
VALUATION

PROCESS



VALUE OF TAXABLE SUPPLY

- The value of supply of goods or services or both for which
 - price is the sole consideration and
 - the supplier and recipient are not relatedshall be determined in accordance to **transaction value**.

- The section 15 of the CGST Act, defines the **related persons** to include the following :
 - Officers / Directors of one another's business
 - Partners in business
 - Employer – employee
 - A person directly/ indirectly owns/ controls/ holds 25 of shares of both the persons
 - One directly/ indirectly controls the other
 - Both are directly/ indirectly controlled by a third person
 - Together, they directly/ indirectly control a third person
 - Members of the same family
 - Sole agent / distributor of the other

TRANSACTION VALUE - INCLUSION & EXCLUSIONS

The Transaction value is the price actually paid or payable for the supply of goods/ services or both where the supplier and recipient are unrelated. The following inclusions and exclusions shall be made to get the final price of the supply:

INCLUDES:

- Amounts charged by supplier to recipient in respect of any **taxes, duties, cesses, fees and charges levied** under any statute, other than taxes paid under GST regime;
- **Amount incurred by Recipient** which is liable to be paid by the Supplier;
- Charges by Supplier to Recipient being:
 - **Incidental expenses** (e.g.: packing, commission)
 - **Charges for anything done by the Supplier** at the time or before the delivery of supply, in respect thereof
 - **Interest/ late fee/** penalty for delayed payment of consideration
 - **Subsidies directly linked to price** – for supplier receiving the subsidy (excluding Central and State Govt subsidies)

EXCLUDES discount:

- **Before/ at the time of supply**
 - **Single condition:** Such discount is duly recorded in the invoice
- **After the supply: Cumulative conditions:**
 - Agreement establishing discount entered into before/ at the time of supply
 - Discount specifically linked to relevant invoices
 - Input Tax Credit reversed by the recipient to the extent of discount

RECOURSE TO VALUATION RULES

- Where the value of goods or services cannot be ascertained in accordance to transaction value method i.e
 - when price is not the sole consideration and
 - supplier and recipient are related partythen **the Valuation Rules** needs to followed.

- Certain supply of goods and services as notified by the Government on recommendation of the Council shall be determined in accordance to valuation rules.

VALUATION RULES

➤ **RULE 1:**

In case of supply of goods or services where the **consideration is not wholly in money** the value of supply shall be determined in accordance to the following in chronological order :

- ✓ The **open market value** of such supply;
- ✓ 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;
- ✓ The value of goods/ services of **like kind and quality**;
- ✓ As determined by **Rule 4 or Rule 5**.

* “ *Open Market Value* ” of a supply of goods/services or both means the full value in money, excluding any taxes and the cesses payable by a person in a transaction, where the supplier and the recipient of the supply are not related and price is the sole consideration, to obtain such supply at the same time when the supply being valued is made.

* * “ *of like kind and quality* ” means any other supply of goods/services or both made under similar circumstances that, in respect of the characteristics, quality, quantity, functional components, materials, and reputation of the goods/ services or both first mentioned, is the same as, or closely or substantially resembles, that supply of goods or services or both.

VALUATION RULES

➤ **RULE 2:**

The value of the supply of goods/services or both between **distinct persons** i.e. different entities of same persons or where the supplier and recipient are **related person**, excluding supplies made through an agent shall be determined in accordance to the following in chronological order:

- ✓ The **open market value** of such supply;
- ✓ The value of goods/ services of **like kind and quality**;
- ✓ As determined by **Rule 4 or Rule 5**.

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

VALUATION RULES

➤ **RULE 3:**

The value of supply of goods made or received between the principal and agent shall be:

- ✓ The **open market value** of such goods being supplied;
- ✓ At the option of the supplier, be **90% of the price charged for the supply of goods of like kind and quality** by the recipient to his customer not being related person, where the goods are intended for further supply.
- ✓ As determined by **Rule 4 or Rule 5**.

➤ **RULE 4:**

In case where the value of goods / services or both cannot be determined in accordance to the preceding rules, then the value shall be **110% of the cost of production** or manufacture or cost of acquisition of such goods or cost of provision of such services.

➤ **RULE 5:**

This is the Residual method for determination of value of goods/services. In case when the value cannot be determined in accordance with the preceding rules then the same shall be determined using reasonable means consistent with the principles and general provisions of section 15.

VALUATION RULES

➤ **RULE 6:**

Certain categories of supply of goods or services has been specified by the government with specific valuation rules which are as follows:

- In case of the value of supply of services in relation to purchase or sale of foreign currency , including the **services of money changer**, shall be determined at the option of the supplier of service in accordance to **any one** of the following methods:
 - (a) For a currency, when exchanged from, or to, Indian Rupees (INR), the value 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 (RBI) reference rate for that currency at that time, multiplied by the total units of currency.

In case where the RBI reference rate for a currency is not available, the value shall be 1% of the gross amount of Indian Rupees provided or received by the person changing the money.

Provided that in case where neither of the currencies exchanged is Indian Rupee, the value shall be equal to 1% of the lesser of the two amounts the person changing the money would have received by converting any of the two currencies into Indian Rupee on that day at the reference rate provided by RBI.

VALUATION RULES

(b) The value of supply of foreign currencies, including money changing shall be determined in accordance to the following :

Gross amount of currency exchanged	Value of supply of service
Upto Rs. 1 lakhs	1 % of the gross amount of currency exchanged subject to minimum of Rs. 250/-
Rs 1 lakhs to Rs. 10 lakhs	Rs.1000 + 0.5% of the gross amount of currency exchanged
Exceeding Rs. 10 lakhs	Rs. 5000 + 0.10% of the gross amount of currency exchanged subject to maximum of Rs. 60000/-

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- In case of services provided an **Air travel agent**, of booking air tickets shall be valued as follows:

Particulars	Value of the service
Domestic bookings	5% of the basic fare*
International bookings	10% of the basic fare*

***basic fare** means that part of the air fare on which commission is normally paid to the air travel agent by the airlines.

- Where a taxable supply is provided by a person dealing in 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 and where no input tax credit has been availed on purchase of such goods, the value of supply shall be the **difference between the selling price and purchase price** and where the value of such supply is negative it shall be ignored.

VALUATION RULES

- The value of supply of services in relation to **life insurance business** shall be:
 - (a) the gross premium charged from a policy holder reduced by the amount allocated for investment, or savings on behalf of the policy holder, if such amount is intimated to the policy holder at the time of supply of service;
 - (b) in case of single premium annuity policies other than (a), ten per cent. of single premium charged from the policy holder; or
 - (c) in all other cases, twenty five per cent. of the premium charged from the policy holder in the first year and twelve and a half per cent. of the premium charged from policy holder in subsequent years.

Provided that nothing contained in this sub-rule shall apply where the entire premium paid by the policy holder is only towards the risk cover in life insurance.

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- The value of a token, or a voucher, or a coupon, or a stamp (other than postage stamp) which is redeemable against a supply of goods or services or both shall be **equal to the money value of the goods or services or both redeemable** against such token, voucher, coupon, or stamp.
- The value of taxable services provided by such class of service providers as may be notified by the Government on the recommendations of the Council between related persons between distinct persons when made in the course of or furtherance of business, other than those whose input tax credit are not available, shall be deemed to be **NIL**.

VALUATION RULES

➤ RULE 7:

▪ Value of supply of services in case of **Pure Agent**

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, namely:-**

- the supplier acts as a pure agent of the recipient of the supply, when he makes payment to the third party for the services procured as the contract for supply made by third party is between third party and the recipient of supply;
- 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;
- 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;
- 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.

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“*Pure Agent*” means a person who –

- (a) enters into a contractual agreement with the recipient of supply to act as his pure agent to incur expenditure or costs in the course of supply of goods or services or both;
- (b) neither intends to hold nor holds any title to the goods or services or both so procured or provided as pure agent of the recipient of supply;
- (c) does not use for his own interest such goods or services so procured; and
- (d) receives only the actual amount incurred to procure such goods or services.

➤ **Rule 8:**

The rate of exchange for determination of value of taxable goods or services or both shall be the applicable reference rate for that currency as determined by the Reserve Bank of India on the date when point of taxation arises in respect of such supply.



 **THANK
YOU**