



## JUDGEMENT

# Input Tax Credit is a Legal Right and Cannot Be Retrospectively Reduced Without Legislative Sanction

<b>Issued By:</b>	Hon Supreme Court
<b>In Case Of:</b>	Trishala Alloys Pvt. Ltd
<b>Order No:</b>	Civil Appeal No. 2212 of 2024
<b>Order Date:</b>	17 <sup>th</sup> February 2025

# FACTS & OBSERVATIONS

- The case pertains to the validity of Rule 21(8) of the Punjab VAT Rules, 2005, which was introduced between 25.01.2014 and 01.04.2014, during a period when there was no enabling provision in the Punjab VAT Act, 2005.
- The respondent, a manufacturer of iron and steel products, bought raw materials both from within Punjab and outside the state. Under the Punjab VAT Act, businesses were allowed to claim Input Tax Credit (ITC) on taxable goods used for resale or for making other taxable goods.
- On 25.01.2014, the Punjab Government changed Rule 21 by adding sub-rule (8), which took effect from 01.02.2014. This rule reduced the ITC available on stock held as of 31.01.2014, limiting it to a lower tax rate.
- The respondent challenged this new rule in the High Court, arguing that it unfairly reduced ITC on goods already purchased and taxed before the rule was introduced.

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- The High Court ruled in favor of the respondent, holding that the State lacked statutory authority under the Punjab VAT Act to introduce Rule 21(8) at the time, as there was no enabling provision in the parent statute.
- The State of Punjab appealed in Hon Supreme Court, arguing that ITC is a concession, not a right, and can be regulated to prevent revenue loss. The government maintained that the rule merely adjusted ITC to the prevailing tax rate at the time of sale.
- The SC observed that while retrospective rule-making is permissible under Section 70(2) of the Punjab VAT Act, such rules must have statutory backing, which was absent during the relevant period.
- The SC upheld the High Court's judgment, confirming that Rule 21(8) was invalid as it lacked legislative authority at the time of its introduction, thereby rendering the amendment ultra vires and allowing ITC at the old rates.

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