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## **Composite Exempted Supplies under GST**



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Confusion on Composite Supply under Sec 2(30) and Sec 8(a) is still going on.

**Sec 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;

In this illustration, if the Goods are Exempted from GST, what would be the consequences. I would like to give a good Example for Composite Supply not liable to tax. Liquor is out of GST. When liquor packed and Transported with insurance, will it be taxable. NO.

And as per **Section 15** of GST:-

- (1) *The value of a supply of goods or services or both shall be the transaction value, which is the price actually paid or payable for the said supply of goods or services or both where the supplier and the recipient of the supply are not related and the price is the sole consideration for the supply*
- (2) *The value of supply shall include—(c) incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply and any amount charged for anything done by the supplier in respect of the supply of goods or services or both at the time of, or before delivery of goods or supply of services.*

Therefore the liability on total supply of Goods or Services naturally Bundled as Composite one, shall be based on Principle Supply either Taxable or Non Taxable.

**Section 8 - Tax liability on composite and mixed supplies -The tax liability on a composite or a mixed supply shall be determined in the following manner** , namely:—*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;*

Let us examine the Composite Exempted supplies.

## **COMPOSITE SUPPLY OF HEALTH SERVICES**

**(zg) "health care services"** means any service by way of diagnosis or treatment or care for illness, injury, deformity, abnormality or pregnancy in any recognised system of medicines in India and **includes services by way of transportation of the patient** to and from a clinical establishment, but does not include hair transplant or cosmetic or plastic surgery, except when undertaken to restore or to reconstruct anatomy or functions of body affected due to congenital defects, developmental abnormalities, injury or trauma; (Notification 12/2017 Central Tax (Rate). S. No 74 SAC 9993. Under Definitions Sec 2 )

**Comment :-** Though the supply of Health Care Services are Exempted by Notification, It is very pertinent to understand that a composite supply comprising two or more supplies, one of which is a principal supply, that is HEALTH CARE SERVICES by a Clinical Establishment. Like Medication, Treatment, Food supply to in patient, accommodation worth of below 1000/- per day and Transportation of the patient.

## COMPOSITE SUPPLY OF EDUCATIONAL SERVICES

***"Educational Services by an institution "*** Services provided –  
(a) by an educational institution to its students, faculty and staff;  
(b) to an educational institution, by way of, (i) transportation of students, faculty and staff; (ii) catering, including any mid-day meals scheme sponsored by the Central Government, State Government or Union territory; (iii) security or cleaning or housekeeping services performed in such educational institution; (iv) services relating to admission to, or conduct of examination by, such institution; up to higher secondary: Provided that nothing contained in entry (b) shall apply to an educational institution other than an institution providing services by way of pre-school education and education up to higher secondary school or equivalent. (Notification No. 12/2017- Central Tax (Rate) Serial No. 66. SAC 9992).

**Comment :-** Like Health Care Services, the Educational Services are also given exemption, a composite supply comprising two or more supplies, one of which is a principal supply, that is EDUCATIONAL SERVICES by the institutions or to the Institution. Like Teaching, Transportation of Students, Catering for students, Hostel accommodation and supply of Books etc.,

### **GST ON COMPOSITE SUPPLY COMPRISING TWO OR MORE SUPPLIES ONE OF WHICH EXEMPTED PRINCIPLE SUPPLY**

Notification 2/2017. Central Tax (Rate).S. NO 104. HSN 2716. Electrical Energy. Notification No 12/2017. Central Tax (Rate)S.NO 25. SAC. Transmission or Distribution of Electricity by an Electrical Transmission or Distribution utility.

**Comment :-** To under the Composite supply, comprising of principle supply which is exempted under GST. Let us examine an Important Judgment on Sec 8 (a) COMPOSITE SUPPLY in the case of ***Jodhpur Vidyut Vitran Nigam Ltd. v. Union of India***, the Hon'ble Rajasthan High Court, [2022] 136 taxmann.com 396, has given its interpretation as *"Any line which is used for carrying electricity for any purpose as well as any apparatus connected to any such line for the purpose of carrying electricity is mandatorily required to be provided to the consumer by the licensee. The term "electrical plant" takes within its sweep any plant, equipment, apparatus or appliance or any part thereof used for, or connected with, the generation,*

***transmission, distribution or supply of electricity, except for electric meter and any electrical equipment, apparatus or appliance under the control of a consumer.*** Sub-section (2) of section 43 of the Electricity Act casts a duty upon the licensee to provide, if required, electric plant or electric line for giving electric supply to the premises.

*Therefore, providing electric line and electric plant are elements of service which are naturally bundled in the ordinary course of business, with the single service of transmission and distribution of electricity which gives the bundle its essential character. The term "taxability" means liability to taxation. Thus, the term taxability would take within its sweep not being taxable also inasmuch as liability to taxation would also mean not being liable to any tax. Thus, the liability to tax of a bundled service has to be determined in the manner provided under sub-section (3) of section 66F of the Finance Act. **If the services are naturally bundled in the ordinary course of business, the bundle of services shall be treated as provision of the single service which gives the bundle its essential character and where the services are not naturally bundled in the ordinary course of business, the same is required to be treated as provision of the single service which results in highest liability of service tax.***

*Accordingly, where the services are naturally bundled in the ordinary course of business and the single service which gives such bundle its essential character is exempt from tax, the entire bundle will have to be treated as provision of such single service. **The services provided by the petitioner are in the nature of composite supply and therefore, in view of the provisions of clause (a) of section 8 of the CGST Act, the tax liability thereof has to be determined by treating such composite same as a supply of the principal supply of transmission and distribution of electricity. Consequently, if the principal supply of transmission and distribution of electricity is exempt from levy of service tax, the tax liability of the related services shall be determined accordingly.***

**CONCLUSION:-** Where the Goods and services are naturally bundled in the ordinary course of business and the single supply which gives such bundle its essential character is exempt from tax, the entire bundle will have to be treated as provision of such single EXEMPTED COMPOSITE supply. Therefore composite supply can be with either

exempted supply or Taxable supply based on Nature of Principle supply.

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