

Chapter – Job Work

Unlike earlier days, the manufacturing entities instead of carrying out entire operations themselves, outsource few processes to job workers. This helps the manufacturers to get the job done faster and more efficiently. Few other advantages are discussed below:

- ◆ Reduction and to keep check of operational costs
- ◆ Improves focus on core business of manufacturers
- ◆ Gain access to efficient facilities
- ◆ Streamlining and increasing efficiency for time-consuming processes

a) Meaning & Nature of job work:

The definition of job work has been defined in the Section 2(68) of CGST Act which means any *treatment or process* under taken by a person on goods belonging to another registered person. 'Principal' would be the registered person who sends the goods for job work. Treatment or process include packing, labelling, testing, re-conditioning, re-packing, inspection etc.,

In terms of clause 3 of Schedule II to **CGST Act 2017**, any treatment or process applied to another person goods is to be treated as supply of services.

b) Registration under GST

Where a job worker provides service of value greater than Rs. 20 lakh, he is required to register under section 22 of **CGST Act 2017**. To avail the benefits under GST, a job worker may also voluntarily register as provided under section 25(3) of **CGST Act 2017**. When there is inter-State supply of goods or services, the registration under GST is mandatory. However, the government has provided exemption from registration for job workers making inter-state supply of services unless they are covered under the following:

- Job worker is registered under GST voluntarily/ or is registered as limit of 20 lakh is crossed, or;
- Job worker provides services in relation to goods such as – Jewellery, goldsmiths and silversmiths wares and other articles of Chapter 71 of Customs Tariff.

c) Job work procedure

According to Section 143(1) of CGST Act read with CGST Rule 45, principal can under intimation to the department through Form ITC-04 (based on **Circular 38/2018**), send any inputs or capital goods, without payment of tax, to a job worker for job work. Movement of goods without payment of tax from job worker to another job worker and likewise is permitted. The principal shall: –

- a) Bring back inputs or capital goods from job worker premises within specified time limit, or;
- b) Supply inputs or capital goods after completion of job work directly from the job worker premises within the specified time limit with payment of tax, or without payment of tax for zero-rated supplies. To supply goods directly from job worker premises, the following needs to be complied with:
 - i. Job worker has to be registered under GST.
 - ii. Supply of such goods are notified by Commissioner.
 - iii. If not covered under (i) & (ii), principal to include as additional place of business

According to Section 143(2), the responsibility for keeping proper accounts for the inputs or capital goods shall lie with the principal.

d) Availment of ITC on goods sent for job work

According to Section 19(2) of CGST Act, the principal can avail the ITC where goods are sent to job worker premises directly from the vendor location without coming to the principal's premises.

Analysis:

Principal can avail ITC on such goods sent to job worker, provided the vendor mentions -customer as the principal and consignee as the job worker on the face of the invoice. In case of goods imported and directly sent to the job worker from the custom station, the principal requires to raise a delivery challan under Rule 55. Note principal would be eligible for the ITC on imported goods.

Valuation under Job Work

Generally, valuation under GST would be the transaction value, and such price would be considered as the sole consideration for the purpose of GST.

Although, practically, there are many expenses which are borne on behalf of the job worker by the principal. Any job worker liabilities borne by the principal on his behalf would have to be included as part of the transaction value u/S 15(2)(b) of CGST Act.

The key elements to identify such expenses are:

- Whether it is a liability of the supplier (job worker)?
- Has the recipient (principal) borne such expenses on behalf of the supplier?
Although, the concept of 'sole consideration' having various Hon'ble Supreme Court decisions (erstwhile laws) summaries that any expenses which influence the value of the transactions must be included in the transaction value. Thus, Section 15(1) and that price is the sole consideration may be questioned.

Although, in the authors opinion, where the agreement between the job worker and principal clearly lays out various liabilities, and is in compliance with the requirements of Pure Agency (Rule 33), the price could be considered to be the sole consideration and transaction value under GST.

e) Time limit for returning goods sent for job work

According to Section 19(3) read with 143(3) of CGST Act, when inputs (goods) are sent for job work without payment of tax and neither received back within 1 year nor supplied from the job worker premises, it shall be deemed to be supplied by the principal to job worker as on the date when the goods were sent out for job work.

According to Section 19(6) read with 143(4) of CGST Act, when capital goods are sent for job work without payment of tax and neither received back within a period of 3 years nor supplied from the premises, it shall be deemed to be supplied by the principal to job worker as on the date when the goods were sent out for job work.

Provided where inputs/capital goods sent directly to job worker, the period will be counted from *date of receipt of inputs/capital goods by the job worker*.

Section 19(7) of CGST Act, extends the benefit that the time limit of 1/3 years will not be applicable for moulds, dies, jigs and fixture or tools sent out to a job worker.

Through amendment of CGST act with effect from 1st February 2019, the commissioner has been empowered to extend the time limit for return of goods sent on job work for a further period as given below:

- Inputs – additional period of 1 year (totally 2 years)
- Capital goods – additional period of 2 years (totally 5 years)

f) Consequence when goods not returned within time

If the inputs or capital goods are not returned within time limit specified, the principal is liable to pay tax along with interest @18% from the day goods sent out by deeming the activity as an outward supply. The department would earn interest on the following non-compliance.

Corresponding disclosure under GSTR-3B & GSTR-1.

Practically, unless job worker makes payment against invoice to the principal, he would not be eligible for credit u/s 16 of CGST Act. Therefore, suggest job worker to make payments, claim the credit, and include the same as part of valuation for services rendered. However other implications on financial statements needs to be considered.

To avoid disputes from department, ensure the extension of time limit to 2/5 years is availed. Also, option to return and receive back such inputs/capital goods could be explored.

g) Waste and Scrap

In case of supply of scrap:

a) If job worker is registered – Job worker may supply the scrap along with payment under GST.

b) If job worker is unregistered – the job worker should return scarp to the principal/ principal may supply the scrap directly from job worker premises under his invoice. (Note: Such premises to be an additional place of business of principal).

h) Various rates in job work

There is a common misunderstanding in the market that the GST rate for job work services would always be @18%. We have listed few of such exceptions, and recent updates in GST w.r.t job work rates:

1. GST exempt:

- a) Slaughtering of animals
- b) Services by way of pre-conditioning, pre-cooling, ripening, waxing, retail packing, labelling of fruits.
- c) Cultivation of plants and rearing of all life forms of animals, except the rearing of horses, for food, fibre, fuel, raw material or other similar products/agricultural produce
- d) Services provided by the National Centre for Cold Chain Development under the Ministry of Agriculture, Cooperation and Farmer's Welfare by way of cold chain knowledge dissemination

2) GST rate @ 5%:

- a) Printing of newspaper, books, journals etc.
- b) Textiles and textile products falling under chapter 50 to 63 in the First Schedule to the Customs Tariff Act, 1975 (51 of 1975)
- c) Printing of all goods falling under chapter 48 or 49 falling under 5%.
- d) Tailoring services
- e) All products falling under Chapter 71 in the First Schedule to the Customs Tariff Act, 1975 (Ex: Jewellery)

3) GST rate @12%:

- a) Manufacture of umbrella
- b) Printing of all goods falling under chapter 48 or 49 falling under 12%.
- 4) Through **notification 20/2019 – Central Tax(rate)** from 1st October 2019, the GST is reduced to 12% from 18% for job work other than those specifically covered above. **Circular 126/45/2019-GST** provides clarity on the same:

Where job work activity is not specifically covered under entry 26 (i), (ia), (ib), (ic), (id), (ii) (iia), (iii) of **notification 11/2017-CT(R)**, i.e. not covered under serial 1 to 3 above

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- Where the **principal supplier is registered** under GST – registered job worker would require to charge 12%
- Where the **principal supplier is unregistered** under GST – registered job worker would require to charge 18%

i. Documents to be issued by manufacturer or Job worker

The principal has to raise triplicate challan when sending goods to job work, one challan should be retained and remaining two challan will be sent to the job worker. One copy of challan for outward movement (principal to job worker) and the other copy of challan for return (job worker to principal). *Note: The challan reference would remain the same.*

Other types of Documentation:

a) One job worker to another job worker:

Goods may move under the cover of challan issued either by job worker or principal.

b) In piecemeal by job worker:

Goods returned by job worker in instalments cannot be endorsed in the delivery challan issued by the principal, job worker requires to raise a fresh challan.

Delivery Challan under GST has been provided under Rule 55, contents are listed below:

- > Date & number of delivery challan,
- > Name, Address & GSIN of consigner & consignee,
- > HSN code & description of goods,
- > Quantity,
- > Taxable value,
- > Tax rate & Tax amount,
- > Place of supply and
- > Signature

j) Filing of ITC-04:

When principal sends inputs or capital goods for job work, he is required to file ITC-04, it will act as a timely intimation to the department of goods sent for job work. Note, the job worker need not file ITC-04. Following are the contents of the form:

Table 4: Details of inputs or capital goods sent for job work

GSTIN / State in case of unregistered job worker	Challan no.	Challan date	Description of goods	UQC	Quantity	Taxable value	Type of goods (inputs/capital goods)	Rate of tax (%)			
								CGST	SGST	IGST	Cess
1	2	3	4	5	6	7	8	9			

Table 5: Detail of inputs/capital goods received back from job worker / goods sent out to another job worker or supplied from job worker

GSTIN / State of job worker if unregistered	Challan no. issued by the job worker ##	Challan date issued by job worker ###	Description of goods	UQC	Quantity	Original challan no. issued by principal	Original challan date issued by job worker	Nature of job work issued by job worker	**Losses & Wastes	
									UQC	QTY
1	2	3	4	5	6	7	8	9	10	

In case of inputs/capital goods supplied directly from the job worker premises read as – ‘Invoice no. incase supplied from job worker premises issued by principal’. (Table 5C)

In case of inputs/capital goods supplied sent out to another job worker – (Table 5B)

In case of goods supplied directly from the job worker premises read as – ‘Invoice date incase supplied from job worker premises issued by principal’.

** Loss & wastes are included in the format of CGST Rules, although the same does not reflect in the GST portal. Hopefully, this anomaly is rectified at the earliest.

Path to download & file ITC-04 in GST portal:

GST Home page > Downloads > Offline Tools > ITC-04 (in excel).

GST Home page > Login > Dashboard > Returns > ITC forms > File ITC-04

Due date per quarter: 25th of subsequent month of the said quarter.

Note:

- For the period July 2017 – March 2019 the ITC-04 filing has been waived off.
- For April to June 2019 the due date was extended to 31st August 2019.

Note: Rule 45 read with **notification 14/2018-CT & 74/2018-CT**, challan may be issued for goods sent from one job worker to another by the principal or the job worker. The principal is required to update these details while filing ITC-04 under Table 4B.

Illustration on how to file ITC-04:

Mr. A (principal) is sending product 'X' of quantity 100kgs for processing or converting (job work) into product 'Y'. The conversion ratio of product X to Y will be 0.5 (2X=1Y)

How Mr. A will disclose in ITC-04?

When goods to send to job worker Mr. A will disclose under table 4 with the quantity 100kgs of product X

While goods returned from job worker after completion of job work, Mr. A will disclose under table 5 of ITC-04 with the quantity of 100kgs of product X.

The above disclosure, is not uniformly being adopted across the industry. Some persons are filing the returned goods as Product 'Y' of 50 quantity. No Circular/Trade notices received from the department as yet.

To be able to track whether the inputs/capital goods have been received back within 1/3 years, the details of goods received may be filled in terms of the goods sent. Although, this is not mandatory but considered as best practice, Next question arises, how do we provide for this in our inventory?

In the inventory software the conversion ratio can be filled in, wherein, for the inventory it would disclose as Product Y – 50 quantity, but for the purpose of ITC 04 – it would disclose Product X – 100 quantity.

k) E- Way bill:

In terms of Rule 138 of CGST Rules, where principal and job worker are located in the different States, E-way bill must be generated for inter-State movement **without** considering threshold limit of Rs. 50,000. For intra-State movement, the threshold limit of Rs. 50,000 limit (in Karnataka) or any other limit as applicable in such State would apply. In many States, there are higher limits or completely exempt.

While returning goods after completion of job work to principal's premises, either the principal or job worker or transporter can raise E- way bill. It is to be noted that the waybill is required for "every movement" and not "every supply".

➤ Mentioned Below Some FAQs Related to Job Work Mechanism and its Compliance under GST:

Q.1 – Define Job Work?

The job Work industry deals in the processing of the raw materials/semi-furnished or intermediate goods to convert them into final or consumable products. The raw materials are provided to the sector by principal manufacturers.

Q.2 – How is a Job Work unit defined under GST provisions?

As per the clauses of Section 2(68) of the Central GST Act, Job Work is the processing/treatment for the final transformation of the goods belonging to the other registered person. The person who performs the task is called 'Job Worker'. However, the ownership of the goods remains with the concerned person (principal manufacturer) and the job worker is obliged to work as per the requirements of the principal manufacturer.

Q.3 – Who are Principal Manufacturers?

Principal manufacturer is the actual owner of the raw materials/semi-furnished goods who outsources the task of transforming the goods to Job Work Sector. Job Worker converts the raw material into finished goods and is paid for his services.

Q.4 – What are the terms of registration for Principal Manufacturers and Job Workers?

Registration under GST is the must for Principal manufacturer as well as Job Workers. However, the registration relies on various registration criteria mentioned u/s 22 & 23 of the Central GST Act. Registration under GST is beneficial for the Job Work Sector as it has customized provisions for the sector when it comes to simplified return filing, ITC claim or GST rate applicability.

Q.5 – What are the applied GST rates for the Job Work Industry?

Principal Manufacturer	Job worker	GST Rate
Registered	Registered	Rates specified in chapter heading 9988 for the respective goods/services
Registered	Unregistered	N/A
Unregistered	Registered	18% *

Q.6 – What category of goods are processed in the job work sector?

The goods processed for final consumption by the Job Work Sector are either the input goods or Capital Goods delivered by principal manufacturers.

Q.7 – Are there any policies (under GST) for sending the raw materials to the Job Work Sector?

The goods delivered by the Principal Manufacturer to Job Work Sector for processing needs to be processed and the furnished products need to be re-delivered to the Principal Manufacturer within the prescribed deadlines set by GST Governance. The time limit is as follows:

- For Input Goods – Within 1 Year
- For Capital Goods – Within 3 Years
- No terms of return are mentioned for Moulds, dies, Jigs and fixture or tools

Q.8 – Are there any documents or intimation involved while sending the raw materials for final-furnishing to the Job Sector?

The delivery of the raw material to the Job Work Sector is authenticated by a challan issued by the principal manufacturer. The format of the challan is prescribed by rule

10 of Invoice Rules. The complete list of items delivered by the principal manufacturer to the Job Worker needs an entry in Form ITC-4. The form is filed by the principal manufacturer mentioning the details of the items sent to the job worker. ITC-4 is quarterly compliance mandatory for every principal manufacturer. deadline s for furnishing the Form ITC-4 is on or before 25 of the Month succeeding the quarter. ITC-4 is an online compliance form.

Q.9 – What are the contents of Form ITC-4?

Form ITC 4 is the requirement by Principal Manufacturer and te format includes information such as;

- List of Goods delivered to Job Workers or received from them
- The goods sent from one Job Worker to another due to finishing requirements
- Goods received back from the Job Worker
- Details of the job worker to whom the goods are transferred from the prior job worker

Q.10 – Is there any Input Tax availment on the goods sent to Job Workers?

Yes, Input Tax can be availed by the Principal Manufacturer on input goods/capital goods sent to Job Workers. Principal manufacturer can avail input tax even when the goods are directly transported to the job worker’s site without reaching his premises. Provided that the manufacturer must contain the document of supply.

Q.11 – How it is mentioned that the furnished goods are been re-delivered to the Principal Manufacturer?

Yes, Input Tax can be availed by the Principal Manufacturer on input goods/capital goods sent to Job Workers. Principal manufacturer can avail input tax even when the goods are directly transported to the job worker’s site without reaching his premises. Provided that the manufacturer must contain the document of supply.

To	Payment of Tax	Conditions (if any)
Principal	Not required	No conditions
Another Job worker	Not required	No conditions
Buyer (for sale)	Required (For clearing within India) Not Required (For Exports)	Job worker premises require to be registered as both Principal`s additional place of business or Job worker own registration

Q.12 – Are there any documents or intimation involved while sending the raw materials for final-furnishing to the Job Sector?

The waste/scrape generated during goods processing can be disposed of by either the principal manufacturer or the job worker once the taxes u/s 143 of the CGST Act are paid.

Q.13 – Are there any documents or intimation involved while sending the raw materials for final-furnishing to the Job Sector?

Goods/Inputs from place	Goods/Inputs to place	Movement type	Eway bill generation limit	Eway bill primary responsibility
Principal	Job worker	Intra state	Rs.50000	Principal
Principal	Job worker	Inter state	Limit N/A	Principal
Job worker – Registered	Principal	Intra state	Rs.50000	Job worker
Job worker – Registered	Principal	Inter state	Limit N/A	Job worker
Job worker – Unregistered	Principal	Intra state	Rs.50000	Principal
Job worker – Unregistered	Principal	Inter state	Limit N/A	Principal
Job worker – Registered	Customer- For Sale	Intra state	Rs.50000	Job worker
Job worker – Registered	Customer- For Sale	Inter state	Limit N/A	Job worker
Job worker – Unregistered	Customer- For Sale	Intra state	Rs.50000	Principal
Job worker – Unregistered	Customer- For Sale	Inter state	Limit N/A	Principal

Job worker place registered as Principal's Additional place of business	Customer- For Sale	Intra state	Rs.50000	Principal
Job worker place registered as Principal's Additional place of business	Customer- For Sale	Inter state	Limit N/A	Principal

Q.14 – Mention the GST return forms furnished for job work?

GST return filing is a mandatory compliance for both the parties involved in the supplies of goods (manufacturer and job worker). Form GSTR 1, GSTR 3B, etc, are filed based on their relevance to the process. Additionally, the principal manufacturer needs to file ITC-4 putting in all the details related to the supply/receiving of goods from the job worker.