



CLASSIFICATION UNDER GST

HSN (HARMONISED SYSTEM OF NOMENCLATURE)
SAC (SERVICES ACCOUNTING CODE)

NEED FOR CLASSIFICATION IN GST

Why is classification critical under GST?

- Determines **applicable GST rate** (0%, 5%, 12%, 18%, 28%)
- Determines whether supply is **taxable/exempt**
- Basis for **input tax credit (ITC) eligibility**
- Required for:
 - **Tax Invoice**
 - **E-way Bills**
 - **GSTR-1, GSTR-3B**
- Ensures **uniformity across states**
- Avoids misinterpretations & departmental disputes
- Crucial for **Customs, IGST, Import/Export**

WHAT IS HSN?

HARMONISED SYSTEM OF NOMENCLATURE

- Developed by **World Customs Organization**
- Adopted by **200+ countries**
- Standardizes classification of goods globally

PURPOSE IN GST

- Ensures uniformity in taxonomy
- Avoid ambiguity between states
- Help Exporters/Importers

STRUCTURE OF HSN

Digit	Meaning
2-Digit	Chapter
4-Digit	Heading
6-Digit	Sub-heading
8-Digit	Tariff Item

Total Chapters: 98

TURNOVER-BASED HSN REQUIREMENT

AGGREGATE TURNOVER	NUMBER OF DIGITS
Upto Rs. 5 crore	4-digit HSN*
Above Rs. 5 crore	6-digit HSN
Import/Export	8-digit

* 4 digits mandatory for B2B Supplies & Optional for B2C Supplies

EXAMPLES OF HSN

Product	HSN Code	Chapter
Milk	0401	04
Sugar	1701	17
Mobiles Phone	8517	85
Iron & Steel	7201	72
Furniture	9403	94

HOW TO CLASSIFY GOODS (HSN)?

- Identify nature of the goods
- Determine raw material composition
- Refer to Customs Tariff Act
- Apply General Rules of Interpretation (GRI)
- Examine Section Notes & Chapter Notes
- Compare competing headings - choose the most specific
- Check corresponding GST rate notification

GENERAL RULES FOR INTERPRETATION

Rule 1: Classify the goods based on the actual heading and relevant section/ chapter notes;

Rule 2(a): If a product is not finished product but still looks like the final product, classify it as the complete product;

Rule 2(b): If a product is made of mixed materials, classify it using Rule 3;

Rule 3(a): The most specific heading is preferred.

Rule 3(b): If Rule 3(a) doesn't apply, composite goods are classified by the component providing the essential character.

Rule 3(c): If neither Rule 3(a) nor 3(b) applies, the heading last in numerical order is used.

Rule 4: Goods not classifiable by Rules 1-3 are classified under the heading for the most akin goods.

Rule 5: Packing materials presented with articles are classified with them unless the packaging gives the whole its essential character.

Rule 6: To classify within sub-headings, compare only the ones at the same level and apply the same rules.

These rules provide a systematic approach to classification under Indian GST, aligning with international practices. The official GST portal offers an HSN search facility for businesses.

<https://cbic-gst.gov.in/gst-goods-services-rates.html>

SPECIAL CLASSIFICATION SCENARIOS

1: Composite Goods

Example :-

A wooden wardrobe with a small mirror fitted inside

Classification :-

- Material used in wardrobe is mostly wood and small mirror.
- Wooden wardrobe is essential character.
- As per Rule 3(b) which classify the goods based on the essential character.
- Therefore, HSN code would be classified as furniture (wooden)

2: MIXED SUPPLIES

Example :-

A Gift set includes Perfume, Body Lotion and Soap sold together in one box.

Classification :-

- Perfume is the most valuable which is a essential character.
- As per Rule 3(b) which classify the goods based on the essential character.
- Therefore, HSN code would be classified as Perfume (3303)

WHAT IS SAC?

Services Accounting Code

- Developed by **CBIC**
- 6 digit code
- Start wit 99

Structure

- **99** – Services Chapter
- **8** – Service Category
- Remaining digits specify nature of services

EXAMPLES OF SAC

Service	SAC
Legal Services	99821
Accounting/Auditing	99822
IT/Software Development	99831
Restaurant Services	99633
Construction services	9954
Renting of commercial Property	997212

CLASSIFICATION OF SERVICES (SAC)?

- Identify nature of the service
- Determine service category under 99
- Refer tariff description
- Choose specific code
- Check corresponding GST rate notification

SPECIAL CLASSIFICATION SCENARIOS

1: WORKS CONTRACT

Example :-

A project of involving immovable property

Classification :-

- Work contract is fall under the ambit of construction services.
- Therefore, SAC code would be 9954 subject to 18% GST

2: JOB WORK

Example :-

Processing of another person's goods always classified as **Service**.

Applicable SACs :-

Industry	SAC
Textile Job Work	9988
Printing Job Work	9989
Jewellery Job Work	9988

CONSEQUENCES OF WRONG HSN/SAC

- Wrong GST rate
- Interest Liability
- Penalties for misclassification as per section 122 & 129 of CGST Act
- Blocking of Input Tax Credit
- GST refund may be denied in case of export of Goods/Services and could also violate custom clearance rules
- Assessment notice under section 61/62 due to misclassifications of Goods or Services

THANK YOU

“Remember, right classification today prevents litigation tomorrow.”

