



**THE AUTHORITY FOR ADVANCE RULINGS  
IN KARNATAKA  
GOODS AND SERVICES TAX  
VANIJYA THERIGE KARYALAYA, KALIDASA ROAD  
GANDHINAGAR, BENGALURU - 560 009**

**Advance Ruling No. KAR ADRG 06 /2022**

**Dated : 08-03-2022**

Present:

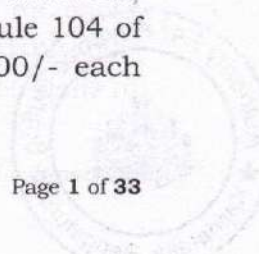
1. Dr.M.P. Ravi Prasad  
Additional Commissioner of Commercial Taxes . . . . Member (State)
2. Sri. T. Kiran Reddy  
Additional Commissioner of Customs & Indirect Taxes . . . .Member (Central)

|    |   |  |
|----|---|--|
| 1. | Name and address of the applicant                                     | M/s. Bharatiya Reserve Bank Note Mudran Private Limited, Note Mudran Nagar, BRBNMPL Township, KRS Road, Metagalli, Mysuru-570 003. |
| 2. | GSTIN or User ID  | 29AAACB8111E1Z1  |
| 3. | Date of filing of Form GST ARA-01                                     | 02-08-2021   |
| 4. | Represented by  | Sri Ganesh Prabhu B, Chartered Accountant & Authorised Representative  |
| 5. | <b>Jurisdictional Authority - Centre</b>                              | The Principal Commissioner of Central Tax, Mysore Commissionerate, Mysuru. (Bannimantap Division, Metagalli Range)                 |
| 6. | Jurisdictional Authority - State                                      | ACCT, LGSTO-200, Mysuru  |
| 7. | Whether the payment of fees discharged and if yes, the amount and CIN | Yes, discharged fee of Rs.5,000/- under CGST Act & Rs.5,000/- under KGST Act vide CIN SBIN21062900153687 dated 23/06/2021.         |

**ORDER UNDER SECTION 98(4) OF THE CGST ACT, 2017  
& UNDER SECTION 98(4) OF THE KGST ACT, 2017**

M/s. Bharatiya Reserve Bank Note Mudran (P) Limited (hereinafter referred to as "the applicant"), Note Mudran Nagar, BRBNMPL Township, KRS Road, Metagalli, Mysuru-570003, having GSTIN 29AAACB8111E1Z1, have filed an application for Advance Ruling under Section 97 of CGST Act, 2017 read with Rule 104 of CGST Rules, 2017 and Section 97 of KGST Act, 2017 read with Rule 104 of KGST Rules, 2017, in form GST ARA-01 discharging the fee of Rs.5,000/- each under the CGST Act and the KGST Act.

# Bharatiya Reserve Bank Note Mudran



2. The Applicant is a Private Limited Company registered under the provisions of Central Goods and Services Tax Act, 2017 as well as Karnataka Goods and Services Tax Act, 2017 (hereinafter referred to as the CGST Act and KGST/SGST Act respectively).The applicant produce bank notes conforming to International Standards set by Central Banking & Monetary Authorities of the world and makes them available in adequate quantities to the Reserve Bank of India at competitive prices.

3. The applicant has sought advance ruling in respect of the following questions:

- a. Whether ITC can be claimed by the applicant on common services such as CISF & Township Security Services, Maintenance of Water Treatment Plant, Horticulture, Maintenance of Residential Quarters, Maintenance of Information System (Computers, Software & Electronic Equipment), Maintenance of Sewage Treatment Plant, etc. which are utilized for both taxable as well as exempted supply of Varnika (IMU) and printing press of rupee note located in Mysuru Unit?
- b. Whether method followed by the applicant in connection with claiming of Input Tax Credit is in accordance with the provisions of law?
- c. Turnover of which financial year to be considered in Rule 42 of the CGST Rules, 2017 while calculating ineligible ITC for the invoices which were accounted in the books of accounts in the FY 2019-20, however ITC was claimed during April to September of FY 2020-21 as per section 16(4) of the CGST Act, 2017?

4. **Admissibility of the application:** The question is about “admissibility of input tax credit of tax paid or deemed to have been paid” and hence the application is admissible under Section 97(2)(d)of the CGST Act 2017.

5. **BRIEF FACTS OF THE CASE:** The applicant furnishes the following facts relevant to the issue:

5.1 The applicant states that the Company was established by the Reserve Bank of India as their wholly owned subsidiary with a view to augmenting the production of bank rupee notes in India to enable the Reserve Bank of India to bridge the gap between the supply and demand for bank notes in the country. The corporate mission of the applicant is to produce bank notes conforming to International Standards set by Central Banking & Monetary Authorities of the world and makes them available in adequate quantities to the Reserve Bank of India at competitive prices. The applicant states that they seek to achieve this mission through its most valued asset, its people, they have also gone in for extensive automation and enterprise resource planning. The applicant states that they have already put in place an effective Quality Management System (QMS) as embodied in the ISO 9001:2015 and also Environmental Management Systems (EMS) ISO 14001:2015 in their company.



5.2 The applicant states that they are registered "Private Limited Company" incorporated under the Companies Act, 2013, having Registered and Corporate Office situated at Bengaluru, Karnataka. They manage two currency printing press units, used to print the rupee note, one at Mysuru, Karnataka having GSTIN 29AAACB8111E1Z1 (hereinafter referred as "Mysuru unit") and the other at Salboni, West Bengal having GSTIN 19AAACB8111E1Z2 (hereinafter referred as "Salboni unit"). The present capacity for both the presses is about 16 billion note pieces per year on a two shift basis. Both the presses have installed the latest "state of the art" technology in bank note printing. The machinery at Mysuru unit has been supplied by M/s.KBANotasys SA, Switzerland and that of Salboni by M/s.Komori Corporation, Japan. Both the presses are equipped with sophisticated Security Surveillance Systems.

5.3 The practice of Reserve Bank of India (RBI) is to issue indent for printing rupee notes at the beginning of financial year, and both Mysuru Unit and Salboni Unit will make their procurement of raw materials based on printing requirement which is allotted by corporate office for the period. The applicant states that they are engaged in outward supply of sale of rupee notes which are printed in the Mysuru Unit and sent to RBI on agreed rate of cost-plus margin basis where the said supply of Rupee Notes to RBI is wholly exempted from levy of GST vide S.No. 117 of Notification No. 2/2017 of Central Tax (Rate) and S.No. 117 of Notification No. 2/2017 of Integrated Tax (Rate).

5.4 The applicant states that the Mysuru unit, in addition to the printing press unit, has an exclusive Ink Manufacturing Unit called as "Varnika" (hereinafter referred to as "Varnika (IMU)") engaged in manufacturing of ink which is used for printing of rupee notes. The ink manufactured by the Varnika (IMU), is captively consumed by the Mysuru unit for printing of rupee note as well as the said ink is also transferred to Salboni unit, the branch of the company located in West Bengal for printing of rupee note. Further, the manufactured ink by the Varnika (IMU) is also sold to M/s. Security Printing and Minting Corporation of India Ltd (hereinafter referred to as 'SPMCIL'). The ink transferred by the applicant from the Mysuru unit to Salboni unit, being a "supply of goods between distinct person" as per Entry No. 2 of Schedule I of the CGST Act, 2017, so the applicant clears the goods from the Mysuru unit to the Salboni unit being a taxable supply under GST after discharging the applicable rate of tax.

In addition to the above, the applicant is also in receipt of following other income such as renting of immovable property, being factory land, to M/s Bank Note Paper Mill India Private Limited (hereinafter referred as BNPMIPL, which is a Joint Venture Company of applicant and SPMCIL), recovery of expenses in connection with usage of sewage treatment plant by BNPMIPL paper mill, sale of scrap generated in Mysuru unit, Interest on Fixed Deposit and Profit on redemption of Mutual Fund. Further, on demand basis inventory items such as Raw Materials, spares, consumables and packing materials are transferred as stock from Mysuru unit to the Salboni unit. However, for the purpose of GST as per Entry No.2 of Schedule I of the CGST Act, 2017 the said transfer will be considered as "supply of



goods between distinct persons”, and the applicant clears the goods from the Mysuru unit to the Salboni unit being a taxable supply under GST after discharging the applicable rate of tax.

#### 5.5 Input Tax Credit available for the Applicant: -

The applicant is in receipt of following inward supply of goods or services which are used for manufacturing the rupee note and ink. As per the policy and decision of the company, the company maintains separate books of accounts for Varnika (IMU) and separate books of accounts for printing press in Mysuru Unit.

As per the books of accounts of Varnika (IMU) following are the raw material which are used for manufacturing ink such as varnish, solvent, pigment, additives, dryers and other chemicals including packing materials, spares, consumables, services in connection with repairs and maintenance of plant used for manufacturing ink.

The Applicant has also entered into an agreement with a UK based company, for transfer of technical know-how in connection with manufacturing of Ink. As per the said agreement, the applicant pays a minimum royalty fee plus additional or variable royalty at a specified percentage on the total quantity of ink produced multiplied by the cost of production of ink. Accordingly, the company has paid IGST on the said “Import of Services” under reverse charge mechanism (RCM) as a recipient of service and claims Input Tax Credit.

As per the books of accounts of printing press following are the inward supplies used for manufacturing of rupee note such as paper, spares, consumables, packing materials, services in connection with repairs and maintenance of printing plant and many other expenses incurred in printing press. As the inward supplies are used exclusively for manufacturing of rupee note which is an “exempted supply”, the applicant has not claimed or availed the input tax credit in the aforesaid inward supplies.

On all the inventory items such as raw materials, spares, consumables and packing materials which are transferred to Salboni unit by the applicant, the applicant has claimed input tax credit, on the relevant inward supply of goods to the extent such items which are transferred, being a taxable outward supply.

5.6 In addition to the above inward supply, following are facilities which are shared in common by the Varnika (IMU) and printing press in Mysuru Unit such as (i) CISF & Township Security Services, (ii) Maintenance of Water Treatment Plant (WTP), (iii) Horticulture, (iv) Maintenance of Residential Quarters, (v) Maintenance of information system (Computers, software and electronic equipment) (vi) Maintenance of Sewage Treatment Plant (STP), etc. As the above mentioned facilities are used by both manufacturing of ink and rupee note, and the residential quarters in the township are used by the employees of Varnika (IMU) and printing press in Mysuru Unit.



- (i) CISF (Central Industrial Security Force): CISF is engaged by applicant for the safety and security of Mysuru unit as it is a highly sensitive place. The Mysuru unit consists of printing press, Varnika (IMU) and residential township for employees & CISF. The entire area of Printing Press, Varnika (IMU) and township are guarded by CISF for any threats. The applicant is having an MOU with Ministry of Home affairs for CISF services and applicable GST is paid under RCM by the applicant.
- (ii) Township Security Services: - A private security agency is engaged to guard the day today activities inside the township residential place. They are engaged to manage and control the activities like guarding of residential area, movement of outside vehicles and persons, etc. in the township and applicable GST is paid under RCM by the applicant.
- (iii) Maintenance of Water Treatment Plant: Source of water for company is from Kaveri River, which is treated further at water treatment plant and the water is used for Printing Press, Varnika (IMU) and residential area, the Operations and Maintenance of WTP including necessary manpower is outsourced by the applicant.
- (iv) Horticulture: Mysuru unit is spread around in 337 acre of land, the applicant is maintaining the entire area of land including landscaping, gardening etc. through outsourced manpower.
- (v) Maintenance of Residential Quarters: The applicant has provided accommodation to its employees within the township in the residential quarters. The day to day repair and maintenance like civil, electrical work of the township are managed through an outsourced agency by way of an annual maintenance contract.
- (vi) Maintenance of Information System: Maintenance of information system and networking of the applicant company is carried out through an outsourced agency by way of an annual maintenance contract.
- (vii) Maintenance of Sewage Treatment Plant: Waste water generated in the printing press, Varnika (IMU), residential area and BNPMIPL paper mill are treated in sewage treatment plant and used for gardening purpose, the Operations and Management of STP including necessary manpower is outsourced by the applicant.

The applicant states that they have proportionately claimed input tax credit on the above-mentioned inward supply of goods or services or both which are used in connection with manufacturing of ink and rupee note as the said common facilities are used for both taxable and exempted supply, they have reversed ITC to the extent of exempted supply. They have claimed the proportionate credit to the extent of taxable supply.



5.7 Input Tax Credit availed by the Applicant:

As the ink manufactured in the Varnika (IMU) is captively consumed at Mysuru unit, plus transferred to Salboni unit, being a taxable supply under GST after discharging tax on such supply at applicable rate as per Schedule I of the CGST Act, 2017 and the said ink manufactured by Varnika (IMU) is also sold to SPMCIL, on the said inward supplies of goods or services which are used for both taxable supply and exempted supply, the applicant has proportionately reversed input tax credit on the above mentioned inward supply of goods or services which are used in connection with manufacturing of rupee note to the extent of exempted supply. In other words, to the extent of taxable supply of goods being supply of ink, scrap sale, renting of factory land to BNPMIPL paper mill, the applicant is entitled to claim ITC proportionately.

5.8 Method of Determination & Reversal of Proportionate ITC: -

The applicant, as per Section 17(2) & 17(6) of the CGST Act, 2017 read along with Rule 42 of CGST Rules, 2017, has reversed common credit of ITC proportionately towards outward supply which is leviable to tax. The details of Turnover and ITC calculation for the F.Y 2019-20 of Mysuru Unit is tabulated below:

| <b>GST TURNOVER DETAILS (F.Y 2019-20)</b>                       |                                 |                                    |                       |
|---|---------------------------------|------------------------------------|-----------------------|
| <b>Exempted Supply<br/>(Bank Note)</b>                          | <b>Taxable Supply<br/>(Ink)</b> | <b>Taxable Supply<br/>(Others)</b> | <b>Total Turnover</b> |
| Rs.1338,94,66,801/-   | Rs.266,89,79,350/-              | Rs.4,60,89,265/-                   | Rs.1610,45,35,416/-   |
| Value of Taxable Supply as per Sec 17(2) of the CGST Act, 2017  |                                 |                                    | Rs.271,50,68,615/-    |
| Value of Exempted Supply as per Sec 17(2) of the CGST Act, 2017 |                                 |                                    | Rs.1338,94,66,801/-   |

As per Rule 42 of the CGST Rules, 2017 the "Value of Exempted Supply" will be denoted as "E" and the "Value of Total Turnover within the State (GSTIN)" will be denoted as "F" which includes Value of Exempted Supply plus Value of Taxable Supply effected during the year by the applicant, the summation of such supply amounts to Rs.1610,45,35,416/-.

As the applicant maintains separate books of account for Varnika (IMU) and for Printing Press which manufacture rupee note, the ITC claimed by them were also determined separately as per Rule 42 of the CGST Rules, 2017.

As per the books of accounts of Varnika (IMU), the applicant has claimed ITC on the following inputs which are used for manufacturing ink such as varnish, solvent, pigment, additives, dryers and other chemicals including packing materials, spares, consumables which are procured from both indigenous and import market and input services which are used in connection with repairs and



maintenance of ink manufacturing plant, including inward supply of services on which tax is payable under RCM.

| ITC Calculation for Varnika (IMU) for the F.Y 2019-20 |                     |                   |   |                                   |  |
|---|---------------------|-------------------|---|-----------------------------------|--|
| Particulars of Input Tax Credit                       | Total ITC Available | ITC 100% eligible | Common Credit (C = A-B) Proportionately | Ineligible ITC as per Rule 42 (D) | Eligible ITC for F.Y 19-20 (E = B + C - D) |
|   | (A)                 | (B)               | (C)                                     | (D)                               | (E)  |
| CGST  | 12,28,608           | 1,10,738          | 11,17,870                               | 9,29,408                          | 2,99,200                                   |
| SGST  | 12,28,608           | 1,10,738          | 11,17,870                               | 9,29,408                          | 2,99,200                                   |
| IGST  | 68,47,643           | -                 | 68,47,643                               | 56,93,197                         | 11,54,446                                  |
| Import of Goods IGST                                  | 42,49,32,370        | -                 | 42,49,32,370                            | 35,32,92,890                      | 7,16,39,480                                |
| Import of Service IGST                                | 22,24,840           | -                 | 22,24,840                               | 18,49,753                         | 3,75,086                                   |

|                     |                     |                 |                     |                     |                    |
|---------------------|---------------------|-----------------|---------------------|---------------------|--------------------|
| RCM - CGST          | 53,052              | 7,723           | 45,329              | 37,687              | 15,365             |
| RCM - SGST          | 53,052              | 7,723           | 45,329              | 37,687              | 15,365             |
| RCM - IGST          | 4,10,035            | -               | 4,10,035            | 3,40,907            | 69,128             |
| <b>Subtotal (A)</b> | <b>43,69,78,209</b> | <b>2,36,923</b> | <b>43,67,41,286</b> | <b>36,31,10,938</b> | <b>7,38,67,272</b> |

Where,

**(A)** - Total input tax credit availed on goods and services which are used during the year by the applicant on account of manufacturing of ink in Varnika (IMU). As per Rule 42 this will be denoted as "T".

**(B)** - Input Tax Credit availed on goods or services which are exclusively used for further supply to Salboni Unit as Outward Taxable Supply from Varnika (IMU) such as raw materials, packing materials, spares or consumables and forwarding charges of ink to SPMCIL. As per Rule 42 this will be denoted as "T4".

**(C)** - Common credit attributable towards both taxable supply of ink to Salboni Unit and SPMCIL as well as ink which is captively consumed in Mysuru Unit and further used for manufacture of bank note being exempted supply. The same is determined as **[C = (A - B)]**. As per Rule 42 this will be denoted as "C2".

**(D)** - ITC which need to be reversed by the applicant is determined based on Rule 42 of CGST Rules, 2017 which is Value of Exempted Supply divided by Value of Total Turnover in the State multiplied by Common Credit determined as per **(C)**. As per Rule 42 the Value of Exempted Supply will be denoted as "E", Value of Total Turnover will be denoted as "F", and the ITC to be reversed will be determined as D1. Which is determine as follows  $D1 = (E / F * C2)$



(E) – Input Tax Credit which is eligible and claimable by the applicant, will be ITC on goods or services which are exclusively used for taxable supply which is denoted as (B) and Proportionate ITC on common credit which are used for taxable supply, which is determined as a balancing figure after reversal of ITC as per Rule 42 of the CGST Rules, 2017.

**Note: - As a policy the applicant is not availing credit which are used exclusively for exempted supply which will be denoted as (T2) and similarly the applicant is not availing any credit which is blocked for availment as per Section 17(5) of the CGST Act, which will be denoted as (T3). Similarly, the applicant is not engaged in any activity other than business. Hence the need of the other variables as per Rule 42 of the CGST Rules is not warranted.**

As per the books of accounts of Printing Press unit, the applicant has claimed ITC only on the inputs which are stock transferred as inventory item such as raw materials, spares, consumables and packing materials to Salboni Unit (*the other unit of the applicant located in West Bengal*) and on input services which are common facilities being shared between the printing press unit and IMU in Mysuru Unit such as CISF & Township Security Services, Maintenance of Water Treatment Plant, Horticulture, Maintenance of Residential Quarters, Maintenance of information system (Computers, software and electronic equipment), Maintenance of Sewage Treatment Plant, etc. including inward supply of services on which tax payable under RCM.

The applicant has stated that they have not availed any ITC on inputs, input services or capital goods which are exclusively used for *Exempted Supply or Other than Business purposes*. The applicant has not claimed any ITC on Goods or Services which are blocked for availment as per Section 17(5) of the CGST Act, 2017.

| ITC Calculation for Press & Varnika (IMU) for the F.Y 2019-20 |                         |                       |   |                                   |  |
|---|-------------------------|-----------------------|---|-----------------------------------|--|
| Particulars Of ITC  | Total ITC available (A) | ITC 100% eligible (B) | Common Credit (C = A-B) [Proportionately] | Ineligible ITC as per rule 42 (D) | Eligible ITC for F.Y 19-20 (E = B + C - D) |
| CGST  | 43,20,969               | -                     | 43,20,969                                 | 35,92,495                         | 7,28,474                                   |
| SGST  | 43,20,969               | -                     | 43,20,969                                 | 35,92,495                         | 7,28,474                                   |
| IGST  | 8,77,345                | 3,96,647              | 4,80,698                                  | 3,99,657                          | 4,77,688                                   |
| RCM CGST  | 1,06,85,035             | -                     | 1,06,85,035                               | 88,83,642                         | 18,01,393                                  |
| RCM SGST  | 1,06,85,035             | -                     | 1,06,85,035                               | 88,83,642                         | 18,01,393                                  |
| RCM IGST  | 3,10,80,512             | -                     | 3,10,80,512                               | 2,58,40,639                       | 52,39,873                                  |
| <b>Subtotal (B)</b>   | <b>6,19,69,865</b>      | <b>3,96,647</b>       | <b>6,15,73,218</b>                        | <b>5,11,92,570</b>                | <b>1,07,77,295</b>                         |
| <b>Total (A+B)</b>  | <b>49,89,48,074</b>     | <b>6,33,570</b>       | <b>49,83,14,504</b>                       | <b>41,43,03,508</b>               | <b>8,46,44,567</b>                         |





Where,

(A) – Total input tax credit availed on goods and services which are used during the year by the applicant which are commonly used for both manufacturing of ink in Varnika(IMU) as well as manufacturing of rupee note in the Printing Press. As per Rule 42 this will be denoted as “T”.

(B) - Input Tax Credit availed on goods or services which are exclusively used for further supply to Salboni Unit as Outward Taxable Supply from Printing Press or Varnika (IMU) such as raw materials, packing materials, spares or consumables, including forward transportation charges of ink to SPMCIL. As per Rule 42 this will be denoted as “T4”.

(C) – Common credit of ITC attributable towards both taxable supply of ink to Salboni Unit and SPMCIL as well as ink which is captively consumed in Mysuru Unit and further used for manufacture of rupee note being exempted supply. The same is determined as  $[C = (A - B)]$ . As per Rule 42 this will be denoted as “C2”.

(D) – ITC which need to be reversed by the applicant is determined based on Rule 42 of the CGST Rules, 2017 which is Value of Exempted Supply divided by Value of Total Turnover in the State multiplied by Common Credit determined as per (C). As per Rule 42 the Value of Exempted Supply will be denoted as “E”, Value of Total Turnover will be denoted as “F”, and the ITC to be reversed will be determined as D1. Which is determine as follows  $D1 = (E / F * C2)$

(E) – Input Tax Credit which is eligible and claimable by the applicant, will be ITC on goods or services which are exclusively used for taxable supply which is denoted as (B) and Proportionate ITC on common credit which are used for taxable supply, which is determined as a balancing figure after reversal of ITC as per Rule 42 of the CGST Rules, 2017.

**Note: - As a policy the applicant is not availing credit which are used exclusively for exempted supply which will be denoted as (T2) and similarly the applicant is not availing any credit which is blocked for availment as per Section 17(5) of the CGST Act, which will be denoted as (T3). Similarly, the applicant is not engaged in any activity other than business. Hence the need of the other variables as per Rule 42 of the CGST Rules is not warranted.**

As explained and tabulated above, the applicant has maintained two separate books of accounts for the purpose of Varnika (IMU) separately and similarly for the Printing Press separately in the Mysuru Unit and availed ITC based on above calculation as per Rule 42 of the CGST Rules, 2017 amounting to Rs.8,46,44,567/- for the F.Y 2019-20. Similarly, the applicant has not availed any ITC on Inputs, Input Service, Capital Goods which are exclusively used for Exempted Supply or ITC on Blocked or In-eligible Credit as per Section 17(5) of the CGST Act, 2017 apart from the above the applicant has also reversed a proportionate ITC amounting to Rs.41,43,03,508/- which are commonly used for



both taxable and exempted supply during FY 2019-20 as per Rule 42 of the CGST Rules, 2017.

#### 5.9 Belated claim of ITC & Reversal of ITC:

The applicant has claimed the ITC pertaining to previous financial year in subsequent financial year within the time prescribed as per Section 16(4) of the CGST Act, 2017. During the financial year 2019-20, on goods or services which the applicant is eligible to claim ITC, was omitted to be considered and claimed as ITC during FY 2019-20.

The said claim of ITC was claimed by the applicant in the return filed during the Financial Year 2020-21 up to September 2020 return filing due date or filing of Annual Return, whichever is earlier as per Section 16(4) of the CGST Act, 2017. While computing reversal of ITC as per Section 17(2) & 17(6) of the CGST Act, 2017 read with Rule 42 of the CGST Rules, 2017 as the ITC on inputs and input services claimed by the applicant is used for both taxable supply and exempted supply and the ITC claimed relates to FY 2019-20 the "Value of Exempted Supply 'E' and Value of Total Turnover of State (GSTIN) 'F' in the formula as per Rule 42 of *ibid.*," was considered as the turnover relating to the financial year 2019-20.

No doubt the claim of ITC was made by the applicant in the return filed by the applicant during the FY 2020-21 up to September 2020, as the ITC related to credit availed by the applicant belongs to FY 2019-20. The value of Exempted Supply and Value of Total Turnover of the State of FY 2019-20 was considered in the formulas as per Rule 42 of *ibid.*, by the applicant.

#### 6. Applicant's Interpretation of Law:

6.1 The Applicant has stated that they are engaged in the business of manufacture and supply of rupee notes, the rupee notes are printed at the Printing Press of the Mysuru Unit of the applicant and sold to RBI, the said supply of rupee notes to RBI is wholly exempted from levy of GST, as per the Government of India, in the Ministry of Finance (Department of Revenue), Notification No.2/2017-Central Tax (Rate), dated the 28th June, 2017, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R. 674(E), dated the 28th June, 2017 which specified, vide S.No.117, that the supply of Rupee Note to RBI is wholly exempted from levy of GST.

6.2 As per Section 2(47) of the CGST Act, 2017 "Exempt supply means supply of any goods or services or both which attracts nil rate of tax or which may be wholly exempt from tax under section 11, or under section 6 of the Integrated Goods and Services Tax Act 2017, and includes non-taxable supply."

6.3 As per definition it includes, Supplies exempt under Section 11 of the CGST Act or under Section 6 of the IGST Act, will be considered as Exempted Supply and Supply which attract nil rate of tax, where the goods or services are liable to Nil



rate of tax and non-taxable supply are activities or transaction notified by Government which are covered under Section 7(2)(b) of the CGST Act, 2017 read along with Schedule III of the CGST Act, 2017 the transactions which are neither considered as supply of goods nor supply of services. The activities described therein will not be chargeable to GST. Hence, they will be considered as a non-taxable supply. In the case of the applicant the said activity of supplying rupee note to RBI will be considered as "Exempted Supply".

6.4 The applicant in Mysuru unit also has an ink manufacturing facility called as Varnika (IMU) under the same GSTIN which is engaged in manufacturing of ink, the said ink manufactured in Varnika (IMU) is captively consumed by the Printing Press Unit in Mysuru unit towards printing of rupee note as well as the said ink manufactured by Varnika (IMU) is also transferred to the Salboni Unit for the purpose of printing rupee notes. In addition, the Mysuru unit also transfers inventory items occasionally on case to case basis such as raw materials and packing materials to Salboni unit, both the units are considered as distinct person as per Section 25(4) of the CGST Act, 2017. Such transfer of ink and inventories between branches located in two different states is considered as a supply between distinct person and liable for levy of GST as it is a "supply of goods between distinct person" as per Section 7(1)(c) read along with Entry No.2 of Schedule I of the CGST Act, 2017, hence the applicant clear such goods from the Mysuru unit to Salboni unit being a taxable supply under GST after discharging applicable rate of tax.

6.5 As per Section 7 of the CGST Act, "(1) For the purposes of this Act, the expression "supply" includes- (a) 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. (b) import of services for a consideration whether or not in the course or furtherance of business; (c) the activities specified in Schedule I, made or agreed to be made without a consideration." (Emphasis Supplied)

6.6 As per Schedule I to the CGST Act 2017, following activities to be treated as Supply even if made without consideration: -

- 1) ...
- 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: (Emphasis Supplied)
- 3) ...
- 4) ...

6.7 The concept of 'Distinct Person' has been discussed in Section 25(4) and 25(5) of the CGST Act, 2017 the term 'Distinct Person' means if the person has obtained or is required to obtain more than one registration (whether in one State / Union Territory or more than one State / Union Territory) then each such registration shall be treated as 'distinct person' and any supply of goods or services even without consideration in the course or furtherance of business will be considered as supply.



6.8 As per Section 25 (4) & (5) of the CGST Act, 2017 which reads as follows

“(4) A person who has obtained or is required to obtain more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as distinct persons for the purposes of this Act.

“(5) Where a person who has obtained or is required to obtain registration in a State or Union territory in respect of an establishment, has an establishment in another State or Union territory, then such establishments shall be treated as establishments of distinct persons for the purposes of this Act ...”

6.9 Similarly, the said Ink manufactured by Varnika (IMU) is also sold to ‘SPMCIL’ which is a supply as per Section 7(1)(a) of the CGST Act, as mentioned above and the applicant has discharged necessary tax liability at applicable rate being a taxable supply under GST on both such activities or transactions which are leviable to GST.

6.10 The applicant is in receipt of inward supply of goods and services in connection with manufacture of ink and rupee note in Mysuru unit. The applicant claims ITC on inward supply of goods and services in accordance with Section 16 of the CGST Act, 2017. The provision is reproduced below for reference;

“16. (1) Every registered person shall, subject to such conditions and restrictions as may be prescribed and in the manner specified in section 49, be entitled to take credit of input tax charged on any supply of goods or services or both to him which are used or intended to be used in the course or furtherance of his business and the said amount shall be credited to the electronic credit ledger of such person.

(2) Notwithstanding anything contained in this section, no registered person shall be entitled to the credit of any input tax in respect of any supply of goods or services or both to him unless, -

(a) he is in possession of a tax invoice or debit note issued by a supplier registered under this Act, or such other tax paying documents as may be prescribed;

(b) he has received the goods or services or both.

Explanation. - For the purposes of this clause, it shall be deemed that the registered person has received the goods or, as the case may be, services—

(i) where the goods are delivered by the supplier to a recipient or any other person on the direction of such registered person, whether acting



as an agent or otherwise, before or during movement of goods, either by way of transfer of documents of title to goods or otherwise;

(ii) where the services are provided by the supplier to any person on the direction of and on account of such registered person.

(c) subject to the provisions of section 41 or section 43A, the tax charged in respect of such supply has been actually paid to the Government, either in cash or through utilisation of input tax credit admissible in respect of the said supply; and

(d) he has furnished the return under section 39:

Provided that where the goods against an invoice are received in lots or instalments, the registered person shall be entitled to take credit upon receipt of the last lot or instalment:

Provided further that where a recipient fails to pay to the supplier of goods or services or both, other than the supplies on which tax is payable on reverse charge basis, the amount towards the value of supply along with tax payable thereon within a period of one hundred and eighty days from the date of issue of invoice by the supplier, an amount equal to the input tax credit availed by the recipient shall be added to his output tax liability, along with interest thereon, in such manner as may be prescribed:

Provided also that the recipient shall be entitled to avail of the credit of input tax on payment made by him of the amount towards the value of supply of goods or services or both along with tax payable thereon.

(3) .....

(4) A registered person shall not be entitled to take input tax credit in respect of any invoice or debit note for supply of goods or services or both after the due date of furnishing of the return under section 39 for the month of September following the end of financial year to which such invoice or debit note pertains or furnishing of the relevant annual return, whichever is earlier.”

As per Section 16 of the CGST Act, it is clear that ITC would be available on fulfillment of the following conditions:

On perusal of Section 16 of the CGST Act, the goods or services supplied should be used by the applicant being the registered person it must be used or intended to use them in the course or furtherance of his business.

6.4.1 Condition for availment of ITC:

The registered person should be in possession of tax invoice.



- ii. The said goods or services must have been received.
- iii. Returns must have been filed under Section 39 of CGST Act, 2017.
- iv. Subject to the provisions of Sec 41, the tax charged in respect of supply has been actually paid to the government.

Even though the applicant is maintaining separate books of accounts for Varnika (IMU) and printing press unit, they need to be looked as one business, which constituent a whole business for the purposes of availment of ITC, as the units belongs to a single GSTIN. In other words, both printing press unit and Varnika (IMU) together constitute the business of the applicant. As per the eligibility criteria mentioned above ITC on inputs and inputs services can be availed by the registered person if the said goods or services are used or intended to be used, in the course or furtherance of his business.

6.12 As per Section 16(1) of *ibid.*, one of the key ingredients to take ITC is the registered person should have used or intended to use goods or services in the course or furtherance of his business. The word 'business' is defined under sub-section (17) of Section 2 of *ibid.*, as follows:

- (17) "business" includes (a) any trade, commerce, manufacture, profession, vocation, adventure, wager or any other similar activity, whether or not it is for a pecuniary benefit;
- (b) Any activity or transaction in connection with or incidental or ancillary to sub-clause (a);
- (c) Any activity or transaction in the nature of sub clause (a), whether or not there is volume, frequency, continuity or regularity of such transaction;
- (d) Supply or acquisition of goods including capital goods and services in connection with commencement or closure of business;
- (e) 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;
- (f) Admission, for a consideration, of persons to any premises;
- (g) 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;
- (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
- (i) Any activity or transaction undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities;(Emphasis Supplied)

Analysis of the above definition, makes it clear that any activity or transaction in connection with or incidental to or ancillary to trade, commerce,



manufacture or profession, the said activity will be considered as business, irrespective of the activity or transaction in the nature of trade, commerce, manufacture or profession whether or not there is volume, frequency, continuity or regularity of such transaction. The term 'business' has been defined so widely, which includes any activity or transaction in connection with business.

The word 'business' has been extremely widely defined, further in Section 16(1) of *ibid.*, it is preceded by the words "in the course or furtherance of", its import can be known through the following cases:

In the case of **State of Tamil Nadu Vs Board of Trustees of the Port of Madras** (1999) 4 SCC 630, it was observed as follows:

15. ...This itself shows that the Legislature has recognized that the word 'business' is wider than the words 'trade, commerce or manufacture, etc.' The word 'business' though extensively used is a word of indefinite import. In taxing statutes, it is normally used in the sense of an occupation, a profession - which occupies time, attention and labour of a person, normally with a profit motive and there must be a course of dealings, either actually continued or contemplated to be continued with a profit motive and not for sport or pleasure - *State of AP Vs H. Abdul Bakhi & Bros AIR 1965 SC 531*. Even if such profit motive is statutorily excluded from the definition of 'business', yet the person could be doing 'business'.

16. The words "carrying on business" require something more than merely selling or buying, etc. Whether a person 'carries a business' in a particular commodity must depend upon the volume, frequency, continuity and regularity of transactions of purchase and sale in a class of goods and the transactions must ordinarily be entered into with a profit motive - *Board of Revenue Vs AM Ansari (1976) 3 SCC 512*. Such profit motive may, however, be statutorily excluded from the definition of 'business' but still the person may be "carrying on business".

6.13 The applicant is of the view that if the main activity was not 'business', then the connected, incidental or ancillary activities of sales would not normally amount to 'business' unless an independent intention to conduct 'business' in these connected, incidental or ancillary activities is established by the revenue. It will then be necessary to find out whether the transactions which are connected, incidental or ancillary are only an infinitesimal or small part of the main activities. In other words, the presumption will be that these connected, incidental or ancillary activities of sale are not 'business' and the onus of proof of an independent intention to do 'business' in these connected, incidental and ancillary sales will rest on the department. If these connected, incidental or ancillary transactions are so large as to render the main activity infinitesimal or very small, then the case would fall under the first category referred to earlier.

6.14 In case of *CST Vs Sai Publication Fund (2002) 258 ITR 70 (SC)*, the assessee trust was created with sole object to spread message of Sai Baba. In furtherance of



and to accomplish the said object, the assessee published books, pamphlets and other literatures containing the message of Sai Baba which were available to the devotees of Sai Baba at cost price. The sale proceeds of such publications went to the trust and formed part of the property of the trust to be used for advancement of the objects of the trust. The Revenue held that the activity of publications and sale of books, etc, amounted to 'business'. Relying on the case of Board of Trustees of the Port of Madras (supra), the court observed as follows:

*... It was clear from the trust deed and objects contained therein that it was not established with an intention of carrying on the business/occupation of selling or supplying goods. That being the position, it could not be said that the trust carried on the business of selling and supplying goods so as to fall within the meaning of 'dealer' under section 2(11). ...*

6.15 The definition of 'business' given in section 2(5A) even without profit motive is wide enough to include any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture and any transaction in connection with or incidental or ancillary to the commencement or closure of such trade, commerce, manufacture, adventure or concern. If the main activity is not business, then any transaction incidental or ancillary would not normally amount to 'business' unless an independent intention to carry on 'business' in the incidental or ancillary activity is established.

6.16 As had been stated above, the main and dominant activity of the trust in furtherance of its object was to spread message. Hence, such activity did not amount to 'business'. Publication for the purpose of spreading message was incidental to the main activity which the trust did not carry as business.

6.17 In case of Commissioner of Gift Tax Vs P. Gheevarghese, Travancore Timbers and Products (1972) 4 SCC 323, while explaining the meaning of the phrase "in the course of business" in the context of Gift Tax Act, 1958, it was observed that the phrase "in the course of carrying on of business" means that the gift should have some relationship with the carrying on of the business. There should be some integral connection or relation between the making of the gift and the carrying on of the business.

6.18 In case of Safdarjung Hospital Vs Kuldip Singh Sethi (1970) 1 SCC 735, it was held that to infer, from a course of transactions that it is intended thereby to carry on business, ordinarily there must exist the characteristics of volume, frequency, continuity and system indicating an intention to continue the activity of carrying on the transactions for a profit. But no single test or group of tests is decisive of the intention to carry on the business.

6.19 The term 'furtherance' is defined in "The Law Lexicon - The Encyclopaedic Law Dictionary - 4th Edition" as in the Oxford English Dictionary the word furtherance is defined as action of helping forward. Adopting this definition, Russel says that 'it indicates some kind of aid or assistance producing an effect in future' and adds that any act may be regarded as done in furtherance of the ultimate felony if it is a step intentionally taken, for the purpose of 'effecting the felony'.





Russel on Crime 12th Edn. Vol. 1, PP. 487 & 488 as referred in Parasa Raja Manikyala Rao v. State of A.P., JT 2003 (Supp-2) SC 474 : 2003 (8) Scale 677 : (2003) 12 SCC 306. [IPC (45 of 1860), S. 34]

6.20 The word 'furtherance' means advancement or promotion. Shankarlal Kacharabhai v. State of Gujarat, AIR 1965 SC 1260 Act of furthering, helping forward, promotion, advancement, or progress. Maryland Casualty Co. v. Smith Tex. Civ. App., 40 S.W. 2d 913, 914

6.21 The term 'in the course' is defined in "The Law Lexicon - The Encyclopaedic Law Dictionary - 4th Edition" as the expression "in the course" implies not only a period of time during which the movement is in progress but postulates a connected relation. Sale in the course of export out of the territory out of India means sale taking place not only during the activities directed to the end of exportation of the goods out of the country but also as part of or connected with such activity. Mohd. Serajuddin v. State of Orissa, AIR 1975 SC 1564. See also Member, Board of Revenues V. Swaika Oil Mills, AIR 1977 SC 2008.

6.22 The word 'course' conveys the idea of a gradual and continuous flow, and advance, a journey, a passage or progress from one place to another. Etymologically, it means and implies motion, a forward movement. State of Travancore Cochin v. Shanmugha Vilas Casheanut Factory, AIR 1953 SC 333, 346. [Art. 286(1)(b), Constitution of India]

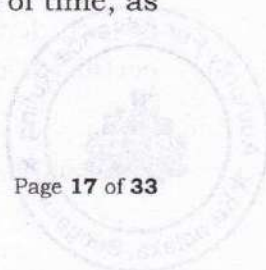
6.23 In the course of means 'during' the winding up. Jadunath Roy. V. Bank of Calcutta Ltd., AIR 1952 Cal 506. [Banking Companies Act, 1949, S. 45A & 45-B]

The Expression "in the course of" in Art 286(1)(b) postulates that the transaction of sale must be an integral part of the activity of exporting the goods out of the country. Mahadeo Ram Bali Ram v. The State of Bihar, AIR 1959 Pat 30.

6.24 The term 'in the course of business' is defined in "The Law Lexicon - The Encyclopaedic Law Dictionary - 4th Edition" In the course of business means in the way that business (which may be of a purely private or trivial nature) is conducted. Md. Yusuf v. D., AIR 1968 Bom 112. [India Evidence Act (1 of 1872), S. 32(2)]

The expression "in the course of business" in Section 32(2) of the Indian Evidence Act (1 of 1872), means in the way that business (which may be of a purely private or even trivial nature) is conducted. It has no connection with a course of business, which suggests a series of acts of business; the section would therefore apply to an act or of acts of a simple and private nature. (167 IC 30: 44 LW 681: AIR 1937 Mad 19)

6.25 In case of Regional Director, ESI Corporation Vs Francis De Costa (1996) 6 SCC 1, relying on that The Concise Oxford Dictionary, New Seventh Edition, it was observed that the phrase "in the course of" means "during (in the course of time, as time goes by), while doing".



6.26 International Jurisprudence: - The Australian Concise Oxford Dictionary (1997) defines the phrase 'in the course of' as 'during' and the word 'furtherance' as to mean 'furthering or being furthered; the advancement of a scheme etc.' In fact, the Explanatory Memorandum relating to the A New Tax System (Goods and Services Tax) Bill 1998 (Australian GST) confirms this ordinary meaning at paragraph 3.10 which states: 'In the course or furtherance' is not defined, but is broad enough to cover any supplies made in connection with your enterprise. An act done for the purpose or object of furthering an enterprise, or achieving its goals, is a furtherance of an enterprise although it may not always be in the course of that enterprise.

Therefore, by applying the ratio of above decisions and the terms explained, the term 'in the course or furtherance of his business', is defined widely in the above context, it can be understood that common facilities which are shared between the printing press unit and IMU in Mysuru Unit such as (i) CISF & Township Security Services, (ii) Maintenance of Water Treatment Plant, (iii) Horticulture, (iv) Maintenance of Residential Quarters, (v) Maintenance of information system (Computers, software and electronic equipment) (vi) Maintenance of Sewage Treatment Plant, etc. would be entitled as eligible ITC as they are used in the course or furtherance of business of both Varnika (IMU) and Printing Press unit.

6.27 As far as residential quarters in the township is concerned, the following precedents show that credit of input taxes on common inputs and input services used therein can be claimed by the assessee.

6.28 In Reliance Industries Ltd Vs Commissioner of Central Excise and Service Tax (LTU) 2016 (42) STR 457 (Tri-Mum), it was held that cenvat credit on input services such as construction services, repairs and maintenance services, security services, manpower recruitment services and works contract services used in residential colony of employees attached with factory must be allowed as factories are located in remote areas and for smooth running of business, residential colony for employees necessary near factory. It was settled law that if value of input services is included in the assessable value on which central excise duty was discharged on finished goods, they would constitute input services for allowing credit. In this case, a Cost Accountant certificate was produced by the appellant indicating that expenses on aforesaid services were included in costing of finished goods, thus forming a part of assessable value of finished goods. Thus, it was held that the aforesaid services relate to business activity only.

6.29 In Commissioner of Central Excise Vs Reliance Industries Ltd 2018 (15) GSTL 366 (Tri-Mum), it was held that it is a settled proposition that credit of tax paid on those inputs services cannot be denied whose cost included in assessable value of manufactured goods. Instant case, undisputedly cost of insurance of plant and machinery, inputs, other goods and factory building and residential township is included in valuation of final product on which Excise duty is paid in terms of certificate of Cost Accountant.



6.30 In Ultratech Cement Ltd Vs Commissioner of Central Excise & Service Tax 2018 (13) GSTL 160 (Tri-Del), security services deployed at residential colony located outside manufacturing area but near to it, to ensure availability of competent workers/personnel to run factory round the clock. It was held that such residential colony is an industrial township which the assessee requires for availability of workers for manufacture of dutiable goods. It was also held that security services are essential in order to maintain residential / industrial colony. Consequently, the credit in dispute in the said case was allowed.

6.31 In Commissioner of Central Excise Vs Ultratech Cement Ltd 2009 (13) STR 694 (Tri-Mum), it was held that Security Agency service used in residential colony of manufacturer would be an input service and credit thereon could be claimed. Further, relying on the case of Manikgarh Cement Vs Commissioner of Central Excise & Customs 2008 (9) STR 554 (Tri-Mum), it was held that credit in respect of management, maintenance or repair of residential colonies would also be admissible as presence of workmen on the spot required to maintain continuity in manufacture and thus, the said services relate to business of the appellant.

6.32 In GHL Ltd Vs Commissioner of Central Excise 2009 (16) STR 588 (Tri-Ahmd), relying on Manikgarh Cement case (supra), it was held that Security Agency service used in relation to residential colony of appellants, which is in the proximity to their factory was an input services and the appellants entitled to avail credit of tax paid on security services utilized for residential purposes. The same was again held in another case of the same appellant as reported in 2009 (16) STR 89 (Tri-Ahmd).

6.33 In ITC Ltd Vs Commissioner of Central Excise 2010 (17) STR 146 (Tri-Bang), credit of service tax availed on services used for maintenance of staff colony would be eligible and consequently security agency, labour supply, advertising, repair and maintenance, rent-a-cab, manpower recruitment and business auxiliary services were considered input services for which credit would be availed. It was held that manufacture would not be feasible if residential accommodation for employees not provided near factory and the appellant-assessee was under an obligation to maintain such colony. The Tribunal further held that services like lawn mowing, garbage cleaning, maintenance of swimming pool, collection of household garbage, harvest cutting, weeding, etc are also input services and credit would be eligible thereon. This case was also upheld by the High Court of Andhra Pradesh as reported in 2013 (32) STR 288 (AP). The High Court observed that staff colony provided by assessee being directly and intrinsically linked to its manufacturing activity could not be excluded from consideration and services such as lawn mowing, garbage cleaning, maintenance of swimming pool, collection of household garbage, harvest cutting, weeding, etc were crucial for maintaining the staff colony. Thus, they formed "input services" falling under Rule 2(l) of Cenvat Credit Rules, 2004.

6.34 In Commissioner of Central Excise Vs Gail India Ltd 2017 (52) STR 50 (Tri-All), security services received at assessee's residential colony/township



constructed for providing residence to employees was held qualify as input service under Rule 2(l) of Cenvat Credit Rules, 2004 being service utilized by manufacturer in relation to manufacture of dutiable output. It was observed that residential colony/township located at remote place, where no municipal services available and thus the township was set up to ensure trained manpower available to run plant for production of dutiable product.

7. In this context the applicant believes and understands that the common services are not blocked under Section 17(5) of the CGST Act. Further, in view of the wide connotations of the word 'course' and 'furtherance' occurring in the phrase "in the course or furtherance of business" in Section 16(1) of *ibid.*, as noted above, it can be said that ITC on common services used by Varnika (IMU) and Printing Press Unit in connection with CISF & Township Security Services, Maintenance of Water Treatment Plant, Horticulture, Maintenance of Residential Quarters, Maintenance of information system (Computers, software and electronic equipment), Maintenance of Sewage Treatment Plant, etc. would be eligible and entitled to be claimed as Input Tax Credit. As the applicant is engaged in both taxable and exempted supply, excluding ITC on inputs or input services which are used for other than non-business purposes or exempted outward supply or blocked credits, the applicant is of the view that the balance credit available as per Rule 42 of the CGST Rules, 2017 can be claimed by the applicant.

7.1 As per Section 16 & 17 of the CGST Act, the applicant is entitled to claim ITC. As the applicant's nature of business is being engaged in both Taxable and Exempted Supply, the claim of ITC in case of Common Credit will be restricted to Taxable Supply as per Sec 17(2) & 17(6) of the CGST Act, 2017 r.a.w Rule 42 of the CGST Rules, 2017.

7.2 The Mysuru units, Varnika (IMU) finished goods being ink, is stock transferred as such to Salboni unit, and sold to SPMCIL and the remaining quantity of Ink so manufactured has been used by the Mysuru unit for printing of rupee note in Mysuru Unit, supply of such rupee note being exempt from levy of GST. The activity of inter-unit transfers by the Varnika (IMU) to printing press for manufacture of rupee note division, which is captively consumed within the Mysuru unit, finally used for printing of bank notes, is also exempted from levy of GST.

7.3 As per Sec 16(1) of the CGST Act, 2017, every registered person is eligible to claim ITC subject to such conditions and restrictions, on any supply of goods or services provided such goods or services are used or intended to be used in the course or furtherance of business. The provision is reproduced below for reference;

*"(1) Every registered person shall, subject to such conditions and restrictions as may be prescribed and in the manner specified in section 49, be entitled to take credit of input tax charged on any supply of goods or services or both to him which are used or intended to be used in the course or furtherance of his business and the said amount shall be credited to the electronic credit ledger of such person."* (Emphasis Supplied)



7.4 The provisions relating to apportionment of credit and blocked credit, specifically block ITC in case where goods or service received by a registered person is used for purpose of business or other than business and when goods or services used for both Taxable and Exempted Supply, as per sub-section (2) of Section 17 of the CGST Act, 2017, the amount of credit shall be restricted to so much of input tax which is attributable to the said taxable supply in the manner prescribed. The provision is reproduced as below:

“(1) Where the goods or services or both are used by the registered person partly for the purpose of any business and partly for other purposes, the amount of credit shall be restricted to so much of the input tax as is attributable to the purposes of his business.

(2) Where the goods or services or both are used by the registered person partly for effecting taxable supplies including zero-rated supplies under this Act or under the Integrated Goods and Services Tax Act and partly for effecting exempt supplies under the said Acts, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies.

(3)...

(6) The Government may prescribe the manner in which the credit referred to in sub-sections (1) and (2) may be attributed.” (Emphasis Supplied)

7.5 The analysis of above provisions makes it clear that ITC shall be restricted on inputs and input services, which are used by Varnika (IMU) of Mysuru units towards manufacturing of Ink for printing of rupee notes and the same is also further supplied as such by the Mysuru unit to its branch and others. As the unit is engaged in both taxable and exempted supply, the unit will be liable to reverse ITC proportionate to exempted supply for the GSTIN, in other words, the applicant is of view, the unit will be eligible to avail ITC proportionate to taxable supply for the GSTIN in the manner prescribed as per Rule 42 of the CGST Rule 2017. The applicant, as a policy, has not availed any ITC on Capital Goods & hence applicability of Rule 43 of the CGST Rules, 2017 is not warranted. The provisions of Rule 42 of the CGST Rules, 2017 reproduced below:

“42. Manner of determination of input tax credit in respect of inputs or input services and reversal thereof: -

(1) The input tax credit in respect of inputs or input services, which attract the provisions of sub-section (1) or sub-section (2) of section 17, being partly used for the purposes of business and partly for other purposes, or partly used for effecting taxable supplies including zero rated supplies and partly for effecting exempt supplies, shall be attributed to the purposes of business or for effecting taxable supplies in the following manner, namely, -

(a) the total input tax involved on inputs and input services in a tax period, be denoted as ‘T’;



- (b) the amount of input tax, out of 'T', attributable to inputs and input services intended to be used exclusively for the purposes other than business, be denoted as 'T1';
- (c) the amount of input tax, out of 'T', attributable to inputs and input services intended to be used exclusively for effecting exempt supplies, be denoted as 'T2';
- (d) the amount of input tax, out of 'T', in respect of inputs and input services on which credit is not available under sub-section (5) of section 17, be denoted as 'T3';
- (e) the amount of input tax credit credited to the electronic credit ledger of registered person, be denoted as 'C1' and calculated as-  $C1 = T - (T1+T2+T3)$ ;
- (f) the amount of input tax credit attributable to inputs and input services intended to be used exclusively for effecting supplies other than exempted but including zero rated supplies, be denoted as 'T4';
- (g) 'T1', 'T2', 'T3' and 'T4' shall be determined and declared by the registered person at the invoice level in FORM GSTR-2 3 and at summary level in FORM GSTR-3B;
- (h) input tax credit left after attribution of input tax credit under clause (f) shall be called common credit, be denoted as 'C2' and calculated as-  $C2 = C1 - T4$ ;
- (i) the amount of input tax credit attributable towards exempt supplies, be denoted as 'D1' and calculated as-  $D1 = (E/F) \times C2$   
'E' is the aggregate value of exempt supplies during the tax period,

and

'F' is the total turnover in the State of the registered person during the tax period

- (j) the amount of credit attributable to non-business purposes if common inputs and input services are used partly for business and partly for non-business purposes, be denoted as 'D2', and shall be equal to five per cent. of C2; and
- (k) the remainder of the common credit shall be the eligible input tax credit attributed to the purposes of business and for effecting supplies other than exempted supplies but including zero rated supplies and shall be denoted as 'C3', where, -  $C3 = C2 - (D1+D2)$
- (l) the amount "C3" "D1" and „D2" shall be computed separately for input tax credit of central tax, State tax, Union territory tax and integrated tax and declared in FORM GSTR-3B or through FORM GST DRC-03;
- (m) the amount equal to aggregate of 'D1' and 'D2' shall be reversed by the registered person in FORM GSTR-3B or through FORM GST DRC-03:

*Provided that where the amount of input tax relating to inputs or input services used partly for the purposes other than business and partly for effecting exempt supplies has been identified and segregated at the invoice level by the registered*



person, the same shall be included in 'T1' and 'T2' respectively, and the remaining amount of credit on such inputs or input services shall be included in 'T4'.

(2) Except in case of supply of services covered by clause (b) of paragraph 5 of the Schedule II of the Act, the input tax credit determined under sub-rule (1) shall be calculated finally for the financial year before the due date for furnishing of the return for the month of September following the end of the financial year to which such credit relates, in the manner specified in the said sub-rule and-

- a. where the aggregate of the amounts calculated finally in respect of 'D1' and 'D2' exceeds the aggregate of the amounts determined under sub-rule (1) in respect of 'D1' and 'D2', such excess shall be reversed by the registered person in FORM GSTR-3B or through FORM GST DRC-03 in the month not later than the month of September following the end of the financial year to which such credit relates and the said person shall be liable to pay interest on the said excess amount at the rate specified in sub-section (1) of section 50 for the period starting from the first day of April of the succeeding financial year till the date of payment; or
- b. where the aggregate of the amounts determined under sub-rule (1) in respect of 'D1' and 'D2' exceeds the aggregate of the amounts calculated finally in respect of 'D1' and 'D2', such excess amount shall be claimed as credit by the registered person in his return for a month not later than the month of September following the end of the financial year to which such credit relates. ....”(Emphasis Supplied)

7.6 Analysis of above rule, makes it clear that amount of ITC proportionately needs to be reversed by the Mysuru Unit as per the above-mentioned formula prescribed under Rule 42 of *ibid.*, as there are various variables, that are used in the formula, such variables are tabulated below for a quick reference;

| Variable | Formula          | Particulars   |
|----------|------------------|---|
| T        | -                | Total input tax credit claimed in a tax period on Inputs and Input Services by the applicant which are used for both manufacture of ink and rupee note.                     |
| T1       | -                | Inputs and Input Services used or intended to be used exclusively for the purpose other than business by the applicant  |
| T2       | -                | Inputs and Input Services used or intended to be used exclusively for exempted supplies, being manufacture of rupee note by the applicant                                   |
| T3       | -                | Inputs and Input Services which are Blocked as per Section 17(5)  |
| C1       | $T - (T1+T2+T3)$ | ITC Credited to electronic credit ledger of company   |
|          | -                | Inputs and Input Services used or intended to be used exclusively for other than exempted supplies but including zero rated supply by the applicant. In other words, Inputs |



|       |              |   |
|-------|--------------|---|
|       |              | used exclusively for supply of inventory items being taxable supplies.  |
| C2    | C1 - T4      | Common Credit taken by the applicant  |
| D1    | E/F * C2     | ITC attributable towards exempted supplies of goods which need to be reversed by the applicant  |
| E     |              | Aggregate value of exempt supplies during a tax period  |
| F     |              | Total turnover in the state during the tax period   |
| D2    | C2 * 5%      | Ineligible input tax credit for non-business purposes, if the common inputs and input services are used for business and partly for non-business purposes                     |
| D1+D2 |              | Ineligible input tax credit attributed to the purposes of other than business and for effecting exempted supplies for a tax period  |
| C3    | C2 - (D1+D2) | Eligible input tax credit attributed to the purposes of business and for effecting supplies other than exempted supplies but including zero rated supplies for the tax period |

7.7 The applicant should have claimed the ITC and determined the proportionate ITC to be reversed on periodical basis, based on the above-mentioned formula for a tax period (month) and continue the same based on the above-mentioned variables numbers available for each month. Similarly, after end of the financial year, as the annual numbers for the above said variables are available, based on above formula the proportionate ITC to be reversed will be recomputed, upon determination of such amount of proportionate ITC for a financial year, which shall be final for that financial year. The same will be compared with, the aggregated amount of proportionate ITC reversed on monthly bases by the applicant, which results in excess or short reversal of proportionate ITC. In case of short reversal by the applicant, the differential amount need to be reversed along with interest as per Section 50(1) of the CGST Act, 2017 and in case of excess reversal, the same can be reclaimed by the applicant, before the due date for filing return for the month of September following the end of the financial year, to which such input tax credit relates. As the applicant has claimed the ITC for FY 2019-20 during the September 2020, the applicant has computed the reversal of ITC in the following manner as a whole for the year.

7.8 As per the accounting policy of the applicant for the said GSTIN the applicant maintains two separate books of account based on corporate accounting policy one for the Varnika (IMU) facility and another books for all other aspects including Printing Press Unit, which is for the whole Mysuru unit, during the FY 2019-20 a total input tax credit available amounts to Rs.49,89,48,074/- (Rs.43,69,78,209 + Rs.6,19,69,865) which is referred as (T).

7.9 As there are no activities or transaction on which ITC on input and input services which are exclusively used for the purpose other than business is carried out by the applicant during the financial year. The applicant was not in receipt of any goods or services on which ITC claimed in connection with the above. Hence ITC on inputs or input services which are exclusively used for the purposes other





than business, which is referred as (T1) will be Rs. Nil for the tax period and Financial Year for the applicant.

7.10 The applicant states that as a policy they have not availed any ITC on goods or services which are exclusively used for exempted supply and also has not claimed any ITC on goods or services which is blocked for availment as per Sec 17(5) of CGST Act. Hence, ITC on inputs or input services which are exclusively used for Exempted Supply, which is referred as (T2) will be Rs.Nil/- and the ITC on any goods or services which are blocked under sub-section (5) of section 17 of the CGST Act, 2017, which is referred as (T3) will be Rs.Nil/- for the applicant, the above amount reduced from the total credit available for the GSTIN of the applicant will be claimed by the applicant which will be credited in the electronic credit ledger will be equal to amount of ITC claimed by the applicant as per below mention formula;

$$\begin{aligned} \text{ITC Credited to ECL} &= [C1 = T - (T1+T2+T3)] \\ &= [\text{Rs.}49,89,48,074 - (0 - 0 - 0)] \\ C1 &= \text{Rs.}49,89,48,074/- \end{aligned}$$

7.11 Further, ITC on Input & Input Services used exclusively for making taxable supplies is considered as "T4" as the applicant has not involved in any supply of goods or services, which are exclusively used for making taxable supply, but for inventory items on case to case basis are supplied from Mysuru Unit which are stock transferred to Salboni Unit which are leviable to GST, on such items the applicant has claimed ITC and Forwarding Charges on Sale of Ink to SPMCIL as the said supply is exclusively used for taxable supply ITC on such goods and services claimed during the FY 2019-20 amounts to Rs.6,33,570/- on inputs which are used for the above mentioned identified Taxable Supplies being exclusively used for Other than Exempted Supply including Zero Rates Supply, which is referred as (T4), which results in determination of Common Credit;

$$\begin{aligned} \text{Common Credit} &= [C2 = (C1 - T4)] \\ &= [\text{Rs.}49,89,48,074 - \text{Rs.}6,33,570] \\ C2 &= \text{Rs.}49,83,14,504/- \end{aligned}$$

7.12 The turnover details for financial year 2019-20 of the Mysuru Unit is as follows (i) Supply of Exempted Goods (Bank Rupee Note) Rs.1338,94,66,801/-, (ii) Supply of Taxable Goods (Ink) Rs.2,66,89,79,350/-, (iii) Supply of Scrap & Other Taxable Supplies Rs.4,60,89,265/- from the above, the amount of ITC attributable towards exempt supplies shall be determined as follows for the financial year:

13 ITC attributable towards Exempted Supply [D1 = (E÷F) × C2], the value of exempted supply of goods for the financial year 2019-20 shall be



Rs.1338,94,66,801/-, which is referred as (E) and the value of total turnover in the state for the said GSTIN for financial year 2019-20 shall be Rs.16,10,45,35,416/-, which is referred as (F), and the Common Credit availed for the financial year as per C2 above;

$$D1 = (E+F) \times C2$$

$$D1 = [(Rs.1338,94,66,801 \div Rs.1610,45,35,416) \times Rs.49,83,14,504]$$

D1 = Rs. 41,43,03,507/-, D1 refers to ITC attributable towards Exempted Supply which need to be reversed by the company for the financial year.

7.14 The applicant has not engaged on any activities other than business, hence ITC on goods or services which are directly or exclusively attributable towards other than business purposes is not warranted. The applicant is of a view as there are no inputs or input services which are commonly used for both for business and non-business purpose, a flat reversal of 5% of Common Credit "C2" will not be applicable, as the company has not availed ITC on Common Input Services. Hence, as input tax credit on input or input services which is attributable towards both for business and non-business, which is referred as "D2" as per clause (j) of Rule 42 of the CGST Rules, 2017 will be Rs.Nil/- in the case of applicant.

7.15 The remainder of the input tax credit shall be the eligible input tax credit attributed to the purposes of business and for effecting supplies other than exempted supplies but including zero rated supplies and shall be denoted as C3, where  $C3 = [C2 - (D1+D2)]$ , for the financial year the amount of ITC eligible will be Rs.8,46,44,567/-  $[Rs.49,83,14,504 - (Rs.41,43,03,507 + Rs.0)]$ , is availed by the applicant for the said financial year. As the entire credit was claimed by the applicant in the September 2020 return filed by the applicant for the FY 2019-20, the reversal of ITC as per Rule 42(2) of the CGST Rules, 2017 for the financial year as a whole is not warranted.

7.16 The applicant has claimed the ITC pertaining to previous financial year in subsequent financial year within the time prescribed as per Section 16(4) of CGST Act, 2017. During the financial year 2019-20, on goods or services which the applicant is eligible to claim ITC, was omitted to be considered and claimed as ITC during FY 2019-20.

7.17 The said claim of ITC was availed by the applicant in the return filed during the month of September 2020, as per the provisions the applicant is entitled to claim the said ITC during Financial Year 2020-21 upto September 2021 return filing due date or filing of Annual Return, whichever is earlier as per Section 16(4) of CGST Act, 2017. While computing reversal of ITC as per Section 17(2) & 17(6) of the CGST Act, 2017 read along with Rule 42 of the CGST Rules, 2017 as the ITC on input and input services claimed by the applicant is used for both taxable supply and exempted supply and the ITC claimed relates to FY 2019-20 the "Value of Exempted Supply 'E' and Value of Total Turnover of State 'F' in the formula as per



Rule 42 of *ibid.*,” was considered as the turnover relating to the financial year 2019-20.

7.18 The claim of ITC was made by the applicant in the return filed by the applicant during September 2020 pertaining to FY 2020-21, as the ITC related to credit availed by the applicant belongs to FY 2019-20. The value of Exempted Supply and Value of Total Turnover of the State of FY 2019-20 was considered in the formulas as per Rule 42 of *ibid.*, by the applicant.

7.19 As per Section 17(2) of the CGST Act, 2017 “Where the goods or services or both are used by the registered person partly for effecting taxable supplies including zero-rated supplies under this Act or under the Integrated Goods and Services Tax Act and partly for effecting exempt supplies under the said Acts, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies.” (Emphasis Supplied)

7.20 As per Rule 42(1) of the CGST Rules, 2017 “The input tax credit in respect of inputs or input services, which attract the provisions of sub-section (1) or sub-section (2) of section 17, being partly used for the purposes of business and partly for other purposes, or partly used for effecting taxable supplies including zero rated supplies and partly for effecting exempt supplies, shall be attributed to the purposes of business or for effecting taxable supplies in the following manner, namely, -

(a) the total input tax involved on inputs and input services in a tax period, be denoted as ‘T’;

(b) ...;

(i) ....

‘E’ is the aggregate value of exempt supplies during the tax period, and

‘F’ is the total turnover in the State of the registered person during the tax period...”(Emphasis Supplied)

As per Rule 42(2) of the CGST Rules, 2017 “(2) Except in case of supply of services covered by clause (b) of paragraph 5 of the Schedule II of the Act, the input tax credit determined under sub-rule (1) shall be calculated finally for the financial year before the due date for furnishing of the return for the month of September following the end of the financial year to which such credit relates, in the manner specified in the said sub-rule and - (a) .... “(Emphasis Supplied)

7.21 The applicant understands, when goods or services or both are used by the registered person partly for effecting taxable supplies including zero-rated supplies under the CGST Act or under the IGST Act and partly for effecting exempt supplies under the said Acts, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies and the amount of credit to be reversed will be determined as per manner prescribed. As per Rule 42(1) of the CGST Rules, 2017 the term ‘T’ denotes total input tax involved on inputs and input services in a tax period, the Input Tax Credit available during the month shall be denoted. When the said rule is used for



computation of reversal of ITC on annual basis for the financial year as a whole as per Rule 42(2) of the CGST Rules, 2017 on annual basis for the financial year the term 'T' denotes the ITC available for the financial year as a whole as per "financial year to which such credit relates .." from the above, it is clear the Input Tax Credit and all other variables has to be decided based on the year for which ITC relates the reversal need to be determined. Hence the ITC was taken in the returns as per Sec 16(4) of the CGST Act, 2017 during September 2020, however the Value of Exempted Supply and Value of Total Turnover of the State will be relating to FY 2019-20 and the reversal of ITC will be based on Value of Total Turnover and Value of Exempted Supply of FY 2019-20.

#### **PERSONAL HEARING PROCEEDINGS HELD ON 07-10-2021**

8 Shri Ganesh Prabhu B, Chartered Accountant & Authorised Representative of the applicant appeared for personal hearing proceedings held on 07-10-2021 and reiterated the facts narrated in their application.

#### **FINDINGS & DISCUSSION**

9. At the outset we would like to make it clear that the provisions of CGST Act, 2017 and the KGST Act, 2017 are in pari-materia and have the same provisions in like matter and differ from each other only on a few specific provisions. Therefore, unless a mention is particularly made to such dissimilar provisions, a reference to the CGST Act would also mean reference to the corresponding similar provisions in the KGST Act.

10. We have considered the submissions made by the applicant in their application for advance ruling. We have also considered the issues involved on which advance ruling is sought by the applicant and the relevant facts along with the arguments made by the applicant and also their submissions made by their learned representative during the time of hearing.

11. The applicant is engaged in printing of rupee notes, in their Mysuru Unit; supply the same to RBI on agreed rate of cost-plus margin basis which is wholly exempted from levy of GST vide S.No. 117 of Notification No. 2/2017 of Central Tax (Rate) and S.No. 117 of Notification No. 2/2017 of Integrated Tax (Rate). Further, the applicant also manufactures ink, which is used in printing of rupee notes, consumes captively, transfers to their branch located at Salboni, West Bengal and also supplies to M/s. Security Printing and Minting Corporation of India Ltd (hereinafter referred to as 'SPMCIL'). Thus the applicant is involved in taxable as well as exempted supplies.

12. In view of the above, the applicant sought advance ruling in respect of the questions mentioned at para 3 supra. We proceed to consider & discuss these questions, one at a time.



12.1 The first question is “Whether ITC can be claimed on common services which are utilized for both taxable as well as exempted supplies?” This question is not covered under the issued referred to in Section 97(2), in respect which an applicant can seek advance ruling, as the ITC of the tax paid on common services, utilized for both taxable as well as exempted supplies is governed under Section 17(2) of the CGST Act 2017 read with Rule 42 of the CGST Rules 2017.

12.2 However, it appears that the applicant intends to know the admissibility of ITC of tax paid or deemed to have been paid on common services such as CISF & Township Security Services, Maintenance of Water Treatment Plant, Horticulture, Maintenance of Residential Quarters, Maintenance of Information System (Computers, Software & Electronic Equipment), Maintenance of Sewage Treatment Plant etc., which are utilized for both taxable as well as exempted supplies of Varnika (IMU) and printing press of rupee note, at Mysuru.

12.3 The applicant, in this regard, quoting the definition of ‘business’, defined under Section 2(17) of the CGST Act, 2017, relying on some case laws wherein the phrase “in the course or furtherance of business” has been dealt with and by applying the ratio of said decisions and the terms explained, contends that the term ‘in the course or furtherance of his business’, is defined widely in the above context, it can be understood that common facilities which are shared between the printing press unit and IMU in Mysuru Unit such as (i) CISF & Township Security Services, (ii) Maintenance of Water Treatment Plant, (iii) Horticulture, (iv) Maintenance of Residential Quarters, (v) Maintenance of information system (Computers, software and electronic equipment) (vi) Maintenance of Sewage Treatment Plant, etc. would be entitled as eligible ITC as they are used in the course or furtherance of business of both Varnika (IMU) and Printing Press unit.

12.4 Section 16 of the CGST Act 2017 deals with eligibility and conditions for taking input tax credit; Section 16(1) stipulates that every registered person shall be entitled to take credit of input tax charged on any supply of goods or services or both to him which are used or intended to be used in the course or furtherance of business, subject to such conditions and restrictions as may be prescribed and in the manner specified in Section 49. Further some more conditions have been prescribed under Section 16(2) of the CGST Act 2017. Also Section 17 deals with apportionment of credit and blocked credits; Section 17(5) stipulates that “Notwithstanding anything contained in Section 16(1) & 18(1), input tax credit shall not be available in respect of certain supplies mentioned therein. Therefore any registered person, to avail the input tax credit, has to check the entitlement in terms of Section 16(1) and also whether the said credit falls under the blocked credits in terms of Section 17(5) or not. If they are still entitled to avail the said credit, then they should apportion the said credit in terms of Section 17(1) & Section 17(2), if the relevant supplies are utilized partly for the purpose of business and partly for other purposes or partly for effecting taxable supplies including zero-rated supplies and partly for effecting exempt supplies, as per Rule 42 of the CGST Rules 2017. Therefore the applicant has to check each and every



supply in the manner mentioned above and then decide whether they are entitled to avail the credit and if so to what extent.

12.5 The applicant further contends that the impugned input services are in relation to residential quarters and hence quoting some case laws claim that they are entitled to claim the credit on the said common inputs / input services. Some of the case laws held that the credit can't be denied if the cost of the said inputs/input services are included in the value of manufactured goods. The applicant is silent on the said issue of inclusion of the cost in the value of manufactured goods.

12.6 Now we proceed to examine the entitlement of various credits, by considering one at a time.

- a) CISF Services : The applicant submitted that they are having an MOU with the Ministry of Home Affairs for utilizing the services of CISF for the safety and security of Mysuru unit, as it is a highly sensitive place, which consists of Printing Press, Varnika (IMU) and residential township for employees & CISF. The CISF guards the entire area of Printing Press, Varnika (IMU) and township, for any threats.

It is observed that the CISF services are utilized for taxable [Varnika (IMU)] and exempted [Printing press & residential township] supplies and hence the applicant is entitled to avail credit, which shall be restricted to the input tax attributable to the taxable supplies including zero-rated supplies. It is an admitted fact that the printing press is an exempted supply and therefore applicant is not eligible to avail ITC of tax paid on the supplies used for it. Further the credit on the services used for residential township is not available to the applicant as it is not related to their business. Therefore ITC in respect of CISF services is restricted to only to the extent they are attributable to taxable supplies in terms of Section 17(1)/17(2) of the CGST Act 2017.

- b) Township Security Services : The applicant submitted that a private security agency is engaged to guard the day-to-day activities, inside the residential township, such as guarding of residential area, movement of outside vehicles and persons etc., and the GST is paid on RCM basis.

It is observed that the services of a private security agency have been utilized for guarding the residential area and hence the said services are not related to the business of the applicant. Therefore, the credit is not available to the applicant on the said services used.

- c) Maintenance of Water Treatment Plant : The water sourced from kaveri river is treated at the water treatment plant and the-treated water is used for printing press, varnika (IMU) and residential area. The Operation & Maintenance (O&M) of the said plant including necessary manpower, is outsourced by the applicant.



It is observed that the services of O&M of water treatment plant is done along with supply of manpower. The treated water is used for printing press, varnika (IMU) and residential area and thereby used for effecting taxable supplies, exempted supplies and also for purposes other than business. Thus the said credit is not available to the extent it is used for residential area, printing press and shall be restricted to the input tax attributable to the taxable supplies including zero-rated supplies, in terms of Section 17(2) of the CGST Act 2017.

- d) Horticulture : The applicant is maintaining the area of Mysuru unit, spread around 337 acres, including landscaping, gardening etc., through outsourced manpower.

It is observed that the services of landscaping, gardening through outsourced manpower is not related to the business of the applicant. Therefore, the credit is not available to the applicant on the said services used.

- e) Maintenance of residential quarters : The applicant have provided residential accommodation to its employees within the township in the residential quarters. The day to day repair & maintenance of civil, electrical works of the township are outsourced by way of Annual Maintenance Contract.

It is observed that the said AMC is not related to the business of the applicant. Therefore, the credit is not available to the applicant on the said services used.

- f) Maintenance of Information System : Maintenance of information system and networking of the applicant company is carried out through an outsourced agency by way of an Annual Maintenance Contract. The applicant has not clearly specified that the said maintenance pertains to printing press or Varnika (IMU) or both.

The credit of the said maintenance will not be available if it pertains to only printing press; if it pertains to both printing press and Varnika (IMU), then the said services are utilized for both taxable supplies and exempted supplies, in which case the credit shall be restricted to the input tax attributable to the taxable supplies including zero-rated supplies, in terms of Section 17(2) of the CGST Act 2017. On the other hand if the said service used exclusively for Varnika (IMU), the credit would be available to the applicant, in full, as it is used for taxable supply only.

- g) Maintenance of Sewage Treatment Plant : Waste water generated in the printing press, Varnika (IMU), residential area and BNPMIPL paper mill are treated in sewage treatment plant and the treated water is used for gardening purpose. The Operation & Maintenance (O&M) of the said plant, including necessary manpower, is outsourced by the applicant.



The O&M of the said STP is not an input service, as it is not used for any outward supply and hence the same is not related to the business of the applicant. Therefore, the credit is not available to the applicant on the said services used.

12.7 Now we proceed to consider & examine the second question i.e. *whether the method followed by the applicant in connection with claiming of Input Tax Credit is in accordance with the provisions of law?*

In this regard, we invite reference to Section 97(2) of the CGST Act 2017, which specifies the issues on which the advance ruling can be sought by the applicant. The impugned question is not covered under the said Section 97(2) and hence this authority refrains from giving any ruling.

However, we observe that the applicant is involved in supply of both taxable and exempted supplies. Thus the applicant has to avail the credit proportionately in terms of Section 16, 17 of the CGST Act 2017 read with Rule 42 of the CGST Rules 2017, wherein the procedure to be followed has been clearly mentioned.

It is observed that the applicant have two verticals under the same registration for the premises at Mysore. They manufacture rupee note which is an exempted supply and they also manufacture the ink at Varnika (IMU), part of which is captively consumed, part of it is transferred to Salboni Unit, West Bengal with separate registration, on payment of tax as the said unit amounts to a distinct person under GST, and also a part is sold to M/s SPMCIL. Thus the inward supplies of goods or services are used for both taxable and exempted supplies and the applicant is entitled to avail the input tax credit, on the said goods or services, to the extent of taxable outward supply. The amount of ITC to be reversed proportionate to taxable outward supply need to be determined as per Section 17(2), 17(6) of the CGST Act 2017, read with Rule 42 of the CGST Rules 2017, for a particular financial year.

The applicant contended that they maintain separate books of account for Varnika (IMU) and for printing press wherein rupee note is manufactured and hence they determined the ITC claims separately for the said verticals. The applicant needs to combine all the credits pertaining to both the verticals to arrive at their claim of ITC, in terms of Rule 42 of the CGST Rules 2017, as they have a single registration for the premises at Mysuru.

12.8 Now we proceed to consider & examine the third question i.e. *Turnover of which financial year to be considered in Rule 42 of the CGST Rules, 2017 while calculating ineligible ITC for the invoices which were accounted in the books of accounts in the FY 2019-20, however ITC was claimed during April to September of FY 2020-21 as per section 16(4) of the CGST Act, 2017 ?*

Manner of claim of ITC is determined in terms of Rule 42 of the CGST Rules 2017 and the impugned issue is not covered under Section 97(2) of the CGST Act 2017 and hence this authority refrains from giving any ruling in this regard.





However, it is observed that the turn over of 2019-20 only need to be considered as the Rule 42 of the CGST Rules 2017 is applicable only for a particular tax period only

13. In view of the foregoing, we pass the following

**RULING**

1. "Whether ITC can be claimed on common services which are utilized for both taxable as well as exempted supplies?"

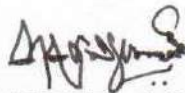
Ans : This question is not covered under the issues referred to in Section 97(2) of the CGST Act 2017, in respect which an applicant can seek advance ruling and hence this authority refrains from giving any ruling in this regard.

2. *Whether the method followed by the applicant in connection with claiming of Input Tax Credit is in accordance with the provisions of law?*

Ans : The impugned question is not covered under Section 97(2) of the CGST Act 2017, which specifies the issues on which the advance ruling can be sought by the applicant and hence this authority refrains from giving any ruling.

3. *Turnover of which financial year to be considered in Rule 42 of the CGST Rules, 2017 while calculating ineligible ITC for the invoices which were accounted in the books of accounts in the FY 2019-20, however ITC was claimed during April to September of FY 2020-21 as per section 16(4) of the CGST Act, 2017 ?*

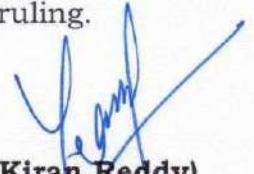
Ans : The impugned question is not covered under Section 97(2) of the CGST Act 2017, and hence this authority refrains from giving any ruling.



(Dr. M.P. Ravi Prasad)

Member  
MEMBER

Place : Bengaluru  
Karnataka Advance Ruling Authority  
Date : 08/03/2022  
Bengaluru - 560 009



(T. Kiran Reddy)

Member  
MEMBER

Karnataka Advance Ruling Authority  
Bengaluru - 560 009

To,

The Applicant

Copy to:

1. The Principal Chief Commissioner of Central Tax, Bangalore Zone, Karnataka.
2. The Commissioner of Commercial Taxes, Karnataka, Bengaluru.
3. The Principal Commissioner of Central Tax, Mysuru Commissionerate, Mysuru.
4. The Assistant Commissioner of Commercial Taxes, LGSTO-200, Mysuru.
5. Office Folder.

