VERENDRA
KALRA & CO LLP
CHARTERED ACCOUNTANTS

Communiqué

Indirect Tax

June 2026

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Inside this edition

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Notifications and Updates

Mandatory Ship-to GSTIN in E-Way Bills from 1st August 2026

GSTN issued advisory dated 20.05.2026, had notified **enhancements to the e-Way Bill system,** requiring mandatory capture of the "Ship-to GSTIN" in all Bill-to/Ship-to transactions. Where the consignee is an unregistered person, the field is to be populated with the value "URP" in place of a GSTIN. Pursuant to representations received from trade bodies, ERP vendors, GSPs, ASPs, and other stakeholders seeking clarity on the applicability of this requirement to e-Way Bills generated in conjunction with e-Invoices (via IRN), as well as concerns regarding the impact of voluntary e-Way Bill closure on portal and API-based operations, GSTN has issued a follow-up advisory detailing the corresponding modifications to the e-Invoice API, e-Way Bill by IRN API, and the EWB Closure API. These enhancements have been made available in the Sandbox environment to facilitate testing and ensure system readiness. The changes are scheduled for implementation in the Production environment with effect from 1st August 2026.

Source : News

Rulings

Gujarat High Court Upholds Penalty on Partners for Fake Invoicing Fraud

In the matter of **Manoj Ramkishan Agrawal & Anr Vs Union of India & Anr. [Special Civil Application 7965 of 2026], the Gujarat High Court dismissed a writ petition** filed by partners of a partnership firm, challenging penalties imposed on them under Sections 122(1A) and 122(3) of the CGST Act. The partners had argued that no specific findings were recorded against them individually, that principles of natural justice were violated, and that separate penalties could not be levied on partners once the firm itself had been penalized. The Court found these arguments unpersuasive. It noted that the investigation uncovered a large-scale fraud spanning multiple entities, involving fake invoices and e-way bills issued without actual movement of goods, fraudulent claims of Input Tax Credit, and circulation of funds through hawala networks. Evidence in the form of partner statements, forensic analysis of mobile phones and WhatsApp chats, and bank transaction trails showed that invoices were arranged through brokers, with funds routed through bank accounts and later returned in cash after deduction of commission. The Court observed that the adjudicating authority had separately examined each partner's role and recorded clear findings on their knowledge, consent, and active participation in the fraud. It held that under Section 122(1A), any person who benefits from such fraudulent transactions, or at whose instance they are carried out, can be held personally liable to penalty. Finding no breach of natural justice and no lack of reasoning in the original order, the Court held that factual disputes — including whether Section 122(1A) applies retrospectively — were matters to be raised in a statutory appeal under Section 107, not in a writ petition. The Court nonetheless passed a reasoned order since the petitioners had specifically pressed for one, but ultimately declined to interfere and dismissed the petition.

Source : News

No ITC on GST Paid for Solar Power Plant Setup as Electricity Generated Attracts 'Nil' Rate

In the matter of **SBF Ispat Private Limited, Rajasthan AAAR held that Input Tax Credit (ITC) on goods and services used for designing,** erecting, installing, and operating a solar power plant is not available, where the electricity generated is fed into the DISCOM grid. The Appellant, a manufacturer of TMT Bars and MS Billets, was setting up a 20.5 MW solar power project for "captive use" at a separate location declared as its additional place of business in Rajasthan.

The AAAR reasoned that supplying electricity to the DISCOM grid qualifies as a "supply" under Section 7 read with Section 2(83) of the CGST Act, and since this supply attracts a 'Nil' rate of tax under Notification No. 02/2017 (Rate), ITC on inputs, capital goods, and input services used for the solar plant becomes inadmissible under Sections 16 and 17 of the CGST Act, read with Rules 42 and 43 of the CGST Rules.

The Authority distinguished the position from the earlier Central Excise regime, where electrical energy was not a chargeable item, noting that GST specifically treats electricity supply as taxable, albeit at a Nil rate. It further clarified that once power is transferred to the DISCOM/RVPN grid, it is treated as a supply to a separate entity; consequently, any electricity later drawn back from the grid and adjusted against credits cannot be regarded as "captive consumption," since the power is technically generated and supplied elsewhere before being drawn back.

Source : News

No Credit, No 'Negative-Blocking' in ECL: HC Orders Determination of ITC-Availment Under Sections 73 & 74

In the matter of **KK Alloys vs Union of India & Ors, the Punjab and Haryana High Court held that GST authorities cannot push a taxpayer**'s Electronic Credit Ledger (ECL) into negative territory when there is insufficient or no actual ITC balance available to block. Where no credit exists to restrict, the Court said, the department's recourse lies in initiating formal recovery action under the law, not in artificially blocking the ledger. The dispute arose when M/s KK Alloys approached the Court after its ECL was blocked for amounts running into several crores — far exceeding the actual ITC balance standing in its ledger — under Rule 86A of the CGST Rules. The company argued this action was both legally unsustainable and contrary to natural justice. The central question before the Bench was whether Rule 86A permits blocking of ITC beyond what is actually available in the ledger at the time the order is passed.

Answering in the negative, the Court relied on its earlier decision in Shyam Sunder Strips, reiterating that Rule 86A is meant to serve as a short-term safeguard, allowing authorities to freeze existing, available ITC where they have reason to suspect it was fraudulently claimed or is ineligible — it is not a tool to create a negative balance. The Court also held that since this is an emergency measure, issuing a prior show-cause notice is not mandatory. However, it clarified that the actual question of whether ITC was wrongly claimed or used must still be examined separately by the proper authority under Sections 73 and 74 of the CGST Act. The Court ultimately ruled in the taxpayer's favour, setting aside the excess blocking, while leaving the door open for the Revenue.

Source : Rulings

GST Not Applicable on Liquidated Damages Recovered from Transporters as They Don't Constitute 'Consideration'

In the matter of **Pon Pure Chemical India Pvt Ltd, Gujarat AAR holds that compensation/liquidated damages recovered from transporters** — towards transit losses, shortages, quality defects, leakages, theft, delayed delivery and other damages — does not amount to consideration for any supply under GST; Holds that such recoveries are compensatory in nature and do not fall within Para 5(e) of Schedule II read with Section 7 of the CGST Act; AAR notes that the Applicant had sought a ruling on whether compensation recovered from transporters for transportation losses constitutes "supply of services" under Para 5(e) of Schedule II; Records that the recoveries pertain to material shortages beyond agreed tolerance limits, leakages, quality deterioration, colour issues, tanker rust, damage or destruction of goods, theft or pilferage, delayed delivery, and losses during handling, loading or unloading; Observes that such compensation merely reflects the value of goods lost or damaged along with ancillary costs, with no separate agreement governing its payment; AAR remarks that the facts of the case show the compensation is claimed only for injury, loss or damage suffered by the Applicant, and that such payment does not amount to consideration; Places reliance on CBIC Circular No. 178/10/2022, reiterating that where damages are paid purely to compensate for breach-related loss — without any express or implied agreement to tolerate an act or perform an obligation in return — such payment is a mere flow of money and not consideration; Holds that the Applicant neither agreed to tolerate the transporters' breach nor assumed any independent reciprocal obligation for the compensation received; Also relies upon Gujarat AAAR's rulings in GSPC and JBM Ecolife Mobility, as well as Telangana AAAR's ruling in Achampet Solar, to hold that compensation for breach of contract does not constitute consideration for an independent supply; Further cites CBIC Circular No. 245/02/2025-GST, and while acknowledging that it deals with penal charges by regulated entities, holds that the same underlying principle extends to defaults by transporters; Notes that liquidated damages are meant to secure contractual performance and discourage delay or non-performance, rather than being payment for tolerating breach; Concludes, therefore, that such recoveries lack the essential elements of consideration and reciprocity and are not liable to GST under Section 7 read with Para 5(e) of Schedule II of the CGST Act.

Source : Rulings

Contract Employees Not Covered Under Canteen Service ITC Eligibility

In the matter of **Aditya Auto Products & Engineering India Pvt. Ltd, Karnataka AAR rules that ITC on GST** charged by canteen service providers engaged for operating statutory factory canteens is available only to the extent of canteen expenses borne by the employer for regular employees. The applicant, an automotive parts manufacturer, maintained canteen facilities through third-party service providers to comply with Section 46 of the Factories Act, 1948. AAR held that the proviso to Section 17(5)(b) permits ITC where provision of canteen services is a statutory obligation. However, ITC is not admissible on the portion of canteen charges recovered from employees, nor on expenses relating to contractual workers, as there is no direct employer-employee relationship and no statutory requirement to provide canteen facilities to contract labour. Accordingly, ITC was restricted to the employer-borne cost attributable to regular employees only.

Source : Rulings

Interest on Delayed Tax Payments Is Statutory and Cannot Be Waived or Reduced by Courts

In the matter of **The Commissioner of Central Tax & Ors. vs Sadguru Infratech Pvt Ltd [WA 1076/2023 dated 10.06.2026] Karnataka HC held that GST liability,** including assessment, recovery, interest, and enforcement, must be determined strictly in accordance with the provisions of the statute and cannot be altered through judicial directions. Reiterating that interest on delayed tax payments arises automatically by operation of law, the Court observed that authorities have no discretion to waive or reduce such liability unless expressly permitted by the statute. The dispute arose from a sub-contractor who faced higher tax liability following the introduction of GST and had obtained relief from the Single Judge against delayed return filing and tax payment consequences. The High Court clarified that any reimbursement of additional GST is a contractual matter between the sub-contractor and the main contractor, and tax authorities cannot be directed to grant relief beyond the statutory framework. Accordingly, the Court held that directions permitting revised returns contrary to law and waiving interest, penalty, or limitation periods were unsustainable.

Section 16(5) Does Not Create a Fresh Right to Reclaim Reversed ITC; Re-availment Equivalent to Refund

In the matter of **Eastern Coalfields Ltd, the West Bengal Authority for Advance Ruling (AAR) has held that Eastern Coalfields Ltd. (ECL) cannot re-avail input tax credit (ITC)** pertaining to FY 2019-20 that had earlier been reversed pursuant to an adverse AAR ruling, despite the retrospective insertion of Section 16(5) of the CGST Act. According to the AAR, Section 16(5) merely relaxes the time limit for availing eligible ITC for specified financial years and does not create a fresh entitlement to restore credit that has already been reversed. The authority observed that any attempt to reclaim such reversed credit would effectively amount to seeking a refund. Referring to Section 150 of the Finance Act, 2024, which expressly prohibits refunds of tax paid or ITC reversed that would otherwise not have been payable or reversible, the AAR emphasized that the legislative intent is clear and cannot be circumvented through a broad interpretation of Section 16(5). Rejecting ECL's contention that the term "refund" should be confined to its meaning under Section 54 of the CGST Act, the AAR noted that such an interpretation would render the reference to "reversed ITC" in Section 150 meaningless and lead to anomalous outcomes. The dispute arose from ITC claimed by ECL on invoices issued by Gayatri Projects Ltd. (GPL) for services rendered under a longwall coal mining project between January and March 2020. Following an earlier ruling that denied the credit, ECL reversed the ITC. Although ECL later argued that the retrospective amendment under Section 16(5) had validated the credit, the AAR concluded that restoration of the reversed ITC was impermissible, as reclaiming such credit is essentially equivalent to obtaining a refund, which is expressly barred by law.

Source : Rulings

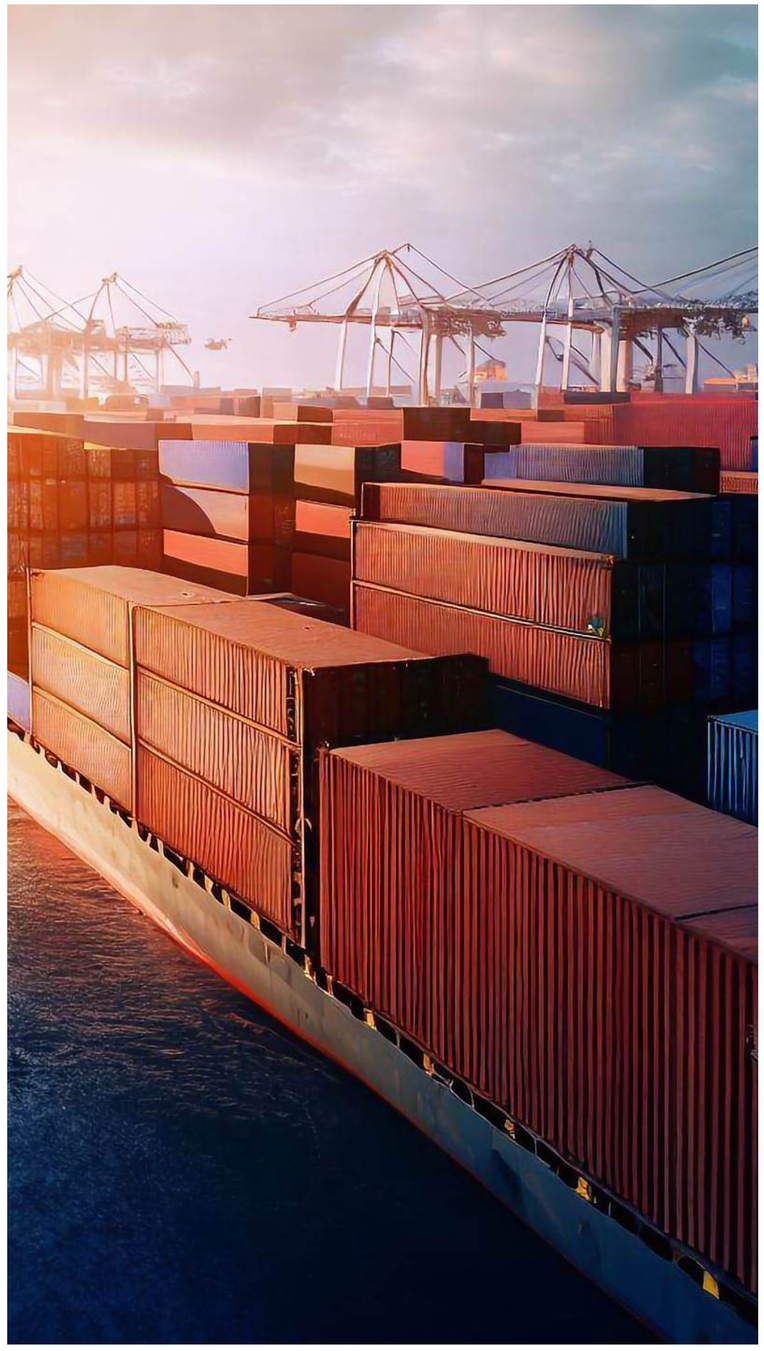
18% GST Upheld on Services Provided to Foreign Consultant, Classified as Intermediary Supply

In the matter of **Maithani Enterprises, the Haryana Appellate Authority for Advance Ruling (AAAR) has affirmed that Sales & Marketing** Consulting and Manpower/HR Consulting services provided by the appellant to Meteora Consultancy, Malaysia, constitute intermediary services under Section 2(13) of the IGST Act and are therefore liable to 18% IGST. The AAAR noted that the appellant's role was not that of an independent service provider but of a facilitator assisting Meteora in delivering services to its Indian client, Modenik Textile Pvt. Ltd. Highlighting the presence of three parties and the contractual requirement to provide "on-the-ground market services" while working with the Indian client's team, the authority observed that the activities were performed within India and facilitated the supply of services between Meteora and the local customer. Consequently, the place of supply was held to be in India, disqualifying the transaction from being treated as an export of services or a zero-rated supply. The AAAR also found that the payment mechanism reflected reimbursement for services rendered rather than consideration for an independent export transaction. Accordingly, it ruled that the appellant was ineligible to claim refund of unutilized ITC. While distinguishing decisions such as GAP International Sourcing (India) Pvt. Ltd. and GoDaddy India Web Services Pvt. Ltd., where services were considered exports due to their consumption outside India, the AAAR relied on Vserv Global Pvt. Ltd. to conclude that services consumed within India cannot qualify as exports and are correctly classifiable as intermediary services.

Source : Rulings

Customs

No More Overtime Charges for Cruise Clearance at 24x7 Customs Ports



Attention is invited to **Circular No. 27/2026-Customs, dated 15 June 2026, provides that Merchant Overtime (MOT) c**harges will no longer be levied on the clearance of cruise passengers and their accompanying baggage at Customs ports notified for 24x7 operations. Under the earlier position, Customs officers were entitled to charge MOT fees whenever passengers and baggage were cleared outside normal working hours, and this charge was being applied even at ports that were officially designated to function round-the-clock. As a result, cruise operators were incurring additional costs for clearance activity that, in principle, should already have been covered under the standard service hours of a 24x7-notified port. Taking note of representations made by the Ministry of Ports, Shipping & Waterways and the Cruise Bharat Mission, the CBIC has decided to fully exempt cruise passenger and baggage clearance from MOT charges at all such 24x7-notified Customs ports across the country. To ensure consistent application of this exemption, the Board has directed Principal Chief Commissioners and Chief Commissioners of Customs at all field formations to implement the change uniformly, and to report any practical difficulties encountered during implementation back to the Board. In effect, this circular removes an existing cost element from cruise port operations in India and is expected to bring greater predictability and reduction in clearance-related expenses for cruise operators. The move is also aligned with the government's broader objective, under the Cruise Bharat Mission, of strengthening India's position as a competitive and cost-efficient cruise tourism destination.

Source : Rulings

CBIC Reduces Duplicate Testing Burden for Exporters

The **CBIC has issued a clarification regarding sample testing requirements** for export consignments, aimed at reducing delays caused by duplicate testing. Under this update, exporters who already possess valid test reports from NABL-accredited laboratories, laboratories recognised by Export Promotion Councils (EPCs), or other approved agencies will no longer be required to compulsorily send their samples to Revenue (CRCL) Laboratories for retesting. Such test reports, obtained voluntarily to meet the quality and regulatory requirements of the destination country, will now be accepted by Customs officers as sufficient compliance, provided there is no risk-based intervention or specific intelligence flagging the consignment. At the same time, the circular clarifies that in cases where risk-based intervention or intelligence inputs are involved, the existing procedure of drawing and testing samples through CRCL or other accredited laboratories will continue to apply without any change. Similarly, there is no change in the process for import consignments, which will continue to be tested through CRCL or other accredited laboratories as per the current practice. To ensure smooth implementation, Customs field formations have been directed to make their officers aware of this clarification and to issue appropriate trade notices for the benefit of exporters and other stakeholders. Any practical difficulties faced during implementation are to be reported back to the Board.

Source : Rulings

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