TRACARTA RESEARCH · GST REFUNDS

The refunds India Inc. is still waiting for

India paid out ₹2,92,330 crore in GST refunds in FY2025-26, up 17.8% in a year, and the pace has quickened since. This report sizes the working capital that sits with the tax system at any time, maps where claims stall, and sets out what finance leaders can do now that the 2025 reforms have changed the rules.

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Refunds paid, FY2025-26

₹2.92 lakh cr

total GST refunds, domestic and export, up 17.8% on FY2024-25

Domestic refund growth

23.8 %

domestic refunds rose faster than export refunds in FY2025-26

In flight at any time

₹40,000–50,000 cr

TraCarta view: refunds filed but not yet paid on a 50–60 day cycle

Provisional refund

90 %

of low-risk zero-rated and inverted duty claims, sanctioned on system risk rating

A GST refund is money a company has already paid. Until it comes back, it is working capital lent to the government, interest free in most cases.

Refunds are no longer a side issue. In FY2025-26, the tax system returned **₹2,92,330 crore** to businesses, about 13% of gross GST collections. In April to August 2026 alone, refunds reached ₹1,53,234 crore, up 23.8% on the same months of last year.

Most of this money belongs to exporters and to manufacturers whose input tax rate is higher than their output rate. For these companies, the refund is not a windfall. It is part of the margin. A claim that takes four months instead of four weeks changes the cash position of the business.

The system has improved. Export refunds of IGST are largely automated, and since October 2025 low-risk claims get 90% paid provisionally. But the official data also shows that claims still stall, that deficiency memos still restart the clock, and that interest on late refunds is almost never paid in practice.

> **A refund is a legal entitlement. How fast it arrives depends almost entirely on how clean the claim is when it is filed.**

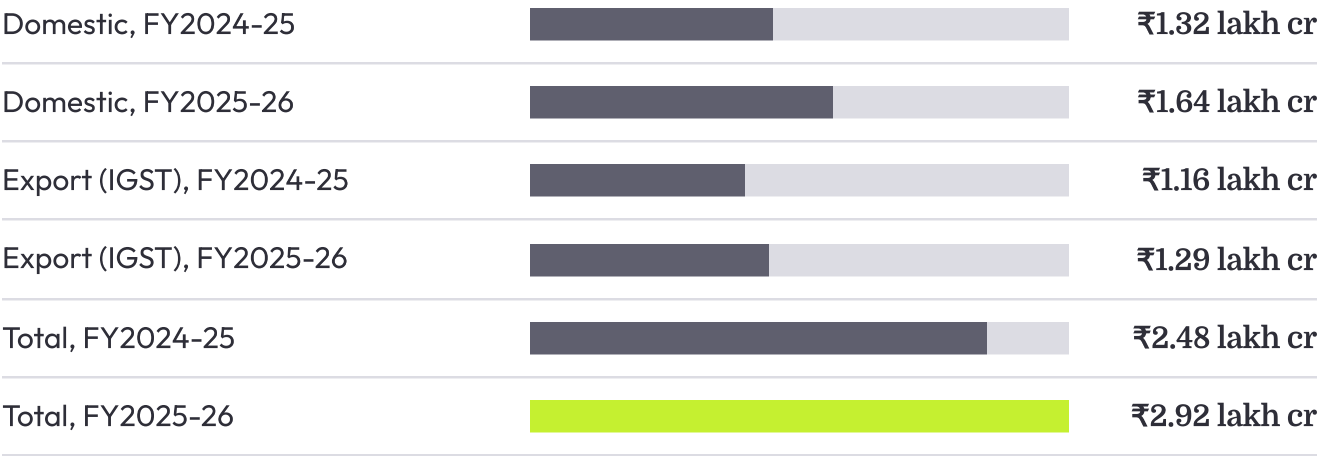
The scale of GST refunds

Official collection data published each month by the government splits refunds into two streams. **Domestic refunds** are claims filed on the GST portal: inverted duty structure, exports of goods and services under bond or LUT, excess cash balance and others. **Export refunds** are IGST paid on exported goods, processed through the customs system (ICEGATE).

Exhibit 1

GST refunds grew 17.8% in FY2025-26

Refunds paid, ₹ lakh crore



Source: GST collection data for March 2026 as reported by StudyCafe (domestic ₹1,63,762 cr; export ₹1,28,568 cr; total ₹2,92,330 cr vs ₹2,48,218 cr). Figures rounded.

Two points stand out. First, domestic refunds grew more than twice as fast as export refunds, 23.8% against 10.9%. Domestic refunds are the ones that need a filed application, officer scrutiny and, often, correspondence. Second, the growth is continuing. August 2026 refunds were ₹31,795 crore, up 67.9% on August 2025.

Exhibit 2

Refunds are running well ahead of last year

Period	Refunds paid	Change
FY2024-25 (full year)	₹2,48,218 cr	n/a
FY2025-26 (full year)	₹2,92,330 cr	+17.8%
April–August 2025	₹1,23,785 cr	n/a
April–August 2026	₹1,53,234 cr	+23.8%
August 2026: domestic	₹18,490 cr	+72.6%
August 2026: export (ICEGATE)	₹13,305 cr	+61.8%

Source: GST revenue data for March 2026 and August 2026, as reported by StudyCafe and CAclubindia.

The underlying driver is trade. India's total exports of goods and services reached about **US$ 860 billion** in FY2025-26, with services exports at about US$ 421 billion. Every export is zero rated, so every exporter with input tax is a potential refund claimant.

Refunds also matter at the level of the whole tax base. At about 13% of gross collections in FY2025-26, they are the largest single gap between what businesses pay and what the government keeps. That share has risen as exports have grown and as rate changes have created more inverted positions.

Where the money is

Refund entitlement is concentrated in three situations. Each has its own route, its own documents and its own ways of going wrong.

Exhibit 3

Three routes, three risk profiles

Route	Who claims	How it is processed	Where it goes wrong
Export of goods with IGST paid	Goods exporters	Shipping bill treated as the claim; matched automatically with GSTR-1 and GSTR-3B through ICEGATE	Invoice and shipping bill mismatches, errors in Table 6A, customs alerts
Export or SEZ supply under LUT, without tax	Services exporters, goods exporters under bond	Application in RFD-01 with statement of invoices and proof of receipt of foreign currency	Missing realisation proof, wrong period, formula errors on turnover
Inverted duty structure	Manufacturers whose input rate exceeds output rate	Application in RFD-01 using the Rule 89(5) formula	Ineligible inputs, input services and capital goods excluded from the formula, credit mismatch with GSTR-2B

Source: CGST Act 2017, Section 54; CGST Rules 2017, Rules 89 to 96. TraCarta summary.

Services exporters deserve special attention. With services exports at about US$ 421 billion, a large and growing share of refund entitlement arises in IT, consulting and business services companies that export under LUT. These claims do not flow through customs. Each one needs an application, invoice statements and proof that foreign currency was received. They are exactly the domestic claims that grew fastest last year.

The September 2025 rate changes widened the pool. By moving many finished goods to 5% while some inputs stayed at 18%, the rationalisation created new inverted duty positions in sectors that had never claimed a refund before. Some of these companies have not yet set up a routine to claim.

How much working capital is in flight

No official series reports the value of refund claims pending at a point in time. A simple estimate helps. At ₹2.92 lakh crore a year, refunds are paid at about ₹800 crore a day. If the average claim takes 50 to 60 days from the end of the tax period to payment, the stock of money in flight is roughly **₹40,000–50,000 crore** at any time. This is a TraCarta view, not an official figure, and it excludes claims that are never filed at all.

Where claims stall

The law sets clear timelines. An acknowledgement or a deficiency memo must issue within 15 days of filing. A final order is due within 60 days. Interest at 6% a year runs on a refund paid after 60 days. The claim itself must be filed within two years of the relevant date.

The official record shows the timelines are mostly met at the centre, but not always. In August 2026, the Finance Ministry told the Lok Sabha how many central tax refund claims had been pending beyond 60 and 90 days.

Exhibit 4

Central tax refund claims pending beyond 60 days

Financial year	Pending 60–90 days	Pending over 90 days
FY2023-24	907 claims, ₹274.24 cr	1,592 claims, ₹695.84 cr
FY2024-25	374 claims, ₹246.10 cr	712 claims, ₹559.50 cr
FY2025-26	64 claims, ₹163.60 cr	110 claims, ₹64.10 cr

Source: Lok Sabha Unstarred Question No. 2478, answered 3 August 2026, as reported by TaxGuru.

The trend is improving. The more telling number is interest. Across all three years, total interest paid on delayed refunds was only **₹16.60 crore**. The government attributed most delays to late documents and late replies by taxpayers. In practice, that is how the 60-day clock is reset.

Pending claims are also only part of the picture. A claim that is rejected, withdrawn or never filed does not appear in any pendency table. Our client work suggests that the larger losses sit there: refunds not claimed because the formula looked complicated, the documents were scattered, or the two-year window passed unnoticed.

Deficiency memos

A deficiency memo in Form RFD-03 treats the claim as never filed. The taxpayer must correct it and file afresh, and the 60 days start again. Courts have upheld rejections where the refiled claim fell outside the two-year limit. A single missing document can therefore cost months, and occasionally the whole claim.

What the auditors found

State audits by the Comptroller and Auditor General tell a similar story from the other side. In Gujarat, the CAG examined 1,262 refund claims and found acknowledgements delayed in 45% of cases and final orders delayed in 15%. It also flagged irregular inverted duty refunds and missing post-audit checks. An earlier audit in Odisha, covering July 2017 to July 2020, found acknowledgements delayed by up to 333 days in 18.7% of 268 sampled cases.

Exhibit 5

Audit findings on refund processing

Audit	Sample	Key findings
CAG, Gujarat State GST (reported March 2025)	1,262 refund claims	45% of acknowledgements delayed; 15% of orders delayed; irregular inverted duty refunds; no post-audit
CAG, Odisha GST, report for year ended March 2021	268 refund cases, July 2017 to July 2020	18.7% of acknowledgements delayed (1–333 days); 6.7% of orders delayed (10–115 days); 8.3% of provisional refunds late

Source: CAG audit reports as summarised by VATupdate (Gujarat) and CAG Report, Chapter 3, GST (Odisha, 2021).

Audit findings cut both ways. Where officers are criticised for allowing ineligible refunds, scrutiny of the next claim tightens. Clean, well-documented claims are the only reliable defence.

What changed in 2025

The 56th GST Council meeting in September 2025 recommended the most significant refund changes since GST began. They are now in force.

- **90% provisional refund on risk rating.** CBIC Instruction No. 06/2025-GST of 3 October 2025 directs that low-risk claims, identified by the system, receive 90% of the amount as a provisional refund. Officers can withhold it only with recorded reasons.
- **Inverted duty claims included.** Provisional refunds, earlier available only for zero-rated supplies, now extend to inverted duty claims filed on or after 1 October 2025.
- **Timelines enforced.** The instruction stresses strict adherence to the 15-day window for acknowledgement or deficiency memo.
- **Some taxpayers excluded.** Notification No. 14/2025-Central Tax restricts provisional refunds for certain categories of registered persons.

> **The risk engine now decides who waits. A company with a clean filing history, matched returns and complete documents is paid most of its claim within days. A company with mismatches waits for full scrutiny, sometimes for months.**

The reform does not remove the final order. The remaining 10% still depends on scrutiny, and a provisional refund can be recovered if the final order goes against the claim. Accuracy at the time of filing matters more, not less.

There is a second effect. As low-risk claims move faster, the officer time saved shifts to scrutiny of the rest. Companies that fall outside the low-risk band should expect closer questions, not fewer. The gap between well-prepared and poorly prepared claimants is likely to widen.

Actions for CFOs

Refunds are a treasury item as much as a tax item. The following actions shorten the cycle and protect the entitlement.

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01 **Know your refund position every month**

Track claims filed, acknowledged, provisionally paid, finally sanctioned and rejected, by GSTIN. Most finance teams can say what they paid in GST; few can say what is owed back.

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02 **Earn the low-risk rating**

Match GSTR-1, GSTR-3B and GSTR-2B before filing. Reconcile shipping bills and foreign exchange realisation. The risk engine rewards consistency across returns.

03 File early, not at the deadline

A deficiency memo restarts the clock. A claim filed near the two-year limit leaves no room to correct and refile.

04 Recheck inverted duty after the 2025 rates

The September 2025 rate changes created new inverted positions. Test every product line against its inputs and claim where eligible.

05 Answer deficiency memos within days

Keep a ready document pack for each route. Delays by the taxpayer are the most cited reason for pending claims.

06 Claim interest where it is due

Interest under Section 56 applies after 60 days. It is rarely paid unless it is asked for.

Ownership is the common thread. In many companies, refunds sit between indirect tax, treasury and the business units that hold the export documents. When nobody owns the full cycle, claims are filed late, memos are answered late and interest is never pursued. A single owner with a monthly statement changes that.

TraCarta's GST Refund Recovery practice runs this cycle for clients and reports each claim in a monthly refund tracker (see what you receive). See how we work or talk to us.

Methodology and sources

Refund totals are from the government's monthly GST revenue data, as reported by StudyCafe and CAclubindia. Domestic refunds are those processed on the GST portal; export refunds are IGST refunds on goods processed through ICEGATE. Pending claims and interest paid are from a Lok Sabha answer of 3 August 2026 and cover central tax only. Audit findings are from CAG state audit reports and relate to their sample periods.

The estimate of working capital in flight is a TraCarta view. We divide FY2025-26 refunds by 365 to get a daily run rate of about ₹800 crore, and multiply by an assumed 50–60 day cycle from the end of the tax period to payment. The result, ₹40,000–50,000 crore, is indicative. It excludes unfiled claims and claims under dispute.

Export figures are Ministry of Commerce estimates for FY2025-26. Legal references are to the CGST Act 2017 and CGST Rules 2017 as amended to September 2026.

Sources

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