

Between Limitation and Legitimate Refunds: Karnataka High Court Reconciles Section 54 with Constitutional Remedies under GST

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Introduction

The decision of the division bench of the Hon'ble Karnataka High Court in ***Assistant Commissioner Of Central Taxes, Bengaluru Vs Merck Life Science Pvt. Ltd.*** ([2026-VIL-284-KAR](#)) is an important pronouncement on the scope and applicability of refund provisions under [Section 54](#) of the CGST Act, 2017. The judgment assumes significance because it addresses one of the most recurring and contentious issues under GST jurisprudence - whether genuine refund claims can be denied merely on account of limitation, even in cases involving double payment of tax.

The ruling attempts to carefully balance two competing considerations. On one hand lies the need for procedural certainty and discipline within the GST framework, which is fundamentally a time-bound legislation. On the other hand lies the constitutional principle that the State cannot unjustly retain taxes which are not legally due. The judgment therefore occupies an important middle ground by simultaneously safeguarding the sanctity of statutory timelines while preserving the extraordinary constitutional jurisdiction of High Courts in deserving cases.

What makes the ruling particularly relevant is that the Court has evolved a nuanced approach by holding that while the limitation under Section 54 is mandatory for departmental authorities, constitutional courts may still intervene under Article 226 in cases of genuine hardship and unjust retention of taxes.

2. Factual Background

The respondent taxpayer paid tax twice on the same transaction - first as IGST and later as CGST/SGST. Thereafter, it filed a refund application seeking return of the excess tax paid. However, the refund claim came to be rejected on the ground that it had been filed beyond the limitation period of two years prescribed under Section 54 of the CGST Act.

The controversy therefore centered around whether such a refund could be denied solely on limitation despite the admitted position that tax had been paid twice on the same transaction.

3. Submissions on Behalf of the Petitioner Department

3.1 Mandatory Nature of Section 54

The Department argued that Section 54 specifically prescribes a period of two years from the relevant date for filing refund applications and that the said limitation is mandatory in nature. According to the Revenue, any interpretation treating the limitation as directory would effectively amount to judicial rewriting of the statutory provision, which is impermissible in law. The Department contended that once the legislature has consciously prescribed a time limit, the same must be strictly enforced.

3.2 Refund Mechanism Must Follow Prescribed Procedure

The Revenue further submitted that where a statute prescribes a particular procedure and timeline for claiming refund, the same must necessarily be adhered to. The assessee, having failed to file the refund claim within the prescribed period, could not subsequently seek relaxation merely on equitable considerations. It was further argued that entertaining delayed refund claims would defeat the overall statutory framework under the GST regime, which is designed as a time-bound legislation.

3.3 Impact on Adjudicatory Provisions under Sections 73 and 74

A major plank of the Department's argument was that the limitation under Section 54 has direct linkage with the adjudicatory timelines prescribed under Sections [73](#) and [74](#) of the CGST Act. The Department contended that relaxing the limitation under Section 54 without correspondingly extending the timelines under Sections 73 and 74 would seriously disturb the statutory scheme of the Act.

4. Submissions on Behalf of the Respondent Taxpayer

4.1 Refund Arises from Double Payment of Tax

The assessee argued that the present case involved double payment of tax on the same transaction - initially as IGST and subsequently as CGST/SGST. Therefore, the Revenue could not unjustly retain taxes collected without authority of law. The taxpayer emphasized that the entitlement to refund itself was undisputed by the authorities.

4.2 Limitation under Section 54 is Directory

The assessee contended that a plain reading of Section 54 indicates that the requirement of filing the application within two years is directory and not mandatory, especially in circumstances where the refund mechanism and relevant rules for such situations were notified much later. It was further argued that procedural prescriptions should not defeat substantive rights, particularly in cases involving admitted excess payment of tax.

4.3 Article 265 and Constitutional Protection Against Unlawful Retention

The taxpayer strongly relied upon Article 265 of the Constitution of India, which provides that no tax shall be levied or collected except by authority of law. It was argued that when taxes are collected without legal sanction, the State cannot retain the same merely on technical grounds of limitation. Denial of

refund in such circumstances would amount to unjust enrichment by the Revenue.

5. Discussion and Findings of the High Court

5.1 Findings of the Learned Single Judge

In the first round of litigation, the learned Single Judge had allowed the writ petition and held that Section 54 of the CGST Act and [Rule 89\(1A\)](#) of the CGST Rules were directory and not mandatory. Aggrieved by the said decision, the Department preferred an intra-court appeal before the Division Bench.

5.2 Section 54 as a Complete Code for Refunds

The Division Bench observed that Section 54 is a self-contained code governing refund claims under GST. The Court noted that refund is not automatic and involves multifaceted examination by the authorities. Importantly, the Court held that while processing refund applications, situations contemplated under Sections 73 and 74 may also arise. Therefore, the limitation prescribed under Section 54 cannot be viewed in isolation.

5.3 Interplay Between Section 54 and Sections 73/74

One of the most significant aspects of the judgment is the Court's detailed analysis of the relationship between refund provisions and adjudicatory proceedings under Sections 73 and 74. The Court held that the two-year limitation under Section 54 carries substantial relevance to the limitation periods prescribed under Sections 73 and 74. If refund applications are entertained indefinitely, the authorities may lose the statutory opportunity to initiate proceedings for short payment or wrongful availment.

The Court therefore emphasized that the GST framework is fundamentally a time-bound enactment where timelines constitute the backbone of the legislation. Any interpretation that disturbs this balance would render the statutory scheme unworkable.

5.4 Mandatory Nature of the Limitation under Section 54

The Division Bench categorically held that the limitation period of two years prescribed under Section 54 is mandatory. The Court observed that there is no enabling provision under the Act empowering the proper officer either to condone delay or to treat the limitation as directory. In the absence of such statutory power, departmental authorities cannot entertain belated refund claims.

5.5 Availability of Constitutional Remedy under Article 226

While holding the limitation under Section 54 to be mandatory, the Court simultaneously recognized that genuine hardship situations may arise where taxpayers are left without any statutory remedy. The Court therefore held that in such circumstances, the writ jurisdiction of the High Court under Article 226 remains available. Significantly, the Court observed that the statutory bar under Section 54 operates only against the proper officer and not against constitutional courts exercising writ jurisdiction.

5.6 Equitable Balancing by the Court

Perhaps the most remarkable feature of the judgment is the balancing mechanism evolved by the Division Bench. The Court held that whenever delay in filing refund claims is condoned through writ jurisdiction, corresponding extension of time must also be granted to the Department for initiating proceedings under Sections 73 and 74 wherever necessary. This approach ensures parity between taxpayer rights and departmental powers, thereby preserving the integrity of the statutory framework.

6. Analysis and Implications of the Judgment

The judgment is likely to have far-reaching implications for GST refund jurisprudence.

First, it settles an important controversy by conclusively holding that the limitation under Section 54 is mandatory for departmental authorities. Secondly, the judgment ensures that genuine refund claims are not sacrificed at the altar of procedural rigidity. By preserving the constitutional remedy under Article 226, the Court has ensured that exceptional cases involving manifest injustice can still be addressed.

Thirdly, the decision reflects judicial sensitivity towards maintaining equilibrium between taxpayer rights and departmental safeguards. The condition requiring corresponding extension of limitation under Sections 73 and 74 is a carefully crafted solution that prevents abuse on either side.

A possible difficulty in implementation arising from the judgment is that while the Court has preserved constitutional remedies, the practical burden on taxpayers may substantially increase. The judgment may compel every taxpayer who misses the statutory timeline - even in genuine cases involving admitted excess payment of tax - to approach the High Court for relief. This could lead to avoidable litigation, increased compliance costs for taxpayers, and additional burden on constitutional courts in matters which could otherwise have been resolved administratively at the departmental level.

7. Conclusion

The decision in ***Merck Life Science*** is a significant contribution to evolving GST jurisprudence on refunds and limitation. The judgment strikes a thoughtful constitutional balance. It preserves the mandatory character of Section 54 for departmental authorities while simultaneously ensuring that constitutional courts retain the power to intervene in deserving cases where genuine hardship or unlawful retention of taxes is demonstrated.

In many ways, the ruling reflects the broader constitutional philosophy that taxation statutes, however technical, must ultimately operate within the boundaries of fairness, legality, and justice. As refund disputes continue to

remain one of the most litigated areas under GST, this judgment is likely to serve as an important precedent guiding both taxpayers and tax authorities in navigating the intersection between statutory procedure and constitutional remedies.

However the issue is far from over as there are contradictory judgements from other High Courts which have held the limitation as directory and not mandatory more so for refunds relating to mistake of law and double payments which are in the nature of 'deposit' and not 'tax'.

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(The views expressed in this article are strictly personal.)