



Cancellation of supplier's registration cannot be the sole ground to deny ITC

Engineering Tools Corporation v. the Assistant Commissioner (ST), Chennai¹

Madras High Court ('High Court') held that an Input Tax Credit ('ITC') claim cannot be rejected merely on the ground that the supplier's GST registration was cancelled with retrospective effect. It further held that the genuineness of the claim needs to be verified by considering relevant documents from the transaction.

Facts of the case

- Disregarding the relevant documents such as tax invoices, e-way bills, transport documents and proof of payment, M/s Engineering Tools Corporation ('the Petitioner') was served an assessment order, wherein the Input Tax Credit ('ITC') was reversed on the sole ground of retrospective cancellation of the supplier's GST registration.
- Aggrieved by the same, the Petitioner preferred the present writ petition before the High Court.

Discussion and findings

- The High Court observed that despite the submission of relevant documents, the ITC claim was rejected solely on the ground that the petitioner should have proved the existence of supplier.

- The Petitioner purchased goods in 2017-2018 and the existence of the supplier may be called upon at the relevant point of time.
- At the most the Petitioner can be called upon to prove that the transaction was genuine by providing relevant documents such as tax invoices, e-way bills, proof of payment and so on.

Judgement

The Court quashed the assessment order and remanded the matter directing the assessing officer to issue a fresh order after reconsidering the genuineness of the transaction by verifying the relevant transaction documents.

Dhruva Comments

This issue before the High Court is important as it represents the concerns faced by industry at large. The Tax Authorities have been unilaterally confirming tax demands in case of cancelled dealer transactions without looking into their underlying documents. This should also pave a wave towards similar set of precedents wherein the taxpayer is given the opportunity to prove the genuineness of a transaction before acceptance or rejection of an ITC claim.

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ADDRESSES

Mumbai

1101, One World Centre,
11th Floor, Tower 2B,
841, Senapati Bapat Marg,
Elphinstone Road (West),
Mumbai 400 013
Tel: +91 22 6108 1000 / 1900

Ahmedabad

402, 4th Floor, Venus Atlantis,
100 Feet Road, Prahladnagar,
Ahmedabad 380 015
Tel: +91 79 6134 3434

Delhi / NCR

305-307, Emaar Capital Tower - 1,
MG Road, Sector 26, Gurgaon
Tel: +91 124 668 7000

Pune

305, Pride Gateway,
Near D-Mart, Baner,
Pune - 411 045
Tel: +91-20-6730 1000

Kolkata

4th Floor, Unit No 403, Camac Square,
24 Camac Street, Kolkata
West Bengal – 700016
Tel: +91-33-66371000

Abu Dhabi

Dhruva Consultants
1905 Addax Tower, City of Lights,
Al Reem Island,
Abu Dhabi, UAE
Tel: +971 26780054

Dubai

Dhruva Consultants
Emaar Square Building 4, 2nd Floor,
Office 207, Downtown,
Dubai, UAE
Tel: +971 4 240 8477

KEY CONTACTS

Dinesh Kanabar

Chief Executive Officer
dinesh.kanabar@dhruvaadvisors.com

Niraj Bagri

niraj.bagri@dhruvaadvisors.com

Ranjeet Mahtani

ranjeet.mahtani@dhruvaadvisors.com

Kulraj Ashpni

kulraj.ashpni@dhruvaadvisors.com

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