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Value of Supply

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Value of Supply

Value of Supply Under GST



What is Value of Supply?

Value of Supply in common terms is nothing but the amount paid by the recipient on supply to the supplier as consideration for supply.

Example: A goes to shop of B and purchases television. He pays amount of ₹ 20,000 as consideration for TV Purchased. Let's decode the transaction between A and B.

- (a) What is the nature of transaction: Supply of Television by B to A
- (b) Who is the supplier: B

- (c) Who is the recipient of supply: A
- (d) What is the Value of Supply: ₹ 20,000.
- (e) Who pays for the Value of Supply: A pays to B towards.
- (f) Why amount is being paid by A to B for supply: A is paying ₹ 20000 as consideration to B for supply of Television

What is the value of supply of goods or services or both in GST

Valuation rules determine value of goods or services or both on which tax under GST has to be charged. Valuation rules have been prescribed under GST for the purpose of determination of fair market value of goods or services or both supplied by the registered person.

How Valuation of Supply would be made -section 15(4)

Valuation of supply of goods or services or both made under section 15(4), would be as follows:

- (a) Rule 27: Value of supply of goods or services where the consideration is not wholly in money.
- (b) Rule 28: Value of supply of goods or services or both between distinct or related persons, other than through an agent.
- (c) Rule 29: Value of supply of goods made or received through an agent.
- (d) Rule 30: Value of supply of goods or services or both based on cost.
- (e) Rule 31: Residual method for determination of value of supply of goods or services or both.

What is the relevance for ascertaining value of supply

Value of supply is the figure upon which tax is levied and collected. What forms part of the value and what does not form part of the value of supply is required to be ascertained for correct levy of tax.

Past History of Taxation is full of instances wherein there have been in numerous disputes in ascertaining the value upon which tax would be levied and collected. The ongoing fight between the assessee and the tax regime of whether service tax would form part of the value of sales price for the levy of sales tax is an example of why guidelines for valuation are required to be precise and clear about what to include and what not to include.

Valuation of supply when a transaction is not in INR

When exports are made the invoice may be raised by the taxpayer in Foreign Currency. The IGST (if any) charged in the invoice will be converted using RBI Exchange Rate.

RBI exchange rates are to be used in case of imports too. When reverse charge is applicable on imported supplies the invoice amount has to be converted using the RBI Exchange Rate.

Transaction value not to include Discount

The value of the supply shall not include any discount that is given-

- (a) before or at the time of the supply if such discount has been duly recorded in the invoice, and
 - (b) after the supply has been effected.
- (i) such discount is established in terms of an agreement entered into at or before the time of such supply and specifically linked to relevant invoices; and
 - (ii) Input tax credit as is attributable to the discount on the basis of document issued by the supplier has been reversed by recipient

Various Kinds of Discounts

- (1) **'In-bill' discounts:** Normally allowed

(2) **'Off-bill' discounts:** Through CN; S. 15(3) conditions must be fulfilled

(3) **Cash discounts:** GST is not a tax on recovery of dues towards supplies

(4) **Quantity discounts:** Allowed subject to S.15(3)

(5) **Special Discounts:**

- Aggressive Marketing [Fiat India Ltd. (SC)][2012 (8) TMI 791]
- Difficult to fulfill S. 15(3) conditions
- Reverse case: Supply of services by the dealer to manufacturer

(6) **Discounts 'in-kind':**

- Holiday packages
- Gold coins
- Motor Vehicle
- Difficult to fulfill S. 15(3) conditions

Example: Holiday package by manufacturer to a dealer

(7) **Free Stocks:** Similar to discount 'in-kind'. These free supplies are not only taxable in the hands of manufacturer but ITC is also not available to the dealers. So, it is tax inefficient transaction

(8) **'Buy one-take two':** It is not the case where the two units of stocks are bundled together with a single price assigned to them. Therefore, unless bundled together (e.g. 4 bars of soap) with preselected units of stock and a single price affixed, all other transactions of "buy one-take two" are individually taxable-the paid unit at the price paid and the free unit at the price determined by the valuation rules.

(9) **'Nominal value supplies':** The value as per Rule 27. Second proviso to R. 28 may fail while passing through the test of "sole consideration".

(10) **Liquidated damages:** Upon analysing the definition of supply under GST law, it will result in a conclusion that there are actually two supplies which are taking place here: -

- Main supply say, 'works contract' from contractor to the contractee
- Liquidated Damages: Contractee also provides services to contractor in the form of agreeing to the obligation to tolerate an act in terms of 5(e) of Sch. II for which he receives consideration in the form of LD
- **(11) 'Cashback coupons in product packaging':** The product being supplied to a customer contains a cash back coupon. It will not reduce the output tax liability. Cashback may represent the marketing expenses.
- **(12) 'Cashback coupons provided by person other than supplier':** Like benefits given by e-com operators. These are only marketing expenses of the e-com operators.
- **(13) 'Gift vouchers valid for subsequent supplies':** The customer is given credit points to avail on subsequent purchases. Subsequent sales value can be reduced.
- **(14) 'Free ancillary articles':** Free bag with laptop. No tax on bag. No ITC reversal. These are only marketing expenses.

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