

GST INDIA

# INVERTED DUTY REFUNDS UNDER GST

A Comprehensive Practical Guide

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## 1. Overview — Why Refund?

The GST refund mechanism under **Section 54 of the CGST Act** is designed to return excess tax paid by taxpayers, promote exports, avoid the cascading effect of taxes, and improve the working capital of businesses.

- Return excess GST paid by taxpayers.
- Promote exports by refunding taxes on zero-rated supplies.
- Refund unutilized Input Tax Credit (ITC).
- Avoid cascading effect of taxes.
- Improve cash flow and working capital of businesses.

## 2. Section 54 — Refund Categories

Section 54 provides for refund of the following:

- Any tax paid in excess.
- Interest paid on such tax.
- Any other amount paid which is not required to be paid.
- Tax paid on **export of goods or services or both**.
- Tax paid on **deemed exports**.
- Unutilised ITC at the end of a tax period — for **zero-rated supplies** (Sec 16(1) IGST Act 2017).
- Unutilised ITC where the tax rate on **inputs is higher than the rate on output supplies** (other than nil-rated or fully exempt).

## 3. Types of Refund — By Application

#	Refund Type
1	Unutilised ITC — exports without payment of tax
2	Tax paid on export of services with payment of tax
3	Unutilised ITC — supplies to SEZ Unit/Developer without payment of tax
4	Tax paid on supplies to SEZ Unit/Developer with payment of tax
5	Unutilised ITC — accumulation due to Inverted Tax Structure
6	Refund to supplier — tax paid on deemed export supplies
7	Refund to recipient — tax paid on deemed export supplies
8	Excess balance in electronic cash ledger
9	Excess payment of tax
10	Intra-state supply subsequently held to be inter-state and vice versa
11	Refund on account of assessment / provisional assessment / appeal / any other order

12	Any other ground or reason
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**Special Category:** A specialised UN agency, Multilateral Financial Institution, Consulate, or Embassy of a foreign country (notified u/s 55) may apply for refund of tax paid on inward supplies — **before the expiry of 2 years from the last day of the quarter in which such supply was received.**

## 4. Refund Procedure — Forms & Timeline

Form	Purpose	Timeline
RFD-01	Application by taxpayer	—
RFD-02	Acknowledgement by officer	Within 15 days of RFD-01
RFD-03	Discrepancy notice	—
RFD-04	Provisional refund sanction	Within 7 days of RFD-02
RFD-05	Payment order	—
RFD-06	Final sanction of refund	Within 60 days of RFD-01
RFD-07	Withhold of refund	—
RFD-08	Show Cause Notice (SCN)	—
RFD-09	Reply to SCN	—
RFD-01W	Withdrawal of refund application	Before any order in RFD-04/05/06/07/08

## 5. Documents Required for Refund Application

- Application in **RFD-01**
- Statement of invoices for outward supplies — **Statement 1A**
- Statement of invoices for Net ITC — **Annexure B**
- Declaration that incidence of tax paid has **not been shifted**
- **GSTR-1, GSTR-3B, GSTR-2B**
- Declaration that accumulated ITC is due to Inverted Duty Structure (IDS)
- Declaration for non-claim of any State levies etc.
- Declaration for **non-prosecution in past 5 years**
- Undertaking under Section 16(2)(c) — ITC claimed was paid by supplier to Government
- Bank Account details

### Restricted Items — Not Eligible for Refund (Annexure B)

- ITC on Capital Goods
- ITC on Services
- ITC on Non-Productive Inputs

## 6. Time Limit & Relevant Date

Refund application must be filed **before the expiry of two years from the Relevant Date**. The time-limit does not apply to refund of excess balance in the electronic cash ledger.

**Relevant Date for Inverted Duty Structure Refund:**

Due date for furnishing return u/s 39 (GSTR-3B) for the period in which the refund claim arises.

**Example:** Refund for July 2025 → GSTR-3B due on 20 Aug 2025 → **Last date for refund application = 20 August 2027.**

Amount	Documents Required
Up to ₹2,00,000	Self-declaration only
Above ₹2,00,000	Document specifying that claim is due and taxes have been paid

## 7. Inverted Duty Structure (IDS) — Key Conditions

Refund of unutilised ITC arises when the **rate of tax on inputs is higher than the rate of tax on output supplies**, other than nil-rated or fully exempted supplies.

### Notified Goods — NO Refund under IDS

**Notification No. 5/2017-CTR dated 28.06.2017** specified 15 items (including woven fabrics, narrow woven fabrics, knitted or crocheted fabrics) where refund under IDS is not allowed. **NN 20/2018-CTR dated 26.07.2018** excluded Sl. Nos. 1–7 from the above notification, thereby allowing refund w.e.f. **01.08.2018**. However, accumulated ITC due to IDS up to 31.07.2018 shall lapse.

## 8. Recent GST Rate Changes — Paper & Paperboard

HSN	Description	Rate before 22.09.2025	Rate w.e.f. 22.09.2025
4819 10 4819 20	Cartons, boxes & cases of corrugated or non-corrugated paper/paperboard	12%	5%
4810	Paper & paperboard coated with kaolin or other inorganic substances	12%	18%

**Relevance to IDS:** The change in HSN 4810 from 12% to 18% (w.e.f. 22.09.2025) may create or widen an inverted duty situation for manufacturers using this paper as input if their output attracts a lower rate.

## 9. Formula for Eligible Refund — IDS

$$\text{Refund Amount} = (\text{Turnover of inverted supply of goods} \times \text{Net ITC} / \text{Adjusted Total Turnover})$$

MINUS

$$(\text{Tax payable on inverted-rated supply of goods \& services} \times \text{Net ITC} / \text{ITC availed on inputs and input services})$$

Term	Definition
Net ITC	ITC availed on eligible inputs only
Adjusted Total Turnover	Turnover of all supplies of goods and services excluding exempt supplies

## 10. Miscellaneous Provisions

### Exclusion of Time (Proviso to Rule 90(3))

The period from the date of filing refund claim in RFD-01 till the date of communication of deficiencies in RFD-03 by the proper officer shall be **excluded** from the 2-year limitation period.

### Withdrawal of Refund (Rule 90(5) & 90(6))

The applicant may withdraw the application at any time **before issuance** of provisional refund sanction (RFD-04), final sanction (RFD-06), payment order (RFD-05), withhold order (RFD-07), or SCN (RFD-08) by filing **RFD-01W**. On withdrawal, any amount debited from the ECL/ECCLedger shall be credited back.

### Withholding of Refund (Rule 92(2))

The proper officer may withhold refund by issuing **RFD-07 (Part A)**. If no reason is found to withhold, the refund is released under **RFD-07 (Part B)**.

### Recredit of Erroneous Refund (PMT-03A)

If any erroneously sanctioned refund (export / IDS / IGST on export, sanctioned in contravention of Rule 96(10)) is paid back in cash, an **equivalent amount is credited back to the Electronic Credit Ledger via PMT-03A**.

## 11. Interest on Delayed Refunds (Section 56)

Scenario	Interest Rate	Period
Refund not paid within 60 days of receipt of application	Up to <b>6% p.a.</b>	From day 61 till actual date of refund
Refund arising from adjudicating / appellate authority / court order not paid within 60 days	Up to <b>6% p.a.</b>	From day 61 till actual date of refund

## 12. Demand, Recovery & Penalty for Erroneous Refund

If an audit (Section 65) or special audit (Section 66) reveals that a refund has been erroneously sanctioned, the proper officer may initiate demand and recovery proceedings under **Sections 73, 74, or 75**.

**Penalty (Section 122(1)(viii)):**  
 Fraudulently obtaining refund of tax under the Act attracts a penalty of **₹10,000 or an amount equivalent to the refund claimed fraudulently — whichever is higher.**

## 13. Quick Reference Summary

Parameter	Details
Refund Allowed	Exports · Deemed Exports · IDS (input rate > output rate) · Others
Refund NOT Allowed	Nil-rated supplies · Exempted supplies · Normal supplies
Time Limit	2 years from the Relevant Date
Provisional Refund	Within 7 days of RFD-02 acknowledgement
Final Refund	Within 60 days of valid application (RFD-01)

<b>Interest (delay)</b>	6% p.a. (general)   9% p.a. (order-based)
<b>Penalty (fraud)</b>	■10,000 or equivalent of fraudulent refund — whichever is higher

### Contact Us

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