

VALUATION UNDER GST

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Coverage:

- ❖ Transaction Value under GST
- ❖ Valuation in case of related persons
- ❖ Valuation between branches, depots and agents
- ❖ Valuation of notified services

Transaction Value under GST:

- ❖ Value in General is Transaction value— Section 15(1):

The value of a supply of goods or services or both shall be the transaction value, which is the price actually paid or payable for the said supply of goods or services or both where the supplier and the recipient of the supply are not related and the price is the sole consideration for the supply.

- ❖ Conditions to Apply the Transaction Value:

- ❖ Supplier and recipient are not related
- ❖ Price is the sole consideration

- ❖ What is Transaction Value— In general it is the price actually paid or payable for goods or services supplied

- ❖ Sub-section (2) extends the value of supply to include certain specified items

Value of Supply Includes:

❖ Duties, Cesses, Taxes, Fees, Charges:

any taxes, duties, cesses, fees and charges levied under any law for the time being in force other than this Act, the State Goods and Services Tax Act, the Union Territory Goods and Services Tax Act and the Goods and Services Tax (Compensation to States) Act, if charged separately by the supplier.

❖ On Behalf Payments:

any amount that the supplier is liable to pay in relation to such supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods or services or both

Value of Supply Includes:

- ❖ **Example 1**— X Ltd has ordered for a machinery to be supplied by Y Ltd for Rs. 20 lakhs plus taxes. The machinery contains a critical component which Y Ltd has to procure from outside. Due to quality concerns X Ltd itself has identified a trusted vendor in the market. X Ltd place an order with the vendor to supply the part to Y Ltd and accordingly, X Ltd paid an amount of Rs. 8 lakhs to the vendor. X Ltd has paid Y Ltd Rs 12 lakhs after deducting the amount paid to vendor. What is the value on which Y Ltd is required to pay GST?
- ❖ **Example 2**— X Ltd entered into a contract with a PQR to construct a shed in the factory. It is agreed that X Ltd is responsible to provide the required cement, bricks, sand, steel. PQR has agreed to execute the construction work with their labor for a price of Rs 10 lakhs. X Ltd has estimated that the cost of cement, bricks, sand, steel required for construction is around Rs 20 lakhs. On what value PQR is required to charge GST?

Value of Supply Includes:

❖ Expenses Incidental to Supply

incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply and any amount charged for anything done by the supplier in respect of the supply of goods or services or both at the time of, or before delivery of goods or supply of services

❖ Interest, Late Fee, Penalty for Delayed Payment

any amount that the supplier is liable to pay in relation to such supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods or services or both

❖ Subsidies Linked to Price

Subsidies directly linked to the price excluding subsidies provided by the Central Government and State Governments

Value of Supply Includes:

- ❖ **Example III:** XYZ Ltd is maintaining a canteen in the premises of ABC Manufacturing Ltd in order to supply various food items to the employees of the company. ABC Manufacturing Ltd has fixed the price of various food items and asked to supply food to their employees at these prices. ABC Manufacturing Ltd has promised to compensate XYZ Ltd for the difference between the normal price at which XYZ Ltd usually supply and the price fixed by it. XYZ Ltd supplied food items to the employees by charging the said fixed prices and paid GST on them. With respect to each type of food item supplied by XYZ Ltd to employees, it has recovered the differential price from ABC Manufacturing Ltd. In this scenario, can the lump sum amount recovered towards the price difference be subject to GST by including the same in the value of taxable supply?
- ❖ **Example IV:** XYZ supplied goods to PQR on 01.08.2017 with two months credit. The value of goods supplied are 10 lakhs and GST charged is Rs. 1 lakhs. The amount is paid on 01.01.2018 along with interest at 18% for the period 01.10.2017 to 31.12.2017 i.e. Rs. 49,500.

Value Excludes Discount:

- ❖ **Discount extended at or before the time of supply**

Discount is excluded from value if such discount is duly recorded in the invoice issued in respect of such supply

- ❖ **Discount extended after the supply i.e. Post Supply Discount**

- ❖ Such discount is established in terms of a contract or agreement entered into at or before the time of supply

- ❖ Such discount shall be linked to the invoices

- ❖ ITC attributable to the discount on the basis of document issued by supplier has been reversed by recipient of supply

Value Excludes Discount:

- ❖ **Example V:** X Ltd is engaged in the business of supplying cement. The price of cement bag is Rs 260. A quantity discount of Rs 30 is given to customers who procure more than 800 bags of cement.

Date	Quantity	Value	GST	Revised Price	Discount	GST Impact
09/07/2017	200	52000	5200	46000	6000	600
28/07/2017	300	78000	7800	69000	9000	900
20/08/2017	200	52000	5200	46000	6000	600
06/09/2017	200	46000	4600	--		--

- ❖ Credit note is required to be issued to adjust the discount of Rs. 21000 along with the corresponding tax impact of Rs.

2100

Other Important Provisions:

- ❖ Transaction value is not applicable when price is not the sole consideration i.e. wherever consideration is partly or fully non-monetary
- ❖ Transaction value is not applicable if supplier and recipient are related
- ❖ Persons shall be deemed to be related persons if—
 - ❖ such persons are officers or directors of one another's businesses or such persons are legally recognised partners in business;
 - ❖ such persons are employer and employee;
 - ❖ any person directly or indirectly owns, controls or holds twenty-five per cent. or more of the outstanding voting stock or shares of both of them;
 - ❖ one of them directly or indirectly controls the other;
 - ❖ both of them are directly or indirectly controlled by a third person;
 - ❖ together they directly or indirectly control a third person; or
 - ❖ they are members of the same family
- ❖ sole agent or sole distributor or sole concessionaire, howsoever described, of the other, shall be deemed to be related

Other Important Provisions:

- ❖ Value of goods or services for which transaction value is not applicable shall be determined in such manner as may be prescribed
- ❖ Transaction value is not applicable to notified supply of goods or services— value shall be determined in such manner as prescribed

Determination of value of Supply

{Rule 27-35 of CGST Rules, 2017}

Valuation when consideration is non-monetary:

❖ Rule 27

- ❖ The value of supply shall be the open market value
- ❖ If the open market value is not available, 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;
- ❖ If the value of supply is not determinable in the above manner, be the value of supply of goods or services or both of like kind and quality;
- ❖ Value shall be determined by the application of rule 30 or rule 31 in that order.

Valuation when consideration is non-monetary:

❖ **Open Market Value:**

“open market value” of a supply of goods or services or both means the full value in money, excluding the integrated tax, central tax, State tax, Union territory tax and the cess payable by a person in a transaction, where the supplier and the recipient of the supply are not related and the price is the sole consideration, to obtain such supply at the same time when the supply being valued is made

❖ **Supply of goods or services of like kind and quality:**

means any other supply of goods or services or both made under similar circumstances that, in respect of the characteristics, quality, quantity, functional components, materials, and the reputation of the goods or services or both first mentioned, is the same as, or closely or substantially resembles, that supply of goods or services or both.

Valuation of supply under Rule 30 and Rule 31

❖ **Rule 30— Valuation based on Cost:**

Where the value of a supply of goods or services or both is not determinable by any of the preceding rules of this Chapter, the value shall be one hundred and ten percent of the cost of production or manufacture or the cost of acquisition of such goods or the cost of provision of such services

❖ **Rule 31— Valuation consistent with principles and general provisions of Section 15:**

Where the value of supply of goods or services or both cannot be determined under rules 27 to 30, the same shall be determined using reasonable means consistent with the principles and the general provisions of section 15 and the provisions of this Chapter

In case of services, the supplier may opt this rule ignoring Rule 30

Valuation when consideration is non-monetary:

❖ Illustration— 1:

Where a new phone is supplied for twenty thousand rupees along with the exchange of an old phone and if the price of the new phone without exchange is twenty four thousand rupees, the open market value of the new phone is twenty four thousand rupees.

❖ Illustration— 2:

Where a laptop is supplied for forty thousand rupees 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 four thousand rupees but the open market value of the laptop is not known, the value of the supply of the laptop is forty four thousand rupees

Valuation when supply is to distinct or related person

❖ **Applicability:**

- ❖ Applicable to related persons and distinct persons under section 25
- ❖ Not applicable to supplies made or received through an agent

❖ **Valuation:**

- ❖ Open market value of such supply
- ❖ If open market value is not ascertainable, then value of such goods or services of like kind and quality
- ❖ If value cannot be determined above, value shall be determined by application of rule 30 and 31

❖ **Deemed Open Market Value:**

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 to Branch:**

Where goods are intended further supply at the branch, depot— the supplier have option to value the goods at an amount equivalent to ninety percent of the price charged for further supply

Illustrations:

❖ Illustration— 1:

X Ltd owns 40% of shares in Y Ltd. Y Ltd is engaged in manufacture of industrial equipment and it has supplied to X Ltd an industrial equipment at Rs. 2,00,000/- on 20.07.2017. It is noticed that on 17.07.2017 and 18.07.2017, identical equipment was sold to unrelated party for Rs. 2,70,000/- and 2,50,000/- respectively. What is the value that Y Ltd is required to adopt in order to charge GST on supply to X Ltd?

❖ Illustration— 2:

Assume that the industrial equipment manufactured for X Ltd is a unique one which is customized to the needs of X Ltd. Y Ltd supplies to unrelated person a similar equipment which has similar functionality at a price of Rs. 2,20,000/- What is the value that Y Ltd is required to adopt in order to charge GST on supply to X Ltd?

❖ Illustration— 2:

Assume that the industrial equipment manufactured for X Ltd is a unique one and Y Ltd does not even manufacture any equipment of like kind and quality. Y Ltd arrived at the cost of production of said equipment as Rs. 2,00,000/-. What is the value that Y Ltd is required to adopt in order to charge GST on supply to X Ltd?

Valuation when supplies made or received through agent

❖ Valuation:

- ❖ Open market value of such supply or at the option of supplier, ninety percent of price charged for further supply of goods by recipient.
- ❖ If value cannot be determined above, value shall be determined by application of rule 30 and 31

❖ Illustration

A principal supplies groundnut to his agent and the agent is supplying groundnuts of like kind and quality in subsequent supplies at a price of five thousand rupees per quintal on the day of the supply. Another independent supplier is supplying groundnuts of like kind and quality to the said agent at the price of four thousand five hundred and fifty rupees per quintal. The value of the supply made by the principal shall be four thousand five hundred and fifty rupees per quintal or where he exercises the option, the value shall be 90 per cent. of five thousand rupees i.e., four thousand five hundred rupees per quintal.

Valuation when supplies made or received through agent

- ❖ XYZ Manufacturing Ltd of Hyderabad is engaged in manufacture of cement. It has transferred a stock of 300 bags (50Kg each) to its stock point in Vijayawada. The price at which stock point is supplying cement to dealers/institutional consumers is Rs 300 per bag. What is the value XYZ Ltd is required to adopt for the purpose of arriving at GST?
- ❖ XYZ Ltd of Mumbai is importing goods from outside India. It has a C&F agent located in Hyderabad to distribute the goods to various dealers across south India. XYZ Ltd is supplying the said goods (assume same quantity) to unrelated dealers in Maharashtra for Rs. 5,00,000. The cost of procurement of said goods is Rs. 4,00,000/-. The C&F agent is distributing the goods to dealers in south India at Rs. 5,20,000.

Money Changing Services

❖ Option I:

- ❖ Value = (difference between buying rate/selling rate & RBI reference rate) multiplied by total units of currency rate
- ❖ in case where the RBI reference rate for a currency is not available, the value shall be 1% of the gross amount of Indian Rupees provided or received, by the person changing the money
- ❖ In case where currencies exchanged are not Indian rupees, the value shall be equal to 1% of the lesser of the two amounts the person changing the money would have received by converting any of the two currencies into Indian Rupee on that day at the reference rate provided by RBI

❖ Option II:

- ❖ one per cent. of the gross amount of currency exchanged for an amount up to one lakh rupees, subject to a minimum amount of two hundred and fifty rupees;
- ❖ one thousand rupees and half of a per cent. of the gross amount of currency exchanged for an amount exceeding one lakh rupees and up to ten lakh rupees;
- ❖ five thousand and five hundred rupees and one tenth of a per cent. of the gross amount of currency exchanged for an amount exceeding ten lakh rupees, subject to a maximum amount of sixty thousand rupees.

Money Changing Services

❖ Illustration 1:

- ❖ US \$ 1000 sold by customer at Rs. 60 per US\$. RBI reference rate is Rs. 65 per US\$. Taxable value shall be Rs. 5000

❖ Illustration 2:

- ❖ 6700 dollars exchanged with 5000 pounds on 07.09.2017
- ❖ One Dollar = Rs. 66.3/-. One pound = 89.03
- ❖ Equivalent rupees for dollars exchanged = Rs. 4,44,210/-
- ❖ Equivalent rupees for pounds exchanged = Rs. 4,45,150/-
- ❖ Value of taxable service 1% of 4,44,210 = 4, 442/-

❖ Illustration 3:

- ❖ US\$ 10000 is exchanged with Rs. 6,00,000/-. The value of taxable supply is Rs 3500/-

Valuation for air travel agents

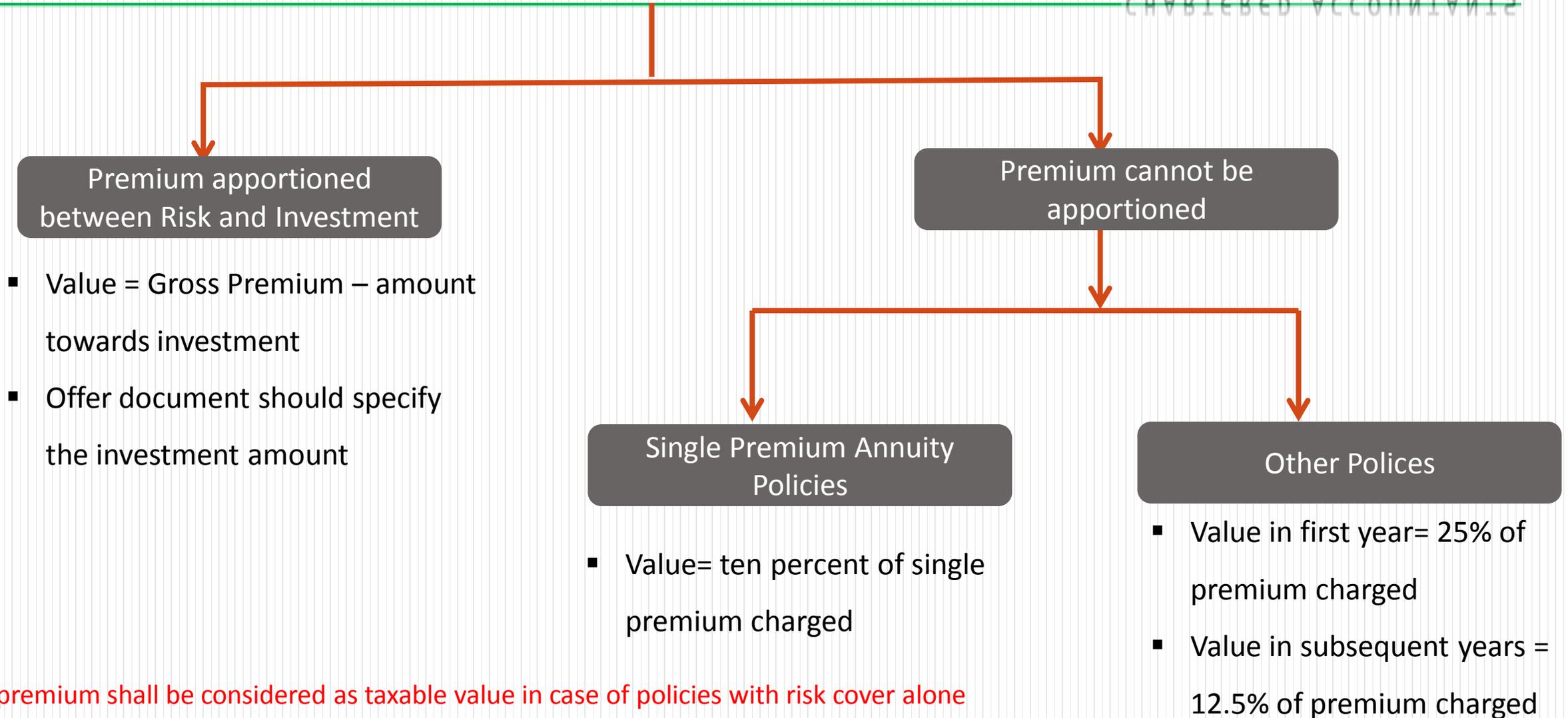
❖ Valuation:

- ❖ Domestic bookings— Value shall be deemed to be five percent of basic fare
- ❖ International bookings— Value shall be deemed to be ten percent of basic fare
- ❖ Basic Fare— means that part of the air fare on which commission is normally paid to the air travel agent by the airlines

❖ Example:

- ❖ Easy Trip Agents have booked an Indian airlines air ticket to their customer for Rs. 5000/- for travel from Hyderabad to Mumbai. The base fare of the ticket is Rs. 3000/-. What is the value of taxable service?

Valuation of Life Insurance Business



Entire premium shall be considered as taxable value in case of policies with risk cover alone

Valuation of second hand goods

❖ **Conditions:**

- ❖ Used goods can be sold as such or after minor processing without changing the nature
- ❖ No ITC availed on purchase of such goods
- ❖ Value of supply = Selling Price – Purchase Price
- ❖ Where the value of supply is negative, it shall be ignored
- ❖ In case the goods are repossessed from a defaulting borrower who is not registered, the purchase value shall be the purchase price of defaulting borrower as reduced five percentage points for every quarter or part thereof.

Valuation of Vouchers or Coupons

- ❑ Value of vouchers or coupons redeemable against supply of good or services shall be money equivalent value of goods or services or both redeemed against vouchers or coupons

Rate of Foreign Currency to determine value

- ❖ 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 or, as the case may be, section 13 of the Act.

Power to Notify Value of Inter-Unit Services as Nil

- ❑ In case of supplies between distinct persons under Section 25, where ITC is available, Government is given the power to notify the class of service providers whose value shall be deemed to be Nil

Valuation of Supply inclusive of GST

- ❖ Where the value of supply is inclusive of integrated tax or, as the case may be, central tax, State tax, Union territory tax, the tax amount shall be determined in the following manner, namely,-
- ❖ Tax amount = (Value inclusive of taxes X tax rate in % of IGST or, as the case may be, CGST, SGST or UTGST) ÷ (100+ sum of tax rates, as applicable, in %)

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Thank you!!!

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