# Value of Supply

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## ➔ Introduction

Every fiscal statue makes provision for the determination of value, on which tax is normally payable on ad-valorem basis. In GST also, tax is payable on ad-valorem basis (***i.e. percentage of value of the supply of goods or services)***. Provisions relating to **"Value of Supply"** set out the mechanism to compute such value base, on which CGST, SGST/ UTGST and IGST should be paid.

## ➔ Value of taxable supply

In terms of section 15(1) of the CGST Act, 2017 value of a supply of goods or services or both shall be the **"transaction value"** which is nothing but the price actually paid or payable for the supply of goods or service or both, for considering the **transaction value** to be taxable value of supply the following **two conditions** must be satisfied together (i.e.)

***a) Supplier and recipient are not related; and***

***b) Price is the sole consideration for such supply***

## ➔ Items to be included in the "Transaction Value"

If transaction value is the value of supply of goods or service or both as mentioned above, the following items shall be added to the transaction value in accordance with section 15(2) of CGST Act, 2017.

i. Any **taxes, duties, cesses, fees and any other charges** leviable under any law for the time being in force is separately charged by the supplier except which are leviable under CGST Act, SGST/ UTGST Act & Goods and service tax (Compensation of states) Act.

ii. Any amount that the supplier is liable to pay in relation to supply, which is incurred by the recipient of the supply and not included in the price actually paid or payable by the recipient.

iii. **Incidental expenses, including commission and packing charges**, charged by the supplier to the recipient of a supply including any amount charged for anything done by the supplier in respect of the supply of goods or service or both at the time of, or before delivery of goods or supply of services;

iv. **Interest or late fee or penalty** for delayed payment of any consideration for any supply; and

v. **Subsidies directly linked** to the price excluding subsidies provided by the central government and state government.

### ➔ Treatment of discount given by supplier in determining taxable value of supply

According to section 15(3) of the CGST Act, 2017 discount provided by the supplier mentioned separately in the invoice before or at the time of supply, shall not be included in determining the value of taxable supply, even discount given after the supply of goods or service or both shall not be included in determining the value of taxable supply if the following **two conditions** are satisfied.

***a) Such discount is in terms of an agreement entered between the supplier and recipient and they are specifically linked to the relevant invoices; and***

***b) The recipient of such supply has reversed the input tax credit attributable to the discount;***

### ➔ What is the value of taxable supply if supplier and recipient are related persons (other than agent)?

If both supplier and recipient are **related person** as per the explanation contained in section 15 of the CGST Act, 2017 as discussed below, then the value of taxable supply shall be "**open market value"** as per rule 28 under chapter IV (Determination of value of supply) of CGST Rules, 2017.

Where the ***"Open Market Value*** *means the full value in money* ***excluding taxes under GST laws,*** *payable by a person to obtain such supply at the time when supply being valued is made, provided such supply is between unrelated persons and price is the sole consideration for such supply".*

If open market value is not available then value of supply of goods or services or both shall be the value of supply of goods or services or both of **like kind and quality.**

If both open market value and value of supply of like kind and quality of goods or service are not available then the **value shall be 110% of the cost of production or manufacture** or the cost of acquisition of such goods or the cost of provision of such services.

If taxable value is not determinable by any of the above method then it should be determined using reasonable means consistent with the principles and the general provisions of section 15 and the rules made there under ((*i.e.) Best Judgement Method)*

### ➔ When supplier and recipient are said to be related?

Supplier and recipient of supply of goods or service or both are deemed to be related if their relationship comes under the definition of related parties as defined in explanation under section 15 of the CGST Act, 2017. There are nine situations under the said explanation which is given below:

i. *If such persons are officers or directors of one another's business;*
ii. *If such persons are legally recognised partners in business;*
iii. *If such persons are employer and employee;*
iv. *If any person directly or indirectly owns, controls or holds 25% or more of the outstanding voting stock or shares of both of them;*
v. *If one of them directly or indirectly controls the other;*
vi. *If both of them are directly or indirectly controlled by a third person;*
vii. *If together they directly or indirectly control a third person; or*
viii. *If they are member of the same family;*
ix. *If 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.*

### ➔ Taxable value of supply of goods made or received through an agent

In case where the goods are supplied through an agent, the taxable value of such supply shall be **"open market value"** of the goods being supplied as per the provisions contained in rule 29 under chapter IV (*Determination of value of supply)* of CGST Rules, 2017, but if the open market value is not available then the value shall be determined in the following order.

i. 110% of the cost of production or manufacture or the cost of acquisition of such goods; or
ii. if the taxable value is not determinable as above also then the value shall determined using reasonable means consistent with the principles and the general provisions of section 15 and the rules made there under ( (*i.e.) Best Judgement Method)*

### ➔ Value of supply of goods or service when consideration is not wholly in money

If the supply of goods or service is for a consideration not wholly in money, then the value of taxable supply shall be the **open market value** of such supply in terms of rule 27 under chapter IV (*Determination of value of supply)* of CGST Rules, 2017.

If the open market value is not available then the value of taxable supply shall be sum total of consideration in money and money value of any such further amount of consideration not in money.

But if money value of any such further amount of consideration not in money is not known at the time of supply, then the taxable value of supply of goods or service or both shall be the taxable value of the supply of goods or service or both of like kind and quality.

If both open market value and money value of any such further amount of consideration not in money is not available at the time of supply, then the taxable value of supply shall be determined as follow.

i. 110% of the cost of production or manufacture or the cost of acquisition of such goods or the cost of provision of such services; or

ii. if the taxable value is not determinable as above also then the value shall be determined using reasonable means consistent with the principles and the general provisions of section 15 and the rules made there under ( (*i.e.) Best Judgement Method)*

**(*Note: In case of only supply of services, the supplier can opt for above residual method or best judgement method by ignoring 110% of the cost of provision of such services)***

## ➔ Determination of value of certain supplies

According to rule 32 under chapter IV (*Determination of value of supply)* of CGST Rules, 2017 suppliers of the following supplies have been given an option to determine the value of supply other than **transaction value**.

<table>
<tr><th>Sno.</th><th>Supplies</th><th>Value of Supply</th></tr>
<tr><td>1.</td><td>Purchase or Sale of foreign currency (Including money changing)</td><td><u>Option - 1</u><br>Value of supply = (Buying rate or Selling rate - RBI reference rate) x total units of currency<br>Note<br>✓ If RBI reference rate is not available then the value shall be 1% of the gross amount of Indian Rupee purchased or sold.<br>✓ If both currency exchanged is not Indian Rupee then the value shall be 1% of the lesser of the two amount converted into Indian Rupee through RBI reference rate.<br><u>Option - 2</u>
<table>
<tr><th>Money exchanged</th><th>Value of service</th></tr>
<tr><td>Up to Rs.1Lakh</td><td>1% of the gross amount of currency exchanged, subject to minimum Rs.250</td></tr>
<tr><td>>1Lakh and up to Rs.10Lakh</td><td>(Rs.1,000 + 0.5% of the gross amount of currency exchanged)</td></tr>
<tr><td>>Rs.10Lakh</td><td>(Rs.5,500 + 0.01% of the gross amount of currency exchanged), subject to maximum Rs.60,000</td></tr>
</table></td></tr>
<tr><td>2.</td><td>Air ticket agent</td><td>
<table>
<tr><th></th><th>Value of service</th></tr>
<tr><td>Domestic Booking</td><td>5% of basic fare</td></tr>
<tr><td>International Booking</td><td>10% of basic fare</td></tr>
</table>
(Note: Basic fare means that part of the air fare on which commission is normally paid to the air travel agent by the airlines)</td></tr>
</table>

<table>
<tr><td>3.</td><td>Life Insurance business</td><td>
<table>
<tr><th>Single or Other</th><th>Value of supply</th></tr>
<tr><td>Single Premium</td><td>10% of premium charged</td></tr>
<tr><td>Other cases</td><td>• 1st Year - 25% of premium charged<br>• 2nd Year and subsequent years - 12.5% of premium charged</td></tr>
</table>
Note:<br>
1. Gross premium shall be reduced by the amount allocated for investment, or savings on behalf of the policy holder, if such amount is intimated to the policy holder<br>
2. The above option is not applicable if the entire premium is towards risk cover in life insurance.
</td></tr>
<tr><td>4.</td><td>Buying and selling of second hand goods</td><td>Value of supply = (Selling Price - Purchase Price)<br><br>
Note:<br>
1. If value of supply is negative as calculated above it should be ignored.<br>
2. Input Tax Credit should not have been availed on the purchase of such goods.<br>
3. In case of goods repossessed from a defaulting borrower the purchase value shall be the purchase price of such goods by the defaulting borrower reduced by 5% for every quarter or part thereof, from the date of purchase till the date of disposal.
</td></tr>
<tr><td>5.</td><td>Value of token, or a voucher, or a coupon, or a stamp (other than postage stamp) redeemable against a supply of goods or service or both</td><td>Value of supply shall be money value of the goods or service or both redeemable.</td></tr>
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## ➔ Value of supply of service in case of pure agent

In accordance with rule 33 under chapter IV the expenditure or cost incurred by the supplier as a "**pure agent"** shall not be added to determine the value of supply if the following conditions are satisfied.

i. ***Supplier acts as a pure agent of the recipient of the supply;***

ii. ***Payment made by the supplier as pure agent is separately indicated in the invoice; and***

iii. ***Supplies procured by the supplier as pure agent from third party is in addition to his own supplies***

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