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Valuation of Supply under CGST Bill,2017 and Rules thereof

CA. Sanjeev Singhal

Sanjeev Kavish and Associates, Chartered Accountants

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Valuation of supply under CGST Act, 2017 and Rules thereof

Value for supply of goods and services is important part of GST. For valuing any goods or services is subject matter of discussion and contentious in nature . Value means price of any goods or service on which tax to be imposed particularly when parties are related or distinct person. This has all been incorporated in Section 15 of the CGST Act,2017. Main basis of valuation is Transaction value which has not been defined in the Act but includes having price , between person not related and the price being sole consideration. In valuation one need to keep in mind the inclusion and exclusion from the price of goods and service on which tax under GST Shall be charged.

Value of Taxable Supply

1. The value of supply of goods or supply of services shall be transaction value that is price actually paid or payable where the supplier and recipient of supply is not related party and price is the sole consideration for supply.

2. Transaction value mentioned above shall include the following;

   ✓ Any amount incurred by the recipient of supply with respect to such supply and which was paid and payable by the supplier which has not been included in transaction value
   ✓ Any taxes, duties, fees and charges levied under any statute other than tax under this Act. Like CGST , SGST, UGST etc.
   ✓ Incidental expenses such as commission or packing charged by supplier to recipient of goods or services or both including any amount charged by supplier for the supply of goods or services at the time or before delivery of goods or supply of services..
   ✓ Subsidy directly linked to the price excluding subsidy provided by the Central or State Government
   ✓ Interest or late fees or penalty for delayed payment of consideration for any supply.

3. Following shall not be included;

   a] Transaction value shall not include any discount allowed before or at the time of supply provided such discount is recorded in the invoice.

   b] after the supply has been effected if;

   i] discounts is given as per the agreement entered into at or before the supply and linked to relevant invoices.
   Ii] Input tax credit is reversed by the recipient of supply on such discount.

4. Where the value can not be determined as per sub section 1, the same shall

be determined as may be prescribed.

Valuation Rules

1. Value of supply of goods or service where the consideration is not wholly in money

Value Shall be

- Open market value
- If OMV is not available, Total consideration in money.
- If above two are not available, value of supply of goods or service or both of like kind and quality.

Example
Where a new phone is supplied for Rs.20000 along with the exchange of an old phone and if the price of the new phone without exchange is Rs.24000, the open market value of the new phone is Rs 24000.

2. Value of goods or service or both between distinct or related person.

Value shall be

- Open market value
- If OMV is not available, value of supply of goods or service or both of like kind and quality
- If above two are not available, value as determine by application of Rule 4 and 5 in that order.

Where the goods are for further supply by recipient, the value shall be at option of the supplier. An amount shall be 90% of the price charged by recipient to his customer.
Where recipient is taking ITC , the value charged in the invoice of goods or service shall deemed to be open market value.

3. Value of supply of goods made or received through agent.

Value of supply of goods between principal and his agent shall

- OMV of goods supplied or at the option of supplier , an amount shall be 90% of the price charged of like kind and quality by recipient to customer not being related person.
- Where the value is not fixed as above, it will be fixed as per rule 4 or 5 .

4. Value of supply of goods or service or both at cost

Where the value goods or services or both can not be determined as per the proceeding rules, the value shall be 110% of the cost of production or manufacture or cost of acquisition or cost of provision.

5. Residual method for valuation of goods or services or both

Where the value goods or services or both can not be determined as per the Rules 1 to 4, same can be fix by reasonable means consistent with principles and general provision of section 15 and these rules. In case of supply of services , the supplier may opt for this rule.

6. Determination of value in respect of certain supplies

1. Value of supply in relation to purchase and sale of foreign currency. At the option of supplier may be any hereinafter;

a] The value of supply of service in purchase or sale of foreign currency including money changing shall be determined by supplier of service as follows:

- When currency used is INR, difference of buying and selling and RBI rate for currency at that time.
- If RBI rate are not available, 1% of the gross amount provided or received.
- If money exchange is not having INR, the value shall be 1% of the lesser of the two amount received after conversion into INR at RBI rate.

  Method once adopted will not be changed in rest of Financial year.

b] The value of supply of service in purchase or sale of foreign currency including money changing shall be deemed to be

- 1% of the gross amount of currency exchanged subject to minimum of Rs. 250 up to Rs. 1 lac.
- Rs.1000 plus 0.50% of the gross amount of currency exchanged for an amount exceeding Rs. 1 lac up to Rs. 10 lacs.
- Rs. 5500 plus 0.10% of gross amount of currency exchanged for an amount exceeding Rs. 10 lacs subject to maximum amount of Rs 60000.

2. Booking of ticket in travel by air.

   5% of basic fare in domestic and 10% of basic fare in International

3. Life insurance business

   - Gross amount charged from policy holder reduced by amount allocated for investment or saving on behalf of policy holder if such amount has been intimated to policy holder.
   - In case of single premium annuity, 10% of single premium
   - In case of other, 25% of premium charged in the first year and 12.5% of premium in subsequent year.

   Provide that this rule will not apply where premium paid by policy holder is towards coverage of risk cover in life insurance.

4. Where taxable supply is provided by person dealing in buying and selling of second hand goods and no ITC has been claimed, value in this case

shall be the difference of buying and selling of goods.

Where the purchase value of goods repossessed from defaulting borrower, who is not registered, Value of goods shall be reduced by 5% per quarter or part of the quarter from the date of purchase to the date of sale by person taking the repossession.

5. Value of token or voucher or coupon or stamp which redeemable against supply of goods or services or both shall be equal to money value of goods or service redeemed against such token or coupon.

6. Where supply of goods or services as per paragraph 2 of Schedule-I between distinct person or related person and ITC is available, shall be deemed to be nil.

7. Value of supply of service in case of pure agent

Expenses or cost incurred by supplier as recipient of supply shall be excluded from the value of supply if all the following conditions are satisfied.

- Supplier act as pure agent of recipient of supply , when he make payment to third party after authorization by recipient.
- The payment made by agent has been separately mentioned in he invoice issued by agent to recipient.
- Supply procured by pure agent from third party as pure agent of recipient are in addition to services supplies on his own a/c.

Explanation : pure agent here means

i] enter in to agreement of recipient of supply to work as pure agent to incur expenditure or cost in the course of goods or services or both.

ii] neither hold or intend to hold any title of goods or service or both so procured or supplied as pure agent of supply.

iii] does not use his own interest

iv] receive only actual amount incurred to procure such goods or service

8. Rate of exchange of currency other than Indian rupees

The rate of exchange for determination of value of goods or service or both shall be the reference rate of RBI on the date of time of supply in terms of Section 12 & 13 of Act.

9. Value of supply inclusive of integrated tax, central tax , State tax and Union territory tax

$$\text{Tax Amount} = \frac{\text{value inclusive of tax* tax rate}}{\text{100+ tax rate}}$$

FAQ ;

1. Is reference to GST Valuation rules requires in all cases.
   Ans. No. it is required only in those cases where value can not be determined u/s 15[1].
2. Can the transaction value referred in Section 15[1]be accepted.
   Ans. Yes. It can be accepted after accepting the inclusion in section 15[2]. Further transaction value can be also accepted where the transaction is between related person and price is not influenced.
3. Whether post supply discount or incentives are to be included in the transaction value.
   Ans: Yes : discounts is given as per the agreement entered into at or before the supply and linked to relevant invoices. Input tax credit is reversed by the recipient of supply on such discount.
4. Whether pre-supply discounts allowed before or at the time of supply are includible in the transaction value.
   Ans: Yes. if the same is allowed as normal trade practice and has been recorded in the Invoice.
5. When are the provision of Valuation rule applicable.
   Ans: when consideration wholly or in part is not in money terms, parties are related or distinct person or transaction value declared is not reliable.

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About the Author:

Author is practicing chartered accountant in Gurgaon and having specialization in Service Tax and Haryana VAT. He can be reached at sanjeev.singhal@skaca.in. WWW. skaca.in