Clause by clause Analysis of the Indirect Proposals made in Union Budget 2025-26 dated 01-02-2025

Amendments in CGST Act, 2017

Clause of Finance Bill 2025	Section of CGST Act	Summary of Change
116	**2(61)**	**Inclusion of inter-state RCM transactions under ISD definition:** Definition of Input Service Distributor has been proposed to be amended to explicitly include inter-state RCM transactions under the ISD mechanism by including reference to supplies subject to tax under section 5(3) and 5(4) of IGST Act, 2017. This, amendment in CGST Act, 2017 are to be made effective from 01.04.2025. ***CGA Comment****: Earlier, only the reference of intra-state RCM transactions were included in the definition of ISD. Now, vide the Finance Bill, 2025 and following the recommendations of the 55th GST Council Meeting the reference of inter-state RCM transaction has also been proposed to be included in the definition.*
116	**2(69)**	**Definition of local fund and municipal fund has been inserted:** Explanation has been inserted in the definition of 'Local Authority' to provide the definition of Local Fund and Municipal Fund as follows: *(a) **"local fund"** means any fund under the control or management of an authority of a local self-government established for discharging civic functions in relation to a Panchayat area and vested by law with the powers to levy, collect and appropriate any tax, duty, toll, cess or fee, by whatever name called;* *(b) **"municipal fund"** means any fund under the control or management of an authority of a local self-government established for discharging civic functions in relation to a*

CA Chitresh Gupta Chitresh.gupta@cgalegal.co.in | Mob: 99103 67918

		Metropolitan area or Municipal area and vested by law with the powers to levy, collect and appropriate any tax, duty, toll, cess or fee, by whatever name called.'; ***CGA Comment**: The definition of 'local fund' and 'municipal fund' has been provided to avoid interpretational issues.*
116	**2(116A)**	**Insertion of definition of unique identification marking:** A new sub-section (116A) has been proposed to be inserted in Section 2 of the CGST Act, 2017 to provide the definition of "unique identification marking" as follows: ***"unique identification marking"** means the unique identification marking referred to in clause (b) of sub-section (2) of section 148A and includes a digital stamp, digital mark or any other similar marking, which is unique, secure and non-removable;* ***CGA Comment**: A new clause (116A) is being inserted in section 2 to provide definition of Unique Identification Marking for implementation of Track and Trace Mechanism.*
117 & 118	**12(4) & 13(4)**	**Omission of provisions relating to Time of Supply of Vouchers:** Sub-section (4) of Section 12 relating to time of supply in respect of Vouchers is proposed to be deleted. Also, Sub-section (4) of Section 13 relating to time of supply in respect of Vouchers is proposed to be deleted. ***CGA Comment**: In a significant move to address long-standing concerns regarding the taxability of vouchers under GST and following the recommendations of the 55th GST Council Meeting, the provisions relating to time of supply of vouchers has been omitted. Vouchers will no longer be classified as a separate category of goods or services.*
119	**17(5)**	**Replacing of phrase "plant or machinery" with "plant and machinery" under Section 17(5) of the CGST Act, 2017:** Clause (d) of sub-section (5) of section 17 is being amended to substitute the words "plant or machinery" with words "plant and machinery". This amendment will be effective

CA Chitresh Gupta Chitresh.gupta@cgalegal.co.in | Mob: 99103 67918

		retrospectively from 1st July 2017, notwithstanding anything to the contrary contained in any judgment, decree or order of any court or any other authority. ***CGA Comment**: The phrase "plant or machinery" has been proposed to be replaced with "plant and machinery", retrospectively, with effect from 01.07.2017, so that the said phrase may be interpreted as per the Explanation at the end of section 17 of CGST Act, 2017.*
120	**20:**	**Alignment of inter-state RCM transactions in ISD provisions:** Section 20(1) and Section 20(2) are being amended to explicitly provide for distribution of input tax credit by the Input Service Distributor in respect of inter-state supplies, on which tax has to be paid on reverse charge basis, by inserting reference to sub-section (3) and sub-section (4) of section 5 of Integrated Goods and Services Tax Act in said sub-sections of section 20 of Central Goods and Services Tax Act. The amendment will be effective from 1st April 2025. ***CGA Comment**: Similar to Clause 116 of Finance Bill, earlier, only the reference of intra-state RCM transactions were included in the definition of ISD. Now, vide the Finance Bill, 2025 and following the recommendations of the 55th GST Council Meeting the reference of inter-state RCM transaction has also been proposed to be included in the definition.*
121	**34(2)**	**Requirement of reversal of ITC by recipient post issuance of credit note by the supplier:** Proviso to sub-section (2) of section 34 is being amended to explicitly provide for requirement of reversal of corresponding input tax credit in respect of a credit-note, if availed, by the registered recipient, for the purpose of reduction of tax liability of the supplier in respect of the said credit note. ***CGA Comment**: Now the supplier liability post issuance of credit note shall be reduced only when the ITC previously availed by the recipient is reversed. The potential issue with respect to the same shall arise for the supplier in case the recipient reject the credit note of the supplier in Invoice Management System.*

CA Chitresh Gupta Chitresh.gupta@cgalegal.co.in | Mob: 99103 67918

122	**38**	**Omission of word auto-generated statement:** Section 38(1) is being amended to omit the expression "auto generated" with respect to statement of input tax credit in the said subsection. Further, Section 38(2) is being amended by omitting the expression "auto generated" with respect to statement of input tax credit in said subsection and also to insert the expression "including" after the words "by the recipient" in clause (b) of said sub-section to make the said clause more inclusive. Furthermore, a new clause (c) in the said sub-section to provide for an enabling clause to prescribe other details to be made available in statement of input tax credit. ***CGA Comment****: With the introduction of Invoice Management System (IMS), GSTR-2B shall no longer be an auto-generated statement as the recipient has been provided an option under IMS to accept or reject the details furnished by the supplier.*
123	**39(1)**	**Changes to GST Return Filing under Section 39:** Section 39(1), which provides the provisions relating to filing of return, is being amended so as to provide for an enabling clause to prescribe conditions and restriction for filing of return under the said sub-section. ***CGA Comment****: Additional conditions and restrictions have been introduced in the return filing to improve taxpayer compliance and prevent fraudulent ITC claims.*
124 & 125	**107(6) & 112(8)**	**Pre-deposit for filing appeal in case of order demanding penalty only:** Section 107(6) is being amended to provide for 10% mandatory pre-deposit of penalty amount for appeals before Appellate Authority and Appellate Tribunal in cases involving only demand of penalty without any demand for tax. ***CGA Comment****: A mandatory pre-deposit of 10% of the penalty amount has been introduced for filing appeals before the Appellate Authority and the Appellate Tribunal. This applies specifically to cases where only penalties (without tax demand) are under dispute.*

CA Chitresh Gupta Chitresh.gupta@cgalegal.co.in | Mob: 99103 67918

126	122B	**Penalty for contravention of Track and Trace Mechanism provisions:** New section 122B is being inserted to provide penalty for contraventions of provisions related to the Track and Trace Mechanism provided under section 148A.
127	148A	**Introduction of Track and Trace Mechanism provisions:** New section 148A is being inserted to provide for an enabling mechanism for Track and Trace Mechanism for specified commodities. ***CGA Comment****: This provision will enhance regulatory oversight and prevent tax evasion through supply chain manipulations.*
128 & 129	Schedule III	**Supply of goods warehoused in SEZ or FTWZ:** Insertion of clause (aa) in Paragraph 8 of Schedule III to CGST Act, 2017, w.e.f. 01-07-2017 to explicitly provide that supply of goods warehoused in a Special Economic Zone (SEZ) or Free Trade Warehousing Zone (FTWZ) to any person before clearance of such goods for exports or to the Domestic Tariff Area, shall be treated neither as supply of goods nor as supply of services. It further seeks to amend Explanation 2 of Schedule III of the Central Goods and Services Tax Act, w.e.f. 01.07.2017 to clarify that the said explanation would be applicable in respect of clause (a) of paragraph 8 of the said Schedule. Furthermore, Explanation 3 has been inserted in Schedule III to define the terms 'Special Economic Zone', 'Free Trade Warehousing Zone' and 'Domestic Tariff Area', for the purpose of the proposed clause (aa) in paragraph 8 of the Schedule III. Also, no refund shall be made of all such tax which has been collected, but which would not have been so collected had this provision been applicable earlier. ***CGA Comment****: In line with the recommendations of 55th GSTC, supply of goods warehoused in a Special Economic Zone (SEZ) or*

CA Chitresh Gupta Chitresh.gupta@cgalegal.co.in | Mob: 99103 67918

		Free Trade Warehousing Zone (FTWZ) to any person before clearance of such goods for exports or to the Domestic Tariff Area, shall be treated neither as supply of goods nor as supply of services retrospectively from 01.07,2017.Consequently no refund of tax already collected under the above haeds will be provided.

CA Chitresh Gupta Chitresh.gupta@cgalegal.co.in | Mob: 99103 67918