

B.COM (Hons.) 3rd Year  
GST & Customs Law

week 3: Value of Supply (Unit 2)

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note: Last date of assignment submission this  
week.

**Subsequent Supply of Lottery:**

It is important to note that on subsequent supply of lottery tickets by an authorised lottery distributor to the retail agent, GST will not be payable subject to certain conditions, which are specified in box given below.

**Tax Implications in Case of Lottery**

- (1) The Supply of lottery is covered under Supply of Goods.
- (2) In exercise of power given to Central Government under section 9(3) of CGST Act, 2017, the Central Government has notified "Supply of Lottery" as one of the supply of Goods on which RCM is applicable. It means the recipient is liable to pay GST.
- (3) As per Notification No. 2/2017-CT dated June 28, 2017, **the Supply of lottery is exempt from GST** if the following conditions are satisfied:
  - (a) The Supplier of lottery is any person other than Government/Union territory/Local authority.
  - (b) The appropriate GST was paid when lottery was supplied by Government/Union territory/Local authority to the authorized distributor.

**Example 9.16 ( Subsequent Supply of Lottery)**

Kerala Government has issued "Golden Jackpot lottery" tickets to its distributor "Vigneshwara Lottery". The GST has been paid by distributor under Reverse Charge Mechanism (RCM). Later on, "Vigneshwara Lottery" distributes some lottery tickets to one of its retail agent. Comment on applicability of GST on the subsequent Supply of lottery by the distributor.

**Solution:**

This Supply of lottery tickets by distributor to retail agent fulfils the conditions of exemption given in Notification No.2/2017, dated June 28, 2017. Therefore, any subsequent sale of lottery tickets by "Vigneshwara Lottery" to any person will be exempt from GST. In other words, on Supply of lottery tickets to any person by "Vigneshwara Lottery", GST is not payable.

**9.5.2 Value of supply in case of betting, gambling & horse racing:**

As per sub-rule (3) of Rule 31A, the value of Supply of actionable claim in the form of chance to win in betting, gambling of horse racing in a race shall be 100% of the face value of the bet or the amount paid into the totalisator.

**9.6 VALUE OF NOTIFIED SUPPLIES [SECTION 15(5)]**

As per section 15(5), *"notwithstanding anything contained in sub-section (1) or sub-section (4), the value of such supplies as may be notified by the Government on the recommendations of the Council shall be determined in such manner as may be prescribed."*

The section has an over-riding effect on section 15(1) and 15(4). It means in case of any dispute section 15(5) will prevail over sub-sections (1) and (4). Hence, in respect of certain notified supplies also, the value will be determined as stipulated in the rules for valuation. These rules have been explained in detail in Para 9.4.

**9.7 DETERMINATION OF VALUE IN RESPECT OF CERTAIN SUPPLIES**

As per Rule 32(1), 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.



The following are the related sub-rules:

Sub-Rule	Category	Supply
32(2)	Service	Money Changing Services (optional Method)
32(3)	Service	Air Travel Agent (Optional Method)
32(4)	Service	Life Insurance Business (Optional Method)
32(5)	Goods	Dealer of second Hand Goods (Optional)
32(6)	Services and/or Goods	Tokens/Vouchers/Coupons/Stamps (other than Postage Stamps) redeemable against a supply of goods and/or services
32(7)	Services	Services by notified class of service providers

### 9.7.1 Services in relation to purchase or sale of foreign currency, including money changing [Rule 32(2)]

Rule 32(2)(a) of the CGST Rules, 2017 provides the manner of determination of the value of taxable service so far pertains to purchase or sale of foreign currency, including money changing. **There are two options given under rule 32(2):**

#### OPTION I

On the basis of RBI reference Rate [Clause (a) of Rule 32(2)]

#### OPTION II

On the basis of Gross amount of currency exchanged [Clause (b) of Rule 32(2)]

**Option once exercised to apply for that financial year cannot be withdrawn:** A person supplying the services in relation to purchase or sale of foreign currency, including money changing may exercise the Option II, in order to ascertain the value for a financial year and such option shall not be withdrawn during the remaining part of that financial year. Hence, It is clear that:

- ◆ Option I is a default option, for which no adoption of option is required.
- ◆ Option II is a voluntary option to be adopted at the discretion of supplier.
- ◆ If option II is exercised, then such option shall not be withdrawn during the remaining part of that financial year.

#### OPTION I

On the basis of RBI reference Rate [Clause (a) of Rule 32(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 (INR)

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.

**Value of Supply** = (Difference between RBI reference rate & Actual rate) × Total units

#### Example 9.17 (RBI reference Rate is available)

Mr. Dhirender who has entered into a roll over contract approached ICICI Bank for selling US \$40,000 at the rate of ₹ 64 per US \$. RBI reference rate for US \$ is ₹ 65 at that time. However, rate of exchange declared by CBIC for the day is ₹ 66 per US\$. Now, since RBI reference rate is available, the value

of supply of service will be equal to the difference in the selling rate and the Reserve Bank of India reference rate for that currency at that time, multiplied by the total units of currency. Hence, the value of taxable service will be equal to the following:

$$= (\text{RBI reference rate for \$} - \text{Selling rate for \$}) \times \text{Total units}$$

$$= ₹ (65 - 64) \times \$ 40,000 = ₹ 40,000$$

**(b) Where the RBI reference rate for a currency is not available**

Where the Reserve Bank of India reference rate for a currency is not available, the value shall be 1% of the gross amount of Indian Rupees provided or received by the person changing the money. [Refer example 9.18]

**Value of Supply** = 1% of Indian Rupees provided or received.

**Example 9.18 (RBI reference Rate is Not available)**

Maharaja Ltd. exported some goods to Johnson Inc. of USA. It received US \$ 2,500 as consideration for the same and sold the foreign currency @ ₹ 62 per US dollar. At that time, RBI reference rate for US dollars is not available. In this case, the value shall be 1 % of the gross amount of Indian Rupees provided or received, by the person changing the money. Hence, in the given case, value of taxable service would be as follows:

$$\text{Value of Supply} = 1\% \text{ of } (₹ 62 \times 2,500) = ₹ 1,550$$

**(c) Where neither of the currencies exchanged is Indian Rupee**

Where neither of the currencies exchanged is Indian Rupees, the value shall be equal to one per cent 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. The method may be simplified in the following steps:

<b>Step-I</b>	<b>Find out value converted into Indian Rupees</b> Value 1= First Currency converted into Indian Currency Value 2= Second Currency converted into Indian Currency
<b>Step-II</b>	<b>Take lesser of the two amounts as calculated in Step I</b> Lower of Value 1 and Value 2
<b>Step-III</b>	<b>Find Value of Supply:</b> <b>Value of Supply</b> = 1% of value determined in Step II

**Example 9.19 (Neither of the currencies exchanged is Indian Rupee)**

The US \$ 9,000 are converted into UK £ 4,500. The RBI reference rate at that time for US \$ is ₹ 63 per US dollar and for UK £ is ₹ 101 per UK Pound. The value of supply will be calculated as follows:

<b>Step-I</b>	<b>Find out value converted into Indian Rupees</b> Value 1 = US Dollar converted into Indian Currency = US \$ 9,000 @ ₹ 63 = ₹ 5,67,000 Value 2=UK Pound converted into Indian Currency = UK £ 4,500 @ ₹ 101 = ₹ 4,54,500
<b>Step-II</b>	<b>Take lesser of the two amounts as calculated in Step I</b> Lower of ₹ 5,67,000 or ₹ 4,54,500 i.e. ₹ 4,54,500
<b>Step-III</b>	<b>Value of Supply</b> = 1% of value determined in Step II = 1% of ₹ 4,54,500 = ₹ 4,545



**OPTION II**

On the basis of Gross amount of currency exchanged [Clause (b) of Rule 32(2)]

As per Rule 32(2)(b) of CGST Rules, 2017, 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 the following:

	If gross amount of currency exchanged is	Value of Supply
(i)	up to ₹ 1,00,000	1% of gross amount of currency (GAC) exchanged OR ₹ 250 <b>Whichever is Higher</b>
(ii)	Exceeding ₹ 1,00,000 but up to ₹ 10,00,000	₹ 1,000 <b>Plus</b> 0.5% of gross amount of currency exchanged for an amount in excess of ₹ 1,00,000
(iii)	Exceeding ₹ 10,00,000	₹ 5,500 plus 0.1% of gross amount of currency exchanged for an amount in excess of ₹ 10,00,000 OR ₹ 60,000 <b>Whichever is Lower</b>

**Example 9.20 [Compounding Scheme for Money Changer]**

Transcorp International Limited (TIL) is located at Barakhamba Road, New Delhi. The Company Provides services in relation to money changing. The company sold US \$ 20,000 at the rate of ₹ 65 per US\$. The RBI reference rate for that day for US\$ is ₹ 64.50. TIL has opted for compounding scheme as per Rule 32(2)(b). The value of Supply shall be calculated as follows:

	Amount
(a) No. of units exchanged	US \$ 20,000
(b) RBI reference rate	(₹) 64.50
(c) Actual rate of exchange	(₹) 6500

Gross amount of currency exchanged (GAC)

$$\text{GAC} = 20,000 \times ₹ 65 = ₹ 13,00,000$$

Value of Supply	Amount (₹)
1. Up to ₹ 10,00,000	5,500
2. GAC in excess of ₹ 10,00,000 [i.e. (13,00,000-10,00,000) × 0.1%]	300
<b>Value of taxable supply</b>	<b>5,800</b>

### 9.7.2 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 [Rule 32(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 at the rate of 10% of the basic fare in the case of international bookings of passage for travel by air. For this purposes, the expression "basic fare" means that part of the air fare on which commission is normally paid to the air travel agent by the airlines. The rule may be summarized in the form of following table.

1.	In the case of domestic bookings (by air)	5% of the basic fare
2.	In the case of international bookings (by air)	10% of the basic fare

**Example 9.21 (Air Travel Agent)**

Mr. Vinod is an air travel agent. For the month of March 2018, he has collected ₹ 60,00,000 (Basic Fare for Domestic Booking) and ₹ 90,00,000 (Basic Fare for International Booking). The value of supply shall be ₹ 12,00,000 (i.e. aggregate of 5% of ₹ 60,00,000 and 10% of ₹ 90,00,000).

**9.7.3 The value of supply of services in relation to life insurance business shall [Rule 32(4)]**

The insurance company charges premium from the policy holder. This premium may be towards the risk premium, allocation for investment or for saving on behalf of the policy holder. **When the entire premium paid by the policy holder is towards the risk cover in life insurance, then this rule is NOT APPLICABLE.** Because in that case the amount of premium charged reflects the value of supply.

**Example 9.22 (When Rule 32(4) is not applicable)**

A life insurance company has collected Risk Premiums aggregated to ₹ 230 lakhs and the entire premium is for risk cover only. In this case the value of supply of service is ₹ 230 lakhs and there is no need to apply any specific rule.

**When premium paid is not for the risk cover exclusively**

In this case, the value of supply of service by insurance company has to be calculated as per Rule 32(4). As per this rule, the value of supply of services in relation to life insurance business shall be calculated as follows:

(a)	Where the amount allocated for investment, or savings on behalf of the policy holder is intimated to the policy holder at the time of supply of service	The gross premium charged from a policy holder <b>reduced by</b> the amount allocated for investment, or savings on behalf of the policy holder
(b)	In case of single premium annuity policies other than (a),	10% of single premium charged from the policy holder
(c)	In all other cases	<b>25%</b> of the premium charged from the policy holder in the <b>first year</b> <b>and</b> <b>12.5%</b> of the premium charged from the policy holder in <b>subsequent years</b> .

[Refer Illustration 9.10]

**9.7.4 The value of taxable supply provided by a person dealing in buying and selling of second hand goods****Statutory Provisions****Rule 32(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.*

**Proviso to Rule 32(5)**

*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*

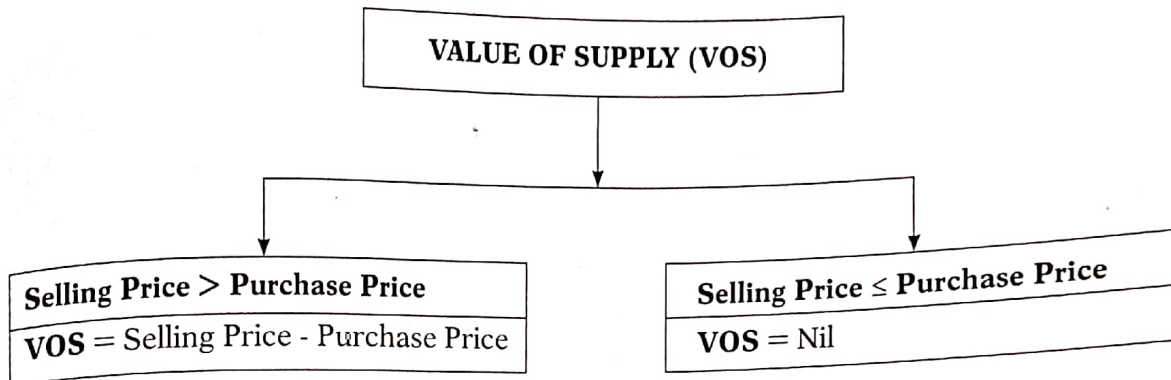


defaulting borrower reduced by five percentage points for every quarter or part thereof, between the date of purchase and the date of disposal by the person making such repossession.

### Analysis of Rule 32(5)

The purpose of rule 32(5) is to avoid double taxation as the goods should not be taxed again when they re-enter in the supply chain as second hand goods. The reason being the GST must have already been paid, at the time of original sale. This rule basically covers the following issues:—

1. **Buying and Selling of second hand goods:** In respect of second hand goods, the value of Supply shall be the difference between the selling price and the purchase price (i.e. the margin). If the selling price is less than the purchase price, the value of taxable Supply is zero.



### Conditions for applicability of this Rule

The rule 32(5) is applicable if the following conditions are satisfied:

- (1) The taxable Supply is provided by a person who deals in buying and selling of second hand goods. The Goods may be sold after minor processing which does not change the nature of goods.
- (2) The Input tax Credit has not been availed on the Purchase of such goods.

### Example 9.23

Carnation Limited deals in buying and selling second hand goods. It has purchased a second hand washing machine for ₹ 7,000. After some minor repairs and changes, the same was sold at ₹ 11,200. No ITC has been availed on the purchase of such goods. Find out value of Supply as per Rule 32(5) of CGST Rules, 2017.

### Solution

As per Rule 32(5), the value of Supply is the difference between the selling price and the purchase price. Therefore, the value of Supply shall be as follows:

$$\text{Value of Supply} = ₹ 11,200 - ₹ 7,000 = ₹ 4,200$$

### 2. Goods Repossessed from defaulting Borrower

Sometimes, the goods are repossessed from the borrower due to default made by him in repayment of loan or debt. The proviso to Rule 32(5) provides following conditions:—

- (a) The goods are repossessed from a defaulting borrower.
- (b) Such defaulting borrow is not registered under GST.
- (c) Goods are repossessed for the purpose of recovery of loan or debt.

If all the above three conditions are satisfied, then the value of such Supply shall be calculated on the basis of purchase value of goods as reduced by percentage points based on time period, which is as follows:—

	Amount
Purchase Price (by defaulting Borrower)	XXX
Less: 5% points for every quarter (or part thereof) between the date of purchase and the date of disposal by the person making such repossession.	XXX
<b>Purchase price for Value of Supply</b>	<b>XXX</b>

If the defaulting borrower is registered, the repossessing lender agency will discharge GST at the supply value without any reduction from actual/notional purchase value.

### Example 9.24

Consider the following information:

Original Purchase Price (On 27th September, 2017)	₹ 2,00,000
Date of Repossession	11th January, 2018
Date of disposal after Repossession	8th April, 2018
Selling Price	₹ 2,80,000

Find out the value of Taxable supply.

#### Solution:

<b>Determination of number of Quarters for reduction percentage</b>	As per section 2(92) of the CGST Act, 2017, "Quarter" shall mean a period comprising three consecutive calendar months, ending on the last day of March, June, September and December of a calendar year.
<b>Year 2017</b> 2 quarters (from purchase)	
<b>Year 2018</b> 2 quarters (up to disposal)	
<b>Total</b> 4 quarters	
<b>Amount deductible for 4 Quarters = 20% of Purchase price.</b>	

<b>Determination of Value of Taxable Supply</b>	₹
Selling Price	2,80,000
<b>Less:</b> Original Purchase Price	2,00,000
(-) 20% normal wear & tear deduction. (5% per quarter for 4 Quarters)	(40,000)
<b>Value of Supply</b>	<b>1,20,000</b>

### 9.7.5 The value of a token, or a voucher, or a coupon, or a stamp (other than postage stamp) [Rule 32(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.

#### Example 9.25 [Based on Rule 32(6)]

Mr. and Mrs. Sharma purchased 20 gift vouchers of ₹ 250 each from "Maya Toys" and gives them as return gifts to children for their daughter's birthday party. Now, in this case the value of supply would be the money value of goods redeemable against the voucher. Thus, the value will be ₹ 5,000 (i.e. 20 vouchers @ ₹ 250 each)

#### When Vouchers are issued at discount:

Sometimes, the vouchers are issued at discount. It means the money value of goods or services redeemable against the vouchers is more than the price at which they have been issued for.



**Example 9.26**

Mr. A purchases a voucher of ₹ 10,000 from Big Bazar at a discount of 8% i.e. at ₹ 9,200. The voucher is redeemable against purchase of any article up to ₹ 10,000 from Big Bazar outlet at V3S Mall, Laxmi Nagar, Delhi. Now, since the money value of goods against the voucher is ₹ 10,000, the value of taxable Supply shall be ₹ 10,000 as per Rule 32(6).

**9.7.6 The value of taxable services provided by such class of service providers as may be notified by the Government [Rule 32(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 CGST Act between distinct persons (as referred to in section 25), where input tax credit is available, shall be deemed to be NIL.

**9.8 VALUE OF SUPPLY OF SERVICES IN CASE OF PURE AGENT [RULE 33]**

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) **Acts as Pure Agent:** 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. **For example:** When a CA pays tax or other payments to the government, such payments are made on behalf of his client. In other words, CA is acting as pure agent of his client.
- (ii) **Amount separately indicated in invoice:** 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. **For example:** In the example of C.A. given in first point, suppose the amount to be charged comprises ₹ 4,00,000 as consultancy and ₹ 1,20,000 towards taxes paid on behalf of client. Now, in order to avail the benefit of this rule, the consultancy charges and taxes paid should be separately shown in the invoice issued by the C.A.
- (iii) **Services supplied on his own are in addition to Pure Agent Service:** 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.

**Meaning of "Pure Agent" [As per Explanation to Rule 33]**

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 9.27 [As given in CGST Rules, 2017]**

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.



**Example 9.28**

Mr. X owns a vintage car "Rolls Royce, 1942 Model" purchased by his grandfather. He approaches a vintage car dealer to sell the same in lieu of commission @ 5% of sale price realised. In addition, advertisement expenses incurred by dealer will be chargeable in invoice. The dealer raised the following bill.

Commission on Sales ( ₹ 1.8 crores @ 5%)	9,00,000
<b>Add</b> Advertisement expenses	
Domestic	29,000
International	91,000
<b>Total Amount</b>	<b>10,20,000</b>

Mr. X contends to apply GST rate on ₹ 9,00,000 only. Comment in the light of parameters of Rule 33 of CGST Rules, 2017.

**Solution:**

As per rule 33, the payments made by the pure agent on behalf of the recipient of Supply shall be excluded from the Value of Supply, subject to specific conditions. In the given case, the advertisement expenses paid by the dealer are part of service and are not in addition to the services he supplies. Therefore, GST is chargeable on total amount of bill including advertisement expenses as dealer did not pay it as a pure agent. Hence, value of Supply is ₹ 10,20,000 at which GST is payable.

### 9.9 RATE OF EXCHANGE OF CURRENCY, OTHER THAN INDIAN RUPEES, FOR DETERMINATION OF VALUE [RULE 34]

When the consideration, in lieu of Supply of goods or services or both, is received or receivable in foreign Currency, then a question arises about the rate of exchange of currency to be applied. The rule 34 provides the answer to this question. The following are the provisions in this regard:

**(1) In case of Supply of Goods:**

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) for the date of time of Supply of such goods.

**(2) In case of Supply of services:**

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 (GAAP) for the date of time of Supply of such services. It means the exchange rate adopted for the purpose of accounting can be followed for the purpose of GST in case of supply of services.

### 9.10 VALUE OF SUPPLY INCLUSIVE OF INTEGRATED TAX, CENTRAL TAX, STATE TAX, AND UNION TERRITORY TAX [RULE 35]

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:-

$$\text{Tax amount} = \text{Value inclusive of GST} \times \frac{\text{GST Rate in \%}}{(100 + \text{GST rate in \%})}$$

(Value inclusive of taxes  $\times$  tax rate in % of IGST or, as the case may be, CGST, SGST or UTGST)  $\div$  (100 + sum of tax rates, as applicable, in %)



**Example 9.29 [Based on Rule 35]**

Suppose "KMB Consultancy Services" have charged ₹ 2,78,716 from "Suresh Enterprises". The service is chargeable to GST @ 18%. The amount is inclusive of GST and Tax has not been shown separately. Then, as per rule 35, the tax will be calculated as follows:

$$\text{Tax amount} = \text{Value inclusive of GST} \times \frac{\text{GST Rate in \%}}{(100 + \text{GST rate in \%})} = ₹ 2,78,716 \times \frac{18}{(100 + 18)} = ₹ 42,516$$

**Example 9.30**

Flex Ltd. provides services pertaining to retail packing of goods. The Service includes waxing, retail packing, labelling, etc. On 28th May, 2018, the Company entered into an agreement with Hindustan Lever Limited (HLL) at total price of ₹ 8,00,000 (plus GST @ 18%) in respect of a particular consignment. The work will be completed within 2 months. HLL has paid ₹ 2,00,000 as an advance payment on the date of agreement itself. Find out the amount of GST included in such advance, in the light of provisions of Rule 35 of the CGST Rules, 2017.

**Solution**

Total amount of Advance	= ₹ 2,00,000
Rate of GST	= 18%
Value of Taxable Supply	= ₹ 2,00,000 $\frac{100}{118}$ = ₹ 1,69,492
Computation of GST Payable (Included in advance):	
CGST	= 9% of ₹ 1,69,492 = ₹ 15,254
SGST	= 9% of ₹ 1,69,492 = ₹ 15,254

**MISCELLANEOUS ILLUSTRATIONS ON VALUE OF SUPPLY****Illustration 9.1: [Based on Section 15(1), 15(2) and 15(3)]**

Calculate the value of Supply of Machine by a trader from the following particulars:

	Amount (₹)
Invoice price ( <i>Exclusive of taxes and payments mentioned below</i> )	55,000
Duty and Cess levied by Municipal Authority (Other than GST)	5,500
Insurance charges for dispatch of final product	275
Packing charges	1,200
Miscellaneous Incidental Expenses incurred by supplier before delivery	3,225
Subsidy from private trust ( <i>but not passed on to the buyer</i> )	3,000
Subsidy from NGO ( <i>Passed on to the buyer</i> )	2,000
Subsidy received from Government ( <i>Passed on to the buyer</i> )	6,000

You are required to determine the value considering the provisions of section 15 of CGST Act, 2017.

**Solution:**

**Determination of the value of Supply**

Particulars	Amount (₹)
Price of machine (As given)	55,000
(+) Duty and Cess levied by Municipal Authority (WN-1)	5,500
(+) Insurance charges for dispatch of final product (WN-2)	275
(+) Packing charges (WN-2)	1,200

Particulars	Amount (₹)
(+) Miscellaneous Incidental Expenses incurred by supplier (WN-2)	
Subsidy from private trust (WN-3)	3,223
(+) Subsidy from NGO (WN-4)	
Subsidy received from Government (WN-5)	2,994
<b>Value of Supply</b>	<b>67,200</b>

**Working Notes:**

- (1) As per section 15(2)(a), Transaction value includes any taxes, duties, Cesses, fees and charges except GST.
- (2) As per section 15(2)(c), Transaction value includes 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.
- (3) Since the benefit of subsidy has not been passed to the buyer, no question arises regarding its inclusion in transaction value of supply.
- (4) Since the subsidy has not been received from Government, it will be included in the transaction value as per section 15(2)(e).
- (5) As per section 15(2)(e), subsidies provided by the Government are not included in transaction value.

**Illustration 9.2 [Based on Rule 30]**

Mukesh Limited has supplied goods to Raman Limited. The two companies are related to each other and also the price is not the sole consideration. The open market price of these goods or of same kind and quality is not available. As per cost accounting standard-4, the cost of these goods to Mukesh Limited is ₹ 4,25,000. The accountant wants to record the sale at ₹ 4,25,000, since no other information is available. Comment

**Solution:**

Since the transaction does not satisfy the conditions of section 15(1), the value of supply of goods has to be based on CGST Rules, 2017. Moreover, the rules 27 to 29 are not applicable as open market price and price of same kind and quality are also not available. Therefore the value of supply will be based on rule 30.

As per rule 30, the value of supply will be 110% of the cost of production.

Value of supply = 110% of ₹ 4,25,000 = ₹ 4,67,500

**Illustration 9.3 (Interest Charges: Part of transaction Value)**

XYZ Limited has a policy of granting a credit period of 30 days in respect of those customers whose billed amount is more than ₹ 2,00,000. But, if the payment is not made within 30 days, then penal interest is charged @ 1% per month or any part. Mr. Gupta purchased goods worth ₹ 2,50,000 on the same terms. But, he made the payment 20 days after the expiry of said credit period. You are required to answer whether interest is includible in transaction value, in the following independent cases:

**Case I:** The interest ₹ 2,500 was duly paid by Mr. Gupta.

**Case II:** The interest ₹ 2,500 was waived by XYZ Limited.

**Solution**

This is a supply that is valued as per transaction value under section 15(1) as the price is the sole consideration for the supply and the supply is made to unrelated person. The concept of transaction value has been expanded to include certain elements like interest which are actually payable.

**Case I:** The interest ₹ 2,500 was duly paid by Mr. Gupta.

The transaction value will be ₹ 2,52,500 as interest paid will form part of transaction value.

**Case II:** The interest ₹ 2,500 was waived by XYZ Limited.

Since the interest has been waived, it is not payable. Therefore, the interest waived will not be added to the transaction value. Hence, the transaction value will remain at ₹ 2,50,000.



**Illustration 9.4 (Testing Charges: Part of transaction Value)**

Modern Foods Ltd. received an order for ₹ 6,00,000 from Mohan Bros. On request of the customer, the product was tested in a laboratory, which charged ₹ 5,000. Modern Foods charged these testing charges from the customer. Will they be added in the transaction value of supply of goods? Answer in the light of section 15?

**Solution**

Section 15(2) mandates the addition of certain elements to transaction value to arrive at taxable value. Clause (c) of section 15(2) specifies that amount charged for anything done by the supplier in respect of the supply at the time of or before delivery of goods or supply of services shall be included in taxable value.

Since Modern Foods Ltd. does the testing before the delivery of goods, the testing charges will be included in the taxable value. Therefore, the testing fee should be added to the price to arrive at taxable value of the consignment. Hence the transaction value will be ₹ 6,05,000.

**Illustration 9.5 (RBI reference Rate is NOT available)**

Aarushi Ltd. exported some goods to Wilson Inc. of USA. It received US \$ 9,000 as consideration for the same and sold the foreign currency @ ₹ 61 per US dollar. Compute the value of taxable Supply of service under rule 32(2)(a) of the CGST Rules, 2017 if

- (a) RBI reference rate for US dollars is ₹ 62 per dollar.
- (b) RBI reference rate for US dollars is not available.

**Solution:****(a) RBI Reference Rate is Available:**

For a currency, when exchanged from foreign to Indian Rupees, the value shall be equal to the difference in the selling rate, and the Reserve Bank of India reference rate for that currency at that time, multiplied by the total units of currency.

Hence, the value of taxable service will be equal to the following:

$$\begin{aligned}
 &= (\text{RBI reference rate for \$} - \text{Selling rate for \$}) \times \text{Total units} \\
 &= ₹ (62 - 61) \times \$ 9,000 \\
 &= ₹ 9,000
 \end{aligned}$$

The taxable value of supply of service shall be ₹ 9,000

**(b) RBI Reference Rate is NOT Available:**

As per rule 32(2)(a), Where the Reserve Bank of India reference rate for a currency is not available, the value of supply shall be 1% of the gross amount of Indian Rupees provided or received by the person changing the money.

Hence, in the given case, value of taxable service would be as follows:

$$\begin{aligned}
 &= 1\% \text{ of } (\text{Selling rate for \$} \times \text{Units of currency}) \\
 &= 1\% \text{ of } (₹ 61 \times \$ 9,000) = 1\% \text{ of } ₹ 5,49,000 = ₹ 5,490
 \end{aligned}$$

**Illustration 9.6 (Neither of the currencies exchanged is Indian Rupee)**

The US \$ 9,000 are converted into UK £ 6,200. The RBI reference rate at that time for US \$ is ₹ 70 per US dollar and for UK £ is ₹ 100 per UK Pound. Determine the value of supply.

**Solution:** The value of supply can be determined in the following manner.

Step I	Find out value converted into Indian Rupees
	Value 1= US Dollar converted into Indian Currency
	= US \$ 9,000 @ ₹ 70 = ₹ 6,30,000
	Value 2= UK Pound converted into Indian Currency
	= UK £ 6,200 @ ₹ 100 = ₹ 6,20,000

Step II	Take lesser of the two amounts as calculated in Step I Lower of ₹ 6,30,000 or ₹ 6,20,000 i.e. ₹ 6,20,000
Step III	Value of Supply = 1% of value determined in Step II = 1% of ₹ 6,20,000 = ₹ 6,200

**Illustration 9.7 [Based on Rule 32(2)(b)]**

Mohan, an authorised dealer in foreign exchange, exchanged the following Gross amount of currency (GAC) in the month of February 2018.

Case	I	II	III	IV	V	VI
GAC (₹)	20,000	80,000	2,50,000	10,00,000	20,00,000	7 Crores

Compute the Value of Supply of service assuming Mohan has exercised for option available for Valuation of Supply under Rule 32(2)(b) of the CGST Rules, 2017.

**Solution:**

**Computation of Value of Supply**

CASE	Gross Amount of Currency	Calculation	Value of Supply (₹)
I	₹ 20,000	1% of ₹ 20,000 i.e. ₹ 200 OR ₹ 250 <b>Whichever is Higher</b>	250
II	₹ 80,000	1% of ₹ 80,000 i.e. ₹ 800 OR ₹ 250 <b>Whichever is Higher</b>	800
III	₹ 2,50,000	(a) Up to ₹ 1,00,000 1,00,000 @ 1% ₹ 1,000 (b) Next ₹ 1,50,000 1,50,000 @ 0.5% ₹ 750	1,750
IV	₹ 10,00,000	(a) Up to ₹ 1,00,000 1,00,000 @ 1% ₹ 1,000 (b) Next ₹ 9,00,000 9,00,000 @ 0.5% ₹ 4,500	5,500
V	₹ 20,00,000	(a) Up to ₹ 1,00,000 1,00,000 @ 1% ₹ 1,000 (b) Next ₹ 9,00,000 9,00,000 @ 0.5% ₹ 4,500 (c) Balance ₹ 10,00,000 10,00,000 @ 0.1% ₹ 1,000	6,500
VI	₹ 7 Crores	(a) Up to ₹ 1,00,000 1,00,000 @ 1% ₹ 1,000 (b) Next ₹ 9,00,000 9,00,000 @ 0.5% ₹ 4,500 (c) Balance ₹ 690 Lakhs 690,00,000 @ 0.1% ₹ 69,000 <u>₹ 74,500</u> Max. Limit ₹ 60,000	60,000



**Illustration 9.8 [Air Travel Agent]**

Mr. A, an air travel agent, has provided the following details for March, 2018.

Particulars	Amount (₹)
Basic air fare collected for domestic booking of tickets	10,00,000
Basic air fare collected for international booking of tickets	35,00,000

Determine the value of taxable supply of services.

**Solution:**

Type of Booking	Calculation	Value of Supply
Domestic	₹ 10,00,000 @ 5%	50,000
International	₹ 35,00,000 @ 10%	3,50,000
<b>Total Value of Supply of services</b>		<b>4,00,000</b>

**Illustration 9.9 [Air Travel Agent]**

Dua travels have sold air tickets for transport of passengers from various domestic flights during the month of April, 2018. The total amount charged is ₹ 72,50,000 on the flight, out of which ₹ 7,20,000 is towards passenger taxes. Determine the value of taxable supply as per rule 32(3) of CGST Rules, 2017.

**Solution:**

Basic Fare = ₹ 72,50,000 – ₹ 7,20,000 = ₹ 65,30,000

Value of Supply = ₹ 65,30,000 × 5% = ₹ 3,26,500

**Illustration 9.10 [Services of Life Insurance Companies]**

LIC of India provides you the following information for the month of July 2018. You are required to compute value of supply of service as per rule 32(4) of CGST Rules, 2017:

- General policies:** Total premiums collected ₹ 12,000 lakhs (Out of which 1<sup>st</sup> 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)

**Solution:**

Type of Policy	Value of Supply (₹ in Lakhs)	
General	1 <sup>st</sup> Year Premium	
	25% of ₹ 5,000 Lakhs	1,250
	Subsequent Premium	
	12.5% of ₹ 7,000 Lakhs	875
		<b>2,125</b>
Risk Cover	Entire premium is for risk cover	<b>500</b>
Variable Insurance	Premium for Risk Cover (20% of ₹ 8,000 Lakhs)	<b>1,600</b>

**Illustration 9.11 [Second Hand Goods Dealer]**

'Fair Deal Car Palace' is a dealer of second hand cars, duly registered under GST laws. They have purchased a second hand car from a household for ₹ 3,50,000. An amount of ₹ 10,000 was spent on the repair and overhauling of the car. They also paid ₹ 40,000 for improvement of interiors of the car. The car is then sold to

## VALUE OF SUPPLY

another household buyer for ₹ 5,20,000. Determine the value of supply as per rule 32(5) of CGST Rules, 2017. Also calculate the tax if rate of GST is 28%.

**Solution:**

$$\text{Margin} = ₹ 5,20,000 - ₹ 3,50,000 = ₹ 1,70,000$$

$$\text{Value of Supply} = ₹ 1,70,000$$

$$\text{CGST} = ₹ 1,70,000 \times 14\% = ₹ 23,800$$

$$\text{SGST} = ₹ 1,70,000 \times 14\% = ₹ 23,800$$

### Illustration 9.12 [Second Hand Goods Dealer]

On 1<sup>st</sup> November, a machine has been taken on loan by Vimal from M/s XYZ. The purchase price of the machine was ₹ 5,00,000. Due to default in the payment of the loan, the machine was repossessed on 18<sup>th</sup> May 2018 and disposed of on 8<sup>th</sup> July 2018. Calculate the purchase price in the hands of M/s XYZ if:

**CASE A:** Vimal is unregistered Dealer

**CASE B:** Vimal is registered Dealer.

**Solution:**

**CASE A:** Vimal is unregistered Dealer

The Value of Supply as per Rule 32(5) shall be calculated in the following manner:

Purchase Price of Borrower (Vimal)	
(-) Reduction @ 5% for every Quarter or Part thereof [5,00,000 x 5% x 4 <sup>n</sup> ]	5,00,000
Purchase price in the hands of M/s XYZ	(1,00,000)
	4,00,000

# The four quarters have been determined as follows:

1-11-2017 to 31-12-2017 ; 1-1-2018 to 31-3-2018 ; 1-4-2018 to 30-6-2018 and 1-7-2018 to 8-7-2018

**CASE B: Vimal is Registered Dealer**

Since the defaulting borrower is registered, the repossessing lender agency will discharge GST at the supply value without any reduction from actual/ notional purchase price.

### Illustration 9.13 [Based on Rule 32(6)]

The parents of baby "Gunjan" have to give return gift to children at the time of the birthday party of their daughter. For this purpose, they purchased 50 gift vouchers of ₹ 500 each from "Kidoos Baby Junction", a registered person. Determine the value of supply for Kidoos Baby Junction.

**Solution:**

**Value of Supply** = Money value of goods redeemable against vouchers

$$= 50 \text{ Vouchers @ ₹ 500} = ₹ 25,000$$

### Illustration 9.14 [Based on Rule 35]

"Krishna Consultancy" have charged ₹ 2,57,600 from their client in respect of services provided in the month of January, 2018. The rate of GST is 12%. The amount ₹ 2,57,600 is inclusive of GST and Tax has not been shown separately in the invoice. Determine the amount of total Tax included in invoice, as per rule 35.

**Solution:**

$$\text{Tax amount} = \text{Value inclusive of GST} \times \frac{\text{GST Rate in \%}}{(100 + \text{GST rate in \%})} = ₹ 2,57,600 \times \frac{12}{(100 + 12)} = ₹ 27,600$$

## TEST YOUR KNOWLEDGE

- Q.1 What are the basic conditions for valuation of taxable supply under section 15(1) of CGST Act, 2017?
- Q.2 What are the elements to be included in Transaction Value?



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- Q.3 What do you mean by "Related Parties" for the purpose of determination of value of supply?
- Q.4 What is the meaning of Transaction value under GST? What elements included in the transaction value?
- Q.5 State the provisions related to treatment of discount for the purpose of calculating the Transaction value.

[DU B.Com. (Hons.) May 2019]

- Q.5 Explain the Valuation Principles in CGST Rules, 2017 in the following cases:

- Consideration is not wholly in money
- Supply between distinct or related persons
- Supply through an Agent
- Value based on Cost
- Residual Method

- Q.6 Explain with reasons whether the following will be included in the transaction value?

- The payment made by the recipient on behalf of supplier.
- The subsidy received from an NGO passed to the buyer.
- The Government subsidy passed on to the buyer.
- Interest charged by the supplier for delay in payment.
- Testing charges recovered from recipient of goods but initially incurred by the supplier.

[Ans.: All are includible in transaction value except in part (c)]

- Q.7 [Transaction Value as per section 15] Calculate the value of Supply of Machine by a trader from the following particulars:

	Amount (₹)
Invoice price (Exclusive of taxes and payments mentioned below)	65,000
Duty and Cess levied by Municipal Authority (Other than GST)	6,200
Insurance charges for dispatch of final product	1,200
Packing charges	2,000
Miscellaneous Incidental Expenses incurred by supplier before delivery	3,250
Subsidy from private trust (but not passed on to the buyer)	2,600
Subsidy from NGO (Passed on to the buyer)	3,000
Subsidy received from Government (Passed on to the buyer)	4,000

You are required to determine the value considering the provisions of section 15 of CGST Act, 2017.

[Ans.: Valuation as per section 15 of CGST Act: ₹ 80,650]

#### HINTS:

- Since the benefit of subsidy ₹ 2,600 has not been passed to the buyer, no question arises regarding its inclusion in transaction value of supply.
- Since the subsidy (₹ 3,000) has not been received from Government, it will be included in the transaction value as per section 15(2)(e).
- As per section 15(2)(e), subsidies provided by the Government are not included in transaction value. Therefore, ₹ 4,000 will not be included in transaction value.

- Q.8 [Discount known at the time of supply] Shivani Enterprises has sold goods with list price ₹ 40,000 to a customer. A discount of 10% is given to the customer, which is reflected in invoice, to arrive at the final price of ₹ 36,000. Determine the transaction value.

[Ans.: Transaction Value is ₹ 36,000]

- Q.9 [Related person] X Limited and Y Limited are related person as per Explanation to section 15 of CGST Act, 2017. X Limited sold goods to Y Limited at ₹ 80,000. The similar goods are sold by X Limited in the open market at ₹ 1,25,000. Is the valuation possible as per section 15? Also find out the transaction value as per the applicable provisions.

[Ans.: Section 15 is not applicable as the parties are related.; Transaction Value is ₹ 1,25,000]

**Q.10 [Rule 29]** Mr. X supplied goods to his agent, which the agent intends to sell further to unrelated persons at ₹ 24,000 on the day of the supply. Any independent person would have supplied the goods to the agent for ₹ 20,000. The rule 29 of CGST Rules, 2017 prescribes the manner of determination of value in case of supply through agent. What will be the value of supply between the principal and agent under the two options?

[Ans.: Option 1: Open market price ₹ 20,000; Option 2: 90% of ₹ 24,000 i.e. ₹ 21,600]

**Q.11 [Based on Rule 30]** Ram Lal & Sons has supplied goods to Shyam Lal & Sons. The two firms are related to each other and also the price is not the sole consideration. The open market price of these goods of same kind and quality is not available. As per cost accounting standard-4, the cost of these goods to Shyam Lal & Sons is ₹ 5,20,000. The accountant wants to record the sale at ₹ 5,20,000, since no other information is available. Comment

[Ans.: Since the transaction does not satisfy the conditions of section 15(1), the value of supply of goods has to be based on CGST Rules, 2017. Moreover, the Rules 27 to 29 are not applicable as open market price and price of same kind and quality are also not available. Therefore the value of supply will be based on rule 30. As per rule 30, the value of supply will be 110% of the cost of production i.e. ₹ 5,72,000]

**Q.12 [Based on Rule 32(2)(a)]**

KMB Ltd. exported some goods to VVL Inc. of USA. It received US \$ 20,000 as consideration for the same and sold the foreign currency @ ₹ 65 per US dollar. Compute the value of taxable Supply of service under rule 32(2)(a) of the CGST Rules, 2017 if-

- (a) RBI reference rate for US dollars is ₹ 64.10 per dollar.
- (b) RBI reference rate for US dollars is not available.

[Ans.: (a) ₹ 18,000 (b) ₹ 13,000]

**Q.13 [Neither of the currencies exchanged is Indian Rupee]**

The US \$ 3,000 are converted into UK £ 2,200. The RBI reference rate at that time for US \$ is ₹ 65 per US dollar and for UK £ is ₹ 85 per UK Pound. What will be the Value of supply?

[Ans.: ₹ 1,870]

**Q.14 [Based on section 32(2)(b)]**

Western Union, an authorised dealer in foreign exchange, exchanged the following Gross amount of currency (GAC) in the month of March 2018.

Case	I	II	III	IV	V	VI
GAC (₹)	30,000	90,000	6,00,000	9,50,000	90,00,000	6 Crores

Compute the Value of Supply of service assuming the supplier has exercised for option available for Valuation of Supply under Rule 32(2)(b) of the CGST Rules, 2017.

[Ans.: ₹ 300(I); ₹ 900(II); ₹ 3,500(III); ₹ 5,250(IV); ₹ 13,500 (V) and ₹ 60,000 (VI)]

**Q.15 [Air Travel Agent]**

Mr. A, an air travel agent, has provided the following details for February, 2018.

Particulars	Amount (₹)
Basic air fare collected for domestic booking of tickets	5,00,000
Basic air fare collected for international booking of tickets	15,00,000

Determine the value of taxable supply of services.

[Ans.: ₹ 25,000 (Domestic Bookings) and ₹ 1,50,000 (International Bookings)]

**Q.16 [Air Travel Agent]**

Vinod is an air travel agent. For the month of March 2018, he has collected ₹ 22,00,000 (Basic Fare for Domestic Booking) and ₹ 30,00,000 (Basic Fare for International Booking). Determine the value of taxable supply of services as per rule 32(3) of CGST Rules, 2017.

[Ans.: ₹ 1,10,000 (Domestic Bookings) and ₹ 3,00,000 (International Bookings)]



TEST YOUR KNOWLEDGE

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Q.17 [Services of Life Insurance Companies]

ICICI Prudential Life Insurance provides you the following information for the month of January 2018. You are required to compute value of supply of service as per rule 32(4) of CGST Rules, 2017:

- (a) **General policies:** Total premiums collected ₹ 20,000 lakhs (Out of which 1<sup>st</sup> year premium is ₹ 4,000 lakhs)
- (b) **Only risk Cover Policies:** Premiums collected ₹ 800 lakhs.
- (c) **Variable Insurance Policies:** Premiums collected ₹ 10,000 lakhs. (70% of the amount is allocated for investments on behalf of policy holder for which policy holder is given separate break up in premium receipts)

[Ans.: (a) ₹ 3,000 Lakhs; (b) ₹ 800 Lakhs and (c) ₹ 3,000 Lakhs]

Q.18 [Second Hand Goods Dealer]

Mr. Prakash is a dealer of second hand cars. He has purchased a second hand car from a household for ₹ 80,000. He spent ₹ 2,000 and ₹ 6,000 on the repair and overhauling of the car respectively. After that the car is sold to another household buyer for ₹ 1,72,000. Determine the value of supply as per rule 32(5) of CGST Rules, 2017. Also calculate the tax if rate of GST is 28%.

[Ans.: ₹ 92,000 (Value of Supply); ₹ 12,880 (CGST) and ₹ 12,880 (SGST)]

Q.19 [Based on Rule 32(6)]

Mr. and Mrs. Bansal availed the membership of "Ramada Plaza" located at Connaught place in Delhi. The hotel provides 10 vouchers of SPA services worth ₹ 2,000 each. Determine the value of the voucher.

[Ans.: ₹ 20,000]

Q.20 [Based on Rule 35]

"Santosh Interiors" have charged ₹ 3,77,600 from their client in respect of services provided in the month of February, 2018. The rate of GST is 18%. The amount ₹ 3,77,600 is inclusive of GST and Tax has not been shown separately in the invoice. Determine the amount of total Tax included in invoice.

[Ans.: ₹ 57,600]