

Banks and NBFCs: Claiming ITC under Section 17(4) and Reporting It Right in GSTR-3B (Circular 261)

Published 27 October 2026 · Category: GST · Circular No. 261/07/2026-GST dated 26.10.2026 (F. No. CBIC-20001/2/2026-GST)

ITC

Section 17(4): Banks & NBFCs

How to report ITC in GSTR-3B

CIRCULAR NO.
261
/2026-GST

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CBIC · 26.10.2026

A non-banking finance company headquartered in the Financial District, Hyderabad has a lending arm, a bullion-trading desk and a small advisory vertical, each separately registered. Its tax team has been following section 17(4) in one State and the proportionate method of section 17(2) in another. Which is right, and how should the 50% restriction actually be keyed into GSTR-3B? Circular No. 261/07/2026-GST, dated 26 October 2026, responds to "varying practices" across banks and financial institutions.

In short: only registrations engaged in accepting deposits and extending loans and advances can opt for section 17(4); if one such registration opts, all such registrations of the same entity must comply; the second-proviso relaxation applies only to supplies from a same-PAN registrant that has also opted; and GSTR-3B has a prescribed sequence of reversal and availment.

Clarification 1: who can opt, and what follows

Section 17(4) gives banking companies and financial institutions, including NBFCs, engaged in accepting deposits and extending loans and advances an option to take 50% of eligible ITC instead of proportionate availment under section 17(2). The Circular holds:

Registration (distinct person) of a bank / NBFC	Position
Not engaged in deposits, loans or advances (e.g. exclusively bullion trading)	Neither has the option nor is required to comply with section 17(4)
Engaged in deposits / loans / advances (and possibly other services as well)	Has the option
One such registration opts	All such registrations of the entity must comply with section 17(4)

Clarification 2: scope of the second proviso

The second proviso to section 17(4) relaxes the 50% restriction for tax paid on supplies by a registered person having the same PAN. The Circular reads it within the framework of section 17(4) as applicable to registrants that have opted. Accordingly, the relaxation is available **only** for supplies received from another same-PAN registrant who has **also** opted to comply with section 17(4).

Clarification 3: reporting in GSTR-3B (Rule 38)

The Circular builds on Circular No. 170/02/2022-GST dated 06.07.2022 and the Invoice Management System (IMS), available from October 2024.

Banks & NBFCs: the GSTR-3B sequence, worked through

Reporting order laid down in the Circular, with an illustrative figure set

Illustration (not from the Circular)

Eligible ITC available for the month: ₹100. Of this, ₹10 is non-business / s.17(5) credit and ₹20 relates to the second proviso to s.17(4).

Total eligible ITC



Step 1: non-business / s.17(5) – reverse permanently, Table 4(B)(1) ₹10

Step 2: second-proviso credit – avail ₹20

Step 3: remaining ₹70 → 50% availed ₹35

Step 3: balance 50% – reverse permanently, Table 4(B)(1) ₹35

Net ITC availed ₹55 · permanent reversal in Table 4(B)(1): ₹10 + ₹35 = ₹45

Credit not yet ascertained as eligible (s.16 conditions)

Reverse temporarily in Table 4(B)(2) → reclaim later in Table 4(A)(5), within s.16(4) time limit, then run the same three steps; also shown in Table 4(D)(1).

A. Where IMS was not used

1. Ascertain eligibility of the ITC auto-populated from GSTR-2B (other than reverse-charge inward supplies) and of ITC claimed on reverse-charge supplies.
2. For ITC found eligible under section 16: - credit for non-business use, and credit attributable to section 17(5) supplies, is **permanently reversed in Table 4(B)(1)**; -

credit referred to in the second proviso is **availed**; - 50% of the remaining amount is admissible and **availed**; the balance is **permanently reversed in Table 4(B)(1)** of the same period.

3. ITC that cannot be ascertained as eligible because a section 16 condition is not yet met, but may become eligible later, is **temporarily reversed in Table 4(B)(2)**.
4. On fulfilment of conditions, it may be reclaimed through Table 4(A)(5) of a later return, within the section 16(4) time limit, running through step 2 again, and shown also in Table 4(D)(1).

B. After IMS-related rule amendments are notified (and where IMS has already been used)

Invoices whose ITC is presently ineligible but may become eligible are to be kept **pending** on IMS, so that they do not appear in GSTR-2B or auto-populate GSTR-3B. Accepted and deemed-accepted invoices flow into GSTR-2B and GSTR-3B, and the same step-2 procedure applies.

C. Past periods. Field formations are advised not to take an adverse view of a different reporting methodology followed earlier, as long as the amount of ITC availed under section 17(4) is "in congruence with" the principles above.

Worked example (illustrative, not from the Circular)

Eligible ITC in the month ₹100; ₹10 relates to non-business use or section 17(5); ₹20 falls under the second proviso.

Step	Amount (₹)	Treatment
Non-business / section 17(5) credit	10	Permanently reversed, Table 4(B)(1)
Second-proviso credit	20	Availed
Remaining	70	50% = 35 availed; 35 permanently reversed, Table 4(B)(1)
Net ITC availed	55	Total permanent reversal in 4(B)(1): 45

Where views can differ

- **Mixed registrations.** The "all such registrations must comply" rule effectively links group-level choices. Entities that earlier chose differently for different registrations will have to reconcile past positions; the Circular's comfort on reporting method for past periods relates to *how* ITC was reported, not to the choice between sections 17(2) and 17(4) itself (litigative).
- **Bullion and other non-financing registrations.** The Circular says such registrations neither have the option nor the obligation. Whether such a registration could still claim blocked-credit treatment under section 17(2) rules is governed by that sub-section and rules 42 and 43; the Circular does not elaborate (confirm).
- **IMS rule amendments.** Part B depends on rule amendments "after" they are notified; until then taxpayers who have used IMS are covered by the same direction.

Risk view

Issue	Risk
Opting for 17(4) in one registration and 17(2) in another	High — contrary to Clarification 1(c)
Claiming second-proviso relaxation on supplies from a non-opted same-PAN registrant	High
Showing temporary reversal in Table 4(B)(1) instead of 4(B)(2)	Moderate — misreporting; reclaim route lost
Different past reporting methodology with correct end-amount	Low — adverse view discouraged by the Circular

Frequently asked questions

Can a bullion-trading registration of an NBFC take 50% ITC? The Circular says it neither has the option nor is required to comply with section 17(4).

Where is permanent reversal shown? Table 4(B)(1) of FORM GSTR-3B.

Where is temporary reversal shown? Table 4(B)(2); reclaim through Table 4(A)(5) and Table 4(D)(1).

Does IMS change the 50% rule? No. IMS decides which invoices reach GSTR-2B; the 50% sequence applies to what is then auto-populated.

Is there relief for past reporting? The Circular discourages an adverse view of a different methodology for past periods if the ITC availed under section 17(4) is consistent with its principles.

Sources

- CBIC Circular No. 261/07/2026-GST dated 26.10.2026 — [CBIC website](#).
- Section 17(2), 17(4), 17(5), 16(4) CGST Act, 2017; Rule 38 CGST Rules, 2017; Circular No. 170/02/2022-GST dated 06.07.2022.

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