JUDICIAL PRONOUNCEMENTS

1. Where a registered dealer procured inputs, paid GST, and availed ITC, the denial of credit solely due to the supplier's non-payment—without findings of fraud, collusion, or lack of bona fides is unsustainable. [Malaya Rub-Tech Industries Versus Union of India –High Court of Tripura- Writ Petition (C) No. 849 of 2022- Dated 10-02-2026]

Background

- The Petitioner, a partnership firm in the rubber business, purchased raw materials from a supplier (Respondent No. 7) between March and November 2018.
- The Petitioner paid the applicable GST to the supplier and utilized the materials for manufacturing finished products, subsequently availing Input Tax Credit (ITC).
- The Department issued a Show Cause Notice (SCN) under Section 73(1) of the CGST Act alleging that ITC was wrongly availed for the period August 2017 to July 2019.
- An order was passed on February 17, 2022, confirming a demand of ₹22,09,964/- on the grounds that the supplier had not deposited the tax with the government.

Dispute Involved

- Whether Input Tax Credit can be denied to a purchasing dealer under Section 16(2)(c) of the CGST Act solely because the selling dealer failed to deposit the tax collected.
- Whether the statutory condition linking ITC to the supplier's deposit of tax should be "read down" to protect bona fide taxpayers from being penalized for the defaults of third parties.

Submissions by Assessee

- The transaction was entirely bona fide, and the Petitioner had no legal mechanism to compel the supplier to discharge their duty to the government.
- Penalizing a purchaser for a supplier's default, when the purchaser has already paid the tax to the seller, amounts to double taxation and violates Article 14 of the Constitution.
- Relied on the Tripura High Court's precedent in Sahil Enterprises vs. Union of India, which held that ITC should only be restricted where the transaction is fraudulent or collusive.

Submissions by Revenue

- Section 16(2)(c) of the CGST Act explicitly makes the entitlement of ITC subject to the condition that the tax charged in respect of such supply has been actually paid to the Government.

Key Legal Provisions

- Section 16(2)(c) of the CGST Act, 2017: Conditions for eligibility of ITC, specifically the requirement that tax must be paid to the government by the supplier.
- Section 73 of the CGST Act, 2017: Determination of tax not paid or ITC wrongly availed for reasons other than fraud or willful misstatement.
- Article 14 of the Constitution of India: The right to equality, used to challenge the "onerous burden" placed on bona fide purchasers.

Court's Decision

- Following the Sahil Enterprises ruling, the Court held that while the provision is constitutionally valid, it must be "read down" to protect bona fide purchasers.
- A purchaser cannot be asked to do the impossible—namely, ensuring that a third-party supplier actually deposits the collected tax with the government.
- There is nothing in the language in the Act which expressly enables the respondents to tax a purchaser, who has already paid taxes to the seller, a second time by denying him ITC in all situations
- Neither the SCN nor the final order contained any finding of collusion, fraud, or a non-bona fide transaction. The Revenue's invocation of Section 73 (non-fraud) rather than Section 74 (fraud) evidences this fact.
- Section 16(2)(c) cannot be interpreted to deny ITC to purchasers in a bona fide transaction, and it should be read down and applied only where the transaction is found to be not bona fide, or is a collusive transaction or fraudulent transaction to defraud the revenue.

Conclusion

- The transaction was held to be bona fide.
- The denial of ITC for the supplier's failure to make over the tax was declared unsustainable.
- The writ petition was allowed, the impugned order was set aside, and the authorities were directed to allow the ITC of ₹22,09,964/-.

2. Quasi-judicial authorities must not blindly rely on AI-generated citations or judgments without verifying the actual text; the use of non-existent or irrelevant case law in tax orders is a "worrying trend" that requires formal guidelines. [Marhabba Overseas Pvt. Ltd. Versus Union of India - High Court of Gujarat - Special Civil Application No. 2229 of 2026 - Dated 20-02-2026]

Background

- The Petitioner challenged an order dated September 26, 2025, passed by the Additional Commissioner of Central GST and Central Excise.
- During the hearing, the Petitioner pointed out that the Commissioner had rejected four core defense submissions by citing judgments that were either non-existent or entirely unrelated to the issues at hand.
- Specifically, the Commissioner used these citations to justify:

- ➢ The non-supply of Relied Upon Documents (RUDs).
- ➢ Non-compliance with mandatory pre-notice requirements (DRC-01A).
- ➢ Delayed re-initiation of investigations for the same cause of action.
- ➢ Alleged violations of the principles of natural justice regarding response time.

Dispute Involved

- Whether a quasi-judicial order can be sustained when its findings are based on "flawed and deceptive" citations likely generated by Artificial Intelligence (AI).
- Whether guidelines are necessary to regulate how tax authorities refer to and verify legal precedents in their orders.

Submissions by Assessee

- The judgment in Coastal Container related to service classification, not the non-supply of RUDs as claimed by the Revenue.
- A cited Madras High Court ruling in NKAS Service (P) Ltd did not exist; the actual case was from the Jharkhand High Court and actually supported the taxpayer, not the Revenue.
- Citations regarding "manufacturing processes" under Excise law were wrongly used to answer defenses about "natural justice" in GST.
- The Petitioner urged the Court to prescribe guidelines to stop authorities from blindly following AI-generated case law.

Submissions by Revenue

- The Senior Standing Counsel for the Revenue was called upon by the Court to apprise them of these concerns by the next hearing date.

Key Legal Provisions

- Section 75 of the CGST Act, 2017: General provisions relating to the determination of tax and the requirement for a speaking order.
- Rule 142A of the CGST Rules, 2017: Procedural requirements for issuing Form GST DRC-01A.

Court's Decision

- The Court found the Commissioner's findings "flawed and deceptive," noting that the officer appeared to have used AI-generated citations without reading the actual judgments.
- The Court expressed deep concern over authorities placing reliance on non-existent or irrelevant judgments to reject legitimate defenses.
- The Court determined this was a fit case to prescribe parameters/guidelines for quasi-judicial authorities to follow when citing High Court or Supreme Court rulings.

Conclusion

- The matter was stayed (interim relief granted to the Petitioner).
- Notice was issued to the Revenue to address the Court's concerns regarding the blind use of AI in legal orders.
- The case is listed for further hearing on March 12, 2026, for the formulation of guidelines.

3. **When a taxpayer does not respond to a notice sent via the GST portal, the Proper Officer must explore alternative modes of service prescribed under Section 169(1), preferably Registered Post with Acknowledgement Due (RPAD), to ensure the service is effective and not merely a "fulfilling of empty formalities". [Praveen Constructions Versus State Tax Officer, Tirunelveli - High Court of Madras - W.P. (MD) Nos. 3342 to 3347 - Dated 06-02-2026]**

Background

- The Respondent authority uploaded show cause notices and communications solely to the GST common portal.
- The Petitioner was unaware of these portal-based notices and consequently failed to file a timely reply.
- The Respondent subsequently passed six impugned assessment orders dated in January 2025, confirming the tax proposals without providing the Petitioner an opportunity for a personal hearing.

Dispute Involved

- Whether the mere uploading of a notice on the GST portal constitutes "effective service" when the taxpayer fails to respond.
- Whether an assessment order passed without a personal hearing, following a lack of response to portal-based notices, is sustainable under the GST Act.

Submissions by Assessee

- The Petitioner had no knowledge of the notices as they were only available on the portal.
- The impugned orders were passed in violation of the principles of natural justice, specifically the right to a personal hearing.
- The Petitioner expressed a willingness to deposit 25% of the disputed tax amount in each case to have the matters reconsidered.

Submissions by Revenue

- The Revenue argued that notices were indeed uploaded to the online portal, which the Petitioner failed to check.
- The Revenue's counsel fairly admitted that no personal hearing was provided prior to passing the final orders.
- The Revenue agreed to a remand of the cases subject to the Petitioner's proposed 25% tax payment.

Key Legal Provisions

- Section 169(1) of the CGST/TNGST Act, 2017: Prescribes various valid modes of service for any decision, order, summons, or notice.
- Section 75 of the CGST/TNGST Act, 2017: Contains general provisions relating to the determination of tax, including the requirement for a hearing.

Court's Decision

- While portal service is technically sufficient, an Officer faced with a non-responsive taxpayer should apply their mind and use alternative modes under Section 169, such as RPAD, to achieve effective service.

- Merely passing ex-parte orders by fulfilling technical formalities leads to a multiplicity of litigation and wastes the time of the authorities and the courts.
- The Court found a clear lack of opportunity provided to the Petitioner due to the ineffective service of the notices.

Conclusion

- The High Court set aside the six assessment orders and remanded the matters for fresh consideration.
- The Petitioner must pay 25% of the disputed tax amount for each case within four weeks.
- Upon payment and filing of objections, the Respondent is directed to provide a 14-day clear notice and a personal hearing before passing new orders on merits.

4. Once a GST registration is cancelled or surrendered, an assessee is no longer required to monitor the GST portal; therefore, portal-based service alone is insufficient, and the Department must use alternative modes to ensure effective communication of notices. [Raj Shekhar Pandey Versus State Tax Officer - High Court of Uttarakhand - Writ Petition (M/B) No. 1140 of 2025 - Dated 16-02-2026]

Background

- The Petitioner applied for the surrender/cancellation of his GST registration on April 29, 2023.
- Following the cancellation, the Department initiated proceedings by issuing a Show Cause Notice (SCN) dated November 16, 2024, which culminated in an adverse order on January 13, 2025.
- These proceedings were initiated and concluded entirely after the Petitioner's registration had already been surrendered or cancelled.

Dispute Involved

- Whether service of notice exclusively through the GST portal is legally valid under Section 169 of the CGST Act once a registration has been cancelled.
- Whether the Department is duty-bound to ensure effective service through alternative modes when an individual is no longer a registered person.

Submissions by Assessee

- Following the cancellation of registration, a person is not expected to continue checking the GST portal for communications.
- The Department must effect service through alternative modes to satisfy the requirements of natural justice.
- Relied on precedents from the Allahabad High Court (Ahs Steels and Katyal Industries) holding that portal-only service for non-registered persons is invalid.

Submissions by Revenue

- The Revenue admitted that the SCN and the subsequent order were issued after the Petitioner had surrendered or cancelled his registration.

Key Legal Provisions

- Section 169 of the CGST Act, 2017: Outlines multiple permissible modes of service, including direct tender, post, email, portal, and affixation.
- Section 75(4) of the CGST Act, 2017: Mandates an opportunity for a personal hearing where an adverse decision is contemplated or a written request is made.

Court's Decision

- The Court held that insisting on portal-based service for a person whose registration is cancelled amounts to imposing a duty the law does not contemplate.
- While making a notice available on the portal is a permissible method, the Department is duty-bound to ensure the method used actually communicates the notice to the assessee.
- Citing Supreme Court precedent (Radha Krishan Industries), the Court emphasized that fiscal adjudications must strictly comply with principles of natural justice and failure to afford a hearing renders the proceedings vulnerable.
- The statutory requirements of Section 169 were not satisfied as the Department failed to effect valid service.

Conclusion

- The High Court quashed the impugned order dated January 13, 2025.
- The Petitioner was granted liberty to file a reply to the original SCN within two weeks.
- The Department is permitted to pass a fresh order strictly in accordance with the law after providing a personal hearing as per Section 75(4).

5. The prohibition under Section 16(3) of the CGST Act applies only to the specific tax component on which depreciation is claimed; it does not disqualify a banking company from claiming Input Tax Credit (ITC) on the remaining 50% of the tax component for which no depreciation was sought. [M/S The South Indian Bank Ltd. Versus Joint Director DGGI & Ors. - High Court of Kerala - WP(C) No. 29087 of 2025 - Dated 18-02-2026]

Background

- The Petitioners (South Indian Bank and Federal Bank) are banking companies that opted for the special procedure under Section 17(4) of the CGST Act.
- Under this option, they availed 50% of the eligible ITC every month, while the remaining 50% lapsed as per the statutory requirement.
- The banks capitalized the lapsed 50% portion into their assets and claimed depreciation on it under the Income Tax Act, 1961.
- The GST Department issued Show Cause Notices (SCNs) and an Order-in-Original alleging that by claiming depreciation on any part of the tax component, the banks became ineligible for ITC on the entire tax component under Section 16(3).

Dispute Involved

- Whether the prohibition in Section 16(3) extends to the portion of tax for which no depreciation was claimed.
- Whether a banking company, by claiming depreciation on the "lapsed" 50% tax portion, forfeits its right to claim ITC on the "availed" 50% portion.

Submissions by Assessee

- The restriction in Section 16(3) is intended solely to prevent a double benefit (claiming both ITC and depreciation on the same amount).
- Since the banks only claimed ITC on one half and depreciation on the other half, there is no overlap or double benefit.
- Rule 38 explicitly requires the non-availed 50% to be reversed or lapsed, effectively removing it from the "ITC pool".

Submissions by Revenue

- Section 16(3) uses the term "the tax component," which the Revenue interpreted as a complete prohibition on the entire tax amount if any part of it is subjected to a depreciation claim.

Key Legal Provisions

- Section 16(3) of the CGST Act: Disallows ITC if a registered person has claimed depreciation on the "tax component" of the cost of capital goods.
- Section 17(4) of the CGST Act: Provides banking companies an option to avail 50% of eligible ITC and let the rest lapse.
- Rule 38 of the CGST Rules: Outlines the procedure for banks to reverse the 50% non-admissible ITC.

Court's Decision

- The Court held that this phrase refers specifically to the portion of tax for which depreciation is claimed, not the entire tax invoice.
- The Court confirmed that the petitioners did not receive a double benefit because the 50% used for ITC and the 50% used for depreciation were mutually exclusive.
- The 50% lapsed portion is treated similarly to tax attributable to "exempt supplies." Since depreciation on tax related to exempt supplies does not block ITC on taxable supplies, the same logic applies here.
- Once the 50% credit lapses under Section 17(4), it loses its character as a "tax component" available for credit, making the Revenue's restriction illogical.

Conclusion

- The Court quashed the Show Cause Notices and the Order-in-Original to the extent they restricted ITC based on Section 16(3) for the unavailed portion.
- The Revenue's interpretation was declared to be beyond the scope of the Act.
- The Petitioners were granted liberty to pursue other statutory remedies for any remaining unrelated disputes in the Order-in-Original.

6. Penalty under Section 122(1A) cannot be imposed on directors or employees of a company unless they are "taxable persons" who personally retained the benefits of the fraud; furthermore, penal provisions cannot be applied retroactively to periods before their enactment. [Amit Manilal Haria versus Joint Commissioner, CGST & Central Excise - High Court of Bombay - Writ Petition No. 5001/2025 - Dated 25-02-2026]

Background

- The Petitioners were the Joint Managing Director, CEO, and CFO of M/s. Shemaroo Entertainment Limited.
- Following a search and investigation into alleged fake invoicing and circular trading, the Department issued Show Cause Notices (SCNs) to both the company and the individual petitioners.
- On February 1, 2025, an Order-in-Original was passed imposing a massive penalty of ₹133.60 crores each on the three petitioners under Section 122(1A) of the CGST Act .
- The penalties were proposed for the period spanning July 2017 to March 2022.

Dispute Involved

- Whether Section 122(1A) can be invoked against employees/directors who are not "taxable persons" and where there is no evidence of personal retention of financial benefits.
- Whether a penal provision (Section 122(1A)) introduced on January 1, 2021, can be applied retrospectively to acts committed between July 2017 and December 2020.

Submissions by Assessee

- Petitioners are employees and not "taxable persons" registered under the Act; therefore, Section 122(1A) is inapplicable.
- There was no material to show the petitioners personally retained any benefit from the alleged transactions.
- Section 122(1A) was brought into force only from January 1, 2021; applying it to earlier periods violates Article 20(1) of the Constitution.
- Relied on Shantanu Sanjay Hundekari, where the Bombay High Court (upheld by the Supreme Court) ruled that employees cannot be held vicariously liable for a company's tax penalties.

Submissions by Revenue

- Petitioners were not mere employees but were controlling and managing the company, planning the alleged conspiracy.
- The term "any person" in Section 122(1A) is wide enough to include non-taxable persons who cause fake transactions.
- Since the SCN was issued when the law was in effect, it was correctly invoked for the entire investigation period.

Key Legal Provisions

- Section 122(1A) of the CGST Act: Targets persons who retain benefits of certain offenses (like fake invoicing) and at whose instance the transactions are conducted.
- Section 2(107) of the CGST Act: Defines a "taxable person" as one registered or liable to be registered.
- Article 20(1) of the Constitution of India: Prohibits the imposition of a penalty greater than what was permitted under the law in force at the time of the offense (Protection against ex post facto laws) .

Court's Decision

- For a penalty to stick, the person must (1) retain the benefit of the transaction and (2) be the one at whose instance the transaction was conducted.
- The Court held that "any person" in sub-section (1A) must be understood in the context of a "taxable person" because the underlying offenses (clauses i, ii, vii, ix) can only be committed by a taxable person.
- The Court reiterated that GST law does not recognize a general principle of vicarious liability for employees or directors regarding the company's tax defaults.
- The Court could not find any specific finding recorded in the impugned order that the benefit of the transactions covered under the said clauses was retained by the petitioners.
- Penalizing the petitioners for the period July 2017 to January 1, 2021, using a law that didn't exist then is unconstitutional under Article 20(1).

Conclusion

- The petition succeeded.
- The Order-in-Original dated February 1, 2025, was declared without jurisdiction and invalid to the extent it was issued to the petitioners.
- All penalties imposed on the individual directors/officers were quashed.

7. **The cancellation of GST registration based on a vague Show Cause Notice (SCN) and the "dictation" of investigative authorities—without independent evaluation by the Proper Officer—violates the principles of natural justice and constitutes an impermissible exercise of quasi-judicial power. [Ankit Choudhary versus Union of India - High Court of Gauhati - Writ Petition No. 875/2026 - Dated 17-02-2026]**

Background

- On August 25, 2025, the Proper Officer cancelled the Petitioner's GST registration following a Show Cause Notice (SCN) dated September 10, 2025 (procedural sequence noted as inverted by the Court).
- The action was triggered by a communication from the Joint Director (investigating wing) to the Principal Commissioner, requesting cancellation while an investigation was still ongoing.
- The Petitioner's application for revocation was subsequently rejected on October 31, 2025, on the grounds that an interim investigation report by the DGGI alleged wrongful Input Tax Credit (ITC) of ₹8.26 crore not reflected in GSTR-2B.

Dispute Involved

- Whether an SCN for cancellation of registration is valid if it merely reproduces statutory language without disclosing foundational facts like tax periods, invoices, or specific suppliers.
- Whether a quasi-judicial authority can cancel a registration solely based on the direction or "dictate" of an investigative wing without independent application of mind.

Submissions by Assessee

- The SCN failed to disclose the tax period, specific invoices, or the suppliers involved, making it impossible to furnish an effective response.
- Quasi-judicial powers must be exercised independently and cannot be controlled or directed by superior administrative or investigative authorities.
- The language used in the revocation proceedings indicated the authority had already made up its mind before considering the Petitioner's reply.

Submissions by Revenue

- The Revenue argued that there was no procedural lapse and that the entire exercise was carried out in strict adherence to the GST Act and Rules.

Key Legal Provisions

- Section 29 of the CGST Act, 2017: Governs the cancellation of registration.
- Rule 21(e) of the CGST Rules, 2017: Provides for cancellation where a person avails ITC in violation of the provisions of Section 16.
- Section 16 of the CGST Act, 2017: Details the conditions for eligibility to claim Input Tax Credit.

Court's Decision

- A notice that baldly reproduces statutory provisions without particulars is not "due notice" and reduces the legal requirement to a "ritualistic recitation."
- Citing Orient Paper Mills Ltd., the Court held that the Proper Officer surrendered their discretion to the investigating wing, which is a "constitutional imperative" violation.
- Cancellation of registration is a serious civil consequence and must not be used as a tool of coercion during an ongoing investigation.
- A quasi-judicial order must speak for itself. It must demonstrate application of the mind to the objection raised. The repetition of the investigative allegation, as the sole ground of rejection, is indicative of the mechanical exercise of power.

Conclusion

- The impugned SCN, the cancellation order, and the order rejecting revocation were set aside.

- The Petitioner's registration was ordered to be restored forthwith.
- The Revenue was granted liberty to initiate fresh proceedings only by issuing a detailed SCN specifying precise allegations, tax periods, and evidence.

8. Bail is denied to individuals accused of large-scale GST fraud, as economic offences constitute a "class apart" and must be treated with the same strict standards as heinous crimes due to their impact on the national economy. [Hari Shankar Sharma versus Union of India - High Court of Allahabad - Criminal Misc. Bail Application Nos. 45131, 45969 of 2025 and 261 of 2026 - Dated 27-02-2026]

Background

- Based on intelligence from the Directorate General of GST Intelligence (DGGI), a consortium of inter-linked entities was found engaged in creating and circulating fictitious Input Tax Credit (ITC) without actual supply of goods.
- The applicants—Hari Shankar Sharma (Director of WMCA Trade Mart and Karta of an HUF), Deepak Jain (Proprietor of Madhuban Trading), and Sushant Goyal (Proprietor of Omtex)—operated a network of dummy firms.
- Scrutiny of returns (April 2020 to July 2025) revealed:
  - o Madhuban Trading availed fraudulent ITC of ₹45.79 crores.
  - o WMCA Trade Mart availed ineligible ITC of ₹15.48 crores.
  - o Hari Shankar Sharma HUF availed fake ITC of ₹28.16 crores.
  - o Omtex availed fraudulent ITC of ₹14.17 crores.
- The applicants were arrested and booked under Section 132 of the CGST Act.

Dispute Involved

- Whether the applicants are entitled to bail given that the investigation has concluded, the offence is triable by a Magistrate, and the maximum sentence is five years.
- Whether serious economic offences involving huge revenue loss should be treated differently from other crimes during bail considerations.

Submissions by Assessee

- The applicants claim they were falsely implicated and that their statements were coerced.
- The case is based on documentary evidence already with the department; hence, there is no chance of tampering.
- Relied on Vineet Jain and Ratnambar Kaushik, where the Supreme Court granted bail in similar cases due to the limited 5-year sentence and the time already served in jail.

Submissions by Revenue

- The applicants are the masterminds who used non-existent firms and controlled brokers to defraud the exchequer .
- Economic offences uproot the financial structure of the country; therefore, bail principles for heinous crimes must apply.
- Given the scale of the fraud and the huge amount involved, there are high chances of the accused absconding or tampering with evidence.

Key Legal Provisions

- Section 132 of the CGST Act, 2017: Prescribes punishments for various offences, including wrongful availment of ITC.
- Section 483 of Bharatiya Nagarik Suraksha Sanhita (BNSS), 2023: Provisions governing the grant of bail.

Court's Decision

- Following Tarun Kumar vs. Asstt. Director, the Court noted that economic offences constitute a class apart and needs to be visited with advancement of technology and artificial intelligence and pose a serious threat to the country's financial health.
- The Court in the case of Rakesh Mittal (supra) has clearly held that even if a case is triable by a Magistrate, bail can be denied if the illegal act makes the national economy vulnerable.
- The Court found sufficient material showing the applicants' active involvement in deep-rooted conspiracies to siphon public money.

Conclusion

- The bail applications of all three applicants were rejected.
- The trial court was directed to proceed with the trial expeditiously.

9. The blocking of an Electronic Credit Ledger (ECL) under Rule 86A of the CGST Rules cannot exceed the statutory limit of one year; any continued restriction beyond this period is illegal and must be lifted immediately. [Jupiter Ventures versus Assistant Commissioner of Central Tax - High Court of Karnataka - Writ Petition No. 3353/2026 - Dated 25-02-2026]

Background

- The Petitioner (Jupiter Ventures) challenged the action of the Respondent authorities in blocking their Electronic Credit Ledger (ECL) by invoking powers under Rule 86A of the CGST Rules, 2017.
- The blocking was purportedly effected on November 21, 2024.
- The Petitioner contended that the restriction remained active for over one year and two months, despite the statutory time limit.

Dispute Involved

- Whether the Department can continue to block the Electronic Credit Ledger beyond the one-year period stipulated under Rule 86A(3).

- Whether a pre-decisional hearing is mandatory before exercising power under Rule 86A.
- Whether the authorities are permitted to block the ledger when there is a nil credit or negative balance.

Submissions by Assessee

Rule 86A(3) explicitly states that restrictions cease to have effect after one year from the date of imposition.

Submissions by Revenue

- Counsel for the Respondents accepted notice; however, the Court focused on the clear statutory mandate regarding the time limit for the restriction.

Key Legal Provisions

- Rule 86A of the CGST Rules, 2017: Governs the conditions under which an officer can restrict the use of the amount available in the Electronic Credit Ledger.
- Rule 86A(3): Specifically mandates that such restrictions "shall cease to have effect after the expiry of a period of one year from the date of imposing such restriction."

Court's Decision

- Strict Statutory Timeline: The Bench observed that since the ledger was blocked on November 21, 2024, the restriction was deemed to have ceased operation exactly 12 months later.
- Illegal Continuance: Any blocking subsisting beyond the one-year mark is contrary to the mandate of Rule 86A(3) and is therefore declared illegal.
- Deemed Cessation: The Court emphasized that the restriction stops automatically by operation of law after the completion of twelve months.

Conclusion

- The writ petition was allowed.
- The Court declared the continued blocking of the Electronic Credit Ledger illegal.
- The Department was directed to unblock the Electronic Credit Ledger forthwith.

10. Where a GST registration is cancelled for non-filing of returns, the Proper Officer has the jurisdiction to drop the cancellation proceedings and restore the registration if the taxpayer furnishes all pending returns and pays the full tax dues along with interest and late fees. [Deepak Construction Co. Versus State of Assam - High Court of Gauhati - W.P. (C) No. 984 of 2026 - Dated 27-02-2026]

Background

- The Petitioner, a partnership firm, had its GST registration cancelled by the Deputy Commissioner of State Tax, Tinsukia, via an order dated July 21, 2024.
- The cancellation was initiated under Section 29(2)(c) of the CGST Act because the firm failed to furnish GST returns for a continuous period of six months or more.
- The Petitioner claimed they were unable to respond to the initial Show Cause Notice (SCN) or visit the portal in time due to a lack of familiarity with online procedures.

Dispute Involved

- Whether a taxpayer whose registration has been cancelled for non-filing of returns can seek restoration by fulfilling all pending compliance requirements under the CGST Rules.
- Whether the "serious civil consequences" of registration cancellation justify a directed restoration process upon full payment of dues.

Submissions by Assessee

- The Petitioner expressed readiness and willingness to comply with the formalities prescribed under the proviso to Rule 22(4) of the CGST Rules, 2017.
- They undertook to file all pending returns and pay the outstanding tax, interest, and late fees.

Submissions by Revenue

- The Revenue opposed the petition on the grounds of delay.
- They requested that any order passed in this case should not be treated as a legal precedent.

Key Legal Provisions

- Section 29(2)(c) of the CGST Act: Empowers officers to cancel registration if a regular taxpayer fails to file returns for six continuous months.
- Rule 22(4) of the CGST Rules (Proviso): States that if a person, instead of replying to a cancellation notice, furnishes all pending returns and makes full payment of tax, interest, and late fees, the Proper Officer shall drop the proceedings and pass an order in FORM GST REG-20.

Court's Decision

- The Court noted that the proviso to Rule 22(4) provides a specific remedy for taxpayers to rectify non-filing defaults even after an SCN is issued.
- The Court emphasized that the cancellation of registration has "serious civil consequences" (as it prevents a firm from legally conducting business), necessitating a fair opportunity for restoration.
- The Officer duly empowered has the clear authority and jurisdiction to drop proceedings if full compliance is demonstrated.

Conclusion

- The High Court disposed of the writ petition by directing the Petitioner to approach the competent authority within two months.
- If the Petitioner complies with all requirements (filing pending returns and paying all dues), the authority must consider the restoration of the GST registration and pass orders in accordance with the law.
- This process is to be completed expeditiously, preferably within 60 days.