

M/s. Pon Pure Chemical India Private Limited

Authority for Advance Ruling — Gujarat

GUJ/GAAR/R/2026/23

Dated 24.06.2026

Q Questions Before the Authority

- Whether the amount from the transporters as a compensation for loss would be considered as a "Supply of services" by the applicant as per para 5(e) of Schedule II of Section 7 of Central Goods and Services Tax Act, 2017?

F Facts

The applicant engages various transporters for the movement of chemicals. Due to the nature of the goods, unavoidable losses occur during transit, and the applicant seeks compensation from transporters for losses exceeding an agreed tolerance limit.

H Ruling

Whether compensation for loss from transporters is a supply of services **No**

The compensation is not a consideration for any supply

The Authority held that the compensation received from transporters for losses in transit does not constitute a supply of services. Such payments are in the nature of liquidated damages for breach of contract and are not taxable.

R Reasoning

The Authority relied on the principle that liquidated damages are a **mere flow of money** to compensate for loss or damage and do not constitute consideration for an independent service. It determined that the applicant is not tolerating an act or refraining from an act under the contract, but is merely recovering damages for breach. The ruling is based on the interpretation of Section 7 of the CGST Act, 2017, and the clarification provided in CBIC Circular No. 178/10/2022-GST.

P Provisions Relied On

Section 7 of the CGST Act, 2017

Section 2(31) of the CGST Act, 2017

Section 73 of the Contract Act, 1872

Para 5(e) of Schedule II of the CGST 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 compensation received as liquidated damages for breach of contract, specifically for transit losses, is **not taxable under GST**. It provides strong support for taxpayers seeking to avoid GST on recovery of damages, provided the payment is purely compensatory and not for an independent service. It does not apply to payments that might be construed as consideration for a separate service or facility.

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 -> [2-ponpure.pdf](#)

Prepared 11-10-2026.

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