Pilcon Infrastructure Pvt. Ltd. vs. State of U.P. & Another

Validity of blocking of Input Tax Credit (ITC) under Rule 86A(1) of U.P. GST Rules, 2017, without recording 'reasons to believe' in writing.

Date of Order: October 29, 2025
Case Law No: GIB-AHC-2025-48
Source: GST INDIA Biz (www.gstindia.biz)

CASE DESCRIPTION / SUMMARY

Background

The petitioner, Pilcon Infrastructure Pvt. Ltd., had its ITC amounting to **Rs. 13,96,220/-** blocked in its Electronic Credit Ledger (ECL) by Respondent No. 2 (State Tax Authority) vide e-mail communication dated **24.07.2025**.

The sole reason recorded in the ECL for blocking was **"Supplier found non-functioning"**, with a reference to attachment bearing ECL No. 20250709584828, which turned out to be an **Alert Notice dated 13.06.2025** received by the Commissioner of State GST from the **Directorate General of GST Intelligence (DGGI), Raipur Zonal Unit**.

The DGGI communication stated that **Maa Kamakhaya Trading, Surguja** was found non-operational and had allegedly passed on fraudulent ITC without supply of goods through bogus invoices to various taxpayers, including those in Uttar Pradesh. The petitioner was one such recipient listed in Annexure-A of that communication.

The petitioner contended that no 'reasons to believe' were **recorded in writing** by Respondent No. 2 as mandatorily required under Rule 86A(1) of the U.P. GST Rules, 2017, rendering the blocking action illegal and without jurisdiction.

Court Observations (Verbatim)

"*Once the Rule requires 'reasons to believe' to be 'recorded in writing', the jurisdiction and authority to be exercised under Rule 86A of the Rules must subscribe to that mandatory condition. Though such reasons may be recorded ex-parte against the assessee, at the same time, the requirement of the statute to record the reasons is a non-negotiable condition. It is wholly mandatory.*"

"Reliance placed by learned Standing Counsel on the 'Reason' as mentioned in the Electronic Credit Ledger, namely, 'Supplier found non-functioning', does not fulfill the requirement of Rule 86A(1) of the Rules, to the extent it does not reflect any application of mind to reach that conclusion."

"That the goods claimed to have been supplied to the petitioner by the said supplier Maa Kamakhaya Trading, Sarguja was a bogus transaction, may not be readily inferred, merely on the generic allegation made by DGGI, Raipur Zonal Unit that that dealer had made some non-generic transactions."

"When the Rules require recording of 'reasons to believe', 'in writing', there must not only exist material that may give rise to the belief necessary to be recorded by respondent no.2 but the reasons must spring from material on record/leading to the necessary belief. It necessarily involves application of mind by the competent authority, here respondent no.2, to the facts brought before it."

"Even though exercise of power under Rule 86A(1) of the Rules remained ex-parte to the assessee, yet, more especially for that reason, the requirement of the statute to first record 'reasons to believe', 'in writing' must be strictly enforced on the revenue authorities."

"It may not be forgotten, granting ITC and maintaining its chain is the soul of a successful GST regime. Therefore, any doubt or suspicion alone may not lead an action by the authorities to block the ITC of the assessee and disrupt the entire value addition chain and consequentially tax payments without fulfilling the mandatory requirement of law — to record 'reasons to believe', 'in writing'."

Final Verdict

The blocking of ITC vide e-mail dated 24.07.2025 was **set aside**. The Court directed that the blocked ITC be **unblocked forthwith**. Liberty granted to Respondent No. 2 to take fresh action strictly in accordance with law under Rule 86A(1), if warranted. **Petition allowed. No order as to costs.**

ADDITIONAL FOOTNOTES

Case Laws Cited

S.No.	Case Name	Citation
1.	The Commissioner of Sales Tax, U.P. vs. M/S Bhagwan Industries (P) Ltd., Lucknow	**(1973)**
2.	State of Uttar Pradesh & Others vs. Aryaverth Chawal Udyog & Others	**(2015)**
3.	Delhi Cloth and General Mills Co. Ltd. vs. State of Rajasthan *(referred within Para 28 of Aryaverth)*	**(1980)**
4.	CIT vs. Dinesh Chandra H. Shah *(referred within Para 30 of Aryaverth)*	**(1972)**
5.	CIT vs. Nawab Mir Barkat Ali Khan Bahadur *(referred within Para 30 of Aryaverth)*	**(1975)**

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