IN THE HIGH COURT OF JUDICATURE AT MADRAS

Reserved on : 14-08-2026

Pronounced on: 21-08-2026

CORAM

THE HON'BLE MR.JUSTICE S.RAVEEKUMAR

WP No. 35866 of 2023
and
WMP.Nos.35855 and 35856 of 2023

M/s Metal Trade Incorporation
Rep. by its Prop. Sri Sunil Kothari,
No.15, Raghavan Colony,
Vadapalani, Chennai-600 026.

..Petitioner(s)

Vs

1.State Tax Officer
Group-VII (Inspection-1),
Office of the Deputy Commissioner (ST)
Chennai Intelligence-I,
No.1, PAPJM Buildings, Greams Road,
Thousand Lights, Chennai-600 006.

2.Assistant Commissioner (ST) (FAC)
Vadapalani Assessment Circle,
Chennai Central Division.

3.Joint Commissioner (ST)
Intelligence-I, No.1, PAPJM Buildings,
Greams Road, Chennai-600 006.

4.The Assistant Commissioner (ST)
Review and Appeal North-2,
Chennai-600 003.

..Respondent(s)

Writ Petition filed under Article 226 of the Constitution of India, seeking Writ of Certiorari, calling for the records relating to the impugned proceedings in Rc.No.5134/2023/A6 dated 13.09.2023 issued by the 3rd respondent addressed to the 5th respondent to implement his instructions to block the input tax credit of the beneficiaries of the petitioner and quash the same as arbitrary, without authority of law, contrary to Rule 86A of GST Rules, 2017 and contrary to the directions of this Honourable High Court

For Petitioner(s): Mr.M.A.Mudimannan

For Respondent(s): Mr.I.Dinesh, AGP (Tax)

ORDER

The present Writ Petition has been filed challenging the impugned proceedings dated 11.05.2023 and the consequential proceedings dated 13.09.2023, whereby the Input Tax Credit of the petitioner in the Credit Ledger has been blocked under Rule 86A of the Tamil Nadu Goods and Services Tax (TNGST) Rules, 2017.

2. The petitioner is a trader in Iron and Steel Products and possesses valid registration under the GST law. From 01.07.2017, the petitioner promptly filed the specified returns and on the supplies made by the petitioner, the amount of GST collected under both the CGST and SGST Acts, were duly paid to the Government. On 18.10.2022, the first respondent issued summons under Section 70(1) of the Acts. Based on the preliminary findings and the petitioner's

non-compliance with the summons, a proposal was approved and sent for implementation. Challenging the summons, the petitioner filed WP.No.3033 of 2023. This High Court disposed of the above Writ Petition, directing the petitioner to appear before the first respondent herein on 16.02.2023 to present their objections regarding simultaneous prosecution by Central and State authorities. The petitioner appeared for a hearing and statements were recorded. On 03.02.2023, an intimation was issued proposing a demand for penalty for the assessment years from 2017-18 to 2022-23. Based on the intelligence and initial findings, the third respondent issued a communication dated 11.05.2023 to the Joint Commissioners (ST) Chennai (Central, South, North, East), indicating that the petitioner was found to be a non-existent dealer and directing the reversal of Input Tax Credit claimed by the beneficiaries under Rule 86A of the GST Rules, 2017. Subsequently, the Joint Commissioner (ST), Chennai North Division, issued proceedings to the fourth respondent to block the Input Tax Credit of the beneficiaries of the bill trader.

3. Though the petitioner has raised various grounds in the Writ Petition, the learned counsel for the petitioner has now restricted the claim against continuation of the blockage of Input Tax Credit beyond the period of one year by placing reliance upon Rule 86A of the TNGST Rules, 2017. The learned counsel submits that the Input Tax Credit was blocked as early on 27.01.2023.

4. It is not in dispute that, pursuant to the communication dated 11.05.2023 by the third respondent, the Joint commissioner (ST) Intelligence, had issued a communication to the fourth respondent to block the Input Tax Credit of the beneficiaries of the bill traders. The petitioner has been treated as a beneficiary and a bill trader in the communication without any adjudication. The Input Tax Credit has been blocked on 27.01.2023, even before the said impugned communication, and the restriction imposed by such blockage still continues to exist.

5. Rule 86A(3) of the TNGST Rules states that the restriction imposed under Rule 86A(1) shall cease to have effect after the expiry of a period of one year from the date of imposing such restriction. The denial of debit from the Credit Ledger is endorsed as “blocked” in the Credit Ledger.

6. In the present case, the restriction was imposed on 27.01.2023 and more than 2 ½ years have passed. In view of the same, the restrictions on the blockage ceased to have effect upon expiry of one year and therefore, cannot be continued. Just because the third respondent had passed the impugned communication on 13.09.2023, the blocking of ITC under Section 86A cannot continue beyond one year.

7. The language employed under Rule 86A(3) clearly explicates that the restriction is valid only for a period of one year and that it shall cease to have any effect upon the expiry of such period. The purpose of having such a restriction is to ensure that the assessment proceedings are completed in such cases at the earliest, as the blockage/denial of Input Tax Credit available in the Credit Ledger of a dealer cannot be continued indefinitely, as it will have drastic civil consequences.

8. Going by the language employed in the provision, such restriction must automatically cease to have any effect and the blockage must be automatically removed, thereby providing access to the ITC available in the Credit Ledger of the dealer. However, this does not happen in reality. The appropriate authority also does not raise the attachment or cancel the blockage even after one year and as a result, numerous writ petitions have been filed challenging the continuation of such restriction even after the expiry of one year. At this juncture, it would be relevant to record that regular recovery proceedings based on assessment are contemplated under Section 79 of the Act and therefore the proper course for the State Tax Authorities would be to initiate regular recovery proceedings u/s. 79 after completing the assessment. The State Tax Authorities will therefore have to act promptly. In the present case, the proceedings challenged herein is only an internal communication. Such a communication alone cannot be the basis to invoke Section 86A and the appropriate authority

must ensure that the requirements under Section 86A are satisfied, before denying the debit from the Credit Ledger.

9. Under the above circumstances, this Court is inclined to dispose of the Writ Petition on the following terms:

i) The fourth respondent shall forthwith unblock the Input Tax Credit lying in the Credit Ledger of the petitioner.

ii) It is open to the respondents to complete the assessment proceedings, pending if any, and initiate recovery proceedings, in accordance with law, if necessary.

No costs. Consequently, connected miscellaneous petitions are closed.

21-08-2026

Index: Yes
Speaking/Non-speaking order
Neutral Citation: Yes/No
PVS

To
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O/o. the Deputy Commissioner (ST) Chennai
Intelligence-I,
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S.RAVEEKUMAR, J.

PVS

Pre-Delivery Order
in WP No. 35866 of 2023

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