Karan Agencies & Ors. v. State of Maharashtra & Ors.

Blocking of ITC and Constitutional Validity of Section 16(2)(c) of CGST Act.

Date of Order:	April 2, 2026
Case Law No:	GIB-BHC-2026-104
Source:	GST INDIA Biz (www.gstindia.biz)

CASE DESCRIPTION / SUMMARY

Background

The batch of petitions involved common questions of fact and law concerning show-cause notices and pre-intimation notices issued by the department proposing action for blocking the petitioners' ITC. The reasons cited by the department varied, including allegations that suppliers were unregistered entities and that fraudulent ITC had been availed on the basis of bogus invoices without actual movement of goods or services.

The petitioners challenged the departmental action as well as the vires of Section 16(2)(c) of the CGST Act, contending that the provision imposed an undue burden on recipients and was arbitrary, irrational and violative of Articles 14, 19(1)(g) and 300A of the Constitution.

Court Observation

The Court observed that the **CGST Act and the Rules constitute a complete code** governing the framework within which the department is required to act. While blocking of ITC has adverse consequences and affects the right of registered persons to carry on business, each matter must be examined on its own facts to determine whether the departmental action is based on tangible material and whether there is a rational basis for invoking the statutory machinery. The Court also observed that fake or bogus ITC cannot be countenanced under the law.

The Court held that show-cause and pre-intimation notices have to be decided on the facts of each individual case and that collective adjudication on the merits of individual issues was not possible. It further held that although the validity of a statute can be challenged under Article 226 where the facts disclose legal injury, such a challenge in the present petitions was **premature before adjudication of the show-cause notices**.

Final Verdict

The Court directed that where show-cause notices had been issued, the petitioners would be permitted to file their replies, if not already filed, **within two weeks**, after which the notices were to be adjudicated in accordance with law after considering all factual and legal contentions raised by the petitioners.

For matters where only pre-show-cause intimations had been issued and objections had already been filed, the concerned authorities were directed to consider the objections expeditiously and provide an opportunity of hearing, deciding whether a show-cause notice was required or the proceedings should be dropped, **within eight weeks**. All contentions were kept open, including the challenge to Section 16(2)(c), which could be raised in appropriate proceedings if necessary. The petitions were accordingly disposed of with **no order as to costs**.