



GOODS AND SERVICES TAX (GST)

The Next Phase of GST Reforms

Key Takeaways from the 57th GST Council Meeting

Registration, refunds and cancellations move to automation. Penalties get lighter, arrest powers go, and more input tax credit opens up. A practical guide to the recommendations of 8 October 2026.

AUTOMATION

LIGHTER PENALTIES

WIDER CREDIT

FASTER REFUNDS

COUNCIL MEETING

8 October 2026

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00 • IN BRIEF • OVER 40 RECOMMENDATIONS

The most taxpayer-friendly reform since GST began.

The 57th Goods and Services Tax (GST) Council meeting, held on 8 October 2026, moves registration, refunds and cancellations to automation. Penalties are lighter, arrest powers are being removed and more input tax credit (ITC) becomes available.

Recommendations, not yet law. Each change takes effect only when the government issues the circular, notification or amendment behind it. Nothing here changes your filings today.

AT A GLANCE

Removed

Arrest powers under Section 69, as GST moves from enforcement towards correction.

₹5 crore

Prosecution threshold, up from ₹1 crore today.

₹10,000

General penalty under Section 125, down from ₹25,000.

Up to 90%

Of export and inverted duty refunds sanctioned provisionally in Phase 1, without an officer.

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01 · REGISTRATION AND CANCELLATION

Registration and cancellation, made easier.

1.1	Clear document list	A circular and FAQs will set out one pan-India document checklist, and FORM GST REG-01 will offer selection boxes for it. This speeds up B2B applicants who fall outside the automatic route under Rule 14A.
1.2	Amendments approved automatically	Changes to registration details will be auto-approved, except a change of principal place of business. Taxpayers registered under Rule 14A get every amendment approved, including that one.
1.3	Sell in a new state without an office there	A new Rule 14B lets small sellers who supply only through e-commerce operators declare the operator's warehouse as their place of business, with its consent. Output tax to registered buyers must stay within ₹2.5 lakh a month.
1.4	Cancellation without the wait	Phase 1 accepts applications automatically once returns are filed and dues paid, if ITC passed on never exceeded ₹2.5 lakh in a month or GSTR-10 was filed on time. Phase 2 covers everyone and folds GSTR-10 into the application.
1.5	System-based cancellation and revocation	Cancellation for non-filing of returns or missing bank details will be triggered by the system, and revoked once the default is cured. Four discretionary grounds, such as GSTR-1 exceeding GSTR-3B, are being dropped from Rule 21.

● KRC INSIGHT

Automatic approval does not end scrutiny: officers can still verify later, so keep rent agreements, NOCs and board resolutions on file. Multi-state online sellers should check which states can move to the Rule 14B route.

02 · RETURNS, INVOICES AND FILING

One reconciled return, from April 2027.

The new mechanism applies from the return for April 2027, after a time-bound public consultation on the draft.

2.1	Invoice Management System gets legal backing	A new Rule 60(6A) lets you accept, reject or keep pending supplier invoices and credit notes before GSTR-2B is generated. A fixed period will apply to how long a credit note can stay pending.
2.2	Liability and ITC must reconcile	Rule 61(1A) will align GSTR-3B liability with GSTR-1, GSTR-1A and IFF, and Rule 61(1B) will align ITC claimed with GSTR-2B. Errors get a structured fix instead of ad hoc adjustments in later returns.
2.3	New tracking statements	An electronic statement of reverse-charge tax and ITC (Rule 86D) and a credit reversal and reclaim statement (Rule 86C) will create an audit trail. DRC-03 payments will be linked to the underlying invoice.
2.4	Filing deadlines aligned with ITC time limit	Time limits for GSTR-1 and GSTR-3B (Sections 37 and 39) will be aligned with the ITC deadline in Section 16(4), so a late-reported invoice does not leave the buyer without credit.
2.5	E-invoicing widens	Businesses with turnover of ₹5 crore or more will need e-invoices for reverse-charge purchases from unregistered persons and for imports of services.

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This is the biggest systems change in the package. Mismatches between returns drive most GST notices today, so tighten vendor reconciliation and credit-note processes, and update ERP settings well before April 2027.

03 · INPUT TAX CREDIT

Long-blocked credits open up.

3.1 · NO LONGER BLOCKED UNDER SECTION 17(5)

CREDIT	WHAT IT UNLOCKS
Outdoor catering	ITC on catering for factories, offices, events and conferences
Health and life insurance	ITC on group health and life cover for employees
Telecom towers	ITC for telecom infrastructure, settling a long-running dispute
Pipelines laid outside the factory	ITC for oil, gas and city-gas distribution
Free samples	ITC on inputs used for samples, key for pharma and FMCG
Goods destroyed on shelf-life expiry, as law requires	No ITC reversal when expired food or medicines are destroyed

3.2 A hearing before credit is blocked Rule 86A will let you file an objection and get a personal hearing before an officer decides on blocking credit in your electronic credit ledger.

3.3 Supplier defaults The Finance Minister has said the government will address Section 16(2)(c), so honest buyers do not lose credit when a supplier fails to pay.

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The removal is not retrospective, so past disputes stay under the old law. Track the effective date, and start capturing ITC on insurance, catering and samples from that date with clean documentation.

04 • FASTER, AUTOMATED REFUNDS

Refunds that release working capital sooner.

4.1	Less paperwork	Form RFD-01 will capture data in a system-readable format, with shipping data from the Customs portal and payment details from banks. Scanned documents will no longer be needed for export and inverted duty claims.
4.2	Export valuation cap removed	The rule capping zero-rated turnover at 1.5 times the value of like goods sold domestically will go, in line with the Karnataka High Court's view that it was arbitrary.
4.3	₹1,000 threshold	The minimum refund will apply to the total across CGST, SGST and IGST, not to each separately.

4.4 • AUTOMATION IN TWO PHASES

WHAT CHANGES	PHASE 1	PHASE 2
Excess cash ledger balance	Refunded fully automatically	—
Acknowledgement or deficiency memo	Within 10 days, down from 15; deemed issued after 10 days	Automated after system checks
Exports and inverted duty structure	Up to 90% sanctioned provisionally, without an officer	100% of eligible export refunds sanctioned automatically, after adjusting dues

● KRC INSIGHT

A deemed acknowledgement after 10 days puts the cost of delay on the department, not you. Exporters flagged as risky will still face manual review, so clean, consistent data in RFD-01 will decide how fast money comes back.

04 · WIDER REFUNDS OF ITC

More accumulated credit becomes refundable.

Biggest gains: textiles, footwear, fertilisers, solar equipment and capital-intensive exporters.

1 November 2026

Inverted duty structure refunds expand to cover input services. Until now, only input goods were allowed.

1 April 2027

Capital goods qualify in export and inverted duty refunds, spread over 60 months.

CREDIT REFUNDABLE	TODAY	RECOMMENDED
Exports (zero-rated supplies)	Inputs and input services	Adds capital goods
Inverted duty structure	Inputs only	Adds input services and capital goods

4.5 Rule 96(10) scrapped from 2017

Its omission will apply from 23 October 2017, following the Supreme Court. Legacy demands on exporters who used Advance Authorisation, EOU or deemed export benefits and claimed IGST refunds should fall away.

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Inversion is still tested on input goods: if your inputs and outputs carry the same rate, high-rate services alone will not unlock a refund. And only ITC availed on or after these dates qualifies; credit already accumulated stays locked.

05 • FEWER DISPUTES, LIGHTER PENALTIES

Fewer notices, and paying early costs less.

AREA	TODAY	RECOMMENDED
Show cause notice threshold	None under Sections 73 and 74	No notice below ₹10,000 of tax across CGST, SGST, IGST and cess; applies to pending notices and appeals
Penalty in non-fraud cases	10% of tax or ₹10,000, whichever is higher	₹10,000 minimum removed
Paying after an order (non-fraud)	No reduced option	5% penalty if tax and interest are paid within 30 days (Section 73) or 60 days (Section 74A)
General penalty (Section 125)	Up to ₹25,000	Up to ₹10,000
Pre-deposit on penalty-only appeals	10% of penalty, no cap	Capped at ₹20 crore CGST plus ₹20 crore SGST (₹40 crore)

WATCH OUT • VALIDATION CLAUSE

Notices quashed by courts for covering several financial years in one notice will be validated retrospectively. Proceedings you have already won may revive, though each year's time limit still applies.

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List every notice quashed on multi-year grounds and every pending case below ₹10,000. The first may come back; the second should close. Where a non-fraud order is likely to stand, paying within the window now costs only 5%.

06 • DECRIMINALISATION AND ENFORCEMENT

No arrests, and prosecution only for serious fraud.

₹5 crore

Prosecution threshold, up from ₹1 crore

5 years

Maximum jail term, only where tax exceeds ₹10 crore

None

Minimum jail term, down from six months

6.1	Arrest powers withdrawn	Section 69 will be omitted, so no one can be arrested for a GST offence. Investigations will run through summons, inspection, search, provisional attachment and adjudication.
6.2	Prosecution narrowed	Prosecution needs tax above ₹5 crore and a complaint before a court: up to 2 years for ₹5–10 crore, up to 5 years above ₹10 crore, and courts may impose only a fine. Offences are refocused on fake-invoice ITC fraud.
6.3	Goods in transit	Vehicles can be intercepted only on specific intelligence, with approval from a Joint Commissioner or above. Only the supplier's or recipient's state can act, unless there is no e-way bill. Confiscation will not apply to goods in transit.
6.4	Fairer orders	A circular will set standards for notices and orders, covering when fraud can be alleged, personal hearings and timely issue.

● KRC INSIGHT

Summons, searches and attachment remain, so documentation still matters. Keep e-way bills complete for every movement: goods without one can still be stopped in any state.

07 · EXPORTS AND CROSS-BORDER TRADE

Exporters and global groups gain the most.

7.1	Exports to your own foreign branches	The 'distinct person' condition in Section 2(6)(v) of the IGST Act goes. Services by an Indian office to its foreign branch or head office can qualify as exports, opening refunds for IT, ITeS and banking.
7.2	Payment in rupees	A circular will confirm when payment received in Indian rupees, as RBI permits, counts for export benefits.
7.3	Services on goods of overseas clients	Section 13(3)(a) of the IGST Act will be omitted. Testing, repair, maintenance and job work on goods of overseas clients will follow the recipient's location, so they can qualify as exports.
7.4	Supplies routed through an SEZ or FTWZ	Goods sold to an overseas buyer but delivered to a special economic zone (SEZ) or free trade warehousing zone (FTWZ) will be treated as zero-rated, where paid in foreign exchange or permitted rupees.
7.5	Intellectual property transfers	Transfer of title in intellectual property, temporary or permanent, will be treated as a supply of services, ending the goods-or-services debate on cross-border assignments of patents, trademarks and copyrights.

● KRC INSIGHT

Indian branches of foreign groups, and banks with offshore branches, should revisit their export positions now. Section 13(3)(a) also applied to foreign suppliers, so check the reverse-charge effect on services you import as well.

08 · SMALL BUSINESS, E-COMMERCE AND ADMINISTRATION

Lighter compliance for small sellers, clearer rules for platforms.

8.1	Small B2C businesses	An optional Annual Return Quarterly Payment (ARQP) scheme, approved in principle, for businesses with turnover up to ₹5 crore that sell only to consumers.
8.2	Late fees waived	With turnover up to ₹5 crore, no late fee is charged if the return is filed by the end of the month it was due. Interest on late tax still applies.
8.3	Faceless administration	The government plans to extend faceless appeals, grievance redressal and GST Seva Kendras to Central GST registrants.
8.4	Platforms liable whatever the model	Section 9(5) will make clear that e-commerce operators pay tax on notified services, such as ride-hailing, accommodation, restaurant and local delivery services, even under subscription or software-fee models.
8.5	Delivery services through platforms	Delivery services, other than courier and postal, supplied through an e-commerce operator will be taxed at 5% without ITC, with the operator liable where the delivery partner is unregistered.
8.6	GTA exemption narrowed	The exemption for goods transport agency services to unregistered persons will not apply to deliveries of goods ordered through e-commerce.

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Quick-commerce and logistics players should review delivery contracts and pricing now. Small B2B suppliers should still file on time: the late-fee waiver does not protect your buyer's ITC.

09 · INDUSTRY IMPACT

Who gains, sector by sector.

SECTOR	WHAT CHANGES FOR YOU
Exporters of goods	Capital goods ITC becomes refundable; 1.5× valuation cap removed; Rule 96(10) demands fall away; SEZ and FTWZ deliveries zero-rated.
IT, ITeS, testing and repair services	Services to your own foreign branches, and services on goods of overseas clients, can qualify as exports and earn refunds.
Textiles, footwear, fertilisers, solar	Input services (from 1 November 2026) and capital goods (from 1 April 2027) join inverted duty refunds.
Pharma and FMCG	ITC on free samples; no reversal when expired stock is destroyed as the law requires.
Telecom, oil, gas and city gas	ITC on telecom towers and on pipelines laid outside the factory.
E-commerce and quick commerce	Warehouse-based registration for small sellers; 5% on platform deliveries; operators liable under Section 9(5) whatever the model.
Banking and NBFCs	Branch funds transfer pricing treated as exempt interest; circular on the 50% ITC option; offshore-branch services can be exports.
Hotels, restaurants and gyms	ITC on services bought from the same line of business; corporate buyers get ITC on outdoor catering.
Used-car dealers and vehicle leasing	Margin-scheme dealers get ITC on spares, repairs, rent and marketing; road tax, insurance and FASTag recovered on a lease are taxed with the lease.
Logistics and transport	Intelligence-led interception only, no detention in transit states; 5% option for electric passenger fleets.
Recycling and scrap	Reverse charge on plastic, e-waste, tyre scrap and used cooking oil bought from unregistered sellers; 2% TDS on B2B sales.
Agriculture and agri-inputs	Isabgol at nil; seaweed bio-stimulants classed as fertiliser; seed storage and coffee curing exempt; tractor tyre rates aligned.

10 · RATE CHANGES ON GOODS

Goods: clarifications that settle old disputes.

ITEM	CHANGE
Psyllium seeds (isabgol)	Nil rate, whether fresh, chilled, frozen or dried
Retreaded tractor tyres	Rate aligned with new tractor tyres
Toys (heading 9503)	All toys covered, including dolls and puzzles: 5% if non-electronic, 18% if electronic
Sublimation paper	Classified under heading 4809 at 18%; past cases regularised
Seaweed-based bio-stimulants	Fertiliser under heading 3101 at 5% if registered under the Fertiliser Control Order; products with plant growth regulators excluded; past cases regularised
Waste and scrap from unregistered sellers	Reverse charge on plastic, e-waste, tyre scrap and used cooking oil, even if the seller is below the threshold; 2% TDS on B2B sales

IN FOCUS · SECOND-HAND VEHICLES UNDER THE MARGIN SCHEME

Dealers paying GST on their margin can take ITC on inputs and services such as spares, repairs, technology, rent, marketing and advertising. Only the tax on the used vehicles they buy stays blocked, ending field denials of all credit.

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The classification clarifications regularise the past on an 'as is where is' basis, so open disputes on sublimation paper and bio-stimulants should close. Recyclers need reverse-charge self-invoicing and TDS returns in place before the change.

10 • RATE CHANGES ON SERVICES

Services: targeted relief and new options.

SERVICE	CHANGE
Electric vehicle passenger transport and rental	Option of 5% with restricted ITC where charging cost is included
Deliveries through e-commerce operators	5% without ITC
Restaurants, hotels up to ₹7,500 a night, gyms	ITC allowed on services bought from the same line of business
Bank funds transfer pricing	Notional interest between branches treated as exempt interest
Helicopter seat-sharing in the North East, Sikkim and Bagdogra	Exempt
Seed storage, coffee curing	Exempt
Toll collection rights granted to highway concessionaires	Exempt
Seamen's Provident Fund Organisation services	Exempt
Research and development	Self-certification by the institution head that work is R&D, not consultancy

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EV fleet operators should compare the 5% option, with restricted ITC, against 18% with full ITC. With high ITC on vehicle purchases, 18% can work out cheaper.

11 • OTHER RECOMMENDATIONS

Further changes worth tracking.

AREA	CHANGE
Interest on refund of appeal pre-deposits	Section 115 becomes a standalone provision with its own interest rate, ending the 6% or 9% debate; a circular will clarify.
Voluntary payment of tax, interest and penalty	The penalty paid in time is treated as a "charge". The amount does not change, and it is paid under the head "Others".
Provisional refunds in disputed cases	No automatic provisional refund where the department is contesting an earlier refund through a notice or appeal; such claims go to scrutiny.
Offences under Section 132	"Evades tax", "in any other manner deals with" and clause (i) are deleted; clause (c) will cover only ITC taken without goods, services or an invoice.
Circulars to come	On the Input Service Distributor mechanism, the 50% ITC option for banks and NBFCs under Section 17(4), payment of pre-deposits, and ITC on demonstration vehicles.
GST Appellate Tribunal	Provisions and member-service rules aligned with the Tribunals Reforms Act, 2026, reducing the risk of legal challenge.
Canteen Stores Department	Compensation cess not levied on two- and four-wheelers (July 2017 to September 2022) and on aerated drinks (July 2017 to March 2022) exempted.
Foreign shipping lines	Import of services by their Indian establishments from related persons abroad, without consideration, exempted; past period regularised.
Highway operation and maintenance	Special procedure on valuation and time of payment for O&M services by concessionaires under the toll-operate-transfer model.
Vehicle leasing recoveries	Registration charges, road tax, insurance and FASTag recovered from the lessee form part of the lease value and are taxed at the leasing rate.

12 · WHAT TO DO NOW

Nothing changes today. Five steps put you ahead.

- 01 Review your blocked credits**
Insurance, catering, free samples and expired stock may soon be eligible. Make sure your records support the claim.
- 02 Prepare for the April 2027 return mechanism**
Agree an internal process for accepting, rejecting and holding supplier invoices each month, and align ERP and vendor reconciliation before the new rules apply.
- 03 Check your refund position**
Exporters and businesses with an inverted duty structure should note the 1 November 2026 and 1 April 2027 dates, and track ITC on input services and capital goods separately from then.
- 04 Review pending litigation**
Flag notices below ₹10,000, notices quashed on multi-year grounds, and any demand based on Rule 96(10). Each will move differently once the changes are notified.
- 05 Set up e-invoicing for reverse charge and imports**
With turnover of ₹5 crore or more, configure e-invoice generation for self-invoices on purchases from unregistered persons and on imported services.

DISCLAIMER

This publication summarises the recommendations of the 57th GST Council meeting held on 8 October 2026, based on the press release and FAQs issued that day. The recommendations take effect only when the relevant notifications, circulars and amendments are issued, and the final position may differ. It is for general information only and does not constitute legal or professional advice. Please consult K. Raghu & Co. before acting on any of it; we accept no liability for any loss arising from reliance on this publication.