

No GST applicable on Rent received from Backward Classes Welfare Department: AAR

Fact of the Case

The applicant, Sri Puttahalagaiah is an individual and owner of the premises and has entered into an agreement with the Extension Officer, Backward Classes Welfare Department, Government of Karnataka to rent out his property to run post metric Girl's Hostel and constitute rent/ letting out of 10,441 sq.ft building consisting of seven rooms, two halls, 11 toilets, 10 bathrooms and bore well, for a rent of Rs. 1 per month.

The applicant has furnished a magazine published by the Government of Karnataka which pertains to action plan of backward classes Welfare Department 2019-20, where in it is reported that backward Classes Welfare Department has been established for the welfare of backward classes to implement programmes of overall development of backward classes which are notified by the Government of Karnataka.

The Backward Classes Welfare Department is providing hostel facilities to the students of backward classes studying in Government/ Government aided institutions after matriculation. The applicant is of the opinion that since he is letting out his property to Backward Classes Welfare Department who in turn is using it for welfare of weaker section of the society of the backward classes students where the annual income of the family is less than threshold for the creamy layer, therefore the service provided by him to Backward Classes Welfare Department to run post metric Girl's Hostel is exempted service as it is covered under Article 243G of the Constitution.

The applicant has sought the advance ruling in respect of the taxability of rent received from Backward Classes Welfare Department.

Decision of the Case

The Coram noted that the applicant has rented his property to the Backward Classes Welfare Department, Government of Karnataka, who in turn is using the same for providing hostel facilities to the post metric girls of backward classes. This is in relation to the function entrusted to a panchayat under article 243G of the constitution which is covered by the 27th entry of the 11th schedule which says Welfare of the weaker sections, and in particular, of the Scheduled Castes and the Scheduled Tribes.

The AAR ruled that since the applicant is providing to the State Government pure services by way of any activity in relation to any function entrusted to a Panchayat under article 243G of the Constitution, the same is covered under entry number 3 of Notification No. 12/2017-Central Tax (Rate) dated June 28, 2017, and hence is exempted under the CGST Act, 2017. For the same reasons, the activity is also exempted under the KGST Act, 2017.

The Karnataka Authority of Advance Ruling (AAR) ruled that no GST is applicable on Rent received from Backward Classes Welfare Department.