

# Valuation in GST Law

A 3D bar chart is positioned in the lower right quadrant of the slide. It features a prominent red bar that is significantly taller than the other bars, which are blue. The chart is set against a background of a city skyline with various skyscrapers. A large, light gray diagonal line runs from the top left towards the bottom right, crossing the chart area.

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# Basics of Valuation

# Value and Valuation -

## **value**

'valju:/'

*noun*

the regard that something is held to deserve; the importance, worth, or usefulness of something.

## **valuation**

valjʊ'eɪʃ(ə)n/

*noun*

an estimation of the worth of something, especially one carried out by a professional valuer.

# Consideration -

“Consideration” in relation to the supply of goods or services or both includes—

(a) any payment made or to be made, whether in money or otherwise, in respect of, in response to, or for the inducement of, the supply of goods or services or both, whether by the recipient or by any other person but shall not include any subsidy given by the Central Government or a State Government;

(b) the monetary value of any act or forbearance, in respect of, in response to, or for the inducement of, the supply of goods or services or both, whether by the recipient or by any other person **but shall not include any subsidy given by the Central Government or a State Government:**

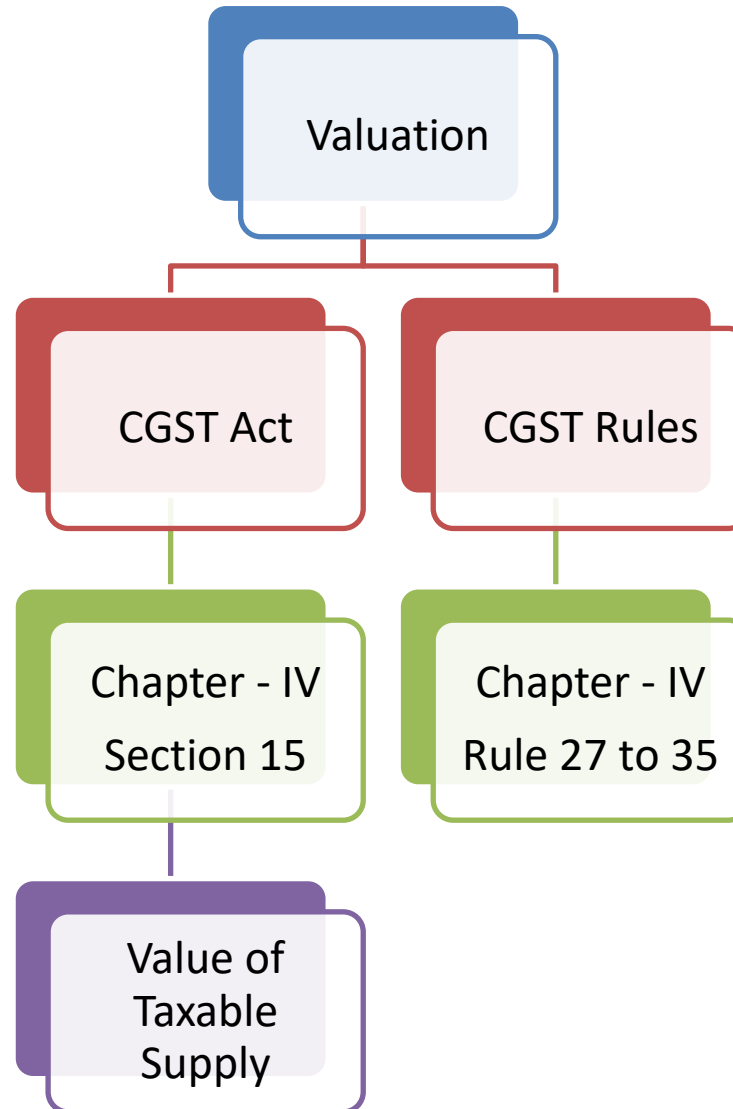
Provided that a deposit given in respect of the supply of goods or services or both shall not be considered as payment made for such supply unless the supplier applies such deposit as consideration for the said supply **[Section 2(31)of CGST ACT**

# Valuation in GST

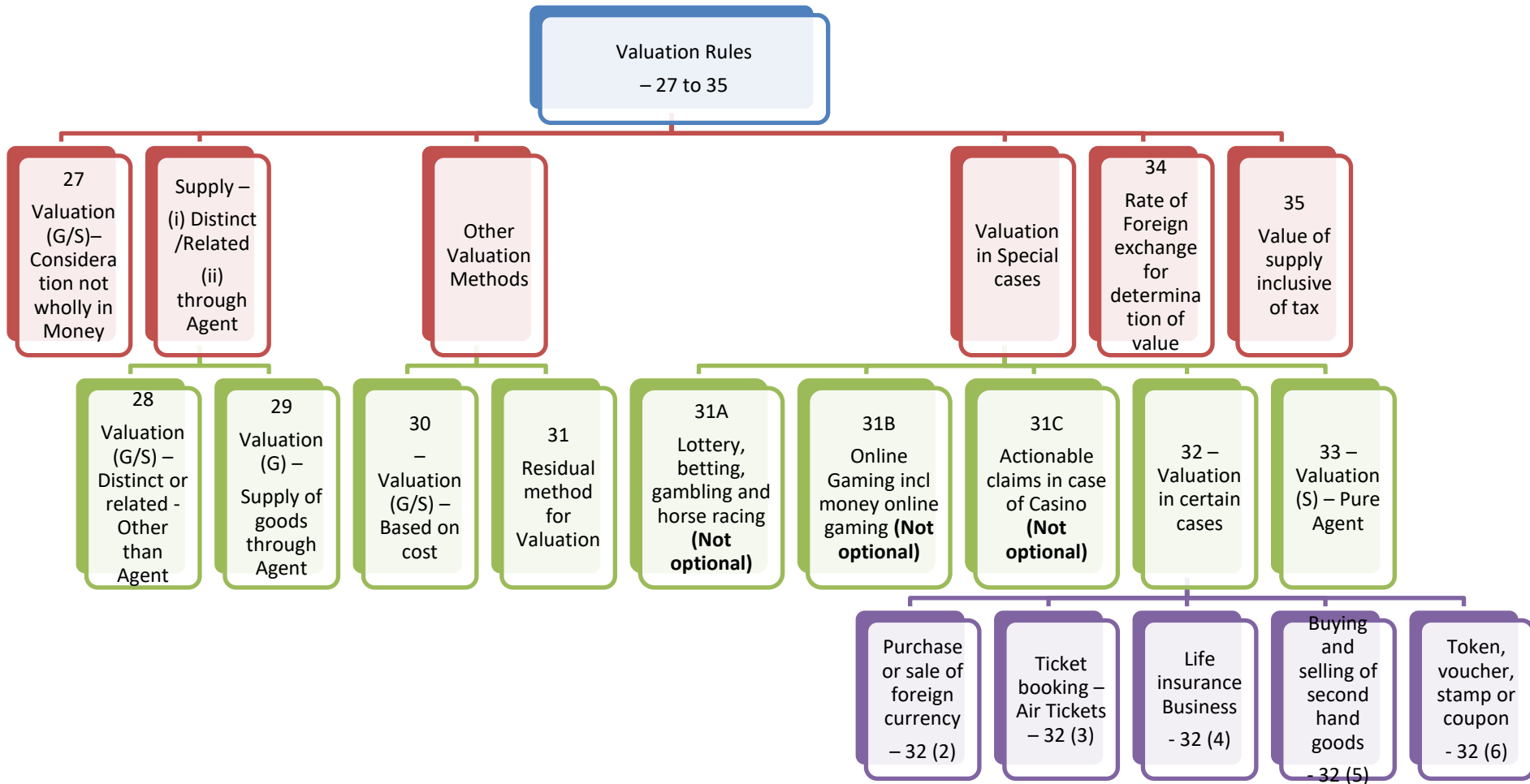


# Legal Provisions of Valuation

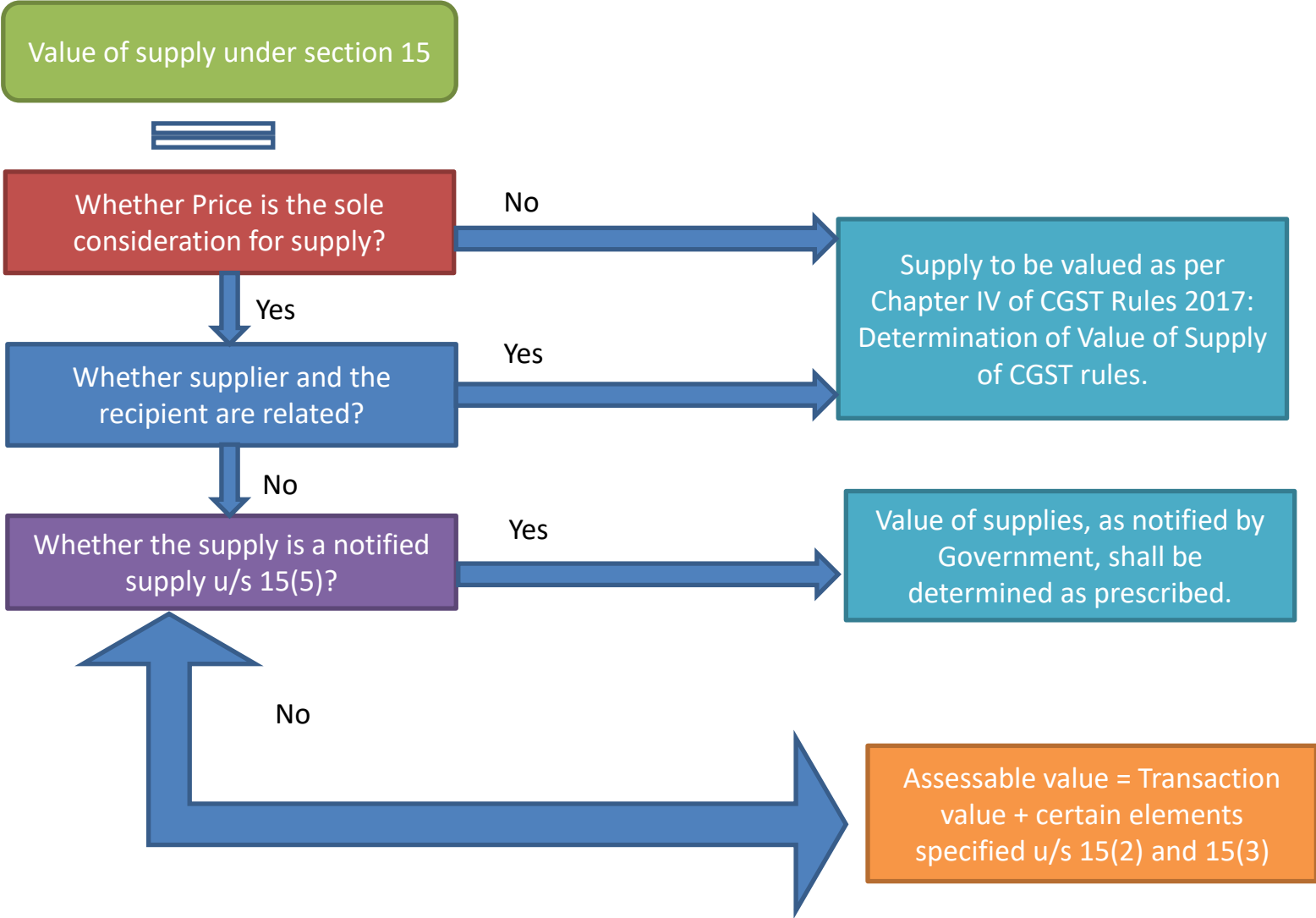
# Valuation Provisions – Act & Rules



# Valuation Rules – A Snapshot



# Flow Chart for Determining Value of Supply



# Valuation – Section 15

# Value of Goods or Services – Sec 15

Value of goods or services or both

Ingredients for Transaction value -



Transaction value



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# Value of taxable supply

Section 15 (1) of CGST Act, 2017

$$\text{Value of Supply*} = \text{Transaction value} + \text{Inclusions} - \text{Exclusions}$$

\*If the following two conditions are satisfied:

- Price is the sole consideration for the supply
- Supply is between unrelated persons

# Value of Goods or Services – Sec 15

Value of  
Goods or  
Services or  
Both

Key points to ponder!!

Transaction  
Value

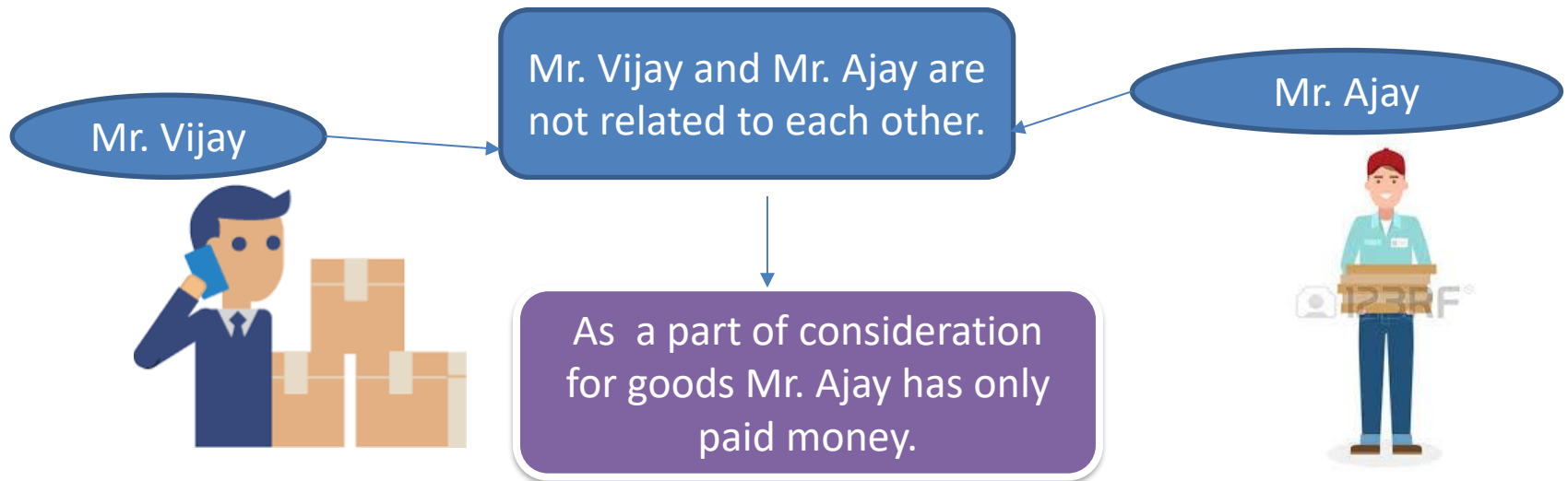
Related party valuation was not applicable to goods and services under VAT and Service tax laws, introduced under GST

In case, covered for related party, value to be governed by Valuation Rules (Arm's length pricing)

Concept of MRP valuation has been done away with - GST payable at each supply chain level

## ILLUSTRATION:

Mr. Vijay supplies goods worth Rs 20 lacs to Mr. Ajay.



Price of goods i.e. Rs 20 lacs is the transaction value. GST is applicable on Rs 20 lacs



## Person deemed to be related

Officers or directors of one another's business.

Legally recognised partners in business.

Employer and employee

Directly or indirectly owns, controls or holds 25% or more of outstanding voting stock or shares or both

One of them directly or indirectly controls the other.

Both of them are directly or indirectly controlled by a third person.

Together they directly or indirectly control a third person

Members of same family

Sole agent or sole distributor or sole concessionaire shall be deemed to be related

## Inclusions – Sec 15 (2)

- Any taxes duties, fees and charges if charged separately [other than CGST, SGST, UTGST, IGST or Cess if shown separately] – 15 (2) (a)
- Any amount that supplier is liable to pay but incurred by the recipient – 15 (2) (b)
- Incidental expenses (inc. Commission and packing), incurred at the time of or before delivery of goods or supply or services – 15 (2) (c)
- Interest / late fee / penalty for delayed payment of consideration – 15 (2) (d)
- Subsidies directly linked to the price (excluding subsidies provided by CG & SG) – 15 (2) (e)

## Exclusions – Sec 15 (3)

- Discount if shown separately in the invoice
- Post sales discount -
- (i) only if known earlier or recorded in agreement and **specifically linked to relevant invoices.**
- Input tax credit reversed by the recipient to the extent of discount **(through GST returns)**

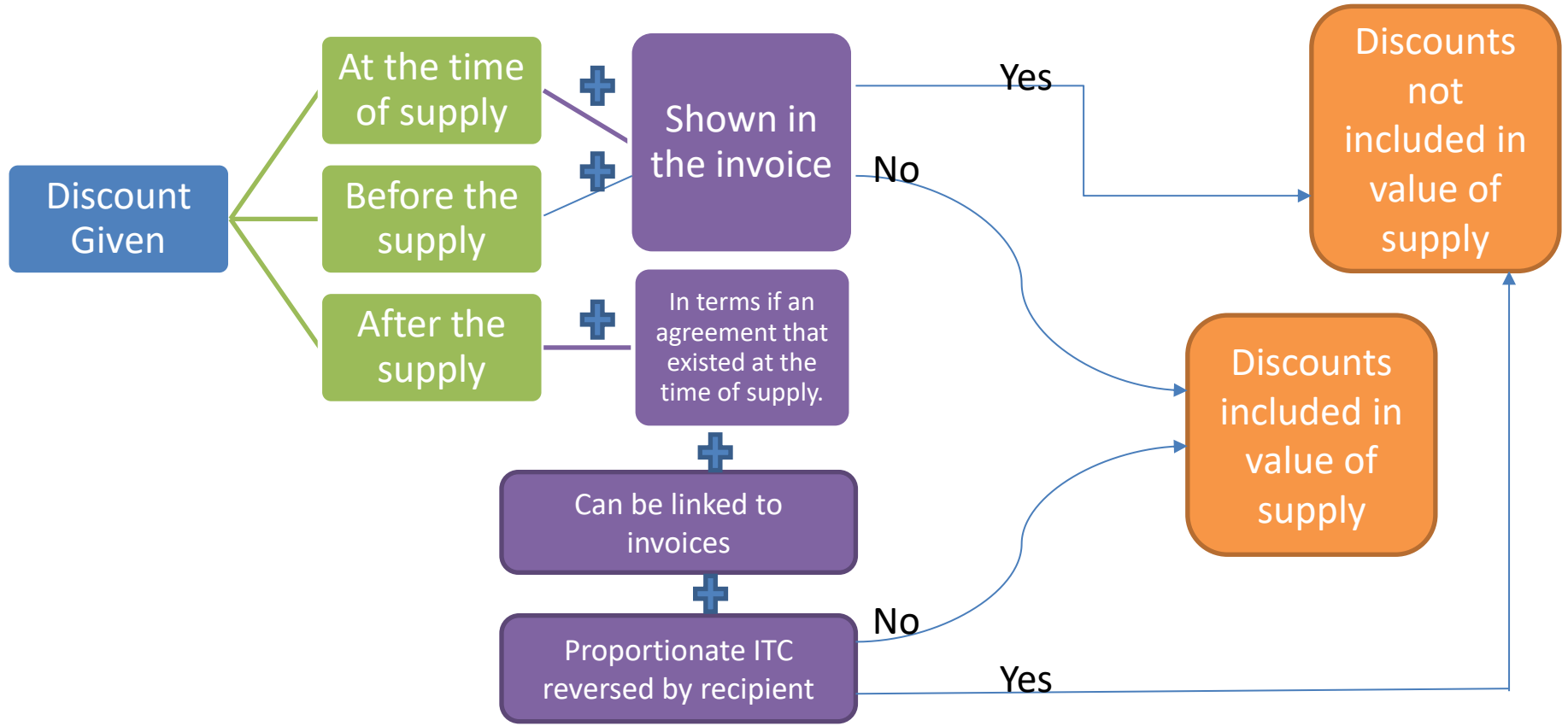
If valuation cannot be determined as per Sec 15 – Sec 15 (4)

- where the value of the supply of goods or services or both cannot be determined under sub-section (1), the same shall be determined in such manner as may be prescribed

Sec 15 (5)

- Central Government may determine the value of such supplies as may be notified on the recommendations of the Council – Special cases

# Analysis of Discount -



# Recap – Sec 15 – Transaction value

## Value of taxable supply - Sec 15 (1)

The value of a supply of goods or services or both shall be **the Transaction Value (Taxable Value)**

**Condition: -**

the supplier and the recipient are **not related**

the **price is the sole consideration**

## Sec 15(2) Transaction Value **Includes**

(a) any taxes, duties, cesses, fees and charges levied under any law but NOT CGST; SGST; UTGST & Cess

(should be charged separately by the supplier)

(b) in connection to the supply incurred by the recipient on behalf of supplier & not included in the price for the goods or services

(c) incidental expenses, including commission and packing, anything incurred & charged by the supplier at the time of or before the delivery of goods or services

(d) interest or late fee or penalty for delayed payment

(e) subsidies directly linked to the price but exclude Central/State Govt.

# Recap – Sec 15 – Transaction value

## Transaction Value **Excludes**

(a) discount recorded in the supply (mentioned in the invoice)

(b) discount given after the supply

## **Condition:**

Discount is based on the agreement & made on or before the supply & linked to the Original invoices

ITC to the extent of discount should be reversed by the recipient

***Note - Price is not sole consideration / supplier & recipient are related / supply is a notified supply u/s 15(5) ==> Valuation is as per Chapter IV : Determination of Value of Supply of CGST Rules***

# Test your Knowledge!

Question 1 –

The Valuation is covered in which Chapter of CGST Act, 2017?

(a) V

(b) IX

(c) IV

(d) II

**Answer – option (c) IV**

# Test your Knowledge!

Question 2 –

Certain entities/persons are termed as Related Persons. Which of the below is not related persons as per CGST Act, 2017?

- (a) Officers or directors of one another's business
- (b) Directly or indirectly owns, controls or holds less than 24% of outstanding shares
- (c) Husband and Wife
- (d) Legally recognised partners in business

**Answer – option (b)**

# Test your Knowledge!

Question 3 –

A Ltd made sales to B Ltd. They have an agreement and have issued documents for post sales discount to B Ltd. What should the parties do to qualify as discount as per Sec 15 of CGST Act?

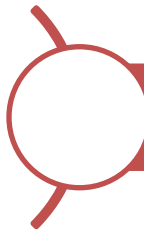
- (a) Enter into an agreement after the supply of goods
- (b) Issue document specifically linked to relevant invoices
- (c) No need to reverse the ITC by B Ltd
- (d) A Ltd should have shown discount on invoice itself.

**Answer – option (b)**

# Valuation Rules – Rule 27 to 35

The valuation of goods can be done from Rules 27 to 30 of CGST Rules 2017.

Valuation of Services can be done under Rule 31 ignoring Rule 30 (110% of cost of provision of Service)



# What is Open Market Value (OMV)?

Open Market Value' defined as full value in money excluding GST where supplier and recipient are not related and price is sole consideration at the same time when supply being valued is made.

Where a new phone is supplied for Rs 20,000 along with the exchange of old phone and if the price of the new phone without exchange is Rs 24,000, the open market value of new phone is Rs 24,000.



Old phone



New phone

MRP – 24,000  
Exchange Price – 20,000

# Goods or services of like kind and quantity

Defined as supply goods or services or both under similar circumstances, in respect of the characteristics, quality, quantity, functional components, materials, and reputation is the same as, or closely or substantially resembles, that supply of goods or services or both.



A Company Manufactures Coca Cola but the Open market Value (OMV) is not ascertainable since the product is not launched in market. In this case the value of PEPSI being like kind and quality shall be the value of Coca Cola.





## Chapter IV- Rules to Determine Value of Supply

### Rule 27 : Consideration not wholly in money.



Above methods should be followed in sequential manner

## Rule 27 - Where the consideration is not wholly in money

**where the consideration is not wholly in money**

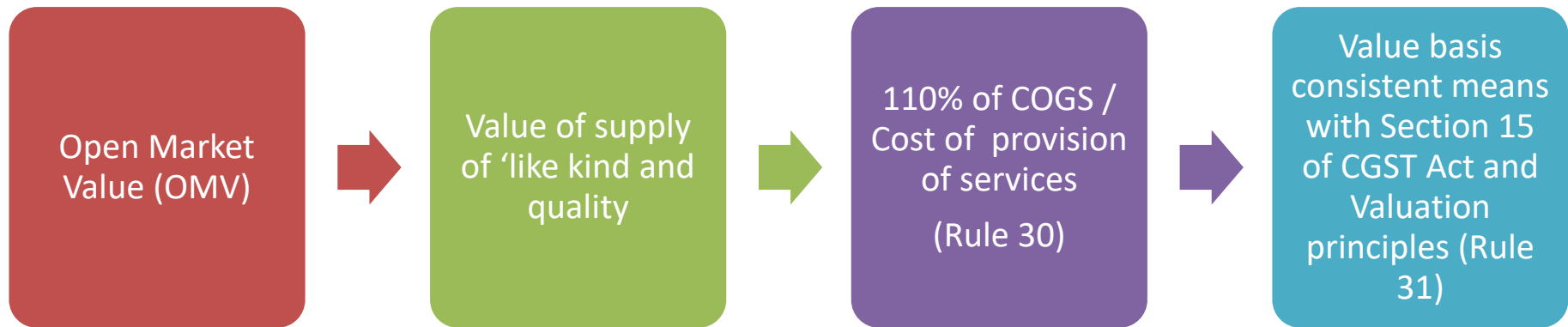
(a) be the open market value

(b) If open market value not available ==> Money + Consideration in other form, if that amount is known at the time of supply

(c) Not determined under (a) & (b) ==> like kind and quality

(d) Not determined under (a) - (c) ==> Rule 30 & 31 in that order

# Transactions with related parties or distinct person other than through agent – Rule 28



Above methods should be followed in sequential manner

If goods are intended for further supply, as such, (at the option of the supplier) - @ 90% of the price charged for like kind and quality goods by the recipient to its unrelated customer

Where recipient is eligible for full ITC: Invoice value = OMV (Taxable value)

Who are related persons – Explained earlier

Who is a distinct person? – Same PAN – Registration in more than one State

# Rule 28 - Supply between distinct or related persons (not agent)

## Supply between distinct or related persons (not agent)

(a) be the open market value

(b) Not determined under ==> like kind and quality

(c) Not determined under (a) & (b) ==> Rule 30 & 31 in that order

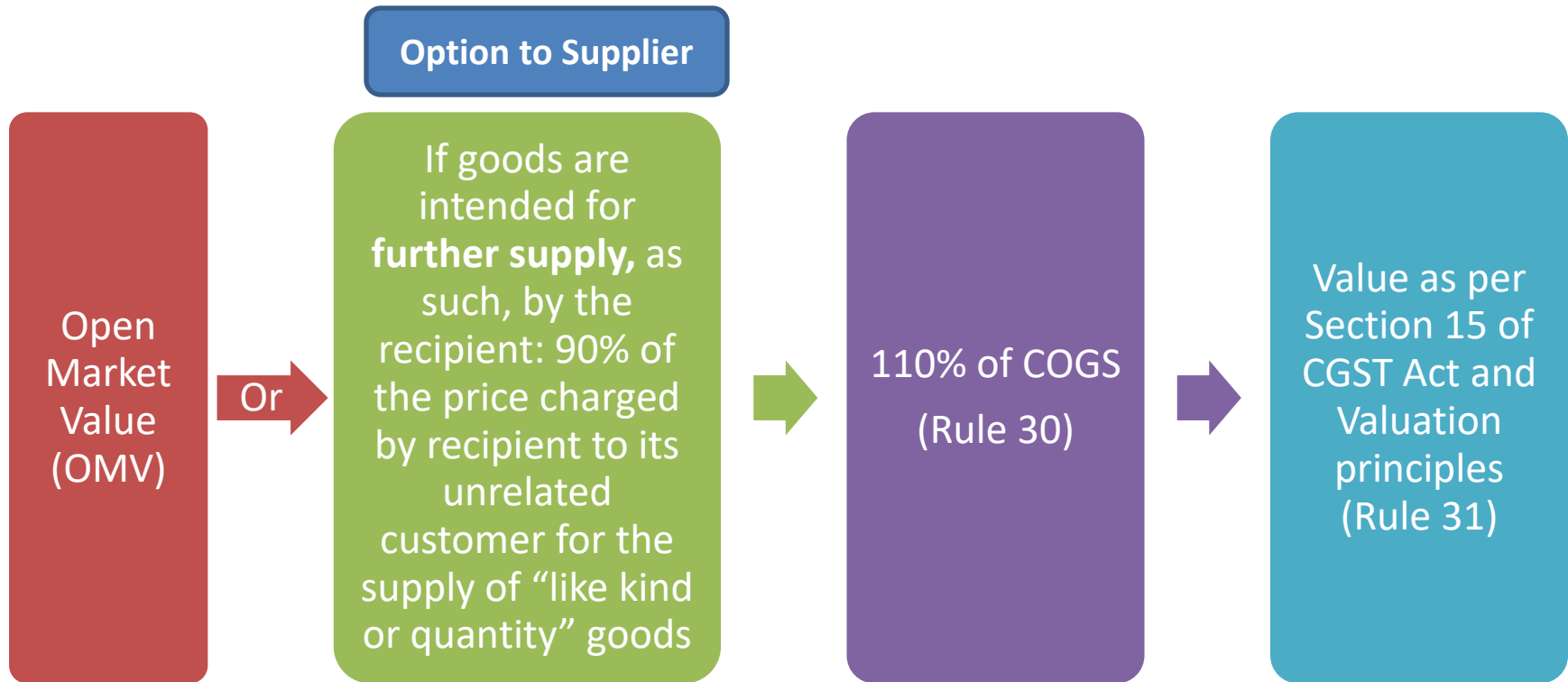
### Where ITC is not eligible to avail

Intended further supply as such -  
Value shall be at the option of the supplier i.e. 90% of the price charged to the customer (not related)

### Where ITC is eligible to avail

the value declared in the invoice shall be deemed to be the open market value

# Supply of goods made / received through an agent – Rule 29



Above methods should be followed in sequential manner

## Rule 29 - supply of goods made or received through an agent (between the principal and his agent)

### Supply of goods made or received through an agent (between the principal and his agent)

(a) be the open market value OR value shall be at the option of the supplier i.e. 90% of the price charged to the customer (not related), like kind and quality & where the goods are intended for further supply

(b) Not determined under (a) ==> Rule 30 & 31 in that order

# Illustration – Supply thru Agent

- P (principal) supplies groundnuts to A (agent). A in turn sells groundnuts at INR 5,000 per quintal.
- Another independent supplier sells groundnuts at INR 4,550 per quintal.
- Thus, the open market value of groundnuts is INR 4,550 per quintal. 90% of A's selling price in the normal course of trade is INR 4500 per quintal.
- P has option to adopt the open market price (INR 4,550) or 90% of A's onward selling price (INR 4,500) as the taxable value of the groundnuts supplied by him to A.

## Rule 30 - Value of supply of goods or services or both based on cost

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

If value cannot be determined as per previous rules, 110% of COGS / Cost of provision of services.

# Rule 31 - Residual method for determination of value of supply of goods or services or both

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

- **If value cannot be determined as per previous rules, 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:**
- **Provided that in the case of supply of services, the supplier may opt for this rule, ignoring rule 30.**

## Rule 30 - Value based on COST

### **Value based on COST**

cannot be determined from the above rules, the value shall be 110% of :-

the cost of production OR manufacture

the cost of acquisition of such goods / the cost of provision of such services

# Rule 31 - Residual Method

## **Residual Method**

Value cannot be determined under Rules 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

**Provided that in the case of supply of services, the supplier may opt for this rule, ignoring rule 30**

# Special Valuation Mechanism

# Valuation for Lottery, Betting, Gambling and Horse Racing – Rule 31A – CGST Rules

It excludes all other provisions of valuation rules (Chapter IV)

Lottery Authorised by State Governments –

- Value **deemed** to be 100/140 of the -
- Higher of – (1) face Value of ticket; or (2) the price as notified by organising State in Official Gazette

Value of Actionable claim to win in betting, gambling or horse racing -

Value **shall** be 100% of the face value of the bet or amount paid into the totalisator

# Rule 31A - Lottery, betting, gambling and horse racing

<b>Value of supply in case of lottery, betting, gambling and horse racing (not specified elsewhere in this chapter)</b>	
<b>Deemed to be 100/140 of the face value</b>	<b>whichever is higher (effectively @ 40% back Calculated)</b>
<b>OR</b>	
<b>Deemed to be 100/140 of the price as notified in the Official Gazette by the organizing State</b>	
<b>(3) value of supply of actionable claim in the form of chance to win in betting, gambling or horse racing in a race club shall 100% of the face value of the bet or the amount paid into the totalizator</b>	

# Valuation for Value of supply in case of online gaming including online money gaming— Rule 31B – CGST Rules

It excludes all other provisions of valuation rules (Chapter IV)

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***

any amount **returned or refunded by the supplier** to the player, 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.

# Valuation for Value of supply of actionable claims in case of casino – Rule 31C – CGST Rules

It excludes all other provisions of valuation rules (Chapter IV)

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

**Provided** that 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.

# Explanation for Rule 32B and 32C

Explanation.- For the purpose of rule 31B and rule 31C, 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.]

## Rule 32 : Value of certain supplies (Overrides the entire chapter)

Purchase / Sale of  
foreign currency

Booking of tickets  
by air travel agent

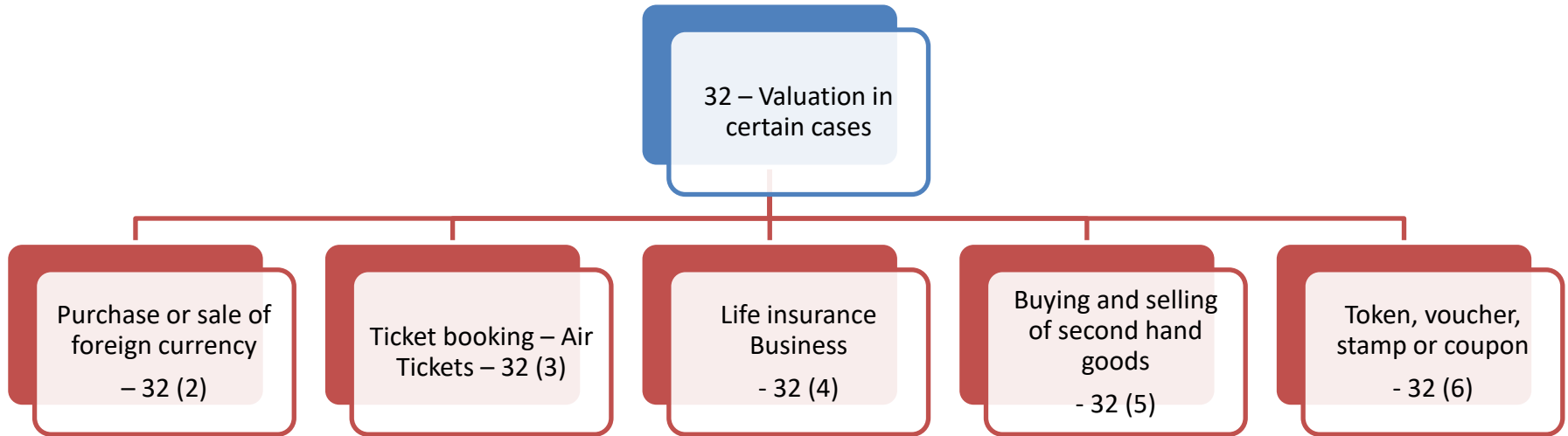
Life insurance  
business

Buying & Selling of  
second hand  
goods

Coupon/ Voucher/  
Stamp (other than  
postage stamp)

Notified services  
between distinct  
persons without  
consideration

# Valuation in Special cases

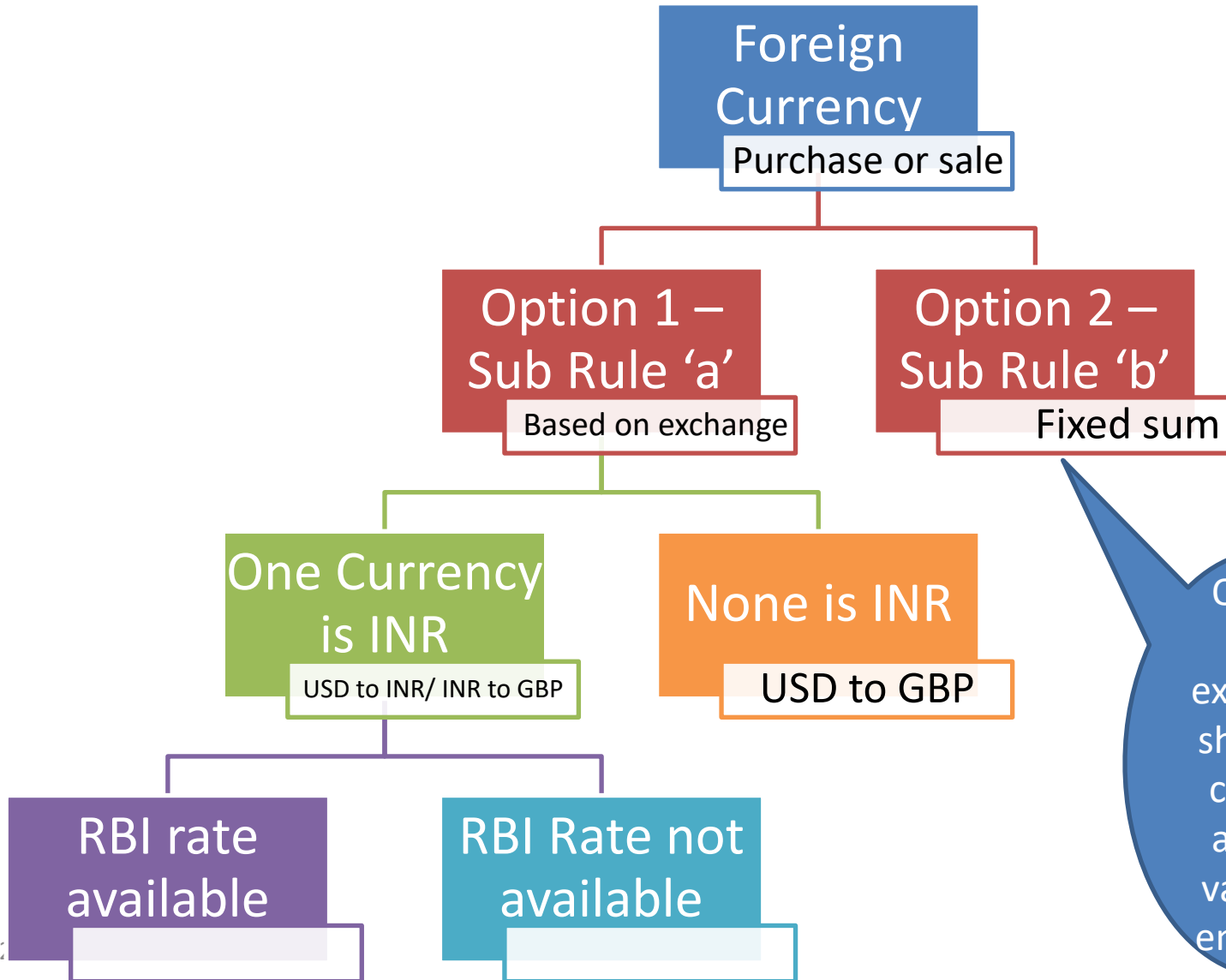


## Points to remember for adopting the valuation under Rule 32

Rule 32 is optional mechanism for the supplier. He may adopt normal valuation methods if he wishes to – Rule 32 (1)

Time of supply – vouchers, token, coupon or a stamp

# Purchase or sale of foreign currency – Rule 32 (2) – CGST Rules



Option once exercised shall not change and be valid for entire FY

# Purchase or sale of foreign currency – 32

## (2) a – One currency is INR

### Situation

If USD is bought by giving INR and RBI reference rate is available

If USD is bought by giving INR and RBI reference rate is not available

Where neither of the currencies exchanged are in INR

### Method of valuation

$(\text{Buying Rate} - \text{RBI Ref Rate}) \times \text{Total units of USD converted}$

1% of INR Amount

1% of the lesser of the two amounts received by converting in INR

# Purchase or sale of foreign currency – 32

## (2) a – One currency is INR

### Example of how to calculate value of supply

Currency to be converted	Amount to be Converted in	Rate as per USD	RBI Reference Rate	Value of Supply	GST Payable @ 18%
USD to INR	Rs 1,30,000 (2000 USD)	Rs 65 per USD	Rs 63 per USD	$2000 \times (65 - 63) = 4000$	$4000 * 18\% = \text{Rs } 360$
USD to INR	Rs 1,30,000	Rs 65 per USD	Not Available	$1\% \text{ of } 1,30,000 = 1,300$	$1300 * 18\% = \text{Rs } 234$
USD to EURO	EURO 6500	Not Available	Not Available	1% of EURO or USD which ever is lower	18% on that 1% value

# Purchase or sale of foreign currency – 32

## (2) b – Fixed rate method - Optional

Value of Foreign Currency Exchange(In INR/Per Transaction)

Upto Rs 1,00,000

From Rs. 1,00,001 to 10,00,000

Above Rs. 10,00,000

GST Rate applicable Under rule 32(2) b

1% of the Gross amount subject to minimum Rs. 250/-

Rs. 1,000 Plus 0.5% of the Gross amount exceeding Rs. 1,00,000 and upto 10,00,000

Rs. 5,500 Plus 0.10% of the Gross amount exceeding Rs. 10,00,000 subject to Maximum amount of Rs. 60,000/-

# Rule 32(2) - Purchase or sale of foreign currency, including money changing

## Determination of value in respect of certain supplies

**(2) (a) the purchase or sale of foreign currency, including money changing,**

### OPTION – A

<b>for a currency, when exchanged from, or to, Indian Rupees</b>	<b>for a currency, when exchanged from, or to, Indian Rupees</b>	<b>neither of the currencies exchanged is Indian Rupees</b>
<b>RBI Reference Rate is available</b>	<b>RBI Reference Rate is NOT available</b>	
<b>Value shall be = (difference in the buying rate or the selling rate for that currency at that time) X (Total Units of currency exchanged)</b>	<b>Value shall be = 1% of Gross amount of Indian Rupee provided or received by the person changing the money</b>	<b>Value shall be = 1% of the lower of two amounts, (i.e. convert both the foreign currencies into Indian Rupees as per RBI rate and compare &amp; consider the lower amount)</b>

# Rule 32(2) - Purchase or sale of foreign currency, including money changing

## Determination of value in respect of certain supplies

### (2) (b) the purchase or sale of foreign currency, including money changing,

#### OPTION - B

Exchanged amount upto Rs. 100,000/-	Exchanged amount > Rs. 100,000/- upto Rs. 10,00,000/-	Exchanged amount > Rs. 10,00,000/-
Value = 1% of the gross amount of currency exchanged OR Minimum Rs. 250/- per currency exchange	Value = Rs. 1000/- & 0.5% of the gross amount of currency exchanged	Value = Rs. 5,500/- & 0.1% of the gross amount of currency exchanged but maximum to INR 60,000/-

**Note: Once the option-B is exercised for a financial year and shall not be withdrawn during the year**

# Purchase or sale of foreign currency – 32

## (2) b – Fixed Rate method

### Example of how to calculate value of supply

Gross Amount received	Rate prescribed	Value of Supply	GST Payable @ 18%
Rs 10,000	1% with min of Rs 250	Rs 250 (1% being Rs 100)	$250 * 18\% = \text{Rs } 45$
Rs 50,000	1% with min of Rs 250	Rs 500	$500 * 18\% = \text{Rs } 90$
Rs 3,00,000	Rs 1000 Plus 0.5%	$\text{Rs } 1000 + [0.5\% \text{ of } (3,00,000 - 1,00,000)] = 2000$	$2000 * 18\% = \text{Rs } 360$
Rs 15,00,000	Rs 5500 plus 0.10%	$\text{Rs } 5500 + [0.10\% \text{ of } (15,00,000 - 10,00,000)] = 6,000$	$6000 * 18\% = \text{Rs } 1080$
Rs 10,00,00,000	Rs 5500 plus 0.10%	$\text{Rs } 5500 + [0.10\% \text{ of } (10,00,00,000 - 10,00,000)] = 5,05,000$ (locked to Rs 60,000)	$60000 * 18\% = \text{Rs } 10800$

# booking of tickets for travel by air provided by an air travel agent– 32 (3)

Type of Booking – Through Air

Value of Supply

Domestic Bookings

5% of Base fare

International Bookings

10% of Base fare

Base fare - that part of the air fare on which commission is normally paid to the air travel agent by the airlines

## **Rule 32(3) - Booking of tickets for travel by air provided by an air travel agent**

**booking of tickets for travel by air provided by an air travel agent shall be deemed to be an amount calculated**

**In Case of domestic bookings**

**Value = 5% of basic fare (air fare on which commission is normally paid to the air travel agent by the airlines)**

**In Case of international bookings**

**Value = 10% of basic fare (air fare on which commission is normally paid to the air travel agent by the airlines)**

**Other option to Travel Agent is Pay GST @ 18% on Commission received airlines and handling charges recovered from customer**

# booking of tickets for travel by air provided by an air travel agent– 32 (3) - Example


## Type of Booking – Through Air

Fare Summary		
Airfare Charges	INR	3,812.00
Aviation Security Fee	INR	236.00
GST for West Bengal	INR	191.00
User Development Fee	INR	760.00
FRCK	INR	200.00
Convenience Fee	INR	199.00
<b>Total Fare</b>	<b>INR</b>	<b>5,398.00</b>

## Value of Supply

Base Fare – 6,194

GST on Supply – 5%  
of 6,194 = 309.70



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Fare Details
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Cancellation Rules
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Base Fare	₹155,000
Taxes and Fees	₹21,487
<b>Total Fare</b>	<b>₹176,487</b>

Base Fare – 1,55,000

GST on Supply –10%  
of 1,55,000 = 15,500

# Life Insurance Business – 32 (4)

Gross Premium – Amount allocated for Investment or savings (if intimated at the time of policy)

Value for single premium policy

10% of Single premium charged

In all other cases

1<sup>st</sup> Year – 25% of the premium

2<sup>nd</sup> Year onwards – 12.5% of the premium

This sub-rule shall not apply where the entire premium paid is only towards **the risk cover in life insurance**.  
(Normal rules shall apply – 18% on premium paid)

# Rule 32(4) – Life Insurance Business

<p>Premium for covering only <b>RISK</b></p>	<p>Premium for covering risk + Savings</p>	
<p>Value = Gross premium charged</p>	<p>The amount <u>allocated for saving</u> has been intimated to policy holders at the time of providing service</p>	
	<p><b>YES</b></p>	<p><b>NO</b></p>
	<p>Value = Gross premium charged from the policy holders (after reducing amt allocated towards Investment / Savings)</p>	<p>32(4)(b) Single Premium Annuity, Value = 10% of the premium charged from the policy holder</p>
		<p>32(4)(c) Other cases, Value = 25% of the premium for 1st year and 12.5% of the premium in subsequent years</p>

# Life Insurance Business – 32 (4)

A has taken 3 LIC policies - (1) Single premium (2) Single premium (3) 10 year premium term.

A. Policy 1 (premium Rs 1,00,000) is pure life cover without any investment.

B. Policy 2 (Premium Rs 1,00,000) with 40% premium is invested.

C. Policy 3 (Rs 1,00,000 per annum premium for 10 years).

Compute value of taxable supply and GST payable

## Calculation of value of supply for Insurance Policy

Policy Type	Insurance Premium	Value of Supply	GST Payable @ 18%	Remarks
Policy 1	1,00,000 – Single	1,00,000	18,000	Not Governed by 32 (4) – refer proviso
Policy 2	1,00,000 – Single	$(1,00,000 - 40,000) * 10\% = 6000$	1,080	32 (4) (c)
Policy 3	1,00,000 annually	1 <sup>st</sup> Year – 25,000 2 <sup>nd</sup> Yr onw – 12,500	1 <sup>st</sup> – 4,500 2 <sup>nd</sup> Yr – 2,250	32 (4) (c)

Below is computation for medi-claim policy not governed by 32(4)

### Payment Details

Base Premium Amount	9,036.00	Service Tax Amount	1,627.00
Net Payable Amount	10,663.00		

# Life Insurance Business – 32 (4)

A has taken Jeevan Umang LIC policy for cover of Rs 10 lacs with annual premium of Rs 51709/-  
Compute value of taxable supply and GST payable

## Calculation of value of supply for Insurance Policy

Policy Type	Insurance Premium	Value of Supply	GST Payable @ 18%	Remarks
Jeewan Umang – 1 <sup>st</sup> Year	51,709/-	$51,709 \times 25\% = 12,927/-$	$12,927 \times 18\% = 2,327/-$	32 (4) (c)
Jeewan Umang – 2 <sup>nd</sup> Year onwards	51,709/-	$51,709 \times 12.5\% = 6,464/-$	$6,564 \times 18\% = 1,164/-$	32 (4) (c)

Below is computation from LIC Portal -

Jeevan Umang			
<b>Name</b> Rohit	<b>Age</b> 37	<b>Policy Term</b> 63	<b>Premium Payment Term</b> 20
<b>Plan</b> Jeevan Umang	<b>No. of Lives</b> Single	<b>Sum Assured</b> ₹ 10,00,000	
Annual Premium (₹ 54,559)			
<b>Base Premium</b> WholeLife (₹ 51,709)	<b>*Tax on Base Premium</b> ₹ 2,327	<b>Which Includes</b> <input checked="" type="checkbox"/> Accident Benefit( ₹ 500 )	<b>*Tax on Accident Benefit</b> ₹ 23



# Buying and Selling second hand goods – Rule 32 (5)

## Buying & Selling of second hand goods

As such or with minor processing:

Selling price – Buying Price (ignore if value is negative)

Conditions –

1. The person must be dealing in buying and selling of second hand goods
2. Goods are sold as such or with minor processing
3. Nature of goods must not change
4. No ITC is availed on purchase of such goods

Purchase value of goods repossessed from a defaulting borrower

Purchase price by defaulting buyer (–) 5% for every quarter or part thereof, between the date of purchase till the date of disposal by the person making such repossession

# Rule 32(5) – Buying and Selling of Second Hand Goods

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)**

ITC not availed	Value = the difference between the selling price and the purchase price and where the value of such supply is negative, Value will be ZERO
ITC availed	Value = Transaction Value
Goods repossessed from a defaulting borrower & borrower is not registered	Value = Sale price - [Purchase value - 5% on PV per quarter (purchase date to disposal date)] <b>Note if the value is negative then no GST</b>

# Illustration – Second Hand goods – Repossessed

**Situation** – A Ltd deals in purchase and sale of second hand goods. A Ltd has repossessed the Honda Activa from Mr. B on 3<sup>rd</sup> February due to default of loan taken from A Ltd.

Mr. B paid Rs 75,000 for the Activa in July 2017. The value at the time of repossession is Rs 47,000 in February 2018.

After minor repairs it is sold to Mr. C at Rs 52,000 in March 2018.

**Solution** – The value for the purpose of this situation shall be derived as per proviso to Clause 5 of Rule 32.

The price shall be computed as under –

**Rs 75,000 – 15% of 75,000 = Rs 63,750 (value less 5% reduction for each quarter. (From the date of Purchase to date of sale))**

## Who is a Pure Agent?

- A. Enters into an agreement to act as a pure agent to incur expenditure or costs
- B. Does not hold title to goods or services
- C. Does not use for his own interest such goods or services so procured
- D. Receives only actual amount incurred to procure such goods or services in addition to his own expenses



## Value of supply – Pure agent – Rule 33

Expenditure or costs incurred by supplier as a pure agent of the recipient shall be excluded from value of supply if -

- Supplier act as pure agent when he makes payment to third party
- Payment made by pure agent has been separately indicated in the invoice
- Supplies procured from third party are in addition to services supplied by him on his own account

# Rule 33 – Valuation in case of Pure Agent

## **Pure agents**

**Below shall be excluded from the value of supply if following conditions are satisfied:-**

**(i) the supplier acts as a pure agent of the recipient, when he makes the payment to the third party on authorization 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**

# Illustration – Pure Agent

**Situation** - X is an importer and Y is a custom broker. X approaches Y for customs clearance work in respect of an import consignment. The clearance of import consignment and delivery of the consignment to X would also require taking service of a transporter. So X, also authorises Y, to incur expenditure on his behalf for procuring the services of a transporter and agrees to reimburse Y for the transportation cost at actuals.

## **Solution –**

Here, Y is providing customs brokers service to X, which would be on a principal to principal basis. The ancillary service of transportation is procured by Y on behalf of X as a pure agent and expenses incurred by Y on transportation should not form part of value of customs broker service provided by Y to X. This, in sum and substance is the relevance of the pure agent concept in GST.



## Rate of exchange of currency (other than Indian rupees) for determination of value of supply - Rule 34

The rate of exchange for determination of value of taxable **goods**:

Rate as notified by Board U/s 14 of Customs Act for the date of time of supply of such goods as per Sec 12 of the Act

The rate of exchange for determination of value of taxable **services**:

The applicable rate of exchange determined as per the Generally Accepted Accounting Principles on the date of time of supply of such services of the Act

## **Rule 34 – Rate of exchange of currency, other than Indian rupees**

**Rate of exchange of currency, other than Indian rupees, for determination of value.-**

**in Case of Goods**

**Rate of exchange for determination of value of taxable goods shall be the rate as notified by CBEC u/s 14 of customs Act 1962 prevalent on the date of supply of goods**

**in Case of Services**

**Rate of exchange for determination of value of taxable service shall be rate determines as per GAAP prevalent on the date of time of supply of the said services**

## Value of supply inclusive of GST – Rule 35

Where the value of supply is inclusive of CGST, SGST/UTGST, IGST, the tax amount shall be determined in the following manner:



Tax amount = (Value inclusive of taxes 'x' tax rate in % of IGST or CGST, SGST/ UTGST) ÷ (100+ sum of tax rates, as applicable, in %)

A Private Limited sold 10 television sets to Mr. X at Rs 2,36,000 inclusive of taxes. Rate applicable TV sets was 18%. Please calculate the taxable value and Tax.

**Solution -**

**Tax Amount = 2,36,000 x 18/118 = Rs 36,000**

**Taxable Value = Rs 2,00,000**

# Test your Knowledge!

Question 4 –

What will be the value of supply if Bajaj Electronics supply Sony television set for Rs 85000 along with the exchange of an old TV and if the price of the Sony television set without exchange is Rs 1,00,000, the open market value of the Sony television set is:

- A. Rs 85,000
- B. Rs 1,00,000
- C. Rs 15,000
- D. Rs 1,15,000

**Answer – option (B)**

# Test your Knowledge!

Question 5 –

Mr. Santa located in Nashik purchases 10,000 Hero ink pens worth Rs 4,00,000 from Lekhana Wholesalers located in Mumbai. Mr. Mohan's wife is an employee in Lekhana Wholesalers. The price of each Hero pen in the open market is Rs 52. The supplier additionally charges Rs 5,000 for delivering the goods to the recipient's place of business. The value of such supply will be:

- A. Rs 5,20,000
- B. Rs 5,25,000
- C. Rs 4,00,000
- D. Rs 4,05,000

**Answer – option (D)**

# Test your Knowledge!

Question 6 –

As per Rule 31 of the CGST Rules, residual method for determination of value of supply of goods or services or both will apply when:

- A. Value of supply cannot be determined under Rules 27 to 30
- B. Value of supply determined is more than the open market value of goods
- C. Value of supply determined is more than the Value of supply of like kind and quality
- D. All of the above

Answer – option (A)

# Test your Knowledge!

Question 6 –

Rule 30 of the CGST Rules inter alia provides value of supply of goods or services or both based on cost shall be \_\_\_\_\_% of cost of production or manufacture or the cost of acquisition of such goods or the cost of provision of such services:

- A. 100%
- B. 90%
- C. 10%
- D. 110%

Answer – option (D)

# Test your Knowledge!

Question 7 –

If the goods are supplied to related persons then how should the taxable person ascertain the value of supplies?

- A. Seek the help of the GST officer
- B. Use the arm's length price as required under the Income Tax law
- C. Identify the prices at which goods are sold by the unrelated person to his customer
- D. As per Rule 28 of the CGST Rules

Answer – option (D)

# Test your Knowledge!

Question 8 –

The value of supply of goods and services shall be the \_\_\_\_\_

- A. Transaction Value
- B. MRP
- C. Market Value
- D. None of the above

Answer – option (A)

# Test your Knowledge!

Question 9 –

The value of supply should include

- A. Any non-GST taxes, duties, cesses, fees charged by supplier separately
- B. Interest, late fee or penalty for delayed payment of any consideration for any supply of goods or services
- C. Subsidies directly linked to the price except subsidies provided by the Central and State Government
- D. All of the above

Answer – option (D)

# Test your Knowledge!

Question 10 –

When can the transaction value be rejected for computation of value of supply

- A. When the buyer and seller are related and price is not the sole consideration
- B. When the buyer and seller are related or price is not the sole consideration
- C. It can never be rejected
- D. When the goods are sold at very low margins

Answer – option (A)

Let's recap

# 10 Minutes recap?????? – Are we ready??????

Section 15 of CGST Act 2017

Legally recognised partners in business???

Pure Agent???

Rule 31???

Rule 27 of CGST Rules, 2017

Second Hand Goods?

Value for Related party or Distinct Person – Provision?

Rule 31A of CGST Rules, 2017

Value for Lottery, betting, Gambling – Provision??

Rate of exchange – Goods or Services??

Employer and Employee??

Value Inclusive of tax??

Rule 30???

Foreign Currency???

Repossessed Second hand Goods?

Life Insurance??

# Case Studies

# Case Study 1

1. AK Pvt Ltd has provided the following particulars relating to goods sold by it to AA Pvt Ltd.

Particulars	INR
List price of the goods (exclusive of taxes and discounts)	50,000
Tax levied by Municipal Authority on the sale of such goods	5,000
CGST and SGST chargeable on the goods	10,440
Packing Charges (not included in price above)	1,000

- AK Pvt Ltd received INR 2,000 as a subsidy from NGO on sale of such goods. The price of INR 50,000 of the goods is after considering such subsidy.
- AK Pvt Ltd offers 2% discount on the list price of the goods which is recorded in the invoice of goods .
- ***Determine the value of taxable supply made by AK Pvt Ltd.***

# Solution to case Study:

- **Answer:**

## Computation of value of taxable supply

Particulars	INR
List price of the goods (exclusive of taxes and discounts)	50,000
Tax levied by Municipal Authority on the sale of such goods [Includible in the value as per section 15(2)(e)]	5,000
CGST and SGST chargeable on the goods [Not includible in the value as per section 15(2)(e)]	
Packing Charges [Includible in the value as per section 15(2)(c)]	1,000
Subsidy received from a non-Government body [Since subsidy is received from a non-Government body, the same is included in the value in terms of section 15(2)(e)]	2,000
Total	58,000
Less: Discount @2% on INR 50,000 [Since discount is known at the time of supply, it is deductible from the value in terms of section 15(3)(a)]	1,000
<b>Value of taxable supply</b>	<b>57,000</b>

## Case Study 2

ABC, a money changer, has exchanged US \$ 10,000 to Indian rupees @ ₹ 64 per US \$. Mr. A wants to value the supply in accordance with rule 32(2)(b) of CGST Rules.

Determine the value of supply made by Mr. A.

# Solution to case Study:

## Answer:

As per rules 32(2)(b) of CGST Rules, the value in relation to the supply of foreign currency, including money changing, is deemed to be –

Particulars	₹	₹
Value of currency exchanged in Indian rupees [₹64 * US \$ 10,000]	6,40,000	
Up to ₹ 1,00,000	1,000	
For ₹ 5,40,000 [ 0.50% * ₹ 5,40,000]	2700	
<b>Value of supply</b>		<b>3700</b>

# Case Study 3 -

- Make My Trip is an air travel agent. Compute the value of supply of service made by him during June 2018 with the help of following particulars furnished by him-

Particulars	Basic Fare (₹)	Other charges and fee (₹)	Taxes (₹)	Total value of tickets (₹)
Domestic Bookings	1,00,900	9,510	4,990	1,15,400
International Bookings	3,16,880	20,930	15,670	3,53,480

# Solution to case Study:

- Answer: Computation of value of supply of services made by Make My Trip for the month of June 18.

Particulars	(₹)	(₹)
Basic fare in case of domestic bookings	1,00,900	
Value of supply @ 5% [A]		5,045
Basic fare in case of International bookings	3,16,880	
Value of supply @ 10% [B]		31,688
<b>Value of supply [A] + [B] (rounded off)</b>		<b>36,733</b>

# Queries Please

Thanks for your Patience and Time



# Thank you

Thanks for your Patience and Time

