

57th

GST Council Announcements

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GST Council recommendations and their impact on the Financial Services sector

**Greater certainty on ITC provisions and export benefits for
the financial services sector**



Smita Bhandari

*Tax Partner - Indirect
Taxes, EY India*

The 57th GST Council's recommendations bring in a new wave of process simplification and address several long-standing disputes impacting the financial services sector. Key proposals relating to export benefits for Head office-Branch office transactions and the recognition of alternative modes of receipt of consideration for export purposes align the regime to true business realities. The financial services sector may proactively assess the potential impact of these reforms and evaluate and prepare systems, processes and documentation to maximize the benefits once implemented.

Similarly, the clarification expected on ITC reversal provisions under Section 17(4) of the Central Goods & Services Act, 2017, is likely to bring in certainty for the sector and help mitigate future debates in assessments.

Amidst other reforms, the proposed relaxation of blocked credit restrictions for health and life insurance, availability of refunds for capital goods procurement and clarification on ISD-related distribution could further improve credit recovery and reduce embedded tax costs across the sector.

Impact analysis

Industry impact

- Clarification on Section 17(4) Input Tax Credit (ITC) reversals: Clarification is expected on the manner of availing credit for banks/NBFCs, bringing much-needed certainty to interpretational challenges regarding which business registrations could opt for a 50% ad hoc reversal versus a turnover-based reversal, as well as the manner of availment and disclosures of 50% ITC in returns.
- Condition of 'distinct persons' for export of services relaxed: The definition of 'export of services' is proposed to be rationalized by deleting restriction in case of services by an Indian branch office to overseas branch offices/head office. While this is a positive change, its impact on the financial services sector may need to be evaluated for various cross-border fees.
- Clarity on realization of proceeds for service exports: Clarification to be issued on receipts in foreign exchange or other modes permitted by the RBI, as being a valid consideration for export services provided, thereby removing ambiguities relating to various financial services where fees are received through RBI permissible INR-denominated accounts.
- Exemption for fund transfer pricing adjustments between branches of a bank: Clarification expected which recognises income on notional internal fund transfers for inter-branch funding arrangements as "interest" which is exempt from GST, will put to rest any ongoing litigation being faced by banks on the issue.
- Input tax credit eligibility for health and life insurance policies: Proposed amendments to remove health and life insurance from blocked credits would allow corporates to avail ITC related benefits on premiums, which could further reduce the overall cost of such products.
- Refund eligibility for capital goods: ITC refunds allowances for capital goods could unlock accumulated credits and improve cash flows for exporters and businesses operating under inverted duty structures. While refunds for input services were available earlier, the extension to capital goods from April 2027 is a significant reform that could reduce stranded credits and enhance tax efficiency for new GCCs and expansion projects.
- Compliance-related changes: Proposed return alignment and correction mechanisms, including the proposed roadmap for implementation of IMS, could reduce mismatches, notices and compliance burden.
- E-invoicing under RCM: Proposed mandatory e-invoicing for specified domestic reverse-charge supplies and import of services for taxpayers with an aggregate annual turnover of INR5 crore or above could require system and compliance process changes.
- Dispute resolution: Proposed measures, including a reduction in the general penalty from INR25,000 to INR10,000, the introduction of a monetary threshold for tax notices and rationalized penalty provisions for non-fraud cases, could reduce low-value litigation, lower compliance burden and improve certainty in tax disputes.

Consumer impact

- Insurance and financial products: Improved credit recovery may reduce embedded tax costs; consumer benefits may depend on the final conditions and commercial pass-through.

Impact analysis

Way forward

- Mapping of export opportunities post changes in conditions of exports and relaxation in the categorization of export proceeds.
- E-invoicing readiness: Identify affected domestic RCM and import-of-service transactions and assess invoicing, ERP, reporting and reconciliation changes.
- Quantify accumulated ITC relating to input services and capital goods procurements.

Our Offices

Ahmedabad

22nd Floor, B Wing, Privilon
Ambli BRT Road, Behind Iskcon Temple
Off SG Highway, Ahmedabad - 380 059
Tel: + 91 79 6608 3800

Gandhinagar

8th Floor, Building No. 14A
Block 14, Zone 1
Brigade International Financial Centre
GIFT City SEZ
Gandhinagar - 382 355
Tel: + 91 79 6608 3800

Bengaluru

13th Floor
"UB City", Canberra Block
No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 6727 5000

3rd Floor, # 11, 'A' wing
Divyasree Chambers
Langford Town
Bengaluru - 560 025
Tel: + 91 80 6727 5000

3rd & 4th Floor
MARKSQUARE
#61, St. Mark's Road
Shantala Nagar
Bengaluru - 560 001
Tel: + 91 80 6727 5000

1st & 8th Floor, Tower A
Prestige Shantiniketan
Mahadevapura Post
Whitefield, Bengaluru - 560 048
Tel: + 91 80 6727 5000

Vaishnavi MSR Union
No.29, Union Street
Off Cubbon Road
Vasanth Nagar, Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ecospace
1st Floor, Campus 1C
Ecospace Business Park
Outer Ring Road
Bellandur - Sarjapura Area, Varthur Hobli
Bengaluru Urban - 560103

Bhubaneswar

8th Floor, O-Hub, Tower A
Chandaka SEZ, Bhubaneswar - 751024
Tel: + 91 674 274 4490

Chandigarh

Elante offices, Unit No. B-613 & 614
6th Floor, Plot No- 178-178A
Industrial & Business Park, Phase-I
Chandigarh - 160 002
Tel: + 91 172 6717800

Chennai

6th & 7th Floor, A Block,
Tidel Park, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR

Aikyam
Ground Floor
67, Institutional Area
Sector 44, Gurugram - 122 003
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Gautam Budh Nagar
Noida - 201 304
Tel: + 91 120 671 7000

Hyderabad

THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: + 91 40 6736 2000

THE SKYVIEW 20
2nd Floor, 201 & 202
Right Wing, Survey No 83/1
Raidurgam, Hyderabad - 500 032
Tel: + 91 40 6736 2000

Jaipur

9th floor, Jewel of India
Horizon Tower, JLN Marg
Opp Jaipur Stock Exchange
Jaipur - 302018
Tel: + 91 141 4618415

Kochi

7th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata

22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: + 91 33 6615 3400

6th floor, Sector V,
Building Omega, Bengal Intelligent
Park, Salt Lake Electronics Complex,
Bidhan Nagar
Kolkata - 700 091
Tel: + 91 33 6615 3400

Mumbai

14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

3rd Floor, Unit No.301
Building No.1, Mindspace-Gigaplex
IT Park, MIDC, Plot No. IT-5
Airoli Knowledge Park
Airoli West, Navi Mumbai - 400 708
Tel: + 91 22 6192 0003

18th Floor, Altimus
Pandurang Budhkar Marg
Worli, Mumbai - 400 018
Tel: + 91 22 6192 0503

Pune

C-401, 4th Floor
Panchshil Tech Park, Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

10th Floor, Smartworks
M-Agile, Pan Card Club Road
Baner, Pune - 411 045
Tel: + 91 20 4912 6800

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