

**HC - Any action of blocking the Electronic Credit Ledger (ECL) under Rule 86A must be preceded by a pre-decisional hearing and must be based on independent and cogent reasons.**

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

**A.M. Enterprises vs. State of Karnataka & Others (WP No. 36304 of 2024), decided on 11-03-2025**

### **Key Issues:**

The petitioner challenged the blocking of their Input Tax Credit (ITC) under Rule 86A of the Central Goods and Services Tax (CGST) Rules, 2017. The primary contention was that the blocking was executed without providing a prior hearing or justifiable reasons, thereby violating principles of natural justice.

### **Court's Findings:**

The Karnataka High Court emphasized the necessity of adhering to procedural fairness when invoking Rule 86A. The Court observed that the authorities failed to provide the petitioner with an opportunity to be heard before blocking the ITC and did not furnish adequate reasons for such action.

### **Judgment:**

The Court quashed the impugned order blocking the petitioner's ITC, citing the violation of natural justice principles. It directed the authorities to ensure compliance with procedural requirements, including providing a hearing and recording reasons, before taking such actions in the future.

### **Implications:**

This judgment reinforces the importance of procedural safeguards in tax administration. It serves as a precedent ensuring that taxpayers are granted a fair hearing and that authorities provide clear justifications when exercising powers under Rule 86A of the CGST Rules