



Value of Supply in GST

INCLUDING VALUATION RULES

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Background

Section 9, the charging section of the GST specifies that GST is chargeable on 'supply', at prescribed 'rates', on VALUE determined as per Section 15.

Thus, for calculating GST payable in any supply, Value of that supply has to be in accordance with Section 15, which is the matter of discussion in this presentation.

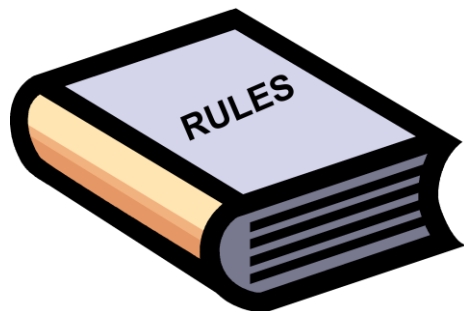
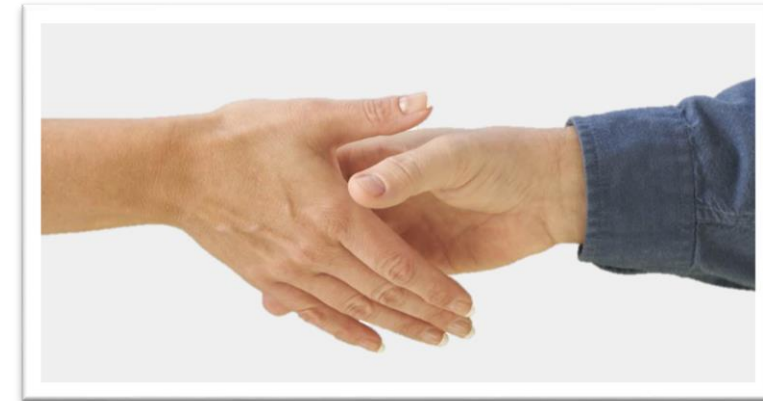
Sec 15: Value of Taxable Supply

Where Supplier & Recipient are not related & Price is sole consideration

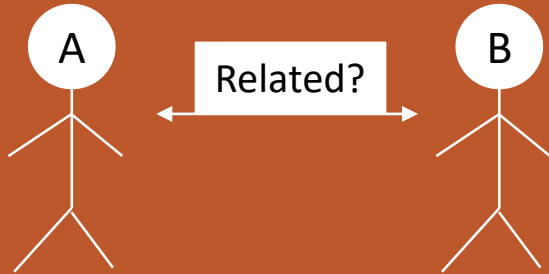
Value = 'Transaction Value' = Price actually paid/ payable

In all other cases

Value shall be as determined in prescribed manner (in rules)



How to decide if persons are Related or not?



Explanation to section 15 →

Note: Persons associated in business, where one is the sole agent/ distributor/ concessionaire/ however described, of the other, shall be deemed to be related

Definition of “RELATED PERSONS”:

- i. Such persons are officers/ directors of one another’s business
 - ii. Such persons are legally recognized partners in business
 - iii. Such persons are employer-employee
 - iv. Any third person owns/ controls/ holds, directly or indirectly, \geq 25% of voting stock/ shares of both
 - v. One of them directly/ indirectly controls the other
 - vi. Both are directly/ indirectly controlled by third person
 - vii. Together, they directly/ indirectly control third person
 - viii. They are members of same family
- The term “Person” also includes a Legal Person

Inclusions in Value

- a) Any Taxes, Duties, Cesses, Fees & Charges, except under this act/ SGST/ UTGST/ Comp. Act
- b) Any Amt. liable to be paid by supplier but incurred by recipient & not included in price
- c) Incidental Exp., commission & packing, any amt. for anything done before/ at time of supply
- d) Intt/ Late fee/ Penalty for delayed payment
- e) Subsidies linked to price except by CG/ SG (Explanation: Amt of Subsidy incl. in Value of Supply of that supplier who receives subsidy)

Include these!

Discount to be excluded if-

❑ Given Before/ At time of supply, and it is duly recorded in invoice

or

❑ Given After the supply, and –

- Established in agreement entered before/ at time of supply
- specifically linked to relevant invoices
- ITC attributable is reversed by recipient



Determination of Value of Supply RULES

AN EXTENSION TO SECTION 15, AND PRESCRIBE SPECIFIC METHODS
OF VALUATION IN CASE OF DIFFERENT SUPPLIES

When Consideration is not wholly in money (Rule 27)



The value of the supply shall be -

- a) The open market value of such supply;
- b) If the open market value is not available under clause (a), be the sum total of consideration in money and any such further amount in money as is equivalent to the consideration not in money, if such amount is known at the time of supply;
- c) If the value of supply is not determinable under clause (a) or clause (b), be the value of supply of goods or services or both of like kind and quality;
- d) If the value is not determinable under clause (a) or clause (b) or clause (c), amount of non-money consideration shall be determined by the application of rule 30 or rule 31 in that order

Examples

- 1. Where a new phone is supplied for Rs. 20,000 along with the exchange of an old phone and if the price of the new phone without exchange is Rs. 24,000, the open market value of the new phone is Rs. 24,000. (Case I)*
- 2. Where a laptop is supplied for Rs. 40,000 along with the barter of a printer that is manufactured by the recipient and the value of the printer known at the time of supply is Rs. 4,000 but the open market value of the laptop is not known, the value of the supply of the laptop is Rs. 44,000. (Case II)*

Supply between distinct/ related persons, other than through agent

The value of the supply of goods or services or both between -

- Distinct persons as specified in sub-section (4) and (5) of section 25 (Branches) or
- Related persons,

other than where the supply is made through an agent, shall-

- a) be the open market value of such supply;
- b) if the open market value is not available, be the value of supply of goods or services of like kind and quality;
- c) if the value is not determinable under clause (a) or (b), be the value as determined by the application of rule 30 or rule 31, in that order:

Supply between distinct/ related persons, other than through agent

Where goods are **intended for further supply** as such by the recipient, the value shall, at the option of the supplier, be → 90% of the price charged for the supply of goods of like kind and quality by the recipient to his customer not being a related person.

Where the recipient is **eligible for full input tax credit**, the value declared in the invoice shall be deemed to be the open market value of the goods or services.

Supplies made or received through an AGENT

The value of supply of goods between the principal and his agent shall be-

- a) The open market value of the goods being supplied, **or** at the option of the supplier, be 90% of the price charged for the supply of goods of like kind and quality by the recipient to his customer not being a related person, where the goods are intended for further supply by the said recipient
- b) Where the value of a supply is not determinable under clause (a), the same shall be determined by the application of rule 30 or rule 31 in that order.

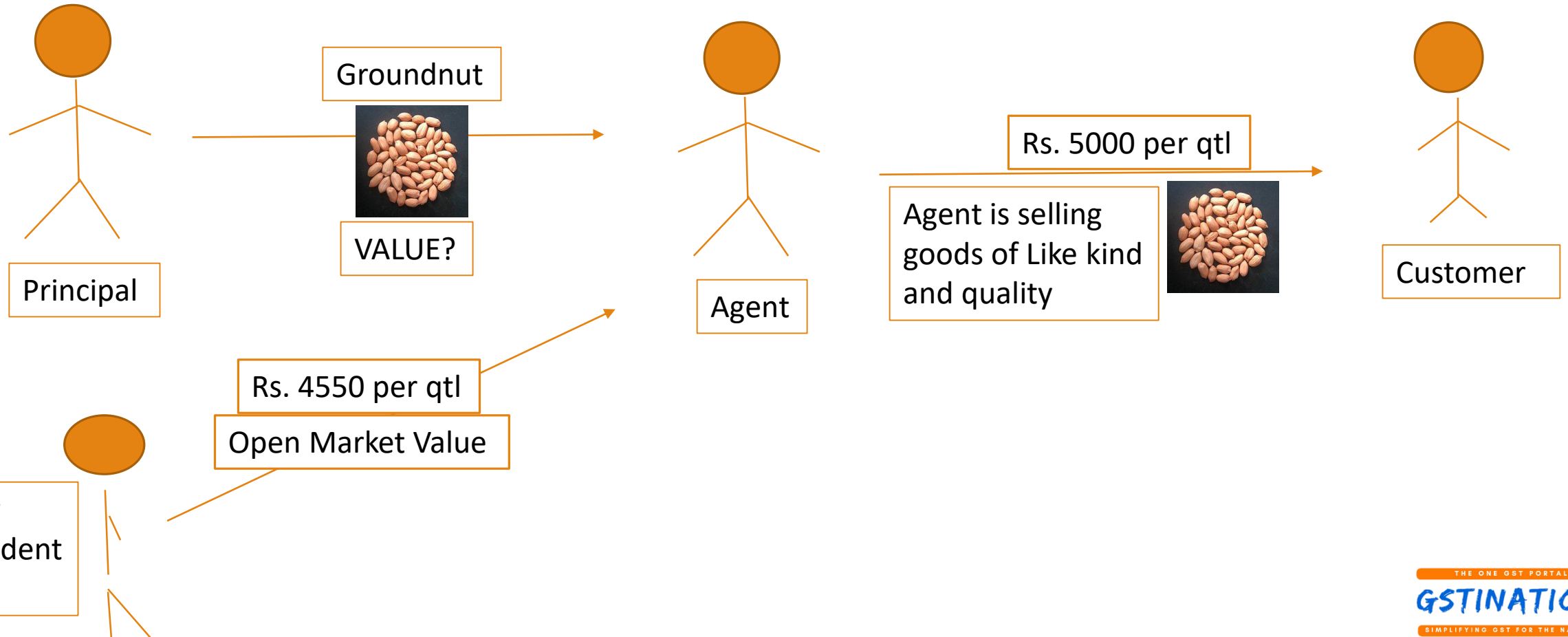
Some definitions

- “Open market value” of a supply of goods or services or both means the full value in money, excluding the GST/ cess payable by a person in a transaction, where supplier and recipient are not related and the price is the sole consideration;
- “Supply of goods or services or both of like kind and quality” means any other supply of goods or services or both made under similar circumstances that, is the same as, or closely or substantially resembles, the supply of goods or services or both in question, w.r.t. the characteristics, quality, quantity, functional components, materials, and the reputation of the goods or services or both

An Example

Two Options-

1. *Rs. 4550 per quintal (open market value)*
2. *90% of 5000 rupees = Rs. 4500*



RESIDUAL PROVISIONS

Rule 30 - Where the value is not determinable by any of the preceding rules -

Value = 110% of the cost of production/ the cost of acquisition (goods) or the cost of provision

Rule 31 - Where the value cannot be determined under rules 27 to 30

Determined using reasonable means consistent with the principles and the general provisions of section 15 and the provisions of the Rules

(Supplier of services may opt for this rule, ignoring rule 30)

SPECIAL SUPPLIES (RULE 32)

Supplier of supplies specified below shall have the option to determine value as per the specific unique method specified.

1. Foreign currency, including money changing -
 - a) Purchase or sale of foreign currency,
 - b) Supply of foreign currency,
2. Air Travel Agent
3. Life Insurance business
4. Second hand goods dealer
5. Token/ voucher/ coupon/ stamp (other than postage stamp)
6. Inter-branch supplies

Purchase or sale of foreign currency, including money changing (1st Option)

- a) For a currency, when exchanged from, or to, Indian Rupees, Value –
 - i. For purchase → [RBI reference rate (-)Buying rate] * total units of currency
 - ii. For sale → [Selling rate (-) RBI reference rate] * total units of currency

(If RBI reference rate is not available, Value = 1% of the gross amount of Indian Rupees involved)

- b) If Indian Rupees not involved in conversion,

Value = 1% of the lower amount of Indian Rupees we get from converting both the currencies using the RBI reference rate on that day

Lets take an Example



Amount to be converted in Dollar	Rate as per USD	RBI Reference Rate	Value of Supply *
Rs. 65000	Rs. 65 per USD	Rs. 63 per USD	$1000 * (65 - 63) = 2000$
Rs.65000	Rs. 65 per USD	Not available	1% of of INR amount =Rs 650
EURO 6500	Not available	Not available	1% of USD or EURO whichever is Lower

Supply of foreign currency, including money changing (2nd option)

This option must be opted for a financial year, and cannot be withdrawn till its end

1. Amount up to Rs. 1 lakh - 1% of the gross amount (minimum amount of 250 rupees);
2. Amount > Rs. 1 lakh and up to Rs. 10 lakh - 1000 rupees (+) 0.5% of the gross amount of currency exchanged for an amount exceeding 1 lakh rupees and up to 10 lakh rupees; and
3. Amount exceeding Rs. 10 lakh - 5500 rupees (+) 0.10% of the gross amount of currency exchanged (maximum amount of Rs. 60000)

Lets take another Example



Gross amount of currency exchanged	GST	Calculation
Rs. 6,500	Rs 250	1% of 65000 or Rs 250 whichever is higher
Rs. 65,000	Rs 650	1% of 65000 or Rs 250 whichever is higher
Rs. 6,50,000	Rs. 3750	1000 plus .50 % of 5,50,000
Rs. 65,00,000	Rs 10,500	5000 plus .10% of Rs.55,00,000
Rs 6,50,00,000	Rs 60,000	5000 plus .10% of Rs.6,40,00,000 subject to maximum of Rs 60,000

Life insurance business



- a) Value = The gross premium charged (-) the amount allocated for investment/ savings (if such an allocation is intimated to the policy holder at the time of supply of service)
- b) For single premium annuity policies other than above = 10% of the single premium
- c) All other cases = 25% of the premium in 1st year (+) 12.5% of the premium in subsequent years:

Provided that nothing contained in this sub-rule shall apply where the entire premium paid by the policy holder is only towards the risk cover in life insurance.

Air Travel Agent

- 5% of the basic fare in the case of domestic bookings, and
- 10% of the basic fare in the case of international bookings.

“Basic fare” = that part of the air fare on which commission is normally paid to the air travel agent



Second hand goods dealer

Means a person who buys and sells used goods as such or after such minor processing which does not change the nature of the goods.

Value of supply =

Selling price (-) purchase price (If negative, it shall be ignored)

No Input Tax Credit shall be available

IN CASE OF REPOSSESSION

Provided that the purchase value of goods repossessed from a defaulting borrower, who is not registered, for the purpose of recovery of a loan or debt shall be deemed to be the purchase price of such goods by the defaulting borrower reduced by 5% per quarter or part thereof, between the date of purchase and the date of disposal by the person making such repossession

Inter-Branch Supplies

The value of taxable services provided by such class of service providers as may be notified by the Government, on the recommendations of the Council, as referred to in paragraph 2 of Schedule I of the said Act between distinct persons as referred to in section 25, where input tax credit is available, shall be deemed to be NIL

Token/ voucher/ coupon/ stamp
(other than postage stamp)

Value of a supply =
money value of the goods or
services or both redeemable
thereon

CONCEPT OF PURE AGENT

The expenditure or costs incurred by a supplier as a pure agent of the recipient of supply shall be excluded from the value of supply, if all the following conditions are satisfied, namely,-

- i. The supplier **acts as a pure agent** of the recipient of the supply, **when he makes the payment** to the third party on authorisation by such recipient;
- ii. The **payment made** by the pure agent on behalf of the recipient of supply has been **separately indicated in the invoice** issued by the pure agent to the recipient of service; and
- iii. The **supplies procured** by the pure agent from the third party as a pure agent of the recipient of supply **are in addition to the services he supplies** on his own account.

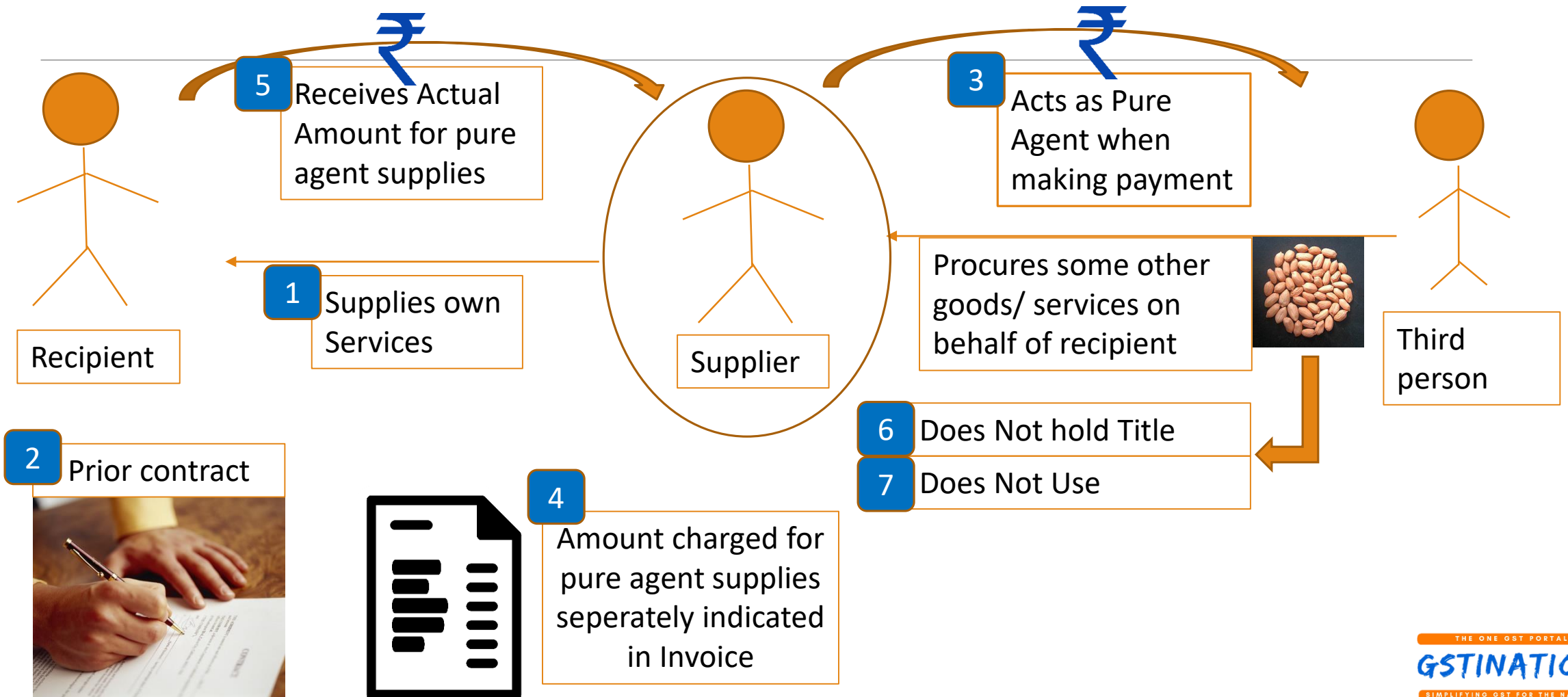
WHO IS A PURE AGENT?



Pure Agent” means a person who-

- a) Enters into a contractual agreement with the recipient of supply to act as his pure agent to incur expenditure or costs in the course of supply of goods or services or both;
- b) Neither intends to hold nor holds any title to the goods or services or both so procured or supplied as pure agent of the recipient of supply;
- c) Does not use for his own interest such goods or services so procured; and
- d) Receives only the actual amount incurred to procure such goods or services in addition to the amount received for supply he provides on his own account.

Lets Picturize the situation



RATE OF EXCHANGE OF CURRENCY, OTHER THAN INDIAN RUPEES

The rate of exchange for the determination of the value of taxable goods or services or both shall be the **applicable reference rate** for that currency as determined by the Reserve Bank of India **on the date of time of supply** in respect of such supply in terms of section 12/ section 13 of the Act.

INCLUSIVE OF TAX VALUE

Where the value of supply is inclusive of CGST & SGST/ UTGST or IGST, then –

$$\text{Tax Amount} = \left(\text{Value inclusive of taxes} \times \frac{\text{tax rate in \%}}{100 + \text{tax rate in \%}} \right)$$

THE ONE GST PORTAL

GSTINATION

SIMPLIFYING GST FOR THE NATION

End of Presentation!

AREAS COVERED

SECTION 15 OF THE CGST ACT, AND VALUATION RULES

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