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The Authority for Advance Ruling (AAR) in Andhra Pradesh has ruled that warehoused duty-free ship stores, which stock goods imported without payment of duty and sell to outbound ships, will be liable to pay the goods and services tax (GST) on supplies made to Indian naval ships, coast guard ships and ocean-going merchant ships.

Experts said some of the orders of the AAR have disrupted the traditional taxation principles. These include a similar ruling by Delhi AAR earlier, which had adjudged that duty-free shops at international airports aren't exempt from the GST.

The reasoning used for both the ruling are similar, as the Andhra Pradesh AAR held that goods received by a warehouse owner are within customs area as defined under the Customs Act, 1962. Accordingly, the ruling said, goods cleared/supplied by such warehouses are to be treated as supply of goods in course of inter-state trade, which are not an exempt supply as per GST Act.

An AAR bench is a quasi-judicial body, whose rulings are applicable only to the petitioner, but could set a precedent for courts and eventually could cover all the similar cases.

As reported by FE earlier, the government has taken cognizance of some of these rulings and acknowledged that they are not based on sound legal principle. To sort this out, the GST Council may amend the law to ensure only senior tax officials with better legal understanding are appointed to these benches.

The council may also approve a central AAR which would adjudicate on matters where similar applications have received different rulings.

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