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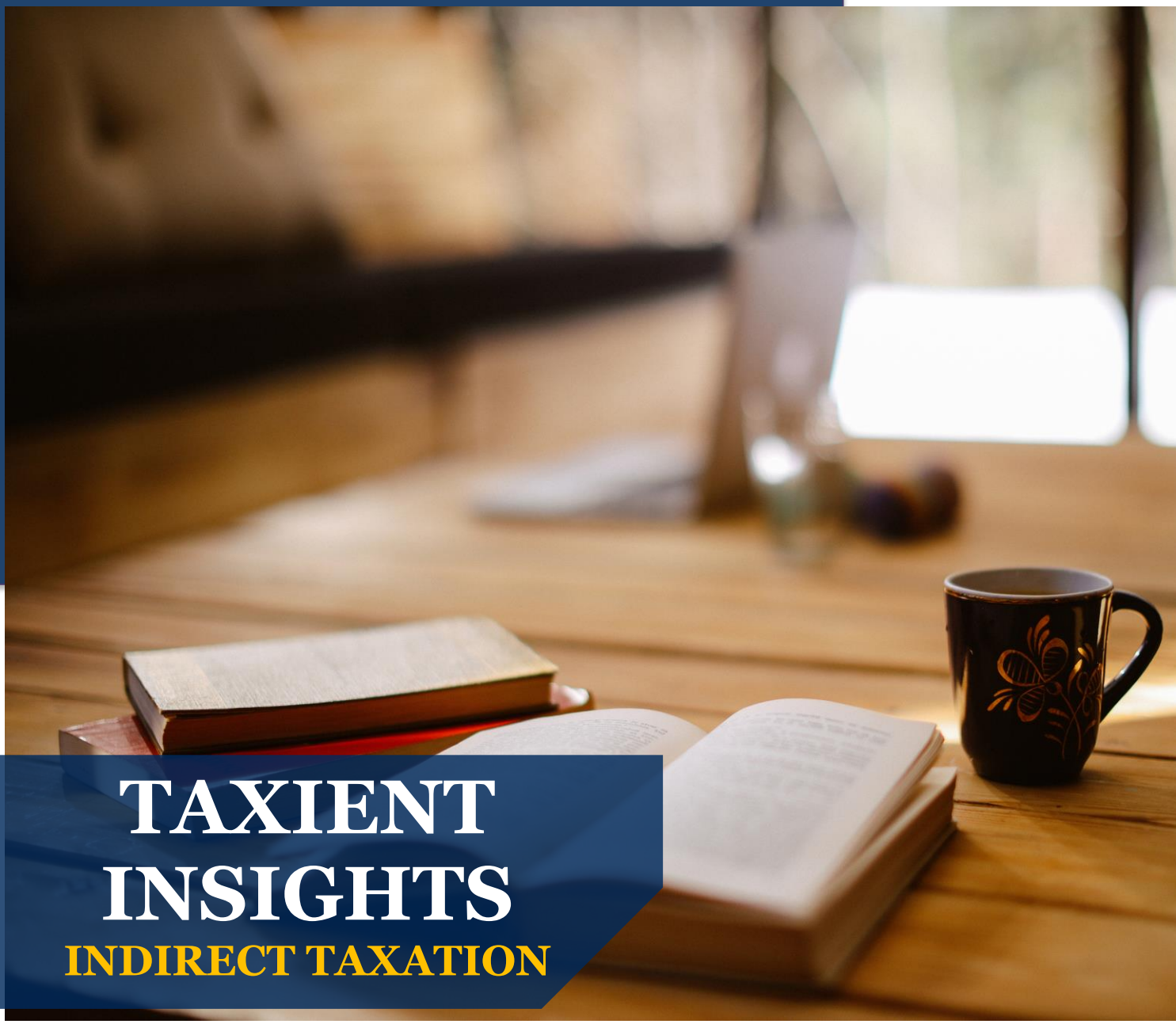

TAXIENT INSIGHTS

INDIRECT TAXATION

Week 3 & 4 of April 2026

April 30, 2026

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1. HIGH COURT RULINGS

1.1. Tax liability among distinct persons can be discharged by the another

The Petitioner is engaged in two lines of business i.e. sale of natural gas and provision of transmission services for natural gas. It obtained separate GST registrations for its trading and transmission services divisions. The transmission division paid GST and issued invoices to the trading division. The trading division then recovered this GST amount from customers as part of the final price, along with the base price, margin, and transmission charges. The Revenue issued a SCN under Section 76 of the CGST Act, alleging that the trading vertical had collected tax but failed to remit it to the Government.

The Madras High Court quashed the SCN, observing that the payment and reimbursement arrangement was merely an internal mechanism between two registrations of the same person within the same State for administrative convenience. Since the exact amount collected from customers was already deposited into the Government exchequer by the transmission division, there was no discrepancy or failure to remit the collected tax.

[GAIL (India) Ltd v. AC, 2026-VIL-372-MAD]

Taxient Comments: The ruling appears to overlook a foundational statutory principle under the GST framework. Section 25(4) of the CGST Act explicitly mandates that separate registrations be treated as distinct persons, which necessarily implies that tax liabilities must be determined and discharged on a registration-wise basis.

Against this backdrop, the acceptance that GST paid by the transmission vertical can satisfy the liability arising from collections made by the trading division is conceptually untenable. The discharge of a tax liability by one distinct person cannot, in law or in principle, be treated as extinguishing the liability of another. Such an approach fundamentally dilutes the distinct person framework and undermines the registration-wise discipline that forms the structural backbone of GST compliance.

1.2. Amendment to Explanation 2(e) of Section 54 CGST Act is prospective

The Petitioners challenged the rejection of their refund claims for unutilised ITC arising from exports (zero-rated supplies) and inverted duty structures, which had been denied by the Revenue as time barred. The dispute centered on the determination of the 'relevant date' for computing the two-year limitation period under Section 54 of the CGST Act. The Revenue applied Explanation 2(a), treating the date of export as the relevant date, and also sought to apply the amended Explanation 2(e) retrospectively.

The Delhi High Court held that refund of unutilised ITC is governed by Section 54(3), and the relevant date must accordingly be determined under unamended Explanation 2(e), and not Explanation 2(a), which applies to refund of tax paid on exports. It further held that under the

unamended provision, the relevant date is the end of the financial year in which the claim arises, and that the amendment to Explanation 2(e), effective from February 1, 2019, is prospective in nature. Consequently, the amendment cannot be applied retrospectively to deny vested refund rights, and the rejection of refund claims as time barred was set aside.

[Kanika Exports v. UOI & Ors., 2026-VIL-379-DEL]

Taxient Comments: The legislative intent behind the amendment to Explanation 2(e), as reflected in the Agenda Notes of the 28th GST Council Meeting, was to resolve an apparent inconsistency. While Section 54(3) permits refund of unutilised ITC at the end of any tax period, the earlier Explanation 2(e) deferred the 'relevant date' to the end of the financial year. The amendment, therefore, sought to align the limitation framework with the scheme of Section 54(3). However, in doing so, it simultaneously excluded zero-rated supplies from the ambit of Explanation 2(e), creating interpretational ambiguity.

The Agenda Notes of the 45th GST Council Meeting suggest that such cases may have been intended to be subsumed within Explanation 2(a). That position, however, is not free from doubt, as Explanation 2(a) and 2(c) refer to refund of tax paid on exports or on inputs / input services, which is conceptually distinct from refund of unutilised ITC. If such claims are indeed not covered under Explanation 2(a) / (c), it raises the larger question whether any limitation applies at all akin to the position that existed for supplies to SEZ without payment of tax prior to insertion of Explanation 2(ba). This leaves the issue open ended, and the precise contours of limitation for such refunds remain a matter for further judicial clarity.

1.3. State Tax Officers not competent to exercise powers in the absence of valid authorization

The Petitioner challenged the order passed by the Assistant Commissioner of State Tax on the ground that the officer lacked jurisdiction to act as a 'Proper Officer' under Section 2(91) of the CGST Act. It was contended that the said officer, being an officer of the State Tax authorities, was not competent to exercise powers under the CGST Act in the absence of valid authorization.

The Court held that although Section 6 permits cross empowerment of State Tax officers to act as Proper Officers for central tax purposes, such authorization is conditional upon a notification issued by the Government on the recommendation of the GST Council. In the present case, the Revenue itself admitted that no such recommendation or notification existed to confer such authority on the Assistant Commissioner of State Tax. Accordingly, the order was held to be without jurisdiction and passed by an incompetent authority. Accordingly, the Court accepted the challenge and quashed the impugned order with liberty granted to the competent authority to proceed afresh in accordance with law.

[Subhash Chandra v. State of MP, 2026-VIL-407-MP]

Taxient Comments: This judgment affirms that cross empowerment under Section 6(1) is not automatic and requires a specific notification issued on the recommendation of the GST Council.

In the absence of such notification, the Court rightly held that the State Tax officer lacked jurisdiction to act as a Proper Officer under the CGST Act, rendering the proceedings void.

However, the issue is not entirely settled. Divergent views of various High Courts persist on whether such authorization flows automatically from the statute or is contingent upon notification. While the present ruling strengthens the notification dependent interpretation, the lack of uniform judicial consensus indicates that the scope of cross empowerment under GST remains open to further clarification.

2. TRIBUNAL RULINGS

2.1. ABS components are ‘suitable for use’ in motor vehicles, exemption not available

The Appellant imported components like DC motors to manufacture Anti-lock Brake Systems (‘ABS’) and claimed a concessional rate of basic customs duty under **Notification No. 50/2017-Customs** dated **June 30, 2017**. The exemption was strictly available for goods other than those ‘suitable for use in’ motor vehicles. The Appellant argued the motors were of general use, not directly usable in automobiles, and only became usable upon incorporation into the ABS.

CESTAT rejected this argument, observing that the imported goods were procured with the sole purpose of manufacturing ABS, which is specifically used in motor vehicles. Applying the principle that ‘a part of a part is a part of the whole,’ the Tribunal held the components were suitable for use in motor vehicles and thus excluded from the exemption. Additionally, the Tribunal ruled that no interest and penalty were leviable on the differential IGST demand for the period prior to the prospective amendment of Section 3(12) of the Customs Tariff Act effective August 16, 2024.

[Continental Automotive Brake Systems v. CC, 2026-VIL-697-CESTAT-DEL-CU]

Taxient Comments: The ruling emphasizes that the phrase ‘suitable for use in motor vehicles’ in exemption notifications warrants strict construction. The Court adopted a substance over form approach by applying the principle that ‘a part of a part is a part of the whole,’ thereby treating components used in manufacturing intermediate assemblies (such as ABS systems) as ultimately intended for use in motor vehicles.

On this basis, the decision concludes that such components fall within the exclusion clause of the exemption notification, even if they are not directly fitted into vehicles at the time of import. The ruling, therefore, expands the scope of the exclusion by focusing on the end use chain, and reinforces a restrictive interpretation of exemption benefits in indirect tax jurisprudence.

2.2. CESTAT classifies 'track assembly' as ‘parts of seats’

The Appellant imported track assemblies, gear vertical adjusters, and other child parts, classifying them under the tariff item 9401 90 00 as 'parts of seats.' The Customs Commissioner rejected this and reclassified the goods under the tariff item 8708 99 00 as 'parts and accessories of motor vehicles,' relying on Advance Rulings and the Supreme Court decision in **CCE v. Insulation Electrical (P) Ltd., 2008-VIL-71-SC-CE**.

CESTAT set aside the Commissioner's order, noting that the imported parts were supplied directly to car seat manufacturers to facilitate seat adjustments, thus possessing a distinct identity as integral parts of seats. Furthermore, the Tribunal strongly reprimanded the

Commissioner for judicial indiscipline, as the Commissioner deliberately ignored a binding, finalized precedent from the Ahmedabad Bench of the Tribunal in the Appellant's own case that had already settled the classification under the sub-heading 9401.

[Shiroki Automobiles v. CC, 2026-VIL-685-CESTAT-DEL-CU]

Taxient Comments: The ruling lays down a twofold principle. On classification, it adopts a functional approach by holding that components specifically designed for integration into car seats are to be classified under the tariff item 9401 90 00 as 'parts of seats,' rather than as general motor vehicle accessories. The emphasis is thus placed on the immediate functional identity and integration of the goods, rather than their ultimate use in motor vehicles.

On the administrative side, the decision strongly reiterates that adjudicating authorities are bound by the rulings of higher appellate forums. Any departure from binding precedents is viewed as a serious breach of judicial discipline, reinforcing the necessity of consistency and hierarchy in tax adjudication.

3. ADVANCE RULINGS

3.1. Online coaching services do not qualify as OIDAR services

The Applicant sought an advance ruling on the classification of its online coaching services, which included live and pre-recorded classes, and the determination of the place of supply. The AAR held that the services do not qualify as Online Information and Database Access or Retrieval ('OIDAR') services. The AAR observed that OIDAR services inherently require minimal human intervention, whereas the applicant's services involved significant human involvement, including live interactive doubt-clearing, mentoring, performance tracking, and the physical dispatch of printed study materials. Thus, the services are correctly classifiable as 'Commercial Training and Coaching Services' under SAC 999293.

Furthermore, since the services are provided to unregistered persons, the place of supply under Section 12(5)(b) of the IGST Act is where the services are 'actually performed.' Because the institute's faculty, headquarters, and operations are centralized in Rajasthan, the supply is an intra-state supply liable to CGST and SGST, irrespective of the student's physical location.

[Allen Career Institute Private Limited, 2026-VIL-93-AAR]

Taxient Comments: The ruling excludes online coaching services from the ambit of OIDAR by applying the statutory 'impossibility test' with clarity. OIDAR contemplates services whose supply is impossible in the absence of information technology. In contrast, services involving teaching, real-time interaction, doubt resolution, and continuous faculty engagement inherently involve significant human intervention and are capable of being delivered even outside a digital environment.

The decision, therefore, appropriately emphasizes that the mere use of technology as a medium does not by itself render a service as OIDAR. In fact, the decisive factor lies in the nature of the service and the extent of automation involved. At the same time, given the evolving formats of digital learning, the boundaries of this test may continue to invite interpretational debate in future cases.

4. OTHER UPDATES

4.1. SEZ to DTA clearances are 'imports' eligible for duty drawback upon re-export

The CBIC issued an instruction to address divergent practices among field formations where some customs authorities were denying duty drawback under Section 74 of the Customs Act, 1962, for goods initially supplied by SEZ unit to a DTA unit and subsequently re-exported. It clarified that under the SEZ Act, 2005, an SEZ is treated as a foreign territory for trade operations, and the movement of goods from an SEZ into the DTA attracts applicable customs duties and is legally construed as an import.

[Instruction No. 06/2026-Customs, F. No. 609/27/2026-DBK/CBIC]

Taxient Comments: The circular clarifies that goods cleared from an SEZ to the DTA on payment of applicable customs duties assume the character of 'imported goods' in the eyes of law. Accordingly, where such duty paid goods are subsequently re-exported and are capable of being clearly identified, the benefit of duty drawback under Section 74 of the Customs Act is available to the exporter.

By recognizing the legal fiction of import in SEZ to DTA clearances, the clarification brings parity with conventional import scenarios for the purpose of drawback. At the same time, the emphasis on identification of goods highlights that the benefit remains conditional and may continue to raise practical considerations in its application.

Thank You!

We sincerely appreciate you taking the time to read our latest update. We hope you found the information both valuable and insightful.

To read our past updates, refer our website.

LEX TAXIENT
Advisors LLP

Let's Stay Connected

📍 Office Address: 5th Floor, Wing-A, Statesman House, Barakhamba Road, New Delhi, Delhi 110001

📞 Phone: +91-87507-83879 / 91151-05773

✉️ Email: info@taxient.in

🌐 Website: www.taxient.in

🔗 Follow us for updates on LinkedIn