

GST authorities are empowered to initiate search and seizure operation against assessee operating as SEZ unit – Gujarat HC

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Summary

The Gujarat High Court (HC) dismissed writ petitions challenging the jurisdiction of GST authorities to initiate search and seizure proceedings against an assessee operating in a special economic zone (SEZ) unit. According to Section 22 of the SEZ Act, 2005 (SEZ Act), any officer or agency authorised by the central government (CG) has the authority to conduct search, seizure, investigation, or inspection within any SEZ unit without any prior intimation or approval from the development officer. Further, the HC cited that the supply of goods and/or services to and from the SEZ unit shall be treated as inter-state supply under GST. The HC emphasised that the Development Commissioner, SEZ, had already been informed before the search and seizure by the departmental officer while initiating proceedings, and therefore, the assessee's contention is unacceptable. The HC further ruled that the present case was not fit to exercise extraordinary equitable jurisdiction and, therefore, dismissed the petition.

Facts of the case

- RHC Global Exports Private Limited (the petitioner) is a SEZ unit in SURSEZ, administered under the control of the development commissioner.
- The petitioner's unit is to be treated as foreign territory for its business operations, and as such, is a 'tax neutral' or 'revenue neutral' entity in terms of levy and collection of customs duties, GST, and other indirect taxes.
- The petitioner also obtained GST registration, indicating the tax entity as a 'SEZ unit'. Further, the petitioner is filing NIL returns and only declares the value of imports and exports from its SEZ unit.
- The state GST authorities conducted a search operation at the petitioner's premises. During the search operation, it was found that the petitioner had availed bogus ITC from fictitious firms.

Petitioner's contentions

- The petitioner contended that the state tax officers do not have the jurisdiction to initiate search and seizure, or investigation or inspection proceedings, in a SEZ unit.
- According to the petitioner, the supplies made to a SEZ unit are zero-rated

supplies and are not subject to GST provisions. Therefore, proceedings initiated by the Revenue lack authority and jurisdiction.

- The proceedings initiated against the petitioners lack any 'due process' doctrine; therefore, an inquiry without jurisdiction deserves to be dismissed.

Revenue's contentions

- The Revenue argued that Section 22 of the SEZ Act allows authorised officers or agencies to conduct search, seizure, and investigation in SEZs without the development officer's prior intimation or approval.
- Further, Section 6 of the Gujarat GST (GGST) Act, 2017, authorises officers of central tax as proper officers in certain circumstances. Accordingly, the Revenue asserted that the authorities have the power to carry out proceedings in SEZs, as the CG has authorised them through a notification dated 5 August 2016. Therefore, the petitioner's argument that there is no jurisdiction with the Revenue authorities is unfounded.
- The Revenue argued that the functions of proper officers under the CGST Act also apply to officers under the GGST Act through cross-empowerment, as stated in the circular dated 5 July 2017.

Gujarat HC observations and ruling [Civil Application No. 5980 of 2023, order dated 06 June 2023]

- **Powers of authorised officers under SEZ Act:** The HC noted that as per Section 22 of the SEZ Act, 2005, any officer or agency authorised by the CG has the authority to carry out search, seizure, investigation, or inspection within any SEZ unit, without any prior intimation or approval from the development officer.
- **Powers of authorised officer under GST Act:** The HC stated that as per Section 6 of the GGST Act, the officers authorised by the CG are empowered to carry out proceedings in a SEZ. Accordingly, it cannot be said that the officers were acting without the authority of law or jurisdiction.
- **SEZ units are not exempt from investigation:** The HC stated that as per Section 7 of the Integrated Goods and Services Tax (IGST) Act, 2017, the supply of goods and/or services to and from a SEZ unit should be treated as inter-state supply under GST. Therefore, the petitioner believes incorrectly that once a business is conducted through and within a SEZ, it is outside the jurisdiction of the authority of officers. According to the HC, accepting the assessee's contention would defeat the

purpose of the Act, and apart from this, there appears to be no visible inconsistency in the SEZ Act or GST Act. Hence, SEZ units are not exempted from any investigation or inspection under GST.

- **Extraordinary equitable jurisdiction cannot be exercised:** The HC did not find the present case relevant to allow the petitioner to invoke extraordinary jurisdiction. In this regard, the HC referred to the Essar Steel Limited judgement, wherein the provisions of the SEZ Act are analysed to some extent. Accordingly, the HC held that the petition deserves to be dismissed.
- **Disadvantage by petitioner leads to imposing cost:** The HC noted that by filing a writ petition, the petitioner intended to impede and delay the legal proceedings, which appears to be an abuse of the legal process. The HC further stated that following the issuance of the notice, the petitioner did not cooperate with the officers, which is unacceptable. As a result, the HC decided to impose costs on the petitioner.

Our comments

This is a significant judgement that will have far-reaching consequences for taxpayers registered in the SEZ area, as more assessees are anticipated to come under the Revenue's scanner.

Further, this ruling confirms the power of GST authorities to probe SEZ units. It would aid the Revenue officers in enforcing the GST law to ensure that tax evasion is minimised in the SEZ area. It will be interesting to watch out for further developments in this regard.

Contact us

To know more, please visit www.grantthornton.in or contact any of our offices as mentioned below:

NEW DELHI

National Office,
Outer Circle,
L 41, Connaught Circus,
New Delhi - 110001
T +91 11 4278 7070

NEW DELHI

6th Floor, Wordmark 2,
Aerocity,
New Delhi - 110037
T +91 11 4952 7400

AHMEDABAD

Unit No - 603 B, 6th Floor,
Brigade International
Financial Center,
GIFT City Gandhinagar,
Ahmedabad - 382355
T +91 79 6900 2600

BENGALURU

fifth Floor, 65/2, Block A,
Bagman Trudi,
Bagmane Tech Park,
CV Raman Nagar,
Bengaluru - 560093
T +91 804 243 0700

CHANDIGARH

B-406A, 4th Floor,
L&T Elante Office Building,
Industrial Area Phase I,
Chandigarh - 160002
T +91 172 433 8000

CHENNAI

9th floor, A wing, Prestige
Polygon, 471 Anna Salai,
Mylapore Division, Teynampet,
Chennai - 600035
T +91 44 4294 0000

DEHRADUN

Suite No 2211, 2nd Floor,
Building 2000, Michigan Avenue,
Doon Express Business Park,
Subhash Nagar,
Dehradun - 248002
T +91 135 264 6500

GURGAON

21st Floor, DLF Square,
Jacaranda Marg,
DLF Phase II,
Gurgaon - 122002
T +91 124 462 8000

HYDERABAD

Unit No - 1, 10th Floor,
My Home Twitza, APIIC,
Hyderabad Knowledge City,
Hyderabad - 500081
T +91 40 6630 8200

KOCHI

6th Floor, Modayil Centre Point,
Warriam Road Junction,
MG Road
Kochi - 682016
T +91 484 406 4541

KOLKATA

16th floor, Ambuja Eco-Centre,
Plot No. 4, EM Bypass,
EM Block, Salt-Lake Sector - V,
Kolkata - 700091
T +91 33 4444 9300

MUMBAI

11th Floor, Tower II,
One International Center,
SB Marg Prabhadevi (W),
Mumbai - 400013
T +91 22 6626 2600

MUMBAI

Kaledonia, 1st Floor,
C Wing,
(Opposite J&J Office),
Sahar Road, Andheri East,
Mumbai - 400069

NOIDA

Plot No 19A, 2nd Floor,
Sector - 16A,
Noida - 201301
T +91 120 485 5900

PUNE

3rd Floor, Unit No 310-312,
West Wing, Nyati Unitree,
Nagar Road, Yerwada
Pune - 411006
T +91 20 6744 8800

For more information or for any queries, write to us at GTBharat@in.gt.com



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