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INDIRECT TAX NEWSLETTER

July 2026

A. Key Policy/Regulation Updates

Directorate General of Foreign Trade (“DGFT”)

1. DGFT includes India-UK CETA Tariff Rate Quotas in Handbook of Procedure [1]

Public Notice No. 19/2026-27 dated July 09, 2026 amends Para 2.92 and Appendix 2A of the Handbook of Procedure, 2023 to incorporate the Tariff Rate Quota (TRQ) framework under the India–United Kingdom Comprehensive Economic and Trade Agreement (CETA). The amendments prescribe the procedure for allocation and administration of TRQs, enabling eligible importers to avail preferential tariff benefits on specified goods imported from the United Kingdom in accordance with the provisions of the Agreement.

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

2. Nil duty on parts of Inductor coil and capex for Battery cells) [2]

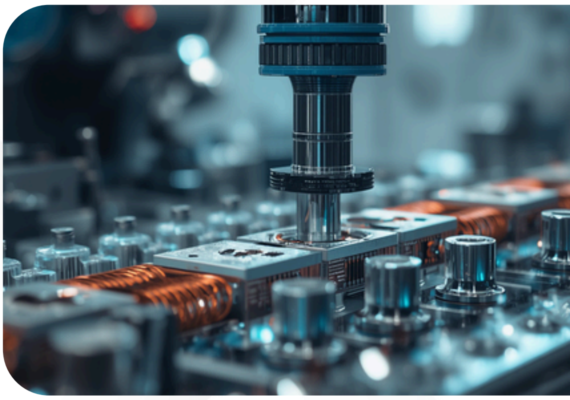
The Customs has issued below two notification providing exemption from BCD on parts of Inductor coil and capex for Battery cells:

i. **Notification No. 26/2026-Cus dated Jul 08, 2026:** The Government has inserted Sl. No. 6K in the IGCR notification 57/2017-Cus and provided **Nil BCD** on following parts used in manufacturing of **Inductor coil module used in Mobile phone:**

- NC (Nano-Crystalline) Assembly
- E-Shield;
- PET Liner;
- PC Shim (with Z-Liner);
- Main Stranded Coil and NFC Coil;
- NdFeB Magnets

The above exemption is available till March 31, 2029.

ii. **Notification No. 27/2026-Cus dated Jul 08, 2026:** Vide this notification, the Government has substituted Sl. No. 69 & 69A, and provided **Nil BCD** on majority of the capital goods used for manufacturing of **Lithium Ion Cell.**



[1] Public Notice No. 19/2026-27 dated July 09, 2026
[2] Notification No. 26/2026-Cus dated Jul 08, 2026 and Notification No. 27/2026-Cus dated Jul 08, 2026

3. BCD exemption extended for goods used in manufacture of Display Assemblies [3]

CBIC has issued Notification No. 25/2026-Customs dated July 08, 2026 amending Notification No. 45/2025-Customs to extend Basic Customs Duty (BCD) exemption to specified goods imported for use in the manufacture of display assemblies. The amendment aims to promote domestic manufacturing of display modules, strengthen the electronics component ecosystem, and support the Government's Make in India initiative.

4. Cabinet approves ₹62,500 Crore Mobile Phone Manufacturing Scheme (MPMS) [4]

The Union Cabinet has approved the **Mobile Phone Manufacturing Scheme (MPMS)** with a budgetary outlay of **₹62,500 crore** for five years from FY 2026-27 to FY 2030-31. The scheme succeeds the PLI Scheme for Large Scale Electronics Manufacturing (PLI-LSEM) and aims to promote **deeper domestic value addition, local component manufacturing, R&D, and Indian electronics brands.**

Key incentives include:

- **2.25% to 5%** incentive on eligible sales of mobile phones manufactured in India;
- Additional incentive of up to **1.5%** linked to domestic sourcing of key components and sub-assemblies; and
- An additional **3% incentive** for eligible companies undertaking in-house product design and R&D.

The scheme is expected to boost India's electronics manufacturing ecosystem, drive significant production and exports, and generate approximately **60,000 additional direct jobs**, further strengthening India's position as a global electronics manufacturing hub.

5. India-UK CETA customs duty exemptions come into effect [5]

Notification No. 29/2026-Customs dated July 14, 2026 implements the customs duty concessions under the India-UK Comprehensive Economic and Trade Agreement (CETA), effective July 15, 2026. The notification grants preferential Basic Customs Duty (BCD), Agriculture Infrastructure and Development Cess (AIDC), and Health Cess exemptions on eligible goods imported from the United Kingdom, subject to prescribed conditions and, for specified goods, Tariff Rate Quotas (TRQs).

To claim the preferential duty, importers must comply with the prescribed Rules of Origin requirements, including quoting the Unique Reference Number (URN) generated against the UK exporter's Origin Declaration on the Bill of Entry. The concessions are expected to enhance bilateral trade while providing significant duty benefits across sectors such as automobiles, machinery, chemicals, metals, and agricultural products.

6. Standard format prescribed for deficiency memos under Section 74 drawback claims [6]

Circular No. 31/2026-Customs dated July 04, 2026 prescribes a standard format for issuing Deficiency Memos in respect of duty drawback claims filed under Section 74 of the Customs Act, 1962. The Circular addresses an audit observation regarding the absence of a prescribed format and aims to bring uniformity in processing re-export drawback claims across Customs formations.

The prescribed format specifies the documents and information that may be sought from claimants, including import and export documents, drawback calculation sheets, GST-related declarations, and other supporting records. If the deficiencies are not rectified within 30 days, the drawback claim will be treated as not filed in terms of Rule 5(4)(b) of the Re-export of Imported Goods (Drawback of Customs Duties) Rules, 2017.

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[3] Notification No. 25/2026-Customs dated July 08, 2026
[4] Mobile Phone Manufacturing Scheme (MPMS) of ₹62,500 crore for five years from FY 2026-27 to FY 2030-31
[5] Notification No. 29/2026-Customs dated July 14, 2026
[6] Circular No. 31/2026-Customs dated July 04, 2026

B. Key Advance Rulings & Judgements

1. CAAR denies ex-bond concessional duty benefit without IGCR compliance at the time of import

In M/s Sunwoda Electronic India Pvt. Ltd. v. Principal Commissioner of Customs (2026 (7) TMI 1287 - CAAR, New Delhi), the Customs Authority for Advance Rulings held that a MOOWR unit cannot claim the concessional 5% Basic Customs Duty under Serial No. 320 of Notification No. 45/2025-Customs at the ex-bond stage where the imported lithium-ion cells were initially warehoused under a different entry (Serial No. 325) without complying with the Import of Goods at Concessional Rate of Duty (IGCR) Rules, 2022 from the time of import.

The Authority observed that although the applicable duty rate for warehoused goods is determined on the date of filing the ex-bond Bill of Entry under Section 15(1)(b) of the Customs Act, a conditional end-use exemption cannot be availed unless the prescribed IGCR procedures have been complied with at the import stage. Accordingly, the applicant was held ineligible to switch to the concessional notification at the time of ex-bond clearance without fulfilling the mandatory import-stage conditions.

2. Interest on Ex-Bond clearance depends on intended, not actual use

In M/s Dalmia Cement (Bharat) Limited v. Commissioner of Customs (Port), Kolkata (2026 (7) TMI 1292 - CESTAT Kolkata), the Tribunal held that interest under Section 61(2) of the Customs Act is not payable on capital goods cleared for home consumption from a MOOWR warehouse, where the goods were imported with the intention of being used in manufacturing operations, even if they were subsequently cleared without actual use.

Relying on Supreme Court decisions and the earlier ruling in ACME Aklera Power Technology Pvt. Ltd., the Tribunal clarified that the expression "intended for use" under Section 61(1)(a) refers to the importer's intention at the time of import and does not require actual use of the capital goods within the warehouse. The ruling provides significant relief to MOOWR units by reaffirming that subsequent commercial or operational changes do not, by themselves, trigger interest liability where the original intent to use the capital goods in manufacturing is established.

3. AAR Clarifies MOOWR benefits for export of by-products

In Gemini Edibles & Fats India Limited v. Commissioner of Customs (Preventive), Vijayawada (2026 (7) TMI 333 - Customs Authority for Advance Rulings, Mumbai), the Authority held that by-products generated during manufacturing under the MOOWR Scheme qualify as "resultant goods" under Section 65 of the Customs Act. It observed that the expression "resultant goods" covers all commercially distinct outputs emerging from the manufacturing process and is not restricted to the principal finished product.

The Authority further ruled that the export of such by-products is eligible for proportionate remission of customs duty on the imported inputs contained therein, subject to proper accounting and correlation of material consumption. The ruling provides significant clarity for MOOWR units by confirming that exports of by-products are entitled to the same duty remission benefits as exports of the principal manufactured goods, thereby supporting a broader and facilitative interpretation of the MOOWR framework.

4. Madras High Court reaffirms specific tariff classification for LCD Touch Panel Modules

In M/s Mobis India Limited v. Commissioner of Customs & Others (2026 (7) TMI 932 - Madras High Court), the Court set aside the Customs order classifying imported Liquid Crystal Display (LCD) Touch Panel Modules under CTH 8537 and remanded the matter for fresh adjudication. Relying on the Supreme Court's decision in Videocon Industries, the Court observed that LCDs specifically covered under CTH 9013 cannot be reclassified merely because they are intended for use in automobile audio systems. The ruling reinforces the principle that specific tariff entries prevail over end-use-based classification, providing important guidance for classification of electronic display components under the Customs Tariff.

5. AAR Classifies Samsung 'Moving Style' as Monitor under customs tariff

In M/s Samsung India Electronics Pvt. Ltd. v. Principal Commissioner of Customs, New Delhi (2026 (7) TMI 852 - Customs Authority for Advance Rulings), the Authority held that Samsung's 'Moving Style', an interactive touchscreen smart display with embedded processor and operating system, is classifiable under CTH 8528 59 00 as an "other monitor", and not under Heading 8471 as an automatic data processing (ADP) machine. The Authority applied the principal function test, observing that the embedded computing features merely support the product's primary function of interactive display and collaboration.

The Authority further ruled that the dedicated floor stand, designed solely for use with the display, is classifiable under CTH 8529 90 90 as a part suitable for use with apparatus of Heading 8528. The ruling underscores the importance of the principal function of composite electronic devices in determining their customs classification and provides useful guidance for importers of interactive display and smart collaboration equipment.

6. AAR classifies front camera module as motor vehicle part

The Customs Authority for Advance Rulings (CAAR), Mumbai, vide Order No. CAAR/Mum/ARC/18/2026-27 dated 09 June 2026, held that a Completely Knocked Down (CKD) kit comprising various components required for assembly cannot be treated as a motherboard for the purpose of customs classification. The Authority observed that the imported consignment consists of distinct components and parts, each retaining its individual identity and function, and therefore cannot be classified as a single product merely because they are imported together.

Accordingly, the CAAR ruled that each component or part of the CKD kit is required to be classified separately under its respective tariff heading based on its individual characteristics and description. Consequently, the Authority held that the CKD kit is not classifiable under tariff item 8473 30 20 (Motherboards), and the applicable HSN classification and customs duty must be determined individually for each imported component in accordance with the Customs Tariff Act, 1975.

7. Allahabad High Court upholds right to effective hearing in GST adjudication

In M/s Vinayak Agro Industries v. Directorate General of GST Intelligence & Others (2026 (7) TMI 1517 - Allahabad High Court), the Court set aside the GST adjudication order after holding that the taxpayer was not provided an effective opportunity to file a reply and present its case. The matter was remanded for fresh adjudication with directions to permit the taxpayer to submit a detailed reply, seek cross-examination or relied-upon documents, if required, and be granted a personal hearing, reaffirming that adherence to the principles of natural justice is essential before passing adverse orders.

8. Orissa High Court grants relief from erroneous gst demand classification

In M/s Magnum Estates Private Limited v. Additional Commissioner, GST (Appeals) & Others (2026 (7) TMI 1043 - Orissa High Court), the Court held that a taxpayer cannot be compelled to make a statutory pre-deposit on an amount that was erroneously reflected as tax instead of interest in Form GST DRC-07. Since the incorrect classification would have unfairly increased the pre-deposit required for filing an appeal, the Court set aside the appellate order and remanded the matter for fresh adjudication, ensuring that the taxpayer's appellate remedy was not defeated by a procedural error.

9. Karnataka High Court clarifies E-Way Bill requirement for non-supply movement of goods

In State of Karnataka v. AAM India Manufacturing Corporation Pvt. Ltd. (2026 (7) TMI 978 - Karnataka High Court), the Court held that the movement of machinery back to the supplier for testing, without any consideration, does not constitute a supply under GST. However, such movement, though permissible under a delivery challan in terms of Rule 55, still requires generation of an e-Way Bill under Rule 138. The Court upheld the levy of the reduced penalty for transporting goods without an e-Way Bill, while confirming that no GST was payable on the transaction.

C. Developments on the GSTN portal

1. GSTN keeps proposed e-Way Bill enhancements on hold

GSTN has issued an advisory dated July 29, 2026 stating that the proposed e-Way Bill enhancements earlier notified through advisories dated June 9 2026 and June 17, 2026, which were scheduled to be implemented from August 01, 2026, have been kept on hold until further notice. Accordingly, taxpayers, transporters, and system integrators are not required to implement any changes in the production environment based on the earlier advisories. GSTN has also informed that the related advisories and FAQs issued on July 2, 2026 will be withdrawn from the GST Portal until further communication.

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Thank You

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