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BA Economics Honours | Semester 1 | Calicut University

Foundations of GST

Course Code: ECO1VN102 • Module 2

Module II: Supply under GST

In all taxation statutes, the levy of tax is anchored to a specific legal occurrence known as the *taxable event*. Under the historical indirect tax regime, multiple distinct taxable events existed: manufacture for central excise, sale of goods for state VAT, and provision of service for service tax. Under the GST regime, all these disparate events were dissolved and replaced by a single, unified statutory taxable event: **SUPPLY**.

Unit 7: Meaning and Scope of Supply (Section 7)

Section 7 of the Central Goods and Services Tax (CGST) Act, 2017 establishes the statutory scope of supply. Under Section 7(1)(a), supply encompasses:

- All forms of supply of goods or services or both, such as **sale, transfer, barter, exchange, license, rental, lease, or disposal**;
- Made or agreed to be made for a **consideration** (monetary or non-monetary);
- By a person;
- In the **course or furtherance of business**.

Unit 8: Deemed Supply Without Consideration (Schedule I)

While consideration is generally an essential ingredient of supply, Section 7(1)(c) read with **Schedule I** specifies four statutory commercial transactions that constitute a taxable supply even if made **without consideration**:

1. Permanent transfer or disposal of business assets on which Input Tax Credit (ITC) has been availed.
2. Supply of goods or services between *related persons* or between *distinct persons* (different branches of the same corporate entity possessing separate GSTIN registrations) in the course or furtherance of business.
3. Supply of goods by a principal to their agent, or by an agent to their principal.
4. Importation of services by a person from a related person or from any of their establishments outside India, in the course or furtherance of business.

Unit 9: Classification (Schedule II) and Negative List (Schedule III)

- **Schedule II (Activities to be Treated as Supply of Goods or Services):** Clarifies legal ambiguities. For example: transfer of title in goods is a supply of goods; transfer of right to use goods without transfer of title is a supply of services; construction of a complex intended for sale to a buyer before completion certificate is a supply of services; renting of immovable property is a supply of services; and restaurant food service is explicitly classified as a supply of services.
- **Schedule III (Negative List):** Activities that shall be treated neither as a supply of goods nor as a supply of services (outside the scope of GST):
    1. Services by an employee to the employer in the course of employment.
    2. Services by any court or tribunal established under law.
    3. Functions performed by Members of Parliament (MPs), MLAs, and constitutional officeholders.
    4. Services of funeral, burial, crematorium, or mortuary, including transportation of the deceased.
    5. Sale of land and sale of completed building (after issuance of completion certificate).
    6. Actionable claims, other than specified lottery, betting, and gambling.

Unit 10: Composite and Mixed Supplies (Section 8)

When commercial transactions involve bundled goods and services, tax liability is determined under Section 8:

- **Composite Supply (Section 2(30)):** A supply comprising two or more taxable goods or services naturally bundled and supplied in conjunction with each other in the ordinary course of business, one of which is a **principal supply** (e.g., buying a smartphone bundled with a charger and warranty; booking an airline flight with complimentary meals). The entire composite supply is taxed at the statutory GST rate applicable to the *principal supply*.
- **Mixed Supply (Section 2(74)):** Two or more individual supplies of goods or services made together for a single price, which do not constitute a naturally bundled composite supply (e.g., a festive gift package containing chocolates, canned juices, dry fruits, and an expensive bottle of perfume sold for a single lump-sum price). A mixed supply is taxed at the **highest statutory GST rate** applicable to any individual item included in the bundle.

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