

CHAPTER 2 – SUPPLY

Relevant Sections

Section 7	:	Scope of supply.
Section 8	:	Tax liability on composite and mixed supplies.
Schedule 01	:	Activities to be treated as supply even if made without consideration
Schedule 02	:	Activities or transactions to be treated as supply of goods or supply of services
Schedule 03	:	Activities or transactions which shall be treated neither as a supply of goods nor a supply of services

1. RELEVANT DEFINITIONS

“**person**” includes–

1. an individual;
2. a Hindu Undivided Family;
3. a company;
4. a firm;
5. a Limited Liability Partnership;
6. an association of persons or a body of individuals, whether incorporated or not, in India or outside India;
7. any corporation established by or under any Central Act, State Act or Provincial Act or a Government company as defined in clause (45) of section 2 of the Companies Act, 2013 (18 of 2013);
8. any body corporate incorporated by or under the laws of a country outside India;
9. a co-operative society registered under any law relating to co-operative societies;
10. a local authority;
11. Central Government or a State Government;
12. society as defined under the Societies Registration Act, 1860 (21 of 1860);
13. trust; and
14. every artificial juridical person, not falling within any of the above;

Family: means, —

- (i) the spouse and children of the person, and
- (ii) the parents, grand-parents, brothers and sisters of the person if they are wholly or mainly dependent on the said person [Section 2(49) of the CGST Act].

“**business**” includes—

1. any trade, commerce, manufacture, profession, vocation, adventure, wager or any other similar activity, whether or not it is for a pecuniary benefit;
2. any activity or transaction in connection with or incidental or ancillary to sub-clause (a);
3. any activity or transaction in the nature of sub-clause (a), whether or not there is volume, frequency, continuity or regularity of such transaction;
4. supply or acquisition of goods including capital goods and services in connection with commencement or closure of business;

5. provision by a club, association, society, or any such body (for a subscription or any other consideration) of the facilities or benefits to its members;
6. admission, for a consideration, of persons to any premises;
7. services supplied by a person as the holder of an office which has been accepted by him in the course or furtherance of his trade, profession or vocation;
8. (h) activities of a race club including by way of totalisator or a license to book maker or activities of a licensed book maker in such club; and
9. any activity or transaction undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities;

“**consideration**” in relation to the supply of goods or services or both includes—

- ✓ any payment made or to be made, whether in money or otherwise, in respect of, in response to, or for the inducement of, the supply of goods or services or both, whether by the recipient or by any other person but shall not include any subsidy given by the Central Government or a State Government;
- ✓ the monetary value of any act or forbearance, in respect of, in response to, or for the inducement of, the supply of goods or services or both, whether by the recipient or by any other person but shall not include any subsidy given by the Central Government or a State Government:

Provided that a deposit given in respect of the supply of goods or services or both shall not be considered as payment made for such supply unless the supplier applies such deposit as consideration for the said supply;

Actionable claim: means a claim to any debt, other than a debt secured by mortgage of immovable property or by hypothecation or pledge of movable property, or to any beneficial interest in movable property not in the possession, either actual or constructive, of the claimant, which the civil courts recognise as affording grounds for relief, whether such debt or beneficial interest be existent, accruing, conditional or contingent [Section 2(1) of CGST Act read with section 3 of the Transfer of Property Act, 1882].

Taxable supply: means a supply of goods or services or both which is leviable to tax under this Act [Section 2(108) of CGST Act].

2. INTRODUCTION TO SUPPLY AND WHY IT IS IMPORTANT

- ✓ A taxable event is any transaction or occurrence that results in a tax consequence. Before levying any tax, taxable event needs to be ascertained. It is the foundation stone of any taxation system; it determines the point at which tax would be levied.
- ✓ Under GST, taxable event is SUPPLY. If there is no supply then No GST.
- ✓ For a supply to attract GST, primarily two additional conditions need to be satisfied. These are – (i) supply must be made by a taxable person and (ii) supply must be a taxable supply.

3. MEANING OF GOODS & SERVICES

Why to differentiate between Goods & Service

It is important to classify supply either as supply of goods or supply of services because of following reasons.

1. Rates of tax for goods (HSN wise) and Rates of tax for Services (SAC wise) is different.
2. Time of supply for goods and for supply of services is different.
3. Place of supply for goods and for services is different.

4. Conditions for export of goods and export of services is different.
5. Conditions for applicability of composition levy is different for supply of goods and for supply of services.

section 2(52). GOODS

- Goods means every kind of movable property
- other than money and securities but
- includes
- actionable claim,
- growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under a contract of supply.

Note 1: Movable means anything which can be shifted from one place to another as it is.

Note 2: Actionable claims are unsecured debt, arrears of rent.

Note 3: Money shall be treated as goods so long as same is not used as legal tender as held by High Court of Bombay in CMS Info Systems Ltd. 2019 [Therefore Van used for transportation of money ITC available]

section 2(102). SERVICES

- Services means anything other than goods, money and securities
- but includes
- activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination for which a separate consideration is charged.

Explanation. —For the removal of doubts, it is hereby clarified that the expression “services” includes facilitating or arranging transactions in securities.

Note: The Maharashtra AAR held that children are not goods and therefore not subjected to GST when prospective parents pay to adopt a child.

4. CONCEPT OF SUPPLY [SECTION 7 OF CGST ACT]

Section 7 : Scope of supply.

Section 8 : Tax liability on composite and mixed supplies.

SCHEDULE 01 : ACTIVITIES TO BE TREATED AS SUPPLY EVEN IF MADE WITHOUT CONSIDERATION

SCHEDULE 02 : ACTIVITIES OR TRANSACTIONS TO BE TREATED AS SUPPLY OF GOODS OR SUPPLY OF SERVICES

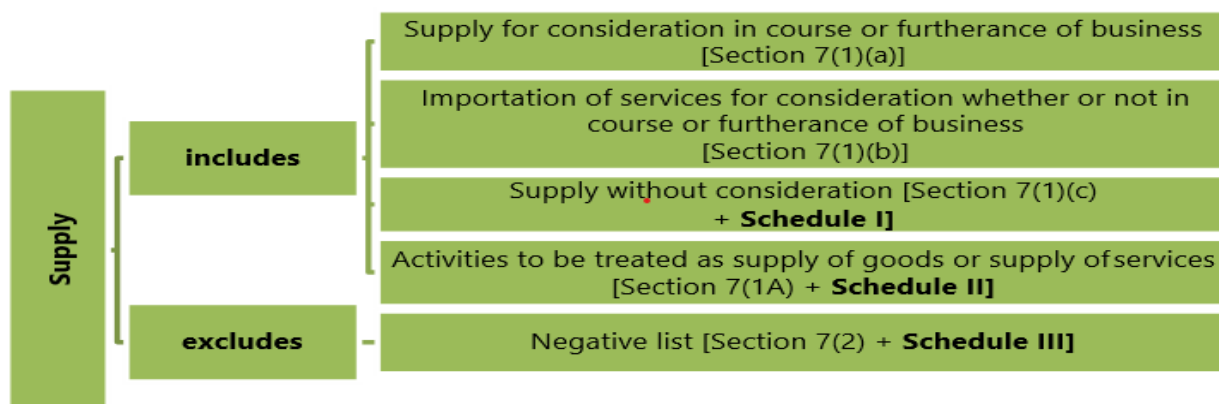
SCHEDULE 03 : ACTIVITIES OR TRANSACTIONS WHICH SHALL BE TREATED NEITHER AS A SUPPLY OF GOODS NOR A SUPPLY OF SERVICES

SECTION 7 : SCOPE OF SUPPLY

✓ “supply” includes—

- 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;
- **the activities or transactions, by a person, other than an individual, to its members or constituents or vice-versa, for cash, deferred payment or other valuable consideration**
- import of services for a consideration whether or not in the course or furtherance of business and;
- the activities specified in Schedule I, made or agreed to be made without a consideration

- ✓ where **certain activities** or transactions constitute a supply in accordance with the provisions of sub-section (1), they shall be treated either as supply of goods or supply of services as referred to in Schedule II.
- ✓ Notwithstanding anything contained in sub-section (1), —
 - activities or transactions specified in Schedule III; or
 - such activities or transactions undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities, as may be notified by the Government on the recommendations of the Council, shall be treated neither as a supply of goods nor a supply of services.
- ✓ The Government may, on the recommendations of the Council, specify, by notification, the transactions that are to be treated as-
 - a supply of goods and not as a supply of services; or
 - a supply of services and not as a supply of goods.



Few Important points

1. Various forms of supply contemplated in section 7(1)(a) are sale, transfer, barter, exchange, licence, rental, lease or disposal. These forms of supply are only illustrative and not exhaustive
2. Consideration does not always mean money. It can be in money or in kind. It covers anything which might be possibly done, given or made in exchange for something else. Further, a consideration need not always flow from the recipient of the supply. It can also be made by a third person.
3. However, any subsidy given by the Central Government or a State Government is not considered as consideration. A deposit given in respect of the supply of goods or services or both shall not be considered as payment made for such supply unless the supplier applies such deposit as consideration for the said supply.
4. Any transaction involving supply of goods and/or services without consideration is not a supply unless it is deemed to be a supply under Schedule I of the CGST Act.
5. For any trade, commerce, or any other similar activity to qualify as business, frequency, volume, continuity or regularity of such transaction is not a pre-requisite.
6. Since 'business' includes vocation, therefore sale of goods or service as a vocation is also a supply under GST.

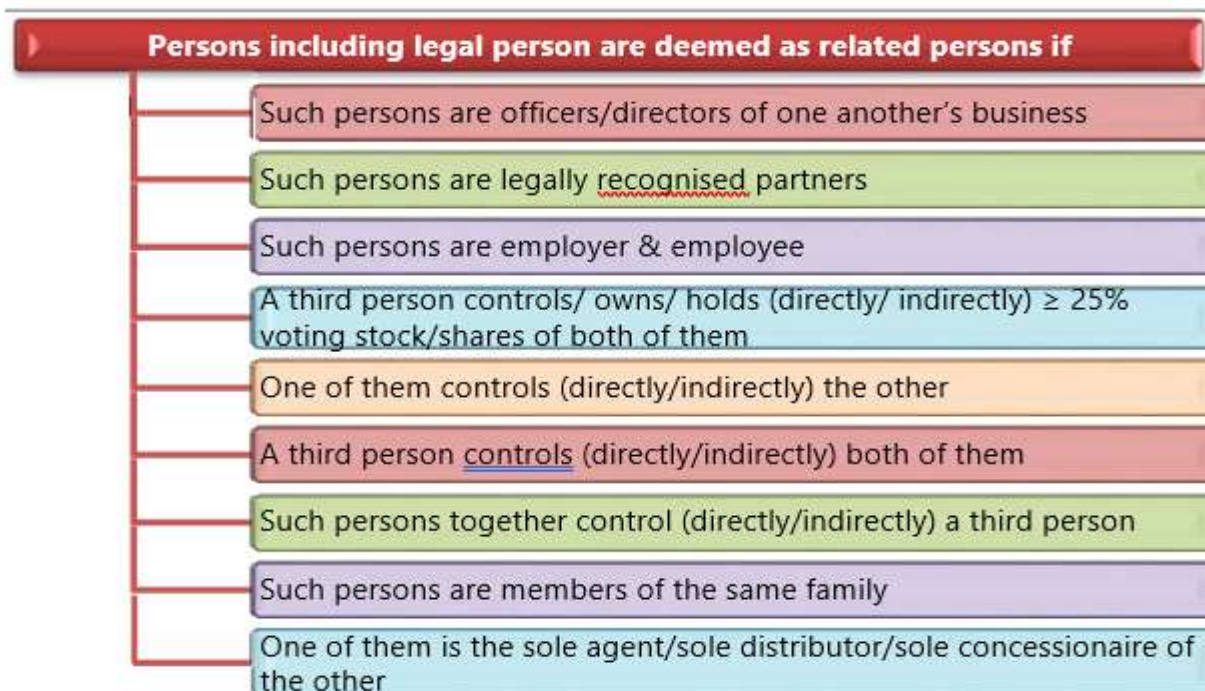
Some Examples of whether supply made in course or furtherance of business

1. Sundaram Acharya, a famous actor, paints some paintings and sells them. The consideration from such sale is to be donated to a Charitable Trust – ‘Kind Human’. The sale of paintings by the actor qualifies as supply.
2. A Resident Welfare Association provides the service of depositing the electricity bills of the residents in lieu of some nominal charges. Provision of service by a club or association or society to its members is treated as supply as this is included in the definition of ‘business’.
3. Services by way of admission to circus, cinema halls, amusement parks including theme parks, water parks, etc. are considered as supply as these are services by way of admission of persons to any premises for a consideration.
4. Royal Turf Race Club is engaged in facilitating the wagering (betting) transactions on horses placed through totalisator. For providing the service of facilitating wagering transactions, Royal Turf Race Club gets commission which is deducted and retained by the club from the total bet value. Said services amount to supply as the activities of a race club are included in business.

5. SCHEDULE I - ACTIVITIES TO BE TREATED AS SUPPLY EVEN IF MADE WITHOUT CONSIDERATION

1. Permanent transfer or disposal of business assets where input tax credit has been availed on such assets.
2. Supply of goods or services or both between related persons or between distinct persons as specified in section 25, when made in the course or furtherance of business.
Provided that gifts not exceeding fifty thousand rupees in value in a financial year by an employer to an employee shall not be treated as supply of goods or services or both.
3. Supply of goods-
 - a. by a principal to his agent where the agent undertakes to supply such goods on behalf of the principal; or
 - b. by an agent to his principal where the agent undertakes to receive such goods on behalf of the principal.
4. Import of services by a person from a related person or from any of his other establishments outside India, in the course or furtherance of business.

Related persons: A person who is under influence of another person is called a related person like members of the same family. The term 'related person' has been defined in explanation to section 15. The said definition has been depicted by way of a diagram as follows:



What should be done in case of Del-credere agent?

A DCA is a selling agent who is engaged by a principal to assist in supply of goods or services by contacting potential buyers on behalf of the principal. The factor that differentiates a DCA from other agents is that the DCA guarantees the payment to the supplier.

There is will same provision for DCA as given in point no 3 above.

How to treat Interest on short term loan given by DCA to recipient.

If DCA is agent under point 3 then such interest will be included in value of supply by principal supplier to buyer otherwise not.

CLARIFICATION ON SALES PROMOTION SCHEMES

Free samples and gifts: Samples which are supplied free of cost, without any consideration, do not qualify as "supply" under GST, except where the activity falls within the ambit of Schedule I of the CGST Act.

Buy one get one free offer: It may appear at first glance that in case of offers like "Buy One, Get One Free", one item is being "supplied free of cost" without any consideration. In fact, it is not an individual supply of free goods, but a case of two or more individual supplies where a single price is Buy one Get one free being charged for the entire supply. It can at best be treated as supplying two goods for the price of one. In this case tax will be charged as per provisions of "composite supply" or "mixed supply".

6. SCHEDULE II - ACTIVITIES OR TRANSACTIONS TO BE TREATED AS SUPPLY OF GOODS OR SUPPLY OF SERVICES

1. Transfer
 - (i) any transfer of the title in goods is a supply of goods;
 - (ii) any transfer of right in goods or of undivided share in goods without the transfer of title thereof, is a supply of services;
 - (iii) any transfer of title in goods under an agreement which stipulates that property in goods shall pass at a future date upon payment of full consideration as agreed, is a supply of goods.
2. Land and Building
 - (i) any lease, tenancy, easement, licence to occupy land is a supply of services;
 - (ii) any lease or letting out of the building including a commercial, industrial or residential complex for business or commerce, either wholly or partly, is a supply of services.
3. Treatment or process - Any treatment or process which is applied to another person's goods is a supply of services.
4. Transfer of business assets
 - (i) where goods forming part of the assets of a business are transferred or disposed of by or under the directions of the person carrying on the business so as no longer to form part of those assets, such transfer or disposal is a supply of goods by the person;
 - (ii) where, by or under the direction of a person carrying on a business, goods held or used for the purposes of the business are put to any private use or are used, or made available to any person for use, for any purpose other than a purpose of the business, the usage or making available of such goods is a supply of services;
 - (iii) where any person ceases to be a taxable person, any goods forming part of the assets of any business carried on by him shall be deemed to be supplied by him in the course or furtherance of his business immediately before he ceases to be a taxable person, unless-
 - (iv) the business is transferred as a going concern to another person; or
 - (v) the business is carried on by a personal representative who is deemed to be a taxable person.
5. Supply of services - The following shall be treated as supply of services, namely: -
 - (i) renting of immovable property;
 - (ii) construction of a complex, building, civil structure or a part thereof, including a complex or building 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.

Explanation. -For the purposes of this clause-

- i. the expression "competent authority" means the Government or any authority authorised to issue completion certificate under any law for the time being in force and in case of non-requirement of such certificate from such authority, from any of the following, namely: -

1. an architect registered with the Council of Architecture constituted under the Architects Act, 1972; (20 of 1972.) or

2. a chartered engineer registered with the Institution of Engineers (India); or
 3. a licensed surveyor of the respective local body of the city or town or village or development or planning authority;
- ii. the expression "construction" includes additions, alterations, replacements or remodelling of any existing civil structure;
- (iii) temporary transfer or permitting the use or enjoyment of any intellectual property right;
 - (iv) development, design, programming, customisation, adaptation, upgradation, enhancement, implementation of information technology software;
 - (v) agreeing to the obligation to refrain from an act, or to tolerate an act or a situation, or to do an act; and
 - (vi) transfer of the right to use any goods for any purpose (whether or not for a specified period) for cash, deferred payment or other valuable consideration.
6. Composite supply
- The following composite supplies shall be treated as a supply of services, namely: -
- (i) works contract as defined in clause (119) of section 2; and
 - (ii) supply, by way of or as part of any service or in any other manner whatsoever, of goods, being food or any other article for human consumption or any drink (other than alcoholic liquor for human consumption), where such supply or service is for cash, deferred payment or other valuable consideration.

CBIC has clarified Taxability of 'tenancy rights' under GST as under:

- ✓ It has been clarified that the activity of transfer of tenancy right against consideration [i.e. tenancy premium] is squarely covered under supply of service liable to GST.
- ✓ The transfer of tenancy rights cannot be treated as sale of land/ building in para 5. of Schedule III. Thus, it is not a negative list activity.

It is important to note that grant of tenancy rights in a residential dwelling for use as residence dwelling against tenancy premium or periodic rent or both is exempt from tax.

Clarification regarding GST applicability on liquidated damages, compensation and penalty arising out of breach of contract or other provisions of law

“Agreeing to the obligation to **refrain** from an act or to **tolerate** an act or a situation, or **to do** an act” has been specifically declared to be a supply of service in Schedule II to the CGST Act, 2017 if the same constitutes a “supply” within the meaning of the CGST Act.

To be classified as supply, there must be an expressed or implied agreement/contract AND consideration must flow in return to this contract/agreement.

Taxability of some of the transactions has been discussed in detail as under:

Liquidated Damages

‘Liquidated Damages’ is generally defined as cash compensation agreed to by a signed, payable to the aggrieved party.

Where the amount paid as 'liquidated damages' is an amount paid only to compensate for injury, loss or damage suffered by the aggrieved party due to breach of the contract and there is no agreement, express or implied, by the aggrieved party receiving the liquidated damages, to refrain from or tolerate an act or to do anything for the party paying the liquidated damages, in such cases liquidated damages are merely a flow of money from the party who causes breach of the contract to the party who suffers loss or damage due to such breach. Such payments do not constitute consideration for a supply and are not taxable.

Examples of such cases are:

- (1) damages resulting from damage to property, negligence, piracy, unauthorized use of trade name, copyright,
- (2) penalty stipulated in a contract for delayed construction of houses,
- (3) forfeiture of earnest money by a seller in case of breach of 'an agreement to sell' an immovable property by the buyer or by Government or local authority in the event of a successful bidder failing to act after winning the bid, for allotment of natural resources.

But, where amounts paid for acceptance of late payment, early termination of lease or for pre-payment of loan or the amounts forfeited on cancellation of service by the customer as contemplated by the contract as part of commercial terms agreed to by the parties, constitute consideration for the supply of a facility, namely, of acceptance of late payment, early termination of a lease agreement, of prepayment of loan and of making arrangements for the intended supply by the tour operator respectively. Therefore, such payments, even though they may be referred to as fine or penalty, are actually payments that amount to consideration for supply, and are subject to GST, in cases where such supply is taxable.

Examples of such transactions are

- (1) A contract may provide that payment by the recipient of goods or services shall be made before a certain date and failure to make payment by the due date shall attract late fee or penalty.
- (2) A contract for transport of passengers may stipulate that the ticket amount shall be partly or wholly forfeited if the passenger does not show up.
- (3) A contract for package tour may stipulate forfeiture of security deposit in the event of cancellation of tour by the customer.

Cheque dishonor fine/ penalty

The fine or penalty that the supplier or a banker imposes, for dishonour of a cheque, is a penalty imposed not for tolerating the act or situation but a fine, or penalty imposed for not tolerating, penalizing and thereby deterring and discouraging such an act or situation. Therefore, cheque dishonor fine or penalty is not a consideration for any service and not taxable.

Penalty imposed for **violation of laws**

Penalty imposed for violation of laws such as traffic violations, or for violation of pollution norms or other laws are also not consideration for any supply received and are not taxable.

Forfeiture of salary or payment of bond amount in the event of the employee leaving the employment before the minimum agreed period
such amounts recovered by the employer are not taxable as consideration for the service of agreeing to tolerate an act or a situation.

Late payment surcharge or fee

The facility of accepting late payments with interest or late payment fee, fine or penalty is a facility granted by supplier naturally bundled with the main supply. Even if this service is described as a service of tolerating the act of late payment, it is an ancillary supply naturally bundled and supplied in conjunction with the principal supply, and therefore should be assessed as the principal supply.

Fixed charges for power

Price for power has two components, namely, a minimum fixed charge (or capacity charge) and variable per unit charge. Both the components of the price, the minimum fixed charges/capacity charges and the variable/energy charges are charged for sale of electricity and are thus not taxable as electricity is exempt from GST.

Cancellation charges

facilitation supply of allowing cancellation of an intended supply against payment of cancellation fee or retention or forfeiture of a part or whole of the consideration or security deposit in such cases should be assessed as the principal supply.

However, forfeiture of earnest money by a seller in case of breach of 'an agreement to sell' an immovable property by the buyer or such forfeiture by Government or local authority in the event of a successful bidder failing to act after winning the bid for allotment of natural resources, is a mere flow of money. Forfeiture of earnest money is stipulated in such cases not as a consideration for tolerating the breach of contract but as a compensation for the losses suffered and as a penalty for discouraging the non-serious buyers or bidders. Such payments being merely flow of money are not a consideration for any supply and are not taxable.

7. SCHEDULE III – NEGATIVE LIST UNDER GST

1. Services by an employee to the employer in the course of or in relation to his employment. It is also clarified that perquisite provided by employer to employee in terms of contractual agreement entered into between the employer and the employee will not be subjected to GST.
2. Services by any court or Tribunal established under any law for the time being in force.
3. (a) the functions performed by the Members of Parliament, Members of State Legislature, Members of Panchayats, Members of Municipalities and Members of other local authorities; (b) the duties performed by any person who holds any post in pursuance of the provisions of the Constitution in that capacity; or (c) the duties performed by any person as a Chairperson or a Member or a Director in a body established by the Central Government or a State Government or local authority and who is not deemed as an employee before the commencement of this clause.
4. Services of funeral, burial, crematorium or mortuary including transportation of the deceased.
5. Sale of land and, subject to clause (b) of paragraph 5 of Schedule II, sale of building.
6. Actionable claims, other than lottery, betting and gambling.
7. Supply of goods from a place in the non-taxable territory to another place in the non-taxable territory without such goods entering into India.
8. (a) Supply of warehoused goods to any person before clearance for home consumption; (b) Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port of origin located outside India but before clearance for home consumption.”;

Explanation 1.- For the purposes of paragraph 2, the term "court" includes District Court, High Court and Supreme Court.

Explanation 2. —For the purposes of paragraph 8, the expression “warehoused goods” shall have the same meaning as assigned to it in the Customs Act, 1962.]

Explanation about Actionable claims.

‘Actionable claims’ are specifically included in the definition of goods and also Schedule III specifically excludes actionable claims, other than lottery, betting and gambling from the ambit of definition of supply. Co-joint reading of said provisions implies that only lottery, betting and gambling are treated as supply. All other actionable claims are outside the ambit of definition of supply.

Some of the other examples of actionable claims are: Right to recover insurance money, claim for arrears of rent, claims for future rents (if these can be assigned), unsecured loans, unsecured debentures, bills of exchange etc.

[Circular No. 116/35/2019 GST dated 11.10.2019]

Levy of GST on the service of display of name or placing of name plates of the donor in the premises of charitable organisations receiving donation or gifts from individual donors

Where the three conditions are satisfied namely the gift or donation is made to a charitable organization, the payment has the character of gift or donation and the purpose is philanthropic (i.e., it leads to no commercial gain) and not advertisement, GST is not leviable.

Explanation about ‘No Claim Bonus’

There is no supply provided by the insured to the insurance company in form of agreeing to the obligation to refrain from the act of lodging insurance claim during the previous year(s) and NCB cannot be considered as a consideration for any supply provided by the insured to the insurance company.

8. ACTIVITIES/TRANSACTIONS NOTIFIED BY THE GOVERNMENT U/S 7(2)(B)

Government is empowered to notify the activities/ transactions undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities as the activities/transactions which shall be treated neither as a supply of goods nor a supply of services. Following notification in this regard has been issued

Notification No. 14/2017 Central Tax - Rate

The services by way of any activity in relation to a function entrusted to a Panchayat under article 243G of the Constitution or to a Municipality under article 243W of the Constitution for the said

Notification No. 25/2019 Central Tax – Rate

Services by way of grant of alcoholic liquor licence, against consideration in form of licence fee or application fee or by whatever name it is called.

This special dispensation applies only to supply of service by way of grant of liquor licenses by the State Governments as an agreement between the Centre and States and has no applicability or precedence value in relation to grant of other licenses and privileges for a fee in other situations, where GST is payable.

FURTHER, CBIC HAS CLARIFIED THAT FOLLOWING ACTIVITIES/TRANSACTIONS ARE NEITHER SUPPLY OF GOODS NOR SUPPLY OF SERVICES.

[Circular No. 1/1/2017 IGST]

Inter-State movement of various modes of conveyance

Inter-State movement of various modes of conveyance, between distinct persons including- Trains, Buses, Trucks, Tankers, Trailers, Vessels, Containers, Aircrafts,

- (a) carrying goods or passengers or both; or
- (b) for repairs and maintenance,

[except in cases where such movement is for further supply of the same conveyance] shall be treated 'neither as a supply of goods or supply of service' and therefore not be leviable to IGST.

Thus, above activity may not be treated as supply and consequently IGST will not be payable on such supply. However, applicable CGST/SGST/IGST, as the case may be, shall be leviable on repairs and maintenance done for such conveyance.

[Circular No. 21/21/2017-GST]

Inter-State movement of rigs, tools and spares, and all goods on wheels [like cranes]

inter-State movement of rigs, tools and spares, and all goods on wheels [like cranes], [except in cases where movement of such goods is for further supply of the same goods], such inter-State movement shall be treated 'neither as a supply of goods or supply of service,' and consequently no IGST would be applicable on such movements. But applicable CGST/SGST/IGST, as the case maybe, is leviable on repairs and maintenance done for such goods

9. COMPOSITE AND MIXED SUPPLIES [SECTION 8]

The tax liability on a 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; and
- b) a **mixed supply** comprising two or more supplies shall be treated as a supply of that particular supply which attracts the highest rate of tax.

LET'S UNDERSTAND COMPOSITE SUPPLY

Composite supply means a supply made by a taxable person to a recipient and:

- ✓ comprises two or more taxable supplies of goods or services or both, or any combination thereof.
- ✓ are naturally bundled and supplied in conjunction with each other, in the ordinary course of business
- ✓ one of which is a principal supply [Section 2(30) of the CGST Act].

This means that in a composite supply, goods or services or both are bundled owing to natural necessities. The elements in a composite supply are dependent on the 'principal supply'.

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.

How to determine whether the services are bundled in the ordinary course of business?

- a) The perception of the consumer or the service recipient
- b) Majority of service providers in a particular area of business provide similar bundle of services.
- c) The nature of the various services in a bundle of services

- d) Other illustrative indicators, like:
- The elements are normally advertised as a package.
 - The different elements are not available separately.
 - The different elements are integral to one overall supply. If one or more is removed, the nature of the supply would be affected.

Note: Composite supply do not depend upon the manner of price charged. Even if the price charged is separate for each goods or services still it shall be treated as composite supply if supply is naturally bundled.

[Circular No. 47/21/2018 GST]

in case of servicing of cars involving supply of both goods (spare parts) and services (labour) where the value of goods and services are shown separately, CBIC has clarified that the goods and services would be liable to tax at the rates as applicable to such goods and services separately.

Further, given below is the illustrative list determining what constitutes the principal supply in the given composite supplies

Transaction	Principal Supply
Supply of printed books, pamphlets, brochures, envelopes, annual reports, leaflets, cartons, boxes etc., printed with design, logo, name, address or other contents supplied by the recipient of such printed goods	In the case of printing of books, pamphlets, brochures, annual reports, and the like, where only content is supplied by the publisher or the person who owns the usage rights to the intangible inputs while the physical inputs including paper used for printing belong to the printer, supply of printing [of the content supplied by the recipient of supply] is the principal supply and therefore such supplies would constitute supply of service.
	In case of supply of printed envelopes, letter cards, printed boxes, tissues, napkins, wall paper etc. by the printer using its physical inputs including paper to print the design, logo etc. supplied by the recipient of goods, predominant supply is supply of goods and the supply of printing of the content [supplied by the recipient of supply] is ancillary to the principal supply of goods and therefore such supplies would constitute supply of goods. [Circular No. 11/11/2017 GST]
Activity of bus body building	The principal supply may be determined on the basis of facts and circumstances of each case [Circular No. 34/8/2018]
Retreading of tyres	Pre-dominant element is process of retreading which is a supply of service. Rubber used for retreading is an ancillary supply. Supply of retreaded tyres, where the old tyres belong to the supplier of retreaded tyres, is a supply of goods [Circular No. 34/8/2018-GST].

LET'S UNDERSTAND MIXED SUPPLY

Mixed supply means:

- two or more individual supplies of goods or services, or any combination thereof, made in conjunction with each other by a taxable person
- for a single price where such supply does not constitute a composite supply

The individual supplies are independent of each other and are not naturally bundled.

How to determine if a particular supply is a mixed supply?

A supply can be a mixed supply only if it is not a composite supply. It can be said that if the transaction consists of supplies not naturally bundled in the ordinary course of business then it would be a mixed supply.

General examples relating to composite supply

1. Where goods are packed and transported with insurance, packing materials, transport and insurance is a composite supply and supply of goods is a principal supply.
2. Supply of laptop and carry case (laptop branded)
3. Supply of equipment and installation of the same
4. Supply of repair services on computer along with requisite parts
5. Supply of health care services along with consumable medicaments
6. Postal services along with warehousing.

General examples of Mixed Supply

1. A supply of a package consisting of canned foods, sweets, chocolates, cakes, dry fruits etc.
2. fruit juices when supplied for a single price is a mixed supply. Each of these items can be supplied separately and is not dependent on any other. It shall not be a mixed supply if these items are supplied separately.
3. Supply of toothpaste and brush
4. Supply of laptop and printer
5. Supply of tuition in a coaching centre and board prescribed text books