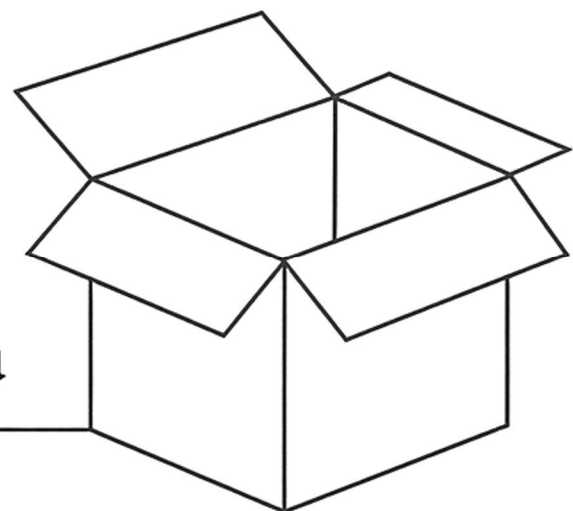


GST Refunds & Inverted Duty Structure

**A Practical Handbook
for Corrugated Box
Manufacturers**

CA Vikash Dhanania





***“Your business deserves every refund it earns —
and now, you’ll never miss one.”***



“GST Refunds & Inverted Duty Structure — A Practical Handbook for Corrugated Box Manufacturers”

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Preface

*The **corrugated packaging industry** is one of the unsung pillars of India's manufacturing strength and export economy. Its growth reflects the nation's shift toward sustainability, efficiency, and innovation in supply-chain solutions.*

*When the **GST rate rationalisation of September 2025** came into effect, it brought both relief and new complexity. While the reduction in output tax supported the end-consumer, manufacturers began to face a fresh challenge — **the inverted duty structure**, where input taxes were higher than output taxes. This imbalance led to blocked working capital and uncertainty over refunds.*

*This handbook by **GST DOST** has been created to simplify that complexity. It explains the **refund mechanism under Section 54(3) of the CGST Act and Rule 89(5)** through clear steps, illustrations, and compliance checklists specifically curated for the corrugated packaging sector. **Each chapter connects legal provisions with practical insights, enabling manufacturers, accountants, and consultants to apply the law confidently and reduce the risk of litigation.***

Our purpose is not only to explain the law but to empower readers with the clarity needed to take informed decisions. At GST DOST, we believe that knowledge is the most sustainable input a business can invest in — one that pays back in compliance, confidence, and credibility.

*With **gratitude to Bhagwan Ji** for the wisdom to write, the strength to persist, and the clarity to use modern tools responsibly for research, proofreading, and image creation.*

CA Vikash Dhanania

*Founder, **GST DOST** – Simplifying GST for India's Businesses —*



Understanding the Bigger Picture — Why This Guide Matters

*The corrugated packaging sector has always stood at the intersection of **manufacturing, sustainability, and taxation**. After the 55th GST Council Meeting, when rates on kraft paper and corrugated boxes were rationalised, the industry experienced both relief and confusion.*

*While businesses welcomed uniformity, many discovered that their **input tax credits began to pile up**, creating an inverted duty structure that silently blocked their working capital. The refund mechanism under **Section 54(3)** of the CGST Act became not just a compliance activity — but a **lifeline for liquidity**.*

This handbook is not merely a compilation of laws. It is a practical bridge between legislation and daily factory operations.

*Each section has been written with the mindset of a **manufacturer, accountant, and tax officer**, so readers can understand **why** certain credits are refundable and **how** to prove eligibility confidently.*

*Behind every refund claim lies a deeper discipline — **accurate record-keeping, vendor selection, and timely reconciliation** — values that define not only good compliance but good business.*

*At **GST DOST**, we believe that **knowledge is the most sustainable input** for every enterprise.*

Just as corrugated boxes protect what's inside, this guide aims to protect your rights, your capital, and your confidence under GST.

“Refunds are not favours; they are rights earned through compliance.”

CA Vikash Dhanania

*Founder, **GST DOST** – Simplifying GST for India's Businesses —*

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Executive Summary

From 22 September 2025, India's GST regime rationalised rates, taxing kraft paper at **18 %** while corrugated boxes (HSN 4819) and waste paper (HSN 4707) are taxed at **5 %**. This split rate creates an **inverted duty structure** – businesses pay more GST on inputs than they charge on outputs. Manufacturers accumulate input tax credit (ITC) and must apply for refunds under Section 54 of the CGST Act. This book explains the legal framework, refund calculations, application procedure, risk-based provisional refunds, export scenarios and practical compliance tips for corrugated-box manufacturers.

01 Legal Framework for Refund under Inverted Duty Structure

1.1 Section 54 – Refund of Tax

- Under **Section 54(3)**, a registered person may claim a refund of unutilised input tax credit (ITC) when the tax rate on inputs is higher than the tax rate on output supplies.
- **The refund is limited to ITC on inputs (goods).** ITC relating to input services and capital goods is not refundable.
- **No refund is allowed** where:
 - ☐ The output supplies are nil-rated or exempt,
 - ☐ Duty drawback has been availed,
 - ☐ Refund of IGST on exports has been claimed, or
 - ☐ The exported goods are subject to export duty.
- **A registered person may apply for a refund of unutilised ITC within two years from the relevant date.** For Inverted Duty Structure (IDS) claims, the relevant date is the due date for filing GSTR-3B for the tax period to which the refund relates.

Example: If the refund relates to October 2025, the relevant date is 20 November 2025 (the GSTR-3B due date). The application must be filed by 20 November 2027. Failure to file within two years will result in rejection.
- Under **Section 54(6)**, 90% of the refundable amount may be granted as a provisional refund.

- Under **Section 54(7)**, the final refund order must be issued within 60 days from the date of the application.
- Under **Section 54(10)**, the refund may be withheld if returns have not been filed or if there are outstanding dues.

1.2 Rule 89(5) – Formula for IDS Refund

- **Rule 89** prescribes the procedure to apply for refunds through Form GST RFD-01. While **Sub-rule 89(5)** specifies the maximum refundable amount for Inverted Duty Structure (IDS) claims using a prescribed formula.

- **Maximum Refund Amount**

The refund is computed as: **Part A – Part B**

Part A =

$$\frac{\text{Turnover of inverted-rated supply of goods or services}}{\text{Adjusted Total Turnover}} \times \text{Net ITC}$$

Part B =

$$\text{Tax payable on such inverted rated supply of goods and services} \times \frac{\text{Net ITC}}{\text{ITC availed on inputs and input services}}$$

- **Definitions and Key Terms**

- **Net ITC** means the input tax credit availed **only on inputs (goods)** during the relevant period. It specifically excludes ITC on input services and capital goods.

- **Adjusted Total Turnover (ATT)** as per **Rule 89(4)**, means the aggregate value of taxable and zero-rated supplies of goods and services made during the period, **excluding** –
 - ≥ Exempt supplies (other than zero-rated), and
 - ≥ Export of services on which IGST has been paid and refund is claimed under **Rule 96**.

For export services under LUT, the value to be taken is the amount of payment actually received during the period as per **Rule 89(4)(D)**.

- **Cap on Refund Amount**

- As clarified in **CGST Circular No. 125**, the refundable amount is restricted to the lowest of:
 - i. The amount computed under the Rule 89(5) formula,
 - ii. The electronic credit ledger balance at the end of the tax period to which the refund relates, and
 - iii. The electronic credit ledger balance on the date of filing the refund application.

Note:

Figures in items (ii) and (iii) are auto-populated when you file the refund application online on the common portal.

1.3 CGST Circular 125/2019:

i. Filing the Refund Application with Supporting Documents

- When filing a refund application online, the applicant must upload all relevant supporting documents, including:
 - ☐ **FORM GSTR-2B** for the relevant tax period (and any earlier period in which the invoices appear).
 - ☐ **Annexure B:** An invoice-wise ITC statement containing:
 - ✓ An eligibility declaration, and
 - ✓ Confirmation of compliance with Rule 36(4).

ii. Undertaking Regarding Supplier's Tax Payment

- While filing the refund application, the applicant must provide an online undertaking that, if any supplier whose invoices are used for the ITC refund fails to pay GST to the Government on those invoices, the applicant will repay the refunded amount with applicable interest to the Government.

iii. Mandatory Filing of Returns Before Refund

- Before submitting a refund application, all applicable returns for the relevant period must be filed, as applicable:
 - ☐ **GSTR-1, GSTR-3B, GSTR-4, GST CMP-08, GSTR-5, and GSTR-6.**

iv. Refund Amount — Subject to Ledger Balance and Rule 89(5)

- The amount computed under Rule 89(5) is the **maximum permissible** refund; it may not be the amount actually applied.
- The sanctioning officer will verify:
 - ☐ The balance in the **Electronic Credit Ledger (ECL)** after filing GSTR-3B for the refund period,
 - ☐ The **ECL** balance on the date of filing the refund application, and
 - ☐ Formula amount calculated under the Rule 89(5).

The **lowest** of above will be the final refundable amount.

- On filing the application, the claimed refund is **debited** from the **ECL**. If a deficiency memo is later issued or the refund is rejected, the amount is **re-credited**.

v. Processing Timelines and Deficiency Memo

- Upon filing, an **Application Reference Number (ARN)** is generated.
- The proper officer has **15 days** from the ARN date to issue a **deficiency memo**. If a deficiency memo is issued:
 - ☐ A fresh application must be filed after rectifying the deficiencies.
 - ☐ The amount debited from the electronic credit ledger is **auto re-credited**.

- ☐ A further deficiency memo may be issued only if the earlier deficiencies remain unrectified.

vi. Restriction on Sequential Refund Claims

- If a refund application for a subsequent period has already been filed under the same category, a refund for the preceding period under that category cannot be filed later.

vii. Excess (Erroneous) Refund and Show Cause Notice (SCN)

- If, at final computation, the provisional refund given exceeds the admissible amount, the excess given is treated as an **erroneous refund**.
- A SCN is issued to recover the excess amount and to explain the reasons for rejecting the ineligible portion.
- The rejected portion of ITC is **re-credited** to the electronic credit ledger after the order is passed, provided that
 - ☐ the applicant furnishes an undertaking stating that they will not file an appeal or,
 - ☐ if an appeal is filed, that it has been finally decided against the applicant.

viii. Credit of Refund to Bank Account

- The sanctioned refund is credited to the bank account registered on the GST portal, as selected by the applicant at the time of filing.

ix. Interest on Delayed Refund

- If the refund is not sanctioned within **60 days** from the date of filing the **complete** application, the applicant is eligible for **interest at 6% per annum** under Section 56 of the CGST Act.

x. Refund on Supplies to Merchant Exporters (0.1%)

- Where goods are supplied to a merchant exporter at the concessional rate of **0.1% GST** under the relevant notification, the supplier may claim refund of accumulated ITC under the inverted duty structure if:
 - ☐ All conditions for merchant exports are fulfilled, and
 - ☐ The exporter exports the goods under **LUT/Bond** (without payment of IGST).

xi. Refund on Stores, Spare Parts, Packing Materials, etc.

- Refund of GST paid on stores, spare parts, packing materials, machine repair parts, and stationery is admissible if the related ITC is **not blocked** under Section 17(5) and Such expenditure has **not been capitalised** in the books of account.

In Summary: This circular clarifies procedural, documentary, and statutory conditions for claiming refund of unutilised ITC — especially under the **Inverted Duty Structure** or **concessional supplies (0.1 %)** — and lays out officers' timelines, system-generated acknowledgements, auto-re-credit provisions, and safeguards against erroneous refunds.

1.4 Circular 135/2020 read with Circular 173/2022

xii. Single Refund Application for Multiple Tax Periods

- **Permitted:** A taxpayer may club more than one tax period in a single refund application, even if the periods fall across two different financial years.
- **Example:** Refunds for March 2026 and April 2026 may be claimed together in one application under the same refund category.

xiii. No Refund When Accumulation Arises from General Rate Reduction

- **Not eligible:** Where ITC accumulation arises solely because the GST rate on the same outward goods has been reduced due to general rate reduction, refund under the Inverted Duty Structure (IDS) is not available.
- **Illustration:** If corrugated boxes were taxed at 12% before 22 September 2025 and the rate was reduced to 5% thereafter, a trader holding such stock may accumulate ITC.

Since the accumulation results from a rate cut on the same goods—not from an inversion between input and output rates—IDS refund is not admissible.
- **Authority:** This position aligns with Circular No. 135/05/2020-GST, as further clarified by Circular No. 173/05/2022-GST.

xiv. Refund Allowed Where Accumulation Is Due to Concessional Rate Notifications

- **Eligible:** Refund under IDS is available where ITC accumulation occurs because outward supplies are made at a concessional rate prescribed by a specific notification.
- **Example:** Supplies to merchant exporters at 0.1% GST under Notification No. 40/2017-CT (Rate) or 41/2017-IGST (Rate).
- **Rationale and Authority:** In such cases, accumulation arises from a concessional notification rather than a general rate reduction; refund is therefore admissible under Section 54(3)(ii) of the CGST Act and Circular No. 173/05/2022-GST.

xv. Requirement to Mention HSN/SAC Codes in Annexure B

- **Mandatory detail:** The applicant must ensure that the HSN/SAC codes of inward supplies are correctly stated in the invoice-wise ITC statement (Annexure B) uploaded with the refund application.
- **Purpose:** This enables the tax authorities to verify the nature of inputs and assess ITC eligibility in line with **Rule 89(2)(h) of the CGST Rules.**

1.5 Instruction 06/2025: 90 % Provisional Refund and System-Based Risk Assessment

Effective 1 October 2025

xvi. Low-Risk Applications: Immediate Provisional Refund

- **Immediate release:** If the system marks a refund application as Low Risk, the officer must release **90% of the refund amount immediately** as a provisional refund.
- **Balance processing:** The remaining **10%** will be processed after scrutiny.
- **System risk scoring:** Upon filing FORM GST RFD-01, the system assigns a risk score based on parameters such as:
 - ☐ Filing history
 - ☐ ITC patterns
 - ☐ Past mismatches
 - ☐ Pending proceedings

xvii. Ineligibility for Provisional Refund

- **No provisional refund** if any of the **following** apply:
 - ☐ The applicant goods fall under the Notified Category under Notification No. 14/2025, namely:
 - ✓ Areca nuts

- ✓ Pan masala
- ✓ Tobacco and manufactured tobacco substitutes
- ✓ Essential oils
- ☐ Prosecution is pending against the applicant.
- ☐ Previous refund applications are pending in appeal.
- ☐ A Show Cause Notice (SCN) or order has been issued and the matter has not attained finality.
- **Summary:** Applicants classified as “risky” or those involved in ongoing litigation are **not eligible** for provisional refunds.

xviii. Withholding Provisional Refunds: Limited Grounds

- **No arbitrary withholding:** Officers cannot stop provisional refunds without valid grounds.
- **Permitted withholding:**
 - ☐ Where the case is marked **High Risk** by the system, or
 - ☐ Where the officer records **written reasons** showing valid concerns.
- **Action in such cases:** Conduct **detailed scrutiny under Rule 92** instead of granting a provisional refund.

xix. Excess Provisional Refund: Recovery

- If the provisional refund is later found to exceed the admissible amount, the officer shall issue a **Show Cause Notice in Form RFD-08** to initiate recovery proceedings.

xx. Proviso to Rule 91(2): Use Only in Exceptional Cases

- The Board has directed that the **proviso to Rule 91(2)** be invoked **sparingly** and not as a routine basis to delay refunds.
- **Warning:** Withholding without a justifiable cause will be treated as **non-compliance** with Instruction 06/2025-GST.

02 Availability and Non Availability of Refund

2.1 When Refund is Available

- Refund is available when:
 - ☐ Output supplies are **taxable** at a lower rate than input goods.
 - ☐ Goods are not notified as ineligible for refund. **[See Page 11]**
 - ☐ Supplier has not claimed duty drawback or IGST refund.
 - ☐ The claim is filed within **two years** from the due date of GSTR-3B.

2.2. When Refund is Not Available

- Refund is **not available** when:
 - ☐ Output supplies are **nil-rated or exempt**.
 - ☐ Credit accumulation arises solely due to a general rate reduction on the same goods (e.g., pharmacy reduced from 18% or 12 % to 5 %) unless the lower rate is a concessional notification.
 - ☐ Supplier has claimed duty drawback or IGST refund.
 - ☐ Goods are specifically notified **[Read Notification No.5/2017-Central Tax (Rate) Dated 28/06/2017]**

03. Step-by-Step Refund Application Process

3.1 Compile Data and File Returns

- **Choose the refund period** (e.g., October 2025).
- **File GSTR-1 and GSTR-3B** for that period. Refunds cannot be processed if returns are pending.
- **Compile from your records:**
 - ☐ Turnover of inverted-rate supplies.
 - ☐ Adjusted Total Turnover (includes all taxable and zero-rated supplies as per Rule 89).
 - ☐ ITC on input goods for the period (exclude services and capital goods).
 - ☐ Output tax paid on inverted-rate supplies.

3.2 Initiate the Application

- On the GST portal, go to: **Services** → **Refunds** → **Apply for refund**.
- Select: **Refund on account of Inverted Duty Structure**.

3.3 Complete Form GST RFD-01

- Enter the refund period and the amount computed under Rule 89(5).

- Download Statement 1/1A (auto-generated), verify invoice details, and upload corrections if needed.
- Declare that the inputs claimed here are not used in any other refund claim.
- If the refund exceeds ₹2 lakhs, upload a CA/CMA certificate confirming that the incidence of tax has not been passed on (unjust enrichment).

3.4 Upload Supporting Documents and Declarations

- **Statement 1/1A under Rule 89(2)(h)** [Outward + Inward] as JSON file (portal format)

89(2)(h) – A statement containing the number and the date of the invoices received and issued during tax period in a case where the claim pertains to refund of any unutilised input tax credit under sub-section (3) of section 54 where the credit has accumulated on account of the rate of tax on the inputs being higher than the rate of tax on output supplies, other than nil-rated or fully exempt supplies;

- **Declaration** under the second and third provisos to Section 54(3) and under Section 54(3)(ii)

DECLARATION [second proviso to section 54(3)]	
I hereby declare that the goods exported are not subject to any export duty. I also declare that I have not availed any drawback on goods or services or both and that I have not claimed refund of the integrated tax paid on supplies in respect of which refund is claimed.	
Signature	
Name –	
	Designation / Status

DECLARATION [section 54(3)(ii)]	
I hereby declare that the refund of input tax credit claimed in the application does not include ITC availed on goods or services used for making 'nil' rated or fully exempt supplies.	
Signature	
Name –	
	Designation / Status

- **Undertaking** relating to Sections 16(2)(c) and 42(2) (regarding tax actually paid to government by supplier and matching)
- **Self-declaration** under Rule 89(2)(l) if claim \leq ₹2 lakh; CA/CMA certificate under Rule 89(2)(m) if claim $>$ ₹2 lakh (unjust enrichment)
- **Detailed ITC register [Annexure III]** with I/IS/CG tags and ineligible exclusions
- **Copy of GSTR-2B for which ITC claimed** (also attach earlier period GSTR-2B if GSTR-3B claim includes prior-period invoices)
- **Sales and purchase invoices (PDF)**
- **Bank proof** (cancelled cheque or bank letter) matching portal details, if requested
- Any additional documents requested by jurisdictional officer during verification

3.5 Submit and Acknowledge

- Sign with DSC or EVC. An **ARN** is generated.
- Under Rule 90, the proper officer must issue either:
 - ☐ an acknowledgement (**RFD-02**), or
 - ☐ a deficiency memo (**RFD-03**) within 15 days.
- If a deficiency memo is issued:
 - ☐ Rectify the issues and file a fresh application, and
 - ☐ The amount debited earlier is automatically re-credited.

3.6 Verification, Provisional Refund, and Final Sanction

- Under Instruction 06/2025-GST, low-risk cases may receive a **90% provisional refund** after acknowledgement. The officer issues RFD-04 and credits 90% of the claim.
- High-risk claims or cases requiring scrutiny proceed directly to detailed verification.
- During verification, the officer typically:
 - ☐ Confirms that Net ITC excludes services and capital goods,
 - ☐ Cross-checks turnover with GSTR-1 and GSTR-3B, and
 - ☐ May request additional documents.
- If satisfied, the officer issues:
 - ☐ **RFD-06** (sanction order), and
 - ☐ **RFD-05** (payment order) within 60 days of the complete application.
- If any part is found ineligible:
 - ☐ A Show Cause Notice (**RFD-08**) is issued, seeking your reply within 15 days of receipt.
 - ☐ After considering your response (**RFD-09**) and granting an opportunity of being heard, the officer may sanction the admissible amount and reject the disallowed portion.
- Any rejected ITC is re-credited to your electronic credit ledger under **Rule 93 via PMT-03**, only after you give an undertaking that:

- ☐ you will not file an appeal, or
- ☐ if you file an appeal, it has been finally decided against you.

3.7 Credit of Refund and Interest

- Refund is credited to the bank account registered on the GST portal. Rule 96C requires a validated, Aadhaar-linked bank account.
- If the refund is not sanctioned within 60 days, interest at 6% p.a. is payable under Section 56 read with Rule 94.

3.8 Withdrawal of Application (Optional)

- Under **Rule 90(5)**, you may withdraw the refund application before issuance of:
 - ☐ the provisional order,
 - ☐ the final order, or
 - ☐ a show cause notice.
- Upon withdrawal, any amount debited from your electronic credit or cash ledger will be re-credited.

04. Calculation of Refund – Examples and Illustrations

4.1 Basic Inverted Supply of Goods

Facts. A manufacturer purchases raw materials for ₹10 lakh attracting 18 % GST (Net ITC of ₹1.80 lakh). There is no input-service credits. During the month it sells finished goods domestically at 5 % GST for ₹7 lakhs (inverted supply) and other taxable goods at 18 % GST for ₹2 lakhs. It also has exempt sales of ₹1 lakh.

Computation.

- **Net ITC** = ₹1.80 lakh (ITC on inputs). There is no input-service credit.
- **Turnover of inverted rated supplies** = ₹7 lakh (5 % goods).
- **Adjusted Total Turnover** = ₹7 lakh + ₹2 lakh = ₹9 lakh (exempt supplies are excluded).
- **Tax payable on inverted supplies** = 5 % of ₹7 lakhs = ₹35 000.
- **Refund formula amount:**

$$\{7 \text{ lakh} \times 1.80 \text{ lakhs} \div 9 \text{ lakhs}\} - [\text{₹}35 \text{ 000} \times (1.80 \text{ lakhs} \div 1.80 \text{ lakhs})]$$

$$= \text{₹}1.40 \text{ lakh} - \text{₹}35,000 = \text{₹}1.05 \text{ lakh.}$$

The refund officer will compare this amount with the balance in the electronic credit ledger at the end of the tax period and on the application date. The sanctioned refund will be the lowest of these amounts.

4.2 Inverted Goods with Zero-rated Exports (IGST and LUT)

Facts. A supplier purchases inputs worth ₹8 lakh @18 % (ITC ₹1.44 lakh) and sells goods as follows:

- **Domestic goods @ 5 % (inverted)** – ₹5 lakhs.
- **Export goods under LUT @ 5 %** – ₹3 lakhs. (Refund for these zero-rated supplies has already been claimed separately under Rule 89(4), which regulates exports without payment of tax.)
- **Export goods with IGST @ 5 %** – ₹2 lakhs. (Refund of IGST has already been claimed automatically under Rule 96.)
- **Domestic goods @ 18 %** – ₹1 lakh.
- **Exempt supplies** – ₹0.50 lakh.

Computation.

- **Net ITC** = ₹1.44 lakh.
- **Turnover of inverted supplies = Domestic goods @ 5 %** = 5 lakhs.

Note –

- *To avoid **double benefit**, supplies for which refund has already been claimed (LUT exports under Rule 89(4) and IGST exports under Rule 96) should **not be treated as inverted-rated supplies** in Rule 89(5), consistent with the principle that the same turnover cannot generate two different refunds. Thus, Turnover of inverted-rated supplies = ₹ 5 lakh.*
- ***There is an alternative view also.** Exports under LUT or IGST could be treated as inverted supplies; if so, turnover of inverted*

supplies becomes ₹ 10 lakh and tax payable would include IGST of ₹ 10,000 on export goods. Under this view, the refund would be around ₹ 95,909. However, this approach risks double refund and has not been supported by recent court rulings; the CBIC's guidance favours excluding supplies whose refund has been claimed separately to maintain parity and avoid duplication.

- **Adjusted Total Turnover =**

₹5 lakhs + ₹3 lakhs + ₹2 lakhs + ₹1 lakhs = ₹11 lakhs (excluding exempt supplies).

Note: Since **sub-rules (4A)/(4B) are deleted**, Rule 89(4) read with section 2(112), specifically include export turnover of the good, so the definition of ATT simply includes turnover in the **State/UT** (i.e., domestic supplies and exports of goods) and zero-rated services. Thus exports under LUT or IGST are part of ATT.

- **Tax payable on inverted supplies =**

10 % of ₹5 lakhs = ₹50, 000. No tax is payable on LUT exports.

- **Refund =**

$\{(5 \text{ lakhs} \times 1.44 \text{ lakhs} \div 11 \text{ lakh})\} - [\text{₹}25 \text{ 000} \times (1.44 \text{ lakh} \div 1.44 \text{ lakh})]$
 $= 65,454 - \text{₹}25 \text{ 000} = \text{₹}40,454 \text{ (rounded)}.$

Note: Courts have emphasised that if a particular turnover is excluded from the numerator, it should generally be excluded from the denominator to avoid undue inflation of the base subject to the condition that no undue benefit get by taxpayer. So, the present calculation (Turnover = ₹ 5 lakh, ATT = ₹ 11 lakh) achieves parity by including exports in the denominator but not in the numerator, reflecting that exports have already received refund through other mechanisms.

4.3 Inverted Goods with Input-Service Credits

Facts. Inputs of ₹12 lakh @18 % (ITC on inputs ₹2.16 lakh), input services of ₹50 000 @18 % (ITC on services ₹9,000). Sales: domestic goods at 5 % worth ₹9 lakhs; domestic goods at 18 % worth ₹2 lakhs; no exempt supplies.

Computation.

- **Net ITC (inputs)** = ₹2.16 lakh.
- **Total ITC (inputs + services)** = ₹2.16 lakh + ₹9 000 = ₹2.25 lakh.
- **Turnover of inverted supplies** = ₹9 lakh.
- **Adjusted Total Turnover** = ₹9 lakh + ₹2 lakh = ₹11 lakhs.
- **Tax payable on inverted supplies** = 5 % of ₹9 lakhs = ₹45,000.
- **Refund** =

$$\{(9 \text{ lakh} \times 2.16 \text{ lakhs} \div 11 \text{ lakh})\} - [\text{₹}45 \text{ 000} \times (2.16 \text{ lakh} \div 2.25 \text{ lakh})]$$

$$= \text{₹}1,76,727 - \text{₹}43,200 = \text{₹}1.33527$$

4.4 Capital Goods Excluded from Net ITC

Facts. A plant purchases inputs worth ₹5 lakh @18 % (input ITC ₹90,000) and a capital asset worth ₹10 lakh @18 % (ITC ₹1.80 lakh). It sells goods at 5 % for ₹6 lakhs and at 18 % for ₹2 lakhs.

Computation.

Only ITC on inputs is considered for Net ITC; ITC on capital goods is not refundable under Rule 89(5).

- **Net ITC** = ₹90 000; **Total ITC** (inputs + services) = ₹90 000 (no services).
- **Turnover of inverted supplies** = ₹6 lakh.
- **Adjusted Total Turnover** = ₹6 lakh + ₹2 lakh = ₹8 lakhs.
- **Tax payable on inverted supplies** = 5 % of ₹6 lakhs = ₹30 000.
- **Refund** =

$$\{(6 \text{ lakh} \times 90,000 \div 8 \text{ lakh})\} - [₹30,000 \times (90,000 \div 90,000)]$$

$$= ₹67 500 - ₹30 000 = \text{₹37,500.}$$

4.5 Effect of Opening and Closing Stock

Facts. During April the taxpayer has opening stock of inputs with ITC of ₹50,000 (availed in earlier period) and purchases additional inputs of ₹10 lakh @18 % (ITC ₹1.80 lakh). Sales: domestic goods at 5 % ₹8 lakh; domestic goods at 18 % ₹2 lakh; no exports. A large portion of the purchased inputs remains in closing stock.

Computation.

Net ITC for the period covers only the ITC availed during the month (₹1.80 lakh). Opening stock ITC does not form part of Net ITC for the current period.

- **Net ITC** = ₹1.80 lakh.
- **Turnover of inverted supplies** = ₹8 lakh.
- **Adjusted Total Turnover** = ₹8 lakh + ₹2 lakh = ₹10 lakhs.
- **Tax payable on inverted supplies** = 5 % of ₹8 lakhs = ₹40 000.

- **Refund =**

$$\{(8 \text{ lakh} \times 1.80 \text{ lakhs} \div 10 \text{ lakh})\} - [\text{₹}40,000 \times (1.80 \text{ lakh} \div 1.80 \text{ lakh})]$$

$$= \text{₹}1.44 \text{ lakh} - \text{₹}40,000 = \text{₹}1.04 \text{ lakh.}$$

4.6 Ledger Balance Lower than Formula Amount (Circular 125/2019)

Facts. Inputs purchased: ₹6 lakh @18 % (ITC ₹1.08 lakh). Sales: domestic goods at 5 % ₹4 lakh (inverted) and domestic goods at 18 % ₹1 lakh. The electronic credit ledger shows a balance of ₹ 60,000 at the end of the tax period and ₹ 80,000 on the date of filing the refund application.

Computation.

- **Net ITC** = ₹1.08 lakh.
- **Turnover of inverted supplies** = ₹4 lakh.
- **Adjusted Total Turnover** = ₹4 lakh + ₹1 lakh = ₹5 lakh.
- **Tax payable on inverted supplies** = 5 % of ₹4 lakhs = ₹20,000.
- **Formula refund =**

$$\{(4 \text{ lakh} \times 1.08 \text{ lakhs} \div 5 \text{ lakh})\} - [\text{₹}20,000 \times (1.08 \text{ lakh} \div 1.08 \text{ lakh})]$$

$$= \text{₹}86,400 - \text{₹}20,000 = \text{₹}66,400.$$

However, per **Circular 125/2019** the officer must sanction the **lowest** of (i) formula amount ₹66,400, (ii) ledger balance at end of period ₹ 60,000 and (iii) ledger balance on filing date ₹ 80,000. Thus, the refund granted will be **₹60,000** (being the least). If the ledger balances were lower, the refund would have been limited accordingly.

4.7 Supplier Non-payment Undertaking (Circular 125/2019)

Facts. A taxpayer purchases inputs from multiple suppliers and avails ITC of ₹2 lakhs. It claims an IDS refund of ₹1 lakh under Rule 89(5). Later, the department finds that one of the suppliers has not paid the tax on the invoice used to claim ITC amounting to ₹ 60,000

Procedure.

When filing the refund application, the applicant furnishes an undertaking that if the supplier fails to pay the tax, the applicant will repay the refunded amount with interest. Since the supplier's non-payment is discovered, the tax authority will issue a demand to recover the refunded portion attributable to that invoice.

This example highlights the importance of verifying supplier compliance and the risk of repayment.

4.8 No Refund on Accumulation Due to General Rate Reduction (Circular 135/2020)

Facts. The **trader** purchased corrugated box paper at 12 % GST when the finished boxes were taxed at 12 %. Subsequently, the GST rate on finished boxes was reduced to 5 %. The taxpayer holds inventory of finished goods purchased at 12 % and now sells them at 5 %. ITC accumulation arises because output tax reduced.

Legal position.

Circular 135/2020 clarifies that where accumulation arises merely because of a **general reduction of GST rate** on the same goods, refund under Section 54(3)(ii) is not available.

The reason is that inputs and outputs are the same goods; the accumulation is not due to an inverted structure of input vs output but due to a policy change. Therefore, no IDS refund can be claimed for this stock.

4.09 Supplies to Merchant Exporters at 0.1 % (Notification 40/2017 & Circular 173/2022)

Facts. A manufacturer supplies goods to a merchant exporter at a concessional rate of 0.1 % under Notification 40/2017. The manufacturer pays input tax at 18 % and sells goods at 0.1 %. The merchant exporter exports goods under LUT within 90 days. The manufacturer applies for refund of accumulated ITC.

Eligibility.

Circular 173/2022 clarifies that refund of accumulated ITC is available when accumulation arises due to supplies to merchant exporters at the concessional rate of 0.1 %, provided the conditions (export within 90 days, LUT etc.) are satisfied. The manufacturer will compute the refund under Rule 89(5) using Net ITC on inputs, turnover of such concessional supplies (which are inverted because input rate is 18 %), and Adjusted Total Turnover. The refund will be subject to ledger balance restrictions as per Circular 125/2019.

4.10 Refund on Stores and Spare Parts (Circular 125/2019)

Facts. A manufacturer purchases spare parts and packing materials for its machines (ITC ₹50,000) and sells printed packaging materials at 5 % for ₹5 lakhs. The packing materials and spares are consumed in the manufacturing process and are not capitalised.

Eligibility.

Circular 125/2019 states that refund of ITC paid on stores, spare parts, packing materials, machine repair parts and stationery is admissible if the ITC is not blocked under Section 17(5) and the expenditure has not been capitalised (read with the relevant rule). Accordingly, the taxpayer may claim IDS refund on the inverted rate supply of packaging materials.

Use the same formula to compute the refund by treating the spares and packing materials as inputs. The refund will be limited to ITC on inputs and subject to ledger balance checks.

**4.11 Clubbing Multiple Tax Periods Across Financial Years
(Circular 135/2020 & 173/2022)**

Facts. The taxpayer has accumulated ITC in March 2026 and April 2026 due to inverted supplies. It wishes to file a single refund application covering both months.

Clarification.

Circular 135/2020 (later clarified by Circular 173/2022) allows the taxpayer to club multiple tax periods in one refund application, even if the periods fall across two financial years. However, a refund for a subsequent period cannot be filed before filing the refund for the preceding period.

The refund officer will still compute Net ITC, inverted turnover and ATT for the combined period and apply the Rule 89(5) formula, ensuring that returns for both months are filed and supporting documents (Annexure B etc.) are uploaded.

4.12 Merchant Exporter Conditions Not Met

Facts. A supplier sells goods to a merchant exporter at 0.1 % but the merchant exporter fails to export the goods within 90 days or fails to furnish LUT.

Consequence.

Under **Notification 40/2017 and Circular 173/2022**, the concessional rate is conditional. If conditions are violated, the supplier becomes liable to pay the differential tax (between normal rate and 0.1 %) along with interest , since not be eligible for IDS refund.

This example reminds taxpayers to ensure compliance with time-bound export and documentation requirements.

4.13 Input Service Only (No Refund)

Facts. A service provider purchases only services (rent, consultancy) paying GST @18 % and provides output services at 5 %. There are no goods inputs.

Position.

Since Net ITC under Rule 89(5) covers only ITC on inputs (goods), ITC accumulated on input services cannot be refunded under IDS. The service provider may utilise the credit against other liabilities but cannot claim a cash refund.

4.14 Document Compliance under Circular 125/2019

Facts. An applicant files a refund claim but fails to upload Annexure B with invoice-wise ITC details and fails to file GSTR-3B for the period.

Consequence.

Circular 125/2019 requires that Annexure B (invoice-wise ITC statement) and relevant returns (GSTR-1, GSTR-3B etc.) be filed before the refund application. The proper officer will issue a deficiency memo within 15 days, and the applicant must refile the application with all documents; otherwise the claim will not be processed.

4.15 Interest on Delayed Refund

Facts. A valid refund application is filed and an ARN is generated. The proper officer does not sanction the refund within 60 days.

Rule.

Under Section 56 of the CGST Act, interest at 6 % per annum becomes payable if the refund is not sanctioned within 60 days. Circular 125/2019 reiterates this position. The applicant should therefore compute interest from the expiry of 60 days on the refund amount until the date of credit in the bank account.

05. Export Scenarios and GST Refunds

Exports are zero-rated under GST. No output tax is charged on export supplies, and the exporter can claim a refund of eligible input taxes. Below are the available routes and their implications for refunds in the corrugated box industry.

5.01 Direct Export

When a box manufacturer exports directly to a foreign buyer, the supply is zero-rated. Two options are available:

A. Export under Bond/LUT (without payment of tax)

- **No IGST charged:** The exporter furnishes a Letter of Undertaking (LUT) or bond and exports without charging GST.
- **Refund of ITC on inputs and input services:** After export, the exporter may claim a refund of input tax credit on inputs and input services used in manufacturing the boxes. **Credit on capital goods is excluded. Under Rule 89(4), “Net ITC” for zero-rated supplies covers inputs and input services only.**
- **Documentation and reconciliation:** Ensure exact matches among the tax invoice, shipping bill, and Export General Manifest (EGM). Mismatches can delay or deny refunds. Proof of realisation of export proceeds (foreign remittance under FEMA) should be retained to substantiate the export.

B. Export on payment of IGST (Automated Route)

- **IGST charged and paid via ITC:** The exporter issues a tax invoice charging IGST at the applicable rate (for example, 5% for boxes), utilises accumulated ITC to pay this tax, and claims a refund of the IGST paid through the customs route. Here ITC on Capital Goods is also allowed to set off
- **Liquidity benefit:** This route effectively converts ITC to cash and is typically faster once shipping bill and EGM data match.

Across both methods, maintain complete records: invoices, shipping bills, EGM, LUT/bond acknowledgements, and proof of realisation. Incomplete or unreconciled documentation is a common reason for rejection or delay.

5.02 Supplies to Merchant Exporters (0.1% Scheme)

Box manufacturers do not always export directly; many supply boxes to exporters who need packaging materials or who export packaging boxes themselves. For such manufacturers, **Notification No. 40/2017–Central Tax (Rate) read with Notification No. 41/2017–Integrated Tax (Rate)** allows supplies at a concessional GST rate of 0.1%.

This concessional rate can lead to the accumulation of input tax credit, which is refundable under the inverted duty structure in accordance with Circular No. 135 and Circular No. 173.

The concessional rate is subject to specified conditions, and the manufacturer-supplier is responsible for complying with all such conditions, even if no refund is claimed.

A. Compliance for manufacturer

- **Issuance of tax invoice**

- ☐ Issue a valid tax invoice to the registered exporter-recipient for supply at the concessional GST rate.

- **Movement of goods**

- ☐ Dispatch goods as per the exporter's instruction:
 - ✓ Either directly to the Port / ICD / Airport / Land Customs Station (LCS) for export, or
 - ✓ To a registered warehouse from which the goods will subsequently move for export.

- **Warehouse-route documentation**

- ☐ Where goods are routed to a registered warehouse, obtain from the exporter-recipient:
 - ✓ The endorsed copy of the tax invoice evidencing receipt of goods; and
 - ✓ The warehouse operator's acknowledgment of receipt.
- ☐ Retain these documents and furnish them to the Jurisdictional Tax Officer when required.

- **Record of concessional order**

- ☐ Keep on record the exporter's purchase order placed for concessional procurement and ensure a copy is furnished to your jurisdictional tax officer.

- **Post-export proofs**

- ☐ After export, obtain and retain from the exporter:
 - ✓ A copy of the shipping bill/bill of export bearing your GSTIN and your tax invoice number; and
 - ✓ Proof of filing of the Export General Manifest (EGM) or export report.

B. Compliance for exporter to whom manufacturer supply goods at concessional rate

- **Placement of concessional order**

- ☐ Place a purchase order on the registered manufacturer for procurement at concessional GST rate and
- ☐ Provide a copy of the same to the manufacturer's Jurisdictional Tax Officer.

- **Export within prescribed period**

- ☐ Export the goods within 90 days from the date of issue of the manufacturer's tax invoice.

- **Shipping bill particulars**

- ☐ Indicate the manufacturer's GSTIN and the manufacturer's tax invoice number in the shipping bill or bill of export.

- **Export promotion registration**

- ☐ Maintain valid registration with an Export Promotion Council or a Commodity Board recognized by the Department of Commerce.

- **Movement options**

- ☐ Move goods from the manufacturer's premises:
 - ✓ Directly to the Port/ICD/Airport/LCS for export; or
 - ✓ To a registered warehouse, from where the goods will move to the Port/ICD/Airport/LCS for export.

- **Aggregation from multiple manufacturers**

- ☐ If aggregating supplies, ensure goods from each manufacturer first move to a registered warehouse; after aggregation, move the consolidated goods to the Port/ICD/Airport/LCS for export.

- **Warehouse-route endorsements**

- ☐ For the warehouse route, endorse receipt of goods on the manufacturer's tax invoice and obtain the warehouse operator's acknowledgment of receipt.
- ☐ Provide both the endorsed invoice and the acknowledgment to the manufacturer and to the manufacturer's jurisdictional tax officer.

- **Post-export submissions**

- After export, provide to the manufacturer and to the manufacturer's jurisdictional tax officer:
 - ✓ A copy of the shipping bill/bill of export containing the manufacturer's GSTIN and invoice details; and
 - ✓ Proof of filing of the EGM or export report.

5.03 Important Caveats

- **No double benefit:** Do not claim both an IDS refund and a zero-rated export refund on the same credit. Segregate ITC between domestic inverted supplies and zero-rated supplies, and file separate refund applications under the correct categories.
- **Capital goods credit:** Under the LUT/bond option, credit on capital goods is **not refundable**, though it may be used to pay other output tax. Under the IGST route, the exporter converts credit into cash by paying IGST and then receiving a refund.
- **Reconciliation and compliance:** Always match invoice, shipping bill, and EGM details (HSN, quantity, value). Retain proof of export realisation. Errors and mismatches commonly cause refund denials.
- **Merchant export compliance:** Ensure the merchant exporter fulfils all conditions (export within 90 days, LUT/bond, documentation and acknowledgments). Non-compliance can trigger differential tax and jeopardize refunds.

06. Practical Playbook to Optimize ITC and Refunds

The following practices help ensure smooth refund processing and minimise disputes:

6.1 Keep ITC Ledgers Segregated and preserve documents

- **Separate Inputs from Services and Capital Goods:** Maintain distinct ledger heads for: Input goods, Input services and Capital goods.

Refund under IDS applies only to ITC on input goods, not on services or capital goods. Proper segregation helps you identify non-refundable credits quickly.
- **Track Spare Parts Separately:** Spare parts for plant/machinery are treated as inputs when not capitalised—such ITC is refundable. Capitalised items (e.g., machinery, laptops) are capital goods and are not refundable under IDS.
- **Documentation discipline:** Preserve invoices, production records, stock registers, and cost sheets to substantiate input usage.

6.2 File Returns & Refund Claims on Time

- **Timely GSTR-1 and GSTR-3B:** Refunds are withheld if returns are pending. File monthly/quarterly as applicable to your turnover.
- **Regular refund cadence:** File monthly or quarterly refund claims rather than waiting for large balances. Smaller, frequent claims aid cash flow and limit the period open to scrutiny.

6.3 Reconcile with GSTR-2B Every Month

- **Match ITC with supplier uploads:** Before claiming any refund, ensure invoices appear in GSTR-2B. Missing invoices can delay/deny refunds. Proactively follow up with suppliers who delay GSTR-1/3B.

6.4 Choose Compliant Vendors

- **Vendor due diligence:** Prefer suppliers (e.g., paper mills, adhesive manufacturers) with strong compliance histories. If a vendor doesn't pay GST, officers may withhold your refund pending verification.
- **Practical safeguards:**
 - ☐ Review supplier compliance metrics or GSTR-2A/2B trends before large purchases.
 - ☐ Claim ITC only on invoices reflected in GSTR-2B. If not uploaded or GSTR-3B not filed by the supplier, wait until compliance is complete.

6.5 Manage Input Services Carefully

- **Use composition services selectively (6%):** Opt for composition-scheme service providers only when total cost savings outweigh the loss of ITC.
- **Further optimize GTA taxation:** Prefer GTA services taxed at 5% (under RCM or FCM, as applicable) and ensure ITC is availed where eligible.

- **Avoid unnecessary outsourcing:** Keep services in-house when practical; outsource only when it delivers clear efficiency or cost gains.
- **Align contracts and billing cycles:** Negotiate billing to align with periods of higher output tax to improve credit absorption.
- **Optimize procurement mix:** Where commercially sensible, prefer goods over services (e.g., perpetual license purchase vs. subscription) after a cost–benefit assessment.

6.6 Maximize Use of Credits Internally

- **Offset other liabilities:** Use accumulated ITC to pay output GST on standard-rated (18%) domestic supplies, reducing cash outflow and idle credits.
- **Structure for utilization:** Credits are GSTIN-specific. Where business-wise feasible, evaluate consolidation or centralized registration to improve utilization (weigh legal, operational, and state-wise considerations).

6.7 Ensure Correct Invoicing & HSN Codes

- **Accurate master data:** Errors in GSTIN, HSN, or descriptions can trigger classification disputes and refund holds.
- **Typical HSNs in boxes value chain:**
 - ❑ **Corrugated boxes:** HSN 4819 (commonly 5%)
 - ❑ **Waste /s crap paper:** HSN 4707 (commonly 5%)Always verify current rates/notifications.

- **HSN disclosure:**

- ☐ Turnover \leq ₹5 crore: 4-digit HSN
- ☐ Turnover $>$ ₹5 crore: 6/8-digit HSN.

Providing full 8-digit HSN improves verification and reduces queries.

6.8 Plan for Working Capital Costs

- **Price for refund lead times:** ITC refunds take time. Build a buffer for financing cost of blocked credits in long-term pricing/contracting.
- **Stay updated:** Track GST Council decisions and notifications—rates, refund rules, and eligibility can change. Swift policy tracking reduces compliance risk.

6.9 Bank Account and Aadhaar Authentication

- **Authentication prerequisites: As per Rule 10B and Notification No. 35/2021:**
 - ☐ Complete Aadhaar authentication of authorised signatories, and
 - ☐ Validate the bank account linked to PAN on the GST portal
Do this before filing refunds to avoid acknowledgement delays and payment failures.

07. Litigation Risks

Even compliant taxpayers may face scrutiny. The objective is not just to secure refunds but to prevent costly disputes. Below are common risks with practical mitigations, followed by a ready-to-use compliance checklist tailored for corrugated manufacturers.

7.1 Refund Rejection or Reduction

- **Risk:** Disallowance for claiming ITC on services/capital goods or due to mismatches.
- **Mitigation:** Claim only inputs under IDS; cross-check with GSTR-2B; attach explanatory notes for unusual items; keep communication logs with officers.

7.2 Delayed Refund Leading to Interest Claims

- **Risk:** Refunds must be sanctioned within 60 days; interest is payable but often needs proactive claiming.
- **Mitigation:** Follow up after 45 days; if pending, raise a grievance/escalate to higher officials.

7.3 Misclassification Disputes

- **Risk:** Disputes on whether corrugated boxes are taxed at 5% vs 18%.
- **Mitigation:** Use correct HSN 4819; retain catalogues / sample invoices; seek advance ruling if in doubt.

7.4 Questioning Input Credit Legitimacy

- **Risk:** Heightened scrutiny of suppliers during refund processing.
- **Mitigation:** Vendor due diligence; monitor IMS / GSTR-2B; prepare to substantiate ITC if a supplier is flagged.

7.5 Annual Return & Audit Adjustments

- **Risk:** Differences between monthly refund claims and annual returns triggering demands.
- **Mitigation:** Reconcile IMS, GSTR-3B, and GSTR-9/9C with books; voluntarily correct excess credits.

7.6 Non-Compliance with Rule 86B

- **Risk:** For monthly turnover > ₹50 lakh, at least 1% liability must be paid in cash (unless exempt).
- **Mitigation:** Review turnover monthly; pay required cash or keep evidence of exemption.

7.7 E-Invoice/E-Waybill Penalties

- **Risk:** Failure to issue/receive mandated e-invoices or e-waybills can jeopardize ITC.
- **Mitigation:** Track thresholds; ensure timely, correct document generation and receipt.

7.8 Future Policy Changes

- **Risk:** New notifications affecting refunds /eligibility.
- **Mitigation:** Monitor GST Council decisions/notifications;

08. Compliance Checklist

Step	What to Do	Why
1	File Monthly / Quarterly Returns on Time: Submit GSTR-1 & GSTR-3B by due dates (11th/20th).	Refunds are withheld if returns are pending.
2	Reconcile GSTR-2B vs Purchase Register monthly; chase non-compliant suppliers.	Ensures ITC is valid and avoids mismatches.
3	Segregate ITC in Books: Separate ledgers for inputs, services, capital goods.	Enables correct refund claims; avoids ineligible credit.
4	Prepare Detailed Refund Working per period: turnover, Net ITC, output tax; apply Rule 89(5) formula.	Transparency and faster officer verification.
5	Compile Statement 1/1A: List outward/inward invoices with HSN, value, GST.	Quick cross-verification by officers.
6	Verify Supplier Compliance: Check major suppliers' return filing; document payment dates.	Prevents refund holds due to supplier default.
7	Pay Suppliers Within 180 Days: Track invoices nearing 180 days.	ITC reversal required if payment delayed beyond 180 days.

Step	What to Do	Why
8	Check Rule 86B Applicability monthly: If turnover > ₹50 lakh, pay 1% cash or document exemption.	Avoids notices/suspension.
9	Maintain E-Waybill & E-Invoice Compliance: Generate where required; verify receipt.	Invalid/missing documents can deny ITC.
10	Regular Book vs GST Reconciliation: Quarterly/yearly match books with returns.	Detects and corrects discrepancies early.
11	File Annual Returns & Audit (if applicable): GSTR-9 and GSTR-9C; report refunds claimed/sanctioned.	Completes compliance; reduces risk with certification.
12	Maintain a Refund Dossier: RFD-01, invoices, declarations, sanction orders, deficiency memos, bank proofs.	Readiness for audit; easier future claims.
13	Monitor Refund Status on portal; respond promptly to queries.	Prevents delays from missing information.
14	Keep Declaration of Unjust Enrichment: Self-declaration or CA certificate for claims > ₹2 lakh.	Confirms refund relates to tax borne by you.
15	Consult a GST Advisor for complex scenarios/updates.	Navigates rule changes and circulars effectively.

09. Handling Show Cause Notices and Appeals

This section explains how to handle refund-related Show Cause Notices (SCNs), file effective appeals against refund rejections, and respond to departmental appeals—so you stay compliant, timely, and persuasive.

9.1 Show Cause Notices (SCN)

If the proper officer proposes to reject the refund (wholly or partly), a notice in **Form GST RFD-08** is issued. You must reply within 15 days (or within the time specifically allowed) using Form GST RFD-09.

Do's

- Respond within the allowed time, addressing each ground with evidence.
- Attach reconciliations, invoices, cross-referenced returns, and a clear legal note.
- Request a personal hearing if necessary; maintain a professional, polite, and diplomatic tone.
- Cite relevant provisions and circulars (for example, Rule 89, Circular 173/2022) and any directly applicable clarifications.

Don'ts

- Do not ignore or delay your response.
- Avoid incomplete or unsubstantiated arguments.
- Do not include claims for input services or capital goods where the refund category excludes them.

- Do not cite irrelevant judgments or rely on headlines/case-notes without reading the full ratio.

Practical tips

- Number each objection in the SCN and mirror the numbering in your reply for clarity.
- Provide a summary reconciliation upfront and detailed annexures in an index.
- If data is voluminous, submit in searchable PDF with bookmarks; offer working files in Excel if permitted.
- Record submission acknowledgments and screenshots of portal filings for evidence of timely compliance.

9.2 Appeals against Refund Rejection

If the Adjudicating Authority rejects the refund, you may appeal to the Appellate Authority under Section 107 within three months of the order. A delay up to one month may be condoned at the Appellate Authority's discretion—do not rely on condonation.

- **Filing:** Form GST APL-01.
- **Hearings:** Attend and present your case; note that multiple hearings are not guaranteed.
- **Pre-deposit under Section 107(6):** Typically, 10% of disputed tax for appeals. However, in refund rejections there is generally no “disputed tax” (the dispute concerns entitlement to refund), so practitioners commonly view that no pre-deposit applies in such appeals. Verify with current jurisdictional practice and any recent judgments/circulars.

- **Escalation:** If unsatisfied, further appeal lies to the Appellate Tribunal and thereafter to the High Court on substantial questions of law.

Contents of a strong appeal

- Statement of facts and precise grounds of appeal.
- Legal submissions: statutory provisions, rules, and applicable circulars/notifications.
- Reconciliation statements, invoice extracts, 2B/3B/1 cross-maps, and computation under Rule 89(5) where relevant.
- Case law that is jurisdictionally relevant and factually analogous.
- Prayer/relief sought, including interest if due.

9.3 Departmental Appeals

The department may appeal against a refund sanction order.

- **Limitation:** Typically within six months for departmental appeal (verify current timelines applicable in your state/jurisdiction).
- **Taxpayer action:** Keep sanction orders, working papers, bank proofs, and correspondence handy. Upon notice, file timely, point-wise counter submissions with evidence.
- **Strategy:** Defend using the same reconciliations and legal grounds that supported the sanction; highlight any verification already performed by the sanctioning authority and absence of new adverse material.

9.4 Quick Read: Timeline and Forms

- **SCN issued:** GST RFD-08
- **Reply to SCN:** GST RFD-09 within 15 days (or as allowed)
- **Appeal filing:** GST APL-01 within 3 months (try to avoid 1-month condonation)
- **Further appeals:** Appellate Tribunal → High Court (as applicable)

9.5 Common Pitfalls to Avoid

- Missing the 15-day reply window or appeal limitation.
- Submitting unindexed, unsearchable, or inconsistent documentation.
- Claiming ineligible credits (e.g., services/capital goods where category limits to inputs).
- Relying on generic case-law without factual alignment.
- File appeal in condonation period without convincing reason for delay supported by strong evidence.

10. Frequently Asked Questions (FAQ)

Q1. Our firm sells corrugated paper board at 18 % and corrugated boxes at 5 %. Will we be eligible for refund under the Inverted Duty Structure (IDS)?

A1. Yes – but only for the **inverted-rate turnover**. **Section 54(3) of the CGST Act** permits refund of unutilised ITC where the rate on inputs exceeds the rate on outputs. In your case:

- **Inputs** (kraft paper etc.) attract **18 % GST**,
- **Outputs** (corrugated boxes) and scrap are taxed at **5 %**

The turnover related to the **5 %** products qualifies for IDS refund; turnover at **18 %** does not. Your refund claim must apportion ITC using Rule 89(5)'s formula to isolate the part attributable to 5 % supplies.

Q2. We also sell waste/scrap paper (HSN 4707) at 5 %. Should this be included in “inverted-rated turnover”?

A2. Yes. Recovered waste or scrap of paper (HSN 4707) is taxed at **5 %**. Sales of such scrap form part of your 5 % turnover and must be included in the numerator when calculating refund under Rule 89(5).

Q3. What should we do with ITC accumulated up to 22 Sept 2025 (before the rate change)?

A3. Net ITC accumulated up to **21 September 2025** (i.e., before the rate change) should be used to pay **September 2025 output tax liabilities**. Such credit will not be refundable.

Only credit accruing **after 22 September 2025** qualifies for IDS refund.

Q4. Since ITC on capital goods is not refundable, can we claim refund on spare parts used for plant and machinery?

A4. Spare parts used for repairing or maintaining machinery are treated as **inputs** (goods). Therefore, ITC on spare parts is refundable under IDS provided it is not capitalised in your books and the credit is otherwise eligible. *[Source: Circular 125]*

Q5. Does “capital goods” mean only plant & machinery, or all goods capitalised (e.g., mobile phones, laptops, furniture, testing equipment)? If such items are not capitalised, can we treat them as inputs and claim refund?

A5. Under **Section 2(19) of the CGST Act**, **capital goods** are goods whose value is **capitalised in the books** and used in the course of business. This includes machinery, furniture, laptops, etc., if capitalised. Credit on capital goods cannot be refunded under IDS. If the item is **not capitalised**, it is considered an **input** and ITC on it may qualify for refund provided it is not blocked under Section 17(5).

Q6. Should we report 8-digit HSN codes for inward invoices when claiming refund, even though 4-digit codes may suffice?

A6. The GST rules require 4-digit HSN for turnover up to ₹5 crores and 6/8-digit codes for higher turnover. Although not mandatory to use 8-digit HSN for all invoices, providing full HSN codes in **Annexure B** (invoice-wise ITC statement) can help officers verify classification and speed up processing. At a minimum, mention the correct HSN/SAC codes for each inward supply in Annexure B as required by **Rule 89(2)(h)**.

**Q7. Should ITC matching be based on GSTR-2A or GSTR-2B?
What if the supplier has not uploaded the invoice in the return?**

A7. Refund processing is based on **GSTR-2B**, which is a static statement.

You should reconcile ITC with GSTR-2B and claim refund only on invoices appearing therein. If a supplier has not uploaded an invoice (in GSTR-1) or has not filed GSTR-3B for that period, the invoice will not reflect in your 2B. In such cases, it is advisable to follow up with the supplier and wait until the invoice appears.

Claiming ITC without appearing in 2B may trigger a deficiency memo or risk-flagging.

Q8. If our purchases exceed sales in a month (i.e., stock build-up), will the officer ask for clarification?

A8. Large accumulation is not a ground for rejection, but officers may request an explanation.

Maintain proper stock registers, production records and cost sheets to justify why purchases were higher. Explain if you anticipate future demand or if the period spans two financial years.

Q9. Do we need to file nil refund applications for past periods (e.g., from 2017) to be eligible for a current refund?

A9. No. **Circular 135/2020** clarified that taxpayers may **club multiple periods**, even across financial years. There is no requirement to file nil refund applications for earlier periods before claiming current refunds.

Q10. Is it necessary to bifurcate ITC into inputs, input services and capital goods in our books?

A10. While not mandatory under law, maintaining separate ledgers for **inputs (goods)**, **input services** and **capital goods** is highly recommended.

Rule 89(5) permits refund only on **Net ITC** (inputs). Segregation helps you accurately compute refund, avoid claiming ineligible ITC (services/capital goods) and facilitate audit.

Q11. Must our bank account and Aadhaar details be validated on the GST portal before refund?

A11. Yes. **Rule 10B read with Rule 96C** require Aadhaar authentication of the proprietor / partners / directors and validation of the bank account linked to the applicant's PAN. Refunds are credited only to the validated bank account selected in the application.

Q12. Can ITC on capital goods and input services be "transferred" to the electronic credit ledger? Is there a time limit to use accumulated ITC?

A12. All ITC (whether on goods, services or capital goods) is automatically credited to the electronic credit ledger upon availing it in GSTR-3B.

There is **no time limit** for utilising the credit for payment of output tax.

However, only ITC on **inputs (goods)** can be claimed as refund under IDS. ITC on services/capital goods cannot be refunded and will remain in your ledger until utilised against other output tax liabilities.

Q13. How should we account for refunds from application to sanction? Are there specific disclosures in GSTR-3B, GSTR-9 or GSTR-9C?

A13.

- When filing RFD-01, the amount claimed is **debited** from the electronic credit ledger and recorded as a **refund receivable** in your books.
- When you receive the refund (provisional or final), credit your bank account and reduce the receivable.
- In **GSTR-3B**, reflect ITC availed and utilised accurately; there is no separate line for refund but ensure that the credit claimed does not appear in both "utilised" and "balance".
- In **GSTR-9**, require following details about refund.

15	Particulars of Demands and Refunds							
	Details	Central Tax	State Tax / UT Tax	Integrated Tax	Cess	Interest	Penalty	Late Fee / Others
	1	2	3	4	5			
A	Total Refund claimed							
B	Total Refund sanctioned							
C	Total Refund Rejected							
D	Total Refund Pending							

- In **GSTR-9C**, in Pt V, **Auditor's recommendation on additional Liability due to non-reconciliation** required details of Erroneous refund to be paid back

Q14. Can you provide examples showing how refunds are calculated with different turnovers?

A14. Yes. Section 4 (of this book) provides detailed illustrations. In summary:

- For **single output at 5 %**: buy paper worth ₹10 lakhs (18 % GST), sell boxes worth ₹12 lakhs (5 % GST). You pay ₹1.8 lakh input tax and collect ₹60k output tax. After utilising ₹60k ITC to pay output tax, you refund ₹1.2 lakh.
- For **mixed outputs 18 % & 5 %**: proportion the ITC and apply Rule 89(5)'s formula to determine the eligible refund. Detailed calculations are given in Section 5 of the report.

Q15. We normally offset IDS liability through ITC. Does Rule 86B (1 % cash payment) affect us?

A15. Rule 86B mandates that if your **monthly taxable turnover exceeds ₹50 lakhs**, at least **1 % of the GST liability** must be paid in cash.

Exceptions exist if you

- ☐ Paid income tax > ₹1 lakh in each of the last two years,
- ☐ Received refunds > ₹1 lakh due to IDS/zero-rated supply in the previous year,
- ☐ Cumulatively paid > 1 % of output tax in cash, or
- ☐ Are a government body.

If you cross the threshold and none of the exceptions apply, you must discharge at least 1 % of your liability in cash even if you have sufficient ITC. This rule is independent of IDS and applies to all taxpayers meeting the turnover condition.

Q16. How are 90 % provisional refunds determined? Can officers deny the provisional amount?

A16. As per **Instruction 06/2025-GST** (issued after the 56th Council meeting), 90% provisional refunds are granted based on system-driven risk assessment for low-risk taxpayers. The assessment considers factors such as compliance history, timely filing of GSTR-1 and GSTR-3B, the absence of material mismatches, and no pending investigations or prosecutions.

Officers may deny provisional refunds if an application is flagged as high risk; in such cases, the claim will be processed only after full verification.

If a provisional refund is granted and the final admissible amount is lower than the amount provisionally sanctioned, the excess will be recovered as an erroneous refund, and the officer will issue a show-cause notice.

Q17. When is refund available under IDS?

A17. See Page 14

Q18. When is refund not available under IDS?

A18. See Page 14

Q19. What is the time limit for claiming refund? What if a claim is filed late?

A19. Refund claims must be filed within **two years** from the due date of filing **GSTR-3B** for the tax period in which credit accrues. Late applications are rejected.

Q20. How is the refund amount calculated? Can input services ever be refunded?

A.20

- Please refer to **Para 1.2 on page 3** for the method of calculating the refund amount.
- As a general rule, **ITC on input services and capital goods is not refundable.**
- **Exception:** ITC on input services can be refunded in the case of **zero-rated supplies** (i.e., exports under LUT or exports on payment of IGST).

Q21. What documents and precautions help obtain maximum refund quickly?

A21.

- Ensure all returns (GSTR-1/3B/others) are filed for the refund period.
- Maintain a **purchase register** segregating inputs, services, capital goods.
- Reconcile **GSTR-2B** with invoices; claim ITC only for invoices appearing in 2B.
- Upload **Annexure B** with HSN/SAC codes and a declaration of eligibility; attach self-certified copies for invoices not appearing in 2B.
- Complete **Aadhaar and bank account validation** on the GST portal.
- File within the two-year limit; respond promptly to deficiency memos; keep shipping bills/EGM when dealing with merchant exports.

Q22. When is 90 % provisional refund not allowed?

A22. Please refer to **Para 1.5 (sub-para xvii)** for the detailed list.

In summary, the 90% provisional refund is not allowed when the application is flagged as high risk based on system-driven risk parameters—such as weak compliance history, delays or non-filing of GSTR-1/GSTR-3B, significant invoice or tax mismatches, or any pending investigations/prosecutions. In these cases, the claim is processed only after full verification (no provisional sanction).

Q23. Can the department issue a show-cause notice after filing a refund application? Why?

A23. Yes. If the officer finds discrepancies (e.g., ineligible ITC, mismatch of returns, excess claim), he must serve a **show-cause notice (RFD-08)** explaining the grounds for rejection. The applicant must reply within 15 days in **RFD-09**.

Q24. How should we handle a show-cause notice? Dos & Don'ts in adjudication?

A.24 Please read **Para 9.1** for the authoritative guidance

Meanwhile, here's a concise, practical checklist you can use:

- **Do** reply within 15 days; attach invoices, reconciliations and legal references.
- **Do** address every ground raised; request a personal hearing if necessary.
- **Don't** ignore or delay; don't claim credit on services/capital goods; don't provide incomplete data.
- **Carry** a paginated paper-book or indexed PDF; submit a short synopsis.

Q25. If refund is partially or fully rejected, what is the remedy? Any appeal time limit? Is pre-deposit required?

A.25 Please read **Para 9.2** for the authoritative guidance

Q26. Can the department appeal against a refund sanction order?

A.26 Yes. Please read **Para 9.3** for the authoritative guidance

Q27. If a manufacturer exports goods as well as sells domestically under IDS, must separate refund applications be filed?

A.27 Yes. Export refunds (zero-rated supplies) and IDS refunds are separate categories. File **two RFD-01 applications** – one under “Export of goods (with/without payment of tax)” and another under “Inverted Duty Structure”. Do not combine them; the law treats them separately.

Q28. Can a refund application cover multiple years or tax periods?

A.28 Yes. **Circular 135/2020** allows taxpayers to **club multiple tax periods**, even across financial years.

Q29. Is there any way to claim refund of input service or capital goods credit under IDS?

A.29 No. Under IDS, refunds are restricted to input goods only. There is no provision to claim a refund of ITC on input services or capital goods under IDS.

Q30. Does ITC balance and stock on 22 September 2025 affect refund?

A.30 Only ITC accruing after 22 September 2025 is refundable. Pre-22 September credits must be used to pay September output tax.

Q31. What are the GST rates for Goods Transport Agency (GTA) services, and when does reverse charge apply?

A.31

- Under Notification 11/2017-CTR (as amended), GTA can opt to pay GST at **18 % with input tax credit (ITC)** or at **5 % without ITC**.
- If GTA opts for the **forward charge** (18 % with ITC), the GTA issues a GST invoice and pays tax directly.
- If GTA does **not** opt for forward charge, the service is taxable under **reverse charge**. In this case, the **recipient** (factory, company, LLP, registered person etc.) must pay **5 % GST** on the freight value and can take ITC of that tax. A **self-invoice** is required to claim ITC under reverse charge.
- **Multi-modal transport:** Separate entries under the rate notification apply.

If air transportation is **not** involved, multi-modal transport of goods is taxable at **5 %** (without ITC). If it **includes air**, the rate is **18 %**.

Q32. How should we treat GST paid on delivery charges (freight) under forward charge?

A.32

- When freight or courier services are taxed under forward charge (e.g., courier or express cargo services), the GST rate is typically **18 %**.
- This tax is treated like any other **input service**, meaning you can claim ITC on it if the freight relates to business. However, under the **inverted duty structure (IDS)** refund mechanism, ITC on services is **not refundable** – it can only be utilised to pay output tax on taxable supplies.

Q33. Is GST payable under reverse charge on statutory licence fees or renewals?

A.33

- Notification 13/2017-CTR (Reverse Charge) requires GST to be paid on **“services supplied by the Government or local authority to a business entity”** (other than registration fees and services specifically exempt).
- If the statutory licence fee payable to a Government department exceeds **₹5,000** and is neither a registration fee nor specifically exempt (e.g., licences under the Excise Act), it generally attracts **18 % GST** under reverse charge.
- The recipient must pay this tax and can avail ITC (though not refundable under IDS). Licence fees for alcohol, fire or similar services that are exempt remain outside GST.

Q34. What are the GST rates for job-work converting paper into boxes or printing on paper/board?

A.34

- Job work on inputs owned by another person is classified under HSN 9988 (manufacturing services).
- Converting paper into corrugated boxes attracts 18% GST; no specific concessional rate applies.
- Printing on paper/board that results in distinct goods (e.g., brochures, cartons) generally attracts 18%; check the classification of the resultant goods to confirm.
- The job worker charges GST; the principal may avail ITC but cannot claim a refund of service credit under IDS.

Q35. How should debit and credit notes be treated for ITC refund purposes?

A.35

- Credit notes under Section 34 reduce the supplier's tax liability and the recipient's ITC; both must adjust returns in the period the note is reported. If a credit note is issued after a refund claim, recompute Net ITC and repay any excess refund, if required.
- Debit notes increase taxable value and the recipient's ITC; ITC on debit notes related to input goods can be included in Net ITC for later refund claims, subject to the two-year limit.
- Ensure all debit/credit notes are properly reflected in GSTR-1 and GSTR-3B, and make adjustments before filing the refund application.

11. Practical Checklist for IDS Refund Application

Use this as a control tool alongside the steps above to prevent **RFD-03 (deficiency) and expedite processing.**

11.1 Initial Details Required Before Filing of Refund Application

1. **GST user ID and password;**
2. **E-way Bill user ID and password;**
 - ☐ To fetch inward E-Way Bill details and validate invoice HSNs
3. **Sales register for the period**
 - ☐ To derived details Item-wise, HSN-wise, and rate-wise;
4. **ITC register**
 - ☐ Needed ITC register in the Annexure B format with the following clearly marked for each entry:
 - ✓ **Nature:** inputs, input services, capital goods
 - ✓ **HSN/SAC**
 - ✓ **Eligibility:** Eligible (Yes/No)
 - ✓ **GSTR-2B status:** Reflected in GSTR-2B (Yes/No)
 - ✓ **Invoice availability:** Invoice readily available (Yes/No)

5. **Nature of business and types of goods/services**, with applicable **HSN/SAC codes**
6. **All ITC invoice copies** (scanned and legible) for which the ITC refund is being claimed;
7. **Material flow chart**
 - ☐ What is purchased and consumed, with consumption ratios for the output product
 - ☐ Include rate-wise and HSN-wise summaries of materials purchased

11.2 Verification Checklist Before Submitting Refund Application

8. **Return Filing Status**
 - ☐ Confirm all returns (GSTR-1 and GSTR-3B) have been filed up to date. Refund filing is not allowed if any return is pending.
9. **Outstanding Demand**
 - ☐ Check the Liability Ledger for any outstanding demand.
 - ☐ If appealed, keep appeal/stay details ready.
 - ☐ If not appealed, note that the department may adjust the refund against the demand.
10. **Electronic Credit Ledger (ECL)**
 - ☐ Note the ECL balance as on the refund filing date and as on the return filing date for the refund period.

11. Bank Account Verification

- ☐ Verify, using a cancelled cheque or bank letter for the selected account: IFSC, account number, and account holder's name.
- ☐ Confirm the bank account registered on the GST portal for receiving refunds is correct and Aadhaar-linked, as required under Rule 96C.

12. Aadhaar Authentication

- ☐ Complete Aadhaar authentication for the authorized signatory on the GST portal. Refund filing is not permitted without successful authentication.
- ☐ If already completed, confirm the portal status shows "Authenticated." If pending/failed, complete e-KYC immediately.

13. E-Invoicing Applicability

- ☐ Check whether e-invoicing is applicable.
- ☐ If applicable, verify that e-invoices have been duly generated and are consistent with GSTR-1.

11.3 Additional Preparations and Reconciliations

- 14. Prepare an **invoice-wise output register** and reconcile with GSTR-1, including the HSN summary.
- 15. Prepare an **invoice-wise input register** and reconcile with GSTR-3B and GSTR-2B; ensure ITC eligibility flags are marked.

- 16.** In case of **Merchant Export (sale at 0.1%)**:
- ☐ Confirm that the intimation letter has been submitted to the department; obtain the acknowledgment copy.
 - ☐ Verify compliance with Notification 40/2017–Central Tax (Rate).
- 17.** Assess whether **ITC reversal under Rule 42 and Rule 43** is required; if yes, post the reversal entries before computing the refund claim.
- 18.** For **import of goods**: prepare an Import Register and cross-check with Bill of Entry (BoE) numbers and IGST paid.

12. Advisory for Taxpayers: Be Prepared for Departmental Premises Verification

For first-time IDS refund applicants, the GST Department may conduct physical verification of your premises (Principal, Additional, and Godown). While visits are usually intimated, they can also occur without prior notice. Please ensure continuous readiness as outlined below.

12.1 What You Need To Do

i. Verify all places of business on the GST portal

- Ensure every actual location (Principal, Additional, Godowns) is added and active.
- If any location is missing, update it on the GST portal before filing the refund.

ii. Mandatory displays at each location

- **Outside the premises:** Display the legal name/trade name and GSTIN.
- **Inside the premises:** Display the original/valid GST Registration Certificate in a clearly visible area (office/warehouse).

iii. Maintain photographic evidence

- Clear photo of front signage showing the name and GSTIN.
- Interior photo showing the GST Registration Certificate on display.

iv. Aadhaar authentication of authorized signatory

- Complete Aadhaar authentication on the GST portal. Filing of refunds is not permitted without successful authentication. If already completed, confirm the portal status is "Authenticated." If pending/failed, complete e-KYC immediately.

v. Keep product samples ready

- Maintain representative samples for both outward and inward supplies, as these may be requested during verification.

vi. Ensure HSN accuracy

- Verify that HSN details are correctly reflected on the GST portal and align with your outward supplies and invoices.

vii. Maintain invoice samples

- Keep legible sample copies of purchase and sale invoices ready, ensuring they contain: GSTINs, HSN, tax rate, taxable value, and tax amounts.

12.2 Good Practices to Avoid Litigation

- i Keep documents organized:** Store photos, invoices, and portal screenshots in a labeled folder for quick sharing during inspection.
- ii Update changes proactively:** Any change in premises or bank details should be updated and validated on the portal before initiating an IDS refund claim.
- iii Maintain ongoing compliance:** Ensure all GSTR-1 and GSTR-3B returns are filed up to date; pending returns can block the refund process.

Closing Note

This guide aims to empower corrugated box manufacturers with clear, structured and practical knowledge on GST compliance, refund mechanisms and strategic planning. By understanding the legal framework and following best practices in record-keeping, you can minimise working-capital lock-in, avoid disputes and maximise refund benefits. GST DOST is ready to assist with your compliance, return filing, refund claims and litigation support needs. For customised advice, please reach out to us.

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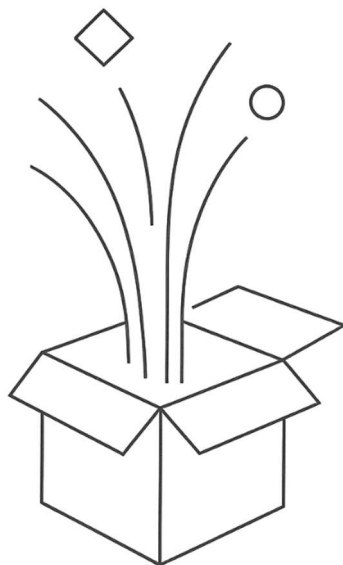


***Every refund is a right —
when you know the law right.***



About GST DOST

***GST DOST** is a pan-India legal advisory and compliance platform specialising in GST consulting, litigation support, refund management, and training. Founded by **CA Vikash Dhanania**, GST DOST aims to make complex tax laws simple, actionable, and trustworthy for every business.*



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