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IMPORTANT
GST
CASE LAW

JUDGEMENT

Rule 86A Cannot Be Used To Create Negative ITC Balance

In Case Of	Issued By	Order Date
M/s K.K. Alloys	Supreme Court of India	18th June 2026

Order No
SLP (Civil) Diary No(s). 33451/2026

OBSERVATIONS

- The dispute began when the **GST department invoked Rule 86A and blocked credit in the taxpayer's Electronic Credit Ledger.**
- The concern was not merely that ITC was blocked, but that the **blocked amount exceeded the credit actually available in the ledger.** This created what is commonly called **"negative blocking"**, where future ITC also gets locked even before it enters the ledger.
- The taxpayer challenged this action before the Punjab & Haryana High Court, contending that Rule 86A permits restriction only of existing ITC. The **High Court accepted the taxpayer's stand and held that Rule 86A does not empower authorities to block future credits or create a negative balance.**
- **Revenue then approached the Supreme Court** by filing Special Leave Petitions against the High Court judgment.

JUDGEMENT

- The **Supreme Court refused to interfere with the High Court's ruling** and dismissed the Special Leave Petitions filed by Revenue.
- This effectively confirms that **Rule 86A must be applied within the four corners of the rule.** The power is only to restrict debit of available credit, not to create an artificial liability in the ledger.
- The Court also clarified that the department is not without remedy. If tax is recoverable, the authorities may proceed under the appropriate provisions of the GST law. However, such recovery must follow the due process prescribed under the Act. **Rule 86A cannot be used as a shortcut to secure or recover disputed dues.**
- **The judgment restores balance between revenue protection and taxpayer rights.** It recognises that ITC blocking is a serious action and must remain tied to the credit actually available.

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