JOB WORK AND ITS VALUATION IN GST

In general, "job work" means process or work carried out on any raw material or semi-finished goods supplied by the principal manufacturer to the job worker. Job work is a part or whole of the process which results in the manufacture or finishing of an article or any other essential operations.

As per clause (68) of Section 2 of CGST Act, 2017, "job work" means any treatment or process undertaken by a person on goods belonging to another registered person.

Further, it is clarified through the Circular No. 38/12/2018 dated 26th March 2018, that the job worker can use his own goods for providing the services of job work in addition to the goods received from the principal.

The registered person on whose goods (either inputs or capital goods or both) job work is performed is called the "principal" for the purposes of Section 143 of CGST Act.

PROVISIONS UNDER SECTION 143 OF CGST ACT, 2017

Section 143 encapsulates the provisions related to job work which states that the registered principal may send inputs or capital goods or both to a job worker for job work without payment of tax and subsequently to another job worker and so on, if required. After completion of the job work, the principal shall either bring back the goods to his own place of business or supply (including export) the same directly from the premises of the job worker within 1 year or 3 years in case of inputs or in case of capital goods, as the case may be (except moulds and dies, jigs and fixtures or tools).

Principal manufacturer has to declare the job worker premises as additional place of business except the following:

(i) where the job worker is registered under section 25; or
(ii) where the principal is engaged in the supply of such goods as may be notified by the "Commissioner";

Intimation by the principal manufacturer is also required to be filed via FORM *GST ITC-04* in every quarter stating the details of input and/or capital goods sent to job worker and brought back the goods to his own place of business or supply from the job worker premises.

REGISTRATION REQUIREMENT

Job worker is required to obtain registration only if his aggregate turnover in a financial year exceeds the specified threshold limit to be computed on all India basis (i.e. INR 20 lakhs or INR 10 lakhs in case of special category States except Jammu & Kashmir) regardless of whether the principal and the job worker are located in the same State or in different State.

INPUT TAX CREDIT AVAILABILITY

As per provisions contained in Section 16(2)(b) of CGST Act, input tax credit would be available to the principal for inputs or capital goods directly sent to the job worker premises irrespective of the fact that whether such goods are received by the principal and then sent to the job worker's place of business.

Job worker is also eligible to avail input tax credits on inputs, etc. used by him in supplying the job work services if he is registered under GST.

VALUATION

As per Schedule II of CGST Act 2017, any treatment or process which is applied to another person's goods is a supply of service.

Job worker has to issue an invoice for the value of his services i.e. for job work charges. As per section 15(2)(b) of CGST Act, any amount that the supplier is liable to pay in relation to the supply but which has been incurred by the recipient will form part of the valuation for that supply, if it has not been included in the price of such supply.

CBIC has recently issued Circular No. 38/12/2018 dated 26th March 2018 clarified that the value of moulds and dies, jigs and fixtures or tools may not be included in the value of job work services provided its value has been factored in the price for the supply of such services by the job worker.

Further, it is also clarified that the value of services would be determined in terms of Section 15 of CGST Act and would include not only the service charges but also the value of any goods or services used by *job worker for supplying the job work services, if the same is recovered from the principal.*

It may be noted that while on one hand the circular states that the value of only those goods or services are required to be included in the value of taxable supply which are recoverable from the principal. While on the other hand, it states that the value of moulds, etc. must be included in the value of job work services if their value has not been factored in the price for the supply of such services by the job worker, thereby indicating an apparent contradiction.

Value of moulds and dies, jigs and fixtures may be included while calculating job work charges where the job worker places order for supply of mould to a vendor for use of such mould in his job work and the consideration for supply of such mould is paid by the principal on behalf of the job worker. In such case, it can be said that the value of job work services is suppressed to the tune of additional consideration flowing from the principal to the job worker, through the vendor.

Accordingly, mere supply of moulds and dies, jigs and fixtures by principal to job worker cannot be considered as additional consideration. Therefore, the amortized value of mould, etc. is not required to be included in the value of job work charges. However, the recent circular seems to adopt contradictory position and prone to litigation. Therefore, CBIC should come out with a clarification quickly with respect to such contradiction through circular or notification.

DOCUMENTS REQUIRED FOR MOVEMENT OF GOODS TO JOB WORKER

Rule 45 of CGST Rules, 2017 provides that the inputs, semi-finished goods or capital goods being sent for job work (including that being sent from one job worker to another job worker) shall be sent under the cover of a challan issued by the principal containing the details specified in rule 55 of CGST Rules, 2017.

Challan to be issued by the principal in *triplicate*; 2 copies to be sent to job worker along with the goods. After completion of job work process, 1 copy of challan is to be returned along with the processed goods sent back to the principal.

In case of piecemeal quantities returned by the job worker to another job worker or to the principal, the challan issued originally by the principal cannot be endorsed and a fresh challan is required to be issued by the job worker.

Details of delivery challan is required to be furnish in Table 13 of *Form GSTR-1*.

REQUIREMENT OF E-WAY BILL

In general, e-way bill is required to be generated by every registered person causes movement of goods of consignment value exceeding INR 50,000. However, in case of inter-State movement of goods, e-way bill shall be generated either by the principal or by the registered job worker irrespective of the value of the consignment.

BOOKS OF ACCOUNTS

Principal is solely responsible for keeping proper records of inputs and capital goods sent to job worker for job work.

VIOLATION OF SECTION 143

If the time period of 1 year or 3 years for bringing back or subsequently supplying the inputs or capital goods is not adhered to then the activity of sending goods to job worker shall be deemed to be a supply by the principal on the day when the said inputs or capital goods were originally sent out by him for job work.