The Institute of Chartered Accountants of India

GST & Indirect Taxes Committee

GOODS & SERVICES TAX UPDATE-274

1. Clarifications on Classification and Applicability of GST on Certain Goods

Based on the recommendations of the 57th GST Council Meeting held on 8 October 2026, CBIC has issued the following clarifications to address classification disputes and ensure uniformity in the applicability of GST on certain goods:

(a) Classification and GST Rate of Sublimation Paper

Sublimation paper has been clarified to be classifiable under **heading 4809**, attracting GST at **18%**, in accordance with S. No. 176 of Schedule II of *Notification No. 09/2025-CT(R) dated 17 September 2025*. Further, to resolve disputes relating to its past classification and applicable GST rate, the past period has been regularised on an *"as is where is"* basis.

(b) Scope of GST Rate Entries Covering Toys

It has been clarified that the scope of S. No. 497 of Schedule I (5% GST) and S. No. 616 of Schedule II (18% GST) of *Notification No. 09/2025-CT (R) dated 17 September 2025* is **not restricted to toys such as tricycles, scooters and pedal cars**.

The expression "etc." used in these entries covers all other categories of toys falling under heading 9503 of the Customs Tariff Act, 1975, including dolls' carriages, dolls, other toys, reduced-size ("scale") models and similar recreational models, whether working or not, and puzzles of all kinds.

(c) Availability of ITC under the Margin Scheme for Old and Used Motor Vehicles

It has been clarified that the restriction on availment of ITC under *Notification Nos. 08/2018-Central Tax (Rate), 09/2018-Integrated Tax (Rate) and 01/2018-Compensation Cess (Rate),* all dated 25 January 2018, is limited to the tax paid on the procurement of the **old and used motor vehicles themselves**.

Accordingly, suppliers dealing in such vehicles under the margin scheme may avail ITC on other inputs and input services used in the course of business, such as spare parts, repair and

maintenance services, technology services, rent, marketing and advertising services, subject to the applicable provisions of the CGST Act, 2017.

(d) Classification of Seaweed Extract-Based Bio-stimulants

Seaweed extract-based bio-stimulants registered under Schedule VI to the Fertiliser (Inorganic, Organic or Mixed) (Control) Order, 1985, have been clarified to be classifiable under **heading 3101**, in terms of S. No. 237 of Schedule I of *Notification No. 09/2025-CT(R) dated 17 September 2025*.

The clarification has been implemented by inserting an explanation in the said entry. Further, to resolve past classification disputes, the past period has been regularised on an *"as is where is"* basis.

Circular No. 265/11/2026-GST dated 28.10.2026

2. Clarifications Regarding Applicability of GST on Certain Services

Based on the recommendations of the 57th GST Council Meeting held on 8 October 2026, CBIC has issued clarifications on the applicability of GST on certain services to address interpretational issues and ensure uniformity in tax treatment. The key clarifications are summarised below:

(a) Distinction between Research & Development and Consultancy Services – Self-Certification Mechanism

Entry 44A of *Notification No. 12/2017-CT(R)* exempts research and development (R&D) services provided by specified Government entities, research associations, universities, colleges and other institutions notified under clauses (ii) or (iii) of Section 35(1) of the Income-tax Act, 1961, against consideration received in the form of grants.

Considering the potential overlap between R&D and consultancy services, it has now been clarified that, for claiming the exemption under the said entry, a certificate issued by the head of the concerned Government entity, research association, university, college or other notified institution, certifying that the activity undertaken is in the nature of R&D and not consultancy, may suffice.

(b) Regularisation of GST on Import of Services by Indian Establishments of Foreign Shipping Companies

The import of services by an Indian establishment of a foreign shipping company from a related person or any of its establishments outside India, when made without consideration, has been exempted with effect from **1 November 2026** vide *Notification No. 07/2026-IT(R) dated 27 October 2026.*

Further, the GST Council has recommended regularisation of the past period. Accordingly, the payment of GST on such import of services for the period from **1 July 2017 to 31 October 2026** has been regularised on an *"as is where is"* basis.

(c) GST Treatment of Statutory and Ancillary Recoveries in Motor Vehicle Leasing Transactions

In motor vehicle leasing arrangements, lessors often recover certain statutory and ancillary expenses separately from lessees, in addition to lease rentals. These expenses may include registration charges (including road tax), insurance premiums, FASTag charges and other incidental expenses relating to the leased vehicle.

It has been clarified that such expenses are incurred by the lessor in respect of a vehicle owned by it and are incidental to the leasing service. Accordingly, recoveries of these statutory and ancillary expenses form part of the value of the composite supply of leasing services and shall attract GST at the rate applicable to the leasing service.

(d) TRAI Not Covered within the Meaning of "Government" under GST Law

It has been clarified that the Telecom Regulatory Authority of India (TRAI), being a statutory regulatory authority established under the Telecom Regulatory Authority of India Act, 1997, **does not qualify as "Government"** within the meaning of Section 2(53) of the CGST Act, 2017. It has also been clarified in point no. 6 of CBIC's Sectoral FAQs on Government Services that regulatory bodies and other autonomous entities do not fall within the definition of "Government".

The clarification is based on the distinction between the Central Government and statutory bodies or authorities constituted under legislation, which are separate legal entities and cannot be regarded as Government merely by virtue of their statutory constitution or functions.

(e) GST Treatment of Notional Interest under Fund Transfer Pricing (FTP) Mechanism in Banks

Under the Fund Transfer Pricing (FTP) mechanism, banks notionally transfer funds between branches through their Head Office for internal fund allocation and performance measurement. The notional interest recorded in the books of account in respect of such transfers had raised concerns regarding its taxability as a financial service provided by the Head Office to its branches.

It has now been clarified that the notional amount/interest recorded in the books of account against the activity of making a loan or an advance under the FTP mechanism is covered within the definition of **"interest"** for the purpose of exemption under Notification No. 12/2017-Central Tax (Rate) dated 28 June 2017. Accordingly, such notional interest is covered by the said exemption.

(f) Taxability of Services Provided by NBFCs to Banks under Co-Lending Arrangements

Under co-lending arrangements, banks and Non-Banking Financial Companies (NBFCs) jointly extend credit to borrowers in a pre-agreed proportion. While the bank generally contributes funds at a lower cost, the NBFC provides its wider customer reach and undertakes activities such as customer sourcing, KYC, credit appraisal, underwriting, servicing, monitoring, collection of repayments and recovery.

It has been clarified that the lending-related services provided by an NBFC to a bank under a co-lending arrangement constitute **taxable services under GST**.

Further, the value of such services shall be the value specified in the contractual agreement entered into between the NBFC and the bank.

Circular No. 266/12/2026-GST dated 28.10.2026

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GST & Indirect Taxes Committee

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