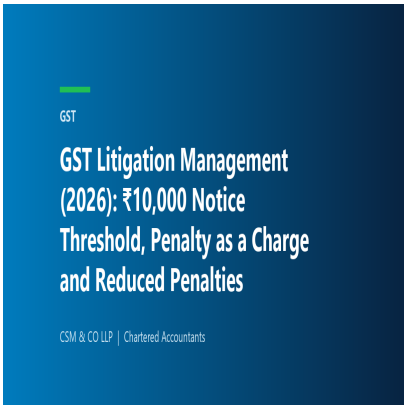

GST Litigation Management (2026): ?10,000 Notice Threshold, Penalty as a Charge and Reduced Penalties

Description

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Quick summary

- No show cause notice under sections 73, 74 or 74A where the tax involved is below ?10,000. Exactly ?10,000 meets the threshold, so a notice may issue at that figure.
- The ?10,000 is tested on the aggregate of CGST, SGST or UTGST, IGST and cess. No single head has to reach ?10,000 on its own, and credit wrongly availed or utilised counts towards it.
- Interest, late fee and penalty are excluded from the test. Only tax, including the applicable cess, is counted.
- Where tax, interest and the reduced penalty are paid voluntarily in time, the amount called a penalty is renamed a “charge”. The quantum does not change, it is payable on top of tax and interest, and it is deposited under the head “Others”.
- A reduced penalty of 5% applies in non-fraud cases where tax and interest are paid within 30 days of the adjudication order under section 73, or 60 days under section 74A, and the ?10,000 minimum penalty in non-fraud cases goes.

A large share of GST litigation is not about serious money. It is about small demands that cost more to contest than they are worth, and that nobody can afford to ignore because an unanswered notice becomes an order.

The 57th GST Council took aim at that directly. The FAQ on litigation management of 09/10/2026 fills in the mechanics of two changes, and the press release of 08/10/2026 carries the rest.

All of this is recommended, not enacted. The amendments to sections 73, 74 and 74A have to be passed and notified before any of it bites, and a notice you hold today is governed by the law as it stands.

The ?10,000 floor on show cause notices

No show cause notice under sections 73, 74 or 74A is to be issued where the tax involved is less than ?10,000. The FAQ answers the four questions that decide how that works in practice.

Question	Answer
Tax is exactly ?10,000	Threshold is **met**, so a notice may be issued. It is ?10,000 **or more**
Demand spans CGST, SGST or UTGST, IGST and cess	Tested on the **aggregate**. No single head needs to reach ?10,000 by itself
Do interest, late fee and penalty count	**No.** Only tax, including the applicable cess
Credit wrongly availed or utilised	**Counts**, and amounts across heads are aggregated

Two of those cut in opposite directions, which is worth being clear-eyed about. Excluding interest and penalty from the computation is taxpayer-friendly, because a small tax demand carrying years of interest still falls below the line. Aggregating across heads is not, because four sub-?10,000 amounts under different heads can combine into a notice that none of them would have supported alone.

Pending matters are covered too. The Council recommended a statutory provision so that notices and appeals involving less than ?10,000 that are pending when the threshold comes into force are decided **as if the threshold had been in force when the notice was issued**. That is the part worth acting on, because it could dispose of live files rather than merely preventing future ones.

Penalty becomes a “charge” on voluntary payment

Where the full tax is paid voluntarily, along with interest and the prescribed reduced penalty, within the specified time, the amount presently called a penalty is to be called a **charge**. The FAQ is careful about what that does and does not mean.

- **It does not change the amount.** The quantum payable stays exactly as prescribed.
- **It is payable in addition to tax and interest.** To get the benefit of proceedings being concluded, you pay tax, applicable interest and the prescribed reduced amount, within the timeline.
- **It is deposited under the head “Others”**, in accordance with the prescribed payment mechanism.

So this is a relabelling, not a discount. Its value is reputational rather than financial: an amount recorded as a charge rather than a penalty does not carry the same implication of culpability, which matters when a business has to disclose its tax position to a bank, an auditor, an acquirer or a tender authority. Worth knowing before anyone reads it as a saving.

Reduced penalties, and the minimum that goes

From the press release, alongside the FAQ items:

- **A reduced penalty of 5%** in non-fraud cases, where the tax together with interest is discharged **within 30 days of the adjudication order under section 73**, or **within 60 days under section 74A**.
- **The condition of a minimum penalty of ?10,000 in non-fraud cases is removed.** Where a demand is small, the penalty is no longer floored at a figure that could exceed the tax itself.
- **The maximum general penalty under section 125 comes down from ?25,000 to ?10,000.**

The 5% is the one to diarise. It turns the period immediately after an adjudication order into a decision point:

pay now at 5%, or contest and lose the concession. That calculation needs doing quickly, and on the merits, not by default.

Appeals: a ceiling on pre-deposit

For an order that carries **only a penalty and no demand of tax**, the provisos to section 107(6) and section 112(8) are to be amended to cap the pre-deposit at **?40 crore**, being ?20 crore under CGST and ?20 crore under SGST or UTGST, for an appeal to the Appellate Authority and to the Appellate Tribunal respectively.

Separately, section 115 is to be made a standalone provision for the **rate of interest on refund of pre-deposit**, with a circular to clarify the position. Interest on money you had to park to exercise a right of appeal has been a recurring grievance, and a dedicated provision is the right fix.

Better notices, by instruction

The Council also recommended a circular giving tax officers comprehensive guidelines on the issue of demand notices and adjudication and appeal orders, covering:

- the **quality** of notices and orders, and their **timely issuance**;
- **proper invocation of fraud, wilful misstatement or suppression of facts, only on the merits of each case**; and
- **adherence to natural justice, including the conduct of personal hearings**.

The second of those is the substantive one. Invoking the fraud limb extends the limitation period and raises the penalty, and where it is pleaded as a matter of routine rather than on the facts, the taxpayer carries the cost of rebutting it. An instruction is not a statutory bar, but it gives something concrete to cite in a reply.

One change that runs the other way

Not everything here favours the taxpayer, and it would be misleading to present the package as if it did. The Council also recommended **introducing a validation clause in the CGST Act to validate notices that courts have held invalid** on the ground that they were issued for multiple financial years.

In plain terms, a defect that several courts have treated as fatal to a notice is to be cured by statute. If you have a matter running on exactly that ground, it deserves attention now rather than after the amendment, and it is worth discussing with your advisers how a validation clause would interact with your case.

What to do now

1. **List every live notice and appeal where the tax involved is under ?10,000.** If the threshold is enacted with the pending-cases provision, those should fall away.
2. **Compute the threshold the way the FAQ does**: aggregate across heads, tax and cess only, exclude interest, late fee and penalty, and include credit wrongly availed or utilised.
3. **Put the 5% window in your calendar** the day an adjudication order arrives in a non-fraud case: 30 days under section 73, 60 days under section 74A.
4. **If you are relying on the multiple-financial-years ground**, take advice before the validation clause arrives.
5. **Do not read “charge” as a reduction.** Budget the same amount.
6. **Wait for the notifications.** None of this is in force yet.

How CSM & Co LLP can help

We can review your pending notices and appeals against the proposed ?10,000 threshold and identify the matters that should fall away, compute the threshold correctly where a demand spans several tax heads or arises from credit said to be wrongly availed, advise on whether to take the 5% reduced penalty or contest within the 30 or 60 day window, draft replies that meet an improperly invoked fraud allegation head on, and assess the effect of the proposed validation clause on a matter running on the multiple-financial-years ground. Please reach out to our team and we will be happy to assist.

Frequently asked questions

If the tax is exactly ?10,000, can a notice still be issued?

Yes. The threshold is treated as met where the tax, including the applicable cess, is ?10,000 or more, so a show cause notice may be issued at exactly ?10,000.

Is the ?10,000 tested head by head?

No. It is determined on the aggregate amount of tax under CGST, SGST or UTGST, IGST and cess. No individual head needs to reach ?10,000 by itself.

Do interest and penalty count towards the ?10,000?

No. Only the amount of tax, including the applicable cess, is counted. Interest, late fee and penalty are excluded from the test.

Does the threshold apply to wrongly availed input tax credit?

Yes. The tax relating to credit wrongly availed or utilised counts, and where it arises under more than one head those amounts are aggregated.

Does calling a penalty a “charge” reduce what I pay?

No. The substitution does not alter the quantum. The same amount is payable, on top of tax and interest, and it is deposited under the head “Others”.

What is the reduced penalty for paying early?

In non-fraud cases, 5% where the tax and interest are discharged within 30 days of the adjudication order under section 73, or within 60 days under section 74A. The minimum penalty of ?10,000 in non-fraud

cases is also being removed.

What happens to a pending notice below ?10,000?

The Council recommended a statutory provision so that notices and appeals involving less than ?10,000 and pending when the threshold comes into force are decided as if the threshold had been in force when the notice was issued.

Official sources

- Press Information Bureau: FAQs on reforms related to litigation management, 09/10/2026
- Press Information Bureau: Recommendations of the 57th Meeting of the GST Council, 08/10/2026

Related reading

- How to Cancel GST Registration (2026): Form GST REG-16, Auto Acceptance and Revocation
- GST Arrest and Prosecution (2026): Section 69 Removed, ?5 Crore Threshold and Court Discretion
- 57th GST Council Meeting (October 2026): Arrest Powers Removed, Faster Refunds and Wider ITC

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