

Deposit in ECL amounting to payment of GST? High Court unlocks INTERESTing possibilities

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Recently, the Madras High Court in the case of ***Eicher Motors Limited v. Superintendent of GST & CE***, [\[TS-19-HC\(MAD\)-2024-GST\]](#) ('Eicher Motors ruling') has granted an unexpected relief on interest liability under GST Law. The High Court held that deposit of an amount in Electronic Cash Ledger ('ECL') amounts to payment of tax and thus, a taxpayer is not required to pay interest post deposition of amount in ECL irrespective of filing of GSTR-3B. In this Article, the Authors take a microscopic view of entire controversy, correctness thereof & way forward for taxpayers.

Issue and dispute

GST is 100 percent technology driven with GST portal as foundation. ECL and Electronic Credit Ledger ('ECrL') are the backbone of GST portal, enabling taxpayers to deposit cash and avail Input Tax Credit ('ITC') respectively. Taxpayers can also make payment of tax through these ledgers. Section 50 of the Central Goods and Service Tax Act, 2017 ('CGST Act') dealing with levy of interest, links interest liability with tax paid through ECL. The question which still requires thoughtful consideration is whether mere deposit in ECL amounts to payment of tax or not.

In this case, taxpayer, Eicher Motors Limited filed its monthly GSTR-3B returns for period July 2017 to December 2017 belatedly on account of technical glitches in GST portal whereby it could not transition TRAN-1 credit. Through self-assessment mechanism, taxpayer deposited requisite cash in its ECL on or before due dates of filing GSTR-3B. The Revenue demanded interest on tax liability deposited through ECL due to delayed filing of GSTR-3B. These proceedings culminated into Writ Petition before the High Court.

The High Court examined the CGST Act along with the Central Goods and Services Tax Rules, 2017 ('CGST Rules') and concluded that depositing amount in ECL amounts to payment of tax to the Government. The Court's conclusion primarily rested on Explanation (a) to Section 49 which provides that date of deposit of cash in Government account is deemed to be date of deposit in ECL. Simply put, amount paid through PMT-06 challan in authorized bank shall be deemed to be credited to ECL when credited to the Government account. The Court also noted that debit entries in ECL are only for accounting purposes and does not equate to payment of tax. On the Revenue's argument that Section 39(7) provides for payment of tax through GSTR-3B, the Court held that said provision only mandates payment of tax before filing of GSTR-3B and requires reporting of details of tax payable & tax paid in GSTR-3B. The Court also inferred that depositing amount in ECL equals to payment of tax since details of Government's RBI account are auto-filled as beneficiary in PMT-06 challan. Lastly, the Court relied on ruling of **CIT v. Modipon Limited**, wherein in context of erstwhile regime, it was held that amount deposited in Personal Ledger Account ('PLA') shall be deemed as payment of tax to the Government. Basis this, the Court distinguished earlier contrary High Court rulings and held that no interest is payable.

Analysis

The Authors firmly believe that the High Court's ruling is patently wrong when statutory provisions of the CGST Act and the CGST Rules are read in their entirety. It is settled principle of statutory interpretation that provisions of a statute should be interpreted as a whole and any interpretation which leads to overlapping of provisions must be eschewed. In the Authors' considered view, the Court's reliance on Explanation (a) to Section 49 does not foster its conclusion as this provision has an entirely different purpose. It may find application in a situation where money is debited from taxpayer's bank account, however, Challan Identification Number ('CIN') is not generated and ergo amount cannot be credited in ECL. In such a scenario, date on which Government account was credited shall be deemed to be date of deposit in ECL even if money is reflected in ECL on a future date.

The Authors highlight that whilst the Court examined certain provisions such as those pertaining to payment of tax, ECL and return filing, it cherry-picked and failed to give due weightage to many other provisions. The Court failed to appreciate clear demarcation amongst sub-sections (1) and (3) of Section 49 i.e. between act of crediting of deposits into ECL and usage of such amounts deposited in ECL for payment of tax. Similar distinction between crediting of amount deposited into ECL and payment of tax by debiting ECL is also contained in the CGST Rules dealing with ECL and Electronic Liability Ledger ('ELL'). Even proviso to Section 50 specifically talks about 'tax paid by debiting the ECL'. It is also pertinent to note that even though refund claim for balance in ECL is routed through Section 54, the procedure thereof is much simpler as compared to refund of tax or ITC from ECL. Thus, GST Law does not treat amount deposited in ECL at par with payment of tax to the Government. Evidently, the act of debiting ECL is not merely an accounting entry but fulcrum of discharging tax liability.

At this juncture, the Authors highlight that though this ruling is legally incorrect, the High Court's view is justifiable basis wide amplitude of its equity powers. In this case, taxpayer was unable to transition mammoth amount of erstwhile Cenvat Credit in GSTR-3B for July 2017 owing to initial stabilizing phase of GST portal. Due to working capital issues, it could not file GSTR-3B for July 2017 and consequently, was barred from filing returns for subsequent months, thereby leading to situation of impossibility of compliance. As is well understood and established, purpose of levy of interest is to cover time cost of money. In this case, taxpayer, on a bona-fide belief, deposited amount in ECL well within time.

Way forward

Taxpayers may take benefit of this favorable judgment and contest levy of interest if deposits have been timely made in ECL. However, this ruling will face testing times ahead as it will definitely be appealed before Division Bench of the Madras High Court where discussion on aforesaid points will find their way in. Nevertheless, it remains to be seen which way the wind will finally blow.