

GST fault line: Supreme Court to rule if taxman can bundle years into one sweeping show-cause notice

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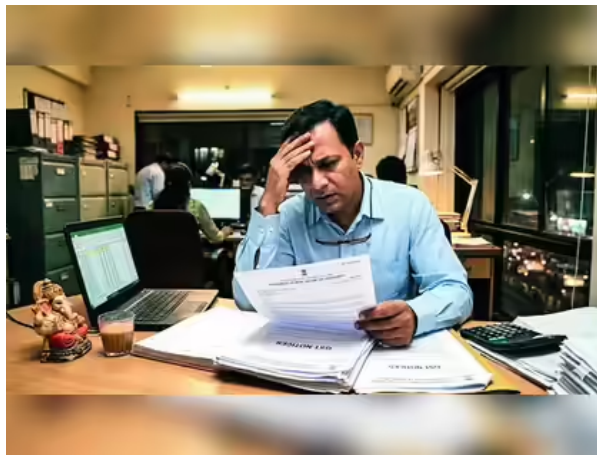
Synopsis

The Supreme Court is set to decide if tax authorities can issue a single show-cause notice for multiple financial years. This procedural issue impacts how tax exposure is assessed and litigated, with potential to aggregate liabilities and blur limitation boundaries. The court will determine if the CGST Act permits composite proceedings across years or mandates year-by-year liability initiation.



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A larger Supreme Court bench is set to revisit a key GST issue that could reshape litigation strategy: can the tax department issue a single show-cause notice (SCN) spanning multiple financial years?

At one level, the issue is procedural, but it cuts to how tax exposure is assessed, defended and litigated. A multi-year SCN can aggregate liabilities, blur limitation boundaries and complicate compliance, effectively compressing time while expanding exposure. The question is whether the law permits that compression.

The issue is not whether the state may recover unpaid tax - it may. The key question is: does [CGST Act](#) permit [composite proceedings](#) across years, or does it insist that liability be initiated and tested - year by year? The answer must come from statutory text, not administrative convenience.


Sections 73 and 74 set the foundation. Sub-section (1) permits notices for non-payment, short payment or wrongful [ITC](#) claims. Yet, their structure reflects a carefully calibrated internal balance.

Sub-sections (3) and (4) allow extension beyond the initial period covered in a notice, so long as the grounds remain unchanged. This acknowledges that tax disputes, particularly ITC-related ones, often follow patterns that do not align neatly with FY boundaries.

Sub-section (10) imposes a countervailing constraint by anchoring adjudication to the relevant FY and prescribing a strict outer time limit. The scheme operates on 2 temporal planes: 'period' governs the scope of inquiry, while 'financial year' fixes the outer bounds of liability. Continuity of investigation is permitted, but liability must be determined within statutory limits tied to the FY.

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This distinction has now split judicial opinion. In *Milroc*, the Goa Bench ruled that each FY is a distinct unit, leaving no scope for composite notices. The concern is that limitation is year-specific and defences may differ across years; aggregation can obscure time-barred claims and weaken precise rebuttal.

Yet, *Milroc* turns a legitimate limitation concern into a blanket bar on composite proceedings, without clear textual support. Sections 73(3) and 74(3), read with sub-section (4), permit extension to other periods on the same grounds. Where the statute provides a conditional framework for expansion, a categorical prohibition cannot be read in.

Delhi High Court in *Mathur Polymers* locates sub-section (10) within its proper domain - as a limitation provision governing the final order, not as a restriction on the structure of the notice. This allows composite SCNs where the underlying issue spans multiple periods, while preserving year-specific limitation. In effect, statute thus permits breadth in inquiry but insists on discipline in adjudication.

At the other extreme, unrestricted multi-year notices would create opacity - masking limitation, inflating exposure and weakening defence. Aggregation without structure risks turning enforcement into uncertainty. The scheme supports neither extreme; the answer lies in a calibrated middle path:

CGST Act does not prohibit composite proceedings across periods. The language of sub-sections (3) and (4) allows expansion beyond initial periods, provided grounds are the same.

Limitation remains strictly FY-specific. No composite notice can revive a time-barred demand, postpone limitation or merge distinct years into a single undifferentiated liability.

Requirement of 'sameness of grounds' must be applied with rigour. It demands real continuity, either in the underlying transaction pattern or in the legal issue. Broad similarity will not suffice. Without this discipline, the statutory safeguard becomes illusory.

Adjudication must reflect this segmentation. Orders must record year-wise findings, undertake separate computations and independently assess limitation for each FY. The absence of clarity is not a procedural lapse but strikes at the validity of the demand itself.

This framework is not anti-revenue - it is tethered to the text of the statute. It allows the administration to investigate efficiently while ensuring that statutory limits are not diluted. It preserves the integrity of both inquiry and adjudication.

The stakes are especially high in [ITC disputes](#), where patterns often span multiple years. A rigid year-by-year approach may be impractical. But an unstructured multi-year approach is untenable. The law must accommodate continuity without sacrificing clarity.

The court's task is to ensure that efficiency does not erode statutory safeguards. Ultimately, the question is not whether the state may investigate across time - it may. The question is whether, in doing so, it may depart from the statutory architecture of time.

CGST Act answers with clarity: proceedings may travel across periods, but liability must still be determined distinctly, precisely and within limitation for each FY. That distinction between the reach of inquiry and the discipline of adjudication is not merely interpretive. It is foundational. It is also what the larger bench must now reaffirm.

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