

Union Budget 2025-26 Highlights -Indirect Taxes

Goods & Services Tax

Amendments proposed in the CGST Act, 2017, the IGST Act, 2017, the UTGST Act, 2017 & GST (Compensation to States) Act, 2017

To be effective from a date to be notified after the enactment of the Finance Bill, 2025

- **Amendment in Section 2(61) and Sections 20(1) and 20(2) of the CGST Act, 2017**

It is proposed to explicitly provide for the distribution of Input Tax Credit (ITC) by the Input Service Distributor (ISD) in relation to inter-State supplies, on which the tax is liable to be paid under the reverse charge mechanism (RCM), by inserting reference to sub-section (3) and sub-section (4) of section 5 of the Integrated Goods and Services Tax Act the definition of "Input Service Distributor".

Similar amendment is proposed to be made in sections 20(1) and 20(2) to enable the distribution of ITC by the Input Service Distributor for inter-State supplies, where tax is paid under the reverse charge mechanism by inserting references to sub-sections (3) and (4) of Section 5 of the Integrated Goods and Services Tax (IGST).

The proposed amendments will come into effect from 1st April 2025.

- **Amendment in Section 2(69)(c) of the CGST Act, 2017**

It is proposed to amend the definition of "local authority" provided in section 2(69), by replacing the term "municipal or local fund" with "municipal fund or local fund". Additionally, an Explanation is proposed to be inserted after the sub-clause to define the terms "Local Fund" and "Municipal Fund," thereby clarifying the scope and application of these terms within the definition of "local authority".

- **Insertion of Section 2(116A) in the CGST Act, 2017**

A new clause (116A) in section 2 of the CGST Act, 2017 is proposed to be inserted to provide definition of 'Unique Identification Marking' for implementation of Track and Trace Mechanism.

- **Omission of Sections 12(4)/13(4) of the CGST Act, 2017**

It is proposed to omit sections 12(4)/13(4) which provides for the taxability of vouchers thereby treating transactions in Vouchers neither as Supply of Goods nor Supply of Services.

- **Amendment in Section 17(5)(d) of the CGST Act, 2017**

It is proposed to amend section 17(5)(d) by replacing the phrase "plant or machinery" with "plant and machinery." This amendment will be applicable retrospectively from 1st July 2017, overriding any conflicting judgments, decrees, or orders from any court or authority.

- **Amendment of Proviso to Section 34(2) of the CGST Act, 2017**

It is proposed to amend the proviso to section 34(2) of the CGST Act, 2017 to explicitly require the reversal of the corresponding input tax credit, if claimed by the registered recipient, when a credit note is issued. This reversal is necessary for reducing the tax liability of the supplier in relation to the said credit note.

- **Amendment in Section 38 of the CGST Act, 2017**

It is proposed to amend section 38(1) by omitting the term "auto-generated" in reference to the statement of input tax credit in the said sub-section.

Consequential amendments are proposed to be made in section 38(2) of the CGST Act, 2017, by removing the term "auto-generated" with respect to the statement of input tax credit in the sub-section. Additionally, the expression "including" will be inserted after the words "by the recipient" in clause (b) of the sub-section to broaden the scope of the clause.

A new clause (c) is proposed to be inserted under section 38(2) to allow for the prescription of additional details to be included in the statement of input tax credit.

- **Amendment in Sections 39(1) of the CGST Act, 2017**

It is proposed to amend section 39(1) of the CGST Act, 2017, to introduce an enabling provision that will allow for the prescription of conditions and restrictions for the filing of returns under the said sub-section.

- **Amendment in Section 107(6) of the CGST Act, 2017**

It is proposed to amend section 107(6) of the CGST Act, 2017, to mandate a 10% pre-deposit of the penalty amount for appeals before the Appellate Authority in cases where the appeal involves only a penalty demand, without any tax demand.

- **Amendment in Sections 112(8) of the CGST Act, 2017**

It is proposed to amend section 112(8) of the CGST Act, 2017, to require a mandatory 10% pre-deposit of the penalty amount for appeals before the Appellate Tribunal in cases where the appeal pertains solely to a penalty demand, with no tax demand involved.

- **Insertion of Section 148A and 122B in the CGST Act, 2017**

Section 148A is proposed to be inserted to provide for an enabling mechanism for Track and Trace Mechanism for specified commodities.

Section 122B of CGST Act, 2017 is proposed to be inserted to provide penalty for contraventions of provisions related to the 'Track and Trace Mechanism' provided under section 148A.

- **Amendment in Schedule III of the CGST Act, 2017**

It is proposed to amend Schedule III by inserting a new clause (aa) in paragraph 8. The amendment will specify that the supply of goods warehoused in a Special Economic Zone (SEZ) or Free Trade Warehousing Zone (FTWZ) to any person, before clearance for export or to the Domestic Tariff Area (DTA), shall not be treated as a supply of goods or services.

Further, it is proposed to amend Explanation 2 of Schedule III to specify that the explanation will apply with respect to clause (a) of paragraph 8 of the same Schedule.

Furthermore, it is also proposed to insert Explanation 3 to define the terms 'Special Economic Zone,' 'Free Trade Warehousing Zone,' and 'Domestic Tariff Area' for the purposes of the newly proposed clause (aa) in paragraph 8 of the said Schedule.

The above proposed amendment shall become applicable retrospectively from 1st July 2017.

However, it has also been proposed that no refund of tax already paid will be available for the aforesaid activities or transactions.

Amendments proposed in the Customs Act, 1962

Amendments to be effective from the date on which the Finance Bill, 2025 receives the assent of the President of India

- **Insertion of Section 18(1B) in the Customs Act, 1962**

It is proposed to insert section 18(1B) in the Customs Act, 1962, to establish a clear time limit of two years for the finalization of provisional assessments. This period may be extended by the Commissioner of Customs for an additional one year, provided sufficient cause is demonstrated. Additionally, for pending cases, the time limit will be calculated from the date Finance Bill receives assent.

- **Insertion of Section 18(1C) in the Customs Act, 1962**

It is proposed to insert section 18(1C) in the Customs Act, 1962, to outline specific grounds on which the two-year time limit for finalizing provisional assessments may be suspended.

- **Insertion of Section 18A in the Customs Act, 1962**

It is proposed to insert section 18A in the Customs Act, 1962, to allow for the voluntary revision of entries made post-clearance. This provision would enable importers and exporters to revise any entry related to goods within a prescribed timeframe and in accordance with specific conditions. It also provides for treating such revised entries as self-assessments, allowing for duty payment, or considering

the revised entry as a refund claim under section 27. Additionally, the section outlines certain cases where this provision will not apply.

- **Insertion of new Explanation in Section 27(1) of the Customs Act, 1962**

It is proposed to insert a new explanation in section 27(1) of the Customs Act, 1962, to clarify that the limitation period for refund claims, arising from a revised entry under section 18A or an amendment under section 149 of the Customs Act, 1962, shall be one year from the date of payment of duty or interest.

- **Insertion of new clause in Explanation 1 of Section 28 of the Customs Act, 1962**

A new clause proposed to be inserted in Explanation 1 of section 28 of the Customs Act, 1962, wherein the relevant date in the case where duty is paid under the revised entry under section 18A is the date of payment of duty or interest.

- **Insertion of new clause in Section 127A of the Customs Act, 1962**

A new clause is proposed to be inserted after clause (d) and (e) in section 127A of the Customs Act, 1962, to define Interim Board, Member of the Interim Board and pending applications.

- **Insertion of new provisos in Section 127B of the Customs Act, 1962**

It is proposed to insert two new provisos after sub-section (5) of section 127B of the Customs Act, 1962, to specify a clear end date for the receipt of applications under this section.

- **Insertion of new sub-section in Section 127D of the Customs Act, 1962**

A new sub-section is proposed to be inserted after sub-section (2) in section 127D of the Customs Act, 1962, to clarify that the powers of the Settlement Commission shall be exercised by the Interim Board. Additionally, the provisions of this section will apply to the Interim Board, mutatis mutandis, in the same manner as they apply to the Settlement Commission.

- **Insertion of new sub-section in Section 127F of the Customs Act, 1962**

A new sub-section is proposed to be inserted after sub-section (4) in section 127F of the Customs Act, 1962, providing that the powers and functions of Settlement Commission shall be exercised or performed by the Interim Board.

- **Insertion of Proviso in Section 127G of the Customs Act, 1962**

A new proviso to section 127G of the Customs Act, 1962 is being inserted providing that the powers and functions of Settlement Commission shall be exercised or performed by the Interim Board.

- **Insertion of Proviso to Section 127H of the Customs Act, 1962**

A new sub-section is proposed to be inserted after sub-section (3) in section 127H of the Customs Act, 1962 providing that the powers and functions of Settlement

Commission shall be exercised or performed by the Interim Board.

Amendments proposed in the Customs Tariff Act, 1975

- **Amendment in First Schedule of the Customs Tariff Act, 1975**

To streamline the customs tariff structure, simplify the rate slabs, enhance the identification of goods, and align tariff lines with the World Customs Organization (WCO) classification, it is proposed to amend the First Schedule of the Customs Tariff Act, 1975. This amendment aims to reduce tariff rates slabs from 25%, 30%, 35%, and 40% to 20% and from 150%, 125% and 100% to 70%.

- **Amendment in *Notification No. 11/2018 – Customs dated 02.02.2018***

It is proposed to amend the *Notification No. 11/2018 – Customs dated 02.02.2018*, to exempt 25 items from the levy of Social Welfare Surcharge. This proposed amendment shall be applicable with effect from 2nd February, 2025.

- **Amendment in *Notification No. 153/94 – Customs dated 13.07.1994***

It is proposed to amend the *Notification No. 153/94 – Customs dated 13.07.1994*, where currently, articles of foreign origin can be imported into India for maintenance, repair and overhauling subject to their export within six months extendable to 1 year. The duration for export in the case of railway goods imported for such purpose has been increased from 6 months to 1 year further extendable by 1 year.

- **Amendment in *ICGR (Import of Goods at Concessional rate of Duty for Manufacture of Excisable Goods) Rules, 2017***

It is proposed to amend rules 6 and 7 to increase the time limit for fulfilling end use from current six months to one year. Further, the importers will now have to file only a quarterly statement instead of monthly statement.