

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

Members Present are

Shri S.K.Buxy
Joint Commissioner
O/o Commissioner, State Tax
Chhattisgarh, Raipur

Shri Rajesh Kumar Singh,
Additional Commissioner,
O/o Principal Commissioner,
CGST & Central Excise, Raipur

Sub:- Chhattisgarh GST Act, 2017 – Advance Ruling U/s 98 – Regarding the GST rates applicable in case of custom milling service.

Read:- Application dated 03.08.2018 from M/s. Taranjeet Singh Tuteja & Brothers, Opp. Savitri Rice Mill, Sahdeopali, Tehsil- Pussore, Dist- Raigarh (C.G.) 496001(GSTIN- 22AABFT3379G1ZA)

PROCEEDINGS

[U/s 98 of the Chhattisgarh Goods & Services Tax Act, 2017 (herein- after referred to as CGGST Act, 2017)]

No.STC/AAR/05/2018

Raipur Dated ..10../..10../2018

The applicant M/s. Taranjeet Singh Tuteja & Brothers, Opp. Savitri Rice Mill, Sahdeopali, Tehsil-Pussore, Dist – Raigarh (C.G.) 496001 (GSTIN- 22AABFT3379G1ZA) has filed the application U/s 97 of the Chhattisgarh Goods & Services Tax Act, 2017 requesting advance ruling regarding tax liability in the business of job work activity of custom milling of paddy involving milling activity, transportation of rice and usage charges of gunny bags.

2. Facts of the case:-

- I. M/s. Taranjeet Singh Tuteja & Brothers, Opp. Savitri Rice Mill, Sahdeopali, Tehsil-Pussore, Distt – Raigarh (C.G.) (hereinafter referred to as the applicant) has executed an agreement for custom milling of paddy with the



Chhattisgarh State Marketing Co-operative Federation Limited, Raipur (C.G.) having GSTIN - 22AAAAC0934E1ZJ (here-in-after to be referred a MARKFED) on dated 16-11-2017 for execution of custom milling of paddy. i.e. Production of rice on job work.

- II. In the execution of job work of custom milling, applicant has to collect / procure paddy from Primary Co-operative Societies/paddy storage centers and thereafter transport it to the applicant's milling site for which MARKFED pays charges for transportation of paddy.
- III. After milling of Rice from the said procured paddy, applicant has to deliver rice @67% of total quantity of paddy, whereby the applicant retains other bye/waste products i.e. Rice Broken rice Bran Husk.
- IV. Thereafter, the applicant delivers such milled rice from their milling site to the various delivery centers of Nagrik Apurti Nigam/Food Corporation of India for which too MARKFED pays transportation charges.
- V. Besides, this in consideration of this custom milling job work of paddy, the applicant receives milling charges and incentive as decided by the State Government of Chhattisgarh.
- VI. In the aforesaid process initially gunny bags are provided by MARKFED to the applicant along with the paddy and thereafter consequent to milling, on delivery of such milled rice in gunny bags, some gunny bags gets retained with the applicant. For such balance gunny bags which gets retained by the applicant, MARKFED withholds some amount from the applicant while settling the bills relating to custom milling of applicant. In case the balance gunny bags are returned back, MARKFED refunds the withheld amount partially if such gunny bags are taken again by the applicant for another job work of custom milling and otherwise refunds the full withheld amount relating to such gunny bags.
- VII. In some cases, if applicant provides their own gunny bags to the MARKFED at the time of taking delivery of paddy (applicant does not execute job of packing of paddy in gunny bags), charges for usages of gunny bags (supply of tangible goods) is given by the MARKFED.
- VIII. As per the guidelines of Chhattisgarh custom milling order, 2016 and letter no. F-4-6/Food/2016/29/2436, dated 23-10-2017 of Department of Food, Civil Supplies and Consumer Protection, Mantralay, Raipur, a Contract no. AC112017410015 has been executed on 16-11-2017 (Thursday), between District Marketing Officer, Raigarh on behalf of MARKFED and Shri Kanwalpreet Singh Tuteja, (Partner of M/s Taranjeet Singh Tuteja & Brothers), the applicant, Mill Registration No. MA 411505 for the custom milling of paddy for the year 2017-18 has been granted to them. As per the terms and conditions of this Contract the details of fees for individual job work is as under:-



Sr.No.	Particulars of Activity	Consideration
1.	Transportation of paddy from primary co-operative societies/paddy storage center to the place of miller (applicant's place)	On per K.M. basis as fixed by the Sate Govt. of Chhattisgarh.
2.	Custom milling charges of paddy	@10/- Per Qtl. of paddy as milling charged + @30/- to @45/- (प्रोत्साहन राशि)
3.	Transportation of rice from the place of miller (Applicant's place to the delivery center of Nagrik Apurti Nigam/ F.C.I.	On per K.M. basis as fixed by the Sate Govt. of Chhattisgarh.
4.	Usage charges of gunny bags	@3.75/- per bag or as fixed time to time by the MARKFED.

3. Contention of the Applicant :-

The applicant has mentioned following details regarding rice milling and its transportation as per the contract with MARKFED -

- I. On the issue of service of transportation of paddy/rice the applicant submits that this activity of service is exempted under Sr.No. 21 and 18 of Notification no. 12/2017(State/Central).
- II. On the issue of service of custom milling of paddy the applicant states that the rate of tax on milling charges of paddy should be 5% (2.5% SGST +2.5% CGST) under Notification no. 31/2017-CT(R) Notification no. 11/2017-CT (Rate) dated 28-06-2017 Serial No. 26.
- III. The incentive as decided by the State Govt. of Chhattisgarh and given by the MARKFED should be considered as subsidy and not be included in taxable value under Section 2(31) of the CGST Act 2017 and should not be included in consideration of milling charges.
- IV. The Rate of tax on usage charges of Gunny Bags should be taxable at 5% GST as applicable on supply of gunny bags.

4. Personal Hearing:-

In keeping with the established principles of natural justice, personal hearing in the matter was extended to the authorized representative of the applicant and accordingly, Mr. Sandeep Agrawal (Advocate) and Mr. Alok Agrawal (Advocate) appeared before us for hearing on 05.09.2018 and reiterated their contention. They also furnished a written submission dated 05.09.2018, which has been taken on record.



The applicant reiterated their contention that (a) on the issue of service of transportation of paddy/rice the applicant submits that this activity of service is exempted under Sr.No. 21 and 18 of Notification no. 12/2017(State/Central). (b) on the issue of service of custom milling of paddy the applicant states that the rate of tax on milling charges of paddy should be 5% (2.5% SGST +2.5% CGST) under Notification no. 31/2017-CT(R) Notification no. 11/2017-CT (Rate) dated 28-06-2017 Serial No. 26. (c) The incentive as decided by the State Govt. of Chhattisgarh and given by the MARKFED should be considered as subsidy and not be included in taxable value under Section 2(31) of the CGST Act 2017 and should not be included in consideration of milling charges. (d) The Rate of tax on usage charges of Gunny Bags should be taxable at 5% GST as applicable on supply of gunny bags.

Two exempt supplies i.e. transportation of paddy, rice and incentive amount should be individually computed while determining composite supply for the job work of rice milling and packing materials gunny bags supply. According to section 8(a) which defines composite supply, two or more taxable supplies attracts tax liability. No tax liability should be charged on the amount received from other exempt supply as per their contract.

Thus, the applicant has highlighted two major points, thereby opining that the amount received on account of job work of rice milling and supply of packing material gunny bags (as per contract) will attract GST @5% and that the amount received for transportation of rice as well as paddy and incentive amount ('subsidy' according to the applicant) are exempt supply under GST. It is on these contentions that the applicant wants approval and are seeking advance ruling.

5. Thus we find that M/s. Taranjeet Singh Tuteja & Brothers, Opp. Savitri Rice Mill, Sahdeopali, Tehsil-Pussore, Dist - Raigarh (C.G.) GSTIN-22AABFT3379G1ZA, the applicant is seeking clarity with regard to the applicable rates for payment of GST in relation to custom milling job work service, service of transportation of paddy/rice, usage charges of gunny bags and incentive received by the applicant as paid by the MARKFED.

6. The legal position, Analysis and Discussion:-

6.1 The provisions for implementing the CGST Act and CGGST Act, 2017 are similar. Now we sequentially discuss the provisions that are applicable in the present case.

6.2 The applicant M/s Taranjeet Singh Tuteja & Brothers has shown four different supplies as per the conditions of the contract with the MARKFED in which the amount is received for three service supplies and one goods' supply, the following being the three service supplies involved:-

- i Milling of paddy - On the issue of service of custom milling of paddy the applicant states that the rate of tax on milling charges of paddy should be 5% (2.5% SGST +2.5% CGST) under Notification no. 31/2017-CT(R) Notification no. 11/2017-CT (Rate) dated 28-06-2017 Serial No. 26.



- ii. Transportation of paddy and rice - the applicant submits that this activity of service is exempted under Sr.No. 21 and 18 of Notification no. 12/2017(State/Central).

As per the notifications issued under the provisions of State GST Act, the above mentioned both the supplies are acceptable as individual supplies.

- iii. Incentive for custom milling of paddy – The applicant has requested to consider the incentive amount as exempted, citing it as subsidy. Whereas, the applicant themselves has depicted this amount as incentive in their contract AC112017410015 Dated 16.11.2017 with Chhattisgarh State Marketing Co-Operative Federation Limited. Subsidy and incentive are provisioned with different conditions.

"Incentive"

*An **incentive** is something that motivates an individual to perform an action. The study of incentive structures is central to the study of all economic activities (both in terms of individual decision-making and in terms of co-operation and competition within a larger institutional structure).*

'Subsidy'

A subsidy is a benefit given to an individual, business or institution, usually by the government. It is usually in the form of a cash payment or a tax reduction. The subsidy is typically given to remove some type of burden, and it is often considered to be in the overall interest of the public, given to promote a social good or an economic policy.

- iv. Thus it gets amply clear from the above that the subsidy is related with State welfare of the public or it is provided to a person or a business by various Government, Non Government agencies, to rationalise the cost impact directly/indirectly on the public. On the other hand the incentive is provided to a specific person or business for recognition of noble work or to provide motivation for a specific work. The applicant has mentioned about 'incentive' amount apart from the milling charges for custom milling as per the contract with the MARKFED. This contract nowhere mentions about the 'subsidy'. Subsidy necessarily is extended in the larger interest of public at large.

The contention of the applicant regarding the tax liability on the incentive amount erroneously assuming the same to be as subsidy, claiming treatment of such amount received as incentive for the services supplied, as exempt supply is not sustainable under law and merits rejection. Thus the tax liability on the considerations received for such supply of services received is to be charged @5% GST as per the Notification No. 31/2017-CT(R) Notification no. 11/2017-CT (Rate) dated 28-06-2017 Serial No. 26. (c).

iv. Transportation Supply of paddy and Rice

- (a) On the grounds of their above contention, the applicant seeks treatment of transportation charges on paddy / rice, as exempt supply. On examination of Notification No. 12/2017-State Tax, dated



28-06-2017 Notification No. F-10-43/2017/CT/V(80), dated 28-06-2017 (Serial 21, Tariff-9965), Amendment Notification No. 31/2017, issued Notification No. F-10-82/2017/CT/V(146), dated 13-10-2017 the amount received from transportation of rice/paddy would be exempt supply, provided only if any registered person is involved in the business of transportation work. In this case the applicant has entered into a contract with MARKFED mainly for custom milling. The custom milling job involves the transportation of paddy from various paddy collection centers of MARKFED to the rice mill station of the applicant and transportation of rice from rice mill to Civil Supplies Corporation Units in the same contract. The amount received from the compensation of packing material gunny bags during transportation and the job work of custom milling are also the inseparable part of the job of milling work. In this way all the supplies are interrelated and can in no way be vivisected in the said contract, the primary and principal work being custom milling of paddy.

(b) For such supplies CG GST Act specifically provides as under :-

Section-2(30):- "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;

Section-2(90):- "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

Section-2(78):- "non-taxable supply" means a supply of goods or services or both which is not leviable to tax under this Act or under the Integrated Goods and Services Tax Act;

Section-8 Tax liability on composite and mixed supplies:

The tax liability on composite or a mixed 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;

Thus it is clear from the above provisions that the service supply of custom milling by the applicant to the MARKFED is principal supply. As per



section 8(a) all the receipts of principal supply, being composite supply, would attract 5% GST including the amount received from the transportation of paddy and rice.

- (c) Under composite supply, two or more taxable supplies and amount of exempt supply cannot be severed or artificially vivisected. In this context, the following provisions of CGGST Act is also squarely applicable here :-

Section-2(47):- "exempt supply" means supply of any goods or services or both which attracts nil rate of tax or which may be wholly exempt from tax under section 11, or under section 6 of the Integrated Goods and Services Tax Act, and includes non-taxable supply;

Section-2(108):- "taxable supply" means a supply of goods or services or both which is leviable to tax under this Act;

On the basis of above provisions it gets abundantly clear that the transportation work by a registered person with commercial purpose under the provisions of GST Act and as per the issued relative Notifications are taxable supplies. The transportation of paddy and rice are conditionally exempted under specific Notifications. All supplies would be treated as exempted supply only when the transportation works would be given full and unconditional exemption under corresponding Notification. On account of conditional exemption, the supplies involved in the instant case in hand would be exigible to tax. Thus in view of above, the part-exemption as sought by the applicant for the service supply of transportation of paddy and rice is not eligible to them, the same being under a false premise. The said supply involved here cannot be separated from the tax computation of composite supply. Thus as per the provision of composite supply under section 8(a) of Chhattisgarh GST Act 2017, we come to the considered conclusion that the custom milling of paddy being the principal supply (predominant supply) involved in the case in hand, the same would attract GST @5% (2.5% CGST and 2.5% SGST).

In view of the deliberations and discussions as above, we pass the following order:-

ORDER

(Under section 98 of the Chhattisgarh Goods and Services Tax Act, 2017)

No.STC/AAR/05/2018

Raipur Dated ..10../...10../2018

The ruling so sought by the Applicant is accordingly answered as under:-

As per Agreement No: - AC112017410015 Dated 16.11.2017 with Chhattisgarh State Marketing Co-Operative Federation Limited, the applicant has been allotted the principal job work of Custom Milling of Paddy for manufacturing of rice, along with custom milling they will also get the payment towards the



transportation of paddy & Rice, usage of gunny bags for packing of Rice and incentives as an additional charge for custom milling. There being a single contract for all above supplies of goods & services and as the said contract comprises of two or more supplies (i.e. transportation, supply of packing material & incentives) and one of which is principal supply i.e. custom milling of paddy, it shall treated as composite supply as per section 2(30) of Chhattisgarh GST Act 2017 and as per the provision of section 8 (a) of Chhattisgarh GST Act 2017. Accordingly the tax liability on a composite supply shall be decided as a supply of such principal supply under Notification no. 31/2017-CT(R) notification no. 11/2017-CT (Rate) dated 28-06-2017 serial No. 26. (c), vide state notification no. F-10-82/2017/CT/V(146) dated 13.10.2017 i.e. 5% (2.5% CGST & 2.5% SGST).

Place: - Raipur

Date:- 10.10.2018

Seal: -



S.K. Buxy
(Member) 10/10/18

Rajesh Kumar Singh
(Member) 10.10.18

Copy to:-

1. Applicant,
2. The Commissioner, (CGGST)
3. The Principal Commissioner, (CGST)
4. The jurisdictional officer, Raigarh Circle-1.