INTRODUCTION

As GST is levied as a percentage of the value of supply, whether of goods or of services Valuation of goods and services is an important aspect which determines the amount of tax to be levied. If goods and services are undervalued, it leads to short-payment of tax, leading to non-compliance and resultant legal implications. Overvaluation will result in loss of revenue for businesses by way of additional taxes.
The value of all the goods and services consumed in an economy is arrived at based on certain metrics. In the Pre GSTregime in India, this value is calculated in different ways. An overview is provided in the table below:

Tax	Value of goods/services
Excise	Based on transaction value or quantity of goods or MRP
VAT	Based on sale value
Service Tax	Based on taxable value of service rendered

Important Definition

Related Person

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

- Such persons are officers or directors of one another businesses;
- Such persons are legally recognized 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.

Consideration

Consideration in relation to the supply of goods or services or both includes—

(a) any payment made or to be made, whether in **money or otherwise**, in respect of, in response to, or for the inducement of, the supply of goods or services or both, whether by the recipient or **by any other person** but **shall not include any subsidy** given by the Central Government or a State Government;

(b) the **monetary value of any act or forbearance**, in respect of, in response to, or for the inducement of, the supply of goods or services or both, whether by the recipient or by any other person but **shall not include any subsidy** given by the Central Government or a State Government:

Provided that a **deposit** given in respect of the supply of goods or services or both shall not be considered as payment made for such supply unless the supplier applies such deposit as consideration for the said supply;

Valuation of supply under GST

Transaction value is basis for valuation

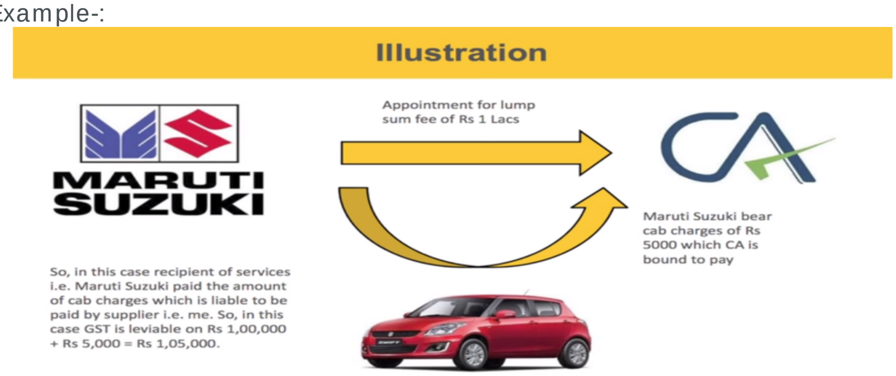
➢ The **value** of a supply of goods or services or both ➢ shall be the **transaction value**, that is the price actually paid or payable for the said supply of goods or services or both ➢ where the supplier and the recipient of the supply are **not related** and ➢ the price is the **sole consideration** for the supply - section 15(1) of CGST Act. ***The conditions for accepting transaction value are –*** **Condition-1: Supplier and Recipient of the supply are not related**. **Condition-2: Price is the sole consideration**	Example Mr. A is selling a product to Mr. B for Rs. 20,000. Open market value of the product is 24,000. Mr. A & Mr. B is unrelated parties. Mr. A additionally charges as freight Rs. 1000 for supplying the product to Mr. B's business place. In this case Value of supply will be Rs. 21,000 as single condition is satisfied. Suppose Mr. A & Mr. B is related parties. Then valuation rule will apply and Value of supply will be Rs. 25,000 for levy of GST.

Inclusions & Exclusions from the value of supply:

Inclusions in the Transaction Value [Section 15(2)]:

(a)	Taxes other than GST, if charged separately by the supplier [Section 15(2)(a)]	GST and GST cess are not part of taxable value, but other taxes/cesses/fees etc. will form part of the value of taxable supply if charged separately by the supplier to the recipient. **Example-:** As per rent contract, tenant will pay rent of Rs. 2,00,000/- and municipal taxes of Rs. 20,000/-In this case GST would be chargeable on Rs. 2,20,000/- **Example-:** Levy of entertainment tax by local authority is not subsumed in the GST .Therefore right to levy is still available with local authority and consequently it appears that any entertainment tax charged by the local authority will form part of transaction value.

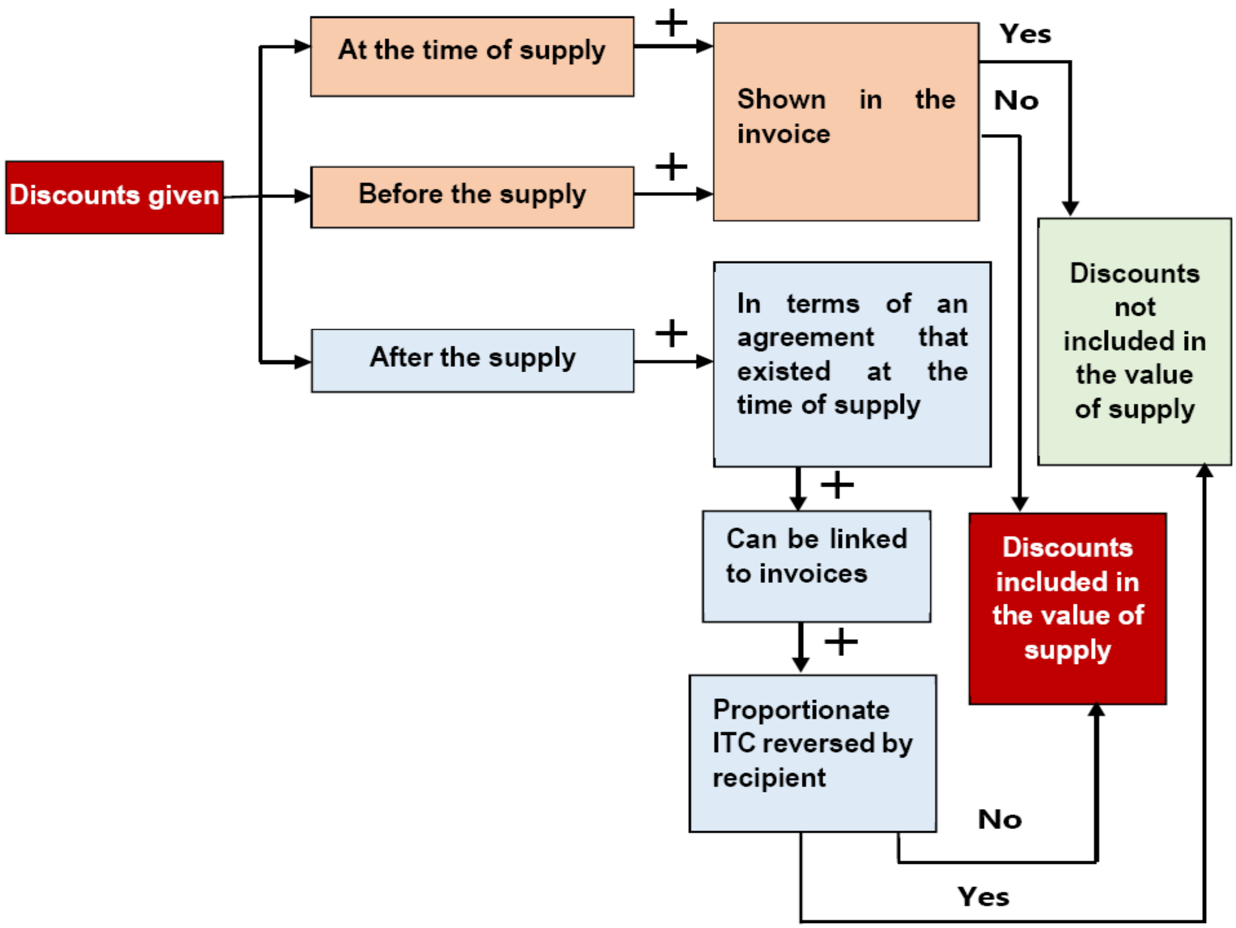
(b)	Payments made to third parties by the	A supplier may need to incur various expenses in order to make a particular supply of goods / services. In the normal course, he would pay these amounts

	recipient on behalf of the supplier in relation to the supply [Section 15(2)(b)]	and they would form part of the value that he charges from the customer (recipient of supply). However, even if the customer makes direct payment of some of such liabilities (of the supplier) to the third parties, and the supplier does not include this amount in his bill, it would still form part of the value of the taxable supply. **Example-:** *Mr. Ram sold goods to Mr. Lakshman for ` 2,50,000. As per the contract of sale, Mr. Ram is required to deliver the goods in the premises of Mr. Lakshman. Mr. Ram hires transporter for transportation for delivery of goods.* *However, the freight paid by Mr. Lakshman to transporter. Freight paid ` 2,500.* *Find the transaction value of supply of goods.* *Solution* *Value of supply of goods = Rs. 2,50,000/-* *Add: Freight paid by recipient of supply = Rs. 2,500/-* *(which the supplier is so liable to pay)* *Taxable value of supply of goods = Rs. 2,52,500/-* Example-: 
(c)	Incidental expenses [Section 15(2)(c)]	1. Incidental expenses, such as commission and packing, charged by the supplier to the recipient of a supply, and 2. Any amount charged for anything done by the supplier in respect of the supply of goods and /or services at the time of, or before delivery of the goods or, as the case may be, supply of the services; **Example: Commission** A company appoints an agent to procure order of goods from buyer. Agent procures an order @ Rs.100 rupees. Now Seller company ask the buyer to pay only to supplier @Rs. 98 only and pay Rs 2 directly to the agent. Here GST will be charged on full Rs.100 as the Rs. 2 is the commission for this transaction. **Example: Packing** Mr X goes to haldiram outlet and buys dryfruit worth Rs. 2000 . Mr X ask for the special packing for which Rs 500 is charged for packing . Here the transaction value will be Rs 2500 . The amount for ***special packing*** is separately payable by the recipient to the supplier. The cost of such packing will be included in the value of supply even if the cost of packing is separately paid by the recipient. **Example-: Anything done Before sale** A company advertises for sale of installed plant and machinery to sale the same on "**as is where basis is**". In this case cost of dismantling the plant will also be included in the transaction value as the dismantling activity has nexus before sale of goods. Inspection or certification charges are another element that may beadded to the value, if billed to the recipient of supply. Installation and testing charges at the recipient's site will also be added, being an amount charged for something done by the supplier in respect of the supply at the time of making the supply.
(d)	Interest, late fee and	Interest/late fee/penalty for delay in payment of consideration for supply will

	penalty for delayed payment [Section 15(2)(d)]	form part of value. **Example:-** A supply priced at Rs. 2,000 is made, with a credit period of 1 month for payment. Thereafter interest of 12% is charged. The payment is received after the lapse of two months from the date of supply. The amount of 12% p.a. (i.e. 1% per month) on Rs. 2,000 for one month after the free credit period is Rs. 20. Such interest will be added to the value and thus, the value of taxable supply will work out to be Rs. 2,020. Example:- Suppose Bharti Airtel Charge Rs.100 as late payment fees, now GST will charge on such fees. **Comments:** This provision is likely to have litigation as in most of the cases supplier is unable to recover the interest although it is mentioned in the contract.
(e)	Subsidies [Section 15(2)(e)]	Subsidies directly linked to the price. (Except subsidies provided by the central and state Governments). Explanation: The amount of subsidy shall be included in the value of supply of the supplier who receives the subsidy. Example:- ABC water an NGO for providing clean drinking water in rural India sets up water purifying facilities at various panchayats in Maharashtra. It supplies purified drinking water to consumers at Rs 5 for a 50 liter can. It supplies at this price as it gets electricity at a subsidized price from a private distribution company at Rs 1.50 per unit as against a normal tariff rate of Rs 3.00 per unit. What is the transaction value of supply of water if the subsidy in terms of cost reduction is Rs 0.50 per can? Solution:- The subsidy of Rs 1.50 is directly linked to the supply and hence will be added to the transaction value. The value of supply will be Rs 5.50 per 50 liters can.

3. Exclusions from the Transaction Value [Section 15(3)]

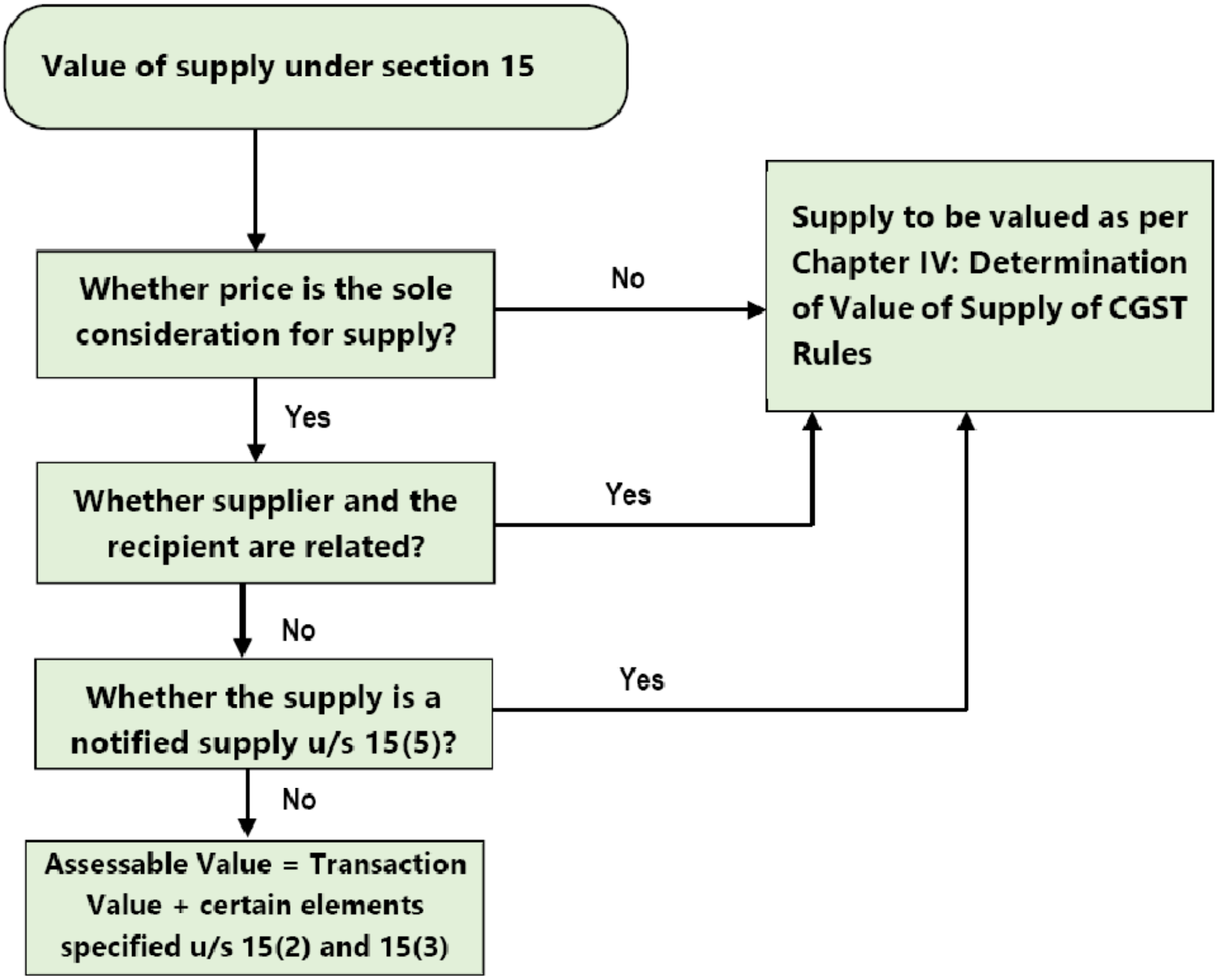
Sr. No.	Nature of Discount	Treatment in GST	
1	Discount given before or at the time of supply, **and** is recorded in the invoice	Value of goods	XXX
		Less: Discount	(XXX)
		Transaction Value	XXX
2	Discount given after supply subject to the following condition, 1. It is mentioned in the agreement entered into before sale AND 2. input tax credit proportionate to the discount has been reversed by the recipient of the supply AND 3. It can be clearly tracked to relevant tax invoice	Can be claimed as deduction from transaction value	
3	If the discount is given after supply, and not known at the time of supply (whether or not traceable to relevant invoice)	**Cannot be** claimed as deduction from transaction value	



Illustration

1. If company offers trade discount to dealers and such discount is reflected on the face of invoice then transaction value will be the price after discount.
2. Ram purchases an TV from Rahim for Rs. 1,00,000 on 60 days credit on 1st August. On 1st September due to severe cash crunch Rahim offer a discount of Rs. 10,000 to Ram to make the early payment. Ram accepted the offer and made the payment of Rs. 90,000 after discount. Here the discount were not known before or at the time of supply, therefore transaction value will be Rs. 1,00,000/-
3. ABC Ltd. announces sales/turnover discounts after reviewing dealer performance during the year. The discounts are based on performance slabs and are given as cashbacks. As these discounts were not known at the time of supply of goods, they will not be deducted from taxable value of those goods.
4. LG Electronics made an agreement with their dealers to sale television over 5000 pieces on the occasion of Diwali and in turn company will give a discount of 10% per TV. Dealers sold 7,000 pieces in Diwali and got the discount of 10% on 7000 pieces. Company issued credit note and reduced the liability of GST as the agreement was in existence at the time of supply, and the discount can be worked out for each invoice. To reduce the liability of GST by supplier, dealer must reverse the proportionate input tax credit which were taken by him at the time of purchase of goods.

Supplies where value cannot be determined u/s 15(1) and notified supplies [Sub-sections (4) and (5) of section 15]



Value of supply under section 15
Whether price is the sole consideration for supply?
No
Supply to be valued as per Chapter IV: Determination of Value of Supply of CGST Rules
Yes
Whether supplier and the recipient are related?
Yes
No
Whether the supply is a notified supply u/s 15(5)?
Yes
No
Assessable Value = Transaction Value + certain elements specified u/s 15(2) and 15(3)