

# Tax Alert: Ex-factory supply involving movement of goods terminating in other state liable to IGST: Telangana AAR

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## Summary

The Telangana Authority for Advance Ruling (AAR) has, in a recent case, held that Integrated Goods and Services Tax (IGST) is to be charged on ex-factory interstate supply wherein goods are made available by the applicant to the recipient at the factory gate. The AAR stated that the factory gate is not the point where movement terminates since the recipient subsequently assumes the charge for transportation of the goods up to the destination in another state.

Further, the AAR states that the place of supply has to be determined with reference to the location where the movement of goods ultimately terminates as per the billing address. Accordingly, the AAR held that as the 'location of supplier' and the 'place of supply' fall under different states, the supply qualifies as inter-state supply.

### Facts of the case

- The applicant<sup>1</sup> is a cement manufacturer in the state of Telangana. It occasionally makes inter-state sale of cement on ex-factory/works basis from its plants in Telangana.
- The applicant sought an advance ruling from the Telangana AAR to understand the tax to be charged on ex-factory inter-state supplies.

### Telangana AAR's observations and ruling

- **Movement of goods :** The AAR held that movement of goods in case of ex-factory inter-state sales does not conclude at factory gate but terminates at the place of

destination where the goods are finally destined as per the billing address<sup>2</sup>.

- **Place of supply:** The place of supply in respect of goods, where the supply involves movement of goods whether by the supplier or by the recipient or by any other person authorised by him/her, has to be determined with reference to the location where the movement of goods ultimately terminated.
- **Termination of movement of goods:** In the present case, the goods are made available to the recipient at the factory gate, but this is not the point where movement terminates since the recipient subsequently assumes the charge for transportation of the goods up to the destination in another state. Thus, termination of the movement of goods

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<sup>1</sup> M/s Penna Cement Industries Limited

<sup>2</sup> Section 10(1) of the Integrated Goods and Services Tax Act, 2017

evidently takes place at the location (in a different state) to which the goods are consigned/destined and such movement is effected by the recipient or by transporter authorised by the recipient.

‘place of supply’ fall under different states and the supply qualifies as inter-state supply. Accordingly, the applicant is liable to charge IGST in respect of ex-factory inter-state supplies.

- **Inter-state supply on which IGST is to be charged:** As the ‘location of supplier’ and the

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### Our comments

Under the erstwhile indirect tax regime, the general understanding/viewpoint was quite settled that the ex-factory sales do not conclude at factory gate but terminate at the place of destination where the goods are finally destined/consigned. However, there was some ambiguity/anomaly under the GST regime for determining the “place of supply” in case of ex-factory sales. The present AAR is in line with the stance/position adopted under erstwhile tax regime and will hopefully impart required clarity on the subject matter.

Even though advance ruling is applicable only to the applicant, the same acts as a guiding tool for other taxpayers with similar issues.

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