



VALUE OF SUPPLY UNDER GST

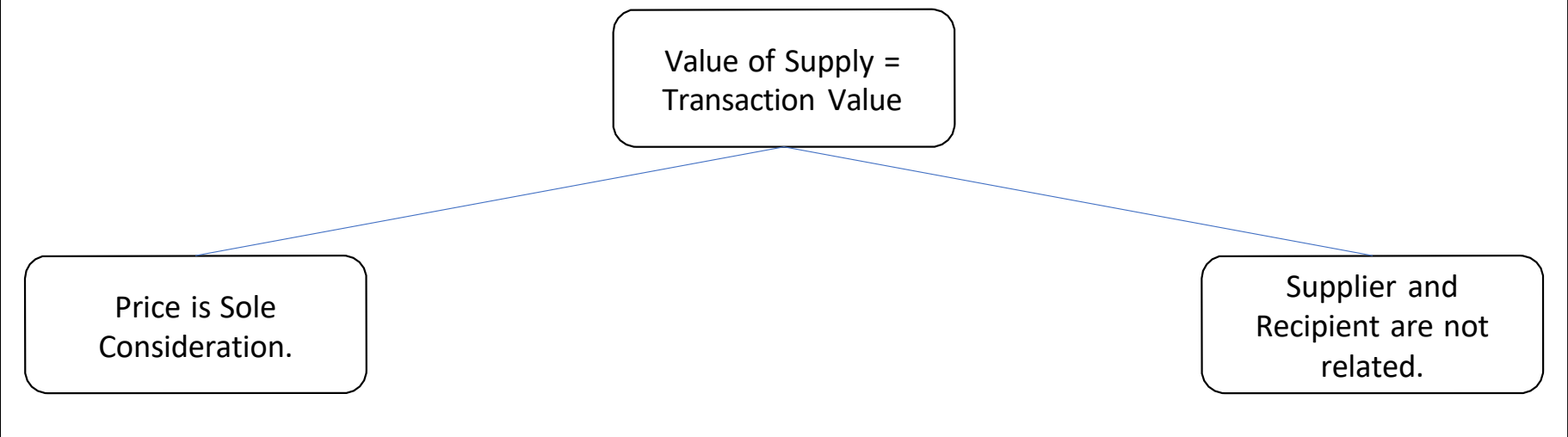
CA PRATIK SUDHIR SHAH

VALUE OF SUPPLY UNDER GST LAW

Value of Supply under GST.

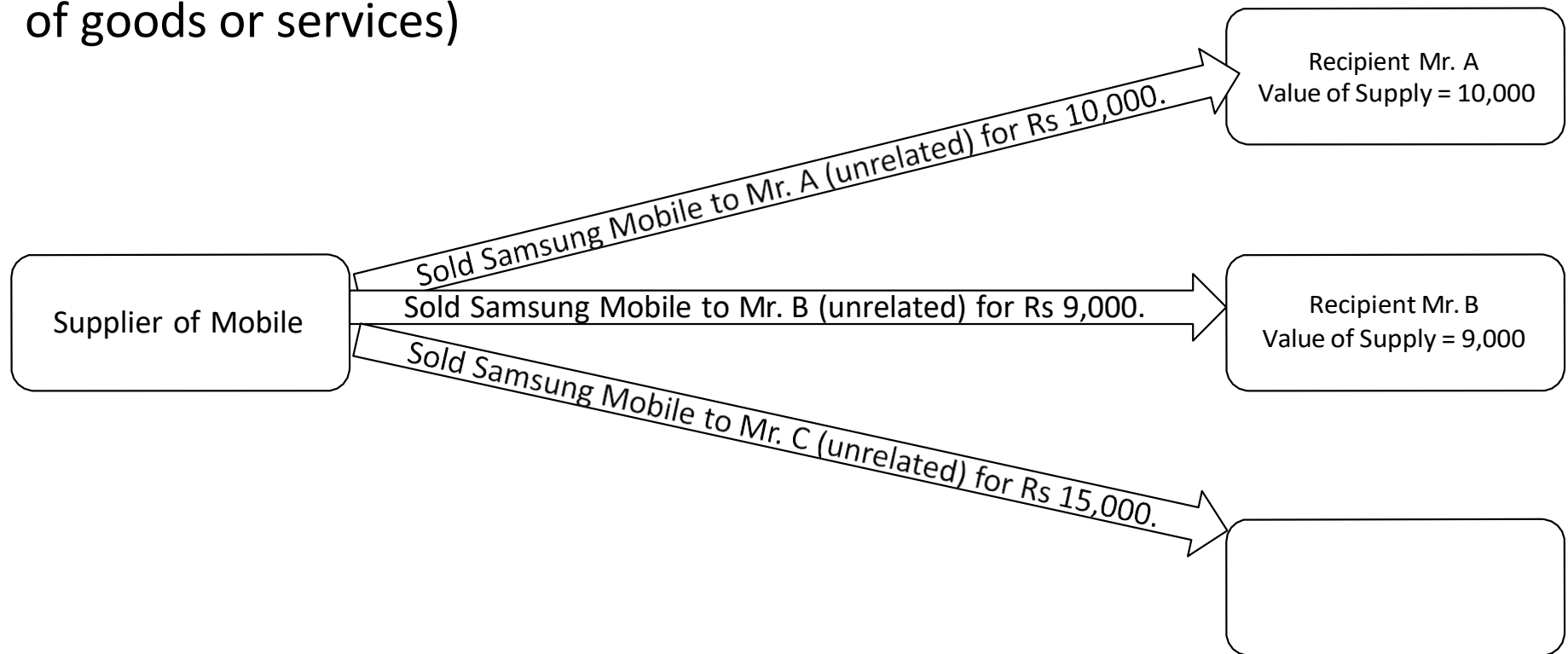
As per Section 15 of CGST Act 2017, Value of a supply of goods or services or both shall be the **Transaction Value**, which is

- 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**.
- The **price is the sole consideration** (No barter or exchange) for the supply.



Value of Supply under GST.

Value of Supply = Transaction Value (Amount paid or payable for supply of goods or services)



Recipient Mr. B
Value of Supply = 15,000

Conditions for Valuation of supply under GST.

Condition-2: Supplier and Recipient of the supply are not related:

Persons shall be deemed to be “related persons” if

- Such persons are **officers or directors** of one another businesses;
- Such persons are **legally recognized partners** in business;
- Such persons **are employer and employee**;
- 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
- 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**; or
- They are **members of the same family**.

Term Person also **includes Legal Persons**.

Value of Supply – Supplier and Recipient are Related (Rule 28).

The Value of Supply of goods or services or both between distinct persons or related persons shall be :

- **Open market value** of such supplies;
- If open market value is not available than the value of supply of goods or services or both of **like kind and quality**.
- Further, if value is not determinable under any of the aforesaid clause, then the value shall be **determined by application of Rule 30 (Cost of Production + 10%) or Rule 31 (Residual Method) in that order. (Rule 30 states that value shall be of the Cost of Production + 10% and the rule 31 is the Residual rule (Best Judgment Assessment).**

PROVISO TO RULE

Provided that where the Goods are intended for further supply as such by the Recipient, the Value shall at the option of the Supplier be an amount equivalent to **90% of the price charged** of the supply of goods of like kind and quality **by the recipient to his customer** not being a related person.

Provided further that where the recipient is eligible for full input tax credit, the **value declared in the invoice shall be deemed to be the open market value of goods or services:**

Question1:

Co. A sold mobile (Open Market Value Rs 10,000) to Co. X (Related Person) for Rs 8,000/-. What shall be Value of Supply of Mobile.

Ans:

- Co. A and Co. X are related persons.
- Value of Supply shall be Open Market Value ie Rs 10,000/-
- Co. A must charge GST on Rs 10,000.

Question2:

Co. A sold mobile (Open Market Value not available) to Co. X (Related Person) for Rs 8,000/-. However Co PQR is selling like kind and quality mobile in market for Rs 12,000/-. What shall be Value of Supply of mobile?

Ans:

- Co. A and Co. X are related persons.
- Value of Supply shall be Open Market Value.
- Since Open Market Value of mobile is not available, Value of supply shall be Value of Supply of goods or services of Like Kind and Quality of such mobile.
- Hence Value of Supply shall be Rs 12,000/-.
- Co. A must charge GST on Rs 12,000.

Question3:

Co. A sold mobile to Co. X (Related Person) for Rs 1,000/-. Open Market Value of such mobile is not available. Also like kind and quality of such mobile is not available. However Cost of Production of such mobile is Rs 5,000/-.

Ans:

- Co. A and Co. X are related persons.
- Value of Supply shall be Open Market Value.
- Since Open Market Value of mobile is not available, Value of supply shall be Value of Supply of goods or services of Like Kind and Quality of such mobile.
- Since Like kind and quality is also not available, value of supply shall be 110% of Cost of Production.
- Hence Value of Supply shall be Rs 5,500/- (110% of Rs 5,000)
- Co. A must charge GST on Rs 5,500.

Question 4:

Co. A (Reg'd in Maharashtra) has transferred goods from Maharashtra to its branch in Gujarat without Consideration. Branch is selling goods as such.

Branch is selling such goods to End User for Rs 10,00,000/-.

What will be value of Supply for goods transferred by Co. A to its branch in Gujarat?

Ans:

- As per Clause b of Schedule I of CGST Act 2017, Supplies between Related Person or Distinct Person shall be Taxable Supply and be subjected to GST.
- Hence Goods transferred from Maharashtra to Gujarat is taxable supply.
- As per proviso to rule 28, where the Goods are intended for further supply as such by the Recipient, the Value shall at the option of the Supplier be an amount equivalent to **90% of the price charged** of the supply of goods of like kind and quality **by the recipient** (Branch in Gujarat) **to his customer** not being a related person.
- In given case, Recipient (Branch) is supplying goods to end user at Rs 10,00,000/-.
- Hence Value of Supply between Co. A in Maharashtra and its branch in Gujarat shall be 90% of Rs 10,00,000 = Rs 9,00,000/-

- Hence Co. A must charge GST on Rs 9,00,000/-.

Value of Supply – Supplier and Recipient are Related (Proviso 1 to Rule 28).

Question 5:

X Ltd owned a factory in Delhi and another Godown in Goa. Both are registered under GST as they are distinct person as per Sec 25 of CGST Act 2017.

Goa got sales order and hence stock (100 Kg) was transferred from Delhi to Goa on 1st April 2019.

On 1st Apr 2019, Price at Delhi was Rs 225 per kg and Price at Goa was Rs 230 per Kg. Goods were sold by Goa state on 10th April 2019 for Rs 250 per kg.

Find Taxable Value for Goods Transferred between Delhi and Goa. Assume GST Rate 5%.

Ans:

- As per Clause b of Schedule I of CGST Act 2017, Supplies between Related Person or Distinct Person shall be Taxable Supply and be subjected to GST.
- Hence Stock Transfer between Delhi and Goa State is taxable supply and is subjected to GST.
- As per Proviso to Rule 28, **where the Goods are intended for further supply as such by the Recipient, the Value shall at the option of the Supplier be an amount equivalent to 90% of the price charged of the supply of goods of like kind and quality by the recipient to his customer not being a related person.**
- In given case Goa (Recipient) intends to further supply such stock as such.
- Hence **Value of Supply shall be 90% of Price charged for supply of such goods by Goa State to its customer on date of transfer from Delhi to Goa.**
- Value of Supply shall be $90\% * (100 \text{ kg} * 230)$ ie Rs 20,700/-.

Value of Supply – Supplier and Recipient are Related (Proviso 2 to Rule 28).

Question 6:

X Ltd owned a factory in Delhi and another Godown in Goa. Both are registered under GST as they are distinct person as per Sec 25 of CGST Act 2017.

Goa got sales order and hence stock (100 Kg) was transferred from Delhi to Goa on 1st April 2019.

Goods were transferred from Delhi to Goa and Invoice was raised by Delhi State of Rs 20000 + 5% GST on Goa State. Open Market Value of such goods on that date was Rs 25,000.

What shall be Value of Supply? Assume Goa State is eligible for Full Input Tax Credit.

Ans:

- As per Clause b of Schedule I of CGST Act 2017, Supplies between Related Person or Distinct Person shall be Taxable Supply and be subjected to GST.
- Hence Stock Transfer between Delhi and Goa State is taxable supply and is subjected to GST.
- As per Proviso to Rule 28, **Provided further that where the recipient is eligible for full input tax credit, the value declared in the invoice shall be deemed to be the open market value of goods or services:**
- In given case Goa (Recipient) is eligible for Full Input Tax Credit.
- Hence Value of Supply shall Value declared in the Invoice.
- Value of Supply shall be 20,000 and GST shall be paid on Rs 20,000.

Value of Supply – Price is not sole consideration (Rule 27).

As per rule **27 of the valuation rules**, where the supply of goods and services is for a consideration not wholly in money, the value of the supply shall:

- Be the **open market value of such supply.**
- If open market value is not available than
 - Sum total of consideration in money and

○ Amount in money as is equivalent to the consideration not in money

- However, if the value of supply is not determinable under above two clauses, be **the value of supply of goods or services or both of like kind and quality.**
- Further, if value is not determinable under any of the aforesaid clause, then the value shall be **determined by application of Rule 30 (Cost of Production + 10%) or Rule 31 (Residual Method) in that order.** (Rule 30 states that value shall be of the Cost of Production + 10% and the rule 31 is the Residual rule (Best Judgment Assessment)).

Question1:

Co. A sold mobile (Open Market Value Rs 10,000) to Mr. B. For such purchase, Mr. B paid Rs 8,000 in cash and exchanged his old mobile.

Ans:

- In given case, recipient Mr. B paid Rs 8,000 in cash and also exchanged his old mobile against purchase of new mobile.
- Hence Price is not sole consideration.
- Value of Supply shall be Open Market Value New Mobile sold ie Rs 10,000/-
- Co. A must charge GST on Rs 10,000.

Question2:

Co. A sold mobile (Open Market Value not available) to Mr. B. For such purchase, Mr. B paid Rs 8,000 in Cash and gave his old mobile (Market Value of old mobile is Rs 1500).

Ans:

- In given case, recipient Mr. B paid Rs 8,000 in cash and also exchanged his old mobile.
- Hence Price is not sole consideration.
- Value of Supply shall be Open Market Value of New Mobile sold.
- Since open market value of new mobile is not available, VOS shall be sum total of consideration in money plus amount in money as is equivalent to the consideration not in money.
- Hence VOS shall be Rs 9,500 (8,000 + 1500).

- Co. A must charge GST on Rs 9,500/-.

Question 3:

Co. A sold New Samsung mobile (Open Market Value not available) to Mr. B. For such purchase, Mr. B paid Rs 8,000 in Cash and gave his old mobile (Market Value of old mobile is also not available). However Nokia is selling same like kind and quality of mobile for Rs 12,000.

Ans:

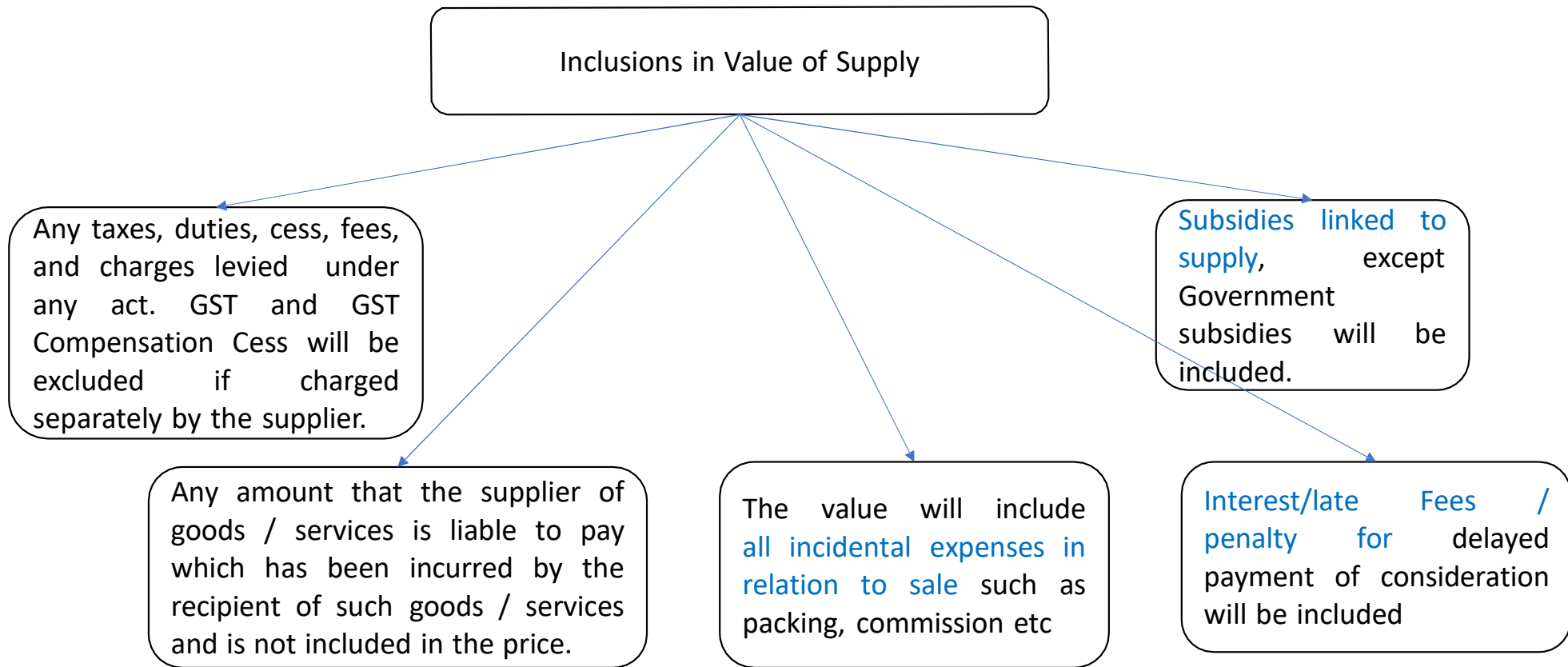
- In given case, recipient Mr. B paid Rs 8,000 in cash and also exchanged his old mobile against purchase of New Samsung Mobile.
- Hence Price is not sole consideration.
- Value of Supply shall be Open Market Value of New Mobile sold.
- If open market value of new mobile is not available, VOS shall be sum total of consideration in money plus amount in money as is equivalent to the consideration not in money.
- Since Open market of old mobile is also not available, VOS shall be value of supply of goods or services or both of like kind and quality.
- Hence VOS shall be Rs 12,000.
- Co. A must charge GST on Rs 12,000/-.

Question4:

Co. A sold product X (OMV not available) to Mr. Ram. Mr. Ram gave Rs 3,000 and also gave product Y (OMV not available) as barter against sale of product X. There are no like kind or quality as product X. However cost of production of product X is Rs 5,000.

- In given case, recipient Mr. Ram paid Rs 3,000 in cash and also gave product Y as barter against purchase of product X.
- Value of Supply shall be Open Market Value.
- If open market value of new mobile is not available, VOS shall be sum total of consideration in money plus amount in money as is equivalent to the consideration not in money.
- Since Open market of old mobile is also not available, VOS shall be value of supply of goods or services or both of like kind and quality.
- Since Like kind and quality is also not available, value of supply shall be 110% of Cost of Production.
- Hence Value of Supply shall be Rs 5,500/- (110% of Rs 5,000).
- Co. A must charge GST on Rs 5,500.

Sec 15(2) - Inclusions in Value of Supply under GST Law.



Rule 32 (2) - Value of Supply in case of Services of Money Changing Services.

Question1:

Mr. A sold goods to Mr. B for Rs. 20,000. Mr. A is charging packing charges of Rs. 800. Mr. A is also paying freight of Rs. 2800 from Mr. A's premises to Mr. B's premises. Whether packing charges or freight is required to include in the invoice to determine taxable value?

Ans: Yes as per Sec 15(2) of CGST Act 2017, The value will include [all incidental expenses in relation to sale](#). Hence packing charges or freight is required to be included in the invoice to determine taxable value. Value of Supply will be Rs. 23,600. GST shall be charged on Rs 23,600.

Question 2.

Mr. A sold goods worth of Rs. 50,000. Mr. A also charged interest of Rs. 750 for delay in payment. Determine the taxable value for levy of GST.

Ans: Yes as per Sec 15 (2) of CGST Act 2017, [Interest/late fee/penalty for](#) delayed payment of consideration will be included. Hence, In this case Taxable Value for levy of GST will be Rs. 50,750. GST shall be charged on Rs 50,750.

Question 3:

Mr. A bought movie tickets of Rs 1,000 from Cinema Z. Also Cinema Z charged entertainment tax of Rs 150. Determine the taxable value for levy of GST.

Ans: As per Sec 15(2) of CGST Act 2017, [Any taxes, duties, cess, fees, and charges](#) levied under any act (other than GST) shall be included in Value of Supply. Hence in this case taxable value shall be Rs 1150. GST shall be charged on Rs 1,150.

Question 4:

Farmer A buys fertilizers from Mr PQR. Fertilizer Cost is Rs 1,000. Government provides subsidy to farmers and hence pays Rs 700 directly to Mr PQR and farmer is required to pay only Rs 300. Calculate on what amount Mr PQR shall charge GST to Farmer A?

Ans: Subsidy provided by government shall not form part of value of supply. In this case govt is directly giving Rs 700 to Mr PQR. Hence Rs 700 shall not form part of value of supply. Mr PQR shall charge GST on only Rs 300 (1000 – 700).

Question 5:

Mr A sells Cooking Gas to Mr B for Rs 1,000. Government provides subsidy and directly transfers Rs 1,000 in hands of Supplier ie Mr A. Buyer ie Mr B does not have to pay any amount on purchase of Cooking Gas. Calculate on what amount Mr A shall charge GST to buyer Mr B?

Rule 32 (2) - Value of Supply in case of Services of Money Changing Services.

Ans: Subsidy provided by government shall not form part of value of supply. In this case govt is directly giving Rs 1000 to Mr A. Hence entire Rs 1000 shall not form part of value of supply. Mr A shall not charge GST on such transaction.

Question 6:

Mr A sells Cooking Gas to Mr B for Rs 1,000. Government provides subsidy and directly transfers Rs 1,000 in hands of Buyer (Mr B) as reimbursement. Calculate on what amount Mr A shall charge GST to buyer Mr B?

Ans: Subsidy provided by government shall not form part of value of supply. In this case govt is giving Rs 1000 to Mr B as reimbursement. Hence entire Rs 1000 shall form part of value of supply. Mr A shall charge GST on Rs 1,000.

Sec 15(3) - Value of Supply for Transactions involving Discount

a) Discount given before or at time of Supply.

- Discounts given **BEFORE OR AT TIME OF SUPPLY and is RECORDED IN THE INVOICE.**
- Such discount shall be reduced from Value of Supply and GST shall be payable only on Net Amount (After Discount).

b) Discounts given after supply and it is known at time/before supply.

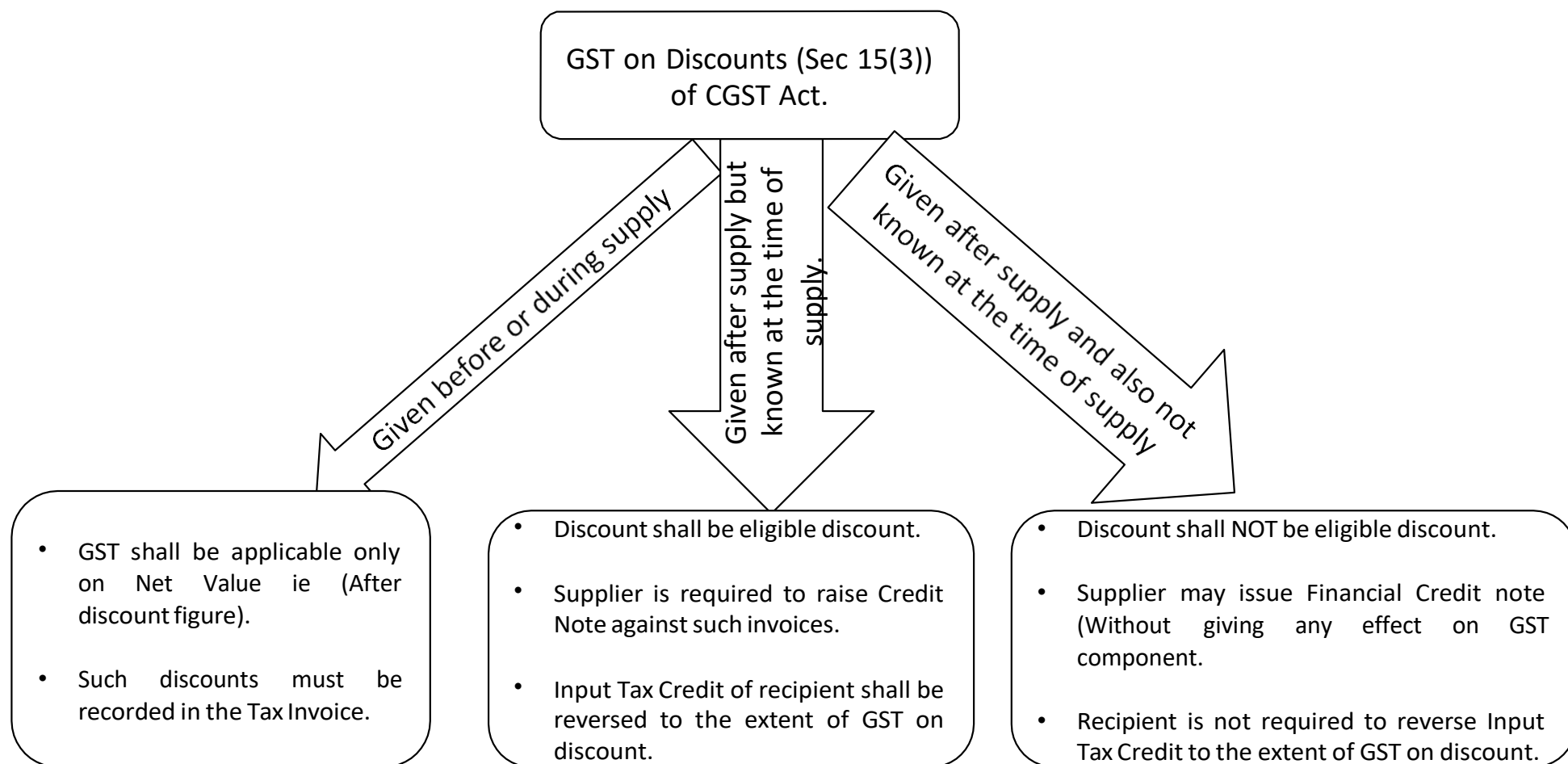
- Discount is given after supply but **agreed upon before or at the time of Supply. Such discount can be claimed as Deduction.**
- Discount is mentioned in the **Agreement** entered into before sale.
- **Input tax credit proportionate to the discount has been reversed** by the recipient of the supply (Through Debit and Credit Note).
- It can be clearly tracked to **relevant tax invoice.**
- **Business Credit Note to be issued.**

c) Discounts given after Supply and not known at time of Supply.

- Such discount can not be claimed as deduction.
- Financial Credit Note to be issued.

Rule 32 (2) - Value of Supply in case of Services of Money Changing Services.

Sec 15(3) - Value of Supply for Transactions involving Discount



Rule 32 (2) - Value of Supply in case of Services of Money Changing Services.

Currency Exchanged from or to Indian Rupees – RBI Reference Rate is available:

Value of Supply shall be equal to the **difference in the buying rate or the selling rate, as the case may be, and the Reserve Bank of India reference rate** for that currency at that time, multiplied by the total units of currency:

Question:

On 25 July 2017, Mr. UVW converted an amount of USD 200 into INR 12400 (we are taking USD 1 = INR 62) through ABC Travel consultants. Now suppose RBI's currency reference rate on that date is INR 61.

Ans: Value of supply will be $(\text{INR } 62 - \text{INR } 61) * 200 = \text{INR } 200$.

Currency Exchanged from or to Indian Rupees – RBI Reference Rate is not available:

In case where the Reserve Bank of India reference rate for a currency is not available, the value shall be **one per cent. of the gross amount of Indian Rupees** provided or received by the person changing the money.

Currency Exchanged where neither of the currencies exchanged is Indian Rupees:

In case where neither of the currencies exchanged is Indian Rupees, the value shall be equal to **one per cent. of the lesser of the two amounts** the person changing the money would have received by converting any of the two currencies into Indian Rupee on that day at the reference rate provided by the Reserve Bank of India.

Question:

Ms. XYZ wants to convert USD into EURO. Then both these currencies will be first calculated/converted into INR and then the value of supply will be calculated as 1 per cent of the lesser amount. Ms. XYZ is converting 1000 USD into EURO, which according to the current rate will be 881 EUROS. Now considering value of USD 1 = INR 62 and value of 1 EURO = INR 73.

Answer

Now, $1000 \text{ USD} * \text{INR } 62 = \text{INR } 62,000$

$881 \text{ EUROS} * \text{INR } 73 = \text{INR } 64,313$

The value of supply will be 1 per cent of INR 62,000. The GST will be levied on INR 620.

Rule 32 (2) - Value of Supply in case of Services of Money Changing Services

OPTION 2

(Provided also that a person supplying the services may exercise the option to ascertain the value in terms of clause_Option 2 for a financial year and such option shall not be withdrawn during the remaining part of that financial year.

At the option of the supplier of services, the value in relation to the supply of foreign currency, including money changing in INR PER TRANSACTION, shall be deemed to be-

(i) 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;

(ii) 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; and

(iii) 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.

Illustration

Gross amount of currency exchanged	GST
Rs. 6,500	Rs 250 i.e. (1% of 6500 or Rs 250 whichever is higher).
Rs. 65,000	Rs 650 i.e. (1% of 65000 or Rs 250 whichever is higher).
Rs. 6,50,000	Rs. 3750 (i.e 1000 plus .50 % of 5,50,000).
Rs. 65,00,000	Rs 10,500 (i.e 5000 plus 0.10% of Rs.55,00,000).
Rs 6,50,00,000	Rs 60,000 (i.e 5000 plus 0.10% of Rs.6,40,00,000 subject to maximum of Rs 60,000).

Rule 32 (2) - Value of Supply in case of Services of Money Changing Services

OPTION-2

Amount of currency
exchanged up to Rs.1
lakh

1% of the gross amount of currency
exchanged or Rs. 250/-, whichever is
higher

Amount of currency
exchanged exceeding
Rs.1 lakh and up to
Rs.10 lakhs

Rs. 1,000/- + 0.5% of the gross
amount of currency exchanged
above Rs. 100,000/-

Amount of currency
exchanged exceeding
Rs.10 lakhs

Rs. 5,500/- + 0.10% of the gross
amount of currency exchanged
above Rs.10 lakhs or Rs. 60,000/-,
whichever is lower

Rule 32 (3) - Value of Supply for Air Travel Agent and Tour Operators

An Air Travel Agent earns two types of income:

- **Commission** from the Airlines for booking of air tickets;
- Income in the form of **processing fees** etc from the client for whom he books the tickets.

As per rule 32(3) of CGST Rules, the Value of Supply of services in relation to booking of tickets for travel by air provided by **an air travel agent**, shall be deemed to be an amount calculated at the rate of:

- **5%** of the **basic fare** in the case of **domestic bookings**, and
- **10%** of the **basic fare** in the case of **international bookings**
- **Explanation** – For the purposes of this sub-rule, the expression “**basic fare**” means that part of the air fare on which commission is normally paid to the air travel agent by the airline.

Rule 32 (3) - Value of Supply for Air Travel Agent and Tour Operators



Rule 32(5) - Value of Supply in Case of Buy and Sale of Second Hand Goods.

Question:

Cars 24 purchased a car from Mr. A for Rs 5 lakhs and later sold the same car for Rs 8 Lakhs to Mr. B. Cars 24 seeks your opinion regarding value of supply for supply of car.



Mr. A sold his old car to Cars 24 for Rs 5 Lakhs.



Cars 24 sold this second car to Mr. B for Rs 8 Lakhs.



- As per section 15 of CGST Act, value of supply shall be transaction value.
- In given case, transaction value is Rs 8 lakhs.
- Hence Cars 24 should have charged GST on Rs 8 Lakhs.

- As per the Rule 32 (5) of the **CGST** rules, the government has designed a **Margin Scheme** to find the valuation for second hand goods.
- As per the scheme, the value of supply shall be the **difference between the selling price and the purchase price** and where the value of such supply is negative, it shall be ignored.
- Hence Value of Supply shall be Rs 3 Lakhs (8L – 5L).

Conditions:

- Goods have undergone minor processing and which does not change their nature of Goods.
- NO Input Tax Credit has been availed on purchase of such goods.

Rule 32(5) - Value of Supply in Case of Buy and Sale of Second Hand Goods.

Question:

ABC & Co being a Car dealer of Second Hand Goods purchased second hand car from Mr Z for Rs 5,00,000. After white washing and painting ABC & Co sold the second hand car to Mr P

- a) For Rs 5,50,000.**
- b) For Rs 4,80,000.**

Ans:

- As per Rule 32(5) of CGST Rules, ABC & Co shall be required to pay GST only on Margin ie difference between Selling Price & Purchase Price provided No Input Tax Credit is claimed on purchase of Goods.
- In case a), Margin is Rs 50,000 (5,50,000 – 5,00,000).
- Hence GST shall be paid only on Rs 50,000.
- In case b), Margin is NIL as Car is sold for Loss of Rs 20,000.
- Hence NO GST is to be paid.

Rule 32(5) - Value of Supply in Case of Buy and Sale of Second Hand Goods.

Question:

ABC & Co being a Car dealer of Second Hand Goods purchased second hand car from Mr. Z for Rs 5,00,000 + 18% GST.

He availed Input Tax Credit of Rs 90,000/-

After white washing and painting ABC & Co sold the second hand car to Mr P for Rs 6,00,000.

ABC & Co wants to apply Rule 32 (5) and charge GST only on Margin of Rs 1 Lakh (6-5).

Ans:

- As per Rule 32(5) of CGST Rules, ABC & Co shall be required to pay GST only on Margin ie difference between Selling Price & Purchase Price provided No Input Tax Credit is claimed on purchase of Goods.
- In given case, ABC & Co have availed Input Tax Credit of Rs 90,000/- on purchase of car.
- Hence Margin Scheme is not applicable.
- ABC & Co shall have to charge GST on Transaction Value as per section 15 of CGST Act ie Rs 6,00,000/-.

Proviso to Rule 32 (5) - Value of Supply in Case of Repossession of Goods

Question:

Co A did not have stock of Product X. Hence placed an order to supply 100 Qty of Product X from its Branch in Mumbai (Related / Distinct Person) to its head office in Delhi.

Mr. A did not have funds hence obtained loan from SBI for Rs 10L. SBI paid Rs 10 Lakhs directly to Tata Steel on behalf of Mr. A.

Mr. A defaulted in repayment of loan. Hence Bank repossessed the asset from Mr. A in Oct 19.

Bank sold the asset to Mr. B in March 2020 for Rs 8 Lakhs + GST.

Bank seeks your advise regarding value of supply for car repossessed and sold?



Mr. A (URD) bought machinery of Rs 10 L (incl of GST) from Tata Ltd in Jan 19.



- Mr. A did not have funds hence obtained loan from SBI for Rs 10L.
- SBI paid Rs 10 Lakhs directly to Tata Steel on behalf of Mr. A.



- Mr. A defaulted in repayment of loan.
- Hence Bank repossessed the asset from Mr. A in Oct 19.



- Bank sold the asset to Mr. B in March 2020 for Rs 8 Lakhs + GST.



- In case of re-possession of goods, purchase value at time of disposal for state bank of india shall be **Original Cost Less 5% per quarter from date of purchase of asset (Jan 19) till date of disposal (Mar 20).**
- Purchase value for SBI shall be Original Cost (10L) less 5% per Qtr from Jan 19 to March 20 ie (5 Qtrs).
- Part of the Quarter is to be counted as Full Qtr.
- Hence purchase value for SBI shall be 7.5 L ($10L - 5\% * 5Qtrs$).
- GST shall be payable only on margin of Rs 50,000/- ($8L - 7.5L$).

Proviso to Rule 32 (5) - Value of Supply in Case of Repossession of Goods.

Question:

Mr. A is Buyer of Plant & Machinery of Rs 10,00,000/- on 1st April 2018. Bank has Financed loan for Plant & Machinery for Mr A.

Mr. A defaulted repayment of loan hence Bank will now repossess asset on 21st March 2019.

Bank resold the asset to Mr. C for Rs 11,00,000 on 15th July 2019.

Answer

- Cost of Asset to Bank : Rs 10,00,000/-
- Selling Price of Asset by Bank to Mr. C = Rs 11,00,000/-.
- Purchase Value at time of Disposal shall be 10,00,000 Less 5% per Quarter for 6 Quarters (1st April 18 to 15th July 19) ie Rs 7,00,000/-.
- Value of Supply in case of Second hand goods / repossessed goods will be difference between selling price and cost price = Rs 4,00,000/- (11,00,000 – 7,00,000).
- If bank had sold the asset so repossessed for Rs 6,00,000 then there was no margin and GST shall not be applicable.

Rule 32(6) - Value of Token, Voucher , Coupon or Stamp.

Value of a Token, 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.

- 'Voucher', for the purposes of GST, necessarily means that instrument which should be **accepted as consideration** (wholly or partly) for a supply.
- Therefore, in a case of a supplier issuing a voucher to a recipient of goods, on his making a purchase from the supplier, the voucher is not being viewed as an additional outcome of the supply made to the recipient. Rather, **it is an instrument that can be used in place of money (or other consideration)** which can be used on effecting yet another inward supply.

Time of Supply of Vouchers for Goods and Services

- If the **supplier is identifiable** at that point then Time of Supply shall be **Date of Issue of Voucher**.
- If the **supplier is not identifiable** at the point then Time of Supply shall be **Date of Redemption of Voucher**.

Rate of GST on vouchers.

- **The rate of tax will be that applicable to goods or services they are issued in respect of or that applicable at the time of redemption of voucher.**

Rule 32(6) - Value of Token, Voucher , Coupon or Stamp.

Question1:

X Ltd a Cloth Merchant sold Gift Voucher to Mr A of Rs 5,000 on 10th April 2019. Such Voucher could be used only against specific cloth (ie Supplies are Identifiable at time of Issuance of Voucher). Mr A purchased that specific cloth on 15th May 2019 and redeemed the Voucher. Find Time of Supply and Value of Supply.

Ans:

- In this case, supply was identifiable at the time of Issuance of Voucher. Hence Time of Supply shall be date of Issuance of Voucher ie 10th April 2019.
- It is immaterial when Mr A shall redeem the voucher.

Question2:

Shoppers Stop sold Gift Voucher to Mr A of Rs 5,000 on 10th April 2019. Such Voucher could be used only against any items of Shoppers Stop (ie Supplies are not identifiable / not known at time of Issuance of Voucher). Mr A purchased accessories on 15th May 2019 and redeemed the Voucher. Find Time of Supply and Value of Supply.

Ans:

- In this case, supply was not identifiable / not known at the time of Issuance of Voucher.
- Mr A could have purchased any item from the voucher.
- Hence Time of Supply shall be date of Redemption of Voucher ie 15th May 2019.

Rule 32(6) - Value of Token, Voucher , Coupon or Stamp.

Question 3:

Mr A sold goods to Mr B of Rs 1,000 (inclusive GST). Mr B gave him Sodexo coupons of Rs 1,000/- as a consideration for goods sold.

Ans:

Sodexo Coupons are just mode of consideration. It is paid against goods sold by Mr A to Mr B.

Question 4:

Mr A gave gift voucher to Mr B of Pantaloons of Rs 5,000. Voucher is multipurpose and can be used against any product of Pantaloons.

Ans:

Mr B can buy any product of Pantaloons be it shoes, cosmetics, clothes, bags, accessories etc.

Each product has different GST Rate.

Rate of GST will be of Product and not of voucher.

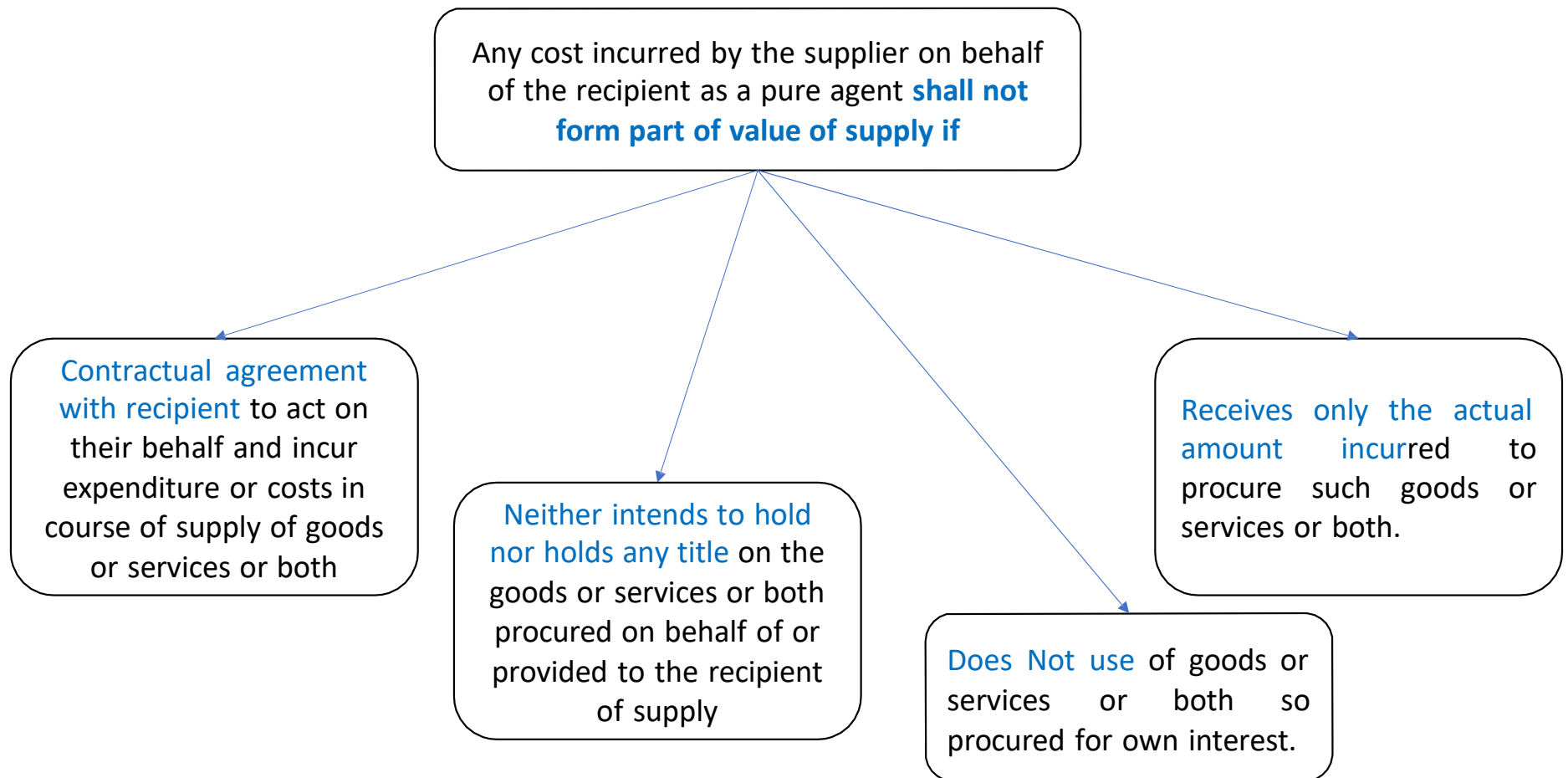
Hence Voucher is only mode of consideration and no rate is applicable on voucher.

Rule 33 - Value of Supply in case of Pure Agent.

Any cost incurred by the supplier on behalf of the recipient as a pure agent **shall not form part of value of supply** if following conditions are satisfied:

- The supplier should act as authorized pure agent of the recipient of supply.
- **Contractual agreement with recipient** to act on their behalf and incur expenditure or costs in course of supply of goods or services or both.
- **Neither intends to hold nor holds any title** on the goods or services or both procured on behalf of or provided to the recipient of supply.
- **Does Not use** of goods or services or both so procured for own interest.
- **Receives only the actual amount incurred** to procure such goods or services or both.

Rule 33 - Value of Supply in case of Pure Agent.



Rule 33 - Value of Supply in case of Pure Agent.

Question 1:

Mr. A enters into contract with C & F Agent for clearance of Imported Goods and to act on his behalf and incur expenditure or costs in course of supply of goods or services or both. Contract value (Commission Charges) is Rs 5,000.

C & F Agent pays doc dues of Rs 2,000 on behalf of Mr. A.

C & F Agent pays custom duty of Rs 10,000 on behalf of Mr. A.

C & F Agent pays warehousing charges of Rs 3,000 on behalf of Mr. A.

C & F Agent delivers goods to Mr. A and recovers Rs 20,000 from Mr. A. (His commission + reimbursement of expenses incurred on behalf of Mr. A).

However C & F agent charges GST @ 18% only on Rs 5,000 and not on Rs 20,000/-.

C & F agents seeks advise on Value of Supply in GST.

Ans:

- There is a contractual agreement between Mr. A and C & F Agent to act on behalf of Mr. A and incur expenditure or costs on behalf of Mr. A.
- C & F Agent does not hold or intends to hold any title to the goods. He has just collected goods on behalf of Mr. A.
- C & F Agent does not use goods so procured for own interest.
- C & F Agent recovers only actual amount so incurred from Mr. A.
- Hence amount so recovered (Rs 10K + Rs 2K + Rs 3K) shall not be calculated in Value of Supply.
- Value of supply shall only be commission charges of Rs 5,000/-.

Rule 33 - Value of Supply in case of Pure Agent.

Question: 2

XYZ consultancy firm is engaged to register a company for A Ltd. Other than professional fees XYZ consultancy also recovers fees paid to ROC on behalf of the A Ltd. Determine Value of Supply?

Ans:

- Value of supply will be amount charged as Professional Fees.
- Recovery of fees paid to ROC is merely acting as a pure agent in the payment of those fees.
- Therefore XYZ Consultancy's recovery of such expenses is a reimbursement and not part of the value of supply made by XYZ Consultancy to A Ltd.

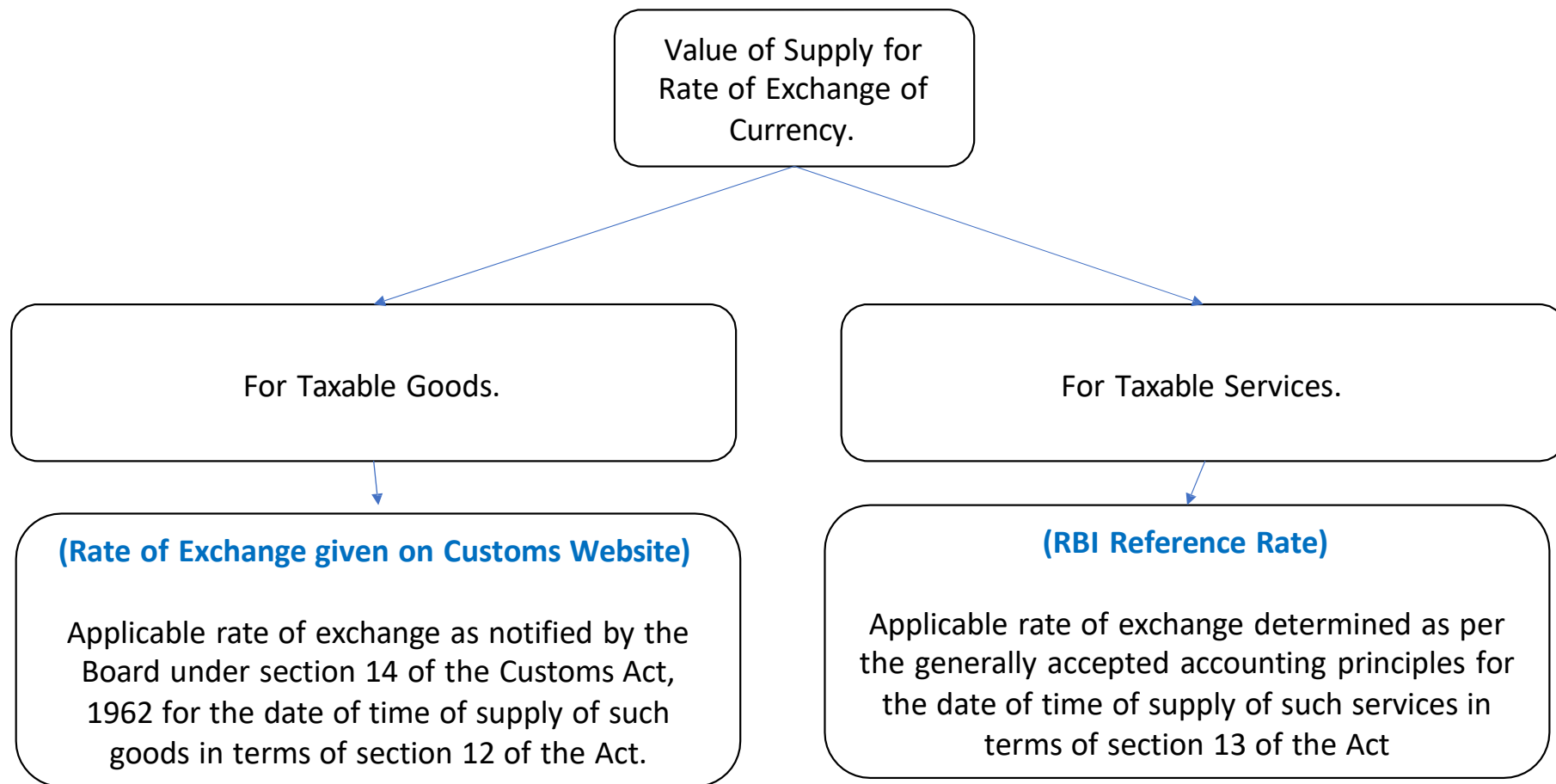
Question: 3

Mr. X is a Cost Accountant. He was filing Income Tax Return of Mr B. Mr X paid Income Tax of Rs 15,000 on behalf of Mr B. Mr X raised an Invoice of Rs 2,000 for Professional Services rendered.

Ans:

- Value of Supply will be amount charged as Professional Fees.
- Recovery of Income Tax paid of Rs 15,000 is merely acting as a pure agent .
- Therefore Mr X recovery of such expenses is a reimbursement and shall not form part of Value of Supply.

Rule 34 - Value of Supply for Rate of Exchange of Currency for determination of Value.



Rule 34 - Value of Supply for Rate of Exchange of Currency for determination of Value.

In Case of Goods:

- Rate of Exchange will be the rate u/s 14 of the Customs Act 1962.
- Thus, for purpose of payment of GST, the foreign exchange amount will be converted into rupee bases exchange rate **notified under Customs Act 1962.**
- However while accounting, the foreign exchange will be converted into rupee by adopting RBI Reference Rate.

In Case of Services:

- Rate of Exchange will be the **reference rate of RBI.**
- This rate is normally adopted for accounting of invoice.

Rule 34 - Value of Supply for Rate of Exchange of Currency for determination of Value.

Question 1:

Mr. A exported goods (GST Rate – 12%) on 01/07/2019 for 1,000\$ to Mr. B in US. Assume Mr. A pays tax on Export of Goods.

Rate notified by CBEC as per Customs Act is 65. However Reference rate of RBI is 68.

What shall be GST Liability?

Ans:

- As per Rule 34, Rate of exchange for determination of value of goods shall be [rate notified by CBEC under Customs Act](#).
- Rate notified by CBEC is 65.
- Hence Mr. A shall pay GST @ 12% on Rs 65,000 (1,000 * 65).
- GST Liability shall be Rs 7,800/-.
- However in books of accounts, such supply shall be recorded at RBI Reference Rate ie Rs 68,000 (1,000 * 68).

Question 2:

Mr. A exported services (GST Rate – 18%) on 01/07/2019 for 1,000\$ to Mr. B in US. Assume Mr. A pays tax on Export of Services.

Reference rate of RBI is 68.

What shall be GST Liability?

Ans:

- As per Rule 34, Rate of exchange for determination of value of goods shall be [RBI Reference Rate](#).
- Rate notified by RBI is 68.
- Hence Mr. A shall pay GST @ 18% on Rs 68,000 (1,000 * 68)
- GST Liability shall be Rs 12,240/-.
- Even in books of accounts, such supply shall be recorded at RBI Reference Rate ie Rs 68,000 (1,000 * 68).

Rule 35 -Value of Supply inclusive of GST for MRP Supplies.



Mr. A sold product (GST Rate is 18%) to Mr. B. MRP is Rs 11,800.



In case of MRP inclusive of GST then Value of Supply shall be determined as follows:

- **$\text{MRP} \times 100 / (100 + \text{Tax Rate})$.**
- **Hence Value of Supply shall be = $11,800 / 118 \times 100 = \text{Rs } 10,000/-$**
- **GST payable shall be Rs 1,800/- ($10,000 \times 18\%$).**

Question:

Mr. A is selling a product for Rs. 1,050 inclusive of GST. Rate of CGST & SGST will be 2.5%. Determine the value of supply?

Ans:

Value of supply will be as below:

- $1,050 \times 100 / 105 = \text{Rs } 1,000$
- GST Payable shall be Rs 50 ($1,000 \times 5\%$)

Value of Supply for Free Samples

Pharmacist Mr. A	- Mr. A, pharmacist purchases raw materials, avails services and capital goods and produces 100 Qty of Medicine X. - Total Cost for Mr. A was Rs 1,15,000. (Net Amount – Rs 1,00,000 + GST = Rs 15,000).	Medicine X
Pharmacist Mr. A	- Mr. A, pharmacist wanted to test viability of Medicine X. - Mr. A, pharmacist gives all 100 Qty of Medicine X to various doctors as free Samples (ie without any consideration). - If doctors like the medicine than they can place an order for medicines.	Doctors
	- Govt asks Mr. A that you have utilized ITC on purchases, services and capital goods. - However when it came time for GST collection, you gave free samples. - As per Section 17(5) of CGST Act, ITC of Rs 15,000 on Inputs, services , capital goods shall not be allowed.	Pharmacist Mr. A
- Value of Supplies for free samples shall be NIL. - However Input Tax Credit availed on purchases, services and capital goods shall be disallowed / reversed u/s 17(5) of CGST Act 2017.		

Value of Supply for Free Supplies (Sch I of CGST Act, 2017).

Manufacturer Mr. A	- Mr. A, manufacturer purchases raw materials, avails services and capital goods and produces 100 Qty of Mobile X. - Total Cost for Mr. A was Rs 1,15,000. (Net Amount – Rs 1,00,000 + GST = Rs 15,000).	Mobile X
Manufacturer Mr. A	- Mr. A, manufacturer wanted to promote Mobile X. - Mr. A, manufacturer gives all 100 Qty of Mobile X to various customers as Free Supplies ie without any consideration.	Customers
	- Govt asks Mr. A that you have utilized ITC on purchases, services and capital goods for manufacturing Mobile X. - However when it came time for GST collection on sales, you gave all mobile as Free Supplies.	Manufacturer Mr. A
Manufacturer Mr. A	- Govt, these are not free samples as customers shall not order new mobile if they like it. - These are Free Supplies to promote mobile X, a marketing technique. - Govt, you cannot reverse my ITC as per Sec 17 (5) as mobile are not free samples.	
	- Mr. A, you are right. You have not given free samples. Hence we wont reverse your ITC. - However there is Schedule I (Free Supplies) for you. As per Clause a of Sch I, permanent transfer of business assets without consideration shall be taxable supply if supplier has availed ITC on purchase. - Hence Mr. A, you shall be liable to pay GST on such free supplies.	Manufacturer Mr. A
- As per Clause a of Sch I of CGST Act 2017, Permanent transfer of business assets without consideration shall be taxable supply if supplier has availed ITC on purchase. - Hence Mr. A shall be subjected to GST on OMV / Like Kind or Quality of such goods / Cost + 10%. - Mr. A shall not be required to reverse Input Tax Credit for GST paid on purchases, services or capital goods.		

Value of Supply - Circular No. 92/11/2019-GST-F.No. 20/16/04/2018-GST



Mr. A (Wholesaler) sells clothes (1,000 Qty) to Shoppers Stop for Rs 1 Lakh + 12% GST.



Shoppers Stop offered 10% discount if Value of Supply is Rs 5,000 or more but upto Rs 9,999.

Shoppers Stop offered 20% discount if Value of Supply is Rs 10,000 or more but upto Rs 19,999.

Shoppers Stop offered 30% discount if Value of Supply is Rs 20,000 or more.

Customers



- Girl purchased clothes for VOS of Rs 16,000 from Shoppers Stop.
- Hence Shoppers stop offered her 20% discount. (16,000 * 20%).
- Should Shoppers stop collect GST on Rs 12,800 or on pre-discount figure of Rs 16,000?



- As per the circular, it is clarified that **discounts offered** by the suppliers to customers (including staggered discount under “Buy more, save more” scheme and post supply / volume discounts established before or at the time of supply) **shall be excluded to determine the value of supply** provided they satisfy the parameters laid down in sub-section (3) of section 15 of the said Act.
- Hence Shoppers Stop Shopping Mail shall be liable to charge **GST Amount only on Net Amount of Rs 12,800** (ie after discount figure) as discounts are disclosed in Invoice. (Sch I shall not be attracted).
- Also **Shoppers Stop is not required to reverse ITC Credit as per Sec 17(5)** for purchase made in relation to inputs from Mr. A as **shoppers stop has not given free samples to the girl.**

Value of Supply - Circular No. 92/11/2019-GST-F.No. 20/16/04/2018-GST

Question.

Shoppers Stop Shopping Mall offered discount to its customer.

For example- Get 10 % discount for purchases above Rs. 5000/-, 20% discount for purchases above Rs 10,000/- and 30% discount for purchase above Rs 20,000/-.

Such discounts are shown on the invoice itself.

What shall be value of supply for supply of Shoppers Stop?

Also whether Co A shall be required to reverse Input Tax Credit ?

Ans:

- As per the circular, it is clarified that **discounts offered** by the suppliers to customers (including staggered discount under “Buy more, save more” scheme and post supply / volume discounts established before or at the time of supply) **shall be excluded to determine the value of supply** provided they satisfy the parameters laid down in sub-section (3) of section 15 of the said Act.
- It is further clarified that the supplier **shall be entitled to avail the ITC for such inputs, input services and capital goods used** in relation to the supply of goods or services or both on such discounts. Hence reversal of ITC credit is not required.
- Hence Shoppers Stop Shopping Mail shall be liable to charge **GST Amount only on Net Amount** (Ie after discount figure) as discounts are disclosed in Invoice.

Value of Supply - Circular No. 92/11/2019-GST-F.No. 20/16/04/2018-GST

Question:

Co A introduced discount scheme for its buyers at the beginning of the year which said get discount of 1% if you purchase 10000 pieces in a year, get discount of 2% if you purchase 15000 pieces in a year. Such discounts are established in terms of an agreement.

Ans:

- Discounts are not shown on the invoice as the actual quantum of such discounts gets determined after the supply has been effected and generally at the year end.
- However contract / Agreement is entered into at or before the time of supply with customers.
- In commercial parlance, such discounts are colloquially referred to as “**volume discounts**”
- **Such discounts are passed on by the supplier through CREDIT NOTES and also reduce GST.**
- Circular Clarifies that discounts offered by the suppliers to customers **shall be excluded to determine the value of supply as discounts is established before or at the time of supply. However** they must satisfy the parameters laid down in sub-section (3) of section 15 of the said Act.
- It is further clarified that the supplier shall be entitled to avail the ITC for such inputs, input services and capital goods used in relation to the supply of goods or services or both on such discounts.
- Hence Co A shall be required to charge GST only on Net Amount (After Discount). Also Co A is not required to reverse ITC Credit for purchase / services availed in relation to inputs / input services used in relation to supplies of such goods.
- **However Customers shall be required to reverse ITC component for ITC in Credit Notes received.**

Value of Supply - Circular No. 92/11/2019-GST-F.No. 20/16/04/2018-GST

Question:

Co. A introduced discount scheme for its buyers to obtain quick payments from customers. Such discount was not known before supply or at the time of supply. Co A supplies 10000 packets of biscuits to M/s B at Rs. 10/- per packet. Afterwards M/s A re-values it at Rs. 9/- per packet. Subsequently, M/s A issues credit note to M/s B for Rs. 1/- per packet.

Ans:

- Co A has given **SECONDARY DISCOUNT** ie discount was not known before / during the supply.
- As per Section 34, Credit Notes may be issued for supply of any goods or services or both in case of following:
 - a) Taxable Value or Tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply, or
 - b) where the goods supplied are returned by the recipient, or
 - c) where goods or services or both supplied are found to be deficient,
- In given case, **Co. A cannot issue credit note as per Section 34** as Co A is not falling in any of the conditions for issue of credit note as per Section 34.
- Circular clarifies that **financial / commercial credit note(s) can be issued** by the supplier ie **without touching GST Component**.
- Hence such **secondary discounts shall not have any impact on Value of Supply or Reversal of ITC**. It is just financial credit notes which can be shown as **"Other Income"** in Profit and Loss Account.

Value of Supply in case of FREE Supplies

Case 1: GST implications on Free Samples

- The practice of free samples is usually practiced for newer products to penetrate the market.
- These samples are usually distributed to unrelated persons without any consideration.
- It is imperative to note that only supplies to related persons without consideration are covered under Schedule I of the Act.
- Hence, the distribution of free samples to unrelated persons shall not come under the ambit of 'Supply' as per Section 7 of the CGST Act, 2017 ('Act').
- Hence, no GST shall be required to be paid on the activity of distribution of free samples.
- However, the input tax credit of goods distributed as free samples shall be disallowed in accordance with Section 17(5) of the Act.

Value of Supply in case of FREE Supplies

Case 2: GST implications on Extra Units / Quantity of the Same Product

- The provision of an extra unit / quantity of the same or similar product is quite an efficient marketing strategy.
- This practice is commonly used by FMCG companies and retail shopping outlets.
- For example- 1 plus 1 offers / 20% extra quantity offers on shampoos, hair oils etc. In this case, the cost of the 1 free unit / extra quantity of shampoo is generally included in the sale price of the 1 unit for which the customer is paying the price.
- Such schemes are introduced to give to the buyer an incentive to purchase more quantity at a lesser price indirectly by giving something free.
- Hence, offering extra units / quantity of the same product is in the nature of discounts.
- This discount or the value of free article/ extra quantity shall not be included in the value of supply so as to compute GST liability (Section 15).
- Hence, **GST is NOT** required to be paid on the extra unit / quantity of the product being offered as a promotional tool.
- Further, **no reversal of input tax credit** is required in respect of the extra units/ quantity being offered for free.

Value of Supply in case of FREE Supplies

Case 3: GST Implication on Cashback Coupons provided by Supplier

- Under this scheme, the product being supplied to a customer contains a cashback coupon.
- The cashback coupon, provided by the supplier, offers instant cashback to the customer to enable the customer to reduce the cost of the products.
- While this cashback may be in the nature of discount, such discount shall not have the effect of reducing the value of supply.
- As per Section 15, with respect to discounts offered at the time of supply, only such discounts shall be reduced from the taxable value which have been duly recorded in the invoice.
- The amount of cashback coupons offered in the product packaging can never be mentioned in the invoice as the amount to be collected from the customer is not the price of the product when reduced by the amount of cashback. The amount collected from the customer shall be the entire price of the product.
- Hence, the amount of cashback **represents just the marketing expenses** of the supplier and has **no impact of reducing the GST liability**.

ILLUSTRATIONS on Value of Supply under GST

Question1:

Mr. A sold goods to Mr. B for Rs. 20,000. Mr. A is allowing discount of Rs. 2000 at the time of supply. Determine value of supply for the purpose of levy of GST?.

Ans:

Discount is given at the time of supply. In this case value of taxable supply in the invoice after giving effect of discount will be Rs. 18,000 for the purpose of levy of GST.

Question2:

Mr. A sold 1000 unit of goods to Mr. B for Rs. 20,000 and total unit sold during the year to Mr. B after including these units is 2500 unit. As per terms of the agreement if Mr. A is purchasing more than 2000 unit of goods in a year than Mr. A is allowing 10% discount in all the supplies. Assuming IGST rate is 18%. How discount will be recorded?.

Ans:

- In this case discount is given after sale. Mr. A will issue a credit note with the amount of discount i.e. Rs. 5,000 (2500×20) and GST on such discount i.e. Rs. 900.

ILLUSTRATIONS on Value of Supply under GST

Question3:

Mr. A sold a bike for Rs. 34,000 with exchange of old bike. Open Market price of the new bike is Rs. 52,000. Old Bike can be sold in the market for Rs. 20,000. Determine the value of supply for the purpose of levy of GST.

Ans:

In this case Open Market Value is available. Hence, Value of Supply will be Rs. 52,000.

Question4:

Mr. A sold a bike for Rs. 34,000 with exchange of old bike. Open Market price of the new bike is not available. Old Bike can be sold in the market for Rs. 20,000. Determine the value of supply for the purpose of levy of GST.

Ans:

In this case Open Market Value of new bike is not available. Hence, Value of Supply will be: Consideration in money i.e. Rs. 34,000 + Amount in money as is equivalent to the consideration not in money i.e. Rs. 20,000 = Rs. 54,000.

ILLUSTRATIONS on Value of Supply under GST

Question5:

Mr. A sold a bike for Rs. 34,000 with exchange of old bike. Open Market price of the new bike as well as old bike is not available. A bike with the same features of other company is selling in the market for Rs. 51,000. Determine the value of supply for the purpose of levy of GST.

Ans:

In this case Open Market Value of new bike as well as old bike is not available. Value of like kind bike of another company i.e. Rs. 51,000 will be considered as value of supply.

Question6:

Mr. A sold a bike for Rs. 34,000 with exchange of old bike. Open Market price of the new bike as well as old bike is not available. Product of same like kind & quality is also not available in the market. Cost of purchase of the bike is Rs. 47,000. Determine the value of supply for the purpose of levy of GST.

Ans:

In this case Open Market Value of new bike as well as old bike is not available. Also Value of like kind bike is not available. Hence, value of supply will be Cost of acquisition plus 10% i.e. Rs. 47,000 + Rs. 4,700 = Rs. 51,700.

ILLUSTRATIONS on Value of Supply under GST

Question7:

Mr. A sold a bike without consideration to Mr. B. Open Market price of the bike is Rs. 52,000. Mr. B is family member of Mr. A. Determine the value of supply for the purpose of levy of GST.

Ans:

- In this case Mr. A & Mr. B is related party. Hence, Value of Supply will be open market value i.e. Rs. 52,000. Also ITC will be disallowed under 17(5).

Question8:

X Enterprises sold a bike for Rs. 30,000 to Y Enterprises. Open Market price of the bike is Rs. 52,000. Both firms are registered under the same PAN. Determine the value of supply for the purpose of levy of GST.

Ans:

- In this case X Enterprises & Y Enterprises is distinct person. Hence, Value of Supply will be open market value i.e. Rs. 52,000.

ILLUSTRATIONS on Value of Supply under GST

Question 9:

Mr. A sold a product for Rs. 84,000 to Mr. B. Open Market price of the product is not available. A product with the same features of other company is selling in the market for Rs. 1,34,000. Mr. B is employee of the Mr. A.

Ans:

- In this case Open Market Value of the product is not available. Mr. A & Mr. B is related person. Value of like kind product of another company i.e. Rs. 1, 34,000 will be considered as value of supply.

Question10:

A Ltd. sold a product for Rs. 34,000 to Mr. X. Open Market price of the product is not available. Product of same like kind & quality is also not available in the market. Cost of purchase of product is Rs. 50,000. Mr. X holds 30% share in A Ltd. Determine the value of supply for the purpose of levy of GST.

Ans:

- Mr. X is related party for A Ltd. In this case Open Market Value of the product is not available. Also Value of like kind product is not available. Hence, value of supply will be Cost of acquisition plus 10% i.e. Rs. 50,000 + Rs. 5,000 = Rs. 55,000.

ILLUSTRATIONS on Value of Supply under GST

Question11:

Applicant (ABC Pvt. Ltd.) is seller of Optical Lenses and Frames for Spectacles and Accessories, etc ('goods') having head office in West Bengal. These goods are transferred to branches in other States. Applicant wishes to understand valuation for the purpose of charging GST on such transfer of goods..

Solution

- As per Section 25(2) of CGST Act 2017, if a person 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. In given case ABC Pvt Ltd shall be considered as distinct person in each state.
- As per Schedule I of CGST Act 2017, when a supply is made between distinct persons during the course of business, it is considered as a supply even when there is no consideration. Hence goods transferred from West Bengal to other state shall be taxable supply even if there is no consideration.

As per Rule 28 of CGST Rules 2017, Value of supply for goods transferred shall be

- Open market value of such supply
- If open market value is unavailable, value of goods/ services of like kind and quality
- If the above two are not possible, then as per Rule 30 (value shall be equal to 110% of cost of production) or Rule 31 (residual value)

However ABC Pvt Ltd may pay GST as per First Proviso or Second Proviso to Rule 28.

- As per First Proviso to Rule 28, where 'goods' are intended to be supplied 'as such' by the recipient, then supplier has option to take amount as 90% of the price charged on supply of like kind and quality by recipient branches to its unrelated customers.
- As per Second Proviso to Rule 28, where the recipient is eligible full input tax credit (ITC) then value declared in the invoice shall be deemed to be the Open Market Value.

ILLUSTRATIONS on Value of Supply under GST

Question 12:

Prestige Innovators supplied a new inverter AC to a loyal customer prior to its launch for Rs.45,000 along with an offer of exchanging an old AC. The value of the old AC at the time of supply was Rs.10,000, but the open market value of the inverter AC supplied is not available.

Ans:

As per Rule 27 of CGST Rules 2017, Where the supply of goods or services is for a consideration not wholly in money, the value of the supply shall,-

- (a) be the open market value of such supply;
- (b) if the open market value is not available under clause (a), be the sum total of consideration in money and any such further amount in money as is equivalent to the consideration not in money, if such amount is known at the time of supply;
- (c) if the value of supply is not determinable under clause (a) or clause (b), be the value of supply of goods or services or both of like kind and quality;
- (d) If the above two are not possible, then as per Rule 30 (value shall be equal to 110% of cost of production) or Rule 31 (residual value)

- In given case, open market value of Inverter is not available. Hence Value of Supply shall be be the sum total of consideration in money and any such further amount in money as is equivalent to the consideration not in money.

Particulars	Amount (Rs)
Consideration in Money received	45,000
Value of Old Ac received	10,000
Total	55,000

ILLUSTRATIONS on Value of Supply under GST

Question13.

Mr. A supplies goods to his agent (Mr B) and agent (recipient) is supplying goods of like kind and quality in subsequent supplies at a price of Rs 1,000 per unit on the day of supply. Mr A also supplies goods to an unrelated customer at the price of Rs 950 per unit on the day of supply.

Ans:

- In terms of Schedule I of the CGST Act 2017, the supply of goods by an agent on behalf of the principal without consideration has been deemed to be a supply. Hence supply of goods by Mr A to its agent is taxable supply even if there is no consideration.
- As per Rule 29 of CGST Rules 2017, The value of supply of goods between the principal and his agent shall be:
 - a) The open market value of the goods being supplied
 - b) or at the option of the supplier, be ninety percent.** 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.
- In given case, Open Market Value of goods supplied to Unrelated Customer is Rs 950 per unit. However Mr A has an option to charge GST @ 90% on price charged by Mr B (Agent) ie Rs 900 (1000 * 90%)
- **Value of supply shall be Rs 900 per unit.**

ILLUSTRATIONS on Value of Supply under GST

Question14.

Mr P supplies groundnut to its agent without consideration. Agent (Recipient) is supplying groundnut of like kind and quality in subsequent supplies at Rs 5,000 per quintal on the day of supply. Mr C supplies groundnut of like kind and quality to said agent at Rs 4550 per quintal.

Ans:

- In terms of Schedule I of the CGST Act 2017, the supply of goods by an agent on behalf of the principal without consideration has been deemed to be a supply. Hence supply of goods by Mr P to its agent is taxable supply even if there is no consideration.
- As per Rule 29 of CGST Rules 2017, The value of supply of goods between the principal and his agent shall be:
 - a) The open market value of the goods being supplied
 - b) or at the option of the supplier, be ninety percent.** 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.
- In given case, Open Market Value of goods supplied by Agent to Unrelated Customer is Rs 4550 per quintal. However Mr A has an option to charge GST @ 90% on price charged by (Agent) ie Rs 4500 ($5000 * 90\%$)
- Value of supply shall be Rs 4,500 per quintal.

ILLUSTRATIONS on Value of Supply under GST

Question 15.

X Ltd owned factory in Tamil Nadu & 1 depot at Kerala. Goods were transferred from Tamil Nadu to Kerela without consideration and later such goods are sold from Kerela State.

Particulars	No of Units	Price at Factory (Tamil Nadu)	Price at Depot (Kerela)
Goods trf from Factory to Depot on 1 st Jan 2019	1000	200 per unit	220 per unit
Goods sold from Depot on 15 th Feb 2019	1000	210 per unit	250 per unit

Solution

As per Section 25(2) of CGST Act 2017, if a person 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. In given case X Ltd shall be considered as distinct person in each state.

As per Schedule I of CGST Act 2017, when a supply is made between distinct persons during the course of business, it is considered as a supply even when there is no consideration. Hence goods transferred from Tamil Nadu to Kerela state shall be taxable supply even if there is no consideration.

As per Rule 28 of CGST Rules 2017, Value of supply for goods transferred shall be

- Open market value of such supply
- If open market value is unavailable, value of goods/ services of like kind and quality
- If the above two are not possible, then as per Rule 30 (value shall be equal to 110% of cost of production) or Rule 31 (residual value)

However X Ltd may pay GST as per First Proviso to Rule 28.

As per First Proviso to Rule 28, where 'goods' are intended to be supplied 'as such' by the recipient, then supplier has option to take amount as 90% of the price charged on supply of like kind and quality **by recipient branches** to its unrelated customers.

- In given case, Price charged by Kerela Branch (Recipient) on date of transfer from Tamil Nadu to Kerela is Rs 220 per unit.
- Hence Value of Supply shall be Rs 198 per unit (90% of Rs 220).

ILLUSTRATIONS on Value of Supply under GST

Question 16.

A Ltd is registered dealer in Maharashtra. It is also registered in State of Kerela. Salary Working of all employees (Maharashtra + Kerela) is all done through Maharashtra State.

a) Kerela State is eligible for Full Input Tax Credit

b) Kerela State is supplying only exempted goods hence no Input Tax Credit.

Solution

- As per Section 25(2) of CGST Act 2017, if a person 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. In given case A Ltd shall be considered as distinct person in each state.
- As per Schedule I of CGST Act 2017, when a supply is made between distinct persons during the course of business, it is considered as a supply even when there is no consideration. Hence services of salary working provided by Maharashtra State to Kerela state shall be taxable supply even if there is no consideration.

As per Rule 28 of CGST Rules 2017, Value of supply for goods transferred shall be

a) Open market value of such supply

b) If open market value is unavailable, value of goods/ services of like kind and quality

c) If the above two are not possible, then as per Rule 30 (value shall be equal to 110% of cost of production) or Rule 31 (residual value)

However A Ltd may pay GST as per Second Proviso to Rule 28. As per Second Proviso to Rule 28, where the recipient is eligible full input tax credit (ITC) then value declared in the invoice shall be deemed to be the Open Market Value.

Hence in situation a) where Kerela State is eligible for Full Input Tax Credit than Value declared in Invoice raised by Maharashtra to Kerela State shall be deemed to be accepted as Open Market Value and GST shall be payable on such Value.

In Situation b) where Kerela State is not eligible for Full Input Tax Credit, we cannot apply 2nd Proviso to Rule 28. Hence Value of Supply shall be

a) Open market value of such supply

b) If open market value is unavailable, value of goods/ services of like kind and quality

c) If the above two are not possible, then as per Rule 30 (value shall be equal to 110% of cost of production) or Rule 31 (residual value).

ILLUSTRATIONS on Value of Supply under GST

Question 17:

A Ltd, a registered dealer of Delhi sold goods to B Ltd registered in Delhi. Details are :

- Price of Goods: Rs 1,00,000
- Municipal Tax: Rs 2,000
- Inspection Charges: Rs 15,000
- Subsidies received from Ram Trust of Rs 50,000
- Late fees for delayed payment – Rs 1,000
- B Ltd (Receiver) paid charges on behalf of A Ltd Rs 2,000

Determine Value of Taxable Supply made by A Ltd to B Ltd. Assume Price of Goods does not include other charges and payment made.

Particulars	Amount.
❖ Price of goods	Rs.100000
❖ Add: Municipal tax	Rs.2000
❖ Add: Inspection charges (Presumed that it has been charged and recovered separately)	Rs.15000
❖ Add: Subsidies (Assumed subsidies are reduced from Price of Goods)	Rs.50000
❖ Late fees for delayed payment	Rs.1000
❖ Charges on behalf of A Ltd (included as consideration can be paid by third party also.)	Rs.2000
❖ TOTAL	Rs.170000

ILLUSTRATIONS on Value of Supply under GST

Question 18.

C Ltd , registered dealer of Mumbai provides following details for Inter State Supply

- List Price of Goods Supplied – Rs 12,40,000/-

Items already adjusted in above price given

- Subsidy received from Central Govt – Rs 1,20,000/-
- Subsidy from Trade Association – Rs 30,000/-

Items not adjusted in above price given

- Tax Levied by Muncipal Authority: Rs 24,000
- Packing Charges – Rs 12,000
- Late Fees Paid: Rs 5,000

Calculate Value of Taxable Supply.

PARTICULARS	AMT.
❖ List Price of Goods Supplied	Rs .12,40000
❖ Subsidy received from Central Govt(Items already adjusted in above price,not to be added back)	---
❖ Subsidy from Trade Association(Amt to be added as not eligible for deduction from value)	Rs .30,000
❖ Tax Levied by Muncipal Authority(Items not adjusted in above price,to be added as tax,other than gst, not allowed as deduction)	Rs .24,000
❖ Packing Charges(to be added as in respect of goods before delivery)	Rs .12,000
❖ Late Fees Paid	Rs .5,000
❖ TOTAL	Rs 13,11,000

ILLUSTRATIONS on Value of Supply under GST

Question 19.

V Ltd provides you following details relating to goods supplied by it to A Ltd

- List Price of Goods (**Exclusive of Taxes & Discount**) – Rs 76,000
- Special Packing at the request of customer – Rs 5,000
- Duty Levied by local authority – Rs 4,000
- CGST & SGST Charged in Invoice: Rs 14,400
- Subsidy received from NGO (Price of 76,000 is after considering such subsidy) – Rs 5,000
- V Ltd offers 3% Discount on the List Price of the goods which is recorded in Invoice for the Goods.
- Determine Value of Taxable Supply of Goods.

PARTICULARS	AMT.
❖ Net price of goods 76000 (less 3% discount of Rs.2280)	Rs 73,720
❖ Special Packing at the request of customer	Rs 5,000
❖ Duty Levied by local authority(Presumed that amount has been seperately recovered from customer and hence included in value)	Rs 4,000
❖ CGST & SGST Charged in Invoice (not includible in value)	0
❖ Subsidy received from NGO(only subsidy from governemnt is not includible)	Rs 5,000
❖ TOTAL	Rs 87,720

ILLUSTRATIONS on Value of Supply under GST

Question 20.

A Ltd of Goa is supplier of Machinery. A Ltd supplied machinery to B Ltd in Goa on 01/10/2017. Details are:

- Basic Price of Machinery Rs 20,00,000
- Design & Engineering Charges of Rs 10,000 & Loading Charges of Rs 20,000 (Included in Basic Price)
- 2 years free warranty to B Ltd for Machinery
- 1 year extended warranty on payment of additional charges of Rs 1,00,000/-
- Consultancy Charges for installation – Rs 10,000 and Freight and Insurance Charges – Rs 20,000.
- Subsidy received by A Ltd from Central Govt – Rs 50,000
- Subsidy received from C Ltd of Rs 50,000
- Discount of 1% was offered at time of supply on Basic Price.
- It was agreed at time of supply that additional discount of 1% on basic price shall be offered if B Ltd makes payment within 30 days. B Ltd made payment within 30 days

Assume GST Rate – 18%

Calculate Value Of Supply & GST Payable.

Ans: Next Page

ILLUSTRATIONS on Value of Supply under GST

PARTICULARS	AMOUNT (Rs)
❖ Basic Price of Machinery	20,00,000
❖ Design & Engineering Charges (included in above, deduction not available)- COMPOSITE SUPPLY	---
❖ Loading Charges (included in above, deduction not available) – COMPOSITE SUPPLY	---
❖ 2 years free warranty to B Ltd for Machinery	----
❖ 1 year extended warranty on payment of additional charges	1,00,000
❖ Consultancy Charges for installation	10,000
❖ Freight and Insurance Charges	20,000
❖ Subsidy received by A Ltd from Central Govt(not included in value)	----
❖ Subsidy received from C Ltd (Assumed not included in Base Price)	50,000
❖ TOTAL VALUE (A)	21,80,000
❖ CGST @9% as per invoice dated 1-10-2017 (1)	1,96,200
❖ SGST @9% as per invoice dated 1-10-2017 (2)	1,96,200
❖ LESS-Credit note for cash discount @1% of basic price to be issued on 31-10-2107	20,000
❖ CGST @9% as per credit note dated 31-10-2017 (3)	1,800
❖ SGST @9% as per credit note dated 31-10-2017(4)	1,800
❖ NET CGST payable(1-3)	1,94,400
❖ NET SGST payable(2-4)	1,94,400

ILLUSTRATIONS on Value of Supply under GST

Question 21.

Mr. A is engaged in business of currency conversion. Mr. Z exchanges 1,000 US Dollar with Mr. A. RBI Reference Rate is 65. Mr. A paid Rs 64,500 to Mr. Z.

What shall be Value of Supply?

Ans:

Option1:

Value of Supply = (Selling Rate – RBI Reference Rate)
= (65000 – 64500)
= Rs 500/-

Or

Option2:

Value of Supply = 1% of Gross Amount of currency exchanged for an amount upto Rs 1 Lakh.
Value of Supply= 1% of 64,500
Value of Supply= Rs 645/-

Question 22.

Mr. A is engaged in business of currency conversion. Mr. Z exchanges 1,000 US Dollar with Mr. A. Mr. A gives me 750 pounds against exchange of 1,000 dollar.

RBI Reference of US \$ = Rs 65. Reference Rate of Pounds = Rs 90.

What shall be Value of Supply?

Ans:

ILLUSTRATIONS on Value of Supply under GST

Question 23.

Where neither of the currencies exchanged is Indian Rupees, the value shall be equal to one per cent. of the lesser of the two amounts the person changing the money would have received by converting any of the two currencies into Indian Rupee on that day at the reference rate provided by the Reserve Bank of India.

a) If Dollar would have exchanged with Indian rupee, Mr Z would have received = Rs 65,000 ($1,000 \times 65$).

b) If Pound would have exchanged with Indian rupee, Mr Z would have received = Rs 67,500 ($750 \times$

90). Value of Supply shall be 1% of lower of a) or b) = 1% of 65,000 = Rs 650/-

ABC & Co being a Car dealer of Second Hand Goods purchased second hand car from Mr. Z for Rs 8,00,000. After white washing and painting ABC & Co sold the second hand car to Mr. P.

a) For Rs 8,50,000.

b) For Rs 6,80,000.

Ans:

As per Rule 32(5) of CGST Rules, ABC & Co shall be required to pay GST only on Margin ie difference between Selling Price & Purchase Price provided No Input Tax Credit is claimed on purchase of Goods.

- In case a), Margin is Rs 50,000 ($8,50,000 - 8,00,000$). Hence GST shall be paid only on Rs 50,000.
- In case b), Margin is NIL as Car is sold for Loss of Rs 1,20,000. Hence NO GST is to be paid.

Question 24.

ABC & Co being a Car dealer of Second Hand Goods purchased second hand car from Mr. Z for Rs 9,44,000 (8,00,000 plus 18% GST). After white washing and painting ABC & Co sold the second hand car to Mr. P for Rs 9,50,000.

ILLUSTRATIONS on Value of Supply under GST

- a) ABC & Co has availed Input Tax Credit on purchase of car.
- b) ABC & Co has not availed Input Tax Credit on purchase of car.

Ans:

As per Rule 32(5) of CGST Rules, ABC & Co shall be required to pay GST only on Margin ie difference between Selling Price & Purchase Price provided No Input Tax Credit is claimed on purchase of Goods.

- In case a), ABC & Co has availed Input Tax Credit. Hence Margin scheme is not applicable. GST shall be paid on entire supply value ie Rs 9,50,000/-
- In case b), ABC & Co has not availed Input Tax Credit. Hence cost of the car is Rs 9,44,000. GST shall be paid on margin ie Rs 6,000 ($9,50,000 - 9,44,000$).

ILLUSTRATIONS on Value of Supply under GST

Question 25.

Mr. A is Buyer of Plant & Machinery of Rs 12,00,000/- on 1st April 2020. Bank has Financed loan for Plant & Machinery for Mr A. However Mr. A defaulted repayment of loan hence Bank will now repossess asset from Mr A on 21st March 2021.

- a) Bank resold the asset to Mr. C for Rs 10,00,000 on 15th July 2021.
- b) Bank resold the asset to Mr. C for Rs 8,00,000 on 15th July 2021.

Ans:

Cost of Asset to Bank : Rs 12,00,000/-

Purchase Value at time of Disposal shall be 12,00,000 Less 5% per Quarter for 6 Quarters (1st April 20 to 15th July 21) ie Rs 8,40,000/-.

Selling Price of Asset by Bank to Mr C = Rs 10,00,000/-

Value of Supply in case of Second hand goods / repossessed goods will be difference between selling price and cost price = Rs 1,60,000/- (10,00,000 – 8,40,000).

If bank had sold the asset so repossessed for Rs 8,00,000 than there was no margin and GST shall not be applicable.

Question 26:

Mr. X is a Cost Accountant. He was filing Income Tax Return of Mr. B. However Mr. X paid Income Tax of Rs 25,000 on behalf of Mr. B. Also Mr. X raised an Invoice of Rs 2,000 for Professional Services rendered.

What shall be Value of Supply for such services ?

Ans:

- As per Rule 33, Mr. X is acting as a pure agent for making payment of Income Tax of Rs 25,000 on behalf of Mr. A. Hence Rs 25,000 shall not be included in Value of Supply of services.
- Value of Supply will be amount charged as Professional Fees.
- Therefore Mr. X recovery of such expenses is a reimbursement and shall not form part of Value of Supply.
- Value of Supply shall be Rs 2,000/-

Question 22.

Partnership Firm ABC is supplier of goods. GST Rate for such goods is 12%. Firm sold such goods for the month of April 2020 for MRP of Rs 13,44,000/-.

What shall be Value of Supply?

Ans:

- As per Rule 35, Value of supply for MRP supplies shall be $\text{Total Value} \times (100) / (100 + \text{GST Rate})$.
- Hence VOS shall be = 12,00,000 $(13,44,000 \times 100/112)$.
- GST payable shall be Rs 1,44,000/-.

Question 28.

LLP ABC is supplier of goods. It has exported goods of 10,000 Pounds in UK. It seeks your opinion regarding Value of Supply under GST. Also at what value such supply shall be recorded in books of accounts?

- a) Exchange Rate as per Customs: 1 Pound = Rs 90
- b) Exchange Rate as per RBI : 1 Pound = Rs 92.

Ans:

As per Rule 34, value of supply for goods shall be 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.**

Hence Value of Supply = 10,000 Pounds

* Rs 90. Value of Supply shall be

Rs 9,00,000/-.

Hence, in books of accounts, value shall be recorded at RBI Reference Rate ie Es 9,20,000 (10000 Pounds * 92).