

UNION BUDGET 2025

HIGHLIGHTS

GST & CUSTOMS



CUSTOMS LAW AMENDMENTS

1. Procedural Reforms

A. Time-Bound Provisional Assessments (Section 18) :

A new sub-section (1B) introduces a **2-year time limit** for finalizing provisional assessments, extendable by 1 year for sufficient cause by the Commissioner of Customs. Sub-section (1C) provides for suspension of this time limit under specific circumstances until such grounds cease to exist. For pending cases, the time limit will be reckoned from the date of assent of the Finance Bill, 2025.

Impact: Provides clarity and ensures timely resolution of provisional assessments, reducing litigation.

B. Voluntary Revision (New Section 18A)

Importers/exporters can revise entries in relation to BOEs - post-clearance within a prescribed time frame and conditions. Revised entries will be treated as self-assessment as well, allowing payment of additional duty or refund claims under Section 27. Certain cases (e.g., fraud or misdeclaration) are excluded.

Impact: Streamlines compliance by enabling corrections without formal adjudication.

C. Refund Claims (Section 27)

A new explanation clarifies that refund claims arising from revised entries under Section 18A or amendments under Section 149 must be filed within **1 year from the date of payment of duty or interest**.

Impact: Aligns refund timelines with revised assessment provisions.

2. Dispute Resolution Mechanism

A. Interim Board for Settlement Commission

- The Settlement Commission is replaced by an Interim Board effective April 1, 2025.
- Pending applications will be handled by the Interim Board at their current stage.
- Relevant sections amended: Sections 127A to 127H.

Impact: Expedites resolution of pending disputes while phasing out the Settlement Commission.

3. Tariff Rationalization

The First Schedule to the Customs Tariff Act, 1975 is amended toward manufacturing competitiveness and overall tariff rationalization - following a similar reduction in 2023-24. After these changes, only eight tariff rates remain, including the zero rate.

B. New Tariff Classifications

- Separate tariff lines introduced for:
- Geographical Indication (GI)-registered rice varieties (e.g., basmati).
- Makhana products (popped, flour).
- Dual-use chemicals under Chapters 28 and 29 for better monitoring and classification.

GST LAW AMENDMENTS

1. Compliance Reforms

A. Input Service Distributor (ISD) Definition (Section 2)

Expands ISD's scope to distribute input tax credit (ITC) for inter-state supplies where tax is paid under reverse charge mechanism (RCM).

B. Track-and-Trace Mechanism (New Section 148A)

Introduces a system for affixing unique identification markings on specified goods/packages for better monitoring and control.

C. Time of Supply for Vouchers (Section 12 & 13)

Time of Supply for vouchers, applicable to both for goods as well as services, is being removed.

2. ITC related provisions

A. Input Tax Credit on Plant and Machinery (Section 17)

Clarifies that ITC is allowed only on "plant and machinery," removing ambiguity in interpretation with retrospective effect 01.07.2017.

B. Amendment to Section 34(2): Reversal of ITC for Credit Notes

A new condition mandates that the recipient must reverse the ITC attributable to a credit note for the supplier to reduce their output tax liability.

C. Input Service Distributor (ISD) Definition (Section 20)

Expands ISD's scope to distribute input tax credit (ITC) for inter-state supplies where tax is paid under reverse charge mechanism (RCM), as per Sections 5(3) and 5(4) of the IGST Act.

3. Retrospective Changes

Certain amendments are made effective retrospectively from July 1, 2017:
Supplies within SEZs/FTWZs before clearance for export or DTA are classified as "neither supply of goods nor services."

4. Appeals Changes (Section 107 & 112)

10% mandatory pre-deposit of the penalty amount for appeals before the First Appellate Authority and Appellate Tribunal, applicable in cases involving only where demand is related to penalty (no tax demand).

KEY OBSERVATIONS

Customs:

The introduction of time limits for provisional assessments ensures efficiency but may require capacity building in customs administration.
Replacement of the Settlement Commission with an Interim Board may face resistance due to transitional challenges.

GST:

Compliance measures like track-and-trace mechanisms enhance transparency but may increase compliance costs initially. Crucially important change in relation to eligibility criteria for ITC availment.

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