

The Finance Bill 2025 - GST Amendments



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The Finance Bill, 2025 has introduced significant amendments in the GST laws based on the recommendation of GST Council. The Bill which is part of Union Budget 2025 aimed at simplifying compliance, reducing tax burdens, and fostering economic growth. The GST changes emphasize rationalizing credit provisions, easing return filing, and enhancing tax governance mechanisms. Also, the Bill has proposed changes in GST laws for ensuring trade facilitation. As India strides toward becoming the world's third-largest economy, the Economic Survey 2024-25 is forecasting GDP growth between 6.3% and 6.8% for coming year. This optimism is anchored in the nation's robust economic fundamentals.

Since its inception in 2017, GST has revolutionized India's indirect tax regime by dismantling inter-state trade barriers, digitizing compliance, and broadening the tax base. This year's Economic Survey also highlights a 12% year-on-year growth in GST collections, reflecting improved compliance and formalization. However, challenges such as input tax credit disputes, interpretational ambiguities, and tax evasion persists. Let's delve into these changes and their far-reaching implications for businesses and the economy. Let us divide our discussion in three parts namely retrospective amendments, prospective amendment to be made effective from 1st April, 2025 and prospective amendments that will be notified:

1. Amendments, which are proposed to be made effective retrospectively from 1 July 2017:

a. Supply of goods warehoused in a SEZ or FTWZ to any person before clearance of such goods for exports or to the DTA to be included in Schedule III

Entry (aa) in paragraph 8 of schedule III of the CGST Act, 2017 is proposed to be inserted to provide that the supply of goods warehoused in a SEZ or in a FTWZ to any person before clearance for exports or to the DTA shall be treated neither as "supply of goods nor as supply of services".

Explanation 3 is sought to be inserted to define the terms 'Special Economic Zone,' 'Free



Trade Warehousing Zone,' and 'Domestic Tariff Area' in the context of the amendment. The expressions SEZ, FTWZ and DTA shall have same meaning as assigned to them in section 2 of the SEZ Act, 2005.

This brings transactions relating to supply of goods warehoused in SEZ / FTWZ at par with the existing provision in GST for transactions in Customs bonded warehouse.

While this change applies retrospectively, no refunds will be provided for any GST collected on these transactions prior to the amendment. Clause 129 of the Finance Bill, 2025, provides that refund of already paid tax shall not be made available.

Comment: This is a much-awaited amendment which will resolve the long pending demand of the businesses and will enhance ease of doing business.

b. The words 'Plant or Machinery' in section 17(5)(d) of the CGST Act, 2017 to be replaced with the words 'Plant and Machinery'

It is proposed to replace the existing term "plant or machinery" with "**plant and machinery**" in section 17(5)(d) of the CGST Act, 2017. According to this amendment, the input tax credit in respect of goods or services or both received by a taxable person for construction of an immovable property on his own account including when such goods or services or both are used in the course or furtherance of business, shall be eligible if such immovable property is "plant **and** machinery". One may refer the Explanation in section 17(5) of the CGST Act, 2017, to know the meaning of the term 'plant and machinery'.

It has also been proposed to make the said amendment with retrospective effect from 1st July 2017, superseding anything contrary contained in any judgment, decree

or order of any court or any other authority. This amendment will nullify the Supreme Court's ruling in *Chief Commissioner of CGST v. M/s. Safari Retreats Private Limited & Ors* [Civil Appeal No. 2948 of 2023, dated October 3, 2024].

The Supreme Court, in this case, had ruled that input tax credit could not be denied on "plant" under Section 17(5)(d), as certain immovable properties could qualify as plant if they satisfy the functionality test. The Government says that this amendment is a correction of a drafting error. Businesses however will be affected adversely with this retrospective change.

Comment: This amendment could have been avoided particularly with retrospective effect, as it will deny credit to a lot of people who had waited for the judgement of the Hon'ble Supreme Court.

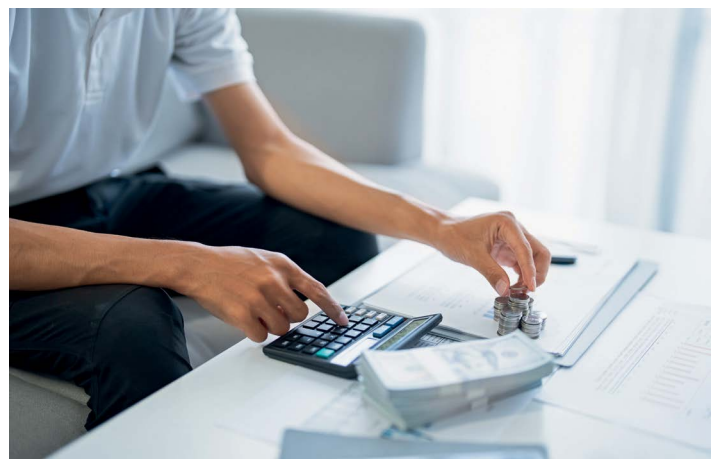
2. Amendment, which is proposed to be made effective prospectively from 1st April 2025

a. Inter-State RCM transactions to be covered under ISD mechanism

In order to settle the ambiguity, section 2(61) of the CGST Act, 2017, is being amended to explicitly provide for applicability of Input Service Distributor mechanism, in respect of Inter-State procurements of services attracting reverse charge, by adding reference to Sections 5(3) and 5(4) of the IGST Act, 2017.

Consequential amendments have been proposed in Sections 20 of the CGST Act, 2017, which deals with the manner of distribution of credit by an Input Service Distributor to enable the distribution of credit by an Input Service Distributor in respect of common services which are liable to IGST payment under RCM.

The said amendments would be made effective from 1st April 2025 which is in line with the pre-determined





date for implementation of the new definition and credit distribution provisions of an Input Service Distributor.

Comment: This amendment resolves the issue by explicitly recognizing ISD mechanism for Inter-State RCM based credit distribution. Businesses will now be able to seamlessly allocate input tax credit across multiple GST registrations under the same PAN.

3. Amendments, which are proposed to be made effective prospectively from a date to be notified:

a. Introduction of 'Track and Trace Mechanism' for specified commodities

In order to enhance GST compliance and curb tax evasion, a new Section 148A is proposed to be inserted in the CGST Act, 2017, to introduce 'Track and Trace Mechanism' for specified commodities. This mechanism mandates the use of Unique Identification Marking (UIM) for specified goods and persons or class of persons who are in possession or deals with such goods. The mechanism will ensure that a Unique Identification Marking would be affixed on the specified goods or the packages thereof. The marking system will utilize barcodes, RFID tags or other software-readable technologies to enable real-time tracking of goods throughout the supply chain

'Unique Identification Marking' is proposed to be defined by inserting clause (116A) in section 2 of the CGST Act, 2017. It will include a digital stamp, digital mark or any other similar marking, which is unique, secure and non-removable.

Penalty for above non-compliance is also being provided by proposing to insert a new Section 122B in the CGST Act, 2017. As per Section 122B, a penalty of Rs. 1,00,000 or 10% of the disputed tax on such goods, whichever is higher, will be leviable for failure to comply with Track and Trace Mechanism. This proposed penalty

would be in addition to any penalty levied under any other sections.

Comment: While the Track and Trace Mechanism is a crucial step in deterring illicit trade, businesses dealing with these goods may face increased compliance burden. The effectiveness of the system will depend on clear implementation guidelines and industry readiness to adopt the new technology-driven tracking framework.

b. Amendment in the definition of "Local Authority"

The amendment in section 2(69) of the CGST Act, 2017 proposes to replace the term "municipal or local fund" with "municipal fund or local fund" and also proposes to provide by way of explanations to the definition of 'local authority', the meaning of the terms 'local fund' and 'municipal fund'.

This change addresses ambiguities that previously led to inconsistent tax exemptions for entities such as panchayats and development authorities.

Comment: By standardising the interpretation of these funds, the amendment seeks to ensure uniform tax treatment, reducing litigation and enabling local bodies to fully utilize fiscal benefits.

c. Deletion of provisions relating to time of supply for supply of vouchers

It is proposed to delete sections 12(4) and 13(4) of the CGST Act, 2017, which deal with the time of supply of transactions in relation to issuance of vouchers under GST. After the clarification vide *Circular No. 243/37/2024-GST, dated 31st December 2024* that vouchers are either money or a transaction in an actionable claim, transactions involving vouchers will neither be considered a supply of goods nor a supply of services. Consequently, it was required to do away





with the provisions associated with the time of supply in relation to vouchers.

Hence, GST will apply only when the voucher is redeemed against the purchase of goods or services, rather than at the time of issuance. This eliminates the risk of double taxation, where GST was previously levied both at the time of issuance and redemption.

Comment: This change is particularly beneficial for industries such as retail and hospitality, which frequently use vouchers as promotional tools and payment instruments. It will simplify the tax treatment of vouchers.

d. Mandatory Input Tax Credit Reversal on Credit Notes

Section 34(2) of the CGST Act, 2017, is proposed to be amended to confirm the requirement of reversal of input tax credit as is attributable to a credit note, by the recipient, to enable the reduction of output tax liability of the supplier when a credit note is issued by the supplier.

This amendment ensures that a supplier can reduce their output tax liability only if the recipient reverses the corresponding input tax credit that was originally claimed and not reversed earlier.

Comment: The amendment gives statutory backing to the Invoice Management System (IMS), which prevents recipients from keeping credit notes or any amendments (upward/downward) in a 'Pending' state, ensuring real-time reconciliation of tax liabilities between suppliers and recipients.

e. Steps for Implementing the Invoice Management System

The provisions of Section 38 of the CGST Act, 2017, are proposed to be amended to provide for legal framework in respect of generation of inward report

based on the action taken by the taxpayers on the auto-populated details as per the Invoice Management System (IMS) functionality. These changes aim to streamline input tax credit reporting and ensure the seamless generation of FORM GSTR-2B based on taxpayer actions on inward supplies.

The amendment removes the term "auto-generated" from Sections 38(1) and 38(2), allowing flexibility to the recipient in the generation of the input tax credit statement. Further, a new clause (c) is being introduced under Section 38(2) to enable the Government to prescribe additional details in the input tax credit statement.

Comment: These amendments will ensure better reconciliation under the Invoice Management System (IMS) framework and will enable the Government to implement the IMS smoothly.

f. Pre-Deposit to be reduced for Appeals related to Penalty

Presently, under Section 107(6) of the CGST Act, 2017, an appellant is required to pre-deposit 25% of the penalty amount for filing an appeal against an order issued under Section 129(3) of the CGST Act, 2017 (related to detention and seizure of goods and conveyances in transit). The amendment now seeks to reduce this pre-deposit requirement to 10% in all cases where the appeal pertains exclusively to a penalty demand without any associated tax demand.

Similarly, Section 112(8) of the CGST Act, 2017, is sought to be amended to introduce a mandatory 10% pre-deposit for appeals before the Goods and Services Tax Appellate Tribunal (GSTAT) in cases where the dispute involves only a penalty liability and not a tax demand.

Comment: Though the amendment seeks to reduce the pre-deposit requirement to 10%, it simultaneously expands its applicability beyond Section 129(3) to cover all cases where the appeal pertains exclusively to a penalty demand without any associated tax demand.

Conclusion

Budget 2025 reaffirms GST as a cornerstone of India's fiscal architecture, balancing compliance ease with revenue security. By resolving ambiguities and embracing technology-driven reforms, the Government aims to unlock ₹2.4 lakh crore in additional GST collections by next year.



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