



KEY OUTCOMES, BUSINESS ANALYSIS AND SECTOR-WISE IMPACT

57th GST Council Meeting

The 57th meeting of the GST Council was held on 8th October, 2026, in New Delhi, chaired by the Union Finance Minister. The 56th meeting last year was about rate rationalisation. This meeting is mainly about process, enforcement and litigation. Its recommendations cover registration, returns, refunds, adjudication, tax credit input, exports and criminal provisions, plus a set of rate clarifications and exemptions.

In short, this is the most taxpayer-friendly set of procedural reforms since GST was introduced. Arrest powers go entirely, prosecution is narrowed sharply, refunds become largely automated, and several long-standing blocked-credit and export disputes are resolved by law rather than litigation. There are a few points to watch, notably a validation clause for multi-year notices and new RCM/TDS obligations on scrap.

These are recommendations only. They take effect only once the relevant notifications, circulars and amendments to the CGST/IGST Acts are issued. Changes to the Acts will need Parliament (most likely through the Finance Bill 2027) and the State legislatures. Rule changes and circulars should come sooner.

1. Headline Changes at a Glance

Area	Earlier position	Recommended position
Arrest	Arrest power under s.69 CGST Act	Complete withdrawal (s.69 omitted)
Prosecution threshold	₹1 crore	₹5 crore
Fake ITC offence, s.132(1)(c)	Broadly worded	Limited to fraudulent ITC without receipt of goods/services or without invoice
General penalty, s.125	Up to ₹25,000	Up to ₹10,000
Minimum threshold for SCN	None	No SCN below ₹10,000 in tax; pending cases below ₹10,000 to be decided as if the threshold had applied
Penalty in non-fraud cases	Minimum ₹10,000	Minimum removed; 5% penalty if tax and interest are paid within 30 days (s.73) or 60 days (s.74A) of the order
Pre-deposit, penalty-only appeals	Uncapped	Capped at ₹40 crore (₹20 crore CGST + ₹20 crore SGST)
Late fee, turnover up to ₹5 crore	Payable	Waived if the return is filed by the end of the month in which it was due
Refund, cash ledger balance	Officer-processed	Fully automatic
Refund, zero-rated and inverted duty	90% provisional for zero-rated only, officer-processed	90% provisional sanctioned automatically on system risk evaluation; full automation for zero-rated in Phase 2



2. Process Reforms: What Changes for Every Business

REGISTRATION

- A comprehensive circular with document checklists and FAQs, plus drop-down selection of prescribed documents in REG-01. This should cut down the queries and rejections that currently delay new registrations.
- Amendments to registration particulars will be accepted automatically, except for the Principal Place of Business. For taxpayers registered through the automatic route under rule 14A, PPOB changes will also be automatic.
- Cancellation on application will be automatic once all returns are filed and dues are paid. Phase 2 merges GSTR-10 into REG-16. Several grounds for suo-moto cancellation are being dropped. A system-driven mechanism will cancel and then revoke registrations for non-filing or failure to furnish bank details.



RETURNS AND RECONCILIATION

This is the most technically significant part of the package. It creates a structured, system-driven way to correct liability and ITC:

- New rule 86D: an "Electronic Statement of tax paid on RCM and ITC claimed".
- New rule 86C: an "Electronic Credit Reversal and Reclaim Statement".
- Rule 61(1A) and 61(1B): mechanisms to correct GSTR-3B liability against GSTR-1/1A/IFF, and GSTR-3B ITC against GSTR-2B.
- Rule 60(6A): statutory backing for the Invoice Management System (IMS), including limits on how long credit notes can be kept pending.
- DRC-03 will require details of the underlying invoice.

These provisions apply from the April 2027 return period, after a time-bound public consultation. For large taxpayers this should mean far fewer system intimations (DRC-01B/DRC-01C) and mismatch-driven demand notices. It also means ERP and reconciliation processes will need to be redesigned before April 2027. Companies should comment during the consultation window.

DISPUTE RESOLUTION

- A circular to field officers on the quality and timeliness of SCNs and orders, invoking fraud or suppression only where the facts support it, and conducting personal hearings. This responds directly to the large volume of mechanical, extended-period notices.
- Penalty is deemed a "charge" where tax, interest and penalty are paid voluntarily within the time limit. This is a reputational point, relevant for listed companies and for tender eligibility.
- Rule 86A: taxpayers can now object to blocking of their electronic credit ledger and get a personal hearing.
- The GSTAT framework is being aligned with the Tribunals Reforms Act, 2026.

INPUT TAX CREDIT: STRUCTURAL RELIEF

Section 17(5) blocked credits removed for:

- outdoor catering
- health and life insurance
- telecommunication towers
- pipelines laid outside factory premises
- free samples
- goods destroyed or written off on expiry of shelf life where the law requires it

Several of these, especially towers, pipelines and insurance, have been heavily litigated. Removing the blocks reduces cascading and should lower the effective cost of employee benefits and capital-intensive networks.

REFUND OF ACCUMULATED ITC WIDENED

- Inverted duty structure: refund now extends to ITC on input services (for ITC availed on or after 1 November 2026) and on capital goods.
- Zero-rated supplies: refund now extends to ITC on capital goods.
- Capital goods ITC refund will be spread over 60 months and applies to ITC availed on or after 1 April 2027.

For capex-heavy exporters and inverted-duty manufacturers, this unlocks credit that until now was effectively a sunk cost.



OTHER ITC CLARIFICATIONS BY CIRCULAR

- ISD distribution of input service credit
- ITC for banks and NBFCs that opt for the 50% scheme under s.17(4)
- ITC on demonstration vehicles in certain situations
- Under the margin scheme, second-hand vehicle dealers may claim ITC on all inputs and input services; the restriction applies only to the vehicles themselves

3. Exports: Significant Wins

- The "distinct person" condition for export of services is removed (s.2(6)(v) IGST Act omitted). Services supplied by an Indian entity to its own foreign branch or office will now qualify as exports. This removes a long-standing barrier for IT/ITeS, consulting and professional services firms and for multinational structures operating through overseas branches.
- Section 13(3)(a) IGST Act omitted. Where the recipient makes goods physically available to the service provider, as in repair, testing, inspection, calibration and processing, the place of supply now defaults to the recipient's location. Services to foreign clients can therefore qualify as exports. This benefits MRO operators, testing labs, ship and aircraft repair, and job workers for overseas principals.
- Delivery to an SEZ/FTWZ on behalf of an overseas buyer will be deemed a supply to the SEZ/FTWZ when payment is received in foreign exchange or in INR as permitted by RBI. This gives certainty on zero-rating for warehousing-led export models.
- Rule 89(4)(C) restriction removed. The cap that limited zero-rated turnover to 1.5 times the value of like goods supplied domestically goes. Rule 96(10) is being omitted with effect from 23.10.2017 in line with the Supreme Court decision, which should close a large body of pending refund disputes.
- A circular will clarify the permitted receipt of export proceeds in foreign exchange or INR.
- Transfer of title in IPR, temporary or permanent, will be uniformly treated as a supply of services, settling the goods-versus-services classification for cross-border licensing and assignment.



4. Movement of Goods: E-way Bill Reform

- Interception will be allowed only on specific intelligence and with the authorisation of an officer not below Joint Commissioner.
- Detention and seizure will be possible only in the State where the supplier or recipient is located or registered. There will be no interception in transit States.
- Confiscation under s.130 will not apply to goods or conveyances in transit.
- Goods moving without an e-way bill or any origin/destination document can still be acted on in any jurisdiction.

For logistics operators and manufacturers with long inter-State supply chains, this should substantially reduce roadside detentions over technical discrepancies.

5. Sector-wise Impact

EXPORTERS (GOODS AND SERVICES), IT/ITES AND GCCS.

Strongly positive. Exporters gain automated refunds, capital goods ITC refunds, removal of the 1.5x cap, the distinct-person fix and the s.13(3)(a) fix. Expect better working capital and fewer refund disputes.

INVERTED DUTY SECTORS (TEXTILES, FOOTWEAR, FERTILISERS, RENEWABLES, CERTAIN ENGINEERING GOODS).

Positive. Refunds on input services and capital goods, with 90% auto-provisional sanction, ease long-standing cash blockage. The effective dates of 1 November 2026 and 1 April 2027 matter for planning.

E-COMMERCE AND MARKETPLACE SELLERS.

Positive, with cost implications. New rule 14B lets small sellers register in other States using the ECO's warehouse as their PPOB, with automatic grant. This should widen the seller base, especially for MSMEs from States like West Bengal selling nationally. Against that, delivery services through ECOs will be taxed at 5% without ITC under s.9(5), and the GTA exemption for transport to unregistered persons will not apply where goods are ordered through an ECO. Quick-commerce and food-delivery platforms should model the impact on cost and pricing. Section 9(5) is also being amended to put ECO liability beyond doubt regardless of business model.





LOGISTICS AND TRANSPORT

Positive. The e-way bill reforms reduce transit risk. An optional 5% rate with restricted ITC is available for EV-based passenger transport and rentals with operators where charging cost is included, which helps electric fleet operators and ride-hailing.

HOSPITALITY, F&B AND FITNESS.

Positive. Limited ITC in the same line of business will be allowed for restaurant and outdoor catering services, hotel accommodation up to ₹7,500 per unit per day, and gym/fitness services, on the same basis as passenger transport and tour operators. Together with outdoor catering being removed from s.17(5), this eases cascading on B2B catering and sub-contracting.

BANKING, NBFCS AND INSURANCE.

Positive, clarificatory. Notional interest under Fund Transfer Pricing between bank branches is clarified as "interest" and so exempt, removing a significant litigation risk. Circulars are due on ITC for entities under s.17(4). Unblocking ITC on health and life insurance should make group insurance cheaper for employers.

TELECOM, OIL AND GAS, CITY GAS DISTRIBUTION.

Positive. ITC on towers and on pipelines outside factory premises is now unblocked. These have been major disputes, and the change lowers the effective cost of network rollout.

PHARMA, FMCG AND FOOD PROCESSING.

Positive. ITC is now allowed on free samples and on goods destroyed on statutory shelf-life expiry, both previously blocked or disputed. Isabgol (psyllium seeds) is clarified as nil-rated in all forms.

AUTOMOBILE AND AUTO-ANCILLARY.

Positive. Changes cover ITC on demonstration vehicles, ITC on inputs and services for second-hand vehicle dealers, and treatment of statutory recoveries in leasing (registration, road tax, insurance, FASTag). Retreaded tractor tyres are aligned with the rate on new tractor tyres, and past Compensation Cess not levied by CSDs is exempted.

INFRASTRUCTURE AND HIGHWAYS.

Positive. The upfront concession amount paid to NHAI under the Toll-Operate-Transfer model is exempt. A special procedure will cover valuation and timing of GST on O&M services under TOT, which removes a cost and cash-flow drag on asset recycling.

RECYCLING, SCRAP AND WASTE MANAGEMENT.

Mixed, with compliance burden. RCM will apply to plastic waste, e-waste, tyre scrap and used cooking oil bought from unregistered suppliers, with the recipient paying even if the supplier is below threshold. There will also be 2% TDS on B2B supplies of these items. The aim is to curb fake invoicing in the scrap trade. Recyclers will face working-capital pressure and need to upgrade vendor onboarding and documentation.



AGRICULTURE AND AGRI-INPUTS.

Positive. Seaweed-based bio-stimulants are classified as fertilisers under heading 3101, with past cases regularised. Storage and warehousing of seeds for sowing and coffee curing for cultivators are exempted.

TOYS, PRINTING AND TEXTILE PRINTING.

Clarificatory. The toy entries cover all of heading 9503, including dolls and puzzles. Sublimation paper falls under 4809, with past cases regularised.

SHIPPING.

Positive. Import of services without consideration by an Indian establishment of a foreign shipping line from related entities abroad is exempted, with the past period regularised. This closes a contentious area of related-party valuation.

R&D INSTITUTIONS.

Positive. Self-certification by the head of the institution will establish that work is R&D and not consultancy, for the exemption under Entry 44A.

AVIATION AND REGIONAL CONNECTIVITY.

Helicopter seat-sharing services to and from the North-Eastern States, Sikkim and Bagdogra are exempted, which supports tourism and connectivity in north Bengal and the North-East.

MSMES AND SMALL RETAIL.

Positive. Benefits include the late fee waiver, simpler registration, and in-principle approval of an optional Annual Return Quarterly Payment (ARQP) scheme for B2C-only businesses with turnover up to ₹5 crore. The ARQP design still has to be notified.

6. Points of Caution

- **Validation clause for multi-year notices.** A validation clause will be added to the CGST Act for notices that courts have quashed for covering multiple financial years. Taxpayers who won on this ground should reassess their exposure, since those demands may be revived.
- **E-invoicing extended to RCM inward supplies from unregistered persons and to import of services, for taxpayers with turnover of ₹5 crore and above.** This adds to compliance load and needs ERP changes.
- **Time limits aligned.** Section 16, s.37 and s.39 are being amended so that the time limits for furnishing GSTR-1 and GSTR-3B match the s.16(4) ITC deadline. Return calendars should be reviewed once this is notified.
- **Timing.** Many reliefs depend on Act amendments. Until those are enacted, existing provisions, including s.69 and the current s.132, remain in force for ongoing matters. Their effect on pending prosecutions will depend on the transitional language in the amending Act.



7. Recommended Next Steps

- **Exporters and inverted-duty units:** quantify accumulated ITC on input services and capital goods, and set up tracking of ITC availed from 1 November 2026 and 1 April 2027.
- **Service exporters with foreign branches, and businesses supplying services on goods of foreign clients:** revisit past positions and pending refund claims under the new distinct-person and s.13(3)(a) provisions.
- **All large taxpayers:** take part in the consultation on the return amendment mechanism, and plan IMS, rule 86C/86D and ERP changes ahead of April 2027.
- **Litigation teams:** map pending notices below ₹10,000, penalty-only appeals (for the pre-deposit cap), blocked-credit disputes now resolved by law, and multi-year notices exposed to the validation clause.
- **E-commerce, logistics and recyclers:** model the pricing and cash-flow effect of 5% delivery tax without ITC, withdrawal of the GTA exemption, and RCM/TDS on scrap.
- Watch for the circulars, notifications and FAQs the Council said are being issued. The detailed conditions and effective dates will be in those documents.

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