M/s Nash Industries (I) Pvt Ltd., 236-237/2, 8th Main Road, Peenya Industrial Area, 3rd Phase, Bengaluru - 560058 (GSTIN 29AADCN9558Q1ZC)

Authority for Advance Ruling — Karnataka

Advance Ruling No. KAR ADRG 24 / 2018, dated 25th October, 2018 Dated **25.10.2018**

Q Questions Before the Authority

- Whether the amortised cost of the tool is to be added to arrive at the value of the goods supplied for the purpose of GST under Section 15 of the CGST Act read with rule 27 of the CGST Rules.

F Facts

The applicant manufactures sheet metal pressed components to customer drawings for industries such as automotive and banking hardware. The applicant designs and manufactures the tools needed for each job and bills them to the customer, who becomes the owner of the tools. The customer then gives the tools back to the applicant free of cost, and the applicant retains and uses them to manufacture the components.

H Ruling

Whether the amortised cost of the tool is to be added to the value of goods supplied under Section 15 of the CGST Act read with rule 27	**Yes. The amortised cost of tools re-supplied to the applicant free of cost is to be added to the value of the components.**	The ruling covers tools that the recipient bills to the applicant, owns, and then re-supplies free of cost. The Authority found the free supply is not a Section 7 supply. The ruling is expressed in terms of Section 15 of the CGST, SGST and IGST Acts.

The Authority held that the free supply of tools by the recipient to the applicant is not a supply under Section 7, because the tools are supplied only for the limited purpose of manufacturing the components. It held that the cost borne by the recipient is an amount covered by Section 15(2)(b), and that **the amortised cost of tools re-supplied to the applicant free of cost shall be added to the value of the components** .

R Reasoning

The Authority first examined Section 7(1) and Schedule I, entry 1, and concluded that the free supply of tools for limited manufacturing use is not a supply, so the transaction turns on valuation. It then applied Section 15(1), which takes the transaction value as the value of supply, and Section 15(2)(b), which includes in value any amount that the supplier is liable to pay but that the recipient has incurred. The Authority reasoned that if the applicant had procured the tools from a third party, their cost would form part of the taxable value, and that the recipient bearing that cost in substance should not change the result. The applicant's reliance on the Tata Johnson Controls, GSTAMP Automotive and Lear Automotive decisions is recorded in the order, but the

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

reasoning rests on the statutory text.

P Provisions Relied On

- Section 7(1) and Schedule I, entry 1, of the CGST Act, 2017
- Section 15(1) of the CGST Act, 2017 (transaction value)
- Section 15(2)(b) of the CGST Act, 2017
- Section 15(4) of the CGST Act, 2017 (referred to in the applicant's submission)
- Rule 27 of the CGST Rules, 2017 (referred to in the applicant's submission and the question)
- Sections 97 and 98(4) of the CGST and KGST Acts, 2017, and Rule 104 of the CGST and KGST Rules, 2017 (procedural ba…
- Tata Johnson Controls Automotive Ltd v. State of Maharashtra, 2017 (7) GSTL 271 (Bom), cited by applicant
- GSTAMP Automotive India Pvt Ltd v. Commissioner of Central Excise, 2017 GSTL 337 (Tri), cited by applicant
- Lear Automotive India Pvt Ltd v. Commissioner, 2014 ELT 65 (Tri), cited by applicant

! For the Practitioner

This ruling helps manufacturers of customer-specific components where customer-owned tools are re-supplied free of cost, because it indicates that the amortised tool cost may be included in the taxable value of the components. The order binds only the applicant under Section 103, but it indicates the revenue view on the point. It does not decide the GST treatment of the initial invoicing of the tools, the amortisation method, or cases where the applicant itself owns the tools or the tools are supplied on a different basis.

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 -> krntk_24_2018_niipl.pdf

Prepared 26-10-2026.

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