



Greetings to all our readers!

Union Finance Minister Nirmala Sitharaman presented her eighth consecutive budget on Saturday, February 1, 2025. While the spotlight post-budget has largely been on the revisions in income tax slab rates, particularly benefiting the lower and middle-income groups, the FM strategically saved her most significant announcement for the concluding moments of her speech.

Interestingly, while her budget presentation did not explicitly delve into amendments to the GST law, a closer look at the Finance Bill, 2025, reveals a few changes. The amendments have been proposed concerning the GST framework, with some anticipated (read: “retrospective”) changes!

At S B Gabhawalla & Co., we have analysed these proposed changes to the GST law and their potential implications. Through this NewsFlash, we aim to provide you with clear insights about these proposed amendments.

GST Related Amendments proposed by Finance Bill, 2025

1. Amendment to the definition of Input Service Distributor u/s 2(61) of CGST Act, 2017

Earlier, the Finance Act, 2024 had proposed amendment to the definition of input service distributor. The amended definition makes it mandatory for an office receiving invoices for input services for or on behalf of distinct persons (branches) to distribute the credits pertaining to the said invoices through registration as an input service distributor. The said amendment is made effective from 01.04.2025. However, inadvertently, the said definition did not specifically cover situations of reverse charge mechanism under IGST Act, 2017. The current amendment proposes to plug the said omission. Accordingly, input services governed by reverse charge mechanism under IGST Act, 2017 (including import of services) would be liable for distribution under ISD Mechanism.

2. Amendment of the definition of local authority u/s 2(69) of the CGST Act, 2017

The definition of the term ‘local authority’ has significance from multiple perspectives. Certain services rendered by a local authority in relation to municipal function are excluded from the scope of supply through a notification. Further, certain services rendered by local authority are exempted through mega exemption notification. Interestingly, for the balance taxable services rendered by a local authority to a business entity, reverse charge mechanism is prescribed. Also certain specific services rendered to local authorities are granted exemption.

However, the interpretation of the term ‘local authority’ had led to litigation in situations where the municipal function was performed by a separate Board or



Authority entrusted with that specific function (for eg. Water Supply Boards or Authorities'). The amendment seeks to provide clarity on the coverage of such authorities within the definition of 'local authority' by appropriately defining 'municipal fund' and 'local fund'

3. New Tracking Mechanism for prescribed goods - Sections 2(116A) read with Section 148

A new mechanism for tracking the identification of the goods through electronic means is being introduced to avoid evasion. The Government is empowered to prescribe a class of goods and persons dealing in those goods who would be cast with the obligation to affix a unique identification marking on such goods.

4. Omission of Time of Supply Provisions relating to vouchers - Section 12(4) & 13(4)

Consequent to the recent clarification that vouchers constitute either transactions in money or actionable claims, the provisions relating to time of supply for vouchers is proposed to be deleted.

5. Retrospective Amendment to nullify the decision of Supreme Court in Safari Retreats' case 167 taxmann.com 73 (SC)

Section 17(5)(d) is proposed to be amended with retrospective effect from 01.07.2017 to substitute the phrase 'plant and machinery' for the currently appearing phrase 'plant or machinery', thus dis-entitling itemised procurement of goods or services for construction of an immovable property in the nature of buildings from the eligibility of input tax credit. It may be noted that while the Supreme Court decision dealt with two aspects namely (a) the difference between the phrases 'plant and machinery' and 'plant or machinery' & (b) the interpretation of the phrase 'on his own account', the amendment nullifies the first aspect of the Supreme Court decision and no amendment is proposed to nullify the Supreme Court interpretation of the phrase 'on his own account'

6. Amendment to Section 34 of CGST Act, 2017 regarding tax adjustment on account of credit notes

Section 34 of CGST Act, 2017 permits a self-adjustment of excess tax on account of issuance of credit notes to the customers in certain situations subject to certain conditions prescribed therein. One such situation pertains to the downward revision of value on account of post supply discounts as permitted under section 15. However, Section 15 also prescribes an additional condition that the downward adjustment would be permitted only if the recipient has reversed input tax credit. A circular was also issued to clarify that the supplier



may obtain a certificate from the recipient or his chartered accountant to demonstrate the reversal of the input tax credit. However, it may be noted that except in situations of credit notes governed by section 15, other credit notes did not require demonstration that the recipient had reversed the input tax credit. The law is now proposed to be amended to require that in all cases of credit note adjustments, the adjustment of tax would be permitted only if the recipient has reversed the input tax credit

7. Amendments to Section 38 & 39 of CGST Act, 2017

Section 38 provides for generation of GSTR2B based on information furnished by the vendors in GSTR1. Currently, the law provides that the said statement shall be auto-generated. However, due to the recent introduction of 'Invoice Management System', the said statement is generated consequent to actions taken on the IMS dashboard and can be regenerated multiple times till the time of filing GSTR3B. To enable such procedural and system improvements, the legal provisions are sought to be suitably amended

8. Reduction in Pre-deposit requirements for penalty only orders under section 107 of the CGST Act, 2017

Currently, the law requires a pre-deposit of the entire amount of tax, interest and penalty admitted and 10% of the disputed tax at the time of filing the first appeal. However, in cases where the orders pertain to penalties only, the law requires a pre-deposit of 25% of the penalty. The said pre-deposit requirement is now proposed to be reduced to 10% of the penalty amount.

9. Introduction of pre-deposit requirements for penalty only orders under section 112 of the CGST Act, 2017

In case of the appeals before the GSTAT, the current law does not prescribe any pre-deposit in case of orders only demanding penalties. However, it is now proposed that an additional 10% penalty shall be deposited as a pre-deposit (over and above the pre-deposit made at the first appellate stage) in such cases.

10. Insertion of para 8(aa) to Schedule III of CGST Act, 2017

Schedule III of the CGST Act, 2017 excludes certain transactions from the scope of supply. A new clause is proposed to be inserted to provide that 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 as neither supply of goods nor supply of services. The insertion is proposed with retrospective effect from 01.07.2017 to avoid any litigation on this front.



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