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Ref. : DGO/2025-26/016

August 25, 2025

Shri Balasubramanian Krishnamurthy, IRS
Joint Secretary
Tax Policy Research Unit
Department of Revenue
Government of India
Room No.71 , North Block
Delhi. 110001

Subject: Trade facilitation for Goods and Services Tax ("GST") Refunds (Pillar 3)

Respected Sir,

We, at Bombay Chamber, we commend the initiative behind the next generation of GST reforms. These reforms aim to minimize classification disputes, address inverted duty structures in certain sectors, promote greater rate stability, and further improve the ease of doing business. The reform proposals are built on three key pillars: structural reforms, rate rationalization, and ease of living.

Regarding Pillar 3, a seamless and automated refund process is a fundamental aspect of the GST system. However, in practice, procedural hurdles continue to delay timely refunds, resulting in the locking up of critical working capital for businesses. Additionally, following the rate rationalization exercise—where GST on procured services largely remains at 18%, while output goods are shifted to the 5% slab—refunds for differential tax on goods (excluding capital goods) are allowed under the inverted duty structure, and refunds for services remain minimal due to the language of the formula and enabling provisions. This could lead to significant amount of input tax credit accumulation impacting working capital and eventually affecting margins or pricing over a period of time. Furthermore, the inverted duty refund spread has widened to 13% (5% less 18%) compared to the current 6% (12% less 18%) for goods refunds. This challenge is expected to be even greater in the services sector, especially if GST rates on output services are reduced to 5% or exempted.

We are writing to seek your guidance on recommendations for unlocking working capital under the GST framework. We have outlined a brief background, key challenges, and our recommendations, which are attached, for your kind consideration.

We request your kind support in resolving these issues. We would be pleased to provide any additional clarifications required on the issues highlighted and the recommendations.

Yours faithfully,
For Bombay Chamber of Commerce & Industries



Sandeep Khosla