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Indirect Tax Alert

October 2026 Monthly Roundup



The month of October 2026 marked a pivotal turn in the Goods and Services Tax framework, driven by the recommendations of the **57th GST Council meeting** on 8 October 2026, the issuance of **CBIC Circular Nos. 257/03/2026-GST through 266/12/2026-GST,** and a landmark administrative acceptance of the Supreme Court's ruling on **Rule 96(10).**

1. Major GST Policy Developments – 57th GST Council Meeting

The Council shifted its focus toward structural simplification, unfreezing working capital in inverted/export structures, and dismantling compliance bottlenecks.

Important Statutory Distinction:

- **Administrative Recommendations:** Certain procedural safeguards are being operationalized immediately via administrative instructions and CGST rule amendments.
- **Substantive Legislative Amendments:** Amendments to the CGST/GST Acts—such as (subject 17(5) rationalisation, omission of arrest provisions under Section 26), enhancement of prosecution thresholds under Section 132, and amendment to Section 2(6) distinct person restrictions—require a formal **Finance Bill/Legislative Enactment** followed by state approvals before acquiring statutory force.

A. Registration & Compliance Rationalisation

- **Proposed Rule 14B:** Facilitated registration framework for small e-commerce sellers lacking physical presence in destination states, enabling registration via e-commerce operator (ECO) warehouse addresses (subject to the prescribed **₹2.5** Lakh monthly credit-pass threshold).
- **Rule 19 Amendments:** Introduction of system-based automatic approval of non-core registration amendments, excluding changes in the principal place of business.
- **Rules 21A, 22 & Proposed Rule 23A:** Systematic suspension, cancellation, and automated revocation mechanisms linked to specific compliance remediation.
- **Standardised Form REG-01:** Rationalised documentation checklists to curb subjective departmental rejections.

Our Views: Multi-state distributors and direct-to-consumer (D2C) brands should immediately review physical footprint dependencies. If your business maintains leased virtual offices or fractional spaces merely to secure a local GSTIN for fulfillment, the proposed Rule 14B framework offers an avenue to dismantle costly infrastructure, substitute it with warehouse-based registration, and substantially lower multi-state compliance and audit overheads.

B. Input Tax Credit (ITC) & Refunds: Structural Expansion

Area	Proposed Change	Effective Date / Mode October 2026
Inverted Duty Structure (IDS)	Refund of accumulated ITC on **Input Services**	Claims on ITC availed from **1 Nov 2026**
Zero-Rated Supplies	Refund of unutilised ITC on **Capital Goods**	Claims on ITC availed from **1 Apr 2027**
Inverted Duty Structure (IDS)	Refund of accumulated ITC on **Capital Goods** (amortised over 60 months)	Claims on ITC availed from **1 Apr 2027**
Section 17(5) Restrictions	Removal of credit blockage on: • Outdoor catering	Subject to statutory Finance Act amendment

Area	Proposed Change	Effective Date / Mode October 2026
	• Health & life insurance • Telecom towers • Pipelines outside factory premises • Free samples • Goods destroyed/written off due to expiry (where mandated by statute)	

Our Views:

- **IDS Input Services Working Capital Boost –** The long-standing statutory anomaly originating from the VKC Footsteps ruling (which restricted IDS refunds to inputs only under Rule 89(5)) is finally being addressed. Inverted duty manufacturers (e.g., textiles, fertilisers, solar equipment) must separate service input tax ledgers from 1 November 2026 to maximize upcoming refund tranches.
- **Section 17(5) Internal Preparation:** – Do not prematurely avail ITC on catering or insurance until the statutory Finance Bill is formally notified. However, procurement teams should immediately begin cataloguing corporate health policies, catering agreements, and sample distribution schemes to quantify historical cost versus future credit optimization once the amendment receives presidential assent.

C. Export-Related Reforms

Section 2(6) IGST Act: Proposal to drop the "distinct person" disqualifier from the export of services definition, resolving extensive multi-national cross-border cost-allocation disputes.

Section 13(3)(a) IGST Act: Removal of the performance-based place of supply rule, migrating to the default recipient-location rule (Section 13(2)) for testing, analysis, and related engineering services.

SEZ/FTWZ Warehousing: Clarification confirming zero-rated status where goods are supplied to an overseas entity but physically delivered to an SEZ/FTWZ unit for warehousing or processing.

Our Views IT/ITES & GCC Cross-Border Safeguard: Global Capability Centres (GCCs) and Indian branches of multinational groups have historically faced persistent challenges alleging that Indian administrate and foreign HCs are "merely establishments of distinct persons." The proposed deletion of this disqualifier will eliminate high-value litigation.

Testing & R&D Units: Technical testing laboratories that handle physical goods sent from overseas will no longer fall into the performance-based domestic tax trap under Section 1.3(3)a), making Indian R&D, clinical trial, and engineering setups globally competitive on pricing.

D. Enforcement, Search & Prosecution Rationalisation

Arrest Powers (Section 69): Recommended omission of arrest powers under the CGST Act (subject to legislative amendment). Nolege: Vide Instruction No. 02/2026-CST (dated 30 October 2026), CBI: has administratively directed field formations to exercise strict restraint and obtain higher administrative clearances prior to invoking coercive actions.

Prosecution Threshold (Section 132): Monetary threshold for launching prosecution proposed to increase from ₹1 Crore to ₹5 Crore.

Transit Interception (Sections 68, 129, 130): Inspection and detention permitted strictly based on administrate and foreign intelligence approved by an officer not below Joint Commissioner rank, eliminating Section 130 confiscation proceedings for transit violations.

Section 86A Safeguard: Mandatory opportunity of hearing and written recording of objections before blocking electronic credit ledgers.

Our Views:

- **Administrative Interim Relief (Instruction No. 02/2026-GST):** Although omitting Section 69 requires Parliamentary enactment, CBIC's interim administrative instruction (dated 30 October 2026) binds field formations immediately. Taxpayers facing high-handed inquiries or villed threats of coercive arrest during search proceedings must invoke this instruction on record.
- **Transit Interception Strategy:** Field officers can no longer issue arbitrary detention memos under Section 129 or invoke Section 130 confiscation for clinical e-way bill defecy. If a consignment is intercepted without an approval order signed by an officer of Joint Commissioner rank or above, the inspection itself is open to challenge as *ultra vires*.

2. Key CBIC Circulars Issued in October 2026

CBIC issued a series of trade-friendly circulars (Circular Nos. 257/03/2026-GST to 266/12/2026-GST). The following warrant immediate executive review:

Circular No. 264/10/2026-GST: Retrospective Impact of Rule 96(10) Omission

The Background:

Rule 96(10) barred exporters from claiming a refund of IGST paid on exports if inputs had been imported/procured under concessionary/exemption notifications (e.g., Advance Authorisation, EOU, EPCG). Although omitted prospectively via Notification No. 20/2024-Central Tax (w.e.f. 8 October 2024), field formations continued pursuing past recovery notices.

Supreme Court Verdict *(Goodluck India Ltd.*, 6 August 2026):

The Supreme Court ruled that because Rule 96(10) was omitted without an express saving clause, under the Constitution Bench principle of *Kolhapur Canesugar Works Ltd.*, Section 6 of the General Clauses Act does not apply. An omitted subordinate rule ceases to exist for all pending proceedings.

Circular Directives:

- **Retrospective Closure:** The Board formally accepts the judgment and clarifies that the omission operates retrospectively from **23 October 2017.**
- **Pending Proceedings Extinguished:** All pending SCNs, adjudications, and appellate procedures initiated solely under Rule 96(10) must be dropped or decided in favour of the taxpayer.
- **Rules 89(4A) and 89(4B) Parity:** The circular extends this reasoning *mutats mutandis* to omitted Rules 89(4A) and 89(4B), enabling exporters who claimed LUT refunds on reduced turnover formulas to seek re-computation in pending matters.
- **Limitation for Closed Matters:** Matters past and closed (where refunds were repaid and appeals were not filed or are time-barred) cannot be reopened arbitrarily; statutory limitation under Section 54 continues to govern.

Other Notable Circulars

Circular No. 258/04/2026-GST (Adjudication & Natural Justice): Requires strict evidentiary standards for invoking extended limitation periods under Sections 74 and 74A. Adjudicating authorities cannot confirm demands outside the explicit grounds raised in the initial SCN.

Circular No. 259/05/2026-GST (Pre-Deposit Mechanics): Clarifies credit adjustments and pre-deposit modalities for filing appeals before the GSTAT and Appellate Authorities, specifically addressing penalty-only disputes.

Circular No. 260/06/2026-GST (Input Service Distributor): Standardises mandatory ISD distribution pathways for third-party common corporate services versus cross-charge mechanisms for internally generated intra-group services.

Circular No. 262/08/2026-GST (Demo Vehicles): Clarifies that motor vehicle dealers are eligible for ITC on demonstration vehicles even if held under agency arrangements, provided they are capitalised and ultimately disposed of in business courses.

Circular No. 266/12/2026-GST (Services Clarifications): Confirms that cross-border shared services imported by Indian branches from foreign shipping principals without consideration are non-taxable, regulating past periods on an "as is where is" basis.

3. Key Notifications & Statutory Amendments

Notification No. 09/2026-Central Tax (Rate): Amends Section 9(5) scope to bring local delivery services (other than post and courier) supplied through e-commerce operators under the ECO reverse charge framework, levying a 5% rate without ITC.

Notification No. 10/2026-Central Tax (Rate): Prescribes a Section 148 special valuation and invoicing procedure for infrastructure concessionaires operating under the Toll-Operate-Transfer (TOT) model.

Notification No. 07/2026-Integrated Tax (Rate): Formalises the exemption for import of services without consideration between related establishments of foreign shipping lines, effective 1 November 2026.

4. GST Portal Deployments & Operational Updates

E-Invoicing for Recipient-Generated Invoices (RCMDOM & RCMIMP): GSTN has introduced invoice types RCMDOM (domestic Section 9(3)/9(4) and RCIMIP (import of services) in the sandbox environments of all six Invoice Registration Portalis (IRPs) for taxpayers with AATO ≥ ₹5 Crore. Production go-live and mandatory reporting deadlines will be notified separately; immediate ERP mapping is advised.

GSTR-9 & GSTR-9C for FY 2025-26: Enabled on the GST portal. Statutory filing deadline is **31 December 2026.** ReturnTabes will unlock only after the Form GSTR-1/1A and GSTR-9B filings for FY 2025-26 are completed.

Multistate Registration Facility: Portal architecture now enables single-dashboard generation of multi-state applications for newly expanding businesses.

5. Judicial Precedents Reported in October 2026

Gujarat High Court:

Delayed APL-04 Does Not Bar Refund

- **Case:** *Pamiia Chem Limited & Anr. v. State of Gujarat* (SCA No. 4610 of 2025; Decided 23 October 2026).
- **Issue:** Taxpayer received a favourable appellate order physically on 8 March 2022, but the department uploaded Form GST APL-04 on the common portal only on 3 June 2024. The refund application filed on 4 June 2024 was rejected as time-barred under Section 54(1).
- **Held:** In circumstances where electronic portal validation is systematically linked to APL-04 generation, the date of portal upload (3 June 2024) must be treated as the relevant date. Refund ordered with 6% interest.
- **Our Views:** This judgment is founded upon the unique facts and digital roadblocks presented. Taxpayers must never intentionally delay filing refund claims assuming an unuploaded APL-04 pauses statutory limitation. Mitigation Strategy: If an appellate authority issues a favourable order but the department fails to upload Form APL-04 within 15 days, taxpayers should immediately submit a physical refund application under cover of anacknowledged letter to the jurisdictonalsanctioning authority, followed by a portal helpdesk ticket. This firmly anchors the claim date within statutory limits.

Bombay High Court:

Notices in "Additional Notices" Tab Violate Natural Justice

- **Case:** *Abacadabra India v. GST Authorities* (WP No. 2968/2024; Decided 16 October 2026).
- **Held:** SCNs posted exclusively under the "Additional Notices and Orders" menu—without alternate physical or email intimidation under Section 169—deprive the taxpayer of an effective opportunity to defend. Ex-part demanders can be set aside and remanded for *de novo* adjudication.
- **Our Views:** A taxpayer's failure to monitor the portal can create serious consequences. Equally, departmental service must satisfy the statutory requirements under Section 169 and the principles of natural justice. The ruling should not be interpreted to mean that every notice uploaded under an additional-noticees tab is automatically invalid. The actual manner of service, accessibility and surrounding circumstances matter.

GSTAT (Lucknow):

Provisional Reversal Does Not Amount to Tax Admission

- **Case:** *Ajit Kumar Minz, Dept. v. B.L. Agro Industries Ltd.* (Appeal No. APL/53/LCK/2026; Decided 22 October 2026).
- **Held:** Mere voluntary or under-protest credit reversal in Table 4(B)(2) of GSTR-3B during an investigation does not constitute a self-assessed tax liability under Sections 39/59 without an outward supply declaration in Table 3.1 or an adjudicated demand under Section 73/74. Credit restoration upheld.
- **Our Views:** Corporate taxpayers frequently reverse credit during departmental visits under pressure to avoid immediate coercive action. If forced an in interim reversal during an ongoing audit, taxpayers must: 1. Mark the reversal in Table 4(B)(2) (others) rather than permanent ineligibility under Table 4(B)(1) and 2. Dispatch a registered letter to the investigating Commissionerate on the same day explicitly recording that the reversal is provisional, under protest, and made without admission of liability. This contemporaneously preserves the right to reclaim the credit.

GSTAT (Bengaluru):

Demands Cannot Exceed SCN Boundaries

- **Case:** *Fortinet Technologies India Pvt. Ltd. v. CCT, Karnataka (Appeal No. APL/88/BUR/2026; Decided 27 October 2026).*
- **Held:** A Form GST DRC-01 summary cannot substitute for a detailed statutory show cause notice under Section 73(1). Furthermore, an appellate authority cannot introduce entirely new legal grounds (such as reclassifying charges under reverse charge or employee recoveries) to sustain an unsustainable demand.
- **Our Views:** This ruling provides a solid precedent against orders where appellate authorities seek to "fill in the blanks" for flawed field assessments. When drafting appellate petitions, verify whether the confirmation order departs from the underlying SCN. If the adjudicating or appellate officer introduced new statutory theories, the order is liable to be challenged and set aside on grounds of jurisdiction alone.Our Views: This ruling provides a solid precedent against orders where appellate authorities seek to "fill in the blanks" for flawed field assessments. When drafting appellate petitions, verify whether the confirmation order departs from the underlying SCN. If the adjudicating or appellate officer introduced new statutory theories, the order is liable to be challenged and set aside on grounds of jurisdiction alone.

6. Actionable Advisory Opportunities for Clients

Strategic Trigger	Actionable Advisory Scope October 2026
Rule 96(10) Omission	Immediate audit of pending export refund rejections, unadjudicated SCNs, and pre-deposits in appeal; file immediate closure applications citing *Goodluck India* and Circular 264/10/2026-GST.
ISD Alignment	Restructure head-office cost distributions, vendor onboarding, and IT/cross-charge accounting in line with Circular 260/06/2026-GST ahead of strict audit checks.
RCM E-Invoicing Prep	Configure ERP and internal purchase systems to generate JSON payloads for RCMDOM and RCMIMP to test across sandbox IRPs ahead of mandatory production dates.
Litigation Defences	Review open SCNs for jurisdictional defects, lack of personal hearing under Section 75(4), or improper electronic portal service based on recent GSTAT and High Court rulings.
FY 2025-26 GSTR-9/9C	Reconcile multi-GSTIN purchase registers with Form GSTR-2B, identify unclaimed ITC, and regularise tax liabilities prior to the 31 December 2026 statutory cutoff.