

57th GST Council Meeting (October 2026): Arrest Powers Removed, Faster Refunds and Wider ITC

Description

Last updated: 09 October 2026 · Written and reviewed by CA Meet Dhrangadhariya, CSM & Co LLP

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This post described these changes as proposals awaiting the law amendment. CBIC has since directed field officers to apply them administratively, with immediate effect, even though the CGST Act itself will only be amended from 1 April 2027. See Instruction No. 02/2026-GST: Arrest Powers, E-way Bill Checks and the Rs 10,000 Notice Threshold for the current, binding position.

Quick summary

- The GST Council met on 08/10/2026 and recommended withdrawing arrest powers under GST by omitting section 69 of the CGST Act, and raising the prosecution threshold from ?1 crore to ?5 crore.
- Refunds move to system based processing, with 90% of zero rated and inverted duty refund claims sanctioned provisionally without an officer, and full automatic sanction of excess cash ledger balance.
- Input tax credit opens up: blocked credit under section 17(5) is cut back on health and life insurance, outdoor catering, telecom towers and more, and accumulated credit on input services and capital goods becomes refundable.
- Maximum general penalty under section 125 falls from ?25,000 to ?10,000, and no show cause notice will be issued where the tax involved is below ?10,000.
- Nothing here is law yet. Every item takes effect only through the notifications, circulars and amendments that follow, and some carry dates as far out as April 2027.

The GST Council held its 57th meeting in New Delhi on 08/10/2026, chaired by the Union Finance Minister. Where the 56th meeting last year dealt with rates, this one is about process: registration, returns, refunds and adjudication, together with a set of clarifications on how GST applies to particular goods and services.

The headline is a genuine shift in tone. The Council has recommended removing the power of arrest from the GST law altogether, raising the prosecution threshold five times over, cutting the maximum general penalty, and stopping small demand notices at source. Alongside that sits a serious attempt to make refunds move

without an officer having to touch them.

One point before anything else. Every item below is a recommendation. The press release says so in terms: the decisions take effect through the relevant circulars, notifications and law amendments, and those alone have the force of law. Do not change a filing position, a credit claim or a contract on the strength of this post or of any news report about the meeting. Several items also carry their own start dates, one of them as far away as April 2027.

The meeting at a glance

- **Council:** 57th meeting of the GST Council, New Delhi, 08/10/2026
- **Chaired by:** Union Finance and Corporate Affairs Minister
- **Theme:** process reforms covering registration, returns, refunds and adjudication, plus rate clarifications and trade facilitation
- **Official press release:** Press Information Bureau, Release ID 2320934
- **GST portal advisory:** Recommendations of the 57th GST Council Meeting, Key Reforms
- **Source announcements:** Ministry of Finance and CBIC, both on 08/10/2026
- **Status:** recommendations only, to be given effect by notification, circular or amendment

For context, the 56th Council meeting last year simplified the rate structure itself: two main rates of 5% and 18%, with a special 40% rate for selected goods and services. This meeting leaves rates alone and works on the machinery around them.

The main numbers that change

Item	Position today	Recommended
Arrest power under GST	Section 69 of the CGST Act	Section 69 to be omitted entirely
Prosecution threshold	?1 crore	?5 crore
Maximum general penalty, section 125	?25,000	?10,000
Show cause notice, minimum tax involved	No threshold	No notice below ?10,000 (CGST, SGST, IGST and cess together)
Minimum penalty in non-fraud cases	?10,000	Condition removed
Refund acknowledgement or deficiency memo	15 days	10 days, deemed acknowledged if not issued
Provisional refund, zero rated and inverted duty	Officer driven	90% sanctioned automatically on a system risk evaluation

Item	Position today	Recommended
Pre-deposit cap for appeal in penalty-only cases	Not stated in the press release	?40 crore (?20 crore CGST and ?20 crore SGST or UTGST), for each of the Appellate Authority and the Tribunal

Arrest, prosecution and penalties

This is the part of the meeting that matters most to anyone who has ever had a GST summons land on their desk.

- **Arrest powers withdrawn.** The Council recommended the complete withdrawal of arrest powers under GST by omitting section 69 of the CGST Act, 2017.
- **Prosecution threshold raised** from ?1 crore to ?5 crore.
- **Narrowing of the offences in section 132.** Clause (i) of section 132(1) is to be omitted, the words “evades tax” are to be deleted from clause (e), and the words “or in any other manner deals with” from clause (h). Clause (c) is to be narrowed so that it covers only the fraudulent availment of input tax credit without receipt of goods or services or without an invoice. The quantum of punishment for the various offences is to be rationalised.
- **General penalty under section 125** comes down from ?25,000 to ?10,000.
- **Small notices stop.** No show cause notice under sections 73, 74 or 74A where the tax involved is less than ?10,000. Notices and appeals already pending below that figure on the date the provision comes into force are to be decided as if the threshold had always applied.
- **Reduced penalty of 5%** in non-fraud cases where the tax and interest are paid within 30 days of the adjudication order under section 73, or 60 days under section 74A. Where the full tax, interest and penalty are paid voluntarily within the specified time, the penalty is to be deemed a “charge”.
- **A ceiling on pre-deposit in penalty-only appeals.** The provisos to section 107(6) and section 112(8) are to be amended to cap the pre-deposit at ?40 crore (?20 crore CGST and ?20 crore SGST or UTGST) for an appeal to the Appellate Authority and to the Appellate Tribunal respectively, where the order carries only a penalty and no demand of tax.
- **Quality of notices.** A circular is to give field officers comprehensive guidelines on the drafting and timing of demand notices and adjudication and appeal orders, on invoking fraud, wilful misstatement or suppression only on the merits of each case, and on observing natural justice, including personal hearings.

Refunds

Refunds move towards running themselves, in two phases.

Phase 1

- Full refund of excess balance in the electronic cash ledger, sanctioned automatically by the system with no officer involved.
- The window for an acknowledgement or a deficiency memo drops from 15 days to 10 days, and the application is deemed acknowledged if the officer issues neither within that time.
- For zero rated supplies and the inverted duty structure, 90% of the amount claimed is sanctioned provisionally by the system, on the basis of a risk evaluation.

Phase 2

- System generated acknowledgement after the system itself verifies the application.
- In those acknowledged cases, automatic sanction of the full zero rated refund claim after adjusting any pending dues, again on a risk basis.

Supporting changes: FORM GST RFD-01 is to capture details in a machine readable format and scanned uploads go away for zero rated and inverted duty claims; the cap in rule 89(4)(C), which limits zero rated turnover of goods to 1.5 times the value of like goods supplied domestically, is to be removed; and section 54(14) is to be clarified so that the ?1,000 minimum applies to the total refund across CGST, SGST or UTGST and IGST taken together. Section 115 is to be made a standalone provision for the rate of interest on refund of pre-deposit, with a circular to follow.

Input tax credit opens up

Blocked credit under section 17(5) is cut back. The Council recommended removing the restriction on credit for, among other things, outdoor catering, health and life insurance, telecommunication towers, pipelines laid outside factory premises, free samples, and goods destroyed or written off on expiry of shelf life where the law requires it.

Accumulated credit becomes refundable, with dates attached:

Type of credit	Where it applies	Available for credit availed on or after
Input services	Inverted duty structure refunds	01/11/2026
Capital goods	Zero rated and inverted duty refunds, spread over 60 months	01/04/2027

Limited credit in the same line of business is to be allowed for restaurant and outdoor catering services, hotel accommodation up to ?7,500 per unit per day, and gym or fitness services, on the same footing as passenger transport, tour operator and motor vehicle renting services already enjoy.

Blocking of the credit ledger gets a hearing. Rule 86A is to be amended so that a taxpayer can object to an amount being blocked in the electronic credit ledger and be heard in person before the officer decides.

Registration

- A comprehensive circular with FAQs will list exactly which documents and information a registration application needs, and FORM GST REG-01 gets drop boxes so both taxpayer and officer know what is expected.
- **Amendments become automatic.** Rule 19 is to be amended so that changes to all registration particulars are accepted automatically on the portal, except the principal place of business. For taxpayers registered through the automatic route under rule 14A, even a change of principal place of business is accepted automatically.
- **Cancellation becomes automatic too.** In phase 1, an application in FORM GST REG-16 is accepted automatically once all pending returns are filed and dues paid, where the taxpayer has never passed on credit above ?2.5 lakh in a month, or has done so but filed FORM GSTR-10 in time. In phase 2 this extends to all cancellation applications. Suo motu cancellation gets a system based mechanism through amendments to rules 21, 21A and 22 and a new rule 23A.

- **Small e-commerce sellers get a simplified route.** A new rule 14B will let a small supplier selling goods through an e-commerce operator register in a State where it has no physical presence by declaring the operator's warehouse there as its principal place of business, where it does not intend to pass on credit above ?2.5 lakh a month. Registration is granted automatically, subject to conditions.

Returns

The Council recommended a package to stop the mismatches that generate most automated notices: enhancements to FORM GSTR-1, 1A and IFF so they reconcile with GSTR-3B; a new rule 86D for an electronic statement of tax paid under reverse charge and credit claimed; a new rule 86C for an electronic credit reversal and reclaim statement; new sub-rules 61(1A) and 61(1B) to let liability and credit in GSTR-3B be corrected against GSTR-1 and GSTR-2B; a sub-rule 60(6A) covering the Invoice Management System, including how long a credit note may be kept pending; and an amendment to FORM GST DRC-03 so the underlying invoice is declared.

This package is to come into force from the return for April 2027, and the revised mechanism will first be put into the public domain for a time-bound consultation.

Late fee relief for small taxpayers. Late fee on a delayed return under section 39(1) is to be waived for taxpayers with turnover up to ?5 crore in the preceding financial year, provided the return is filed by the end of the month in which it was due.

An annual return with quarterly payment. The Council gave in-principle approval to a concept note for an optional Annual Return Quarterly Payment scheme for taxpayers with turnover up to ?5 crore who supply only to unregistered persons.

E-invoicing widens to domestic supplies received from unregistered persons under reverse charge and to the import of services, for taxpayers with turnover of ?5 crore and above.

E-way bill and movement of goods

- A conveyance can be intercepted **only on specific intelligence and with the authorisation of an officer not below the rank of Joint Commissioner**.
- Inspection, detention or seizure only where either the supplier or the recipient is located or registered in the State where the interception happens. No interception in transit States.
- Where no e-way bill was generated, or the vehicle carries no document showing the origin or destination of the goods, the goods can be inspected, detained or seized regardless of jurisdiction.
- Confiscation under section 130 will not apply to goods or conveyances in transit.

Exports and zero rating

- Sub-clause (v) of section 2(6) of the IGST Act is to be omitted, so a supply of services to or through a foreign branch or office of the same entity can qualify as an export of services.
- Clause (a) of section 13(3) of the IGST Act is to be omitted, so where the recipient makes goods physically available to the supplier, the place of supply falls back to the location of the recipient under section 13(2).
- An explanation to section 16(1) of the IGST Act will treat goods supplied 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.
- A circular will clarify when payment in foreign exchange or in Indian rupees is acceptable for export of goods and services.

Rate and classification clarifications

On goods: sublimation paper falls under heading 4809; the toy entries cover all of heading 9503 and not only tricycles, scooters and pedal cars; seaweed extract based bio-stimulants registered under Schedule VI of the Fertiliser Control Order are fertilisers under heading 3101; dealers in second-hand vehicles under the margin scheme may take credit on spares, repairs, rent, marketing and similar inputs, the bar applying only to the tax on the vehicles themselves; psyllium seeds (isabgol) are nil rated whether fresh, chilled, frozen or dried; re-treaded tractor tyres are aligned with new tractor tyres. Waste and scrap of plastics, electrical and electronic waste, waste tyres and used cooking oil come under reverse charge when supplied by an unregistered person to a registered person, and a 2% TDS is introduced on business to business supplies of that scrap.

On services: a 5% option with restricted credit for passenger transport and rental of motor vehicles with operator where an electric vehicle is used and charging is in the price; delivery services other than courier and postal supplied through an e-commerce operator brought under section 9(5) at 5% without credit; clarification of recoveries such as registration charges, road tax, insurance and FASTag in motor vehicle leasing; exemption for seat-sharing helicopter transport to and from airports and helipads in the north-eastern States, Sikkim and Bagdogra; exemption for storage or warehousing of seeds meant for sowing, for curing of coffee, and for the Seamen’s Provident Fund Organisation; self-certification by the head of an institution for the research and development exemption; exemption for import of services without consideration by Indian establishments of foreign shipping lines; exemptions and a special valuation procedure for highway projects under the Toll Operate Transfer model; and a clarification that notional interest in bank fund transfer pricing entries is covered by the definition of interest.

A circular is also to confirm that the omission of rule 96(10) of the CGST Rules takes effect from 23/10/2017, following the Supreme Court decision, along with clarifications on the input service distributor mechanism, credit for banks and NBFCs opting for section 17(4), pre-deposits, and credit on demonstration vehicles.

Who this affects most

- **Exporters and anyone in an inverted duty structure.** The 90% provisional refund, the removal of the 1.5 times cap in rule 89(4)(C), and refund of credit on input services and capital goods together change the working capital position materially. Watch the 01/11/2026 and 01/04/2027 cut-offs.
- **Businesses carrying blocked credit** on insurance, catering, towers or pipelines. There may be a case to track that credit now so it is identifiable when the amendment arrives.
- **Anyone facing a small demand.** The ?10,000 notice threshold and the pending-case rule could close out a number of live matters.
- **Small sellers on e-commerce platforms**, who may be able to drop State-wise registrations and physical premises.
- **Transporters and their customers**, with interception restricted to intelligence-led, Joint Commissioner

authorised stops.
- **Taxpayers below ?5 crore turnover**, through the late fee waiver and the proposed annual return with quarterly payment.

What to do now

1. **Do not act on this as settled law.** Wait for the notification or circular on any item you intend to rely on, and check its own effective date.
2. **Track the two credit cut-offs.** If you claim refunds under the inverted duty structure, your records need to separate credit on input services availed on or after 01/11/2026. For capital goods the date is 01/04/2027 and the refund runs over 60 months.
3. **List your blocked credit** under section 17(5) by head, so you can quantify the benefit when section 17(5) is amended.
4. **Review live notices and appeals** where the tax involved is under ?10,000. If the threshold is enacted as recommended, those are to be decided as if it had always applied.
5. **Prepare for the April 2027 return changes** rather than being surprised by them, and take part in the consultation if your business has a stake in how the reconciliation mechanism works.
6. **Check your e-commerce registrations** if you hold registrations in States purely to sell through a platform warehouse.

How CSM & Co LLP can help

We can review your input tax credit register against the proposed changes to section 17(5) and tell you what is currently being written off that may become claimable, work out the refund position under the new provisional sanction route for exporters and inverted duty cases, and assess any pending notice or appeal against the proposed ?10,000 threshold. For businesses selling through e-commerce platforms we can look at whether the simplified registration route will let you consolidate State registrations once rule 14B is notified. Please reach out to our team and we will be happy to assist.

Frequently asked questions

Are the 57th GST Council decisions in force now?

No. The Council only recommends. Each item becomes effective when the Centre and the States issue the notification, circular or amendment that gives it legal force, and the press release itself says those alone carry the force of law.

Have arrest powers under GST actually been removed?

The Council has recommended the complete withdrawal of arrest powers by omitting section 69 of the CGST Act, 2017. Until that amendment is passed and notified, section 69 remains on the statute book.

What is the new prosecution threshold under GST?

The Council recommended raising it from ?1 crore to ?5 crore, so prosecution under section 132 would be

launched only above that amount, once notified.

Will I get my GST refund faster?

That is the intent. In the first phase a full refund of excess balance in the electronic cash ledger would be sanctioned automatically, and 90% of zero rated and inverted duty claims would be sanctioned provisionally by the system based on a risk evaluation, with the acknowledgement window cut from 15 days to 10 days.

Can I now claim input tax credit on health and life insurance?

The Council recommended amending section 17(5) to remove that restriction, along with outdoor catering, telecommunication towers, pipelines laid outside factory premises, free samples and goods written off on expiry of shelf life. It applies only once the amendment is notified.

When does refund of credit on capital goods start?

The Council recommended that it be spread over 60 months and be available only for credit availed on or after 01/04/2027. For input services under the inverted duty structure, the cut-off is credit availed on or after 01/11/2026.

Official sources

- Press Information Bureau: Recommendations of the 57th Meeting of the GST Council, 08/10/2026
- Press Information Bureau explainer: Next-Gen GST Process Reforms, Towards Simpler, Faster and More Predictable Processes
- Ministry of Finance announcement on X, 08/10/2026
- CBIC announcement on X, 08/10/2026
- GST Portal advisory: Recommendations of the 57th GST Council Meeting, Key Reforms
- GST Portal: press release PDF of the 57th Council meeting

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Related GST reading

- GST Refunds (2026): Automated 90% Provisional Sanction, the 10 Day Clock and Wider Net ITC
- GST and Exports (2026): Foreign Branches, Testing and Repair Work, SEZ Delivery and Faster Refunds
- E-way Bill Interception (2026): No Random Checks, Transit States Lose Power and No Confiscation in Transit

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meetsoni