

INDIRECT TAX NEWSLETTER

February 2026





A. Key Policy Updates

Directorate General of Foreign Trade (“DGFT”)

1. NPCI based workflow for bank account validation in IEC applications and modifications implemented^[1]

The Directorate General of Foreign Trade (“DGFT”) has issued a public notice for integration of the National Payments Corporation of India with the IEC details furnished by traders.

This will ensure real time validation of bank details furnished at the time of IEC issuance as well as IEC modification. Further, it will help in ensuring authenticity of IEC-linked bank accounts and enabling a fully digital, automatic and trusted trade facilitation framework. Accordingly, all traders are advised as follows:

- Declare all active bank accounts linked with their PAN; and
- Ensure that PAN, name and bank account details are correctly matched as per bank records.

2. Extension of timeline to file Annual RODTEP Return^[2]

The DGFT has issued a Public Notice for extension for timeline to file the Annual RODTEP Return for Financial Year 2023-24 from November 30, 2025 to March 31, 2026 with a composition fee of INR 15,000/-

3. Draft of the Digital Trade Facilitation Bill, 2026 has been circulated for comments^[3]

To provide statutory recognition to electronic trade documents, enable trusted digital verification mechanisms, and facilitate secure cross-border exchange of trade records, the Government of India through the DGFT has circulated the Digital Trade Facilitation Bill for comments by the stakeholders. Trade members are advised to provide their comments by March 09, 2026.

4. Tracking of Bank Realisation Certificate with GST invoice:

Government has issued a Public Notice to amending the format of the Electronic Bank Realisation Certificate (e-BRC) mentioned in Appendix 2U of the Handbook of Procedures. The revised e-BRC format adds following mandatory fields:

- a.GSTIN
- b.GST Invoice Number
- c.GST Invoice Date

This change strengthens linkage between export realisation (BRC) data and GST invoices, effective from January 13, 2026. Under the revised approach, BRC realisations will be matched directly with corresponding GST invoices instead of shipping bills to reduce discrepancies between GST data and foreign exchange realisations.

Exporters should ensure that all GST invoices are correctly issued, reported, and reconciled with the related foreign inward remittances. Any mismatch between GST invoices and realised export proceeds may lead to issues in BRC generation or disbursement.

[1] DGFT Trade Notice No. 23/2025-26 dated February 06th, 2026

[2] DGFT Public Notice No. 46/2025-26 dated February 05th, 2026

[3] DGFT Trade Notice No. 24/2025-26 dated February 09th, 2026



Central Board of Indirect Taxes and Customs (“CBIC”)

5. Union Budget 2026 announced

The Finance Bill 2026 has been announced marking multiple reforms in customs processes, existing digital ecosystems, Baggage Rules, personal imports and customs duty rates. Our detailed alert on the Union Budget can be found [here](#).

B. Customs Law: Key Advance Rulings & Judgements

1. Export Obligation Discharge Certificate (EODC), once issued, is determinative of the fulfillment of export obligations. Customs authorities do not have the power to refute it^[4]

The present case determined whether Customs authorities have the jurisdiction to question the fulfillment of export obligations once the DGFT has issued an EODC. The appellant argued that once the DGFT (the licensing authority) issues an EODC and it remains uncanceled, the Customs authorities cannot sit in judgment over that certificate.

The Hon'ble CESTAT, New Delhi agreed with the appellant and ruled that Customs authorities do not have the jurisdiction to question the validity of a certificate issued under the Foreign Trade (Development and Regulation) Act, 1992 unless the DGFT itself initiates cancellation proceedings.

2. Value of imported software imbedded in hardware equipment is to be included in assessable value for computation of customs duty^[5]

In the present case, the Appellant imported networking equipment imbedded with software. The transaction was structured by splitting the value between hardware and software. The Revenue Authorities alleged that the transaction was artificially split to undervalue the networking equipment. Primary contention was that the software was "embedded" or "integral" to the hardware and its value should be included in the assessable value of the hardware for customs duty purposes.

The Hon'ble CESTAT, Chennai was in agreement with the Revenue Authorities and held that the value of the software is indeed includable in the value of the hardware imported as it is essential for the hardware's functionality. The confirmation of duty on this ground was upheld.

3. LED drivers are classifiable under Customs Tariff Heading 8504 40 90 as "Static Converters".^[6]

The present advance ruling pertains to classification of LED Drivers, which are electronic devices used to regulate the power required for an LED or an array of LEDs. They convert higher voltage, alternating current (AC) from the mains to the low voltage, direct current (DC) required by LEDs. They also provide protection against voltage and current fluctuations.

The Hon'ble CAAR adjudicated whether these drivers should be classified as "Static Converters" (based on their electrical function) or as "Parts of Luminaires/Lighting Fittings" (based on their end-use in LED lighting). It was held that these drivers incorporate converting elements (valves), transformers, and command regulators. Their primary function is to adapt electrical energy for further use by converting it. Hence, they are more specifically covered under CTH 8504 as "Electrical transformers, static converters (for example, rectifiers) and inductors."

[4] Dr. Mohandhas versus Commissioner of Central Excise (Adj.), New Delhi, Customs Appeal Nos. 259 to 264 of 2011 dated January 19, 2026

[5] M/s. Wipro (Infotech Group) versus Commissioner of Customs, Chennai, Customs Appeal No. 40588 of 2016 dated February 04, 2026

[6] M/s IDH Solutions Private Limited versus the Commissioner of Customs (NS-V), Raigad, Ruling No. CAAR/Mum/ARC/143/2025-26 dated January 30, 2026



4. Reconstructed evidence without a valid certificate and without establishing a clear chain of custody from the original device, cannot be used as the sole basis for imposing penalties under the Customs Act.^[7]

In the present case, an investigation was carried out by the Revenue authorities against the importer and penalty under Section 114AA was levied. The basis of levy was an electronic record in the form of a reconstructed DVD which contained data retrieved from electronic devices during the investigation.

The importer argued that the DVD was a "reconstructed" secondary record. Since the Revenue Authorities failed to produce a certificate as required under Section 138C (2) of the Customs Act and did not verify the source/authenticity from the original device, the evidence is legally inadmissible.

The Hon'ble CESTAT, Kolkata observed that Section 138C of the Customs Act provides a specific, mandatory procedure for the admissibility of computer printouts and electronic records. This includes ensuring the computer was operating properly and that the information was supplied in the ordinary course of activity. The court held that the source and authenticity of electronic records are crucial. In this case, the DVD was "so-called" reconstructed evidence. Without a valid certificate and without establishing a clear chain of custody from the original device, the DVD could not be used as the sole basis for imposing penalties. The Hon'ble Tribunal also noted that retracted statements, when not supported by independent and legally admissible evidence (like a valid electronic record), have diminished evidentiary value.

5. A "bonafide" transferee importer is not liable to pay duty if the valid scrips bought by it and used are later cancelled by the DGFT after the date of import.^[8]

In the present case, the appellants, acting as "transferee importers," utilized Duty Credit Scrips, issued by the DGFT to pay customs duties on their imports. These scrips had been purchased from original allottees in the open market. Following an investigation, it was discovered that the original exporters had obtained these scrips through fraudulent means or misrepresentation. Consequently, the DGFT cancelled the scrips and Customs issued demands to the appellants to pay the duty in cash.

The Hon'ble CESTAT, Mumbai held in favor of the appellants. Further, they drew a sharp distinction between "forged/fake" documents and "genuine documents obtained through fraud." It held that if a scrip is genuine (issued by the authority), it is valid until it is cancelled. Further, the transferee importers are entitled to retain the privilege of exemption if the scrips were not forged/fake at the time of import.

[7] Vikash Kumar versus Commissioner of Customs (Preventive), Kolkata, Customs Appeal No. 75368 of 2025 (and others) dated February 6, 2026

[8] Borax Morarji Ltd & Others versus Commissioner of Customs (Export Promotion), Mumbai, Customs Appeal Nos. 27 of 2011 (and others), 2026 (2) TMI 342



C. Goods and Services Tax Law: Key Judgments

1. GSTAT Remands GSTR-1 vs GSTR-3B Mismatch Case to Proper Officer; Section 74 Held Inapplicable

The Goods and Services Tax Appellate Tribunal (Principal Bench), in its order dated 11.02.2026 in *M/s Sterling & Wilson Pvt. Ltd. vs. Commissioner, Odisha (CT GST) & Ors.*, addressed a mismatch between GSTR-1 and GSTR-3B for FY 2018-19. The department had initiated proceedings under Section 74 of the CGST Act alleging suppression and wilful misstatement due to higher outward tax liability reported in GSTR-1 compared to GSTR-3B. The assessee contended that the differences were due to reconciliation issues such as credit/debit notes, advance adjustments, and initial GST system constraints, with all transactions duly recorded in the books.

The Tribunal held that there was no evidence of fraud or suppression to justify invoking Section 74. It ruled that once Section 74 was found inapplicable, the matter could not be conclusively decided under Section 73 at the appellate stage. Accordingly, the case was remanded to the Proper Officer for fresh determination under Section 73, with directions to grant a reasonable hearing and allow the assessee to submit supporting documents.

D. Developments on the GSTN portal

1. Invoice Management System (IMS)

GSTN has introduced a separate tab in the Outward IMS section on the GST portal to specifically display rejected credit notes and similar entries that require tax liability to be added back in GSTR-3B. Earlier, taxpayers were required to manually track such entries, which increased the risk of omissions and reporting errors. With this new dedicated tab, identification of such transactions has been streamlined, thereby facilitating more accurate reporting and improved compliance while filing accurate GST returns under IMS Framework.

2. Calculation of interest liability on the GSTN portal

GSTN has issued an important advisory wherein the interest on delayed filing of GSTR 3B shall be computed on net cash liability reduced by minimum cash balance available in the Electronic Cash Ledger. This would help in saving interest exposure, in case of missed deadline due to any reason, however, GST liability has been deposited in Electronic Cash Ledger. It is applicable from GSTR 3B for the month of Jan'26.

Formula for interest calculation:

Interest = (Net Tax Liability – Minimum Cash Balance in ECL from due date to date of debit) × (No. of days delayed / 365) × Applicable Interest Rate



Thank You

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