



Transfer of Property and Taxability Revisited

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By Ashwarya Sharma, Advocate



A. Introduction

THE Supreme Court in *Aristo Printers Pvt. Ltd. v. Commissioner of Trade Tax, Lucknow, U.P.* - [2025-TIOL-76-SC-MISC](#) has delivered an important judgment on the taxability of works contracts and the principles governing **transfer of property in goods** when goods are said to be consumed in the process of such contracts. The judgment revisits decades of jurisprudence-from Gannon Dunkerley to Larsen & Toubro-and clarifies the exact moment when the property in goods can be said to be transferred in the execution of a works contract. This decision, though rendered in the context of the **U.P. Trade Tax Act, 1948**, carries continuing significance under the **GST framework**, which inherits similar conceptual definition under section 2(119) of the CGST Act.

B. Factual Matrix

The appellant was engaged in printing lottery tickets on paper supplied by its customers, using its own ink, processing material, and chemicals. The Assessing Authority levied trade tax on the value of these materials under Section 3F of the U.P. Trade Tax Act, 1948, treating them as goods transferred in execution of works contract.

The appellant argued that these items were **consumables** and that no property in them was ever transferred to the customer, as the transaction was essentially one of service. The Tribunal accepted this plea, relying on *Rainbow Colour Lab v. State of M.P.* - [2002-TIOL-373-SC-CT](#) and *Commissioner of Sales Tax v. R.M.D.C. Press Pvt. Ltd.* (1998 SCC OnLine Bom 435).

However, the **Allahabad High Court** reversed the finding, holding that diluted ink, comprising both ink and chemicals, was passed on to the customer and, therefore, taxable.

C. Issue Before the Supreme Court

Whether tax can be levied under Section 3F of the Trade Tax Act on the ink and processing materials consumed/used by the appellant in executing the printing work of lottery tickets?

D. Petitioners' Submissions

- The High Court erred in treating lottery tickets as goods, since they are legally recognized as actionable claims, excluded from the definition of goods per-se.
- The ink and chemicals used in the printing process were consumables, not transferred to the customer in any tangible form.
- The transaction was predominantly a service contract and, therefore, no transfer of property in goods could be inferred to attract tax under Section 3F

E. Respondent's Submissions

The State supported the High Court's view, arguing that the diluted ink and processing materials were integral to the printed output, and their property stood transferred to the customer at the moment of printing, thereby satisfying all the conditions of a taxable works contract.

F. Supreme Court's Findings and Analysis

(i) Works Contract - Constitutional and Jurisprudential Evolution

The Court revisited the history of works contract taxation beginning with *State of Madras v. Gannon Dunkerley & Co.* - [2002-TIOL-493-SC-CT-LB](#), which held that a works contract was indivisible and could not be bifurcated into sale and service components. The 46th **Constitutional Amendment (1982)** introduced **Article 366(29A)(b)** to overcome this limitation, deeming the transfer of property in goods in execution of a works contract as a sale of goods.

Subsequent decisions refined the doctrine:

- In *Builders Association of India v. Union of India* - [2002-TIOL-602-SC-CT-CB](#), the Court upheld the constitutional validity of the 46th Amendment but clarified that States could tax **only the goods transferred**, not the contract as a whole.
- In *Gannon Dunkerley (II)* - [2002-TIOL-103-SC-CT-CB](#), the Court held that tax is leviable **on the value of goods at the time of incorporation** into the works.
- In *Larsen & Toubro Ltd. v. State of Karnataka* - [2014-TIOL-1295-HC-KAR-VAT](#) and *Kone Elevator India Pvt. Ltd.* - [2014-TIOL-57-SC-CT-CB](#), the Court ruled that the dominant intention of the contract is immaterial post-46th Amendment, and the presence of transfer of goods, however incidental, attracts tax.

(ii) Essential Conditions Under Section 3F

Coming back to the present case, to sustain a levy under Section 3F, three cumulative conditions must be satisfied:

1. Existence of a works contract;
2. Involvement of goods in execution of such contract; and
3. Transfer of property in such goods to a third party, either as goods or in some other form.

The Court emphasized that whether property is transferred in goods is a fact-specific inquiry, depending on whether the goods become incorporated into the final product or merely aid in the process.

(iii) Application to Present Facts

The Court held that the printing of lottery tickets constituted a works contract, and that the ink and chemicals were incorporated into the paper at the time of printing. This incorporation marked the moment of deemed sale. Thus, property in the ink and processing materials was transferred in execution of the contract, rendering it taxable.

The Court clarified that while materials like water or electricity are consumables whose property is not transferred in certain type of works contracts, ink and processing chemicals form part of the printed output and hence attract tax.

G. Key Takeaways

1. **Transfer of property** in goods occurs at the moment of incorporation into the works, not upon delivery.
2. The **dominant nature test** is no longer relevant post-46th Amendment. 3. Even materials that are **consumed during process** can constitute "transferred goods" if they form part of

the final output in some manner.

4. The **taxable** value must be computed based on the value of goods at the time of incorporation, consistent with Gannon Dunkerley (II).

H. GST Perspective: Continuing Relevance of Works Contract Principles

Although this case arises under the erstwhile Trade Tax regime, its reasoning resonates strongly under GST, where "works contract" is defined in Section 2(119) of the [CGST Act, 2017](#) as a contract for building, construction, fabrication, or similar activity where property in goods is transferred in execution of such contracts in relation to immoveable property.

The judgment reaffirms that even under GST, the **taxable event** in a works contract arises when goods are incorporated into the works, not merely upon supply or invoicing. Moreover, it underlines the importance of distinguishing between consumables (which do not transfer property) and **materials incorporated in the output** (which do).

From a compliance perspective, the ruling underscores the need for accurate bifurcation of material and service components in composite supplies to avoid classification disputes under GST. As the jurisprudence evolves, this decision offers valuable interpretative continuity between the pre-GST and post-GST tax frameworks-ensuring that the concept of "transfer of property in goods" remains central to the taxation of works contracts.

I. Conclusion

The Supreme Court's ruling in Aristo Printers Pvt. Ltd. not only settles the scope of taxability in printing contracts but also reiterates timeless principles of works contract taxation-that property transfer is determined by **incorporation**, not by physical possession or dominant intention.

This judgment thus bridges the jurisprudential continuity from Gannon Dunkerley to GST, reaffirming the core principle that **the essence of a works contract lies in the transfer of property at the moment of incorporation into the works** -a doctrine that remains as relevant today as it was before the Forty-sixth Amendment.

[The author is a practicing Advocate and Co-Founder & Legal Head at RB LawCorp.]

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