*COMPENDIUM - TAXPAYER ASSISTANCE*

# Compendium of Judgments

## Use of Artificial Intelligence by Adjudicating Authorities

*Fake, non-existent and unverified case laws in notices and orders - eight judgments of the Supreme Court and High Courts, with relevant paragraphs highlighted*

| Supreme Court | High Courts | Case-law Check | Appeal and Writ | Case Law |
|---|---|---|---|---|

**BASED ON SUPREME COURT AND HIGH COURT DECISIONS OF NOVEMBER 2025 TO OCTOBER 2026**

*Supreme Court, and the Delhi, Gujarat, Punjab and Haryana and Bombay High Courts*

**UPDATED ON 09.11.2026**

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# Use of Artificial Intelligence by Adjudicating Authorities

Fake, non-existent and unverified case laws in notices and orders · Supreme Court and High Court decisions, November 2025 to October 2026 · Eight judgments, with relevant paragraphs highlighted in light blue

## About this compendium

This compendium brings together eight judgments and orders of the Supreme Court of India and of the High Courts of Delhi, Gujarat, Punjab and Haryana and Bombay, delivered between 18 November 2025 and 30 October 2026, on the use of artificial intelligence by officers who issue show cause notices and pass adjudication orders under the GST and Customs laws. It shows what the courts have done where a notice or order relied on non-existent, mis-cited or irrelevant judgments, or carried the marks of an AI tool. For a taxpayer facing litigation, it helps to judge when a notice or order can be challenged, what relief the courts have usually given (quashing, a fresh hearing, a different officer) and what has to be shown; for a tax consultant, it supplies full copies of the authorities, with the operative paragraphs highlighted, for drafting a reply, an appeal or a writ petition. It rests on the principles of application of mind and natural justice in show cause and adjudication proceedings, and on the judgments and orders themselves. It is a companion to Guide No. 04 (*AI in Notices and Orders: Fake and Non-Existent Case Laws*).

## What the decisions establish

- **Unverified AI-generated precedents.** The Supreme Court has declared zero tolerance for citing or relying on fake or hallucinated material; a decision resting on it is 'no decision in the eyes of the law' and is set aside even if an iota of such material enters the reasoning (*Pooja Ramesh Singh*, paras 7 and 17; applied in *Vijay Ghanshyam Gadiya*, paras 5 and 7).
- **AI as an aid, not a substitute.** AI may be used for analysis and summaries, subject to verification, and the department bears responsibility for what it cites (*J M Jain*, paras 68, 70 and 73; *Gadiya*, para 6). A notice prepared with an AI tool, without independent application of mind, was quashed (*SRO India*, paras 5 and 6). Gujarat State Tax instructions of 18.08.2026 now require primary-source verification and record of own reasoning (*Faiz Enterprise*, para 4).
- **Relief given.** Orders and notices have been quashed and sent back for fresh decision, in one case to an officer of the same rank other than the author (*Gadiya*, para 8; *Faiz*, para 9; *Quanta Logistics*, paras 4 and 5; *SRO India*, para 7). In *J M Jain* the notice was not quashed: the challenge was held premature and the taxpayer was directed to reply (para 77).
- **Proof.** The petitioners identified each defective citation and the Courts checked them (*Marhabba Overseas*, paras 2 to 5; *J M Jain*, para 69). In *Quanta Logistics* a written request for copies of the cited judgments had gone unanswered (para 2).
- **Status to watch.** *Gummadi Usha Rani* and *Marhabba Overseas* are interim orders; *Quanta Logistics* was disposed of by consent. Check later developments before citing.

## How the compendium is arranged

- Cases are arranged by date of decision, except that *Gummadi Usha Rani* is placed last. A separator page before each judgment gives its details, a short holding and the paragraphs highlighted.
- The judgments are reproduced as supplied in the folder, with paragraph numbers as printed. The only additions are the light blue highlights (the compiler's selection of relevant passages), the separator pages and the compendium page number at the foot of each page.
- Citations, benches and dates have been checked against the copies reproduced here. This is a research aid and not legal advice.



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| 8 | **Gummadi Usha Rani & Anr. v. Sure Mallikarjuna Rao & Anr.**<br>*Supreme Court of India — Pamidighantam Sri Narasimha and Alok Aradhe, JJ.*<br>*Paras 1, 2 (decisions cited), 3, 4, 6, 7 and 8* | 27.02.2026 | Petition for Special Leave to Appeal (C) No. 7575 of 2026 (against Andhra Pradesh High Court order of 21.01.2026 in CRP 2487/2025) | [p. 85] |

CASE 1 OF 8

# M/s J M Jain Prop. Sh. Jeetmal Choraria v. Union of India & Ors.

| | |
|---|---|
| **Court** | High Court of Delhi |
| **Bench** | Prathiba M. Singh and Shail Jain, JJ. |
| **Date** | 18.11.2025 (uploaded 27.11.2025) |
| **Case no. / citation** | 2025:DHC:10505-DB; W.P.(C) 16754/2025 |

## Holding in brief

DGGI show cause notice of 26.06.2025 cited three judgments in para 21; the Court called for the books and found one non-existent and one with a different holding. The Department, and the Income Tax Department too, must verify every judgment before issuing a notice or finalising an assessment, and takes responsibility for AI-produced citations. Challenge to the notice held premature; reply and personal hearing to follow.

## Paragraphs highlighted

Paras 14, 68-70, 71 (KMG Wires extract), 72 (Louboutin extract), 73 and 77

## Status

Final judgment on the writ petition; notice not set aside, taxpayer relegated to reply.

Relevant paragraphs are highlighted in light blue. The judgment begins on compendium page 4.

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* **IN THE HIGH COURT OF DELHI AT NEW DELHI**

\+ **W.P.(C) 16754/2025 & CM APPL. 68768/2025**

***Date of decision: 18th November, 2025***
***Uploaded on: 27th November 2025***

MS J M JAIN PROP SH JEETMAL CHORARIA .....Petitioner

Through: Mr. J.K. Mittal, Ms. Vandana Mittal, Mr. Mukesh Choudhary, Mr. Lalitendra & Mr. Mohit, Advs.

versus

UNION OF INDIA THROUGH ITS SECRETARY & ORS. .....Respondents

Through: Mr. Brijesh Yadav, Adv.
Mr. Anurag Ojha, SSC with Mr. Dipak Raj, Mr. Avinash Shukla & Mr. Priyatam Bhardwaj, Advs.
Mr. Shagan Vaswani, Adv.

**CORAM:**
**JUSTICE PRATHIBA M. SINGH**
**JUSTICE SHAIL JAIN**

**JUDGMENT**

**Prathiba M. Singh, J.**

1. This hearing has been done through hybrid mode.

**CM APPL. 68769/2025 (for exemption)**

2. Allowed, subject to all just exceptions. Application is disposed of.

**W.P.(C) 16754/2025 & CM APPL. 68768/2025 (for interim relief)**

3. The present petition has been filed by the Petitioner- M/s J M Jain through its proprietor Mr. Jeetmal Choraria under Article 226 of the Constitution of India, *inter alia*, assailing the Show Cause Notice dated 26th June, 2025 issued by the Joint Director, Directorate General of GST

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Intelligence, Delhi Zonal Unit *(hereinafter, 'SCN')*.

4. In addition, the Petitioner has also challenged the Constitutional validity of Section 75(2) of the Central Goods and Services Tax Act, 2017 *(hereinafter, 'CGST Act').* The prayer in present petition is as under:

"***Prayer***

*It is, therefore, most respectfully prayed that this Hon'ble High Court be pleased to:*

*A) issue a writ of certiorari / mandamus or any other appropriate writ/ order/ direction against the Respondents by quashing sub-section (2) of section 75 of the CGST Act, 2017 as ultra vires to CGST Act, 2017 and unconstitutional;*

*B) issue a writ of certiorari / mandamus or any other appropriate writ/ order/ direction against the Respondents by declaring that the provisions of section 132(4) and the provisions of section 292C of the Income Tax Act 1961 have no applicability to the proceedings initiated under the CGST Act, 2017 and/or IGST Act, 2107 as said provisions have limited applicability to the Income Tax Act only;*

*C) issue a writ of certiorari/ mandamus or any other appropriate writ/ order/ direction against the Respondents by quashing the impugned Show Cause Notice No. DGGI/DZU/39 2025-26, dated 26.06.2025 (at **Annexure P1**) by declaring that the impugned Show Cause Notice No. DGGI/DZU/39 2025-26, dated 26.06.2025 in vague, without following the procedure established by law and based on the findings recorded in the income tax assessment orders without any independent examination of records, findings and evidences by DGGI, Delhi/ Respondent, is bad in law & without jurisdiction;*

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*D) issue such other writ/order/ direction and further orders as the Hon'ble Court may deem just and proper in the facts and circumstances of the case."*

***FACTUAL BACKGROUND***

5. The brief background of the Petitioner's case is that, investigation was conducted against the Petitioner, based on an intelligence, by the Income Tax Department *(hereinafter, IT Department')*, on 28th May, 2022.

6. According to the SCN, the IT Department had, in its search, unearthed a secret server which had the name JSK on it, from the registered address of the firm being 2285/9, Gali Hinga Beg, Tilak Nagar, New Delhi, Delhi-110006.

7. According to the IT Department, the said server contained records of unaccounted transactions and consideration amounts which were hid by the Petitioner. The allegations of the IT Department are that the Petitioner was maintaining two sets of Books of Accounts *i.e.*, regular books and parallel books which contained unaccounted transactions. This led to the IT Department proceeding against the Petitioner under the Income Tax Act, 1961 *(hereinafter, 'IT Act')*.

8. Parallelly, the IT Department had given the information relating to the search and their findings of the investigation along with the Relied upon documents *(hereinafter, 'RUDs)*, special audit reports, statements made by various persons etc. to the Goods and Services Tax Department *(hereinafter, 'GST Department'*), for scrutiny.

9. Thereafter, the GST Department issued the impugned SCN, which is under challenge in the present petition.

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10. As per the SCN, various demands and penalties are proposed to be imposed against the Petitioner, as also the connected family members, accountants etc., of the Petitioner, under the provisions of CGST Act.

***SUBMISSIONS ON BEHALF OF THE PETITIONER***

11. Mr. J.K. Mittal, ld. Counsel appearing on behalf of the Petitioner raises an important issue in respect of admissibility of evidence collected by the IT Department under provisions of the IT Act, and the presumption under Section 292C of the IT Act. The submission of ld. Counsel for the Petitioner is that any presumption under Section 292C IT Act would apply only in respect of proceedings under the IT Act and the same cannot form the basis for any investigation under the CGST Act.

12. Further, it is submitted that the statements recorded by the IT Department, from the concerned parties, can be relied upon as evidence, only in proceedings under the Income Tax laws and not under the GST Laws.

13. Thus, it is his submission that the SCN does not give any basis for the GST Department to raise any demands against the Petitioner, merely on the basis of the findings of the IT Department. It is submitted that such an SCN could not have been issued, unless there was independent supporting evidence with the GST department, in support of the SCN.

14. In addition, it is also alleged by ld. Counsel for the Petitioner that some of the judgments referred to in paragraph 21 of the SCN do not exist, and are Artificial Intelligence generated judgments.

15. Ld. Counsel for the Petitioner also places reliance upon the decision in **SLP(C) No. 6092 of 2025** titled ***'Armour Security (India) Ltd. Vs. Commissioner, CGST, Delhi East Commissionerate'***. According to ld.

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Counsel, what can form the basis of an SCN has been set out in paragraph 66, 67 and 85 of the said judgement. The said judgment has also laid down the manner in which the SCN should set out all the allegations, the evidence, the RUDs, and the action proposed to be taken. In the absence of the same, the SCN could not be tenable. Further, other judgments have also been relied upon to argue that if the SCN does not have any tangible evidence, there cannot be any assumptions made by the GST Department, as the same would be an error in law. The other decisions relied upon by Mr. Mittal, ld. Counsel for the Petitioner are as under:

- ***CC (Imports), Chennai v Flemingo (DFS) Pvt. Ltd.*** **2010 (251) ELT 348 (Mad.)**
- ***UOI v Garware Nylons Ltd., (1996) 10 SCC 413***
- ***Goa University v. Commr. (CGST), 2025 SCC OnLineBom 1262***

16. It is further submitted by Mr. Mittal that, the documents which may be relied upon by the IT Department, as an outcome of the investigation conducted by the IT Department, cannot be the basis of assessment by other Departments.

17. Further, it is argued that in the list of GST department's RUDs, none of the digital evidence is relied upon, which are seized by the IT Department.

18. Lastly, ld. Counsel for the Petitioner submits that an examination of paragraph 49.1 and 49.2 of the SCN reflects that the SCN is itself vague.

***<u>SUBMISSIONS ON BEHALF OF THE GST DEPARTMENT</u>***

19. Per contra, Mr. Ojha, ld. SSC for the GST Department submits that the

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IT Department had informed the GST Department about search and action taken by them. Thereafter, the GST Department has independently scrutinised the material received from the IT Department.

20. It is further submitted that the IT Department looks into IT evasion. However, the fundamental basis of the IT evasion is that services were rendered in a clandestine manner, and no GST was paid. Consequently, this would also result in evasion of GST. Thus, the SCN is fully tenable, though the same is based on the search material unearthed by the IT Department.

21. Additionally, it is also submitted that the correct citation for one of the judgements mentioned in paragraph 21 of the SCN namely ***Surjeet Singh Chhabda v. Union of India*** is **1997 89 ELT 646**, and only the citation is wrongly recorded.

22. Insofar as the challenge to Section 75(2) of the IT Act is concerned, it is submitted by ld. SSC that the same is completely premature, inasmuch as the GST Department has not taken any decision to convert the inquiry or the proceedings, to proceedings under Section 73(1) of the CGST Act. Therefore, under such circumstances, no presumption can be made that the proceedings would be converted into proceedings under Section 73(1) of the CGST Act, and no challenge can be raised to Section 75(2) of the CGST Act.

## ***ANALYSIS***

23. The Court has considered the matter. Undoubtedly, the IT Department did conduct a search at the Petitioner's premises, and various materials have been recovered. The said materials include computer servers, audit books, statutory audit records, digital devices including WhatsApp communication, etc. On the basis of the search and inspection, the statements of various

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employees were recorded. The manner in which the alleged evasion was being conducted, has also been set out in the SCN, as a background to the SCN.

24. In terms of the SCN, the Petitioner was engaged in the trading of readymade garments and was working as a commission agent. Out of the discount, which was received from the suppliers, the Petitioner used to retain 3% fixed margin. As part of the investigation, statements of following persons were also recorded by the IT Department:

- Mr. Jinendra Bhatera
- Mr. Anoop Prakash Gupta
- Mr. Shalinder Mohan on behalf of Mr. Jeetmal Choraria

25. The Special Audit Reports for the Financial Years 2019-20, 2020-21, 2021-22 were also submitted by the IT Department to the GST Department. After recording the receipt of the Special Audit Reports, paragraph 15 of the SCN proceeds as under:

> *"15. The above documents submitted by the Income Tax Department were scrutinized with the GST point of view as per the Central Goods and Services Tax Act, 2017."*

26. From the above extracted paragraph 15 of the SCN, it is clear that the GST Department has independently scrutinised the records received from the IT Department, and various observations have been made by the IT Department. The Special Audit conducted by the IT Department were considered by the GST department and the findings are set out in detail in the SCN. For Financial Year 2019-2020 the following were the conclusions:

> *"15.1.6 - The special audit for FY 2019-20 presents*

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> *strong evidence of GST evasion through the maintenance of parallel books on the JSK server. The commission income and interest income reflected therein were systematically suppressed and not reported before tax authorities. The nature, structure, and non-cooperation by the taxpayer confirm intentional*
> *evasion of GST liabilities."*

27. Similarly, the Special Audit conducted for Financial Year 2020-2021 pertaining to the proprietor Mr. Jeetmal Choraria, also reveals and mentions about the electronic evidence, and the WhatsApp chats. The conclusion based on the Special Audit Report and the supporting evidence is recorded as under:

> *"15.2.7 - Based on the audit records and supporting evidence, it is clear that the income was intentionally concealed to avoid paying GST. The JSK Server was not just a secondary or unofficial tool—it served as the main operational record of M/s JIM Jain's actual business activities. The consistent pattern, scale, and repetition of such concealment strongly point to deliberate tax evasion. The evidence recovered—such as WhatsApp chats, handwritten "kachchiparchis," branch-wise commission details, and digital ledgers—collectively form a strong and credible basis for GST evasion by the assessee. The findings for FY 2020-21 further reinforce the ongoing pattern of concealment, showing how M/s JM Jain continuously withheld information about commission and interest income."*

28. Insofar as the Special Audit conducted for Financial Year 2021-2022 for the proprietor Mr. Jeetmal Choraria is concerned, the audit findings record is as under:

> *"15.3.8 - The audit findings for the financial year 2021-22 clearly reveal a serious and systematic case of GST evasion by M/s J.M. Jain. The firm operated a*

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*parallel accounting system through the JSK server, which was used to record unaccounted transactions that were deliberately kept out of the official books. A significant portion of the business was carried out in cash, bypassing the formal financial system, and thereby avoiding tax liability. What makes the evasion even more apparent is the use of coded names, fictitious or dummy entities, and misleading identifiers to mask the true nature of transactions. This intentional layering created obstacles in tracing the flow of income and determining the actual turnover of the firm. Despite being given multiple opportunities, the entity showed reluctance and non-cooperation during the audit process, further indicating an attempt to withhold material information. The income earned from providing commission-based facilitation services, as well as interest on delayed payments, was never reported to the tax authorities. This concealment was not incidental but part of a deliberate and well-planned strategy to evade GST. A variety of corroborative evidence reinforces these findings. Forensic examination of electronic devices recovered during the search revealed incriminating WhatsApp conversations and internal communications. These included details of financial transactions that were never reflected in the official accounts. Additionally, handwritten "kachchiparchis- (unofficial slips or records) and internal branch-level documents clearly pointed to a substantial volume of concealed business operations. Taken together, the findings for FY 2021-22 add yet another layer to the growing body of evidence against M/s J.M. Jain, establishing a consistent pattern of suppression of income and tax evasion."*

29. Apart from the Special Audit Reports, the findings of the IT Department are also considered by the GST Department, and the conclusion that has been arrived at is that there is a consistent pattern of income

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suppression by the Petitioner, the business structure and the *modus operandi* of the Petitioner has also been set out in the SCN, wherein it is recorded that the 3% of the commission was being retained in an unaccounted server, only in order to escape the tax liabilities. The total commission that is stated to be alleged to be concealed by the Petitioner, is over Rs.88 crores, and the conclusions for the various financial years is captured as under:

**29.1 For Financial Year 2019-20 (RUD-1)**

Insofar as the Financial Year 2019-20 is concerned, after considering the entire record, the IT Department's conclusion is set out below:

> *"16.2.7 - The assessment order for FY 2019-20 reaffirms that M/s J.M. Jain operated a parallel accounting system to deliberately suppress commission and interest income. These amounts were not occasional or clerical omissions—they were methodically tracked and concealed through the JSK Server. The non-disclosure of taxable amount of Rs.221,60,58,929/- purely on account of commission, interest and other income (cash receipts and others) — supported by SAP logs, employee testimony, and cross-referencing—reveals a deliberate effort to evade GST and Income Tax. The AO's approach to dissect the JSK Server data and correlate it with real trade activity was methodical and conclusive."*

**29.2 For Financial Year 2020-21 ( RUD -1)**

In respect of Financial Year 2020-21, after considering the entire record, the IT Department's conclusion is set out below:

> *"16.3.6- The assessment for FY 2020-21 reaffirms the continuing pattern of income suppression by M/s JM Jain through its JSK Server. The concealment of Rs.88,08,31,933/- in commission, interest and other income, backed by employee statements, ledger entries,*

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*and digital records, paints a clear picture of deliberate evasion of both income tax and GST. The AO's methodical treatment, backed by legal and factual evaluation, not only uncovered hidden income but also connected it directly with GST implications, reinforcing that this was not a simple error but a structured scheme to evade tax liabilities."*

**29.3 For Financial Year 2021-22 ( RUD -1)**

Pertaining to Financial Year 2021-22, after considering the entire record, including the reply of the Petitioner, the IT Department's conclusion is set out below:

*"16.4.7 - The assessment for the year 2021-22 is the final and most important part of the ongoing findings from the JSK Server. The entries in the records, how the system was set up, and the statements given by employees all clearly show that M/s J.M. Jain was using two sets of accounts. The real income earned from commission and interest on delayed payments was purposely kept hidden from the tax departments. The Assessing Officer's investigation proved that this was not a mistake—it was a planned and repeated effort to hide income. An additional taxable value of Rs. 46,41,50,000/-was found, which included unreported commission, interest and other income (cash receipt). This matches the same pattern seen in earlier years and confirms that the business was involved in evading both income tax and GST."*

30. After analyzing and scrutinizing the special audit reports and the assessment orders, the GST Department made its own observations, on the basis of the data which was received from the IT Department. The statements of various persons associated with M/s JM Jain, including Mr. Sandeep Dugar, the authorized signatory of M/s JM Jain were also

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considered. On the basis of the statement of Sandeep Dugar, the SCNsets out the analysis and the conclusion of the GST Department which is as under:

> *"19.1.3 From the above statement, it is understood that Sandeep Dugar along with his subordinate staff was custodian of the Pen Drive which contained parallel books named JSK. Entries in the JSK were made by Accounts Section. Further, Sandeep Dugar maintained and managed cash receipts and cash payments through his Cash Department. Sandeep Dugar also explained the modus operandi adopted by M/s JM Jain for affecting unaccounted transactions which were not recorded in any books of accounts. Therefore, it is confirmed that Jain Group operated a deliberate and well-organized parallel accounting system under the code name "JSK" to conceal actual cash transactions. These transactions were deliberately kept off the official books and GST returns by classifying them as "non-taxable." The existence of secret records, coded diaries, and use of a separate JSK server accessible via pen drive clearly shows intent to evade GST liabilities.*
>
> *19.1.4 The involvement of Sh. JeetmalChoraria, indicates that this was a planned, systematic effort to hide real income and avoid tax payments. This evidence establishes that the firm was engaged in willful GST evasion through:*
>
> *a) Maintaining dual books of accounts*
> *b) Suppressing actual turnover and taxable supplies*
> *c) Concealing cash sales and commissions*
> *d) Using coded records and restricted access software systems to avoid detection*
>
> *19.1.5 In order to confront statement given by him before Income Tax Department, summonses dated 22.04.2025, 30.04.2025, 21.05.2025 and 11.06.2025*

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> ***(RUD 11A)****were issued to him. However, he never appeared for tendering statement."*

31. Thereafter, the statement of Mr. Shreyans Kumar Bhatera was also analyzed and it was found that M/s JM Jain was working under two business models *i.e.*, the *Pakka* and *Kachcha* models. The *Kachcha* transactions were cash dealings and the *Pakka* transactions were alleged to be the payments made by cheques. Conversions and chats recovered from his mobile phone which was seized during the search, are stated to have confirmed these facts. Summons were issued by the GST Department to Mr. Shreyans Kumar Bhatera. However, he did not appear. Moreover, the GST Department found that his conduct was not bonafide. In this regard the SCN records as under:

> *"19.2.3 In order to confront statement given by him before Income Tax Department, summonses dated 22.04.2025, 30.04.2025, 21.05.2025 and 11.06.2025* ***(RUD 12A)*** *were issued to him. However, he never appeared for tendering statement. Instead, he submitted letters dated 05.05.2025 and 26.05.2025* ***(RUD 12B)*** *alleging that summonses are without jurisdiction on the grounds that they are issued by Senior Intelligence Officer whereas summonses should be issued by officers not below the rank of Joint Commission and whether summonses have been issued taking prior permission of proper officer not below the rank of Joint Commission in writing. He further alleged that the summonses fail to disclose nature and reasons for proceedings, reasons for his presence and summonses are in violation of circulars and instructions. Thus, he questioned the legality and authority of the summonses It is pertinent to mention that both the letters submitted are same in their contents but have different dates.*

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*19.2.4 The allegations made in his letters are baseless as the summons issued following due procedure contained all necessary disclosures such as, DIN Number, issuing authority, issuing section, name, purpose for issuing summons and name of assessee under investigation etc. All these details were duly recorded in the summonses issued to him. Though all the required details were already duly recorded in the summonses, he intentionally sent unwarranted letters which clearly bring out his malafide intention of avoiding and delaying investigation."*

32. Furthermore, statement of Mr. Magan Das, who was the accountant of M/s JM Jain, was also analyzed. He informed that Mr. Jeetmal Choraria, the proprietor of M/s JM Jain was responsible for cash collection and maintaining the records at Tilak Bazar office. In order to confront him with the said statement, summons were issued to Mr. Magan Das. However, he also failed to appear before the GST Department.

33. Additionally, statement of Mr. Vinod Kumar Sharma was also analyzed. He is an employee of M/s JM Jain and allegedly used to collect cash from the customers and deliver it to vendors. WhatsApp chats recovered from his phone exposed the secret cash sales system of M/s JM Jain. In order to confront him with the statement given to the IT Department, summons were issued to him but he also failed to appear before the GST Department.

34. Thereafter, statement of Mr. Vinay Kumar Baid was also analyzed. He is the senior executive of M/s JM Jain, managed banking operations, and audits. He denied having knowledge of any fact of unrecorded cash transactions of M/s JM Jain.

35. Pursuant thereto, statement of Mr. Radhey Shyam Saran was also

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assessed. He is an employee of cash department of M/s JM Jain who is stated to have confirmed that he used to collect cash on the directions of Mr. Magan Das. The WhatsApp chats with Mr. Magan Das, retrieved from his mobile phone, were also admitted by him. He confirmed that the large amount of cash was counted which were over Rs.1 crore. However, when summons were issued to him, he also refused to appear before the GST Department.

36. Further, statement of Mr. Paras Mal Khater was also analyzed. He was working as cash executive of M/s JM Jain. and stated that he used to deposit Rs.1.5 to Rs.2 lakhs cash in the company on a daily basis. However, he also did not respond to the summons by GST Department.

37. Thereafter, statement of Mr. Rakesh Chhajer was also examined. He is a senior accountant and customer relation manager of M/s JM Jain. He also confirmed that there were two business models *i.e., Pakka* and *Kachcha* models and that the dual billing systems were being operated at M/s JM Jain. He also did not respond to the summons and did not appear before the GST Department.

38. Following therefrom, statements of other employees of M/s JM Jain *i.e.,* Mr. Satya Narayan Sharma, who was marketing manager, Mr. Ravinder Kumar, accountant, Mr. Nand Kishore Solanki, head accountant, Mr. Naveen Dugar, marketing executive, Mr. Sanjay Kumar Choraria, an employee, were all analyzed by the GST Department.

39. Insofar as Mr. Nand Kishore Solanki is concerned, he confirmed a hidden system under JSK server for unrecorded cash transactions.

40. On the basis of all the statements of various employees of M/s JM Jain, the GST Department came to the following conclusion:

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*"20. **The conclusion of all the statements**: The statements from various employees of M/s JM Jain clearly reveal a carefully planned and organized effort to evade GST. The firm maintained two sets of accounts—one official and one secret—where many cash sales were kept completely off the books. This hidden system, known as "JSK," used coded language, special software, and handwritten records to hide the real income. They regularly issued underpriced invoices, with customers paying the rest in unreported cash. Large amounts of cash were moved between cities, handled by trusted staff using secret codes on WhatsApp to avoid detection. During the investigation, significant amounts of unaccounted cash were found, which were neither recorded officially nor deposited in banks. The proprietor Sh. Jeet Mal Choraria actively directed these practices, showing that this was a deliberate and systematic scheme. The involvement of select employees with access to the special software helped keep the tax evasion hidden for years. Overall, the evidence points to a well-organised GST evasion operation that caused serious GST revenue loss to the exchequer. The key findings of all above statements are as under:*

*(i) All employees admitted that two models of work — Pakka and Kachcha were prevailing in M/s JM Jain (now M/s JM Jain LLP);*
*(ii) Kachcha transactions were recorded in JSK Server;*
*(iii) JSK Server is the parallel books of accounts of M/s JM Jain;*
*(iv) Transactions recorded in JSK server were never recorded in any of the books of M/s JM Jain group;*
*(v) M/s JM Jain facilitated clandestine sales of goods between suppliers and buyers by way of movement of cash through their employees, several WhatsApp chats evidencing movement of cash by employees of M/s JM*

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*Jain were seized during search;*
*(vi) The transactions of JSK Server were never disclosed to GST Department;*
*(vii) The cash transactions for the clandestine supply of goods and for the commission for facilitating these unaccounted transactions were carried out in a secret, systematic and well organised racket by the employees of M/s JM Jain on the instructions of Jeetmal Choraria, owner of M/s JM Jain."*

41. Pertinently, Mr. Jeetmal Choraria, the proprietor of M/S JM Jain had given a statement, which was also examined by the GST Department. Summons were issued by the GST Department from April to June, 2025. However, instead of appearing in person, Mr. Jeetmal Choraria authorised Mr. Shalinder Mohan, Chartered Accountant as his authorized representative, whose statement was recorded by the GST Department.

42. Thereafter, investigation was also conducted against the suppliers and buyers of M/s JM Jain, whose names were retrieved through JSK server, and the statements pertaining to the following entities were also analyzed by the GST Department:

- M/s Jindal Brothers
- M/s Faqira Dresses
- M/s Krishna Hosiery
- M/s Karan Enterprises
- M/s Empire Apparel Pvt. Ltd.
- M/s Sonkhiya Fashion
- M/s J K Jain Sparky (India) LLP
- M/s A G Apparels
- M/s Deep Apparels

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- M/s Jatin Traders
- M/s Paras Traders
- M/s MRF Garments
- M/s BO BEE Hosiery
- M/s Jaju & Sons
- M/s Ayushi Garments
- M/s Khandelwal Traders

43. Thus, the GST Department concluded that all the employees and their statements give a consistent story. Additionally, the WhatsApp messages and data retrieved from electronic devices are alleged to corroborate the extent of GST evasion in the following terms:

> *"35.4 The employee statements tell a consistent story. They described how the firm used the JSK Server to manage cash-based sales and commissions, all of which were kept outside the regular accounting system. These facilitation services between suppliers and buyers brought in large sums of commission, which were received in cash but never reported. Employees also admitted that the firm earned interest on delayed client payments, which again was not recorded in GST returns. This shows that the firm avoided paying GST not just on*
> *commission income but also on interest recovered from the parties for late payment which is considered as additional consideration for the commission service and is taxable in GST.*
>
> *35.5 WhatsApp messages retrieved from employee phones further confirm the manipulation. These chats included instructions about splitting commission, cash movements, and unrecorded entries. They matched the details found in the JSK Server and even aligned with*

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*physical notes like "kachchiparchis" seized during the raid. This overlapping evidence—oral, digital, and physical—proves that the firm had created a hidden system to dodge taxes."*

44. On the basis of the evidence before the GST Department, the computation of GST liability for the various financial years was done as under:

***For the Financial year 2018-19***

| Financial Year | Commission and Interest Income | CGST (@9%) | SGST (@9%) | TOTAL GST |
|---|---|---|---|---|
| 2018-19 | 171243828 | 15411945 | 15411945 | 30823890 |

***For the Financial year 2019-20***

| Financial Year | Commission and Interest Income | CGST (@9%) | SGST (@9%) | TOTAL GST |
|---|---|---|---|---|
| 2019-20 | 647000000 | 58230000 | 58230000 | 116460000 |

***For the Financial year 2020-21***

| Financial Year | Commission and Interest Income | CGST (@9%) | SGST (@9%) | TOTAL GST |
|---|---|---|---|---|
| 2020-21 | 364706780 | 32823610 | 32823610 | 65647220 |

***For the Financial year 2021-22***

| Financial Year | Commission and Interest Income | CGST (@9%) | SGST (@9%) | TOTAL GST |
|---|---|---|---|---|
| 2021-22 | 457800000 | 41202000 | 41202000 | 82404000 |

45. In addition, certain 'Bad Debts' and revenue receipts under the head Neel Ratan Sarkar, which form a part of consideration under GST, were also computed for all the financial years and finally, the GST liability was calculated in the following terms:

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Amount in Rs.

| Financial Year | Unaccounted Taxable Turnover(Table 1+2+3+4+5+6+7+8) | CGST (@9%) | SGST (@9%) | TOTAL GST |
|---|---|---|---|---|
| 2018-19 | 32,65,75,432 | 2,93,91,789 | 2,93,91,789 | 5,87,83,578 |
| 2019-20 | 221,60,58,929 | 19,94,45,304 | 19,94,45,304 | 39,88,90,608 |
| 2020-21 | 88,08,31,933 | 7,92,74,874 | 7,92,74,874 | 15,85,49,748 |
| 2021-22 | 46,41,50,000 | 4,17,73,500 | 4,17,73,500 | 8,35,47,000 |
| **Total** | **388,76,16,294** | **34,98,85,467** | **34,98,85,467** | **69,97,70,934** |

46. The GST Department then applied various provisions of the Act and the SCN was issued to the Petitioner.

47. Thus, the SCN records that there is large scale GST evasion on the part of the Petitioner, and on the basis of three judgments, and in view of the unaccounted cash, parallel Books of Accounts, etc., the IT Department has issued notices for re-assessment.

48. Lastly, the SCN proposes to impose various demands and penalties. The list of RUDs attached with the SCN indicate that all the relevant statements, letters, summons, assessment orders and notices of the IT Department, etc. have all been attached as RUDs. These RUDs have also been supplied to the Petitioner.

49. At present, the case is at the stage of SCN. The question is whether the SCN deserves to be quashed at this stage on the basis of the case set up by the Petitioner and submissions made by Ld. Counsel. The basic submission is that the material recovered by the IT department cannot constitute evidence and cannot lead to GST liability.

50. Insofar as the provisions of the IT Act are concerned, Section 132(4) and Section 132(4A) are relevant and are extracted below:

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> *"**132. Search and Seizure***
>
> *xxx*
>
> *(4) The authorised officer may, during the course of the search or seizure, examine on oath any person who is found to be in possession or control of any books of account, documents, money, bullion, jewellery or other valuable article or thing and any statement made by such person during such examination may thereafter be used in evidence in any proceeding under the Indian Income-tax Act, 1922 (11 of 1922) or under this Act.*
>
> *(4A) Where any books of account, other documents, money, bullion, jewellery or other valuable article or thing are or is found in the possession or control of any person in the course of a search, it may be presumed—*
> *(i) that such books of account, other documents, money, bullion, jewellery or other valuable article or thing belong or belongs to such person;*
> *(ii) that the contents of such books of account and other documents are true; and (iii) that the signature and every other part of such books of account and other documents which purport to be in the handwriting of any particular person or which may reasonably be assumed to have been signed by, or to be in the handwriting of, any particular person, are in that person's handwriting, and in the case of a document stamped, executed or attested, that it was duly stamped and executed or attested by the person by whom it purports to have been so executed or attested."*

51. In addition, Section 292C of the IT Act is also relevant and the same is extracted below:

> *"[**292C. Presumption as to assets, books of account, etc.—***

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*[(1)] Where any books of account, other documents, money, bullion, jewellery or other valuable article or thing are or is found in the possession or control of any person in the course of a search under section 132[or survey under section 133A], it may, in any proceeding under this Act, be presumed—*

*(i) that such books of account, other documents, money, bullion, jewellery or other valuable article or thing belong or belongs to such person;*

*(ii) that the contents of such books of account and other documents are true; and*

*(iii) that the signature and every other part of such books of account and other documents which purport to be in the handwriting of any particular person or which may reasonably be assumed to have been signed by, or to be in the handwriting of, any particular person, are in that person's handwriting, and in the case of a document stamped, executed or attested, that it was duly stamped and executed or attested by the person by whom it purports to have been so executed or attested.]*

*[(2) Where any books of account, other documents or assets have been delivered to the requisitioning officer in accordance with the provisions of section 132A, then, the provisions of sub-section (1) shall apply as if such books of account, other documents or assets which had been taken into custody from the person referred to in clause (a) or clause (b) or clause (c), as the case may be, of sub-section (1) of section 132A, had been found in the possession or control of that person in the course of a search under section 132.]"*

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52. The aforesaid provisions have been interpreted in various decisions of the Supreme Court and the High Courts. In ***PR Metrani v. Commissioner of Income Tax, Bangalore*** **(2007) 1 SSC 789**, the Supreme Court was dealing with Section 132, and specifically Section 132(4) and 132(4)(A) of the IT Act, and had observed as under:

> *"**17.** Section 132 is a code in itself. It provides for the conditions upon which and the circumstances in which the warrants of authorisation can be issued. Sub-section (2) authorises the authorised officer to requisition the services of any police officer or of any officer of the Central Government or of both to assist him for all or any of the purposes for which the search is conducted. Under sub-section (4) the authorised officer can during the course of search or seizure examine on oath any person who is found to be in possession or control of any books of account, documents, money, bullion, jewellery or other valuable article or thing and any statement made by such persons during such examination may thereafter be used in evidence in any proceeding under the Act [....]*
>
> *xxx*
>
> ***21**. Search and seizure under Section 132 is a serious invasion into the privacy of a citizen, therefore, it has to be construed strictly. Sub-section (4-A) was inserted by the Taxation Laws (Amendment) Act, 1975 with effect from 1-10-1975 to permit a presumption to be raised in the circumstances mentioned therein. Before the insertion of sub-section (4-A) the onus of proving that the books of account, other documents, money, bullion, jewellery, etc. found in possession or control of a person in the course of a search belonged to that person was on the Income Tax*

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*Department. Sub-section (4-A) enables an assessing authority to raise a rebuttable presumption that such books of account, money, bullion, etc. belonged to such person; that the contents of such books of account and other documents are true, and, that the signatures and every other part of such books of account and other documents are signed by such person or are in the handwriting of that particular person.*

*xxx*

***23.*** *A presumption is an inference of fact drawn from other known or proved facts. It is a rule of law under which courts are authorised to draw a particular inference from a particular fact. It is of three types, (i) "may presume", (ii) "shall presume" and (iii) "conclusive proof". "May presume" leaves it to the discretion of the court to make the presumption according to the circumstances of the case. "Shall presume" leaves no option with the court not to make the presumption. The court is bound to take the fact as proved until evidence is given to disprove it. In this sense such presumption is also rebuttable. "Conclusive proof" gives an artificial probative effect by the law to certain facts. No evidence is allowed to be produced with a view to combating that effect. In this sense, this is irrebuttable presumption.*

***24.*** *The words in sub-section (4-A) are "may be presumed". The presumption under sub-section (4-A), therefore, is a rebuttable presumption. The finding recorded by the High Court in the impugned judgment that the presumption under sub-section (4-A) is an irrebuttable presumption insofar as it relates to the passing of an order under sub-section (5) of Section 132 and rebuttable presumption for the purpose of framing a regular*

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*assessment is not correct. There is nothing either in Section 132 or any other provisions of the Act which could warrant such an inference or finding.*

*xxx*

***28.*** *Presumption under Section 132(4-A) is available only in regard to the proceedings for search and seizure and for the purpose of retaining the assets under Section 132(5) and their application under Section 132-B. It is not available for any other proceeding except where it is provided that the presumption under Section 132(4-A) would be available.*

***29.*** *In our considered view, the High Court of Allahabad in Pushkar Narain Sarraf [(1990) 183 ITR 388 (All)] and the High Court of Delhi in Daya Chand [(2001) 250 ITR 327 (Del)] have taken the correct view in holding that the presumption under Section 132(4-A) is available only in regard to the proceedings for search and seizure under Section 132. Such presumption shall not be available for framing the regular assessment. The High Court of Karnataka in the impugned judgment has clearly erred in holding to the contrary. Consequently, Question 1 of the Revenue is answered in the affirmative i.e. against the Revenue and in favour of the assessee."*

53. As per the above judgment of the Supreme Court, the language of Section 132(4)(A) would show that the presumption in respect of documents and material which are seized, is a rebuttable presumption. The said presumption is only for the purpose of action being taken under Section 132 and would not be available for framing the regular assessment.

54. Similar is the position in respect of Section 292C of the IT Act, which was considered by the Calcutta High Court in ***Commissioner of Income Tax***

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***v. Ashok Kumar Poddar* 2023 SCC OnLine Cal 6527,** where the Calcutta High Court, following the decision in ***PR Metrani (supra)***,had observed as under:

> *"**20.** A presumption may be rebuttable or irrebuttable. If it is irrebuttable, it is conclusive proof of the fact. The court will not admit any evidence to disprove the presumption. Take for example, the common law presumption that a child under seven years of age is incapable of committing a crime. It is an irrebuttable presumption. Or the fact that the sun rises in the east. When a fact may be presumed by the court or shall be presumed by the court makes the presumption rebuttable. The assertion of fact is taken to be true till it is disproved.*
>
> ***21.** The question is who has the onus of disproving the presumed fact. One who challenges the presumption has the onus to disprove the fact.*
>
> ***22.** Therefore, the adjudicating authority has two options, either not to presume that the papers and other documents seized during search and seizure belonged to the assessee, the contents are true and that the signatures appearing thereon are that of the assessee or not to presume so. In this case, the Assessing Officer has made the presumption and proceeded accordingly.*
>
> ***23.** Now, the drawing of a presumption by the Assessing Officer in terms of section 292C, in our opinion, is based on assessment of facts and discretionary and should not ordinarily be interfered with by an appellate authority.*
> ***24.** Once this presumption had been made, the onus squarely shifted to the respondent assessee to disprove those facts. The Tribunal was enjoined*

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> *with a duty to appreciate this law and to examine whether the assessee had been able to discharge the burden."*

55. In ***Pepsi Foods P. Ltd. v. Assistant Commissioner of Income-Tax* 2014 SCC OnLine Del 4029**, a Co-ordinate bench of this Court had considered both Section 132(4A) and Section 292C, and it was held as under:

> *"6. […]* ***Section 132(4A)(i) clearly stipulates that when, inter alia, any document is found in the possession or control of any person in the course of a search it may be presumed that such document belongs to such person. It is similarly provided in section 292C(1)(i).*** *In other words, whenever a document is found from a person who is being searched the normal presumption is that the said document belongs to that person. It is for the Assessing Officer to rebut that presumption and come to a conclusion or "satisfaction" that the document in fact belongs to somebody else. There must be some cogent material available with the Assessing Officer before he/she arrives at the satisfaction that the seized document does not belong to the searched person but to somebody else. Surmise and conjecture cannot take the place of "satisfaction".*"

56. The aforesaid view was followed by the Gujarat High Court in ***Principal Commissioner of Income Tax v. Himanshu Chandulal Patel* 2019 SCC OnLineGuj 2899,** where it was held as under:

> *"[…]* ***Section 132(4A)(i) clearly stipulates that when, inter alia, any document is found in the possession or control of any person in the course of a search it may be presumed that such***

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> ***document belongs to such person. It is similarly provided in section 292C(1)(i).*** *In other words, whenever a document is found from a person who is being searched the normal presumption is that the said document belongs to that person. It is for the Assessing Officer to rebut that presumption and come to a conclusion or "satisfaction" that the document in fact belongs to somebody else. There must be some cogent material available with the Assessing Officer before he/she arrives at the satisfaction that the seized document does not belong to the searched person but to somebody else. Surmise and conjecture cannot take the place of"satisfaction".”*

57. A perusal of the above-mentioned decisions would show that the presumption under Section 132(4A) and 292C of the IT Act is merely for the purposes of the proceedings under the specific provisions of the IT Act. The said presumption is a rebuttable presumption, and the assessee can rebut the same. The presumption is also for the purpose of provisional assessment and not for framing of the final assessment order.

58. Under such circumstances, the question would be whether there is a presumption in respect of proceedings under the CGST Act, *qua* the said assets which are seized during the search.

59. The IT Act and the CGST Act are taxation statutes and are to be interpreted strictly. It is clear from the above-mentioned judicial precedents that, the documents and material seized under the IT Act could be used to make provisional assessments and the presumptions therefrom either from the material or usage of the statements given constituting evidence would all be rebuttable by the Assessee. The said material and statements cannot even be the basis of framing final assessments, by themselves. Insofar as the

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CGST Act is concerned, such material cannot lead to any presumptions nor can they straightaway constitute evidence under the CGST Act. However, the concerned authorities under the CGST Act would not be prevented from considering the documents and material seized for the purpose of investigation under the CGST Act.

60. In the present case, the seized documents and material passed on by the IT Department to the GST Department were scrutinized by the GST Department, *prima facie*, on its own. This is clear from a perusal of the SCN itself. The GST department did not simply take the findings of the IT department. Before issuing the SCN, the GST department analysed the documents, material, statements etc., and came to its own conclusions. At this stage the GST department has merely issued a SCN, which can be replied to and rebutted by the Petitioner. All grounds and legal objections would be available to the Petitioner.

61. Thus, while the *prima facie* presumption as existing under the IT Act would not apply under the CGST Act, the assets and material seized could form the basis of an independent investigation by the GST Department.

62. Additionally, under Section 132(4) of the IT Act, statements which can be used as evidence in proceedings under the Income Tax Act, can be a starting point for investigation under the CGST Act, though they may not directly constitute evidence for proceedings under the CGST Act.

63. Thus, Section 132(4), Section 132(4)(A) and Section 292C of the IT Act would not act as a bar against the GST Department, from independently scrutinizing the RUDs as also the documents and material seized under the IT Act. The GST Department can independently scrutinize the documents and material seized, arrive at its own *prima facie* findings, and can rely upon

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the said material for issuing the SCN under the CGST Act. In fact, under Section 144of the CGST Act material and evidence from any source can be considered for the purpose of initiating proceedings, if there is suspicion of evasion and there are certain presumptions qua the said material, which again would be rebuttable presumptions.

64. Insofar as the decision of ***Armour Security (India) Ltd (Supra)*** is concerned, the relevant portion of the said decision is set out below:

> *"65. A show cause notice is a document served on a noticee, requiring them to explain why a particular action should not be initiated against them. Under the GST regime, issuance of a show cause notice is a mandatory precondition for raising a demand. It forms the bedrock for proceedings related to the recovery of tax, interest, and penalty. The notice ensures adherence to the principles of natural justice by granting the assessee an opportunity to present their case before any adverse action is taken. In essence, it serves as both a procedural safeguard and a legal necessity, marking the commencement of quasi-judicial adjudication under the Act.*
>
> *66. A show cause notice sets the law in motion concerning the liability under the statute, containing charges that a specific person is called upon to answer. In other words, it sets out the alleged violations of legal provisions and requires the assessee to explain why the duty should not be recovered from them. Thus, a show cause notice cannot be vague, nor can any allegations be made without evidence being commensurate with the gravity of the charges levelled against the noticee.*
>
> *67. It sets forth the framework for the proceedings proposed to be undertaken and provides the noticee with an opportunity to submit their explanation before*

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*the adjudicating authority. It outlines the background for the initiation of such proceedings, whether arising from an audit of accounts by the internal audit wing, scrutiny of returns, or intelligence gathered by officers of the Audit and Intelligence Commissionerate. It is further mandated that the authority issuing the notice must meticulously set out all relevant legal provisions under which the alleged contraventions are framed. The materials obtained through summons and relied upon for issuing the show cause notice must be appended and disclosed to the assessee. In essence, a show cause notice enumerates the charges levelled against the notice.*

*[XXX]*

*85. From the above exposition of law, we can safely conclude that a show cause notice delineates the scope of the proceedings in the expression of subject matter with which the authority would be dealing. It would be impermissible for an authority to invoke such rules, claims or grounds at a later stage which do not figure in the show cause notice. That is to say, any ground, reasoning or claim which does not figure out in the show cause notice cannot be permitted to adversely affect the noticee. Such recognition has even been made statutorily, as per sub-section (7) of Section 75 of the Act, which reads as thus:*

> *"75. General provisions relating to determination of tax.—...*
>
> *xxx*
>
> *(7) The amount of tax, interest and penalty demanded in the order shall not be in excess of the amount specified in the notice and no demand shall be confirmed on the grounds other than the grounds specified in the notice.""*

65. A perusal of the above decision would show that any SCN has to comply with the following conditions:

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(i) The SCN cannot be vague;

(ii) Evidence supporting the allegations that are made against the assessee;

(ii) Background of the proceedings initiated;

(iv) Legal Provisions alleging the contraventions should be mentioned;

(v) The materials obtained and relied upon are to be disclosed to the assessee.

66. A perusal of the SCN would show that, at this stage, it cannot be said that the SCN is bereft of material particulars or that it is vague, in fact, all the documents, statements, evidence, etc. which was seized by the IT Department, and passed onto the GST Department is well within the knowledge of the Petitioner. Moreover, the RUDs have been supplied to the Petitioner. Thus, the SCN cannot be held to be baseless or vague.

67. In respect of the genuineness of the three judgements which were cited in paragraph 21 of the SCN are concerned, the said paragraph reads as under:

> ***"21. Evidentiary Value of Statement Recorded under Section 132(4) of the Income Tax Act, 1961***
> *During a search conducted by the Income Tax Department, statements were recorded under Section 132(4) of the Income Tax Act, 1961, from key employees of M/s J.M. Jain, including employees, some of the suppliers and buyers etc. These statements were made under oath and revealed that the entity was engaged in systematic suppression of taxable turnover, maintenance of parallel accounts through a concealed "JSK Server," and non-payment of GST on substantial volumes of supply. In this regard, it is pertinent to note that statements recorded under Section 132(4) are*

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*admissible as valid evidence in subsequent proceedings. The Supreme Court of India, in the case of* ***Pullangode Rubber Produce Co. Ltd. v. State of Kerala [(1973) 91 ITR 18 (SC)],*** *held that: "An admission is an extremely important piece of evidence but it is not conclusive; it is open to the maker to show it is incorrect.*

*21.1 Further, in* ***Surjeet Singh Chhabda v. Union of India [(1997) 223 ITR 506 (SC)],*** *the Hon'ble Supreme Court affirmed that such statements are legally acceptable as the foundation for assessment and penal action.In the case of* ***Kishan Lal v. Union of India [(2003) 258 ITR 359 (Del HC)],*** *the Hon'ble Delhi High Court categorically held that a statement under Section 132(4) can form the sole basis for initiating proceedings, unless it is retracted promptly and convincingly."*

68. There can be no doubt that technological tools, such as Artificial Intelligence, may be used by Government Departments for analysis of evidence, preparation of summaries etc., subject to proper verification. However, there can also be no doubt that there cannot be any fake or non-existent judgments that can be cited by the Department. In the SCN, in the present case, the following are the judgments that are cited:

| Case Name | Case Citation as recorded in the SCN |
|---|---|
| Pullangode Rubber Produce Co. Ltd. v. State of Kerala | (1973) 91 ITR 18 (SC) |
| Surjeet Singh Chhabda v. UOI | (1997) 223 ITR 506 (SC) |
| Kishan Lal v. Union of India | (2003) 258 ITR 359 (Del HC) |

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69. The Court has called for the physical books from the High Court library to verify the existence of the aforesaid judgements, and the Court finds as under:

(i) First - in so far as the case of ***Pullangode Rubber Produce Co. Ltd. v. State of Kerala*** is concerned, the Court has physically verified the same from the books and the alternate citation is **1972 (4) SCC 683.** This judgment has been correctly cited by the GST Department.

(ii) Secondly, in the case of ***Surjeet Singh Chhabda v. Union of India***, the same is found to be *non-existent* upon a physical verification from the books. The judgment given at citation **(1997) 223 ITR 506 (SC)** is namely ***Neela Production v. Commissioner of Income Tax.***

(iii) Thirdly, in the case ***Kishan Lal v. Union of India,*** a physical verification from the books would reveal that for citation ***(2003) 258 ITR 359 (Del HC)***, the actual judgement is ***Commissioner of Income Tax v. Kishan Lal (HUF)*** and the same relates to Section 234A and Section 234B of the IT Act.

**70. Thus, there are discrepancies in the judgments which are cited by the GST Department. The GST Department and even other Departments, including the IT Department ought to be careful while citing judicial precedents in this manner, specially if the same has been produced or accessed through Artificial Intelligence software, as there is a clear possibility of the citations themselves being fake, as is clear from one of the judgments, which is cited in the present SCN.**

71. In this regard, various High Courts have cautioned against using

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Artificial Intelligence while citing case laws. Recently, a Coordinate Bench of Bombay High Court in ***KMG Wires Private Limited v. The National Faceless Assessment Centre, Delhi and Ors.*** **2025:BHC-OS:19789-DB**, while deciding a challenge to an Assessment order under Section 143(3) read with Section 144B of the IT Act had quashed the Assessment order and recorded as under:

> *"[...]*
>
> *9. On the second issue of addition of peak balances in respect of loans from directors, it can be be seen that while calculating peak balance, Respondent No. 1 has considered the opening balance, and for which purpose, he has relied upon three decisions.* ***The judicial decisions relied upon are completely non-existent. In other words, there are no such decisions at all which are sought to be relied upon by Respondent No. 1. It is for Respondent No. 1 to show from where such decisions were fetched. In this era of Artificial Intelligence ('AI'), one tends to place much reliance on the results thrown open by the system. However, when one is exercising quasi judicial functions, it goes without saying that such results [which are thrown open by AI] are not to be blindly relied upon, but the same should be duly cross verified before using them.*** *Otherwise mistakes like the present one creep in. It is also one of the grievances of the Petitioner that they are clueless as to how the figures are arrived at as no basis or working was ever shown to the Petitioner, nor was any Show Cause Notice issued before making the addition of peak balance. Even this grievance of the Petitioner is justified."*

72. Additionally, in the context of an IP infringement matter, this Court in ***CS(COMM) 583/2025*** titled ***Christian Louboutin SAS and Anr. v. M/S The***

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***Shoe Boutique*** had cautioned against the usage of Artificial Intelligence in adjudication of legal issues and placing reliance on incorrect responses by Artificial Intelligence. The order dated 22nd August, 2023 records as under:

> *"[...]*
>
> *28. The above responses from ChatGPT as also the one relied upon by the Plaintiffs shows that the said tool cannot be the basis of adjudication of legal or factual issues in a court of law.* ***The response of a Large Language Model (LLM) based chatbots such as ChatGPT, which is sought to be relied upon by ld. Counsel for the Plaintiff, depends upon a host of factors including the nature and structure of query put by the user, the training data etc. Further, there are possibilities of incorrect responses, fictional case laws, imaginative data etc. generated by AI chatbots.*** *Accuracy and reliability of AI generated data is still in the grey area. There is no doubt in the mind of the Court that, at the present stage of technological development, AI cannot substitute either the human intelligence or the humane element in the adjudicatory process. At best the tool could be utilised for a preliminary understanding or for preliminary research and nothing more"*

73. **The above-mentioned judicial precedents clearly demonstrate the risk of Artificial Intelligence hallucinating, by citing fake and non-existent judgements. Under such circumstances, the GST Department as well as the IT Department must exercise utmost caution while citing judgements and must take full responsibility in case the same is cited or generated by using Artificial Intelligence softwares. Moreover, before issuing SCNs or finalising assessments, all judgements ought to be verified.**

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74. Insofar as the challenge to Section 75(2) of the CGST Act is concerned, the SCN at this stage has been issued under Section 74 of the CGST Act and therefore, there cannot be a presumption that this would be converted into Section 73(1) of the CGST Act . If such a situation arises, the Petitioner is at liberty to challenge the *vires* at that stage, if the Petitioner is aggrieved in any manner.

75. Finally, this Court notices that the present writ petition is the second one, which has been filed by the Petitioner. In the earlier writ petition, at the time of inspection of the premises of the Petitioner, ***W.P.(C) 1206/2025*** titled ***'Ms J M Jain Prop Sh Jeetmal Choraria Vs. Union of India & Ors'.*** was filed by the Petitioner, which was rejected by the Co-ordinate Bench of this Court *vide* order dated 30th January, 2025 in the following terms:

> *"2. Having heard learned counsel for the writ petitioner and on going through the various disclosures and averments that are made in the writ petition, we find ourselves unable to either appreciate the challenge which stands raised or stand convinced that the writ petition is liable to be entertained at this stage.*
>
> *3. We presently note that the respondents have issued more than four summons to the management of the writ petitioner, all of which have not been responded to. The challenge to the commencement of investigation is also addressed on extremely vague grounds. This becomes apparent from a reading of the grounds that form part of the writ petition as well as the oral arguments that were addressed before us.*
>
> *4. Consequently, and for the aforesaid reasons, the writ petition shall stand dismissed.*

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*5. This order, however, shall be without prejudice to the rights and contentions of respective parties on merit."*

76. Additionally, the Supreme Court has dismissed the ***W.P.(C) 1206/2025*** *vide* the ***SLP(C) Nos. 8544/2025*** titled ***M/s J M Jain Prop Sh Jeetmal Choraria Vs. Union of India & Ors*** *vide* order dated 7th April, 2025, in the following terms:

*"O R D E R*

*1. Having heard the learned counsel appearing for the petitioner and having gone through the materials on record, we see no reason to interfere with the impugned order passed by the High Court.*

*2. The Special Leave Petition is, accordingly, dismissed.*

*3. Pending application(s), if any, stands disposed of."*

77. Under these circumstances, this Court is of the opinion that the challenge to the SCN is completely pre-mature. The Petitioner ought to reply to the SCN, and participate in the proceedings. The Petitioner ought to be given a chance of personal hearing, and the SCN is directed to be decided in accordance with law.

78. The Petitioner is at liberty to take all objections in respect of the material or statements relied upon in the SCN, in accordance with law.

79. Needless to add, that the Court has not considered the merits of the allegations against the Petitioner.

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80. The petition is disposed of in these terms. Pending Applications, if any, are also disposed of.

**PRATHIBA M. SINGH**
**JUDGE**

**SHAIL JAIN**
**JUDGE**

**NOVEMBER 18, 2025/***pd/sm*

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CASE 2 OF 8

# M/s Marhabba Overseas Pvt. Ltd. v. Union of India & Ors.

| | |
|---|---|
| **Court** | High Court of Gujarat at Ahmedabad |
| **Bench** | A.S. Supehia and Pranav Trivedi, JJ. |
| **Date** | 20.02.2026 |
| **Case no. / citation** | R/Special Civil Application No. 2229 of 2026 |

## Holding in brief

Order of 26.09.2025 by the Additional Commissioner (CGST & Central Excise) answered four defence points with judgments that were non-existent, wrongly cited or unrelated to the point (Coastal Container Transporters, NKAS Service, Flock India, Rajasthan State Chemical Works). Reasoning called 'flawed and deceptive'; the Commissioner, without reading the judgments, appears to have followed AI-generated citations. Court proposes directions for quasi-judicial authorities.

## Paragraphs highlighted

Paras 1-3, 5 (second part), 6, 7, 8 and 9 (interim relief)

## Status

Interim order; notice returnable 12.03.2026; interim relief granted. Final outcome not seen.

Relevant paragraphs are highlighted in light blue. The judgment begins on compendium page 44.

**IN THE HIGH COURT OF GUJARAT AT AHMEDABAD**
**R/SPECIAL CIVIL APPLICATION NO. 2229 of 2026**

==========

M/S MARHABBA OVERSEAS PRIVATE LIMITED
Versus
UNION OF INDIA & ORS.

==========

Appearance:
MR S N SOPARKAR, SENIOR ADVOCATE WITH MR PARTH H BHATT(6381), MS KHYATI A CHUGH AND MR SUDEEP BISWAS for the Petitioner(s) No. 1
MR ANKIT SHAH for the Respondent(s) No. 2,3
MR PRADIP D BHATE(1523) for the Respondent(s) No. 1

==========

CORAM:**HONOURABLE MR. JUSTICE A.S. SUPEHIA**
and
**HONOURABLE MR. JUSTICE PRANAV TRIVEDI**

**Date : 20/02/2026**
**ORAL ORDER**
**(PER : HONOURABLE MR. JUSTICE A.S. SUPEHIA)**

1. During the course of hearing, learned Senior Advocate Mr.Soparkar has pointed out very worrying trend adopted by the Additional Commissioner, Central GST and Central Excise, while passing the impugned order dated 26.09.2025, by placing reliance on the non-existing judgements or though in existence, albeit not even remotely connected to the issues raised by the petitioner in his defence statement dated 22.09.2025. While referring to four core defence submissions more particularly, in paragraph Nos.19.1, 19.2, 19.3 and 19.4 referred to in the impugned order, he has invited attention of this Court to the citations, upon which the reliance is placed while dealing with



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such submissions made by the respondent-authority.

2. The defence submission recorded by the Officer in paragraph No.19.1 of the impugned order, relates to the issuance of defective and unreasonable show-cause notice dated 29.06.2025, which was uploaded on GST Portal without annexing or supplying the Relied Upon Documents (RUDs) to the assessee. The said defence submission has been rejected by the Officer by placing reliance on the judgement in the case of *Union of India Vs. Coastal Container Transporters Association*, 2019 S.C.C. OnLine SC 1744. Learned Senior Advocate has submitted that in fact, the said citation appears to be incorrect and instead page number is 274 instead of 1744. It is submitted that though there is some error in recording the page number, the judgement rendered by the Supreme Court does not even remotely connects to the issue relating to the non-supplying of the RUDs, but instead the same relates to the classification of the service and maintainability of the writ petition against the show-cause notice.

3. The second defence submission as recorded in paragraph No.19.2 raised by the petitioner



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relates to the mandatory requirement of issuance of DRC-01A as per Rule 142A of the Central Goods and Service Tax (CGST) Rules, 2017 which are not complied with and correspondingly it is submitted that the respondent has rejected the said contention by placing reliance on the judgement of the Madras High Court in the case of ***M/s. NKAS Service Pvt. Ltd. Vs. Union of India***, (2021-VIL-37-MAD). In this regard, learned Senior Advocate has submitted that in fact, neither the citation exists nor their any judgement of Madras High Court, and as per research undertaken by his office, the said judgement is delivered by the Jharkhand High Court in the case of ***M/s. NKAS Service Pvt. Ltd. Vs. State of Jharkhand***, 2021 S.C.C. OnLine Jharkhand 1266 and while inviting attention of this Court to the said judgement, it is submitted that in fact, the Jharkhand High Court has held in favour of the petitioner by holding that the issue under GST DRC-01A has to fulfill ingredients of proper show-cause notice and in absence of such ingredients, the same would amount to violation of principles of natural justice.

4. Learned Senior Advocate has further referred to the defence submission recorded in paragraph



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No.19.3 of the impugned order, which relates to delayed re-initiation of investigation and issuance of show-cause notice for the same cause of action. It is submitted that while dealing with the said submission, the respondent authority has placed reliance on the judgement of the Supreme Court in the case of *CC Vs. Flock India Pvt. Ltd.*, 2000 (120) ELT 285 (SC). In this regard, learned Senior Advocate has submitted that this judgement has no relevance to the defence submission, which has been raised by the petitioner and it relates to the classification rules under Central Excise Act, 1944 and also relating to the issue of refund.

5. Finally, learned Senior Advocate has referred to the defence submission recorded in paragraph No.19.4 of the impugned order, which pertains to the gross violation of principles of natural justice since no adequate time and opportunity was provided to respond to the allegations contained in the show-cause notice against the petitioner. It is submitted that while dealing with such defence submission, though the respondent authority has precisely placed reliance on the judgement of the Supreme Court in the case of *Union of India Vs. W.N.Chadha*, 1993



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Supp (4) S.C.C. 260, but has also simultaneously, reliance is placed on the judgement of the Gujarat High Court in the case of *Rajasthan State Chemical Works Vs. Union of India*, 1991 (55) ELT 444 (Guj), which is absolutely ill-conceived. It is submitted that in fact, no such judgement of the Gujarat High Court exists and as per the research done by him, the judgement is of the Supreme Court rendered in the case of *Collector of Central Excise, Jaipur Vs. Rajasthan State Chemical Works, Deedwana, Rajasthan*, 1991 (55) ELT 444. Thus, it is submitted that though the citation is correct, the same is of the Supreme Court and not of the Gujarat High Court and it emanates from the decision of Customs, Excise & Service Tax Appellant Tribunal, Delhi and not from the Gujarat High Court. It is submitted that the said decision also refers to the meaning of manufacturing process under the CGST Act and does not deal with the defence submissions raised by the petitioner relating to the violation of principles of natural justice.

6. Thus, it is urged by the learned Senior Advocate that some guidelines are required to be prescribed to the quasi-judicial authorities in referring to the judgements blindly generated



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through Artificial Intelligence, which are not in existence and even if they are in existence, they do not remotely apply to the issues raised by the assessee.

7. The foregoing submissions and the concern expressed by the learned senior advocate Mr.Soparkar merits acceptance. The reasonings/findings recorded by the respondent-Commissioner, while dealing with the defence submissions, by placing reliance on the aforementioned judgement/citations, is flawed and deceptive. It appears that the Commissioner, without reading the actual judgements, has followed the AI generated citations and case law.

8. Hence, we find that this is an appropriate case, wherein some directions are called for regulating/prescribing some parameters for quasi-judicial authorities while placing reliance on the judgements either of the High Courts or of the Supreme Court of India, while dealing with legal issues raised by an assessee. We also call upon learned Senior Standing Counsel Mr.Ankit Shah to apprise this Court on this concern by the next date of hearing.



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9. ***Notice*** returnable on **12.03.2026.** Matter to be placed **at the top of the board.** Learned Senior Standing Counsel Mr.Shah waives service of notice for and on behalf of the respondent(s).

Interim relief is granted in terms of paragraph No.17(c) till the final disposal of the writ petition. Direct service is permitted.

Sd/-
**(A. S. SUPEHIA, J)**

Sd/-
**(PRANAV TRIVEDI, J)**

NVMEWADA/10



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CASE 3 OF 8

# Pooja Ramesh Singh v. Jammu and Kashmir Bank Ltd. & Anr.

| | |
|---|---|
| **Court** | Supreme Court of India |
| **Bench** | Pamidighantam Sri Narasimha and Alok Aradhe, JJ. |
| **Date** | 02.07.2026 |
| **Case no. / citation** | 2026 INSC 668; Civil Appeal No. 11950 of 2025 (also cited as 2026 SCC OnLine SC 1258) |

## Holding in brief

NCLT and NCLAT judgments relied on non-existent or mis-cited precedents. Court declared zero tolerance for citing or relying on unverified AI-generated precedents: such a decision is 'no decision in the eyes of the law' and is to be set aside even if an iota of fake material enters the reasoning. Rightful use of AI is not affected. Both orders set aside and the Section 7 IBC application restored.

## Paragraphs highlighted

Paras 1, 6, 7, 15, 16 (second part), 17 and 18

## Status

Final judgment of the Supreme Court; reported.

Relevant paragraphs are highlighted in light blue. The judgment begins on compendium page 52.

2026 INSC 668

REPORTABLE

IN THE SUPREME COURT OF INDIA
CIVIL APPELLATE JURISDICTION

**CIVIL APPEAL NO. 11950 OF 2025**

**POOJA RAMESH SINGH …APPELLANT(S)**

**VERSUS**

**JAMMU AND KASHMIR BANK LTD. & ANR. …RESPONDENT(S)**

**J U D G M E N T**

1. This is yet again a case where the Tribunal relied on non-existent, fake and hallucinated material, generated through Artificial Intelligence[1] (AI), as if it were a precedent in support of its judgment. For the reasons to follow, we have set aside the judgment of NCLT, as well as the judgment in appeal, to affirm and maintain the integrity of the adjudication and its processes. More than the inevitable consequence of setting aside such judgments, what is significant for our decision-making is our resolve to adopt AI technology in aid of adjudication, while at the same time asserting and declaring total and absolute control over adjudication, with a human in the loop at every stage.

2. Artificial Intelligence has acquired the capability to better, if not fully substitute, human effort, both routine and intellectual. This extraordinary

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[1] Also referred to as 'AI'.

capability, amid increased workloads of modern life, is compelling professionals to adapt and employ AI for intelligent, efficient and swift functioning. The Solicitors Regulation Authority (SRA), a body created under the United Kingdom Legal Services Act 2007[2], approved in 2025, the first purely Artificial Intelligence-driven law firm named Garfield Law Limited (GLA), to provide regulated legal services[3]. Further, that AI law firm (GLA) is now reported to have successfully navigated the legal system, securing a county court decree in a suit for recovery of unpaid fee[4]. The result can be gratifying, even inspiring; yet if left unregulated, Artificial Intelligence may infiltrate our intellectual work ethic and, before long, render us dependent on its vast capabilities.

---

[2] SRA acts as the independent regulator of solicitors for creating an effective deterrent and discouraging professional misconduct by solicitors. A range of sanctions is available to the SRA, including prosecuting more severe cases at the Solicitors Disciplinary Tribunal.

[3] SRA approves first AI-driven law firm (Solicitors Regulation Authority, 2025) <https://www.sra.org.uk/news/news/press/2025-press-releases/garfield-ai-authorised/>. As per SRA News Bulletin, Garfield Law was approved after checking its compliance on various parameters. The bulletin indicated:-

> *"Before authorising Garfield Law, we engaged with the owners to consider the firm's processes and assure ourselves that our rules can be met by an AI service. For instance, we have sought reassurance that there are appropriate processes in place to quality-check work, keep client information confidential, and safeguard against conflicts of interests.*
> *We have also checked the firm is managing the risk of 'AI hallucinations.' The system will not be able to propose relevant case law, which is a high-risk area for large language model machine learning. Garfield is not autonomous and will only take a step where the client has approved it, and furthermore there are supervision and monitoring processes in place. This includes greater oversight of claims in the initial launch phase, so that issues or risks can be identified.*
> *Under our rules, named regulated solicitors will still ultimately be accountable for the firm delivering high professional standards. This means they will also be responsible for all the system outputs and for anything that goes wrong. All regulated law firms must also have a minimum level of insurance in place to protect clients."*

[4] Karl Flinders, 'Artificial intelligence-based law firm wins in court' (Computer Weekly, 2026) <https://www.computerweekly.com/news/366644941/Artificial-intelligence-based-law-firm-wins-in-court>.

3. Dependency on technology has never been a problem for the dispensation of justice, as our courts have seamlessly absorbed technologies and made them an integral part of court systems. The story of AI, as it is unfolding, is, however, different, in fact, transformative, as it is not just an aid to assist us in our work, but is an alternative to our own thinking, reasoning and even decision making. This is where we need to be extra cautious, as unregulated use of AI will insidiously enter legal practice, the process of judicial decision-making and decision-making itself.

4. Wisdom and foresight compel us to recognise human vulnerability to seek comfort in delegation, but if thinking is delegated and it forms a habit, it will have serious consequences for the core of human existence, which lies in its capacity to think – to discern the distinction between what is right and what is wrong, truth and falsehood, virtue and vice, dharma and adharma. This capability is neither given nor superimposed by birth, but arises from a deliberate, disciplined, and systematic training of the mind alongside lived experiences; it is a battle of the mind against bewitchment caused by the uncertainties between fact and fiction, what is real and what is unreal, propriety and impropriety, as well as what is just and unjust. This intellectual exercise, coupled with experience and foresight, enables us to choose between competing values, as well as to take hard decisions with courage and conviction, and to bring about a

beautiful balance between the *need for order* and the *quest for justice*. A struggle to arrive at truth, it is a *Saadhana*. In fact, the secret is in the Saadhana itself, for without this deliberate, conscious, and continuous practice of scientific temper, we lose the capability to discriminate between what is right and what is wrong. Lose this, and we would have lost everything.

5. It is therefore compelling and necessary to have absolute and total control over the application and usage of AI. The control lies in being two steps ahead of its application and in making deliberate choices about when and where to apply. We are aware that this is not an issue that can be resolved through judicial orders and declaratory judgments, but only through Public Policy and enforceable Rules and Regulations. We are also aware that the process has commenced, the Regulations are being deliberated, and they will be notified after due process and in due course. The real success is, however, not in the making of the Rule or Regulation, but to be found in the power of the will of the Bar as well as the Bench, to harness this science and apply it with care and caution. No other facet of law and its practice has ever demanded a higher and deeper corroboration and coordination between the Bar and the Bench than the need to identify, decide, and apply AI to adjudication and the determination of disputes.

6. At the same time, it is necessary to clarify the position of law regarding a certain trait in AI's responses, a tendency to generate non-existent, fake, or hallucinated results when replying to a prompt. We are neither concerned with the cause nor with the process of resolving such hallucinations; it is for the engineers and scientists to deal with them. For us, i.e., for those in the province of adjudication and determination of disputes, this by-product of AI, i.e., the production of fake, non-existent, and hallucinated material and its utilisation as precedents in law, is like the release of methyl isocyanate in the province of law and justice: invisible, insidious, and catastrophic by the time anyone notices. It not only contaminates but takes away the very lifeblood of judicial determination.

7. It is necessary for Courts to adopt a zero-tolerance mode for producing, citing or using AI-generated precedents without verification. It is a misconduct on the part of an advocate to cite such judgments without verification. Equally, it is a serious lapse if a judge relies on such a fake or hallucinated AI-generated material as precedents in support of the determination. We have no hesitation in declaring that such a decision is no decision in the eyes of the law, irrespective of whether such material had a direct or indirect bearing on the decision-making. Such decisions are to be set aside even if an iota of fake or hallucinated material enters the decision-making process, as it would violate the sanctity of adjudication. It is absolutely necessary to maintain integrity in decision-

making, and we reiterate and declare zero tolerance for the Bar as well as the Bench to cite, refer to, or rely on such material. It is also clarified that our judgment shall have no bearing on the rightful use of AI, but on the presentation or reliance on fake or hallucinated material as if it were a court precedent.

8. We are aware that mere declaration of prohibitory action is not sufficient; there must be a consequential action following accountability.

9. So far as the responsibility of the bar is concerned, we direct the Bar Council of India, being the apex statutory body, to constitute a committee and deliberate on this issue of members of the bar submitting such fake and hallucinated material before the Court as if they are precedents of law. The Bar Council must take up this issue with utmost seriousness, deliberate earnestly, and prescribe a guiding principle to prevent such occurrences, along with the disciplinary action that will follow a violation of the norms.

10. Returning to the facts of the case, it is noted that the appellant is a suspended director of Essel Infraprojects Ltd. ('EIL'), the corporate debtor and corporate guarantor of the original borrower, namely Pan India Utilities Distribution Company Ltd. ('PIUDCL'). PIUDCL had availed certain loan facilities from Jammu and Kashmir Bank Limited, Respondent No. 1. To secure these credit facilities, a corporate guarantee was executed by EIL. In due course, PIUDCL experienced severe financial

stress and failed to maintain its repayment schedules, leading to the classification of its loan accounts as non-performing assets.

11. Following continuous defaults, Respondent No. 1 filed an application under Section 7 of the Insolvency and Bankruptcy Code, 2016, before the National Company Law Tribunal, Mumbai, seeking initiation of the corporate insolvency resolution process against the EIL/corporate debtor for recovery of its outstanding financial debt.

12. The National Company Law Tribunal examined the submissions and, upon finding the existence of debt and default, passed an order dated 28.08.2024 admitting the Section 7 application, appointing an Interim Resolution Professional, and declaring a moratorium under Section 14 of the Insolvency and Bankruptcy Code, 2016. Aggrieved by the admission order, the appellant preferred an appeal before the National Company Law Appellate Tribunal in Company Appeal (AT) (Insolvency) No. 1808 of 2024. Before the appellate tribunal, the appellant contended that the NCLT erred by failing to consider that its liabilities had been transferred to another company due to a scheme of demerger and a subsequent amalgamation. The appellant further contended that a renewed sanction letter dated 18.11.2017 did not mention the guarantee and therefore, the guarantee was deemed to have been relinquished.

13. By the impugned final judgment and order dated 11.09.2025, the NCLAT has dismissed the appeal, confirming the observations of the

NCLT by observing that while it is not disputed that there were internal adjustment by the ESSL group by way of demerger/merger/amalgamation, it has no effect insofar as the liability of the corporate guarantor is concerned because it has been categorically mentioned in clause 8 of the guarantee deed that guarantee will not be determined on event of absorption/amalgamation of corporate debtor with any other company.[5] The NCLAT also referred to judgments relied upon by the NCLT in paragraph 12 of its opinion in the following manner:

> *"12. The Tribunal did not accept the contention of the CD and while referring to the decisions of the Hon'ble Apex Court in the case of State Bank of India Vs. M/s Shree Ram Urban Infrastructure Ltd., 2020 SCC OnLine SC 341, Everest Kento Cylinders Ltd. Vs. Union of India (2015) 2 SCC 1, ICICI Bank Ltd. Vs. Urban Infrastructure Real Estate Ltd., (2019) 16 SCC 528, V.S Dempo & Co. Ltd. Vs. Reliance Communications Ltd., (2021) 10 SCC 176, Canara Bank Vs. N.G. Subbaraya Setty & Anr., (2018) 16 SCC 228 and Sarbjit Singh Vs. Union Bank of India, (2022) 7 SCC 464 held that the guarantee given by the CD shall still exist and will not be effected where the two orders referred to herein above passed by the Bombay High Court and admitted the petition because debt and default was not denied."*

14. Aggrieved by the said decision, the appellant has preferred the present appeal. Ms. Madhavi Divan, learned senior counsel appearing for the appellant, at the outset, pointed out that the citations/judgments relied upon by the NCLT to arrive at the impugned findings, as referred by the appellate tribunal in paragraph 12 of its opinion, are fake and non-existent, probably AI-generated. It is pointed out that even where case citations are

[5] Clause 8: *"this guarantee shall not be determined and not in any way prejudiced by any absorption or by any amalgamation of the guarantor company with any other company, shall incur and be available to the Bank till such time the loan accounts of the borrower company is adjusted in the books of accounts of the bank."*

accurate, the excerpted paragraphs from the judgment(s) are not traceable to those judgments in law reports. Ms. Divan also advanced brief arguments on the merits of the matter. The learned counsels appearing for the respondents have countered the submissions on merits.

15. It is not in dispute that the judgments relied upon by the NCLT are non-existent, and some AI-generated paragraphs are wrongly attributed to genuine citations. An independent examination undertaken by us reveals the following about the judgments relied upon by the adjudicating authority: ***State Bank of India v. M/s Shree Ram Urban Infrastructure Ltd., 2020 SCC OnLine SC 341*** *(cited in para 44 of NCLT judgment)* – Wrong citation of an existing reported judgment[6] and a non-existent paragraph, ***Everest Kento Cylinders Ltd. v. Union of India (2015) 2 SCC 1*** *(cited in para 45 of NCLT judgment)* – Correct citation but non-existent paragraph, ***ICICI Bank Ltd. v. Urban Infrastructure Real Estate Ltd., (2019) 16 SCC 528*** *(cited in para 47 of NCLT judgment)* – Non-existent citation, ***V.S. Dempo & Co. Ltd. v. Reliance Communications Ltd., (2021) 10 SCC 176*** *(cited in para 49 of NCLT judgment)* – Non-existent citation, ***Canara Bank v. N.G. Subbaraya Setty & Anr., (2018) 16 SCC 228*** *(cited in para 51 of NCLT judgment)* – Correct citation but

[6] Correct cause title for the cited judgment is M. Subramaniam v. S. Janaki, (2020) 16 SCC 728; ***2020 SCC OnLine SC 341.***

non-existent paragraph and ***Sarbjit Singh v. Union Bank of India, (2022) 7 SCC 464*** *(cited in para 53 of NCLT judgment)* – Non-existent citation.

16. Respondent No. 1 has filed an affidavit indicating that the alleged judgments relied on by NCLT were not cited by its counsel at the bar. The affidavit also indicates that the so-called precedents relied on by the adjudicating authority were obtained through its own research. What about the Appellate Tribunal? The fake, non-existent judgments escaped scrutiny by the first statutory appellate tribunal. Today's courts and tribunals implicitly trust lawyers when referring to precedents cited before them. Imagine the hardship of a situation in which the Court must verify the authenticity of each judgment cited by an advocate.

17. Judicial process and the judgment under challenge are tainted by the usage of materials which are said to be precedents, but in reality, they are unreal, fake, and do not exist at all. A decision of a Court or an adjudicating authority based on material which is fake and hallucinated is no decision at all, and it amounts to subversion of the rule of law. Such a decision is unsustainable and has to be set aside at the earliest[7].

[7] A prominent law firm of UK Pinsent Masons LLP utilised an internal artificial intelligence program carelessly during a block transfer application. In that instance, a junior associate accepted a completely fabricated statutory quote generated by the software without verifying it against authoritative legal texts, a critical error that went entirely unnoticed by the supervising partners. When the High Court questioned the non-existent text, the firm compounded the issue by submitting a subsequent letter containing an unconvincing, misleading explanation engineered by the software to mask the initial hallucination. Although the presiding judge ultimately desisted from instituting formal contempt of court proceedings due to a lack of deliberate dishonest intent, *Anthony Malcolm Cork & Anor v. Mark Smith,* [2026] EWHC 1199 (Ch), the reckless oversight wasted judicial resources, prompted a public admonishment from the bench, and forced the clients to transfer their matter to new legal representatives. Eventually, Pinsent also referred itself to the SRA for a formal investigation by the regulatory body- 'Pinsents' botched AI use sparks dependency alarm' (Law Society Gazette, 2026) <https://www.lawsociety.ie/gazette/top-stories/2026/may/pinsents-botched-ai-use-sparks-dependency-alarm/>.

18. For the reasons stated above, the judgment and orders passed by the NCLT and NCLAT dated 28.08.2024 and 11.09.2025 are hereby set aside. In view of the above, the Section 7 application, RCP (IB) 6/MB/2023, is restored to its original number.

19. The NCLT shall proceed with the said application and pass orders in accordance with law. We make it clear that we have not expressed any opinion on the merits of the case. It is for the adjudicating authority to consider the facts and circumstances of the case to decide the case on its own merits.

20. In view of the fact that the Section 7 application was filed long back, it is directed that the adjudicating authority shall take up and dispose of the said application expeditiously, preferably within a period of two weeks from today. Pending disposal of the said Section 7 application, the parties are directed to maintain the status quo as of today.

21. The appeal is disposed of in the above terms. Pending IAs, if any, are disposed of accordingly.

.....J.
[**PAMIDIGHANTAM SRI NARASIMHA**]

.....J.
[**ALOK ARADHE**]

**NEW DELHI;**
**JULY 02, 2026.**

CASE 4 OF 8

# M/s SRO India v. State of Punjab & Anr.

| | |
|---|---|
| **Court** | High Court of Punjab and Haryana at Chandigarh |
| **Bench** | Ashwani Kumar Mishra, A.C.J. and Rohit Kapoor, J. |
| **Date** | 07.07.2026 |
| **Case no. / citation** | 2026:PHHC:091427-DB; CWP-11494-2026 (O&M;) |

## Holding in brief

DRC-01A show cause notice of 02.02.2025 carried, uploaded on the GST portal, an AI tool's 'Optional Enhancement' prompts. The explanation of inadvertent upload was rejected: the statute expects the officer to apply his or her own mind, and use of an AI tool for preparing and issuing a notice is not shown to be permissible. Notice and consequential proceedings quashed; liberty to issue a fresh order after independent application of mind.

## Paragraphs highlighted

Paras 1, 2 (AI text extract), 4, 5, 6 and 7

## Status

Final order on the writ petition.

Relevant paragraphs are highlighted in light blue. The judgment begins on compendium page 64.

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**IN THE HIGH COURT OF PUNJAB AND HARYANA AT CHANDIGARH**

***CWP-11494-2026 (O&M)***
***Date of Decision:7th July, 2026.***

*M/S. SRO INDIA* ***…….Petitioner(s)***

***V/s***

*STATE OF PUNJAB AND ANOTHER* ***…..Respondent(s)***

***CORAM:*** ***HON'BLE THE ACTING CHIEF JUSTICE***
***HON'BLE MR. JUSTICE ROHIT KAPOOR***

Present Ms. Muskan Gupta, Advocate, and
Mr. Vivek Sharma, Advocate,
for the petitioners.

Ms. Samdisha Kaur, AAG, Punjab assisted by
Mr. Gagan Sharma, STO, Special Investigation & Preventive Unit, Amritsar.

****

***ASHWANI KUMAR MISHRA, A.C.J. (Oral)***

**1.** Show Cause Notice (DRC-01A) dated 02.02.2025 (Annexure P-5) is assailed in this Writ Petition, primarily on the ground that there is no application of mind to the facts involved in the present case by the Officer concerned, who has resorted to the use of an Artificial Intelligence (AI) Tool for issuance of the said notice.

**2.** The aforesaid submission of the petitioner is founded upon the document annexed to the show cause notice, which has also been uploaded on the portal referring to the various AI-based aids. Suggestions with regard to the manner in which the order could be passed or improved also find reference, and the same has been uploaded on the portal. The optional enhancement suggested by the AI Tool as uploaded on the portal is reproduced hereinafter:-

SURESH KUMAR
2026.07.15 13:16
I attest to the accuracy and
integrity of this document

*"Optional Enhancement (for Order-in-Original)*

*If you want, I can:*

- *Tighten this further with case-law citation paragraph-wise*
- *Convert it into Order-in-Original reasoning*
- *Add "knowledge and connivance inferred from facts" language*
- *Draft a defence-proof rebuttal against "buyer not responsible" plea.*

*Just say "add OIO version" or "make it lethal"*

*Enhanced Verification Findings on Non-Movement of Goods (Vehicle-wise Analysis)."*

**3.** Learned counsel for the petitioner submits that the order has been prepared with the use of AI and that the application of mind on part of the Officer, as is warranted under the statute, is clearly missing.

**4.** Learned State counsel, on the instructions received from Mr. Gagan Sharma, STO, on the other hand states that the references of AI at the fag end of the show cause notice have inadvertently been uploaded on the portal.

**5.** We are not impressed by the explanation offered on behalf of the respondent-Department inasmuch as the statute expects the competent authority not only to examine the facts of the case, but also apply his/her mind before issuing a show cause notice. Use of an AI Tool for preparation and issuance of show cause notice is not shown to be permissible under the statute.

**6.** Since we find that the show cause notice has been issued primarily relying upon the AI Tool, which does not have the requisite

SURESH KUMAR
2026.07.15 13:16
I attest to the accuracy and
integrity of this document

sanction in law, as such the said show cause notice (DRC-01A) dated 02.02.2025 and the consequential proceedings thereof cannot be sustained in law and are quashed, accordingly.

**7.** Liberty however stands reserved with the competent authority to pass a fresh order in accordance with law, by examining the facts of this case with independent application of mind.

**8.** All pending applications, if any, in this case are disposed of accordingly.

**[ASHWANI KUMAR MISHRA]**
**ACTING CHIEF JUSTICE**

**[ROHIT KAPOOR]**
**JUDGE**

**July 7, 2026**
*Ess Kay*

*Whether speaking / reasoned : Yes / No*
*Whether Reportable : Yes / No*

SURESH KUMAR
2026.07.15 13:16
I attest to the accuracy and
integrity of this document

CASE 5 OF 8

# Faiz Enterprise v. State Tax Officer, Unit-67, Surat & Anr.

| | |
|---|---|
| **Court** | High Court of Gujarat at Ahmedabad |
| **Bench** | A.S. Supehia and Vaibhavi D. Nanavati, JJ. |
| **Date** | 20.08.2026 |
| **Case no. / citation** | 2026:GUJHC:53490-DB; R/Special Civil Application No. 10123 of 2026 |

## Holding in brief

Cancellation order relied on case laws that did not exist, carried different citations or did not apply. The State Tax Officer tendered an unconditional apology for using AI. The Court reproduced and directed strict compliance with the Gujarat State Tax instructions dated 18.08.2026 on use of AI by adjudicating authorities (verify every authority from primary sources, reproduce the paragraph, record independent reasoning); violation would amount to contempt. Notice, orders and appellate order quashed; fresh notice to be issued.

## Paragraphs highlighted

Paras 1 (13.08.2026 order), 2-3, instructions at para 4, and paras 6 and 9

## Status

Final judgment; matter remitted for fresh notice.

Relevant paragraphs are highlighted in light blue. The judgment begins on compendium page 68.

NEUTRAL CITATION
2026:GUJHC:53490-DB

# IN THE HIGH COURT OF GUJARAT AT AHMEDABAD

## R/SPECIAL CIVIL APPLICATION NO.10123 of 2026

**FOR APPROVAL AND SIGNATURE:**

**HONOURABLE MR. JUSTICE A.S. SUPEHIA**

**and**

**HONOURABLE MS. JUSTICE VAIBHAVI D. NANAVATI**

==========

| Approved for Reporting | Yes | No |
|---|---|---|
| | ✔ | |

==========

FAIZ ENTERPRISE
THROUGH PROPRIETOR MAHETAR MAHIR FARUKBHAI
Versus
STATE TAX OFFICER, UNIT-67, SURAT & ANR.

==========

Appearance:
MR.HARDIK V VORA(7123) for the Petitioner(s) No. 1
MR.RAJ TANNA, AGP for the Respondent(s) No. 1,2

==========

CORAM:**HONOURABLE MR. JUSTICE A.S. SUPEHIA**
and
**HONOURABLE MS. JUSTICE VAIBHAVI D. NANAVATI**

**Date : 20/08/2026**

**ORAL JUDGMENT**

**(PER : HONOURABLE MR. JUSTICE A.S. SUPEHIA)**

1. On 13/08/2026, this Court passed the following order:



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NEUTRAL CITATION
2026:GUJHC:53490-DB

*"1. Learned advocate Mr.Vora at the outset, while pointing out the impugned order, has submitted that the State Tax Officer Unit-67 has relied upon the case laws, which do not even remotely deal with the issue raised before him. He has submitted that the judgement in the case of State of Gujarat v. Aarbee Structures Pvt. Ltd., 2024 (4) TMI 951 is not in existence, whereas the decision of the Madras High Court referred therein in the case of M/s. Sri Vinayaga Agencies v. Assistant Commissioner, 2023 (5) TMI 106 has different citation and ratio will not apply to the present case. Finally, the decision of the Calcutta High Court in the case of Jyoti Tar Products Pvt. Ltd. v. Deputy Commissioner, 2024 (7) TMI 512 also does not match with any of the citations and ratio also does not apply.*

*2. It appears that the impugned order has been passed by the State Tax Officer by placing reliance exclusively on the AI generated case laws.*

*3. Learned AGP shall take appropriate instructions in the matter, failing which the Court will be constrained to seek presence of the State Tax Officer Unit-67 namely, Mr.D.A.Yadav who has passed the impugned order. This Court shall also initiate appropriate action against him, in case it finds that the submissions advanced by learned advocate Mr.Vora regarding the case laws upon which reliance has been placed by the State Tax Officer are correct, that such case laws are either not in existence or do not even remotely apply to the issue. Such instructions shall be taken by the next date of hearing.*

*4. The matter is kept on* ***20.08.2026 at the top of the board."***

2. Today, when the matter is taken up for hearing, learned Assistant Government Pleader Mr.Raj Tanna has tendered the Affidavit-in-reply of respondent no.1 herein, who is personally present before this Court. The other officers, viz. (I) Mr.Brijesh



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2026:GUJHC:53490-DB

Upadhyay, Deputy Commissioner of State Tax (Court Branch), Rajyakar Bhavan, Ahmedabad, (ii) Mr.Ashok Karangiya, Deputy Commissioner of State Tax, Range-17, Surat and (iii) Mr. S.R. Rathod, Assistant Commissioner of State Tax, Unit-67, Surat are also present before this Court. He has also tendered the communication dated 19/08/2026 written by the Deputy State Tax Commissioner and also the administrative instructions issued by the Office of the Additional Commissioner of State Tax dated 18/08/2026. All the documents tendered before us, are ordered to be taken on record.

3. The Affidavit-in-reply filed by the respondent no.5 Shri Devang Arvindkumar Yadav, State Tax Officer, who has passed the impugned order, which has been referred by us, in our order dated 13/08/2026, has tendered an unconditional apology for citing the judgments in the impugned order, which are, in fact, cited by using the Artificial Intelligence (AI). The affidavit-in-reply (tendering unconditional apology), specifically refers that the deponent is a probationary officer and due to his lack of experience, the mistake has happened and he has tendered unconditional apology to this Court for using the Artificial Intelligence (AI) in drafting the order and referring to the non-existent and irrelevant judgments. He has also submitted that, after the order passed by this Court, he has attended the training programme on the subject, *"usage of Artificial Intelligence (AI) in*



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*Drafting SCA and adjudication/appellate order"*, which was conducted on 18/08/2026.

4. Pursuant to our order, the Additional Commissioner of State Tax (Admin), Gujarat State, Ahmedabad has issued the instructions dated 18/08/2026 to all the Joint Commissioners of State Tax, Division-1 to 12. The same reads thus:

> *"No:-CCT/Admin/instructions/2026-27/O.N:-53 Dt. 18/08/2006*
>
> *To,*
>
> *Joint Commissioners of State Tax,*
>
> *Div-1 to 12.*
>
> *Subject: Instructions on the use of Artificial Intelligence (Al) by Adjudicating Authority and Quasi-Judicial Authority*
>
> *With reference to above subject, these instructions are issued to Adjudicating Authorities and Quasi-Judicial Authorities of the Department to prescribe procedure for the use of artificial intelligence (AI) tools and Al-assisted research in the preparation of adjudication/appeal orders. The purpose is to ensure that orders remain legally sustainable, factually accurate, and can withstand the judicial scrutiny before courts and appellate forums.*
>
> *This instruction is framed in light of the recent oral order of the Hon'ble High Court of Gujarat in Faiz Enterprise v. State Tax Officer R/SCA/10123/2026 (13 August 2026). The High Court observed that the impugned order was passed by the State Tax Officer by placing reliance exclusively on AI-generated case laws, which were non-existent or irrelevant.*
>
> *Relevant extract (para 2): "It appears that the impugned order has been passed by the State Tax Officer by placing reliance exclusively on the AI generated case laws."*
>
> *Hon'ble High court has taken the cognizance of the same and therefore, these instructions are issued in order to maintain discipline and uniformity in passing of orders by the officers across the state.*



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*2. Following instructions shall be required to consider while using AI for drafting orders:*

*i. AI use is to assist the Authorities. Any case law, statutory provision, rule, circular, notification identified through AI must be independently verified by the Authority using primary official sources before incorporating it in an order.*

*ii. All Authorities, while referring to judgments of higher judicial forums, should ensure accurate citation and confirm their relevance to the case, reproducing the relevant extracts thereof. They should also verify the authenticity of the source as well as the current legal status of these judgments to ensure that these have not been overruled by a higher judicial forum. If an AI tool paraphrases a ratio, the officer must locate the original paragraph and reproduce it verbatim in the order before relying on it.*

*Iii. During adjudication, the judgments cited by the taxpayer should be duly considered and discussed. In case, the said judgment is not found to be applicable to the matter under consideration, reasons for the same must be recorded in the order.*

*iv. Wherever Artificial Intelligence (AI), open-source tools or other technological tools are utilized to enhance the efficiency and effectiveness in adjudication proceedings, such use must be accompanied by appropriate human oversight, as AI tools are not always reliable due to concerns regarding their accuracy, transparency, and the unknown nature of underlying information.*

*v. Orders must reflect independent legal reasoning and record the officer's own application of mind to the law and the facts of the case. AI output may assist in reasoning but cannot substitute it.*

*3. The ultimate responsibility for the correctness of the order lies with the issuing authority, irrespective of the technological tools used by the authority.*

*4. Failure to follow these instructions, including passing orders based on unverified AI content, will amount to misconduct and may attract disciplinary action.*

*5. In view of the above, you are instructed to suitably sensitize*



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*the officers under your jurisdiction regarding the above instructions and ensure strict compliance so as to maintain accuracy, consistency, and legal sustainability in adjudicating proceedings.*

*6. This issue with the approval of the Chief Commissioner of State Tax.*

*(A. B. Mehta)*

*Additional Commissioner of State Tax,*

*(Admin)*

*Gujarat State, Ahmedabad."*

5. The Deputy State Tax Commissioner vide communication dated 19/08/2026 has also informed the Government Pleader's Office about the steps taken by his office for use of Artificial Intelligence (AI) by Adjudicating Authorities and *Quasi Judicial* Authorities.

6. We direct that the instructions dated 18/08/2026, which we have incorporated in our order shall be scrupulously followed, and any violation of the instructions would amount to contempt of this Court, in view of the directions issued by us..

7. As far as the merits of the present matter is concerned, learned AGP Mr.Raj Tanna has very fairly pointed out that the respondents intend to revise the entire orders which are impugned in the petition by resorting to the provision of Section 108 of the Goods and Services Tax Act, 2017 (for short 'the GST Act, 2017'). It is submitted that, a fresh order will be passed and even if the Court thinks appropriate, all the orders may be set



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aside and the Department will issue fresh show cause notice to the petitioner.

8. We appreciate the fair stance taken by the respondents in the present matter and also the issuance of the instructions, in view of the order passed by us.

9. Under the circumstances, in light of the aforenoted facts, we quash and set aside the show cause notice dated 30/10/2025, the impugned order of cancellation dated 15/12/2025, order rejecting revocation application dated 10/03/2026 (issued on 23/03/2026) passed by the respondent no.1 and appellate order dated 25/05/2026 alongwith the GST APL-04 dated 26/05/2026 issued by the respondent no.2; and the respondent authority shall issue fresh notice to the present petitioner. The petitioner shall fully co-operate with the proceedings. We also clarify that the reply/defense taken by the petitioner shall be duly considered by the respondent authority while passing the order, and a reasoned order, in accordance with law shall be passed. All the rights and contentions of the respective parties are left open.

10. With these observations, the present petition stands ***disposed of.***

Sd/-

**(A. S. SUPEHIA, J)**

Sd/-

**(VAIBHAVI D. NANAVATI,J)**

*Pradhyuman/3/*



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CASE 6 OF 8

# Vijay Ghanshyam Gadiya v. Union of India & Anr.

| | |
|---|---|
| **Court** | Supreme Court of India |
| **Bench** | Dipankar Datta and Sheel Nagu, JJ. |
| **Date** | 02.09.2026 |
| **Case no. / citation** | 2026 INSC 947; Civil Appeal arising out of SLP (C) No. 15605 of 2026 |

## Holding in brief

Customs penalty of Rs. 425,27,99,100 under Section 114 (Order-in-Original of 08.10.2025, Additional Commissioner, Surat). The Court personally verified the cited judgments and articles: non-existent, fake citations, or not laying down the ratio attributed. Applying Pooja Ramesh Singh, the High Court order and the Order-in-Original were set aside and the case remitted to a different officer of the same rank; appointing authority left to consider action against the author.

## Paragraphs highlighted

Paras 3, 4, 5 (extract of Pooja Ramesh Singh), 6, 7, 8 and 11

## Status

Final order of the Supreme Court; reportable.

Relevant paragraphs are highlighted in light blue. The judgment begins on compendium page 76.

2026 INSC 947

**REPORTABLE**

**IN THE SUPREME COURT OF INDIA**
**CIVIL APPELLATE JURISDICTION**

**CIVIL APPEAL NO. OF 2026**
**[ARISING OUT OF SLP (CIVIL) NO. 15605 OF 2026]**

**VIJAY GHANSHYAM GADIYA** **... APPELLANT**

**VS.**

**UNION OF INDIA & ANR.** **... RESPONDENTS**

**O R D E R**

**DIPANKAR DATTA, J.**

**1.** Leave granted.

**2.** The Additional Commissioner of Customs, Surat[1] passed an Order-in-Original dated 8th October, 2025 imposing a penalty of Rs. 425,27,99,100/- on the appellant, under Section 114 of the Customs Act, 1962, for mis-declaring a consignment of natural diamonds as lab-grown diamonds to pay a lower tariff. The challenge laid to the said penalty by the appellant before the High Court of Gujarat[2] failed, as his appeal stood dismissed *vide* order dated 20th January, 2026. This order of High Court is impugned before us.

Signature Not Verified
Digitally signed by MANIK KUMAR
Date: 2026.02.09 18:46:38 IST
Reason:

[1] second respondent
[2] High Court

**3.** Entering into the merits of the challenge is unnecessary, since it has been contended on behalf of the appellant that several judgments and articles cited by the second respondent in the Order-in-Original dated 8th October, 2025 are generated using Artificial Intelligence[3].

**4.** We have made the effort to individually verify whether such contention of the appellant is true. Upon verifying such judgments and articles, it does appear that the second respondent has relied upon case laws that are either non-existent or have fake citations. A further investigation has also revealed that some of the case laws relied upon by the second respondent, which do exist, do not lay down the ratio deduced therefrom and it appears to be a hallucination of AI.

**5.** Such a discovery compels us to refer to the decision of this Court in ***Pooja Ramesh Singh v. Jammu & Kashmir Bank Ltd.***[4]. It happens to be a precedent dealing with the use of AI in judgments. Excerpts therefrom read:

> ***7.*** *It is necessary for courts to adopt a zero-tolerance mode for producing, citing or using artificial intelligence-generated precedents without verification. It is a misconduct on the part of an advocate to cite such judgments without verification. Equally, it is a serious lapse if a judge relies on such a fake or hallucinated artificial intelligence-generated material as precedents in support of the determination. We have no hesitation in declaring that such a decision is no decision in the eyes of the law, irrespective of whether such material had a direct or indirect bearing on the decision-making. Such decisions are to be set aside even if an iota of fake or hallucinated material enters the decision-making process, as it would violate the sanctity of adjudication. It is absolutely necessary to maintain integrity in decision page making, and we reiterate and declare zero tolerance for the Bar as well as the Bench to cite, refer to, or rely on such material. It is also clarified that our judgment shall have no bearing on the rightful use of artificial intelligence, but on the presentation or reliance on fake or hallucinated material as if it were a court precedent.*

[3] AI
[4] 2026 SCC OnLine SC 1258

**6.** At this juncture, we may also add a comment on the use of Artificial Intelligence in adjudicatory processes. While this issue incidentally falls upon us to be considered, use of AI in the process of adjudication is not foreign. Quite the contrary, this Court has recently released draft Regulations for Use of Artificial Intelligence in Courts, 2026, calling for comments and suggestions. Notwithstanding that the regulations are yet to be finalised, use of AI as an assistive tool to speed up the decision-making process cannot be denied. However, a note of caution must be sounded: assistance can never be substituted for adjudication. AI may well serve as training wheels but entrusting it with the pilot's seat would be both imprudent and dangerous.

**7.** The use of AI in this case, resulting in reliance placed by the second respondent on material which is dubious, proves fatal to the sustainability of the order imposing penalty on the appellant. Such circumstances compel us to interfere and remand the case. Learned Additional Solicitor General has not joined issue.

**8.** For the foregoing reasons, the impugned order of the High Court confirming the penalty is consequently set aside together with the Order-in-Original, with the result that the proceedings against the appellant before the second respondent shall stand revived for being decided afresh by an officer of the same rank other than the one who passed the order dated 8th October, 2025.

**9.** The civil appeal stands allowed.

**10.** Pending application(s), if any, stand disposed of.

**11.** We leave it to the wisdom of the appointing authority to initiate such action against the author of the order dated 8th October, 2025, as may be warranted in the circumstances, in accordance with law.

**.....J.**
**(DIPANKAR DATTA)**

**.....J.**
**(SHEEL NAGU)**

**NEW DELHI;**
**SEPTEMBER 02, 2026.**

CASE 7 OF 8

# Quanta Logistics Pvt. Ltd. v. Commissioner of Customs (Import-I) & Anr.

| | |
|---|---|
| **Court** | High Court of Judicature at Bombay (Original Side) |
| **Bench** | M.S. Karnik and Sandesh D. Patil, JJ. |
| **Date** | 30.10.2026 (uploaded 05.11.2026) |
| **Case no. / citation** | 2026:BHC-OS:24069-DB; Writ Petition No. 5093 of 2026 |

## Holding in brief

Order-in-Original of 11.08.2026 relied on two non-existent Supreme Court judgments; the Petitioner's request (01.09.2026) for copies went unanswered. Relying on Vijay Ghanshyam Gadiya (and the extract of Pooja Ramesh Singh), the Revenue conceded, and the order was quashed by consent with a fresh hearing to be concluded within eight weeks from 05.11.2026.

## Paragraphs highlighted

Paras 2 (both paragraphs so numbered: grounds, request for copies, and extract of the Supreme Court decisions), 3, 4 and 5

## Status

Disposed of by consent; no finding by the Court that the cited judgments were AI-generated.

Relevant paragraphs are highlighted in light blue. The judgment begins on compendium page 81.

# IN THE HIGH COURT OF JUDICATURE AT BOMBAY
# ORDINARY ORIGINAL CIVIL JURISDICTION

## WRIT PETITION NO. 5093 OF 2026

Quanta Logistics Pvt. Ltd. )
company incorporated under the )
companies Act, 1996 having )
registerd office at No. 6, Esplande, )
II nd Floor, MA Chidambaram Building, )
Chennai, Tamil Nadu 600 108 ).....Petitioner

*Versus*

Commissioner of Customs (Import-I) )
a statutory authority authority under the )
provisions of the Customs Act, 1962 )
having office )
at Adjudication Cell, New Custom House, )
Ballard Estate, Mumbai, Maharashtra-400 707 )
)
Union of India )
through the Secretary, )
Ministry of Finance, Department of Revenue, )
North Block, New Delhi-110001 ).....Respondents

.....

Mr. Venkatesh Dhond, Senior Advocate a/w Adv. Bimal Rajasekhar and Adv. Sunand Subramaniam, for the Petitioner.

Mr. Jitendra B. Mishra a/w Ms. Sangeeta Yadav, for the Respondent Nos.1 and 2.

.....

CORAM : M. S. KARNIK &
SANDESH D. PATIL, JJ.

DATE : 30th OCTOBER 2026



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JUDGMENT [PER SANDESH D. PATIL, J.] :-

1. By the present Writ Petition, the Petitioner is challenging the Order-in-Original dated 11th August, 2026 which is at Exhibit-A to the Petition.

2. The case of the Petitioner is that the Order in question was passed by taking recourse to Artificial Intelligence (AI) without independent application of mind by the Respondent No.1. Learned Counsel for the Petitioner as an example cites two non-existent judgments of the Hon'ble Supreme Court which are relied by the Respondent No.1 while passing the said Order. It is the case of the Petitioner that to the best of its knowledge these judgments do not exists in any Law Report or database and it appears to be a hallucination of AI. The Petitioner by letter dated 1st September, 2026 requested the Respondent No.1 for copies of the said Judgments, however, the same were not provided.

2. Learned Counsel for the Petitioner relied upon the judgment of the Hon'ble Supreme Court in ***Vijay Ghanshyam Gadiya Vs. Union of India & Anr.***[1]. He invited our specific attention to following paragraphs:

1 2026 INSC 947



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***5.*** *Such a discovery compels us to refer to the decision of this Court in* ***Pooja Ramesh Singh v. Jammu & Kashmir Bank Ltd.*** *It happens to be a precedent dealing with the use of Al in judgments. Excerpts therefrom read:*

> ***7.*** *It is necessary for courts to adopt a zero-tolerance mode for producing, citing or using artificial intelligence-generated precedents without verification. It is a misconduct on the part of an advocate to cite such judgments without verification. Equally, it is a serious lapse if a judge relies on such a fake or hallucinated artificial intelligence-generated material as precedents in support of the determination. We have no hesitation in declaring that such a decision is no decision in the eyes of the law, irrespective of whether such material had a direct or indirect bearing on the decision-making. Such decisions are to be set aside even if an iota of fake or hallucinated material enters the decision-making process, as it would violate the sanctity of adjudication. It is absolutely necessary to maintain integrity in decision page making, and we reiterate and declare zero tolerance for the Bar as well as the Bench to cite, refer to, or rely on such material. It is also clarified that our judgment shall have no bearing on the rightful use of artificial intelligence, but on the presentation or reliance on fake or hallucinated material as if it were a court precedent.*

***6.*** *At this juncture, we may also add a comment on the use of Artificial Intelligence in adjudicatory processes. While this issue incidentally falls upon us to be considered, use of Al in the process of adjudication is not foreign. Quite the contrary, this Court has recently released draft Regulations for Use of Artificial Intelligence in Courts, 2026, calling for comments and suggestions. Notwithstanding that the regulations are yet to be finalised, use of AI as an assistive tool to speed up the decision-making process cannot be denied. However, a note of caution must be sounded: assistance can never be substituted for adjudication. AI may well serve as training wheels but entrusting it with the pilot's seat would be both imprudent and dangerous.*



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*7. The use of AI in this case, resulting in reliance placed by the second respondent on material which is dubious, proves fatal to the sustainability of the order imposing penalty on the appellant. Such circumstances compel us to interfere and remand the case. Learned Additional Solicitor General has not joined issue*

3. Learned Counsel for the Respondents fairly submits that the impugned Order can be quashed and set aside and the matter can be remanded back to the Respondent No.1 for passing of a fresh Order.

4. By consent of both the parties, the Order dated 11th August, 2026 is quashed and set aside.

5. The Petitioner is directed to appear before the Respondent No.1 on 5th November, 2026 at 11:00 a.m. after which the Respondent No.1 shall fix the next date of hearing. The proceedings be concluded within a period of eight weeks from 5th November, 2026.

6. In view of above, Writ Petition No.5093 of 2026 stands disposed of.

**(SANDESH D. PATIL, J.)** **(M. S. KARNIK, J.)**



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CASE 8 OF 8

# Gummadi Usha Rani & Anr. v. Sure Mallikarjuna Rao & Anr.

| | |
|---|---|
| **Court** | Supreme Court of India |
| **Bench** | Pamidighantam Sri Narasimha and Alok Aradhe, JJ. |
| **Date** | 27.02.2026 |
| **Case no. / citation** | Petition for Special Leave to Appeal (C) No. 7575 of 2026 (against Andhra Pradesh High Court order of 21.01.2026 in CRP 2487/2025) |

## Holding in brief

Trial court in a civil suit relied on four decisions said to be non-existent or fake (AI generated). Court took cognizance: a decision based on such judgments 'is not an error in the decision making' but 'would be a misconduct and legal consequence shall follow'. Trial court restrained from acting on the Advocate Commissioner's report; notice to the Attorney General, Solicitor General and Bar Council of India; amicus appointed.

## Paragraphs highlighted

Paras 1, 2 (decisions cited), 3, 4, 6, 7 and 8

## Status

Interim record of proceedings at the admission stage (a civil matter); final outcome not seen. Check before citing.

Relevant paragraphs are highlighted in light blue. The judgment begins on compendium page 86.

**ITEM NO.22 COURT NO.6 SECTION XII-A**

**S U P R E M E C O U R T O F I N D I A**
**RECORD OF PROCEEDINGS**

**Petition(s) for Special Leave to Appeal (C) No(s). 7575/2026**

**[Arising out of impugned final judgment and order dated 21-01-2026 in CRP No. 2487/2025 passed by the High Court of Andhra Pradesh at Amravati]**

**GUMMADI USHA RANI & ANR. Petitioner(s)**

**VERSUS**

**SURE MALLIKARJUNA RAO & ANR. Respondent(s)**

**FOR ADMISSION**

**Date : 27-02-2026 This petition was called on for hearing today.**

**CORAM : HON'BLE MR. JUSTICE PAMIDIGHANTAM SRI NARASIMHA**
**HON'BLE MR. JUSTICE ALOK ARADHE**

**For Petitioner(s) : Ms. Sindoora Vnl, AOR**
**Ms. Thithiksha Padmam, Adv.**

**For Respondent(s) :**

**UPON hearing the counsel the Court made the following**
**O R D E R**

**1. This case assumes considerable institutional concern, not because of the decision that was taken on the merits of the case, but about the process of adjudication and determination.**

**2. The petitioners are the defendants in a suit filed by the respondents for injunction. Pending disposal of the suit, the Trial Court appointed an Advocate Commissioner to note the physical features of the property. The petitioners challenged the report of the Advocate Commissioner by raising certain objections. The Trial Court, by its order dated 19.08.2025 dismissed the objection and in**

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the process, relied on certain decisions being; *i)Subramani v. M. Natarajan (2013) 14 SCC 95, ii) Chidambaram Pillai v. SAL Ramasamy (1071) 2 SCC 68, iii) Lakshmi Devi v. K. Prabha (2006) 5 SCC 551 and iv) Gajanan v. Ramdas (2015) 6 SCC 223.*

3. The petitioners challenged the orders passed by the Trial Court, *inter alia,* contending that the judgments referred to and relied on are non-existent and fake orders.

4. The High Court considered the objection and realized that the judgments are Artificial Intelligence (AI) generated and after recording a word of caution proceeded to decide the case on merits and dismissed the civil revision petition affirming the decision of the Trial Court. Thus, the petitioner is before us.

5. Issue notice, returnable on 10.03.2026.

6. Pending disposal of the Special Leave Petition, we direct that the Trial Court shall not proceed on the basis of the Advocate Commissioner's Report.

7. We take cognizance of the Trial Court deploying AI generated non-existing, fake or synthetic alleged judgments and seek to examine its consequences and accountability as it has a direct bearing on integrity of adjudicatory process. At the outset, we must declare that a decision based on such non-existent and fake alleged judgments is not an error in the decision making. It would be a misconduct and legal consequence shall follow. It is compelling that we examine this issue in more detail.

8. Issue notice to the Ld. Attorney General, Ld. Solicitor General and the Bar Council of India.

**9. We appoint Mr. Shyam Divan, learned senior counsel, to assist the Court. He may nominate an Advocate on Record for his assistance.**

**(JAYANT KUMAR ARORA)**
**ASTT. REGISTRAR-cum-PS**

**(MANOJ KUMAR)**
**COURT MASTER**

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