

Repair services provided to fulfil warranty obligation involving supply of parts to be classified as composite supply of services

The AAR, Uttar Pradesh in the matter of **Premier Car Sales Ltd. [Order No. 29 dated 11, March, 2019]** has held that, repair services carried out under an agreement, by the Assessee engaged in sale of motor vehicles parts and accessories, to fulfill the warranty obligation, which also involved supply of parts could be classified as a composite supply of services under Section 2(30) of the Central Goods and Services Tax Act, 2017 (“**CGST Act**”), where the principal supply is services and the supply of parts is incidental to such supply of services.

Facts:

M/s Premier Car Sales Ltd. (“**the Applicant**”) is engaged in the sale of motor vehicle parts and accessories. The Applicant has entered into a dealership agreement with Hyundai Motors India Limited (“**HMIL**”) for providing repair services to the customer on behalf of HMIL during warranty period. The Applicant receives consideration towards labour charges for providing repair services and also reimbursement of cost of parts replaced, if any, to the customer during the warranty period.

Issues:

- Whether repair services carried out by the Applicant under the dealership agreement with HMIL, to fulfill the warranty obligation of HMIL which also involves supply of parts should be classified as a composite supply of services under Section 2(30) of the CGST Act?
- Whether the entire repair services including supply of spares can be classified under S. No 25 in **Notification 11/2017-Central Tax (Rate) dated June 28, 2017** (“**Services Rate Notification**”), subjected to tax at the rate of 18%?

Held:

The AAR, Uttar Pradesh in the matter of **Premier Car Sales Ltd. [Order No. 29 dated 11, March, 2019]** held as under:

- Noted that, Applicant is mainly providing 'Repair & Maintenance Services' to their customers under “Warranty Repair Service” by servicing of their vehicles under

warranty period. In the event of defective parts/components, they replace such parts/components which appear to be just incidental or ancillary to the main activity of 'Repairing Services'.

- Observed that, the supply of such parts/components in the warranty repair activity is integral to the “Warranty Repair Service” in as much as without replacing such parts/components the “Warranty Repair Service” could not be executed. Therefore, the supply of labour services and parts/components together under “Warranty Repair Service” are naturally bundled and have been supplied in conjunction with each other in the ordinary course of business where the principal supply is of services.
- Accordingly, such “Warranty Repair Service” with parts/components shall be subjected to tax in terms of S. No. 25 in Services Rate Notification (as amended).
- Held that, the dealership agreement between HMIL and the Applicant, clarify that following ruling is applicable if repair service provided by the Applicant shall be covered under 'composite supply' if -
 - Primarily 'Repair service' is provided under warranty period,
 - Parts are replaced as incidental to repair service under warranty period in ordinary course of business, and
 - The Applicant is being reimbursed by HMIL for labour charge and parts under warranty period.

Relevant Provisions:

Section 2(30) of the CGST Act:

“Composite Supply' means a supply made by a taxable person to a recipient consisting of two or more taxable supplies of goods or services or both or any combination thereof, which are naturally bundled and supplied in conjunction with each other in the ordinary course of business, one of which is a principal supply.”

S. No. 25(ii) in Services Rate Notification (as amended):

S. No.	Heading	Description of Service	Rate	Condition
25.	Heading 9987	(ii) Maintenance, repair and installation (except construction) services, other than (i) and	9	-

		<i>(ia) above and serial number 38 below.</i>		
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