M/s Rashmi Hospitality Services Pvt. Ltd. (the body of the order refers to it as Rashmi Hospitality Services Private Limited)

Authority for Advance Ruling — Karnataka

Advance Ruling No. KAR ADRG 61/2019, dated 20th September 2019 Dated **20.09.2019**

Q Questions Before the Authority

- Whether the subsidy received from the State Government would form part of consideration under section 2(31) of the CGST Act?
- Whether the applicant's understanding that State Government subsidy is excluded from the consideration liable to GST, in terms of section 2(31) of the KGST Act, 2017 and the CGST Act, 2017, is correct?

F Facts

The applicant, a partnership firm in the food and beverage business, holds a contract with the Government of Karnataka to supply breakfast, lunch and dinner at Indira Canteens in four districts, namely Tumakuru, Belagavi, Davanagere and Mysore. Beneficiaries pay a notified low price (Rs 5 for breakfast and Rs 10 each for lunch and dinner, inclusive of GST), and the Government pays a subsidy per meal (Rs 6.95 for breakfast and Rs 12.40 each for lunch and dinner). The applicant pays GST only on the amount collected from beneficiaries and excludes the Government subsidy from the taxable value.

H Ruling

Whether Government of Karnataka subsidy for Indira Canteen meals forms part of consideration under section 2(31)	**No. The subsidy is excluded from consideration and is not part of taxable turnover.**	The amount collected from beneficiaries is taxable after deducting the tax fraction, since it is inclusive of tax. No rate or HSN was ruled upon.

The Authority held that the subsidy received from the Government of Karnataka for serving food to ultimate beneficiaries in Indira Canteens is **excluded from the definition of consideration** and does not form part of the turnover on which tax is payable. The amount collected from beneficiaries is taxable, but only after deducting the tax fraction, because that price is **inclusive of tax** . The ruling does not state any GST rate or HSN code.

R Reasoning

The Authority quoted the definition of consideration in section 2(31) of the CGST Act, which excludes any subsidy given by the Central or a State Government from the consideration for a supply. It treated a subsidy as financial aid extended to an economic sector to promote economic and social policy. On that basis it accepted that the Karnataka Government's per-meal subsidy is not consideration, while the amount paid by beneficiaries is consideration that must be grossed down for the tax included in it. The Authority noted that the provisions of the

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

CGST and KGST Acts are the same on this point, so one analysis applies to both.

P Provisions Relied On

Section 2(31) of the CGST Act, 2017 (definition of consideration), and the corresponding provision of the KGST Act, 2017

Section 97 of the CGST Act, 2017 and KGST Act, 2017 (application for advance ruling), as cited in the order

Section 98(4) of the CGST Act, 2017 and KGST Act, 2017 (order of the Authority), as cited in the order

Rule 104 of the CGST Rules, 2017 and KGST Rules, 2017 (form and fee for advance ruling), as cited in the order

! For the Practitioner

This ruling helps government canteen and institutional food contractors who receive a per-meal subsidy on top of a price paid by end users, because it confirms that the subsidy is outside the taxable value. It also confirms that the beneficiary price must be reduced by the tax component before tax is computed. The ruling is limited to Government of Karnataka subsidy for Indira Canteen meals. It does not decide the applicable GST rate for the supply, whether the subsidy is treated differently where the payer is a body other than the State or Centre, or the treatment of subsidy in other fact patterns.

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_61_2019_rhspl_20.09.19.pdf

Prepared 09-11-2026.

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