

Supply under GST: Part-II



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Composite and Mixed Supply

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Taxable Event

- ❖ Foundation stone of any taxation system
- ❖ It determines the point at which tax would be levied
- ❖ 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”**

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

Taxable Event

What constitutes supply?

Supply includes:

-
- ✓ Sale
 - ✓ Transfer
 - ✓ Barter
 - ✓ Exchange
 - ✓ License
 - ✓ Rental
 - ✓ Lease
 - ✓ Disposal
 - ✓ Import of services for a consideration

Why is the concept of Composite & Mixed supply?

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.

Why is the concept of Composite & Mixed supply?

➤ 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%**

➤ Therefore, the concept of composite supply and mixed supply becomes important.

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

Composite Supply

Clause (a) of Section 8 defines :

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

Composite Supply

❖ **Principal Supply** means the supply of goods or services which constitutes the predominant element of a composite supply and other supplies forming part ancillary supplies. (Ex: Glass Doors)

❖ **How to determine if it is a composite supply: Criteria**

Supply of Two or more goods or services or both

&

The supply is naturally bundled, i.e., goods or services are usually provided together in the ordinary course of business (Combination)

&

They cannot be supplied separately

Composite Supply: Tax Rate & Examples

❖ 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. 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 readymade shirts.

Composite Supply: Examples

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

Composite Supply: Examples

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.**

Composite Supply: Examples

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.
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- ✓ all other supplies are ancillary.
- ❖ **Tax liability: Tax on the principal supply i.e., GST rate on the Air Transport Service.**

Composite Supply: Examples

Example-4:

- ❖ When we book train tickets for Rajdhani express, train ticket which includes meal.
- ❖ It is a bundle of supplies.
- ❖ It is a composite supply where the products cannot be sold separately.
- ✓ Principal Supply : Transportation of Passengers
- ✓ Ancillary Supply: Food
- ❖ **Tax Implication:** Therefore, rate of GST applicable to Transportation of Passengers (5%) will be charged by IRCTC on the booking of Rajdhani ticket.

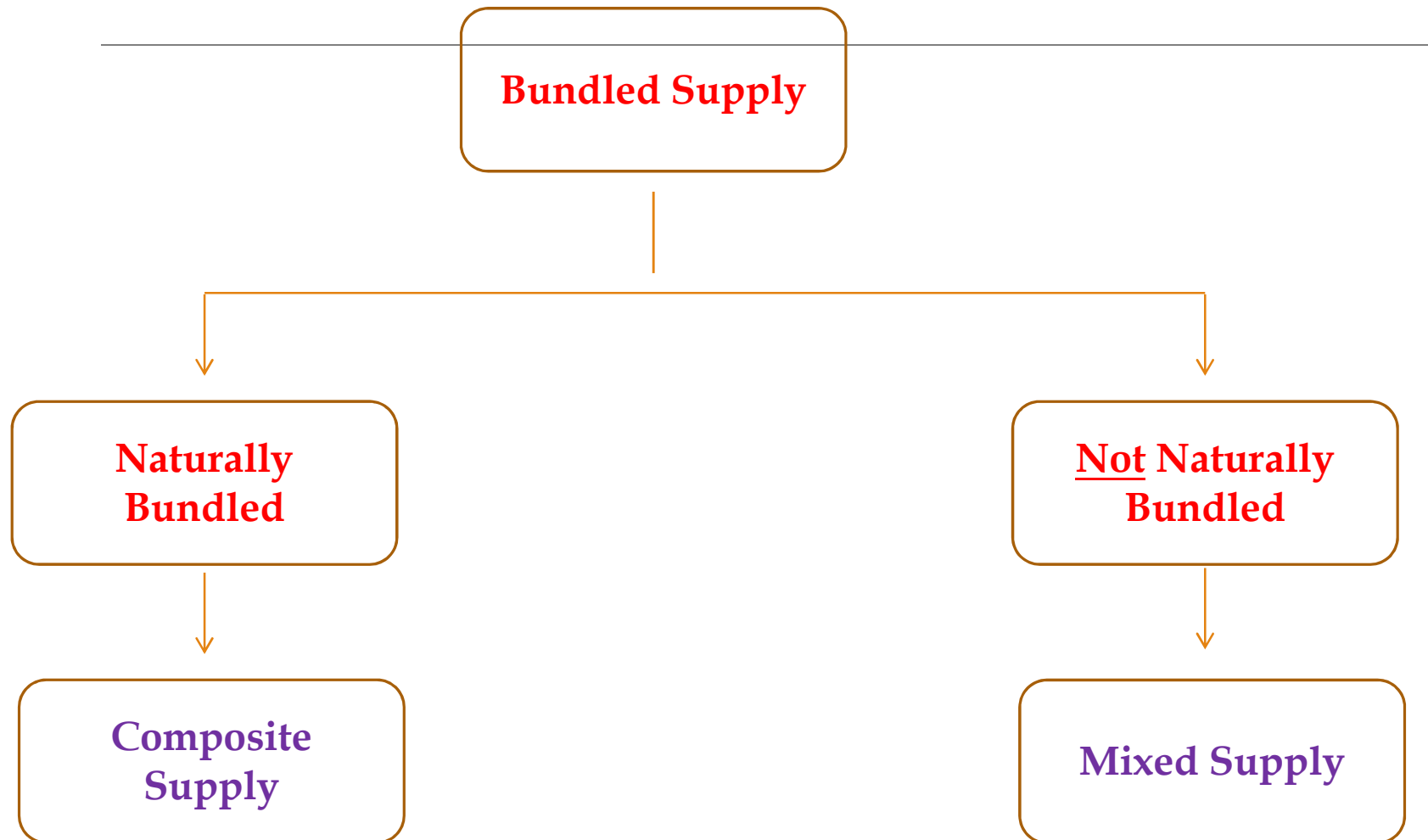
Composite Supply: Examples

Example-5:

- ❖ ABC hospitals provides doctor consultancy services and food to in-patients
- ❖ whereas the 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

Bundled Supply

❖ A bundled supply is a combination of goods and/or services.



How to determine if it 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.

Circulars Issued by CBIC

Activity/ transaction	Principal supply
Supply of printed books, pamphlets, brochures, envelopes, annual reports, leaflets, cartons, boxes etc., printed with design, logo, name, address	In the case of printing of books, pamphlets, brochures, annual reports, and the like, where only content is supplied by the publisher or the person who owns the usage rights to the intangible inputs while the physical inputs including paper used for printing belong to the printer, supply of printing [of the content supplied by the recipient of supply] is the principal supply and therefore such supplies would constitute <u>supply of service</u>
or other contents supplied by the recipient of such printed goods	In case of supply of printed envelopes, letter cards, printed boxes, tissues, napkins, wall paper etc. by the printer using its physical inputs including paper to print the design, logo etc. supplied by the recipient of goods, predominant supply is supply of goods and the supply of printing of the content [supplied by the recipient of supply] is ancillary to the principal supply of goods and therefore such supplies would constitute <u>supply of goods.</u> [Circular No. 11/11/2017 GST dated 20.10.2017]

Circulars Issued by CBIC

Activity of bus body building	The principal supply may be determined on the basis of facts and circumstances of each case [Circular No. 34/8/2018-GST dated 01.03.2018].
Retreading of tyres	<p>Pre-dominant element is process of retreading which is a supply of service. Rubber used for retreading is an ancillary supply.</p> <p>Supply of retreaded tyres, where the old tyres belong to the supplier of retreaded tyres, is a supply of goods [Circular No. 34/8/2018-GST dated 01.03.2018].</p>

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

❖ Interpretation:

- 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

Examples of Mixed Supply

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 Rate: Since aerated drinks have the highest GST rate of 28% and 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 Rate: Refrigerator attracts 18% & Bottles attracts 12% the mixed supply liable for 18%

Examples of Mixed Supply

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.

Tax Rate: 18% will apply for entire house

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.

Mixed Supply

❖ What tax rate will apply?

❖ 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

Composite Supply Vs. Mixed Supply

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 along with 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.

CGST Act, 2017

❖ **Schedule-I:** Activities to be treated as Supply even if made without consideration

❖ **Schedule-II:** Activities to be treated as Supply of Goods or Supply of Service

❖ **Schedule-III:** Activities or Transactions which shall be treated neither as a Supply of Goods nor Supply of Services

➤ As per Paragraph 6 of Schedule II the following composite supplies shall be treated as “supply of services”, namely

✓ Works Contracts @ 18% {an element of goods and services}

✓ Restaurant Services @ 5% {supply of food and serving}

Time of Supply

In case of Composite Supply	Provisions
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	Provisions
If the “Highest rate of supply “	
- is a service	Time of supply of Services
- is a Goods	Time of supply of goods





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