

M/s. JBM Ecolife Mobility Surat Private Ltd.

Authority for Advance Ruling — Gujarat

GUJ/GAAR/R/2025/47

Dated 03.11.2025

Q Questions Before the Authority

- Whether the GST is payable on the liquidated damages paid by the Applicant to SSL for various material defaults, breaches or non-performance of the obligation as per the terms and conditions of the Concession Agreement, under the provisions of GST law?
- If the answer to above question is in affirmative, what shall be the applicable rate of GST thereupon and the corresponding Service Accounting Code (SAC)?
- If the answer to question no. 1 is in affirmative, whether the applicant is eligible to avail ITC of the GST so paid to SSL on liquidated damages?

F Facts

The applicant is a Special Purpose Vehicle engaged in the procurement, operation, and maintenance of electric buses for the city of Surat under a Concession Agreement with the Surat Municipal Corporation, later transferred to Sitalink Limited (SSL). The agreement includes clauses for liquidated damages payable by the applicant to SSL for material defaults, breaches, or failure to perform obligations. The applicant sought a ruling on whether these payments are subject to GST.

H Ruling

GST on liquidated damages	No	For the reasons mentioned in the order
Applicable rate of GST and SAC	Not required to be answered	In view of the answer to question 1
Eligibility to avail ITC	Not required to be answered	In view of the answer to question 1

The Authority ruled that the liquidated damages paid by the applicant to SSL are not subject to GST. Consequently, the remaining questions regarding the applicable rate of GST and the eligibility to avail Input Tax Credit were not required to be answered.

R Reasoning

The Authority reasoned that the liquidated damages are a **genuine pre-estimated loss** and not a consideration for any independent activity or for tolerating a breach. Relying on CBIC Circular No. 178/10/2022-GST, it held that such payments are merely a flow of money to compensate for injury or loss and do not constitute a supply. The Authority also noted that there was no agreement, express or implied, to tolerate an act or refrain from doing anything in exchange for these payments.

P Provisions Relied On

Section 7 of the CGST/GGST Act, 2017

Section 95(c) of the CGST/GGST Act, 2017

Section 97(2) of the CGST/GGST Act, 2017

CBIC Circular No. 178/10/2022-GST dated 03.08.2022

CBIC Circular No. 245/02/2025-GST dated 28.01.2025

! For the Practitioner

This ruling confirms that liquidated damages paid for breach of contract are **not taxable** under GST, provided they are compensatory in nature and not consideration for a separate supply. It reinforces the principle that such payments do not constitute 'tolerating an act' under the GST regime. Practitioners can use this to defend against tax demands on penalty or damage payments in similar commercial contracts.

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 -> 47 jbm ecolife mobility surat private limited removed compressed.pdf

Prepared 15-10-2026.

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Pune (HQ)

RTC Silver, B4-708, Sai Satyam Park, Wagholi, Pune, Maharashtra 412207

Delhi

3rd Floor, B-6/154-155, Sector 5, Rohini, Delhi 110085

Ahmedabad

Phoenix Tower, 1107, near Commerce Six Road, Drive In Road, Navrangp...

Mumbai

104, Rajshila Building, 597 J.S.S. Road, Marine Lines, Mumbai 400002

Gurugram

Pioneer Urban Square, B109, Golf Course Ext Road, Sector 62, Gurugram...

Talk to us: **+91 94594 56700** | sales@patronaccounting.com | patronaccounting.com