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* **IN THE HIGH COURT OF DELHI AT NEW DELHI**

+ **W.P.(C) 15803/2024**

KGN ENTERPRISES

.....Petitioner

Through: Appearance not given.

versus

**PRINCIPAL ADDITIONAL DIRECTOR GENERAL
DIRECTORATE GENERAL OF GOODS AND SERVICE
TAX INTELLIGENCE & ORS.**

...Respondents

Through: Mr. Anurag Ojha, SSC with
Mr. Subham Kumar and Mr.
Dipak Raj, Advs. for R-1.
Ms. Monica Benjamin, SSC for
R-2.

CORAM:

HON'BLE MR. JUSTICE YASHWANT VARMA

**HON'BLE MR. JUSTICE HARISH VAIDYANATHAN
SHANKAR**

ORDER

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07.03.2025

1. We had on the last occasion taken note of the principal challenge which stood raised in the writ petition with the petitioner alleging that the blocking of its Electronic Credit Ledger [“ECL”] and which reflected a negative balance is not sustainable in law.

2. We note that the aforesaid question is no longer res integra and stands duly settled by the judgment of the Court in **Best Crop Science Pvt. Ltd. v. Principal Commissioner** [2024 SCC OnLine 6714] and where we had held as follows: -

“78. It is necessary to bear in mind that not allowing debit of an ITC is a temporary measure, which is imposed only if the conditions set out in Rule 86A of the Rules are satisfied. It is not necessary for any proceedings to be initiated against the taxpayer prior to passing an Order under Rule 86A(1) of the Rules. The said order can be passed at any stage if the Commissioner or an officer



authorized by him has reasons to believe that the credit available in the ECL of a taxpayer has been fraudulently availed or is ineligible. This is clearly an emergent provision, which enables the Commissioner to withhold the available ITC in the ECL, which he has reason to believe has been fraudulently availed or is ineligible. An Order under Rule 86A(1) of the Rules does not require a prior show cause notice to be issued to a taxpayer as it is by its very nature an emergent provision to immediately block the usage of the ITC credited in the ECL, which the Commissioner or an officer authorized by him has reasons to believe has been fraudulently availed or is ineligible. The concerned authorities are required to proceed to determine whether a taxpayer has wrongly availed or utilized the ITC, under Sections 73 or 74 of the CGST Act and if it is found that the taxpayer has wrongly availed of the ITC the proper officer is required to pass an order to determine the amount of tax, interest or penalty payable. The demand as raised are required to be determined under Sections 73 and 74 of the CGST Act.

79. If at any stage the Commissioner or an officer authorized by him is satisfied that the conditions for disallowing debit no longer exists, Sub-rule (2) of Rule 86A of the Rules requires such officer to permit debit from the taxpayer's ECL. In any event, by virtue of Sub-rule (3) of Rule 86A of the Rules, the order passed under Rule 86A(1) of the Rules is operative only for a maximum period of one year from the date of passing the said order.

80. Rule 86A of the Rules is not a machinery provision for recovery of tax or dues under the CGST Act. It is not a part of the scheme of the machinery provisions for assessment and determination of the tax and dues as payable under the CGST Act. It is an emergent measure for protection of revenue by temporarily not allowing debit of available ITC in the ECL, which the Commissioner or an officer authorized by him has reasons to believe has been wrongfully availed.

81. As noted above, the revenue authorities are required to proceed under Sections 73 and 74 of the CGST Act for determination of the amount due. After the proceedings under Chapters XII, XIV and XV of the CGST Act have commenced and the Commissioner is of the opinion that for the purpose of protection of government revenue, it is necessary to do so, he may pass an order under Section 83(1) of the CGST Act, provisionally attaching any property including the bank account of a taxpayer. This is also one of the measures that may be resorted to pending conclusion of the proceedings.

82. Rule 86A(1) of the Rules does not contemplate an order, the effect of which is to require a taxpayer to replenish his ECL with valid availment of ITC, to the extent of ITC used in the past,



which the Commissioner or an officer authorized by him has reasons to believe, was fraudulently availed or was ineligible. Such an interpretation would in effect amount to construe an Order under Rule 86A(1) of the Rules as an order for recovery of tax. This is obvious because the taxpayer would now have to incur a larger cash outflow for payment of taxes as he would be denied utilization of validly availed ITC, which he would require to accumulate to compensate for the ITC availed and utilized which the Commissioner or an officer authorized by him, has reasons to believe was fraudulently availed or was ineligible.

83. In view of the above, the petitions are allowed and the orders impugned in the present petitions, as tabulated below, are set aside to the extent the impugned orders disallow debit from the respective ECL of the petitioners, in excess of the ITC available in the ECL at the time of passing of the impugned orders (referred to as Negative blocking by the counsel during the course of their submissions)....”

Consequently, and to the aforesaid extent, we find ourselves unable to sustain the action impugned.

3. We, accordingly, allow the present writ petition and direct the respondents to pass appropriate directions and instructions for unblocking of the ECL of the writ petitioner.

4. The aforesaid shall be without prejudice to the right of the respondents to adopt such other measures as may be otherwise permissible in law.

YASHWANT VARMA, J.

HARISH VAIDYANATHAN SHANKAR, J.

MARCH 07, 2025/nd