

**THE AUTHORITY FOR ADVANCE RULING IN KARNATAKA
GOODS AND SERVICES TAX
VANIJYA THERIGE KARYALAYA, KALIDASA ROAD
GANDHINAGAR, BENGALURU - 560 009**

F. No. KAR. AAR 19/2026

Order No. KAR.ADRG 19/2026

Dated: 16.03.2026

Present: -

1. Shri. Kalyanam Rajesh Rama Rao

Additional Commissioner of Customs & Indirect Taxes ...Member (**Central**)

2. Shri. Sivakumar S Itagi

Additional Commissioner of Commercial Taxes Member (**State**)

1	Name and address of the applicant	M/s Varaha Land Private Limited, # No.41/7, 15th Cross, between 4th and 6th Main roads, Malleswaram, Bengaluru, Karnataka, 560003
2	GSTIN or User ID	29AAHCV1557D1Z8
3	Date of filing of Form GST ARA-01	10.08.2024
4	Represented by	CA Ramakrishna Kamath, Authorized representative
5	Jurisdictional Authority - Centre	The Commissioner of Central Tax, Bengaluru North Commissionerate, Bengaluru.
6	Jurisdictional Authority - State	ACCT, LGSTO 130 -Bangalore
7	Whether the payment of fees discharged and if yes, the amount and CIN	Yes, discharged fee of Rs.5,000/- under CGST Act, 2017 & Rs.5,000/-under KGST Act, 2017 through debit from Electronic Cash Ledger vide reference No. DC2908240040458 dated 10.08.2024

**ORDER UNDER SECTION 98(4) OF THE CGST ACT, 2017
& UNDER SECTION 98(4) OF THE KGST ACT, 2017**

M/s Varaha Land Private Limited, (herein after referred to as '**the Applicant**') # No.41/7, 15th Cross, between 4th and 6th Main roads, Malleswaram, Bengaluru, Karnataka, 560003, having GSTIN 29AAHCV1557D1Z8, have filed an application for Advance Ruling under Section 97 of CGST Act, 2017 read with Rule 104 of CGST Rules, 2017 and Section 97 of KGST Act, 2017 read with Rule 104 of KGST Rules, 2017.

2. The Applicant is engaged in development of villa project under a defined contractual arrangement and Construction Services. The Applicant has sought advance ruling in respect of the following questions:



I. Whether the agreement entered into by the applicant with the customers for construction of villa results in a supply of goods or services considering the fact that the entire construction is proposed to be outsourced to a contractor?

II. If the answer to the above question no 1 is in affirmative,

(a) whether such supply is classifiable under heading 9954 (xii) and chargeable to CGST at 9% and SGST at 9% under Sl. No. 3 of Notification No. 11/2017- Central Tax (Rate) dated 28.06.2017 as amended **OR**

(b) Classifiable under heading 9954 (ia) and chargeable to CGST at 3.75 % and SGST at 3.75% under Sl. No. 3 of Notification No. 11/2017- Central Tax (Rate) dated 28.06.2017 ?

III. If it is held that the supply is classifiable under the heading 9954 (ia) and chargeable to CGST @3.75% and SGST @3.75% under Sl.No. 3 of Notification No. 11/2017- Central Tax (Rate) dated 28.06.2017, then whether the consideration for construction as per the construction agreement can be treated as value of supply when there is a separate agreement for sale of land?

3. Admissibility of The Application: The Applicant, under Column 13 of Form ARA-01, has selected the following categories of issues, namely:

- (i) Classification of any goods and/ or services or both;
- (ii) Applicability of a notification issued under the provisions of this Act;
- (iii) Determination of time and value of supply of goods or services or both and
- (iv) Determination of the liability to pay tax on any goods or services or both.

On examination of the nature of the questions raised and the issues involved, it is found that the Applicant has correctly selected the said categories of issues. Accordingly, the present application is held to be admissible in terms of Sections 97(2)(a), 97(2)(b), 97(2)(c) and 97(2)(e) of the CGST Act, 2017.

4. Brief Facts of The Case: - The Applicant is engaged in the development of a residential villa project under a defined contractual framework and is providing construction services in relation thereto. The Applicant has entered into a Joint Development Agreement (JDA) with multiple landowners for development of the said residential villa project, wherein the Applicant is entitled to a 75% share in the developed area, while the landowners are entitled to the remaining 25% share.

In pursuance of the said arrangement, the Applicant enters into two separate agreements with prospective buyers: (i) an agreement for sale of an undivided share of land/plot, and (ii) a separate agreement for construction of a villa on the said plot. Further, the Applicant proposes to outsource the entire



construction activity to an independent contractor, while retaining overall responsibility towards the buyers for completion and delivery of the villas.”

5. Applicant's Interpretation Of Law: -

5.1 “In respect of Question No. 1, as mentioned in paragraph 3 supra, the Applicant has contended that the entire construction activity is outsourced to an independent contractor. According to the Applicant, such outsourcing results in a single transaction of supply, and therefore, the agreement entered into by the Applicant with the customer for construction of villas does not give rise to a supply of goods or services in its hands. In support of the said contention, the Applicant has placed reliance on the judgment of the Hon'ble Supreme Court in *State Government of Andhra Pradesh & Others v. Larsen & Toubro Ltd. & Others, arising out of S.L.P. (C) No. 12482 of 2007.*”

5.2 In respect of Question No. 2, as mentioned in paragraph 3 supra, the Applicant has contended that the construction activities undertaken by it for its customers pursuant to the construction agreement are classifiable as works contract service falling under Heading 9954(xii) and are chargeable to CGST at the rate of 9% under Serial No. 3 of Notification No. 11/2017-Central Tax (Rate) dated 28.06.2017, as amended.

It is further contended that the Applicant, along with the landowners, enters into a tripartite agreement with the customer for the purpose of sale of plot. In terms of the said agreement, there is a transfer of title in the plot to the customer, which amounts to transfer of title in immovable property. Such transfer of title in immovable property is not exigible to GST and, according to the Applicant, does not form the subject matter of the present application.

Further, vide a separate construction agreement, the customer appoints the Applicant for the purpose of undertaking construction of a villa on the plot agreed to be sold to the customer. Since the construction agreement is an independent and distinct contract from the agreement for sale of land, the Applicant submits that the same is classifiable under Heading 9954(xii) as works contract service.”

5.3 In respect of Question No. 3, as mentioned in paragraph 3 supra, the Applicant has contended that the consideration attributable to construction, as per the construction agreement, alone should be treated as the value of supply for the purposes of levy of GST. *In support of this contention, reliance has been placed on the judgment of the Hon'ble Gujarat High Court in Munjaal Manishbhai Bhatt Vs. Union of India,* wherein it was held that the deeming fiction of mandatory deduction of one-third of the total consideration towards the value of land is not mandatory in nature and would apply only at the option of the taxable



person in cases where the actual value of land or undivided share in land is not ascertainable.

The Applicant has further submitted that, in the instant case, the value of land is readily ascertainable since a separate agreement for sale of land has been executed. Accordingly, based on the aforesaid judgment, the Applicant has contended that they are eligible to claim deduction towards the actual value of land while discharging GST on the construction service classifiable under Heading 9954(ia).

6. PERSONAL HEARING PROCEEDINGS HELD ON 16.01.2026:

CA Ramakrishna Kamath, the duly authorized representatives of the applicant, appeared for the personal hearing held on 16.01.2026 before this Authorities and reiterated the facts as narrated in the application.

FINDINGS & DISCUSSION:

7. *At the outset, we would like to make it clear that the provisions of the Central Goods and Services Tax Act, 2017 and the Karnataka Goods and Services Tax Act, 2017 are pari materia and contain identical provisions on all material aspects, differing only in respect of certain specific provisions. Accordingly, unless a particular reference is made to such dissimilar provisions, any reference to the CGST Act, 2017 shall also be construed as a reference to the corresponding provisions of the KGST Act, 2017.*

8. *We have considered the submissions made by the applicant in the application for advance ruling. We have also examined the issues on which the advance ruling has been sought, the relevant facts of the case, and the arguments advanced by the applicant, including the submissions made by the learned authorised representative during the course of the personal hearing.*

9. *We have carefully examined the application made by the applicant, the submissions provided therein, the arguments advanced during the personal hearing. The main issues for consideration are "Classification of any goods and/ or services or both", "Applicability of a notification issued under the provisions of this Act" and Determination of time and value of supply of goods or services or both and*

10. *The applicant seeks advance ruling in respect of the question mentioned at paragraph 3 supra. We proceed to answer the questions.*

11. **The first question for consideration is** *"Whether the agreement entered into by the applicant with the customers for construction of villa results in a supply of goods or services considering the fact that the entire construction is proposed to be outsourced to a contractor".*



11.1 The term “supply” is defined in an expansive manner under Section 7 of the Central Goods and Services Tax Act, 2017 to include all forms of supply of goods or services or both, such as sale, transfer, barter, exchange, licence, rental, lease or disposal, made or agreed to be made for a consideration by a person in the course or furtherance of business. For a transaction to qualify as a supply, there must be a supplier who provides goods or services and a recipient who receives such goods or services for consideration. A conjoint reading of the definitions of “supplier” and “recipient” as contained in Sections 2(105) and 2(93) of the CGST Act, respectively, indicates that the contract governing the transaction must reflect the intention of the parties to supply goods or provide services for consideration.

11.2 In the present case, it is an admitted fact that the Applicant enters into direct contractual arrangements with the buyers for the construction of villas and receives consideration therefor. The Applicant assumes full contractual responsibility for execution, completion, and delivery of the constructed villas to the buyers. The outsourcing of the actual construction activity to a third-party contractor is merely a mode of performance of the Applicant’s contractual obligations and does not alter, substitute, or extinguish the Applicant’s independent supply to the buyers. Each transaction in the supply chain constitutes a distinct and taxable supply in the hands of the respective supplier.

11.3 The reliance placed by the Applicant on the judgment of the Hon’ble Supreme Court in State Government of Andhra Pradesh & Others v. Larsen & Toubro Ltd. & Others is misplaced and distinguishable both on facts and in law. The said judgment was rendered in the context of the pre-GST regime, particularly under the Andhra Pradesh Value Added Tax Act, 2005, and dealt with the taxability of works contracts prior to the constitutional and statutory changes brought about by the Constitution (One Hundred and First Amendment) Act, 2016 and the enactment of the Central Goods and Services Tax Act, 2017.

11.4 Under the GST regime, the scope of “supply” has been consciously widened under Section 7 of the CGST Act, 2017. Further, works contracts relating to immovable property have been expressly classified as a supply of services under paragraph 6(a) of Schedule II to the CGST Act. The existence of a subcontractor or the outsourcing of construction activity does not dilute or negate the Applicant’s independent supply to the customers, as each supply is liable to tax in the hands of the respective supplier.

11.5 Accordingly, it is held that the agreement entered into by the Applicant with the buyers for construction of villas constitutes a taxable supply of construction service under GST, and the Applicant cannot avoid tax liability on the ground that the construction activity has been entirely outsourced to a contractor.



12. The Second and Third questions in consideration are “Whether the supply undertaken by the Applicant in respect of construction of villas is classifiable under Heading 9954(xii) and chargeable to CGST at 9% and SGST at 9% under Sl. No. 3 of Notification No. 11/2017–Central Tax (Rate) dated 28.06.2017, as amended, or alternatively, classifiable under Heading 9954(ia) and chargeable to CGST at 3.75% and SGST at 3.75% under the said notification; and if it is held that the supply is classifiable under Heading 9954(ia), whether the consideration attributable to construction under the construction agreement alone can be treated as the value of supply for the purposes of levy of GST, in cases where a separate agreement for sale of land is executed.”

12.1 Serial No. 3 of Notification No. 11/2017-Central Tax (Rate) dated 28.06.2017 along with Heading 9954(ia) and 9954 (xii) read with Paragraph 2 of the said notification, as amended is reproduced below for better understanding of the issues before us.

12.2 Serial No. 3 of Notification No. 11/2017- CT (R) dated 28.06.2017 as amended.

Sl. No	Chapter	Description of services	Rate	Conditions
3	9954 (Construction Services)	(ia) Construction of residential apartments other than affordable residential apartments by a promoter in an RREP (Residential Real Estate Project) which commences on or after 1 st April 2019 or in an ongoing RREP in respect of which the promotor has not exercised option to pay central tax on construction of apartments at the rates specified for item (i.e.) or (if) below, as the case may be, in the manner prescribed therein, intended for sale to a buyer , wholly or partly, except where the entire consideration has been received after issuance of completion certificate , where required, by the competent authority or after its first occupation, whichever is earlier (Provisions of paragraph 2 of this notification shall apply for valuation of this service	3.75%	Provided that the central tax at the rate specified in column (4) shall be paid in cash, that is, by debiting the electronic cash ledger only: Provided that
		(ib) Construction of commercial apartments (shops, offices,	3.75%	



		godowns, ect.) by a promotor in an RREP.....		
		...		
		..		
		(xii) Construction services other than (i), (ia), (ib), (ic), (id), (ie), (if), (vii), (viii), (x) and (xi) above,	9%	-----

Provisions of paragraph 2 of this notification: -

2. In a case of supply of service specified in **column 3**, in items (i) , (ia), (ib), (ic), (id), (ie), (if), against serial number 3 of the table above, **involving transfer of land** or undivided share of land, as the case may be ,**the value of such supply shall be equivalent to the total amount charged for such supply less the value of transfer of land or undivided share of land**, as the case may be and the **value of such transfer of land** or undivided share of land, as the case may be, in such supply **shall be deemed to be one third(1/3) of the total amount charged for such supply** .

Explanation For the purpose of this paragraph **“total amount”** means the sum total of

- (a) Consideration charged for aforesaid service; and
- (b) Amount charged for transfer of land or undivided share of land, as the case may be including by way of lease or sub lease.

12.3 In the instant case, the primary issue for determination is “whether the service provided by the Applicant is classifiable under Heading 9954 (ia) or Heading 9954(xii)”.

12.4 On perusal of the Joint Development Agreement dated 17.08.2020 executed between the Applicant and the landowners, it is observed that both parties have mutually agreed to jointly develop and complete **a residential villa project on the schedule property**. Under the said agreement, the landowners have authorised the Applicant to obtain layout plan approvals from the competent authority, **as well as individual villa plan approvals for the respective plots, for the purpose of developing the schedule property into a residential villa project** comprising villas of various dimensions along with common amenities, infrastructure, and allied facilities.

12.5 Further, on examinations of the **draft Agreement to sell** and the **Construction Agreement** submitted by the Applicant, it is noticed that any purchaser desirous of owning a plot/villa in the schedule property is required to confer upon the Applicant an exclusive right to construct the villa on the said plot by entering into a Construction Agreement. The Agreement to sell merely confers upon the purchaser the right to have a villa constructed on the plot



strictly in accordance with the terms and conditions of the Construction Agreement to be executed between the Applicant and the purchaser.

Under the contractual scheme, the purchaser is not entitled to engage the services of any other person for construction of the villa on the plot, except the Applicant. The Construction Agreement and the Agreement to sell are expressly stipulated to be co-terminus with each other, and termination of either agreement automatically results in termination of the other, without the requirement of any independent or separate act of termination.

It is further stipulated that possession of the plot and the constructed villa shall be delivered only upon execution of the sale deed, subject to payment of the entire balance sale consideration for the plot, settlement of all amounts due under the Construction Agreement, and compliance with all contractual terms. The permission granted to the Applicant to construct the villa does not amount to delivery of possession of the plot in part performance of the agreement.

The Joint Development Agreement further provides that the landowners and the Applicant may, at their sole discretion, execute conveyance of the plot prior to completion of construction, provided that the entire sale consideration for the plot is paid in full and the purchaser creates a charge over the property comprising the land and the proposed villa for securing the amounts payable to the Applicant under the Construction Agreement.

12.6 The Applicant has contended that the construction activity undertaken by it pursuant to the construction agreement is classifiable as works contract service under Heading 9954(xii) and liable to tax at the rate applicable thereunder. The said contention has been carefully examined and is not acceptable for the reasons discussed hereunder.

12.7 It is an admitted fact that the Applicant is engaged in the development of a residential villa project under a Joint Development Agreement and enters into agreements with prospective buyers prior to completion of construction. The Applicant receives consideration from the buyers linked to construction milestones and undertakes to deliver completed residential villas. Such activity squarely falls within the scope of construction of residential units intended for sale, where consideration is received before issuance of completion certificate.

12.8 The Applicant's submission that the agreement for sale of land and the construction agreement are independent contracts has also been examined. While transfer of title in land is covered under Schedule III to the CGST Act, 2017 and is not exigible to GST, the facts reveal that the **agreements are executed in pursuance of a single economic objective, namely, supply of a completed residential villa to the buyer. The sale of land and construction of villa are naturally bundled as elaborate in paragraph 13.5 supra and supplied in conjunction with each other in the ordinary course of business.** Therefore, the transaction qualifies as a composite supply in terms of Section 2(30) of the CGST Act, 2017, with construction service being the principal supply.



In terms of Section 8 of the CGST Act, 2017, a composite supply is to be treated as a supply of the principal supply. Accordingly, the entire consideration attributable to the construction of the villa is liable to tax in the manner applicable to construction services under the GST law, subject to the valuation mechanism prescribed for real estate transactions.

12.9 Further, as per paragraph 2 read with Serial No. 3 of Notification No. 11/2017-Central Tax (Rate) dated 28.06.2017, as amended, works contract services involving construction of residential units intended for sale, where consideration is received prior to completion, **are classifiable under Heading 9954(i)(a)**. The said entry is a specific classification applicable to real estate projects and therefore prevails over the general works contract classification claimed by the Applicant under Heading 9954(xii).

12.10 The Applicant's attempt to segregate the transaction to claim classification under Heading 9954(xii) is artificial and not supported by the substance of the transaction. Accordingly, the construction services provided by the Applicant to the buyers are classifiable under Heading 9954(i)(a) and liable to tax at the rate prescribed under Serial No. 3 of Notification No. 11/2017-Central Tax (Rate), as amended.

12.11 *The next issue is determination of the value of supply, if such service classifiable under Heading 9954 (i)(a).*

12.12 It is pertinent to note that paragraph 2 of Notification No. 11/2017-Central Tax (Rate), as amended, (as mentioned in paragraph 13.2 supra) specifically provides that the value of supply of construction services involving transfer of land or undivided share in land shall be deemed to be the total amount charged for such supply less the value of land, which shall be deemed as one-third of the total amount charged. This deeming provision is a statutory valuation mechanism notified in exercise of powers under Section 15 of the CGST Act, 2017 and is required to be uniformly applied to all supplies falling within its scope.

12.13 As regards the reliance placed on the judgment of the Hon'ble Gujarat High Court in *Munjaal Manishbhai Bhatt v. Union of India*, it is observed that the said judgment was rendered in the specific factual matrix and legal context arising in that case. The decision does not lay down any general or universal proposition that, in all cases involving supply of construction services, the actual value of land must mandatorily be adopted in substitution of the statutory



deduction prescribed under the relevant rate notification. *It is further pertinent to note that the said judgment has not attained finality, inasmuch as the Union of India has preferred a Special Leave Petition, being SLP (C) No. 21703 of 2022, before the Hon'ble Supreme Court challenging the aforesaid decision, and the matter is pending adjudication. In such circumstances, the said judgment cannot be treated as laying down settled law.*

In any event, a judicial pronouncement rendered in the facts of an individual case cannot override or dilute the express provisions of a statutory rate notification issued under the CGST Act, 2017, which continues to remain in force and is binding on both the tax authorities and the taxpayers, unless and until it is set aside or read down by a court of competent jurisdiction with finality.

12.14 The Applicant's contention that the value of land is readily ascertainable due to the existence of a separate agreement for sale of land also does not merit acceptance. It is well settled that for GST purposes, where multiple agreements are executed in respect of a single transaction intended to provide a bundled supply to the buyer, the substance of the transaction has to be examined rather than the form. In the present case, the agreement for sale of land and the construction agreement are inextricably linked and together result in the supply of a constructed unit to the buyer. Therefore, the consideration received under both agreements forms part of the "total amount charged" for the supply of construction service.

Accordingly, the valuation of the impugned supply is required to be determined strictly in accordance with paragraph 2 of Notification No. 11/2017-Central Tax (Rate), by allowing a deduction of one-third of the total consideration towards the value of land, and not on the basis of the actual value of land as claimed by the Applicant.

13. In view of the foregoing, we pass the following.

RULING

1. *The agreement entered into by the Applicant with the customers for construction of villas constitutes a **supply of service** under the provisions of the Central Goods and Services Tax Act, 2017, notwithstanding the fact that the actual construction activity is outsourced to a third-party contractor.*



2. The supply undertaken by the Applicant in respect of construction of villas is **classifiable under Heading 9954(ia)** of the Scheme of Classification of Services and is liable to GST at the rate of **CGST @ 3.75% and SGST @ 3.75%** under Sl. No. 3 of Notification No. 11/2017-Central Tax (Rate) dated 28.06.2017, as amended.
3. The **value of supply** shall be determined strictly in accordance with **paragraph 2 of Notification No. 11/2017-Central Tax (Rate)**, as amended, by deeming **one-third of the total amount charged** (including consideration towards land and construction) as the value of land, and the remaining amount as the taxable value of construction service.



(Kalyanam Rajesh Rama Rao)

Member

MEMBER

Karnataka Advance Ruling Authority
Bengaluru - 560 009



(Sivakumar S Itagi)

Member

MEMBER

Karnataka Advance Ruling Authority
Bengaluru - 560 009

Place: Bengaluru

Date: 16.03.2026

To,
The Applicant.

Copy to:

1. The Principal Chief Commissioner of Central Tax, Bangalore Zone, Karnataka.
2. The Commissioner of Commercial Taxes, Karnataka, Bengaluru.
3. The Commissioner of Central Tax, Bengaluru North Commissionerate, Bengaluru.
4. The Assistant Commissioner of Commercial Taxes, LGSTO-130, Bengaluru.
5. Office Folder.

