



CHAPTER 9

VALUE OF SUPPLY



CHAPTER OVERVIEW

S.L. NO	TOPIC
1	MEANING OF TRANSACTION VALUE [SECTION 15(1)]
2	SPECIFIC INCLUSIONS IN TRANSACTION VALUE [SECTION 15(2)]
3	TREATMENT OF DISCOUNT IN TRANSACTION VALUE [SECTION 15(3)]
4	VALUATION RULES [SECTION 15(4)]
5	VALUATION OF NOTIFIED SUPPLIES [SECTION 15(5)]

Handwritten annotations: A large bracket on the right side groups rows 1 and 2. A large circle on the left side groups rows 4 and 5. A large circle at the bottom encompasses rows 4 and 5. The text 'OMV' is written above row 4 with an arrow pointing to it. The text 'INSURANCE Premium' is written to the right of row 4 with an arrow pointing to it.

Valuation

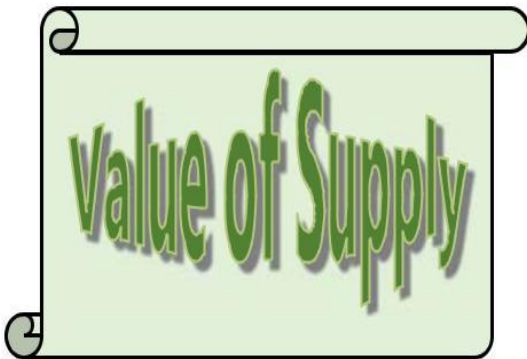
VALUE OF SUPPLY

VALUE OF SUPPLY – SECTION 15

INTRODUCTION

GST is payable

- (i) on supply of goods and / or services for a consideration in the course of or furtherance of business;
- (ii) on certain supplies made without a consideration as specified in Schedule I to the CGST Act.



As GST is levied as a % of the value of supply, whether of goods or of services, it becomes important to know how to arrive at the value on which tax is to be paid.

Section 15 of CGST Act supplemented with "Chapter IV: Determination of Value of Supply of CGST Rules" prescribes the provisions for determining the value of goods and services

Section 15 of the CGST Act provides common provisions for determining value of goods and services. It provides the mechanism for determining the value of a supply which is made between unrelated persons and when price and only the price is the sole consideration of the supply.

When value cannot be determined u/s 15, the same is determined using Chapter IV: Determination of Value of Supply of CGST Rules.

Handwritten note: If TV cannot be considered, valuation rules shall apply

ANALYSIS OF SECTION 15 – VALUE OF SUPPLY

<p><u>Section 15(1), 15(2), 15(3)</u></p>	<p>Supplies made for a</p> <ul style="list-style-type: none"> (i) <u>price in money (monetary consideration)</u>, (ii) <u>to unrelated persons</u> <p>Value of supply is the "<u>Transaction value</u>"</p>	<p>15(1) → Transaction value 15(2) → specific inclusions in TV 15(3) → Discount from value of supply</p>
<p><u>Section 15(4), 15(5) read with CGST Valuation Rules</u></p>	<p>Supplies made for</p> <ul style="list-style-type: none"> (i) <u>non-monetary consideration</u>, or (ii) <u>for part monetary consideration and part other</u>, or (iii) <u>involving additional consideration</u>, or (iv) <u>to related persons</u>, or (v) <u>for specific classes of supply</u> <p>Value of supply is determined as per "<u>Valuation Rules</u>"</p>	<p>15(4) → valuation Rules apply if TV cannot be adopted 15(5) → Valuation Rules for notified suppliers (consider 15(1) & 15(4) (Rule 32)</p>



SUPPLIES TO UNRELATED PERSONS WHERE PRICE IS THE SOLE CONSIDERATION [SECTION 15(1)]

When a transaction of supply of goods / services is made

- (i) between two persons who are not related to each other, and
- (ii) price is the sole consideration for the supply,

Deposit
30000 p.m
Meaning of TV

Price actually paid or payable for the supply is the transaction value. It includes (i) amount already paid at the time the supply and (ii) the amount payable and not yet paid at that time. [Section 15(1)]

The "TRANSACTION VALUE" PLUS certain elements as enumerated, will be the value on which tax is to be worked out.

Example: The transaction value shall not include refundable deposit, discount allowed subject to certain conditions. sec 15(2)

INCLUSIONS IN TRANSACTION VALUE [SECTION 15(2)]

The taxable value includes certain elements in addition to price which are mentioned below:

<p>Any taxes, duties, fees and charges levied under any statute other than CGST Act or SGST Act or UTGST Act or IGST Act and GST (Compensation to States) Act, if charged separately [Sec 15(2)(a)]</p>	<p>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 separately billed.</p> <p>Example: Supplier of goods pays a municipal tax with respect to the goods being supplied and bills the same separately, such tax will form part of the value of taxable supply [Need not be included if already factored while computing cost of goods]</p>
<p>Payments to third parties by recipient on behalf of supplier in relation to the supply (and not already included in price) [Sec 15(2)(b)]</p> <p>al + 12</p>	<p>Any amount that supplier is liable to pay but which has been incurred by the recipient of the supply and not already included in the price. Amount paid by the recipient to third parties will be added only when the supplier is under contractual liability to make payment to such third parties and the said payment is in relation to such supply.</p> <p>Example: Grand Biz contracts with ABC Co. to conduct a dealers' meet. Grand Biz contracts with vendors to deliver goods/ services, like water, soft drinks, projector, flowers etc. at the venue. Grand Biz is liable to make these payments as contracted. The soft drinks supplier wants payment upon delivery; ABC Co. agrees to pay the bill raised by the soft drinks vendor on Grand Biz on receiving crates of soft drinks. This amount is not billed by to ABC Co. It would be added to the value of service provided by Grand Biz to ABC Co. for</p>



VALUE OF SUPPLY

<p>Incidental expenses [Sec 15(2)(c)]</p> <p><i>Post Delivery of GOODS & SERVICES will be covered in Defmt Net</i></p>	<p><u>Commission and packing charged by supplier to the recipient of a supply, including any amount charged for anything done by supplier in respect of supply of goods/services at the time of, or before delivery of the goods /supply of the services</u></p> <p><u>Examples:</u> (i) <u>Commission paid to agent and recovered from the buyer of the goods / services</u> (ii) <u>Packing charges charged by supplier</u> (iii) <u>Inspection or certification charges billed to recipient</u> (iv) <u>Installation and testing charges at the recipient's site</u> (iv) <u>Weightment charges, loading & designing charges incurred before supply</u></p>
<p>Interest or late fee or penalty for delayed payment of consideration [Sec 15(2)(d)]</p> <p><i>Refer to Sec 12(b) + 13(b)</i></p>	<p>The value for a taxable supply will include not only the base price but also the charges for delay in payment.</p> <p><u>Example:</u> A supply priced at ₹ 2,000 is made, with a credit period of 1 month for payment. Thereafter interest of 12% is charged. The payment is received after lapse of 2 months from date of supply. The amount of 12% p.a. (i.e. 1% per month) on ₹ 2,000 for one month after the free credit period is ₹ 20. Such interest will be added to the value and thus, the value of taxable supply will work out to be ₹ 2,020, assuming the interest to be exclusive of GST.</p>
<p>Subsidies, provided in any manner, linked to the price, other than subsidies given by State or Central Governments [Sec 15(2)(e)]</p> <p><i>NOT Price linked subsidies will have no treatment in GST. Non-Govt Price linked subsidies will be included in VOS</i></p>	<p>If the subsidy is given by the State or Central Government; the lower price, after adjusting the subsidy, is the taxable value. If the subsidy is given by a person or entity other than the State or Central Government, it does not lower the taxable value.</p> <p><u>Example:</u> The selling price of a notebook is ₹ 50. For notebooks sold to students in Government schools, a company uses its CSR funds to pay the seller ₹ 30, so that the students pay only ₹ 20 per notebook. The taxable value of the notebook will be ₹ 50, as this is a non-government subsidy. If the same subsidy is paid by the Central Government or State Government, the taxable value of the notebook would be ₹ 20.</p>

Handwritten calculations and notes:

50
- 20

30 = VOS

Price ⇒ VOS = 30



EXCLUSIONS OF DISCOUNTS FROM TRANSACTION VALUE [SECTION 15(3)]

The principle here is that price as established at the time of supply forms the basis of taxable value. Discounts that are allowed to be reduced are as follows:

- (i) Discounts that are allowed **before or at the time of supply** and **shown in the invoice**; *Recorded in invoice 15(3)(a)*
- (ii) Discounts that are allowed **after supply** in terms of an agreement **that existed at the time of supply** **and are worked out invoice-wise** and the **proportionate input tax credit is reversed by the recipient**; *1*

Example 1: Discount deductible from value of supply

Royal Biscuit Co. gives a discount of 30% on the list price to its distributors. Thus, for a carton of Spicebisk, in the invoice the list price is mentioned as ₹ 200, on which a discount of 30% is given to arrive at the final price of ₹140. The taxable value is ₹ 140, as the discount is allowed at the time of supply and shown in the invoice.

Example 2: Discount deductible from value of supply

The agreement of Raju Electrical Appliances with its dealers is that sale of rice cookers over 100 pieces in the Diwali month will entitle them to discount of 5% per cooker sold in the next month. The next month's stock has already been despatched when the sales figures for the Diwali month are worked out. However, as the agreement was in existence at the time of supply, and the discount can be worked out for each invoice, the taxable value will be billed price minus 5%. The dealer must reverse the proportionate input tax credit on the relevant stock to bring it in line with the reduced tax.

Example 3: Non-deductible discount

A company announces turnover discounts after reviewing dealer performance during the year. The discounts are based on performance slabs and are given as cash-back. As these discounts were not known at the time of supply of the goods, they will not be deducted from taxable value of those goods.

Illustration 1: Black and White Pvt. Ltd. has provided the following particulars relating to goods sold by it to Colourful Pvt. Ltd.

Particulars	₹
List price of the goods (exclusive of taxes and discounts)	50,000
Tax levied by Municipal Authority on the sale of such goods	5,000
CGST and SGST chargeable on the goods	10,440
Packing charges (not included in price above)	1,000

(f) : Subsidy from NCO
e) Discount as 15(3)(a)
value of supply

56,000
2000 15(3)(a)
1000
57,000
15(3)(b) reverse output tax 1000



VALUE OF SUPPLY

Black and White Pvt. Ltd. received ₹ 2000 as a subsidy from a NGO on sale of such goods. The price of ₹ 50,000 of the goods is after considering such subsidy. Black and White Ltd. offers 2% discount on the list price of the goods which is recorded in the invoice for the goods. Determine the value of taxable supply made by Black and White Pvt. Ltd. **Answer: ₹ 57,000**

$50,000 \times 2\% \Rightarrow 1000$

Illustration 2: Samriddhi Advertisers conceptualised and designed the advertising campaign for a new product launched by New Moon Pvt Ltd. for a consideration of ₹ 5,00,000. Samriddhi Advertisers owed ₹ 20,000 to one of its vendors in relation to the advertising service provided by it to New Moon Pvt Ltd. Such liability of Samriddhi Advertisers was discharged by New Moon Pvt Ltd. New Moon Pvt Ltd. delayed the payment of consideration and thus, paid ₹ 15,000 as interest. Determine the value of taxable supply made by Samriddhi Advertisers. **Answer: ₹ 5,32,712**

Ans to IUL 2

Assum
18%

$= \text{inc} \frac{15000 \times 100}{118}$

$\frac{15000 \times 18}{118}$

15000
100
→ 12

- 1) Price of design → 015 (15000)
 - 2) Payment to vendors on behalf of supplier → 015 (20000)
 - 3) Interest for delayed payment of consideration (Assumed to be inclusive of tax @ 18%)
 $\frac{15000 \times 100}{118}$
- Value of supply,

5,00,000
20,000
12,712
<hr/>
5,32,712
<hr/>

15000 20000 12712

15000 12712



Clarification on discounts [Circular 92/11/2019 GST dated 07.03.2019]

2-1
17000 PLS
10000 PLS

A. Discounts including 'Buy more, Save more' offers

1-1

- (i) Sometimes, the supplier offers staggered discount to his customers (increase in discount rate with increase in purchase volume). For example - Get 10 % discount for purchases above Rs. 5,000/-, 20% discount for purchases above Rs. 10,000/- and 30% discount for purchases above Rs. 20,000/-. Such discounts are shown on the invoice itself.
- (ii) Some suppliers also offer periodic / year ending discounts to their stockists, etc. For example- Get additional discount of 1% if you purchase 10,000 pieces in a year, get additional discount of 2%, if you purchase 15,000 pieces in a year. Such discounts are established in terms of an agreement entered into at or before the time of supply though not shown on the invoice as the actual quantum of such discounts gets determined after the supply has been effected and generally at the year end. In commercial parlance, such discounts are colloquially referred to as "volume discounts". Such discounts are passed on by the supplier through credit notes.
- (iii) It is clarified that discounts offered by the suppliers to customers (including staggered discount under "Buy more, save more" scheme and post supply / volume discounts established before or at the time of supply) shall be excluded to determine the value of supply provided they satisfy the parameters laid down in Section 15(3) of the CGST Act, including the reversal of ITC by the recipient of the supply as is attributable to the discount on the basis of document(s) issued by the supplier.

Credit Note

- (iv) It is further clarified that the supplier shall be entitled to avail the ITC for such inputs, input services and capital goods used in relation to the supply of goods or services or both on such discounts

B. Secondary Discounts

Revaluation of PRTY 18%

- (i) These are the discounts which are not known at the time of supply or are offered after the supply is already over. For example, M/s A supplies 10,000 packets of biscuits to M/s B at Rs. 10/- per packet. Afterwards, M/s A re-values it at Rs. 9/- per packet. Subsequently, M/s A issues credit note to M/s B for Rs. 1/- per packet.
- (ii) The issue for consideration is that whether credit notes(s) u/s 34(1) of the CGST Act can be issued in such cases even if the conditions laid down in Section 15(3)(b) of the CGST Act are not satisfied. It is hereby clarified that financial/commercial credit note(s) can be issued by the supplier even if the conditions mentioned in Section 15(3)(b) of the CGST Act are not satisfied. In other words, credit note(s) can be issued as a commercial transaction between the two contracting parties.

10000 PLS 170

- (iii) It is further clarified that such secondary discounts shall not be excluded while determining the value of supply as such discounts are not known at the time of supply and the conditions laid down in Section 15(3)(b) of the CGST Act are not satisfied.

- (iv) There is no impact on availability or otherwise of ITC in the hands of supplier in this case.

15(3)



Follow (TCY) → (SCD) Not Apply

Supplies where value cannot be determined u/s 15(1) and notified supplies [Section 15(4) & (5)]

Section 15(4) lays down that where Section 15 (1) is not applicable, i.e.

if the transaction is with a related party, and/or

- price is not the sole consideration for the supply of goods / services.

Rule 27 - Rule 30

then the value will be determined in the manner as prescribed in the Valuation Rules.

Section 15(5) lays down that in respect of certain notified supplies also, the value will be determined in the manner as stipulated in the Valuation Rules. Thus, the methodology of transaction value will not apply for such notified categories of transactions; instead the rules will prescribe a different method of determining value for these notified transactions.

Rule 31 & Rule 32

Examples: Money changing services; service of booking air tickets by an air travel agent; life insurance service; buying and selling of second-hand goods, vouchers, token, coupons or stamps (other than postage stamps) redeemable against goods or services; services provided without consideration between distinct persons under GST laws that are different units of the same legal entity; supply in case of lottery, betting, gambling and horse racing.

Rule 31A

Morgan's Scheme

① & ② → Rule 31B

③ → Rule 31C

supply of Online Money Gaming, supply of online gaming other than online money gaming & supply of actionable claims in casinos

(TCY)

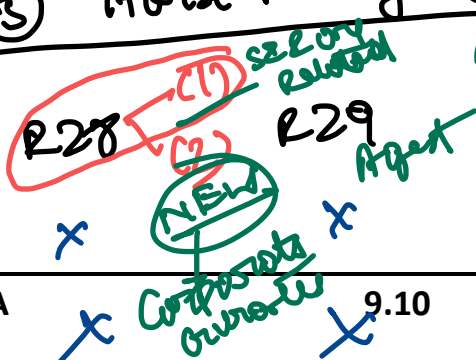
Reference : Scope of supply does not include Schedule III. Schedule III includes Actionable claims (other than lottery, betting, gambling) → (GST (Amendment) Act 2023) amended & provided that specified Actionable claims shall qualify as supply. ① Lottery ② Betting ③ Gambling

④ Casinos

⑤ Horse Racing

⑥ Online Money Gaming

Rule not in money R27



A Agent B

R30

R31

TRANSACTION VALUE

Principles

COST BASED RESIDUAL VALUATION Rule Best way ruled

NO% of COT → CMS ⇒ COSERVICE

27 X 28 X 29 X 30 X 31 X

Product cost: 100
 VOS = 10% x 100 = 10
 110



VALUE OF SUPPLY

VALUATION RULES

RULE 27 - Value of supply of goods / services where consideration is NOT WHOLLY IN MONEY

- a) The open market value of such supply;
- b) If open market value of the supply is not known, the consideration in money plus the money equivalent of the non-money consideration, if such amount is known at the time of supply;
- c) If the value cannot be determined under the previous two clauses, the value of supply of goods and/or services of "like kind and quality"

MEANING OF IMPORTANT TERMS:

1. "Open market value" means

- full value of 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

IMP
 Comparably
 Transaction satisfying
 2 conditions
 Features

2. What is supply of like kind and quality

Supply of like kind & quality means any other supply made under similar circumstances, which is same or closely or substantially resembles in respect of characteristics, quality, quantity, functionality, reputation to the supply being valued.

Examples:

- a) Exchange value of old phone lowers the price of a new phone. The known market value of the new phone (without exchange of old phone) is its taxable value.
- b) Laptop is manufactured and supplied for ₹ 40,000. Part value is received in barter in the form of a printer valued at ₹ 4000. Market value of the laptop is not known. Its taxable value will be ₹ 44,000.

What if value cannot be determined based on above factors?

Cost based valuation method (110% of cost of supply) under Rule 30 or Best Judgement method under Rule 31 will be applicable.



ONLY
CGST

c) A company procures and modifies a machine and supplies it to its unrelated customer. Since, it is a customised machine, the open market value of the machine is not available as also the value of any other machine of the like kind and quality is also **not available**. Therefore, value should be worked out by adding the cost of modification to the cost of acquisition of the machine and adding thereto 10% of the sum of these costs

Rule 30 2011 01/17

Rule 28 has been renumbered as Rule 28(1)

Imp
Para 2 of ST

RULE 28(1) Value of supply of goods or services or both between distinct or related persons, [other than through an agent]

Rule 29 01/17 for goods

A supply between related persons or between distinct persons as specified in section 25, when made in the course or furtherance of business is treated as supply even if made without consideration in terms of Schedule I of CGST Act. This rule, does not provide the value of the supply made through an agent.

(Rule 29 01/17)

State whether following persons are related persons or not?

Mr. A and Mr. B are partners in the partnership firm A&B Co.	A & B are Related
Ms. Priya holds 30% shares of ABC Ltd. and 35% shares of XYZ Ltd.	ABC & XYZ are Related
Q Ltd. has a deciding role in corporate policy, operations management and quality control of R Ltd	Q & R are Related
Alpha Ltd. controls the composition of Board of directors of Beta Ltd. and Gama Ltd.	Beta & Gama are Related
Brita Ltd. and Grita Ltd together control Margarita Ltd.	Brita & Grita are Related

2017 2015

A person who has obtained or is required to obtain more than one registration whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as distinct persons for the purposes of this Act [Section 25(4)]

VALUATION PARAMETERS:

Proviso to Rule 28

If recipient is eligible for full Input tax credit, **invoice value is accepted as Open Market Value (Taxable Value)**

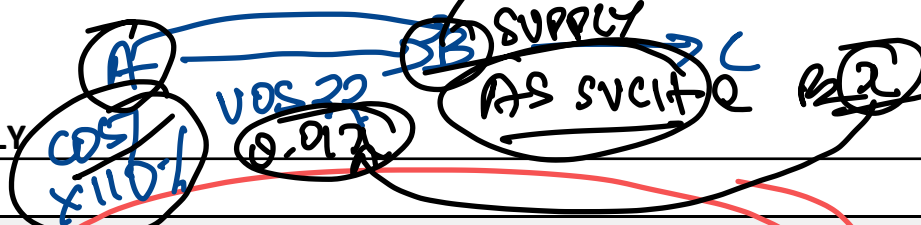
- a) The **open market value** of such supply;
- b) If open market value of the supply is **not known**, the value of supply of goods and/or services of **like kind and quality**;
- c) **Cost based valuation method** (110% of cost of supply) under Rule 30 or **Best Judgement method** under Rule 31 will be applicable, if above methods are **NOT APPLICABLE**.

LKA

ALTERNATIVE OPTION 227(1) OMV
 (i) Non-Money eq of (10-1)
 (ii) LKA
 0.72 / 0.5
 17%
 Related 9.10
 Unrelated 230
 Rule 281

Para 2 of SF

VALUE OF SUPPLY



OPTIONAL METHOD OF VALUATION

If the goods are intended to be supplied AS SUCH by the recipient *(without making any modification)*

Value = 90% of the price charged for the supply of goods of like kind and quality by the recipient to his unrelated customer

It is not mandatory for the supplier to adopt this method of valuation. He can opt to value his goods in accordance with the valuation methods prescribed in clause (a), (b) or (c) above.

P28(2) →

The value of taxable services provided by "NOTIFIED CLASS OF SERVICE PROVIDERS", without any consideration, between distinct persons is NIL, if ITC is available [Rule 32(7)]

Para 3 of SI

RULE 29 - Value of supply of GOODS made or received through an agent

VALUATION PARAMETERS:

LVS

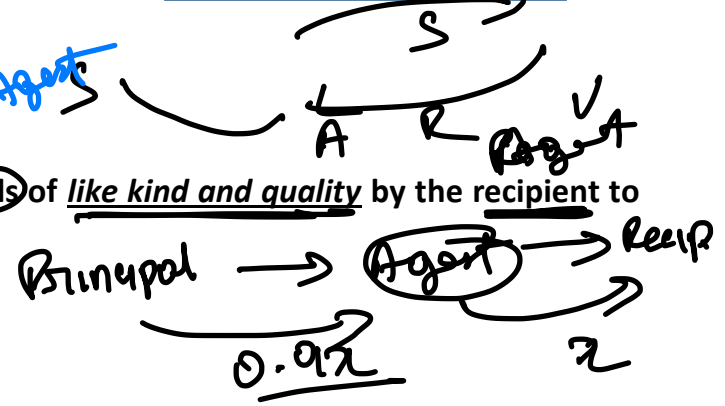
Supplier has option to choose either of the following methods:

This rule is applicable for SUPPLY OF GOODS only

(a) The open market value of goods being supplied;

Invoice should be used in case of Agent

(b) 90% of the price charged for the supply of goods of like kind and quality by the recipient to his unrelated customer



In case value cannot be determined as above:

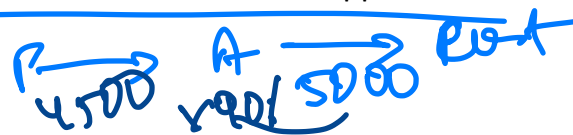
(c) Cost based valuation method (110% of cost of supply) under Rule 30

OR

(d) Best Judgement method under Rule 31 will be applicable

ORIV = 4500
4500 or 4500

Example



P (principal) supplies groundnuts to A (agent). A in turn sells groundnuts at ₹ 5000 per quintal. Another independent supplier sells groundnuts at ₹ 4550 per quintal.

Thus, the open market value of groundnuts is ₹ 4550 per quintal. 90% of A's selling price in the normal course of trade is ₹ 4500 per quintal. P has the option to adopt the open market price (₹ 4550) or 90% of A's onward selling price (₹ 4500) as the taxable value of the groundnuts supplied by him to A.



RULE 30 – Value of supply of goods or services or both based on cost

If the value of a supply of goods and/or services cannot be worked out by the foregoing methods, its value will be 110% of the cost of production/manufacture/acquisition of such goods or cost of provision of such services.

COP/ COPM/ COPA/ COS

Rule 30 may not be invoked before Rule 31 for SPs (unlike in case of goods)

Service Providers have option to directly move to Rule 31 by-passing Rule 30

RULE 31 – Residual method for determination of value of supply of goods or services or both [Best Judgement Method]

a) Supplier of goods needs to sequentially follow Rules 27 to 30 before valuing goods as per residual Rule 31.

R 30 or R 31

b) Service providers have option of valuing services as per Rule 30 or Rule 31 after sequentially following Rules 27 to 29.

27 → 28 → 29 → 31 → 30

c) The residual method consists of determination of value by using reasonable means consistent with the principles and general provisions of section 15 and these Rules

Transaction value method to be adopted and general valuation principles to be followed

Example:

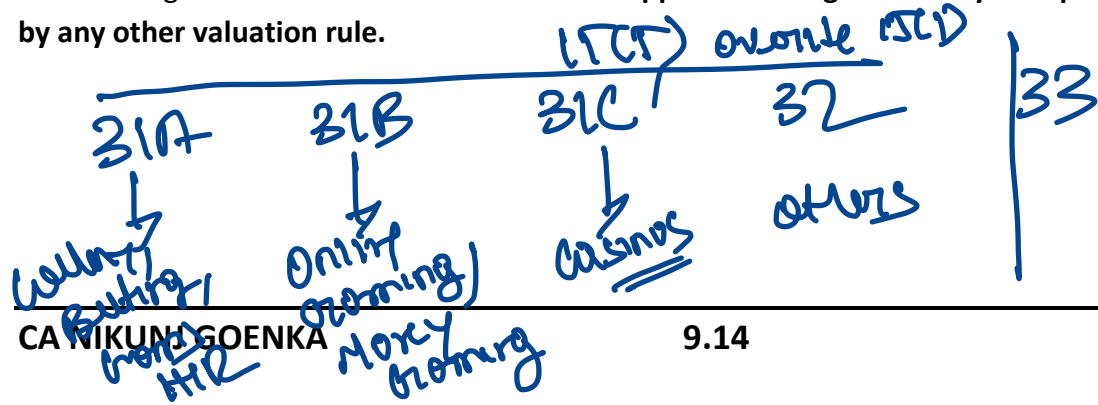
A cosmetics company buys its products from a subcontractor, who supplies "testers" of each product, to be placed in retail outlets, free of charge. These are of different size from the product that is sold. The company and the sub-contractor are related persons. As none of the methods in Rules 27 to 30 will work for valuing these testers, the value will have to be determined by using reasonable means consistent with the principles and general provisions of section 15 and the Rules.

A possible method may be pro rata reduction of the price based on difference in size from the product that is sold.

GOODS

Rule 31A - Value of supply in case of lottery, betting, gambling and horse racing

Valuation of supply of lottery and actionable claim in the form of chance to win in betting, gambling or horse racing in a race club. Valuation of such supplies will be governed by the specific provisions and not by any other valuation rule.





VALUE OF SUPPLY

Supply	Value
Supply of lottery	<p>100/128 of higher of the following two amounts</p> <ul style="list-style-type: none"> Face value of ticket or Price as notified in the Official Gazette by the organizing State
Supply of actionable claim in form of chance to win in betting, gambling or horse racing in a race club	<p>100% of the face value of the bet or the amount paid into the totalizator</p>

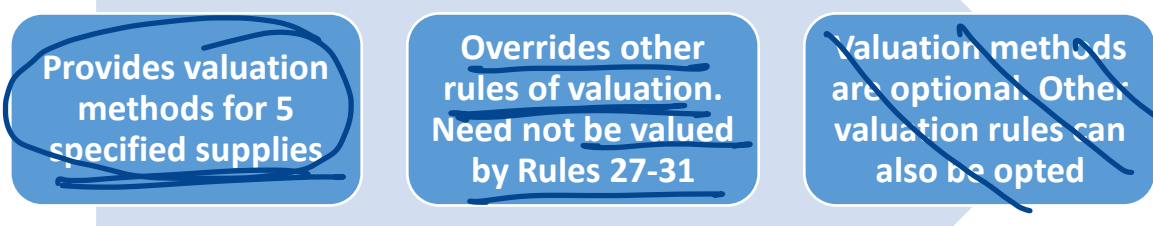
Handwritten notes:

- AST = $\frac{28}{128}$
- VOS = $\frac{100}{128}$
- $\frac{180 \times 100}{128}$
- 150
- 180
- Who originally bet
- Rule 31B & 31C

RULE 32 – Determination of value in respect of certain supplies

Handwritten: VVVIMP

Handwritten: ITCD overrule ITCN & ITCM



No	Nature of service	Rule
1	Purchase/sale of foreign currency (Money changing)	32(2)(a) - Method 1 or 32(2)(b) - Method 2
2	Air travel tickets by air travel agent	32(3)
3	Life Insurance business	32(4)
4	Value of supply of second-hand goods (Margin scheme)	32(5)
5	Value of redeemable vouchers/coupons/tokens	32(6)
6	Value of services provided by notified service providers between distinct persons	32(7)

Handwritten: Any 1 Method

- ✓ R 32(2) → Money Exchange
- (3) → Air Travel Agent
- (4) → LIC
- (5) → Margin scheme
- (6) → vouchers
- (7) → notified btwn DP



1. Value of service of purchase or sale of foreign currency including MONEY CHANGING [Rule 32(2)]

The value of service in relation to purchase or sale of foreign currency, including money changing, is determined by either of the two methods

METHOD 1 [Rule 32(2)(a)] CASE 1	CASE 2
Transaction where <u>one of the currencies</u> exchanged is ₹	Transaction where <u>neither of the currencies</u> exchanged is ₹
If RBI reference rate for a currency is <u>available</u> , Total units of foreign currency * [RBI reference rate of that currency - Buying / Selling rate of that currency] <u>₹100 x (Difference in Rate)</u>	1% of the <u>lesser</u> of the two amounts the person changing the money would have received by converting (at RBI reference rate) <u>any of the two currencies in Indian Rupees</u> [Refer Example 2]
If RBI reference rate for a currency is <u>not available</u> , 1% of the <u>Gross Amount of Indian Rupees</u> provided/ received by the person changing the money [Refer Example 1] <u>1% of INR value (converted)</u>	

Example 1: On 10th May, Mr. Doshi converted USD \$ 100 into ₹ 6,400 @ ₹ 64 per USD through Eastern Money Changers. RBI reference rate on 10th May for US \$ is ₹ 63 per US \$.

Answer: The value of supply in this case is $(₹ 63 - ₹ 64) * \$ 100 = ₹ 100$ and GST will be levied on this amount. If the RBI reference rate is not available, then 1% of ₹ 6,400 i.e., ₹ 64 will be the value of supply of service.

Example 2: US \$ 9,000 are converted into UK £ 4,500. RBI reference rate at that time for US \$ is ₹ 63 per US dollar and for UK £ is ₹ 82 per UK Pound. In this case, neither of the currencies exchanged is Indian Rupee.

Answer: Hence, in the given case, value of taxable service would be 1% of the lower of the following:-

- (a) US dollar converted into Indian rupees = $\$ 9,000 \times ₹ 63 = ₹ 5,67,000$ ✓
- (b) UK pound converted into Indian rupees = $£ 4,500 \times ₹ 82 = ₹ 3,69,000$

Value of taxable service = 1% of ₹ 3,69,000 = ₹ 3,690



VALUE OF SUPPLY

SLAB BASIS

METHOD 2 [Rule 32(2)(b)]

S.L. No	Currency exchanged	Value of Supply
		EV = ₹ 15,00,000
1	Upto ₹ 1,00,000 <i>10,000</i> <i>incremental 9L</i>	1% of gross amount of currency exchanged or ₹ 250, whichever is higher <i>1% x 1L or 250 whichever is higher</i> <i>1000</i>
2	Exceeding ₹ 1,00,000 and upto ₹ 10,00,000	₹ 1,000 + 0.50% of the (gross amount of currency exchanged - ₹ 1,00,000) <i>also 0.5% 4500</i> <i>10L ⇒ 5500</i>
3	Exceeding ₹ 10,00,000 <i>(15L-10L)</i>	₹ 5,500 + 0.1% of the (gross amount of currency exchanged - ₹ 10,00,000) OR ₹ 60,000 whichever is lower <i>upper limit</i> <i>(15L-10L) x 0.1 ⇒ 500</i> <i>6000</i>

Once opted for the above method, he cannot withdraw it during the remaining part of the financial year.

Example 3

Mr. X, a money changer, has exchanged US \$ 10,000 to Indian rupees @ ₹ 64 per US \$. Mr. X wants to value the supply in accordance with Rule 32(2)(b) of CGST Rules. Determine the value of supply made by Mr. X.

Exchange value of US \$ 10,000 → ₹ 6,40,000

value of supply (IR 32(2)(b))

EV	VOS
upto ₹ 1,00,000	1% x 1,00,000 or ₹ 250 (whichever is higher) → ₹ 1000
Next (6,40,000 - 1,00,000)	0.5% x 5,40,000 → ₹ 2700
value of supply	₹ 3700



18%

Value of service of booking of tickets for air travel by an air travel agent

[Rule 32(3)]

Nature of Fare	Value of Supply
Domestic Air Travel	5% of Basic Fare
International Air Travel	10% of Basic Fare

Airfare
 Body F
 PSF
 VDF
 Fuel charge
 6000
 1500
 9100

Basic Fare is the Air Fare on which commission is normally paid to the air travel agent by the airlines.

Example 4

$(6000 \times 5\%) \times 18\%$ / $6000 \times 0.9\%$

Mr. U is an air travel agent. Compute the value of supply of service made by him during a month with the help of following particulars furnished by him

Particulars	Basic Fare	Other charges	Taxes	Total Value of tickets
Domestic Bookings /	1,00,900	+ 9,510	+ 4,990	= 1,15,400
International Bookings	3,16,880	+ 20,930	+ 15,670	= 3,53,480

NOS
 1.8%
 = 5019
 $1,00,900 \times 5\%$
 $3,16,880 \times 10\%$
 = 31,688



VALUE OF SUPPLY

Value of service in relation to LIFE INSURANCE BUSINESS [Rule 32(4)]

Nature of Policy	Taxable Value
Policy with dual benefits of risk coverage and investment <i>VUP</i>	Gross premium charged <u>less</u> amount allocated for investments/savings if such allocation is <u>intimated to the policy holder</u> at the time of collection of premium. <i>→ Premium Receipt</i> <i>Net Premium</i>
Single premium annuity policy	10% of the single premium charged from the policy holder. <i>100 lakh × 10% = 10 lakh</i>
Other cases	25% of premium charged from the policy holder - 1 st year and 12.5% of premium charged for subsequent years. <i>2,13,14</i>
Policy with ONLY risk cover	Entire premium charged from the policy holder. <i>100% Premium</i>

Example 5

Arihant Life Insurance Company Ltd. (ALICL) has charged gross premium of ₹ 180 lakh from policy holders with respect to life insurance policies in the 2017-18; out of which ₹ 100 lakh have been allocated for investment on behalf of the policy holders.

Compute the value of supply of life insurance services provided by ALICL:

- (i) if the amount allocated for investment has been intimated by ALICL to policy holders at the time of supply of service.
(180 - 100) L ⇒ 80L
- (ii) if the amount allocated for investment has not been intimated by ALICL to policy holders at the time of providing of service.
180L × 25% ⇒ 45L
- (iii) if the gross premium charged by ALICL from policy holders is only towards risk cover.
180L = VDS

Note: ALICL has started its operations in the year 2017-18. Thus, the entire gross premium of ₹ 180 lakh is the premium for the first year of all the policies. ALICL has not issued any single premium annuity policy.

Example 6

LIC of India provides you the following information for the month of Oct 2017. You are required to compute GST payable by the company if the company has opted to pay GST as per Rule 32(4) of CGST Rules, 2017:

General policies: Total premiums collected ₹ 12,000 lakhs (Out of which 1st year premium is ₹ 5,000 lakhs)

Only Risk Cover Policies: Premiums collected ₹ 500 lakhs.

Variable Insurance Policies: Premiums collected ₹ 8,000 lakhs. 80% of the amount is allocated for investments on behalf of policy holder for which policy holder is given separate break up in premium receipts).

(7000 L × 12.5%) + (5000 L × 25%) ⇒ 2125 L
500 L × 100% ⇒ 500 L
(8000 - 50% × 8000) ⇒ 1600 L
Value of supply 4,225 L



Value of SECOND-HAND GOODS [MARGIN SCHEME] [Rule 32(5)]

Second hand goods are used goods as such or after such minor processing which does not change the nature of goods.

GST is charged on the transaction value of the goods. However, in respect of second hand goods, a person dealing in such goods may be allowed to pay tax on the margin i.e., the difference between the value at which the goods are supplied and the price at which the goods are purchased.

The purpose of the margin scheme is to avoid double taxation as the goods, having once borne the incidence of tax, re-enter the supply chain.

ITC IS NOT AVAILED [MARGIN SCHEME]	ITC IS AVAILED
Value = Selling Price – Purchase Price	Normal valuation as per other applicable provisions
Selling price < Purchase price ⇒ Ignore negative value	

Handwritten notes: 100 + 18 = 118 = PC; 100 + 18 = 118; 100 x 18% = 18; 40 x 18% = 7.2; 100 + 18 = 118; 100 x 18% = 18

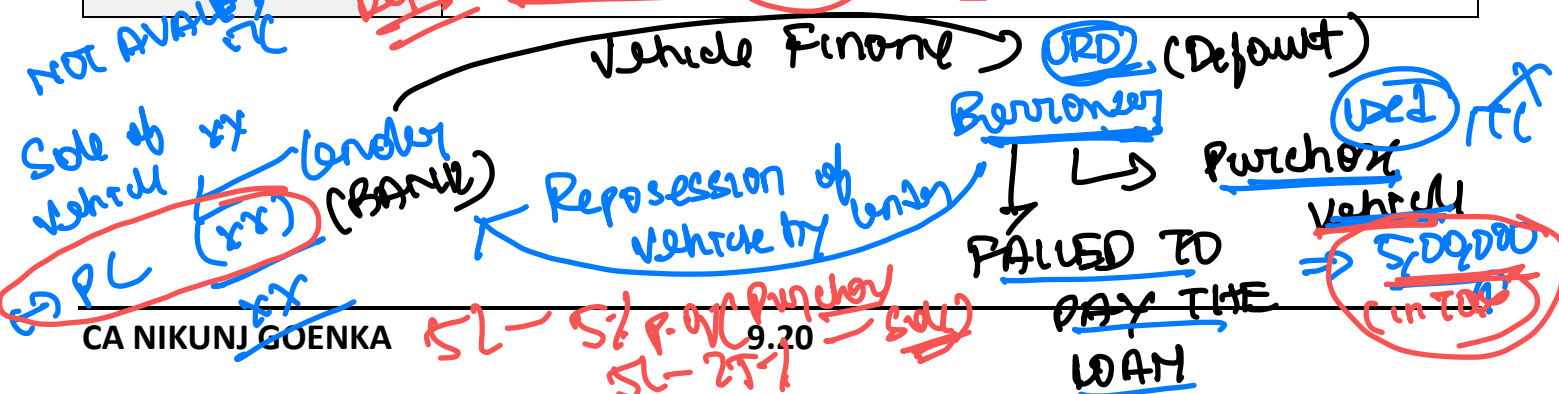
Intra-State supplies of "second hand goods" by an unregistered supplier to "registered second hand goods dealer" (who pays tax under margin scheme) exempt from CGST [Notification No. 10/2017 CT (Rate) dated 28.06.2017]

Important points to remember:

- (i) Persons who purchase second hand goods after payment of tax to supplier of such goods, are governed by this valuation rule only when they DO NOT AVAIL ITC on such input supply. If ITC is availed, then such supply is governed by normal GST valuation provisions.
 - (ii) Purchase value of supply of goods repossessed from a defaulting borrower
- Handwritten notes: Margin scheme apply only if Reg Person purchasing it should not avoid ITC; PC in hands of borrower*

Defaulting borrower is REGISTERED	The repossessing lender agency will discharge GST at the supply value without any reduction from actual/notional purchase value
Defaulting borrower is UNREGISTERED	Purchase value = Purchase price in the hands of such borrower reduced by 5% for every quarter or part thereof, between the date of purchase and the date of disposal by the person making such repossession

Handwritten notes: NOT AVAILED ITC; 5% p.w. purchase; 5% - 25%



100/5
20% 5%
Vehicle → DJ Asset
Goods → SYDS → Value of
5m 2Q 6m 2Q 1m 1Q



VALUE OF SUPPLY

Example 6

A company X Ltd, which deals in buying and selling of second hand cars, purchases a second hand Maruti Alto Car of March, 2014 make (Original price ₹ 5 lakh) for ₹ 3 lakh from an unregistered person and sells the same after minor refurbishing for ₹ 3,50,000. The supply of the car to the company for ₹ 3 lakh shall be exempted, and the supply of the same by the company to its customer for ₹ 3.5 lakhs shall be taxed.

The value for GST purpose shall be ₹ 50,000 i.e., the difference between the selling and the purchase price of the company. In case any other value is added by way of repair, refurbishing, reconditioning etc., the same shall also be added to the value of goods and be part of the margin.

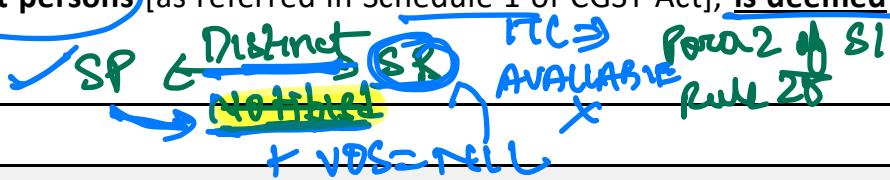
If margin scheme is opted for a transaction of second hand goods, the person selling the car to the company shall not issue any taxable invoice and the company purchasing the car shall not claim any ITC.

Value of redeemable vouchers/stamps/coupons/tokens [Rule 32(6)]

Value of a token, voucher or coupon, which is redeemable against a supply of goods and/or services is the **Money value** of the goods and/or services redeemable against such token, voucher or coupon

Example 7: If ₹ 1,500 worth of Sodexo is supplied by the taxable person, the value of supply under GST law will also be ₹ 1,500.

Rule 32(7): Value of taxable services provided by notified class of service providers, without consideration, between distinct persons [as referred in Schedule 1 of CGST Act], is deemed to be NIL if ITC is available



RULE 33 - Value of supply of services in case of PURE AGENT

Meaning of Pure Agent

'Pure agent' here means a supplier who

- (i) enters into contractual agreement with recipient to act as his pure agent to incur expenditure/costs in the course of supply of goods and /or services;
- (ii) does not hold or intends to hold any title to the goods and / or services so procured or supplied as pure agent of 'recipient';
- (iii) does not use for his own interest such goods or services so procured; and
- (iv) receives only the actual amount incurred to procure such goods or services (apart from the amount for the services provided on his own account)

Own Bill
+ dup
Re-invoicing

CTOC



The supplier needs to fulfil **ALL** the above conditions in order to qualify as a pure agent. In case the conditions are **not satisfied**, **such expenditure incurred is included in the value of supply under GST.**

Example 1

A is an importer and B is a custom broker. A approaches B for customs clearance work in respect of an import consignment. The clearance of import consignment and delivery of the consignment to A would also require taking service of a transporter. So, A, also authorises B, to incur expenditure on his behalf for procuring the services of a transporter and agrees to reimburse B for the transportation cost at actuals.

Here, B is providing customs brokers service to A, which would be on a principal to principal basis. The ancillary service of transportation, is procured by B on behalf of A as a pure agent and expenses incurred by B on transportation should not form part of value of customs broker service provided by B to A. This, in sum and substance is the relevance of the pure agent concept in GST.

Example 2

Corporate services firm A is engaged to handle the legal work pertaining to the incorporation of Company B.

- Other than its service fees, A also recovers from B, registration fee and approval fee for the name of the company paid to Registrar of the Companies.
- The fees charged by the Registrar of the Companies for registration and approval of the name are compulsorily levied on B.
- A is merely acting as a pure agent in the payment of those fees.
- Therefore, A's recovery of such expenses is a disbursement and not part of the value of supply made by A to B

Importance of concept of Pure Agent

NO GST on pure reimbursements recovered from recipient by Pure Agent

Expenditure / costs incurred by the supplier of services ('S') as pure agent of the recipient of services ('R') **is excluded from the value of supply**, and thus, also from aggregate turnover, if all the following conditions **(in addition to the conditions required to be satisfied to be considered as a pure agent)** are satisfied:

- a) The payment arises out of a contract between 'R' and a third party, and 'S' acts as pure agent of 'R' when he makes the payment;
- b) 'R' authorizes 'S' to make payment on his behalf;
- c) 'S' shows the payment separately in the invoice issued by him to 'R';
- d) The supplies procured by 'S' from the third party as pure agent of 'R' are **in addition to the services that he provides on his own account**

Receipt

1,02,500

*1,00,000
2,500*



VALUE OF SUPPLY

Examples of expenditure/costs incurred as pure agent are:

- Port fees, port charges, custom duty, dock dues, transport charges etc. paid by customs broker on behalf of the owner of goods. **CHA**
- Expenses incurred by C&F agent and reimbursed by principal such as freight, godown charges.

Whenever the supplier intends to act as a pure agent, care should be taken to ensure that the conditions specified for such pure agents and other conditions given in the valuation rules are also met so that only the real value of the service provided is subjected to GST.

Clarification on issue of GST on Airport levies [Circular No. 115/34/2019-GST dated 11 October 2019]

Airport levies do not form part of the value of services provided by the airlines and consequently no GST should be charged by airlines on airport levies.

Kinds of Airport Levies

Passenger Service Fee (PSF) is charged under rule 88 of Aircraft Rules, 1937 according to which the airport licensee may collect PSF from embarking passengers at such rates as specified by the Central Government. According to the rule the airport license shall utilize the said fee for infrastructure and facilitation of the passengers.

User Development Fee (UDF) is levied under rule 89 of the Aircraft rules 1937 which provides that the licensee may levy and collect at a major airport such fees. The authority which manages the airport is eligible to levy and charge UDF from the embarking passengers at any airport.

In order to avoid inconvenience to passengers and for smooth and orderly air transport/airport operations, the UDF shall be collected from the passengers by the airlines at the time of issue of air ticket and the same shall be remitted to Airports Authority of India in the line system/procedure in vogue.

The above facts clearly indicate that PSF and UDF are charged by airport operators for providing the services to passengers. **PSF and UDF charged by airport operators are consideration for providing services to passengers. Thus, services provided by an airport operator to passengers against consideration in the form of UDF and PSF are liable to GST.** UDF was also liable to service tax. It is also seen from the Air India website that the UDF is inclusive of service tax. Further in order No. AIC S. Nos. 3/2018 and 4/2018, both dated 27.2.2018, **it has been laid down that GST is applicable on the charges of UDF and PSF.**



Applicability of GST on Airport levies

PSF and UDF being charges levied by airport operator for services provided to passengers are collected by the airlines as an agent and is not a consideration for any service provided by the airlines. Thus, airline is not responsible for payment of ST/GST on UDF or PSF provided the airline satisfies the conditions prescribed for a pure agent under Rule 33 of the CGST Rules. **It is the licensee, that is the airport operator (AAI, DIAL, MIAL etc) which is liable to pay ST/GST on UDF and PSF.**

Airlines may act as a pure agent for the supply of airport services in accordance with rule 33 of the CGST rules. Rule 33 of the CGST rules provides that the expenditure or costs incurred by a supplier as a pure agent of the recipient of supply shall be excluded from the value of supply, if all the following conditions are satisfied, namely,

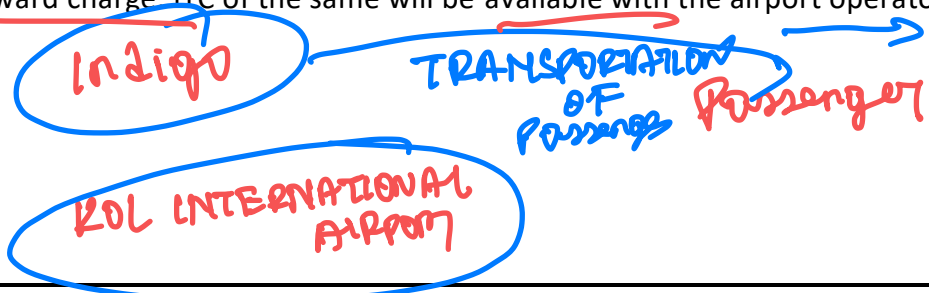
- (i) the supplier acts as a pure agent of the recipient of the supply, when he makes the payment to the third party on authorisation by such recipient;
- (ii) the payment made by the pure agent on behalf of the recipient of supply has been separately indicated in the invoice issued by the pure agent to the recipient of service; and
- (iii) the supplies procured by the pure agent from the third party as a pure agent of the recipient of supply are in addition to the services he supplies on his own account.

Conclusion:

Accordingly, the airline acting as pure agent of the passenger should separately indicate actual amount of PSF and UDF and GST payable on such PSF and UDF by the airport licensee, in the invoice issued by airlines to its passengers. The airline shall not take ITC of GST payable or paid on PSF and UDF. The airline would only recover the actual PSF and UDF and GST payable on such PSF and UDF by the airline operator. The amount so recovered will be excluded from the value of supplies made by the airline to its passengers. **In other words, the airline shall not be liable to pay GST on the PSF and UDF (for airport services provided by airport licensee),** provided the airline satisfies the conditions prescribed for a pure agent under Rule 33 of the CGST Rules. **The registered passengers, who are the ultimate recipient of the airport services, may take ITC of GST paid on PSF and UDF on the basis of pure agent's invoice issued by the airline to them.**

The airport operators shall pay GST on the PSF and UDF collected by them from the passengers through the airlines. Since, the airport operators are collecting PSF and UDF inclusive of ST/GST, there is no question of their not paying ST/GST collected by them to the Government.

The collection charges paid by airport operator to airlines are a consideration for the services provided by the airlines to the airport operator (AAI, DAIL, MAIL etc) and airlines shall be liable to pay GST on the same under forward charge. ITC of the same will be available with the airport operator.



Tax Invoice

Base Fare!	5000
PSF & UDF	1000
Fuel charges	500
Taxes	1000
Per %	7500

FC GST VOS



RULE 34 – Rate of exchange of currency, other than Indian rupees, for determination of value

value of supply in foreign currency

Goods: The relevant rate of exchange for determining the value of taxable goods is the rate notified by CBIC u/s 14 of the Customs Act, 1962, prevalent on the date of time of supply of said goods.

Services: The relevant rate of exchange for determining the value of taxable service is the rate determined as per GAAP, prevalent on the date of time of supply of said service.

value of supply in INR

RULE 35 – Value of supply inclusive of IGST, CGST, SGST, UTGST

Where the value of supply is inclusive of GST, the tax amount is determined in the following manner:

$$\text{Tax amount} = \frac{\text{Value inclusive of taxes} \times \text{GST rate in \% [IGST or CGST, SGST/UTGST]}}{(100 + \text{sum of GST rates in \%})}$$

(100 + sum of GST rates in %)

Illustration: If the value inclusive of tax is ₹ 100 and applicable GST rate is 18% [IGST or CGST, SGST/UTGST] then,

$$\text{Tax amount} = \frac{(100 \times 18)}{(100 + 18)} = \frac{1800}{118} = ₹ 15.25$$

Conclusion of CBIC Circular on Airport taxes

31B / 31C / Corpo

- ① Liability to pay GST on PSF & VDF charges is on Airport operator & not Airlines
- ② Recipient (i.e. registered passengers) can claim ITC based on pure agent invoice issued by authority on PSF & VDF
- ③ Airline is only liable to pay GST on transportation services given on its own AIL to passengers



Handwritten notes at the top of the page:

- 20000
- 16000
- 14000
- IT(3) → 1) Pre-Existence NCB -
- VALUE OF SUPPLY

AMENDMENTS

VALUE OF SUPPLY

Refer Supply Chain

Taxability of No Claim Bonus offered by Insurance companies [Circular No. 186/18/2022-GST dated 27/12/2022]

Issue: Whether No Claim Bonus provided by the insurance company to the insured can be considered as an admissible discount for the purpose of determination of value of supply of insurance service provided by the insurance company to the insured?

Facts: The insurance companies make the disclosure of the fact of availability of discount in form of No Claim Bonus, subject to certain conditions, to the insured in the insurance policy document itself and also provide the details of the no claim Bonus in the invoices also. The pre-disclosure of NCB amount in the policy documents and specific mention of the discount in form of No Claim Bonus in the invoice is in consonance with the conditions laid down for deduction of discount from the value of supply under clause (a) of sub-section (3) of section 15 of the CGST Act.

Handwritten notes:

- NO GST IT
- NCB subject to CO - NCB Customer
- ① Reduction to history → Perm

Clarification: No Claim Bonus (NCB) is a permissible deduction u/s 15(3)(a) of the CGST Act for the purpose of calculation of value of supply of the insurance services provided by the insurance company to the insured. Accordingly, where the deduction on account of No claim bonus is provided in the invoice issued by the insurer to the insured, GST shall be leviable on actual insurance premium amount, payable by the policy holders to the insurer, after deduction of No Claim Bonus mentioned on the invoice.

Whether GST is applicable on the incentive paid by Ministry of Electronics and Information Technology (MeitY) to acquiring banks under the Incentive scheme for promotion of RuPay Debit Cards and low value BHIM-UPI transactions

Facts: Under the Incentive scheme for promotion of RuPay Debit Cards and low value BHIM- UPI transactions, the Government pays the acquiring banks an incentive as a percentage of value of RuPay Debit card transactions and low value BHIM-UPI transactions up to ₹ 2000. The Payments and Settlements Systems Act, 2007 prohibits banks and system providers from charging any amount from a person making or receiving a payment through RuPay Debit cards or BHIM-UPI.

Clarification: The incentive is in the nature of a subsidy directly linked to the price of the service and the same does not form part of the taxable value of the transaction in view of the provisions of section 2(31) and section 15. It is hereby clarified that incentives paid by MeitY to acquiring banks under the Incentive scheme for promotion of RuPay Debit Cards and low value BHIM-UPI transactions are in the nature of subsidy and thus not taxable.

Handwritten notes at the bottom:

- Incentives paid by Govt to Banks for promotion of RuPay DE cards & low value BHIM-UPI
- NO GST as such incentive is in the nature of subsidy provided by Govt. not includible in VGS UP IT(2)(c)



AMENDMENTS

VALUE OF SUPPLY

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