



The Institute of Chartered Accountants of India

The Institute of Chartered Accountants of India

GST & Indirect Taxes Committee

GOODS & SERVICES TAX UPDATE-273

1. Clarifications on issues pertaining to Input Service Distributor (ISD) under GST

The CBIC has issued the following clarifications regarding the distribution of input tax credit (ITC) through the ISD mechanism:

(a) Multiple ISD registrations

There is no bar on obtaining **more than one ISD registration** within a State/UT for separate business verticals or places of business registered separately, as each such registrant is a distinct person under section 25. Each registrant receiving input service invoices for or on behalf of distinct persons, which are to be distributed under section 20, must obtain an ISD registration. Credit is to be distributed only to the distinct person to whom it is attributable.

(b) Compliance with sections 16/17 and consequences of wrong distribution

The ISD must distribute credit to its distinct persons in the manner provided in section 20. It is the **recipients of credit**, and not the ISD, who must comply with the conditions of eligibility under sections 16 and 17 and the rules made thereunder.

If the ISD distributes credit in contravention of section 20, it is liable to a **penalty under section 122(1)(ix)** (₹10,000 or the amount of credit distributed irregularly, whichever is higher). Where this results in excess distribution, the excess credit is recoverable from the recipients along with interest, through proceedings under section 73, 74 or 74A, as applicable.

(c) Timing of distribution

Under Rule 39(1)(a), credit available for distribution in a month must be distributed in the same month and reported in FORM GSTR-6. Credit appearing in FORM GSTR-6A is treated as "**available for distribution**" only once the ISD ascertains it to be **prima facie eligible** for availment, since the ISD, which receives the invoices, is best position to make this

determination. The ISD must distribute it in the month of such ascertainment, separately as eligible and ineligible credit, in terms of Rule 39(1)(g).

(d) Reversals by recipients

The ISD must distribute the entire input tax credit available to it to the recipients to whom it is attributable. The recipients are required to make the reversals under section 17(1) or 17(2) read with Rules 42 and 43 or under section 17(4) read with Rule 38, as the case may be.

(e) Credit transferred under Rule 54(1A)

Rule 54(1A) allows a regular registrant having the same PAN and State code as the ISD to issue an invoice, credit note or debit note to the ISD, to transfer credit on input services (including reverse charge) attributable to one or more distinct persons. The Circular clarifies that this is merely a credit transfer mechanism, and therefore:

Turnover: The value of such invoices and notes is not an outward supply of the issuer. It is excluded from its "turnover in State/UT" under section 2(112) and from its "adjusted total turnover" for refund under rule 89, even though it may be declared in its FORM GSTR-1.

Net ITC: The transferred credit is not input tax credit on inward supply of the issuer and does not qualify as "Net ITC" for the refund formula under Rule 89(4) and (5).

Reversals: The issuer is not required to make reversals under section 17(1), 17(2) or 17(4) and must transfer the entire credit to the ISD. The recipients, which may include the issuer itself, make the reversals as applicable

[Circular No. 260/06/2026-GST dated 26.10.2026](#)

2. Clarification on ITC under Section 17(4) of the CGST Act, 2017

The CBIC has clarified the following aspects concerning banking companies and financial institutions, including NBFCs, engaged in accepting deposits or extending loans and advances, opting for the 50% ITC availment mechanism under Section 17(4) of the CGST Act:

- (a) Applicability of Section 17(4):** Registrations (distinct persons) not engaged in accepting deposits or extending loans and advances, such as those exclusively engaged in bullion trading, are neither eligible nor required to opt for Section 17(4).

Further, where one eligible registration (distinct person) which is engaged in supplying such services, is also providing other services, has the option to comply with section 17(4). Where one eligible registration opts for this provision, all other registrations of the same entity who also engaged in accepting deposits or extending loans and advances must also follow Section 17(4).

(b) ITC on Supplies from Persons having the same PAN: The relaxation under the second proviso to Section 17(4) is available only for supplies received from another registered person having the same PAN who has also opted for Section 17(4).

(c) Reporting of ITC in GSTR-3B under section 17(4): Ascertain eligibility of ITC from GSTR-2B (other than RCM) and of RCM credit. Reverse non-business use and section 17(5) credit permanently in Table 4(B)(1), avail second proviso credit in full, and avail 50% of the remaining credit, with the balance reversed permanently in Table 4(B)(1).

Where IMS is not used: ITC that cannot be ascertained as eligible due to unmet section 16 conditions, but may become eligible later, is reversed temporarily in Table 4(B)(2). Once the conditions are met, it can be reclaimed in Table 4(A)(5) of a later period. The reclaimed ITC is again subject to the 50% procedure.

Where IMS is mandatory after the CGST Rules amendment, and where it is already used: The taxpayer may accept, reject or keep pending invoices on IMS. Invoices whose ITC is presently ineligible under section 16, but may become eligible later, must be kept pending. Such ITC does not appear in GSTR-2B or auto-populate in GSTR-3B. Once the conditions are met, the pending invoice is accepted on IMS and the ITC appears in GSTR-2B and auto-populates in GSTR-3B of that tax period. It is again subject to the 50% procedure, so the balance 50% must be reversed permanently in Table 4(B)(1) of that period.

(d) Relief for Past Periods: Tax authorities have been advised not to take an adverse view of different methodologies followed for reporting ITC availment and reversal in past periods, provided the total ITC availed under Section 17(4) is in accordance with the principles clarified in the Circular.

[Circular No. 261/07/2026-GST dated 26.10.2026](#)

3. Clarification on ITC admissibility to authorised agents appointed by manufacturers for sale of motor vehicles

The CBIC has withdrawn paragraph 4.6 of Circular No. 231/25/2024-GST dated 10 September 2024 and stated the following:

(a) Earlier position under Circular No. 231/25/2024-GST

Para 4.6 of the said Circular had clarified that where an authorised dealer merely acts as an agent or service provider to the manufacturer, ITC on a demo vehicle bought for test drives would be blocked under section 17(5)(a)(A) of the CGST Act, since the dealer was not making the supply of motor vehicles on its own account and was only providing marketing or facilitation services.

(b) Reasoning of the Board

Two models: In the dealer-agency model, the OEM sells vehicles directly to customers and the dealer holds only demo vehicles. In the traditional dealership model, the dealer sells vehicles on its own account and designates some as demo vehicles.

Same purpose and treatment: In both models, demo vehicles allow customers to experience a drive before buying. They are bought from the manufacturer on tax invoices, treated as capital assets, held for a mandatory period and later sold at written down value with applicable tax. They are also treated alike under the Central Motor Vehicle Rules, 1989. Denying ITC to one model therefore has a discriminatory effect.

"Such motor vehicles": Section 17(5)(a)(A) uses the phrase "such motor vehicles" and not "said motor vehicle", which indicates that ITC is permitted not only on the specific vehicle sold but also on vehicles used for further supply of similar motor vehicles.

(c) Clarification

The clarification in para 4.6 of *Circular No. 231/25/2024-GST* is withdrawn. ITC on demo vehicles is not blocked under Section 17(5)(a) of the CGST Act for the dealer in the dealer-agency model.

[Circular No. 262/08/2026-GST dt. 26.10.2026](#)

4. CBIC Clarifies GST Treatment of Export Proceeds Received Through Alternative Payment Mechanisms

The CBIC has issued clarifications regarding the receipt and realisation of export proceeds for the purposes of qualifying as export of services under the IGST Act, 2017 and recovery of refunds in cases of non-realisation of export proceeds from export of goods.

- (a) Receipt of Export Proceeds in INR:** Receipt of export proceeds in repatriable INR accounts, including SNRR and INR Nostro accounts, is recognised for satisfying the relevant condition under section 2(6)(iv) of the IGST Act, 2017.
- (b) Stockbroking Services:** Payments received by Indian stockbrokers from overseas clients through repatriable INR accounts, such as SNRR and NRE accounts, are considered to fulfil the prescribed condition. Payments through NRO accounts must be routed through repatriable INR accounts.
- (c) Set-off of Receivables and Payables:** Where export receivables are set off against import payables in accordance with RBI directions, the relevant condition for export of services is considered to be fulfilled. While existing guidelines permit goods-against-goods and services-against-services set offs subject to conditions, these conditions have ceased to apply under the FEMA (Export and Import of Goods and Services) Regulations, 2026, effective October 1, 2026. Accordingly, from 1st October, 2026 such set off in compliance

with RBI directions, qualify is an acceptable mode of settlement under Section 2(6)(iv) of the IGST Act.

- (d) **Reinsurance Brokers:** Commission received through the net retention mechanism, in accordance with FEMA regulations, is treated as satisfying the relevant condition for export of services.
- (e) **Realisation of Export Proceeds for Goods:** The prescribed period for realisation of export proceeds shall be governed by the applicable RBI Master Direction, as amended from time to time.
- (f) **Recovery of Refunds:** Under Rule 96B of the CGST Rules, recovery of refund on account of non-realisation of export proceeds shall not be made to the extent the realisation requirement has been written off by the Authorised Dealer (AD) Bank, wholly or partly.

These clarifications provide greater certainty regarding acceptable modes of receipt and settlement of export proceeds and the treatment of export refunds under GST.

[Circular No. 263/09/2026-GST dated 26.10.2026](#)

5. Retrospective Effect of Omission of Rule 96(10) of the CGST Rules

Rule 96(10) restricted refund of IGST paid on exports where specified concessional or exemption benefits had been availed on inputs. The rule was omitted with effect from 8 October 2024. In *Goodluck India Limited v. Union of India*, the Supreme Court held that, in the absence of a saving clause, the omission applies to pending proceedings.

Pursuant to above judgement, CBIC has clarified that:

- (a) The omission of Rule 96(10) is effective **retrospectively from 23 October 2017**, rather than prospectively from 8 October 2024.
- (b) Pending proceedings relating to Rule 96(10) are to be dealt with in accordance with the Supreme Court's judgment.
- (c) The same treatment applies, *mutatis mutandis*, to the omission of Rules 89(4A) and 89(4B) of the CGST Rules.

[Circular No. 264/10/2026-GST dated 26.10.2026](#)

Readers can access all updated notifications on the Committee's website <https://idtc.icaai.org/> under the 'GST Statutes' section. To stay instantly connected with the latest in GST & other indirect taxes, join the Official WhatsApp Channel of the GST & Indirect Taxes Committee of ICAI at <https://whatsapp.com/channel/0029VbC5pZYATRSrKi8c4s0r>.

Chairman

Vice-Chairman

The GST Update is an endeavour of the GST & Indirect Taxes Committee of ICAI to apprise the readers with the amendments made in the GST law vide significant notifications, circulars etc. The Committee welcomes your feedback on the Update at gst@icai.in. Please visit the website of the Committee <https://idtc.icai.org/index.php> for previous GST Updates, updated GST Acts, Rules, Notifications and other knowledge resources on GST like publications, legal updates, newsletter etc. as also for the information on upcoming events on GST organised by the Committee.

Information published in the Update is taken from publicly available sources and is believed to be accurate. The GST & Indirect Taxes Committee of ICAI takes no responsibility of accuracy and reliability of information published in the Update. No part of this Update may be reproduced, stored in a retrieval system, or transmitted in any form or by any means – electronic, mechanical, photocopying, recording, or otherwise without the permission of GST & Indirect Taxes Committee of ICAI.

The Institute of Chartered Accountants of India, ICAI Bhawan, A-29, Sector 62, Noida (U.P.)-201301