



GST ON WARRANTY SUPPLY

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A warranty is a type of guarantee that a manufacturer or similar party makes regarding the condition of its product. It also refers to the terms and situations in which repairs or exchanges will be made in the event that the product does not function as originally described or intended.

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Question 20: What would be the tax liability on replacement of parts (no consideration is charged from a customer) under a warranty and whether the supplier is required to reverse the input tax credit?

Answer: As parts are provided to the customer without a consideration under warranty, no GST is chargeable on such replacement. The value of supply made earlier includes the charges to be incurred during the warranty period. Therefore, the supplier who has undertaken the warranty replacement is not required to reverse the input tax credit on the parts/components replaced.

Question 21: An Original Equipment Manufacturer (OEM) has an obligation to provide repair services to their customers in the warranty period. This activity is outsourced by OEM to 'D', who bills the OEM for the services he provides to the customer. What is the tax liability of 'D'?

Answer: 'D' is providing service to the OEM. GST is payable on the value of any supplies made by 'D' to OEM i.e. in respect of bills raised by 'D' on the OEM.

The above answers are implied from the Central Excise Act which is reproduced below:

Section 4 in the Central Excise Act, 1944

(d) "transaction value" means the price actually paid or payable for the goods, when sold, and includes in addition to the amount charged as price,

any amount that the buyer is liable to pay to, or on behalf of, the assessee, by reason of, or in connection with the sale, whether payable at the time of the sale or at any other time, including, but not limited to, any amount charged for, or to make provision for, advertising or publicity, marketing and selling organization expenses, storage, outward handling, servicing, warranty, commission or any other matter; but does not include the amount of duty of excise, sales tax and other taxes, if any, actually paid or actually payable on such goods.]

However under the VAT laws in most of the cases it was decided that replacement of spares is also a sale during warranty period and tax was levied on warranty spares.

Valuation provisions under the GST Law:

Sec 15(2) The value of supply shall include—

- a) any taxes, duties, cesses, fees and charges levied under any law for the time being in force other than this Act, the State Goods and Services Tax Act, the Union Territory Goods and Services Tax Act and the Goods and Services Tax (Compensation to States) Act, if charged separately by the supplier;
- b) any amount that the supplier is liable to pay in relation to such supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods or services or both;
- c) incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply and any amount charged for anything done by the supplier in respect of the supply of goods or services or both at the time of, or before delivery of goods or supply of services;
- d) interest or late fee or penalty for delayed payment of any consideration for any

- supply; and
- e) subsidies directly linked to the price excluding subsidies provided by the Central Government and State Governments.

Inclusive part of transaction value as specified in Section 15 of CGST Act 2017 do not include the warranty in line with earlier transaction value as provided in Section 4 of Central Excise Act 1944.

Further, there is no provision in CGST Act 2017 of prescribing the procedure for supply of the goods on which tax is already paid and such value of subsequent supply if any to be made during warranty, and such supplies not been defined in coverage of transaction value as per Section 15 of CGST Act 2017.

Warranty period might be for more than one year, can be extended further upto 7 years for certain goods. Therefore, whether such free supplies made during warranty will attract tax or will be covered as already tax paid goods being covered under the price of originally supplied goods.

The general practice of the Corporates is to make provision for the warranty expenses as per the Company policy and debit the warranty expenses against the provisions made at the time of sending the warranty items. In most of the cases there is no one to one link with the warranty supplies to that of the original invoice, which further complicates the situation. In case of project supplies, even the short supplies and materials directly procured at project sites are treated as warranty supplies.

There is no specific provision under the GST law for not paying tax on supply of goods or services without consideration during warranty period. It is noticed that the officials of the Central and State Taxes are having different views on the applicability of GST on warranty supplies.

The GST council may consider the above facts and issue suitable clarification at the earliest in order to mitigate the litigation on the subject matter.