

B.COM(Hons.) 3rd Year

GOODS & SERVICES TAX

week 1 : Value of Supply

topic : - Introduction to Value of Supply

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9

CHAPTER

VALUE OF SUPPLY

LEARNING OBJECTIVES

After studying this chapter, you shall be able to understand the following:

- General Valuation Mechanism
- Notified Supplies Valuation
- Value of Taxable Supplies
- Concept of Transaction Value
- Inclusions in Transaction Value
- Treatment of Discount in Transaction Value
- Determination of Value in Special Cases
 - Money Changing Services
 - Air Travel Agent
 - Life Insurance Services
 - Second Hand Goods

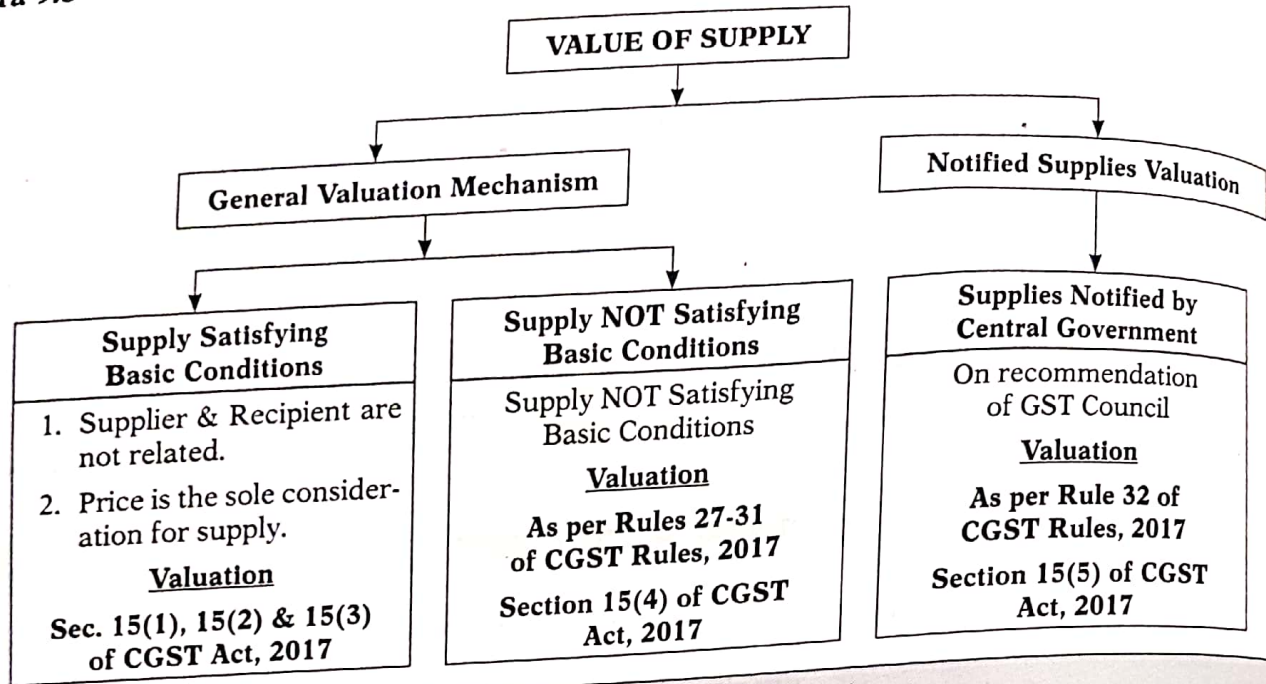
9.1 INTRODUCTION

In any fiscal statute, the determination of tax may be based on value of item or on some other basis (like quantity, length, number, square meter, etc.). When tax is determined as a percentage of value (expressed in monetary terms), it is called as ad valorem basis. Under GST laws, the tax is levied as a percentage of the value of supply, whether of goods or of services. In other words, GST is payable on ad valorem basis. Therefore, it becomes important to know the mechanism for determining the value of a supply on which tax is to be paid. This chapter describes the statutory provisions, related rules and their analysis, which are given in CGST Act and CGST Rules.

9.2 METHODS OF CALCULATION OF VALUE OF TAXABLE SUPPLY (AN OVERVIEW):

The Section 9 of CGST Act, 2017 gives the basis of charge. As per this section, the GST shall be levied on the basis of taxable Supply of goods, services determined under section 15. The section 15 contains the provisions of "Value of Taxable Supply". The following is the overview of these provisions.

Section 15(1)	Transaction Value is the value of Supply
Section 15(2)	Inclusions in the Value of Supply
Section 15(3)	Discount not to be included
Section 15(4)	When section 15(1) is not applicable (Rule 27 to Rule 31)
Section 15(5)	About notified Services/Goods (Rule 32)



It may be noted that

1. The provisions of value of supply under CGST Act have also been made applicable to IGST Act vide section 20 of the IGST Act.
2. In most of the cases of regular normal trade, the invoice value is the taxable value. However, when value cannot be determined under section 15 and for certain specific transactions, the value is determined using CGST Rules, 2017.

CGST Rules at a Glance

The Chapter IV of CGST Rules Contains the following in relation with Valuation.

Rule 27	Where consideration is not wholly in money
Rule 28	Supply between distinct or related persons.
Rule 29	Supply through an Agent.
Rule 30	Value based on Cost
Rule 31	Residual Method

9.3 VALUE OF TAXABLE SUPPLY [SECTION 15(1)]

As per section 15(1) of CGST Act, 2017, "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."

The following are the important inferences:

(a) There are two basic conditions for application of section 15(1):

1. Supplier and recipient are not related.
2. The price is the sole consideration for the supply.

(b) If these two conditions are met, then

Value of Supply	=	Transaction Value [Price paid or payable]	+	Certain Elements [Given in Section 15(2)]
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The price payable refers to price that is agreed to be paid for the goods/services.

Meaning of Relevant Terms

Transaction Value: The transaction value refers to the price which is the price actually paid or payable for the supply of goods and/or services where the supplier and the recipient of the supply are not related and the price is the sole consideration for the supply. It includes any amount which the supplier is liable to pay but which has been incurred by the recipient of the supply.

Related Persons [Explanation to Section 15]: The persons shall be deemed to be "related persons" The term "related persons" is defined by explanation to section 15. By virtue of this definition, person shall be deemed to be "related person" 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 25% 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;

The Clause (b) of the explanation prescribes that person also includes legal persons. As per clause (c), the 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.

9.3.1 Inclusions in Transaction Value [Section 15(2)]

When the value of supply is assessed on the basis of transaction value, the taxable value includes certain elements in addition to price actually paid or payable for the supply. These ingredients are as follows:

- (i) Any taxes, duties, Cesses, fees and charges except GST. [Refer Example 9.1]
- (ii) Any payments made to third parties by the recipients on behalf of the supplier in relation to the supply. [Refer Example 9.2]
- (iii) The incidental expenses, such as, commission and packing, charged by the supplier or anything else done by the supplier in relation to the supply at the time of or before the delivery of goods or supply of services. [Refer Example 9.3]
- (iv) Interest, late fee and penalty for delayed payment of any consideration for any supply and
- (v) Any subsidy directly linked to the price excluding subsidies provided by the Government (Central/ State). [Refer Example 9.4]

Valuation Methodology for ascertainment of GST on TCS under Income-tax Act, 1961

For the purpose of determination of value of supply under GST, tax collected at source (TCS) under section 206C of the Income-tax Act, 1961 is not includible as it is an interim levy not having the character of tax. [Circular No. 76/50/2018 GST dated 31-12-2018 amended vide corrigendum dated 7-3-2019]

Example 9.1: (Treatment of Municipal and other taxes)

The list price of the goods is ₹ 40,000 (exclusive of taxes). The tax levied by Municipal authority is ₹ 2,000. The CGST/SGST chargeable on the goods is @ 18%. Now, since the value includes any taxes, duties (other than GST), etc., the Value of Supply shall be ₹ 42,000 in the given case. Hence, GST payable will be 18% of ₹ 42,000 i.e. ₹ 7,560.

Example 9.2: (Payment on behalf of supplier)

Chitra Advertisers conceptualized and designed the advertising campaign for a new product launched by HLL for a consideration of ₹ 8,00,000. Chitra Advertisers had to pay ₹ 40,000 to Massom Limited. It has been agreed between the parties that HLL will discharge this ₹ 40,000 liability of Chitra Advertisers. The price of ₹ 8,00,000 has been agreed upon after consideration of this additional payment to be made by HLL directly to Massom Limited on behalf of Chitra Limited. As per section 15(2), this direct payment to third party on behalf of supplier by the recipient has to be added to the transaction value. Therefore in this case the value of supply shall be aggregate of ₹ 8,00,000 and ₹ 40,000 i.e. ₹ 8,40,000.

Example 9.3 : (Treatment of incidental expenses)

Arun of Delhi supplied 50 tons of Chemical to Barun of Kolkata at the rate of ₹ 4,000 per ton. Besides he charged freight ₹ 16,000, packing charges ₹ 7,000, weighing charges ₹ 2,500 and inspection charges ₹ 8,000. **As per Section 15(2)(iii)**, the incidental expenses are also included in value of Supply. Therefore, the value of Supply will be calculated as follows:

	Amount (₹)
(a) 50 tons of Chemical (₹ 4,000 × 50)	2,00,000
(b) Freight	16,000
(c) Packing charges	7,000
(d) Weighing charges	2,500
(e) Inspection charges	8,000
Value of Supply of 50 tons of chemical	2,33,500

Example 9.4: (Subsidy linked to price)

Chhaya Enterprises has quoted the price of ₹ 66,000 (exclusive of taxes) for sale of a machine. The Chhaya Enterprises has received a subsidy on sale of such goods from Government at ₹ 4,000. The benefit of this subsidy has been passed by the supplier in the above price of ₹ 66,000. As per section 15(2), this subsidy will not be added in the value of supply as it has been received from the Government. Therefore the value of supply will remain at ₹ 66,000. **If this subsidy had been received from a non-government agency**, then such subsidy will be included in the transaction value. The value of supply would then be ₹ 70,000.

9.3.2 Exclusion of Discount from Transaction Value

As per section 15(3), "The value of the supply shall not include any discount which is given:

- 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
- after the supply has been effected, if
 - 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
 - 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."

ANALYSIS OF SECTION 15(3)

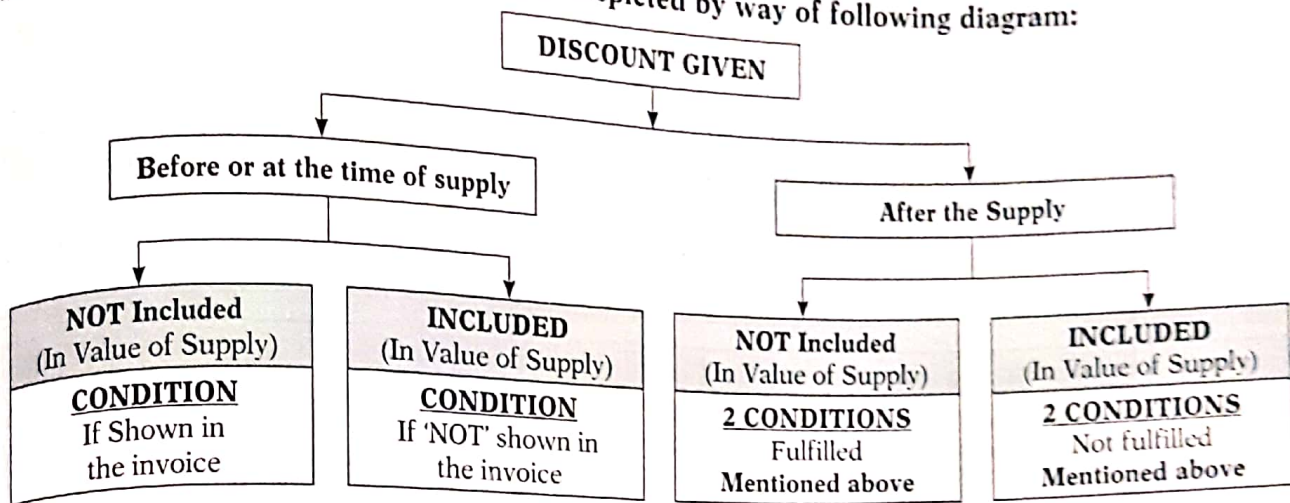
The analysis of above provision deciphers the following:

- If discount is duly recorded in the invoice either before/ at the time of supply, discount is excluded (means not included in the value of supply). [Refer Examples 9.5 and 9.6]
- If the discount is provided after the supply is effected, then discount may still be excluded from the value of supply, if following conditions are fulfilled:
 - Such discount is given under an agreement entered into at (or before) the time of such supply and specifically linked to relevant invoices; and

- b. 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.

[Refer Example 9.7]

The provisions relating to discount can be depicted by way of following diagram:



Example 9.4A : (Comprehensive Illustration on Subsidy)

Reliance ADAG Group owns an institute Reliance Education Limited (REL). The Company imparts certificate courses in the field of animation and film editing. The institute is situated in Andheri, Mumbai. The REL fees for the course offered are ₹ 1,70,000 per student for the entire course. However, this course is subsidized by the following:

Particulars	Amount (₹) per student
(a) Subsidy from Maharashtra Government	10,000
(b) Subsidy from Cine Association, Mumbai	15,000
(c) Subsidy from Warren Brothers of Hollywood	8,000
(d) Subsidy from US Government	17,000

The benefit of all the four types of subsidies is passed on to the student. Consequently, REC charges ₹ 1,20,000 plus GST per student.

Find out:

- Value of Taxable Supply as per Section 15.
- GST Payable if rate of GST is 18%.
- Amount receivable from the students of Reliance Education Limited (REL).

Solution:

- Value of Taxable Supply:** The Subsidies given by different institutions are directly linked to the price charged by REL. As per section 15(2)(v), the subsidy provided by Central/State Government are excluded. Therefore, the subsidy from Maharashtra Government will not form part of value of Supply. But, the other three subsidies would be included.

Determination of Value of Supply (Per Student):

Particulars	Amount (₹)
(a) Transaction Value	1,20,000
(b) Subsidy from Maharashtra Government	Not includible
(c) Subsidy from Cine Association, Mumbai	15,000
(d) Subsidy from Warren Brother of Hollywood	8,000
(e) Subsidy from US Government	17,000
Value of Taxable Supply	1,60,000

(ii) **GST Payable:**

CGST Payable @ 9% of ₹ 1,60,000 = ₹ 14,400

SGST Payable @ 9% of ₹ 1,60,000 = ₹ 14,400

(iii) **Amount to be Collected from Students:**

= Transaction Value (₹ 1,20,000) + GST (₹ 28,800)

= ₹ 1,48,800

Example 9.5: (Discount allowed at the time of supply)

Shubham Enterprises has sold goods with list price ₹ 5,000 to a customer. A discount of 20% is given to the customer, which is reflected in invoice, to arrive at the final price of ₹ 4,000. Since the discount is allowed at the time of supply and is shown in the invoice, the taxable value is ₹ 4,000.

Example 9.6: (Discount allowed at the time of supply)

A trader has provided the following information in his invoice dated 12th February 2018

1200 pieces of chairs @ ₹ 540 per piece	₹ 6,48,000
Less: Trade Discount @ 15%	₹ 97,200
Net Price (Taxes to be added)	₹ 5,50,800

In this case, the value of supply will be ₹ 5,50,800 as discount is shown in the invoice and has been allowed at the time of supply.

Example 9.7: (Discount not known at the time of supply)

Reliance Mega Mart has appointed dealers for promotion and sale of their products. The company has announced turnover discount after review of dealer performance during the year. This discount will be given on cash-back mode. Since, the discounts were not known at the time of delivery of supply of goods, they cannot be shown in the invoices. Therefore, the discount will not be deducted from the taxable value of the goods.

The discount will not be included in the value of taxable Supply if the following two conditions are satisfied:

- Such discount is given under an agreement entered into at (on or before) the time of such Supply and specifically linked to relevant invoices; and
- 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.

Example 9.8 : (Comprehensive problem on Section 15(1)(2)&(3))

India Machine Private Limited, Delhi supplies plastic granulation machine to Shobraj Plastics Ltd., Delhi. It furnishes the following details in respect of such supply:

Particulars	Amount (₹)
List price of the machine (exclusive of taxes and discounts)	1,00,000
Corrugated Boxes used for packing the machine (not included in price above)	1,000
Subsidy received from Delhi Government on sale of such machine (considered in price above)	5,000
Discount @ 2% is offered on list price of the machine (recorded in the invoice for the machine)	

Determine the value of taxable supply made by India Machine Private Limited.