



## **Job work procedure under GST**

Harish P Devda  
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### **Background**

Under GST, tax is levied on the taxable supply of goods/services. Tax is applicable on the taxable goods/services supplied in India.

The manufacturing industries now a days they stick to their core competencies and get most jobs done on outsourced basis. In order to meet the several demands of the markets the manufacturing industry usually outsources part or whole of manufacturing process to another person namely job worker for the addition of the value of goods (such as designing, coating on circuits, testing of the product etc) and after the process is completed such goods would be returned back/ sold directly to customers of principal. The process involved is termed as 'job work process' as per industry norms. Job work can be under taken by person for conversion of raw materials into finished goods, including re-work, testing and its report etc.

The importance of job work to principal is to reduce the capital cost/cost of the activity rather than doing by self which may increase the burden of maintenance, reduce the time frame gap between the production and selling, it helps the principal to focus on the market rather than in the internal set-up of machinery process etc.

The article focuses on the procedure to be followed by principal when goods sent for treatment or processes such as cutting, assembly, packing, coating the goods which would be required to be done before selling finished goods by principal to the customer, The paper writer has also covered the maintenance of records, ITC-04, compliance w.r.t to e way bill, analysis of tax implications of the various types of services, issues and solutions in this article.

### **GST implications on job work, on principal and job worker**

**Job work:** Section 2(68) of the CGST Act defines job work to mean any **treatment or process** undertaken by a **person** on goods belonging to **another registered person** and the expression "job worker" shall be construed accordingly.

In short to treat any services as Job work there ought to be:

- a. 2 persons
- b. Principal to be registered under GST



- c. Treatment or process to be undertaken by supplier on goods owned by principal

The definition above makes it clear that the ownership at all time should be with the principal and in no case, it should be transferred to another person in order to avail the benefit of the Job work provisions under GST.

#### **GST implications on principal and job worker**

A registered person / principal subject to conditions may under intimation may send any inputs or capital goods, without payment of tax to job worker for job work and from there subsequently send to another job worker and likewise. For the purpose of job work input includes intermediate goods arising from any treatment or process carried out on the inputs by the principal or job worker. After completion of job work, principal shall bring back inputs or capital goods [except moulds and dies, jigs and fixtures, or tools] within in 1 year / 3 year respectively, of being sent out, to any of his place of business, without payment of tax. The principal would supply the final goods to his end customers on payment of applicable GST.

Further Schedule II of the CGST Act, which sets out the activities to be treated as supply of goods or supply of services, it provides that any treatment or process which is applied to another person's goods is a supply of services. Accordingly, the job worker is liable to GST at applicable rates on the processing charges paid by principal.

#### **Time limit for receiving goods back from Job worker**

S. 143 of CGST Act provides that the job worker **may** send any inputs or capital goods without payment of tax to a job worker for job work services and from there subsequently send to another job worker provided the goods has to be received back/supplied from Job worker's place within stipulated time as follows:

- a. Inputs - within 1 year from the date of its removal for job work
- b. Capital goods - within 3 years from the date of its removal for job work
- c. Extension of 1year/ 2 years for inputs/capital goods is possible with prior permission of Commissioner.

After completion of process by job worker, principal has following options:

- a. Further send goods to another job worker for further process, or
- b. Bring back processed goods within time limit and supply them to the customers on payment or non-payment of GST as the case may be, or



- c. Supply to the customers directly from the job worker's place on payment of applicable GST.

**Note:** Principal will be able to supply from Job worker's place only in case

- a. Where principal has declared job worker's place as additional place of business; or
- b. Job worker is registered under GST

**When inputs or capital goods are not received back or supplied from Job workers place within 1 or 3 years as the case maybe**

In such a case it would be deemed that the goods are supplied by principal to Job worker on the date of removal, consequently it makes the principal to issue a tax invoice as on such date. Further it provides the principal is required to pay interest on tax amount from the date of removal till the date of payment of taxes in its GST returns

**Note:** In case of goods directly sent by vendor to job worker' place then the time limit of 1/3 years to be calculated from date of receipt of goods by job worker.

The provision requires assessee to pay interest from date of removal. The interest would be payable for a minimum of 1 year for inputs and 3 years for capital goods which is one of the major drawbacks of the job work provision.

**A question arises whether job worker could add materials in addition to the goods sent by principal for treatment or process?**

The Central Government vide circular no. 34/8/2018-GST dated 1<sup>st</sup> March 2018, adopts the principles laid down by the judicial precedents.

It was also clarified in the circular no. 38/12/2018 as under:

*Further, it is clarified that the job worker, in addition to the goods received from the principal, **can use his own goods for providing the services of job work.***

**Case law cited**

- a. Apex court under earlier CE law held in the case of Prestige Engineering v. CCE 1994 (73) ELT 497 (SC), that when job worker contributes his own material for manufacture of goods along with the goods supplied by customers and manufactures different goods, it does not amount to job work. However, addition of minor items by job worker would not detract it being a job work.



- b. Further, in case of *CC v. Suraj Fine Chemicals 2013 (295) E.L.T. 32 (Bom.)*, it was held that in absence of any restriction in notification the job worker can use his own material in job work.

Though the above-referred cases are not under GST the principles could be applied under similar circumstances. However, it is to be noted that since there is no judicial precedent in this regard under GST, the above view is subject to judicial scrutiny.

It could be said that where job worker's uses its own material along with the goods sent by the principal, the activity could be considered as job work when the own materials used by job worker are minor items, when most of major products are supplied by registered principal it would be considered as a job worker services when price of minor additions are included in job work invoice.

Mere addition of few materials by job worker would not detract from treating as job work.

### **Input tax credit [ITC]**

S. 16 of the CGST Act provides that every registered person would be entitled to take ITC on goods or services or both which are used or intended to be used in the course or furtherance of his business and attributable to the extend to taxable supplies subject to conditions and restrictions in blocked credits S. 17(5)

**Conditions for availing ITC:** A registered person can claim ITC of tax paid on supply of goods and/ or services or both only if:

- a. He is in possession of tax invoice, debit note issued by the supplier, self-invoice in the case of RCM procurements from unregistered vendors, bill of entry in the case of import of goods, ISD invoice in the case of ITC distributed by an ISD or any other taxpaying document;
- b. He has received the goods or services or both;
- c. The tax charged by the supplier has been paid to the government; and
- d. The supplier and the recipient have furnished the return.
- e. He has paid the consideration within 180 days of the invoice issued by the vendor

### **ITC for Job worker**

- a. S. 19 provides that ITC on goods supplied to job worker by the principal would be entitled to take the credit of input tax paid on inputs/capital goods sent to the job-worker for the job work.



- b. Further the principal can take the credit even when the goods have been directly supplied to the job worker without bringing into the premise of the principal.
- c. The principal need not wait till the inputs/capital goods are first brought to his place of business.

#### **Rate of tax for Job work services**

In the press release upon the conclusion of the 37th GST Council meeting, it was proposed to reduce the rate of tax on “machine job work” to 12%. However, the implication of reduction only on machine job work is not forth-coming from the amendment entries in the notification.

Note: The press release is issued in simple terms and do not have any legal validity, it cannot override notifications or Act and only notification issued in accordance with power conferred by the statute has statutory force and validity.

There is a dispute on account of the presence of two residuary entries within S. No. 26  
26(id) for job work of goods other than covered in (i),(ia),(ib) and (ic) - 12% and  
26(iv) for manufacturing services on inputs owned by others other than (i), (ia), (ib), (ic),  
(id), (ii), (ia) and (iii) above – 18%

Entry no 26(iv) would be applicable only in case where no other cases are specific in entry 26 - specific entry would prevail over the residuary entry.

Circular no 126/45/2019-GST issued by department clarified that entry at item 26(id) covers only job work services as per S. 2(68) on the other hand, the entry at item 26(iv) specifically excludes the services covered by entry at item 26(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 GST**

#### **It may be concluded as follows**

Services provided to the principal on goods owned by him, if he is

Registered – 26(id) – taxable @12%

Unregistered – 26(iv) – taxable @18%

#### **The extract of the entry after amendment by notification 20/2019-CT(R)**

<i>Description of Service</i>	<b>IGST</b>
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	(%)
<p>26 (i) Services by way of job work in relation to-</p> <p>(a) Printing of newspapers;</p> <p>(b) Textiles and textile products falling under Chapter 50 to 63 in the First Schedule to the Customs Tariff Act, 1975;</p> <p>(c) all products falling under Chapter 71 in the First Schedule to the Customs Tariff Act, 1975;</p> <p>(d) Printing of books (including Braille books), journals and periodicals;</p> <p>(da) printing of all goods falling under Chapter 48 or 49, which attract IGST@5% or nil</p> <p>(e) Processing of hides, skins and leather falling under Chapter 41 in the First Schedule to the Customs Tariff Act, 1975;</p> <p>(ea) manufacture of leather goods or foot wear falling under Chapter 42 or 64 in the First Schedule to the Customs Tariff Act, 1975 respectively;</p> <p>(f) all food and food products falling under Chapters 1 to 22 in the First Schedule to the Customs Tariff Act, 1975;</p> <p>(g) all products falling under Chapter 23 in the First Schedule to the Customs Tariff Act, 1975, except dog and cat food put up for retail sale falling under tariff item 23091000 of the said Chapter;</p> <p>(h) manufacture of clay bricks falling under tariff item 69010010 in the First Schedule to the Customs Tariff Act, 1975;</p> <p>(i) manufacture of handicraft goods.</p> <p><i>Explanation.- The expression "handicraft goods" shall have the same meaning as assigned to it in the notification No. 32/2017 -Central Tax, dated the 15th September, 2017 published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R. 1158 (E), dated the 15th September, 2017 as amended from time to time.</i></p>	5



26 (ia) Services by way of job work in relation to- (a) manufacture of umbrella; b) printing of all goods falling under Chapter 48 or 49, which attract IGST @ 12%	12
26 (ib) Services by way of job work in relation to diamonds falling under chapter 71 in the First Schedule to the Customs Tariff Act, 1975;	1.5
26 (ic) Services by way of job work in relation to bus body building;	18
<b><u>26 (id) Services by way of job work other than (i), (ia), (ib) and (ic) above;</u></b>	12
26 (ii) Services by way of any treatment or process on goods belonging to another person, in relation to- (a) printing of newspapers; (b) printing of books (including Braille books), journals and periodicals; (c) printing of all goods falling under Chapter 48 or 49, which attract IGST @5% or Nil.	5
26 (iia) Services by way of any treatment or process on goods belonging to another person, in relation to printing of all goods falling under Chapter 48 or 49, which attract IGST@12%.	12
26 (iii) Tailoring services.	5
<b><u>26 (iv) Manufacturing services on physical inputs (goods) owned by others, other than (i), (ia), (ib), (ic), (id), (ii), (iia) and (iii) above.</u></b>	18

#### Documentation

**Records:** Section 143 mandates the principal to maintain the records of the goods sent, received, supplied from job worker's place

**DC:** The inputs, semi-finished goods or capital goods is required to be sent to job worker for job work under the cover of a delivery challan which is issued by principal. Such delivery challan is required even in case where such goods are sent directly to a job worker.



**Contents of DC issued by principal to job worker**

- a. serially numbered not exceeding 16 characters, in one or multiple series
- b. date and number of the DC;
- c. name, address, and GSTIN of the consigner, if registered;
- d. name, address, and GSTIN or UIN of the consignee, if registered;
- e. HSN/SAC and description of goods;
- f. quantity (provisional, where the exact quantity being supplied is not known);
- g. taxable value;
- h. tax rate and tax amount –CGST, SGST/UTGST, IGST or cess
- i. place of supply, in case of inter-State movement; and
- j. signature

**ITC-04:** The principal is required to file statement of records ITC-04 on common portal quarterly basis by 25<sup>th</sup> of the month following the quarter.

**Details to be provided in ITC-04**

- a. goods sent for job work by principal;
- b. details of goods sent from one job worker to another job worker of principal;
- c. details of the goods sent directly to the place of customers from the place of job worker; and
- d. The details of the goods received back from the place of job worker.

**Due dates for filing of ITC-04**

**For FY 2017-18 and 2018-19:** The requirement to file statement ITC-04 has been waived off for the first 2 years of GST period.

However, if any goods sent to job worker during the period from July 2017 to March 2019 have not been received back (from the job worker) or not supplied from job worker's premises as on 31st March 2019 then, the same needs to be furnished in Table 4 of ITC-04 of Apr-June 2019 quarter.

**For FY 2019-20:**

Quarter	Original Due Date	Extended Due Date
Q1 - April '19 to June '19	25 <sup>th</sup> July 2019	31 <sup>st</sup> August 2019 N. 32/2019-CT
Q2 - July '19 to September '19	25 <sup>th</sup> October 2019	Same – not extended
Q3 - October '19 to December '19	25 <sup>th</sup> January 2020	Same – not extended
Q4 - Jan '20 to March '20	25 <sup>th</sup> April 2020	Same – not extended





### **E way bill for Job worker**

E-way bill is an electronic way bill for movement of goods, which has to be generated on the e way bill portal.

Every registered **person who causes movement of goods of consignment value** exceeding Rs.50,000/- or limit applicable to that particular state as the case may be, needs to furnish information relating to the movement of goods in e-way bill:

- a. in relation to supply, or
- b. for reason other than supply such as sale of goods on approval basis, job worker etc., or
- c. due to inward supply from an unregistered person excluding exempted goods

The limit of Rs 50,000 for generation of e-way bill is same for both inter-State movement and intra State movement in Karnataka.

#### **a. Goods sent to Job worker**

**Within State:** If goods are sent by a principal to a job worker located in same State or Union territory, the e-way bill shall be generated either by the principal or the job worker (if registered) where consignment value exceeding Rs. 50,000/-.

**Outside State:** If goods are sent by a principal located in one State or Union territory to a job worker located in any other State or Union territory, the e-way bill shall be generated either by the principal or the job worker (if registered) **irrespective of the value** of the consignment. Here, the threshold limit of INR 50,000 is not applicable.

#### **b. Goods returned from Job worker**

When Job worker is returning back goods to principal and where Job worker is registered under e way bill portal, Job worker would generate e way for such movement of goods, and in case where Job worker is not registered then the principal has to generate an e way bill.

### **Common issues and solutions w.r.t to Job work services**

Q1 Whether the following could be considered as a Job work services?

#### **a. Testing services**

**Comments:** When principal [registered] is sending goods to job worker for testing purposes, the job worker will test and send back the goods along with testing reports. A view could be taken that testing is a process carried out by the job worker such process of testing is a job work services under GST and hence the details of the movement of such goods for testing are to be disclosed in ITC-04 by the principal.



**b.Process on Raw materials sent by principal**

**Comments:** In this case Principal registered under GST would sending raw materials for turning, grinding, coating, other process on the materials to another person it could be treated as Job work services under GST.

**c.Contract given to the sub-contractor fully with materials and manpower.**

**Comments:** Where principal is subcontracting the work when the goods are not owned by principal and such supplier would be supplying finished goods to principal then in such a case it could not be said that principal is receiving job work services.

**d.Contact given to the sub-contractor only for labour and materials to be supplied by registered person for the job.**

**Comments:** Registered person is sending goods to another person for treatment or process then the services received by such person would be termed as Job work services under GST.

**e.In case the contract given to the unregistered person.**

**Comments:** There is no condition under GST that the person providing services such as treatment or processing on the goods owned by others should be registered under GST however the recipient of services i.e. principal should be registered in order to treat it as a job work.

**f.When job worker is providing services to the customer located outside India:**

**Comments:** Where Job worker is supplying services to the goods belonging to a customer located outside India services would not be treated as job work under GST as the services are supplied to a person who is not registered under GST in India.

**Q2.Whether it is compulsory to opt for job work?**

**Comments:** The assessee has an option whether to send goods under Job work without payment of taxes under the cover of DC and the payment of GST would be required only to the extent of job work charges (service charges) collected by the worker.

Alternatively, assessee can opt for supply of goods to job worker with payment of taxes under cover of tax invoice, after the treatment/process job work would supply the goods under tax invoice (including job work charges)



When goods sent to job worker and same has been lost/ destroyed at job worker premises, will it be considered as deemed supply

**Comments:**

**Job worker is in receipt of goods:**

It will be deemed supply on date of removal from principal to job worker and principal would be required to issue a tax invoice on date of goods lost/destroy in the premises on job worker,

**Job worker is not in receipt of goods:**

The principal would be required to reverse the credit availed on such inputs or goods to the extent ITC availed on such goods destroyed.

**Conclusion**

In the present competitive world, it is very important to the assessee to be aware of the legal implications under GST in order to avoid extra costs.

The main purpose of job work is to avoid the unnecessary GST cost when goods are sent for further processing. However, the principal has to ensure the proper records of documents, generation of the e way bill by principal or job worker [if registered]

It is be noted that the goods sent for job work is required to be returned back/ sold from the premises of job worker within 1/3 years as the case maybe else the interest on deemed supply has to be paid from the date of removal of the goods which would be cost to the principal thus he has to ensure the proper tracking of the goods from the date of removal and has to ensure goods well receive on time.

In many cases the process of job work turnaround would be 3-6 days [example: designing industry] in such a case the principal need not worry much of tracking of goods w.r.t deemed supply concept however he has to ensure proper movement of goods along with DC and e way bill.

This article was published in Taxguru at the below link:

<https://taxguru.in/goods-and-service-tax/job-worker-procedure-gst.html>

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