CGA LEGAL GST UPDATE – CBIC CIRCULARS

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Guidelines for the handling applications for GST registration (Circular 257/03/2026-GST)

In order to streamline GST registration, reduce unnecessary queries and rejections, ensure timely processing of applications, and prevent fraudulent registrations, CBIC has clarified as follows:

- **Accurate application details:** Applicants must ensure that PAN, legal name, constitution of business, promoter/partner details, authorised signatory details and other information in FORM GST REG-01 are correct and consistent.
- **Principal Place of Business (PPOB):** The complete address, including premises number, locality, district and PIN code, must be provided. The address should match the supporting documents.
- **Documents for premises:** The circular prescribes specific documentary requirements depending on whether the premises are owned, rented/leased, used on a consent basis, or situated in a co-working space. Documents must be clear, complete and legible.
- **Aadhaar authentication:** Successful Aadhaar authentication generally enables processing within 7 working days. Applications requiring physical verification or falling under specified exceptions are to be processed within 30 days, subject to the prescribed procedure.
- **Simplified registration under Rule 14A:** Eligible small taxpayers who satisfy the prescribed conditions and do not exceed the ₹2.5 lakh monthly tax limit on supplies to registered persons may obtain registration within 3 working days.
- **Restrictions on departmental queries:** Officers must not seek unnecessary documents or raise presumptive queries unrelated to registration. For example, a different residential address from the business address or the absence of a Udyam Certificate should not, by itself, be a ground for an unwarranted query.
- **Time limit for clarification:** Where a notice in FORM GST REG-03 is issued, the applicant must reply in FORM GST REG-04 within 7 working days. The officer must decide the application within 7 working days of receiving the reply.
- **Rejection of application:** If the reply is unsatisfactory, the officer may reject the application through FORM GST REG-05, recording reasons in writing.

- **Deemed approval:** If the proper officer takes no action within the time prescribed under Rule 9 of the CGST Rules, the registration shall be deemed approved.
- **Online and faceless process:** Registration-related communications must be made through the GST common portal. Physical verification or a visit to a designated Facilitation Centre may be required in specified cases.
- **Grievance mechanism:** Applicants facing undue delays or unwarranted queries may lodge a complaint with the jurisdictional Chief Commissioner of Central Tax or Commissioner of State Tax through the designated email address.
- **Bank account details:** Bank account details are not mandatory at the application stage but should be furnished if available. Otherwise, the applicable Rule 10A timeline—30 days from registration or before filing GSTR-1/Invoice Furnishing Facility, whichever is earlier—must be followed.

Key Implication

The circular strengthens the requirement for document-based, objective and time-bound processing of GST registration applications. Applicants should maintain consistency between the application and supporting documents, particularly for the business address and constitution of the entity.

Demand, Adjudication and Appeal Proceedings (Circular 258/04/2026-GST)

The circular lays down guidelines to ensure fair, transparent and reasoned GST proceedings, protect taxpayers' rights and reduce avoidable litigation.

- **Pre-SCN Intimation:** FORM GST DRC-01A may be issued, wherever feasible, to provide taxpayers an opportunity to clarify discrepancies before issuance of an SCN.
- **Proper Drafting of SCN:** Notices should clearly specify the facts, alleged violations, applicable legal provisions, evidence, grounds of demand and issue-wise/financial-year-wise quantification. Vague notices or mere reproduction of legal provisions should be avoided.
- **Fraud and Suppression:** Sections 74 and 74A(5)(ii) should not be invoked merely due to non-payment of tax or discrepancies. Specific evidence of fraud, wilful misstatement or deliberate suppression with intent to evade tax must be set out in the SCN.
- **No Parallel Proceedings:** CGST and SGST authorities should avoid initiating parallel proceedings on the same subject matter.
- **Service of Notices:** Notices must be served through prescribed modes under Section 169, and the demand summary must be uploaded in FORM GST DRC-01.
- **Personal Hearing:** A fair opportunity of hearing must be provided where required under Section 75(4). Virtual hearings may be encouraged, hearing records should be maintained, and reasons should be recorded for refusing adjournments.
- **Speaking Adjudication Orders:** Orders must independently examine the taxpayer's submissions, evidence and case laws, with clear findings on each issue. Generic observations such as "reply has been considered" are insufficient.
- **Demand Quantification:** Tax, interest and penalty must be quantified clearly, preferably issue-wise and financial-year-wise. Under Section 75(7), the confirmed demand cannot exceed the amount specified in the SCN or be based on grounds not mentioned therein.
- **Rectification under Section 161:** Rectification is limited to errors apparent on the face of the record. It cannot be used to review the merits, reconsider factual findings or substitute for an appeal. Rectification must be undertaken by the authority that issued the document.

- **First Appeal under Section 107:** Limitation must be examined separately. Appeals filed beyond the statutory period, where delay cannot be condoned, should not be decided on merits. Merits should ordinarily not be rejected summarily at the preliminary scrutiny stage.
- **Additional Evidence in Appeal:** Additional evidence is admissible only in prescribed circumstances, with reasons recorded. Appellate proceedings should not ordinarily become a fresh investigation to cure deficiencies in the original adjudication.
- **Appeal Orders and Timelines:** Appellate orders should record hearing details, submissions and reasons for findings. The summary of the appellate order must be uploaded in FORM GST APL-04. Appeals should, as far as possible, be decided within one year.

Practical Takeaway for GST Litigation

The circular reinforces several important safeguards for taxpayers:

- Challenge SCNs that lack specific allegations, supporting evidence or proper quantification.
- Contest invocation of fraud/suppression provisions where intent to evade tax is not established.
- Insist on reasoned orders addressing every material submission and judicial precedent.
- Challenge demands exceeding the SCN or based on new grounds.

Pre-deposit for Appeals (s.107(6) / s.112(8)) (Circular 259/05/2026-GST)

The circular clarifies the calculation, refund and interest treatment of pre-deposits made while filing appeals before the Appellate Authority and GST Appellate Tribunal (GSTAT).

- **Admitted Amount vs. Tax in Dispute:** The admitted amount is the liability accepted by the taxpayer and must be paid in full. The 10% pre-deposit is calculated on the disputed tax component. The taxpayer identifies these amounts while filing the appeal in FORM GST APL-01 or APL-05, as applicable.
- **Pre-deposit before GSTAT:** Where the Appellate Authority modifies the demand, the additional pre-deposit for appeal before GSTAT is calculated at 10% of the remaining disputed tax confirmed by the Appellate Authority, in addition to the amount paid for the first appeal.
- **Refund of Pre-deposit:** A favourable appellate order need not expressly direct refund of the pre-deposit. The taxpayer should file a refund application in FORM GST RFD-01 under category “On account of order”.
- **Departmental Further Appeal:** Refund cannot be denied merely because the Department intends to file, or has filed, a further appeal. Refund remains payable unless the favourable order is stayed by the Appellate Tribunal or Court.
- Where pre-deposits were made at both appellate levels, the date for interest computation in case of refund must be determined separately based on the actual payment date of each respective pre-deposit.
- **Matter Remanded by GSTAT:** Where GSTAT remands the matter to the original adjudicating authority, the pre-deposit is refundable within the prescribed time. In a partial remand, the amount relating to the demand upheld in favour of the Revenue must first be recovered or adjusted, along with applicable interest, before refunding the balance.

Practical Takeaway for GST Litigation

- Calculate the pre-deposit on the disputed tax amount, not the entire demand indiscriminately.
- Recalculate the GSTAT pre-deposit based on the demand confirmed by the Appellate Authority.

Clarification on issues pertaining to Input Service Distributor (ISD) (Circular 260/06/2026-GST)

The introduction of mandatory ISD provisions with effect from 1 April 2025, pursuant to amendments made by the Finance Act, 2024, brought several practical challenges for businesses operating through multiple GST registrations.

Following implementation of the amended provisions, representations were received from trade and industry seeking clarification on several operational issues, particularly:

- Whether separate ISD registrations are required for different business verticals or places of business within the same State.
- Whether the ISD or the recipient registration is responsible for satisfying ITC eligibility conditions under Sections 16 and 17.
- The appropriate month in which credit should be distributed.
- Treatment of credit transferred through documents issued under Rule 54(1A).
- Whether such credit transfers affect turnover and Net ITC calculations for refund purposes.

Thus, the circular clarifies seven key issues relating to ISD registration, ITC distribution, reversals and refund calculations.

- **Multiple ISD registrations:** Separate ISD registrations may be obtained for different business verticals or places of business within the same State/UT, where applicable. Each registrant receiving invoices for distribution must obtain ISD registration and distribute credit only to the relevant distinct persons.
- **Responsibility for ITC eligibility:** The ISD is responsible for distributing ITC correctly, while the recipient is responsible for satisfying the conditions under Sections 16 and 17. Excess credit distributed in contravention of Section 20 may be recovered from recipients with interest; the ISD may face penalty.
- **Month of ITC distribution:** ITC must be distributed in the month in which the ISD ascertains that the credit is prima facie eligible for availment. Eligible and ineligible credit must be distributed separately and reported in GSTR-6.
- **ITC reversals under Sections 17(1), 17(2) and 17(4):** The ISD must distribute the entire credit attributable to the respective recipients. The recipients must make the applicable reversals under the relevant provisions and Rules 38, 42 and 43.
- **Turnover calculation for Rule 54(1A) documents:** Rule 54(1A) of CGST Rules, 2017 provides for issuance of an invoice, credit note, debit note by a regular registrant, having same PAN and registered in the same state as the ISD, to the ISD, to transfer input tax credit in respect of credit pertaining to input services attributable to one or more distinct persons and then such input tax credit could be further distributed by the ISD to other distinct persons to whom the service is attributable to. Thus, invoices, credit notes and debit notes issued by a regular registration to transfer credit to an ISD are merely a credit-transfer mechanism. Their values are excluded from turnover in the State/UT for the specified ITC distribution and refund calculations.
- **NET ITC for refund:** Credit transferred to an ISD under Rule 54(1A) does not constitute ITC on the transferor's inward supplies and cannot be included in NET ITC for refund calculations under Rules 89(4) and 89(5).
- **Reversals by the transferor under Rule 54(1A):** The regular registration transferring credit to the ISD is not required to reverse that credit under Section 17. The recipient units must make the applicable reversals. The recipient may also be the same registration that initially transferred the credit to the ISD.

Practical takeaways

- Review whether separate ISD registrations are required for different business locations or verticals.
- Distribute credit only to the units to which it is attributable.

- Distribute credit in the month it is determined to be prima facie eligible.
- Ensure ITC reversals are undertaken by the recipient units.
- Exclude Rule 54(1A) credit-transfer values from the specified turnover and NET ITC refund computations.

Clarification on provisions of Section 17(4) – Banks / NBFCs (Circular 261/07/2026-GST)

The circular clarifies the applicability of the 50% ITC restriction for banking companies, financial institutions and NBFCs, along with the reporting procedure in GSTR-3B.

- **Applicability of Section 17(4):** Registrations exclusively engaged in activities such as bullion trading, and not in accepting deposits or extending loans/advances, are neither eligible nor required to opt for Section 17(4). Registrants (distinct person) engaged in these financial services may opt for the 50% ITC mechanism. If one eligible registration opts for Section 17(4), all other eligible registrations of the same entity must also follow it.
- **Supplies from registrations having the same PAN:** The relaxation under the second proviso to Section 17(4), permitting specified eligible ITC beyond the 50% restriction, is available only for supplies received from another registration having the same PAN that has also opted for Section 17(4).
- **ITC reporting in GSTR-3B:** The circular prescribes the following procedure:
  - Permanently reverse ITC relating to non-business purposes and blocked credits under Section 17(5) in Table 4(B)(1).
  - Avail eligible ITC covered by the second proviso to Section 17(4).
  - Avail 50% of the remaining eligible ITC and permanently reverse the balance in Table 4(B)(1).
  - Temporarily reverse ITC whose eligibility conditions under Section 16 are not yet fulfilled, but may be fulfilled later, in Table 4(B)(2). Such credit may subsequently be reclaimed, subject to Section 16(4) and the prescribed reporting procedure.
- **Treatment under IMS:** Where IMS is used, invoices for which ITC is currently ineligible but may become eligible later should be kept pending. Once accepted or deemed accepted, eligible invoices flow into GSTR-2B and are auto-populated in GSTR-3B, where the prescribed availment and reversal procedure must be followed.
- **Past-period reporting:** Tax authorities are advised not to take an adverse view of different past-period ITC reporting methodologies, provided the total ITC availed under Section 17(4) is consistent with the principles clarified in the circular.

Practical takeaway

Banking companies, financial institutions and NBFCs should review the eligibility of each GST registration to opt for Section 17(4), ensure consistent application across eligible registrations, and align GSTR-3B and IMS processes with the prescribed ITC availment and reversal mechanism.

ITC admissibility on demo vehicles held by authorized agents appointed by manufacturers for sale of motor vehicles. (Circular 262/08/2026-GST)

The circular clarifies the availability of ITC on demo vehicles under the dealer-agency model, where the vehicle manufacturer (OEM) sells vehicles directly to customers and the authorised dealer maintains demo vehicles for test drives.

- **Earlier position:** Circular No. 231/25/2024-GST dated 10 September 2024 clarified that ITC on demo vehicles was blocked under Section 17(5)(a) where the dealer merely acted as an agent or service provider for the manufacturer.

- **Difference between business models:** Under the traditional dealership model, the dealer sells vehicles on its own account. Under the dealer-agency model, the OEM sells directly to customers, while the dealer maintains demo vehicles. In both models, demo vehicles serve the same purpose of promoting sales.
- **ITC eligibility:** The expression "such motor vehicles" in Section 17(5)(a)(A) covers vehicles used to facilitate the further supply of similar motor vehicles, and not merely the specific vehicle subsequently sold.
- **Withdrawal of earlier clarification:** The clarification in paragraph 4.6 of Circular No. 231/25/2024-GST is withdrawn. ITC on demo vehicles is not blocked under Section 17(5)(a) in the dealer-agency model.

Practical takeaway

Authorised dealers operating under the dealer-agency model can claim ITC on demo vehicles, subject to the applicable GST provisions. The circular brings the ITC treatment of demo vehicles under the dealer-agency model in line with the traditional dealership model.

Clarification regarding receipt of payment for export of goods or services (Circular 263/09/2026-GST)

The circular clarifies acceptable methods of receiving export proceeds for treating services as exports under Section 2(6)(iv) of the IGST Act and the time limit for realisation of export proceeds for goods.

- **Export proceeds received in INR:** Payment for export of services received in convertible foreign exchange or through repatriable INR accounts, such as SNRR or INR Nostro accounts, satisfies the relevant export-of-services payment condition.
- **Payments to stockbrokers:** Payments by overseas clients to Indian stockbrokers through repatriable INR accounts, including SNRR and NRE accounts, may satisfy the condition. Payments through NRO accounts must be routed through repatriable INR accounts such as SNRR or NRE accounts.
- **Set-off of export receivables:** Export receivables adjusted against import payables are acceptable, provided the set-off complies with RBI directions. From 1 October 2026, the circular notes that the earlier specified restrictions do not apply following the new FEMA regulations.
- **Reinsurance brokers – net retention mechanism:** Commission earned by Indian reinsurance brokers from foreign reinsurers may be treated as satisfying the payment condition where it is settled through the net retention mechanism, without a separate inward remittance.
- **Realisation of export proceeds for goods:** Under Rule 96B of the CGST Rules, if export proceeds are not realised within the applicable FEMA period, the refund attributable to the unrealised amount may be recovered with interest, subject to the prescribed provisions.
- **Applicable time limit and write-off:** The realisation period for export goods is the period prescribed under the relevant RBI FED Master Direction, as amended from time to time. Recovery under Rule 96B is not to be made where the requirement of realisation has been written off, wholly or partly, by the Authorised Dealer (AD) Bank.

Key Takeaway

The circular provides greater clarity on acceptable payment and settlement mechanisms for export of services and aligns the realisation timeline for export goods with the applicable RBI directions.

Exporters should maintain evidence of receipt through permitted repatriable INR accounts, RBI-compliant set-offs or applicable net retention arrangements. Exporters of goods should also track FEMA realisation deadlines and retain documentary evidence of any approved write-off.

Clarification regarding omission of Rule 96(10) of the CGST Rules, 2017 (Circular 264/10/2026-GST)

Rule 96(10) of the CGST Rules, 2017 was introduced with effect from 23 October 2017 with the objective of preventing exporters from availing double benefits by restricting IGST refunds in cases where specified exemptions or concessional benefits had been availed on procurement of inputs. However, considering the difficulties faced by exporters in claiming refunds, the GST Council, in its 54th meeting held on 9 September 2024, recommended omission of the said provision, which was subsequently omitted with effect from 8 October 2024. This gave rise to litigation concerning whether the omission would operate prospectively or retrospectively, particularly in respect of pending proceedings initiated under the erstwhile provision. The Hon'ble Supreme Court, in M/s Goodluck India Limited & Anr. v. Union of India & Ors., vide judgment dated 6 August 2026, held that in the absence of a saving clause, the omission would apply to pending proceedings as well. Accordingly, CBIC issued Circular No. 264/10/2026-GST dated 26 October 2026, clarifying that the omission of Rule 96(10) shall have retrospective effect from 23 October 2017

- **Retrospective effect:** The omission of Rule 96(10), effective from 8 October 2024, shall apply retrospectively from 23 October 2017.
- **Supreme Court ruling:** In Goodluck India Limited v. Union of India (judgment dated 6 August 2026), the Supreme Court held that, in the absence of a saving clause, the omission applies to all proceedings pending on the date of omission.
- **Pending proceedings:** Tax authorities have been directed to deal with pending proceedings relating to Rule 96(10) in accordance with the Supreme Court judgment.
- **Rules 89(4A) and 89(4B):** The same treatment shall apply mutatis mutandis to the omission of these rules as well.

Important practical implication

Exporters facing pending demands or proceedings under the erstwhile Rule 96(10) can rely on this Circular and the Supreme Court judgment to seek appropriate relief. However, the Circular specifically addresses pending proceedings; the impact on concluded proceedings or cases involving other independent grounds should be examined separately.

Clarification on classification and GST applicability for certain goods following the 57th GST Council meeting (Circular 265/11/2026-GST)

- Sublimation paper: classified under heading 4809 at 18%; past period regularised “as is where is”.
- Toys: S.No. 497 (5%) and 616 (18% electronic toys) cover all toys under heading 9503 – dolls, scale models, puzzles etc., not just tricycles/scooters/pedal cars.
- Margin scheme (used vehicles): ITC restriction applies only to the purchased second-hand vehicle; ITC on spares, repairs, rent, marketing and other inputs/input services is allowed.
- Seaweed-extract bio-stimulants registered under FCO Schedule VI: heading 3101 (fertiliser); past period regularised “as is where is”.

Key Takeaway

The Circular clarifies GST classification for selected goods and provides important ITC relief to used-vehicle dealers under the specified margin scheme.

Clarifications regarding applicability of GST on certain services (Circular 266/12/2026-GST)

- **R&D vs consultancy:** For exemption under Entry 44A (grant-funded R&D), a certificate from the head of the institution that the activity is R&D and not consultancy suffices.

- **Foreign shipping company's Indian establishment** – Import of services from related person without consideration: exempt from 1.11.2026; past GST payment regularised for 1.7.2017–31.10.2026.
- **Motor vehicle leasing:** Registration/road tax, insurance, FASTag and similar recoveries form part of the composite leasing supply and are taxed at the leasing rate.
- **TRAI** is not "Government" under s.2(53) of the CGST Act.
- **Bank Fund Transfer Pricing:** Notional interest between branches via Head Office is "interest" and exempt.
- **NBFC–Bank co-lending:** Lending services by NBFC to bank are taxable; value is as per contract.

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