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By Nidhi, Advocate



Judgment No.: 143
Dt.: 10-06-2024



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Judgment Deals With

Rule 86(A) does not allow insertion of negative balances in Electronic Credit ledger	
Section/Rule	Rule 86A of CGST Rules, 2017
Authority	Telangana High Court
Case Name	M/s. Laxmi Fine Chem VS The Assistant Commissioner of Revenue
Dated	18 th March, 2024
Citation	WPA 5256 of 2024

Brief Facts of the Case:

The input tax credit was blocked against the petitioners to the tune of Rs.50,06,000/-, vide order dated 06.02.2024, for the period from 01.02.2024 to 13.02.2024. The said action has been challenged on two primary grounds; firstly, that the impugned action of blocking the input tax credit to the aforesaid amount was without issuance of any show cause notice to the petitioner. Secondly, the input tax credit has been blocked in contravention to the provisions of Rule 86(A) of the CGST Rules 2017, where the blocking can only be done so far as the input tax credit available in the electronic credit ledger of the petitioner and could not have been by way of making negative credit.

Contention of the Petitioner:

The action on the part of the Department in passing the order of blocking the input tax credit by making a negative credit in the electronic credit ledger of the petitioner is bad in law and violative of principles of natural justice. The power to restrict debit from the electronic credit ledger is extremely harsh in nature. The rule outreaches the detailed procedure provided in the legislature for determination of input tax credit wrongly availed or utilised provided in Section 73 and 74 of CGST Act and empowers the officer to unilaterally impose certain restrictions in compelling circumstances.

Findings & Decision of the Court:

The Court ruled out that the condition precedent for exercise of power under Rule 86A of the GST Rules is the availability of credit in the electronic credit ledger which is alleged to be ineligible. If credit balance is available, then the authority may, for reasons to be recorded in writing, not allow the debit of amount equivalent to such credit.

However, there is no power of negative block for credit to be availed in future. The plain perusal of the impugned order would show that the Department have made a negative credit of Rs.50,06,000/- in the electronic credit ledger of the petitioner which otherwise is not permissible and what is permissible is only blocking the availing of the input tax credit to whatever is in credit of the petitioner. If there is a credit balance available, then the authorities concerned in terms of provisions of Rule 86(A) may for reasons to be recorded in writing not allowed the credit of the said amount available equivalent to such credit. However, there is no power conferred upon the authorities for block of the credit to be availed by the petitioner in future. As a consequence, the impugned order was set aside & the Department was directed to immediately recall the order of blockage.

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