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IMPORTANT GST CASE LAW

JUDGEMENT

Movement of Goods for Testing Without E-Way Bills, is Not a Taxable Supply, No 200% Penalty

In Case Of	Issued By	Order Date
AAM India Manufacturing Corporation Pvt. Ltd.	High Court of Karnataka	25th June 2026

Order No
Writ Appeal No. 1390 of 2024 (T-RES)

OBSERVATIONS

- The **respondent purchased hydraulic fixtures and tooling body machines from a supplier in Coimbatore** in July 2020. The machinery was transported to its manufacturing unit at Ahmednagar, Maharashtra.

- **After carrying out certain customisations, the respondent sent the machinery back to the seller in Coimbatore for testing**. The movement was covered by delivery challans; however, an e-way bill was not generated.

- **The vehicle was intercepted on 03.11.2020 and detention proceedings were initiated** under Section 129 of the CGST Act. The respondent deposited the tax and penalty demanded, following which an ex parte order was passed confirming IGST and penalty.

- The **Single Judge subsequently held that the movement was not a taxable supply and restricted the penalty to ₹25,000, while directing refund of the remaining amount**. The State challenged this order before the Division Bench.

JUDGEMENT

- The Karnataka High Court held that a transaction falls within Section 7(1)(a) of the CGST/KGST Act **only where the supply is made or agreed to be made for consideration in the course or furtherance of business.**

- **The machinery was merely re-transported to the original seller for testing**. Since no fresh consideration was involved, such movement could not be treated as a separate taxable supply.

- The Court, however, **observed that Rule 55(1) permits goods to be transported on a delivery challan for reasons other than supply, but the movement must also comply with the e-way bill requirements under Rule 138.** The re-transportation in question was not covered by any exemption from generation of an e-way bill.

- Accordingly, **the absence of an e-way bill constituted a procedural violation attracting penalty, but it did not create a liability to pay GST** on an otherwise non-taxable movement. The State's appeal was dismissed.

TAKEAWAYS

- The mere movement of goods from one location to another does not, by itself, constitute a "supply" under Section 7 of the CGST Act. **Taxability must be determined by examining the nature of the transaction**, including whether there is consideration, a transfer of title or beneficial interest, or applicability of any deemed supply under Schedule I.

- Accordingly, **movement of goods for testing, repair, calibration, inspection, demonstration or return to the original vendor may remain outside the scope of GST** where the goods continue to belong to the same person and no independent consideration is charged for such movement.

- However, **non-taxability of the underlying transaction does not dispense with transportation-related compliances.** Such movement must be supported by a valid delivery challan under Rule 55 and an e-way bill under Rule 138, wherever the prescribed conditions are satisfied.

- The judgment therefore reinforces an important distinction: **an e-way bill default may justify penal consequences for procedural non-compliance, but it cannot convert a transaction that is otherwise outside the scope of "supply" into a taxable transaction.**

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