



VALUATION



AGENDA FOR TODAY

- **Transaction Value**
- **Understanding Valuation under various situations**
- **Analysis of the Valuation Rules**
- **Case Studies**



VALUE OF TAXABLE SUPPLY



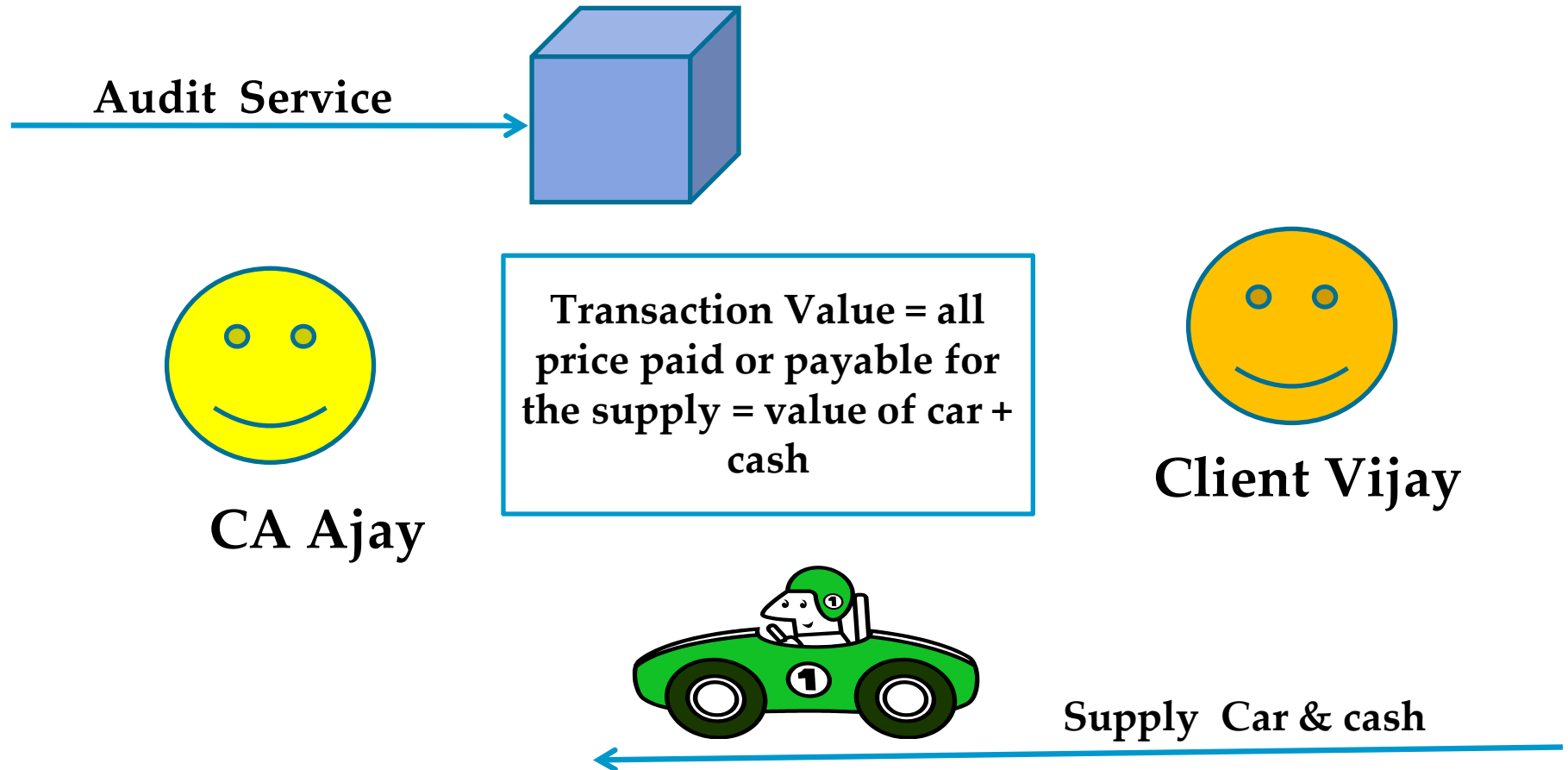
Value of taxable supply – Section 15

Value of a supply of goods or service or both shall be:

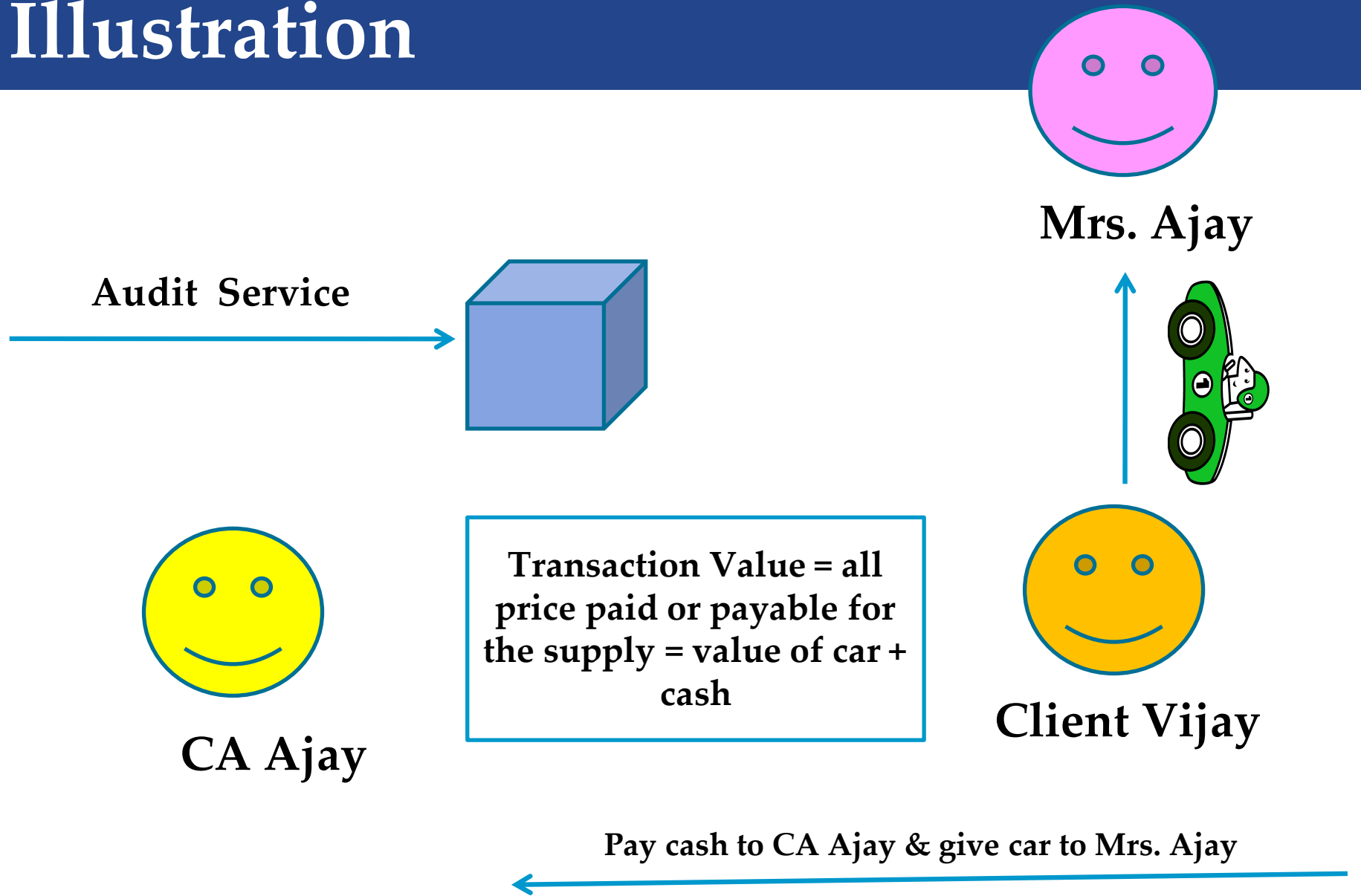
- **The transaction value**
- **Which is the price actually paid or payable for the said supply**
- **Supplier and recipient are not related**
- **Price is the sole consideration for sale**



Illustration



Illustration



Value of taxable supply – Section 15

Value of supply includes

**Incidental Expenses,
including commission &
packing charged by supplier
to recipient**

**All taxes except
SGST, CGST,
IGST, if charged
separately**

**Suppliers
obligation
met by
recipient**

**Interest /late
fee / penalty
for delayed
payment**

**Subsidies
linked to the
price except
Govt subsidy**



Illustration – “Incidental Expenses”

**Order a Mobile for
Rs. 25,000/- and ask
for a gift pack**

**Seller charges
additional Rs. 500/-
for courier and gift
packing**

**Transaction Value =
Rs. 25,000/- plus Rs.
500/-**



Illustration – “Incidental Expenses”

- **Mr. Sanjay approaches Broker Ajay get orders on commission basis**
- **Broker Ajay connects Mr. Vijay (customer) to Mr. Sanjay (Supplier)**
- **Mr. Sanjay supplies goods worth Rs. 6 lakhs to Mr. Vijay**
- **Mr. Vijay on direction of Mr. Sanjay pays Rs. 5 Lakhs to Mr. Sanjay and Rs. 1 Lakh to Broker Ajay. Value of supply?**



Illustration – “Interest & Penalty”

- **X supplies goods to Y**
- **Supply Goods with credit period of 30 days and a clause that interest at 18% will be charged on late payment**
- **Litigation – As recovering interest itself is a challenge**



Illustration – “Subsidy”

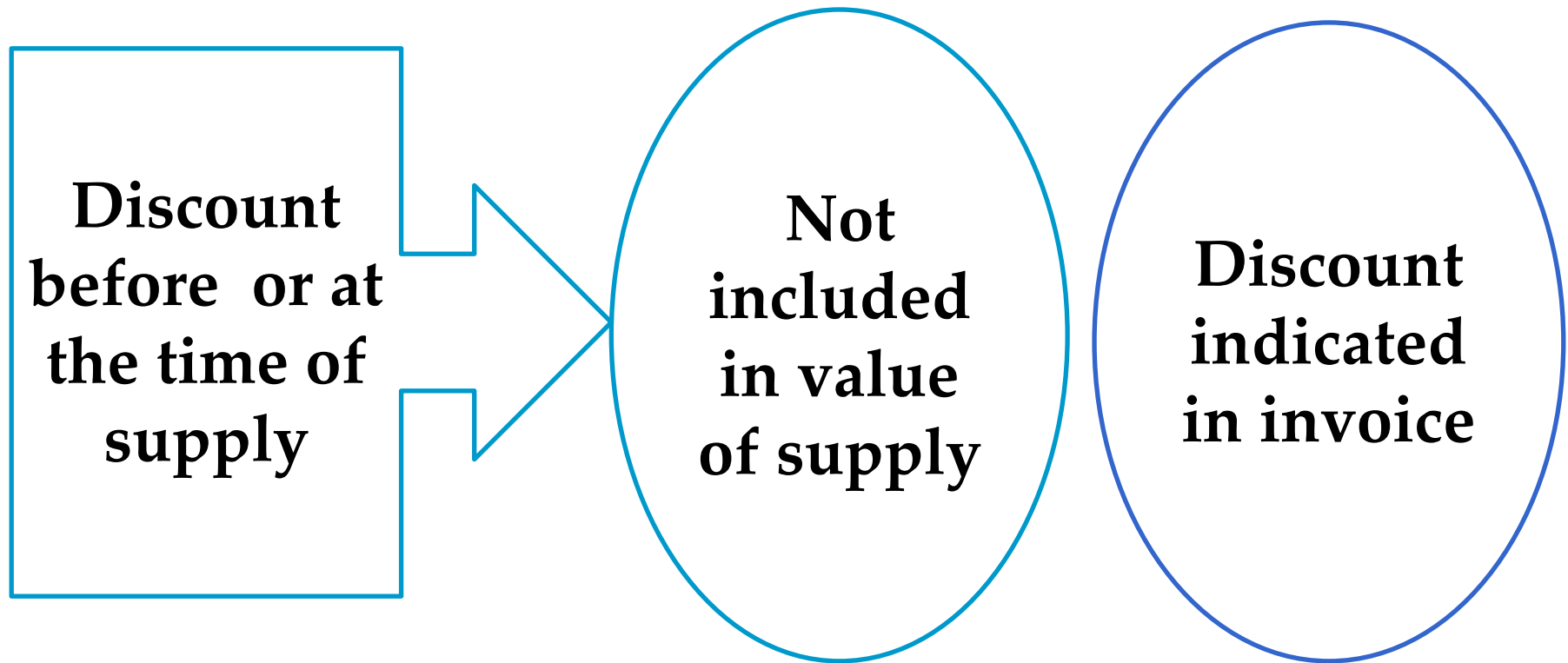
Cylinder Subsidy

**Govt gives direct credit to
Public**

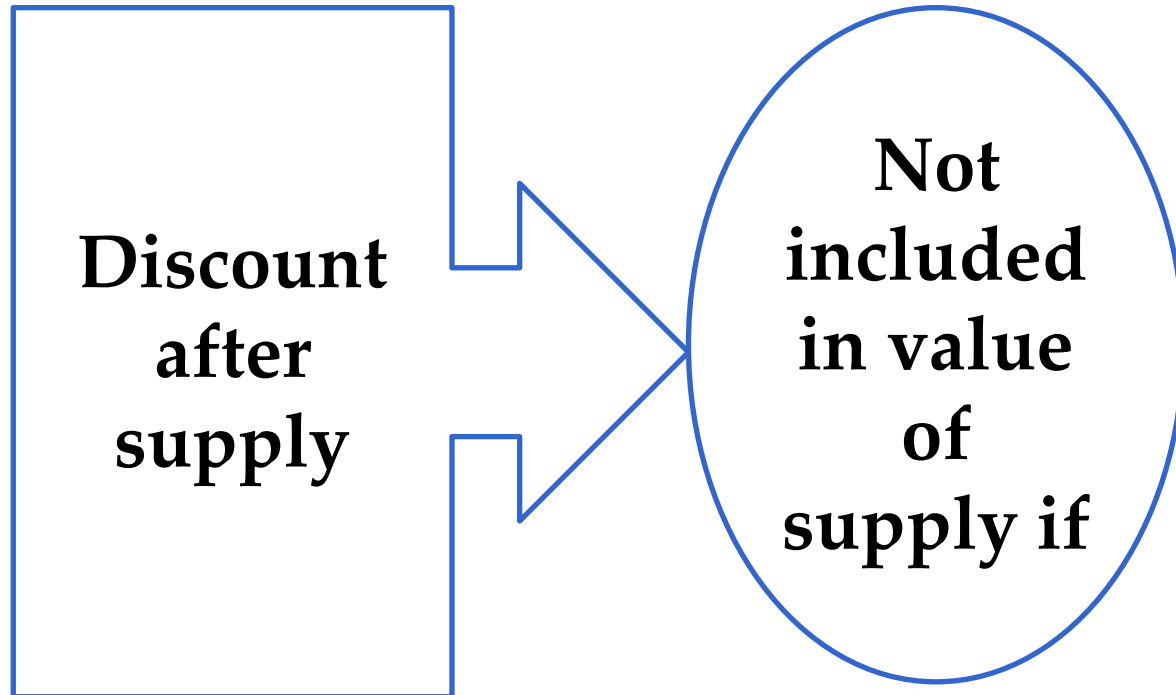
Whether GST Payable?



Value of taxable supply – Section 15



Value of taxable supply – Section 15



Discount is as per the terms in the agreement entered before supply and linked to invoice

ITC is reversed by the recipient



Related Person – Section 15

Persons shall be deemed to be “related persons if —

- **Such persons are officers or directors of one another’s businesses;**
- **Such persons are partners in business;**
- **Such persons are employer and employee;**



Related Person – Section 15

- 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;



Related Person – Section 15

- **Together they directly or indirectly control a third person; or**
- **They are members of the same family**

Family = Spouse & Children

- **Parents, grand parents, brother & sister is wholly or mainly dependent on the said person**



Deemed Related Person – Section 15

- **Persons who are associated in the business of one another in that one is the sole agent or sole distributor or sole concessionaire, howsoever described, of the other, shall be deemed to be related.**



VALUATION RULES



Consideration is not wholly in money – Rule 1

- Value shall be -
 - Open Market Value of such supply
 - Open Market Value is not available → Consideration in money + Money equivalent of consideration in kind.
 - If not determinable as per (a) & (b) →



Consideration is not wholly in money – Rule 1

- Value of goods or service of like kind & quality
- If not determinable as per (a), (b) & (c) →
- Rule 4 or Rule 5 in that order



Illustration

- **Mr. Modi, a property dealer sells a flats in “Lotus Project” for Rs. 25 Lakhs**
- **Mr. Yogi, provides legal services to Mr. Modi**
- **Hence in consideration Mr. Modi provides flat to Mr. Yogi for Rs. 15 Lakhs.**
- **Value = ?**



Illustration

- Doctor charges fees of Rs. 5,00,000/- for a heart operation
- A poor patient explains his financial issues to the doctor
- The Doctor charges fees of Rs. 3,00,000/- for the heart operation
- Value = ?



Illustration

- Value of phone on Flipkart – Rs. 35,000/-
- Value of on exchange of old phone – Rs. 30,000/-
- Value = ?



Factors to be considered for Like Goods or Services

- **Supply is made in similar circumstances**
- **Characteristics, quality, quantity , functional components, reputation of the goods & service**



Supply to distinct or related person– Rule 2

The value of the supply of goods or services or both between distinct persons:

- **Open Market Value of such supply**
- **Open Market Value is not available → Value of goods or service of like kind & quality**
- **If not determinable as per (a), (b) & (c) → Rule 4 or Rule 5 in that order**



Supply to distinct or related person– Rule 2

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.



Mischief in Rule 2

- **As invoice value is the deemed Value, lower invoice value will result in nullifying the effect of early incidence of tax**
- **And increase in invoice value will result in distribution of excess input from one state to another**



Supply to/from and agent– Rule 3

**Open market
Value of the
goods being
supplied**

Or

**At the option of the
supplier, 90% of
price charged by
recipient to
unrelated customers**

**If not determinable as per
above
Rule 4 or Rule 5 in that order**



Illustration – “Principal & Agent”

- Principal supplies goods to Agent
- Subsequent sale price by agent on date of supply – Rs. 5,000/- Sale Price of independent supplier – Rs. 4,550/-
- Value = Rs. 4,550/- or $(Rs. 5,000 * 90\%)$ at the option of supplier



Value based on cost – Rule 4

If value cannot be determined as per Rule 1 to Rule 3

As per CAS – 4, cost of production = cost of bringing the production in the condition in which they are sold

Value = 110% of Cost of production / acquisition of goods or the cost of provision of such service



Residual Method – Rule 5

If value cannot be determined as per Rule 1 to Rule 4

Value is determined using reasonable means consistent with the principles and general provisions of section 15 and these rules.

Supplier of service may opt for this rule, disregarding Rule 4



Foreign Currency Services – Rule 6

- **Currency changed from or to INR**
Value = {[Buying Rate or Selling Rate] – RBI Reference Rate} * No. of units
- **No If RBI reference rate for the currency,**
Value = 1% of gross amount of INR provided or received by the person changing the money
- **Where INR is not involved**
Value = 1% of lesser of the two currencies when converted to INR by using RBI Reference Rate



Foreign Currency Services – Rule 6

- Optional valuation method, cannot be changed during the year

Gross amount of currency exchanged	Deemed Value
Up to One Lakh	1% of column (1) subject to minimum Rs. 250/-
One Lakh to ten Lakhs	Rs. 1,000 + 0.5% of amount in column (1) in excess of Rs. 1 Lakh
More than ten Lakhs	Rs. 5,000 + 0.1% of the amount in column (1) in excess of Rs. 10 Lakhs subject to minimum Rs. 6,000/-



Travel Agent Services – Rule 6

- Service in relation to booking of tickets for travel by air provided by an air travel agent:
- Domestic Bookings – Value = 5% of Basic Fare
- International Bookings – Value = 10% of Basic Fare
- Basic Fare = means that part of the air fare on which commission is normally paid to the air travel agent by the airline.



Life Insurance – Rule 6

- **Value = Gross Premium charged from the policy holder**

(-)

Amount allocated for investment if intimated to the policy holder at the item of supply

- **Single premium annuity, other than above**
Value = 10 % of the single premium charged from the policy holder



Life Insurance – Rule 6

- **Other Cases - Value = 25 % of the premium charged from the policy holder in 1st year & 12.5% in subsequent years**
- **Not Applicable if premium is only towards risk cover in life insurance**



Second hand Goods Dealers – Rule 6

Sale of used goods -

**Value = Selling Price (-) Purchase Price
(Ignored, if negative)**

**Provided no ITC has been availed on
purchase of goods**



Illustration – “Second Hand Dealer”

- A Second hand dealer of car purchases a car for Rs. 5,00,000/-
- Paints the car, repairs it and sells for Rs. 8,00,000/-
- Value = ?



Vouchers – Rule 6

- **Value of a coupon or a voucher or a 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.**



Illustration – “Voucher”



**Life Style Voucher
of Rs. 5,000/- and the
customer purchases
goods of value of
Rs. 4,500/-**

Value = ?

Pure Agent - Rule 7

- **The expenditure or costs incurred by the supplier as a pure agent of the recipient of supply of services shall be excluded from the value of supply, if all the following conditions are satisfied:**
- **The contract for supply made by third party is between third party and the recipient of supply;**



Pure Agent - Rule 7

- The recipient of supply uses the services so procured by the supplier service provider in his capacity as pure agent of the recipient of supply;
- The recipient of supply is liable to make payment to the third party;
- The recipient of supply authorises the supplier to make payment on his behalf;



Pure Agent - Rule 7

- **The recipient of supply knows that the services for which payment has been made by the supplier shall be provided by the third party;**
- **The payment made by the supplier on behalf of the recipient of supply has been separately indicated in the invoice issued by the supplier to the recipient of service;**



Pure Agent - Rule 7

- **The supplier recovers from the recipient of supply only such amount as has been paid by him to the third party; and**
- **The services procured by the supplier from the third party as a pure agent of the recipient of supply are in addition to the supply he provides on his own account.**



Illustration – “Pure Agent”

- A Lawyer collects Court Fees of Rs. 5,00,000/- long with professional fees of Rs. 2,00,000/- from his client.
- Value = ?



Exchange Rate - Rule 8

**Exchange
Rate**



**RBI
Reference
Rate on the
date
determined
as per
Section 12
or 13**

