

IMPORTANT GST UPDATES

Issued in case of Tata Motors Ltd by Hon Supreme Court of India
Civil Appeal No. 1822/2007 | Date: 15-05-2023

Ruling

The Hon SC ruled that the transaction between the manufacturer and dealer while acting pursuant to a warranty has to be construed as sale within the meaning and definition of sale under the Sales Tax Acts.

Observations & Findings

M/s Marudhar Motors is a dealer of TATA Vehicles. They provide warranty replacements for goods sold to customers under the dealership agreement. Tata Motors sells vehicles and spare parts to Marudhar Motors, who then sells them to customers at a price not exceeding the manufacturer's prescribed maximum price. In the case of warranty claims, Marudhar Motors replaces defective parts free of cost to avoid delays. Customers' defective components or vehicles are returned to Tata Motors, who issue credit notes and credit the dealer's account at the initial sale price.

The main issue in the case is the computation of assessable value and permissible deductions. The specific issue discussed is the TAC warranty discount and whether it should be considered a trade discount or a warranty allowance. The court concludes that the warranty is not a discount on the product being sold but rather a benefit given to customers as compensation for a previous sale's loss. It is a promise made by the manufacturer and honoured by the dealer through the issuance of a credit note. The value of the credit note is considered a valuable consideration and is subject to sales tax. It argues that the dealer replaces defective parts based on the manufacturer's proposal, constituting a contract between the two parties with reciprocal promises.

The case involves a reference to the judgment in Mohd. Ekram Khan. The court concludes that the judgment applies when a manufacturer issues a credit note to a dealer under a warranty, and the dealer replaces a defective part using a spare part from their stock or purchased from the market. In such cases, the credit note is considered a valuable consideration for the transfer of property, making it a sale subject to sales tax.

However, the judgment does not apply when the dealer receives a spare part directly from the manufacturer to replace a defective part under warranty collateral to the sale of the automobile. In such situations, the dealer may receive consideration for their services as a dealer or agent of the manufacturer, which is not considered a sale transaction.

Based on this understanding, the court overrules the judgments in the cases of Prem Motors and Geo Motors within Mohd. Ekram Khan. It is reiterated that a credit note issued by a manufacturer to a dealer, as explained above, is considered a valuable consideration and is subject to sales tax under the respective state enactments.