Goods and Services Tax (GST)

- Valuation of Supply

By CA Pavan Kumar RS

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Introduction to GST

- The Goods and Services Tax ("GST") regime is proposed to be effective in India from July 01, 2017.
- Crucial GST Bills have cleared the parliamentary hurdles and also have received the President's assent.
- GST is expected to harmonize the existing multiple tax structures in India by introducing one tier tax levy on goods and services. This mechanism also leads to eligibility of input tax credits at all levels.
- GST is a consumption based levy applicable on "Supply" of "Goods" or "Services" or both.
- GST is levied based on the value of supply of goods or services.
- Specific provision have been laid down to arrive at the value of supply of goods or services under the GST Laws.

Value of Supply under GST Laws

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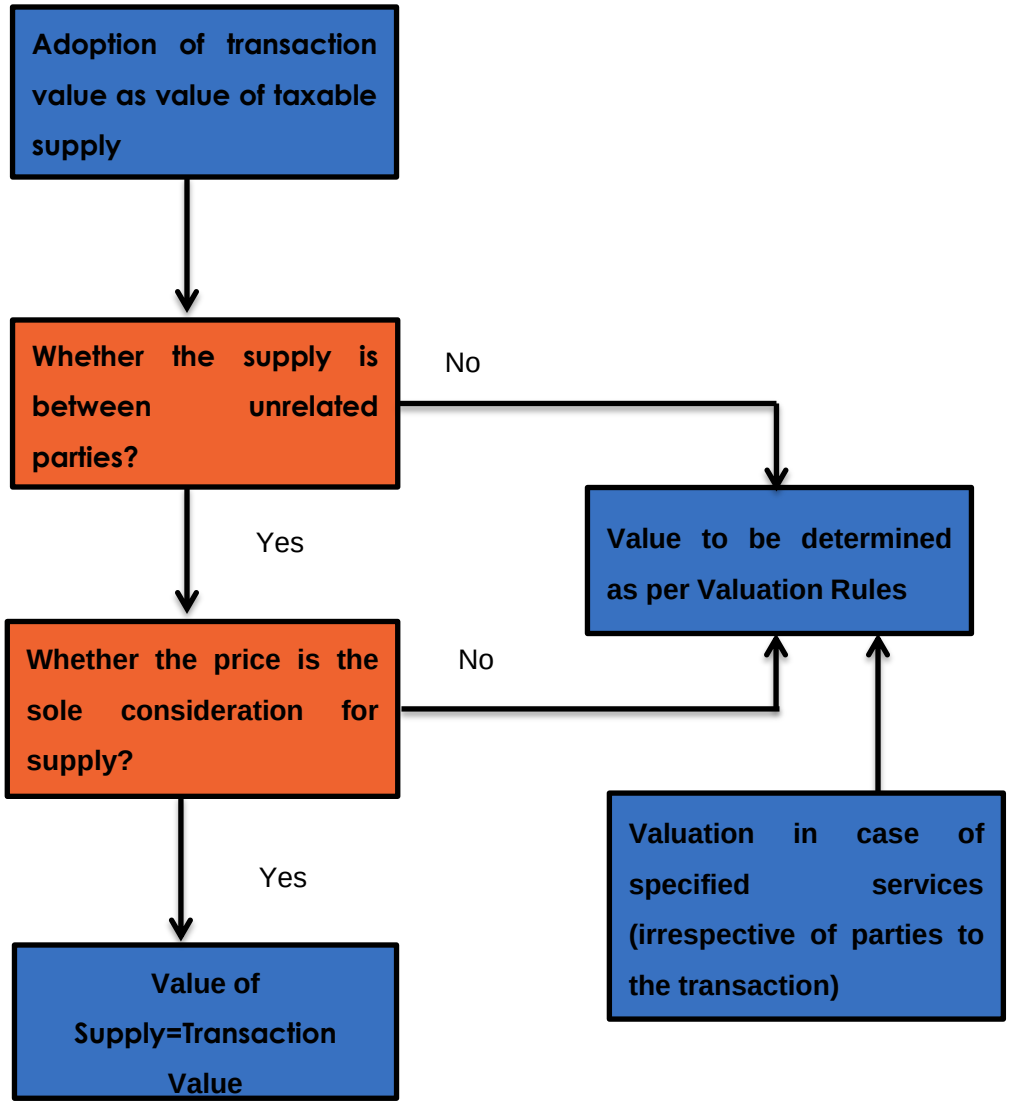
Value of Supply under GST

- The provisions with regard to valuation of supply is governed by Section 15 of the CGST Act.
- The value of supply of goods or services shall be the **"transaction value"** of such supply.
- Transaction value is the price actually paid or payable for the supply of goods or services.
- Transaction value would be adopted only when the supplier and recipient of goods or services are unrelated and price is the sole consideration.
- In cases where supply is between related parties or in cases where price is not the sole consideration, the value of supply should be determined as per Valuation Rules.
- Valuation Rules have also been laid down for specific kind of supplies.

Value of Supply under GST



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Value of Supply under GST

- The following persons shall be deemed to be related for the purpose of GST Laws:
  - Persons who are officers or directors of one another's business;
  - Partners of a firm;
  - Employer and employee;
  - Any person who directly or indirectly owns, controls or holds twenty five per cent or more of the outstanding voting stock or shares or both;
  - One person directly or indirectly controlling the other;
  - Two persons being controlled directly or indirectly by a third person; and
  - Persons of the same family;
  - Person who acts as a sole agent or sole distributor or sole concessionaire of another person.

Value of Supply under GST

- "Family for the purpose of GST Laws shall mean:
  - Spouse of the person;
  - Children of the person;
  - Parents*;
  - Grand parents*;
  - Brothers*;
  - Sisters*;

* Only if they are wholly or mainly dependent on the person.

Inclusions & Exclusions

Inclusions	Exclusions
Taxes, Cesses or Charges levied under Laws other than GST Laws	Discount provided before or at the time of supply
Amounts incurred by the recipient on behalf of the supplier	Discount provided after supply if the discount is as per contract for supply and input tax credit in respect of discount provided has been reversed
Incidental expenses including commission, packing in relation to the supply	Subsidies provided by the Central or State Government
Any amounts charged for anything done by the supplier before or at the time of supply of goods or services	
Amount charged by way of interest/late fee/penalty for delayed payment of consideration.	
Subsidies directly linked to the price of the supply	

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Valuation Rules

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Valuation Rules

- The valuation Rules would be pressed into action under the following circumstances:
  - When the supplier & recipient are related;
  - When price is not the sole consideration for the supply; or
  - Supply in case of specific goods or services.
- Valuation Rules provide for valuation in respect of the following supplies:
  - Supply where the consideration is not wholly in money;
  - Supplies between related or distinct persons;
  - Supply between a principal and an agent;
  - Supply of specific nature like Air Travel Agents Services, Insurance Services, Second Hand Goods etc.,.

Definitions

- For the purpose of this Rules. Open market value shall mean:
  - Full value in money
  - Excluding IGST, CGST, SGST
  - Where Supplier and recipient are not related
  - Price is the sole consideration
  - At the same time of supply
- Supply of goods or services of like kind and quality shall mean:
  - Supply made under similar circumstances
  - In respect of characteristics, quality, quantity, functional components, materials and reputation of the goods or services
  - Is same as or closely or substantially resembles

Rule1:Supply where consideration is not wholly in Money

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Rule 1

- The said Rule deals with supplies where consideration is not wholly in money.
- Supplies in the nature of exchange or barter would be covered under the said Rule.
- The value of supply in such cases would be:
  - The open market value ("OMV") of such supply;
  - In absence of OMV, the amount of consideration paid in money and an amount in monetary terms equivalent to the non-monetary consideration;
  - Value of supply of goods or services of like kind and quality if the value is not determinable under the above Rules;
  - Sum total of consideration in money and such further amount in monetary terms equivalent to non-monetary consideration determined by application of Rule 4 or Rule 5 in the order.

Illustration

Illustration 1:

Supply of a new phone for Rs.20,000/- in exchange of an old phone. The value of the new phone without the exchange is Rs.24,000.

The value of supply in the said case would be the OMV of the new phone i.e. Rs.24,000.

In case if the OMV of the new phone is not available, the value of supply would be the sum total of monetary consideration paid and the value of phone exchanged expressed in monetary terms if the value of exchanged phone is known at the time of supply.

In case of absence of OMV of the new phone and value of exchanged phone, the value of supply would be the value of a mobile of like kind and quality.

In absence of all the above information at the time of supply, the value of supply in such cases would be the sum total of monetary consideration paid and the value of exchanged mobile determined as Rule 4 or Rule 5.

Rule 2:Supply between distinct or related person

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Rule 2

- The value of supply in case of supplies between related (other than an agent) or distinct persons would be required to be determined under this Rule.

- Supplies covered under the Rule:

  - Stock transfers;
  - Export or import between group companies;
  - Sharing of cost between units of the same person;
  - Supplies between two business vertical of a same person

- The value of supply in such cases would be:

  - The OMV of such supply;
  - In absence of OMV, the value of supply of goods or services of like kind and quality;
  - In absence of the above information, the value shall be the application of Rule 4 or Rule 5 in the order.

In cases where the recipient of supply is eligible for full input tax credit, the value declared on the invoice shall be deemed to be the OMV

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Illustration

Illustration 2:

Transfer of Stock between head office and its branch

The value of supply in such case would be the OMV of the goods transferred.

Where the OMV of the goods is not known at the time of supply, the value of such services would be equal to the value of supply of goods of like kind and quality.

In absence of all the above information at the time of supply, the value of supply in such cases would be determined as per Rule 4 or Rule 5 in that order.

Rule 3:Supply between Principal and his Agent

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Rule 3

- A transaction between a principal and his agent is treated as supply under the GST Laws.
- Hence, it is necessary to determine the value of such supply for the purpose of levy of GST.
- The value of supply in case of supply between a principal and his agent shall be:
  - The open market value of goods supplied; or
  - 90% of the value of supply by made by an agent to an unrelated party at the time of supply by the principal to the agent.
  - In absence of the above information, the value of supply shall be determined as Rule 4 or 5 in that order.

Illustration

Illustration 3:

A principal supplies cashew nuts to his agent located outside the State on a particular day. The principal also makes sales to unrelated party on that said day at the rate of Rs.600/kg. The agent on the particular day is also effecting sale of cashew nuts at Rs.660/kg on the said day.

The value of supply in the current case would be :

- The OMV of cashew nuts i.e. Rs.600/kg; or
- At the option of the principal, be Rs.594/kg i.e. 90% Rs.660 (price at which the agent sells the cashew nuts to unrelated party on the said day)
- In absence of the above information, the value of supply shall be determined as per Rule 4 or 5 in that order.

Rule 6:Specific Supplies

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Rule 6-Specific Supplies

Services provided by Air Travel Agents

Domestic bookings= 5% of the basic fare

International bookings= 10% of the basic fare

Supply by person dealing in Second Hand Goods

Value= Difference between the selling price and purchase price of the goods supplied subject to the conditions prescribed

Conditions

- The process carried out by the person dealing in second hand goods does not change the nature of goods; and
- No input tax credit has been availed on the purchase of said goods

Rule 6-Specific Supplies

Services by way of purchase or sale of foreign currency including money changing services

Option 2:

This option once opted shall be effective through out the financial year

Where amount exchanged is up to Rs.1 Lakh

Value = 1% of the gross amount of currency exchanged subject to a minimum of Rs.250/-.

Where amount exchanged is up between Rs.1 Lakh and Rs.10 Lakh

Value=One Thousand Rupees + 0.5% of the gross amount of currency exchanged.

Where amount exchanged is above Rs.10 Lakh

Value=Five Thousand Rupees + 0.10% of the gross amount of currency exchanged, subject to maximum of Rs.60,000/-

Rule 6-Specific Supplies

Services by way of purchase or sale of foreign currency including money changing services

Option 1:

Value of Supply = (Difference between buying rate or the selling rate and the reference rate notified by Reserve Bank of India for that currency) * Number of units of currency exchanged

In cases where RBI reference is not available, the value shall be 1% of the gross amount of INR provided or received by the supplier.

In cases where neither of currency exchanged is in INR, the value shall be 1% of the lesser of the two amounts the person would have received by converting any of the two currencies into India Rupee by applying the RBI Reference on that particular day.

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Rule 6-Specific Supplies

Value of supply in case of supply of voucher, token or coupon or stamp

Value= Value of goods or services against which the said voucher, token or stamp is redeemable

Thank You!

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