



Union Budget 2026

Understanding Key Changes in Indirect Taxation

by

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1 Rationalisation of Post-Supply Discount Provisions

The Finance Bill, 2026 proposes a significant and taxpayer-friendly amendment in Section 15(3) and Section 34 of CGST Act, 2017 to address long-standing interpretational issues surrounding post-supply discounts under the GST law. The amendments seek to align statutory provisions with prevailing commercial practices and reduce avoidable working capital blockages.

Provision prior to Amendment

Section 15(3)(b) of the CGST Act, 2017 provided that post-supply discounts were deductible only if such discount was established in terms of an agreement entered into at or before the time of supply and specifically linked to relevant invoices, subject to reversal of attributable ITC by the recipient.

Provision after Amendment

Section 15(3)(b) of the CGST Act, 2017 shall provide that the value of supply shall not include any discount given after supply, if for such discount a credit note has been issued by the supplier and the attributable ITC has been reversed by the recipient in accordance with Section 34.

A corresponding amendment has been proposed in Section 34(1) of the CGST Act, 2017 to expressly permit issuance of credit notes where discounts referred to in Section 15(3)(b) are granted.

Provision prior to Amendment

Where one or more tax invoices have been issued for supply of any goods or services or both and the taxable value or tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply, or where the goods supplied are returned by the recipient, or where goods or services or both supplied are found to be deficient, the registered person, who has supplied such goods or services or both, may issue to the recipient

Provision after Amendment

Where one or more tax invoices have been issued for supply of any goods or services or both and the taxable value or tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply, or where the goods supplied are returned by the recipient, or where goods or services or both supplied are found to be deficient or where a discount referred to in clause (b) of sub-section (3) of section 15 is given, the registered person, who has supplied such goods or services or both, may issue to the recipient

The amendment to Section 34(1) of the CGST Act, 2017, explicitly incorporates post-supply discounts under Section 15(3)(b) as a valid ground for issuing credit notes, alongside existing scenarios like excess taxable value or tax charged, goods returns or deficient supplies.

Prior to amendment the credit notes were permissible where tax invoices exceeded actual taxable value or tax payable, or for goods returns or deficient supplies. Further there were ambiguity regarding post sale discount credit notes were covered by Section 34 or not. Further post sale discount credit notes were allowed subject to prior agreement as well as linkage to relevant invoices under Section 15(3)(b).

Post amendment where a discount referred to in clause (b) of sub-section (3) of section 15 has eliminated the need for pre-supply agreements or invoice linkage. This change, aligned with parallel updates to Section 15(3), significantly eases compliance by allowing flexible discount mechanisms without documentation hurdles, reducing litigation risks, enhancing cash flow for businesses through smoother ITC reversals, and promoting GST's ease-of-doing-business objectives.

Impact Analysis

- Removal of mandatory pre-supply agreement and invoice-wise linkage
- Facilitation of volume-based and performance-linked trade discounts
- Reduction in working capital blockage and litigation

Aspect	Pre-Amendment	Post-Amendment
Coverage	<ul style="list-style-type: none"> - Excess Taxable Value or Tax Payable - Goods Return - Deficient supplies only 	<ul style="list-style-type: none"> - Excess Taxable Value or Tax Payable - Goods Return - Deficient supplies only - Section 15(3)(b) discounts
Time Limit	30 Oct / Annual Return (whichever is earlier)	Same, now strictly enforced
Business Impact	Blocking of Working Capital	Working capital savings

2 Proposals related to GST Refund Mechanism

The Finance Bill, 2026 proposes to significantly expand the scope of provisional refunds under GST to improve cash-flow for taxpayers.

Presently provisional refunds under GST law were limited to zero-rated supplies (exports/ Supplies to SEZ) and the similar provisions are not applicable to Inverted Duty Structure.

Section 54(6) of the CGST Act, 2017 is proposed to be amended to extend provisional refunds not only to zero-rated supplies but also to refund claims arising on account of inverted duty structure.

Under the amended provision:

- Provisional refund up to 90% of the claim shall be granted within 7 days of filing the refund application
- Withholding of provisional refund shall be permitted only in “exceptional cases”, with reasons recorded in writing

Further, the restriction on grant of refund where the refund amount is less than Rs. 1,000 in cases of exports with payment of tax is proposed to be removed. For exports with payment of Tax certain industries particularly e-commerce, courier service faces the issue due to low value. This amendment aims to automate even refunds for small value consignments.

Aspect	Pre-Amendment	Post-Amendment
Coverage	Zero-rated supplies only	+ IDS (Sec 54(3)(ii))
Payout Timeline	90% within 7 days (limited scope)	Same, expanded scope
Export Threshold	No refund < ₹1,000	Removed—full automation
Business Impact	Cash flow loss/delays for IDS/exporters	Quick 90% refunds; WC boost

Impact Analysis

- Faster liquidity for inverted duty structure taxpayers
- Automation of refunds for low-value export consignments
- Significant relief for e-commerce and courier-based exporters

3 National Appellate Authority for Advance Ruling (NAAAR)

The Finance Bill, 2026 proposes amendments to streamline the functioning of the National Appellate Authority for Advance Ruling.

A new sub-section is proposed to be inserted in Section 101A of the CGST Act, 2017 empowering the Government to notify any existing authority, including a Tribunal, to hear appeals under Section 101B. In such cases, sub-sections (2) to (13) of Section 101A shall not apply.

It further seeks to provide that in such case, the provisions of sub-sections (2) to (13) shall not apply.

It also seeks to insert an Explanation in the said sub-section so as to provide that the expression “existing Authority” shall include a Tribunal.

Impact Analysis

- Faster operationalisation of appellate mechanism
- Reduced delays in resolution of conflicting advance rulings
- Improved certainty for taxpayers

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Proposal in relation to change in Place of Supply provision in relation to Intermediary Service

A landmark amendment has been proposed in the IGST Act, 2017 to address long-standing disputes relating to intermediary services.

2(13) “intermediary” means a broker, an agent or any other person, by whatever name called, who arranges or facilitates the supply of goods or services or both, or securities, between two or more persons, but does not include a person who supplies such goods or services or both or securities on his own account.

Earlier the place of supply for Intermediary services were governed by Section 13(8) of the IGST Act, 2017 which provides that place of supply shall be the location of the supplier of service.

The Finance Bill, 2026 proposes deletion of the term “intermediary” from Section 13(8) of the IGST Act, 2017.

Effect of Amendment:

- Place of supply shall be determined under the default rule, i.e., location of the recipient
- Services provided to overseas recipients shall qualify as export of services and be zero-rated enabling suppliers to provide services without charging GST and to claim refund of unutilised ITC under LUT or bond.
- Payments made to overseas intermediaries shall qualify as import of services and attract GST under reverse charge mechanism (RCM).

These reforms embody GST's and constitutional fundamental principle of exporting services, not taxes—ensuring Indian providers compete globally on a level playing field with zero tax drag.

Impact Analysis:

- Restoration of GST's core principle of exporting services and not taxes
- Improved global competitiveness of Indian service providers
- Substantial reduction in litigation

Way Forward

The proposed indirect tax amendments under Budget 2026 reflect a clear policy intent towards simplification, trade facilitation, liquidity enhancement and reduction of disputes. Taxpayers should proactively evaluate the impact of these changes on contracts, pricing models, refund strategies and cross-border transactions.

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