

M/s. Micro Labs Limited v. Joint Commissioner of Central GST and Others

Case number: Writ Petition No. 8409 of 2025 (T-RES)

Citation: 2025:KHC:52189

Decision date: 9 December 2025

Historical common RCM-service credit: Section 31 cross-charging upheld for July 2017–March 2022

Court: Karnataka High Court at Bengaluru

Bench: Hon'ble Mr. Justice S.R. Krishna Kumar

Decision stage: Final merits disposal of the writ petition: the challenged Order-in-Original was quashed outright, without remand.

01 Facts of case and issues

Micro Labs manufactured pharmaceutical products and active pharmaceutical ingredients, with its head office in Bengaluru and GST registrations in 20 States. Its Karnataka Input Service Distributor (ISD) registration distributed credit on common services taxed under the forward charge mechanism according to State turnover. That distribution was undisputed. The dispute concerned common domestic and imported services on which tax was paid under reverse charge (RCM), including legal consultancy, goods transport, sponsorship, government and OIDAR services. The regular head-office registration passed eligible credit to other units through tax invoices under Section 31, stating that the ISD could not report the RCM invoices.

A DGGI investigation beginning at the Amritsar unit expanded nationwide. A Section 74(5) intimation of 5 April 2023 and common show-cause notice of 8 May 2023 concerned July 2017–March 2022. After replies and a personal hearing, the Order-in-Original dated 24 January 2025 confirmed demands. The petition challenged the insistence on ISD distribution and the resulting credit denial, interest and penalties.

Pinpoint: Official PDF paragraphs 1–5, physical pp. 2–7; undisputed forward-charge distribution: paragraph 3, pp. 4–5; RCM invoices: paragraph 4, p. 5.

02 Discussion by Hon'ble Court

The Court compared the former definition of ISD in Section 2(61) with its amendment effective 1 April 2025. For the disputed earlier years, it treated the former definition as preventing procurement of these RCM services through the ISD and explained why the regular head office instead availed the credit and issued Section 31 invoices. This was reasoning about the historical statutory setting and the taxpayer's distribution arrangement.

Circular No. 199/11/2023-GST dated 17 July 2023 was central. For the provisions then in force, it permitted a head office either to distribute third-party common-service credit through ISD or to issue Section 31 invoices to the relevant branches. The latter route remained subject to Sections 16 and 17. The reproduced circular also required attribution or actual provision of services to the relevant branches; it did not make a document alone sufficient for credit.

02 Discussion by Hon'ble Court

Revenue alleged that the branches received no underlying services and that common credit necessarily had to move through ISD. The Court recorded that the common services were centrally utilised by the head office and branches, that the head-office-retained credit was not disputed, and that ineligible credit had not been availed in the first place. Only eligible common credit passed to the branches was contested.

Treating the circular as binding on departmental authorities, with reference to Commissioner of Central Excise, Bolpur v. Ratan Melting & Wire Industries, (2008) 13 SCC 1, the Court held the Section 31 distribution lawful on these facts. The order's disregard of that circular made it illegal, arbitrary and without jurisdiction or authority of law. Although the circular's separate discussion of internally generated services and employee costs was reproduced, that was not the dispute independently decided here.

Pinpoint: Official PDF paragraphs 7–9, physical pp. 7–14; circular item 1, pp. 10–11; paragraphs 10–14, pp. 14–19; actual utilisation in paragraph 10, p. 14; eligible-credit findings in paragraphs 12–13, pp. 16–18.

03 Judicial decision and operative relief

The petition was allowed and the first respondent's Order-in-Original at Annexure-A dated 24 January 2025 was quashed. The operative order contains no remand, fresh-adjudication direction, refund direction, payment deadline or costs award. The Court did not separately formulate a generally applicable ruling eliminating Section 50 interest or penalties under Sections 74 and 122; those matters were among the prayers, while the operative relief was quashing the challenged order on the credit-distribution ground.

Pinpoint: Official PDF paragraph 15, physical p. 19; prayers concerning interest and penalties in paragraph 1(d)–(e), p. 3.

04 In favour of

The taxpayer, M/s. Micro Labs Limited: final merits relief against the challenged Order-in-Original for the historical tax periods.

This is an outright High Court merits determination of the challenged demand, rather than interim protection or a procedural remand. It does not certify every credit entry, decide unconnected branch proceedings, or establish the absence of a later appeal or stay.

Pinpoint: Official PDF paragraphs 12–15, physical pp. 16–19; later appellate history was not conclusively established by the bounded check.

05 AKHB REVIEW POINT

AKHB analysis: For an analogous historical demand, organise evidence by service, tax period and recipient branch. Reconcile RCM tax payments, head-office credit, Section 31 invoices, branch claims, turnover allocation and services actually received. Demonstrate the Sections 16/17 eligibility analysis and the exclusion of blocked credit. The judgment supports resistance to an ISD-only objection in its pre-amendment setting; it is not a substitute for proof of eligible credit and branch attribution.

Keep the timeline explicit. Sections 11 and 12 of the Finance Act, 2024 substituted the ISD definition and Section 20, effective 1 April 2025 under Notification No. 16/2024-Central Tax dated 6 August 2024. The substituted Section 20 requires an office receiving the specified input-service invoices for or on behalf of distinct persons to register as an ISD and distribute that credit, including the specified RCM credit. The 2023 circular's historical choice cannot be carried forward unqualified into that framework. Check later statutory amendments, current rules and the precise invoice flow before advising on present compliance.

Keep purchased common services separate from internally generated head-office services. Also distinguish the removal of this particular demand from a universal interest, penalty or refund entitlement. Before relying on the decision, check the appellate docket and the applicable statutory version.

Pinpoint: AKHB commentary based on official PDF paragraphs 3–5 and 7–15; statutory timing independently checked against Notification 16/2024-Central Tax, paragraph (b), and Finance Act, 2024 Section 12. Practical recommendations are analysis.

Sources and limitations

Relevant provisions

CGST Act: Sections 2(61), 16, 17, 20, 24(viii), 25 and 31; Sections 50, 74 and 122 appear in the prayers/proceedings. CGST Rules: Rule 39 in the common-credit clarification; Rule 28 and Section 15(4) occur in the reproduced circular's separate internally-generated-services discussion. IGST Act Section 20 appears in the penalty prayer.

Statutory note

The adjudicated period is July 2017–March 2022. The judgment's optional-ISD reasoning must be read in that pre-1 April 2025 setting. Finance Act, 2024 Sections 11 and 12 commenced on 1 April 2025 under Notification 16/2024-Central Tax. The statute's subsequently amended text must be checked for present compliance; the judgment's quoted amendment is not represented as a complete current-law consolidation.

Treatment note

This note records the judgment as delivered. Bounded public-web and official-domain searches on 12 October 2026 did not establish a later appellate order or the complete appellate history. This is not confirmation that no appeal, stay or later treatment exists.

Scope of source review

All 19 physical pages, including the caption, prayers, paragraphs 2–15, all pages of the reproduced circular and the operative order, read and individually visually inspected. Physical page numbering matches the printed page numbers.

Source notes

The complete official original is preserved unchanged. The source displays digital-signature artwork; cryptographic trust was not validated. No monetary demand total is supplied because the judgment does not state one.

Primary source

Source description: Complete issuing-court judgment PDF, preserved exactly as downloaded from the official eCourts High Court service.

Official source: [Open source document](#)

Source pages: 19

Outcome type: final high court merits

Additional source

CBIC Circular No. 199/11/2023-GST, 17 July 2023

Official source: [Open source document](#)

Pinpoint: Paragraph 3, table item 1, PDF pp. 1–2; reproduced at judgment paragraph 9, physical pp. 10–11.

Notification No. 16/2024-Central Tax, 6 August 2024

Official source: [Open source document](#)

Pinpoint: Paragraph (b), PDF p. 1.

Finance Act, 2024 (No. 1), Section 12: substituted CGST Section 20

Official source: [Open source document](#)

Pinpoint: Section 12; substituted Section 20(1)–(3).

Disclosures and source rights

AI disclosure: Prepared with AI assistance from the complete official High Court judgment identified in this note. No human legal review is claimed.

General disclaimer: For professional information only; not legal advice. Read the complete judgment and applicable law, verify later treatment and obtain case-specific professional advice before acting.

©AKHB & Associates. This copyright notice applies to the original AKHB research note, analysis and presentation. It does not assert ownership of the judicial orders, judgments, legislation, circulars or other third-party source material. Rights in those sources remain with their respective rights holders, as applicable.

Source checked: 12 October 2026