

GST demand cannot be imposed merely in absence of state-wise trial balance – Madras HC

19 April 2024



Summary

The Madras High Court (HC) overturned the assessing authority's order passed on the basis of the petitioner's failure to provide the state-wise trial balance. The HC noted that the authority illogically computed the tax demand on sundry creditors by considering the value of the petitioner's 'trade receivables' from the financials. Furthermore, with regard to the 'income received', the authority considered the value from the financials and imposed tax at 36%. However, the turnover pertaining to the state of Tamil Nadu was less, as evident from Form GSTR-9C.

Facts of the case

- TMF Business Services Limited (the petitioner) is engaged in the provision of non-banking financial services.
- The petitioner assailed an impugned order confirming the demand solely on the ground that the petitioner had not provided a trial balance for the state of Tamil Nadu.

Petitioner's submissions

- The authority considered the total trade receivables on a pan-India basis as the taxable turnover pertaining to sundry creditors and imposed tax liability on such amount.
- The authority considered 'income received' of INR 180,64,88,000/- as taxable turnover from the financial statement and imposed tax @36% on such turnover. In this respect, the petitioner submitted Form GSTR-9C to contend that the annual turnover under the relevant registration was only INR 8,82,352.

Madras HC's observations and judgement [W.P.Nos.7429, 7432 & 7768 of 2024; Order dated 15 April 2024]

- **Erroneous computation of demand on sundry creditors:** The HC noted that the assessing authority erroneously computed the tax demand by considering the petitioner's 'trade receivables' value from the financials instead of 'trade payables', which is illogical.
- **No demand can be imposed merely due to failure to produce state-wise trial balance:** The HC observed that the assessing authority erroneously computed the demand towards 'income received' by applying a 36% tax rate on the value derived from the financial statement. The HC considered the reconciliation statement submitted by the petitioner to contend the correct turnover figure. The HC further noticed that the authority confirmed the demand solely for the reason of the non-furnishing of the trial balance. Therefore, the HC set aside the order and remanded the matter for fresh consideration.

Our comments

Recently, the Madras HC, in the case of Future General India Insurance Co. Ltd., held that the department cannot impose the demand just because the financial statement lacks state-wise turnover details.

Even in the present ruling, the HC emphasised that the tax liability cannot be raised arbitrarily merely on the account of non-furnishing of state-wise trial balance.

It is important to note that in case of an entity having multiple GST registrations on the same PAN, its turnover in the audited financial statement may vary from the turnover pertaining to a particular state. Further, the revenue recognition as per accounting standards in the books of accounts differs in certain aspects from the GST law. Therefore, in the absence of state-wise details, the authorities should not simply consider the values from the financial statement, as it may not be the same most of the times.

The present ruling shall provide relief to taxpayers who may have faced similar issues.

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