Metal N Strips vs. Joint Commissioner of Commercial Tax (Appeals-3) & Anr.

Penalty exceeding amount specified in show cause notice – Sections 74(1), 74(9), 75(7), 75(13) and Section 122(1)(vii) of the CGST Act / KGST Act, 2017.

Date of Order: October 17, 2025
Case Law No: GIB-KHC-2025-19
Source: GST INDIA Biz (www.gstindia.biz)

CASE DESCRIPTION / SUMMARY

Facts:

The petitioner challenged the adjudication order dated 30.06.2023 passed under Section 74 of the KGST Act read with Section 122(1)(vii), which demanded tax, interest and a penalty of ₹6,05,17,933. In the show cause notice dated 27.03.2023, tax and penalty were proposed in equal amounts. However, while passing the final order, the authority drastically reduced the tax and interest liability but increased the penalty amount far beyond the penalty proposed in the show cause notice. The appellate authority dismissed the appeal confirming the penalty.

Court Decision:

The High Court held that Section 74(1) permits imposition of penalty only up to an amount equivalent to the tax specified in the show cause notice. Section 75(7) further provides that the amount demanded in the final order cannot exceed the amount specified in the show cause notice and cannot be based on grounds other than those mentioned in the notice.

The Court observed that in the present case the tax and interest amounts were reduced in the final order, but the penalty was increased beyond the amount proposed in the show cause notice and also beyond the tax determined in the order. Such action was contrary to Sections 74 and 75 of the KGST Act.

Accordingly, the Court set aside the impugned orders to the extent of the penalty demand of ₹6,05,17,933 and remitted the matter back to the adjudicating authority for fresh consideration limited to the issue of penalty, while directing the petitioner to pay the confirmed tax and interest amounts.

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