

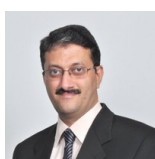
Navigating ITC Claims- Legal Hurdles and Recent Judicial Interpretations

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Input Tax Credit (ITC) is a fundamental feature of the Goods and Services Tax (GST) regime, designed to avoid the cascading effect of taxes and streamline tax compliance. However, the process of claiming ITC has increasingly become fraught with challenges due to stringent legal requirements and evolving judicial interpretations. This article delves into the complexities surrounding ITC claims, examining recent case law, including *M/s Anil Rice Mill v. State of U.P.*^[1], *M/s Shiv Trading v. State of U.P.*^[2], and the pivotal Supreme Court decision in *State of Karnataka v. Ecom Gill Coffee Trading Private Limited*^[3].

The Landmark Supreme Court Decision: State of Karnataka v. Ecom Gill Coffee Trading Private Limited

A significant development in this area of law was the Supreme Court's decision in *State of Karnataka v. Ecom Gill Coffee Trading Private Limited* (2023). In this case, the Supreme Court dealt with Section 70 of the Karnataka Value Added Tax (KVAT) Act. The Court held that the burden of proving the correctness of an ITC claim lies squarely on the purchasing dealer. The dealer must provide conclusive evidence of the actual transaction, including the physical movement of goods, details of the vehicle used for transportation, payment of freight charges, and other relevant documentation.

The Supreme Court emphasized that merely presenting tax invoices or making payments via banking channels does not fulfil the burden of proof required under the law. The dealer must prove beyond a reasonable doubt that the goods were physically moved, and the transaction was genuine. This decision has set a high bar for ITC claims, reinforcing the idea that the purchasing dealer must take all necessary steps to verify and document the transaction comprehensively.

Case Study: M/s Anil Rice Mill v. State of U.P.

In the case of *M/s Anil Rice Mill v. State of U.P.*, the petitioner contested the application of Section 74, arguing that they had rightfully claimed ITC based on legitimate invoices and payments made through banking channels. The petitioner contended that if there was any fault, it lay with the supplier, who may not have reported the transactions or paid the taxes due, and not with them as the purchaser. However, the court upheld the tax authorities' decision, stating that the burden of proof for ITC claims rests squarely with the purchasing dealer. The court emphasized that providing invoices and proof of payment alone was insufficient; the buyer must also demonstrate the actual physical movement of goods and the

authenticity of the transactions.

The decision in M/s Anil Rice Mill has referred its earlier rulings, such as the M/s Shiv Trading v. State of U.P. case. In Shiv Trading, the petitioner similarly failed to prove the physical movement of goods, leading to the denial of ITC. The court reiterated that under Section 74, the burden of proof lies squarely on the purchaser to substantiate the legitimacy of the ITC claim. The petitioner's failure to provide adequate documentation, such as freight receipts, toll receipts, and transportation details, led to the dismissal of the writ petition. This case was further reinforced when the Supreme Court dismissed the Special Leave to Appeal (C) No. 3345 of 2024, thereby affirming the lower court's judgment.

It is noted that in both the cases, the Hon'ble High Court upheld invocation of Section 74 of the CGST Act, 2017 for recovery.

Practical Challenges for Buyers

One of the most significant challenges for buyers is the requirement to provide detailed evidence of the physical movement of goods and associated logistics, such as freight payments and vehicle details. In many cases, especially where the supplier manages the transportation, the buyer may not have direct access to such information. This creates a practical dilemma: how can a buyer meet the stringent proof requirements imposed by the courts when much of the logistical control lies with the supplier?

Judicial Oversight and the Risk of Overreach

While the courts have upheld the strict requirements for ITC claims, they have also emphasised on the importance of due process. Authorities must issue show-cause notices and provide assessees with opportunities to present evidence and arguments. However, there is a legitimate concern that the frequent invocation of Section 74 could lead to an environment where assessees are routinely pressured to reverse ITC claims, even in cases where they have acted in good faith.

The Apex Court's ruling in Ecom Gill highlights the judiciary's commitment to ensuring that ITC claims are thoroughly scrutinized to prevent fraud, but it also places a heavy burden on genuine businesses to provide exhaustive proof of their transactions. This balance between enforcement and fairness will be critical in shaping the future of ITC claims under GST.

Addressing the Information Asymmetry

To mitigate the risks associated with this information asymmetry, buyers can take several proactive steps:

1. **Contractual Clauses:** Buyers can include clauses in contracts requiring suppliers to provide detailed logistics information, including freight payment receipts and vehicle details. This contractual obligation ensures that buyers have access to the necessary documentation to support their ITC claims.
2. **Supplier Declarations:** Buyers can request formal declarations from suppliers certifying that the goods have been transported and that all necessary logistics payments have been made. While not as strong as direct evidence, these declarations can help establish a prima facie case for ITC claims.
3. **Third-Party Verification:** Engaging third-party logistics providers or auditors to verify and document transportation details can provide an additional layer of security for buyers. Independent verification can serve as compelling evidence in disputes over ITC claims.
4. **Coordinated Record-Keeping:** Buyers and suppliers should work together to maintain coordinated and accessible records of all relevant logistics details. Digital record-keeping systems that both parties can access, and update can be particularly effective.

Conclusion

The legal backdrop surrounding ITC claims under the GST regime is intricate and increasingly demanding. The burden of proof on buyers, particularly the need to demonstrate the physical movement of goods and the genuineness of transactions, places significant demands on businesses. While the invocation of

Section 74 is necessary to combat fraud, there is a risk that its overuse could create a climate of uncertainty for taxpayers. To navigate these challenges, buyers must adopt proactive strategies, such as enhancing contractual safeguards, seeking supplier declarations, and maintaining meticulous records. As judicial interpretations continue to evolve, it is hoped that a balanced approach will emerge, providing clarity and fairness to all parties involved.

Disclaimer: This article provides a general overview of the legal complexities surrounding ITC claims. It is not intended as a substitute for professional legal advice. Businesses should consult with qualified tax professionals to address their specific circumstances and ensure compliance with applicable laws and regulations.

References

1. M/s Anil Rice Mill v. State of U.P. [\[TS-527-HC\(ALL\)-2024-GST\]](#)
2. M/s Shiv Trading v. State of U.P., [\[TS-616-HC\(ALL\)-2023-GST\]](#)
3. State of Karnataka v. Ecom Gill Coffee Trading Private Limited, [\[TS-99-SC-2023-VAT\]](#)