

Valuation under GST

(1) Value of taxable supply [Section 15] :

(i) **Value of taxable supply to be transaction value [Section 15(1)]** : The value of a supply of goods or services or both shall be the transaction value,—

- which is the **price actually paid or payable for the said supply** of goods or services or both
- where the **supplier and the recipient of the supply are not related**; and
- the **price is the sole consideration for the supply**.

(ii) **Inclusions in value of supply [Section 15(2)]** : The value of supply shall **include** –

a	any taxes, duties, cesses, fees and charges levied under any law for the time being in force other than this Act, the State Goods and Services Tax Act, the Union Territory Goods and Services Tax Act and the Goods and Services Tax (Compensation to States) Act, if charged separately by the supplier;
b	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 or services or both;
c	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;
d	interest or late fee or penalty for delayed payment of any consideration for any supply; and
e	subsidies directly linked to the price excluding subsidies provided by the Central Government and State Governments.

(iii) **Exclusion in value of supply [Section 15(3)]** :

Items	Excludability in transaction value
Discounts	Discounts given on or before supply : Any discount which is— <ul style="list-style-type: none">➤ 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;
Discounts	Post supply discount : Any discount which is given after the supply has been effected, if— <ul style="list-style-type: none">➤ 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.

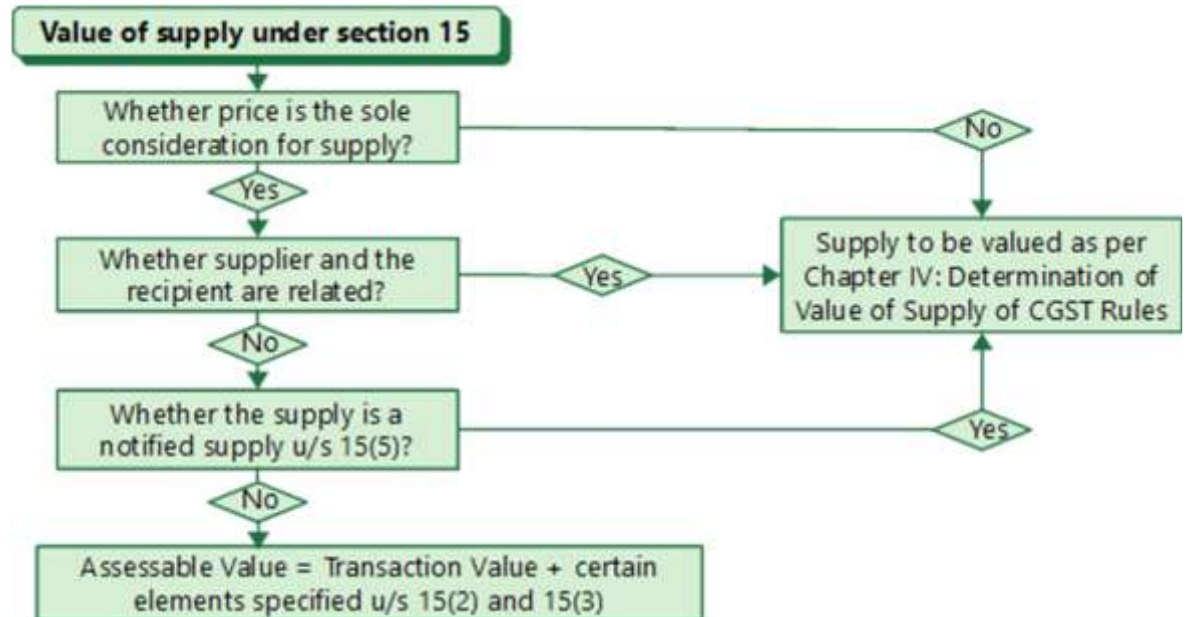
(iv) **Value cannot be determined as per above provisions – To be determined as per Rules [Section 15(4)]** : Where the value of the supply of goods or services or both cannot be determined u/s 15(1), the same shall be determined in such manner as may be prescribed.

(v) **Value of notified supplies– to be determined in prescribed manner [Section 15(5)]**:

Notwithstanding anything contained in Section 15(1)/(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 following supplies have been notified in this regard :

- (a) supply of online money gaming;
- (b) supply of online gaming, other than online money gaming; and
- (c) supply of actionable claims in casinos.



(2) Related persons [Explanation to Section 15] :

- (a) 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 **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.
- (b) **Legal persons included** : The term “person” also includes legal persons.
- (c) **Sole agents are deemed to be related** : 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.
- (d) **“Family”** means,—
 - (i) the spouse and children of the person, and
 - (ii) the parents, grand-parents, brothers and sisters of the person if they are wholly or mainly dependent on the said person. [Section 2(49)]

(3) Applicability of Valuation Rules : Valuation Rules are applicable when—

- (i) consideration either wholly or in part is not in money terms;
- (ii) parties are related or it involves supply by any specified category of supplier; and
- (iii) transaction value declared is not reliable.

CGST RULES, 2017 - DETERMINATION OF VALUE OF SUPPLY

(4) Meaning of “Open market value” :

“Open market value” of a supply of goods or services or both means –

- the full value in money to obtain such supply at the same time when the supply being valued is made.
- excluding the Integrated tax, Central tax, State tax, Union territory tax and the cess payable by a person in a transaction,
- where the supplier and the recipient of the supply are not related; and
- price is the sole consideration.

(5) “Supply of goods or services or both of like kind and quality” means any other supply of goods or services or both made under similar circumstances that, in respect of the characteristics, quality, quantity, functional components, materials, and 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.

(6) Value of supply of goods or services where the consideration is not wholly in money [Rule 27] :

Where the supply of goods or services is for a consideration not wholly in money, the value of the supply shall be determined in the following order,—

- (a) open market value of such supply;
- (b) total of consideration in money + amount equal to the consideration not in money
- (c) value of supplies of like kind and quality
- (d) **consideration in money + money value of consideration** as per Rule 30 or 31 in that order i.e. the consideration in money plus the money equivalent of the non-money consideration, as worked out based on cost of the supply plus 10% mark-up [Rule 30 regarding cost-based valuation] or by other reasonable means [Best Judgment Method], in that sequence [Rule 31 regarding Residual Method].

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

(i) **General provisions:** The value of the supply of goods or services or both—

- between distinct persons as specified in Section 25(4) and (5), or
- where the supplier and recipient are related, other than where the supply is made through an agent, shall be determined in the following order-

- (a) open market value
- (b) value of supplies of like kind and quality
- (c) value as per Rule 30 or 31 in that order i.e. it must be worked out based on the cost of the supply plus **10% mark-up** [Rule 30] or by other reasonable means, in that sequence [Rule 31].

(ii) If goods are supplied as such by recipient, the supplier has an option to take **90%** of price charged by recipient from his unrelated customer as value of goods.

(iii) **If recipient is eligible for full ITC, then Invoice value charged by supplier shall be acceptable.**

(iv) Value of supply by way of providing corporate guarantee to banking company/ Financial Institution [Rule 28(2)] : The value of supply of services by a supplier to a recipient who is a related person, by way of providing corporate guarantee to any

banking company or financial institution on behalf of the said recipient, shall be deemed to be –

- (a) 1% of the amount of such guarantee offered, or
 - (b) the actual consideration,
- whichever is higher.**

(8) Value of supply of goods made or received through an agent [Rule 29] :

(i) **General Provisions** : The value of supply of goods between the principal and his agent shall—

- (a) be the open market value of the goods being supplied, or
- (b) **at the option of the supplier, be 90% of the price charged for the supply of goods of like kind and quality** by the recipient to his customer not being a related person, where the goods are intended for further supply by the said recipient.

(ii) If value cannot be determined as above - Value to be determined as per Rule 30/31:

Where the value of a supply is not determinable as per the above provision, the same shall be determined by the application of Rule 30 or Rule 31 in that order.

Thus, the following values have to be considered sequentially to determine the taxable value :

- (a) Value of supply based on cost i.e. cost of supply plus 10% mark-up
- (b) Value of supply determined by using reasonable means consistent with principles and general provisions of GST law (Best Judgment Method).

(9) Value of supply of goods or services or both based on cost [Rule 30] : Where the value of a supply of goods or services or both is not determinable by any of the preceding rules, the value shall be **110%** of the—

- cost of production or manufacture; or
- cost of acquisition of such goods; or
- cost of provision of such services.

Note : Service providers have the option to directly move to rule 31 bypassing rule 30.

(10) Residual method for determination of value of supply of goods or services or both [Rule 31]:

- (a) **Residual method:** Where the value of supply of goods or services or both cannot be determined u/r 27 to 30, the same shall be determined using reasonable means consistent with the principles and the general provisions of section 15 and the provisions of this Chapter.
- (b) **Service supplier can opt for Rule 31 disregarding Rule 30:** In the case of supply of services, the supplier may opt for this Rule, ignoring Rule 30.

(11) Value of supply in case of lottery, betting, gambling and horse racing [Rule 31A] :

(a) **Value of supply of lottery** : The value of supply of lottery shall be deemed to be **100/128** —

- (i) of the face value of ticket; or
 - (ii) of the price as notified in the Official Gazette by the Organising State,
- whichever is higher.**

“Organising State” means the State Government which conducts the lottery either in its own territory or sells its tickets in the territory of any other State.
[Rule 2(1)(f) of the Lotteries (Regulation) Rules, 2010]

- (b) Betting, Gambling or 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.

(12) Value of supply in case of online gaming including online money gaming [Rule 31B]:

- (a) Value in case of online gaming = Total amount paid/deposited with the supplier:** The value of supply of online gaming, including supply of actionable claims involved in online money gaming, shall be the total amount paid or payable to or deposited with the supplier by way of money or money's worth, including virtual digital assets, by or on behalf of the player.
- (b) Amount refunded to the player not to be deducted :** Any amount returned or refunded by the supplier to the player for any reasons whatsoever, including player not using the amount paid or deposited with the supplier for participating in any event, shall not be deductible from the value of supply of online money gaming.
- (c) Winnings used for further playing - not to be considered as the amount paid to or deposited:** Any amount received by the player by winning any event, including game, scheme, competition or any other activity or process, which is used for playing by the said player in a further event without withdrawing, shall not be considered as the amount paid to or deposited with the supplier by or on behalf of the said player.

(13) Value of supply of actionable claims in case of casino [Rule 31C]:

- (a) Value of supply of actionable claims in casino - Total amount paid/deposited:** The value of supply of actionable claims in casino shall be the total amount paid or payable by or on behalf of the player for –
- (i) purchase of the tokens, chips, coins or tickets, by whatever name called, for use in casino; or
 - (ii) participating in any event, including game, scheme, competition or any other activity or process, in the casino, in cases where the token, chips, coins or tickets, by whatever name called, are not required.
- (b) Amount refunded to the player not to be deducted:** However, any amount returned or refunded by the casino to the player on return of token, coins, chips, or tickets, as the case may be, or otherwise, shall not be deductible from the value of the supply of actionable claims in casino.
- (c) Winnings used for further playing - not to be considered as the amount paid to or deposited:** Any amount received by the player by winning any event, including game, scheme, competition or any other activity or process, which is used for playing by the said player in a further event without withdrawing, shall not be considered as the amount paid to or deposited with the supplier by or on behalf of the said player.

(14) Determination of value in respect of certain supplies [Rule 32]:

- (a) This rule provides the valuation methods for five specific supplies which are as under—
- (i) Purchase or sale of foreign currency including money changing.
 - (ii) Booking of tickets for air travel by an air travel agent.
 - (iii) Life insurance business.
 - (iv) Supply of second hand goods.
 - (v) Redeemable vouchers/ stamps/ coupons/ tokens.
- (b) This rule overrides other rules of valuation. Thus, the supplies prescribed in this rule need not be valued by sequentially following Rules 27 to 31.
- (c) **Value of supply of services in relation to purchase or sale of foreign currency, including money changing [Rule 32(2)(a)] :** 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:-
- (i) **For a currency, when exchanged from, or to, Indian Rupees (INR),** the value shall be equal to the,—

Case	Value of Supply
Purchase of foreign currency by service supplier	(RBI reference rate at that time – Buying rate) × Total units of currency.
Sale of foreign currency by service supplier	(Selling rate – RBI reference rate at that time) × Total units of currency.

- (ii) **If RBI reference rate is not available :** In case where the RBI 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.
- (iii) **In case where neither of the currencies exchanged is Indian Rupee:** In case where neither of the currencies exchanged is Indian Rupee, the value shall be equal to **1% of the lesser of the two amounts the person changing the money would have received by converting any of the two currencies into Indian Rupee** on that day at the reference rate provided by RBI.

Particulars	Amount
Amount 1 = Foreign Currency sold × RBI Reference Rate of that currency to Indian rupees	xxx
Amount 2 = Foreign Currency Bought × RBI Reference Rate of that currency to Indian rupees	xxx
Gross Indian Rupees = Amount 1 or Amount 2, whichever is less	xxx
Value = 1% of the Gross Indian Rupees	xxx

- (d) **Option to determine value in relation to supply of foreign currency, including money changing [Rule 32(2)(b)] :** At the option of the supplier of services, the value in relation to the supply of foreign currency, including money changing, shall be deemed to be—

	For an amount –	Value of supply shall be calculated at the rate of–
(1)	Upto Rs.1,00,000	➤ 1% of the gross amount of currency exchanged; or ➤ ₹ 250, whichever is higher.
(2)	Exceeding Rs.1,00,000 and upto Rs.10,00,000	₹ 1,000 + 0.5% of the gross amount of currency exchanged.
(3)	Exceeding Rs.10,00,000	➤ ₹ 5,500 + 0.1% of the gross amount of currency exchanged; or ➤ ₹ 60,000, whichever is lower.
Such option shall not be withdrawn during the remaining part of that financial year.		

(e) **Value of supply of services in relation to booking of tickets for travel by air provided by an air travel agent [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—

(i) **@ 5% of the basic fare** in the case of domestic bookings, and

(ii) **@ 10% of the basic fare** in the case of international bookings of passage for travel by air.

“**Basic fare**” means that part of the air fare on which commission is normally paid to the air travel agent by the airline.

(f) **Value of supply of services in relation to life insurance business [Rule 32(4)]:**

Case	Taxable Value
Policy with dual benefits of risk coverage and investment : If the amount allocated for investment/savings is intimated to the policy holder	➤ Gross premium less amount allocated for investment
Single premium annuity policies where amount allocated for investment is not intimated	➤ 10% of single premium
Other cases	➤ 25% of premium in 1st year; and ➤ 12.5% of premium in subsequent years
Policy only towards risk cover	➤ Entire premium
Non applicability in case of Risk Premium only: Nothing contained above shall apply where the entire premium paid by the policy holder is only towards the risk cover in life insurance.	

(g) **Special provision relating to determination of value of second hand goods – Margin Scheme [Rule 32(5)]:**

When ITC is not availed [Margin Scheme]	When ITC is availed
➤ Value = Selling price – Purchase price Where Selling price is less than Purchase price then Ignore negative value ➤ CGST on second hand goods received	➤ Normal valuation as per other applicable provisions

from unregistered supplier is exempt	
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Purchase value of goods repossessed from defaulting borrower :

If the defaulting borrower is un-registered	If the defaulting borrower is registered
Purchase value = Purchase price in the hands of such borrower reduced by 5% for every quarter or part thereof, between the date of purchase and the date of disposal by the person making such repossession	The repossessing lender agency will discharge GST at the supply value without any reduction from actual/notional purchase value

(h) 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.

(i) Value of supply of notified services between distinct persons [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 said Act between distinct persons as referred to in Section 25, where input tax credit is available, shall be deemed to be **NIL**.

(15) Value of supply of services in case of pure agent [Rule 33]:

(a) “Pure agent” means a person who—

- (i) 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;
- (ii) 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;
- (iii) does not use for his own interest such goods or services so procured; and
- (iv) 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.

(b) Expenditure or costs incurred by supplier as ‘pure agent’ of recipient of supply to be excluded: The expenditure or costs incurred by a supplier as a pure agent of the recipient of supply shall be excluded from the value of supply, if all the following conditions are satisfied, namely,—

- (i) the supplier acts as a pure agent of the recipient of the supply, when he makes the payment to the third party on authorisation by such recipient;
- (ii) the payment made by the pure agent on behalf of the recipient of supply has been separately indicated in the invoice issued by the pure agent to the recipient of service; and
- (iii) the supplies procured by the pure agent from the third party as a pure agent of the recipient of supply are in addition to the services he supplies on his own account.

(16) Rate of exchange of currency, other than Indian rupees, for determination of value [Rule 34]:

- (a) **Exchange rate notified by CBIC applicable in case 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, 1962 for the date of time of supply of such goods in terms of Section 12 of the Act.
- (b) **Exchange rate determined as per GAAP applicable in case 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 for the date of time of supply of such services in terms of Section 13 of the Act.

(17) Value of supply inclusive of integrated tax, central tax, State tax, 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,—

$$\text{Tax amount} = \frac{\text{Value inclusive of taxes} \times \text{tax rate in \% of IGST or as the case may be CGST, SGST or UTGST}}{(100 + \text{sum of tax rates, as applicable, in \%})}$$

Consequences of Applying Wrong Provision of Valuation:-

Applying the wrong valuation provision under GST can lead to serious legal, financial, and business consequences.

1. Tax Demands, Interest & Penalties

- **Short payment of GST** due to undervaluation attracts demands and interest. As per Section 73, tax not paid is recoverable; Section 50 mandates interest at **18% per annum**, calculated per day, from the due date till actual payment.
- **Incorrect invoicing**—including under- or over-valuation—can result in hefty penalties. Under Section 122(1), issuance of incorrect or false invoices can attract a penalty of ₹10,000 or the tax evaded, whichever is higher. Fraudulent cases may incur penalties up to 100% of the tax amount.
- In fraud or wilful suppression cases, **criminal prosecution** may follow under Section 132, with imprisonment ranging from **1 to 5 years**, depending on the amount involved.

2. Loss of Input Tax Credit (ITC)

- **Undervaluation** often results in short GST collection and output tax mismatches, which can lead to demands and penalties.
- **Overvaluation** means recipients may lose ITC eligibility—especially if not eligible—making GST a cost to them versus a recoverable credit.

3. Legal Risks & Compliance Issues

- **Show Cause Notices (SCNs)** and investigations are common when discrepancies arise from valuation issues. This leads to additional litigation costs and business disruptions.
- **GST registration** can be jeopardized. Repeated or significant non-compliance may result in suspension or cancellation, putting the entire operational license at risk.

4. Business Continuity & Reputation

- Incorrect valuations disrupt vendor-customer trust. Suppliers and buyers may refuse transactions if invoice value is questionable—leading to supply chain friction.
- Persistent errors tarnish business credibility, making it harder to maintain or build new commercial relationships.

Error Type	Consequences
Under-Valuation	Tax demands, interest, penalties, possible prosecution
Over-Valuation	Loss of ITC for recipient, higher GST cost
Repeated Misuse	SCNs, litigation, registration suspension
General Misfiling	Disrupted relations, tarnished business reputation