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**RSM India Newsflash – Key Recommendations
of the 57th GST Council Meeting**

Newsflash

Key Recommendations of the 57th GST Council Meeting

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1.0 Background

The GST Council, chaired by the Union Finance Minister, held its 57th meeting on 8 October 2026 in New Delhi. Building upon the rate rationalisation measures introduced at the preceding meeting, the 57th GST Council Meeting marks a significant step towards **simplifying GST compliance, strengthening taxpayer safeguards and facilitating ease of doing business**.

The recommendations cover wide-ranging reforms on input tax credit (ITC), refunds, registration, return filing, dispute resolution, and export facilitation, with a focus on reducing litigation and easing procedural challenges faced by trade and industry.

The **key recommendations and their potential implications** are summarised in this Newsflash. These proposals would be given effect through the relevant legislative amendments, notifications and circulars, as applicable.



2.0 Major Rationalisation of arrest, prosecution and penalty provisions

- The Council has **recommended complete withdrawal of the powers of arrest** under GST by omission of Section 69 of the CGST Act, 2017. It has further proposed **raising the monetary threshold for prosecution** under Section 132 from **Rs. 1 crore to Rs. 5 crore**, narrowing certain specified offences and rationalising the corresponding punishments. These measures, if enacted, would substantially alter the present enforcement framework, while retaining prosecution for qualifying offences.
- The Council has recommended **reducing the maximum general penalty** under Section 125 from **Rs. 25,000 to Rs. 10,000**; dispensing with the existing minimum penalty of Rs. 10,000 in non-fraud cases; and providing a **reduced penalty of 5% where tax and interest are paid** within 30 days of the adjudication order under Section 73 or 60 days under Section 74A.
- A **minimum tax-demand threshold of Rs. 10,000** (all GST components and cess combined) is also proposed for **issuance of show cause notices under Sections 73, 74 and 74A**, together with a provision addressing pending notices and appeals below this threshold.
- Additionally, a Circular is proposed to standardise the quality and timeliness of notices and orders, ensure fact-specific invocation of fraud or suppression allegations, and reinforce principles of natural justice and personal hearings.

- A **ceiling of Rs. 40 crore** (Rs. 20 crore each under CGST and SGST/UTGST) is proposed for **appellate pre-deposits in penalty-only cases** under Sections 107(6) and 112(8). These changes could ease litigation costs and improve predictability in adjudication.

3.0 Expansion of ITC and refund eligibility: Significant working-capital relief

- Under the existing refund framework, the inverted duty structure refund under Section 54(3)(ii) is generally confined to accumulated ITC on inputs, and the statutory formula for zero-rated supply refunds similarly excludes capital-goods credit.
- The Council has now recommended **extending refund eligibility to ITC on input services and capital goods in inverted duty cases, and to capital goods in zero-rated supply cases**. The proposed **input-service benefit** for inverted duty refunds would cover **ITC availed on or after 1 November 2026**; the **capital-goods benefit** in both categories would apply to **ITC availed on or after 1 April 2027**, with refunds spread over 60 months.
- The Council has separately recommended **amending Section 17(5) to remove specified ITC restrictions**, including those relating to outdoor catering, health and life insurance, telecommunication towers, pipelines outside factory premises, free samples and goods destroyed or written off upon expiry of shelf life as required by law. These are presently areas of blocked credit, subject to statutory exceptions and interpretative disputes. The precise scope, conditions and effective dates will depend on the amending legislation. The proposals may **materially reduce embedded tax costs, especially in manufacturing, infrastructure and employee-benefit-intensive sectors**.

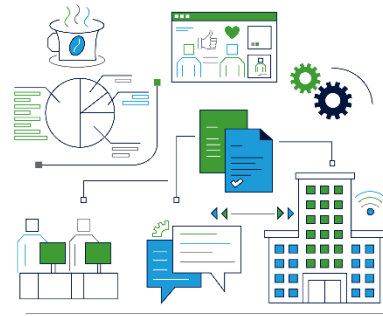


4.0 Faster and more automated GST refunds

- The Council has recommended phased, **risk-based automation of refunds** under Section 54 and the corresponding rules. In **Phase 1**, eligible refunds of **excess electronic cash ledger balances** would be **sanctioned automatically**; the period for issuing an **acknowledgement or deficiency memo** would fall from **15 to 10 days**, with deemed acknowledgement if neither is issued in time. For zero-rated and inverted duty refund claims, **automated provisional sanction of 90%** of the claimed amount is proposed, subject to system-based risk evaluation.
- **Phase 2** envisages automated acknowledgements and **full automated sanction of eligible zero-rated refund claims**, after adjustment of pending dues and risk checks. Proposed changes also include **structured data capture in FORM GST RFD-01**, **reduced reliance on scanned attachments**, and **removal of the 1.5-times domestic-value cap on turnover of zero-rated goods** under Rule 89(4)(C).
- An explanation to Section 54(14) would clarify that the **Rs. 1,000 minimum-refund** threshold applies to the **aggregate of CGST, SGST/UTGST and IGST**. Collectively, these measures may reduce refund delays and improve liquidity, particularly for exporters.

5.0 Facilitating export of services and supplies involving SEZ/FTWZ

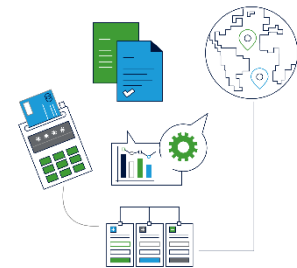
- The Council has recommended **omission of Section 2(6)(v) of the IGST Act, 2017**, which presently requires that the supplier and recipient of services must not be merely establishments of a distinct person for a transaction to qualify as an export of services. This would **facilitate zero-rating and refunds** in qualifying transactions involving **Indian entities and their overseas offices or branches**, subject to satisfaction of the remaining export conditions.



- Another significant recommendation is the **omission of Section 13(3)(a) of the IGST Act**, which presently determines **the place of supply for specified services involving goods physically made available** to the supplier by reference to where services are actually performed. Such services would instead generally fall under the **recipient-location rule in Section 13(2)**. This may benefit Indian service providers undertaking testing, inspection, repair, processing or similar activities for overseas recipients, where the other export conditions are satisfied.
- Further, the Council has recommended an **explanation to Section 16(1) of the IGST Act** to extend the treatment of supplies to SEZ/FTWZ **where goods sold to an overseas buyer are delivered to that buyer in an SEZ/FTWZ** and consideration is received in permitted foreign exchange or Indian rupees.
- A separate circular is proposed on permitted modes of receipt for export proceeds.

6.0 Changes to return filing, ITC matching and reconciliation

- The GST Council has recommended a **structured mechanism for reconciliation and rectification of GST returns** to minimise mismatches and consequential disputes. **Key proposals include:**
 - Outward tax liability:** Introduction of Rule 61(1A) to align and facilitate rectification of tax liability reported in GSTR-3B vis-à-vis GSTR-1/1A/IFF.
 - Input Tax Credit:** Introduction of Rule 61(1B) to facilitate alignment and rectification of ITC availed in GSTR-3B with GSTR-2B.
 - IMS and ITC reporting:** Statutory recognition of IMS under Rule 60(6A), Electronic Credit Reversal and Reclaim Statement under Rule 86C, and RCM liability and ITC statement under Rule 86D.
- The revised mechanism is **proposed to commence with the April 2027** return period, following public consultation.
- **Businesses should anticipate greater emphasis on timely invoice-level reconciliations, accurate IMS actions, tracking of reversals and reclaims, and consistency between outward supply declarations and tax payments.**



- The Council has also proposed **extending e-invoicing to self-invoicing** for **domestic RCM procurements** from unregistered suppliers and **import of services** for taxpayers with aggregate annual turnover of Rs. 5 crore or more; the operational scope and commencement will depend on subsequent prescriptions.

7.0 Registration, cancellation and e-commerce facilitation

- To reduce documentation-related delays, the Council has recommended **standardised registration documentation guidance**, structured document-selection fields in **FORM GST REG-01** and an **improved portal interface**.
- Amendments to Rule 19 are proposed for **automatic acceptance of amendments to registration particulars other than the principal place of business**; for registrations obtained through the automatic route under Rule 14A, even principal-place amendments are proposed to be automatically accepted.
- The Council has recommended phased **system-based cancellation of registration** on taxpayer application, subject to filing of outstanding returns and payment of dues, as well as **system-driven cancellation and revocation for specified compliance defaults**.
- A proposed Rule 14B would permit **qualifying small sellers supplying goods through e-commerce operators** to register in States/UTs without their own physical premises by **declaring the e-commerce operator's warehouse as principal place of business**, subject to a monthly ITC-passing limit of Rs. 2.5 lakh (excluding specified stock transfers) and other conditions. This may facilitate interstate expansion by smaller online sellers.



8.0 E-way bill enforcement and safeguards against arbitrary action

- Amendments to Sections 68, 129 and 130 have been recommended so that **interception of a goods vehicle** is only based on **specific intelligence and authorisation** by an officer not below Joint Commissioner rank.
- Inspection, detention or seizure would be linked to the State where the supplier or recipient is located or registered, rather than a transit State. Exceptions are proposed where an e-way bill has not been generated, or documents establishing origin/destination are absent.
- Confiscation under Section 130 would not apply to goods or conveyances in transit. These proposals could significantly reduce disruptions in interstate movement of goods.



9.0 Additional procedural and sector-specific measures

- The Council has recommended a mechanism under Rule 86A allowing taxpayers to demonstrate **objection to the blocking of electronic credit ledger balances and seek a personal hearing**

before the proper officer takes a decision on such objection. It has also proposed treating temporary and permanent transfers of title in intellectual property rights uniformly as supplies of services through an amendment to Schedule II.

▪ **Other proposals include:**

- i. waiver of late fees for eligible taxpayers with preceding-year turnover up to Rs. 5 crore where a delayed Section 39(1) return is filed by the end of its original due month;
- ii. an in-principle optional Annual Return Quarterly Payment (ARQP) scheme for businesses with turnover up to Rs. 5 crore making exclusively B2C supplies; and
- iii. clarificatory circulars on ISD, ITC for banks/NBFCs applying Section 17(4), demonstration vehicles, pre-deposits and retrospective omission of Rule 96(10).

10.0 Select changes and clarifications concerning goods and services

- For goods, notable proposals include bringing specified plastic, electronic and tyre waste/scrap and used cooking oil supplied by unregistered persons to registered persons under reverse charge, and introducing 2% TDS for specified registered-to-registered transactions.
- The Council has clarified that dealers applying the margin scheme to second-hand vehicles may claim eligible ITC on ancillary inputs and services, although not on tax paid on the purchased second-hand vehicles. Clarifications are also proposed for toys, sublimation paper, seaweed-based biostimulants and psyllium seeds.
- For services, recommendations include a 5% GST option with restricted ITC for qualifying electric-vehicle passenger transport and vehicle rental with operators; 5% without ITC for specified delivery services involving e-commerce platforms, including specified Section 9(5) liability for the operator; and limited same-line-of-business ITC for qualifying restaurant/outdoor catering, lower-tariff hotel accommodation and gym/fitness services.
- Sector-specific relief has also been recommended for certain helicopter passenger services, seed warehousing, coffee curing, Seamen's Provident Fund Organisation services, specified highway concession arrangements and certain no-consideration service imports by Indian establishments of foreign shipping lines. Clarifications are proposed on motor vehicle leasing recoveries, self-certification for qualifying R&D exemption and notional interest under banks' fund-transfer-pricing arrangements. The precise coverage will be governed by the implementing notifications.

11.0 Implementation advisory

The above represents recommendations announced by the GST Council and should not be construed as amendments already in force. Taxpayers should evaluate commercial and compliance implications but continue to follow prevailing law until the relevant legislative changes, notifications and circulars are issued. Particular attention should be paid to prospective applicability dates, transitional rules and conditions accompanying ITC/refund benefits.

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