

## Case Study No. 1 – Job Work

M/s. XYZ Limited, a construction company specializing in the development of special purpose stainless steel storage facilities for chemical industries, operates from its Head Office in Kolkata, West Bengal, and has branch offices in multiple states across India. The company is duly registered under the Goods and Services Tax (GST) law in the respective states.

M/s. XYZ Limited engages in the import of stainless steel and allied goods required for the construction of storage facilities. These goods are imported through Kandla Port in Gujarat. Upon arrival at Kandla Port, the imported goods are directly transported to the premises of M/s. AB Limited, **a non-registered job worker** located in Vadodara, Gujarat. M/s. AB Limited undertakes the initial construction of tailored storage facilities based on the requirements specified by the customers of M/s. XYZ Limited.

After the construction phase, M/s. AB Limited forwards the partially completed storage facilities to another job worker, M/s. DE Limited, a registered entity located in Indore, Madhya Pradesh. M/s. DE Limited is responsible for carrying out the finishing job on the storage facilities.

M/s. AB Limited issues an invoice for the job work, which includes both sundry material and services provided by them. The scrap and waste materials generated during the construction process at the premises of M/s. AB Limited are disposed of in compliance with the provisions of the GST law.

Once M/s. DE Limited completes the construction of the storage facilities, they are either forwarded to M/s. XYZ Limited at Kolkata, West Bengal, or directly delivered to the customers of M/s. XYZ Limited, based on the instructions received from M/s. XYZ Limited.

M/s. DE Limited issues an invoice for the job work, primarily comprising the services provided by them.

## **GST implications based on the details provided above:**

### **1. Import of Goods – assuming that M/s. XYZ Limited have obtained GST Registration in the State of Gujarat with its Principal Place of Business in Ahmedabad:**

When M/s. XYZ Limited, Gujarat, engages in the import of stainless steel and allied goods required for the construction of storage facilities, it is crucial for them to ensure compliance with the necessary customs clearing documentation and other formalities. This includes fulfilling the requirements set forth by the Customs Act, 1962, and the Integrated Goods and Services Tax (IGST) Act, 2017.

M/s. XYZ Limited, Gujarat, should carefully handle the payment of Customs Duty and IGST at the applicable rates as specified under the respective legislations. It is essential to adhere to the guidelines and provisions outlined by the Customs Act, 1962, and the IGST Act, 2017, during the import process.

To facilitate a seamless import process, M/s. XYZ Limited should diligently complete the customs clearance procedures, ensuring the accurate declaration of imported goods and compliance with the relevant regulations. By doing so, they will meet the obligations set by the customs authorities and fulfil their tax liabilities, contributing to their overall compliance with the GST law in India.

### **2. Job Work - the movement of goods from Kandla Port to the premises of M/s. AB Limited in Vadodara in Gujarat for further construction of the storage facilities:**

#### **A. Supply of Goods – Relevant Provision – Section 143(1):**

***“A registered person (hereafter in this section referred to as the "principal") may **under intimation** and subject to such conditions as may be prescribed, send any inputs or capital goods, without payment of tax, to a job worker for job work and from there subsequently send to another job worker and likewise.....”***

**Clarification on issues related to Job Work – Circular No.38/12/2018 dated 26/03/2018 – Para 8.4 (iv):**

*“In case of import of goods by the principal which are then **supplied directly from the customs station of import**, the goods may move from the customs station of import to the place of business/premises of the job worker with a **copy of the Bill of Entry** and the principal shall **issue the challan under rule 45 of the CGST Rules** and send the **same to the job worker directly**.”*

**Submission of **intimation** as envisaged U/S 143(1) of the CGST Act - Circular No.38/12/2018 dated 26/03/2018 – Para 8.4 (vi) – Submission **of Intimation**:**

*“Rule 45(3) of the CGST Rules provides that the principal is required to furnish the details of challans in respect of goods sent to a job worker or received from a job worker or sent from one job worker to another job worker during a quarter in **FORM GST ITC-04 by the 25th day of the month succeeding the quarter** or within such period as may be extended by the Commissioner. It is clarified that **it is the responsibility of the principal to include the details of all the challans** relating to goods sent by him to one or more job worker or from one job worker to another and its return therefrom. The **FORM GST ITC-04 will serve as the intimation as envisaged under section 143 of the CGST Act**.”*

**Clarification on issue of invoice by a Job Worker – Circular No.38/12/2018 dated 26/03/2018 – Para 9.4 (i):**

***Supply of Job work services:** It may be noted that **if the job worker is not registered**, GST would be payable by the principal on reverse charge basis in terms of the provisions contained in section 9(4) of the CGST Act. However, **the said provision has been kept in abeyance for the time being**.*

**Legal provision on issue of e-way Bill – Circular No.38/12/2018 dated 26/03/2018 – Para 8.2:**

*“Further, as per the provisions contained in rule 138 of the CGST Rules, an e-way bill is required to be generated by every registered person who causes movement of goods of consignment value **exceeding fifty thousand rupees** even in cases where such movement is for reasons other than for supply (for example in case of movement for job work). Further, the **third proviso to rule 138(1) of the CGST Rules** provides that the e-way bill shall be generated **either by the principal or by the registered job worker irrespective of the value of the consignment**, where goods are sent by a principal located in one State/Union territory to a job worker located in any other State/ Union territory.”*

**Conclusion:** (a) M/s. XYZ Limited should facilitate the movement of goods from Customs Station of Import (that is **Kandla Port**) with a copy of the **relevant Bill of Entry** filed with the jurisdictional Customs authorities at Kandla Port.

(b) M/s. XYZ Limited shall **issue a delivery challan** in compliance with the GST rules. The delivery challan should contain relevant details such as the **description, quantity, and value of the goods** being sent for job work.

(c) M/s. XYZ Limited need to serve intimation, as envisaged U/S 143(1) of the CGST Act by inclusion of this transaction in **GST ITC-04 of the relevant quarter**.

(d) M/s. XYZ Limited will **avail the ITC of IGST** paid at the time of import **on the strength of Bill of Entry** filed for the relevant import consignment.

(e) M/s. XYZ Limited will **declare premises of M/s. AB Limited as Additional Place of Business** in its GST Registration.

(f) M/s. XYZ shall generate **E-way bill** for movement of goods from Customs Station of Import (that is Kandla Port) to **premises of Job Worker** (M/s. AB Limited).

**3. The process of Job Work and Invoicing for the job work performed by M/s. AB Limited (Job Worker No.1):**

M/s. AB Limited, upon receiving the goods, should **undertake the job work**, which involves constructing **tailored storage facilities** as per the specifications provided by **M/s. XYZ Limited's customers**.

After completing the job work, M/s. AB Limited, **unregistered entity**, should issue an invoice (**commercial invoice** and not the tax invoice) to M/s. XYZ Limited for job work. This invoice should include the value of both the sundry material used and the services provided during the job work process.

**C. Disposal of Scrap and Waste Material:**

During the job work process, it is common for scrap and waste materials to be generated.

**M/s. XYZ Limited** should account for the scrap and waste materials in accordance with the provisions of the GST law, based on the **information received** from M/s. AB Limited, Job Worker No.1.

The disposal of the scrap and waste materials should be done in **compliance with the applicable rules and regulations** related to waste management and environmental protection, as **mandated by the GST law**.

**Clarification on supply of waste and scrap generated during the job work – Circular No.38/12/2018 dated 26/03/2018 – Para 9.4 (iii):**

*“Sub - section (5) of Section 143 of the CGST Act provides that the waste and scrap generated during the job work may be supplied by the **registered job worker directly** from his place of business or **by the principal in case the job worker is not registered.**”*

**Clarification on supply of goods by the principal from the Place of Business / premises of job worker – Circular No.38/12/2018 dated 26/03/2018 – Para 9.4 (ii):**

*“Section 143 of the CGST Act provides that the **principal may supply**, from the place of business / premises of a job worker, inputs after completion of job work or otherwise or capital goods (other than moulds and dies, jigs and fixtures or tools) **within one year or three years respectively** of their being sent out, on payment of **tax within India**, or with or without payment of **tax for exports**, as the case may be. This facility is available to the **principal only** if he **declares the job worker’s place of business / premises** as his **additional place of business** or if the job worker is registered.*

*Since the supply is being made by the principal, it is clarified that the **time, value, and place of supply** would have to be **determined in the hands of the principal** irrespective of **the location of the job worker’s place of business/premises**. Further, the invoice would have to be issued by the principal. It is also clarified that **in case of exports directly from the job worker’s place of business/premises**, the LUT or bond, as the case may be, shall be **executed by the principal**.*

***Illustration:** The principal is located in State A, the job worker in State B and the recipient in State C. In case the supply is made from the job worker’s place of business / premises, the invoice will be issued by the supplier (principal) located in State A to the recipient located in State C. The said transaction will be an inter-State supply. In case the recipient is also located in State A, it will be an **intra-State supply**.”*

4. The movement of partially completed storage facilities from M/s. AB Limited in Vadodara (Job Worker No.1) to M/s. DE Limited in Indore Job Worker No.2), which constitutes an inter-state supply of goods:

A. **Delivery Challan and E-way Bill:**

M/s. XYZ Limited shall issue **Delivery Challan and the E-Way Bill** to facilitate the inter-state movement of partially completed storage facilities **from M/s. AB Limited in Vadodara to M/s. DE Limited in Indore.**

The Delivery Challan should comply with the GST provisions for inter-state movement and contain all the necessary details prescribed by the GST law.

M/s. AB Limited **shall endorse second copy of the Delivery Challan** issued by the principal (that is M/s. XYZ Limited) and forward the same **along with partially completed storage facilities.**

B. **Compliance with GST Provisions:**

**M/s. XYZ Limited, Principal,** should ensure compliance with the **specific GST provisions** related to inter-state movement of goods.

C. **Finishing Job and Invoicing:**

Upon receiving the partially completed storage facilities, M/s. DE Limited, Job Worker No.2, is responsible for **undertaking the finishing job.**

After completing the finishing job, M/s. DE Limited should issue a tax invoice to M/s. XYZ Limited, reflecting the value of the services provided during the finishing process.

The invoice should adhere to the invoicing requirements outlined by the GST law, including the necessary information such as the name, address, and GSTIN of both parties, a description of the services provided, and the applicable tax rates.

## 5. Final Delivery:

### A. Tax Invoice:

M/s. DE Limited, as the supplier of the storage facilities, should issue a tax invoice, Delivery Challan, E-Way Bill for the final delivery, as applicable, as per directions received from M/s. XYZ Limited.

The tax invoice should include all the necessary details as per the GST rules. These details typically include the name, address, and GSTIN of both the supplier (M/s. DE Limited) and the recipient (either M/s. XYZ Limited or the customers of M/s. XYZ Limited).

Additionally, the tax invoice should provide a clear description of the storage facilities, such as the quantity, specifications, and any other relevant information to identify the goods accurately.

## 6. Appropriate Tax Rates:

Notification entry at item (id) under **heading 9988 of Notification No. 11/2017-Central Tax (Rate) dated 28-06-2017** inserted **with effect from 01-10-2019** to implement the **recommendation of the GST Council** to reduce rate of GST on **all job work services**, which earlier attracted **18 % rate, to 12%**.

(id) Services by way of job work other than (i), (ia), (ib) and (ic) above;- **6%**



## Case Study No. 2 – Job Work

M/s. ABC Manufacturing Private Limited based in Mumbai, Maharashtra, specializes in the production of high-quality textiles. They have recently entered into an agreement with M/s. XYZ Dyeing and Finishing Services, located in Surat, Gujarat, for job work services involving fabric dyeing and finishing. M/s. ABC Manufacturing Private Limited regularly supplies raw fabrics to M/s. XYZ Dyeing and Finishing Services for further processing.

Based on above details, please give reply to following questions:

1. What type of Agreement is M/s. ABC Manufacturing Private Limited involved in?
  - a) Goods contract.
  - b) Services contract.
  - c) **Job work contract.**
  - d) Manufacturing contract.
  
2. Which company is responsible for fabric dyeing and finishing in this scenario?
  - a) M/s. ABC Manufacturing Private Limited.
  - b) **M/s. XYZ Dyeing and Finishing Services.**
  - c) Both companies share the responsibility.
  - d) The scenario does not mention any specific company.

3. What is the nature of the relationship between M/s. ABC Manufacturing Private Limited and M/s. XYZ Dyeing and Finishing Services?

a) Supplier and buyer.

b) **Principal and Job Worker.**

c) Business partners.

d) Competitors.

4. What is the purpose of supplying raw fabrics by M/s. ABC Manufacturing Private Limited to M/s. XYZ Dyeing and Finishing Services?

a) **Further processing and manufacturing (Job Work).**

b) Selling the fabrics directly to customers.

c) Storing the fabrics for future use.

d) The scenario does not mention the purpose.

## Important FAQ on Works Contract Service and important provisions

**How will works contract service provided by a builder/developer to a prospective flat buyer be valued under GST?**

*In case of supply of construction service (works contract), involving transfer of property in land or undivided share of land, as the case may be, the value of supply of service and goods portion in such supply shall be equivalent to the total amount charged for such supply less the value of land or undivided share of land, as the case may be, and the value of land or undivided share of land, as the case may be, in such supply shall be deemed to be one third of the total amount charged for such supply.*

“Total amount” means the sum total of, -

- (a) consideration charged for aforesaid service; and*
- (b) amount charged for transfer of land or undivided share of land, as the case may be.*

### **Scope of Supply – Clause (b) of Para 5 of Schedule II appended to CGST Act 2017:**

*“(b) construction of a complex, building, civil structure, or a part thereof, including a complex or building intended for sale to a buyer, wholly or partly, except where the entire consideration has **been received after issuance of completion certificate**, where required, by the **competent authority** or after its **first occupation, whichever is earlier**.*

**Explanation.** -For the purposes of this clause-

(1) the expression "**competent authority**" means **the Government, or any authority** authorised to issue completion certificate under any law for the time being in force and in case of **non-requirement of such certificate** from such authority, from any of the following, namely: -

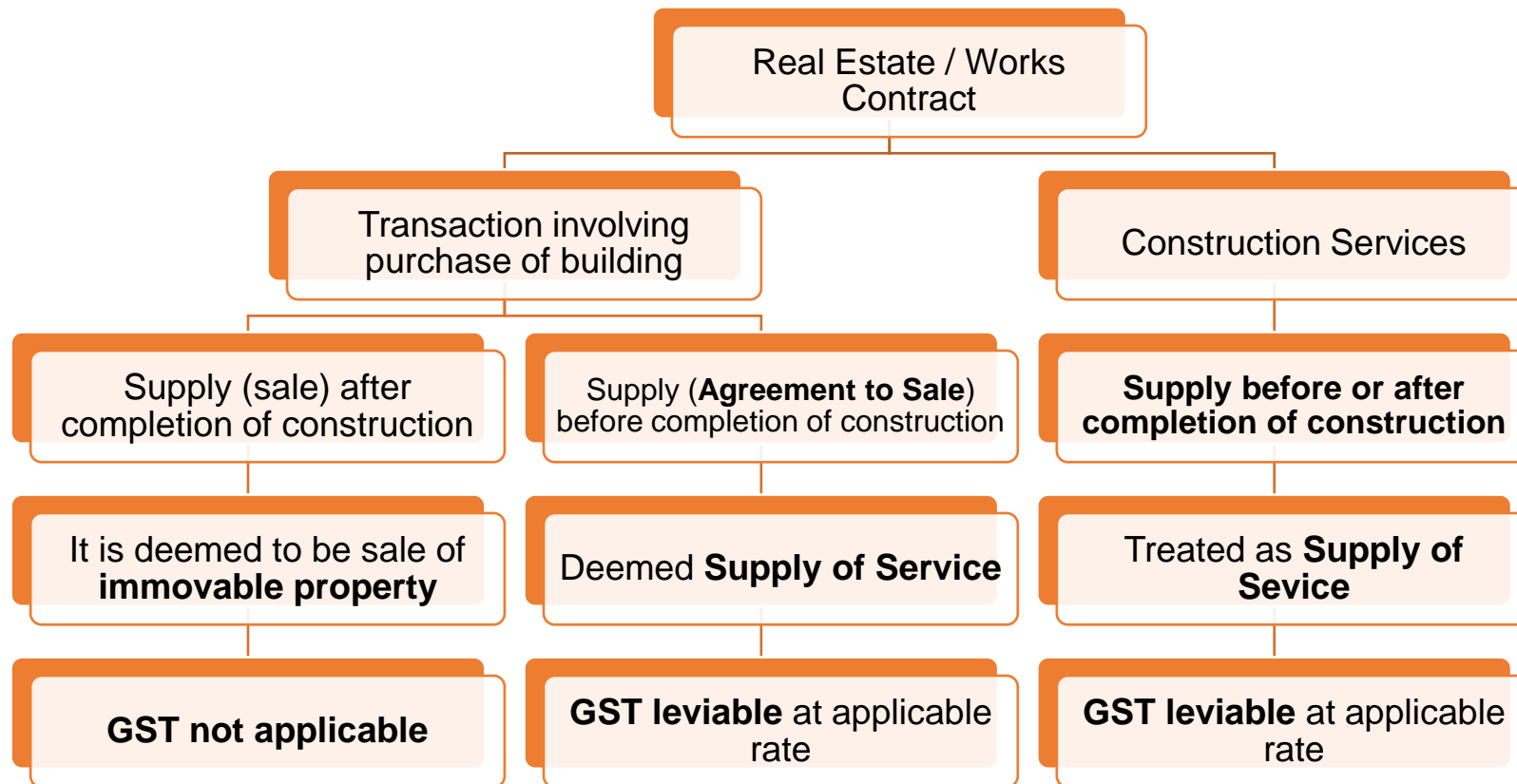
(i) an **architect registered with the Council of Architecture** constituted under the Architects Act, 1972 (20 of 1972); or

(ii) a **chartered engineer** registered with the Institution of Engineers (India); or

(iii) a **licensed surveyor of the respective local body** of the city or town or village or development or planning authority.

(2) the expression "**construction**" includes **additions, alterations, replacements or remodelling** of any existing **civil structure.**"

**Note:** GST will not be **applicable if the entire sale has been processed** after issuance of completion certificate or **First occupancy whichever** is earlier.



### Composite Supply under GST – Section 2(30) of CGST Act:

**"Composite supply"** means a supply made by a taxable person to a recipient consisting of 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**.

***Illustration.*** - *Where goods are packed and transported with insurance, the supply of goods, packing materials, transport and insurance is a **composite supply and supply of goods is a principal supply;***”

***Illustration:*** In **construction of building various products** / services like cement, bricks, labour, marble, granite, architect, engineering, etc. are **all utilized** and the rate applicable **for whole contract** will be **the rate applicable for construction of building.**

