Original refund application illegally rejected & new application was filed; interest for delay calculated from original application date :

The High Court held that where a taxpayer's original GST refund application was wrongly rejected by the department and the taxpayer subsequently re-filed the application pursuant to court directions, interest under Section 56 of the CGST Act must be computed from the date of the original refund application, not the later re-filing date.

Key findings:

The taxpayer had initially filed a valid refund claim on an earlier date.

The department's rejection of that application was found to be illegal/unsustainable.

Re-filing of the application was necessitated only because of the wrongful rejection and subsequent court directions.

The authorities could not rely on the later re-filing date to deny or reduce statutory interest.

Accordingly, interest on the delayed refund was directed to be calculated from the date of the original application.

Key Takeaway

Tax authorities cannot avoid liability for interest on delayed GST refunds by relying on a later re-filing date when the original refund application was wrongly rejected. Where the delay is attributable to the department's unlawful action, interest under Section 56 runs from the date of the first valid refund application.

Section 56 of the CGST Act, 2017 – Interest on Delayed Refunds

Section 56 provides for **payment of interest by the Government where a GST refund is delayed** beyond the prescribed time limit.

Key Provisions

- If a refund sanctioned under **Section 54** is **not paid within 60 days** from the date of receipt of the refund application, the taxpayer is entitled to **interest on the delayed refund**.
- The prescribed rate of interest is **up to 6% per annum** (currently notified at 6% in most cases).
- Interest is payable for the period of delay **beyond 60 days** until the actual date of refund.

Higher Interest Rate

Where the refund arises as a consequence of an order of an **Adjudicating Authority, Appellate Authority, Appellate Tribunal, or Court** that has attained finality, and the refund is still not granted within 60 days, interest may be payable at a rate **up to 9% per annum**.

Relevance to the HC Decision

In the case you referred to, the High Court held that since the **original refund application was wrongly rejected**, the department could not rely on the later re-filed application date to deny interest. Therefore, **interest under Section 56 had to be computed from the date of the original refund application**, since the delay was attributable to the department's erroneous action. This aligns with the compensatory nature of Section 56.

Practical Takeaway

Section 56 protects taxpayers from loss caused by delayed GST refunds by requiring the Government to compensate them through interest when refunds are not released within 60 days.