

GST Interest and Penalty in India –

1. Introduction

Goods and Services Tax (GST) is a self-assessed tax system that relies heavily on timely compliance. When a taxpayer fails to pay taxes, files returns late, or claims excess Input Tax Credit (ITC), the government imposes **interest and penalties** to ensure accountability and discourage negligence.

This article provides a detailed explanation of the **interest and penalty provisions under GST**, their applicability, computation, and examples to help businesses and professionals stay compliant.

2. Difference Between Interest and Penalty

Particulars	Interest	Penalty
Nature	Compensatory	Punitive
Reason	Delay in payment or wrong ITC	Non-compliance or fraud
Automatic	Yes	Sometimes discretionary
Appealable	No	Yes, in some cases
Section	Sec 50 of CGST Act	Sec 122, 125, 129, etc. of CGST Act

3. Interest Under GST

Applicable Section:

Section 50 of the CGST Act, 2017

Situations Where Interest is Applicable:

1. **Delay in payment of GST**
2. **Excess claim of Input Tax Credit (ITC)**
3. **Wrongful reduction of output tax liability**

4. Interest Rates Under GST

Nature of Default	Interest Rate
Tax not paid/short paid (other than fraud)	18% p.a.
Undue or excess ITC claimed	24% p.a.
Excess reduction in output tax liability	24% p.a.

Interest is calculated on the **net tax liability**, i.e., the amount payable in **cash**, after adjusting Input Tax Credit, except in certain cases of undue ITC.

5. How to Calculate Interest

Interest = Tax Amount × Interest Rate × No. of Days ÷ 365

- Days are counted from the **due date till the actual payment date**.
- Interest is calculated **on a daily basis**.

Example 1: Delay in GST Payment

GST due for March = ₹20,000

Due date = 20th April

Actual payment date = 30th April (delay of 10 days)

Interest Rate = 18%

Interest = ₹20,000 × 18% × 10 / 365 = ₹98.63

So, total payable = ₹20,098.63

Example 2: Wrong ITC Claim

Excess ITC claimed = ₹50,000

Discovered after 60 days

Interest Rate = 24%

Interest = ₹50,000 × 24% × 60 / 365 = ₹1,972.60

Taxpayer must repay ₹50,000 + ₹1,972.60 interest.

6. Important Points About Interest

- **Interest is mandatory** and cannot be waived by tax officers.
- Applicable even if the delay is unintentional or due to clerical errors.
- Not allowed to use ITC to pay interest—must be paid **in cash**.
- Delays in filing **GSTR-3B** or **PMT-06** (under QRMP) attract interest.

7. Penalty Under GST

Penalties are imposed for:

- Not registering under GST despite being liable
- Delayed return filing
- Incorrect invoice details
- Incorrect ITC claims
- Collecting tax but not depositing
- Fraud or suppression of facts

8. Key Penalty Provisions

Section	Reason	Penalty
122(1)	General default (e.g., tax not paid, incorrect invoice, fraud)	₹10,000 or tax evaded (whichever is higher)
122(2)	For transporters/warehouse owners aiding fraud	₹25,000
122(3)	For deliberate tax evasion or obstructing officers	₹10,000
125	General penalty (no specific provision)	Up to ₹25,000
129	Detention/seizure of goods in transit	100% tax + penalty equal to tax

9. Common GST Penalty Scenarios with Examples

Example 3: Not Registering Under GST

A trader crosses ₹40 lakh turnover but fails to register.

Penalty: ₹10,000 or tax due, whichever is higher.

If tax due = ₹50,000 → Penalty = ₹50,000

Example 4: Incorrect Invoice Issued

A supplier charges GST at 12% instead of 18%.

Tax short-paid = ₹3,000

Penalty = ₹10,000 or ₹3,000 → **₹10,000**

Example 5: GSTR-3B Filed Late

Return for April filed on 30th May instead of 20th May.

Penalty:

- ₹50 per day (₹25 CGST + ₹25 SGST)
- Delay = 10 days
- Total = $10 \times ₹50 = ₹500$

For NIL return: ₹20/day

Example 6: E-Way Bill Default

Goods in transit without valid e-way bill:

- Tax involved = ₹30,000

Penalty = ₹30,000 (minimum 100% of tax)

10. Fraud vs Non-Fraud Cases

Fraud Cases:

- Suppression of facts
- Intentional misstatement
- Fake ITC claims

Penalty: 100% of tax evaded

Interest: 24%

Non-Fraud Cases:

- Clerical error
- Delay without malice

Penalty: 10% of tax (max ₹10,000)

Interest: 18%

11. Late Fees Under GST

Applicable for **late filing of returns**, even if no tax is payable.

Return	Late Fee per Day	Maximum
GSTR-3B, GSTR-1	₹50 (₹25 CGST + ₹25 SGST)	₹5,000
NIL Return	₹20 (₹10 + ₹10)	₹500
GSTR-9 (Annual)	₹200 (₹100 + ₹100)	0.25% of turnover

12. How to Pay Interest and Penalty

- Must be paid **in cash** (not via ITC).
- Paid through **GST PMT-06 challan**.
- Reported under **GSTR-3B > Table 5.1** or **Table 6.1** depending on the case.

13. Avoiding Interest and Penalty – Best Practices

- File returns before the due date (GSTR-1, GSTR-3B, CMP-08)
- Reconcile ITC with GSTR-2B
- Don't claim ITC for ineligible items
- Issue proper tax invoices
- Monitor turnover for registration
- Generate e-way bills for applicable transactions
- Respond to GST notices on time

14. Recent Updates on Interest and Penalty

- GST Council has reduced late fees for NIL and small taxpayers
- Auto-calculation of interest in GSTR-3B
- Facility to pay penalty through DRC-03
- Composition taxpayers must also pay interest on delay in CMP-08

15. Conclusion

Understanding GST interest and penalty is essential for avoiding unnecessary financial burden and legal complications. While interest is a compensatory charge for delayed payment or excess ITC, penalties act as a deterrent for non-compliance or fraud. By ensuring timely payments, accurate filings, and following GST rules, businesses can remain compliant and maintain smooth operations.

Keeping track of due dates, reconciling data, and reviewing returns before filing are small but impactful habits that help avoid these charges entirely. In case errors are discovered, it's best to voluntarily rectify them before notice is issued.