



IN THE HIGH COURT OF KARNATAKA AT BENGALURU

DATED THIS THE 4TH DAY OF MARCH, 2026

BEFORE

THE HON'BLE MR. JUSTICE S SUNIL DUTT YADAV

WRIT PETITION NO. 373 OF 2026 (T-RES)

BETWEEN:

M/S. SRI PADMAVATHI MARKETING,
A PARTNERSHIP REGISTERED UNDER THE
INDIAN PARTNERSHIP ACT, 1932
HAVING OFFICE AT NO.15/10,
GROUND AND FIRST FLOOR,
12TH A CROSS ROAD,
SAMPANGIRAM NAGAR,
BENGALURU, KARNATAKA - 560 027.
REPRESENTED BY ITS
AUTHORISED REPRESENTATIVE,
SHRI. SUNIL KUMAR.

...PETITIONER

(BY SMT. LOCHANA S. BABU., ADVOCATE)

AND:

THE ASSISTANT COMMISSIONER OF
COMMERCIAL TAXES, LGSTO-111,
1ST FLOOR, BMTTC-TTMC,
JAYANAGAR 4TH BLOCK,
BENGALURU - 560 011.

...RESPONDENT

(BY SRI. K HEMAKUMAR., AGA)

THIS WP IS FILED UNDER ARTICLES 226 AND 227 OF
THE CONSTITUTION OF INDIA PRAYING TO QUASH THE





IMPUGNED SHOW CAUSE NOTICE DATED 10.11 2025 BEARING NO. ACCT(LGSTO)-111/ITC BLOCK/2025-26 ISSUED BY THE RESPONDENT (ANNEXURE - A) AND ETC.,

THIS PETITION, COMING ON FOR PRELIMINARY HEARING, THIS DAY, ORDER WAS MADE THEREIN AS UNDER:

CORAM: HON'BLE MR. JUSTICE S SUNIL DUTT YADAV

ORAL ORDER

The petitioner has sought to challenge the impugned show-cause notice at Annexure-A dated 10.11.2025. The Petitioner has also sought for issuance of writ of mandamus to direct the respondents to unblock and restore the Input Tax Credit (ITC) of Rs.1,96,58,274/- in the Electronic Credit Ledger of the petitioner. The petitioner has sought for certain other allied reliefs.

2. Learned counsel for the petitioner submits that the show-cause notice at Annexure-A calls upon the petitioner to show cause as to why the supply of goods in favour of M/s. Million Lights by passing on the fraudulent Input Tax Credit, without underlying supply of goods, be treated as irregular and as to why action ought not to be



initiated under provision of Rule 86A of Central Goods and Service Tax / Karnataka Goods and Service Tax Rules, 2017 (for short 'CGST/KGST Rules').

3. It is the contention of the petitioner that Rule 86A can be invoked where the petitioner has availed of ITC wrongfully and cannot be pressed where allegation is of the customer of the petitioner as having availed of ITC illegally. It is submitted that as regards the transactions with M/s. Million Lights, the petitioner has paid output tax and such aspect cannot be made subject matter of exercise of power under Rule 86A.

4. Sri. K. Hemakumar, learned Additional Government Advocate submits that as regards the customer of the petitioner i.e., M/s. Million Lights, it appears that the department is investigating regarding wrongful availment of ITC. It is further specifically asserted that the partner of the petitioner-firm has made certain admissions relating to transactions with



M/s. Million Lights relating to issue of invoices without actual supply of goods.

5. However, learned counsel for the petitioner apart from denying such allegations, specifically submits that even if it were to be proved, the power under Rule 86A cannot be pressed into force. Rule 86A of the CGST / KGST Rules reads as follows:

"Rule 86A. Conditions of use of amount available in electronic credit ledger:-

(1) The Commissioner or an officer authorised by him in this behalf, not below the rank of an Assistant Commissioner, having reasons to believe that credit of input tax available in the electronic credit ledger has been fraudulently availed or is ineligible in as much as-

a) the credit of input tax has been availed on the strength of tax invoices or debit notes or any other document prescribed under rule 36-

(i) issued by a registered person who has been found non-existent or not to be conducting any business from any place for which registration has been obtained; or

(ii) without receipt of goods or services or both; or



b) the credit of input tax has been availed on the strength of tax invoices or debit notes or any other document prescribed under rule 36 in respect of any supply, the tax charged in respect of which has not been paid to the Government; or

c) the registered person availing the credit of input tax has been found non-existent or not to be conducting any business from any place for which registration has been obtained; or

d) the registered person availing any credit of input tax is not in possession of a tax invoice or debit note or any other document prescribed under rule 36,

may, for reasons to be recorded in writing, not allow debit of an amount equivalent to such credit in electronic credit ledger for discharge of any liability under section 49 or for claim of any refund of any unutilised amount.

(2) The Commissioner, or the officer authorised by him under sub-rule (1) may, upon being satisfied that conditions for disallowing debit of electronic credit ledger as above, no longer exist, allow such debit.

(3) Such restriction shall cease to have effect after the expiry of a period of one year from the date of imposing such restriction."

6. It is clear from a plain reading of Rule 86A that the power under Rule 86A can be exercised where the assessee has fraudulently availed or is ineligible insofar as



ITC availed. In light of the same, the allegation relates to wrongful availment of ITC by a customer of the petitioner i.e. M/s. Million Lights. Though Rule 86A may be invoked insofar as M/s. Million Lights is concerned, but cannot be pressed into action insofar as the petitioner is concerned.

7. The jurisdiction under Rule 86A can be exercised to prevent the utilization of credit available in the electronic credit ledger when such credit has been found to be fraudulently availed or is ineligible. Rule 86A allows the Commissioner or any officer authorized by him in that behalf to restrict the utilization of the credit of input tax, if it is availed on the strength of documents issued by a registered person who has been found to be non-existent or not conducting any business from any place for which registration has been obtained or if it has been availed without receipt of goods or services or both. Further, credit can be blocked under Rule 86A if the tax charged in respect of any supply has not been paid to the Government, but credit of input tax has been availed on



the strength of documents relating to such supply. The credit can also be blocked if the registered person availing the credit is found to be non-existent at the registered place of business or is not in possession of the prescribed documents for availing credit of input tax. In no other circumstances can the power under Rule 86A be exercised.

8. In the facts of the instant case, it is alleged that the petitioner has issued invoices without underlying supply of goods on the basis of which credit of input tax has been availed by the recipient of supply. The allegations therefore do not relate to the credit availed by the petitioner or that he is not conducting business from the place for which registration has been obtained. Therefore, in such circumstances, the notice issued proposing to prevent the utilization of credit under Rule 86A must be held to be improper.

9. Though learned Additional Government Advocate submits that this is a mixed question of fact and



law, and requires adjudication, however a plain reading of Rule 86A and the facts as made out in the show-cause notice, would establish that the power under Rule 86A could not have been invoked insofar as the petitioner, as the allegation is only as regards wrongful availment of ITC by M/s. Million Lights and not the petitioner.

10. Accordingly, the show-cause notice at Annexure-A is set aside as one being without jurisdiction. Consequently, the Electronic Credit Ledger which is blocked requires to be unblocked forthwith.

11. It is made clear that observations made are only limited to disposal of the present proceedings. All other contentions of the Department are kept open.

Accordingly, petition is ***disposed of***.

Sd/-
(S SUNIL DUTT YADAV)
JUDGE

MCR