MAHARASHTRA AUTHORITY FOR ADVANCE RULING

GST Bhavan, Room No.107, 1st floor, B-Wing, Old Building, Mazgaon, Mumbai – 400010.

(Constituted under Section 96 of the Maharashtra Goods and Services Tax Act, 2017)

BEFORE THE BENCH OF

(1) Shri. Dipak Gojamgunde, Joint Commissioner of State Tax, (Member)

(2) Smt. Himani Dhamija, Joint Commissioner of Central Tax, (Member)

ARN No.		**AD270522035579U**
GSTIN Number, if any/ User-id		**27AAAHT0254M1Z0**
Legal Name of Applicant		**M/s. (PRIME PRODUCTS) TARUN MADHUKANT DESAI HUF**
Registered Address/Address provided while obtaining user id		C-107, Synthofine Estate, Behind Virwani Ind. Est. Off Aarey Road, Goregaon (East), Mumbai-400063
Details of application		GST-ARA, Application No. 35 Dated 14.06.2022
Concerned officer		**MUM-VAT-E-715, Nodal-8**
Nature of activity(s) (proposed/present) in respect of which advance ruling sought		
A	Category	**Wholesale Business**
B	Description (in brief)	The Applicant's major raw materials are Sealed Lead acid batteries, and nickel cells falling under HSN 8507, procured indigenously or imported, on payment of duty @ 28% on which ITC is availed as per GST Act 2017.
Issue/s on which advance ruling required		➢ Admissibility of input tax credit of tax paid or deemed to have been paid
Question(s) on which advance ruling is required		As reproduced in para 01 of the Proceedings below.

PROCEEDINGS

(Under Section 98 of the Central Goods and Services Tax Act, 2017 and the Maharashtra Goods and Services Tax Act, 2017)

The present application has been filed under Section 97 of the Central Goods and Services Tax Act, 2017 and the Maharashtra Goods and Services Tax Act, 2017 [hereinafter referred to as "the CGST Act and MGST Act" respectively] by **M/s. (PRIME PRODUCTS) TARUN MADHUKANT DESAI HUF** the applicant, seeking an advance ruling in respect of the following questions.

i. **Whether the Applicant is obligated to reverse ITC availed on the raw material (batteries/cells), to the extent of reduction in value thereof due to flood water/inundation on recognizing such value reduction, (or pay any GST) on receipt of money from insurance company on settlement of the Applicant's claim under Applicant's insurance policy amounting to Rs. 74,58,282/-, without considering GST?**

ii. **If the answer to question i. above is "yes" and Applicant is so obligated, then what is the amount of ITC required to be reversed and/or any GST liability, and when is this applicable,**

a. The date of Claim Settlement

b. Any Other Date (Please specify which)

At the outset, we would like to make it clear that the provisions of both the CGST Act and the MGST Act are the same except for certain provisions. Therefore, unless a mention is specifically made to any dissimilar provisions, a reference to the CGST Act would also mean a reference to the same provision under the MGST Act. Further to the earlier, henceforth for the purposes of this Advance Ruling, the expression 'GST Act' would mean CGST Act and MGST Act.

1. FACTS AND CONTENTION – AS PER THE APPLICANT FACTS:

1.1 The applicant M/s. Prime Products, Goregaon, Mumbai (hereunder referred to as 'the Applicant') holding GSTIN 27AAAHT0254M1Z0 and having warehouse at Gala No. 3, 4, 2, Nawalgaria Ind. East., Chichpada, Sativli, Vasai(E), Dist. Thane-401208, is a distributor of batteries and battery packs falling under HSN 8507. The traded goods are cleared as per rules and regulation of GST Act 2017 on payment of 28% GST.

1.2 The Applicant's major raw materials are Sealed Lead acid batteries, and nickel cells falling under HSN 8507, procured indigenously or imported, on payment of duty @ 28% on which ITC is availed as per GST Act 2017.

1.3 The Applicant submits that devastating flood engulfed their premises on 18th July, 2021 resulting in partial reduction in value of the stock of raw materials i.e. batteries and cells stored in warehouse. Their warehouse was filled with about 4 feet water. The Applicant had stock of about Rs.2.55 Crores (without

GST) of which stock of about Rs.1.25 Crores (without GST) got immersed in dirty flood water. The stock was imported as well as purchased from domestic manufacturers / dealers, falling under HSN 8507 and SGST+ CGST, IGST of 28%.

1.4 As the stock (batteries/cells) was affected due to flood water exposure/inundation it resulted in reduction of its value due to water damage but batteries/cells were not completely destroyed. The effect on the material was to the extent mentioned below:

i. Battery boxes stacked got dislodged and fell from piles resulting in some terminals breaking.

ii. Some battery terminals started to corrode due to water exposure, thereby potentially reducing terminal life or weakening it.

iii. Potentially dirty water may have entered inside some batteries and may have reached the battery plates and electrolytes hence resulting in shorter life and consequentially reduction in price.

iv. Batteries were now not covered under Supplier Warranty since Supplier Warranty is for manufacturing defect and performance problems due to manufacturing defect and due to impact of flood cannot be now separated.

iv. Original packing cartons got spoiled.

1.5 Even though there was reduction in value of the stock (batteries/cells) which were affected, yet these remain useable/saleable in market as batteries/cell packs, albeit at a reduced market price.

1.6 Having taken insurance for the batteries, the Applicant filed a claim with the insurance company M/s The Oriental Insurance Company Limited, for the amount of Rs.1,63,03,720/- (including GST) wide their claim dated 3-Dec-2021, on account of reduction in value of batteries making a claim for loss due to flood/inundation.

1.7 M/s Bhatawadekar Insurance Surveyors & Loss Assessors Pvt Ltd, the Surveyors appointed by insurance company, submitted their Assessment

Report dated 12-Jan 2022. As per the Assessment Report:

i. Rs.50,33,200/- (Rs.50,64,000/- Less Rs.20,000/- Less Rs.10,800/-) was adjudged as the reduced stock value/salvage amount.

ii. Copy of comparative statement of offers and copy of email giving revised offer, advertisement copy and invoice for advertising expenses are enclosed as **annexu**re with the report

iii. Net claimed loss assessed after adjusting salvage after adequacy and excess was Rs. 74,58,282/- (Rs.1,24,96,482/- Less Rs. 50,33,200/- Less Rs 5,000)

v. The GST component of Rs. 34,39,798 (ITC) was declined on grounds that GST reversal is not required.

1.8 The above Assessment was done at basic value without GST, as the insurance company was of the view that the Applicant is not required to reverse any ITC because the batteries/cells were not destroyed and did not become scrap, and remained batteries/cells although there was reduction in their value due to the water/inundation. The affected batteries have finally been retained by the Applicant, after the tender process of auction thereof as part of insurance claim process, on as it is condition.

1.9 The affected batteries were to be and are already being sold as batteries/cell packs under the same HSN 8507, charging GST @ 28% (balance is intended to be sold similarly).

1.10 As per the Assessment Report, Surveyor has as of now offered to pay only Rs. 74,58,282/- in settlement of the Applicant's claim, without considering GST/ITC, as reversal of ITC is not required in his view.

2. STATEMENT CONTAINING APPLICANT'S INTERPRETATION OF LAW

The Applicant submits that there is no requirement to reverse any ITC, and there is no other liability towards GST except on supply of the affected batteries/cells as and when the supply takes place for the following reasons:

2.1 The Applicant submits that the claim amount of Rs.74,58,282/-, is an actionable claim of the Applicant. It is not liable to GST in view of specific exclusion under Schedule III of the CGST Act/SGST Act entry 6. It is based on

the insurance policy contracted with the insurance company M/s The Oriental Insurance Company Limited, arising out of insurance company's liability under insurance contract. In any case there is no supply and this is a pure financial transaction of claim settlement.

2.2 No reversal of ITC is required because the Applicant had duly purchased the materials (batteries and cells) and was charged tax by the supplier(s) thereof to the Applicant, or on import paid IGST by them. Accordingly, the initial availment of credit by the Applicant is in conformity with provisions of Section 16 of the CGST Act which reads as under:

> *Section 16. Every registered person shall be entitled to take credit of input tax charge on any supply of goods or services or both to him which are used or intended to be used in the course or furtherance of his business and the said amount shall be credited to the electronic ledger of such person.*

2.3 Section 17 of CGST Act which enumerates certain conditions/situations in which input tax credit is not available are not applicable to the facts of the Applicant. Only one of such conditions which may need consideration in the Applicant's case is provided in sub-clause (h) of Section 17 (5) of CGST Act, but this clause (h) is also not applicable to the facts of the Applicant.

2.4 S. 17(5) (h) reads as follows:

> *17(5) Notwithstanding anything contained in sub-section (1) of section 16 and sub-section (1) of section 18, input tax credit shall not be available in respect of the following, namely:*
>
> *(h) "goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples."*

2.5 A plain reading of the above sub-clause indicates that ITC is not available or is required to be reversed only in the following situations where the goods cease to exist with the supplier and are either:

- *lost/ stolen- and thereby the supplier loses the complete possession thereof, or*
- *The existence of the goods itself ceases i.e. "goods are destroyed" and. thereby cease to exist as "goods" and what survives is either scrap or nothing, or.*

- *Goods are "written off' i.e. lose all value and rendered completely useless requiring the same to be written off, or*
- *The goods are disposed-off (without consideration) as gift or free samples and thus entirely cease to be in possession of the supplier.*

2.6 It is absolutely clear that when the goods remain but there is some reduction in their value, either on account of some physical affect (like impact of water/weather/ or storage) or otherwise say on account of market forces/competition/new products or the like, ITC is not to be reversed even though the price of the goods upon supply may be liable to be reduced or discounts may need to be offered. In such a case there may need to "write down" the value of the goods for accounting or other reasons, but the goods are not written off and cannot be written off as the goods are very much in existence.

2.7 Further, in business there are many situations where there may be diminution in the value of goods for a variety of reasons where the goods continue but their value goes down either on account of obsolescence, or normal wear and tear or special wear and tear or otherwise due to market conditions. These categories of situations whether normal or abnormal are not covered in Section 17(5) either in sub-clause (h) or any other clause. Hence it is clear that Section 17(5)(h) is not attracted and ITC is not required to be reversed if (i) goods exist, (ii) goods are in possession of the supplier, (iii) goods are not written off and can be sold in the same form as goods (and not scrap) but for a lower value on account of reduction in net realizable value.

2.8 It may be relevant to point to Accounting Standard AS-2, which specifically provides for the following in relation to inventory valuation:

Quote

> 28. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs necessary to make the sale have increased.

29. Inventories are usually written down to net realizable value on an item by- item basis. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory relating to the same product line that have similar purposes or end uses and are produced and marketed in the same geographical area and cannot be practicably evaluated separately from other items in that product line. It is not appropriate to write down inventories based on a classification of inventory, for example, finished goods, or all the inventories in a particular business segment.

Unquote

2.9 It may also be submitted that the phrase "written off' is not defined anywhere in the CGST Act, however "goods written off' mean when goods ceased to exist as goods. The other words in Section 17 (5) sub-clause (h) also will lend the same meaning to the words 'written off" as used in sub-clause (h). Further as per above provision of Accounting Standard AS-2;

- The word "Written off" in the context of inventories is used when the net realizable value is zero i.e. refers to the accounting process of reducing the value of inventory that has lost all of its value.
- However, if the inventory has fair market value as such, but is found to be less than its book value, it will be referred to as inventory "written down" instead of inventory "written off".

2.10 In the Applicant's case the material (batteries/cells) have been affected due to inundation and exposure to water as explained in the aforesaid paras, however the batteries and cells continue to exist and are not "Lost, stole, destroyed, written off or disposed of by way of gift or free samples". These affected batteries/cells/packs have been and shall be supplied as such under the same HSN 8507 as batteries/cells/packs. The impact of flood has only resulted in lowering the realizable value thereof. The batteries/cells have not been destroyed so as to only render the residue as scrap/battery rind (then saleable as scrap under HSN 85481020) and not saleable as batteries/cell packs. Further the materials have not been lost in floods. Thus, goods are not destroyed, nor lost, nor written off.

2.11 The applicant submits that for purpose of accounting in keeping with accounting norms and standards the invent tory needs to be written down to realizable value, but the goods are not and cannot be written off.

2.12 The applicant submit that form perusal of the above, the value of the batteries/cells affected by water/flood has only been reduced and that Applicant's case will not fall within the ambit of Section 17(5) sub-clause (h) or any other clause, for reversal of ITC. As such there is not requirement for any ITC reversal or any other GST liability on the Applicant.

2.13 Therefore the Applicant is entitled to retain the input tax credit already availed and is not obligated to reserves the same.

2.14 In view of the answer to Question No (i) being in the negative, Question No (ii) does not survive.

2.15 The Applicant seeks confirmation of the above view to avoid any disputes in the future and shall be obliged for the ruling by the authority.

3. CONTENTION – AS PER THE CONCERNED OFFICER:

Question on which Advance Ruling is required

i. Whether the applicant is obliged to reverse ITC availed on the raw material (batteries/cells) to the extent of reduction in value thereof due to flood water/inundation on recognizing such value reduction (or pay any GST) on receipt of money from insurance company on settlement of the applicant's claim under applicant's insurance policy amounting to Rs. 7458282/- without considering GST?

Ans: Yes, such ITC (Input Tax Credit) is required to be reversed by taxpayer under GST law as this ITC is not available and comes under blocked credit as per section 17 (5) (H) of CGST/MGST Act, 2017.

Section 17. Apportionment of credit and blocked credits

17(5) Notwithstanding anything contained in sub-section (1) of section 16 and sub-section (1) of section 18, input tax credit shall not be available in respect of the following, namely:

(h) "goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples."

ii. If the answer to question i. above is 'yes' and applicant is so obligated, then what is the amount of itc. required to be reversed and or any GST liability, and when is this applicable,

a. The date of claim settlement
b. Any other date (please specify which)

Ans: ITC should be reversed proportionately when contingency as section 17(5)(h) of CGST Act,2017 had been aroused.

4. HEARING

Preliminary hearing in the matter was held on 26.06.2024. Mr. Rajan Mashelkar, Consultant and Mr. Shekhar Dhomkar DCST, MUM-VAT-E-714, Nodal-8, have virtually attended the meeting.

The application was admitted and called for final hearing on 19.11.2025. Mr. Rajan Mashelkar, Consultant, and the jurisdictional Mr. Shekhar Dhomkar DCST, MUM-VAT-E-714, Nodal-8 attended the meeting. Case is heard.

5. OBSERVATIONS AND FINDINGS:

5.1 The Applicant is engaged in trading of batteries and battery packs falling under HSN 8507, taxable at 28%. The Applicant availed ITC on procurement/import of batteries and cells. On 18 July 2021, flood water entered the Applicant's warehouse, causing damage to inventory, resulting in reduction in market value. The Applicant lodged an insurance claim and received compensation of Rs. 74,58,282/- (excluding GST) towards loss suffered. The Applicant contends that ITC reversal is not required as goods were not fully destroyed.

5.2 Section 17(5) (h) of CGST Act, 2017 reads as follows:

17(5) Notwithstanding anything contained in *sub-section (1) of* section *16 and sub-section* (1) *of section* 18, *input tax credit shall not be available* in *respect* of *the following, namely:*

(h) "*goods* lost, *stolen, destroyed, written off or disposed* of *by* way *of gift or free samples*."

5.3 In view of section 17(5)(h) of CGST Act, 2017, the applicant has contended that ITC reversal is not applicable, because:

- Goods were not lost, stolen, destroyed, written off, or disposed of by way of gift or free samples, as covered by Section 17(5)(h).
- Goods exist, continue to be in possession of the Applicant, and are being sold as batteries/cell packs under the same HSN 8507, charging GST @ 28%.
- Only a reduction in value has occurred.
- Accounting write-down is not equivalent to "written off".
- The receipt from insurer is an actionable claim, expressly excluded from the scope of supply by Entry 6 of Schedule III, and hence no GST is payable.

5.4 Issues for consideration before us are -

A. Whether goods damaged due to flood resulting in diminution in value can be regarded as "goods lost" within the meaning of Section 17(5)(h)?

B. Whether ITC attributable to such damaged goods is required to be reversed?

5.4.1. Interpretation of Section 17(5)(h) as per applicant- Applicant relies on strict reading of Section 17(5)(h) that ITC reversal is applicable only if goods are "lost, stolen, destroyed, written off, or gifted." Partial damage or diminution in value is not covered. The expression "goods lost" used in Section 17(5)(h) has not been defined under the CGST Act. Therefore, the term must be understood in its ordinary commercial sense with expanded interpretation of "goods lost/destroyed", including significant reduction in market value due to flood. Loss of goods does not necessarily mean physical disappearance alone. Goods may also be regarded as lost when they suffer such damage or impairment that their intended commercial value and utility are substantially diminished due to unforeseen events such as flood, fire, or accident.

5.4.2 The applicant's contention that goods must cease to exist completely in order to qualify as "destroyed" or "written off" is not supported by the statutory intent and language. The provision does not restrict itself only to total annihilation or conversion into scrap.

5.4.3 The term "written off" is not defined under the CGST Act. However, in common commercial parlance and accounting practice, writing off or diminution in value recognized due to damage, obsolescence, or impairment constitutes writing off to that extent.

5.4.4 Once the applicant has recognized reduction in value of inventory due to damage, and received insurance compensation for such loss, it is evident that the goods, to the extent of such loss, are no longer intended to be used in the same manner as originally envisaged at the time of availing ITC. In the present case, the goods have suffered physical damage due to flood water; Warranty was rendered inoperative; Market value of the goods was significantly reduced; The Applicant himself admitted diminution in value and claimed insurance compensation. Thus, the goods have suffered commercial loss, which squarely falls within the ambit of "goods lost" under Section 17(5)(h).

5.5 The Applicant's reliance on the concept of "write-down" is misplaced. This is not a case of normal market-driven price reduction or obsolescence but a specific identifiable loss due to flood, for which insurance compensation was claimed and received. Although the applicant contends that the batteries/cells were not completely destroyed, it is undisputed that:

- the goods suffered substantial damage due to flood,
- their market value and functional life were impaired, and
- loss was recognized and compensated by insurance.

To the extent of such loss, the goods stand written off/destroyed in commercial terms. Such losses are specifically covered under Section 17(5)(h).

5.6 Legislative Intent Behind Section 17(5)(h) intends to deny ITC where goods do not ultimately contribute fully to taxable outward supply due to loss or destruction. Allowing ITC on goods that have lost substantial value due to flood would defeat the legislative intent of linking ITC to effective use in business. Flood is an extraneous and abnormal event, and losses arising therefrom cannot be equated with normal business depreciation or market-driven price reduction.

5.7 The Applicant has received insurance compensation for the loss suffered on account of damaged inventory. Insurance claim settlement represents monetary compensation for loss/damage to goods. The receipt of an insurance claim does not fall under the definition of "supply" as defined in Section 7 of the CGST Act. A supply involves a transaction for a consideration in the course or furtherance of business.

The insurance pay out is considered a compensation for the loss or damage to goods, not a payment for any goods or services provided by the dealer to the insurance company. Therefore, it does not attract GST liability. Also, Schedule III Entry 6 excludes "actionable claims, other than lottery, betting and gambling." The insurance claim amount is an actionable claim arising from a contract between insurer and insured. Settlement thereof is not a supply, and no GST is payable on the amount received.

It is immaterial whether such receipt is treated as supply or excluded under Schedule III. The issue is not taxability of insurance proceeds, but eligibility of ITC on goods which have suffered loss or damage. ITC is a benefit linked to intended taxable use of goods. When such goods are damaged and their value is impaired, and compensation is received, the nexus between input and taxable outward supply is broken to that extent. The applicant has effectively recovered the value of damaged goods through insurance. Allowing retention of full ITC would result in unjust enrichment, which is not the intent of GST law.

Though the taxpayer has claimed that he has sold the batteries as batteries under same HSN 8507 charging GST at the rate of 28%, the impairment in valuation is real and proved by acceptance of insurance claim. Thus, the value of insurance claim received is the value of the goods written off. This written off value is covered by 17(5)(h) and ITC attributable to such damaged goods is required to be reversed.

5.8 Section 17 (5) provides that not withstanding anything contained in subsection (1) of Section 16 and subsection (1) of Section 18 input tax credit shall not be available in respect of the following, namely:

(h) goods lost, stole, destroyed written off, or disposed of by way of gift or free supplies.

Thus, eventuality mentioned in 'h' above arises usually after the ITC on said goods has already been availed. Thus, the reversal of ITC is required to be done in the returns for the month in which the eventuality mentioned in clause 'h' of sub-section (5) of Section 17 arises. If the eventuality happens over a period of time or its time is not known, then whenever this event is recognised to have happened or known by the taxpayer, is the time when the ITC reversal needs to be done by the taxpayer. In this case, any documentation like panchnama or damage assessment report is prepared for submission to insurance authorities, the event is known. Hence, the reversal is required to be made in the returns for the month in which the event of loss is known or loss is recognised whichever is earlier.

6. In view of the extensive deliberations as held hereinabove, we pass an order as follows:

ORDER

(Under Section 98 of the Central Goods and Services Tax Act, 2017 and the Maharashtra Goods and Services Tax Act, 2017)

NO.GST-ARA- 35/2022-23/B- 152 Mumbai, dt. 28.09.2026

For reasons as discussed in the body of the order, the question is answered thus -

Q 1: Whether the Applicant is obligated to reverse ITC availed on the raw material (batteries/cells), to the extent of reduction in value thereof due to flood water/inundation on recognizing such value reduction, (or pay any GST) on receipt of money from insurance company on settlement of the Applicant's claim under Applicant's insurance policy amounting to Rs. 74,58,282/-, without considering GST?

Answer: Yes. The Applicant is required to reverse ITC attributable to batteries/cells damaged due to flood/inundation under Section 17(5)(h) of the CGST Act to the extent of reduction in value of the batteries.

Q 2: If the answer to question i. above is "yes" and Applicant is so obligated, then what is the amount of ITC required to be reversed and/or any GST liability, and when is this applicable,

a. The date of Claim Settlement

b. Any Other Date (Please specify which)

Answer: As per Section 17 (5) of the CGST Act 2017, ITC attributable to the value of inputs damaged to the extent of reduction in value of the inputs is required to be reversed in the tax period in which such ineligibility arises. The reversal shall be made in the returns for the period in which the event of loss is known or recognized in the books of account, whichever is earlier.

D.P. GOJAMGUNDE
(MEMBER)

HIMANI DHAMIJA
(MEMBER)

PLACE - Mumbai

Copy to:-

1. The applicant
2. The concerned Central / State officer
3. The Commissioner of State Tax, Maharashtra State, Mumbai
4. The Pr. Chief Commissioner of Central Tax, Churchgate, Mumbai
5. The Joint commissioner of State Tax, Mahavikas for Website.

Note:-An Appeal against this advance ruling order shall be made before The Maharashtra Appellate Authority for Advance Ruling for Goods and Services Tax, 15th floor, Air India Building, Nariman Point, Mumbai – 400021. Online facility is available on **gst.gov.in** for online appeal application against order passed by Advance Ruling Authority.