

GST and Exports (2026): Foreign Branches, Testing and Repair Work, SEZ Delivery and Faster Refunds

Description

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Quick summary

- Clause (a) of section 13(3) of the IGST Act is to be omitted, so services needing goods to be made physically available in India, such as testing, repair, research and development and clinical trials, move to the default rule and the place of supply becomes the recipient's location abroad.
- Sub-clause (v) of section 2(6) is to go, removing the bar on a supplier and recipient being establishments of a distinct person, so services supplied to or through an Indian provider's own foreign branch or office can qualify as an export of services.
- An explanation to section 16(1) is to treat goods sold to an overseas buyer but delivered to that buyer in an SEZ or FTWZ, paid for in convertible foreign exchange or in rupees where the RBI permits, as a supply to an SEZ or FTWZ.
- The 1.5 times cap in rule 89(4)(C), which valued zero rated turnover of goods against like goods supplied domestically, is being removed.
- Refunds on zero rated supplies move to automated processing, with 90% sanctioned provisionally for low risk claims and full automatic sanction in phase 2, verified against ICEGATE, EDPMS and SEZ Online.

Some of the most frustrating GST disputes have had nothing to do with whether a transaction was really an export. The customer was abroad, the money came in foreign exchange, and the supply still failed the statutory test on a technicality in the place of supply rules.

The 57th GST Council has gone after three of those technicalities, and paired them with a refund process built to pay exporters faster. The FAQ on export competitiveness of 09/10/2026 explains the first one, and the press release of 08/10/2026 carries the rest.

None of it is law yet. These are amendments to the IGST Act and the CGST Rules that still have to be enacted and notified. If you are mid-dispute on any of these grounds, your case is governed by the provisions as they stand.

Testing, repair and R&D work on goods sent from abroad

This is the change with the clearest beneficiaries, and the FAQ explains the problem better than most official documents manage.

The problem. Where a service requires goods to be **made physically available to the supplier in India**, clause (a) of section 13(3) of the IGST Act fixes the place of supply as the **place of performance**, which is India. So the service was treated as supplied in India, and **zero rating was denied even though the recipient was abroad and payment came in foreign exchange**.

The examples the FAQ gives: testing, repair, research and development, and clinical trials.

The fix. Omitting clause (a) of section 13(3) brings these services under the **default rule in section 13(2)**, so the place of supply becomes the **location of the recipient**.

For an Indian laboratory testing samples for a foreign pharmaceutical company, a workshop repairing equipment shipped in from abroad, a contract research organisation running trials for an overseas sponsor, this is the difference between a taxable domestic supply and a zero rated export. It is probably the single most valuable item in the whole package for the services sector.

Services supplied to or through your own foreign branch

The problem. The definition of “export of services” in section 2(6) carries a condition at sub-clause (v) that the supplier and the recipient must **not be merely establishments of a distinct person** under Explanation 1 to section 8 of the IGST Act. An Indian company serving a customer through its own overseas branch, or supplying its own foreign office, failed that condition.

The fix. Sub-clause (v) of section 2(6) is to be **omitted**, so such a supply can qualify as an export of services. The press release says this is meant to facilitate refunds for Indian service providers supplying services to or through their foreign offices and branches.

For Indian firms that serve global clients through a branch structure, and for the IT, consulting and professional services sector generally, this removes a structural disqualification that had nothing to do with whether real export earnings were coming in.

Goods sold abroad but delivered into an SEZ or FTWZ

The problem. A manufacturer sells to an overseas buyer, but the buyer asks for delivery into an **SEZ or a Free Trade Warehousing Zone** in India, for warehousing or further processing. The goods never leave the country at that point, leaving the zero rating position uncertain.

The fix. An **explanation is to be inserted in section 16(1)** of the IGST Act so that where goods are supplied to an overseas buyer, delivery is made to that buyer in an SEZ or FTWZ, and payment is received in **convertible foreign exchange, or in Indian rupees where the RBI permits**, the supply is **deemed to be a supply of goods to an SEZ or FTWZ**.

The press release describes the purpose as providing certainty on the zero rating benefit for Indian manufacturers in exactly this pattern.

Payment in rupees

A **circular** is to be issued clarifying the issues around **receipt of payment in foreign exchange or in Indian rupees as permissible** for the export of goods and services. Payment in rupees where the RBI permits it has been a recurring source of doubt, and a clarification is overdue.

The refund side

Three changes matter specifically to exporters, and they sit alongside the wider refund reforms we covered in our note on GST refunds.

Change	What it means for an exporter
Rule 89(4)(C) cap removed	The condition valuing zero rated turnover of goods at 1.5 times the value of like goods supplied domestically goes. The official FAQ attributes this directly to the difficulty taxpayers faced in sourcing the value of like goods supplied by a similarly placed supplier
Automated provisional refund	90% of a low risk zero rated claim is sanctioned by the system with no officer involvement, and in phase 2 the full refund is sanctioned automatically for low risk zero rated claims
Credit on capital goods enters Net ITC	For zero rated refunds under rule 89(4), credit on capital goods availed on or after 01/04/2027 counts, spread at one sixtieth a month over 60 months

Your export trail gets verified electronically. In phase 2, the system integrates with **ICEGATE** for shipping bill and bill of export details, with the RBI's **EDPMS** for realisation of export proceeds for services, and with **SEZ Online** for supplies to SEZ units and developers. Manual checking of those documents goes away, which is both faster and a reason to make sure your filings match those systems exactly.

One exclusion to note. Zero rated supplies made **on payment of integrated tax** are not affected by the capital goods change, because there is no restriction on using capital goods credit to pay tax on those supplies in the first place.

Who gains most

- **Testing laboratories, repair and maintenance workshops, contract research organisations and clinical trial sites** working on goods sent in from abroad. The section 13(3)(a) change is aimed squarely at you.
- **IT, consulting and professional services firms operating through foreign branches**, who were caught by the distinct person condition.
- **Manufacturers selling to overseas buyers with delivery into an SEZ or FTWZ.**
- **Any exporter claiming unutilised credit**, through the removal of the 1.5 times cap, the 90% provisional sanction and eventually capital goods credit.

What to do now

1. **If you have a dispute or a pending refund turning on section 13(3)(a)**, raise the proposed omission with your advisers. It does not change the present law, but it is a clear statement of intent on a provision the government now accepts was producing the wrong outcome.
2. **Review contracts with foreign branch structures** against the proposed removal of sub-clause (v), and keep the documentation of foreign exchange receipts clean.
3. **If you deliver to overseas buyers inside an SEZ or FTWZ**, make sure the payment route matches what the explanation will require: convertible foreign exchange, or rupees where the RBI permits.
4. **Stop building the "like goods supplied domestically" comparison into refund workpapers** once rule 89(4)(C) is amended, but keep it until then.
5. **Reconcile your returns against ICEGATE, EDPMS and SEZ Online data now.** Once verification is automated, a mismatch is what will push your claim off the fast track.
6. **From 01/04/2027, track capital goods credit monthly** if you claim zero rated refunds.
7. **Wait for the notifications** before changing a position on any of this.

How CSM & Co LLP can help

We can assess whether services you supply to foreign clients qualify as exports under the present place of supply rules and how the proposed omission of section 13(3)(a) would change that, review a foreign branch structure against the proposed removal of the distinct person condition, advise on the zero rating position for goods delivered to an overseas buyer inside an SEZ or FTWZ, prepare and file export refund claims that reconcile with shipping bills and foreign exchange realisation so they stay on the automated track, and take up a pending refund or dispute that turns on any of these provisions. Please reach out to our team and we will be happy to assist.

Frequently asked questions

I do testing and repair work for foreign clients on goods they send me. Why was that not an export?

Because clause (a) of section 13(3) of the IGST Act fixes the place of supply for services requiring goods to be made physically available to the supplier as the place of performance, which is India. The recipient being abroad and paying in foreign exchange did not change that, so zero rating was denied.

What changes for those services?

Omitting clause (a) of section 13(3) brings them under the default rule in section 13(2), so the place of supply becomes the location of the recipient. The FAQ gives testing, repair, research and development and clinical trials as examples.

Can services supplied through my own foreign branch qualify as exports?

That is the intent. Sub-clause (v) of section 2(6) is to be omitted, removing the condition that supplier and recipient must not be establishments of a distinct person under Explanation 1 to section 8, so services supplied to or through foreign offices and branches can qualify.

I sell to an overseas buyer but deliver into an SEZ. Is that zero rated?

An explanation is to be inserted in section 16(1) so that where goods are supplied to an overseas buyer but delivered to that buyer in an SEZ or FTWZ, and payment is received in convertible foreign exchange or in rupees where the RBI permits, the supply is deemed to be a supply of goods to an SEZ or FTWZ.

Do I still need the value of like goods supplied domestically for my refund?

No, once the amendment is made. The condition in rule 89(4)(C) valuing zero rated turnover of goods at 1.5 times the value of like goods supplied domestically is being removed, which the official FAQ attributes to the difficulty taxpayers had in sourcing that comparison.

How will my export refund be processed?

For a low risk claim, 90% is sanctioned provisionally by the system without an officer, and in phase 2 the full refund on zero rated supplies is sanctioned automatically for low risk claims, with details verified through ICEGATE, EDPMS and SEZ Online.

Official sources

- Press Information Bureau: FAQs in respect of reforms for enhancing export competitiveness, 09/10/2026
- Press Information Bureau: Recommendations of the 57th Meeting of the GST Council, 08/10/2026
- Press Information Bureau: FAQs on refunds, 09/10/2026

Related reading

- GST Refunds (2026): Automated 90% Provisional Sanction, the 10 Day Clock and Wider Net ITC
- 57th GST Council Meeting (October 2026): Arrest Powers Removed, Faster Refunds and Wider ITC
- GST Gets Simpler: Key Rate Changes from Sept 2025

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Related GST reading

- E-way Bill Interception (2026): No Random Checks, Transit States Lose Power and No Confiscation in Transit
- GST Arrest and Prosecution (2026): Section 69 Removed, ?5 Crore Threshold and Court Discretion
- GST Litigation Management (2026): ?10,000 Notice Threshold, Penalty as a Charge and Reduced Penalties

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