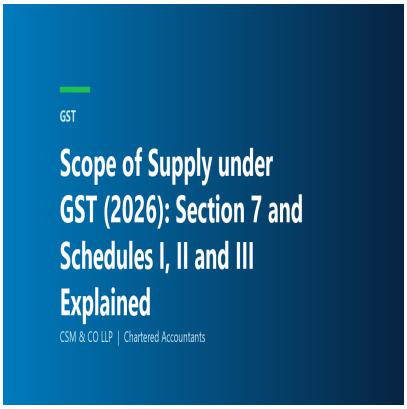


Scope of Supply under GST (2026): Section 7 and Schedules I, II and III Explained

Description

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Quick summary

- GST is charged on “supply” - a single taxable event that replaced excise duty (on manufacture), service tax (on provision of service) and VAT (on sale) under three separate pre-GST laws.
- Under section 7(1) of the CGST Act, a transaction is a supply only if it is made for a consideration, in the course or furtherance of business - with narrow, specific exceptions listed in Schedule I.
- Schedule I lists four situations treated as supply even without consideration: permanent transfer of business assets on which credit was claimed, supply between related or distinct persons, principal-agent transactions, and import of services from a related party abroad.
- Schedule II classifies borderline cases as either a supply of goods or a supply of services - for example, leasing land or a building is always a service, never a sale of goods.
- Schedule III is the negative list - things that are neither a supply of goods nor of services at all, such as an employee’s services to their employer, the sale of land, and, since a 2019 amendment with retrospective effect, three specific insurance and warehousing transactions.

Before GST, a single transaction could be taxed at different points under different laws - excise duty at the factory gate, service tax when a service was rendered, VAT when goods were sold. GST replaced all of that with one taxable event: **supply**. Whether a transaction attracts GST at all, and when, almost always comes back to whether it counts as a “supply” under section 7 of the CGST Act.

New to terms such as “consideration” or “furtherance of business”? See the technical terms explained in simple words further down.

What counts as a supply: section 7(1)

Under section 7(1) of the CGST Act, 2017 (Scope of supply), “supply” includes:

- All forms of supply of goods or services - sale, transfer, barter, exchange, licence, rental, lease or disposal - made or agreed to be made **for a consideration**, **in the course or furtherance of business**;

- Transactions between an unincorporated association or body and its own members or constituents, for cash, deferred payment or other valuable consideration - the two are legally treated as separate persons for this purpose, even though older case law under the “mutuality principle” said otherwise;
- Import of services for a consideration, whether or not it is in the course or furtherance of business; and
- The specific activities listed in **Schedule I**, made or agreed to be made even **without any consideration**.

The two conditions that matter most

For an ordinary transaction (not one of the Schedule I exceptions), two elements must both be present:

1. **Consideration** - something of value is paid or payable in return.
2. **In the course or furtherance of business** - it happens as part of carrying on a business, not a private, personal transaction.

If either element is missing, it is not a supply, and GST does not apply:

- A person selling their own used personal table to a dealer is not making a supply - there is consideration, but it is not in the course of business.
- A person giving free tuition to neighbourhood children as a hobby is not making a supply - there is no consideration at all.

Schedule I: supply even without consideration

Four specific situations are treated as supply even though no consideration changes hands:

1. **Permanent transfer or disposal of business assets** on which input tax credit was claimed.
2. **Supply between related persons, or between “distinct persons”** (as defined in section 25) in the course or furtherance of business - **except that gifts up to Rs 50,000 in value in a financial year, from an employer to an employee, are specifically excluded** and are not treated as a supply.
3. **Principal-agent transactions in goods** - a principal supplying goods to its agent for onward supply, or an agent receiving goods on the principal’s behalf.
4. **Import of services by a taxable person from a related person, or from any of their own establishments outside India**, in the course or furtherance of business - here the “no consideration needed” rule applies, unlike the general import-of-services rule under section 7(1)(b), which does require consideration.

Schedule II: is it a supply of goods, or of services?

Some transactions sit at the boundary between “goods” and “services.” **Schedule II** settles the classification, which matters because goods and services can carry different GST rates and different place-of-supply rules. Key examples:

Transaction	Classified as
Transfer of title in goods	Supply of goods
Transfer of a right in goods, or an undivided share, without transferring title	Supply of services

Transaction	Classified as
Transfer of title under an agreement where it passes only on full payment at a future date (hire-purchase style)	Supply of goods
Lease, tenancy, easement, or licence to occupy land	Supply of services
Lease or letting out of a building, commercial, industrial or residential, wholly or partly	Supply of services
Any treatment or process applied to another person's goods (job work)	Supply of services
An owner allowing business assets to be used for personal purposes	Supply of services

Schedule III: neither goods nor services at all

Schedule III is the negative list - transactions GST does not touch, because they are treated as neither a supply of goods nor a supply of services:

- Services by an employee to their employer, in the course of employment
- Services of any court or Tribunal
- Functions performed by a Member of Parliament, State Legislature, Panchayat, Municipality or other local authority, in that capacity
- Duties performed by a Chairperson, Member or Director of a body set up by a Central or State Government or local authority, where they are not an employee
- Services of funeral, burial, cremation or mortuary, including transporting the deceased
- Sale of land, and, subject to a specific exception for part-payment before completion, sale of a building
- Actionable claims, other than specified actionable claims (such as lottery, betting and gambling)

A 2019 amendment, with **retrospective effect from 1 July 2017**, added three more entries that are now settled, enacted law, not a pending proposal:

- Supply of goods from a place outside India's taxable territory to another place outside it, without entering India
- Supply of warehoused goods to any person before clearance for home consumption, including goods warehoused in a Special Economic Zone or a Free Trade Warehousing Zone before export or supply to the domestic area
- Supply of goods by the consignee to another person, by endorsing the title documents, after dispatch from a port outside India but before clearance for home consumption

A further amendment added two insurance-specific entries, also now in force:

- Apportionment of co-insurance premium between the lead insurer and a co-insurer for jointly supplied insurance services, provided the lead insurer pays the full GST on the entire premium
- Ceding commission deducted by a reinsurer from the reinsurance premium paid by the insurer, provided GST is paid on the gross reinsurance premium inclusive of that commission

Composite supply and mixed supply

Section 7(1A) sends any activity that is a supply (under sub-section 1) on to **Schedule II** for classification, but a separate question - how several items bundled into one supply are taxed - is answered under section 8 of the Act:

- **Composite supply**: two or more items naturally bundled together in the ordinary course of business, with one principal item. The whole supply is taxed at the principal item's rate. *Example: a gift box of dry fruits, with the box and wrapper supplied only along with the dry fruits - taxed at the dry fruits' rate.*
- **Mixed supply**: two or more independent items sold together for a single price, where each could just as easily be sold separately and is not a composite supply. The whole supply is taxed at whichever item's rate is highest. *Example: a festive hamper of cakes, chocolates and aerated drinks, each available separately - taxed at the highest rate among them.*

How CSM & Co LLP can help

Whether a transaction is a supply at all, and if so which rate and classification applies, is often the first and most consequential question in a GST dispute - getting it wrong at the invoicing stage is far cheaper to fix than after an assessment. Please reach out to our team and we will be happy to assist with transaction classification, composite and mixed supply determinations, and GST structuring.

Technical terms explained in simple words

Term	What it means
Consideration	Anything of value - money or otherwise - given or promised in return for a supply.
Furtherance of business	Done as part of carrying on a business, rather than a private or personal act unconnected to it.
Related persons	People or entities connected by specific relationships defined in the GST law (officers/directors of each other's businesses, certain family members, entities under common control, and similar), whose transactions get special GST treatment.
Distinct persons	The same legal entity's separate GST registrations (for example, two different State registrations of the same company), treated as separate "persons" for GST purposes.
Job work	Any treatment or process carried out by one person on goods belonging to another registered person.
Actionable claim	A legal claim to a debt or to movable property not in the claimant's possession - mostly outside GST's scope except lottery, betting and gambling.

Frequently asked questions

What does “supply” mean under GST?

Any transfer, sale, barter, exchange, licence, rental, lease or disposal of goods or services made for a consideration, in the course or furtherance of business - plus a short list of specific exceptions in Schedule I that count as supply even without any consideration.

What two conditions must a transaction meet to count as a supply?

It must be made for a consideration, and it must be in the course or furtherance of business. A transaction missing either element - a private sale with no business connection, or something given away free as a hobby - does not count as supply, unless Schedule I specifically treats it as one anyway.

What does Schedule I cover?

Four situations treated as supply even with no consideration at all: a permanent transfer of business assets on which input tax credit was claimed, a supply between related or distinct persons in the course of business (gifts up to Rs 50,000 a year from an employer to an employee are excluded), a principal-agent transaction involving goods, and import of services, without payment, from a related person or establishment outside India.

What does Schedule II do?

It settles borderline cases by classifying specific activities as either a supply of goods or a supply of services - for example, any lease or letting out of land or a building is always treated as a supply of services, never as a sale of goods, no matter how the parties describe it.

What does Schedule III cover, and has it changed recently?

Schedule III lists transactions treated as neither a supply of goods nor of services at all - an employee’s services to their employer, court and tribunal services, the sale of land, and most sales of a building. A 2019 amendment (with retrospective effect from 1 July 2017) added warehoused-goods and high-seas-type transactions, and a later amendment added two specific insurance transactions: apportionment of co-insurance premium between a lead insurer and co-insurer, and ceding commission deducted from reinsurance premium.

What is the difference between composite supply and mixed supply?

In a composite supply, two or more items are naturally bundled and supplied together in the ordinary course of business, with one principal item - the whole supply is taxed at that principal item’s rate. In a mixed supply, two or more independent items are sold together for a single price but could just as easily be sold separately - the whole supply is taxed at the rate of whichever item in it has the highest rate.

Official sources

- CBIC Tax Information Portal - Section 7, CGST Act, 2017 (Scope of supply)
- CBIC Tax Information Portal - Schedule I, CGST Act, 2017
- CBIC Tax Information Portal - Schedule II, CGST Act, 2017
- CBIC Tax Information Portal - Schedule III, CGST Act, 2017
- GST Portal

Related reading

- GST on Waste and Scrap (2026): 2% TDS and Reverse Charge for Plastic, Tyre, E-waste and Used Cooking Oil
- GST on Services (2026) Part 2: Toll TOT Model, Reseller ITC, R&D Certificate, Coffee Curing and Seed Storage
- e-Invoicing for Reverse Charge Self-Invoices: RCMDOM and RCMIMP Explained (2026)

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