptance of amendments to existing registrations, except for change pertaining to Principal Place of Business (PPoB).
- For registrants under the automatic route under Rule 14A of CGST Rules, even PPoB changes will be accepted automatically.

II. Cancellation and revocation of registration

- FORM GST REG 16 to be accepted automatically by the system once all pending returns are filed and dues are paid, in a phased manner.
 - Phase 1: FORM GST REG-16 to be accepted automatically once pending returns are filed and dues paid, where (a) ITC passed on never exceeded ₹2.5 lakh in any month since registration, or (b) ITC exceeding ₹2.5 lakh was passed on but FORM GSTR-10 is filed within the specified time.
 - Phase 2: All FORM GST REG-16 applications to be accepted automatically once pending returns are filed and dues paid and the FORM GST REG-16 amended to carry FORM GSTR-10 details.
- Rule 21 of CGST Rules, to be amended to omit specific grounds on which an officer can *suo moto* initiate cancellation of registration. Separately, a new system-based mechanism will proceed to cancel registration for defaults in filing returns or furnishing bank account details and restore it automatically once the default is made good.
- Rules 21A and 22 of CGST Rules are to be amended, and Rule 23A is to be inserted, for accommodating the mechanism for system-based cancellation.

III. Simplified registration for small e-commerce sellers under new rule 14B of CGST Rules

- Simplified automatic registration for small suppliers of goods through ecommerce operators in States where they have no physical presence and intend to pass on ITC of not more than INR 2.5 lakh per month, excluding stock transfers between distinct persons. Such suppliers may declare the ecommerce operator's warehouse in that State as the principal place of business and the registration will be automatically granted.

IV. Correction of liability and ITC in returns and reducing mismatches

- FORM GSTR-3B will be locked based on sales data flowing from GSTR-1 and ITC details from GSTR-2B. A prescribed mechanism will be provided for correcting and rectifying liability and ITC in return, supported by enhancements in GSTR-1/1A/IFF for better reconciliation.
- FORM GST DRC-03, used to pay tax voluntarily or against demand, will be amended to capture the invoice details for which the payment is made. This allows the payment to be linked to the specific invoice and the related ITC position.
- Insertion in CGST Rules
 - a. Rule 86D for statement of tax paid on reverse charge and ITC claimed
 - b. Rule 86C for statement of ITC reversed and reclaimed in FORM GSTR -3B
 - c. Rule 61(1A) and (1B) to allow correction of outward liability and ITC in GSTR-3B so it aligns with GSTR-1/1A/IFF and GSTR-2B
 - d. Rule 60(6A) to allow recipient to accept, reject or keep pending documents in the Invoice Management System before GSTR-2B is generated.
- The above mechanisms are proposed to apply with effect from April 2027 and clarificatory circulars to be issued in support of the above changes.

V. Other return-related changes

- Late fee waived on delayed returns under Sec 39(1) of the CGST Act, for taxpayers with turnover up to INR 5 crore in the preceding financial year, if the return is filed by the end of the month in which it was due.

VI. Faster, system-based refund processing

- Amendments in Section 54 of the CGST Act are proposed to move to a system-based mechanism in two phases:
 - Phase 1: Excess balance in the electronic cash ledger to be refunded automatically. Time limit for acknowledgement or deficiency memo to be reduced to 10 days from 15 days, failing which the application is deemed acknowledged. For low-risk zero-rated supply and inverted duty claims, 90% of the claim is sanctioned provisionally by the system.
 - Phase 2: Automatic acknowledgement after system validation, and full automatic refund for low-risk zero-rated claims.
- FORM GST RFD-01 to capture details in a system-readable form, eliminating scanned upload requirement.
- The restriction of 1.5 times value of like goods domestically supplied under Rule 89(4) (C) of CGST Rule is removed. INR 1,000 refund threshold applies to the total across all tax heads.

- Section 115 of the CGST Act is to be amended to make a standalone provision on the rate of interest for refund of pre-deposit made.

VII. Blocking of electronic credit ledger

- Amendment to Rule 86A of CGST Rules to allow taxpayer to raise objection on blocking of electronic credit ledger and get a personal hearing before the objection is decided.

VIII. Interception of goods in transit and e-way bill

Amendment to Sections 68, 129 and 130 of CGST Act are proposed to provide:

- A conveyance can be intercepted only on specific intelligence, with written authorization of an officer not below the rank of Joint Commissioner. Random checks are not allowed.
- Inspection, detention or seizure only if supplier or recipient is located/registered in the intercepting State and no interception in transit States.
- Where no e-way bill is generated or no document shows origin/destination, goods may be inspected, detained or seized irrespective of jurisdiction.
- Confiscation under Sec 130 of the CGST Act is not applicable to goods/conveyances in transit.

IX. ARQP scheme and circulars on specific issues

In principle approval of a concept note for an optional Annual Return Quarterly Payment (ARQP) scheme for taxpayers with turnover up to INR 5 crore in the preceding year who make only B2C supplies.

Other Measures

I. Amendments to streamline compliances

- Sections 16, 37 and 39 of the CGST Act are to be amended to align the time limits for GSTR-1 and GSTR 3B with the time limit for availing ITC under Section 16(4), i.e., 30 November after year-end or the annual return date, whichever is earlier, which should remove mismatches that lead to ITC disputes.
- Section 9(5) of CGST Act is to be amended to clarify that the ECO is liable to discharge tax liability irrespective of its business model, giving certainty to e-commerce platforms.
- A validation clause is to be introduced for notices held invalid by courts on the ground that they covered multiple financial years.
- E-invoicing extended to domestic supplies received from unregistered persons where tax is payable under reverse charge, and to import of services, for taxpayers with aggregate annual turnover of ₹5 crore and above.

II. Alignment of GST Appellate Tribunal provisions

The CGST Act and the GSTAT (Appointment and Conditions of Service of President and Members) Rules, 2023 are to be amended to align with the Tribunals Reforms Act, 2026 and the related 2026 Rules. This should reduce the scope for challenges to GSTAT's constitution and support its stable functioning.

III. Circulars to be issued on the following matters, to remove ambiguities arising from varied interpretations by field formations

- ISD mechanism for distributing input service credit, bringing clarity for multi-location businesses.
- ITC availed by banks and financial institutions, including NBFCs, opting for Section 17(4) of the CGST Act, which allows 50% of eligible ITC every month, giving certainty on the credit available.
- Payment of pre-deposits, which should reduce procedural disputes at the appeal stage.
- ITC on demonstration vehicles in certain situations, which is relevant for automobile dealers.
- Rule 96(10) of the CGST Rules which restricted IGST refunds on exports where specified exemption or concessional benefits were availed on inputs, was omitted prospectively from October 8, 2024. The omission is now to be made effective from October 23, 2017, in line with the Hon'ble Supreme Court's decision in *Goodluck India Ltd. & Anr. v. Union of India & Ors.*

Change of rate for Goods and Services

The Council recommended the following changes / clarifications relating to goods:

S. No.	Goods	Recommended change
1	Sublimation paper	Classified under heading 4809; past cases regularized on 'as is where is' basis.
2	Toys	Rate schedule entries cover all toys under heading 9503 (dolls, puzzles etc.), not only tricycles, scooters and pedal cars (Sr. No. 497 of Schedule I and Sr. No. 616 of Schedule II of Notification 09/2025-CTR).
3	Sea-weed extract bio-stimulants	Classifiable under heading 3101 as fertilisers where registered under Schedule VI of the Fertilizer (Control) Order, 1985, past cases regularized.
4	Second-hand vehicles supplied under the GST margin scheme	Clarified that ITC is allowed on inputs (other than second-hand vehicles) and input services, e.g., spares, repairs, technology, rent, marketing and advertisement ITC bar applies only to tax on procured second-hand vehicles.

S. No.	Goods	Recommended change
5	Waste and scrap	Reverse charge on plastic, e-waste, tyre waste/scrap and used cooking oil supplied by unregistered to registered persons 2% TDS on B2B supplies by registered persons.
6	Psyllium seeds (Isobgul / Isabgol)	Nil rate on Psyllium seeds (fresh, chilled, frozen or dried)
7	Re-treaded tractor tyres	Rate aligned with that applicable on new tractor tyres (anomaly corrected) Rate not specified in the press release
8	Compensation cess (CSD)	Exemption of cess not levied by CSDs on two/four wheelers (1.7.2017-30.9.2022) and on aerated drinks by CSDs and unit run canteens (1.7.2017-31.3.2022).

The Council recommended the following changes / clarifications relating to services:

S. No.	Services	Recommended change
1	Passenger transport and rental of motor vehicles with operators, using electric vehicles	Option to pay 5% GST with restricted ITC where the service is supplied using an EV and battery charging cost is included in the consideration.
2(a)	Delivery services through ECOs	Delivery services (other than courier/postal) through ECOs by unregistered persons brought under Sec 9(5) at 5% without ITC and with the e-commerce platform made liable to pay the tax where the delivery partner is unregistered.
2(b)	Transportation of goods by a Goods Transport Agency to unregistered persons	Exemption under Entry 21A of Notification No. 12/2017-CT(R) to be excluded, where the services relate to goods supplied / ordered through an ECO
3	Motor vehicle leasing: recoveries by lessor from lessee (registration charges, road tax, insurance, FASTag)	GST treatment to be clarified
4	Section 17(5)	Restriction on ITC removed for • outdoor catering and for health and life insurance • telecommunication towers and pipelines laid outside factory premises • free samples and for goods destroyed or written off on expiry of shelf life as required by law Limited ITC in the same line of business for restaurant/outdoor catering services, hotel accommodation up to ₹7,500 per unit per day, and gym/fitness services, in the manner currently available for passenger transportation, tour operator and motor vehicle renting services.

S. No.	Services	Recommended change
5	Specific Exemptions	• Passenger transportation by helicopter on seat-sharing basis specifically from / to airports / helipads in the north-eastern States, Sikkim and Bagdogra (West Bengal) • Storage or warehousing of seeds meant for sowing • Curing of coffee by coffee curers for cultivators (agricultural support service) • Import of services by Indian establishment of a foreign shipping company from a related person or its establishment outside India, when made without consideration • Upfront/concession on the amount paid to NHAI under TOT highway projects.
9	Research and development services	For eligibility to exemption under Entry 44A of Notification No. 12/2017-CT(R) to provide self-certification by head of the institution that the activity is R&D and not consultancy
12	Operation and Maintenance services for highway projects under TOT model	Special procedure for valuation and time of payment of GST

About us

Bhuta Shah & Co LLP (BSC) is a dynamic professional Chartered Accountants firm with a distinctive blend of skill sets, experience and expertise. Established in the year 1986, we operate from our Head Office in Nariman Point, Mumbai while having 6 offices across India in Mumbai, Pune, Ahmedabad and New Delhi. We offer our clients a wide range of services including Audit & Assurance, Direct Taxation, Indirect Taxation, Transaction Advisory, Corporate Finance, Corporate Advisory, Risk Advisory, Cyber Security and Resolution & Insolvency Advisory. We provide services to a diverse set of leading Indian and Multinational Clients, including FPIs, Mutual Funds, Large Banks, Broking Institutions, Listed Companies including Pharmaceutical Companies, Manufacturing Companies, Insurance Companies, Realty Companies, Jewellery Companies, Hospitals and several other Large and Medium Businesses. Our forte is high quality services to our clients based on the core principles of Quality, Focus, Timeliness and Commitment. The Leadership Team comes with rich experience and is supported by a competent and efficient team of Professionals including Chartered Accountants, Professionals with Big-4 Consulting and Industry experience, Advocates, Company Secretaries, MBAs, Former IRS Officers, who are committed to providing timely, professional and quality services to our clients.

Contact Us

- Tel: +91 079 4003 9647
- L: +91 22 4343 9191
- E: mail@bhutashah.com
- W: www.bhutashah.com



SCAN TO KNOW MORE

Disclaimer: This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. This publication is not intended to address the circumstances of any particular individual or entity. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation. This publication is not a substitute for detailed research and opinion. Bhuta Shah & Co LLP, its members, employees and agents disclaim any and all liability for any loss or damage caused to any person from acting or refraining from acting as a result of any material in this publication. Without prior permission of BSC, this publication may not be quoted in whole or in part or otherwise referred to in any documents.