

KMS Intellectus # 4

Valuation under GST

Part - I

- *Value of Supply*
- *Transaction Value*
- *Meaning of Related Party*
- *Gist of Valuation Rules*
- *Practical Issue*

Value of Supply

"**Value of Taxable Supply**" is significant under GST law as based on which one has to determine the amount on which Tax is payable on supply of goods or services or both. It is the value on which Tax will be computed and to be paid under GST law. Value of supply provision is governed by Sec: 15 of CGST Act, 2017

In general, value of taxable supply shall be the "**transaction value**" subject to satisfaction of the following two conditions, namely-

- a) *The supplier and recipient of the supply is not related; and*
- b) *The price is the sole consideration of the supply*

Situations when the supplier and recipient will be considered as related has been listed out in Explanation to Section 15(5) of the CGST Act 2017. They are deemed to be related persons if:

- i. *such persons are officers or directors of one another's businesses;*
- ii. *such persons are legally recognised partners in business;*
- iii. *such persons are employer and employee;*
- iv. *any person directly or indirectly owns, controls or holds twenty-five per cent. or more of*
- v. *the outstanding voting stock or shares of both of them;*
- vi. *one of them directly or indirectly controls the other;*
- vii. *both of them are directly or indirectly controlled by a third person;*
- viii. *together they directly or indirectly control a third person; or*
- ix. *they are members of the same family;*

Meaning of Related Party under GST law



Meaning of term 'Consideration' under GST law

“consideration” in relation to the supply of goods or services or both includes—

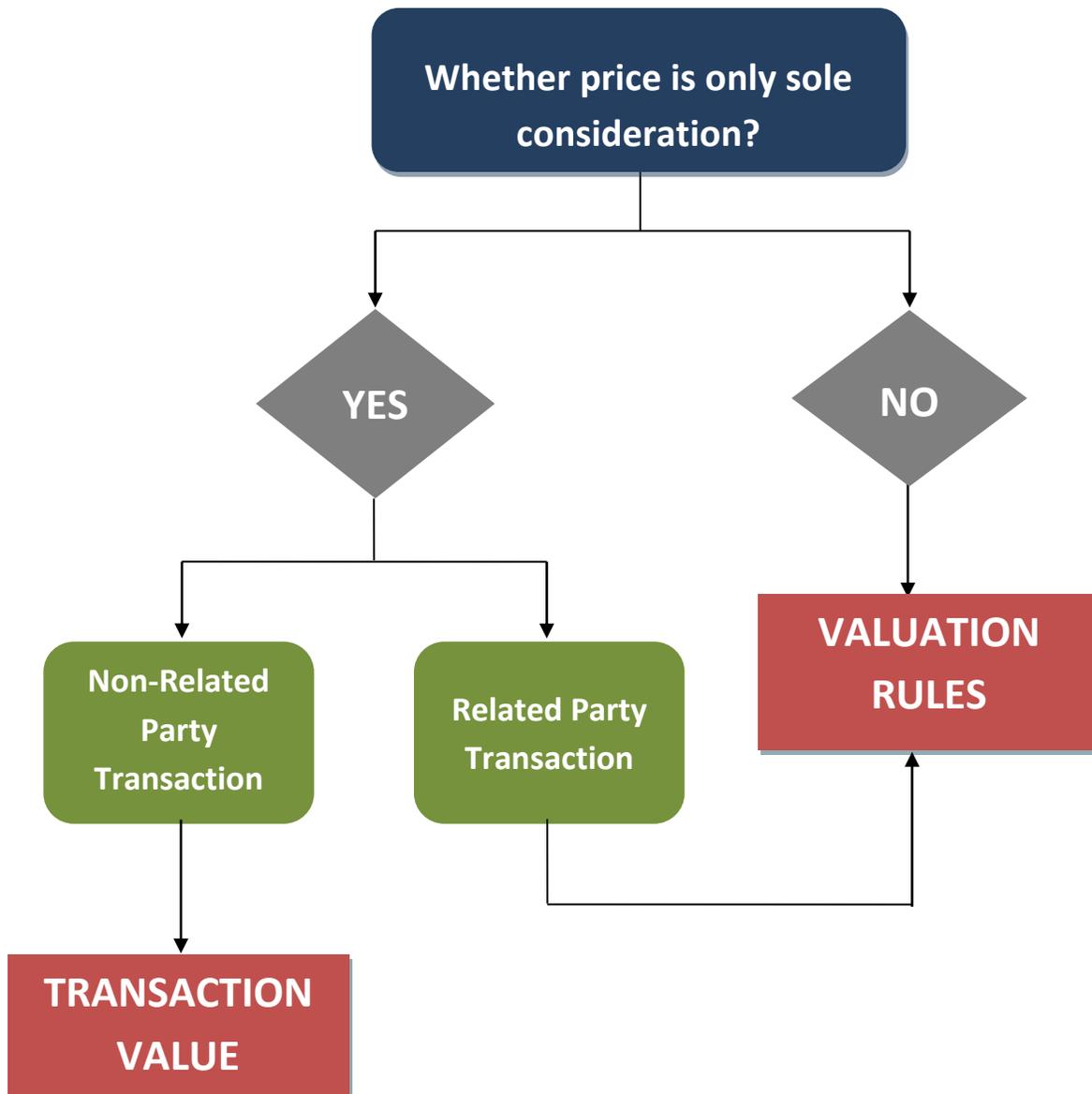
- a) *any payment made or to be made, whether in money or otherwise, in respect of, in response to, or for the inducement of, the supply of goods or services or both, whether by the recipient or by any other person but shall not include any subsidy given by the Central Government or a State Government;*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

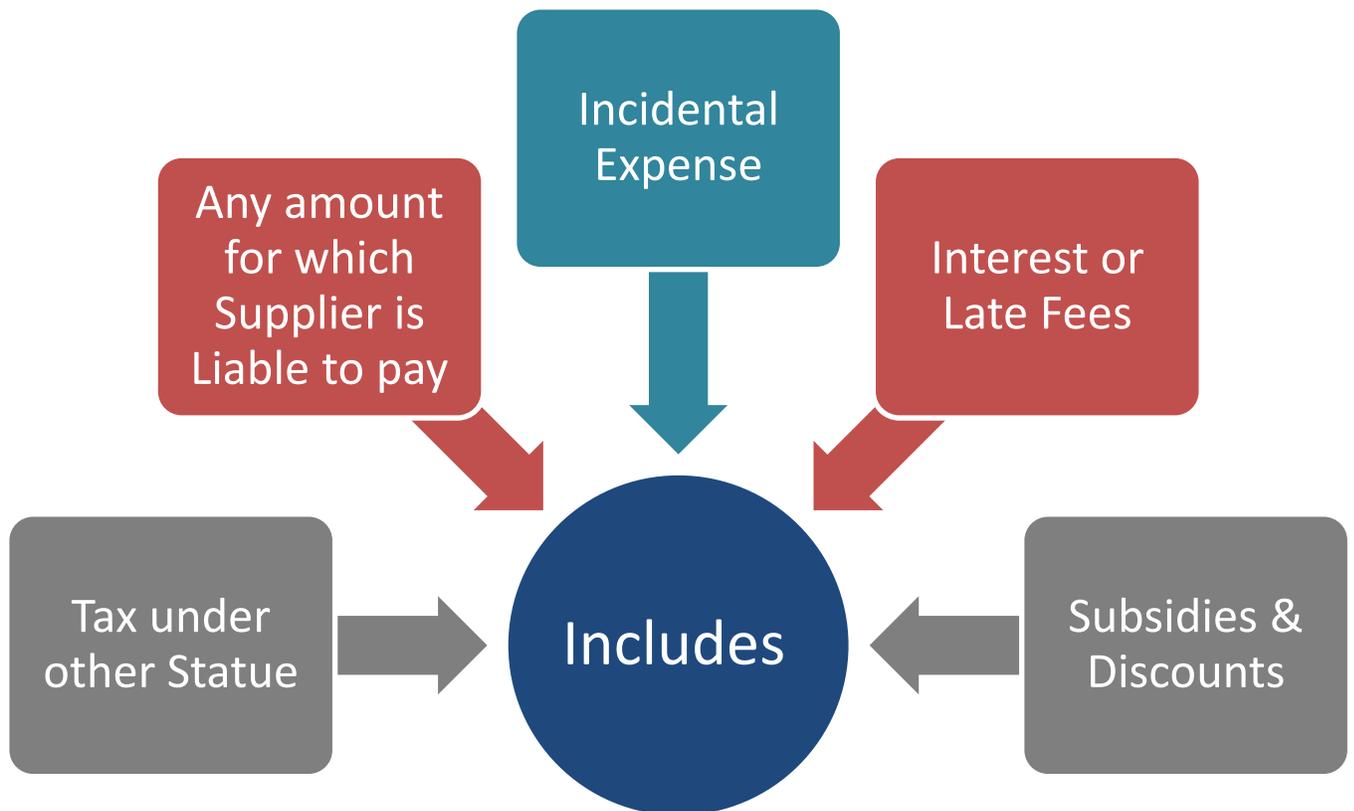
Important aspects to be considered related to 'Consideration':

- If there is any consideration in non-monetary form also, then the price actually paid in monetary terms cannot be taken as basis of valuation. In such a case, price cannot be considered as transaction value. Accordingly, additional consideration received apart from monetary consideration should also be added to arrive value of supply on which Tax is payable. Meaning thereby consideration may be monetary and/or non-monetary in nature.
- For the purpose of valuation, payment against the supply made either by the recipient directly or by another person will both be covered within the ambit of consideration and considered as part of the price for the purpose of valuation. For example supplier supplies goods worth Rs. 2,00,000/- to the recipient. Against this supply, Rs. 1,50,000 is paid by the recipient directly and balance amount is paid by the recipient's debtor. Both the payments will be included in the price for the purpose of valuation under GST.

Flowchart - Valuation



Inclusions in Transaction value – Section 15 (2)



Tax under other Statute

- 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/SGST/UTGST/Compensation Act)

Any Amount for which Supplier is Liable to pay

- Any amount that the supplier is liable to pay in relation to such supply but which 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

Incidental Expense

- Incidental expenses, such as commission and packing, charged by the supplier to the recipient of a supply
- 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

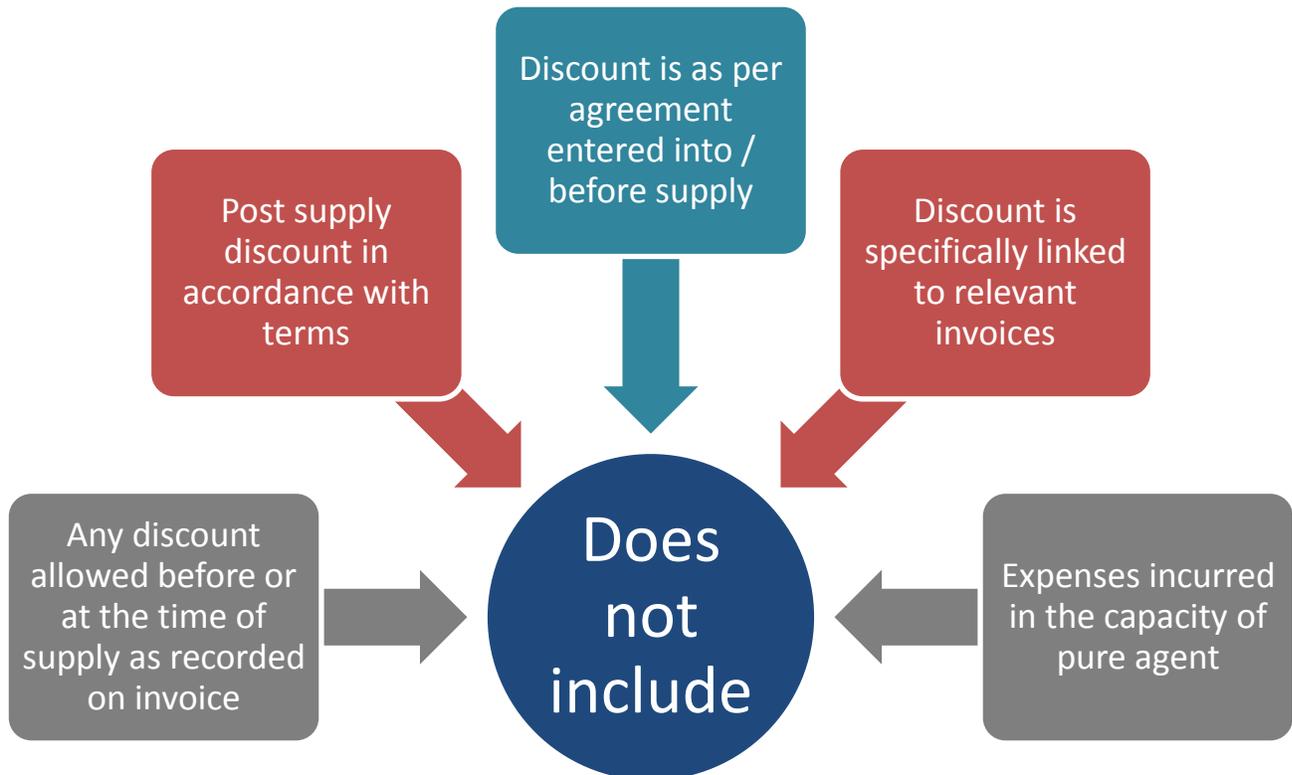
Interest or Late Fees

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

Subsidies

- Subsidies directly linked to the price will form part of transaction value
- Subsidies provided by the Central and State Governments will not be covered

Exclusions in Transaction value – Section 15 (3)



Generally, the value of discount shall not be included in the supply when:

- Discount is given **before or at the time of supply** if such discount has been duly **recorded in the invoice**
- Discount is given **after the time of supply if it is established in terms of an agreement** entered into at or before the time of such supply and specifically linked to relevant invoices and ITCs is attributable to the discount on the basis of document issued by the supplier has been reversed by the recipient

Implication of GST on various kinds of discounts

Heading	Description of Discount	Implication
In-bill discount	Discounts that are allowed exactly at the point of supply of service is called as 'In-bill discount' or 'trade discount'.	Transaction value for charging GST will be considered after deducting such discount value.
Off-bill discount	Such types of discount are allowed after issuance of supply. These discounts are allowed by issuing credit note u/s 34 of CGST Act, 2017.	GST will be calculated on value of credit note and such amount of Tax cannot be claimed as ITC by the recipient of supply and on the other hand supplier is allow to adjust the said Tax payment against the outward Tax liability.
Cash-Discounts	These discounts are allowed to the customers for timely payment of their dues.	Such discounts depends on the payment fulfillment condition. The same discounts are adjusted through credit note where recipient needs to reverse the ITC and then supplier can adjust the said ITC against outward Tax liability.
Quantity-Discount	These are those discounts that are aimed at reducing the price of each supply on the condition that a certain quantity of stocks need to be exhausted within a specified duration of time.	Now, the said discounts are generally pre-agreed in nature but the same cannot be linked to relevant invoices. Hence, the value of said discounts needs to be included in transaction value.
Special-Discount	These are those discounts that are allowed by a supplier to incentivize aggressive marketing of inward supplies on special occasions or in special market conditions.	Such discounts are outside the scope of Sec: 15(3) of CGST Act, 2017. Further, GST will be calculated on transaction value of supply. Such discount will not be deducted from transaction value.

Example on Tax implication in case of Discount

A Ltd. has sold goods valued at Rs. 2,00,000/- to B Ltd. As per the company's policy, trade discount is allowed @10% of gross value of goods. Over and above if B Ltd. will make the payment within 30 days then it will allow further 5% discount at the time of payment. In such case, Tax will be calculated as under:

GST implication on Tax discount given at the time of supply

Particulars of Tax invoice	Amount (In Rs.)
Sales value	2,00,000
Discount @ 10%	(20,000)
Taxable value	1,80,000
GST @ 18%	32,400
Net payable	2,12,400

Note:

Trade discount given and disclosed on the face of Tax invoice will not be included in the transaction value while calculating GST.

GST implication on Tax discount given at the time of cash payment (i.e. cash discount)

Particulars of Credit note	Amount (In Rs.)
Discount value @5%	9,000
GST@18%	1,620
Total value of C/N	10,620

Note:

As B Ltd. has made payment within 30 days, A Ltd. has issued credit note for allowing discount. As it fulfills requirement of Sec: 15(3) of CGST Act, 2017 the said value cannot be added in transaction value. Hence, in the said case recipient i.e. B Ltd. will reverse the ITC to the extent of Tax on discount and in turn A Ltd. will adjust the said Tax amount against future outward Tax liability.

GIST OF VALUATION RULES

Rule 27

Value of supply of goods or services where the consideration is not wholly in money.

Rule 28

Value of supply of goods or services or both between distinct or related persons, other than through an agent.

Rule 29

Value of supply of goods made or received through an agent.

Rule 30

Value of supply of goods or services or both based on cost.

Rule 31

Residual method for determination of value of supply of goods or services or both.

Rule 32

Determination of value in respect of certain supplies.

Rule 33

Value of supply of services in case of pure agent.

Rule 34

Rate of exchange of currency, other than Indian rupees, for determination of value.

Rule 35

Value of supply inclusive of integrated tax, central tax, State tax, Union territory tax.

Practical Issues

Whether post-supply discounts or incentives are to be included in the Transaction Value?

Where the post-supply discount is established as per the agreement which is known at or before the time of supply and where such discount specifically linked to the relevant invoice and the recipient has reversed input tax credit attributable to such discount, the discount is allowed as admissible deduction under Sec: 15 of the CGST Act, 2017. But, if the said discounts given after the completion of supply but the same were not pre-agreed at the time of supply then, deduction shall not be available and GST shall be levied on the same.

Whether pre-supply discounts allowed before or at the time of supply are includible in the transaction value?

No, pre-supply discount recorded on the face of invoice shall not be included in the transaction value and where GST shall not be levied.

Should a reseller pay GST on sales value or on their profit margin?

A reseller will pay GST on sales (i.e., the invoice amount for the customer). It's not necessary to pay GST on the profit margin earned in B2B transactions; the profit margin is taxed through tax deducted at source (TDS) instead.

Mr. A has supplied goods to Mr. B in Delhi where Green Cess is levied over and above GST. Whether Green Cess levied shall be considered as part of value of supply?

As per Sec: 15 of CGST Act, 2017 value of supply will include Taxes / Cess charged under other law excluding CGST, SGST, UTGST, Compensation Cess etc. which is charged to customers. Green Cess is levied as per Green Cess Act, 2013 and the same will be included in value of supply while charging GST.

ABC Ltd. has sold goods to Mr. Golf. Where the nature of charges collected as stated as under:

Sale value of goods: Rs. 1,00,000/-

Transportation cost: Rs. 20,000/-

Discount on invoice: Rs. 5,000/-

Packing cost: Rs. 2,000/-

Registration fees: Rs. 500/-

Refundable – Deposit – Rs. 10,000/-

Determine the value on which Tax is payable.

Particulars	Amount in Rs.
Sale value of goods	1,00,000
Transportation cost	20,000
Discounts given on the face of invoice	(5,000)
Packing cost	2,000
Registration fees	500
Refundable deposit (Not a supply)	-
Value on which Tax to be paid	1,17,500

Can department invoke Valuation Rules in case price is sole consideration and goods are sold to unrelated party?

As per Sec: 15(4) of CGST Act, 2017 if the value cannot be determined u/s 15(1) of said Act then only valuation rules prescribed in CGST Rules, 2017 has to be referred. Accordingly, if the said conditions are fulfilled i.e. price is sole consideration & supply is made to unrelated party then, valuation rules cannot be invoked and hence for determining transaction value, one must refer Sec: 15(1) of said Act.

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