

VALUATION

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- Introduction
- Provisions in CGST Act
- Provisions in CGST Rules
- Q & A

VALUATION

Market Value – Section 2, sub-section 73 of CGST Act

shall mean the full amount which a recipient of a supply is required to pay in order to obtain the goods or services or both of like kind and quality at or about the same time and at the same commercial level where the recipient and the supplier are not related;

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Related Party – as per Section 15 of the CGST Act

persons shall be deemed to be “related persons” if—

- (i) such persons are officers or directors of one another’s businesses;
- (ii) such persons are legally recognised partners in business;
- (iii) such persons are employer and employee;
- (iv) any person directly or indirectly owns, controls or holds twenty-five per cent. or more of 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;

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Section 15 of the CGST Act deals with valuation of the goods or services or both.

Chapter IV of the CGST Rules from Rule 27 to 35

Valuation - Section 15, CGST Act 2017

The value of supply of goods and services will be the transaction value i.e for the actual value of goods and services paid or payable by the buyer if both the buyer and seller or not related parties and where price is the sole consideration

➤ Transaction values includes

- any taxes, duties, cesses, fees and charges levied under any statute, other than the (CGST, SGST, IGST, UT-GST & Cess)
- any amount that the supplier is liable to pay in relation to such supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods and/or services;
- incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply and any amount charged for anything done by the supplier in respect of the supply of goods or services or both at the time of, or before delivery of goods or supply of services:

Valuation - Section 15, CGST Act 2017

The value of supply of goods and services will be the transaction value i.e for the actual value of goods and services paid or payable by the buyer if both the buyer and seller or not related parties and where price is the sole consideration

➤ Transaction values includes

- interest or late fee or penalty for delayed payment of any consideration for any supply; and
- subsidies directly linked to the price excluding subsidies provided by the Central and State governments;

Valuation - Section 15, CGST Act 2017

The value of supply of goods and services will be the transaction value i.e for the actual value of goods and services paid or payable by the buyer if both the buyer and seller or not related parties and where price is the sole consideration

➤ Transaction value does not include

- Discount given before or at the time of supply through an invoice
- Discounts given after supply through a debit note, which can be mapped to a particular transaction / invoice.

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Rule 27 :Value of supply of goods or services where the consideration is not wholly in money.

The transaction value will be determined in the following manner

- a) Open market value
- b) Money plus monetary value of the consideration
- c) Cost of similar goods or services
- d) As per Rule 30 cost plus 10% or residual method

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Rule 28 : Value of supply of goods or services or both between distinct or related persons, other than through an agent

The transaction value between distinct person is determined in the following manner

- a) Open market value
- b) If OMV is not available then value of supply of similar goods or services of same kind and quality
- c) As per Rule 30 cost plus 10% or residual method as per Rule 31

If goods are being shipped for further supply to other than distinct person

- a) 90% of the open market value
- b) If the recipient is eligible for input tax credit then invoice value is considered as open market value.

Rule 29 : Value of supply of goods made or received through an agent.

The value of supply between the principal and agent

- a) Open market value
- b) 90% of the open market value, if the agent's customer is not a distinct person
- c) If OMV is not available then value of supply of similar goods or services of same kind and quality
- d) As per Rule 30 cost plus 10% or residual method as per Rule 31

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Rule 30 : Value of supply of goods or services or both based on cost.

If it is not possible to determine the value of supply based on Rules 27 to 29, then the value of supply will be cost plus 10% of

- a) Manufacturing the goods
- b) Acquisition of the goods
- c) Provision of service

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Rule 31 : Residual method for determination of value of supply of goods or services or both.

If not able to determine the value of supply of good or services on basis of rules 27 to 30, then this method is to be applied.

- It will be based on reasonable means consistent with the principles and the general provisions

Rule 31A : Value of supply in case of lottery, betting, gambling and horse racing

Value of supply of lottery in case of Lotteries,

a) Issued by the State Government

100/112 of the face value of the ticket or the price notified in the official gazette, which ever is higher

b) Supplier authorized by the State Government

100/128 of the face value of the ticket or the price notified in the official gazette, which ever is higher

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Rule 31A : Value of supply in case of lottery, betting, gambling and horse racing

Value of supply in case of horse racing

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

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Rule 32 : Determination of value in respect of certain supplies.

Value of supply in case of services in relation to purchase or sale of foreign currency

- a) Based on the difference between the buying and selling rates or
- b) Based on the percentage of the gross amount exchanged

The option is with the money exchanger and once chosen will be applicable for the whole year.

Rule 31A : Determination of value in respect of certain supplies.

- a) Based on the difference between the buying and selling rates or
- Exchanged from INR to any currency or vice versa will be the difference in the buying or selling rates as notified by the RBI
 - If reference rate is not available, then it will be 1% of the gross amount of the Indian Rupees provided or received by the person changing the money.
 - If currencies exchanged is not in INR, then 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.

Rule 31A : Determination of value in respect of certain supplies.

- b) Based on the percentage of the gross amount exchanged
- one per cent. of the gross amount of currency exchanged for an amount up to one lakh rupees, subject to a minimum amount of two hundred and fifty rupees.
 - one thousand rupees and half of a per cent. of the gross amount of currency exchanged for an amount exceeding one lakh rupees and up to ten lakh rupees
 - five thousand and five hundred rupees and one tenth of a per cent. of the gross amount of currency exchanged for an amount exceeding ten lakh rupees, subject to a maximum amount of sixty thousand rupees.

Rule 32 : Determination of value in respect of certain supplies.

Value of supply in case of services by booking agents

- a) 5% of the basic fare in case of domestic air tickets
- b) 10% of the basic fare in case of international air tickets

Rule 32 : Determination of value in respect of certain supplies.

Value of supply in case of services in relation to life insurance

- a) gross premium charged from customer minus the amount allocated for investment if informed to policy holder at the time of supply.*
- b) In case of single premium, 10% of the premium charged from the policy holder*
- c) In all other cases, it is 25% of the premium charged in the first year and 12.5% of the premium charged in subsequent years.*
- d) In case of risk cover policies, it will be on the full amount charged from the policy holder.*

Rule 33 : Value of supply of services in case of second hand goods dealers

Value of supply in case of a taxpayer dealing in buying and selling of second hand goods

- a) The price difference between the buying price and the selling prices*
- b) In case if the price difference is negative then it shall be ignored*

Repossession of goods from a defaulting borrower

- The purchase price of the goods reduced by 5% per quarter there of from the date of purchase to the date of disposal by the person taking possession of the asset.*

Rule 33 : Value of Supply of Services in case of Pure Agent

Pure Agent

- Contractual agreement with the recipient to incur expenditure for the procurement of goods or services or both
- Does not hold the title of goods or services or both
- Does not use the same for personal consumption
- Receives the actual amount incurred to procure such goods or services

Rule 33 : Value of Supply of Services in case of Pure Agent

The value of supply in case of procurement made by the pure agent is the value of the goods or services or both only if the following conditions are met

- Makes payment to the third party on authorization of the recipient
- Payment made to the third party is
- Does not use the same for personal consumption
- Receives the actual amount incurred to procure such goods or services

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Rule 34 : Rate of exchange of currency, other than Indian rupees, for determination of value.

If the invoice is issued in foreign currency and IGST taxes are applicable, the value of the supply will be determined

- Supply of Goods
- Supply of Services

As per the rate of exchange on the time of supply of the goods or services

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Rule 35 : Value of supply inclusive of integrated tax, central tax, State tax, Union territory tax.

In case if the supplier of goods or services issues a tax invoice with inclusive taxes, the value of tax amount will be determined based on the following formula

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 %)





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