
	KERALA AUTHORITY FOR ADVANCE RULING GOODS AND SERVICES TAX DEPARTMENT TAX TOWER, THIRUVANANTHAPURAM	
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BEFORE THE AUTHORITY OF: *Shri. B.G. Krishnan IRS &*

: Shri. B.S. Thyagarajababu B.Sc, LL.M

Legal Name of the applicant	M/s. Santhosh Distributors
GSTIN	32ABHFS1356H1ZB
Address	XXIX/325, Thiruvathukal, Karapuzha, Kottayam 686003
Advance Ruling sought for	<ol style="list-style-type: none"> i. <i>The applicant is paying the tax due as per the invoice value issued by the applicant and availing the input credit of GST shown in the inward invoice received by the applicant from the Principal Company or their stockist. The tax liability of the applicant for these transactions?</i> ii. <i>Whether the discount provided by the Principal Company to their dealers through the applicant attracts any tax under the GST laws.</i> iii. <i>Whether the amount shown in the Commercial Credit note issued to the applicant by the Principal Company attracts proportionate reversal of input tax credit.</i> iv. <i>Is there any tax liability under GST laws on the applicant for the amount received as reimbursement of discount or rebate provided by the Principal Company as per written agreement between the Principal Company and their dealers / distributors.</i>
Date of Personal Hearing	05.09.2019
Authorized Representative	Adv. K.S. Hariharan.

ADVANCE RULING No. KER/ 60 /2019 Dt,16.09.2019

The applicant is an authorized distributor of M/s.Castrol India Ltd, Mumbai (Principal Company) for the supply of Castrol brand industrial and automotive lubricants. There is a written agreement between Principal and the applicant about the distributorship. The Principal Company is controlling and managing the entire marketing activities of their products. The Principal Company's software is mandatory to all distributors and only through that software any distributor could conduct further supply of the products. The Principal Company is having various rate scheme with dealers. As the Principal Company is having sole control over the billing software, the distributors or dealers can supply any goods of the company only through this software. The Principal Company is issuing invoices at a price to its distributors and the distributors supplying the goods to the dealers issue invoice based on the various rate scheme

pre-fixed by the Principal Company. While the distributor generate invoice to dealers through the software designed by the Principal company, the invoice value of the products will be displayed only with the value after deducting discount as per the pre-fixed rate scheme. The distributor is bound to supply the products to the respective dealers as per the value shown in the invoice. Such discount / rebate will be subsequently reimbursed by the Principal Company as Commercial Credit Notes. In these circumstances the applicant requested advance ruling on the following:

- i) *On the tax liability of the applicant for the transactions mentioned herein and explained as above. The petitioner is paying the tax due as per the invoice value issued by the applicant and availing the input credit of GST shown in the inward invoice received by the applicant from the Principal Company or their stockist.*
- ii) *Whether the discount provided by the Principal Company to their dealers through the applicant as shown in Annexure D attracts any tax under the GST laws.*
- iii) *Whether the amount shown in the Commercial Credit note issued to the applicant by the Principal Company attracts proportionate reversal of input tax credit.*
- iv) *Is there any tax liability under GST laws on the applicant for the amount received as reimbursement of discount or rebate provided by the Principal Company as per written agreement between the Principal Company and their dealers and also an agreement between the principal and distributors.*

The authorized representative was heard. It is pointed out that each products are identifiable with product code and invoice pricing is on the basis of the Master software system being controlled by the Principal Company and the distributors has no control on it. The *modus operandi* of the distribution of products is explained with an example as shown below:

The agent of M/s. Castrol India Ltd, at Palakkad issued an invoice to the applicant for a product with code No. 3380747 MGO OW20 210L with taxable value of Rs.58,083/- and collected 18% GST of Rs.10,455/-. The distributor subsequently raise invoice showing sale value including his margin to Rs.61,152/-. From this value deducted scheme discount/rebate of Rs.31,920/- and taxable value arrived to Rs.29,232/- and collected 18% GST being Rs.5,262/-. The scheme discount provided by the applicant is subsequently reimbursed by the Principal Company by means of Commercial Credit Notes.

The matter was examined in detail. The value of taxable supply is governed by the provisions of Section 15 of the CGST/SGST Act. The deduction of discounts from the value of taxable supply is subject to the conditions prescribed in sub-section (3) of Section 15 *ibid*. In the case of the applicant the supplier of goods / principal company is issuing Commercial Credit Notes for reimbursement of the scheme discount provided by the applicant to the customer as per instructions of the supplier. Since the commercial credit notes issued by the supplier / principal company do not satisfy the conditions prescribed in sub -section (3) of Section 15 of the CGST / SGST Act; the supplier is not eligible to reduce the original tax liability. As the supplier of the goods is not reducing the original tax liability the applicant will be eligible to avail the credit of the tax paid as per the invoice of the supplier subject to payment of the value of supply as reduced by the commercial credit notes plus the amount of original tax charged by the supplier. In other words, the applicant will not be required to reverse proportionate input tax credit.

The additional discount / scheme discount is given by the applicant to the customers as directed by the supplier of goods / principal company and is intended to augment the sales volume by the offer of special discounted price to particular category of customers as identified / determined by the supplier of goods / principal company. As submitted by the applicant; the applicant has no control either on the quantum of scheme discount to be offered or on the category of customers to whom the scheme discounts are to be offered. The discounts so offered as per instructions of the supplier of goods / principal company are completely reimbursed by the supplier of goods / principal company. In the facts of the instant case, the additional discount / reimbursed amount represents the consideration flowing from the supplier

of goods / principal company to the applicant for the supply made by the applicant to the customers. The additional discount / reimbursed amount; is therefore liable to be added to the consideration payable by the customer to the applicant for the purpose of arriving at the value of supply of the applicant to the customer as per provisions of Section 15 of the CGST / SGST Act. Further, the customer, if registered, would only be eligible to claim ITC of the tax charged by the applicant only to the extent of the tax paid by the said customer to the applicant in view of second proviso to section 16(2) of the CGST/SGST Act.

In view of the observations stated above, the following rulings are issued:

- i) *On the tax liability of the applicant for the transactions mentioned herein and explained as above. The applicant is paying the tax due as per the invoice value issued by the applicant and availing the input credit of GST shown in the inward invoice received by the applicant from the Principal Company or their stockist.*

The applicant/distributor is eligible to avail ITC shown in the inward invoice received by him from the supplier of goods / principal company.

- ii) *Whether the discount provided by the Principal Company to their dealers through the applicant as shown in Annexure D attracts any tax under the GST laws.*

It is established from the statement of the applicant that the prices of the products supplied by the applicant is determined by the supplier /principal company and the applicant has no control on the price of the products. Therefore, it is evident that the additional discount given by the supplier through the applicant; which is reimbursed to the applicant is to offer a special reduced price by the distributor / applicant to the customers and hence the amount represent consideration paid by the supplier of goods / principal company to the distributor / applicant for supply of goods by the distributor / applicant to the customer. Therefore, this additional discount reimbursed by the supplier of goods / principal company to the distributor / applicant is liable to be added to the consideration payable by the customer to the distributor / applicant to arrive at the value of supply under Section 15 of the CGST / SGST Act at the hands of the distributor / applicant.

- iii) *Whether the amount shown in the Commercial Credit note issued to the applicant by the Principal Company attracts proportionate reversal of input tax credit.*

The supplier of goods / principal company issuing the commercial credit note is not eligible to reduce his original tax liability and hence the recipient / applicant will not be liable to reverse the ITC attributable to the commercial credit notes received by him from the supplier.

- iv) *Is there any tax liability under GST laws on the applicant for the amount received as reimbursement of discount or rebate provided by the Principal Company as per written agreement between the Principal Company and their dealers and also an agreement between the principal and distributors.*

The applicant is liable to pay GST at the applicable rate on the amount received as reimbursement of discount / rebate from the principal company.



B. G. Krishnan, IRS

Joint Commissioner of Central Tax

Member



B.S. Thyagarajababu, B.Sc, LL.M

Joint Commissioner of State Tax

Member

To

M/s. Santhosh Distributors
XXIX/325, Thiruvathukal,
Karapuzha, Kottayam 686003.

