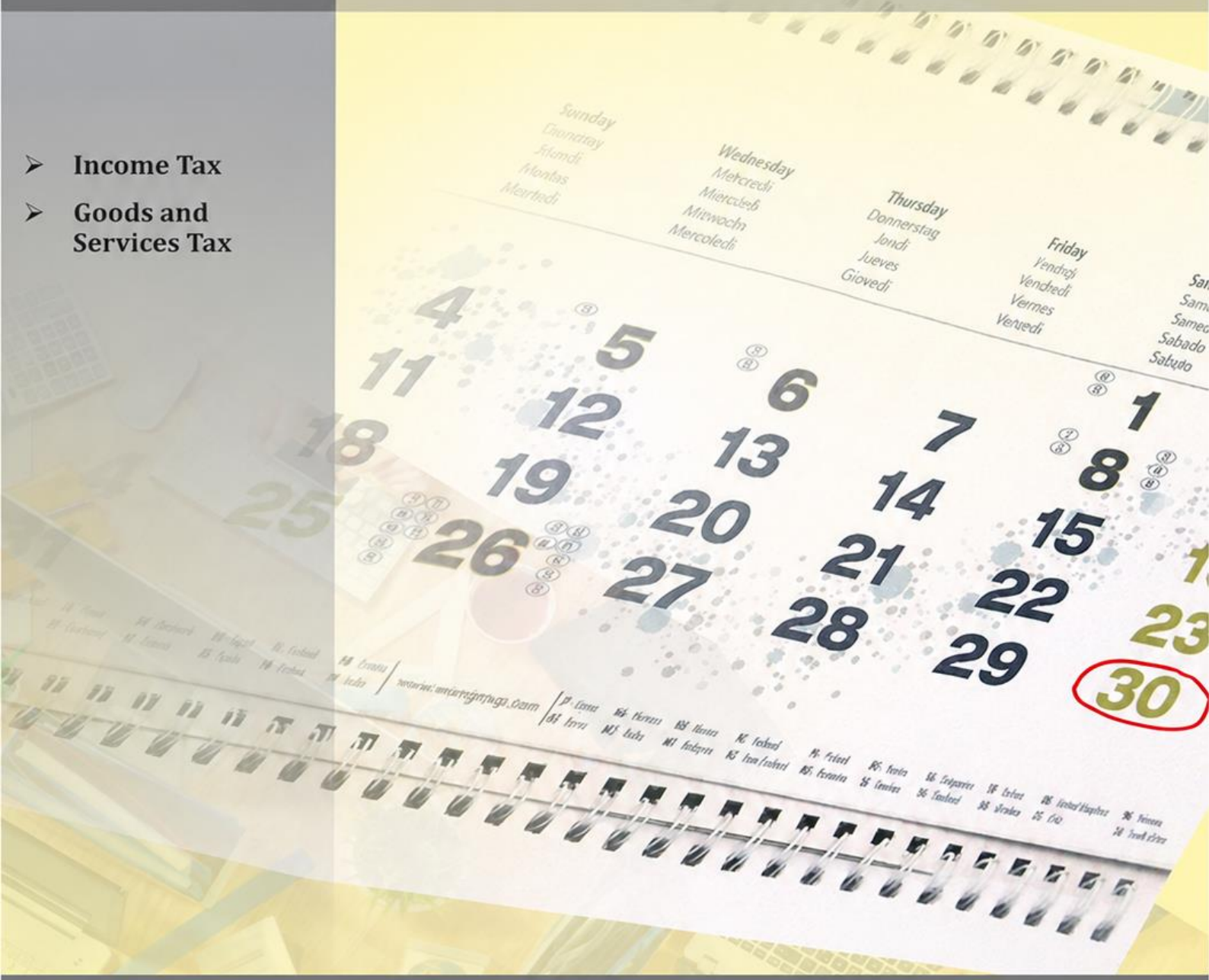
October 2026

NEWSLETTER

TAX

- Income Tax
- Goods and Services Tax



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Income Tax

1. Amendments to Form No. 161

CBDT
Notification No. 134/2026 dated 8.10.2026

Vide this notification, CBDT has made amendments to Form No. 161 by introducing the Income-tax (Sixth Amendment) Rules, 2026.

Form No. 161 is an optional application that a taxpayer may submit under Section 440(2) of the Income-tax Act, 2025, after receiving an assessment or reassessment order.
It is intended for eligible taxpayers who want to seek:

- Waiver of the penalty imposed under Section 439.
- Immunity from initiation of prosecution under Sections 478 or 479, subject to the prescribed conditions.

Amendments made to Form No. 161:

- **Amendment to Rule 231-** The words "or waiver" have been inserted after the word "imposition".
- **Assessment order details-** The revised form requires details such as the Tax Year, section under which the order was passed, Document Identification Number (DIN), order date, date of service of the order and due date for payment of demand.
- **Income details-** The form now separately records assessed income and under-reported income, classified into specified categories under Item 13 and Item 14 of the Form respectively.
- **Tax and additional income-tax calculation-** Separate fields have been introduced for tax and interest payable on assessed income, tax payable on under-reported income, and additional income-tax payable in lieu of penalty.
- **Total amount payable-** The revised form requires calculation of the total amount payable for seeking the waiver under Item 16 of the Form.
- **Payment and verification-** It includes payment details such as BSR code, payment date, challan serial number and amount, along with declarations regarding appeal and the taxpayer's undertaking.
- **Structured Computation of Liability (Items 13 to 16)-**The revised form introduces a step-by-step computational schedule to determine the exact waiver amount:

  - **Item 13- Tax and interest payable on assessed income**
    This is the amount of Tax and interest payable computed by assessing officer on assessed income.
  - **Item 14- Tax payable on under-reported income**
    It is the Tax computed on Income determined by assessing officer under the applicable provisions to be higher than the income reported by the taxpayer.

  - **Item 15- Additional income-tax payable in lieu of penalty**
    Additional income tax is calculated on under reporting income as follows:

    Item 15(i)- 100% of Item 14(i) [Tax Payable on under-reported Income covered under section 439(11)(a) to (f)] covering incorrect or incomplete reporting.
    Item 15(ii)- 120% of Item 14(ii) [Tax payable on the under-reported income covered by Section 439(11)(g)] Covering unexplained Income.
    Item 15(iii)- Total of Item 15(i) and 15(ii) [Total additional Income Tax]

  - **Item 16- Total Amount payable for waiver of penalty**
    It includes-
    Item 13 – Tax and interest payable on assessed income and

Item 15(iii) – Total additional income-tax

Form No. 161 allows an eligible taxpayer to seek relief from a penalty, but it does not cancel the underlying tax and interest demand.

These changes came into force on 8 October 2026, the date of publication of the notification in the Official Gazette.

Notification No. 134

2. Amendment in DTAA between India and Mauritius

CBDT
Notification No. 135 /2026 dated 13.10.2026

Vide this notification, CBDT has given effect to the Protocol amending the Double Taxation Avoidance Agreement **(DTAA) between India and Mauritius.** The Protocol was signed on 7 March 2024 and **came into force on 10 August 2026.**

The main objective is to prevent tax evasion, tax avoidance and treaty shopping, whereby taxpayers use arrangements involving Mauritius to obtain treaty benefits that are not consistent with the purpose of the treaty.

CBDT has introduced new Article 27B vide this Protocol
Article 27B introduces the Principal Purpose Test (PPT), an anti-abuse provision that determines whether a taxpayer should be entitled to benefits under the India–Mauritius DTAA.

Under this Article, a treaty benefit shall not be granted in respect of an item of income if, considering all relevant facts and circumstances, it is reasonable to conclude that obtaining the benefit was the principal purposes of an arrangement or transaction that resulted directly or indirectly in that benefit.

However, the benefit may still be granted if it is established that granting it in those circumstances would be consistent with the object and purpose of the relevant treaty provisions.

The treaty benefit need not be the sole purpose of the arrangement; it is sufficient that it was one of the principal purposes, subject to the exception above.

Notification No. 135

3. Income-tax (Seventh Amendment) Rules, 2026

CBDT
Notification No. 137 /2026 dated 19.10.2026

Vide this notification, CBDT has amended the Income-tax Rules, 2026, to prescribe the information that must be furnished when claiming certain exemptions on interest and capital gains from Government securities.

The notification introduces:

- **New Rule 281A — specifies the information required to claim the exemptions.**
- **New Form No. 173A — provides the format for furnishing that information.**

to claim exemption under Serial Numbers 13D and 13E of Schedule IV to the Income-tax Act, 2025 on tax exemptions on interest and capital gains from Government securities **for Foreign Institutional Investor (FII) and Bank for International Settlements (BIS) respectively.**

Form No. 173A is divided into two parts
Part A- Basic Information
Name, country of residence, address, Permanent Account Number (PAN), Tax Identification Number (TIN), SEBI registration number, tax year, email ID and contact number.

Part B – Details of exempt income
Details of Government securities, including their identification number (ISIN), type of security, tenor, opening value, purchases, sales, closing value, interest received or accrued, and capital gains earned during the tax year.

The notification comes into force from the date of publication in the Official Gazette i.e. 19th Oct'2026.

Notification No. 137

Goods and Service Tax

1. GST Multistate Registration Facility

CBIC
Advisory dated 01.10.2026

The GST Common Portal has introduced a **"Multistate Registration" facility** that allows taxpayers to apply for GST registration in multiple States/Union Territories (UTs) simultaneously under the same PAN. Earlier, a separate application had to be filed independently for each State or Union Territory.

Currently, this facility is available only for Normal Taxpayers. specialized categories—such as Composition Taxpayers, Casual or Non-Resident Taxable Persons, Input Service Distributors (ISDs), TDS/TCS deductors/collectors, OIDAR service providers, and SEZ units—are excluded and must continue filing separate applications

How does it work?
1. Select States/UTs- Select the required States/UTs through the new "Multistate Registration" tab on the GST portal. A Master Temporary Reference Number (TRN) is generated.

2. Submit common information- Use the Master TRN to provide Common Registration Information (CRI), including business details, promoters/partners, authorised signatory, authorised representative and goods and services. The Master TRN must be submitted within 15 days.

3. Individual TRNs generated- After submission of the CRI, separate TRNs are generated for each selected State/UT.

4. Provide State-specific details- The common information is auto-populated in each application and remains editable. Applicants must then provide the remaining details, including the Principal Place of Business (PPoB), Additional Place of Business (APoB), State-specific information and Aadhaar authentication.

Advisory on GST Multistate Registration Facility

2. Introduction of e-Invoicing for Self-Invoices under RCM

CBIC
Advisory dated 16.10.2026

The e-Invoicing system is being enhanced to allow registered recipients to generate Invoice Reference Numbers (IRNs) for self-invoices relating to specified Reverse Charge Mechanism (RCM) transactions.

The facility is intended for registered taxpayers having Aggregate Annual Turnover (AATO) of ₹5 crore or above, subject to applicable government notifications and GST provisions.

New Supply Types Introduced

RCMDOM
Self-invoices generated by registered recipients for specified domestic supplies received from unregistered suppliers, where tax is payable under RCM.

RCMIMP
Self-invoices generated by registered recipients for import of services from suppliers located outside India, where tax is payable under RCM.

E-Invoicing Under RCM

3. Section 153 to Section 155 of the Finance Act, 2026

CBIC
Notification No. 3/ 2026 dated 16.10.2026

Vide this notification, the CBIC has made Sections 153 to 155 of the Finance Act, 2026, effective from 1st November 2026. These provisions amend Sections 15, 34 and 54 of the Central Goods and Services Tax Act, 2017 (CGST Act), introducing significant changes concerning post-supply discounts, issuance of GST credit notes and refunds of accumulated input tax credit (ITC).

Key Amendments and Their Implications:

1. Post-Supply Discounts – Section 15(3)(b) of the CGST Act, 2017
Section 153 of the Finance Act, 2026
The requirement for a prior agreement and specific invoice-level linkage for post-supply discounts has been removed. Such discounts may be excluded from the taxable value through a GST credit note, subject to reversal of the corresponding ITC by the recipient in accordance with the law.

Impact: Provides greater flexibility in granting turnover-based discounts, annual rebates and sales incentives.

2. GST Credit Notes – Section 34(1) of the CGST Act, 2017
Section 154 of the Finance Act, 2026
The provision expressly recognizes the issuance of GST credit notes for qualifying post-supply discounts covered under Section 15(3)(b).

Impact: Enables suppliers to adjust the taxable value for eligible discounts, subject to applicable conditions, reporting requirements and corresponding ITC reversal by the recipient.

3. Provisional Refunds under Inverted Duty Structure – Section 54(6) of the CGST Act, 2017
Section 155(a) of the Finance Act, 2026

The provisional refund mechanism, previously applicable to qualifying zero-rated supplies, has been extended to eligible refunds of unutilized ITC arising from an inverted duty structure under Section 54(3)(ii).

Impact: Facilitates faster refunds and improves working capital availability for eligible businesses facing ITC accumulation due to higher GST rates on inputs than on outward supplies.

4. Minimum Refund Threshold for Exported Goods – Section 54(14) of the CGST Act, 2017
Section 155(b) of the Finance Act, 2026

The minimum refund threshold of ₹1,000 will no longer apply to eligible refund claims relating to goods exported out of India with payment of tax.

Impact: Provides relief to exporters by permitting eligible refund claims below ₹1,000.

Notification No.3

4. Amendments to CGST Rules, 2017

CBIC
Notification No. 5/ 2026 dated 26.10.2026

Vide this notification, the CBIC has notified the Central Goods and Services Tax (Amendment) Rules, 2026, introducing various amendments to the CGST Rules, 2017, primarily relating to GST registration, cancellation of registration, refund processing, distribution of input tax credit (ITC) and return filing procedures.

The amendments will largely be effective from 1 November 2026, while certain provisions will come into effect from 1 December 2026 and 1 April 2027.

The key amendments and their implications are discussed below:

1. New Registration Facility for E-commerce Suppliers – Rule 14B *(Effective 1st Nov'2026)*

A new Rule 14B has been introduced allowing suppliers of goods selling through e-commerce operators (ECOs) required to collect TCS under Section 52 to obtain GST registration in other States where they do not have a physical presence, by declaring the ECO's warehouse as their principal place of business. This facility is subject to prescribed conditions, including ECO's consent and a monthly output tax liability limit of ₹2.5 lakh on specified supplies to registered persons.

Impact: Facilitates businesses selling goods through e-commerce platforms to obtain GST registration across States without maintaining their own physical place of business in each State.

2. Amendment and Cancellation of GST Registration – Rules 19 and 20 *(Effective 1st Nov'2026)*

The procedures for amendment and cancellation of GST registration have been revised. Taxpayers are required to apply for amendments within 15 days of the change. The revised cancellation procedure also provides for faster processing, including system-based cancellation in eligible cases, subject to filing of pending returns and payment of outstanding dues. Further, GSTR-1 and GSTR-3B for the relevant tax period must both be filed before applying for cancellation.

Impact: Streamlines registration-related procedures and facilitates quicker processing of amendment and cancellation applications.

3. Revised Provisions for Suspension and Cancellation of Registration – Rules 21A and 22 *(Effective 1st Apr'2027)*

The provisions relating to suspension and cancellation of registration have been revised with effect from 1 April 2027. Registration may be suspended for specified non-compliances, including continuous non-filing of returns and failure to furnish bank account details under Rule 10A. Taxpayers will generally be given 30 days to rectify the specified defaults, failing which registration may be cancelled electronically.

Impact: Introduces a more structured, system-driven mechanism for suspension and cancellation of GST registration.

4. Changes in GST Refund Procedures – Rules 89, 90, 91 and 92 *(Effective 1st Nov'2026)*

The refund procedures have been revised to simplify documentation and processing. The time limit for issuing acknowledgement or communicating deficiencies in refund applications has been reduced to 10 days. Further, the system may generate provisional refund orders based on risk assessment within three working days of acknowledgement. Changes have also been made to the calculation and reporting of refunds of accumulated ITC, including eligible input services and capital goods, subject to prescribed conditions and applicable effective dates.

Impact: Aims to expedite refund processing, improve transparency and streamline refund claims, particularly those arising from an inverted duty structure.

5. Distribution of Input Tax Credit by ISD – Rules 36, 39, 54 and 60 *(Effective 1st Nov'2026)*

Amendments have been made to provisions governing the distribution of ITC through Input Service Distributors (ISDs), clarifying the distribution of credit relating to input services attributable to one or more distinct persons. Corresponding changes have also been made to the relevant reporting and return procedures, including Form GSTR-6A.

Impact: Provides greater clarity and facilitates appropriate distribution of input service credit among different GST registrations of an organization.

6. Separate Reporting of Supplies by Composition Taxpayers – Form GST CMP-08 *(Effective 1st Nov'2026)*

The reporting format of Form GST CMP-08 has been revised to require separate disclosure of outward supplies of goods and services. Services supplied through e-commerce operators liable to pay tax under Section 9(5) must also be reported separately. Although composition taxpayers are not required to pay tax on such supplies, their value will be included in aggregate turnover.

Impact: Improves reporting and monitoring of supplies made by composition taxpayers through e-commerce operators.

7. Other Important Amendments

- **Rule 138:** With effect from 1 Nov 2026, E-way bill provisions have been extended to cover transportation of goods through metro rail.
- **Rule 86A:** With effect from 1 April 2027, the procedure for restricting debit from the electronic credit ledger has been revised, including a formal objection mechanism and a maximum restriction period of one year.
- **Rule 83C:** With effect from 1 Nov 2026, A specific procedure has been introduced for amendment of enrolment particulars of GST Practitioners.
- **Form GST INV-01:** The e-invoice schema will be upgraded from Version 1.1 to Version 1.2 with effect from 1 January 2027, introducing additional supply-type reporting codes.

Notification No.5

5. Removal of GST Registration Exemptions for Specified Scrap and Waste Materials

CBIC
Notification No. 6/ 2026 dated 27.10.2026

Vide this notification, the CBIC has amended Notification No. 5/2017-Central Tax under Section 23(2) of the CGST Act, 2017, to remove general GST registration exemptions for individuals and businesses dealing in specific secondary materials, making GST registration mandatory for them starting November 1, 2026.

The restriction on registration exemptions applies to suppliers dealing in the following five categories of waste and secondary materials:

- Used cooking oil (Customs Tariff heading 1518).
- Waste and scrap of plastics (heading 3915).
- Waste and scrap of tyres (heading 4004).
- Metal scrap (Chapters 72 to 81).
- Electrical and electronic waste and scrap (heading 8549).

Impact of the Notification

- **Mandatory Registration:** Suppliers who previously relied on small turnover thresholds or general exemptions to stay unregistered while dealing in these specific scraps and materials will now be required to obtain formal GST registration.
- **Tightening Supply Chain Compliance:** This measure aims to curb tax evasion and bring the unorganized or semi-organized scrap, recycling, and used-oil markets into the formal GST tax net.

Notification No.6

6. Mandatory TDS applicable for Specified Scrap and Waste Materials

CBIC
Notification No. 7/ 2026 dated 27.10.2026

Vide this notification, the CBIC has amended Notification No. 50/2018-Central Tax under Section 51 of the CGST Act, 2017, to mandate Tax Deducted at Source (TDS) on business-to-business supplies of specified waste, scrap, and secondary materials effective from November 1, 2026.

The TDS requirement applies to the supply of the following five categories of secondary materials:

- Used cooking oil falling under Customs Tariff heading 1518.
- Waste and scrap of plastics falling under heading 3915.
- Waste and scrap of tyres falling under heading 4004.
- Metal scrap falling under Chapters 72 to 81.
- Electrical and electronics waste and scrap falling under heading 8549.

Impact of the Notification

- **Mandatory TDS Deduction:** Any registered person who receives supplies of these specified items from another registered person must now deduct tax at source.

Notification No. 7

7. Guidelines for filing application for GST Registration.

CBIC
Circular No. 257/03/2026 dated 26.10.2026

Vide this circular, CBIC has issued guidelines for applicants filing GST registration applications in FORM GST REG-01, with a view to reducing queries, delays and rejections caused by incomplete, incorrect or illegible information and documents.

Key clarifications issued in the circular:

Key points of the circular

1. Registration application and applicable forms

- The application for GST registration is to be filed online on the GST portal (www.gst.gov.in) in **FORM GST REG-01**.

- FORM GST REG-01 does not apply to the following categories, which have separate forms:

Category of applicant	Form
Person required to deduct tax at source (Section 51)	FORM GST REG-07
Person required to collect tax at source (Section 52)	FORM GST REG-07
Non-resident taxable person	FORM GST REG-09
Person supplying online money gaming from outside India to a person in India	FORM GST REG-10
Person supplying OIDAR services from outside India to a non-taxable online recipient in India	FORM GST REG-10

2. Part A of FORM GST REG-01

- The legal name must match the name on the PAN and, for companies, the MCA Incorporation Certificate. For a proprietorship, the proprietor's name is to be entered.
- The email address and mobile number linked to the PAN should be used, and the correct State and District of the principal place of business must be selected.
-

3. Photographs, promoters and authorized signatories

- A recent, individual, front-facing colour photograph is required. Group photographs and copies or crops of identity documents are not acceptable.
- Photographs of partners and members of managing committees are limited to ten.
- DIN is mandatory for directors and designated partners.
- Up to ten authorized signatories may be declared, each supported by an authorization letter and photograph. The primary authorized signatory signs the application digitally.

4. Principal Place of Business (PPoB)

- The address must be specific, down to the shop, flat or premises, and must match the address in the proof uploaded. Latitude and longitude may be marked on the portal map.
- A Post Office Box is not acceptable.
- Unmanned installations such as ATMs and telecom towers need not be declared as PPoB.

5. Documents as proof of premises

- **Own premises:** Any one of the latest property tax receipts, municipal khata, property identification document, electricity bill or water bill, in the applicant's name.
- **Premises owned by a family member, partner or director:** Such premises cannot be treated as "own". The nature of premises should be "Consent", supported by a consent letter (Annexure-VI) and a document in the consenter's name. Where there are co-owners, consent of all is required.
- **Rented or leased premises:**
  - Registered agreement, where registration is mandatory.
  - Where registration is not mandatory, the agreement along with a document in the lessor's name.
  - Where no agreement is available, an undertaking (Annexure-V) along with a document evidencing possession.
- **Co-working space:** Membership agreement showing the allotted desk or suite, along with the provider's ownership document or its registered lease with the owner.
- **SEZ unit or developer:** Letter of Approval or Permission. A separate registration is mandatory even if the applicant holds a non-SEZ GSTIN in the same State.
- **Inherited property:** Death certificate, affidavit (Annexure-IV) and a utility bill or other listed document.
- **Joint owners:** Where documents stand in the name of only one co-owner, no NOC from the other co-owners is required, but the document submitted should show the ownership of both.

6. Documents not required

- Udyam or MSME certificate is neither required nor valid as proof of PPoB.
- Residential address in a State or city different from that of the PPoB is not a ground for query.

7. Bank account details (Rule 10A)

- Not mandatory at the time of application.
- Must be furnished within 30 days of grant of registration or before filing GSTR-1 or using the Invoice Furnishing Facility, whichever is earlier.
- Up to ten accounts may be declared, and all must be in the applicant's name and on its PAN.

8. Re-registration after suspension or cancellation

- Where the earlier registration on the same PAN was suspended or cancelled, all due returns, including the final return in GSTR-10 where applicable, must have been filed and no liability should remain pending.

9. Processing timelines

- **Aadhaar authenticated applications:** Processed within 7 working days.
- **No Aadhaar authentication, or selected for physical verification:** Processed within 30 days after physical verification.
- **Rule 14A and Rule 9A:** Registration is granted automatically within 3 working days.
- **Biometric authentication at a Facilitation Centre:** To be completed within 15 days of receipt of the Temporary Reference Number.
- **Deemed approval:** The registration is deemed approved if the officer takes no action within the prescribed time.

10. Notice and reply

- **FORM GST REG-03:** Notice may be issued within 7 working days, and only where a document is incomplete or illegible, the address does not match the proof, or the address is incomplete or vague.
- **FORM GST REG-04:** Reply must be filed within 7 working days of receipt of the notice.
- **Decision:** The officer is to decide within 7 working days of the reply. Rejection is by FORM GST REG-05 with reasons recorded in writing.
- **Failure to reply:** May result in rejection. A fresh application can be filed after rectifying the deficiencies.

11. Simplified registration under Rule 14A (effective 01.11.2025)

- Available to small taxpayers who pass on ITC of not more than ₹2.5 lakh per month to registered persons.
- The applicant must opt for Aadhaar authentication and may hold only one such registration per State or UT on the same PAN.
- To exit, an application in FORM GST REG-32 is to be filed along with the documents required under REG-01, after filing at least one return. It is processed like a normal registration application.

13. Grievance redressal

- An applicant aggrieved by delay or unwarranted queries may complain to the jurisdictional Chief Commissioner of Central Tax or the Commissioner of State Tax on the special email ID identified for the purpose.

Circular No. 257

8. Clarification on Issues Relating to Pre-deposit under Section 107(6) and Section 112(8) of the CGST Act

CBIC
Circular No. 259/05/2026 dated 26.10.2026

Vide this circular, CBIC has clarified various issues relating to the amount payable as pre-deposit for filing an appeal before the Appellate Authority under Section 107(6) and before the Appellate Tribunal under Section 112(8) of the CGST Act, 2017.

Key points of the circular:

1. Meaning of "Admitted Amount" and "Tax in Dispute"

- To file an appeal, the appellant must pay in full the admitted amount of tax, interest, fine, fee and penalty, along with a pre-deposit of 10% of the tax in dispute.
- **Admitted amount:** The portion of the demand arising from the impugned order which the taxpayer acknowledges as payable and does not intend to challenge.
- **Tax in dispute:** The remaining portion which the taxpayer contests. The 10% pre-deposit is calculated on this disputed tax.
- The decision to treat an amount as admitted or disputed rests with the taxpayer at the time of filing the appeal and is captured in Table 14 of FORM GST APL-01 and Table 20 of FORM GST APL-05.

2. Pre-deposit for appeal before the Appellate Tribunal where the Appellate Authority has modified the liability

- For an appeal under Section 112(8), the appellant must pay the admitted amount in full along with 10% of the remaining tax in dispute, in addition to the amount paid at the stage of the Appellate Authority.
- The 10% is to be computed with reference to the liability confirmed by the Appellate Authority which is disputed by the appellant.

3. Requirement of an express direction for refund in the order

- Where the pre-deposit is required to be refunded consequent to an order of the Appellate Authority or Appellate Tribunal, the order need not explicitly state that the pre-deposit is to be refunded.
- On receipt of the order, the refund claim is to be filed in FORM GST RFD-01 under S. No. 7, i.e. "on account of order".

4. Refund where the Department contemplates a further appeal

- Where the Appellate Authority or Appellate Tribunal decides in favour of the appellant and the appellant applies for refund, the appellant is entitled to refund of the pre-deposit.
- Refund remains payable even if the Department intends to appeal or has filed an appeal, unless the order is stayed by the Appellate Tribunal or a Court.
- Refund should not be denied merely on the ground that the Department intends to appeal or has appealed.

5. Date of payment for interest on refund

- Pre-deposit is paid separately at the stage of the Appellate Authority and the Appellate Tribunal.
- Under Section 115, interest is payable from the date of payment of the amount required to be refunded.
- Where pre-deposit has been made at both levels, the date of payment for computing interest is determined separately for each level, based on the actual date on which the respective payment was made.

6. Refund where the matter is remanded by the Appellate Tribunal

- **Complete remand:** Where the Tribunal remands the matter to the original Adjudicating Authority, the appellant is eligible for refund of the pre-deposit, to be granted within the prescribed time limit.
- **Partial remand:** Where a portion of the tax demand is upheld, the pre-deposit is refunded only after the amount corresponding to the demand confirmed in favour of the Revenue is recovered or adjusted against the pre-deposit, along with applicable interest. The balance is then refunded to the taxpayer.

Circular No. 259

9. Clarification on Issues Pertaining to Input Service Distributor (ISD)

CBIC
Circular No. 260/06/2026 dated 26.10.2026

Vide this circular, CBIC has clarified various issues relating to Input Service Distributors under Section 2(61) and Section 20 of the CGST Act, 2017, and Rule 39 and Rule 54(1A) of the CGST Rules, 2017.

Key clarifications issued in the circular are as follows:

1. ISD registration for each business vertical or place of business within the same State/UT

- Under Sections 25(2) and 25(4), where separate registrations are obtained for separate business verticals or places of business within a State or UT, each registrant is treated as a distinct person.
- There is no bar on obtaining more than one ISD registration for each business vertical or place of business within a State or UT.
- Each registrant who receives input service invoices for or on behalf of distinct persons, and which are liable to be distributed under Section 20, is required to obtain an ISD registration.
- Under Rule 39(1), the ISD shall distribute credit only to the distinct person to whom the credit is attributable.

2. Compliance with Section 16 conditions: ISD or recipient of credit

- The ISD must distribute credit to the distinct persons for whom it receives the invoices, in the manner provided in Section 20.
- It is the **recipients of credit** who are liable to comply with the conditions for eligibility of input tax credit under Section 16 and Section 17 and the rules made thereunder.
- Where the ISD distributes credit in contravention of Section 20, it is liable to penalty under Section 122(1)(ix), being ₹10,000 or the amount of credit distributed irregularly, whichever is higher.
- Where such contravention results in excess distribution, the excess credit is recoverable from the recipients along with interest under Section 21.

3. Meaning of "credit available for distribution in a month" under Rule 39(1)(a)

- Credit available for distribution in a month must be distributed in the same month, and the details are to be included in FORM GSTR-6.
- Although the ISD does not itself avail credit, procurement is made centrally and the ISD is best placed to determine whether credit on an invoice is eligible.
- Accordingly, once invoice details appear in FORM GSTR-6A, the credit is treated as **available for distribution only when the ISD ascertains it to be prima facie eligible**.
- The ISD must distribute the credit in the month in which it makes such ascertainment, separately as eligible and ineligible credit as required by Rule 39(1)(g), and report it in FORM GSTR-6.

4. Reversals under Section 17(1), 17(2) and 17(4) on credit distributed by ISD

- The ISD should distribute the entire credit available for distribution to the recipients to whom it is attributable.
- The **recipients of credit** are required to make reversals under Section 17(1) or 17(2) read with Rules 42 and 43, or under Section 17(4) read with Rule 38, as the case may be.

5. Invoice, credit note or debit note under Rule 54(1A): treatment in "turnover in State/UT"

- Rule 54(1A) permits a regular registrant having the same PAN and State code as the ISD to issue an invoice, credit note or debit note to the ISD to transfer credit on input services (including reverse charge services), which the ISD then distributes under Rule 39(1).
- This is **merely a credit transferring mechanism**.
- Accordingly, the amount in such a document does not qualify as "turnover in State" or "turnover in Union territory" under Section 2(112), even though it may have to be declared in the issuer's FORM GSTR-1.
- It is therefore **not to be included** in computing turnover for ascertaining the credit to be distributed to a recipient under Section 20 read with Rule 39, or in "Adjusted Total Turnover" under Section 54(3) read with Rule 89 for the maximum refund amount.

6. Whether such transferred credit is "Net ITC" for refund under Rule 89(4) and 89(5)

- Credit transferred under Rule 54(1A) is not input tax credit in respect of the inward supply of the transferring person.
- It therefore **does not qualify as "Net ITC"** for computing refund under Rule 89(4) and Rule 89(5).

7. Reversals by the transferring person under Rule 54(1A)

- The registered person having the same PAN and State code as the ISD is **not required to make reversals** under Section 17(1), 17(2) or 17(4) in respect of the credit so transferred.
- It must transfer the entire credit available on account of tax paid under reverse charge to the ISD for further distribution.
- Reversals are to be made by the recipients of credit, as clarified at point 4. Such recipients may also include the transferring person itself, where credit is attributable to it.

Notification No. 260

10. Clarification on Issues Related to Section 17(4) of the CGST Act, 2017

CBIC
Circular No. 261/07/2026 dated 26.10.2026

Vide this circular, CBIC has clarified issues relating to Section 17(4) of the CGST Act, 2017. Under this section, banking companies and financial institutions, including NBFCs, engaged in accepting deposits and extending loans or advances may opt to avail only 50% of their eligible input tax credit, instead of apportioning credit under Section 17(2)

Brief background:

- Ordinarily, a person making both taxable and exempt supplies must apportion ITC under Section 17(2), read with Rules 42 and 43, and may claim credit only in proportion to taxable supplies.
- Banks and NBFCs earn mostly interest, which is exempt. Section 17(4) therefore gives them an **option** to avail a flat **50% of eligible ITC** in place of the formula-based apportionment. The balance 50% is reversed and is not available.
- The option is available only to entities **engaged in accepting deposits, extending loans or advances**.
- Differing practices had developed on three aspects, namely which registrations are covered, how the second proviso applies to supplies from same-PAN entities, and how availment and reversal are to be shown in FORM GSTR-3B. The circular addresses these.

Key points of the circular

1. Who can opt for, or is required to comply with, Section 17(4)

- **Registrations not engaged in deposits, loans or advances:** A registrant (distinct person) of a bank or financial institution not engaged in these services, such as one engaged exclusively in bullion trading, has neither the option nor the requirement to comply with Section 17(4).
- **Registrations engaged in deposits, loans or advances:** A registrant engaged in these services, even if it also supplies other services, has the option to comply with Section 17(4).
- **All-or-none rule:** If one such registrant opts for Section 17(4), **all other such registrants** of the same entity must also comply with it.

2. Second proviso to Section 17(4): supplies from a registered person with the same PAN

- The second proviso relaxes the 50% restriction on credit of tax paid on inputs, input services and capital goods received from another registered person having the same PAN.
- The relaxation is available **only where the supplier with the same PAN has also opted to comply with Section 17(4)**.

3. Reporting of ITC availment and reversal in FORM GSTR-3B

The circular refers to Circular No. 170/02/2022-GST dated 06.07.2022 and the Invoice Management System (IMS), available since October 2024.

A. Where IMS is not used

- Eligibility under Section 16 is first ascertained for the ITC auto-populated from GSTR-2B (other than RCM) and the ITC claimed on RCM inward supplies.
- For the ITC found eligible:
  - Credit on inputs and input services used for **non-business purposes**, and credit attributable to supplies under **Section 17(5)**, is permanently reversed in **Table 4(B)(1)**.
  - Credit covered by the **second proviso** to Section 17(4) is availed in full.
  - Of the **remaining** credit, **50% is availed** and the balance is permanently reversed in **Table 4(B)(1)** of the same period.
- ITC that cannot be ascertained as eligible due to non-fulfilment of Section 16 conditions, but may become eligible later, is **temporarily reversed in Table 4(B)(2)**.
- Such ITC may be reclaimed in **Table 4(A)(5)** of a later period on fulfilment of the conditions, within the time limit under Section 16(4). It is again subjected to the same procedure and is also shown in **Table 4(D)(1)** of that later return.

B. Where IMS is used (including use before the related Rule amendment is notified)

- The taxpayer may accept, reject or keep pending each invoice or document on IMS.
- Invoices whose ITC is **not presently eligible** but may become eligible later must be **kept pending**. That ITC then does not appear in GSTR-2B or auto-populate in GSTR-3B.
- Accepted and deemed accepted invoices flow into GSTR-2B and auto-populate in GSTR-3B.
- For the auto-populated ITC (other than RCM) together with ITC claimed on RCM inward supplies, availment and reversal follow the **same procedure as in Part A**.

4. Relief for past periods

- Taxpayers may have followed different methods of reporting in GSTR-3B in earlier periods.
- Field formations are advised **not to take an adverse view** of a different methodology for past periods, **provided the ITC availed under Section 17(4) is in line with the principles** laid down in the circular.

Circular No. 261

11. Clarification on ITC Admissibility to Authorised Agents Appointed by Manufacturers for Sale of Motor Vehicles

CBIC
Circular No. 262/08/2026 dated 26.10.2026

Vide this circular, CBIC has clarified the admissibility of input tax credit on demo vehicles purchased by authorised dealers who act as agents of vehicle manufacturers (the "dealer-agency model").

Brief background:

- **Section 17(5)(a)** blocks ITC on motor vehicles for transportation of persons with seating capacity of not more than 13 (including the driver), except where they are used for (A) further supply of such motor vehicles, (B) transportation of passengers, or (C) imparting driving training.

- **Dealer-agency model:** The dealer buys from the manufacturer (OEM) only the vehicles needed for demo or test drive. Sales to customers are made directly by the OEM.

- **Traditional dealership model:** The dealer buys a fleet of new vehicles, designates some as demo vehicles, and sells vehicles on its own account.

- **Earlier position (Circular 231, para 4.6):** An agent-dealer does not sell vehicles on its own account and only provides marketing or facilitation services. Its demo vehicle was therefore not used for further supply of vehicles, and ITC was blocked.

Key points of the circular:

1. Earlier clarification withdrawn: ITC on demo vehicles is now also allowed in the dealer-agency model

- Para 4.6 of Circular No. 231/25/2024-GST dated 10.09.2024 stands **withdrawn**.
- ITC on demo vehicles is **not blocked** under Section 17(5)(a) for a dealer in the dealer-agency model.
- The dealer-agency model is now on par with the traditional dealership model for this purpose.

2. Reasons for the change

- **No real difference in use:** In both models, the demo vehicle serves the same purpose of letting the customer experience the vehicle before buying.

- **Same accounting and tax treatment:** In both models, the dealer buys the demo vehicle from the manufacturer against a tax invoice, shows it as a capital asset, holds it for a mandatory period, and later sells it at written down value with tax payable on that sale. Both are also treated alike under the Central Motor Vehicle Rules, 1989.
- **Discrimination:** Denying ITC to one model alone creates a discriminatory effect.

Circular No. 262

12. Clarification in Respect of Receipt of Payment for Export of Goods or Services

CBIC
Circular No. 263/09/2026 dated 26.10.2026

Vide this circular, CBIC has clarified issues relating to the receipt of payment for export of services and the realisation of export proceeds for export of goods.

Brief background:

- **Export of services:** Under Section 2(6)(iv) of the IGST Act, 2017, one of the conditions for a supply to qualify as export of services is that the **payment is received in convertible foreign exchange** (or in Indian rupees, where permitted by the RBI). If the condition is not met, the supply is not an export, and zero-rating and refund can be questioned.

- **Export of goods:** Under Rule 96B of the CGST Rules, where export proceeds are not realized within the period allowed under FEMA, the refund or IGST paid is to be recovered with interest.

- Doubts had arisen on payments received in rupee accounts (SNRR, Nostro), on set-off of export receivables against import payables, and on the time limit for realization of export proceeds.

Key points of the circular:

1. Export of services: payment received in repatriable rupee accounts

- Under FEMA (Manner of Receipt and Payment) Regulations, 2023, payment for exports to countries other than Nepal, Bhutan and ACU members may be received in INR or in any foreign currency. INR payments may come through INR Nostro (Rupee Vostro) accounts of correspondent banks or repatriable accounts such as SRVA and SNRR.
- Earlier, Circular 202/14/2023-GST dated 27.10.2023 had clarified that payments from Special Rupee Vostro Accounts of correspondent banks of the partner trading country satisfy the condition, subject to the Foreign Trade Policy and RBI circulars.

- It is now clarified that wherever payment for export of services is received in **convertible foreign exchange**, or in **repatriable rupee accounts such as SNRR or INR Nostro accounts**, or any similar account for repatriation of foreign exchange, the condition of Section 2(6)(iv) of the IGST Act is **fulfilled**.

2. Stock brokers serving overseas clients

- Stock brokers providing services to overseas clients (FPIs, NRIs and OCIs) and paid in INR: payment received through **repatriable INR accounts (SNRR, NRE)** is considered to fulfil the condition.
- Payments through **NRO accounts** must, as per RBI guidelines, be routed through repatriable accounts (SNRR, NRE) to be considered as fulfilling the condition.

3. Set-off of export receivables against import payables

- Set-off is a valid mode of settlement under FEMA. Under RBI guidelines it was allowed with certain conditions, namely goods against goods and services against services.
- From **01.10.2026**, under the Foreign Exchange Management (Export and Import of Goods and Services) Regulations, 2026, these conditions no longer apply.
- It is clarified that where export receivables are set off against import payables **in accordance with RBI directions**, the condition of Section 2(6)(iv) is **fulfilled**.

4. Reinsurance brokers: net retention mechanism

- An Indian reinsurance broker's commission from foreign reinsurers is settled by **net retention**, that is, the broker retains it from funds before remitting the net premium outside India, instead of receiving a separate foreign remittance.
- Under FEMA, the obligation to realise and repatriate export proceeds is extinguished by this mechanism.
- It is therefore treated as **satisfying** the condition of Section 2(6)(iv) of the IGST Act.

5. Export of goods: time limit for realization of export proceeds (Rule 96B)

- Under Rule 96B of the CGST Rules, if sale proceeds are not realized, wholly or partly, within the FEMA period (including any extension), the refund of GST is to be deposited or recovered to that extent with interest within 30 days from the expiry of that period.
- It is clarified that the time limit and the amount to be realized are governed by FEMA, as implemented by the RBI. The applicable period under the IGST Act is therefore the period, including any extension, prescribed in **RBI Master Direction FED No. 16/2015-16 dated 01.01.2016** (last amended on 05.06.2026), as amended from time to time.
- Where the requirement of realization has been **written off, wholly or partly, by the AD Bank**, recovery of refund under Rule 96B is **not to be made** to that extent.

Circular No. 263

13. Clarification in Respect of the Omission of Rule 96(10) of the CGST Rules, 2017

CBIC
Circular No. 264/10/2026 dated 26.10.2026

Vide this circular, CBIC has clarified that the omission of Rule 96(10) of the CGST Rules, 2017 will be effective **retrospectively from 23.10.2017**, following the judgment of the Hon'ble Supreme Court in *M/s Goodluck India Limited & Anr. v. Union of India & Ors.* dated 06.08.2026.

Various Court decisions had led tax officers and taxpayers to doubt whether the omission, notified with effect from 08.10.2024, applies retrospectively.

To ensure uniformity, the CBIC has issued this clarification under Section 168(1) of the CGST Act, 2017.

Brief background:

- **Rule 96(10)**, effective from 23.10.2017, denied the refund of IGST paid on the export of goods to exporters who had availed specified exemption or concessional-rate notifications on their inputs. The intention was to prevent a **double benefit**, that is, relief on inputs as well as an IGST refund on exports.

- The restriction caused difficulty to exporters, and many refund claims were rejected or contested. Several Courts held in favour of exporters.

- On the recommendation of the 54th GST Council meeting (09.09.2024), the rule was **omitted prospectively from 08.10.2024** by Notification No. 20/2024-Central Tax dated 08.10.2024.

- It was unclear whether pending cases for the earlier period (23.10.2017 to 07.10.2024) would still be decided under the rule.

Key points of the circular:

1. Supreme Court ruling in *Goodluck India Limited*
- In SLP (C) No. 24550 of 2025 (judgment dated 06.08.2026), the Court held that the omission of Rule 96(10) was not accompanied by any saving clause or sunset clause. The omission therefore applies to **all proceedings pending on the date of omission**.

2. Clarification by the CBIC
- The omission of Rule 96(10) is effective **retrospectively from 23.10.2017**, that is, from the date the rule was introduced.
- Field formations are to deal with **pending proceedings** concerning Rule 96(10) in accordance with the Supreme Court's judgment. In practice, pending refund claims, show cause notices and appeals are to be decided as if the rule had not existed.

3. Same treatment for Rules 89(4A) and 89(4B)
- The same treatment applies, *mutatis mutandis*, to the omission of **Rules 89(4A) and 89(4B)**.

Circular No. 264

14. Clarifications regarding GST applicability on certain Goods & Services

CBIC
Circular No. 265/11/2026 & 266/12/2026 dated 28.10.2026

Vide this circular, CBIC has issued clarifications on the applicability of GST on certain services, based on the recommendations of the GST Council in its 57th meeting held on 08.10.2026.

Key points:

1. Margin scheme for old and used motor vehicles
- Under the margin scheme notifications (No. 08/2018-C.T.R., No. 09/2018-I.T.R. and No. 01/2018-Compensation Cess (Rate), all dated 25.01.2018), concessional GST and Compensation Cess rates are available subject to non-availment of ITC.
- The restriction on ITC applies **only to the tax paid on the procured second-hand vehicles**.
- It does **not** apply to ITC on other inputs and input services, such as spares, repair and maintenance, technology services, rent, and marketing and advertisement services.
- Suppliers may avail ITC on these inputs and input services, **subject to the provisions of the CGST Act, 2017**.

2. Research & development versus consultancy
- R&D services provided by Government entities, research associations, universities, colleges or other institutions notified under Section 35(1)(ii) or (iii) of the Income-tax Act, 1961, against consideration received as grants, are exempt under **Entry 44A of Notification No. 12/2017-Central Tax (Rate)**.

- The terms “research”, “R&D”, “consulting” and “consultancy” are not defined under GST law, and the two may overlap.
- Where exemption under Entry 44A is claimed, a **certificate issued by the head of the concerned entity**, certifying that the activity is **in the nature of research & development and not in the nature of consultancy**, may suffice.

3. Statutory and ancillary recoveries in motor vehicle leasing

- Where the lessor recovers expenses separately from the lessee in addition to lease rent, such as registration charges (including road tax), insurance premium, FASTag charges and other incidental expenses, these are incidental to, and closely connected with, the leasing service.
- Such recoveries form **part of the value of the composite supply of the leasing service**.
- They are taxable at the **rate applicable to the leasing service of the motor vehicle**.

Circular 265 & 266

Disclaimer:

This is not a complete listing of all circulars/notifications issued during the month.
Instead, it is only a listing of some of the circulars/notifications that we considered important.

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