

M/s United Breweries Limited

Authority for Advance Ruling — Karnataka

Advance Ruling No. KAR ADRG 9 / 2018 Dated: 29 June, 2018

Dated **29.06.2018**

Q Questions Before the Authority

- (a) Whether beer bearing brand/s owned by M/s United Breweries Limited (Brand Owner/UBL) manufactured by Contract Brewing Units (CBUs) out of the raw materials, packaging materials and other input materials procured by it and accounted by it and thereafter selling such beer to various parties under its invoicing would be considered as supply of services and whether GST is payable by the CBUs on the profit earned out of such manufacturing activity?
- (b) Whether GST is payable by the Brand owner on the “Surplus Profit” transferred by the CBU to the Brand Owner out of such manufacturing activity?

F Facts

The applicant, United Breweries Limited (UBL), owns beer brands and enters into brewing and distribution agreements with Contract Brewing Units (CBUs). The CBUs procure raw and packaging materials on their own account, manufacture beer according to UBL's technical specifications under UBL's supervision, and sell the finished product directly to market entities or state corporations under their own invoicing. After paying statutory taxes and retaining manufacturing costs, overheads, and an agreed profit margin, the CBUs remit the remaining sale proceeds as **brand fee and surplus profit** to UBL.

H Ruling

Supply of service by CBUs to Brand Owner and GST on profit earned by CBUs

The CBUs are not engaged in supply of service to the applicant and therefore there does not arise any liability to pay GST on the amount retained by the CBUs as their profit.

CBUs purchase and own the raw materials, taking the activity outside job work under Heading 9988.

GST liability on Surplus Profit transferred by CBU to Brand Owner (UBL)

Yes, GST is payable by the Brand owner (UBL) on 'Surplus Profit' transferred by the CBU to brand owner out of the manufacturing activity and the supply of service to the CBUs is classified under Service Code (Tariff) 999799 and liable to pay GST at 18% (CGST-9%, SGST-9%) on the amount received from the CBUs.

Taxable under residual entry for services not specified elsewhere.

The Authority held that CBUs are not providing job work services to UBL because the raw materials are purchased and owned by the CBUs themselves, meaning no GST applies to the profits retained by CBUs. However, UBL is providing a taxable service to CBUs by granting technical know-how and brand permission in exchange for consideration. Consequently, UBL is liable to pay **18% GST on the surplus profit** transferred by CBUs under the residual classification Code 999799.

R Reasoning

Under Section 2(68) and Schedule II (Serial No. 3) of the CGST Act, job work services apply only when treatment or processing is undertaken on goods **belonging to another registered person**. Since CBUs procure and account for raw materials in their own books, their manufacturing does not qualify as job work under Heading 9988. Conversely, Section 2(102) defines services as **anything other than goods, money and securities**, and Section 7(1) contains an open-ended definition of supply. Thus, UBL's act of providing technical parameters, supervision, and authorization to affix brand names constitutes a service rendered to CBUs for consideration, classified under residual Service Code 999799 under Notification No. 11/2017-Central Tax (Rate).

P Provisions Relied On

Section 2(68) of CGST Act, 2017

Section 2(102) of CGST Act, 2017

Section 7 of CGST Act, 2017

Section 9(1) of CGST Act, 2017

Schedule II, Serial No. 3 & Serial No. 5(c) of CGST Act, 2017

Notification No. 11/2017-Central Tax (Rate) dated 28.06.2017 (Heading 9988, Heading 9989, Code 999799)

! For the Practitioner

This ruling establishes that contract manufacturing where the unit owns the inputs does not constitute a job-work service. Crucially, it cautions brand owners that receiving residual business profits or brand fees from contract manufacturers will be treated as a taxable supply of service under the **residual classification entry (999799)**, even if it does not strictly qualify as an IPR transfer under Schedule II.

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 9.18 dt 29.06.18 ubl.pdf](#)

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