

Cost of the tools supplied for free should be added to the value of goods supplied – AAR, Karnataka

Background

The Authority for Advance Ruling¹ (AAR), Karnataka has recently held that amortised cost of tools which are supplied to the applicant free of cost shall be added to the value of the components for determining the value of supply.

Facts of the case

Nash Industries (I) Pvt. Ltd., (Applicant) is in the business of manufacturing sheet metal pressed components and caters to various industries, ATM, printers, etc. In the course of its business, the applicant upon receipt of an order for specialised components manufactures the required tools. The value of tools is billed to the recipient along with the applicable goods and services tax (GST). The recipient thereafter provide the tools back to the applicant free of cost for using the same in the manufacturing of the ordered specialised component.

In light of the background, the applicant had filed an application seeking an advance ruling on

“Whether the amortised cost of the tool to be added to arrive at the value of the goods supplied for the purpose of GST under section 15 of the Central Goods and Services Tax Act (CGST Act) read with rule 27 of the Central Goods and Services Tax Rules (CGST Rules)”

AAR Ruling

Section 15(1) of the CGST Act, value for the purpose of levy of GST shall be the transaction value carried out at an arm's length. Further, section 15(2) provides for the inclusion of other related amounts in determining the value of taxable supply.

In the instant case, the applicant was required to supply certain specialised components, which requires specialised tools. These tools could either be manufactured by the applicant themselves or the said tools could be procured from a third party vendor, or the tools could be supplied by the recipient free of cost.

The AAR relying on section 15(2) (b) of the CGST Act held that the cost of tools incurred by the recipient of the supply, provided free of cost to the applicant manufacturer shall form part of the value of specialised component for the purpose of levy of GST.

Our comments

The above ruling is in total contrast to the circular no. 47/21/2018-GST dated 8 June 2018 issued by the Central Board of Indirect Taxes and Customs (CBIC), where it has been clarified that moulds and dies supplied free of cost to the component manufacturer does not constitute a supply as there is no consideration involved.

¹ Nash Industries (I) Pvt. Ltd. 2018-VIL-266-AAR

Ahmedabad

Commerce House V, 9th Floor,
902, Near Vodafone House,
Corporate Road,
Pralhad Nagar,
Ahmedabad – 380 051.
Tel: +91 79 4040 2200

Bengaluru

Maruthi Info-Tech Centre,
11-12/1, Inner Ring Road,
Koramangala,
Bengaluru – 560 071.
Tel: +91 80 3980 6000

Chandigarh

SCO 22-23 (1st Floor),
Sector 8C, Madhya Marg,
Chandigarh – 160 009.
Tel: +91 172 664 4000

Chennai

KRM Towers,
Ground Floor, 1, 2 & 3 Floor,
Harrington Road,
Chetpet, Chennai – 600 031.
Tel: +91 44 3914 5000

Gurugram

Building No.10, 8th Floor,
DLF Cyber City, Phase II,
Gurugram, Haryana – 122 002.
Tel: +91 124 307 4000

Hyderabad

Salarpuria Knowledge City,
6th Floor, Unit 3, Phase III,
Sy No. 83/1, Plot No 2,
Serilingampally Mandal,
Ranga Reddy District,
Hyderabad – 500 081.
Tel: +91 40 6111 6000

Jaipur

Regus Radiant Centre Pvt Ltd.,
Level 6, Jaipur Centre Mall,
B2 By pass Tonk Road
Jaipur – 302 018.
Tel: +91 141 – 7103224

Kochi

Syama Business Centre,
3rd Floor, NH By Pass Road,
Vytilla, Kochi – 682 019.
Tel: +91 484 302 5600

Kolkata

Unit No. 604,
6th Floor, Tower – 1,
Godrej Waterside,
Sector – V, Salt Lake,
Kolkata – 700 091.
Tel: +91 33 4403 4000

Mumbai

1st Floor, Lodha Excelus,
Apollo Mills,
N. M. Joshi Marg,
Mahalaxmi, Mumbai – 400 011.
Tel: +91 22 3989 6000

Noida

Unit No. 501, 5th Floor,
Advant Navis Business Park,
Tower-A, Plot# 7, Sector 142,
Expressway Noida,
Gautam Budh Nagar,
Noida – 201 305.
Tel: +91 0120 386 8000

Pune

9th floor, Business Plaza,
Westin Hotel Campus,
36/3-B, Koregaon Park Annex,
Mundhwa Road, Ghorpadi,
Pune – 411 001.
Tel: +91 20 6747 7000

Vadodara

Ocean Building, 303, 3rd Floor,
Beside Center Square Mall,
Opp. Vadodara Central Mall,
Dr. Vikram Sarabhai Marg,
Vadodara – 390 023.
Tel: +91 265 619 4200

Vijayawada

Door No. 54-15-18E, Sai Odyssey,
Gurunanak Nagar Road, NH 5,
Opp. Executive Club, Vijayawada,
Krishna District,
Andhra Pradesh – 520 008.
Tel: +91 0866 669 1000