



GST VALUATION

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CHARTERED ACCOUNTANT

FOR WIRC, MUMBAI

Valuation under MVAT Act, 2002

- Incidence of TAX is on the basis of Turnover of Sales and Purchases
- There are no Provisions for Valuation under MVAT Act
- WHAT IS TAXABLE IS ACT OF SALE, hence what needs to be determined is the “Sales Price”
- Sales U/s 2(24) of MVAT Act, include all the categories of sale, unless the context otherwise requires or unless specifically provided for in the Act
- Sec 2(25) defines sales price to mean “ the amount of valuable consideration paid or payable to the dealer for any sale made including any sum charged for anything done by the seller in respect of goods at the time of or before the delivery thereof, other than the cost of insurance for transit or of installation, when such cost is separately charged”

Valuation under Excise Act

- Incidence of TAX is on the basis Manufacture of Goods
- As a general Provision, the statutory scheme envisages collection of duty at the value prevalent at the first point of sale & duty is required to be paid only on removal of goods
- Sec 4(1)(a) of the Central Excise Act,1944 lays down important principal for Valuation of Goods
- The said section accepts the transaction value of the goods as the assessable value if the following conditions are fulfilled:
 - a. Goods are sold by the assessee,
 - b. The goods are sold for delivery at the time and place of the removal,
 - c. The assessee and the buyer of the goods are not related and
 - d. The price is the sole consideration for the sale.

Valuation under Service Tax

- Valuation in Service Tax plays a pivotal role in determining value of services for discharging service tax liability
- For generic understanding, comparability for the goods are available in open market, difficult to derive the value of services on the basis of comparison considering that the value of services depends on various factors like qualification, experience, seniority, etc.
- Situations Considered U/s 67 of Finance Act,1994

Sr. No.	Situations	Methodology to arrive at Value
1	Consideration fully in Money	Gross Amount Charged by the service Provider for such services provided or to be provided
2	Consideration not fully in Money	Value= Money Received + Money Value of Consideration in kind
3	Consideration not ascertainable	Value to be determined as per Service Tax Valuation Rules,2006

GST- Why do we need to Value

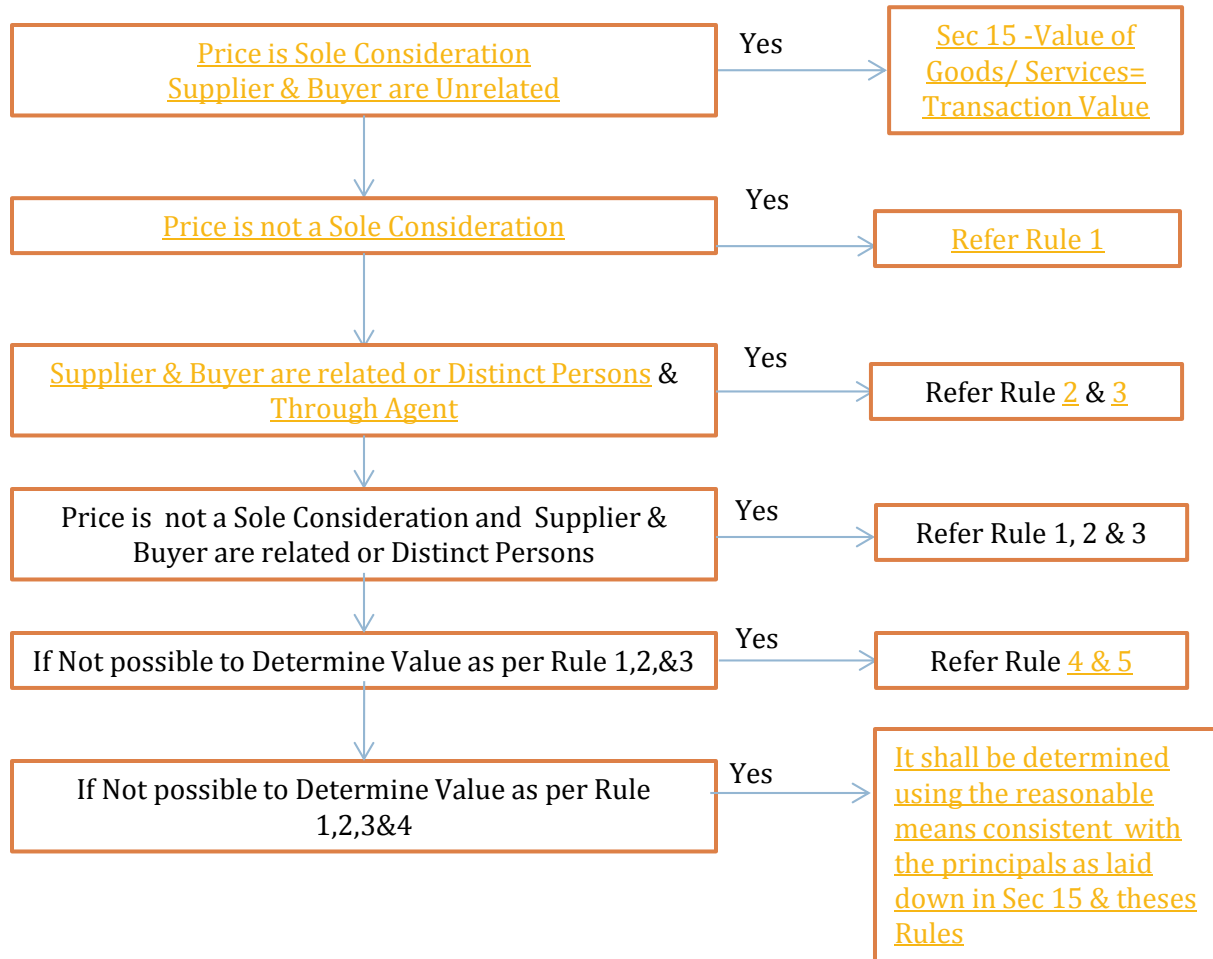
Valuation

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graph TD; A[Valuation] --> B[Sec 9 of CGST]; A --> C[Sec 5 of IGST];
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Sec 9 of CGST- There shall be levied a tax called Central Goods & Services Tax on all Intra State Supply of goods and/or services, on VALUE DETERMINED U/s 15 of CGST ACT, and at such rates.....

Sec 5 of IGST- There shall be levied a tax called Integrated Goods & Services Tax on all Inter State Supply of goods and/or services, on VALUE DETERMINED U/s 15 of CGST ACT, and at such rates.....

Flow Chain of VALUE OF SUPPLY



Rule 6

Sec 15 of CGST

VALUE OF SUPPLY OF GOODS AND/ OR SERVICES- IS TRANSACTION VALUE

Actual Price for Supply
for Goods and/or
Services Paid or Payable

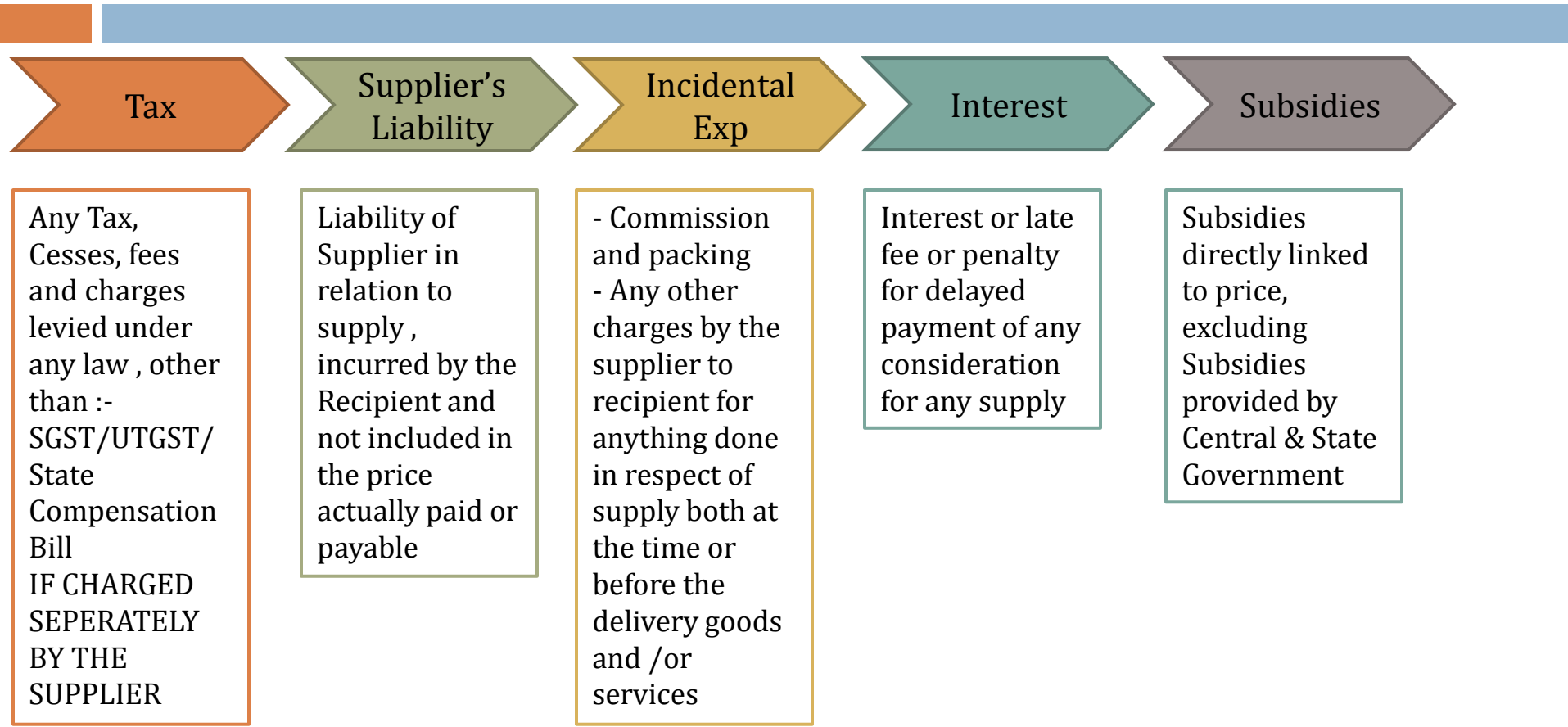
Between the Supplier &
recipient of Supply

Transaction
Value

Where Supplier &
recipient are not related

Price is SOLE
CONSIDERATION

Sec 15 of CGST – Specific Inclusion



Value of Supply, will not include, **Discount**

- 1) which has been duly recorded in invoice and has been provided before or at the time of supply
- 2) If Affected after supply, such discount is established in terms of agreement entered into & ITC availed on such discounted amount is reversed

Example for Sec 15

- Mr. A is a proprietor of M/s Greentech. Greentech is in the business of supply of a unique air conditioning system for which a specialized Installation is required which is also exclusively provided by M/s Greentech, Installation charges are extra.
- Being eco- friendly air conditioning system the President of India has accorded Mr. A with reward and has provided a specialized subsidy to buyer, whereby 20% of the Price shall be borne by the Government of India
- Mr. A however, always insist its buyers to ensure that the Freight arrangements needs to be made by the buyers, which shall be reduced from the final Invoice Value payable by the Buyer
- It is deemed that Mr. A has sold all the A.C's to un-related Parties.
- Compute the Transaction Value U/s15

Ans for Sec 15

Sr. No	Particulars	Amount (Rs.)
1	Total Price of the Eco- Friendly A.C	XXX
2	Add:- Installation Cost	XXX
3	Less:- Subsidy Provided By GOI	(XXX)
4	Freight Arrangement borne by the Buyer	-----
Final Transaction Value as determined U/s 15		XXX

Rule 1 - When Consideration is not wholly in Money

Open Market Value

- Means Full Value of Money, excluding GST. Where supplier & recipient are un related and price is a sole consideration , to obtain such supply at the same time when the supply is made

Money + Equivalent

- Sum Total of Amount in Money+ Equivalent to consideration not in Money (if known at the time of supply)

Like Kind

- If Not determinable as above, than Value as determined for supply of goods and/or services of like kind and quality

Residual

- If Not determinable as above, than Sum Total of Money+ Equivalent + Value as per Rule 4 or Rule 5 in that order

Example for Rule 1

- Mr. A is Chartered Accountant in Practice. With more than 5 Years of Experience he has ultimately bought his office for which he asked one of his architect client to design the same.
- His architect client made the whole design for him against which Mr. A compensated by filling his return
- Normally Mr. A charges Rs. 10,000 per Return inclusive of GST
- Compute the Transaction Value for the payment of GST for the supply provided by Mr. A

Ans for Rule 1

- Transaction Value in case of Supply when the consideration is not wholly in money is Open Market Value, Where supplier & recipient are un related and price is a sole consideration
- If its not determinable as per the same than, Sum Total of Amount in Money+ Equivalent to consideration not in Money (if known at the time of supply)
- If No monetary consideration is received nor the equivalent to consideration not in money is determinable than, than Value as determined for supply of goods and/or services of like kind and quality
- Hence since in our example we can determine the same as per the value of supply of services of like kind and quality, which in case of return filing is Rs. 10,000 inclusive of GST
- The Value of Supply for Filling of Returns for his architect Client is Rs. 10,000 being the work required is work like kind and quality *

Examples from the Rules

- Where a new phone is supplied for Rs.20000 along with the exchange of an old phone and if the price of the new phone without exchange is Rs.24000, the open market value of the new phone is Rs 24000.
- Where a laptop is supplied for Rs.40000 along with a barter of printer that is manufactured by the recipient and the value of the printer known at the time of supply is Rs.4000 but the open market value of the laptop is not known, the value of the supply of laptop is Rs.44000.

Rule 2- When Transaction is between Related Persons (Other Than Agent)

This rule is applicable in case of where the supplier & recipient are Distinct Person as specified u/s 25 (4) & (5) or where they are related

Open Market Value

- Means Full Value of Money, excluding GST. Where supplier & recipient are un related and price is a sole consideration, to obtain such supply at the same time when the supply is made

Like Kind

- If Not determinable as above, than Value as determined for supply of goods and/or services of like kind and quality

Residual

- If Not determinable as above, than Value as per Rule 4 or Rule 5 in that order

PROVISO-If the goods are further intended to supply by recipient, the value at option of supplier, be an amount equivalent to 90% of price charged for the supply of like kind and quality by the recipient to his customer not being a related person

PROVISO-If Recipient is eligible for full ITC, the value declared in the Invoice shall be deemed Open Market Value of such goods and services

Example for Rule 2

- XYZ Pvt Ltd. is a trading Company based in Gujarat , sells the goods to ABC Pvt Ltd. Apart from a regular stock transfer to its Branch at Maharashtra
- XYZ Pvt Ltd & ABC Pvt Ltd is owned by the Mr. A who holds more than 50% of shareholding and he and his brother are Directors in the Co.
- XYZ sells almost 50% of purchases to ABC, does 30% stock transfer and balance sold to Third Parties
- The Normal Standard Profit margin is 20% for all the sales made to Third Parties and the same is sold to ABC @ 10 % Profit margin and Stock Transfer is done at cost.
- Out of the Sale to ABC, almost 40% is consumed for personal purposes
- Total Sales Value of XYZ is Rs. 5000000
- Determine the Value for the purpose of GST

Ans to Rule 2

Sr. No.	Particulars	Stock Transfer	Sale to ABC	Sale to Third Party	Total
1	Total Sales	15,00,000	25,00,000	10,00,000	50,00,000
2	Profit Margin	NIL	10%	20%	
3	Cost	15,00,000	22,72,727	8,33,333	46,06,060
4	Value for GST	*	**	***	52,27,272
		15,00,000	27,27,272	10,00,000	

* In case of Stock Transfer the recipient Distinct person is eligible for Full ITC since the same shall be sold from the Other Branch to Third Party, hence the Sale Value is Transaction Value

** In case of Sale to ABC, the recipient cannot claim the full ITC since 40% shall be consumed for personal Use. Hence the value at which the same would have been sold to third party and where the price is sole consideration shall be taken as the Base.

*** Sale to Third Party is the Transaction Value

Other Rules

Rule No & Details	Explanation
Rule No-3 Value of Supply of goods made or received through an Agent	(A) Open Market Value of Goods being supplied <u>OR AT OPTION OF SUPPLIER (PRINCIPAL)</u> (B) 90 % of Price Charged for the supply of goods of like kind or quality by the recipient (Agent) to his unrelated customer, When the Goods are intended for further supply by the Recipient If value cannot be determined as provided above than refer Rule 4 or 5 in that order
Rule No-4 Value of Supply of Goods Or Services or Both based on Cost	If the Value Cannot be determined by preceding rules than the Value shall be 110% of the COP OR Manufacture OR Cost of Acquisition of such goods or cost of provision of such services
Rule- 5 Residual Method	If the Value Cannot be determined by preceding rules than the Value shall be determined using the reasonable means consistent with PRINCIPLES AND GENERAL PROVISIONS OF SEC 15 & THESE RULES PROVISO- FOR SUPPLY OF SERVICES- THE SUPPLIER MAY OPT FOR THIS RULE, DISRAGARDING RULE 4

Example for Rule 3

- XYZ Pvt Ltd being an Principal Manufacturer, has appointed ABC as its authorized Agent to sells its Goods and Provide Installation services in the State of Maharshta
- Total Value of Goods Transferred to Agent is Rs. 10,00,000
- Such goods if being sold by the Third Party at Rs. 11,00,000 & sold by XYZ to other un-related Parties at Rs. 950,000 & such goods are further sold by the Agent at the same price at which they are being sold by third Parties

Ans to Rule 3

- Value of supply between the principal and agent is
- Option 1- Open Market Value= Rs. 950,000/-
- Option 2- 90% of Price Charged by the recipient when sold to third party=Rs. $11,00,000 * 90 / 100 =$ Rs. 9,90,000/-

Example from the Rule

Where 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 Rs.5000 per quintal on the day of supply.

Another independent supplier is supplying groundnuts of like kind and quality to the said agent at the price of Rs.4550 per quintal.

The value of the supply made by the principal shall be Rs.4550 per quintal or where he exercises the option the value shall be 90% of the Rs.5000 i.e. is Rs.4500 per quintal.

Rule 6- Value in Respect of Certain Supplies

Rule 6 determines certain supplies which shall determine the value of following supplies in the manner specified

- Value of Supply in Case of purchase & Sale of Foreign Currency
- Value of Supply in case of Air Ticket booking
- Value of Supply in case of Life Insurance Business
- Value of Supply in case of Second Hand Goods
- Value of Supply in case of Vouchers
- Value of Supply for the Class of Services Specified by the GST Council

Valuation for Purchase & Sale of Foreign Currency- OPTION 1

Currency Exchanged to and from INR

Value = buying or Selling Rate (-) RBI Reference Rate * Total Units of Currency

Where RBI Reference Rate is not Available

Value = 1% of Gross Amount of Indian Rupees Provided or Received by the Person Changing the Money

Where neither currency in INR

Value = 1% of the Lesser of 2 amounts would have received in INR by converting 2 currencies into INR on date day at the reference rate provided by RBI

Valuation for Purchase & Sale of Foreign Currency- OPTION 2

Sr. No.	Currency Exchanged Value	Value of Supply
1	Gross Amount of currency exchanged up to Rs.1 Lac	1% of Gross Amount of Currency Exchanged subject to Minimum of Rs. 250
2	Gross Amount of currency exchanged exceeding Rs.1 Lac up to Rs. 10 Lacs	Rs. 1000+ half of % Of Gross Amount of the Currency Exchanged
3	Gross Amount of currency exchanged exceeding Rs. 10 Lacs	Rs. 5000 + one tenth of % Of Gross Amount of the Currency Exchanged subject to Maximum of Rs. 60,000

Same as ST on Foreign Exchange Remittance

- In services of money changing, the problem of Valuation arises on account of normal trade practices.
- In such services, consideration is built between the selling/ buying rates and the RBI reference rates & therefore computation of value of services becomes difficult
- Service tax also provides the 2 schemas
 - Exchange Conversion Scheme –
As per N/No 02/2011, the value = diff of buying/selling rate – RBI Reference Rate
And if reference rate is not available, than 1 % of Gross amount of Indian Rupees provided or received by the person changing the currency
 - Abatement Scheme (On the service Tax Rate)

Sr. No.	Value of Foreign Currency	ST Applicable
1	Up to Rs. 100,000	0.145% of the amount of currency, min of Rs. 36.25
2	From Rs. 100,000 to Rs. 10,00,000	Rs. 145+ 0.0725% of the amount of Currency
3	Above Rs. 10,00,000	Rs. 797.5+ 0.0145% (Amount of Currency-Rs. 10 Lacs) subject to Max of Rs. 7,250

Valuation for Air Ticket Booking

Category of Air Ticket provided by Air Travel Agent	Value
Domestic Booking	5% of Basic Fare
International Booking	10 % of Basic Fare
Basic fare means that part of air fare on which commission is normally paid to air travel agent	

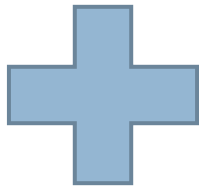
Similar to current Service Tax composition scheme for Air Travel Agent which is 0.70% Service tax on basic fare for Domestic Booking & 1.2% service Tax on basic fare for International Booking

Supply of Life Insurance Business

Premium Type	Value
VALUE= Gross Premium (-) the amount allocated for Investment or savings on behalf of Policy Holder, if such amount is intimated at the time of supply of services	
Single Premium Annuities	10% of Single Premium Charged to Policy Holder
Other Cases	-25% of the 1 st Yr. Premium -12.5% of the subsequent Yr. Premium
THIS SUB RULE SHALL NOT APPLY IF ENTIRE AMOUNT OF PREMIUM IS PAID BY THE POLICY HOLDER ONLY TOWARDS RISK COVER IN LIFE INSURANCE	

Supply of Second Hand Goods

Taxable Supply by the Person dealing in buying and selling of second hand Goods



The value shall be difference between Selling Price & Purchase Price & where the value of such supply is negative it shall be ignored

Which does not change in nature of goods even after minor processing (if the need be) &
Where no ITC has been availed on purchase of such goods

Proviso- Re-purchase

Re-possession from a defaulting borrower, who is not registered



For the purpose of recovery of loan or debt

Value shall be deemed to be purchase price of such goods by the defaulting borrower



5% point for every quarter or part thereof, between the date of purchase and the date of disposal by the person making such repossession

Other Specific Cases

Sr. No.	Particulars	Value of Supply
1	Value of a token or a voucher or a coupon or a stamp (Other than Postage Stamp) which is redeemable against the supply of goods or services or both	Money Value of the goods or services or both redeemable against such token, voucher, coupon or stamp
2	Value of Taxable services provided by such class of service providers as may be notified by the Government on recommendation of Council as referred to in Entry 2 of Schedule 1 between the Distinct Persons as referred to U/s 25, Other Than Those where the ITC is not Available U/s 17(5)	Value shall be deemed to be NIL

Value of Services in Case of Pure Agent

Expenditure or Cost Incurred by the **supplier as pure agent** of the **recipient of supply** of services shall be **excluded from the Value of Supply**, if all the conditions are satisfied

Supplier pays third party for services procured, as per the contract between third Party & Recipient

the recipient of supply authorizes the supplier to make payment on his behalf

the payment made by the supplier on behalf of the recipient of supply has been separately indicated in the invoice issued by the supplier to the recipient of service

the recipient of supply uses the services so procured by the supplier service provider in his capacity as pure agent of the recipient of supply

the recipient of supply knows that the services for which payment has been made by the supplier shall be provided by the third party

the supplier recovers from the recipient of supply only such amount as has been paid by him to the third party

the recipient of supply is liable to make payment to the third party

the recipient of supply is liable to make payment to the third party

the services procured by the supplier from the third party as a pure agent of the recipient of supply are in addition to the supply he provides on his own account

DEFINATION'S/GLOSSARY

Deemed 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 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.

DEFINATION'S/GLOSSARY

Sr. No.	Particulars	Explanation
4	Sec 25(4) &(5)	<p>(4) A person who has obtained or is required to obtain more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as distinct persons for the purposes of this Act.</p> <p>(5) Where a person who has obtained or is required to obtain registration in a State or Union territory in respect of an establishment, has an establishment in another State or Union territory, then such establishments shall be treated as establishments of distinct persons for the purposes of this Act.</p>
5	Entry No 2 of Schedule 1	Supply of goods or services or both between related persons or between distinct persons as specified in section 25, when made in the course or furtherance of business

DEFINATION'S/GLOSSARY

Sr. No.	Particulars	Explanation
6	<u>Distinct person as referred to Sec 25</u>	<p>(4) A person who has obtained or is required to obtain more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as distinct persons for the purposes of this Act.</p> <p>(5) Where a person who has obtained or is required to obtain registration in a State or Union territory in respect of an establishment, has an establishment in another State or Union territory, then such establishments shall be treated as establishments of distinct persons for the purposes of this Act.</p>
7	<u>Pure Agent</u>	<p>(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;</p> <p>(b) neither intends to hold nor holds any title to the goods or services or both so procured or provided as pure agent of the recipient of supply;</p> <p>(c) does not use for his own interest such goods or services so procured; and</p> <p>(d) receives only the actual amount incurred to procure such goods or services.</p>

DEFINATION'S/GLOSSARY

Sr. No.	Particulars	Explanation
8	<u>Supply of goods or services or both of like kind and quality</u>	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 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

Thank You
for your interest.....

Hardik Dave
Proprietor
H Dave & Co.

