VERENDRA KALRA & CO LLP

CHARTERED ACCOUNTANTS

Communiqué

Indirect Tax

July 2026

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Notifications and Updates

E-Way Bill Enhancements Put on Hold: Official Advisory Issued

GSTN had previously released advisories on 9th June 2026 and 17th June 2026 outlining certain proposed changes to the e-Way Bill system, which were slated to take effect from 1st August 2026. Comprehensive FAQs pertaining to these changes were subsequently published on 2nd July 2026. Stakeholders are hereby notified that the rollout of these proposed enhancements has been deferred until further notice. Consequently, no modifications need to be made in the production environment based on the earlier advisories, pending fresh instructions.

Source : News

Rulings

Show-Cause Notice Grounds Alone Must Justify GST Registration Cancellation

In the matter of **A.P. Enterprises Vs the Superintendent of Central Tax [WRIT PETITION No.30400 OF 2025 Dated 25.06.2026] Telangana High Court set aside a GST registration cancellation order** after finding that the cancellation was based on grounds entirely absent from the original show-cause notice. While the SCN had invoked Section 29(2)(e) of the CGST Act along with Rules 21(a) and 21(b), citing allegations of fraudulently obtained registration, invoicing without actual supply of goods or services, and non-existence of business at the declared address, the final order instead cancelled the registration under Rule 21(h) for non-filing of returns for six consecutive months a ground never put to the Assessee. The Court held that this divergence between the SCN and the final order amounted to a clear breach of natural justice, since the Assessee had no opportunity to respond to the ground actually invoked against it. Terming the order unsustainable for having exceeded the scope of the SCN the Bench quashed both the SCN and the consequential cancellation order and directed restoration of the Assessee's GST registration. The Court, however left it open to the Revenue to initiate fresh proceedings by issuing a new SCN backed by specific grounds and relevant documents to be adjudicated afresh in accordance with law.

Tax Demand Triggered by Clerical Slip in GSTR-3B

In the case of **Korada Padma Vs Deputy State Tax Officer [WP No. 25596 of 2026 and WMP.Nos.27935 & 27936 of 2026 Dated 15.07.2026] the Madras High Court** set aside the impugned assessment order and remanded the matter for de novo consideration after taking note of the Assessee's plea that the confirmed tax liability stemmed from a mere clerical slip in the GSTR-3B filings. The Assessee pointed out that Rs. 12,83,133 each had been paid towards SGST and CGST, and Rs. 6,63,602 towards IGST, and that the combined SGST-CGST remittance of Rs. 25,66,267 matched the differential amount reflected in the disputed order. The Court noted that the demand had been confirmed solely because the Assessee failed to participate in the earlier proceedings, and found a prima facie case that the discrepancy was attributable to an inadvertent clerical error rather than any actual short payment. In view of this, the matter was remitted to the assessing officer for fresh adjudication, with directions to afford the Assessee adequate opportunity, including a personal hearing, before passing a new order. The Court further directed that the bank attachment connected to the assessment in question be lifted forthwith.

GST Registration Cancellation Sent Back to SCN Stage as Assessee Denied Chance to File Returns

In the matter of **Jesu Navin Nishchal Vs Assistant Commissioner of Commercial Taxes [WRIT PETITION NO. 15265 OF 2026 Dated 23.06.2026] The Karnataka High Court** quashed the orders cancelling GST registration for non-furnishing of returns for FY 2021-22, along with the subsequent order rejecting the revocation application on the ground of limitation, and restored the proceedings to the show cause notice stage. The Court reasoned that the Assessee ought to be given a chance to file the pending returns, since verification of such returns would allow the authorities to examine compliance with statutory obligations, and cancellation without this opportunity would result in total disruption of the Assessee's business. It took into account the Assessee's submission that in a separate proceeding concerning another tax period, similar cancellation action had been dropped once returns were filed, and that a comparable opportunity here could have enabled the Assessee to establish its bona fides. The Court also pointed out that neither the cancellation order nor the order rejecting revocation had taken into account the explanation the Assessee could have furnished. Consequently, both orders were set aside, and the matter was remitted to the SCN stage, with the Assessee permitted to file its response by July 13, 2026, subject to depositing costs of Rs. 25,000 within the same timeline.

GSTIN Cancellation Can't Rely on Grounds Outside SCN, Restored

In the matter of **JK Technology vs Deputy State Tax Officer [WRIT PETITION No.21690 of 2026 Dated 07.09.2026] the Telangana High Court** quashed a GST registration cancellation order after finding that it was grounded in an allegation the Assessee was never called upon to answer. Although the show cause notice, issued in Form GST REG-17, had proposed cancellation under Section 29(2)(e) on the premise that the registration was procured through fraud, wilful misstatement or suppression of facts, the eventual cancellation order in Form GST REG-19 took a completely different route, citing non-filing of returns from January 1, 2023 onwards as the basis. Since the final order rested on a ground wholly extraneous to the SCN, the Court held that the writ petition deserved to be allowed on this singular ground that the petitioner was never put on notice of the ground eventually invoked against it. The cancellation order was accordingly set aside and the registration restored, with the Court leaving it open to the Revenue to initiate fresh proceedings through a properly framed SCN specifying the exact grounds for cancellation along with the material relied upon, so as to enable the Assessee to respond effectively.

Appeal Filed Beyond Condonable Limit Rightly Rejected Under GST

In the matter of **Shri Balaji Metallics Private Limited Vs Commissioner of CT & GST Cuttack & Ors. [W.P.(C) No. 7208 of 2025 12.03.2026] the Orissa High Court** declined to interfere with the rejection of a GST appeal as time-barred, observing that the Assessee's own appeal memo recorded the order as having been communicated on the very date it was passed. The Assessee had argued that limitation ought to be reckoned from June 14, 2024, the date on which it claimed to have learnt of the assessment order following attachment of its bank account. The Court rejected this plea, pointing out that although Section 107(1) fixes limitation from the date of communication of the order, the Assessee itself had stated in Form GST APL-01 that the Order-in-Original dated November 21, 2023 stood communicated on that same day a declaration the Court treated as constituting deemed communication and thus triggering the limitation clock. It further held that since the appeal was preferred beyond the outer limit permissible for condonation under Section 107(4), the appellate authority had no jurisdiction left to condone the delay any further. Finding no error in the appellate authority's decision to refuse condonation and reject the appeal, the Court dismissed the writ petition.

Paper/Paper Board Bags Fall Under Heading 4819, Taxable at 5% GST

In the matter of **Canpac Trends Private Limited [ADVANCE RULING NO. GUJ/GAAR/R/2026/24 Dated 03.07.2026] the Gujarat Authority Advance Ruling** has held that paper bags manufactured and supplied by the applicant made predominantly from paper or paperboard and falling under Heading 4819 of the Customs Tariff are liable to GST at the concessional rate of 5%, under Entry 319 of Schedule I to Notification No. 09/2025-Central Tax (Rate), rather than at the higher rate of 18% applicable under the residual Entry 185 of Schedule II. In arriving at this conclusion, the Authority reasoned that Entry 319 was specifically inserted to encourage paper sacks, paper bags, and biodegradable bags as environment-friendly substitutes for plastic bags, and that ordinary paper bags made of paper or paperboard should therefore be treated as covered by this beneficial entry rather than being pushed into the general residual category meant for other goods under the same heading. It is important to flag, however, that this ruling is not the last word on the subject other Advance Ruling Authorities, notably in Rajasthan, have taken the opposite view, holding that the 5% rate applies strictly to bags that are demonstrably biodegradable, and that plain paper bags failing to establish this attract 18% GST instead. Given this conflict between rulings from different states, clients manufacturing or trading in paper bags should not assume automatic eligibility for the lower rate, and should ideally assess their specific product composition, review supporting technical or environmental certifications where available, and consider seeking their own jurisdiction-specific advance ruling before finalising the applicable GST rate on their invoices.

GST Under RCM Applicable on Statutory Deposits Paid by TRANSCO for Forest Clearance

In the matter of **TP Paradeep Transmission Limited, the Odisha Authority for Advance Ruling** held that statutory payments made by a transmission company towards Net Present Value, compensatory afforestation, wildlife conservation, plantation and other CAMPA-linked charges, paid as a precondition for securing forest clearance to lay transmission lines and build substations, amount to "consideration" for a taxable supply of service rendered by the Government under Sections 7 and 2(31) of the CGST/OGST Act. The applicant, a wholly-owned subsidiary of Tata Power, had sought clarity on whether such CAMPA deposits — meant to be utilised by forest and other government departments under the Forest Conservation Act and the Compensatory Afforestation Fund Act were taxable, contending that NPV payments, being consideration for a service, stood exempted under Entries 4 and 5 of Notification No. 12/2017-CT (Rate). The Authority rejected this claim, holding instead that GST is payable under the reverse charge mechanism as per Entry 5 of Notification No. 13/2017. It reasoned that the Government's role in scrutinising the proposal, assessing environmental impact, laying down conditions and finally granting clearance results in a legally enforceable benefit flowing to the applicant, enabling it to divert forest land, carry out construction, erect transmission infrastructure and run commercial operations — an activity squarely covered by the definition of "service" under Section 2(102), given the grant of a right, privilege or permission to exploit a resource. Given the compulsory character of CAMPA payments, the Authority found a direct link between the payment and the permission granted, treating the amount as "consideration" under Section 2(31). Drawing on the Uttarakhand AAR's ruling in the case of M.D. Power Transmission Corporation, it further held that such permission for diversion and non-forest use of forest land does not fall within Entry 4 or 5 of Notification No. 12/2017, adding that routing the payment through the CAMPA Fund rather than a specific government department does not change the essential character of the transaction, especially since diversion of forest land is not available to the applicant as a matter of right. Having thus concluded that the transaction constitutes a taxable supply of service by the Government to a business entity, the Authority ruled that the applicant is liable to discharge GST under reverse charge in terms of Section 9(3) read with Entry 5 of Notification No. 13/2017.

ITC Blocking Cannot Push Electronic Credit Ledger into Negative Balance, Rules HC Relying on Shyam Sunder Strips

In case of **Dua Metals vs Union of India and Others [CWP-32302-2025 Dated 19.11.2025] The Punjab and Haryana High Court** held that "negative blocking" of the Electronic Credit Ledger is impermissible in the absence of available credit therein, observing that authorities remain free to invoke the statutory recovery mechanisms provided under Sections 73 and 74 of the PGST Act to determine whether ITC was wrongly availed or utilised. The dispute arose when M/s Dua Metals challenged Revenue's action of blocking its ECL and deleting the entry through which ITC had been blocked into negative territory, alleging violation of Rule 86A of the CGST Rules, 2017 as well as principles of natural justice. The core question before the Court was whether Rule 86A empowers the Commissioner, or an officer authorised by him, to block a taxpayer's ECL beyond the credit actually available at the time such an order is passed. Finding the language of Rule 86A to be clear and its literal reading free of any absurdity, the Court explained that disallowing debit of ITC is only a temporary safeguard, invocable solely upon satisfaction of the conditions specified under the Rule, permitting the Commissioner to withhold ITC lying in the ECL where there is reason to believe it was fraudulently availed or is otherwise ineligible. In support, the Court relied on its earlier decision in Shyam Sunder Strips, where similar blocking orders/entries were set aside to the extent they disallowed debit in excess of the ITC actually available in the petitioners' ECLs at the relevant time. Applying this reasoning, the Court allowed the Assessee's writ petition, while leaving it open to Revenue to pursue appropriate recovery remedies in accordance with law.

Sends Back GSTR-3B vs GSTR-2A Mismatch Case for Fresh Review, Citing Early GST Rollout Issues

In the case of **Dot Com Infoway Limited Vs The Joint commissioner of GST (Appeals – I) & Anr [W.P.No.11641 of 2023 Dated 30.06.2026] the Madras High Court** partly set aside the assessment and appellate orders denying Input Tax Credit for AY 2017-18, holding that the issue warranted fresh consideration since the demand was primarily founded on a mismatch between ITC claimed in GSTR-3B and the auto-populated figures in GSTR-2A during the early phase of GST rollout. The Assessee had contended that it was entitled to the benefit of CBIC Circular No. 183/15/2022-GST, issued specifically to address such mismatches, and further argued that ITC on supplies received at its Madurai premises could not be denied merely on the ground that the premises came to be registered as an additional place of business only at a later stage. Taking note of the fact that the demand rested substantially on the GSTR-2A discrepancy and that the Madurai premises had subsequently been added as a place of business, the Court found both aspects deserving of reconsideration. Accordingly, subject to the Assessee depositing an additional 10% of the tax demand within 30 days, the Court partly set aside the original and appellate orders to the extent of these two disputed issues and remanded the matter to the original authority for a fresh decision, to be taken after affording adequate opportunity of hearing. The Revenue was directed to pass the fresh order within three months from the date of such remittance.

Supplier Turning Non-Existent Later Not Sufficient Ground to Deny ITC

In the case of **Clear Secured Service Private Limited Vs The Assistant Commissioner (ST) [WP No. 23402 of 2026 Dated 01.07.2026] the Madras High Court** set aside an assessment order denying Input Tax Credit, holding that Revenue could not confirm the tax demand merely on the ground that the supplier had subsequently been declared non-existent, without properly examining the documentary evidence placed on record by the Assessee. The Assessee had furnished proof of payment, tax invoices, e-way bills, ledger extracts, and GSTR-2A and GSTR-2B details to establish the genuineness of the supplies received. The Court noted that while the onus of proving entitlement to ITC lies on the Assessee, Revenue was nonetheless obligated to consider the documents submitted and, if found wanting, grant an opportunity to produce further evidence before rejecting the claim. Instead, the Court observed, Revenue confirmed the demand solely on the basis that the supplier's registration stood cancelled with effect from March 27, 2024, an approach it found untenable more so since the order had been passed under Section 74 despite the show cause notice repeatedly invoking a different provision. In light of this, the assessment order was set aside and the matter remanded for fresh adjudication, with directions to grant the Assessee a reasonable opportunity of hearing and to pass a fresh order within three months.

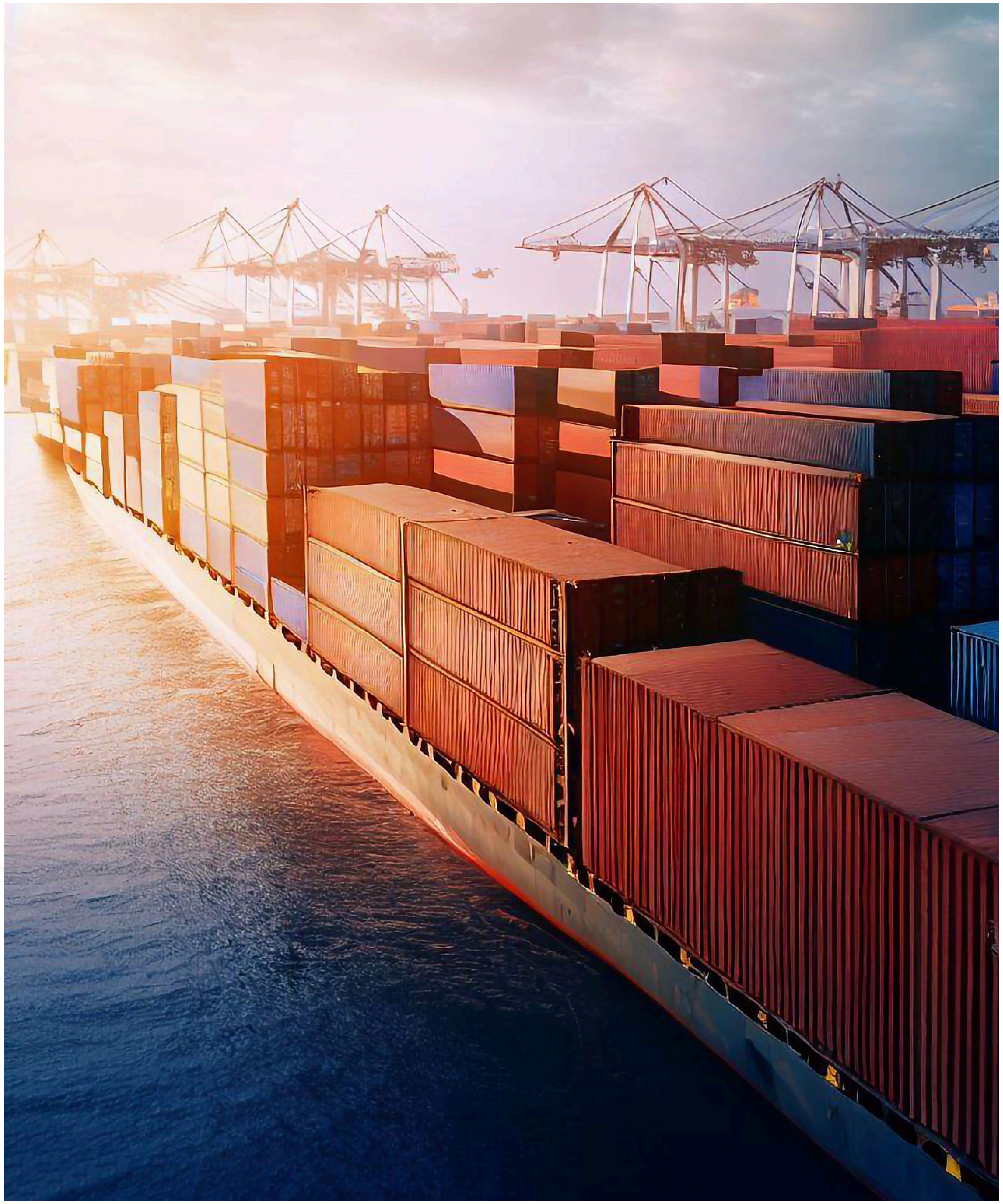
Hookah Flavours Not 'Restaurant Service' Just for Being Served with Food

In the matter of **Indian Wire Products Company [Appeal Case No. 02/WBAAAR/APPEAL/2026 Dated 10.07.2026] the West Bengal Appellate Authority for Advance Ruling (AAAR)** has upheld that hookah flavours (both tobacco-based and herbal) served through a hookah in a restaurant are not part of "restaurant service." The Authority said that just because hookah is served along with food and drinks in a restaurant, it does not automatically become a "composite supply" under paragraph 6(b) of Schedule II of the GST Act. It clarified that the words "food or any other article for human consumption or any drink" used in that provision are not wide enough to include hookah flavours. The fact that hookah is consumed by inhaling smoke, or that preparing it involves several steps, does not matter what matters is the actual nature of the goods being supplied, not how or where they are consumed. The AAAR explained that "food" is meant to have nutritional value, whereas hookah flavours made of molasses, dried herbal leaves, fruit pulp and flavouring agents only add taste or aroma and have no nutritional value. So, flavour cannot be treated as "food." Looking further at the definition of "restaurant service" and "composite supply," the Authority said not everything served in a restaurant counts as restaurant service only items that qualify as food, drink, or similar articles for consumption. Using standard rules of interpretation, it held that since the words "food" and "drink" appear together in the law, hookah flavours cannot be read into that category, especially since the law even separately excludes alcoholic drinks from the definition of "drink." Based on this reasoning, the AAAR rejected the Appellant's argument that serving hookah is really a "service" involving skill, ambience, equipment, and staff assistance and should therefore be treated as part of the restaurant's bundled service. The Appellant had claimed customers aren't really buying the hookah device or flavour as goods, but experiencing hospitality as a whole. The AAAR did not accept this and confirmed that hookah flavours are taxed separately, not as part of restaurant service.

Customs

New Rules for Department's Appeals in DGGI Matters

Even a favourable order at the appellate stage may not be the end of the road — CBIC has now spelt out exactly how the department itself can carry a dispute further. **Circular No. 256/02/2026-GST, dated 25 July 2026, clarifies the procedure** for filing departmental appeals before the GST Appellate Tribunal (GSTAT), specifically in cases that originated as investigations by the Directorate General of GST Intelligence (DGGI) and were adjudicated by a Common Adjudicating Authority (CAA). Since such cases often cut across the usual territorial boundaries of GST administration, field officers had sought clarity on certain practical aspects once an appellate order is passed. The circular addresses three specific questions: which authority is responsible for reviewing the appellate order to decide whether a further appeal is warranted; which jurisdictional office is authorized to actually file the department's appeal before GSTAT; and which particular GSTAT Bench such an appeal should be presented before, given that DGGI matters can involve taxpayers or transactions spread across multiple states. By settling these questions, the circular aims to bring uniformity to how the department pursues second-stage appeals in DGGI-related matters, cutting down on procedural confusion or delay. While this remains an internal administrative clarification directed at tax officers, it is worth noting for clients involved in DGGI investigations or CAA-adjudicated matters — it has a direct bearing on how promptly, and through which forum, the department can pursue a further appeal, even after a taxpayer has secured a favourable outcome at the first appellate stage.



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