



**THE AUTHORITY ON ADVANCE RULINGS
IN KARNATAKA
GOODS AND SERVICES TAX
VANIJYA THERIGE KARYALAYA, KALIDASA ROAD
GANDHINAGAR, BENGALURU - 560009**

Advance Ruling No. KAR ADRG 13 / 2019

Date : 16-07-2019

Present:

1. Sri. Harish Dharnia,
Additional Commissioner of Central Tax, Member (Central Tax)
2. Dr. Ravi Prasad M.P.
Joint Commissioner of Commercial Taxes Member (State Tax)

1.	Name and address of the applicant	M/s Toolcomp Systems Private Limited, #14-B, KIADB Industrial Area, 2 nd Phase, Kumbalagodu, Kengeri Hobli, Bangalore - 560 074.
2.	GSTIN or User ID	29AACCT2521L1Z8
3.	Date of filing of Form GST ARA-01	16.10.2018
4.	Represented by	Sri. Shyam Bhat, Managing Director
5.	Jurisdictional Authority - Centre	The Principal Commissioner of Central Tax, Bangalore West Commissionerate, Bangaluru - 560 070 (RANGE-EWD7)
6.	Jurisdictional Authority - State	LGSTO-060, Bengaluru
7.	Whether the payment of fees discharged and if yes, the amount and CIN	Yes, discharged fee of Rs.5,000/- under CGST Act vide CIN SBIN1802900174778, dated 16-10-2018 and Rs 5,000/- under KGST Act vide CIN SBIN18042900390819 dated 25-04-2018

ORDER UNDER SUB-SECTION (4) OF SECTION 98 OF CENTRAL GOODS AND SERVICES TAX ACT, 2017 AND UNDER SUB-SECTION (4) OF SECTION 98 OF KARNATAKA GOODS AND SERVICES TAX ACT, 2017

1. M/s. Toolcomp Systems Private Limited, #14-B, KIADB Industrial Area, 2nd Phase, Kumbalagodu, Kengeri Hobli, Bangalore - 560 074, is a

registered private limited company bearing GSTIN number 29AACCT2521L1Z8, filed an application for Advance Ruling under Section 97 of CGST Act, 2017, KGST Act, 2017 read with Rule 104 of CGST Rules, 2017 & KGST Rules, 2017, in form GST ARA-01 discharging the fee of Rs.5,000/- each under the CGST Act and the KGST Act, 2017.

2. The Applicant is a Private Limited Company, involved in the manufacture and sale of plastic moulds, press tools, Jigs/ Fixtures / Gauges, Injection moulded parts and Design services, as per the specific orders & requirements of their customers. The Injection moulded parts (Tools), as per specific order from customer, are manufactured using plastic Granules as Raw material and using in-house injection moulding machines. The Applicant submits that the Tool is either manufactured by them or supplied by the customers free of cost, for production of 'parts', on returnable basis.

3. The Applicant further submits that the Injection moulds (Tools) supplied by the customers at free of cost basis, for the manufacture of parts, on returnable basis are classified under Capital goods. The mould (Tool) has specific life and can produce only certain volume of total production. Every part produced has incurred a portion of the mould (Tool) cost that appears as Transaction value, if the Tool is provided by the Applicant. In the instant case the customer is supplying the Tool on free of cost basis and hence the applicant is not charging any portion of the cost of the Tool to the customer.

4. In view of the above, the Applicant seeks Advance Ruling on the following question:

Clarification regarding applicability of Tool Amortisation cost (Transaction Value) in GST Regime on Capital Goods received freely on returnable basis from the recipients (Customer) for parts production and supply. This reference particularly where the principal manufacturer provides moulds, dies, jigs and fixtures or tools to the supplier for use in manufacturing process. The details are furnished in a separate write-up and uploaded. The reference on this subject is published in Economic Times dated 28.03.2018 and also uploaded.

PERSONAL HEARING: / PROCEEDINGS HELD ON 28.11.2018.

5. Sri. Shyam Bhat, Managing Director of the Applicant company appeared for personal hearing proceedings on 28.11.2018, before this authority and reiterated the facts narrated in their application. The applicant was requested to submit a copy of the contract with the customer.

FINDINGS & DISCUSSION

6. We have considered the submissions made by the Applicant in their application for advance ruling as well as the submissions made by Sri. Shyam Bhat, Managing Director and authorised representative of the applicant during the personal hearing. We have also considered the issue involved, on which advance ruling is sought by the applicant and relevant facts. In response to the request to submit a copy of the contract with their customer, the applicant submitted a copy of the purchase order having the conditions of supply mentioned therein.

7. The Applicant seeks advance ruling as follows:

Clarification regarding applicability of Tool Amortisation cost (Transaction Value) in GST Regime on Capital Goods received freely on returnable basis from the recipients (Customer) for parts production and supply. This reference particularly where the principal manufacturer provides moulds, dies, jigs and fixtures or tools to the supplier for use in manufacturing process. The details are furnished in a separate write-up and uploaded. The reference on this subject is published in Economic Times dt 28.03.2018 and also uploaded.

8. The applicant submitted a copy of their letter dated 22.08.2017 seeking clarification from the Office of the Commissioner of Commercial Taxes, Bangalore, as to whether GST is applicable on the tool transaction value (Tool Amortisation cost) while supplying the parts to the customer though tool amortization cost is not charged to the customer in the tax invoice. In this letter the applicant further states that they are a Private Limited Company involved in the manufacture and sale of plastic moulds, press tools, Jigs/ Fixtures / Gauges, Injection moulded parts and Design services, as per the specific orders & requirements of their customers. The

Injection moulded parts (Tools), as per specific order from customer, are manufactured using plastic Granules as Raw material and using in-house injection moulding machines. The Applicant submits that the Tool is either manufactured by them or supplied by the customers free of cost, for production of 'parts', on returnable basis. Furthermore, the Injection moulds (Tools) supplied by the customers free of cost basis, for the manufacture of parts, on returnable basis are classified under Capital goods. The mould (Tool) has specific life and can produce only certain volume of total production. Every part produced has incurred a portion of the mould (Tool) cost that appears as Transaction value, if the Tool is provided by the Applicant. In the instant case the customer is supplying the Tool on free of cost basis and hence the applicant is not charging any portion of the cost of the Tool to the customer.

9. In response to the request to the applicant to submit a copy of the contract to examine the nature of supply of tools/dies/moulds etc the applicant submitted a copy of the purchase order placed on them by Tata Autocomp Systems Ltd.. The purchase order has standard terms and conditions of sale. Condition number 32 is relevant to the subject matter. It reads as follows:

32. *"If required shall either supply the tools, patterns or jigs or fixtures required for production of the parts to be supplied under this PO and / or contract or pay for the manufacture of such tools, patterns or jigs or fixtures. Such tools, patterns or jigs or fixtures supplied or paid by the purchaser will always remains the property of the purchaser and the vendor should use the same exclusively for the purchaser parts and maintain the same at vendors cost and will return the same to the purchaser after the completing the supply or as instructed by the purchaser. In case , vendor is adding any amount in the assessable value towards the amortised value of tools supplied by the purchaser, then this amortised value should not be added from 1st july 2017 onwards as from 1st july 2017 onwards the GST need to paid on the transaction value".*

10. This condition is of very generic nature and does not bringforth whether the tools have been supplied free of cost to the applicant or the applicant was required to procure/manufacture. Therefore this condition

stated in the purchase order does not help in anyway in answering the question. We, therefore, resort to examining the particulars given in the application.

11. In serial number 14 of the Application for Advance Ruling (Form GST ARA-01) the applicant has narrated the question. This question is already highlighted in para 7 above. Here the applicant contends that the tool/mould is received free of cost and on returnable basis. This implies that the tool is provided free of cost by Tata Autocomp Systems Ltd., and the applicant is bound to return the same to them after completion of the supply or as instructed. In other words the applicant is not under contract to supply components made by using the tools/moulds belonging to them but the same have been supplied by Tata Autocomp Systems Ltd., on FOC basis.

12. The CBIC in its Circular No 47/21/2018-GST dated 08.06.2018 has clarified that Moulds and dies (Tools) owned by OEM that are provided to a component manufacturer on FOC basis do not constitute a supply as there is no consideration and in such cases, the value of goods provided on FOC basis shall not be added to the value of supply of components. However, in case the contractual obligation is cast upon the component manufacturer to provide moulds/dies but the same have been provided by the OEM on FOC basis, then the amortized cost of the moulds/dies is required to be added to the value of the components supplied.

13. In view of the above it is apparent that the issue raised by the applicant is covered under Issue number 1 and Clarification 1.1 and 1.2 of the Circular No 47/21/2018-GST dated 08.06.2018.

14. It is emphasised that this Ruling is based on examination of the contract / purchase order furnished by the Applicant in the case of their customer M/s Tata Autocomp systems Ltd., (OEM) where the applicant is not under any obligation to use their own tools/moulds for manufacture of the components and the same are supplied to them free of cost and on returnable basis. This ruling will apply to other contracts entered into by the

Applicant if and only if the terms and conditions contained therein are the same as those contained in the contract placed before us.

15. In view of the above, we pass the following

RULING

The cost of the tool/s supplied by the OEM on FOC basis, under the situations discussed in para 11 and 14, to the Applicant is not required to be added to the value of the parts supplied by the Applicant and hence the said value is not liable for GST.


(Harish Dharnia)
Member


(Dr. Ravi Prasad.M.P.)
Member

Place : Bengaluru,
Date : 16.07.2019

To,

The Applicant

Copy to :

The Principal Chief Commissioner of Central Tax, Bangalore Zone,
Karnataka.

The Commissioner of Commercial Taxes, Karnataka, Bengaluru.

The Commissioner of Central Tax, Bangalore South Commissionerate,
Bengaluru.

The Asst. Commissioner, LGSTO-25 A ,Bengaluru.

Office Folder.

