

18% GST on Work Contract for Supply, Erection, Testing, commissioning of materials for providing Rural Electricity Infrastructure: AAAR

Fact of the Case

- The Applicant, ARG Electricals Pvt. Ltd. has received work orders from Ajmer Vidyut Vitran Nigam Limited (AVVNL) through a tender process.
- The work orders are awarded to them through a tender and scope of work is described in respective work orders as submitted with application.
- The two work orders as awarded through the tenders are “Supply of material/equipment for providing of Rural Electricity Infrastructure for Household electrification in selected blocks under Rajiv Gandhi Grameen Vidyutikaran Yojana scheme on turnkey basis”, and Erection, testing and commissioning supplied material/equipment for Rural Electricity Infrastructure for Household electrification in selected blocks under Rajiv Gandhi Grameen Vidyutikaran Yojana scheme on turnkey basis”, the two work orders separately describes each activity to be carried out to complete the work and also rate for each activity is separately mentioned, by adding amount of each activity total cost is derived.

The applicant sought the advance ruling on the issues whether the contract entered into with AWNL as per the work orders combine of supply, erection, testing and commissioning of materials/equipment for providing rural electricity infrastructure qualifies as a supply for work contract under Section 2(119) of CGST Act.

It was further asked whether such supply, erection, testing and commissioning of materials/equipment for providing rural electricity infrastructure made to AWNL would be taxable at the rate of 12% in terms of Sr. No. 3(vi)(a) of the Notification No. 11/2017- Central Tax (Rate) dated June 28, 2017 as amended w. e. f. January 25, 2018.

Decision of the Case

The AAR ruled that The work undertaken by the applicant as per Contract RGGVY/TN-13 entered between the applicant and AWNL along with two Work Orders viz. (a) Supply of Materials/Equipments and (b) Erection, Testing and Commissioning of Materials/Equipments (supplied in first work order) in building of rural electricity infrastructure is a Composite supply of Works Contract.

- *“The work undertaken by the applicant as per Contract RGGVY/TN-13 (encompassing both work orders) is a Composite supply of Works Contract and is not covered under Entry No. 3(vi)(a) of the Notification No. 11/2017- Central Tax (Rate) dated 28.06.2017 (as amended) as consequently are not eligible to be taxed at lower rate of 12% (SGST 6% and CGST 6%) and hence are liable to be taxed at the rate of 18% (CGST 9% and SGST 9%),” the AAR added.*

However, the applicant was not satisfied with the ruling of the lower authority and appealed against the order before the Appellate Authority of Advance Ruling.

The Coram while upholding the ruling of the lower authority held that the work contract undertaken by the applicant is predominantly used for or incidental to the main activity of AVVNL i.e. transmission (sale) of electricity.

The Rajasthan Authority of Advance Ruling (AAAR) while upholding the lower authority’s order ruled that 18% GST on work contract for supply, erection, testing, and commissioning of materials for providing rural electricity infrastructure.