Refund to be paid in cash and not re-credited to the Electronic Credit Ledger where business is permanently closed and GST registration surrendered

The Hon'ble Allahabad High Court (Lucknow Bench) in ***M/s Vossloh Cogifer Turnouts India Pvt. Ltd. v. State of U.P. and Another [Writ Tax No. 1014 of 2026 dated August 10, 2026]*** directed the Revenue to disburse the sanctioned refund of Rs. 1,10,72,753/-, which was earlier directed to be re-credited as Input Tax Credit (**"ITC"**) in the Electronic Credit Ledger (**"ECrL"**), in cash/ in the bank account of the assessee, along with applicable interest, within a period of eight weeks, and held that where the assessee has permanently discontinued its business and surrendered its GST registration, the ECrL ceases to be functional, and re-credit of a sanctioned refund as ITC in such ledger would serve no practical, commercial or legal purpose, there being no prohibition under the GST law against payment of such refund in cash.

Facts:

M/s Vossloh Cogifer Turnouts India Pvt. Ltd. **("the Petitioner")** had mistakenly paid GST under the wrong tax head, which tax was subsequently paid under the correct tax heads. Accordingly, the Petitioner filed a refund application dated July 25, 2025, seeking refund of the tax mistakenly paid under the wrong head.

The Revenue Department **("the Respondent")** passed the Refund Sanction Order dated May 06, 2026 (**"the Impugned Order"**), whereby, out of the total refund of Rs. 1,38,91,287/- sanctioned, an amount of Rs. 1,10,72,753/- was directed to be re-credited as ITC in the ECrL, and only the remaining balance was paid in cash to the Petitioner.

The Petitioner had permanently discontinued its business operations and had surrendered/cancelled its GST registration. Consequently, the Petitioner could no longer utilise the re-credited ITC, thereby rendering the sanctioned refund wholly nugatory and meaningless. The Petitioner contended that such re-credit served no practical, commercial or legal purpose and conferred no real and effective benefit by way of refund upon the Petitioner.

Hence, aggrieved by the Impugned Order, the Petitioner filed a writ petition under Article 226 of the Constitution of India, contending that the Impugned Order, to the extent it directs re-credit of the refund as ITC in the ECrL instead of payment in cash, is arbitrary, perverse, contrary to the scheme and object governing refunds under the GST law, contrary to the settled principles of restitution, amounts to double taxation, and is violative of Articles 265 and 300A of the Constitution of India. The Petitioner further sought statutory interest under Section 56 of the Uttar Pradesh Goods and Services Tax Act, 2017 (**"the UPGST Act"**) on the entire refunded amount of Rs. 1,38,91,287/-, computed upon expiry of sixty days from the date of filing of the initial refund application till the date of actual payment/refund.

Issue:

Whether the sanctioned refund can be re-credited as ITC in the Electronic Credit Ledger, instead of being paid in cash, where the assessee has permanently discontinued its business and surrendered its GST registration?

Held:

The Hon'ble Allahabad High Court (Lucknow Bench) in ***Writ Tax No. 1014 of 2026*** held as under:

- **Observed that,** the Petitioner is no longer carrying on business and, consequently, the Electronic Credit Ledger has ceased to be functional and has no utility.

- **Noted that,** out of the total refunded amount of Rs. 1,38,91,287/-, the sum of Rs. 1,10,72,753/- had already been issued by way of re-credit as ITC in the ECrL, while the remaining balance had been paid in cash to the Petitioner.

- **Held that,** there exists no prohibition under the provisions of the GST Act against making payment in cash of the amount of Rs. 1,10,72,753/-, which was earlier directed to be re-credited as ITC in the ECrL. A sanctioned refund cannot be merely re-credited as ITC where such credit would have no practical, commercial or legal utility.

- **Directed that,** having regard to the peculiar facts and circumstances of the case, particularly the fact that the Petitioner's business is no longer in existence, the concerned authorities shall refund the sum of Rs. 1,10,72,753/- to the Petitioner in cash/ in the Petitioner's bank account, along with applicable interest, if any, in accordance with the provisions of the Act, within a period of eight weeks from the date of the order.

Our Comments:

The controversy in the present case stems from the mechanism of re-credit of refund prescribed under the Central Goods and Services Tax Rules, 2017 (**"the CGST Rules"**). Where tax has been paid under the wrong head and is subsequently paid under the correct head, refund of the tax wrongly paid is governed by Section 77 of the Central Goods and Services Tax Act, 2017 (**"the CGST Act"**)/ Section 19 of the Integrated Goods and Services Tax Act, 2017, read with Rule 89(1A) of the CGST Rules and Circular No. 162/18/2021-GST dated September 25, 2021.

Further, in terms of the proviso to Rule 92(1A) of the CGST Rules read with Rule 86(4A) of the CGST Rules, where the tax sought to be refunded was originally discharged by debiting the Electronic Credit Ledger, the proper officer sanctions the refund in cash only to the extent the tax was paid in cash, and the amount paid by debit of ITC is re-credited to the ECrL through FORM GST PMT-03. This mechanism, however, proceeds on the underlying premise that the taxpayer is a going concern which can utilise the re-credited ITC against its future output tax liability. Where the taxpayer has permanently closed its business and its registration stands surrendered/cancelled, the ECrL becomes inoperative, and re-credit of the sanctioned refund into such a dead ledger is wholly illusory – it amounts to sanctioning a refund on paper while denying it in substance, offending the principles of restitution as well as Articles 265 and 300A of the Constitution of India. The present ruling rightly recognises this position and gives primacy to substance over form, holding that there is no statutory prohibition against disbursing such refund in cash.

A similar view has been taken by the Hon'ble Sikkim High Court in ***SICPA India Private Limited and Anr. v. Union of India and Ors. [W.P. (C) No. 54 of 2023 dated June 10, 2025]***, wherein the Court allowed refund of unutilised ITC lying in the Electronic Credit Ledger upon closure of business, holding that Section 49(6) read with Section 54 of the CGST Act does not contain any express prohibition against refund of such credit on discontinuance of business. Under the erstwhile regime, the Hon'ble Karnataka High Court in ***Union of India v. Slovak India Trading Co. Pvt. Ltd. [2006 (201) E.L.T. 559 (Kar.)]***, against which the Special Leave Petition was dismissed by the Hon'ble Supreme Court, had likewise allowed cash refund of unutilised CENVAT credit upon closure of the factory.

However, a contrary view was expressed by the Larger Bench of the Hon'ble Bombay High Court in ***Gauri Plasticulture (P) Ltd. v. Commissioner of Central Excise, Indore [2019 (30) G.S.T.L. 224 (Bom.)]***, holding that cash refund of unutilised CENVAT credit on closure of the factory is not permissible in the absence of an enabling statutory provision. It is, however, pertinent to note that the present case stands on a distinct and stronger footing – the refund itself had already been sanctioned by the department, and the only question was the mode of disbursement of such sanctioned refund. Once the entitlement to refund is admitted, directing re-credit into a non-functional ledger would defeat the very object of the refund provisions.

This judgment will provide much-needed relief to taxpayers who have closed their businesses and surrendered their registrations, ensuring that sanctioned refunds are not rendered otiose by mere procedural mechanics of re-credit, and reaffirms that the State cannot retain amounts to which it has no legal entitlement.

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