M/s. Aditya Birla Nuvo Limited (Grasim Industries Limited), Halol, ABI, Panchmahal, Gujarat

Authority for Advance Ruling — Gujarat

Advance Ruling No. GUJ/GAAR/R/2018/05 (In Application No. Advance R… Dated **04.03.2019**

Q Questions Before the Authority

- Whether ex-works supply plus freight and insurance is to be treated as a composite supply.
- Whether showing and charging the freight and insurance portion separately in the invoice would attract GST.
- If no GST is chargeable on the separately shown freight and insurance, whether the applicant may treat freight differently for different buyers (GST paid on freight for some state electricity boards, not for Power Grid).
- Whether the inclusion in section 15(2) of incidental expenses, such as packing and anything done before delivery, covers freight and insurance reimbursed by the buyer on a pre-contracted fixed per-unit basis rather than actual cost.

F Facts

The applicant supplies goods (insulators) to Power Grid Corporation of India Ltd. under a contract priced ex-works plus local transportation, insurance and incidental services, with taxes reimbursable by the buyer. Freight and insurance are reimbursed by the buyer at a pre-contracted fixed rate per unit of product, while the applicant arranges transport and insurance and the actual freight cost varies. The buyer refused to pay GST on the freight and insurance element, and the applicant sought a ruling on whether it is chargeable.

H Ruling

Q1: Whether ex-works plus freight and insurance is a composite supply	**Yes. Principal goods along with freight and insurance is a composite supply under section 2(30) CGST Act.**	Goods are the principal supply. The Authority relied on the illustration to section 2(30) and CBEC Flyer No. 4 on naturally bundled supplies.
Q2: Whether showing and charging freight and insurance separately in the invoice attracts GST	**GST is chargeable.**	Separate invoicing does not change the composite character. Different tax treatment for naturally bundled supplies is not permitted.
Q3: Whether different tax treatment may apply to freight for different buyers	**Not applicable, as GST is chargeable.**	The question was conditional on Q2 answering that no GST is chargeable, so it was not decided on its merits.

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Q4: Whether section 15(2) inclusion covers pre-contracted fixed freight reimbursed by the buyer	**Where the pre-contracted fixed freight differs from actual cost, the higher of the two values is included in the value of the composite supply.**	The Authority reasoned that GST is levied on the higher of two values. The order does not state that the pre-contracted rate is the taxable value in all cases.

The Authority held that supply of the principal goods along with freight and insurance is a **composite supply** under section 2(30) of the CGST Act, with the goods as the principal supply. GST is chargeable on the freight and insurance even where they are invoiced separately, and there cannot be differing tax treatment for naturally bundled supplies. Where the pre-contracted freight value differs from actual cost, the **higher of the two** is to be included in the value of the composite supply.

R Reasoning

The Authority applied the definition of composite supply in section 2(30), including its illustration on goods packed and transported with insurance, and treated freight and insurance as naturally bundled with the goods in the ordinary course of business. It drew on CBEC Flyer No. 4 for the principle that the composite supply is taxed as the principal supply and that separate invoicing does not alter its character. It then read section 15(2)(a) to (c) as including freight and insurance charged by the supplier to the recipient, and held that where two values exist the higher value is taxable. The ruling was made under section 97(2)(g) on whether a particular act amounts to a supply.

P Provisions Relied On

- Section 2(30) CGST Act, 2017 (definition of composite supply and illustration)
- Section 15(2) CGST Act, 2017 (inclusions in value of supply, clauses (a) to (c) relied on)
- Section 97(2)(g) CGST / GGST Act, 2017 (ground of advance ruling)
- CBEC Flyer No. 4 dated 01.01.2018 (indicators of composite supply and determination of tax liability)
- Gujarat Goods and Services Tax Act, 2017 (referred to as applying the same valuation position)

! For the Practitioner

This order supports the position that freight and insurance bundled with an ex-works supply form part of a composite supply taxed at the rate of the goods, and that separate invoicing does not avoid GST. It is useful for contractors facing buyer resistance to paying GST on freight. It is an advance ruling binding only on the applicant, and it does not settle the valuation of freight where actual cost and contract rates differ beyond the higher-value rule stated. It also leaves the Q3 position on differential treatment unresolved, since that question was not reached on its merits.

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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 -> guj_aar_05-2019_grasim_aditya_04.03.2019.pdf

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