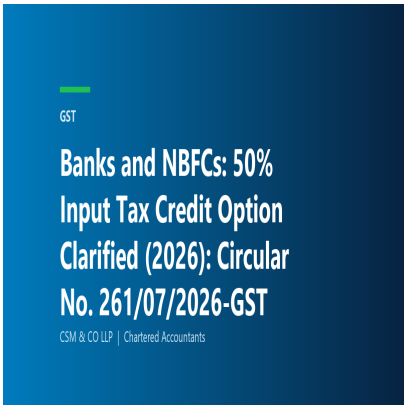

Banks and NBFCs: 50% Input Tax Credit Option Clarified (2026): Circular No. 261/07/2026-GST

Description

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Quick summary

- Circular No. 261/07/2026-GST, dated 26/10/2026, clarifies how banking companies, financial institutions and NBFCs apply the simplified 50% input tax credit option under section 17(4) of the CGST Act.
- Only registrations actually engaged in accepting deposits or extending loans and advances can opt into section 17(4) - a registration doing something else entirely, such as pure bullion trading, cannot use it at all.
- Once one such registration of the group opts in, every other registration of the same banking company, financial institution or NBFC that is also engaged in deposits/loans business must follow the same section 17(4) treatment - it is not a registration-by-registration choice.
- The second proviso's relaxation from the 50% cap - for tax paid on supplies between group registrations sharing the same PAN - applies only where both the supplying and the receiving registration have themselves opted into section 17(4).
- The circular sets out, step by step, exactly how to report the 50% availment and reversal in FORM GSTR-3B, both under the older manual process and under the newer Invoice Management System (IMS), and tells field officers not to take an adverse view of differing past reporting methods as long as the final 50% figure is correct.

Banking companies, financial institutions and NBFCs have long had a simpler alternative to the usual common-credit apportionment exercise - a flat 50% input tax credit option under section 17(4) of the CGST Act. Circular No. 261/07/2026-GST, dated 26 October 2026, clarifies which registrations can use it, what happens once one branch opts in, and exactly how to report it.

New to terms such as "distinct person" or "second proviso"? See the technical terms explained in simple words further down.

At a glance

- **Circular:** No. 261/07/2026-GST, GST Policy Wing, CBIC, dated 26 October 2026.
- **Issued under:** section 168(1) of the CGST Act.
- **Covers:** section 17(4) of the CGST Act (the 50% ITC option for banking companies, financial institutions and NBFCs) and its second proviso, plus correct FORM GSTR-3B reporting under rule 38.

Who can actually use the section 17(4) option

Section 17(4) lets a banking company or a financial institution, including an NBFC, that is engaged in supplying services by way of **accepting deposits, extending loans or advances**, avail a flat 50% of eligible input tax credit instead of doing the usual proportionate apportionment under section 17(2).

The circular draws a sharp line on eligibility:

- A registration (distinct person) of such an entity that is **not** engaged in deposits/loans business at all - the circular gives the example of one dealing exclusively in bullion trading - has **neither the option nor the obligation** to apply section 17(4).
- A registration that **is** engaged in deposits/loans business, even if it also does other business besides, **has the option** to opt in.

Once one branch opts in, the whole deposits/loans group follows

This is the key practical clarification: section 17(4) is **not a registration-by-registration pick-and-choose**. If one registration of a banking company, financial institution or NBFC that is engaged in deposits/loans business opts to comply with section 17(4), then **every other registration** of the same entity that is also engaged in deposits/loans business must follow the same treatment. A group cannot run some branches under the 50% option and others under the ordinary section 17(2) apportionment.

The second proviso's relaxation only works between registrations that have both opted in

The second proviso to section 17(4) relieves the person from the 50% cap on tax paid on supplies received from **another registered person sharing the same PAN**. The circular clarifies this relaxation applies **only where that other same-PAN registration has also opted to comply with section 17(4)**. Supplies received from a same-PAN registration that has not opted in do not get this relaxation.

How to report this correctly in FORM GSTR-3B

The circular restates the Circular No. 170/02/2022-GST framework and the Invoice Management System (IMS), and lays down the step-by-step sequence:

1. **Permanently reverse** (Table 4(B)(1)) credit on inputs/input services used for non-business purposes, or attributable to supplies blocked under section 17(5).
2. **Avail in full** credit covered by the second proviso relaxation (same-PAN supplies, both sides opted into section 17(4)).
3. Of what remains, **avail only 50%**, and **permanently reverse the balance 50%** - also in Table 4(B)(1).
4. Credit that cannot yet be confirmed eligible under section 16 - but may become eligible later - is **temporarily reversed** in Table 4(B)(2), and can be **reclaimed later** in Table 4(A)(5) once conditions are met, subject to the time limit under section 16(4), with the same 50% treatment applied again at that point.

Under the IMS regime, invoices whose credit is not presently eligible should be kept **pending** on IMS rather than accepted, so they do not get auto-populated into FORM GSTR-2B/GSTR-3B before eligibility is confirmed.

Past-period relief: the circular explicitly tells field officers **not to take an adverse view** of a different reporting methodology followed in earlier tax periods, as long as the actual amount of credit availed under section 17(4) matches the principles above.

How CSM & Co LLP can help

Getting the opt-in scope right across a banking or NBFC group - and keeping FORM GSTR-3B reporting consistent with this sequence - avoids both excess-credit disputes and avoidable scrutiny of past filings; please reach out to our team and we will be happy to assist.

Technical terms explained in simple words

Term	What it means
Distinct person	Each separate GST registration of the same legal entity, treated as a separate person for tax purposes.
Section 17(4) option	A simplified rule letting a bank, financial institution or NBFC avail a flat 50% of eligible input tax credit, instead of the usual exempt/taxable apportionment.
Second proviso (to section 17(4))	The part of section 17(4) that relaxes the 50% cap for credit on supplies received from another registration sharing the same PAN, where both have opted into section 17(4).
FORM GSTR-3B	The monthly summary GST return in which a taxpayer reports its tax liability and input tax credit.
Invoice Management System (IMS)	The GST portal facility, live since October 2024, letting a recipient accept, reject or keep pending each inward-supply invoice before it affects their ITC.

Frequently asked questions

Which GST registrations can opt for the 50% input tax credit option under section 17(4)?

Only a registration (distinct person) of a banking company, financial institution or non-banking financial company that is actually engaged in supplying services by way of accepting deposits, extending loans or advances. A registration of the same entity that does something else entirely - for example, one dealing exclusively in bullion trading - cannot opt in, and is not required to either.

If one branch of a bank opts for section 17(4), do all its other branches have to follow?

Yes, for branches that are also engaged in deposit/loan business. Once one such registration opts to comply with section 17(4), every other registration of the same banking company, financial institution or NBFC that is engaged in accepting deposits or extending loans must also comply with section 17(4) - it cannot be chosen separately registration by registration.

What relaxation does the second proviso to section 17(4) give, and when does it apply?

It relaxes the 50% cap for tax paid on supplies received from another registered person sharing the same PAN. Circular 261 clarifies this relaxation only applies where that other same-PAN registration has also opted to comply with section 17(4) - it does not apply to supplies from a same-PAN registration that has not opted in.

How should a bank or NBFC report the 50% ITC availment and reversal in FORM GSTR-3B?

The circular sets out the exact Table references: permanently reverse credit on inputs used for non-business purposes or exempt supplies under section 17(5) in Table 4(B)(1), avail credit covered by the same-PAN relaxation in full, then avail only 50% of what remains and permanently reverse the balance also in Table 4(B)(1). Credit that is only temporarily ineligible under section 16 goes in Table 4(B)(2) and can be reclaimed later in Table 4(A)(5).

Will the department take an adverse view of how a bank reported section 17(4) ITC in past tax periods?

No. The circular explicitly tells field formations not to take an adverse view of a different FORM GSTR-3B reporting methodology followed in the past, as long as the actual amount of credit availed is consistent with the principles the circular lays down.

Official sources

- CBIC - GST Circulars (CGST)
- GST Portal

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