

Respected Sir,

We would like to respectfully submit that, with regard to the reversal and subsequent reclaim of Input Tax Credit (ITC) in case where payment to the vendor is made after 180 days, there has been a significant recent judicial development which merits consideration.

The most recent and relevant matter pertains to a constitutional challenge to the 180-day ITC reversal requirement itself:

Case: Priya Blue Industries Pvt. Ltd. v. Union of India – SCA No. 2342 of 2025

- The Gujarat High Court has issued notice to the Union Government and State GST authorities on a petition filed by Priya Blue Industries Pvt. Ltd. challenging the constitutional validity of the 2nd and 3rd provisos to Section 16(2) of the CGST Act — the clauses that require reversal of ITC with interest if payment to the supplier is not made within 180 days.
- It is contended that forcing ITC reversal (with interest) even when longer credit terms are contractually agreed is ultra vires, unconstitutional, and contrary to GST's purpose of a seamless, non-cascading credit system.
- The petitioner argues that the mandatory 180-day payment condition imposes an artificial commercial timeline, disregarding industry practices where credit periods beyond 180 days are legitimate, contractual, and commercially essential.
- The petition asserts violations of:
 - Article 19(1)(g) – restricting freedom of trade
 - Article 14 – arbitrary and unreasonable classification
 - GST's core principle – preventing cascading of taxes
- The measure is argued to:
 - Disrupt working capital management
 - Penalise legitimate business credit cycles
 - Create unnecessary financial strain
 - Distort commercial negotiations across supply chains.
- The petition alleges that linking ITC entitlement to the timing of commercial payments rather than the actual GST liability is arbitrary and infringes on commercial freedoms and GST's foundational principles. The court has sought responses from the Government and listed the matter for further hearing. The issue is thus **sub judice**, and the final legal position remains subject to judicial determination.

Against the above background it would be prudent to keep the issue in abeyance pending decision by government which is awaited.

We submit the above for your kind information and consideration.

