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# Interest on Delayed Refunds

## Under GST - A Practical Perspective

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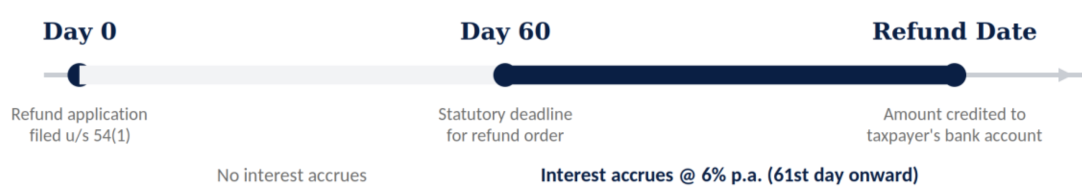
## INTRODUCTION

The right to a refund under the GST is a substantive right and not merely a procedural entitlement. If the refund is not sanctioned within the time prescribed by statute, it must compensate the taxpayer for the time value of that deprivation, and this is precisely what Section 56 of the CGST Act, 2017 ("Act") sets out to do. Even after 9 years of GST, the interest on delayed refunds remains one of the most litigated and administratively resisted corners of the law.

Proper officers routinely decline to sanction interest suo motu, refunds are credited without the accompanying interest order that Rule 94 mandates, and technical glitches on the GSTN portal are advanced as a ready defence whenever a claim is pressed. This article delves into the statutory architecture, intricacies revolving around interest on delayed refunds and the key judicial precedents that shaped how the provision is now understood.

## INTEREST IN NORMAL DELAYED REFUNDS

Taxpayer may file refund application under Section 54(1) of the Act for any tax, interest, or other amount paid, within 2 years from the relevant date. The refund sanctioning authority shall pass the refund order within sixty days of a complete application being received (after all deficiencies communicated are rectified) as per Section 54(5) r/w 54(7) of the Act. As per Section 56 of the Act, if tax ordered to be refunded u/s 54(5) of the Act is not refunded within 60 days from the date of receipt of refund application u/s 54(1) of the Act, interest at the rate of 6% p.a. is payable from 61st day of receipt of refund application till date of refund of such tax.




*Interest accrual timeline under Section 56 for ordinary refunds*

If refund is sanctioned within 60 days from the receipt of refund application, no interest claim arises. Interest claim arises only if refund is not sanctioned beyond 60 days from receipt of refund application. At the other end of the period, a refund is treated as 'granted' only when the money is actually credited to the taxpayer's bank account, not when the sanction order in Form GST RFD-06 is issued. This position was clarified in Circular No. 125/44/2019 – GST dated 18-11-2019 @para-No. 34. Hence, interest is payable also for the interim delay from sanction order till actual refund date.

The rate of interest of 6% p.a. for the above scenario and 9% p.a. for the proviso to Section 56 of the Act, have also been notified in Notification No. 13/2017-Central Tax dated 28-06-2017. Yet, whether Courts can award interest at the higher rate? The same was answered by the Hon'ble Apex court in UOI v. Willowood Chemicals Pvt. Ltd.[1] that where the statute itself fixes the rate of interest, interest cannot be awarded at no other interest rate.


*Interest rate applicability — Notification No. 13/2017-Central Tax*

## IS INTEREST PAYABLE AUTOMATICALLY?

As per Rule 94(1) of the CGST Rules, 2017 ("Rules"), refund payment order needs to be issued for tax along with interest, specifying the amount of delay and the interest payable, and to credit that interest electronically along with the refund. However, in practice, refunds are routinely disbursed without interest, leaving the taxpayer to either accept the shortfall or pursue a fresh standalone application specifically for interest. At this juncture, the two questions to be answered are —

- Does interest claim automatic in nature?
- Whether a separate application is to be filed specifically for interest claim?

The Hon'ble Apex Court in Commissioner v. Kanhai Ram Thekedar[2] has held that interest is automatic and not discretionary in nature, relying on the Pratibha Processors v. UOI[3], wherein it was held that interest is compensatory in nature. Again, in UOI v. Tata Chemicals Ltd[4], it was held that right to interest follow as a matter of course even where the governing statute contains no express provision for it. Under GST specifically, the Hon'ble Telangana High Court in Microsoft Global Services Center (India) Pvt. Ltd. v. State of Telangana[5] has held that Section 56 carves out no exception under which a delayed refund escapes interest, and the Allahabad High Court in Alok Traders v. Commissioner Commercial Taxes[6] has added that the department cannot rely on its own default in processing a refund to deny the taxpayer that interest.

The above position is even prevalent under the Central Excise regime as clarified at Para 2 of Circular No. 670/61/2002-CX dated 01-10-2002 that provisions of Section 11BB of the Central

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[1] 2022 (60) G.S.T.L. 3 (S.C.) — UOI v. Willowood Chemicals Pvt. Ltd.

[2] 2005 (185) E.L.T. 3 (S.C.) — Commissioner v. Kanhai Ram Thekedar

[3] 1996 (88) E.L.T. 12 (S.C.) — Pratibha Processors v. UOI

[4] (2014) 6 SCC 335 — UOI v. Tata Chemicals Ltd.

[5] 2024 VIL 312 TEL — Microsoft Global Services Center (India) Pvt. Ltd. v. State of Telangana

[6] Writ Tax No. 419 of 2022 & 424 of 2022 (Allahabad High Court), dated 27-04-2022 — Alok Traders v. Commissioner Commercial Taxes

Excise Act, 1944 ["CE Act"] are attracted "automatically" for any delayed refund beyond three months. Hence, the interest claim is automatic in nature once there is delay in refund.

The Hon'ble Delhi High Court, in Raghav Ventures v. Commissioner of Delhi GST[7] and Xilinx India Technology Services Pvt. Ltd. v. Assistant Commissioner, State Tax[8], that has held that interest u/s 56 of the Act cannot be rejected for not specifically claiming in refund application, since the entitlement arises by operation of law and not by request. Therefore, taxpayer is not required to file separate refund application for interest claim.

## INTEREST FOR DELAY IN CONSEQUENTIAL REFUNDS

Refund applications are most often rejected by the adjudicating authority stating that refund is ineligible for one or the other reasons. Against this refund rejection order, taxpayer has a right to file appeal before the Appellate Authorities. Once the refund is held to be eligible by the orders of the adjudicating authority or higher authorities [First Appellate Authority or GST Appellate Tribunal ("GSTAT") or Courts], which has attained finality, taxpayer needs to file consequential refund application.

If refund is delayed beyond 60 days from the receipt of refund application filed consequent to such order, interest at the rate of 9% p.a. is payable from 61st day of refund application till refund sanction, as per the proviso to Section 56 of the Act. Further, the explanation to the proviso provides that the orders of higher authorities will be considered as orders passed by refund sanctioning authority.

Most often, the department attempts to deny the interest stating that the order passed by the higher authorities holding refund is eligible, is subject to the department appeal and thereby not attained finality. However, the order of the higher authorities to be treated as attained finality since there was no department appeal filed as on the date of consequential refund application filed. Hence, interest is rightly eligible. Even if the appeal is filed, the processing of refund shall not be stopped unless there is a stay on the refund sanctioned order.

Further, interpretating the explanation to Section 54 as to the refund arises only from the higher authority favourable order and proviso replaces the main provision, the department has been consistently taking a view that interest only at the rate of 9% p.a. is payable as per the proviso and interest of 6% p.a. is not payable as per the main provision. Although, this view is not resembled from the plain read of the proviso read with explanation. Resultantly, the following disputes had evolved around the proviso —

- Whether interest accrues from High Authority order holding eligibility of refund?

[7] 2024 (87) G.S.T.L. 250 (Del.) — Raghav Ventures v. Commissioner of Delhi GST
[8] 2025 (8) TMI 310 (Del.) — Xilinx India Technology Services Pvt. Ltd. v. Assistant Commissioner, State Tax

- Whether the relevant date for interest is the date of original refund application or date of consequential refund application?
- Whether interest is payable at the rate of 6% p.a. also, where refund is held eligible by higher authorities, in addition to interest payable as per proviso and for what period of delay, such interest is payable?

The question of whether refund arises from the favourable order of the higher authority holding refund is eligible or the date of original refund application has been settled by the Hon'ble Apex Court in case of Ranbaxy Laboratories Ltd. v. UOI[9] in the context of Section 11BB of the CE Act, wherein it was held that Explanation does not postpone the date from which interest becomes payable u/s 11BB and does not have any bearing or connection with the date from which interest u/s 11BB becomes payable. Further, it was held that relevant date for payment of interest is not the order for refund to be made u/s 11B(2) but to be determined with reference to refund application date.

In Qualcomm India (P.) Ltd. Vs. UOI[10], it was held that Section 11B and 11BB of the CE Act, are pari materia to Section 54 and 56 of the CGST Act, 2017. Hence, the above decision has equal force under GST as well.

Following the Ranbaxy (supra), the P & H High Court in SBI Cards & Payment Services Ltd. v. UOI[11] has held that explanation does not deal with the period for which the interest is to be paid and stated that **interest is payable at the rate of 6% from the 61st day of receipt of original refund application till 61st day of receipt of consequential refund application and at the rate of 9% from the 61st day of receipt of consequential refund application till date of refund.**

The decision of SBI Cards & Payment Services Ltd. (supra) has been referred in Bansal International v. Commissioner, DGST[12] and Qualcom India Pvt. Ltd. v. Deputy Commissioner (ST)(FAC), Hyderabad[13]. Further, in Bansal International (supra), it was inter-alia held that -

- Consequential refund application cannot be treated as a fresh application. Hence, 6% interest is also applicable in addition to 9% interest rate.
- Proviso to a clause must be read in the context of the main clause and not as a separate or an independent clause. Hence, the proviso to section 56 ibid must not be read as replacing the main clause or diluting its import; it merely addresses a situation which is covered by the main clause.

However, the Bombay High Court in Lupin Limited v. UOI[14], has held that **interest at the rate of 6% is payable from the receipt of original refund application date till 60th day of receipt of**

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[9]2011 (273) ELT 3 (SC) — Ranbaxy Laboratories Ltd. v. UOI

[10]2021 (50) G.S.T.L. 269 (Bom.) — Qualcomm India (P.) Ltd. v. UOI

[11]2023 (3) Centax 217 (P&H) — SBI Cards & Payment Services Ltd. v. UOI

[12](2023) 13 Centax 210 (Del.) — Bansal International v. Commissioner, DGST

[13](2024) 17 Centax 482 (Telangana) — Qualcom India Pvt. Ltd. v. Deputy Commissioner (ST)(FAC), Hyderabad

[14]2025 (8) TMI 703 (Bombay High Court, Goa Bench) — Lupin Limited v. UOI

**consequential refund application and Interest at the rate of 9% from the 61st day of receipt of consequential refund application till date of refund.** However, the intention of the Section 56 of the Act does not seem to provide interest from the receipt of original refund application, however only from the 61st day of receipt of original refund application.

Further the department often rejects the interest at the rate of 6% p.a. as per the main provision, in cases where refund is sanctioned within 60 days from receipt of consequential refund application stating main provision is not applicable. In the similar set of facts, in Altisource Business Solutions India Pvt. Ltd. v. UOI[15], it was held that interest u/s 56 of the Act is payable from the expiry of 60 days from the original refund application, not from the consequential refund application. Further observed that rejection later found unsustainable cannot deprive the Assessee of compensation for delayed refund. Hence, interest as per the main provision is applicable for original refund application even in cases consequential refund application is filed. Similarly held in Kuehne Nagel Pvt. Ltd. & Anr. v. UOI & Ors[16].

## INTEREST IN CASE OF REFUND WITHHELD BY THE DEPARTMENT

A further, distinct situation arises under Section 54(11) and (12) of the Act, where the Commissioner withholds an already-sanctioned refund if he is of the opinion that grant of such refund is likely to adversely affect the revenue in the said appeal or other proceedings. Upon the taxpayer is entitled for refund of withheld refund, notwithstanding anything contained in Section 56 of the Act, interest at the rate of 6% p.a. is payable. However, these provisions are silent on the period from which the interest shall be granted.

## INTEREST IN CASE OF REFUND OF PRE-DEPOSIT

As a consequence of favourable dropping order by the higher authorities, taxpayer shall file consequential refund application under Section 54 of the Act, for the pre-deposit made under Section 107(6) and 112(8) of the Act. However, interest on such pre-deposit refund is not governed under Section 56 of the Act rather Section 115 of the Act, which provides that interest is payable from the date of payment of pre-deposit till the date of refund, at the interest rate specified in Section 56 of the Act. Hence, interest is payable from date of payment of pre-deposit rather than the date of favourable order of higher authority order, the view that is most often taken by the department.

It was clarified by the CBIC FAQs that the rate of interest for this case is 6% p.a. As per the author's, a view can be taken that interest is payable at the interest rate of 9% p.a. as per the proviso to Section 56 of the Act since the pre-deposit refund is also arising as a consequence to the favourable orders of Higher authorities. However, this is yet to be settled by the judiciary in times to come.

[15] TS-848-HC(BOM)-2025-GST — Altisource Business Solutions India Pvt. Ltd. v. UOI

[16] 2026 (7) TMI 575 (Gujarat High Court) — Kuehne Nagel Pvt. Ltd. & Anr. v. UOI & Ors.

In State of Jharkhand v. BLA Infrastructure Pvt. Ltd.[i], it was held that refund of pre-deposit made is a right vested after appeal is allowed in its favour and is governed by Section 107(6) r/w Section 115 and not Section 54 of the Act, and that resort to the machinery of Section 54 is unnecessary.

Further in Flipkart India Private Limited v. Assistant Commissioner of Commercial Taxes[ii], it was held that both the pre-deposit and the interest on it must be refunded in cash, whatever ledger the pre-deposit was originally paid from. Relying on this decision, taxpayers can claim refund and interest entirely in cash.

## INTEREST IN OTHER CATEGORIES OF REFUNDS

In Vineet Polyfab Pvt. Ltd. v. UOI[iii], it was held that taxpayer shall be entitled for interest, even if delay is caused by technical failures on the GSTN portal or ICEGATE. This judgment will help in case of interest denials citing administrative or technical reasons by the department.

It is settled position that any amounts paid under protest or investigation, shall be refunded without any limitation, however interest is often granted from the date of favourable order of higher authorities rather from the date of payment. Further, interest on this category of refund is not specifically dealt in Section 56 of the Act. In Anand Engineering Ltd. v. Commissioner of Central Excise & CGST, Lucknow[iv], in the context of the CE Act, it was held that for the remaining amounts paid towards tax, interest etc under protest (other than pre-deposit), interest is not governed under Section 11BB of the Act, therefore, interest is payable from the date of deposit.

In cases where taxpayers make the payment of taxes based on a provision or notification and later on levy was held unconstitutional by the courts, the taxes paid are liable to be refunded along with interest from the date of payment as held in West India Continental Oils & Fats (P.) Ltd. v. UOI[v].

## CONCLUDING REMARKS

**KEY TAKEAWAY**

Today, although Section 56 was intended to operate automatically, its implementation is not in accordance with law and settled judicial precedents. The same is being undermined by administrative practice. Interest on delayed refunds is seldom granted as a matter of course, forcing taxpayers to litigate for what should be a routine statutory entitlement. For taxpayers, claiming such interest often turns into a roller coaster, even though the law envisages it as an automatic consequence of a delayed refund. The Government shall give clear instructions to department to follow the statutory mandate for granting the interest on delayed refunds suo moto.

*The views expressed are strictly personal and based on position of law prevailing as on date. This cannot be regarded as an opinion. For any queries or feedback please write to laxman@hnaindia.com, ashalatha@hnaindia.com or sumatha@hnaindia.com.*

[i]2026 (38) Centax 186 (S.C.) — State of Jharkhand v. BLA Infrastructure Pvt. Ltd.

[ii]2025-TIOL-1489-HC-KAR-VAT — Flipkart India Private Limited v. Assistant Commissioner of Commercial Taxes

[iii](2025) 36 Centax 15 (Guj.) — Vineet Polyfab Pvt. Ltd. v. UOI

[iv]Final Order No. 70771-70772/2025, dated 03-11-2025 (CESTAT) — Anand Engineering Ltd. v. Commissioner of Central Excise & CGST, Lucknow

[v](2025) 179 taxmann.com 603 (Bom.) — West India Continental Oils & Fats (P.) Ltd. v. UOI