

## Chapter - Value of Supply

GST will be levied on the value of supply. In other words, to levy GST, correct value of supply is required. What can be part of the value of supply or what does not form part of the value of supply is very important to levy GST.

Definitely determination of value of supply is not so easy but I will try to cover all the valuation rules with practical example to make it easy.

### Relevant provision for determination of Value of Supply

Section 15 of the [Central Goods & Service Tax Act](#) and Valuation Rule 27 to 35

#### Meaning:

In general meaning, Value of Supply means consideration charged for the supply from recipient.

**Example:** Mr. X is selling a product for Rs. 1,000 to Mr. B. In this example value of supply will be consideration charged i.e. Rs. 1,000.

#### Definition:

The value of a supply of goods or services or both shall be the **transaction value**, which 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)].

We need to understand four important terms involved in the definition.

**Transaction Value:** – Transaction value is the consideration charged from the recipient for supply.

**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;

**Price actually paid or payable:** – It means the consideration paid or to be paid by the supplier for the supply.

**Condition-1: Supplier and Recipient of the supply are not related:** Supplier and recipient should not be related party. Definition of related party is as below:

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.

**Condition-2: Price is the sole consideration:** Price will be sole consideration if it is on the arm length price. It means if the price charged which is equivalent to Open Market Value or Fair Market Value then the same will be sole consideration.

**One important aspect is that both the conditions will apply simultaneously. It means if only one condition is dissatisfied then the actual consideration will be value of supply.**

If the above conditions are not satisfied, then value of supply will be determined with the help of valuation rules.

**Example:**

Mr. A is selling a product to Mr. B for Rs. 12,000. Open market value of the product is 24,000. Mr. A & Mr. B is unrelated parties. In this case Value of supply will be Rs. 12,000 as single condition is satisfied.

Suppose Mr. A & Mr. B is related parties. Then both the conditions are dissatisfied. Hence valuation rule will apply and Value of supply will be Rs. 24,000 for levy of GST.

**Inclusions & Exclusions from the value of supply:**

Inclusion in Value of Supply [Section 15(2)]:	Exclusion from Value of Supply [Section 15(3)]:
<ul style="list-style-type: none"> <li>♣ Any taxes, duties, cesses, fees &amp; charges levied under any law other than GST law if charged separately by the supplier;</li> <li>♣ Any Amount               <ul style="list-style-type: none"> <li>-Liable to Pay – Supplier</li> <li>-Incurred By – Recipient and</li> <li>-Not included in the price actually paid or payable for the supply</li> </ul> </li> <li>♣ Incidental expenses i.e. Packing &amp; Commission etc.</li> <li>♣ Interest, Late Fee or Penalty for delayed payment.</li> <li>♣ Subsidies provided by State or Central Government</li> </ul>	<ul style="list-style-type: none"> <li>♣ Discount given before or at the time of supply through invoice.</li> <li>♣ Discount given after the supply through credit note but               <ul style="list-style-type: none"> <li>-Such discount is established in terms of an agreement entered into at or before the time of such supply and specifically linked to relevant invoices</li> </ul> </li> </ul>

**Examples:**

**Question: 1**

Mr. A is sold goods to Mr. B for Rs. 20,000. Mr. A is charging packing charges of Rs. 800. Mr. A is also paying freight of Rs. 2800 from Mr. A's premises to Mr. B's premises.

Whether packing charges or freight is required to include in the invoice to determine taxable value?

**Answer: 1**

Yes, packing charges or freight is required to include in the invoice to determine taxable value. Hence, Value of Supply will be Rs. 23,600.

**Question: 2**

Mr. A is sold goods worth of Rs. 50,000. Mr. A is also charged interest of Rs. 750 for delay in payment. Determine the taxable value for levy of GST.

**Answer: 2**

Taxable Value includes Interest & Penalty charged for delayed payment. Hence, In this case Taxable Value for levy of GST will be Rs. 50,750.

**Question: 3**

Mr. A is sold goods to Mr. B for Rs. 20,000. Mr. A is allowing discount of Rs. 2000 at the time of supply. Determine value of supply for the purpose of levy of GST?

**Answer: 3**

Discount is given at the time of supply. In this case value of taxable supply in the invoice after giving effect of discount will be Rs. 18,000 for the purpose of levy of GST.

**Question: 4**

Mr. A is sold 1000 unit of goods to Mr. B for Rs. 20,000 and total unit sold during the year to Mr. B after including these units is 2500 unit. As per terms of the agreement if Mr. A is purchasing more than 2000 unit of goods in a year than Mr. A is allowing 10% discount in all the supplies. Assuming IGST rate is 18%. How discount will be recorded?

**Answer: 4**

In this case discount is given after sale. Mr. A will issue a credit note with the amount of discount i.e. Rs. 5,000 and GST on such discount i.e. Rs. 900.

**Question: 5**

Mr. X is providing construction services to Mr. Y. In addition to the consideration, Mr. Y is also supplying construction material to Mr. X. Determine Value of Supply to levy of GST?

**Answer: 5**

In this case Value of construction material will be form part of value of supply.

**Value of supply of goods or services where consideration is not wholly in money [Rule-27]**

If supplies are made against barter, exchange or partially in money & exchange of goods & services then the consideration is not wholly in money. In this case Value of Supply will be:

- Open market value of such supplies;
- If open market value is not available than

- Sum total of consideration in money and
- Amount in money as is equivalent to the consideration not in money
- If the value of supply is not determinable as above, be the value of supply of goods or services or both of like kind and quality
- If the value of supply is not determinable as above
- Sum total of consideration in money and
- Amount in money as is equivalent to the consideration not in money as per rule 30 & 31.

**Rule 30** – If value of supply of goods & services are not determined with the help of Rule 27 to Rule 29, than the value of supply shall be 110% of the cost of such supply.

**Rule 31** – If value of supply of goods & services are not determined with the help of Rule 27 to Rule 30, than value of supply shall be determined using reasonable means consistent with the principals and general provisions of this chapter.

### Examples:

#### Question: 1

Mr. A sold a bike for Rs. 34,000 with exchange of old bike. Open Market price of the new bike is Rs. 52,000. Old Bike can be sold in the market for Rs. 20,000. Determine the value of supply for the purpose of levy of GST.

#### Answer: 1

In this case Open Market Value is available. Hence, Value of Supply will be Rs. 52,000.

#### Question: 2

Mr. A sold a bike for Rs. 34,000 with exchange of old bike. Open Market price of the new bike is not available. Old Bike can be sold in the market for Rs. 20,000. Determine the value of supply for the purpose of levy of GST.

#### Answer: 2

In this case Open Market Value of new bike is not available. Hence, Value of Supply will be:

Consideration in money i.e. Rs. 34,000 + Amount in money as is equivalent to the consideration not in money i.e. Rs. 20,000 = Rs. 54,000.

#### Question: 3

Mr. A sold a bike for Rs. 34,000 with exchange of old bike. Open Market price of the new bike as well as old bike is not available. A bike with the same features of other company is selling in the market for Rs. 51,000. Determine the value of supply for the purpose of levy of GST.

#### Answer: 3

In this case Open Market Value of new bike as well as old bike is not available. Value of like kind bike of another company i.e. Rs. 51,000 will be considered as value of supply.

#### Question: 4

Mr. A sold a bike for Rs. 34,000 with exchange of old bike. Open Market price of the new bike as well as old bike is not available. Product of same like kind & quality is also

not available in the market. Cost of purchase of the bike is Rs. 47,000. Determine the value of supply for the purpose of levy of GST.

**Answer: 4**

In this case Open Market Value of new bike as well as old bike is not available. Also Value of like kind bike is not available. Hence, value of supply will be Cost of acquisition plus 10% i.e. Rs. 47,000 + Rs. 4,700 = Rs. 51,700.

**Value of supply of goods or services or both between distinct or related persons, other than through an agent [Rule-28]**

**Distinct Persons:**

If a person is obtained more than one registration whether in one state or more than one state shall, in respect of each such registration, be treated as distinct person.

Value of supply will be

- Open market value of such supplies;
- If open market value is not available than the value of supply of goods or services or both of like kind and quality
- If the value of supply is not determinable as above, Value of supply will be determined as per rule 30 & 31.

If the goods are intended for further supply as such by the recipient than the value shall, at the option of the supplier, 90% of the amount charged from the customer (unrelated party) by the recipient.

**Examples:**

**Question: 1**

Mr. A sold a bike without consideration to Mr. B. Open Market price of the bike is Rs. 52,000. Mr. B is family member of Mr. A. Determine the value of supply for the purpose of levy of GST.

**Answer: 1**

In this case Mr. A & Mr. B is related party. Hence, Value of Supply will be open market value i.e. Rs. 52,000.

**Question: 2**

X Enterprises sold a bike for Rs. 30,000 to Y Enterprises. Open Market price of the bike is Rs. 52,000. Both firms are registered under the same PAN. Determine the value of supply for the purpose of levy of GST.

**Answer: 2**

In this case X Enterprises & Y Enterprises is distinct person. Hence, Value of Supply will be open market value i.e. Rs. 52,000.

**Question: 3**

Mr. A sold a product for Rs. 84,000 to Mr. B. Open Market price of the product is not available. A product with the same features of other company is selling in the market for Rs. 1,34,000. Mr. B is employee of the Mr. A. Determine the value of supply for the purpose of levy of GST.

**Answer: 3**

In this case Open Market Value of the product is not available. Mr. A & Mr. B is related person. Value of like kind product of another company i.e. Rs. 1, 34,000 will be considered as value of supply.

**Question: 4**

A Ltd. sold a product for Rs. 34,000 to Mr. X. Open Market price of the product is not available. Product of same like kind & quality is also not available in the market. Cost of purchase of product is Rs. 50,000. Mr. X holds 30% share in A Ltd. Determine the value of supply for the purpose of levy of GST.

**Answer: 4**

Mr. X is related party for A Ltd. In this case Open Market Value of the product is not available. Also Value of like kind product is not available. Hence, value of supply will be Cost of acquisition plus 10% i.e.  $\text{Rs. } 50,000 + \text{Rs. } 5,000 = \text{Rs. } 55,000$ .

**Question: 5**

A Ltd. sold a product for Rs. 34,000 to Mr. X. Open Market price of the product is not available. Product of same like kind & quality is also not available in the market. Mr. X is selling the same like kind of product to his consumer for Rs. 60,000. Mr. X holds 30% share in A Ltd. Determine the value of supply for the purpose of levy of GST.

**Answer: 5**

Mr. X is related party for A Ltd. In this case Open Market Value of the product is not available. Also Value of like kind product is not available. Value of supply will be 90% of the price charged from the consumer i.e.  $\text{Rs. } 60,000 \times 90\% = \text{Rs. } 54,000$ .

**Value of supply of goods made or received through an agent [Rule – 29]**

The value of supply of goods between the principal and his agent shall:

- Open market value of such supplies;
- At the option of the supplier, 90% of the amount charged from the customer (unrelated party) by the recipient.
- If the value of supply is not determinable as above, Value of supply will be determined as per rule 30 & 31.

**Question: 1**

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 five thousand rupees per quintal on the day of the supply. Another independent supplier is supplying groundnuts of like kind and quality to the said agent at the price of four thousand five hundred and fifty rupees per quintal.

**Answer: 1**

The value of the supply made by the principal shall be four thousand five hundred and fifty rupees per quintal or where he exercises the option, the value shall be 90% of five thousand rupees i.e., four thousand five hundred rupees per quintal.

## **Determination of value in respect of certain supplies [Rule – 32]**

### **1. Value of Supply for Air Travel Agent:**

- In case of Domestic Bookings: 5% of the Basic Fare
  - In case of International Bookings: 10% of the Basic Fare
- Basic Fare means part of fair on which commission is normally paid to the air travel agent.

### **2. The value of supply of services in relation to life insurance business shall be:**

- Gross premium charged less any amount allocated for investment or savings on behalf of the policyholder, if such amount is intimated;
- In case of single premium annuity policies other than above, 10% of single premium charged from the policy holder;
- In all other cases:
- 25% of the first year premium
- 5% of the subsequent year premium

The above provisions are not applied if entire premium paid is only towards the risk cover.

3. In case of second hand goods value of supply will be difference between selling price & purchase price. No input tax credit is available to the buyer of second hand goods.

4. The value of a token, or a voucher, or a coupon, or a stamp (other than postage stamp) which is redeemable against a supply of goods or services or both shall be equal to the money value of the goods or services or both redeemable against such token, voucher, coupon, or stamp.

### **Example:**

#### **Question: 1**

Mr. A second hand car dealer purchased a second hand car for Rs. 3,00,000. Dealer has sold the same to X Ltd. for Rs. 3,50,000. Determine Value of Supply?

#### **Answer: 1**

Value of Supply will be difference between purchase price and sale price i.e. 3,50,000-3,00,000 = Rs. 50,000. In this case Mr. A shall not issue tax invoice and X Ltd. are not eligible to take ITC.

#### **Question: 2**

Mr. A sold a car on finance to Mr. B on 01/01/2018 for Rs. 50,000. Due to defaulter B Car is repossessed by Mr. A on 30/06/2018. Determine Value of Supply.

#### **Answer: 2**

In this case value of supply will be original purchase price reduced by five percentage point for every quarter i.e. 50,000 – 5000 = Rs. 45,000

## **Value of supply of services in case of pure agent [Rule -33]**

Any cost incurred by the supplier on behalf of the recipient as a pure agent shall not form part of value of supply if following conditions are satisfied:

- The supplier should be act as authorized pure agent of the recipient of supply;
- Cost incurred as pure agent should be separately mentioned in the invoice.
- Supplies of pure agent shall be in addition to the services he supplies on his own account.

**Pure Agent:** Following conditions are required to satisfy:

- Contractual agreement with recipient
- No title on the goods & services
- No use of goods & services for own interest
- Receives only the actual amount incurred to procure such goods or services

**Examples:**

**Question: 1**

XYZ consultancy firm is engaged to register a company for A Ltd. Other than professional fees XYZ consultancy also recovers fees paid to ROC on behalf of the A Ltd. Determine Value of Supply?

**Answer: 1**

Value of supply will be amount charged as professional fees. Recovery of fees paid to ROC is merely acting as a pure agent in the payment of those fees. Therefore XYZ Consultancy's recovery of such expenses is a disbursement and not part of the value of supply made by XYZ Consultancy to A Ltd.

**MRP Based Product [Rule -35]:**

In case of MRP inclusive of GST then Value of Supply shall be determined as follows:

$MRP * 100 / (100 + \text{Tax Rate})$

**Example:**

**Question: 1**

Mr. A is selling a product for Rs. 1,050 inclusive of GST. Rate of CGST & SGST will be 2.5%. Determine the value of supply?

**Answer: 1**

Value of supply will be as below:

$1,050 * 100 / (100 + 2.5 + 2.5)$

$1,050 * 100 / 105 = 1,000$

**Free Supplies:**

**Schedule-I** provided that activities to be treated as supply even if made without consideration:

Point No. 1 permanent transfer or disposal of business assets where ITC has been availed on such asset. In our case ITC has not been availed therefore it does not fall into the criteria.

Point No. 2 covers supplies of Goods or Services or both between related persons or between distinct persons as specified in section 25, when made in the course or furtherance of business without consideration.

Hence Free Samples to unrelated persons are not covered under definition of supply. Criteria of taxable supply are not fulfilled in case of free samples. If supply has not been done, Taxable event will not arise.

Thus, Free Samples are not liable to GST as the same are not form a supply.

Free samples to related or distinct person are taxable and value of supply will be determined in accordance with rule 28 (as above).

### **Input Tax Credit relating to free samples**

Section 17(5)(h) of the IGST ACT Provides that No input tax credit is available if goods lost, stolen, destroyed , written off or disposed off by way of gift or **free sample**.

Hence on reading of the above, Input tax credit on inputs & services used in free sample should be reversed.

### **Free Promotional Item with Taxable Product:**

If free promotional item is provided with the taxable product than the consideration for the same will be value charged from the consumer.

For the purpose of input tax credit on the promotional item, there is no restriction in the law. Hence, input tax credit on Promotional item along with taxable product is available.

### **Example:**

#### **Question: 1**

Mr. A Selling a set of Soap which provides offer of Buy 1 Get 1 free. Consideration charged for the soap is Rs. 30. What will be the taxable value?

#### **Solution: 1**

In this case taxable value should be Rs. 30 as consideration charged from the consumer.

We can summarize the above in the table form according to the preferences as below:

<b>Value of supply of goods or services where consideration is not wholly in money [Rule-27]</b>	<b>Value of supply of goods or services or both between distinct or related persons, other than through an agent [Rule-28]</b>	<b>Value of supply of goods made or received through an agent [Rule – 29]</b>
Open market value of such supplies;	Open market value of such supplies;	Open market value of such supplies;
If open market value is not available than Sum total of consideration in money and Amount in money as is equivalent to the consideration not in money	If the goods are intended for further supply as such by the recipient than the value shall, at the option of the supplier, 90% of the amount charged from the customer (unrelated party) by the recipient.	At the option of the supplier, 90% of the amount charged from the customer (unrelated party) by the recipient.
If the value of supply is not determinable as above, be the value of supply of goods or services or both of like kind and quality	If open market value is not available than the value of supply of goods or services or both of like kind and quality	
If the value of supply is not determinable as above Sum total of consideration in money and Amount in money as is equivalent to the consideration not in money as per rule 30 & 31.	If the value of supply is not determinable as above, Value of supply will be determined as per rule 30 & 31.	If the value of supply is not determinable as above, Value of supply will be determined as per rule 30 & 31.