

AUTHORITY FOR ADVANCE RULING, TAMILNADU
DOOR NO.32, INTEGRATED COMMERCIAL TAXES OFFICE COMPLEX
5TH FLOOR, ROOM NO.503, ELEPHANT GATE BRIDGE ROAD,
CHENNAI - 600 003.

PROCEEDINGS OF THE AUTHORITY FOR ADVANCE RULING U/s.98 OF
THE GOODS AND SERVICES TAX ACT, 2017.

Members present are:

Shri. R.Gopalsamy, I.R.S., Additional Commissioner /Member, Office of the Principal Chief Commissioner of GST & Central Excise, Chennai 600034	Tmt. N.Usha, Joint Commissioner (Commercial Taxes)/ Member, Office of the Authority for Advance Ruling, Tamil Nadu. Chennai 600 003
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ORDER No.36 AAR/2022 Dated: 30.11.2022

1. Any appeal against this Advance Ruling order shall be filed before the Tamil Nadu State Appellate Authority for Advance Ruling, under Sub-section (1) of Section 100 of Central Goods and Service Tax Act / Tamil Nadu Goods and Service Tax Act 2017("the Act" in short) within 30 days from the date on which the ruling sought to be appealed against is communicated.
2. In terms of Section 103(1) of the Act, this Advance ruling pronounced by the Authority under Chapter XVII of the Act shall be binding only-
 - (a) on the applicant who had sought it in respect of any matter referred to in sub-section (2) of section 97 for advance ruling;
 - (b) on the concerned officer or the jurisdictional officer in respect of the applicant.
3. In terms of Section 103(2) of the Act, this advance ruling shall be binding unless the law, facts or circumstances supporting the original advance ruling have changed.
4. Advance Ruling obtained by the applicant by fraud or suppression of material facts or misrepresentation of facts, shall render such ruling to be void *ab-initio* in accordance with Section 104 of the Act.
5. At the outset, we would like to make it clear that the provisions of both the Central Goods and Service Tax Act and the Tamil Nadu Goods and Service Tax Act are the same except for certain provisions. Therefore, unless a mention is specifically made to such dissimilar provisions, a reference to the Central Goods and Service Tax Act would also mean a reference to the same provisions under the Tamil Nadu Goods and Service Tax Act.

GSTIN Number, if any / User id		33AAACZ2099M1ZW
Legal Name of Applicant		Zuha Leather Private Limited
Registered Address / Address provided while obtaining user id		No. 22, V.V. Koil Street, Periamet, Chennai 600003.
Details of Application		Form GST ARA - 001 Application SI.No.20/2022/ARA dated 08.04.2022.
Concerned Officer		Centre: Chennai (North) Commissionerate State: Vepery Assessment circle
Nature of activity(s) (proposed / present) in respect of which advance ruling sought for		Tanning of Leather
A	Category	Manufacturing
B	Description (in brief)	The Applicant is a manufacturer and processor of hides and skins into finished leather
Issue/s on which advance ruling required		Determination of the liability on the goods and services or both
Question(s) on which advance ruling is required		Whether the activity of tanning, with chemical consumption, carried out by the applicant is coming within the purview of job work chargeable to tax under the item i(e) of the Heading 9988 Manufacturing Services on Physical Inputs (Goods) owned by others and if not what would be the applicable tax rate?

1. M/s. Zuha Leather Private Limited, No. 22, V.V. Koil Street, Periamet, Chennai 600 003. (hereinafter called as the 'Applicant') is registered under GST Acts with GSTIN 33AAACZ2099M1ZW. The Applicant has filed an application in Form GST ARA - 01 under section 97 of the Central Goods and services Tax and the Tamilnadu Goods and Services Tax Act, 2017, seeking advance ruling on the following question;

Whether the activity of tanning, with chemical consumption, carried out by the applicant is coming within the purview of job work chargeable to tax under the item i(e) of the Heading 9988 ie., or Manufacturing Services On Physical Inputs (Goods) owned by Others and if not what would be the applicable tax rate?

2.0. The Applicant is registered under the provisions of GST law in the State of Tamil Nadu with GSTIN: 33AAACZ2099M1ZW. Their principal place of business is located at Chennai with the production facility (tannery for processing hides and skins) at Vaniyambadi.

2.1. The Applicant is basically a tanner carrying out the activity of tanning process on hides and skins (Chapter 41) and selling the finished product viz., finished leather both in local and as well as overseas markets by way of exports. Apart from their own manufacturing activity, the Applicant is carrying out job tanning (work) i.e., carrying out

the activity of tanning process on the hides and skins owned by others. In the process of tanning, the applicant procures and transfers tanning chemicals [HSN Code Chapter 32, 38 & 39] which are chargeable to tax @ 18%.

- 2.2. The contract of tanning, essentially involves either –
- a. Conversion of raw hides and skins (Chapter 41) into finished leather (Chapter 41) or
 - b. Conversion of raw hides and skins into wet blue or crust leather or
 - c. Conversion of wet blue or crust leather to finished leather or
 - d. Any other intermediary process/es.

2.3. In all cases, the intent of the contract is to process or tan the required type or finish on the input leather supplied by the Principal and price for such work (i.e. job tanning charges) that has been agreed mutually by the Principal and the Job worker. The activity of tanning could not be carried out without transferring tanning chemicals and it is the job worker who has to decide the kind and quantity of tanning chemicals required for the process in order to arrive at the agreed 'finish' on the input leather.

3.0 The Applicant submitted, *inter alia*, that as per Section 2(68) of GST Acts wherein the term '**job work**' means any treatment or process undertaken by a person on goods belonging to another registered person and the expression "job worker" shall be construed accordingly". Further, in respect of services by way of job work, Applicant has also submitted Circular No. 126/45/2019-GST [F. NO. 354/150/2019-TRU], dated 22-11-2019 which clarified and distinguished job work service pertaining to goods of registered and unregistered persons.

3.1 Therefore, though the Applicant is clear that the activity falls under job work service, ambiguity arises due to transfer chemicals in the contract of tanning, which has significant value (being 60% to 70%) in the contract price and further with higher rate of tariff under GST. Hence, Applicant requires clarification whether the activity of the Applicant falls within the definition of Job work under section 2(68) of CGST Act.

3.2 The Applicant had furnished the following rulings in their support:

- In the case of M/s. CCE, MUMBAI-V_v. SHAKTI INSULATED WIRES LTD. [2010] 1 taxmann.com 883 (Mumbai - CESTAT) it was held that it was job work even if job worker puts own inputs and later recovered the cost of inputs from principal manufacturer.
- In the case of M/s Madura Coats Ltd. v. Collector of Central Excise (1980 E.L.T.582) [Cal HC], it was held that "a work does not cease to be a job work simply because the job worker supplies some additional articles which do not constitute a substantial part of the manufacturing process";
- In the case of Prestige Engineering Vs CCE [1994(73) ELT 497 (SC)] it had been held that addition of minor items by job worker would not detract it being a job work

- In the case of Automobile Corporation of Goa Limited, Goa Authority for Advance Ruling vide order no GOA/GAAR/10f 2017-18/2018-19/1929 dated 21.08.2018, it was held that it is supply of service under SAC 9988 and will attract 18% GST.
- In the case of M/s Kondody Autocraft (India) Pvt. Ltd. AAR, vide Order No.KER/39/2019 dated 02.03.2019 it was held that fabrication of body on the chassis supplied by the customer is a service covered under SAC Code 9988- Manufacturing services on physical inputs (goods) owned by others and thereby attract 18% GST.

4.0 Personal hearing was held in digital platform on 17.05.2022. The Authorized Representative (AR) of the Applicant, Thiru. G.Pari, appeared for the hearing virtually. The AR reiterated the submissions made in their application. AR referred to the decision of TNAAR in the case of Tube Investments of India Ltd., wherein even when the goods are transferred on body building as job work, the activity is considered as Service under SAC 9988. The Applicant was asked to furnish the following documents.

1. Copy of contract for job work
2. Write up on process undertaken as job work
3. write up on process undertaken as manufactures (own account)
4. Invoice raised for job work
5. Costing adopted to arrive at the job work value

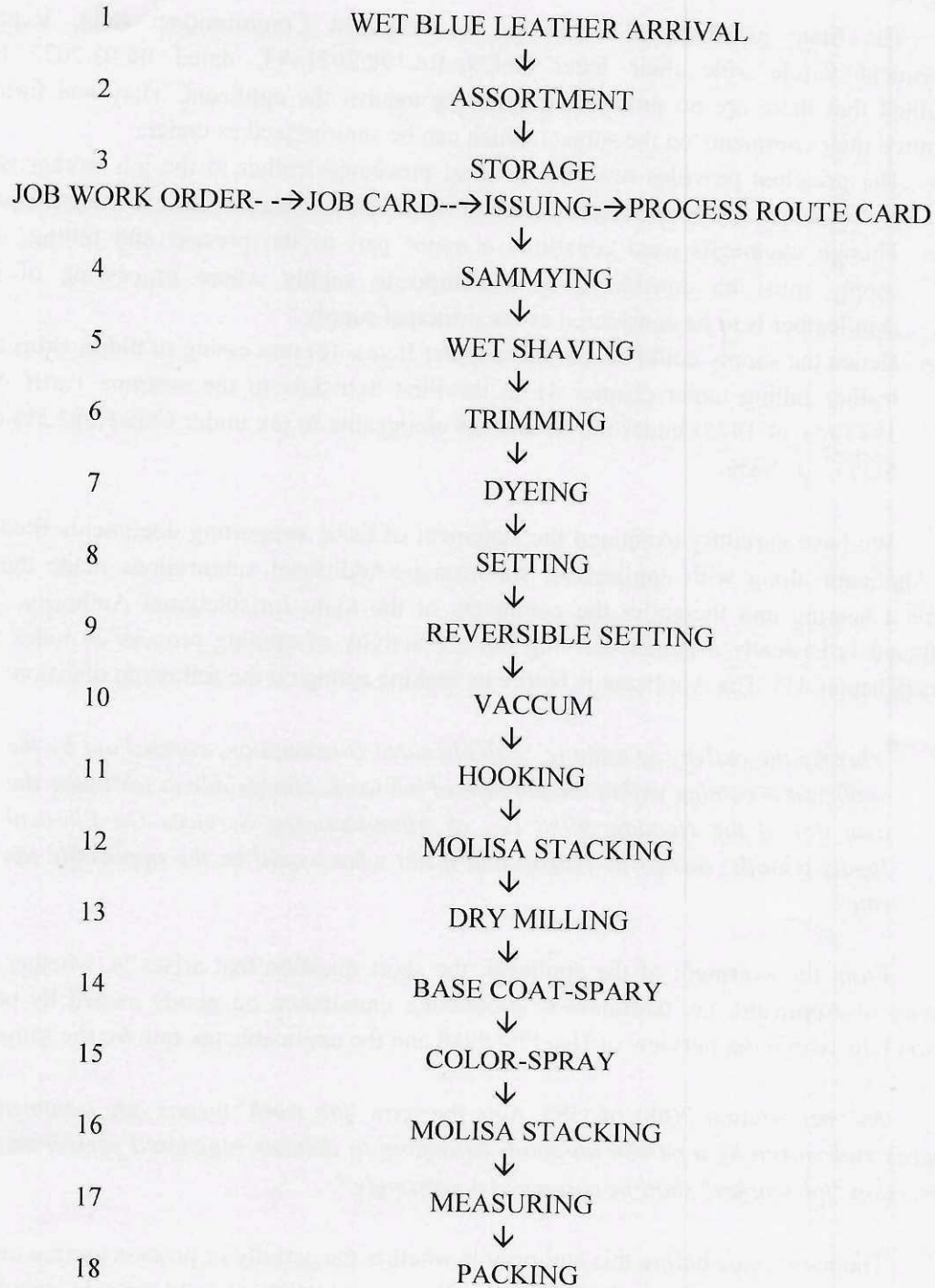
4.1 Subsequently, the Applicant submitted the following documents which were received on 15.06.2022.

- i. Copy of Job tanning order-sl.no. 1005227459 of M/s Century Overseas
- ii. Flow chart for the process of job tanning
- iii. Copies of invoice Nos. ZLJW013/20-21 dt 9.7.2020, ZLJW014/20-21 dt 10.7.2020, ZLJW016/20-21 dt 13.7.2020, ZLJW017/20-21 dt 14.7.2020, ZLJW022/20-21 dt 28.7.2020, ZLJW023/20-21 dt 29.7.2020 raised for job tanning (work).
- iv. Copy of Customer Job card wise dyeing cost/customer job card wise finishing cost/customer job card wise machinery cost worksheet (sample)
- v. Extracts of relevant paras from the ruling of Tube Investments of India.

4.2 Another Personal Hearing was held on 18.11.2022, as there was a change in the constitution of Members. In this Personal Hearing which was conducted virtually, the AR reiterated the submissions already made and explained the process briefly. On being queried whether any SCN has been issued and the documents accompanying the leathers transferred by the Principal to the Applicant, the Applicant submitted copies of e-way bill (e-way bill no. 761146585647, 771146583082, 571188324748) showing the transfer of leather from Principal to the Applicant and e-way bill (e-way bill no. 511188533010, 591188947004, 551189201808, 531192199198) showing the clearance of finished leather back to the Principal.

4.3. Flow chart for Processing submitted by the Applicant is shown hereunder:

ZUHA LEATHER PVT.LTD., VANIYAMBADI.	PROCESS FLOW DIAGRAM FOR GARMENTS LEATHER (COW WET BLUE TO FINISH – JOB WORK)	ZLPL/PFD/01/0
		Rev:02 01.06.2020



19	↓ INVOICE
20	↓ DISPATCH

5.0 The State jurisdictional authority, the Assistant Commissioner (ST), Vepery Assessment Circle vide their letter Ref.No.Rc.198/2021/A4, dated 06.05.2022 has submitted that there are no proceedings pending against the applicant. They had further submitted their comments on the subject which can be summarized as under:

- The principal provides raw skin or semi processed leather to the job worker who processes the goods and returns semi-finished/finished leather back to the principal.
- Though chemicals used constitute a major part of the process and billing, this supply must be considered as a composite supply where processing of the skin/leather is to be considered as the principal supply.
- Hence the supply could be classified under Items i(e) processing of hides, skins and leather falling under chapter 41 in the First Schedule to the customs Tariff Act, 1975 (51 of 1975) under the head 9988 chargeable to tax under CGST @2.5% and SGST @ 2.5%.

6.0 We have carefully examined the statement of facts, supporting documents filed by the Applicant along with application, submissions/Additional submissions made during personal hearing and thereafter the comments of the State Jurisdictional Authority. The Applicant is basically a tanner carrying out the activity of tanning process on hides and skins (Chapter 41). The Applicant is before us seeking ruling on the following question:

Whether the activity of tanning, with chemical consumption, carried out by the applicant is coming within the purview of job work, chargeable to tax under the item i(e) of the Heading 9988 i.e., or Manufacturing Services On Physical Inputs (Goods) owned by Others and if not what would be the applicable tax rate?

6.1 From the averment of the applicant, the short question that arises is, whether the activity of Applicant, i.e. treatment or processing undertaken on goods owned by other person falls within the purview of Heading 9988 and the applicable tax rate for the same.

6.2 As per Section 2(68) of GST Acts the term '**job work**' means any treatment or process undertaken by a person on goods belonging to another registered person and the expression "job worker" shall be construed accordingly".

6.3 The basic issue before this authority is whether the activity or process carried out by the applicant on the goods received from its client, amounts to job work or it is supply of services (being activity of tanning) and goods (being tanning chemicals transferred in the course of tanning) to be regarded as composite supply.

6.4 As per Section 2(30) of CGST Act, 'Composite Supply' is defined hereunder: The Applicant has further contented that;

"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.

Illustration: Where goods are packed and transported with insurance, the supply of goods, packing materials, transport and insurance is a composite supply and supply of goods is a principal supply;"

6.5 In the instant case, on perusal of the invoices of job work and flowchart of the process submitted by the Applicant, it is clear that hides and skins (Chapter 41) are received from Applicant's customer for the job work of tanning and that certain tanning chemicals are added to assist the tanning process. After various processes, the raw hides and skins (Chapter 41) are converted in to finished leather (Chapter 41) and returned back to the Applicant's customer. The Customer (M/s Century Overseas -who is a registered person-Principal) while transporting the raw hides and skins and receiving the finished product, does not transfer the ownership to the Applicant. This is apparent in the Job Tanning order given by the customer (M/s Century Overseas). The terms and conditions stipulate that Applicant (M/s Zuha Leathers) should return the goods without any damage. Hence, it is clear that the Applicant in the instant case is the job worker, who has to process the raw hide supplied by the Principal and after tanning process (job work) return the same to the Principal. In the course of the tanning process, Applicant is using some tanning chemicals which are consumed in the process. It is not unusual for a job worker to add some inputs to aid his job work process. But, it still remains a job working process and it is pertinent to note in the instant case that both the raw material (hides & skins) and finished product (finished leather) fall in Chapter 41. Also, it cannot be treated as composite supply, if we analyze the illustration given in the definition of Composite Supply cited *supra*. Therefore, the activity of the Applicant in processing (tanning), the raw hide owned by the Principal into finished leather falls within the purview of job work.

6.6 Having decided the activity as job work, the classification of job work service and rate of GST for the service, remains to be decided.

Clause 3 of Schedule II prescribed under section 7 provides 'Processing of leather' as service as under:

"SCHEDULE II

[Section 7]

ACTIVITIES TO BE TREATED AS SUPPLY OF GOODS OR SUPPLY OF SERVICES

1... ..

2.....

3 Treatment or process

Any treatment or process which is applied to another person's goods is a supply of services. ”

4..... ”

6.7 The relevant provisions of Notification no.11/2017-Central Tax (Rate) dated 28-6-2017 as amended by Notification No.20/2017 prescribing the rates of tax for manufacturing services on physical inputs (goods) owned by other are as under:

HEADING 9988 : MANUFACTURING SERVICES ON PHYSICAL INPUTS (GOODS) OWNED BY OTHERS :					
Chapter, Section, Heading, Group or Service Code (Tariff)	Description of Goods	CGST	SGST/U TGST	IGST	Condition
(1)	(2)	(3)	(4)	(5)	(6)
Heading 9988 (Manufacturing services on physical inputs (goods) owned by others)	(i) Services by way of job work in relation to— (a) (b) (c) (da) (e) processing of hides, skins and leather falling under Chapter 41 in the First Schedule to the Customs Tariff Act, 1975 (51 of 1975); (ea) manufacture of leather goods or footwear falling under Chapter 42 or 64 in the First Schedule to the Customs Tariff Act, 1975 (51 of 1975) respectively; (f) (g) (h) (i)	2.5	2.5	5	-
	(ia) to (ic)				

	(id) Services by way of job work other than (i), (ia), (ib) and (ic) above;	6	6	12	
	(ii) to (iia)				
	(iii)				
	(iv) Manufacturing services on physical inputs (goods) owned by others, other than (i), (ia), (ib), (ic), (id), (ii), (iia) and (iii) above.	9	9	18	-

6.8 Further, CBIC vide Circular NO. 126/45/2019-GST [F. NO. 354/150/2019-TRU], dated 22-11-2019 clarified and distinguished that item (id) and (iv) in the above heading 9988, as it pertains to goods of unregistered persons. The relevant paragraph of the circular is entrusted as below:

“4. In view of the above, it may be seen that there is a clear demarcation between scope of the entries at item (id) and item (iv) under heading 9988 of Notification No. 11/2017-Central Tax (Rate) dated 28-6-2017. Entry at item (id) covers only job work services as defined in section 2(68) of CGST Act, 2017, that is, services by way of treatment or processing undertaken by a person on goods belonging to another registered person. On the other hand, the entry at item (iv) specifically excludes the services covered by entry at item (id), and therefore, covers only such services which are carried out on physical inputs (goods) which are owned by persons other than those registered under the CGST Act.”

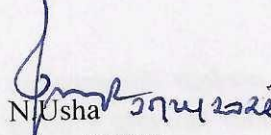
6.9 Hence from the above, if the activity of the Applicant is a service by way of treatment or processing undertaken by a person on goods belonging to another registered person, it is rightly classifiable as processing of hides, skins and leather falling under Chapter 41 in the First Schedule to the Customs Tariff Act, 1975 (51 of 1975) and as per (i)(e) (para 6.7) and applicable CGST rate is 2.5% and applicable SGST rate is 2.5%. However, if the activity of Applicant is undertaken *on physical inputs (goods) which are owned by persons other than those registered under the CGST Act*, then it falls within entry at item (iv) and applicable CGST rate is 9% and applicable SGST rate is 9%.

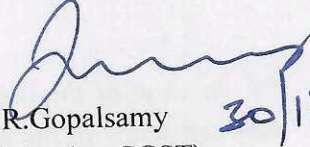
7.0 In view of the above, we rule as under:

RULING

The activity of the Applicant is a service by way of treatment or processing undertaken on hides, skins and leather falling under Chapter 41 in the First Schedule to the Customs Tariff Act, 1975 (51 of 1975) belonging to another person. The applicable GST rates are as under:

- (i) If the treatment or processing undertaken by the Applicant is on goods belonging to another registered person, then the applicable GST rate is 5% (CGST 2.5% and SGST 2.5%).
- (ii) If the treatment or processing undertaken by the Applicant is on goods belonging to person other than those registered under CGST Act, then the applicable GST rate is 18% (CGST 9% and SGST 9%)


N. Usha
(Member SGST)


R. Gopalsamy
(Member CGST)



To

Tvl. Zuha Leather Private Limited,
No. 22, V.V. Koil Street,
Periamet, Chennai 600 003.

Copy Submitted to:

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26/1, Mahatma Gandhi Road, Nungambakkam, Chennai-600034.
2. The Principal Secretary/Commissioner of Commercial Taxes,
II Floor, Ezhilagam, Chepauk, Chennai-600 005.

Copy to:

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5. Master File/ Spare-2