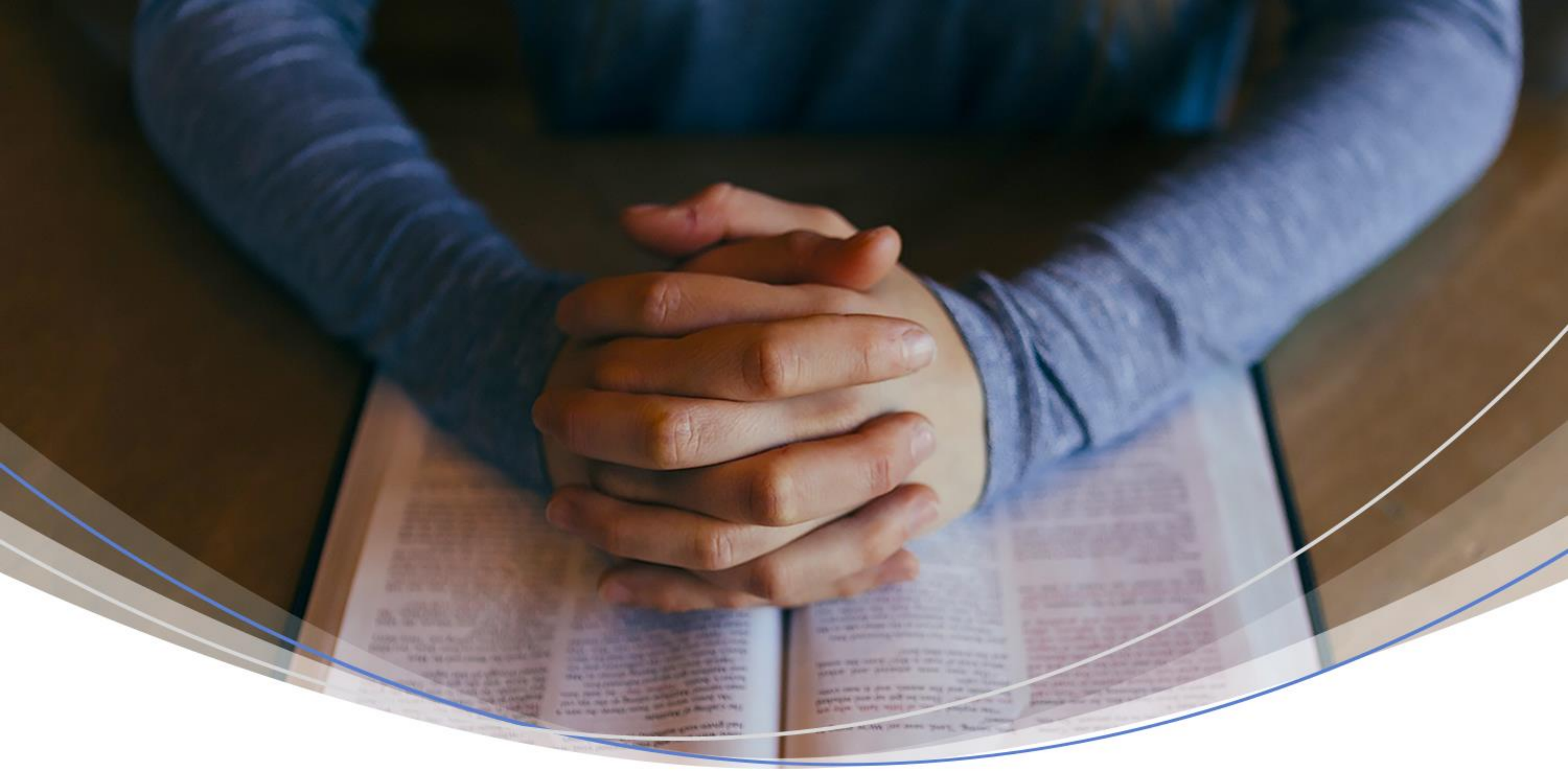


GST- Goods and Service Tax

Determination of Value of Supply

Presentation # 05

GST Valuation of Supply

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

1. Any taxes, duties, cesses, fees and charges levied under any law for the time being in force other than GST (SGST/CGST/UGST/IGST) if charged separately by the supplier.
2. Any amount that the supplier is liable to pay but incurred by recipient and not included in transaction value.
3. Incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply.
4. Interest or late fee or penalty for delayed payment of any consideration for any supply.
5. Subsidies directly linked to the price excluding subsidies provided by the Central Government and State Governments. (For the purposes of this sub-section, the amount of subsidy shall be included in the value of supply of the supplier who receives the subsidy)
6. Value of goods and/or services as are supplied directly or indirectly by the recipient of the supply free of charge or at reduced cost for use in connection with the supply.
7. Royalties and licence fees related to the supply of goods and/or services that the recipient of supply must pay, either directly or indirectly, as a condition of the said supply

All of above are to be included in the transaction value for the ley of appropriate GST on the invoice value based on the purchase/service contracts entered by supplier/recipient.

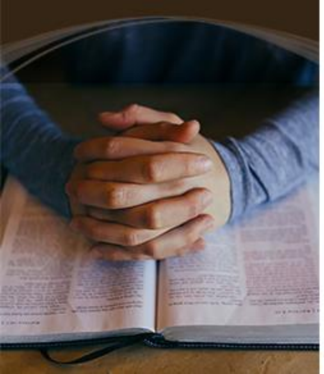
GST - Value of Supply (Exclusions)

The value of the supply shall not include;

1. Value of discount given before or at the time of the supply if such discount has been duly recorded in the invoice issued in respect of such supply.
2. After the supply has been effected, if such discount is established in terms of an agreement entered into at or before the time of such supply and specifically linked to relevant invoices **or/and**
3. Input tax credit as is attributable to the discount on the basis of document issued by the supplier has been reversed by the recipient of the supply.

The nature of contract /order/agreement entered into by the parties will determine what is to be included/excluded for the valuation of transaction. It will be important that contract/order/agreement clearly defines what is included and excluded into the transaction being entered into.

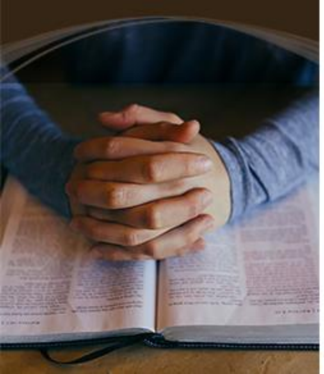
For example : If the purchase order mentions door delivery of the goods to recipient; whereas in practice the recipient is picking the goods from suppliers' place. The contract is overvalued to the extent of cost of transport/ logistic and undervalued if it is other way round, i.e. contract is ex-suppliers works / warehouse and in practice supplier do door delivery to the recipient.



GST - True Value Determination

The value of the supply of goods and/or services in the following situations have relevant rules to be followed for value determination;

1. The consideration, whether paid or payable, is not money, wholly or partly;
2. The supplier and the recipient of the supply are related;
3. There is reason to doubt the truth or accuracy of the transaction value declared the supplier;
4. Business transactions undertaken by a pure agent, money changer, insurer, air travel agent and distributor or selling agent of lottery
5. Such other supplies as may be notified by the Central or a State Government in this behalf on the recommendation of the Council.



These are the examples of special cases where owing to the relationship between suppliers and recipient or because of general omission and judgemental errors occurred in determination of transaction value tax liability has reduced. The oversimplification or overcomplication of the transaction is removed by bringing more clarity in the valuation of such transaction by tax authorities.

GST - Consideration is not wholly in Money

Where the supply of goods or services is for a consideration not wholly in money, the value of the supply shall be ;

Step -1 → Open Market Value of Supply

If open market value is available, it is the value of consideration to be compared.

↓ Not Available

Step -2 → Money + Equivalent to money

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 is to be compared.

↓ Not Available

Step -3 → Similar kind and quality

The value of supply of goods or services or both of like kind and quality available in the market which can represent similar value is to be compared.

↓ Not Available

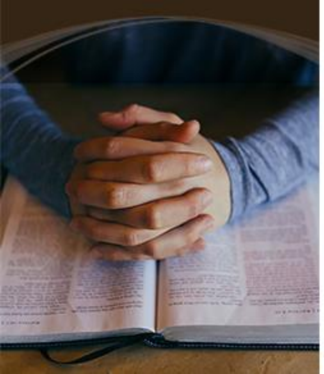
Step -4 → Actual Cost X 110%

The value shall be one hundred and ten percent of the cost of production or manufacture or cost of acquisition of such goods or cost of provision of such services

↓ Not Available

Step -5 → Consistent with general principles and provisions

Residual method of valuation. The value shall be determined using reasonable means consistent with the principles and general provisions of GST law.

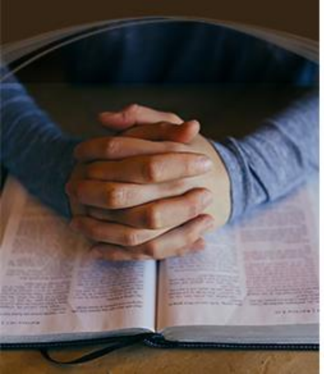


The responsibility to ascertain the acceptable value of the transaction is with the person liable for the tax.

GST - Related Person

Persons shall be deemed to be "related persons" if only

1. They are officers or directors of one another's businesses;
2. They are legally recognized partners in business;
3. They are employer and employee;
4. Any person directly or indirectly owns, controls or holds five per cent or more of the outstanding voting stock or shares of both of them;
5. One of them directly or indirectly controls the other;
6. Both of them are directly or indirectly controlled by a third person;
7. Together they directly or indirectly control a third person; or
8. They are members of the same family; (the spouse and children of the person, and the parents, grand-parents, brothers and sisters of the person if they are wholly or mainly dependent on the said person)



The term "person" also includes legal persons. Persons who are associated in the business of one another in that one is the sole agent or sole distributor or sole concessionaire, howsoever described, of the other, shall be deemed to be related.

Step -1 ; Step – 3, Step – 4 & Step-5 is to be followed for valuation (as given in earlier slide) . Provide that if 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 goods or services.

GST - made or received through an agent

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

Step -1

Open Market Value of Supply

or

90 % of Similar kind and quality at option of supplier

Open market value of the goods being supplied, or at the option of the supplier, be ninety percent 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

Not Available

Step -2

Actual Cost X 110%

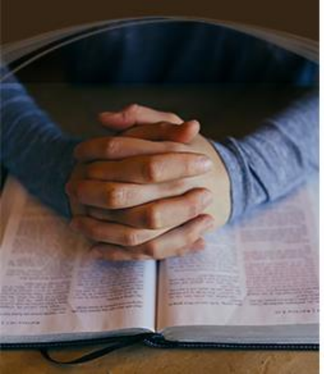
The value shall be one hundred and ten percent of the cost of production or manufacture or cost of acquisition of such goods or cost of provision of such services

Not Available

Step -3

Consistent with general principles and provisions

Residual method of valuation. The value shall be determined using reasonable means consistent with the principles and general provisions of GST law.



The responsibility to ascertain the acceptable value of the transaction is with the person liable for the tax.

GST - Certain Specific Services

1. Tickets of Air Travel by an air travel Agent:

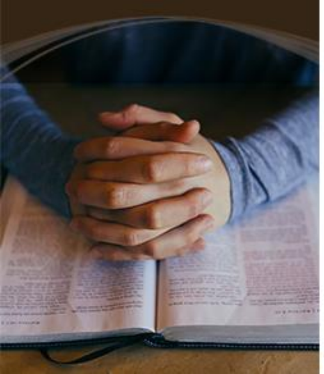
It shall be deemed to be **5%** of the basic fare in the case of domestic bookings, and at the rate of **10%** in case of international bookings of passage for travel by air. Basic fare means that part of the air fare on which commission is normally paid to the air travel agent by the airline.

2. Life insurance business:

a) The gross premium charged from a policy holder reduced by the amount allocated for investment, or savings on behalf of the policy holder, if such amount is intimated to the policy holder at the time of supply of service;
(b) In case of single premium annuity policies other than (a), **10%** of single premium charged from the policy holder; or
(c) in all other cases, **25%** of the premium charged from the policy holder in the first year and **12.50%** of the premium charged in subsequent years.
(Provided that above is not applicable where the entire premium paid by the policy holder is only towards the risk cover in life insurance.)

3. Dealing in buying and selling of second hand Goods:

Used goods as such or after such minor processing which does not change the nature of the goods and where no input tax credit has been availed on purchase of such goods, the value of supply shall be the difference between the selling price and purchase price and where the value of such supply is negative it shall be ignored.



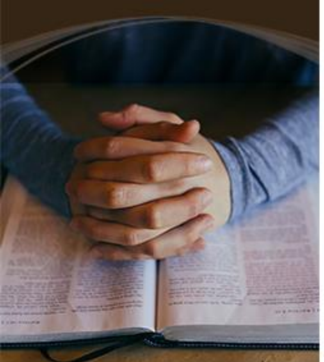
GST - Certain Specific Services

4. Redeemable Tokens & Voucher:

The value of a token, or a voucher, or a coupon, or a stamp (other than postage stamp) which is redeemable against a supply of goods or services or both shall be equal to the money value of the goods or services or both redeemable against such token, voucher, coupon, or stamp.

5. Supply of services in case of pure agent:

Agent 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; do not intends to hold nor holds any title to the goods or services and receives only the actual amount incurred to procure such goods or services. The value received purely in form of reimbursement of actual payments incurred.
Example : Reimbursement of amount of taxes paid on behalf of his principle.



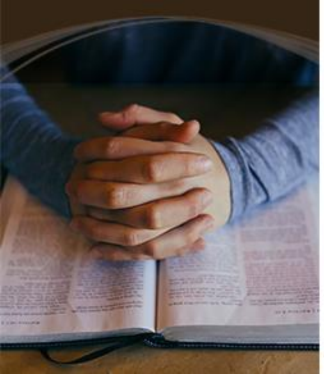
GST - Explanation to terms.

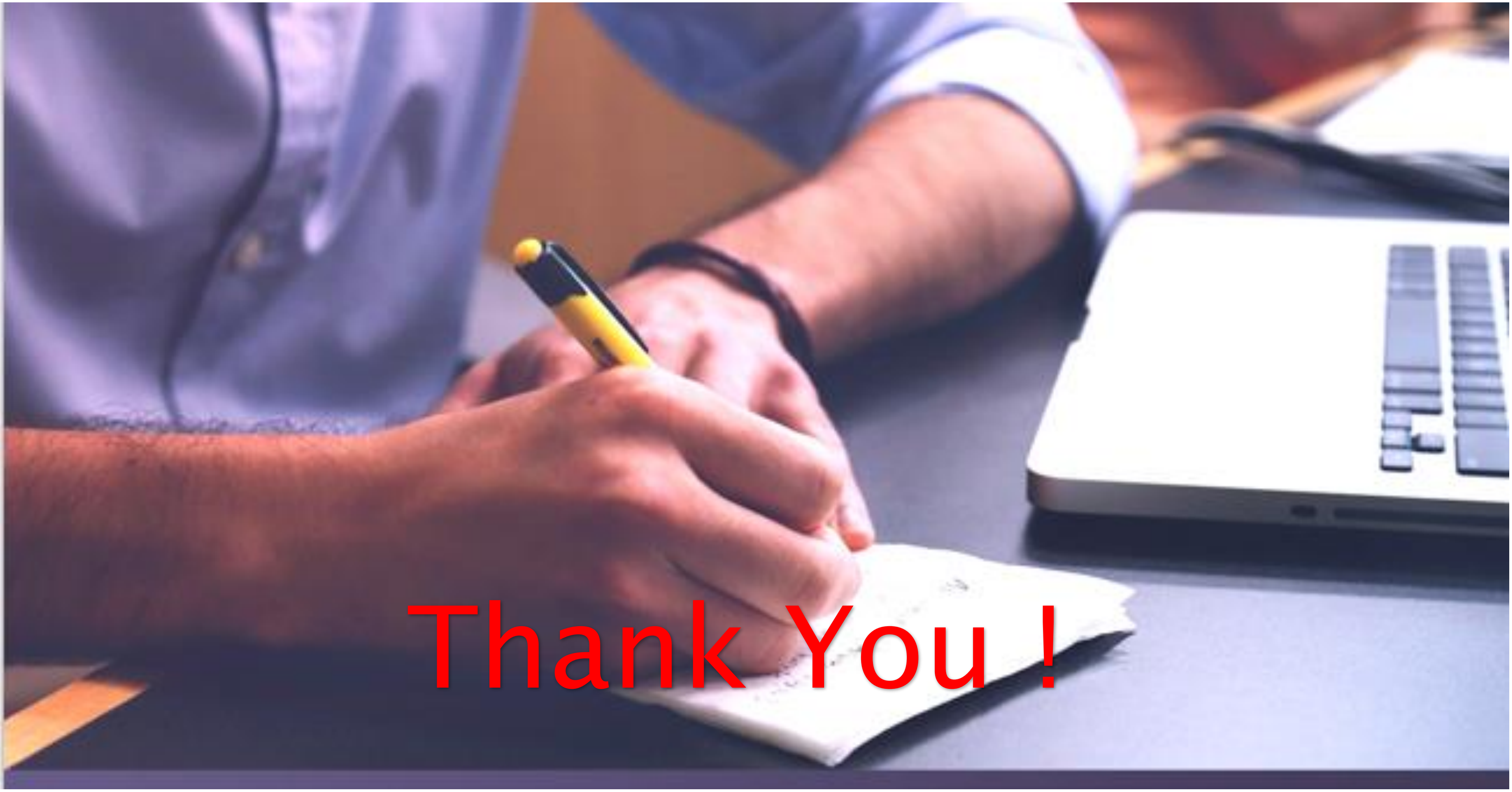
1. Open Market Value:

"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 price is the sole consideration, to obtain such supply at the same time when the supply being valued is made

2. Supply of goods or services or both of like kind and quality:

"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, in respect of the characteristics, quality, quantity, functional components, materials, and 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.





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