

Chapter 8: Composite and Mixed Supplies

SYNOPSIS

8.0 Composite and Mixed Supplies (Section 8 of CGST Act, 2017)	61
8.1 Composite Supply	61
8.2 Mixed supply	61
Multiple Choice Questions (MCQs)	68

8.0 Composite and Mixed Supplies (Section 8 of CGST Act, 2017)

Composite supply is when two or more goods are sold in a combination, it becomes difficult to identify the rate of tax to be levied. For such goods or services, CGST Act, 2017 has provided with two terms:

- (i) Composite supply; and
- (ii) Mixed supply.

Composite supply is similar to the concept of “bundled service” as under service tax laws in the existing regime. Both Composite supply and Mixed supply consist of two or more taxable supplies of goods or services or both but the main difference between the two is that Composite supply is naturally bundled i.e., goods or services are usually provided together in normal course of business and cannot be separated. Whereas in Mixed supply, the goods or services can be sold separately.

8.1 Composite Supply

Composite supply consists of two or more goods/services, which is naturally supplied with each other in the ordinary course of business and one of them is a principal supply. The items cannot be supplied separately.

Note: Principal supply means the supply of goods or services, which constitute the predominant element of a composite supply and to which another supply is ancillary/secondary.

Following two conditions are necessary for composite supply:

- (a) Supply of two or more goods or services together, AND
- (b) It should be a natural bundle and they cannot be separated

Example 1: Booking of Air Tickets which involves cost of the meal to be provided during travel will be Composite supply and tax will be calculated on the principle supply which in this case is transportation passengers through flight.

Example 2: M/s X Ltd. entered into a contract with M/s Y Ltd. for supply of goods. 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.

Example 3: A Five-star hotel provides four days and three-night package, with breakfast. This is a composite supply as the package of accommodation facilities and breakfast is a natural combination in the ordinary course of business for a hotel. In this case, the hotel accommodation is the principal supply, and breakfast is ancillary to the hotel accommodation.

The hotel accommodation attracts 18% tax and the restaurant service attracts 28% tax. As per the example, hotel accommodation is the principal supply, and the entire supply will be taxed at 18%.

Example 4: Mr. Ram being a dealer in laptops. Sold a laptop bag along with the laptop to a customer, for ₹55,000. CGST and SGST for laptop @18% and for laptop bag @28%. What would be the rate of tax leviable? Also find the GST liability.

Answer: If the laptop bag is supplied along with the laptop in the ordinary course of business, the principal supply is that of the laptop and the bag is an ancillary.

Therefore, it is a composite supply and the rate of tax would that as applicable to the laptop.

Hence, applicable rate of GST 18% on ₹55,000.

CGST is ₹4,950 and SGST is ₹4,950

8.2 Mixed supply

In Mixed supply two or more individual supplies combination of goods or services with each other for a single price. Each of these items can be supplied separately and is not dependent on each other. In other words, the combination of goods or services are not bundled due to natural necessities, and they can be supplied individually in the ordinary course of business.

For tax liability purpose, mixed supply consisting of two or more supplies shall be treated as a supply of that item which has the highest tax rate.

Example 1: Diwali gift hamper which consist of different Items like sweets, chocolates, cakes, dry fruits packed in one pack is Mixed supply as these items can be sold separately and it shall be treated as a supply of that particular item which attracts the highest rate of tax.



Example 2: M/s X Ltd. a dealer, offers combo packs of shirt, watch, wallet, book and they are bundled as a kit and this kit is supplied for a single price and the supply of one item does not naturally necessitate the supply of other elements. Hence the supply is a mixed supply. Tax rate for a shirt, watch, wallet and book are 12%, 18%, 5% and Nil respectively. In this case, watch attracts the highest rate of tax in the mixed supply i.e., 18%. Hence, the mixed supply will be taxed at 18%.

Example 3: Mr. A booked a Rajdhani train ticket, which includes meal. Is it composite supply or mixed supply?

Answer: It is a bundle of supplies. It is a composite supply where the products cannot be sold separately. The transportation of passenger is, therefore, the principal supply.

Rate of tax applicable to the principal supply will be charged to the whole composite bundle.

Therefore, rate of GST applicable to transportation of passengers by rail will be charged by IRCTC on the booking of Rajdhani ticket.

Example 4: Big Bazar offers a free bucket with detergent purchased. Is it composite supply or mixed supply? Assume rate of GST for detergent @ 28% and bucket @ 18%.

Answer: This is a mixed supply. These items can be sold separately.

Product which has the higher rate, will apply on the whole mixed bundle.

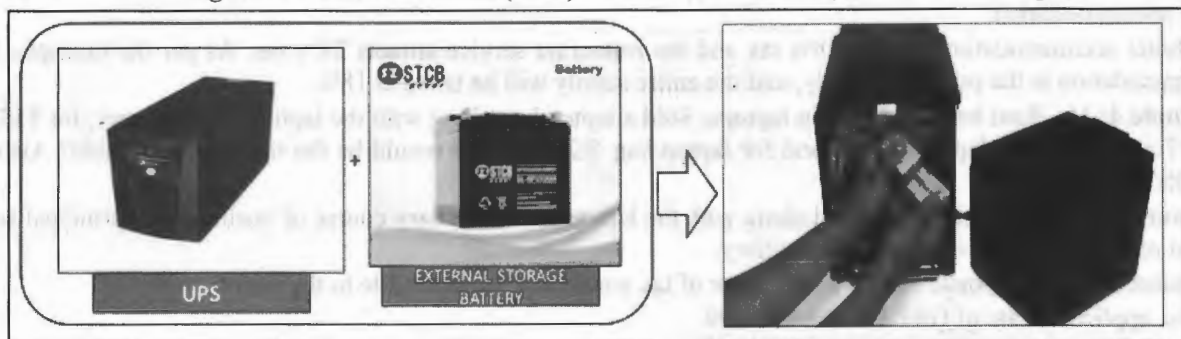
Supply of external storage battery with UPS, constitutes as 'Mixed Supply'

In the case of *Switching Avo Electro Power Ltd.* (2018) 96 taxmann.com 106 (AAAR-West Bengal), the Appellant Authority for Advance Ruling upheld the ruling of Authority for Advance Ruling that when the storage battery or electric accumulator is supplied separately with the static converter (UPS), it would be considered as a mixed supply or not naturally bundled supply.

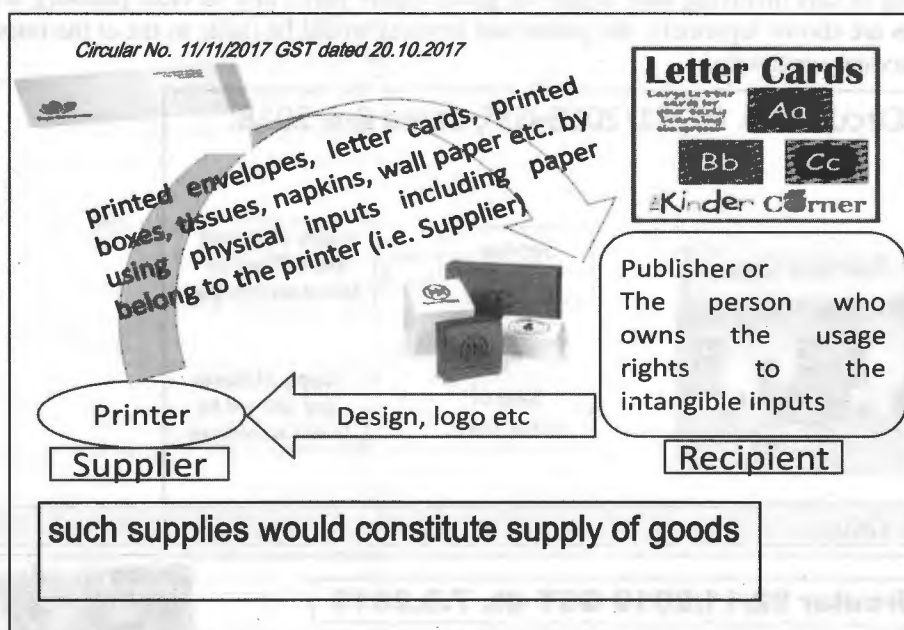
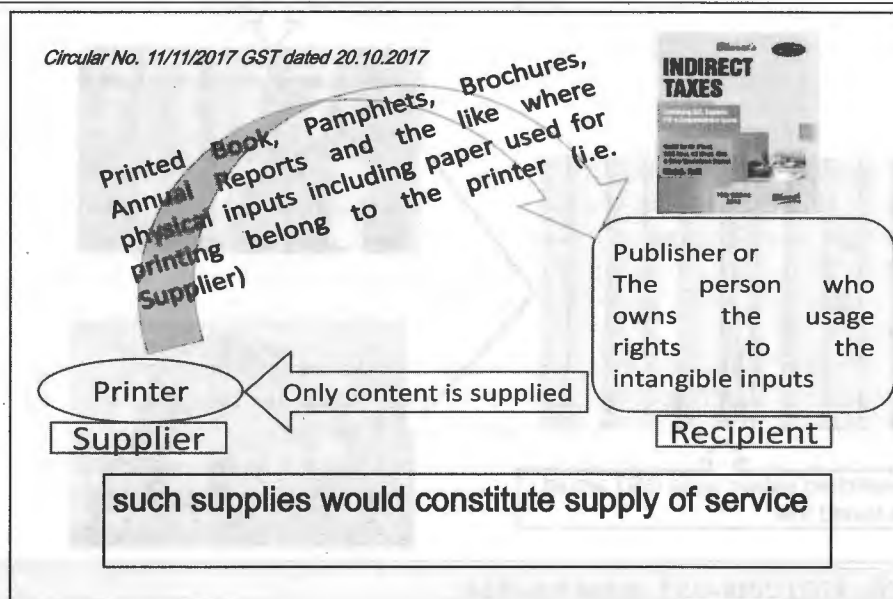
Here the appellant contended that the UPS cannot function without battery as the same is an integral part of UPS and it is naturally bundled and supplied in conjunction with each other, therefore the supply of static converter along with the external battery should be considered as a composite supply and not mixed supply.

However, the AAAR opined that the when a UPS is supplied with built-in batteries in a manner that the supply of the battery is inseparable from the supply of the UPS, and the two items are 'naturally bundled' then it should be treated as a composite supply under Section 2(30) of the CGST Act, but when the storage batteries having multiple uses is supplied with the static converter i.e. UPS, it cannot be said that they are naturally bundled even if the same is supplied under a single contract at a combined single price. **Therefore, the supply of external storage battery supplied with UPS would be considered as a 'mixed supply'.**

Switching Avo Electro Power Ltd. (2018) 96 taxmann.com 106 (AAAR-West Bengal)



Supply of external storage battery with UPS, constitutes as 'Mixed Supply'

CBIC Clarifications:**1. Clarification on taxability of printing contracts:**

Example: “Diligent Force” a professional training institute gets its training material of “Aptitude Quotient” printed from “Durga printing House” a printing press. The content of the material is provided by the Diligent Force who owns the usage rights of the same while the physical inputs including paper used for printing belong to the Durga Printing House.

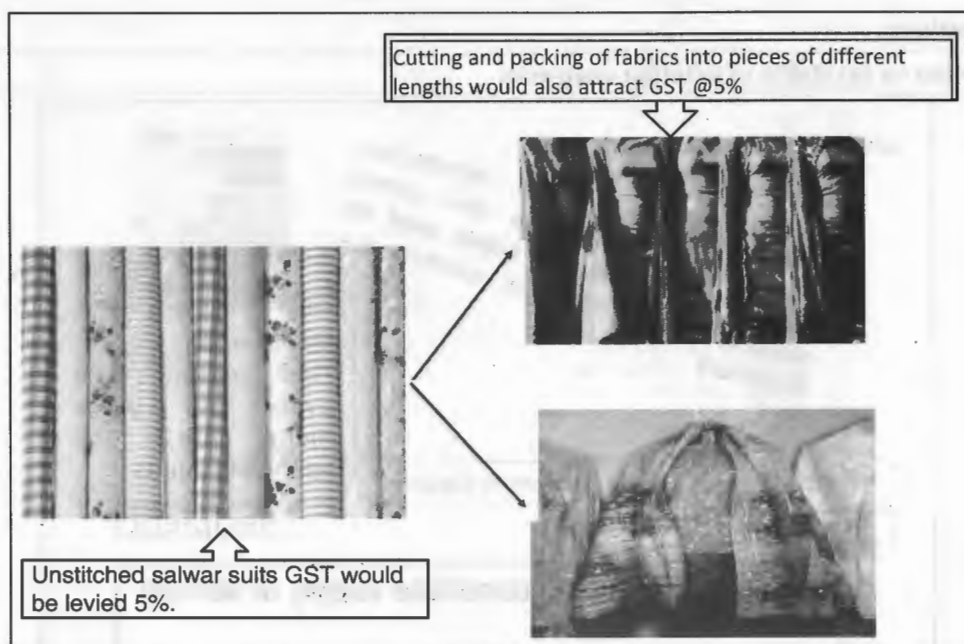
Ascertain whether supply of training material by the Durga Printing House constitutes supply of goods or supply of services.

(CA Final RTP Nov., 2019)

Answer: Durga Printing House made supply of service.

2. Clarification on Unstitched Salwar Suits:

The following GST Circular No. 13/13/2017-GST was issued on 27/10/2017 to clarify the GST rate on unstitched Salwar Suits. Through this GST Circular the GST Department has clarified that the GST rate for unstitched salwar suits would be 5%. Also, cutting and packing of fabrics into pieces of different lengths will not change the nature of goods and the fabric would continue to attract 5% GST rate.


CBIC Circular No. 47/21/2018-GST, dated 8-6-2018:

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

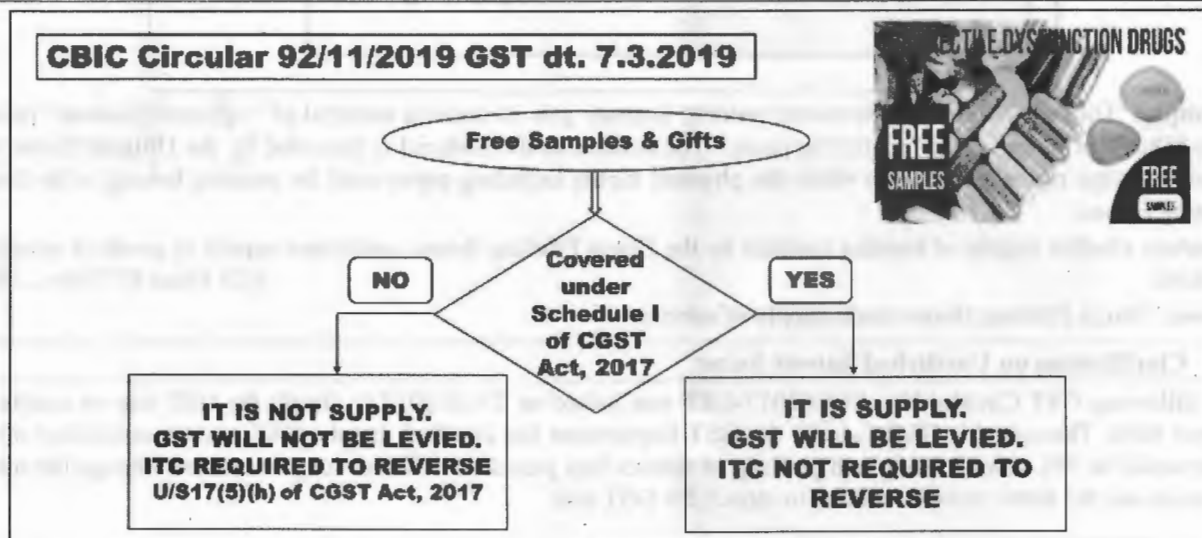
CBIC Circular No. 47/21/2018-GST, dated 8-6-2018:


Service Charges

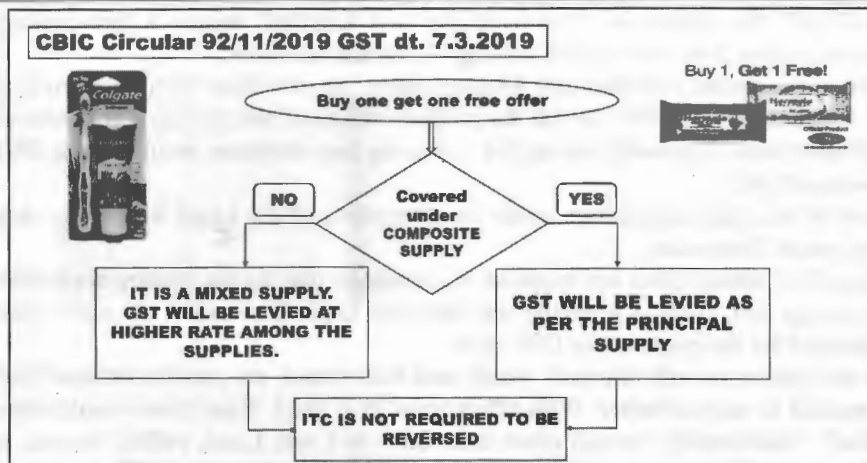
Supply of Service and GST will be levied accordingly

Sale of spare parts

Supply of Goods and GST will be levied accordingly

Free Samples & Gifts:
CBIC Circular 92/11/2019 GST dt. 7.3.2019


Buy one get one free offer



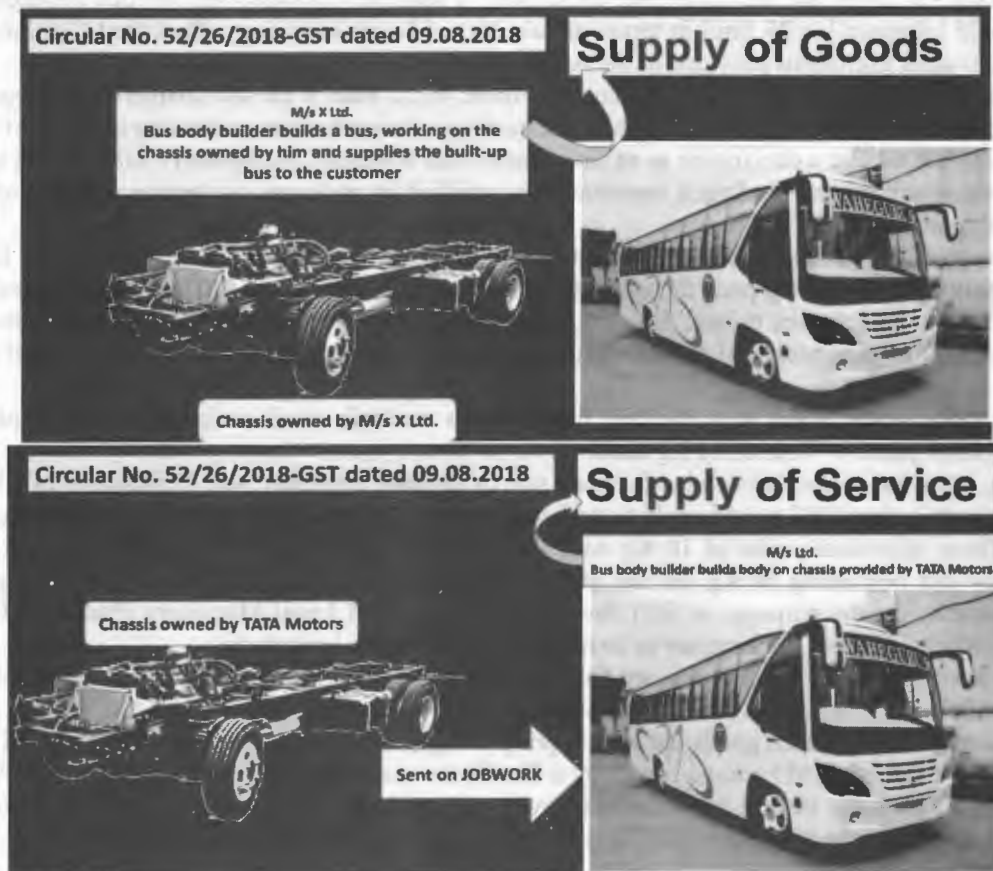
Bus body building activity is a supply of goods or services? As per CBIC Circular No. 52/26/2018-GST, dated 09.08.2018,

Thus, fabrication of buses may involve the following two situations:

- Bus body builder builds a bus, working on the chassis owned by him and supplies the built-up bus to the customer, and charges the customer for the value of the bus.
- Bus body builder builds body on chassis provided by the principal for body building, and charges fabrication charges (including certain material that was consumed during the process of job-work).

In the above context, it is hereby clarified that in case as mentioned (a) above, the supply made is that of bus, and accordingly supply would attract GST @28%.

In the case as mentioned at (b) above, fabrication of body on chassis provided by the principal (not on account of body builder), the supply would merit classification as service, and 18% GST as applicable will be charged accordingly.



GST on 'pre-packaged and labelled' goods w.e.f. 18-07-2022:

For the purposes of GST, the expression 'pre-packaged and labelled' means a 'pre-packaged commodity' as defined in Clause (l) of section 2 of the Legal Metrology Act reads as below:

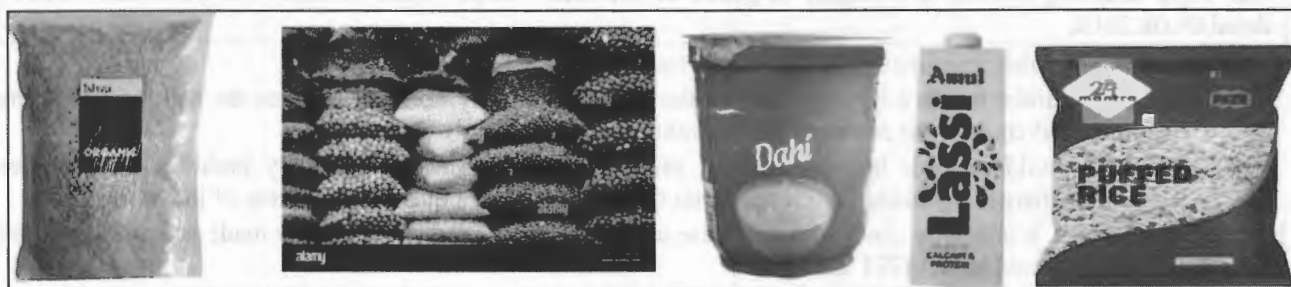
"pre-packaged commodity" means a commodity which without the purchaser being present is placed in a package of whatever nature, whether sealed or not, so that the product contained therein has a pre-determined quantity.

Thus, supply of such specified commodity having the following two attributes would attract GST:

- (i) It is pre-packaged; and
- (ii) It is required to bear the declarations under the provisions of the Legal Metrology Act, 2009 (1 of 2010) and the rules made thereunder.

However, if such specified commodities are supplied in a package that do not require declaration(s)/compliance(s) under the Legal Metrology Act, 2009 (1 of 2010), and the rules made thereunder, the same would not be treated as pre-packaged and labelled for the purposes of GST levy.

For example, items like pulses, cereals like rice, wheat, and flour (aata), etc., earlier attracted GST at the rate of 5% when branded and packed in unit container. With effect from 18.7.2022, these items would attract GST when "pre-packaged and labelled". Additionally, certain other items such as Curd, Lassi, puffed rice etc. when "prepackaged and labelled" would attract GST at the rate of 5% with effect from the 18th July, 2022.



In the context of food items (such as pulses, cereals like rice, wheat, flour etc), the supply of specified pre-packaged food articles would fall within the purview of the definition of 'pre-packaged commodity' under the Legal Metrology Act, 2009, and the rules made thereunder, if such pre-packaged and labelled packages contained a quantity upto 25 kilogram [or 25 litre] in terms of rule 3(a) of Legal Metrology (Packaged Commodities) Rules, 2011, subject to other exclusions provided in the Act and the Rules made thereunder.

For such commodities (food items- pulses, cereals, flour, etc.), rule 3 (a) of Chapter-II of Legal Metrology (Packaged Commodities) Rules, 2011, prescribes that package of commodities containing quantity of more than 25 kg or 25 litre do not require a declaration to be made under rule 6 thereof. Accordingly, GST would apply on such specified goods where the pre-packaged commodity is supplied in packages containing quantity of less than or equal to 25 kilograms.

Example: Supply of pre-packed atta meant for retail sale to ultimate consumer of 25 Kg shall be liable to GST. However, supply of such a 30 Kg pack thereof shall be exempt from levy of GST. Thus, it is clarified that a **single package** of these items [cereals, pulses, flour etc.] containing a quantity of more than 25 Kg/25 litres would not fall in the category of pre- packaged and labelled commodity for the purposes of GST and would therefore not attract GST.

Q1. Whether GST would apply to a package that contains multiple retail packages. For example, a package containing 10 retail packs of flour of 10 Kg each?

Answer: Yes, if several packages intended for retail sale to ultimate consumer, say 10 packages of 10 Kg each, are sold in a larger pack, then GST would apply to such supply. Such package may be sold by a manufacturer through distributor. These individual packs of 10 Kg each are meant for eventual sale to retail consumer. However, a package of say rice containing 50 Kg (in one individual package) would not be considered a pre-packaged and labelled commodity for the purposes of GST levy, even if rule 24 of Legal Metrology (Packaged Commodities) Rules, 2011, mandates certain declarations to be made on such wholesale package.

Q2. Whether tax is payable if such goods are purchased in packages of up to 25 kg/25liters by a retailer, but the retailer sells it in loose quantities in his shop for any reason?

Answer: GST applies when such goods are sold in pre-packaged and labelled packs. Therefore, GST would apply when prepackaged and labelled package is sold by a distributor/ manufacturer to such retailer. However, if for any reason, retailer supplies the item in loose quantity from such package, such supply by retailer is not a supply of packaged commodity for the purpose of GST levy.

Q3. Whether tax is payable if such packaged commodities are supplied for consumption by industrial consumers or institutional consumers?

Answer: Supply of packaged commodity for consumption by industrial consumer or institutional consumer is excluded from the purview of the Legal Metrology Act by virtue of rule 3 (c) of Chapter-II of Legal Metrology (Packaged Commodities) Rules, 2011. Therefore, if supplied in such manner as to attract exclusion provided under the said rule 3(c), it will not be considered as pre-packaged and labelled for the purposes of GST levy.

Example: Pluses/rice is supplied to an industrial consumers or institutional consumers, tax at the rate of 5% will not be charged on same.

As per Legal Metrology Act: **“industrial consumer”** means the consumer who buys packaged commodities directly from the manufacturer or from an importer or from wholesale dealer for use by that industry and the package shall have declaration **‘not for retail sale’**;

“institutional consumer” means the institution which buys packaged commodities bearing a declaration **‘not for retail sale’**, directly from the manufacturer or from an importer or from wholesale dealer for use by that institution and not for commercial or trade purposes;

Hence, exemption w.r.t sale made to industrial consumer shall be available only if: It is a prepackaged commodity Bought directly from manufacturer or from an importer or from wholesale dealer Package shall have a declaration – not for retail sale Vic-a-vic exemption w.r.t sale made to institutional consumer shall be available only if: It is a packaged commodity Package shall have a declaration – not for retail sale Bought directly from manufacturer or from an importer or from wholesale dealer used by that institution and not for commercial or trade purposes;

Q4. ‘X’ is a rice miller who sells packages containing 20 kg rice but not making the required declaration under legal metrology Act and the Rules made thereunder (although the said Act and the rules requires him/her to make a declaration), would it still be considered as pre-packaged and labelled and therefore be liable to GST?

Answer: Yes, such packages would be considered as pre-packaged and labelled commodity for the purposes of GST as it requires making a declaration under the Legal Metrology (Packaged Commodities) Rules, 2011 (rule 6 thereof). Hence, miller ‘X’ would be required to pay GST on supply of such package(s).

Circular No. 164/20/2021-GST, dated 06.10.2021 has clarified that ice-cream parlours do not have the character of restaurants as they sell already manufactured ice-creams. Hence ice cream sold by such parlours or outlets attracts GST @ 18% with ITC (and not 5% without ITC).

A per CBIC Circular No. 177/09/2022-TRU, dated 03.08.2022, the activity of selling of space for advertisement in souvenirs published in the form of books by different institutions/organizations like educational institutions, social, cultural and religious organizations including clubs etc., is eligible for concessional rate of 5%.

Usually in such cases the vehicles such as tippers, dumpers, loader, trucks etc., are given on hire to the mining lease operator. Expenses for fuel are generally borne by the recipient of service.

It has been clarified that renting of trucks and other freight vehicles with driver for a period of time is a service of renting of transport vehicles with operator falling under Heading 9966 and not service of transportation of goods by road. This being so, it is not eligible for exemption under Sl. No. 18 of Notification No. 12/2017-Central Tax (Rate), dated 28.06.2017 (i.e. transport of goods by road). On such rental services of goods carriages where the cost of fuel is included in the consideration charged from the recipient of service, GST rate has been reduced from 18% to 12% with effect from 18.07.2022. Prior to 18.07.2022, it attracted GST at the rate of 18%.

Circular No. 177/09/2022-TRU, dated 3.7.2022, It has been clarified that a contract of the nature described here for construction, installation and commissioning of a dairy plant constitutes a composite supply of works contract. GST prior to 18.7.2022 is 12%. GST w.e.f. 18.7.2022 is 18%

