Lear Automotive India Private Limited

Authority for Advance Ruling — Maharashtra

NO.GST-ARA- 19/2018-19/B- 80 Dated **31.07.2018**

Q Questions Before the Authority

- Whether amortized value of the tool received on FOC basis from the customer is required to be included in the value of finished goods manufactured and supplied by the applicant to the customer?

F Facts

Lear Automotive India Private Limited manufactures automotive components such as seats for original equipment manufacturers (OEMs) including Mahindra & Mahindra and General Motors. In the manufacturing process, tools, moulds, and dies are provided by the customers on a Free of Cost (FOC) basis, or procured by the applicant and paid for by the customer, with tool ownership remaining strictly with the customer. The applicant sought an advance ruling on whether the amortized cost of these customer-owned tools received on an FOC basis must be added to the transaction value of the finished components supplied to the customer.

H Ruling

Inclusion of amortized value of FOC tools in the value of finished goods	**Answered in the negative**	Applies where the contractual obligation to supply tools lies with the customer/OEM.

The Authority for Advance Ruling held that the amortized value of tools received on an FOC basis from the customer is **not required to be included** in the value of finished goods supplied by the applicant. Because the contractual obligation to provide the tools rested with the customer and not the applicant, Section 15(2)(b) of the CGST Act is not attracted.

R Reasoning

The decision turns on Section 15(2)(b) of the CGST Act, 2017, which provides that any amount that the supplier is liable to pay in relation to a supply, but which has been incurred by the recipient, shall be included in the transaction value. The AAR examined the tooling agreements and purchase orders, confirming that tool ownership remained with the OEM and the contractual duty to bear tool costs rested on the customer rather than the supplier. Applying paras 1.1 and 1.2 of CBIC Circular No. 47/21/2018-GST dated 08.06.2018, the AAR held that since the applicant was not contractually liable to incur the cost of the tools, the amortized value of FOC tools cannot be added to the taxable supply value.

P Provisions Relied On

Section 15 of the CGST Act, 2017	Section 15(2)(b) of the CGST Act, 2017

Circular No. 47/21/2018-GST dated 08.06.2018

! For the Practitioner

This ruling establishes that **FOC tool supplies by OEMs** do not increase the taxable transaction value of components provided the contract clearly places the obligation to supply tools on the customer. Tax practitioners can use this decision along with Circular No. 47/21/2018-GST to defend component manufacturers against valuation additions, provided original contracts and POs explicitly retain tool ownership and supply obligations with the OEM. It does not protect arrangements where the supplier was contractually obligated to furnish tools at its own expense.

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 -> maha-gst-ara-19-b-80 dt. 31.07.18 laipl.pdf

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