

TAX JURISPRUDENCE

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EXECUTIVE SUMMARY OF JUDGEMENTS / ADVANCE RULINGS UNDER INDIRECT TAXES

We are pleased to draw your attention to following important decisions which might be useful for you to take call on tax position.

Case & Citation	Issue Involved	Decision
Indirect Tax		
<u>Faiz Enterprise vs State Tax Officer [TS-646-HC(GUJ)-2026-GST]</u>	Whether tax authorities can pass an order by entirely relying on Artificial Intelligence (AI) tools; and, as in <i>Faiz Enterprise v. State Tax Officer</i>, cancel a taxpayer's GST registration or reject the taxpayer's application on the basis of non-existent, fake, or irrelevant legal cases generated by AI.	The Hon'ble High Court quashed and threw out the faulty tax notices and cancellation orders. It ruled that tax officers cannot substitute their own human judgment with AI-generated text and mandated strict, state-wide guidelines for AI usage. Any officer violating these verification guidelines will face disciplinary action for misconduct and may be held in contempt of court.
<u>Tata Steel Limited vs Union of India [TS-640-SC-2026-GST]</u>	Whether tax authorities can use an extended five-year deadline to demand unpaid taxes by simply repeating words like "fraud" or "suppression of facts" in a notice, without providing actual supporting facts or evidence.	- The Supreme Court set aside both the tax notice and the resulting tax demand order against Tata Steel. - The Court held that extended time limits cannot be unlocked by merely reciting terms like "fraud" or "suppression"; the specific facts showing deliberate wrongdoing must be clearly stated inside the notice itself. - The Court granted the tax department permission to issue a new notice, provided it contains proper supporting facts and the order being passed before 28 February 2027.

The brief analysis of the above-referred decisions and rulings is given below

Case 1 - Faiz Enterprise vs State Tax Officer [TS-646-HC(GUJ)-2026-GST]**Facts in brief & Issues Involved**

- ◆ A Faiz Enterprise (Petitioner) had their GST registration cancelled by a tax officer, and their subsequent application to restore the registration was rejected.
- ◆ Upon reviewing the official orders, the taxpayer discovered that the officer had justified the cancellation by quoting several past court judgments. However, these quoted judgments either did not exist at all or had completely different meanings that were irrelevant to the taxpayer's case.
- ◆ The central issue was whether a tax authority can validly pass an order such as cancel of taxpayer's registration and reject their appeals based on a decision that is exclusively founded unverified and fake AI-generated legal cases.

Contentions of Petitioner

- ◆ The Petitioner argued that the tax officer had relied on legal cases that did not exist or had no relevance to the dispute. Specifically, the taxpayer's legal representative pointed out that:
 - A quoted case between the State of Gujarat and a construction company from 2024 did not exist in reality.
 - A cited Madras High Court case from 2023 had an incorrect citation and its actual ruling did not apply to the taxpayer's situation.
 - A cited Calcutta High Court case from 2024 similarly featured incorrect citation details and was entirely inapplicable.
- ◆ The taxpayer argued that because the officer's orders were built entirely on fake, computer-generated information, the orders lacked any valid legal basis and must be declared void.

Contention of the Respondent

- ◆ The tax department and the state tax officer (Respondent) admitted to the mistake. The officer, who was a probationary officer with limited experience, tendered an unconditional apology to the court for relying on AI tools to draft the order and for referencing non-existent judgments.

- ◆ He also attended a specialized training program on how to properly use AI in drafting official notices and orders.
- ◆ Respondent on the merits of the case, the department's representative agreed to set aside all the faulty orders and withdrew the initial notice, proposing instead to issue a fresh, properly formulated notice so that the taxpayer's defence could be heard fairly.
- ◆ Additionally, the department's senior administration quickly issued formal, state-wide instructions to regulate how all tax officers use AI in their work.

Observations & Decision of Hon'ble High Court

- ◆ The Hon'ble High Court accepted the officer's apology but took a very serious view of the situation. The Court quashed and set aside the show cause notice, the order for cancellation of registration, the rejection of the restoration request, and the subsequent appeal orders.
- ◆ Furthermore, the Court mandated that the tax department's new instructions on AI usage must be strictly followed by all officers, warning that any future violations would be treated as contempt of court.

NASA Comments

- ◆ This decision establishes a vital safeguard for businesses against automated and arbitrary tax decisions. It ensures that tax officers cannot simply "copy-paste" automated AI drafts to take severe administrative actions against businesses. It reinforces that, adjudicating authorities must maintain human oversight to prevent costly judicial errors.
- ◆ Taxpayers should scrutinize any adverse tax notices or orders they receive. If the reasoning seems generic, contains suspicious citations, or feels disconnected from your facts, there is a strong possibility that AI was used without verification and can be aggressively challenged in court.
- ◆ This decision is equally important for businesses when drafting replies to tax notices. Businesses should also ensure that the judicial precedents cited in their notices, submissions and replies actually exist, are authentic, and are relevant to the issues under litigation. Reliance on incorrect, irrelevant or non-existent case laws can weaken the taxpayer's position and adversely affect the credibility of the submissions before the appellate forums.

Facts in brief & Issues Involved

- ◆ Tata steel limited received a tax demand notice covering three financial years (2018-19 to 2020-21) following an audit objection raised by government auditors regarding input tax credit mismatches and short payment of tax.
- ◆ Initially, the tax officer kept the matter in abeyance (in a "call book").
- ◆ As the standard deadline for issuing normal tax notices approached and expired, the tax authorities revived the notice as a protective measure and invoked the extended five-year timeline reserved for fraud or suppression of facts.
- ◆ The primary issue was whether tax authorities can mechanically copy terms like "fraud", "willful misstatement", or "suppression of facts" to unlock extended time limits without presenting concrete foundational facts in the notice itself.

Contentions of Petitioner

- ◆ The petitioner argued that there was no intentional fraud, willful misrepresentation, or hiding of facts that would legally allow the tax department to use the extended time limit instead of the standard timeframe.
- ◆ The tax officer lacked independent conviction, as evidenced by putting the audit objection in abeyance and issuing the notice merely as a protective step because normal deadlines were expiring a practice not permitted under tax laws.
- ◆ The notice contained only a generic assertion that tax credit was taken without documents, missing any specific facts or evidence to prove deliberate tax evasion.

Contention of the Respondent

- ◆ The tax department contended that the proceedings were validly initiated within permissible timelines after accounting for statutory extensions and pandemic-related period exclusions.
- ◆ The department argued that non-declaration or non-disclosure of required details automatically constituted suppression of facts sufficient to justify invoking the extended deadline.

Observations & Decision of Hon'ble Supreme Court

- ◆ The High Court had initially dismissed the petitioner petition, holding that statutory appeal channels should be followed first.
- ◆ On appeal, the Supreme Court set aside the High Court's ruling, quashing both the show-cause notice and the final tax demand order.
- ◆ The Supreme Court observed that extended limitation periods cannot be triggered by mere "lip service" or by mechanically repeating words like "fraud" or "suppression" in a notice.
- ◆ The court ruled that the foundational facts establishing intentional evasion must be explicitly evident inside the notice itself.
- ◆ Placing the matter in a call book and discussing it with committee panels proved that the tax officer had not independently formed the required satisfaction of fraud or suppression.
- ◆ However, because the maximum extended time limit had not fully lapsed, the Court permitted the department to issue a fresh notice, provided it discloses real foundational facts and concludes the matter within the remaining extended window.

NASA Comments

- ◆ Tax authorities cannot invoke extended limitation merely by labelling routine ITC or credit mismatches as fraud or suppression without specific supporting evidence. Taxpayers should examine whether past-year notices contain substantive factual grounds and demonstrate proper application of mind. At the same time, businesses should maintain robust records and reconciliations to substantiate their tax positions if proceedings are initiated on valid grounds.



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