

GST NEWSLETTER

COMMERCIAL TAX DEPARTMENT, GOVERNMENT OF KARNATAKA

COMMERCIAL TAX OFFICES

GANDHINAGAR, BANGALORE - 560 009.

Edition : 9, July 2026

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FROM THE DESK OF EDITOR

The first half of 2026 has marked a significant phase in the evolution of India's GST regime. The implementation of the GST 2.0 reforms has substantially enhanced the ease of compliance, resulting in nearly eight lakh new GST registrations. This remarkable growth reflects the increasing confidence of businesses in the GST ecosystem and underscores the success of ongoing initiatives to encourage formalization of the economy. The expanding tax base not only strengthens revenue collection but also promotes greater transparency and accountability in indirect taxation.

Another notable development is the proposal under consideration by the GST Law Committee to safeguard the input tax credit (ITC) of genuine buyers from supplier defaults. Recognizing the practical limitations faced by taxpayers,

the proposal acknowledges that while recipients can verify supplier registration and reconcile invoices through GSTR-2B, they cannot reasonably ensure that suppliers ultimately remit the tax collected to the Government. If approved by the GST Council, this reform is expected to reduce avoidable litigation, enhance taxpayer confidence, and further improve the ease of doing business by balancing compliance obligations with commercial realities.

This edition presents a compilation of important judicial pronouncements, analytical articles, and updates on recent GST developments. We hope these contributions will enrich the knowledge of departmental officers, promote informed decision-making, and support the effective, fair, and lawful administration of GST.

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7	Rakesh Kumar	Union Of India & Anr.	2024	Supreme court of India	W.P. No.439 of 2024	24	legal foundation for enforcement measures



Supreme Court Upholds Constitutional Validity of Section 16(2)(c): Major GST Verdict on Input Tax Credit

The Supreme Court has delivered one of the most significant judgments under the Goods and Services Tax (GST) regime by dismissing the Special Leave Petitions filed in Bhandari Scrap Traders v. Union of India & Others. The Court has affirmed the Gujarat High Court's landmark judgment dated 1 May 2026, thereby upholding the constitutional validity of Section 16(2)(c) of the Central Goods and Services Tax Act, 2017.

The controversy revolved around a long-standing issue faced by taxpayers across the country—whether a genuine purchaser should lose Input Tax Credit (ITC) merely because the supplier fails to deposit the GST collected from the recipient with the Government. Several taxpayers had challenged Section 16(2)(c), contending that the provision unfairly penalizes bona fide purchasers for defaults committed by suppliers over whom they have no control.

The Gujarat High Court had rejected these challenges after undertaking an extensive examination of the GST

framework, and the Supreme Court has now endorsed that reasoning in its entirety. The Supreme Court observed that the Gujarat High Court had undertaken a detailed analysis of the GST scheme, particularly the interaction between Section 16(2)(c), Section 41, Sections 73 and 74, and the overall mechanism governing Input Tax Credit. It agreed that the GST law cannot be equated with the earlier VAT laws and therefore declined to apply precedents delivered under the Delhi VAT Act.

The petitioners had argued that Section 16(2)(c) violates Articles 14, 19(1)(g), 265 and 300A of the

Constitution. According to them, once a purchaser possesses a valid tax invoice, receives the goods or services, and the transaction appears in GSTR-2A or GSTR-2B, denial of ITC merely because the supplier fails to deposit tax is arbitrary and unconstitutional. They emphasized that recipients have no legal or practical mechanism to verify whether suppliers have actually filed GSTR-3B or discharged their tax liability. They also relied on earlier judgments rendered under the Delhi VAT Act and argued that the law should either be declared unconstitutional or be read down to protect bona fide purchasers.

The Revenue, however, defended the statutory provision by highlighting the unique architecture of the GST system. It argued that ITC is not an unconditional or vested right but a statutory entitlement subject to fulfillment of prescribed conditions. The Government further submitted that the GST regime operates on self-assessment and destination-based taxation, making actual payment of tax by the supplier an essential element of the credit chain. It also relied upon Sections 41 and 155 of the CGST Act and Rule 37A of the CGST Rules to demonstrate that the law provides a complete mechanism for reversal and subsequent re-availing of ITC once the supplier pays the tax.

A significant aspect of the Gujarat High Court's reasoning, now approved by the Supreme Court, was its distinction between the GST framework and the earlier VAT regime. The Court observed that decisions such as *On Quest Merchandising India Pvt. Ltd.* and *Shanti Kiran India Pvt. Ltd.*, rendered under the Delhi VAT Act, cannot automatically govern disputes arising under GST because the statutory architecture is materially different. Unlike the VAT system, the GST law incorporates Sections 41 and 155, Rule 37A, and a destination-based credit mechanism involving inter-State settlement of taxes. These provisions fundamentally alter the

legal position and justify a different constitutional outcome.

The judgment also elaborates upon the statutory mechanism governing ITC. Under GST, the supplier first uploads invoice details through GSTR-1, which are auto-populated in the recipient's GSTR-2A and GSTR-2B. The recipient may avail credit based on these details, but the entitlement remains subject to satisfaction of all statutory conditions prescribed under Section 16(2), including the actual payment of tax by the supplier. The Court emphasized that these conditions are cumulative and cannot be treated independently. Consequently, the appearance of invoices in GSTR-2B does not by itself create an absolute or indefeasible right to ITC.

The Court further explained that Section 41 of the CGST Act adequately safeguards recipients. Where the supplier fails to pay tax, the recipient is required to reverse the ITC. However, once the supplier subsequently discharges the tax liability, the recipient is statutorily entitled to re-avail the reversed credit. Therefore, according to the Court, the law does not permanently deprive a genuine purchaser of ITC but merely postpones the benefit until tax actually reaches the Government treasury. This statutory mechanism also addresses the argument of alleged double taxation.

An equally important aspect of the judgment concerns the fiscal structure of GST. The Court observed that GST is a destination-based tax where taxes collected in one State may ultimately be transferred to another through the IGST settlement mechanism. If ITC were permitted even where the supplier had never deposited tax, Governments would be required to transfer revenues they had never received, thereby causing serious fiscal imbalance. The Court held that Section 16(2)(c) plays a vital role in preserving the integrity of this nationwide credit mechanism and preventing leakage of public revenue.

The Gujarat High Court also rejected

the plea for reading down the provision. It observed that the doctrine of reading down applies only where statutory language is ambiguous or capable of multiple interpretations. Since Section 16(2)(c) is clear, explicit and consistent with the legislative scheme, there was no constitutional basis for rewriting its language. The Supreme Court expressly agreed with this reasoning and held that no grounds existed either to declare the provision unconstitutional or to dilute its operation through judicial interpretation.

This judgment has far-reaching implications for businesses across India. It conclusively establishes that ITC remains conditional upon actual payment of tax by the supplier. While businesses may continue to rely upon GSTR-2B reconciliation, the ruling reinforces the need for comprehensive vendor due diligence, continuous monitoring of supplier compliance, and contractual safeguards to address supplier defaults. Taxpayers can no longer rely solely on the genuineness of transactions or possession of tax invoices as sufficient grounds for defending ITC claims where suppliers have failed to discharge tax liabilities.



The Supreme Court's decision therefore marks a watershed moment in GST jurisprudence. By affirming the constitutional validity of Section 16(2)(c), the Court has reinforced the legislative objective of protecting the integrity of the GST credit chain while maintaining fiscal discipline. Although the decision places a greater compliance burden on recipients, it provides much-needed certainty on one of the most litigated provisions under GST and is expected to influence thousands of pending disputes concerning denial of Input Tax Credit across the country.

- Editor



Ship-to GSTIN May Becomes Mandatory for Bill-to/Ship-to E-Way Bills

The Goods and Services Tax Network (GSTN) has introduced a significant compliance enhancement for businesses involved in Bill-to/Ship-to transactions. The Ship-to GSTIN will become a mandatory data field while generating e-Way Bills, whether through the e-Way Bill portal, e-Invoice system, or API integrations. This measure is intended to strengthen traceability of goods movement, improve data integrity, and support analytics-based compliance monitoring.

A Bill-to/Ship-to transaction occurs when an invoice is issued to one registered person, while the goods are delivered to another registered location or person. Such arrangements are common in branch transfers, project-site deliveries, job work, third-party logistics, and e-commerce transactions. Under the revised framework, taxpayers must capture the GSTIN of the actual consignee during e-Way Bill generation. Where the consignee is an unregistered person, the value "URP" must be entered in the Ship-to GSTIN field.

GSTN has clarified an important aspect of this change. Although the Ship-to GSTIN is mandatory for system validation, it will not appear as a separate GSTIN field on the printed e-Way Bill or in the standard GET e-Way Bill API response. Therefore, businesses should not assume that the absence of this field in the printed document implies that the requirement is optional. The information will remain available in the backend for verification and analytics purposes.

The amendment places greater responsibility on taxpayers to maintain accurate customer and consignee master data. Businesses using ERP systems or API-based e-Invoice and e-Way Bill generation must ensure that software applications are updated to capture and validate the Ship-to GSTIN correctly. Incorrect mapping, leaving the field blank, or entering the Bill-to GSTIN instead of the actual consignee GSTIN may lead to e-Way Bill generation failures or expose the transaction to future scrutiny.

This development also has wider implications for GST enforcement. The mandatory capture of the actual delivery GSTIN will enable authorities to verify the movement of goods more effectively and strengthen

data analytics in cases involving fake invoicing, circular trading, and disputes relating to the receipt of goods. Consequently, accurate reporting will enhance the credibility of taxpayers' documentation during audits and investigations.

To ensure a smooth transition taxpayers should review all Bill-to/Ship-to business models, update customer and branch master records, validate ERP configurations, train dispatch and billing personnel, and conduct end-to-end testing of e-Way Bill generation processes. Internal controls should also be strengthened to verify that the correct Ship-to GSTIN is captured in every applicable transaction.



The amendment does not introduce a new tax obligation but strengthens compliance through improved movement tracking and data accuracy. Businesses that proactively update their systems and processes before the effective date can avoid operational disruptions, rejected e-Way Bills, and future GST disputes while ensuring seamless compliance with the revised GSTN requirements.

- Editor

What Is The Electronic Credit Ledger In GST?



Gujarat High Court Bars Negative Blocking of GST Electronic Credit Ledger

**Gujarat High Court,
SCA No. 5541 of 2024
Dated: 20.09.2024.**

In a significant ruling strengthening taxpayer rights under the GST regime, the Gujarat High Court, in *PMW Metal and Alloys Pvt. Ltd. v. Union of India & Others*, has held that tax authorities cannot create a negative balance in a taxpayer's Electronic Credit Ledger (ECL) by invoking Rule 86A of the CGST Rules. The judgment reiterates that Rule 86A permits only the restriction of available Input Tax Credit (ITC) and does not authorize authorities to block future credits or create a debit balance in the electronic credit ledger.

The petitioner, a manufacturer of lead and lead-based alloys, discovered that an amount of ₹2.44 crore had been negatively blocked in its Electronic Credit Ledger despite the ledger carrying a nil balance at the relevant time. No formal order or detailed reasons were communicated to the taxpayer, and the GST portal merely reflected that the credit had been blocked on the allegation of "credit claimed without receipt of goods or services." The taxpayer repeatedly

requested the authorities to remove the blockage but received no effective relief, compelling it to approach the High Court.

The Court examined the scope of Rule 86A and emphasized that the provision empowers the Commissioner or an authorized officer to restrict the utilization of existing ITC only when there are recorded reasons to believe that such credit has been fraudulently availed or is otherwise ineligible. The Court observed that the very foundation for invoking Rule 86A is the existence of credit in the Electronic Credit Ledger. Where no credit is available, the authorities have no jurisdiction to create a negative balance or restrict future credits.

While deciding the case, the Bench relied extensively on its earlier landmark decisions in *Samay Alloys India Pvt. Ltd.* and *Milap Scrap Traders*, reiterating that Rule 86A is only a preventive measure and not a mechanism for recovery of disputed tax. The Court clarified that recovery of wrongly availed or utilized ITC must be undertaken through the statutory adjudication process under Sections 73 or 74 of the CGST Act, and not by artificially debiting the Electronic Credit Ledger.

The judgment also underscores that the power under Rule 86A is an exceptional and drastic power that

should be exercised sparingly, based on credible material and recorded reasons. The Court cautioned that arbitrary blocking of ITC can seriously disrupt business operations and adversely affect the working capital of genuine taxpayers. It further observed that the Government should evolve clear procedural guidelines to prevent misuse of this extraordinary power.

Accordingly, the Gujarat High Court directed the GST authorities to remove the negative block of 2.44 crore from the petitioner's Electronic Credit Ledger. However, it clarified that the taxpayer would not be entitled to utilize any remaining balance until appropriate proceedings, if any, were initiated under Sections 73 or 74 in accordance with law.

This decision provides important clarity on the limits of Rule 86A and reinforces that administrative measures cannot override the statutory framework governing determination and recovery of tax. The ruling serves as a valuable precedent for taxpayers facing similar instances of negative blocking of ITC and highlights the judiciary's commitment to balancing revenue protection with procedural fairness and the rule of law.

The Court held that Rule 86A is a preventive measure intended to safeguard revenue and cannot be used as a substitute for statutory recovery proceedings. It empowers GST authorities only to block available ITC and does not permit the creation of a negative balance in the Electronic Credit Ledger. Recovery of disputed ITC must be undertaken only through adjudication under Sections 73 or 74, thereby reinforcing taxpayer rights, due process, and procedural fairness.

- Editor



Economic Offences under BNSS and Their Nexus with Section 132 of the CGST Act

The introduction of the BharatiyaNagarikSurakshaSanhita (BNSS), 2023, which replaced the Code of Criminal Procedure (CrPC) with effect from 1 July 2024, has significantly impacted the procedural framework governing criminal investigations, including prosecutions under the Goods and Services Tax (GST) laws. While the BNSS does not create any new economic offences, it lays down the procedural safeguards and legal framework applicable to the investigation, arrest, bail, remand, and trial of offences created under special statutes such as the CGST Act.

Under the GST regime, Section 132 of the CGST Act, 2017 is the principal penal provision dealing with economic offences. It criminalises serious acts such as issuing invoices without actual supply of goods or services, fraudulent availment or utilisation of Input Tax Credit (ITC), tax evasion, collection of tax without remittance to the Government, falsification of records, and abetment of such offences. The punishment prescribed under Section 132 depends upon the amount involved, with imprisonment extending up to five years along with fine in cases

where the tax evaded or fraudulent ITC exceeds 5 crore.

The power to arrest in GST matters is governed by Section 69 of the CGST Act, which authorises the Commissioner to order arrest only in specified serious cases involving offences under Section 132. Importantly, arrest is not automatic and cannot be invoked for every tax dispute or procedural lapse. The Commissioner must possess "reasons to believe" based on credible material that the statutory conditions are fulfilled. This ensures that arrest powers are exercised judiciously and only in cases involving significant tax fraud.

Once an arrest is made under the CGST Act, the procedural provisions of the BNSS immediately come into operation. The arrested person must be informed of the grounds of arrest, allowed access to legal counsel during interrogation, and produced before the jurisdictional Magistrate within 24 hours. The BNSS also governs the grant of bail, remand proceedings, judicial custody, and the overall criminal trial process. Thus, while the CGST Act defines the offence and punishment, the BNSS regulates the manner in which criminal proceedings are conducted.

A critical distinction under Section 132 is between bailable and non-bailable offences. Generally, GST offences are bailable and non-cognizable. However, offences

involving fake invoices, fraudulent ITC, supply without invoice, or collection of tax without payment to the Government, where the amount exceeds 5 crore, become cognizable and non-bailable. These serious cases often involve organised tax fraud, shell companies, circular trading, bogus invoicing, or fraudulent refund claims.

On the other hand, routine disputes relating to classification, valuation, rate of tax, place of supply, or genuine ITC reconciliation issues should ordinarily remain within the domain of assessment and adjudication and should not be treated as arrestable economic offences unless supported by clear evidence of fraudulent intent.

The evolving legal framework highlights the importance of understanding the combined operation of Sections 69 and 132 of the CGST Act along with the procedural safeguards under the BNSS, 2023. Tax professionals and businesses should remain vigilant regarding their statutory rights during investigations while ensuring full compliance with GST provisions. A balanced application of these laws will strengthen revenue protection without compromising the principles of natural justice and due process.

The Bharatiya Nagarik Suraksha Sanhita (BNSS), 2023, effective from 1 July 2024, governs the procedural aspects of GST prosecutions, including arrest, bail, remand, and trial, while Sections 69 and 132 of the CGST Act define the powers of arrest and offences. Arrest can be made only in serious cases based on "reasons to believe," particularly involving fraud exceeding ₹5 crore. The framework balances revenue protection with taxpayer rights, due process, and the principles of natural justice.

Editor



Kerala High Court: GST Not Payable on Contractual Penalties in Absence of 'Supply'

**Kerala High Court
W.P.(C) Nos. 2552 & 11912 of 2021
Dated: 12th December 2024.**

In a significant ruling with far-reaching implications under the GST regime, the Kerala High Court has held that Goods and Services Tax (GST) cannot be levied on contractual penalties imposed by Indian Oil Corporation Limited (IOCL) on its LPG distributors, as such penalties do not constitute a "supply" under the Central Goods and Services Tax Act, 2017. The judgment, delivered by Justice Harisankar V. Menon in *M/s Aswathy Gas Agencies v. Indian Oil Corporation Ltd.* and the connected matter *K. Geetha v. Indian Oil Corporation Ltd.* (W.P.(C) Nos. 2552 & 11912 of 2021), provides important clarity on the taxability of penal recoveries under commercial contracts.

The petitioners, who were LPG distributors appointed by IOCL, challenged not only the penalties imposed under the Marketing Discipline Guidelines (MDG), 2018 but also the levy of GST on those penalties. While the Court upheld the validity of the MDG and declined to interfere with the factual findings of the disciplinary and appellate authorities regarding

the imposition of penalties, it examined separately the legality of charging GST on the penalty amounts.

The petitioners argued that the penalty represented a punitive recovery for breach of contractual obligations and did not involve any supply of goods or services. Consequently, the essential condition for levy of GST under the CGST Act was absent. On the other hand, IOCL relied upon Notification No. 11/2017-Central Tax (Rate) dated 28 June 2017 and contended that the transaction was taxable under GST.

The Court analysed the statutory framework governing GST, particularly the definition of "services" under Section 2(102) and the scope of "supply" under Section 7 of the CGST Act. It observed that GST is leviable only where there is a supply of goods, services, or both, for consideration in the course or furtherance of business. Since no goods were supplied by IOCL while imposing penalties, the only question was whether there was any supply of services.

A key issue before the Court was the applicability of Entry 5(e) of Schedule II to the CGST Act, which treats as a supply of services an agreement to refrain from an act, tolerate an act or situation, or do an act. The Court clarified that this provision applies only where there

is a contractual agreement under which one party agrees, for consideration, to tolerate a specified act or situation. In the present case, the penalties were imposed solely because the distributors had allegedly violated the terms of the distributorship agreement and the MDG. There was no agreement by IOCL to tolerate such breaches in return for consideration. Rather, the penalties were intended as a deterrent against contractual violations and not as compensation for any agreed service of tolerating non-compliance.

Accordingly, the High Court held that the penalty amounts could not be regarded as consideration for any taxable supply of services. In the absence of a supply as contemplated under Section 7 of the CGST Act, the levy of GST was unsustainable. The Court therefore declared that IOCL was not entitled to recover GST on the contractual penalties imposed on the petitioners, while leaving the penalties themselves undisturbed.

This decision reinforces the principle that every monetary recovery under a contract does not automatically attract GST. It underscores that the existence of a genuine supply for consideration is a fundamental prerequisite for taxation. The judgment is expected to provide persuasive guidance in disputes involving GST on liquidated damages, contractual penalties, forfeitures, and similar recoveries where no independent supply of goods or services can be established.

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GST applies only where there is a genuine supply for consideration.

Editor

GST Registration Cancellation



Retrospective GST Registration Cancellation Cannot Automatically Deny ITC to Bona Fide Buyers

The increasing use of retrospective GST registration cancellations and Non-Genuine Taxpayer (NGTP) tagging has become a major concern for genuine businesses claiming Input Tax Credit (ITC). Across the country, tax authorities have initiated proceedings against bona fide recipients merely because their suppliers were subsequently declared non-genuine or their registrations were cancelled with retrospective effect. Such actions have raised significant legal concerns regarding the protection of legitimate ITC and adherence to the principles of natural justice.

Section 16(2) of the CGST Act prescribes the conditions for availing ITC. A registered person is entitled to credit if they possess a valid tax invoice, have received the goods or services, the supplier has paid the tax to the Government, and the recipient has furnished the prescribed returns. Once these statutory requirements are fulfilled, ITC becomes a vested right and cannot be denied merely because the supplier's registration is cancelled years later. The law does not contemplate automatic reversal of ITC solely on account of retrospective cancellation of a supplier's registration.

The article highlights that in several cases, enforcement authorities issue

summons and demand reversal of ITC without providing the recipient with the cancellation order, inspection reports, statements, or any independent evidence establishing that the transactions were fictitious. Instead, taxpayers are asked to justify transactions that took place several years earlier despite having maintained invoices, e-way bills, transport documents, bank payment records, stock registers, and GST returns. Such an approach shifts the entire burden onto genuine taxpayers while ignoring the documentary evidence already available on the GST portal.

Judicial precedents have consistently protected bona fide purchasers. The Calcutta High Court, in the Gargo Traders case, held that retrospective cancellation of a supplier's GST registration cannot, by itself, justify denial of ITC where the supplier was duly registered at the time of the transaction and the recipient had received the goods and made payment through legitimate banking channels. Courts have repeatedly emphasized that suspicion regarding the supplier cannot substitute for concrete evidence establishing fraud or collusion on the part of the buyer.

Another concern discussed is the violation of natural justice. Tax authorities often rely upon internal NGTP reports without furnishing the supporting material to affected taxpayers. Simultaneously, businesses are subjected to repeated summons by both Central and State GST authorities on the same

transactions, leading to duplication of proceedings, conflicting findings, and unnecessary compliance burdens. Such parallel investigations undermine the objective of a unified GST administration and increase litigation.

To safeguard their interests, taxpayers should preserve comprehensive documentary evidence including tax invoices, e-way bills, transport records, stock registers, bank payment proofs, and GSTR-2B reconciliations. Where adverse proceedings are initiated, they should seek disclosure of all documents relied upon by the department, request reasonable time for producing records, and challenge non-speaking orders through appropriate appellate or writ remedies wherever necessary.

The article concludes that retrospective cancellation and NGTP tagging are important tools for combating fraudulent tax practices, but they should not become instruments for denying legitimate ITC to compliant taxpayers. Fair administration requires evidence-based adjudication, transparency, and strict adherence to statutory safeguards. Strengthening enforcement against actual fraud while protecting bona fide businesses is essential to preserving taxpayer confidence and upholding the fundamental objectives of the GST regime.

Retrospective cancellation of a supplier's GST registration or Non-Genuine Taxpayer (NGTP) tagging cannot, by itself, justify denial of Input Tax Credit (ITC) to a bona fide recipient who has satisfied the conditions under Section 16(2) of the CGST Act. Judicial precedents emphasize that ITC can be denied only on the basis of cogent evidence of fraud or collusion, while ensuring compliance with the principles of natural justice through transparency, disclosure of relied-upon documents, and fair adjudication.

Editor



**Madras High Court
Upholds Invocation of
Section 74 Despite Earlier
Section 73 Proceedings**

**Madras High Court
W.P. No. 31815 of 2025
dated 08.06.2026**

In a significant ruling concerning GST adjudication, the Madras High Court has upheld the validity of proceedings initiated under Section 74 of the CGST/TNGST Acts even though the department had initially issued an intimation under Section 73. The judgment provides valuable guidance on the scope of Section 74, limitation under GST law, and the impact of the COVID-19 extension of limitation.

The petitioner, Power Lead Electricals, challenged an assessment order passed under Section 74 for the financial year 2017–18, contending that the proceedings were barred by limitation and that the department could not invoke Section 74 after having initially issued an intimation in Form GST DRC-01A under Section 73. The dispute arose due to a mismatch between the Input Tax Credit (ITC) reflected in GSTR-2A and the ITC claimed in GSTR-3B, resulting in an allegation of excess ITC availed.

The petitioner argued that once the department invoked Section 73 through the DRC-01A intimation, it

could not subsequently change its stand and issue a show cause notice under Section 74 merely because the taxpayer had raised an objection regarding limitation. According to the petitioner, there was no material to establish fraud, wilful misstatement or suppression of facts, which are prerequisites for invoking Section 74.

The State defended the proceedings by submitting that the petitioner had failed to furnish a satisfactory explanation on the merits of the mismatch and had only raised a technical objection regarding limitation. The department further contended that scrutiny of returns under Section 61 and issuance of Form ASMT-10 had revealed excess ITC claims, thereby justifying proceedings under Section 74. It also argued that the limitation period stood extended owing to the Supreme Court's orders during the COVID-19 pandemic, the Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020 (TOLA), and notifications issued under Section 168A of the CGST Act.

Justice C. Saravanan rejected the petitioner's challenge and held that the proceedings were well within the extended limitation period. The Court relied upon its earlier common judgment dealing with a batch of similar writ petitions and observed that, after excluding the

period covered by the Supreme Court's extension of limitation and the statutory relaxations, the proceedings for FY 2017–18 were not time-barred. The Court also noted that the scrutiny proceedings under Section 61 and issuance of ASMT-10 provided sufficient basis for invoking Section 74.

Importantly, the Court observed that the threshold for invoking the extended period under Section 74 is comparatively lower than under the erstwhile indirect tax laws. Consequently, the writ petition was dismissed. However, the Court granted liberty to the petitioner to file a statutory appeal within thirty days, directing the Appellate Authority to decide the matter on merits in accordance with Section 107 of the GST Acts, subject to compliance with the statutory pre-deposit requirements.

This decision reinforces the department's authority to invoke Section 74 even after an earlier Section 73 intimation where facts disclose suppression or excess ITC claims. It also reiterates that COVID-19-related extensions under the Supreme Court's limitation orders, TOLA, and Section 168A notifications continue to protect GST proceedings from limitation challenges for the relevant tax periods.



The GST authorities may validly invoke Section 74 of the CGST/TNGST Acts even after issuing an earlier Section 73 intimation, where the facts justify proceedings for excess ITC or suppression.

Editor



**Missing Old Vouchers Alone
Cannot Justify Denial of ITC: A
Call for Balanced GST
Enforcement**

The evolving landscape of GST enforcement has brought renewed attention to the balance between effective tax administration and the protection of genuine taxpayers. A growing number of enforcement actions have revealed a concerning trend where the mere absence of old supporting documents—such as lorry receipts, gate passes, or goods receipt notes—is being treated as conclusive proof of fraudulent Input Tax Credit (ITC) claims. Recent judicial developments, however, indicate that such an approach is inconsistent with both the statutory framework and the principles of natural justice.

Under the GST regime, taxpayers are required to satisfy the conditions prescribed under Section 16 of the CGST Act to avail ITC. While receipt of goods or services is one of the essential conditions, courts have repeatedly emphasised that this requirement must be assessed holistically. Genuine business transactions cannot be disregarded solely because certain ancillary documents, particularly those relating to transactions several years old, are no longer available.

High Courts, particularly the Madras High Court, have consistently held that ITC cannot be denied merely because a supplier's registration has

been cancelled retrospectively or because minor supporting records are unavailable after a significant lapse of time. Authorities are expected to evaluate the overall genuineness of the transaction by considering tax invoices, bank payment records, e-way bills, stock registers, purchase ledgers, and other contemporaneous evidence before arriving at any adverse conclusion.

Another significant concern relates to repeated investigations by both State GST authorities and Central GST enforcement agencies for the same tax period. Although Section 6 of the CGST Act provides cross-empowerment enabling both authorities to undertake investigations, judicial pronouncements have clarified that while parallel enquiries at the investigation stage may be permissible, parallel adjudication on the same issue is not. Once proceedings culminate in a show cause notice, only one authority should proceed with adjudication, thereby preventing duplication and unnecessary harassment of taxpayers.

The article also highlights the growing misuse of the concept of "reason to believe" while initiating coercive actions under Sections 69 and 132 of the CGST Act. In several instances, taxpayers have reportedly been pressured into reversing ITC during investigation solely because certain old documents were unavailable, accompanied by threats of arrest. Courts have repeatedly held that "reason to believe" must be founded

on credible material and objective evidence rather than mere suspicion or procedural deficiencies. Criminal proceedings should be reserved for cases involving clear evidence of fraud, fake invoicing, or deliberate tax evasion—not for genuine documentation gaps arising from the passage of time.

For taxpayers, maintaining comprehensive records continues to be critical. However, where old documents are genuinely unavailable, alternative evidence such as invoices, banking channels, e-way bills, GST returns, stock records, and accounting records should be presented to establish the authenticity of the transaction. Equally important is asserting procedural safeguards, including the right to proper adjudication, fair hearing, and protection against coercive recovery during investigation.

As GST enforcement continues to become increasingly data-driven, tax administration must strike a careful balance between combating tax fraud and safeguarding honest businesses. Fair investigations based on complete evidence, rather than isolated documentation gaps, will strengthen taxpayer confidence and uphold the fundamental principles of transparency, proportionality, and natural justice.

Judicial developments under the GST regime reaffirm that Input Tax Credit (ITC) cannot be denied merely due to the non-availability of old supporting documents or retrospective cancellation of a supplier's registration. Authorities must assess the genuineness of transactions based on the overall evidence, while ensuring adherence to Section 16 of the CGST Act, principles of natural justice, and avoiding parallel adjudication or coercive recovery without credible material establishing fraud or deliberate tax evasion.

Editor



**Karnataka High Court
Clarifies Limitation
for SuoMotu Revision
under Section 64 of the
KVAT Act**

**Karnataka High Court
STA No. 3 of 2023
Dated: 07.07.2026**

In a landmark judgment delivered on 7 July 2026 in STA No. 3 of 2023 and connected matters, the Karnataka High Court has settled an important question relating to the exercise of revisional powers under Section 64 of the Karnataka Value Added Tax Act, 2003 (KVAT Act). The batch of appeals involved challenges to orders passed by the SuoMotuRevisional (SMR) Authority revising reassessment and appellate orders on the ground that they were erroneous and prejudicial to the interests of the Revenue.

The principal controversy before the Court was whether the revisional authority must merely initiate proceedings within four years from the date of the order sought to be revised or whether the final revisional order must also be passed within the same four-year period. The assessee argued that any revision completed beyond four years was barred by limitation and that mere internal correspondence calling for records could not save limitation. The Revenue, on the other hand, contended that calling for records within four years amounted

to valid initiation of proceedings and that no statutory time limit existed for passing the final revisional order.

The High Court reaffirmed its earlier decisions in *Abhiram Infra Projects Pvt. Ltd.* and *Kalyan Jewellers Salem (P) Ltd.*, holding that the letter calling for records by the SMR Authority constitutes initiation of revision proceedings under Section 64. Therefore, if such action is taken within four years from the date of the order proposed to be revised, the proceedings are validly initiated and are not barred by limitation.

However, the Court rejected the Revenue's contention that there is no limitation whatsoever for passing the final revisional order after initiation. Emphasising the need for certainty in tax administration and protection of taxpayers from prolonged litigation, the Court held that revisional proceedings cannot remain pending indefinitely. Referring to Section 32 of the KVAT Act, which requires dealers to preserve books of account for five years, the Court observed that assessee cannot be expected to defend proceedings initiated long after the statutory record-retention period.

Drawing support from the Supreme Court's decision in *State of Punjab v. Bhatinda District Co-operative Milk Producers Union Ltd.*, the Court held that where the statute does not prescribe a specific period for completion of proceedings, the

authority must act within a reasonable time. Harmoniously interpreting Sections 32 and 64 of the KVAT Act, the Court ruled that the final revisional order should ordinarily be passed within five years from the date of the order sought to be revised, effectively granting one additional year beyond the four-year initiation period.

The Court also reiterated that revisional jurisdiction under Section 64 can be exercised only where the order sought to be revised is both erroneous and prejudicial to the interests of the Revenue. In matters involving denial of Input Tax Credit, the Court endorsed the principles laid down by the Supreme Court in *State of Karnataka v. Ecom Gill Coffee Trading (P) Ltd.*, reiterating that the burden of proving the genuineness of transactions and entitlement to ITC rests upon the purchasing dealer under Section 70 of the KVAT Act.

This judgment provides much-needed clarity on the limitation governing suomotu revision under the KVAT Act. It strikes a balance between safeguarding the Revenue's revisional powers and ensuring fairness, certainty, and finality for taxpayers by preventing revision proceedings from remaining pending indefinitely.

The suomotu revision proceedings under Section 64 of the KVAT Act are validly initiated if records are called for within four years from the order sought to be revised. However, the final revisional order must ordinarily be passed within a reasonable period of five years, ensuring certainty and fairness in tax administration. The Court also reaffirmed that revision is permissible only where the order is erroneous and prejudicial to the interests of the Revenue.

Editor



E-Way Bill Enforcement Under GST: Detention and Confiscation in the Era of Digital Compliance

The e-Way Bill system has evolved into one of the most significant compliance mechanisms under the Goods and Services Tax (GST) regime. What was initially introduced as a transport document has now become a powerful digital enforcement tool, enabling tax authorities to monitor the movement of goods in real time. With increasing reliance on data analytics and technological integration, non-compliance with e-Way Bill provisions can result in severe consequences, including detention of goods, imposition of penalties, and even confiscation of goods and conveyances.

The statutory framework governing e-Way Bills is contained in Section 68 of the CGST Act read with Rules 138 and 138A of the CGST Rules, requiring every movement of goods exceeding the prescribed threshold to be supported by a valid e-Way Bill and relevant tax documents. Failure to comply may attract penalties under Section 122, detention proceedings under Section 129, and, in cases involving deliberate tax evasion, confiscation proceedings under Section 130 of the CGST Act.

However, GST jurisprudence has increasingly recognized the

distinction between genuine procedural lapses and intentional tax evasion. Courts have consistently held that minor clerical errors or the expiry of an e-Way Bill due to unavoidable circumstances, such as vehicle breakdowns or traffic delays, should not automatically invite harsh penal consequences. In such cases, where the accompanying invoice, quantity, value, and tax payment are otherwise in order, judicial authorities have favoured a balanced and proportionate approach.

A significant safeguard for taxpayers is CBIC Circular No. 64/38/2018-GST, which clarifies that minor discrepancies—such as small errors in PIN codes, vehicle numbers, document numbers, or HSN codes—should ordinarily attract only a nominal penalty instead of detention of goods. This circular has been repeatedly relied upon by various High Courts to prevent disproportionate enforcement actions for trivial procedural mistakes.

On the other hand, courts have taken a strict view against deliberate misuse of the e-Way Bill system. Practices such as reusing old e-Way Bills, backdating invoices, manipulating quantities, or transporting goods with mismatched documentation are treated as clear indicators of an intention to evade tax. In such circumstances, authorities are

justified in initiating confiscation proceedings under Section 130, in addition to imposing tax and penalties under Section 129.

Recent technological enhancements have further strengthened GST enforcement. Mandatory validation of "Ship-To" GSTIN details, restrictions on generating e-Way Bills against stale invoices, enhanced authentication measures, and the introduction of an e-Way Bill closure facility have significantly improved transparency and traceability of goods movement. These digital footprints now play an important role in identifying suspicious transactions and supporting enforcement actions.

For businesses, particularly MSMEs and transporters, the message is clear. Robust internal controls, timely generation and monitoring of e-Way Bills, staff training, integration of invoicing with e-Way Bill generation, and proper documentation of unavoidable transit delays are essential compliance measures. In the event of detention, taxpayers should promptly produce all supporting records, invoke the benefit of CBIC Circular No. 64/38/2018-GST wherever applicable, and ensure that any payment made for the release of goods is recorded "under protest" to preserve their appellate remedies.

As GST administration becomes increasingly technology-driven, compliance with e-Way Bill provisions is no longer a procedural formality but a critical component of risk management. Businesses that adopt strong compliance practices and maintain complete documentation will not only minimize litigation and financial exposure but also strengthen their credibility as compliant taxpayers in an era of data-driven tax administration.



GST Analytics-Based Enforcement Against Scrap Dealers: Need for a Balanced Approach

The Goods and Services Tax (GST) regime has significantly transformed India's indirect tax system through technology-driven compliance and data analytics. While these tools have strengthened tax administration and improved the identification of high-risk transactions, recent enforcement actions against scrap dealers have raised concerns regarding the increasing reliance on analytics-based investigations and retrospective legal actions. The issue highlights the need to strike a balance between technological efficiency and adherence to legal principles.

Across several States, including Karnataka, tax authorities have intensified scrutiny of scrap dealers using automated risk reports generated from GST analytics. Based on these reports, officers have issued bulk show cause notices, suspended registrations, retrospectively cancelled GST registrations under Section 29 of the CGST Act, and initiated proceedings under Section 74 alleging fraud or wilful suppression. While technology serves as an effective tool for identifying suspicious transactions, concerns arise when system-generated alerts become the sole basis for initiating stringent legal proceedings without adequate field verification or independent examination of facts.

The article points out that

retrospective cancellation of GST registration is not intended to be a routine administrative exercise. Such action requires the Proper Officer to record clear reasons, establish statutory grounds, and provide the taxpayer with a meaningful opportunity of being heard. Similarly, proceedings under Section 74 are meant for cases involving deliberate fraud or intentional tax evasion supported by tangible evidence, and should not be invoked merely because of data mismatches or subsequent non-compliance by suppliers. Excessive dependence on analytics without proper verification may result in legally unsustainable orders and unnecessary litigation.

A major concern highlighted is the impact on genuine businesses. Scrap dealers generally operate with limited financial resources and modest business infrastructure. Retrospective cancellations often result in substantial tax demands that may ultimately prove unrecoverable, while simultaneously disrupting legitimate business activities. In addition, bona fide purchasers who have paid tax, received goods, and maintained proper documentation may face denial of Input Tax Credit (ITC) solely because their suppliers' registrations were cancelled retrospectively. Judicial precedents have consistently emphasized that ITC cannot be denied to genuine buyers without establishing their involvement in fraud or collusion.

The article also raises concerns regarding selective enforcement. It observes that while the scrap sector

receives intensive scrutiny, other sectors with similar or greater risk profiles may not be subjected to comparable levels of investigation. Such disproportionate focus can undermine taxpayer confidence and create perceptions of uneven enforcement. The author stresses that experienced tax officers should use analytics as an aid to decision-making rather than allowing automated system outputs to replace professional judgment and field-based verification.

Technology should complement—not substitute—independent application of mind. GST analytics undoubtedly play an important role in identifying risk indicators, but legal action must ultimately be supported by evidence, proper inquiry, and reasoned decision-making. A balanced enforcement framework that combines data analytics with field verification, uniform sectoral treatment, and adherence to principles of natural justice will strengthen taxpayer confidence while ensuring effective tax administration. Such an approach will help achieve the fundamental objectives of the GST regime—transparency, fairness, voluntary compliance, and sustainable revenue collection.

GST data analytics are valuable tools for identifying suspicious transactions, but they cannot substitute independent investigation, field verification, and reasoned decision-making. Retrospective cancellation of registration and proceedings under Section 74 of the CGST Act must be based on credible evidence, statutory safeguards, and compliance with the principles of natural justice. Judicial precedents protect bona fide taxpayers from denial of Input Tax Credit (ITC) solely on the basis of supplier defaults or analytics-generated alerts.

Editor



**Madras High Court Upholds
Validity of Section 74 Show
Cause Notices; Writ Against
DRC-01 Rejected**

**Madras High Court,
W.P. No. 20935 of 2024
Dated: 08.06.2026.**

In a significant ruling under the Goods and Services Tax (GST) regime, the Madras High Court, in *M/s Canon India Private Limited v. State Tax Officer & Others*, declined to interfere with GST show cause notices issued under Section 74 of the CGST/TNGST Acts for the financial years 2017-18, 2018-19 and 2019-20. The judgment reiterates that writ jurisdiction cannot ordinarily be invoked to challenge show cause notices involving disputed questions of fact and reinforces the statutory adjudication mechanism under the GST law.

The petitioner challenged three DRC-01 show cause notices dated 13.07.2024 primarily on the grounds that they were barred by limitation, that Section 74 had been wrongly invoked without any material establishing fraud, wilful misstatement or suppression of facts, and that the proceedings adversely affected its eligibility under the Authorised Economic Operator (AEO) Programme. The petitioner relied upon earlier

decisions of the Madras High Court, including *BASF Catalysts India Pvt. Ltd. and Tata Play Ltd.*, to contend that the proceedings should instead be treated as falling under Section 73.

The Revenue opposed the writ petitions by contending that the petitioner had failed to cooperate during inspection under Section 67 and had not furnished the required documents. According to the department, such conduct attracted the definition of "suppression" as contained in Explanation 2 to Section 74 (as it then stood), thereby justifying invocation of the extended limitation provisions. The department also argued that the petitioner had failed to submit replies to the DRC-01A intimations for certain tax periods before issuance of the show cause notices.

After examining the rival submissions, Justice C. Saravanan rejected the challenge based on limitation. The Court held that the impugned notices had been issued well within the limitation period prescribed under Section 74 after taking into account the statutory extensions and judicial exclusion of limitation periods. The Court further observed that whether Section 74 had been correctly invoked was a matter requiring adjudication based on facts and evidence, which could not be conclusively determined in writ proceedings without a detailed

reply from the taxpayer and proper adjudication by the tax authorities.

The Court also emphasised that every assessment year constitutes an independent tax period and the validity of proceedings for one year cannot be decided merely because proceedings for subsequent years may have taken a different course. It held that disputed factual issues relating to suppression, non-production of records and tax liability should be examined by the adjudicating authority rather than under Article 226 of the Constitution. Consequently, the writ petitions challenging the show cause notices were dismissed.

At the same time, the Court protected the taxpayer's procedural rights by granting liberty to submit detailed replies to the show cause notices. Subsequently, by an order dated 25.06.2026, the Court modified its earlier judgment and granted the petitioner 30 days from receipt of the order to file replies. It further directed the adjudicating authority to complete adjudication within three months after receipt of such replies.

This decision underscores that taxpayers should ordinarily contest Section 74 proceedings by filing comprehensive replies before the adjudicating authority instead of seeking premature judicial intervention. The judgment also clarifies that questions regarding limitation, suppression of facts and the applicability of Sections 73 or 74 are generally matters requiring factual examination during adjudication and are not normally amenable to writ jurisdiction at the show cause notice stage.

Editor



**Section 130 of GST:
Safeguarding Confiscation
Powers While Protecting
Genuine Transporters**

The increasing use of Section 130 of the CGST/KGST Act, 2017 during GST enforcement has sparked significant concern among businesses, transporters, and tax professionals. While the provision empowers authorities to confiscate goods and conveyances in cases of serious tax evasion, recent enforcement practices indicate that confiscation proceedings are often initiated even where transport documents are complete and no clear evidence of tax evasion exists. This trend has raised important questions regarding the proper scope of Section 130 and the rights of bona fide taxpayers.

A fundamental distinction exists between Section 129 and Section 130 of the GST law. Section 129 is a regulatory provision that permits the detention of goods and conveyances for violations relating to the movement of goods, such as documentation deficiencies. In contrast, Section 130 is a penal provision that authorizes confiscation only in specified circumstances involving deliberate contraventions with an intention to evade tax. Confiscation results in the vesting of ownership of the goods with the Government,

making it a far more serious consequence than detention.

One of the key legal requirements for invoking Section 130 is the existence of mensrea, or an intention to evade tax. Courts have consistently held that procedural lapses, clerical errors, or minor discrepancies cannot automatically justify confiscation proceedings. Instead, the tax authorities must establish objective evidence demonstrating deliberate tax evasion before resorting to such drastic action. In the absence of such evidence, disputes relating to valuation, classification, or documentation are generally expected to be addressed through assessment proceedings rather than confiscation.

A growing area of concern is the increasing reliance on Non-Genuine Taxpayer (NGTP) analytics and third-party information during roadside inspections. In several instances, transporters have reportedly been asked to furnish extensive KYC records, bank statements, electricity bills, rental agreements, and other documents relating to upstream suppliers at the time of vehicle interception. However, GST law does not require transporters or consignors to carry such documents during transit. The legal obligation is confined to carrying valid invoices, e-way bills, transport documents, and ensuring that the goods correspond with the

declared particulars. NGTP flags may justify further investigation but cannot, by themselves, constitute sufficient grounds for confiscation.

The statutory framework also prescribes a clear procedural safeguard before confiscation can be ordered. Authorities must first proceed under Section 129 by issuing the prescribed notices and recording reasons for detention. Only where the taxpayer fails to comply or where credible material establishes serious tax evasion should proceedings under Section 130 be initiated through a detailed show cause notice, followed by a meaningful opportunity of hearing and a reasoned adjudication order. Failure to follow this procedure undermines the principles of natural justice.

Recent judicial pronouncements have reinforced these safeguards by emphasizing that detention and confiscation operate in distinct legal spheres. Courts have cautioned that Section 130 should remain a measure of last resort, reserved for genuine cases involving fraudulent transactions, fake invoicing, or deliberate tax evasion. Genuine businesses and transporters should therefore maintain accurate transport documentation, preserve supplier records at their business premises, insist on statutory notices during detention proceedings, and challenge arbitrary confiscation actions wherever necessary.

As GST enforcement continues to evolve, balancing effective revenue protection with procedural fairness remains essential. Proper adherence to statutory safeguards and judicial principles will ensure that confiscation powers serve their intended purpose without causing unnecessary hardship to compliant taxpayers and transporters.



Golden Traders Ruling: Andhra Pradesh High Court Reinforces Limits on Transit Detention under GST

In a significant development for businesses engaged in inter-State trade, the Andhra Pradesh High Court, in the Golden Traders case, has reaffirmed that GST authorities in a transit State cannot invoke detention or confiscation powers under Sections 129 and 130 of the CGST Act merely because goods are passing through their territorial jurisdiction. The judgment strengthens the legal position that jurisdiction under the GST framework flows from statutory assignment as a "proper officer" and not from the physical presence of goods in a particular State.

The Court clarified that when goods are transported under a valid inter-State transaction supported by proper documentation, such as a tax invoice, e-way bill and e-invoice wherever applicable, the role of officers in the transit State is restricted to verification and information sharing. They cannot initiate confiscation proceedings on issues relating to valuation, supplier credibility, or input tax credit eligibility, as these matters fall within the domain of assessment proceedings under Sections 73 or 74 by the jurisdictional tax authority.

The ruling is particularly important because it addresses the growing

tendency of enforcement authorities to invoke Section 130 based solely on intelligence inputs or perceived valuation discrepancies. The Court observed that confiscation is a penal measure and cannot be justified merely on suspicion or internal intelligence reports. There must be specific and contemporaneous evidence demonstrating an intention to evade tax before such drastic powers can be exercised.

While the judgment provides substantial legal protection, the practical realities of highway interceptions remain unchanged. Transporters and suppliers continue to face detention during transit, making documentation and procedural compliance extremely important. Businesses should ensure that every consignment is accompanied by complete and accurate statutory documents. In the event of interception, they should insist on the issuance of prescribed forms such as GST MOV-01 recording the grounds of inspection, MOV-02 extending the inspection period, and written reasons supporting any detention. These documents create a contemporaneous record that can later be relied upon to challenge arbitrary confiscation proceedings.

Another practical aspect highlighted by commentators is that businesses with pending tax disputes, unresolved GSTR-2B mismatches, or outstanding

demands often face greater scrutiny during transit. Although such historical issues do not legally establish an intention to evade tax, they are frequently cited by enforcement agencies as risk indicators. Consequently, maintaining clean return reconciliations, timely compliance and resolving pending disputes can significantly reduce the likelihood of transit enforcement actions.

The decision also contributes to a broader judicial trend witnessed across various High Courts, where courts have consistently held that valuation disputes and supplier-related investigations cannot be converted into roadside adjudication exercises. Such issues require proper assessment proceedings by the competent jurisdictional officer rather than summary action during transportation of goods.

For taxpayers, the Golden Traders ruling provides an effective framework for challenging unlawful detention orders. A successful legal strategy should focus first on the lack of jurisdiction of the transit authority, supported by documentary evidence establishing the inter-State nature of the transaction. Simultaneously, taxpayers should demonstrate that issues relating to valuation, supplier verification or ITC are matters reserved for regular assessment proceedings and cannot justify detention under Sections 129 or 130.

The judgment serves as a timely reminder that while enforcement authorities possess significant powers to prevent tax evasion, those powers must always operate within the limits prescribed by law. By reinforcing jurisdictional discipline and procedural fairness, the Andhra Pradesh High Court has provided much-needed certainty for genuine businesses engaged in inter-State commerce.



Ease of Compliance Drives 8 Lakh New GST Registrations in H1 2026

India's Goods and Services Tax (GST) ecosystem witnessed a significant expansion during the first half of 2026, with nearly 8 lakh new GST registrations recorded between January and June. According to data from the GST portal, this surge reflects the growing confidence of businesses in the country's indirect tax system, supported by simplified compliance procedures, faster registration processes, and the increasing advantages of operating within the formal economy.

As of June 30, 2026, the total number of GST registrations stood at 1.67 crore, up from 1.59 crore on December 31, 2025. The addition of 7.9 lakh new registrations highlights the success of recent policy reforms aimed at making GST registration more accessible, especially for small businesses and first-time entrepreneurs.

Among the states, Uttar Pradesh recorded the highest increase, adding more than 2.54 lakh registrations to reach over 22 lakh registered taxpayers. Maharashtra followed with an

increase of over 1.09 lakh, while Gujarat added more than 73,000 registrations. Other states such as Tamil Nadu, Rajasthan, Delhi, Karnataka, West Bengal, Haryana, and Telangana also registered healthy growth, indicating that formalisation is spreading across diverse economic regions.

A major factor behind this momentum has been the introduction of the simplified GST registration scheme from November 2025. The new framework enables automated approvals for low-risk applicants, allowing registrations to be completed within three working days in eligible cases. Additionally, taxpayers with monthly output tax liability below 2.5 lakh have the flexibility to voluntarily opt into or withdraw from the simplified scheme, making compliance easier for small businesses. Experts estimate that nearly 96% of new applicants are expected to benefit from these streamlined procedures.

Industry experts also point to the growing commercial advantages of GST registration. Businesses registered under GST can issue tax invoices, enabling customers to claim input tax credit and making suppliers more attractive to business-to-business (B2B)

clients. With the rapid expansion of e-commerce and digital marketplaces, GST registration has also become essential for sellers operating through online platforms, encouraging more enterprises to enter the formal tax network.

Another important contributor has been the increasing digitisation of the GST ecosystem. The widespread adoption of e-invoicing, e-way bills, and digital return filing has improved transparency while reducing compliance burdens. These data-driven systems make business transactions more visible, encourage tax discipline, and help enterprises integrate more efficiently into the organised economy.

The rollout of GST 2.0 reforms in September 2025 has further strengthened this trend. Aadhaar-based registration under Rule 14A has reduced verification timelines, lowering entry barriers for micro, small, and medium enterprises (MSMEs). At the same time, the reduction in the mandatory e-invoicing threshold from businesses with annual turnover above 5 crore has encouraged smaller firms to obtain voluntary GST registration to remain competitive within larger supply chains.

Overall, the steady rise in GST registrations demonstrates that the tax system is increasingly being viewed not merely as a statutory requirement but as a business enabler. Easier compliance, digital processes, and access to broader markets are encouraging enterprises to formalise their operations, strengthening India's tax base while supporting economic growth and improving the ease of doing business.



GST Law Panel Backs Proposal to Protect Buyers' Input Tax Credit from Supplier Defaults

One of the most significant reforms under the Goods and Services Tax (GST) framework may soon become a reality, as the GST Council's Law Committee has approved a proposal aimed at protecting genuine buyers from losing their Input Tax Credit (ITC) due to tax payment defaults by suppliers. If approved by the GST Council, the measure would resolve one of the most debated issues in the GST regime and provide long-awaited relief to businesses across India.

At present, businesses claiming ITC face the risk of losing their credit even after paying the full invoice amount, including GST, if the supplier fails to deposit the collected tax with the government. This has created considerable uncertainty for compliant taxpayers, who often have little or no control over a supplier's post-sale tax compliance. As a result, buyers have been required to reverse ITC despite having fulfilled their contractual and financial obligations.

The proposed amendment seeks

to shift the focus of enforcement from the buyer to the defaulting supplier. Under the recommendation, a purchaser's ITC will remain protected if certain conditions are satisfied. These include ensuring that the supplier has reported the invoice, the invoice is reflected in the buyer's GSTR-2B, and the buyer can establish that payment—along with the GST component—was made through recognised banking channels or other prescribed payment methods. Once these requirements are met, tax authorities would pursue recovery directly from the supplier instead of denying credit to the buyer.

The proposal has already been cleared by both the GST Council's Fitment Committee and the Law Committee. It is now expected to be placed before the GST Council for final consideration at its upcoming meeting. Government officials have indicated that the recommendation reflects a balanced approach, safeguarding honest taxpayers while preserving the government's ability to recover unpaid taxes from non-compliant suppliers.

The move has been welcomed by industry, which has consistently

argued that businesses should not be penalised for circumstances beyond their control. Over the years, several taxpayers have faced litigation and financial strain after being denied ITC because suppliers failed to remit taxes. Industry bodies have maintained that the GST system was designed to eliminate cascading taxes and promote seamless credit flow, objectives that are undermined when compliant buyers lose credit due to supplier misconduct.

At the same time, the government has emphasised that the existing provisions were introduced to combat fake invoicing and tax evasion, both of which have posed serious challenges since GST's implementation. The increasing use of GSTR-2B as the primary document for ITC reconciliation, along with stricter invoice matching mechanisms, has strengthened the compliance ecosystem and provided authorities with better tools to identify fraudulent transactions.

If the proposal receives the GST Council's approval, it would represent a major policy shift towards protecting bona fide taxpayers while ensuring stricter action against actual defaulters. Beyond reducing litigation and easing compliance burdens, the reform would reinforce confidence in the GST framework, promote fair taxation, and create a more predictable business environment. For businesses, particularly small and medium enterprises, the change could significantly improve cash flow certainty and strengthen trust in India's indirect tax system.



Robust GST Mop-up Signals Economic Resilience Despite Global Disruptions

India's economy has once again demonstrated its resilience as Goods and Services Tax (GST) collections posted a strong performance in June, despite ongoing global trade disruptions and geopolitical uncertainties. The latest data released by the Ministry of Finance indicates that robust domestic economic activity, improved tax compliance, and rising imports have helped sustain healthy revenue growth during the first quarter of the financial year.

The gross GST collection for June stood at 1.85 lakh crore, marking a 6.5% year-on-year increase. This has taken the total GST collections for the first quarter (April–June) to 6.32 lakh crore, reflecting an impressive 8.4% growth compared to the same period last year. Even after accounting for refunds, the government's net GST revenue reached 1.62 lakh crore, an increase of 11.2% over the corresponding month in the previous year.

One of the major highlights of the June collection was the exceptional growth in GST revenue from imports. Tax collections from imported goods surged 34.6% to 60,038 crore, underscoring the increasing role of international trade in supporting India's indirect tax revenues. Domestic GST collections also remained healthy, rising 6.5% to 1.35 lakh crore, reflecting stable consumer demand and business activity within the country.

Industry experts believe that India's economic resilience is particularly noteworthy considering the challenges posed by disruptions in global supply chains and the prolonged conflict in West Asia. According to tax professionals, achieving double-digit monthly GST growth compared to the previous year is an encouraging sign. However, they also emphasize the need to further strengthen domestic economic activity and improve tax compliance to sustain this positive momentum.

Economists remain cautiously optimistic about the coming months. While easing geopolitical tensions in West Asia could support trade flows and improve tax collections, concerns over rising crude oil prices and an uncertain monsoon continue to pose risks to economic growth. Despite

these challenges, many analysts expect monthly GST collections to stabilize around 2 lakh crore, establishing a new benchmark for India's tax performance.

The positive economic outlook is also reflected in the automobile sector. Passenger vehicle dispatches from manufacturers to dealerships rose 24% in June, reaching nearly 400,000 units, compared to 321,500 units in the same month last year. This follows strong growth of 27% in May and 25% in April, indicating sustained consumer demand.

Leading automobile manufacturers played a significant role in driving this growth. Maruti Suzuki, Tata Motors, and Mahindra & Mahindra reported strong sales performances, with growth rates of 24%, 67%, and 28%, respectively. Maruti Suzuki also recorded its highest-ever wholesale sales for the month of June despite a week-long maintenance shutdown, highlighting robust market demand for both passenger cars and utility vehicles.

Overall, the latest GST and automobile sales figures present a positive picture of India's economic health. Strong tax collections, expanding domestic demand, improved compliance, and resilient industrial performance indicate that the economy is well-positioned to withstand external shocks. While global uncertainties remain, continued policy support, healthy consumer spending, and stable business activity are expected to keep India's growth trajectory on a firm footing in the months ahead.



RERA in India: Strengthening Transparency and Accountability in Real Estate

The Real Estate (Regulation and Development) Act, 2016 (RERA) has transformed India's real estate sector by introducing greater transparency, accountability, and consumer protection. Enacted to address long-standing issues such as project delays, misleading advertisements, and diversion of buyers' funds, RERA has emerged as a landmark legislation that safeguards the interests of homebuyers while promoting ethical business practices among developers.

RERA applies to residential, commercial, and mixed-use real estate projects that exceed the prescribed threshold of land area or number of apartments, subject to state-specific rules. Developers are required to register eligible projects with the respective State RERA Authority before advertising or selling units. Additionally, real estate agents dealing in registered projects must obtain RERA registration and comply with disclosure requirements.

One of the most significant

features of RERA is its emphasis on financial discipline. Developers must deposit 70% of the amounts collected from buyers into a separate escrow account, ensuring that these funds are utilized only for land acquisition and construction of the specific project. This provision minimizes fund diversion and significantly improves the likelihood of timely project completion.

For homebuyers, RERA offers multiple protections. Buyers can access complete project information through state RERA portals, including sanctioned plans, construction progress, approvals, and expected possession dates. In cases of unjustified delays, structural defects, or false representations, buyers can approach the RERA Authority to seek interest, compensation, refund, or rectification. The Act has thus shifted the balance in favour of consumers by providing a dedicated and efficient dispute resolution mechanism.

RERA also has significant implications for tax and accounting professionals. Although it is not a tax law, compliance under RERA closely aligns with GST, income tax,

accounting standards, and audit requirements. Builders are expected to maintain project-wise books of accounts, escrow records, certified withdrawal statements, and proper documentation that can be reconciled with GST returns and income tax records. Such integrated compliance strengthens audit trails and reduces litigation risks.

Recent judicial developments have further reinforced the objectives of RERA. Courts have consistently upheld the rights of homebuyers to receive compensation and interest for delayed possession. A notable Supreme Court ruling in July 2026 clarified that buyers do not lose their right to claim compensation merely because they have accepted possession of the property, thereby strengthening consumer protection under the Act.

RERA has ushered in a new era of transparency and professionalism in India's real estate sector. By ensuring project registration, financial discipline, mandatory disclosures, and effective grievance redressal, the Act has enhanced confidence among buyers, investors, and financial institutions. For builders, chartered accountants, tax consultants, and legal professionals, understanding RERA compliance has become essential for effective project management, regulatory compliance, and litigation support. As the real estate industry continues to evolve, RERA remains a cornerstone in building a more transparent, accountable, and trustworthy housing market in India.

GST ITC Denial Due to NGTP Tags Hurts Genuine Buyers' Rights



NGTP Tagging & GST Enforcement: Protecting Genuine Scrap Dealers While Curbing Fraud

The scrap recycling sector plays a vital role in India's economy by supplying recyclable raw materials to MSMEs engaged in manufacturing steel, aluminium, plastic, brass, and other products. Scrap dealers act as the backbone of the recycling chain, collecting discarded materials from demolition sites, industries, transport yards, and households before supplying them to manufacturers. Despite their significant contribution to employment, sustainability, and GST revenue, genuine scrap dealers are increasingly facing severe enforcement challenges under the GST regime due to the misuse of the sector by fake invoice syndicates.

The introduction of the Non-Genuine Taxpayer (NGTP) tagging system has strengthened the Government's fight against bogus Input Tax Credit (ITC) claims and fraudulent GST registrations. While this initiative aims to identify fake taxpayers and dismantle invoice trading networks, its implementation has also resulted in unintended hardship for genuine scrap

traders. In many cases, taxpayers are retrospectively tagged as non-genuine, their GST registrations are cancelled, and downstream buyers receive DRC-01A notices demanding reversal of ITC, interest, and penalties without adequate investigation into the actual movement of goods.

The scrap trade operates under unique practical conditions. Dealers often work with mixed and moisture-laden materials, resulting in natural variations in stock, weight, and recoverable quantities. Most small scrap traders maintain basic records and rely on accountants for GST compliance, making them vulnerable to procedural lapses rather than deliberate tax evasion. Mechanical enforcement actions that rely solely on risk analytics or NGTP reports often fail to distinguish between organised fraudsters and genuine businesses engaged in physical trade.

Such actions have wider economic consequences. MSME manufacturers dependent on scrap as an affordable raw material face disruptions in supply chains when trusted vendors lose their registrations. This increases production costs, affects industrial output, and may ultimately reduce tax collections

instead of improving compliance. Furthermore, widespread litigation arising from retrospective cancellations and ITC disputes places an additional burden on both taxpayers and the tax administration.

A balanced enforcement strategy is therefore essential. Authorities should continue taking strict action against fake invoice rackets while ensuring that genuine businesses are not unfairly penalised. Before cancelling registrations or denying ITC, officers should verify the actual movement of goods through transport documents, e-way bills, weighment slips, bank records, and stock registers. Reasoned orders, supplier-wise verification, and adherence to the principles of natural justice should form the basis of enforcement.

The Government may also consider sector-specific awareness programmes in local languages, simplified compliance measures for small scrap dealers, realistic timelines for furnishing documents, and a review of the GST rate structure applicable to scrap if it is found to incentivise fraudulent practices.

The objective of GST enforcement should not merely be to detect fraud but also to protect honest taxpayers who contribute to the formal economy. A fair and evidence-based approach that differentiates genuine scrap dealers from fraudulent operators will strengthen compliance, support MSMEs, reduce unnecessary litigation, and reinforce confidence in the GST system. Such balanced governance will ensure that India's recycling sector continues to contribute effectively to economic growth while maintaining tax integrity.



**Supreme Court Reaffirms
Constitutional Validity of GST
Arrest Powers under Section 69**

**Supreme court of India
W.P. No.439 of 2024
Dated: 29th June 2026**

In a significant development for GST enforcement, the Hon'ble Supreme Court has reaffirmed the constitutional validity of Section 69 of the Central Goods and Services Tax (CGST) Act, 2017, which empowers GST authorities to arrest persons accused of specified offences under the GST law. In *Rakesh Kumar v. Union of India & Another* [W.P. (Criminal) No. 439 of 2024], decided on 29 June 2026, the Court disposed of the writ petition by relying on its earlier landmark judgment in *Radhika Agarwal v. Union of India & Others* [(2025) 6 SCC 545].

The petitioner had approached the Supreme Court under its criminal extraordinary jurisdiction, primarily challenging the constitutional validity of Section 69 of the CGST Act. It was contended that the provision conferring arrest powers upon GST officers was unconstitutional and liable to be struck down. However, the Bench comprising Justice Manmohan and Justice K. VinodChandran observed that the issue had

already been conclusively settled by a three-Judge Bench of the Supreme Court in the *Radhika Agarwal* case. Accordingly, the Court held that no further adjudication was necessary and disposed of the writ petition in terms of the earlier judgment. The interim order granted, if any, was also vacated.

Section 69 of the CGST Act empowers the Commissioner to authorize the arrest of a person where there are reasons to believe that such person has committed offences specified under Section 132 of the Act, particularly in cases involving substantial tax evasion, issuance of fake invoices, fraudulent avilment of input tax credit, or other serious GST-related offences. The provision has often been the subject of constitutional scrutiny on the grounds of personal liberty and procedural fairness.

The present decision reinforces the judicial position that GST arrest provisions constitute a valid legislative mechanism for combating serious tax frauds and safeguarding public revenue. By reiterating the ratio laid down in *Radhika Agarwal*, the Supreme Court has provided greater

certainty to tax administrators and investigating agencies regarding the legality of exercising arrest powers under the GST framework.

For taxpayers, the judgment serves as a reminder that while GST law contains robust safeguards against arbitrary action, the statutory power of arrest continues to remain constitutionally valid when exercised in accordance with the provisions of the Act and established legal principles. The decision is also expected to reduce repetitive constitutional challenges to Section 69, allowing courts to focus on examining the legality of arrests based on the facts and circumstances of individual cases rather than the validity of the provision itself.

The ruling marks another important milestone in the evolving GST jurisprudence and strengthens the legal foundation for enforcement measures aimed at curbing tax evasion and ensuring compliance under the Goods and Services Tax regime.

Editor



On-grid Solar Power System at Commissioner's Office

On-grid solar power systems offer an efficient and sustainable solution for reducing electricity costs while promoting the use of renewable energy. By generating electricity from sunlight and supplying it directly to the power grid, these systems significantly reduce dependence on conventional electricity. During daylight hours, when solar generation is at its highest, the electricity produced offsets grid consumption, resulting in substantial savings on energy bills. In many cases, surplus electricity can be exported to the grid through net metering or similar incentive schemes, providing additional financial benefits.

Apart from economic advantages, on-grid solar systems contribute significantly to environmental conservation. Solar energy is a clean, renewable resource that produces no greenhouse gas emissions during operation. Increased adoption of solar power reduces dependence on fossil fuels, lowers carbon emissions, and supports national efforts to combat climate change while promoting sustainable development.

Another major benefit is reliability. Since the system remains connected to the utility grid, electricity can be drawn whenever solar generation is insufficient, ensuring an uninterrupted power supply. Moreover, on-grid systems are highly scalable and can be expanded to meet future energy demands without major modifications. Their installation costs are also comparatively lower than off-grid systems because they do not require expensive battery storage.

Considering the vast roof space available in our departmental office buildings, installation of on-grid solar power systems is both practical and economically viable. Such an initiative would reduce electricity expenditure, provide a dependable alternative source of energy, and demonstrate the department's commitment to environmental sustainability. It is therefore an opportune time to adopt clean energy solutions that minimize our carbon footprint and contribute to a greener and more energy-secure future. Recently, an on-grid solar power system was installed on the rooftop of the Head Office, resulting in a significant reduction in electricity costs and generating considerable savings. In this remarkable initiative, Sri Lokesh, DCCT (Logistics) and Sri Eshwar played an outstanding role in successfully commissioning the system within a record timeframe. It is hoped that, in the near future, similar solar power systems will be installed across departmental buildings throughout the State, promoting energy efficiency and sustainable development.

The following officers retired in the Month of June 2026:

Narayana C.S., JCCT

S.V. Hanagodi, ACCT

Girish B.V., ACCT

Ravishankar S., ACCT

Shanthakumari B.N., CTO

Pramodh Karagudhuri, CTO

Ravindra Chandrappa Thalwar, CTO

Ashok Nath Gopal Nandre, CTO

Rajkumar H., CTO

