

Value of taxable supply

Section 15 & Chapter IV

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Section 15

- (1) 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)

Two Conditions :

a) The supplier and the recipient of the supply should **not** be **related** persons

and

b) the price should be the **sole** consideration for the supply.

The value of supply shall **include**

1. All taxes, duties & charges except GST charged by supplier.
2. Any amount or any liability of supplier is incurred by recipient & not included in the price payable by recipient to supplier
3. Incidental charges charged by supplier before delivery of goods or supply of services.

value of supply shall include....contd..

4. Interest or late fee for delay in payment
5. Subsidies directly linked to the price excluding subsidies provided by the Central Government and State Governments

The value of the supply shall not include

- Any **discount** which is given—
 - (a) **before or at the time** of the supply if such discount has been duly recorded in **the invoice** issued in respect of such supply; **and**
 - (b) after the supply has been effected, if—
 - (i) such discount is established in terms **of an agreement** entered into at **or before the time** of such supply and specifically linked to relevant invoices; **and**
 - (ii) input tax credit as is attributable to the discount on the basis of document issued by the supplier has been reversed by the recipient of the supply.

Definition of Related person

- (i) such persons are **officers or directors** of one another's businesses;
- (ii) such persons are **legally recognized 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 the outstanding voting stock or shares of both of them;
- (v) one of them directly or indirectly controls the other;
- (vi) both of them are directly or indirectly controlled by a third person;
- (vii) together they directly or indirectly control a third person; or
- (viii) they are members of the same family;

- persons who are associated in the business of one another in that one is the sole agent or sole distributor or sole concessionaire, howsoever described, of the other, shall be **deemed to be related**.

Valuation Rules

- Rules 27
- Rules 28
- Rules 29
- Rules 30
- Rules 31
- Rules 31A
- Rules 32
- Rules 33
- Rules 34
- Rules 35

Definitions

- **Supply of goods or services or both of like kind and quality**
- means any other supply of goods or services or both made under similar circumstances that,
- in respect of the **characteristics, quality, quantity, functional components**, materials, and the **reputation** of the goods or services or both first mentioned, is the **same as, or closely or substantially resembles**, that supply of goods or services or both.

- **Open market value** of a supply of goods or services or both means the **full value in money**, (*excluding the integrated tax, central tax, State tax, Union territory tax and the cess payable by a person in a transaction*),
- where the supplier and the recipient of the supply are not related
and
- the price is the sole consideration,
to obtain such supply at the same time when the supply being valued is made;

Rule 27

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

- Where the supply of goods or services is for a consideration not wholly in money, the value of the supply shall
 - (a) be the open market value of such supply;
 - (b) if the open market value is not available under clause (a), be the sum total of consideration in money and any such further amount in money as is equivalent to the consideration not in money, if such amount is known at the time of supply

- (c) if the value of supply is not determinable under clause (a) or clause (b), be the value of supply of goods or services or both of like kind and quality;
- (d) if the value is not determinable under clause (a) or clause (b) or clause (c), be the sum total of consideration in money and such further amount in money that is equivalent to consideration not in money as determined by the application of rule 30 or rule 31 in that order.

Examples

- *1 : Where a new phone is supplied for twenty thousand rupees along with the exchange of an old phone and if the price of the new phone without exchange is twenty four thousand rupees, the open market value of the new phone is*

- *Twenty four thousand rupees.*

Examples

2 : Where a laptop is supplied for forty thousand rupees along with the barter of a printer that is manufactured by the recipient and the value of the printer known at the time of supply is four thousand rupees but the open market value of the laptop is not known, the value of the supply of the laptop is

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- *Forty four thousand rupees*

Rule 28

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

- The value of the supply of goods or services or both between distinct persons as specified in sub-section (4) and (5) of section 25 or where the supplier and recipient **are related** (other than where the supply is made through an agent) shall-

Value of supply of goods or services or both between related persons

- (a) be the open market value of such supply;
- (b) if the open market value is not available, be the value of supply of goods or services of like kind and quality;
- (c) if the value is not determinable under clause (a) or (b), be the value as determined by the application of rule 30 or rule 31, in that order:

- Note 1 : where the goods are intended for further supply as such by the recipient, the value shall, at the option of the supplier, be an amount equivalent to **ninety percent** of the price charged for the supply of goods of like kind and quality by the recipient to his **customer not being a related person:**

- Note 2 : where the recipient is eligible for full input tax credit, the value declared in the invoice shall be deemed to be the open market value of the goods or services.

Rule 29

Value of supply of goods made or received through an agent

- The value of supply of goods between the principal and his agent shall-
 - (a) **be the open market value** of the goods being supplied, **or** at the option of the supplier, **be ninety percent**. of the price charged for the supply of goods of like kind and quality by the recipient to his customer not being a related person, where the goods are intended for further supply by the said recipient.

Example

- Note 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.*

- *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 per cent. of five thousand rupees i.e., four thousand five hundred rupees per quintal.*

(b) where the value of a supply is not determinable under clause (a), the same shall be determined by the application of rule 30 or rule 31 in that order.

Rule 30

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

- Where the value of a supply of goods or services or both is not determinable by any of the preceding rules of this Chapter, the value shall be **110 %** of the **cost of production** or manufacture or the cost of acquisition of such goods or the cost of provision of such services.

Rule 31

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

- Where the value of supply of goods or services or both cannot be determined under rules 27 to 30, the same shall be determined using reasonable means consistent with the principles and the general provisions of section 15 and the provisions of this Chapter

- Note 1 : In the case of supply of services, the supplier may opt for this rule, ignoring rule 30.

Rule 31A

Value of supply in case of lottery, betting, gambling and horse racing

- (1) Notwithstanding anything contained in the provisions of this Chapter, the value in respect of supplies specified below shall be determined in the manner provided hereinafter.

Value of supply of lottery

- (2) (a) The value of supply of lottery **run by** State Governments shall be deemed to be **100/112 of the face value of ticket** or of the price as notified in the Official Gazette by the organizing State, whichever is higher.
- (b) The value of supply of lottery **authorized by** State Governments shall be deemed to be **100/128 of the face value** of ticket or of the price as notified in the Official Gazette by the organizing State, whichever is higher.

- Note 1 : For the purposes of this sub-rule, the expressions
 - (a) Lottery run by State Governments means a lottery not allowed to be sold in any State other than the organizing State;
 - (b) Lottery authorised by State Governments means a lottery which is authorised to be sold in State(s) other than the organising State also; and
 - (c) Organising State has the same meaning as assigned to it in clause (f) of sub-rule (1) of rule 2 of the Lotteries (Regulation) Rules, 2010.

value of supply of win in betting, gambling

(3) The value of supply of actionable claim in the form of chance to win in betting, gambling or horse racing in a race club shall be **100% of the face value of the bet** or the amount paid into the totalisator .

Rule 32

Determination of value in respect of certain supplies

Notwithstanding anything contained in the provisions of this Chapter, the value in respect of supplies specified below shall, at the option of the supplier, be determined in the manner provided hereinafter .

Value of supply of services foreign currency, including money changing

- (2) The value of supply of services in relation to the purchase or sale of foreign currency, including money changing, shall be determined by the supplier of services in the following manner, namely:-
- (a) for a currency, when exchanged from, or to, Indian Rupees, the value shall be equal to the **difference in the buying rate or the selling rate**, as the case may be, **and the Reserve Bank of India reference rate** for that currency at that time, multiplied by the total units of currency:

Note 1 : In case where the Reserve Bank of India reference rate for a currency is not available, the value shall be one per cent. of the gross amount of Indian Rupees of transaction amount.

Note 2 : in case where neither of the currencies exchanged is Indian Rupees, the value shall be equal to

1 %. of the lesser of the two amounts the person changing the money would have received by converting any of the two currencies into Indian Rupee on that day at the reference rate provided by the Reserve Bank of India. (both currencies are foreign currencies)

Note 3 : Person supplying the services may exercise the option to ascertain the value in terms of clause (b) for a financial year and such option shall not be withdrawn during the remaining part of that financial year.

Option no 2

- (b) At the **option of the supplier of services**, the value in relation to the supply of foreign currency, including money changing, shall be deemed to be-
- (i) 1% of the gross amount of currency exchanged for an amount up to Rs.1,00,000, subject to a minimum amount of Rs.250 ;

- (ii) Rs.1000 and $\frac{1}{2}$ % of the gross amount of currency exchanged for an amount exceeding Rs.1,00,000 and up to Rs.10,00,000 ; and
- (iii) Rs.5500 and $\frac{1}{10}$ %. of the gross amount of currency exchanged for an amount exceeding Rs.10,00,000, subject to a maximum amount of Rs.60,000.

Air Travel Tickets

- (3) The value of the supply of services in relation to booking of tickets for travel by air provided by an air travel agent shall be deemed to be an amount calculated at the rate of **5 % of the basic fare in the case of domestic bookings,** and **10 % of the basic fare in the case of international bookings** of passage for travel by air.

Note 1 : —**basic fare** means that part of the air fare on which commission is normally paid to the air travel agent by the airlines.

Second Hand Goods

(5) Where a taxable supply is provided by a person dealing in buying and selling of second hand goods i.e., used goods as such or after such minor processing which does not change the nature of the goods **and** where no input tax credit has been availed on the purchase of such goods,

- the value of supply shall be the **difference between the selling price and the purchase price** and where the value of such supply is negative, it shall be ignored:

Repossessed goods:

The purchase value of goods repossessed from a defaulting borrower, who is not registered, for the purpose of recovery of a loan or debt shall be deemed to be the purchase price of such goods by the defaulting borrower reduced by **5 %** points for every quarter or part thereof, between the date of purchase and the date of disposal by the person making such repossession.

- (6) 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.
- (7) The value of taxable services provided by such class of service providers as may be notified by the Government, on the recommendations of the Council, as referred to in paragraph 2 of Schedule I of the said Act between distinct persons as referred to in section 25, where input tax credit is available, shall be deemed to be NIL.

Rule 33

Value of supply of services in case of pure agent

- Notwithstanding anything contained in the provisions of this Chapter, 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.

Note 1 : For the purposes of this rule, the expression “pure agent” means a person who-

- (a) enters into a contractual agreement with the recipient of supply to act as his pure agent to incur expenditure or costs in the course of supply of goods or services or both;
- (b) **neither intends to hold nor holds any title** to the goods or services or both so procured or supplied as pure agent of the recipient of supply;
- (c) **does not use for his own interest** such goods or services so procured; and
- (d) **receives only the actual amount incurred to procure such goods or services** in addition to the amount received for supply he provides on his own account.

Example

Note 1 : 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 the Registrar of Companies. The fees charged by the Registrar of Companies for the 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.

Rule 34

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

- (1) The rate of exchange for determination of value of **taxable goods** shall be the applicable rate of exchange as notified by the Board under section 14 of the Customs Act, 1962 for the date of time of supply of such goods in terms of section 12 of the Act.
- (2) (2) The rate of exchange for determination of value of **taxable services** shall be the applicable rate of exchange determined as per the generally accepted accounting principles for the date of time of supply of such services in terms of section 13 of the Act.

Rule 35

- . Value of supply inclusive of integrated tax, central tax, State tax, Union territory tax
- Where the value of supply is inclusive of integrated tax or, as the case may be, central tax, State tax, Union territory tax, the tax amount shall be determined in the following manner, namely,-

Tax amount = (Value inclusive of taxes X tax rate in % of IGST or, as the case may be, CGST, SGST or UTGST) ÷ (100+ sum of tax rates, as applicable, in %)

- Thanks
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