



A2Z TAXCORP LLP

Tax and Law Practitioners

Key Highlights of Union Budget 2025-26

Changes under GST Law



GST

The Finance Bill, 2025 has proposed changes in the CGST Act, 2017 through Clauses 116 to 129 of the Finance Bill, 2025 in the CGST Act, 2017.

Unless specified otherwise, amendments proposed in the Finance Bill, 2025, vide Clauses 116 to 129 will come into effect from a date when the same will be notified concurrently, as far as possible, with the corresponding amendments to the similar Acts passed by the States & Union territories with legislature.

Note:

- (a) CGST Act means Central Goods and Services Tax Act, 2017
- (b) IGST Act means Integrated Goods and Services Tax Act, 2017
- (c) UTGST Act means Union Territory Goods and Services Tax Act, 2017

Current provisions	Proposed provisions	Effect
Clause 116 of the Finance Bill, 2025 Section 2– Definitions		
Section 2(61): <i>(61) “Input Service Distributor” means an office of the supplier of goods or services or both which receives tax invoices towards the receipt of input services, including invoices in respect of services liable to tax under sub-section (3) or sub-section (4) of section 9, for or on behalf of distinct persons referred to in section 25, and liable to distribute the input tax credit in respect of such invoices in the manner provided in section 20; .</i>	Section 2(61) <i>(61) “Input Service Distributor” means an office of the supplier of goods or services or both which receives tax invoices towards the receipt of input services, including invoices in respect of services liable to tax under sub-section (3) or sub-section (4) of section 9 of this Act or under subsection (3) or sub-section (4) of section 5 of the Integrated Goods and Services Tax Act, 2017, for or on behalf of distinct persons referred to in section 25, and liable to distribute the input tax credit in respect of such invoices in</i>	Section 2(61) of the CGST Act is being amended to explicitly provide for the distribution of input tax credit (ITC) by the Input Service Distributor (ISD) in respect of inter-state supplies on which tax has to be paid on a reverse charge basis, by inserting reference to sub-section (3) and sub-section (4) of Section 5 of IGST Act. This amendment will be effective from 1st April, 2025. Under this change, the ISD can pay GST under reverse charge for inter-state supply

	<p><i>the manner provided in section 20;</i></p>	<p>of common input services and distribute the corresponding credit among distinct persons registered under the same PAN.</p> <p>For the past periods, <i>Circular 199/11/2023-GST dated July 17, 2023</i>, was issued to clarify the issues on 'Cross Charge' vs, 'ISD' for the past period as per the the recommendations of the 50th GST Council meeting held on July 11, 2023.</p> <p>Additionally, corresponding amendments have been made to Section 20 of the CGST Act.</p> <p>Further, the GST Council in its 52nd meeting on October 07, 2023, proposed making the ISD mechanism mandatory on a prospective basis for the distribution of ITC for such common input services.</p>
<p>Section 2(69):</p> <p><i>(69) "local authority" means—</i></p> <p><i>(a) a "Panchayat" as defined in clause (d) of article 243 of the Constitution;</i></p> <p><i>(b) a "Municipality" as defined in clause (e) of article 243P of the Constitution;</i></p> <p><i>(c) a Municipal Committee, a Zilla Parishad, a District Board,</i></p>	<p>Section 2(69):</p> <p><i>(69) "local authority" means—</i></p> <p><i>(a) a "Panchayat" as defined in clause (d) of article 243 of the Constitution;</i></p> <p><i>(b) a "Municipality" as defined in clause (e) of article 243P of the Constitution;</i></p> <p><i>(c) a Municipal Committee, a Zilla Parishad, a District</i></p>	<p>Section 2(69)(c) of the CGST Act is being amended to insert an Explanation to provide for definitions of the terms 'Local Fund' and 'Municipal Fund' used in the definition of "local authority" under the said clause to clarify the scope of the said terms.</p>

<p>and any other authority legally entitled to, or entrusted by the Central Government or any State Government with the control or management of a municipal or local fund;</p> <p>(d) a Cantonment Board as defined in section 3 of the Cantonments Act, 2006 (41 of 2006);</p>	<p>Board, and any other authority legally entitled to, or entrusted by the Central Government or any State Government with the control or management of a municipal fund or local fund;</p> <p><i>Explanation.— For the purposes of this sub-clause—</i></p> <p><i>(a) “local fund” means any fund under the control or management of an authority of a local selfgovernment established for discharging civic functions in relation to a Panchayat area and vested by law with the powers to levy, collect and appropriate any tax, duty, toll, cess or fee, by whatever name called;</i></p> <p><i>(b) “municipal fund” means any fund under the control or management of an authority of a local selfgovernment established for discharging civic functions in relation to a Metropolitan area or Municipal area and vested by law with the powers to levy, collect and appropriate any tax, duty, toll, cess or fee, by whatever name called.</i></p> <p><i>(d) a Cantonment Board as defined in section 3 of the Cantonments Act, 2006 (41 of 2006);</i></p>	
After Section 2(116):	After Section 2(116):	A new clause after Section 2(116) is being inserted to provide definition of Unique

	<p><i>(116A) unique identification marking” means the unique identification marking referred to in clause (b) of sub-section (2) of section 148A and includes a digital stamp, digital mark or any other similar marking, which is unique, secure and non-removable;</i></p>	<p>Identification Marking for implementation of Track and Trace Mechanism.</p> <p>The GST Council in its 55th Meeting, recommended inserting a provision in the CGST Act through Section 148A, empowering the government to implement a Track and Trace Mechanism for specified commodities prone to tax evasion.</p> <p>Section 148A of the CGST Act introduces the track and trace mechanism, which applies to specified goods and certain classes of taxable persons dealing with these goods. This provision overrides other provisions of the CGST Act and mandates the use of software-readable technologies, such as barcodes or RFID tags, to track the movement of goods. The goods and persons subject to this mechanism will be specified by the government through notifications. The primary objective is to prevent tax evasion by ensuring that the movement of goods is traceable throughout the supply chain.</p> <p>In the event of non-compliance with the provisions of the track and trace mechanism, a penalty will be imposed. This</p>
--	--	---

		<p>penalty is in addition to any penalties prescribed under Chapter 15 or other relevant sections of the CGST Act.</p> <p>Non-compliance with Section 148A of the CGST Act will attract penalties under Section 122B of the CGST Act, where the taxpayer will be liable to pay either INR 1 Lakh or 10% of the disputed tax, whichever is higher.</p> <p>Goods that are considered prone to tax evasion, such as tobacco, pan masala, scrap, plastic, and paper, are expected to be included in the list of items subject to this mechanism, with the final list being notified by the government.</p> <p>This provision is intended to strengthen GST compliance by ensuring effective monitoring of specified goods and reducing opportunities for tax evasion.</p>
Clause 117 of the Finance Bill, 2025 Section 12– Time of supply of goods		
Section 12(4): <i>(4) In case of supply of vouchers by a supplier, the time of supply shall be-</i>	Section 12(4): <i>(4) In case of supply of vouchers by a supplier, the time of supply shall be-</i>	<p>Section 12(4) of the CGST Act relating to time of supply for goods in respect of Vouchers is being omitted.</p> <p>The GST Council in its 55th meeting, recommended that transactions involving</p>

<p>(a) the date of issue of voucher, if the supply is identifiable at that point; or</p> <p>(b) the date of redemption of voucher, in all other cases.</p>	<p>(a) the date of issue of voucher, if the supply is identifiable at that point; or</p> <p>(b) the date of redemption of voucher, in all other cases.</p>	<p>vouchers should not attract GST, as vouchers do not qualify as either goods or services.</p> <p>Subsequently, Circular No. 243/37/2024-GST, dated December 31, 2024, was issued to further clarify provisions related to vouchers. The circular has clarified that a voucher is considered either money or a transaction in an actionable claim. As a result, the issuance or transfer of vouchers is not subject to GST. Instead, vouchers function as prepaid payment instruments, meaning that GST will be applicable only on the underlying goods or services purchased using the voucher.</p> <p>Since GST applies to the actual supply of goods or services, the concept of time of supply for vouchers becomes irrelevant, thereby omitted the relevant time of supply provisions pertaining to vouchers.</p>
<p align="center">Clause 118 of the Finance Bill, 2025 Section 13– Time of supply of services</p>		

<p>Section 13(4):</p> <p><i>(4) In case of supply of vouchers by a supplier, the time of supply shall be—</i></p> <p><i>(a) the date of issue of voucher, if the supply is identifiable at that point; or</i></p> <p><i>(b) the date of redemption of voucher, in all other cases.</i></p>	<p>Section 13(4):</p> <p><i>(4) In case of supply of vouchers by a supplier, the time of supply shall be—</i></p> <p><i>(a) the date of issue of voucher, if the supply is identifiable at that point; or</i></p> <p><i>(b) the date of redemption of voucher, in all other cases.</i></p>	<p>Section 13(4) of the CGST Act relating to time of supply for services in respect of Vouchers is being omitted.</p> <p>The GST Council in its 55th meeting, recommended that transactions involving vouchers should not attract GST, as vouchers do not qualify as either goods or services.</p> <p>Subsequently, <i>Circular No. 243/37/2024-GST, dated December 31, 2024,</i> was issued to further clarify provisions related to vouchers. The circular has clarified that a voucher is considered either money or a transaction in an actionable claim. As a result, the issuance or transfer of vouchers is not subject to GST. Instead, vouchers function as prepaid payment instruments, meaning that GST will be applicable only on the underlying goods or services purchased using the voucher.</p> <p>Since GST applies to the actual supply of goods or services, the concept of time of supply for vouchers becomes irrelevant, thereby omitted the relevant time of supply provisions pertaining to vouchers.</p>
<p align="center">Clause 119 of the Finance Bill, 2025</p>		

Section 17–Apportionment of credit and blocked credits		
<p>Section 17(5):</p> <p><i>(5) Notwithstanding anything contained in sub-section (1) of section 16 and subsection (1) of section 18, input tax credit shall not be available in respect of the following, namely:-</i></p> <p>-----</p> <p><i>(d) goods or services or both received by a taxable person for construction of an immovable property (other than plant or machinery) on his own account including when such goods or services or both are used in the course or furtherance of business..</i></p> <p>Explanation.—For the purposes of clauses (c) and (d), the expression “construction” includes re-construction, renovation, additions or alterations or repairs, to the extent of capitalisation, to the said immovable property;</p>	<p>Section 17(5):</p> <p><i>(5) Notwithstanding anything contained in sub-section (1) of section 16 and subsection (1) of section 18, input tax credit shall not be available in respect of the following, namely:-</i></p> <p>-----</p> <p><i>(d) goods or services or both received by a taxable person for construction of an immovable property (other than plant or and machinery) on his own account including when such goods or services or both are used in the course or furtherance of business.</i></p> <p>Explanation 1.—For the purposes of clauses (c) and (d), the expression “construction” includes re-construction, renovation, additions or alterations or repairs, to the extent of capitalisation, to the said immovable property;</p> <p>Explanation 2.—For the purposes of clause (d), it is hereby clarified that notwithstanding anything to the contrary contained in any judgment, decree or order of any court, tribunal, or other authority, any reference to “plant or machinery” shall be construed and shall always be deemed to have been</p>	<p>Section 17(5)(d) of the CGST Act is being amended to substitute the words "plant or machinery" with the words "plant and machinery" with effect from July 01, 2017.</p> <p>The Hon’ble Supreme Court, in the case of Chief Commissioner of CGST v. M/s. Safari Retreats Private Limited & Ors [Civil Appeal No. 2948 of 2023 dated October 03, 2024], has held that GST credit can’t be denied on “plant” in Section 17(5)(d) of the CGST Act. Restriction per se applicable on immovable properties.</p> <p>‘Plant’ is different from the term "plant and machinery", which excludes land, buildings, or other civil structures. The Court held that in certain cases, a building could be considered a plant on satisfying functionality test, thereby, making it eligible for ITC under Section 17(5)(d) of the CGST Act.</p> <p>However, with this retrospective amendment as recommended in the 55th GST Council meeting, the impact of the Supreme Court’s decision stands nullified.</p>

	<i>construed as a reference to “plant and machinery”.</i>	Hence, it is advisable that GST Council should clarify any dispute pertaining to availing credit on the basis of Section 17(5)(d), should not be a subject matter of Section 74 (fraud) case, as the issue involves an interpretation issue.
Clause 120 of the Finance Bill, 2025 Section 20–Manner of distribution of credit by Input Service Distributor.		
Section 20: <i>(1) Any office of the supplier of goods or services or both which receives tax invoices towards the receipt of input services, including invoices in respect of services liable to tax under sub-section (3) or sub-section (4) of section 9, for or on behalf of distinct persons referred to in section 25, shall be required to be registered as Input Service Distributor under clause (viii) of section 24 and shall distribute the input tax credit in respect of such invoices.</i> <i>(2) The Input Service Distributor shall distribute the credit of central tax or integrated tax charged on invoices received by him, including the credit of central or integrated tax in respect of services subject to levy of tax under sub-section (3) or sub-section (4) of section 9 paid by a distinct person registered in the same State as the said Input Service Distributor, in such manner, within such time</i>	Section 20: <i>(1) Any office of the supplier of goods or services or both which receives tax invoices towards the receipt of input services, including invoices in respect of services liable to tax under sub-section (3) or sub-section (4) of section 9 of this Act or under subsection (3) or sub-section (4) of section 5 of the Integrated Goods and Services Tax Act, 2017, for or on behalf of distinct persons referred to in section 25, shall be required to be registered as Input Service Distributor under clause (viii) of section 24 and shall distribute the input tax credit in respect of such invoices.</i> <i>(2) The Input Service Distributor shall distribute the credit of central tax or integrated tax charged on invoices received by him, including the credit of central or integrated tax in respect of services subject to levy of tax under sub-section (3) or sub-</i>	<p>Section 20(1) and Section 20(2) of the CGST Act are being amended to explicitly provide for distribution of input tax credit by the ISD in respect of inter-state supplies, on which tax has to be paid on reverse charge basis, by inserting reference to sub-section (3) and sub-section (4) of Section 5 of IGST Act in sub-section (1) of section 20 of the CGST Act.</p> <p>The amendment will be effective from 1st April, 2025.</p> <p>Under the revised provisions, the ISD will be permitted to pay tax under RCM for inter-state supply of services and subsequently distribute the input tax credit accordingly among distinct persons under same PAN.</p>

and subject to such restrictions and conditions as may be prescribed.	section (4) of section 9 of this Act or under subsection (3) or sub-section (4) of section 5 of the Integrated Goods and Services Tax Act, 2017, paid by a distinct person registered in the same State as the said Input Service Distributor, in such manner, within such time and subject to such restrictions and conditions as may be prescribed.	
Clause 121 of the Finance Bill, 2025 Section 34– Credit and debit notes		
Section 34(2): (2) Any registered person who issues a credit note in relation to a supply of goods or services or both shall declare the details of such credit note in the return for the month during which such credit note has been issued but not later than the thirtieth day of November following the end of the financial year in which such supply was made, or the date of furnishing of the relevant annual return, whichever is earlier, and the tax liability shall be adjusted in such manner as may be prescribed: Provided that no reduction in output tax liability of the supplier shall be permitted, if the incidence of tax and interest on such supply has been passed on to any other person.	Section 34(2): (2) Any registered person who issues a credit note in relation to a supply of goods or services or both shall declare the details of such credit note in the return for the month during which such credit note has been issued but not later than the thirtieth day of November following the end of the financial year in which such supply was made, or the date of furnishing of the relevant annual return, whichever is earlier, and the tax liability shall be adjusted in such manner as may be prescribed: Provided that no reduction in output tax liability of the supplier shall be permitted, if the incidence of tax and interest on such supply has	The Proviso to sub-section (2) is being amended to explicitly provide for requirement of reversal of corresponding input tax credit in respect of a credit-note issued by a supplier, if benefit of same is availed, by the registered recipient, for the purpose of reduction of tax liability of the supplier in respect of the said credit note. To implement this, Section 34(2) of the CGST Act, is being amended to clearly specify that the recipient must reverse the ITC attributable to a credit note, thereby enabling the supplier to reduce their output tax liability accordingly. If a supplier issues a credit note, the adjustment of the tax component against their

	<p>been passed on to any other person.</p> <p><i>Provided that no reduction in output tax liability of the supplier shall be permitted, if the—</i></p> <p><i>(i) input tax credit as is attributable to such a credit note, if availed, has not been reversed by the recipient, where such recipient is a registered person; or</i></p> <p><i>(ii) incidence of tax on such supply has been passed on to any other person, in other cases.</i></p>	<p>outward tax liability is permitted only when the recipient reverses the ITC corresponding to the credit note. This ensures that the reduction in tax liability for the supplier is valid only when the buyer or recipient does not retain the credit associated with the tax component of the credit note.</p> <p>Additionally, Form GSTR-3B has been automated to ensure compliance with this requirement.</p> <p>Further, in the Invoice Matching System (IMS), an action by the recipient can not be kept in 'Pending' action for the original credit note or upward/ downward amendment of the original credit note issued by the supplier, reinforcing the seamless reconciliation of tax adjustments between suppliers and recipients.</p>
<p align="center">Clause 122 of the Finance Bill, 2025</p> <p align="center">Section 38–Communication of details of inward supplies and input tax credit.</p>		
<p>Section 38:</p> <p><i>(1) The details of outward supplies furnished by the registered persons under sub-section (1) of section 37 and of such other supplies as may be prescribed, and an auto-generated statement containing the details of input tax credit shall be made</i></p>	<p>Section 38:</p> <p><i>(1) The details of outward supplies furnished by the registered persons under sub-section (1) of section 37 and of such other supplies as may be prescribed, and an auto-generated statement containing the details of input tax credit shall</i></p>	<p>Section 38(1) of the CGST Act is being amended to omit the expression "auto-generated".</p>

<p>available electronically to the recipients of such supplies in such form and manner, within such time, and subject to such conditions and restrictions as may be prescribed.</p> <p>(2) The auto-generated statement under sub-section (1) shall consist of—</p> <p>(a) details of inward supplies in respect of which credit of input tax may be available to the recipient; and</p> <p>(b) details of supplies in respect of which such credit cannot be availed, whether wholly or partly, by the recipient, on account of the details of the said supplies being furnished under sub-section (1) of section 37,—</p> <p>(i) by any registered person within such period of taking registration as may be prescribed; or</p> <p>(ii) by any registered person, who has defaulted in payment of tax and where such default has continued for such period as may be prescribed; or</p> <p>(iii) by any registered person, the output tax payable by whom in accordance with the statement of outward supplies furnished by him under the said sub-section during such period, as may be</p>	<p>be made available electronically to the recipients of such supplies in such form and manner, within such time, and subject to such conditions and restrictions as may be prescribed.</p> <p>(2) The auto-generated statement under <i>statement referred in</i> sub-section (1) shall consist of—</p> <p>(a) details of inward supplies in respect of which credit of input tax may be available to the recipient; and</p> <p>(b) details of supplies in respect of which such credit cannot be availed, whether wholly or partly, by the recipient, <i>including</i> on account of the details of the said supplies being furnished under sub-section (1) of section 37,—</p> <p>(i) by any registered person within such period of taking registration as may be prescribed; or</p> <p>(ii) by any registered person, who has defaulted in payment of tax and where such default has continued for such period as may be prescribed; or</p> <p>(iii) by any registered person, the output tax payable by whom in accordance with the</p>	<p>Section 38(2) of the CGST Act is being amended to omit the expression "auto-generated" and to insert the expression "including" after the words "by the recipient" in clause (b) to make the said clause more inclusive.</p>
---	---	---

<p><i>prescribed, exceeds the output tax paid by him during the said period by such limit as may be prescribed; or</i></p> <p><i>(iv) by any registered person who, during such period as may be prescribed, has availed credit of input tax of an amount that exceeds the credit that can be availed by him in accordance with clause (a), by such limit as may be prescribed; or</i></p> <p><i>(v) by any registered person, who has defaulted in discharging his tax liability in accordance with the provisions of sub-section (12) of section 49 subject to such conditions and restrictions as may be prescribed; or</i></p> <p><i>(vi) by such other class of persons as may be prescribed</i></p>	<p><i>statement of outward supplies furnished by him under the said sub-section during such period, as may be prescribed, exceeds the output tax paid by him during the said period by such limit as may be prescribed; or</i></p> <p><i>(iv) by any registered person who, during such period as may be prescribed, has availed credit of input tax of an amount that exceeds the credit that can be availed by him in accordance with clause (a), by such limit as may be prescribed; or</i></p> <p><i>(v) by any registered person, who has defaulted in discharging his tax liability in accordance with the provisions of sub-section (12) of section 49 subject to such conditions and restrictions as may be prescribed; or</i></p> <p><i>(vi) by such other class of persons as may be prescribed</i></p> <p><i>(c) such other details as may be prescribed.</i></p>	<p>Section 38(2) of the CGST Act is also being amended to insert a new clause (c) to provide an enabling clause to prescribe other details to be made available in statement of input tax credit.</p> <p>All the above changes are made to make the Invoice Management System (IMS) now possible and obligatory, with corresponding amendments being made under the respective sub-sections of Section 38 of the CGST Act.</p> <p>The IMS is being introduced to streamline ITC reconciliation, enabling the</p>
---	--	--

		<p>generation of FORM GSTR-2B based on taxpayer actions on inward supplies.</p> <p>To provide a legal framework for this, the 55th GST Council Meeting recommended amendments to Section 38 of the CGST Act, and Rule 60 of the CGST Rules.</p>
<p align="center">Clause 123 of the Finance Bill, 2025 Section 39—Furnishing of returns</p>		
<p>Section 39(1):</p> <p><i>(1) Every registered person, other than an Input Service Distributor or a non-resident taxable person or a person paying tax under the provisions of section 10 or section 51 or section 52 shall, for every calendar month or part thereof, furnish, a return, electronically, of inward and outward supplies of goods or services or both, input tax credit availed, tax payable, tax paid and such other particulars, in such form and manner, and within such time, as may be prescribed:</i></p>	<p>Section 39(1):</p> <p><i>(1) Every registered person, other than an Input Service Distributor or a non-resident taxable person or a person paying tax under the provisions of section 10 or section 51 or section 52 shall, for every calendar month or part thereof, furnish, a return, electronically, of inward and outward supplies of goods or services or both, input tax credit availed, tax payable, tax paid and such other particulars, in such form and manner, and within such time within such time, and subject to such conditions and restrictions, as may be prescribed:</i></p>	<p>Section 39(1) of the CGST Act is being amended to provide an enabling clause to prescribe certain conditions and restriction for filing of return.</p> <p>Rule 59(6) of the CGST Rules stipulates that if a taxpayer fails to pay taxes for a preceding tax period, they will not be able to file Form GSTR-3B for the current period.</p> <p>Additionally, there are several provisions from Rule 59(6) of the CGST Rules that impose restrictions on the filing process.</p> <p>Rule 37 of the CGST Rules outlines the time limit for filing Form GSTR-1, which cannot be filed for the current tax period unless Form GSTR-1 for the previous period is filed.</p> <p>A maximum time limit of 3 years for belated filing of</p>

		<p>GSTR-1, effective from October 01, 2023, is also specified.</p> <p>Further, Section 39 of the CGST Act indicates that if Form GSTR-3B for a previous tax period is not filed, the taxpayer will not be able to file Form GSTR-3B for the current period.</p> <p>Additionally, Form GSTR-1 must be filed before Form GSTR-3B for the current period to be enabled, and Form GSTR-1 and Form GSTR-3B must match; otherwise, notices under Section 75(12) of the CGST Act read with Rule 88C of the CGST Rules will be issued.</p> <p>These provisions impose conditions and restrictions on registered persons, ensuring compliance with tax filing requirements.</p>
<p align="center">Clause 124 of the Finance Bill, 2025 Section 107–Appeals to Appellate Authority</p>		
<p>Section 107(6):</p> <p><i>(6) No appeal shall be filed under sub-section (1), unless the appellant has paid-</i></p> <p><i>(a) in full, such part of the amount of tax, interest, fine, fee and penalty arising from the impugned order, as is admitted by him; and</i></p>	<p>Section 107(6):</p> <p><i>(6) No appeal shall be filed under sub-section (1), unless the appellant has paid-</i></p> <p><i>(a) in full, such part of the amount of tax, interest, fine, fee and penalty arising from the impugned order, as is admitted by him; and</i></p>	<p>Proviso to Section 107(6) of the CGST Act is being amended to provide for a 10% mandatory pre-deposit of penalty amount for appeals before Appellate Authority in cases involving only demand of penalty without any demand for tax.</p> <p>The GST Council in its 55th meeting, recommended</p>

<p><i>(b) a sum equal to ten per cent. of the remaining amount of tax in dispute arising from the said order subject to a maximum of twenty crore rupees, in relation to which the appeal has been filed.</i></p> <p><i>Provided that no appeal shall be filed against an order under sub-section (3) of section 129, unless a sum equal to twenty-five per cent. of the penalty has been paid by the appellant.</i></p>	<p><i>(b) a sum equal to ten per cent. of the remaining amount of tax in dispute arising from the said order subject to a maximum of twenty crore rupees, in relation to which the appeal has been filed.</i></p> <p><i>Provided that no appeal shall be filed against an order under sub-section (3) of section 129, unless a sum equal to twenty five per cent. of the penalty has been paid by the appellant.</i></p> <p><i>Provided that in case of any order demanding penalty without involving demand of any tax, no appeal shall be filed against such order unless a sum equal to ten per cent. of the said penalty has been paid by the appellant.</i></p>	<p>amending the proviso to Section 107(6) to reduce the pre-deposit requirement from 25% to 10% in such cases.</p> <p>Previously, the stated proviso was applicable for filing an appeal against a penalty order issued under Section 129(3) of the CGST Act violations related to e-way bill non-compliance attracted a 200% penalty, with a 25% pre-deposit requirement effective from January 01, 2022.</p> <p>The stated pre-deposit was set at 25%, but now it is being reduced to 10%. At first glance, this may seem like a reduction in the pre-deposit requirement; however, it's important to consider the broader context. Numerous penalty orders are issued under Section 122, Section 122(1A), etc., of the CGST Act for offences committed by taxable persons and/ or any persons, where penalties are levied for specified offences.</p> <p>A recent Supreme Court judgment in the case of <i>Union of India & Ors. v. Shantanu Sanjay Hundekari & Anr. etc. [Special Leave Petition (Civil) Diary No.55427/2024 date January 24, 2025]</i>, wherein</p>
--	---	---

		<p>the Court upheld the Bombay High Court's decision to vacate a penalty notice against a taxation manager, who was served with a show cause notice for a penalty of INR 3,731 Cr., illustrating the potential issues with penalty notices.</p> <p>After the amendment, when an appeal is to be filed, a minimum pre-deposit of 10% of the disputed penalty amount will be required.</p> <p>This change as introduced in the Union Budget of 2025, raising concerns among stakeholders about the financial burden on taxpayers.</p>
Clause 125 of the Finance Bill, 2025 Section 112–Appeals to Appellate Tribunal		
Section 112(8): <i>(8) No appeal shall be filed under sub-section (1), unless the appellant has paid—</i> <i>(a) in full, such part of the amount of tax, interest, fine, fee and penalty arising from the impugned order, as is admitted by him, and</i> <i>(b) a sum equal to ten per cent. of the remaining amount of tax in dispute, in addition to the amount paid under sub-section (6) of section 107, arising from the said</i>	Section 112(8): <i>(8) No appeal shall be filed under sub-section (1), unless the appellant has paid—</i> <i>(a) in full, such part of the amount of tax, interest, fine, fee and penalty arising from the impugned order, as is admitted by him, and</i> <i>(b) a sum equal to ten per cent. of the remaining amount of tax in dispute, in addition to the amount paid under sub-section (6) of section 107, arising from the</i>	<p>Section 112(8) is amended to provide for 10% mandatory pre-deposit of penalty amount for appeals before Appellate Tribunal in cases involving only demand of penalty without any demand for tax.</p> <p>The appeal process now includes an additional 10% pre-deposit requirement at the tribunal level in case of penalty orders, which does not provide ease of business and will impact financially also, as pre-deposit of</p>

order subject to a maximum of twenty crore rupees, in relation to which the appeal has been filed.	<p>said order subject to a maximum of twenty crore rupees, in relation to which the appeal has been filed.</p> <p><i>Provided that in case of any order demanding penalty without involving demand of any tax, no appeal shall be filed against such order unless a sum equal to ten per cent. of the said penalty, in addition to the amount payable under the proviso to sub-section (6) of section 107 has been paid by the appellant.</i></p>	<p>penalty is to be paid through Electronic Cash Ledger only.</p> <p>Lastly, there is no upper limit is being prescribed for the pre-deposit of a penalty.</p>
<p align="center">Clause 126 of the Finance Bill, 2025</p> <p align="center">Section 122B– Penalty for failure to comply with track and trace mechanism</p>		
After Section 122A:	<p>After Section 122A:</p> <p><i>Section 122B:</i> <i>Notwithstanding anything contained in this Act, where any person referred to in clause (b) of sub-section (1) of section 148A acts in contravention of the provisions of the said section, he shall, in addition to any penalty under Chapter XV or the provisions of this Chapter, be liable to pay a penalty equal to an amount of one lakh rupees or ten per cent. of the tax payable on such goods, whichever is higher.</i></p>	<p>A new Section 122B of the CGST Act, starting with a non obstance clause is being inserted to provide penalties for contraventions of provisions related to the Track and Trace Mechanism provided under Section 148A of the CGST Act.</p> <p>In the event of non-compliance with the provisions of the track and trace mechanism, a penalty will be imposed. This penalty is in addition to any penalties prescribed under Chapter 15 or other relevant sections of the CGST Act.</p> <p>The GST Council in its 55th meeting, recommended inserting Section 148A into the CGST Act, establishing</p>

		<p>an enabling provision to empower the government to implement a Track and Trace Mechanism for specified commodities prone to tax evasion. This provision will function as a non-obstante clause, ensuring its applicability despite any conflicting provisions in the law.</p> <p>Non-compliance with Section 148A of the CGST Act will attract penalties under Section 122B of the CGST Act, where the taxpayer will be liable to pay either INR 1 Lakh or 10% of the disputed tax, whichever is higher.</p> <p>Goods that are considered prone to tax evasion, such as tobacco, pan masala, scrap, plastic, and paper, are expected to be included in the list of items subject to this mechanism, with the final list being notified by the government.</p>
<p align="center">Clause 127 of the Finance Bill, 2025</p> <p align="center">Section 148A – Track and trace mechanism for certain goods</p>		
After Section 148:	<p>After Section 148:</p> <p><i>Section 148A:</i> <i>148A. (1) The Government may, on the recommendations of the Council, by notification, specify,–</i></p>	<p>Section 148A is being inserted to provide for enabling mechanism for a Track and Trace Mechanism for specified goods or persons or class of persons, who are in possession or deal with specified goods.</p>

	<p><i>(a) the goods;</i></p> <p><i>(b) persons or class of persons who are in possession or deal with such goods,</i></p> <p><i>to which the provisions of this section shall apply.</i></p> <p><i>(2) The Government may, in respect of the goods referred to in clause (a) of sub-section (1),—</i></p> <p><i>(a) provide a system for enabling affixation of unique identification marking and for electronic storage and access of information contained therein, through such persons, as may be prescribed; and</i></p> <p><i>(b) prescribe the unique identification marking for such goods, including the information to be recorded therein.</i></p> <p><i>(3) The persons referred to in sub-section (1), shall,—</i></p> <p><i>(a) affix on the said goods or packages thereof, a unique identification marking, containing such information and in such manner;</i></p> <p><i>(b) furnish such information and details within such time and maintain such records</i></p>	<p>A "Track and Trace Mechanism" refers to a system that allows for the monitoring and recording of a product's movement throughout its entire supply chain, from the point of origin to the final consumer, using unique identifiers like barcodes or RFID tags, essentially providing complete visibility into where a product is at any given time and enabling traceability.</p> <p>Non-compliance with Section 148A of the CGST Act will attract penalties under Section 122B of the CGST Act, where the taxpayer will be liable to pay either INR 1 Lakh or 10% of the disputed tax, whichever is higher.</p> <p>Goods that are considered prone to tax evasion, such as tobacco, pan masala, scrap, plastic, and paper, are expected to be included in the list of items subject to this mechanism, with the final list being notified by the government.</p>
--	---	--

	<p><i>or documents, in such form and manner;</i></p> <p><i>(c) furnish details of the machinery installed in the place of business of manufacture of such goods, including the identification, capacity, duration of operation and such other details or information, within such time and in such form and manner;</i></p> <p><i>(d) pay such amount in relation to the system referred to in sub-section (2), 69 as may be prescribed.</i></p>	
<p align="center">Clause 128 of the Finance Bill, 2025</p> <p align="center">Schedule III-Activities or transactions which shall be treated neither as a supply of goods nor a supply of services</p>		
<p>Para 8:</p> <p><i>(a) Supply of warehoused goods to any person before clearance for home consumption;</i></p> <p><i>(b) Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port of origin located outside India but before clearance for home consumption.</i></p> <p>----</p> <p>----</p> <p><i>Explanation 2.—For the purposes of paragraph 8, the</i></p>	<p>Para 8:</p> <p><i>(a) Supply of warehoused goods to any person before clearance for home consumption;</i></p> <p><i>(aa) Supply of goods warehoused in a Special Economic Zone or in a Free Trade Warehousing Zone to any person before clearance for exports or to the Domestic Tariff Area;</i></p> <p><i>(b) Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port</i></p>	<p>Schedule III is being amended, w.e.f. July 01, 2017 to, -</p> <p>(i) Insert a new Entry (aa) in paragraph 8 to provide that the supply of goods warehoused in a Special Economic Zone or in a Free Trade Warehousing Zone to any person before clearance for exports or to the Domestic Tariff Area shall be treated neither as supply of goods nor as supply of services.</p>

<p>expression “warehoused goods” shall have the same meaning as assigned to it in the Customs Act, 1962.</p>	<p>of origin located outside India but before clearance for home consumption.</p> <p>----</p> <p>----</p> <p><i>Explanation 2.—For the purposes of clause (a) of paragraph 8, the expression “warehoused goods” shall have the same meaning as assigned to it in the Customs Act, 1962.</i></p> <p><i>Explanation 3.— For the purposes of clause (aa) of paragraph 8, the expressions “Special Economic Zone”, “Free Trade Warehousing Zone” and “Domestic Tariff Area” shall have the same meanings respectively as assigned to them in section 2 of the Special Economic Zones Act, 2005</i></p>	<p>(ii) Amend Explanation 2, w.e.f. 01.07.2017 to clarify that the said explanation would be applicable in respect of entry (a) of Paragraph 8.</p> <p>(iii) Insert Explanation 3 to define the terms 'Special Economic Zone', 'Free Trade Warehousing Zone' and 'Domestic Tariff Area', for the purpose of the proposed entry (aa) in Paragraph 8.</p> <p>The GST Council, in its 55th Council Meeting, recommended inserting a new clause (aa) in Schedule III of the CGST Act, effective from July 01, 2017, to explicitly clarify 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 be treated as neither a supply of goods nor a supply of services. This amendment aligns the SEZ/FTWZ warehousing transactions with the existing provisions for goods stored in a customs bonded warehouse, where such transactions are not subject to GST until the goods are</p>
--	--	--

		<p>cleared for consumption or export.</p> <p>This change applies retrospectively from July 01, 2017, meaning that no GST will be applicable on such transactions within SEZ/ FTWZ warehouses.</p> <p>Additionally, no refund will be provided for any tax collected on these transactions before the amendment, as the tax would not have been applicable if the amendment had been in force at the time.</p> <p>In our opinion, a transaction conducted in a SEZ/ FTWZ warehouse does not constitute a supply, and therefore, the collected tax should be refunded, as it cannot be levied at the first stage in accordance with Article 265 of the Constitution, rendering the matter subjective and potentially litigative.</p>
Clause 129 of the Finance Bill, 2025 No refund of tax collected		
<p>No refund shall be made of all such tax which has been collected, but which would not have been so collected, had section 128 been in force at all material times.</p>		

Hope the information will assist you in your Professional endeavours. In case of any query/ information, please do not hesitate to write back to us.

[This space has been intentionally left blank]



Thank You

.....

About us:

A2Z Taxcorp LLP is a boutique Indirect Tax firm having its offices at New Delhi and Guwahati specializing in GST, Central Excise, Custom, Service Tax, VAT, DGFT, Foreign Trade Policy, SEZ, EOU, Export – Import Laws, Free Trade Policy, etc. It is a professionally managed firm having a team of experienced and distinguished Chartered Accountants, Company Secretary, Lawyers, Corporate Financial Advisors and Tax consultants to provide various services like litigation and representation, transaction advisory, diagnostic reviews/ health checks, audit defense & protection, retainership & compliance, configuration of tax efficient business model etc. Its clientele consists mainly of Foreign MNC, large/mid-sized Indian companies which includes exporters, FMCG, consumer durables, automobiles, aerated beverages, ceramic tiles, real-estate, hospitality, etc.

Thanks & Best Regards,

Bimal Jain

FCA, FCS, LLB, B. Com (Hons)

Author of a book on Goods and Services Tax, titled, “GST Law and Commentary (with Analyses and Procedures)” [9th Edition]

Email: bimaljain@a2ztaxcorp.com

Connect With Us:



Our Address:

A2Z TAXCORP LLP

Tax and Law Practitioners

Flat No. 34B,
Ground Floor, Pocket – 1,
Mayur Vihar Phase-1
Delhi – 110091 (India)

Tel: +91 11 42427056

Web: www.a2ztaxcorp.com

Email: info@a2ztaxcorp.com

DISCLAIMER: The views expressed are strictly of the author and A2Z Taxcorp LLP. The contents of this weekly newsletter are solely for informational purpose. It does not constitute professional advice or recommendation of firm. Neither the author nor firm and its affiliates accepts any liabilities for any loss or damage of any kind arising out of any information in this weekly newsletter nor for any actions taken in reliance thereon.