

UNDERSTANDING THE IMPORTANCE OF COMPOSITE AND MIXED SUPPLY



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Taxable Event is the foundation stone of any taxation system; it determines the point at which tax would be levied, hence before levying any tax, taxable event needs to be ascertained.

The GST laws resolve these issues by laying down one comprehensive taxable event i.e., “Supply” - Supply of Goods or Services or both.

Parameters of “Supply”:

- Supply should be of Goods or Services. Supply of anything other than goods or services like money, securities etc. does not attract GST.
- Supply should be made for a consideration
- Supply should be made in the course or furtherance of business

Why is the concept of Composite supply & Mixed supply important?

- ✓ GST is payable on individual goods or services or both at the **notified rates**.
- ✓ The application of rates poses no problem if the supply is of individual goods or individual services

- ✓ Some of the supplies are a combination of goods or combination of services or combination of goods and services both
- ✓ Each individual component of such supplies may attract a different rate of tax.
- ✓ In such a case, the rate of tax to be levied on such supplies may be a challenge.
- ✓ It is for this reason, that the GST Law identifies composite supplies and mixed supplies and
- ✓ Provides certainty in respect of tax treatment under GST for such supplies GST is payable on individual goods or services or both at the notified rates.

Say for example, Mr. X purchases a Set top box for television and also avails installation services from the dealer.

- Set Top Box attracts GST @ 28%
- Installation Services attracts GST @ 18%

- If the dealer raises a consolidated value for

the entire supplies, then the concept of composite supply and mixed supply becomes very important.

- It helps to determine the correct GST rate and provides uniform tax treatment under GST for such supplies.

Let us understand the concept in details as under:

Composite Supply:

Clause (a) of Section 8 defines Composite Supply:

A composite supply comprising of:

- Two or more supplies,
- One of which is a principal supply
 - Shall be treated as a supply of such **principal supply**

Interpretation:

Composite supply means a supply made by a taxable person to a recipient and:

- ❖ Comprises two or more taxable supplies of goods or services or both, or any combination thereof.
- ❖ Which are naturally bundled and supplied in conjunction with each other, in the ordinary course of business
- ❖ One of which is a principal supply

Principal Supply:

Principal Supply means the supply of goods or services which constitutes the predominant element of a composite supply and to which any other supply forming part of that composite supply is ancillary.

Parameters to determine a supply is a composite supply:

A supply of goods or services or both will be treated as composite supply if it fulfils the following criteria:

- ✓ Supply of Two or more goods or services or both

AND

- ✓ The supply is naturally bundled, i.e., goods or services are usually provided together in the ordinary course of business (it means the items are generally sold as a combination)

AND

- ✓ They cannot be supplied separately

What tax rate will apply?

The tax rate of the principal supply will apply on the entire supply.

Example-1:

ABC Ltd Manufacturers entered into a contract with XYZ Ltd for supply of readymade shirts packed in designer boxes at XYZ Ltd.'s outlet for a consolidated price of ₹ 10,00,000. Further, ABC Manufacturers would also get them insured during transit. In this case, supply of goods, packing materials, transport & insurance is a composite supply wherein supply of goods is principal supply.

Principal Supply: Goods

Ancillary Supply: Packing material, transport and Insurance

Tax liability:

Tax on the principal supply i.e., GST rate on the readymade shirts will applicable on the entire supply.

Example-2:

When a consumer buys a television set and he also gets warranty and a maintenance contract with the TV, this supply is a composite supply.

- ✓ Principal Supply: Supply of TV

- ✓ Ancillary Supply: warranty and maintenance services

Tax liability:

Tax on the principal supply i.e., GST rate on the TV would applicable on the entire supply

Example-3:

A travel ticket from Mumbai to Delhi may include service of food being served on board, free insurance, and the use of airport lounge.

- ✓ In this case, the transportation of passenger, constitutes the pre-dominant element of the composite supply, and is treated as the principal supply and

- ✓ all other supplies are ancillary.

Tax liability:

Tax on the principal supply i.e., GST rate on the Air Transport Service.

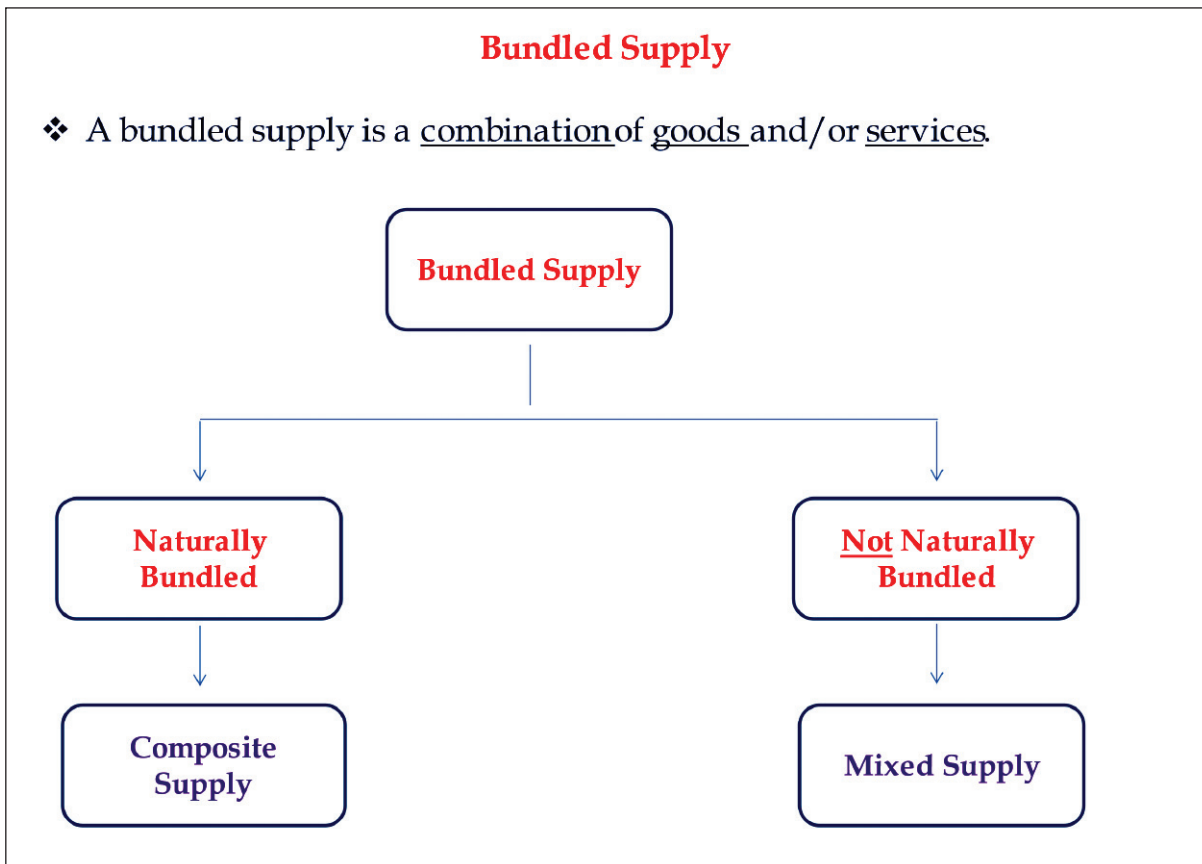
Example-4

ABC hospitals provides doctor consultancy services and food to in-patients in their clinic, as per the provision of the Act, health care services are exempted from GST and Food is liable for 5% GST

- ✓ Principal Supply: Health Care Services
- ✓ Ancillary Supply: Food

Tax Implication: Such entire supply is exempted from GST, as the principal is health care services which are exempted from GST

Concept of Bundled Supply:



Various ways to identify (or) determine a supply is naturally bundled:

1. If buyers mostly expect such services to be provided as a package, then the package will be treated as naturally bundled.

Ex: Most business conventions look for combination of hotel accommodation, auditorium and food.

2. If most of the service providers in the industry provide a package of services then it can be considered as naturally bundled.

Ex: Air transport and food on board is a bundle offered by most airlines.

3. The nature of the various services in a bundle of

services will also help to identify whether the services are bundled.

Ex: Five- star hotels often provide free laundry services on staying at the hotel. Renting the room is the primary service and laundry is ancillary. A person can opt for laundry services only if he is staying at the hotel

Other illustrative indicators:

- ✓ There is a single price for the package even if the customers opt for less
- ✓ The elements are normally advertised as a package.
- ✓ The different elements are not available separately.
- ✓ The different elements are integral to one overall

supply. If one or more is removed, the nature of the supply would be affected.

Circular for Automobile Industry:

In case of servicing of cars involving supply of both goods (spare parts) and services (labour) where the value of goods and services are shown separately, CBIC has clarified that the goods and services would be liable to tax at the rates as applicable to such goods and services separately [Circular No. 47/21/2018 GST dated 08.06.2018].

Mixed Supply:

Clause (b) of Section 8 defines “a mixed supply comprising two or more supplies shall be treated as a supply of that particular supply which attracts the **highest rate of tax**”.

Interpretation of Mixed Supply:

A mixed supply comprising of:

- Two or more supplies
- Shall be treated as a supply of that particular supply
- Which attracts highest rate of tax

Mixed supply means:

- Two or more individual supplies of goods or services, or any combination thereof, made in conjunction with each other by a taxable person
- for a single price
- where such supply does not constitute a composite supply
- Each of these supplies can be supplied separately and is not dependent on any other.
- Also, the individual supplies are independent of each other and are not naturally bundled

Example-1

A Diwali gift box consisting of canned foods, sweets, chocolates, cakes, dry fruits, aerated drink and fruit juices supplied for a single price is a mixed supply. All are also sold separately.

Tax Implication:

Since aerated drinks have the highest GST rate of 28%, hence 28% will apply on the entire gift box.

Example-2

A shopkeeper selling storage water bottles along with refrigerator. Bottles and the refrigerator can easily be priced and sold independently and are not naturally bundled. So, such supplies are mixed supplies.

Tax Implication: Refrigerator attracts 18% & Bottles attracts 12%

So, the tax rate for the mixed supply is liable for 18%

Example-3

A house is given on rent through a single rent deed - one floor of which is to be used as residence and the other for housing a printing press, at a lump sum rent amount. Such renting for two different purposes is not naturally bundled in the ordinary course of business. Said supplies are mixed supply.

Analysis:

Renting of an immovable property for residential purpose is exempted from GST

Whereas Renting of an immovable property for commercial purpose liable for GST

Tax Implication:

As there is a single rental deed for the whole house, hence it is treated as mixed supply and entire building is liable for 18% GST

Example 4: Buy detergent Get bucket free

Many shops offer a free bucket with detergent purchased. This is a mixed supply as it does not satisfy the 2nd condition, i.e., it can be sold separately. You can buy either just a bucket or just detergent. The highest rate of GST will then apply. Since detergents have the higher rate (28%), this rate will apply on the whole mixed bundle.

Tax Implication:

The Items which has the highest rate of tax in a mixed supply


How to determine if a particular supply is a mixed supply?

- ✓ The supply should not be a composite supply
- ✓ Supplies are not naturally bundled in the ordinary course of business
- ✓ The items can be sold separately / independently




In a Nut Shell:

Composite and mixed supplies



Composite Supply

- Consist of two or more supplies
- Naturally bundled
- In conjunction with each other
- One of which is principal supply
- Tax liability shall be rate of principal supply
- **Example:** Charger supplied alongwith mobile phones.



Mixed Supply

- Consist of two or more supply
- Not naturally bundled
- Though can be supplied independently, still supplied together
- Tax liability shall be the rate applicable to the supply that attracts highest rate of tax
- **Example:** A gift pack comprising of chocolates, candies, sweets and balloons.

Differences between Composite Supply & Mixed Supply:

Particulars	Composite Supply	Mixed supply
Main item	Principal item	Item with highest tax rate
Tax rate applicable	Tax rate of Principal item	Highest tax rate of all the items

Time of Supply for Composite Supply & Mixed Supply:

In case of Composite Supply

If the “Principal Supply “

- is a Service: Time of supply of Services

- is a Goods: Time of supply of Goods

In case of Mixed Supply

If the “Highest rate of supply “

- is a Service: Time of supply of Services

- is a Goods: Time of supply of Goods

Conclusion:

In order to levy and collect appropriate tax from the recipient of goods or services understanding the concept of composite supply or mixed supply is very important and necessary to the dealers. It also helps the enterprises to run the business smoothly and effectively. Finally, this concept helps to reduce the future litigations from the department.

