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Proposed Reforms in GST in Finance Bill 2025: A Critical Study

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Abstract

The adoption of the Goods and Services Tax (GST) in India was a game-changing step towards reforming the country's complicated indirect tax structure. An only tax would be imposed on all goods and services. Approximately 160 nations have implemented GST. GST will provide a comprehensive tax base with limited exemptions, thereby supporting the industry. GST will improve the economy's efficiency by lowering tax accumulation, since it will erase all tax barriers between states and integrate the country with a single tax rate. Since the introduction of GST, various revisions have been made as needed. The Finance Bill, 2025, also proposes many regulatory amendments and enabling provisions under GST that are consistent with the GST Council's suggestion at its 55th meeting. The study focuses on the amendments made in GST in the Finance Bill 2025.

Keywords: Amendments, Financial Bill 2025, Goods and Services Tax (GST), Indirect Taxes.

Introduction

The Goods and Services Tax (GST) is one of the most important tax reforms adopted in India, significantly modifying the structure of indirect taxes. On July 1, 2017, GST replaced various central and state taxes, including excise duty, service tax, and VAT, with a unified system. The reform attempted to streamline the tax process, expand the revenue base, and eliminate the cascading effect of taxes. GST is a multi-stage, destination-based tax that collects at each step of value addition. Its goal is to promote transparency and business-friendliness. The GST was introduced to simplify and streamline the old tax structure, which included several levies levied by both the central and state governments. This multi-layered tax structure inhibited economic growth by creating an uncompetitive corporate environment, raising compliance costs, and establishing trade barriers. GST consolidates taxes to increase corporate efficiency, compliance, and revenue collection. The GST act has undergone several modifications as needed. The goal of this review article is to comprehend the changes made to GST act in the Finance Bill 2025.

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Proposed Reforms in GST in Finance Bill 2025 :

The Goods and Services Tax (GST) is critical to revenue collection, compliance, and economic growth. The Financial Bill 2025 included various GST revisions aimed at simplifying compliance, improving tax governance, and increasing trade facilitation. Amendments were made in the following areas:

1. Definitions
2. Input tax credit on plant and machinery
3. Time and supply
4. Credit notes
5. Track and Trace mechanism
6. Returns
7. Pre-deposit for Appeals
8. Pre-deposit for Tribunal Appeals
9. Penalty for Track and Trace Non-compliance
10. Goods Warehoused in SEZs and FTWZs

	Amendment	**Impact**
1.	**Definitions :**	
A	The Finance Bill 2025 amended the definition of Input Service Distributors. Following this change, the ISD is an office of a provider of goods or services, or both, that receives tax invoices for the receipt of input services, including invoices for services taxable under GST and obligated to distribute the input tax credit.	This amendment aims to improve compliance and alignment between the CGST and IGST Acts, particularly in circumstances involving interstate reverse charge mechanism transactions under the reverse charge mechanism. This would help boost ITC utilisation and traceability of input tax credits.
B	The definitions of "Local Fund" and "Municipal Fund" are clarified to encompass "local authority".	This amendment clarifies and avoids uncertainty in the application of GST laws.
C	The bill added a new Section 2 (116A). The phrase 'unique identification mark' refers to the unique identification marking indicated in clause (b) of sub-section (2) of section 148A, which includes a digital stamp, digital mark, or any other analogous marking that is unique, secure, and non-removable.	This addition seeks to provide a provision in the CGST Act, 2017 through Section 148A that will empower the government to enforce the Track and Trace Mechanism for particular evasion-prone commodities.

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2.	**Input tax credit on plant and machinery:**	
	The bill used the phrase 'plant and machinery' instead of 'plant or machinery'. This modification will take effect on July 1, 2017, which is the date that the GST provisions are enacted.	This amendment clarifies that the word 'plant or machinery' must be read as 'plant and machinery' and it applies retrospectively. So, it will overrule earlier constructions made by courts, tribunals or other authorities and the words "notwithstanding anything contained in the foregoing provisions" would mean that the decision will override all previous conflicting decisions and legal precedents.
3.	**Time and supply:**	
	The redemption date of a voucher is now the determining factor for time of supply.	It simplifies the calculation of the time span of supply for voucher transactions.
4.	**Credit notes:**	
	The Finance Bill 2025 modifies the law to specifically demand the reversal of the corresponding input tax credit related to a credit note, if claimed by the registered receiver, in order to lower the supplier's tax burden on that credit note.	It describes the procedure and guarantees effective ITC reversal.This proposal attempts to end revenue leakage to ensure that both the supplier's and recipient's tax positions are aligned. Notwithstanding the good intent, implementation thereof especially in case of disgruntled parties would pose a huge challenge.
5.	**Track and Trace mechanism :**	
	The Finance Bill 2025 inserted Section 148A based on Unique Identification Marking. It aims at facilitating tracing of certain specified evasion prone items. UIM will help to track goods across the supply chain and decrease tax evasion.	It will increase transparency and reduce tax evasion risks.
6.	**Returns :**	
	The Finance Bill 2025 make an amendment regarding conditions and restrictions for filing returns in addition to prescribing the timeline.	It will provide more flexibility to government to introduce specific rules for return filing.
7.	**Pre-deposit for Appeals :**	
	The Finance Bill 2025 make an amendment to provide for 10% pre-deposit instead 25% for	It will reduce financial burden on taxpayers appealing against penalty demands.

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	filing of appeals in cases involving penalty demands.	
8.	**Pre-deposit for Tribunal Appeals :**	
	The Finance Bill 2025 make an amendment to provide for 10% pre-deposit for filing of appeals before Appellate Tribunal in cases involving only penalty.	It will provide relief to taxpayers appealing against penalty only orders.
9.	**Penalty for Track and Trace Non-compliance:**	
	The Finance Bill 2025 inserted Section 122B which introduces penalty of 10% of tax payable on goods or Rs. 1,00,000, whichever if higher for track and trace non-compliance.	It will strengthen anti-evasion measures.
10.	**Goods Warehoused in SEZs and FTWZs:**	
	The Finance Bill 2025 inserted clause (aa) in paragraph 8 of schedule III to provide that the supply of goods warehoused in a SEZ (Special Economy Zone) or in a FTWZ (Free Trade Warehousing Zone) to any person before clearance for exports or to the DTA (Domestic Terrif Area) shall be treated neither as supply of goods nor as supply of services.	This puts dealings involving the supply of products warehoused in SEZ or FTWZ on level with the existing GST provision for transactions in customs bonded warehouses, and they will not be considered as a supply of goods or services under GST and would not generate GST.

Conclusion

The GST changes in the 2025 budget are intended to strengthen tax governance, simplify compliance, and boost trade facilitation. By clarifying regulations, creating new mechanisms, and streamlining processes, these changes aim to make the GST system more transparent and efficient. Changes such as ITC distribution for reverse charge transactions, compulsory pre-deposits for penalty appeals, and stricter Track and Trace compliance improve transparency and efficiency. Clarifications on SEZ warehousing, local authority definitions, and time of supply provisions help to streamline GST legislation. In this ever-changing regulatory landscape, businesses must stay up to date and use automation to ensure seamless compliance and optimise tax administration.

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