M/s Megha Agrotech Private Limited

Authority for Advance Ruling — Karnataka

Advance Ruling No. KAR ADRG 16/2020, Date: 23-03-2020 Dated **23.03.2020**

Q Questions Before the Authority

- Whether, under section 15(2)(e) of the CGST Act, the subsidy granted to the farmer by the Horticulture, Agriculture or Sericulture Department of the Government of Karnataka under the PMKSY scheme or another Central or State approved scheme, but disbursed to the supplier, is to be treated as a subsidy in the hands of the supplier and excluded while ascertaining the transaction value.
- Whether the question of inclusion or exclusion of the subsidy amount in the value of taxable supply under section 15(2) would arise where the subsidy does not impact the transaction value (the price actually paid or payable by the farmer), and the subsidy is disbursed by the Department to the supplier on behalf of the farmer.
- Whether the supplier would be entitled to a refund of accumulated input tax credit that may arise if the subsidy is not treated as part of the taxable value.

F Facts

The applicant manufactures and supplies LLDPE pipes and micro-irrigation systems and accessories. Under PMKSY and similar schemes, state departments sanction a subsidy (stated as 90%) to eligible farmers installing micro-irrigation, and the subsidy amount is disbursed to the supplier on the farmer's consent, for administrative convenience. The applicant invoices the full value to the farmer, charges CGST and SGST on that full value, and the farmer may pay directly, through a bank loan, or through a 10% upfront payment with the balance met from the subsidy.

H Ruling

Whether the farmer's government assistance (subsidy) is covered under s.15(2)(e) CGST and must be excluded from the value of supply	**No. The assistance is not covered under s.15(2)(e) and is not linked to price.**	The ruling applies whichever payment option the farmer chooses: direct payment, bank loan, or 10% upfront with the Department paying the balance on the farmer's account.
Whether the subsidy amount is to be excluded from the transaction value or value of taxable supply	**No. There is no question of excluding the assistance or subsidy.**	The full invoice value is the transaction value under s.15(1).
Whether the supplier is entitled to a refund of accumulated input tax credit if the subsidy is not treated as part of taxable value	**The question of refund does not arise.**	Follows from the holding that the subsidy is not excluded from taxable value, so the refund premise does not arise.

The authority held that the amount of assistance received by the farmer, or on the farmer's account, from the Government Department has no bearing on the price of the supply and is therefore not covered under section 15(2)(e) of the CGST Act, 2017. **The subsidy amount is not to be excluded from the transaction value or the**

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

value of taxable supply , and the question of refund of input tax credit does not arise.

R Reasoning

The authority read section 15(1), which defines transaction value as the price actually paid or payable where the parties are not related and the price is the sole consideration. It also read section 15(2)(e), which includes subsidies directly linked to the price, with its Explanation. It found that the contract is only between the farmer and the applicant, with the full invoice value as consideration, and that the Government or bank payment is made only on the farmer's account. Because the assistance is given to enable the farmer to afford the facility and does not affect the price, it is not a subsidy directly linked to price. The method of payment therefore has no bearing on the transaction value.

P Provisions Relied On

- Section 15(1) of the CGST Act, 2017 (value of taxable supply: transaction value)
- Section 15(2)(e) of the CGST Act, 2017 (subsidies directly linked to the price, excluding Central and State Government subsi…
- Explanation to Section 15(2) of the CGST Act, 2017
- Section 97 and Section 98(4) of the CGST Act, 2017 and the corresponding provisions of the KGST Act, 2017 (advance rulin…

! For the Practitioner

The ruling helps micro-irrigation and similar suppliers whose government subsidies are paid to them on the farmer's behalf: the full invoice value stays taxable and the subsidy is not carved out under section 15(2)(e). Practitioners can cite it where the subsidy is not directly linked to price. It does not decide cases where a subsidy is directly linked to price, and it does not address the Karnataka Agriculture Department circular of 08.11.2019, which the applicant mentioned but the authority did not rule on.

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 -> kar_aar_16_2020_mehga.pdf

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

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

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

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

Ahmedabad
Phoenix Tower, 1107, near Commerce Six Road, Drive In Road, Navrangp…

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

Patron Accounting LLP