Cancellation of GST registration based on defective verification reports fails the statutory test of 'reasons to believe'

The Hon'ble Karnataka High Court in ***M/s. Flex Enterprises & Anr. v. Superintendent of Central Tax [Writ Petition No. 13708 of 2026 c/w Writ Petition No. 13791 of 2026 dated June 12, 2026]*** quashed the orders cancelling the GST registrations of the Petitioners along with the consequential suspension of the registrations, on the ground that the Show Cause Notices were issued on the basis of verification reports which were fundamentally defective – one containing the photograph of an unrelated property and the other being completely blank – and held that such defective reports cannot form the basis of 'reasons to believe' as mandated under Rule 22(1) of the Central Goods and Services Tax Rules, 2017 (**"the CGST Rules"**). Accordingly, the proceedings were restored to the stage of Show Cause Notice with liberty to the Petitioners to file supporting documents for fresh consideration.

Facts:

M/s. Flex Enterprises (**"the Petitioner No. 1"**) and M/s. Wisdom Enterprises (**"the Petitioner No. 2"**) (collectively referred to as **"the Petitioners"**) are proprietorship concerns registered under GST and carrying on business at Bengaluru, Karnataka.

The Superintendent of Central Tax (**"the Respondent"**) suspended the GST registration of the Petitioner No. 1 vide Order dated February 17, 2026 and thereafter cancelled the said registration under Section 29(2)(e) of the Central Goods and Services Tax Act, 2017 (**"the CGST Act"**) vide Order dated March 12, 2026. Similarly, the GST registration of the Petitioner No. 2 was suspended vide Order dated January 07, 2026 and thereafter cancelled vide Order dated February 11, 2026 (collectively referred to as **"the Impugned Orders"**).

The Show Cause Notices (**"the SCNs"**) preceding the cancellations were founded upon the field verification reports of the departmental officers. However, in the case of the Petitioner No. 1, the Report of Personal Visit uploaded on the portal was appended with the photograph of an altogether unrelated property and not the Petitioner's registered premises, whereas in the case of the Petitioner No. 2, the report uploaded was completely blank without any details.

The Petitioners contended that they were actually carrying on business from their registered place of business as mentioned in the Registration Certificate and were in a position to substantiate the same through documentary evidence. Since the very foundation of the SCNs, i.e., the verification reports, was defective, the Respondent could not have justifiably recorded 'reasons to believe' as required under Rule 22(1) of the CGST Rules before issuing notice in FORM GST REG-17.

On the other hand, the Respondent submitted that since the applications for revocation of cancellation filed by the Petitioners were already pending consideration, the writ petitions may be disposed of with a direction to decide such pending applications expeditiously, reserving liberty to the Petitioners to file their responses.

Hence, aggrieved by the Impugned Orders, the Petitioners filed the present writ petitions under Articles 226 and 227 of the Constitution of India before the Hon'ble Karnataka High Court.

Issue:

Whether the cancellation of GST registration is sustainable when the Show Cause Notices are issued on the basis of defective verification reports which contain either a photograph of an unrelated property or no details at all, thereby failing the statutory requirement of 'reasons to believe' under Rule 22(1) of the CGST Rules?

Held:

The Hon'ble Karnataka High Court in ***Writ Petition No. 13708 of 2026 c/w Writ Petition No. 13791 of 2026*** held as under:

- Observed that, the provisions of Rule 22(1) of the CGST Rules are categorical in stipulating that a notice for cancellation must be issued in the required format, i.e., FORM GST REG-17, only after the proper officer records 'reasons to believe' that the registration of a person is liable to be cancelled under Section 29 of the CGST Act.

- Noted that, in the present cases, the SCNs were issued based on reports which had either a photograph of an unrelated property or no photograph with the details being blank. Therefore, such fundamentally defective reports could not have formed the basis for justifiably recording 'reasons to believe'.

- Held that, the interference of the Court must be to restore the proceedings to the stage of the Show Cause Notice and not merely to issue directions for consideration of the pending applications for revocation. Accordingly, the Impugned Orders of cancellation, as also the consequential suspension of the Certificates of Registration, were quashed.

- Directed that, the Petitioners are reserved with liberty to file their responses along with all supporting documents to the SCNs by July 13, 2026, and the Respondent shall consider the same and pass just orders. It was further clarified that if the Petitioners do not avail the opportunity now extended, it would be open to the Respondent to conclude the proceedings based on the material available.

Our Comments:

Section 29(2)(e) of the CGST Act empowers the proper officer to cancel the registration of a person from such date, including any retrospective date, as he may deem fit, where the registration has been obtained by means of fraud, wilful misstatement or suppression of facts. Further, Rule 21(a) of the CGST Rules provides that the registration granted to a person is liable to be cancelled if the said person does not conduct any business from the declared place of business. However, the exercise of this drastic power is circumscribed by Rule 22(1) of the CGST Rules, which mandates that where the proper officer has 'reasons to believe' that the registration of a person is liable to be cancelled under Section 29, he shall issue a notice in FORM GST REG-17 requiring such person to show cause within seven working days as to why the registration shall not be cancelled. Equally relevant is Rule 25 of the CGST Rules, which requires that where physical verification of the place of business is undertaken, the verification report along with other documents, including photographs, shall be uploaded in FORM GST REG-30 on the common portal. A reading of these provisions makes it clear that the formation of 'reasons to believe' is a jurisdictional pre-condition, and where the verification report itself is defective or blank, the very substratum for issuing the SCN and cancelling the registration disappears.

It is a settled principle that 'reasons to believe' must be based on relevant and cogent material having a rational nexus or live link with the formation of the belief, and cannot rest on mere suspicion or non-existent material. The Hon'ble Supreme Court in ***Income Tax Officer v. Lakhmani Mewal Das [(1976) 3 SCC 757],*** though rendered in the context of income tax, laid down the classic test that the reasons for the formation of the belief must have a rational connection with the formation of such belief and must not be extraneous or irrelevant. Applying this yardstick, a personal visit report bearing the photograph of an unrelated property, or a blank report, can never constitute tangible material to believe that the taxpayer is not conducting business from its registered premises.

The present ruling is in line with a consistent body of jurisprudence. The Hon'ble Gujarat High Court in ***Aggarwal Dyeing and Printing Works v. State of Gujarat [R/Special Civil Application No. 18860 of 2021 dated April 22, 2022]*** held that a show cause notice and an order of cancellation of registration which are cryptic and bereft of any reasons are violative of the principles of natural justice and cannot be sustained. Similarly, the Hon'ble Delhi High Court in ***Curil Tradex Pvt. Ltd. v. Commissioner, Delhi Goods and Services Tax [W.P.(C) No. 11393 of 2022 dated September 26, 2022]*** set aside the cancellation of registration where the physical verification of the business premises was carried out in the absence of the taxpayer and without service of notice, in breach of the procedure contemplated under Rule 25 of the CGST Rules.

Another noteworthy aspect of the present decision is the Court's refusal to accept the Revenue's plea to merely direct expeditious disposal of the pending revocation applications. The Court rightly appreciated that when the foundational defect goes to the root of the jurisdiction to issue the SCN itself, relegating the taxpayer to the revocation route under Section 30 of the CGST Act would amount to legitimising an inherently flawed proceeding. Since cancellation of registration entails serious civil consequences, virtually bringing the business of the taxpayer to a standstill, this judgment reinforces that field verification must be conducted diligently and the reports must be accurate, complete and relatable to the taxpayer's actual premises. Taxpayers facing cancellation proceedings would be well advised to scrutinise the verification reports relied upon in the SCN and to place on record documentary evidence such as rent agreements, electricity bills, invoices and bank statements evidencing the conduct of business from the registered premises.

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