

VALUE OF TAXABLE SUPPLY (TRANSACTION VALUE & VALUATION RULE)



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Transaction Value (Section 15)



“Value of Taxable Supply ”will be the Transaction Value

“Transaction Value” is the price paid or payable for supply of goods and/or services. This is subject to dual conditions.[(Section 15(1))]

- Supplier & Recipient are *not related*;
- Price is the *sole consideration* for the supply

Meaning of

“ Price is the Sole Consideration for Supply”



- **If any additional consideration**, whether monetary or non-monetary is received, the value of such consideration shall be added to the consideration to arrive at the transaction value.
- *Payment made directly or indirectly* by the recipient to the supplier will constitute the price actually paid or payable.
- **Example: Indirect payment**
Settlement by buyer whether in whole or in part of debt owned by the seller. This can be elaborated with an example. Mr. X makes a supply of Rs. 2 lakhs to Mr. Y and contract provide that Mr. Y will pay Rs. 50,000 to Mr. X and Rs. 1,50,000 to Mr. Z to settle debt of Mr. X. In this case the price of Rs.50,000 is not the sole consideration for sale. The amount of Rs. 1,50,000 payable by Mr. Y to Mr. Z is also part of consideration for supply of goods.

Transaction Value can not be based on MRP



Under Section 4A of the Central Excise Act, the Central Government has the power to notify the goods which shall be valued on the basis of MRP less abatement permitted. However in GST Law there is no provision for determination of value on the MRP basis.

Liability of GST in all cases will be determined based on the transaction value

What is to be included in the Transaction Value

Section 15(2)



The transaction value shall include the following

Taxes under
other statute

Any amount
for which
supplier is
liable to pay

Incidental
expenses

Interest or late
fees

Subsidies

Taxes Under Other Statute

[(Sec 15 (2) (a)]



- **Any taxes, duties, cesses, fees & charges levied under any statute,**
- **If charged separately by the supplier to the recipient**
- **Taxes under this Act not to be included in transaction value (i.e.CGST/IGST/SGST/UTGST/Compensation Act),**

Examples on Taxes with other Law



Rent :

As per rent contract, tenant is required to pay local tax directly to the local body or to owner of the premise. Such local tax may form part of consideration for the supply of renting service.

Custom Act:

Suppose goods worth Rs 100000 is imported and under this import basic custom duty is payable say @ 10 % i.e. Rs 10000 and IGST is payable @18%

Here the IGST would be levied on **import including BCD** . Total IGST will be payable Rs 19800 (i.e. 18% on Rs 110000)

Any Amount for Which Supplier is Liable to Pay

[(Sec 15 (2) (b))]



- Any amount that the supplier is liable to pay **in relation to such supply**
- **but this amount has been incurred by the recipient** of the supply and not included in the price actually paid or payable for the goods and/or services.

Example on Supplier Liable To Pay



Order to supply to the Location of Buyer: (X buyer , Y seller)

Mr. X (purchaser) has placed an order to supply a product “Packed in Carton's o Mr. Y(supplier). As per the contract **Y is required to deliver the goods in the premises of Mr. X.** Mr. Y hires a transporter for transportation of goods. The lorry receipt of which indicate that freight is payable by the receiver of goods (Mr. X). In this case Mr. Y, was required to make the payment to the transporter as it is the obligation of Mr. Y to deliver the goods to the premises of Mr. X. Here in lieu of Mr. Y, payment is being made by Mr. X. Therefore, such payment will form part of transaction value of product.

Thus, in a contract, the obligation undertaken by the supplier for making supply of goods needs to be determined. All the expenses in respect of such obligation must be incurred by the supplier. But here the supplier was under obligation for which receiver has made the payment therefore the payment in connection with the supply i.e. Transportation will form part of transaction value.

Incidental Expenses

[(Sec 15 (2) (c)]



- Incidental expenses, such as *commission* and *packing* ,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 and /or services **at the time of, or before delivery of the goods or supply of the services;**

Example on Packing and Commission



Example : Packing

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 : Commission

A company appoints agents to procure order of goods from buyer. Agent procures an order of Rs 100. Now Seller asks the buyer to pay to supplier @ 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.

Interest or Late Fees

[(Sec 15 (2) (d)]



Interest or Late fee or Penalty for delayed payment of any consideration will be part of transaction value

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Example on Interest



Interest for late payment

Mr. X has supplied goods to Mr. Y on credit of 30 days. The contract provides that interest will be charged at the rate of 18% for delay in making payment of supply beyond credit period.

Such interest will form part of consideration and GST will be payable.

Subsidies

[(Sec 15 (2) (e)]



- **Subsidies directly linked to the price will form part of transaction value**
- **Subsidies provided by the Central and State Governments will not be covered(Urea ,LPG)**

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Linked : Export

Not Linked : Canteen

Government : LPG ,Urea

Example on Subsidy



Example 1. Subsidy Linked to the price: (NGO)

An NGO set up for export promotion provides some subsidy linked to the price of the product exported by the manufacturer. That subsidy will be included in the price.

Example 2. Subsidy not Linked to the price: (Canteen subsidy)

Tisco General Office Recreation Club v. State of Bihar (2002) 126 STC 547 (SC), appellant, a dealer, was running a canteen for employees of the company. The prices were below cost price. However, TISCO, without any statutory obligation, as a staff welfare measure, was making good the excess of expenditure over income. The subsidy was not relatable to any item of food. It was held that the lump sum subsidy made ex gratia cannot form part of sale price.

Example 3: Subsidy provided by CG or SG (Not Linked) : (LPG)

Govt. gives subsidy on supply of cooking gas cylinder to poor families. Nowadays such subsidy is transferred to the account of poor family directly to the bank account and the company making supply of cylinder sells the goods at a fixed price and not at the subsidised rate. Such subsidy will not be considered as part of transaction value as it is not received by the person making the supply.

Example 4. Subsidy provided by CG or SG (Linked): (Urea)

Sale of urea by the manufacturer at the recommended price by the Government (ie.. at cheaper price) to make certain things at a cheaper price. Subsidy is linked but not to be included in the transaction value.

Exclusions from the Transaction Value[(Sec 15 (3)]



Discount

- ❑ **Discount given before or at the time of the supply** provided such discount has been duly recorded in the invoice issued in respect of such supply; and
- ❑ **After the supply has been affected :**
 - i. such discount is established in terms of *an agreement* entered into at or before the time of such supply and specifically linked to relevant invoice; *and*
 - i. *ITC has been reversed* by the recipient attributable to the discount issued by the supplier.

Discount



Discount shown in invoice

Discount not shown in invoice
(provided by way of credit subsequent to making
of supply)

Example on Discount



To be excluded from the Transaction Value

Example: Discount shown in invoice

In many cases company offers trade discount to dealers depending upon the volume of supply. Such discount is reflected on the face of invoice therefore transaction value will be net of discount .Say, for instance, price of a car is Rs. 5 Lacs and a discount of 5% is given being the year end sale. Here the transaction value will be Rs. 4.75 Lacs.

To be included in the Transaction Value

Example: Discount not shown in invoice

Mr. A purchases an Air Conditioner from Mr. B for Rs. 20000 on credit on July 1, 2017. On August 1, 2017, A gives discount of Rs. 5000 to Mr. B and Mr. B makes payment of Rs. 15000. Here if the discount is not known before or at the time of supply, then transaction value will be Rs. 20000 otherwise Rs. 15000.

Value of supply not determinable

As per Sec 15(1) or 15(4)



- **Section 15(4)** : *Where the value of supply of goods or services can not be determined* under section 15(1), the same *shall be determined in the manner as may be prescribed.*
- **Section 15(5)** : the value of such supplies as may be notified by the central or a state Government in this behalf on the recommendation of the GST council, shall be determined in such manner as may be prescribed.



Valuation Rule

(Total 7 Rules)

Rule 1. Where the consideration is not wholly in Money



- (a) *Open market value* of such supply
- (b) *If no open market value of goods supplied then , sum total of consideration in money & any such further consideration not in money* if such amount is known at the time of supply.
- (c) *Like kind and quality of goods or services* If the value of supply is not determinable under clause (a) or (b)
- (d) *Determine as per rule 4 & 5* If the value of supply is not determinable under clause (a) ,(b) or (c)

Example on Rule 1.



Exchange

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

Barter

Where a laptop is supplied for Rs.40000 along with a **barter** of printer that is manufactured by the recipient and the value of the printer known at the time of supply is Rs.4000 but the open market value of the laptop is not known, the value of the supply of laptop is Rs.44000

Rule 2. For supply between distinct or related person



- (a) *Open market value* of such supply.
- (b) *If no market value* , then *value of supply of goods or services of like kind and quality.*
- (c) *Value as determined by application of rule 4 & rule 5, If value is not determinable under clause (a) or (b),*

“Provided 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 goods or services”

Rule 3. When Supply of Goods Made or Received Through An Agent



(a) *Open market value of goods being supplied,*

or

at the option of the supplier, 90% 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 said recipient.

(b) *Value determined by application of rule 4 & 5, Where the value of a supply is not determined under clause (a).*

Example on Rule 3.



Where 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 Rs. 5000 per quintal on the day of supply.

Another independent supplier is supplying groundnuts of like kind and quality to the said agent at the price of Rs. 5500 per quintal. The value of the supply made by the principal shall be Rs. 5500 per quintal or where he exercises the option the value shall be 90% of the Rs. 5000 i.e. is Rs. 4500 per quintal.

Rule 4. Value of Supply of Goods or Services or Both Based on Cost



Where the value of a supply of goods/services is not determinable by any of the preceding rules,

the value of supply shall be 110% of

- *cost of production/manufacture or*
- *cost of acquisition of such goods or*
- *cost of provision of such services.*

Rule 5 : Residual Method



Where the value of supply of goods or services or both cannot be determined under rules 1 to 4 :

same shall be determined using reasonable means consistent with the principles & general provisions of Sec 15 and these rules

“Provided that in case of supply of services, the supplier may opt for this rule, disregarding rule 4”

Rule 6 : Certain Other Supply



1. Value of Service for **Purchase/Sale of Foreign Currency** or Money changing
2. Value of Services on Booking of **Air Ticket**
3. Value of service for **Life Insurance Agent**
4. Value of supply on buying & selling of **2nd Hand Goods**
5. Value of **Token/Voucher/Coupon/Stamp** redeemable against supply of goods or services

1. Purchase/Sale of Foreign Currency or Money Changing



- When exchanged from, or to, Indian Rupees (INR)

*Value = (Buying rate/Selling rate - RBI reference rate at that time) * Total units of Currency*

- When RBI reference rate for a currency is not available

Value = 1% of the gross amount of Indian Rupees received or given by changing of money. (RBI has only Reference Rate for USD, EURO, GBP, YEN)

- When neither of the currencies exchanged is Indian Rupee

Value = 1% of lesser of the two amounts the person changing the money would have received by converting any of the two currencies at RBI reference rate.

Let us say conversion rate between USD vs. CAD is 1.36

100 USD = 136 CAD

6429 INR 6392 INR

2. Value of Service In Relation to Booking of Air Tickets



- Domestic booking= 5% of basic fare.
- International booking= 10% of basic fare.

Basic Fare Means : Part of the fair on which commission is normally paid to the Air Travel Agent by the Airline

3. Value of Service In Relation to Life Insurance



- Gross premium charged- Amt. allocated for Investment
(Gross amount charged by the policy holder reduced by the amount allocated for investment on behalf of the policy holder, if such amount is intimated to the policy holder at the time of supply of service.
- Single premium Annuity policies =10% of single premium charged
- In all other cases=25% of the premium (For First Year)
=12.5% of the premium(Subsequent Years)
- For policies towards risk coverage only= Nil

4. Person Dealing in Buying or Selling Of Second Hand Goods



- Value of supply shall be the difference between the selling price and purchase price
- If Value of Supply is negative it shall be ignored.

Condition :

- (1) Used goods as such or after such minor processing which does not change the nature of the goods, and
- (2) No input tax credit has been availed on purchase of such goods

5. Value of Token/Voucher/Coupon/Stamp



Shall be equal to the money value of the goods or services or both redeemable against such token, voucher, coupon, or stamp.

Rule 7. Value of Supply of Services in case of Pure Agent



The expenditure or costs incurred by the supplier as a pure agent of the recipient of supply of services *shall be excluded from the value of supply* on fulfilment of certain condition ,

Meaning of Open Market Value And Like Kind & Quality



“Open Market Value”

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.

“Supply of Goods or Services or Both of Like Kind & 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.

Meaning of Related Person



“Related Person”

- Officers or directors of one another's businesses
- legally recognized partners in business
- Employer and Employee
- Any person directly or indirectly owns, controls or holds 5% 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
- Members of the same family

Thank You

