M/s Columbia Asia Hospitals Private Limited

Authority for Advance Ruling — Karnataka

Advance Ruling No. KAR ADRG 26/2018, dated 13th November 2018 Dated **13.11.2018**

Q Questions Before the Authority

- Whether two or more supplies of goods or services that are naturally bundled, where the principal supply is exempt and the others are taxable, can be treated as a composite supply, and if so, whether a composite supply with an exempt principal supply can be treated as an exempt supply or cannot be treated as a composite supply at all.
- If not treated as a composite supply, whether the registered person may claim input tax credit on tax paid on capital goods, inputs and input services related to both taxable and exempt supplies.
- Whether the healthcare services, being an exempt service supplied along with other taxable supplies to in-patients and out-patients, can be construed as a composite supply.
- If yes, whether the supply of pharmacy goods, consumables and canteen services forms part of such composite supply and is not liable to tax, and how the valuation of in-patient pharmacy is to be done if it is treated as part of the composite supply.
- If the supplies are not a composite supply, whether it is correct to discharge GST only on the supply of medicines, consumables and food, while availing input tax credit on inputs and input services used for supplying those items.
- Whether input tax credit on inputs, input services and capital goods attributable to healthcare services must be reversed because they are used for exempt services.
- Whether GST paid on inputs, input services and capital goods used for both healthcare services and other taxable services (such as supply of medicines and consumables other than food) is allowed on a proportionate basis towards taxable supplies.

F Facts

The applicant is a private limited company operating a chain of hospitals, providing in-patient (IP) and out-patient (OP) healthcare services, supplying medicines through its pharmacy, and running a restaurant or canteen for patients, attendants and staff. For in-patients, medicines, consumables and implants are supplied during admission and all charges are billed on a consolidated invoice at discharge. The applicant states that healthcare services are exempt under entry 74 of Notification No. 12/2017-Central Tax (Rate), while medicines, consumables and food are taxable, and that it charges GST on the taxable items only and does not claim credit on inputs used for exempt healthcare.

H Ruling

Prepared as a reading aid. Where this summary and the original order differ, the order governs.

Composite supply with exempt principal supply	**Yes. Naturally bundled supplies with an exempt principal supply can be treated as a composite supply, and such a composite supply is an exempt composite supply.**	Applies only if the principal supply is not a non-taxable supply under section 2(78) of the CGST Act, 2017.
Input tax credit on inputs, input services and capital goods used for both taxable and exempt supplies	**Credit is allowed only on tax paid on inputs, input services and capital goods attributable to taxable supplies of goods or services. Credit attributable to exempt supplies is not allowed.**	Reversal of credit attributable to exempt supplies is to be computed under section 17 of the CGST Act, 2017 read with Rule 42 of the CGST Rules, 2017.

The authority held that naturally bundled supplies with an exempt principal supply can be treated as a composite supply, and that such a composite supply with an exempt principal is an exempt composite supply, provided the principal supply is not a non-taxable supply. It held that the applicant may claim input tax credit only on tax attributable to taxable supplies, and that credit attributable to exempt healthcare services must be reversed under section 17 read with Rule 42.

R Reasoning

The authority read section 2(30) (composite supply), section 2(108) (taxable supply) and section 2(47) (exempt supply) together, and held that the definition of taxable supply includes exempt supplies, so an exempt principal supply can still form part of a composite supply. In paragraphs 11.2 and 11.3 it held that medicines supplied to in-patients form part of the healthcare composite supply, while food not advised by a doctor, and medicines or food bought by out-patients who are free to buy elsewhere, are separate supplies. Paragraph 11.4 held that items forming part of a single-price composite supply need no separate valuation, that a mixed supply attracts the highest rate under section 8, and that separate supplies are valued under section 15. On credit, the authority relied on section 16(1) and section 17(2) of the CGST Act, 2017, and held that credit attributable to exempt healthcare services must be restricted and reversed.

P Provisions Relied On

- Section 7(1) of the CGST Act, 2017 (scope of supply)
- Section 2(30) of the CGST Act, 2017 (composite supply)
- Section 2(47) of the CGST Act, 2017 (exempt supply)
- Section 2(74) of the CGST Act, 2017 (mixed supply)
- Section 2(78) of the CGST Act, 2017 (non-taxable supply), referred to in the ruling
- Section 2(108) of the CGST Act, 2017 (taxable supply)
- Section 8 of the CGST Act, 2017 (tax rate for mixed and composite supplies)

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Section 15 of the CGST Act, 2017 (valuation)

Section 16(1) of the CGST Act, 2017 (input tax credit entitlement)

Section 17(2) of the CGST Act, 2017 (apportionment of credit for taxable and exempt supplies)

Rule 42 of the CGST Rules, 2017 (reversal of credit)

Notification No. 12/2017-Central Tax (Rate) dated 28.06.2017, entry 74 (exemption for healthcare services)

Notification No. 46/2017-Central Tax (Rate) dated 14.11.2017, cited by the applicant for the restriction on credit on food

Circular No. 32/06/2018-GST dated 12.02.2018

! For the Practitioner

This ruling is useful to hospitals with bundled healthcare, pharmacy and food supplies, because it confirms that an exempt healthcare service can be the principal supply of a composite supply, and it sets out when medicines and food fall within that bundle. It also confirms that input tax credit must be apportioned between taxable and exempt supplies and that credit attributable to exempt healthcare must be reversed. The ruling does not decide the actual apportionment method or amounts, which are left to section 17 and Rule 42, and it does not address food or medicines supplied outside the single-price bundle beyond the broad principles stated.

Source

Summary prepared from the published order, which is a scanned document. It is a reading aid and not the authority: where the two differ, the order governs. Verify every provision against the original before relying on it.

Original order: www.gstcouncil.gov.in -> krntk_26_2018_cahpl.pdf

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