

AUTHORITY FOR ADVANCE RULING –UTTAR PRADESH

4, Vibhuti Khand, Gomti Nagar, Lucknow

PROCEEDING OF THE AUTHORITY FOR ADVANCE RULING U/S. 98 OF THE GOODS AND SERVICES TAX ACT, 2017

Sub:- GST ACT, 2017 – Advance Ruling U/s 98 – liability to tax under GST Act in respect to application dated 13.12.2018 from M/s Premier Car Sales Ltd., Lucknow, Uttar Pradesh – Order– Reg.

1) M/s Premier Car Sales Ltd., 09 Premier Building, Shahnajaf Building, Hazratganj, Lucknow, Uttar Pradesh, 226001 (here in after called the applicant/PCSL) is a registered assessee under GST having GSTN: 09AABCP5806H1ZE.

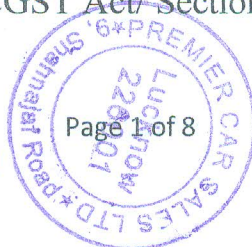
2) The Applicant is engaged in the sale of motor vehicle parts and accessories. The Applicant has entered into an agreement with Hyundai Motors India Limited ("HMIL") for providing repair services to the customer on behalf of HMIL during warranty period. The Applicant receives consideration towards labour charges for providing repair services and also reimbursement of cost of parts replaced, if any, to the customer during the warranty period.

3) The Applicant has submitted application for Advance Ruling dated 13.12.2018 enclosing duly filled Form ARA-01(the application form for Advance Ruling) along with annexures and attachment.

4) The Applicant in his application sought clarification and Advance Ruling as follows: –

i) Whether repair services carried out by the Applicant under the Dealership Agreement with HMIL, to fulfill the warranty obligation of HMIL which also involves supply of parts should be classified as a composite supply of services under Section 2(30) of CGST Act/ Section 2(30) of SGST Act, 2017?

Received
8/4/19



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पर नवंबर 31 नवंबर
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ii) Whether the entire repair services including supply of spares can be classified under S. No 25 in Notification 11/2017 Central Tax (Rate) dated 28th June, 2017 / parallel Notification issued under SGST Act subjected to tax at the rate of 9% under CGST?

5) The application for advance ruling was forwarded to the Jurisdictional CGST Officer to offer their comments/views/verification report, which was resolved vide letter C.No. V(30)123/Tech/Misc. Corr./Lko-II/18/521 dated 19.02.2019.

6) The applicant was granted a personal hearing on 08.03.2019. Shri K. Sivarajan, CA (partner, PWC, Tamil Nadu) and Miss Arushi Govil, C.A. (Authorized representative) appeared in PH on 08.03.2019.

During the oral submission they stated that they have submitted detailed written submission along with application itself. They would like to reiterate the same. Further, they would like to submit few copies of invoices in support of their claim, which is taken on record. Along with above mentioned documents they also submitted paper book No-1, containing page-1 to 170, which is also taken record. Mr. K. Sivarajan requested that he would like to submit a synopsis of their detailed submission, which they were allowed.

DISCUSSION AND FINDING

7) We have gone through the submissions made by the applicant and examined the detailed explanation submitted by them. We observe that the questions sought by the applicant are:-

i) Whether **repair services** carried out by the Applicant under the Dealership Agreement with HMIL, to fulfill the warranty obligation of HMIL which **also involves supply of parts** should be classified as a composite supply of services under Section 2(30) of CGST Act / Section 2(30) of SGST Act, 2017?

ii) Whether the entire repair services including supply of spares can be classified under S. No 25 in Notification 11/2017 Central Tax (Rate) dated 28th June, 2017 / parallel Notification issued under SGST Act subjected to tax at the rate of 9% under CGST?

8) Statements submitted by the applicant bearing the question raised by the applicant:-

i) The Company has entered into a Dealership Agreement ("Agreement") with HMIL dated 10th day of April 2006 to act as non-exclusive authorized dealer of HMIL in the State of Uttar Pradesh for sale of cars manufactured by HMIL.

ii) HMIL provides limited warranty to customers for a specified period from the date of purchase of vehicles manufactured and supplied by HMIL, whereby the customers are entitled to get issues resolved free of cost, subject to the Warranty policy and terms of conditions. The Authorized Dealers of HMIL shall either repair or replace any Hyundai genuine part that is acknowledged by HMIL to be defective in material or workmanship **within the warranty period** stipulated above, at no cost to the owner of the Hyundai vehicle for parts or labor. Such defective parts which have been replaced will become the property of HMIL.

iii) HMIL **reimburses** the dealer for repair and / or replacement of any part of Hyundai vehicles during the warranty period. In order to serve customers during the warranty period, HMIL has issued a Warranty policy and procedure manual which is part of the Dealership Agreement. As per the policy, HMIL agrees to compensate the dealer for all the warranty repairs and campaign repairs in accordance with the procedures and the rates prescribed by HMIL from time to time.

9) Warranty repair service provided by PCSL to HMIL:-

As per para 1.6 of Exhibit I attached to Form ARA-01, the repair charges comprises of **reimbursement** for:-

- a) Labour charges and
- b) Parts at parts markup rate.

10) Current invoicing methodology:- The warranty repair provides by the company to HMIL is currently considered as composite supply of services and the services including the **incidental supply of parts are subjected to tax under SAC 998729** "maintenance and repair services of the other goods". The below table illustrates the components of the final summary issued to HMIL:-

S. No	Category	Description	SAC	IGST Rate
1	Part Details	Latch Assy - Trunk Lid	998729	18%
2	Labour details	Trunk Lid Latch Assy	998729	18%

11) Applicant's view point and submission on issues on which the advance ruling is sought:-

- i) The activities provided by the applicant constitute supply of services.
- ii) Warranty repair services is a composite supply of goods and services, the services provided being the predominant supply.
- iii) The intention of the parties to the contract is for supply of services
- iv) The activity under taken by the applicant is historically constructed as provision of the services.
- v) Analysis of composite supply:- i) Two or more taxable supplies of goods or services or both shall be supplied by the Supplier to the Recipient, ii) Supply of goods or services or both should be naturally bundled in the ordinary course of business iii) Goods or services or both should be supplied in conjunction with each other in the ordinary course of business, iv) One of the two supplies should be "Principal supply", v) Similar composite contracts are classified as 'supply of services'.

12) We have considered the submissions made by the applicant in their application for advance ruling, in addition to the submission at the time of personal hearing and as well as views of the Jurisdictional office.

i) The first issue to be decided in this case is whether repair services carried out by the Applicant under the Dealership Agreement with HMIL, to fulfill the warranty obligation of HMIL which also involves supply of parts should be classified as a composite supply of services under Section 2(30) of CGST Act/ Section 2(30) of SGST Act, 2017? As per the information provided by the applicant, Hyundai Motors India Limited (HMIL) provides "Warranty Repair Services" to its customers in respect of vehicles purchase by them under 'Warranty Policy' free of cost which is carried out by them being an Authorised Dealer of HMIL. They

undertake repair services of the vehicles along with replacement of defective parts, if any at no costs to the customers for labour/defective parts. HMIL reimburses them for repairing services along with replaced parts, if any.

ii) It was further intimated by the party that there could be the scenarios where “Warranty Repair Service” provided by them involve only the labour charges without any replacement of defective parts and at times, in the event of any defective parts, such “Warranty Repair Service” would involve both the repairing service alongwith replacement of defective parts/components. The supply of parts/components in such warranty repair activity is integral to the “Warranty Repair Service” and is only incidental or ancillary to the main activity of ‘Repairing Services’. “Warranty Repair Service” undertaken by them is predominantly a service which is provided by them to the customers on behalf of HMIL and to this extent the aforesaid activity of “Warranty Repair Service” should be construed as a supply of services and any replacement of defective parts/components is just an ancillary to the main services of repair. Therefore, the supplies of Labour Services and Parts/components together considered as “Warranty Repair Service” and the same are naturally bundled in the ordinary course of business. Accordingly, such “Warranty Repair Service along with parts” should be construed as a ‘Composite Supply of Service’ with Warranty Repair Service” being the ‘Principal/Predominant Supply’ in terms of Sections 2(30) and 8 of the CGST Act/ Section 2(30) and 8 of the SGST Act, 2017.

- a) As described in Section 2(30) of CGST/SGST Act, 2017 that :- “ ‘Composite Supply’ means a supply made by a taxable person to a recipient consisting of two or more taxable supplies of goods or services or both or any combination thereof, which are naturally bundled and supplied in conjunction with each other in the ordinary course of business, one of which is a principal supply.”

Illustration- Where goods are packed and transported with insurance, the supply of goods, packing materials, transport and insurance is a composite supply and supply of goods is a principal supply.

- b) Section 2 (90) of CGST/SGST Act, 2017 provides that – “ ‘Principal Supply’ means the supply of goods or services which constitutes the predominant element of a composite supply and to which any other supply forming part of that composite supply is ancillary.”

iii) From the submissions made by applicant, it appears that they are mainly providing 'Repair & Maintenance Services' to their customers under "Warranty Repair Service" by servicing of their vehicles under Warranty period. In the event of defective parts/components, they replace such parts/components which appear to be just incidental or ancillary to the main activity of 'Repairing Services'. The supply of such parts/components in the warranty repair activity is integral to the "Warranty Repair Service" in as much as without replacing such parts/components the "Warranty Repair Service" could not be executed. Therefore, the supplies of Labour Services and Parts/components together under "Warranty Repair Service" are naturally bundled and have been supplied in conjunction with each other in the ordinary course of business.

iv) Further, the repairing activity appears to be the principal activity carried out by the party while executing such "Warranty Repair Service" of the vehicles. If any defective part/component is detected, the same is used to be replaced with the new one as per the requirement. As such, the supply of parts/components appears to be incidental or ancillary to the main activity of 'Repairing Services'. Accordingly, the supply of Labour Services appears to be the predominant element in such "Warranty Repair Service" of the vehicles with supply of Parts/components remains as ancillary.

v) To sum up, since the supply of repair services in the present case, the supply of both, goods and services are made in conjunction with each other in the ordinary course of business and therefore, considering the provisions of the GST laws we find that supply of services/ parts is naturally bundled, with the supply of parts being incidental to the supply of services and therefore, such contract are to be considered as a 'composite supply' of services where the principal supply is services and the supply of goods (Parts) is incidental to such supply of services.

vi) Further, Section 8 of CGST/SGST Act, 2017 provides that – The tax liability on a composite supply shall be determined in the following manner, namely:

- (a) A composite supply comprising two or more supplies, one of which is a principal supply, shall be treated as a supply of such principal supply."
- (b) In view of above statutory provision as stipulated under Section 8 of CGST/SGST Act, 2017, the tax liability on such "Warranty Repair Service

with parts/components” shall be determined as per the tax liability applicable to ‘Repair & Maintenance Service’ which is the ‘Principal/Predominant Supply’ in such “Warranty Repair Service” as discussed here-in-above. Accordingly, such “Warranty Repair Service with parts/components” appears to be subjected to tax in terms of Notification No. 11/2017-Central Tax (Rate) dated 28.06.2017 / parallel Notification issued under SGST Act as amended.

In view of the above discussion, provisions of agreement between HMIL and PSCL read with definition of ‘composite supply’ as defined under Section 2(30) of CGST Act, 2017/SGST Act, 2017, it is to clarify that following ruling is applicable if repair service provided by the applicant shall be covered under ‘composite supply’ if –

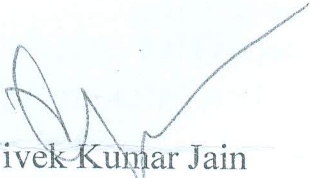
- (a) Primarily ‘Repair service’ is provided under warranty period,
- (b) Parts are replaced as incidental to repair service under warranty period in ordinary course of business, and
- (c) PCSL is being reimbursed by HMIL for labour charge and parts under warranty period.

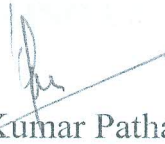
Any transaction/service which are not as per above condition shall not be covered by the following ruling;

RULING

- i) ‘Repair services’ carried out by the Applicant under the Dealership Agreement with HMIL, to fulfill the warranty obligation of HMIL which also involves ‘supply of parts’ can be classified as a ‘composite supply of services’ under Section 2(30) of CGST/SGST Act, 2017.
- ii) The entire ‘repair services’ including ‘supply of parts’ can be classified under the heading having description of Services as ‘Repair & Maintenance Service’ which is the ‘Principal/Predominant Supply’ in a “Warranty Repair Service” as discussed. Accordingly, such “Warranty Repair Service with parts/components” appears to be subjected to tax in terms of S. No. 25 in Notification No. 11/2017-Central Tax (Rate) dated

28.06.2017/parallel Notification issued under SGST Act as amended.


Vivek Kumar Jain
Member of Authority for Advance
Ruling


Sanjay Kumar Pathak
Member of Authority for Advance
Ruling

To,

M/s Premier Car Sales Ltd.,
09 Premier Building, Shahnajaf Building,
Hazratganj, Lucknow,
Uttar Pradesh, 2260011.

AUTHORITY FOR ADVANCE RULING –UTTAR PRADESH

Order No. 29

Date: 11.03.2019

Copy to –

1. The Chief Commissioner, CGST & Central Excise, Lucknow, Member, Appellate Authority of Advance Ruling.
2. The Commissioner, Commercial Tax, Uttar Pradesh, Member, Appellate Authority of Advance Ruling.
3. The Commissioner, CGST, Lucknow, Uttar Pradesh.
4. The Deputy Commissioner, CGST & Central Excise, Division-II, Lucknow, Uttar Pradesh;
5. Through the Additional Commissioner, Commercial Tax, Lucknow, Uttar Pradesh to jurisdictional tax assessing officers.