



Everyday GST Fixes under FA, 2026

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THE Parliament has now enacted the Finance Act, 2026, marking yet another step in the steady evolution of India's GST regime. Unlike the pre-GST era, where Union Budgets were the primary vehicle for indirect tax changes, the GST framework has shifted this dynamic. Today, the GST Council functions as the central forum for deliberation and consensus-building, leaving Parliament to formalise decisions that are, in many ways, already shaped through extensive consultation. In that sense, the legislative process under GST often resembles the final plating of a well-prepared dish.

This year's amendments may appear limited in number, but their significance lies in their precision. The Finance Act delivers targeted, long-awaited relief to industry - most notably in addressing disputes around post-supply discounts (credit notes) and tackling the persistent challenge of inverted duty structures. The introduction of a system-driven 90% provisional refund mechanism, even for inverted duty scenarios based on risk assessment, is particularly noteworthy, drawing from the successful framework used in export refunds.

A. Post-Supply Discounts: Bridging Law and Practice

The treatment of post-supply discounts has finally been brought closer to commercial reality. Businesses routinely operate with incentive-driven pricing - rebates, turnover discounts, and promotional schemes - but the earlier framework imposed rigid conditions that often proved impractical. In particular, the requirement that such discounts be pre-agreed at or before the time of supply in terms of an agreement, and be specifically linked to individual invoices, created a significant compliance burden.

This was especially problematic in cases where the nature or quantum of discount could not be determined upfront. In high-volume industries like FMCG, Cement, Automobiles, where discounts are computed post facto based on performance, turnover, or market conditions, establishing a one-to-one linkage with prior agreements and invoices was not only difficult but, in many cases, commercially unrealistic. The result was predictable - frequent disputes, interpretational inconsistencies, and prolonged litigation.

Recognising these challenges, the Finance Act adopts a more pragmatic approach. The insistence on rigid pre-supply agreements and strict invoice-level linkage has been relaxed, acknowledging that such conditions were often generic, open to interpretation, and disconnected from business practice. Discounts can now be excluded from the taxable value subject to reasonable safeguards such as proper documentation and corresponding input tax credit reversal. Accordingly, amendments are proposed in section 15(3)(b) and 34 of the CGST Act.

The impact is twofold:

First, it substantially reduces the compliance burden for businesses operating in dynamic pricing environments. Second, it addresses a major source of litigation by aligning the law with how trade and industry actually function.

In effect, this amendment is less about granting relief and more about restoring balance - ensuring that GST valuation provisions reflect commercial substance rather than procedural rigidity.

B. Inverted Duty Structure: The Emerging Fault Line

Another significant concern addressed by the Finance Act is the need to unlock and expedite the release of working capital that remains tied up, particularly on account of the inverted duty structure (ITC accumulated due to rate of tax on inputs being higher than rate of tax on output supply).

While recent rate rationalisation - especially the reduction of GST on several goods to 5% in September 2025 was aimed at improving affordability and stimulating demand, it has also led to an unintended imbalance. In several sectors, the gap between input and output tax rates has widened considerably. The food processing industry illustrates this well: even as finished products are taxed at 5%, businesses continue to incur GST at 18% on a range of inputs, including services and capital goods. This mismatch results in accumulation of input tax credit that cannot be fully utilised, leading to persistent blockage of working capital.

For industries operating on tight margins and high volumes, such accumulation directly affects liquidity, pricing flexibility, and overall financial sustainability, thereby diluting the very benefit that rate reductions were intended to achieve.

B.1 The Statutory Constraint and Its Practical Fallout

The issue is further compounded by the existing legal framework. While Section 54(3) of the CGST Act permits refunds in cases of inverted duty structures, the formula under Rule 89(5) effectively restricts such refunds to inputs, excluding input services and capital goods. As a result, a significant portion of accumulated credit remains locked in the electronic credit ledger with no viable route for utilisation.

At the same time, the refund process itself - though fully digitised - continues to involve detailed scrutiny of documents. While such verification is intended to safeguard revenue, it has also contributed to delays in processing, particularly in inverted duty cases wherein the statutory refund period is sixty days but in practice it goes beyond this period. This has a direct bearing on liquidity and working capital cycles of businesses.

B.2 Global Context: A Comparative Perspective

In contrast, several international jurisdictions, including the European Union, permit refund of accumulated credits without distinguishing between inputs, input services, or capital goods. India's relatively restrictive framework places domestic businesses - particularly those dependent on service inputs and capital investment - at a disadvantage.

B.3 The Way Forward: Provisional Relief and Structural Correction

Against this backdrop, the case for reform becomes compelling. One of the most pragmatic developments made through the Finance Act is the proposal to extend 90% provisional refund mechanisms to inverted duty structure cases, on lines similar to zero-rated supplies.

Hitherto, provisional refunds under Section 54(6) were confined to exports. Recognising that inverted duty refund claims constitute a significant portion of total claims, the legislature has now extended this facility to such cases as well. This would enable sanction of refunds on a provisional basis - potentially up to 90% - subject to system-based and risk-based assessment, with detailed verification to follow.

Such a measure can have an immediate and meaningful impact. It would ease liquidity pressures, reduce waiting periods for businesses, and improve overall ease of doing business without compromising revenue safeguards.

In sum, while the Finance Act makes important strides in improving the operational efficiency of GST, the inverted duty structure remains a critical area requiring continued policy attention. Addressing it effectively will be key to ensuring that GST not only functions smoothly but also remains true to its foundational promise of seamless credit flow and tax neutrality.

A logical extension of this reform agenda would be to address situations where such accumulated credit becomes entirely unusable - particularly upon closure of business operations. This issue is more pronounced in cases of branch closures, where the Head Office continues to operate in other States under distinct registration. In the absence of a clear statutory mechanism, credits lying in the electronic credit ledger of the closed registration often lapse, leading to a complete loss of legitimate tax credit.

Going forward, the law should consider enabling either (i) refund of accumulated input tax credit upon closure of business, or (ii) a structured mechanism for transfer of such credit to other active registrations of the same entity, such as the Head Office. Notably, certain High Courts have already recognised the inequity in denying such relief and have permitted credit transfer in appropriate cases. Lastly, the inclusion of services and capital goods related ITC in the refund formulae is also part of the industry wish list.

C. Intermediary Services: Restoring Export Parity

A long-overdue correction under the Finance Act is the removal of the special place-of-supply provision for intermediary services.

Under the broader framework of Section 13 of the IGST Act, services involving cross-border elements are generally taxed based on the location of the recipient. However, intermediary services were carved out as an exception under Section 13(8)(b), deeming the place of supply to be the supplier's location in India. This resulted in a fundamental distortion - Indian service providers supplying to overseas clients were denied export status and taxed domestically.

Recognising this anomaly, the GST Council noted that the provision was inconsistent with the destination-based principle of GST and was adversely affecting India's export competitiveness and will deter investment and growth in service-driven sectors.

The Finance Act addresses this by omitting the special provision, thereby bringing intermediary services back within the default rule under Section 13(2) - where the place of supply is determined by the location of the recipient.

Practical impact:

This change restores parity within the export framework. Intermediary services provided to foreign clients will now qualify as exports, enabling zero-rating and refund of input tax credit. For sectors such as BPOs, sourcing agents, and consultancy services, this not only improves liquidity but also brings long-awaited certainty to an issue that has seen significant litigation and divergent interpretations right from the service tax era.

D. Refund Threshold Removed: Enabling Full Credit Flow

The removal of the Rs.1,000 minimum threshold for GST refunds, though seemingly minor, addresses a long-standing and practical concern - particularly for small exporters.

Earlier, refund claims below Rs.1,000 were not processed, a measure generally introduced for administrative efficiency. However, in practice, this threshold disproportionately affected exporters making frequent low-value shipments, especially through courier or postal modes. For many MSMEs, cottage industries, and businesses in small towns, these small amounts would accumulate over time, effectively converting legitimate input tax credit into a non-recoverable cost.

The consequence impacted cash flows, reduced price competitiveness, and, in some cases, acted as a disincentive to participate in international trade for small traders. The Finance Act removes this threshold, ensuring that such refund claims can now be processed irrespective of value.

Why this matters:

This change reinforces a fundamental GST principle - that taxes should not become a cost. By enabling recovery of even small-value credits, it improves liquidity for small businesses, supports grassroots

exporters, and ensures that compliance barriers do not undermine competitiveness in global markets for these small starters.

E. Advance Ruling Appeals: Ensuring Continuity

To address the delay in operationalising the national appellate authority for advance ruling, an interim mechanism for advance ruling appeals has been introduced for enabling the delegation of power to the GSTAT for now.

Significance:

This preserves certainty in tax positions and ensures that the advance ruling framework remains functional and credible.

F. Conclusion: Small Fixes, Real Impact

The Finance Act, 2026 reflects a clear and welcome shift in GST policy - away from large structural overhauls and towards resolving the everyday challenges that businesses actually face. Whether it is easing the rigidity around post-supply discounts, correcting the anomaly in intermediary services, or improving refund accessibility, the emphasis is firmly on practical, ground-level issues that affect daily operations.

These might not be headline-grabbing changes, but they address the friction points that consume disproportionate time, effort, and working capital for businesses. In doing so, the law moves closer to becoming not just technically sound, but operationally workable.

That said, structural concerns like the inverted duty framework continue to remind us that the system is still evolving. The real success of GST will lie in consistently identifying and resolving such practical bottlenecks - ensuring that the law keeps pace with business realities.

If this approach continues, GST will gradually transform into what it was always meant to be: a system that works seamlessly not just in theory, but in the day-to-day life of businesses.

G. Note of Caution:

While these amendments have been enacted through the Finance Act, their effective implementation will require corresponding changes across State GST laws. Based on past experience, such mirror amendments and notifications typically take a few months, and businesses may expect these provisions to become operational closer to October except that dealing with IGST.

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