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Refund of Excess Interest Paid, can't be Rejected on Limitation Ground

The GST Appellate Tribunal, State Bench Vishakhapatnam (**"GSTAT"**) in ***Padala Satyanarayana Reddy v. G. Ramakrishnaraju Yadav, Joint Commissioner (GST Appeals), Guntur & Ors. [APL/3/VSK/2026 dated October 14, 2026]*** set aside the order of the First Appellate Authority rejecting the refund of excess interest paid under Section 50(1) of the CGST Act, 2017 on the portion of tax discharged through the electronic credit ledger, on the fresh ground of limitation raised without notice to the assessee, and held that the claim must be examined in light of the retrospective amendment to Section 50(1) with effect from July 01, 2017, and that limitation must be freshly worked out after excluding the period from March 01, 2020 to February 28, 2022 in terms of Notification No. 13/2022-Central Tax.

Facts:

- Padala Satyanarayana Reddy (**"the Appellant"**) furnished its GST returns for FY 2017-18 and FY 2018-19 after the due dates and discharged the tax liability partly by utilising input tax credit (**"ITC"**) from the electronic credit ledger and partly by debiting the electronic cash ledger.

- Along with the tax, the Appellant paid interest under Section 50 of the CGST Act on the entire tax liability, without restricting it to the portion paid through the electronic cash ledger, as the law then stood.

- Section 112 of the Finance Act, 2021 subsequently substituted the proviso to Section 50(1) with retrospective effect from July 01, 2017, restricting interest to the portion of tax paid by debiting the electronic cash ledger. Notification No. 16/2021-Central Tax dated June 01, 2021 appointed June 01, 2021 as the date on which Section 112 came into force.

- The Appellant claimed refund of the excess interest (CGST ₹3,97,127 and SGST ₹3,74,560, aggregating ₹7,71,687), relying on the Madras High Court ruling in *Refex Industries Ltd.*

The refund sanctioning authority rejected the claim by order dated May 07, 2021 as premature, since no notification giving effect to the amendment was available at that time.

- In appeal, the Joint Commissioner (GST Appeals), Guntur, dismissed the appeals vide Order-in-Appeal dated March 31, 2022 on an altogether different ground, namely that the refund claims were barred by limitation under Section 54 of the CGST Act. The Appellant had neither been put to notice on this ground nor heard on it.

- Aggrieved, the Appellant filed appeals before the GSTAT.

Contentions:

Appellant

- The retrospective substitution of the proviso to Section 50(1) from July 01, 2017 made the interest paid on the ITC-discharged portion legally not payable. Notification No. 16/2021-CT merely fixed the commencement date and did not dilute the deeming of retrospectivity. The Gujarat High Court in *Sumilon Polyster Ltd. v. Union of India* had also noticed that the substituted proviso operates from July 01, 2017.

- The refund authority erred in ignoring CBIC's administrative instructions dated September 18, 2020 directing recovery of interest only on net cash tax liability.

- The First Appellate Authority introduced limitation as a new and decisive ground without notice or hearing, which violates the principles of natural justice.

- Limitation under Section 54 could not be computed without giving effect to Notification No. 13/2022-CT dated July 05, 2022, which excludes March 01, 2020 to February 28, 2022. On such recomputation, the refund applications are within time.

Revenue

- The refund claim was rightly rejected as premature in the absence of a notification giving effect to the amendment.

- The Revenue sought to justify the First Appellate Authority's order on the footing that Notification No. 13/2022-CT was not available when the appeals were decided. It admitted that no notice on limitation was issued and prayed that the matter be remanded to the First Appellate Authority for fresh consideration.

Issues:

1. Whether the First Appellate Authority could reject the refund claim on a fresh ground of limitation under Section 54 of the CGST Act without putting the Appellant to notice and affording an opportunity of being heard?

2. Whether limitation for the refund claim can be determined merely with reference to the date of the original rejection, without giving effect to the exclusion of the period from March 01, 2020 to February 28, 2022 under Notification No. 13/2022-Central Tax?

3. Whether the refund of excess interest could be denied on the ground that no notification giving effect to the amendment was available, when Section 50(1) stands substituted with retrospective effect from July 01, 2017?

4. Whether the matter warrants an open-ended remand, or can be decided by the Tribunal with limited directions for verification and quantification of the refund?

Held:

The GSTAT, State Bench Vishakhapatnam in ***APL/3/VSK/2026*** held as under:

- **Observed that,** the original authority rejected the claim because no notification giving effect to the amendment was available, whereas the First Appellate Authority rejected it

on a different ground, namely limitation under Section 54, which was never the basis of the original rejection.

- **Noted that,** the First Appellate Authority introduced limitation as a fresh and decisive ground without notice to the Appellant, a fact admitted by the Revenue's Authorised Representative.

- **Held that,** when an appellate or adjudicating authority proposes to decide a matter on a ground not put to the affected party, reasonable notice and an effective opportunity to respond must be given. Failure to do so violates natural justice and vitiates the finding on limitation, relying on *Saci Allied Products Ltd. v. CCE, Meerut* [(2005) 7 SCC 159], *Reckitt & Colman of India Ltd. v. CCE* [1996 (88) ELT 641 (SC)] and *N. Mukherjee v. Union of India* [(1990) 4 SCC 594].

- **Observed that,** the amendment is not merely prospective from the date of notification but was declared by Parliament to operate retrospectively from July 01, 2017. Interest under Section 50(1) is therefore leviable only on the portion of tax paid by debiting the electronic cash ledger, and refund entitlement must be determined under the law as retrospectively amended.

- **Held that,** the original authority's reasoning cannot be sustained, particularly in view of CBIC's administrative instructions dated September 18, 2020, and the Appellant's earlier voluntary payment of interest cannot by itself validate an amount that was not legally payable.

- **Noted that,** Notification No. 13/2022-CT dated July 05, 2022, issued under Section 168A, excludes March 01, 2020 to February 28, 2022 for computing limitation for refund applications under Sections 54 and 55, with effect from March 01, 2020, and that the Delhi High Court in *Mahalaxmi Exports* and the Jammu & Kashmir and Ladakh High Court in *Bharat Oil Traders* have applied it to set aside refund rejections.

- **Held that,** limitation "has to be freshly worked out" and cannot be decided merely on the date of original rejection. At the same time, the notification does not dispense with limitation altogether, and the actual relevant date and the date of filing the refund application must still be examined.

- **Held that,** an open-ended remand sought by the Revenue would serve no useful purpose, as the power of remand is meant to cure a genuine deficiency requiring factual adjudication and should not be exercised mechanically. Limited verification of the interest actually paid and the portion attributable to ITC is not a remand for reconsidering legal entitlement.

- **Directed that,** the competent authority shall consider the claim in accordance with the retrospectively amended Section 50(1), Section 54 and Notification No. 13/2022-CT, recompute limitation after giving effect to the exclusion, examine whether the case falls within the exception in the proviso (proceedings under Sections 73 or 74), verify and quantify the refund, and pass a consequential order after giving the Appellant a reasonable opportunity of being heard, within three months from receipt of the order.

- **Hence,** the appeal is allowed and the Order-in-Appeal is set aside insofar as it rejects the refund claim solely on the ground of limitation, with the matter sent back to the competent authority for consequential action in the limited manner directed.

Our Comments:

Section 50 – interest on net cash liability. Section 50(1) of the CGST Act requires a person who fails to pay tax within the prescribed period to pay interest on his own for the period of default. As originally enacted, it did not distinguish between tax paid through ITC and tax paid in cash, and departments therefore computed interest on the gross liability. Following the recommendations of the GST Council, Section 100 of the Finance (No. 2) Act, 2019 inserted a proviso limiting interest to the portion paid by debiting the electronic cash ledger, effective

September 01, 2020 vide Notification No. 63/2020-CT dated August 25, 2020. The GST Council, in its 39th meeting held on March 14, 2020, recommended that this be given effect from July 01, 2017, and CBIC's instruction dated September 18, 2020 directed field formations to recover interest only on net cash liability for July 01, 2017 to August 31, 2020 and to keep notices raised on gross liability in the call book. Section 112 of the Finance Act, 2021 finally substituted the proviso with effect from July 01, 2017, brought into force from June 01, 2021. The proviso carves out cases where the return is furnished after commencement of proceedings under Section 73 or Section 74 (and now Section 74A), which is why the Tribunal has asked the authority to examine this exception as well.

Section 54 and Notification No. 13/2022-CT – limitation. Section 54(1) permits a claim for refund of tax, interest or any other amount paid to be filed before the expiry of two years from the relevant date. Notification No. 13/2022-CT dated July 05, 2022, issued under Section 168A, followed the Supreme Court's order dated January 10, 2022 in *In Re: Cognizance for Extension of Limitation* [Suo Motu Writ Petition (C) No. 3 of 2020] and excludes the period from March 01, 2020 to February 28, 2022 for computing limitation under Sections 54 and 55. The ruling is a useful reminder that refund orders passed before July 05, 2022 and rejected as time-barred must be re-tested against this exclusion.

Pari materia judgments. On the substantive issue, the Madras High Court in *Refex Industries Ltd. v. Assistant Commissioner of CGST & Central Excise* [W.P. Nos. 23106 and 23108 of 2019 dated January 06, 2020] held that interest under Section 50 can be levied only on belated cash payment and not on ITC lying to the credit of the assessee, treating the proviso as clarificatory. The Gujarat High Court in *Sumilon Polyster Ltd. v. Union of India* considered the challenge to interest on gross liability in light of the proviso substituted with effect from July 01, 2017. On limitation, the Delhi High Court in *Megicon Impex Pvt. Ltd. v. Commissioner of CGST, Delhi West* [W.P.(C) 6556/2020 dated February 06, 2023] directed processing of a refund as the benefit of the notification had not been accorded, and in *Zenon Analytics Pvt. Ltd. v. Union of India* [W.P. (C) 8338/2022 dated March 21, 2024] restored refund claims rejected solely on limitation by

orders passed before the notification was issued. The Jammu & Kashmir and Ladakh High Court in *Bharat Oil Traders v. Assistant Commissioner* [dated December 30, 2025] likewise set aside an appellate order that had not considered the notification.

Contrary and qualifying views. The Telangana High Court in *Megha Engineering and Infrastructures Ltd. v. Commissioner of Central Tax* [W.P. No. 44517 of 2018 dated April 18, 2019] had earlier held that interest is payable on gross liability. That view has since been overtaken by legislation, and the Court later allowed the batch of petitions in view of the Finance Act, 2021 amendment, directing the authorities to hear the petitioners and quantify interest as per the amended provision. On limitation, the Karnataka High Court in *Mangalore Refinery and Petrochemicals Ltd. v. Union of India* [W.P. No. 23995 of 2022 dated January 13, 2023] read the notification together with the Supreme Court's order and held that where limitation expired during the excluded period, the claimant gets 90 days from March 01, 2022 or the longer balance period, whichever is greater. This shows that the exclusion is not a blanket waiver, a caution the Tribunal has itself voiced.

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Takeaway. Taxpayers who filed returns late for FY 2017-18 onwards and paid interest on the ITC-discharged portion should re-examine whether a refund can still be claimed, working out the relevant date and the COVID exclusion carefully and keeping the cash and credit ledger split ready, since the authority will verify the portion attributable to ITC. Where a refund has been rejected as premature or as time-barred, this ruling provides a strong basis to seek reconsideration. Appellate authorities, on the other hand, must put the assessee to notice before relying on a ground that the original order did not adopt. As this is an order of a State Bench of the Tribunal, it carries persuasive value and the outcome will ultimately turn on verification of facts by the competent authority.

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