

## CLIENT ADVISORY MEMO

### Rule 86B of CGST Rules, 2017 | Mandatory 1% Cash Payment of Output Tax

**Date:** June 2026 *Ref: GST/86B/2026*  
**To:** All Registered Taxpayers | High-Turnover Business Entities  
**Subject:** **Compliance under Rule 86B – Mandatory Cash Component in GST Payment**

### 1. Background & Objective

Rule 86B was inserted into the Central Goods and Services Tax (CGST) Rules, 2017 vide Notification No. 94/2020–Central Tax, effective 1st January 2021. This rule was introduced to curb fraudulent Input Tax Credit (ITC) claims, break fake invoice chains, and ensure a minimum cash contribution by large taxpayers toward their GST liability.

### 2. Scope of Applicability

Rule 86B applies to a registered person if:

- The value of taxable supply (excluding exempt supplies and zero-rated supplies) in a month exceeds ₹50 Lakhs; AND
- The taxpayer does not satisfy any of the exemption conditions listed in Section 4 below.

*Note: The ₹50 Lakh threshold is evaluated on a month-to-month basis. Exceeding it even in a single month triggers the restriction for that month's return.*

### 3. The Restriction — What Rule 86B Says

Where applicable, Rule 86B restricts a registered person from utilizing the Electronic Credit Ledger (ITC) to discharge more than 99% of the total output tax liability for the month.

In simple terms:

- Minimum 1% of total output tax liability must be paid in cash (via the Electronic Cash Ledger).
- The remaining 99% (or more) can be paid using available ITC.
- This restriction applies irrespective of how large the ITC balance is.

#### 3.1 Illustrative Impact

Scenario	Output Tax Liability	Min. Cash Payment Required
Monthly taxable turnover = ₹60 Lakhs	Say ₹10.80 Lakhs @ 18%	₹10,800 (1% of ₹10.80L)

Scenario	Output Tax Liability	Min. Cash Payment Required
Large ITC balance available	Cannot be fully offset by ITC	1% must come from Electronic Cash Ledger
Exemption condition satisfied	No restriction	Entire output tax can be paid via ITC

#### 4. Exemptions from Rule 86B

Rule 86B SHALL NOT apply if any ONE of the following conditions is satisfied:

S.No.	Exemption Condition	Evidence / Documents Required
1	Income tax paid > ₹1 lakh by taxpayer / proprietor / karta / MD / partner in either of the last 2 FYs	Copy of ITR acknowledgement / Form 26AS
2	GST refund received > ₹1 lakh in previous FY (export / inverted duty structure)	GST refund sanction orders (RFD-06)
3	Cash payment of output tax > 1% in each of the last 2 consecutive months	GSTR-3B filed copies showing cash ledger payments
4	Taxpayer is a Government Dept., PSU, Local Authority, or Statutory Body	Not applicable – automatic exemption

**Important: Satisfying any ONE of the above four conditions is sufficient to claim exemption. The taxpayer need not satisfy all conditions.**

#### 5. Non-Compliance & Consequences

- Non-payment of the mandatory 1% cash component will result in GSTR-3B being treated as invalid / non-filed for that period.
- Late filing interest at 18% p.a. will accrue on the unpaid cash component.
- It may attract scrutiny, notices, or assessments from the GST department.
- Repeated non-compliance can be viewed as wilful evasion, attracting penal provisions under Section 122 of the CGST Act.

#### 6. Action Points for Clients

##### 6.1 Monthly Checklist

- Review taxable turnover each month before filing GSTR-3B.
- If turnover exceeds ₹50 Lakhs, verify applicability of exemption conditions.
- Ensure adequate balance in the Electronic Cash Ledger before filing.

- Maintain proper records of ITR, refund orders, and prior cash payments to claim exemptions.

### 6.2 Record-Keeping

- Retain ITR acknowledgements (last 2 financial years) for the proprietor, partners, or directors.
- Keep RFD-06 refund sanction orders accessible.
- Archive GSTR-3B filings showing cash payment history for at least 2 consecutive months prior.

## 7. Frequently Asked Questions

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### Q1: Is Rule 86B applicable to exporters?

Zero-rated supplies (including exports) are excluded from the ₹50 Lakh threshold calculation. However, domestic taxable turnover must still be evaluated separately.

### Q2: Does the 1% apply on IGST, CGST, and SGST separately?

The 1% restriction applies on the total output tax liability (IGST + CGST + SGST combined). There is no separate 1% requirement per tax head.

### Q3: What if a taxpayer's turnover crosses ₹50 Lakhs only in one month?

The restriction applies only for that specific month. Once turnover drops below ₹50 Lakhs in a subsequent month, Rule 86B ceases to apply for that month — unless applicable again based on that month's turnover.

### Q4: Is there any relaxation for new businesses?

No specific relaxation is provided for newly registered taxpayers. The rule applies based solely on monthly turnover and exemption conditions.

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### Disclaimer

*This memo is prepared for general information purposes and constitutes our understanding of the law as of the date of issue. It is not intended to be a substitute for professional advice on specific facts. Clients are advised to consult their engagement partner before taking any action based on the contents of this memo. Laws and departmental clarifications are subject to change.*

**For queries please contact**

**Kondiboina Vivek Yadav | Audit Manager | UVRR & Associates**