

# **Analysis of Denial of Input Tax to a Buyer for the failure of Supplier to Remit the Tax in Govt. Account.**

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## **REFER THE DECISION OF THE HON'BLE MADRAS HIGH COURT IN THE CASE OF**

**Sri Ranganathar Valves Private Limited v. Assistant Commissioner, decided in 2022**

### **Case Background:**

- The petitioner, Sri Ranganathar Valves Pvt. Ltd., had claimed ITC on purchases made from a registered supplier.
- The tax had been paid by the petitioner to the supplier, but the supplier failed to remit the tax to the government or file proper GST returns (GSTR-1 or GSTR-3B).
- Consequently, the department denied ITC to the buyer (the petitioner) and demanded reversal of credit with interest and penalty.

### **Court's Ruling**

The Madras High Court ruled **in favor of the buyer**, holding that:

- The **buyer cannot be penalized** for the **default of the supplier**, over whom the buyer has **no control**.
- If the buyer has:
  - Received the goods/services,
  - Possesses a valid tax invoice,
  - Paid the tax amount to the supplier, and
  - The transaction is genuine and not collusive,

then **denial of ITC is arbitrary** and **violates Article 14 and Article 19(1)(g)** of the Constitution.

### **Conclusion:**

The **Sri Ranganathar Valves case** serves as a **landmark judgment** reinforcing the principle that **buyers should not be punished for the faults of sellers**, especially when

they have acted in good faith. It adds to a growing body of judicial opinions demanding fairness and accountability in tax administration.

### **Other Related Judgements:**

#### **1. D.Y. Beathel Enterprises v. State Tax Officer (Madras HC, 2021)**

- **Ruling:** The department must initiate proceedings against the supplier first before turning to the buyer.
- **Observation:** No action had been taken against the defaulting seller; hence, proceedings against the buyer were premature.
- **Significance:** Strengthened the buyer's right to fair treatment and due process under GST law.

#### **2. M/s. LGW Industries Limited v. Union of India (Calcutta HC, 2022)**

- **Ruling:** The High Court upheld denial of ITC where the buyer failed to perform due diligence regarding the supplier.
- **Significance:** Shifted onus on the buyer to ensure the supplier is compliant, especially if there are indications of fraud or shell companies.
- **Contrast:** Different from Madras HC cases, as it relied on lack of bona fides on the part of the buyer.

#### **3. M/s. Aastha Enterprises v. State of Bihar (Patna HC, 2022)**

- **Ruling:** Allowed ITC where the buyer had paid tax to the supplier and possessed valid documents.
- **Significance:** Reaffirmed buyer's entitlement to ITC in bona fide transactions; criticized blanket disallowance based on GSTR discrepancies.

#### **5. M/s. Arise India Ltd. v. Commissioner of Trade & Taxes (SC, 2018) — [Under VAT, but relevant]**

- **Ruling:** Delhi High Court struck down VAT provisions that denied ITC due to supplier default; SC upheld the decision by dismissing SLP.
- **Significance:** Though under VAT, it set a precedent for holding such provisions arbitrary and unconstitutional under Article 14.