

CA FINAL – MAY 2020 EXAMS

INDIRECT TAXATION – GST & CUSTOMS (OLD COURSE & NEW COURSE)



CA VISHAL JAIN



CA PRAVEEN JAIN

COIMBATORE

24TH JAN. 2020 TO 5/6TH FEB. 2020

📍 **BEST ACADEMY**

CALICUT

8TH FEB. 2020 TO 17TH FEB. 2020

📍 **LAKSHYA**

HYDERABAD

17TH FEB. 2020 TO 10TH MAR. 2020

📍 **MASTER MINDS**

COIMBATORE / CHENNAI

1ST APR. 2020 TO 9/10TH APR. 2020

📍 **WILL BE
UPDATED**

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Telegram App Link for GST Queries of Students

Link for CA Final Students

https://t.me/GST_VJnPJ_CAFinal

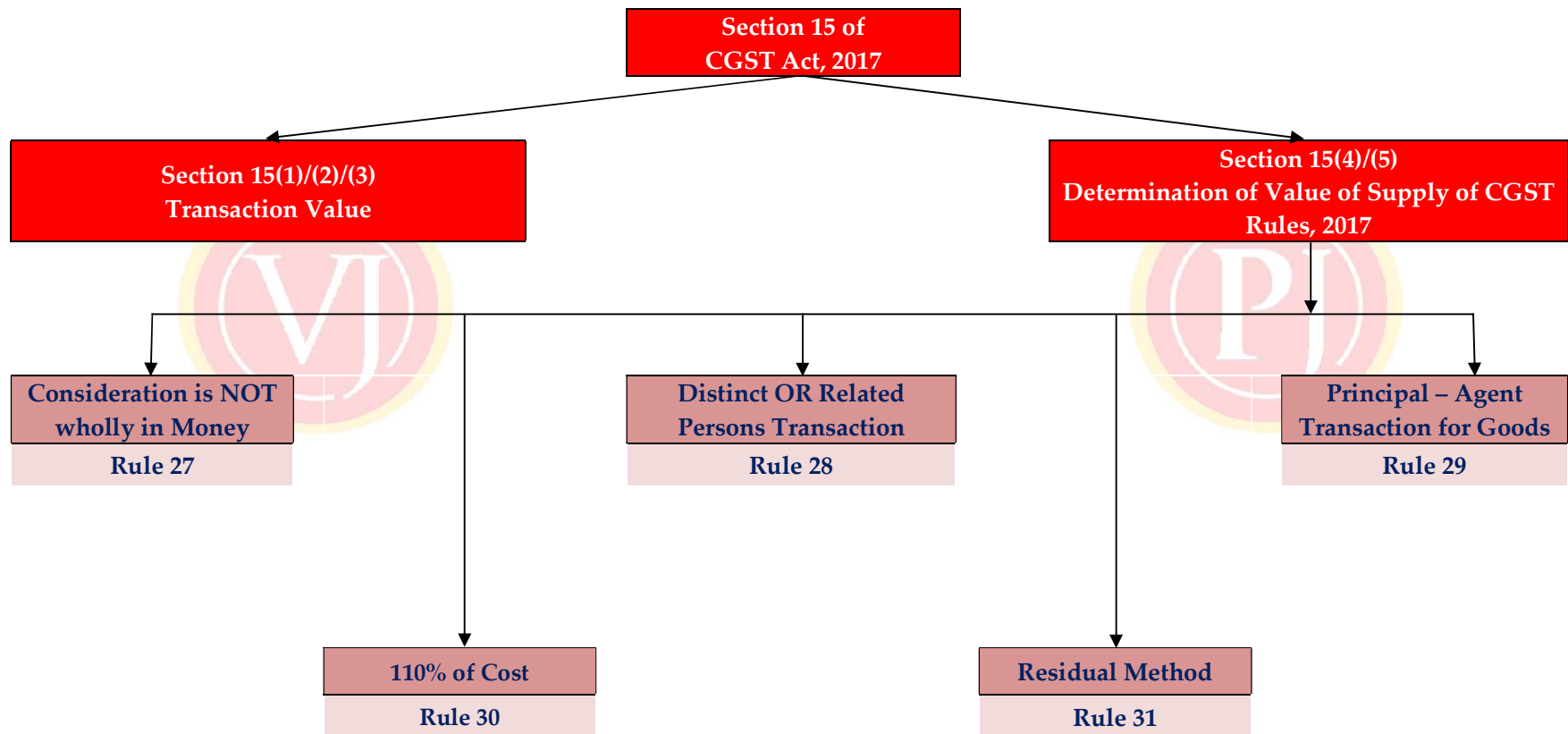
Link for CA IPCC Students

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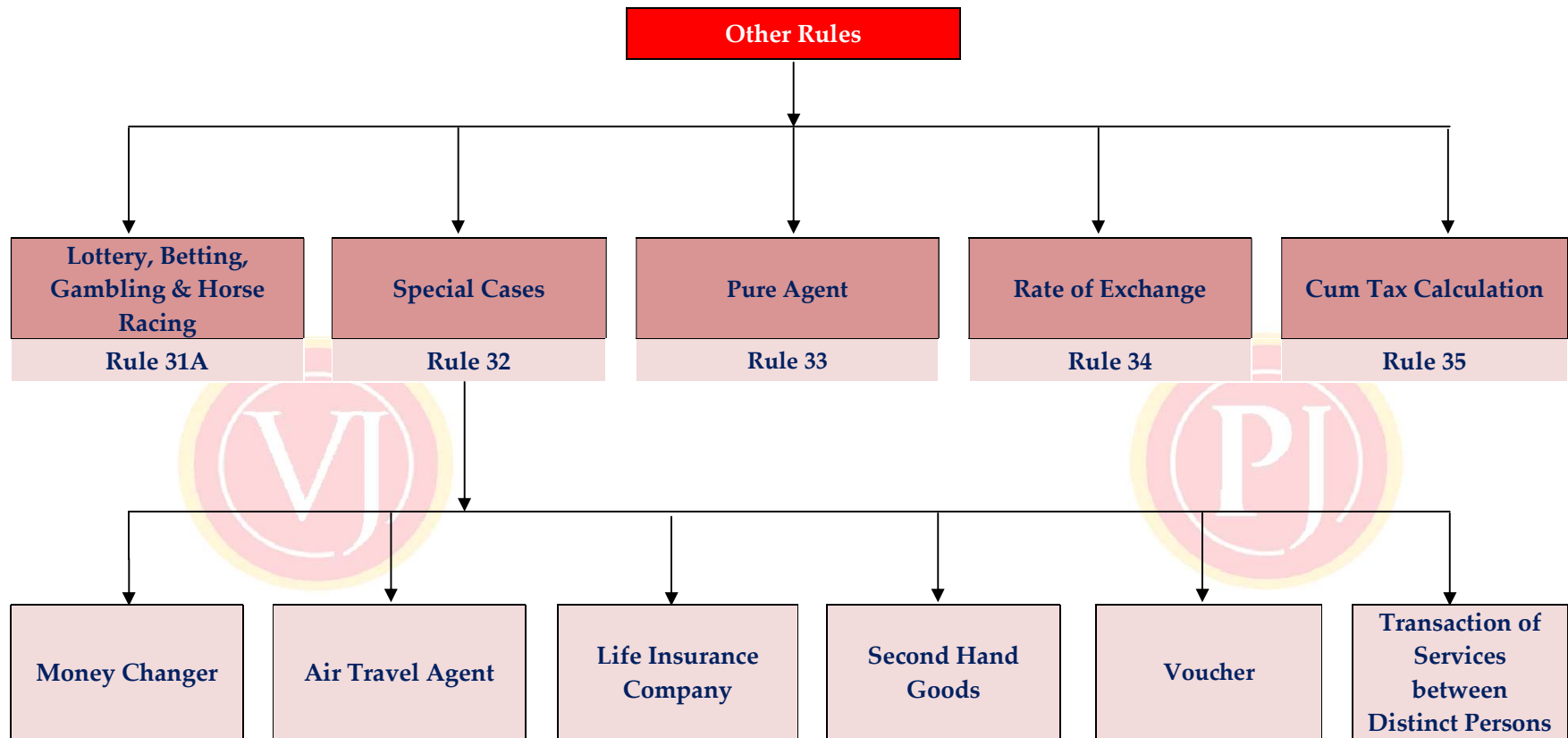
Valuation

VALUATION

BIRD'S EYE VIEW



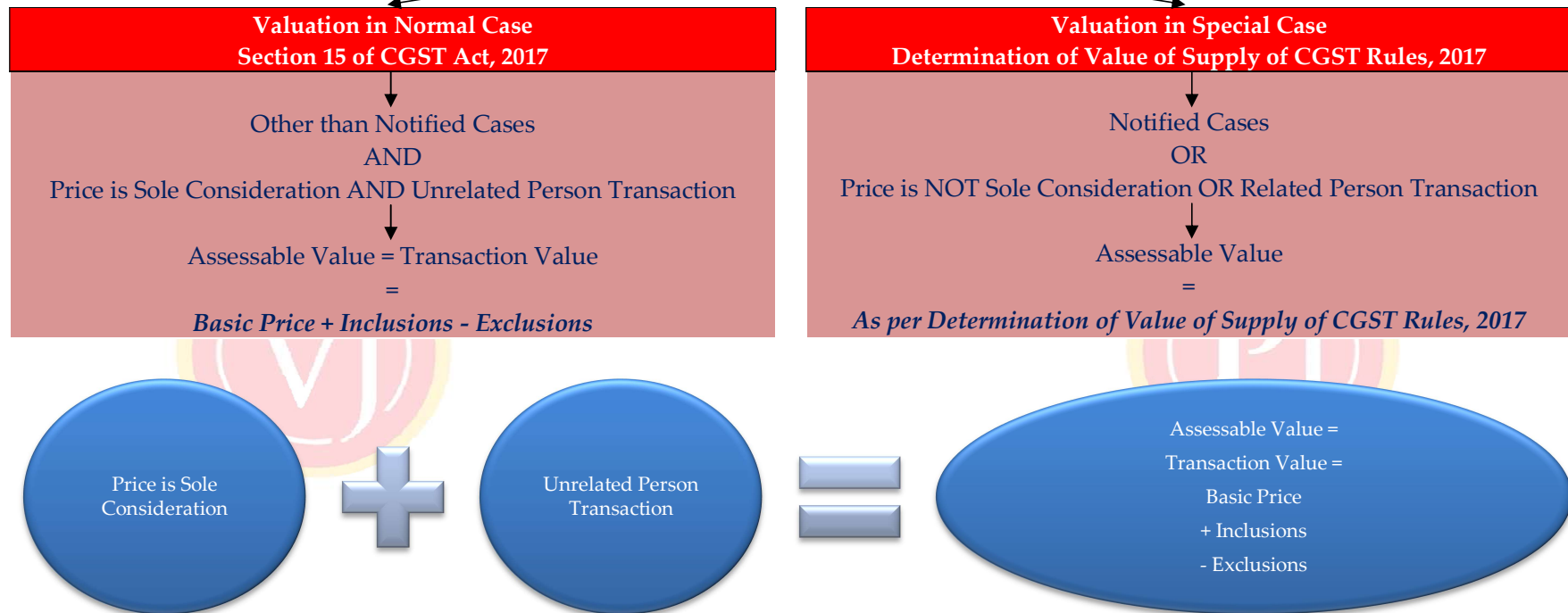
Valuation



Note: Section 15 of CGST Act, 2017 which provides for valuation of intra-state supplies is mutatis mutandis applicable for valuation of inter-state supplies by virtue of Section 20 of IGST Act, 2017.

Valuation

VALUATION OF SUPPLY SECTION 15 OF CGST ACT, 2017

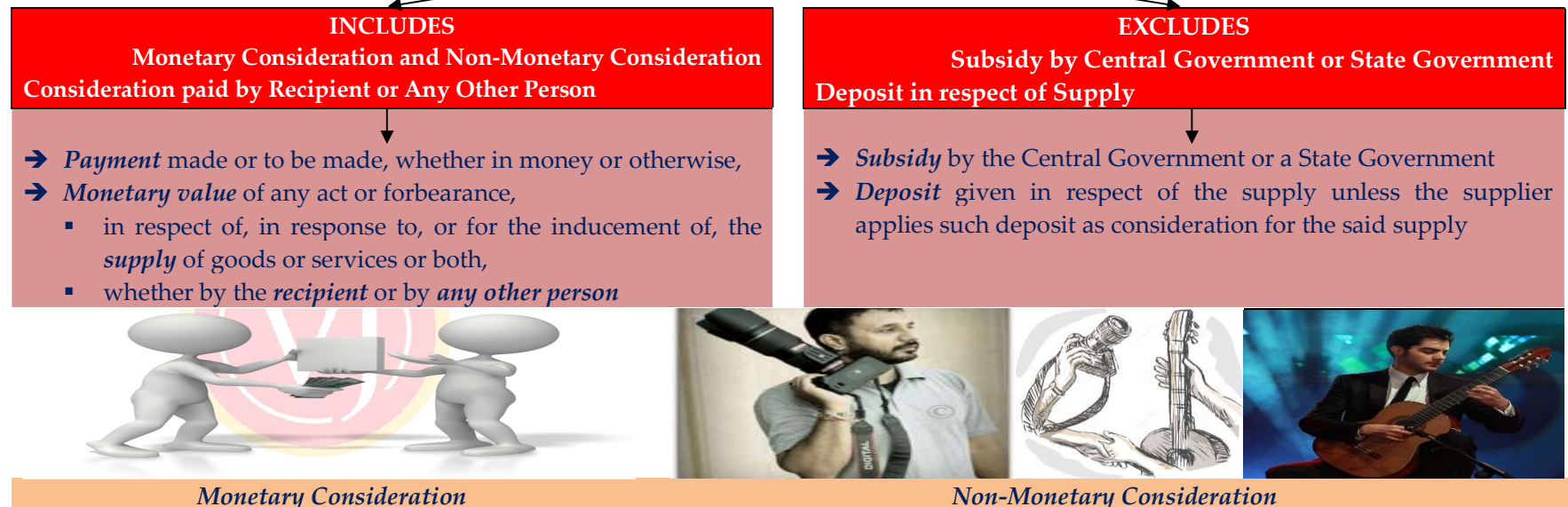


Note: Valuation is always under Section 15 for IGST, CGST, SGST and UTGST except for IGST payable on Imported Goods, where valuation is as per Customs Act, 1962.

Valuation

Notes: Meaning of "Consideration" and "Related Person"

SECTION 2(31) OF CGST ACT, 2017 CONSIDERATION



Example 1: Consideration (Types of Cons. & Payer of Cons.)

Particulars	GST
Monetary Consideration & Non-Monetary Consideration	✓
Payment by Recipient OR Payment by 3 rd Party	✓

Example 2: Consideration (Subsidy)

Particulars	GST
Subsidy by Government	✗
Subsidy by other than Government	✓

Example 3: Consideration (Loans & Deposits)

Particulars	GST
Transactions in Loans (Mere Transaction in Money)	✗
Transactions in Deposits (Mere Transaction in Money)	✗

Example 4: Consideration (Advances)

Particulars	GST
Advances for Goods (Time of Supply – Section 12)	✗
Advances for Services (Time of Supply – Section 13)	✓



Valuation

EXPLANATION TO SECTION 15 OF CGST ACT, 2017

RELATED PERSON

Persons shall be deemed to be "Related" only if

They are	<div>➔ Officers / Directors of one another's businesses;</div> <div>➔ Legally Recognised Partners in business;</div>	<div>➔ Employer and Employee;</div> <div>➔ Members of the same Family;</div>
Both of them	➔ Are controlled by a third person; [directly or indirectly]	➔ Controls a third person; [directly or indirectly]
One of them	➔ Controls the other; [directly or indirectly]	
Any person	➔ Owns, Controls or Holds 25% or more of the outstanding voting stock or shares of both of them; [directly or indirectly]	
<div><div>▪ Person includes “legal person”</div><div>▪ Persons who are associated in the business of one another in such a way that one is the Sole Agent / Sole Distributor / Sole Concessionaire, howsoever described, of the other shall be deemed to be related.</div></div>		

Notes:

→ Meaning of "Family" – Section 2(49) of CGST Act, 2017

Family

Means	<ul style="list-style-type: none"> ▪ <i>Spouse and Children</i> of the person, and ▪ <i>Parents, Grand Parents, Brothers and Sisters</i> of the person if they are wholly or mainly <i>dependent</i> on the said person
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Example 1: One person controls the other person

Cases	Related Person (RP)
Case 1: A Ltd. controls B Ltd.	▪ A Ltd. and B Ltd. are RP
Case 2: B Ltd. controls A Ltd.	▪ A Ltd. and B Ltd. are RP

Example 2: 3rd Person is controlled by both OR controls both

Particulars	GST
Case 1: C Ltd. controls A Ltd. AND C Ltd. controls B Ltd.	<ul style="list-style-type: none"> ▪ C Ltd. and A Ltd. are RP ▪ C Ltd. and B Ltd. are RP ▪ A Ltd. and B Ltd. are RP
Case 2: A Ltd. controls C Ltd. AND B Ltd. controls C Ltd.	<ul style="list-style-type: none"> ▪ C Ltd. and A Ltd. are RP ▪ C Ltd. and B Ltd. are RP ▪ A Ltd. and B Ltd. are RP

Example 3: 3rd Person holds $\geq 25\%$ voting shares of both

Particulars	GST
Case 1: C Ltd. holds 25% in A Ltd. AND C Ltd. holds 25% in B Ltd.	<ul style="list-style-type: none"> ▪ C Ltd. and A Ltd. are RP ▪ C Ltd. and B Ltd. are RP ▪ A Ltd. and B Ltd. are RP
Case 2: A Ltd. holds 25% in C Ltd. AND B Ltd. holds 25% in C Ltd.	<ul style="list-style-type: none"> ▪ A Ltd. and C Ltd. are RP ▪ B Ltd. and C Ltd. are RP ▪ A Ltd. and B Ltd. are RP

Valuation

VALUATION OF SUPPLY – SECTION 15 OF CGST ACT, 2017 WHEN PRICE IS SOLE CONSIDERATION AND TRANSACTION IS BETWEEN UNRELATED PERSON

Means	Price Actually Paid or Payable by Recipient to Supplier		
	Amount paid in Advance + Amount paid at the time of Supply + Amount paid after Credit Period		
	Example: Advance payment before dispatch: Rs.300 and Amount payable after credit period of 30 days: Rs.700. Assessable Value (AV) will be Rs.1,000 even though only Rs.300 is received at the time of supply.		
Excludes	Discount given by Supplier		
	<i>Discount given at the Time of Supply or Before Supply</i>	Shown in Invoice	Excluded from Value
		NOT Shown in Invoice	NOT Excluded from Value
	Example: On the invoice of Sony Ltd., list price is mentioned as Rs.200, on which a discount of 30% is given and the final price is Rs.140. AV is Rs.140, as discount is given at time of supply and shown in invoice.		
	<i>Discount given After Supply</i>	Discount is in terms of <i>Agreement</i> existing at time of Supply + Discount can be <i>linked</i> with Invoices + Proportionate <i>ITC reversed</i> by Recipient	Excluded from Value
		Above conditions are NOT satisfied	NOT Excluded from Value
	Example 1: I-Planet entered into an agreement with its dealers that on sale of I-Phone X over 100 pieces will entitle them to discount of 5%. As the agreement was in existence at the time of supply and discount can be worked out for each invoice, AV will be Billed Price (as mentioned in Invoice issued) minus 5% discount (by issuing Credit Note). However, based on such credit notes the recipient of discount has to reverse the proportionate ITC claimed earlier. Example 2: Patanjali announces turnover discounts to all its distributors who achieve a turnover of Rs.10 crore. If such discounts are passed using credit notes by linking them to respective invoices, they can be deducted from taxable value of goods since there was a prior agreement for such discounts. However, based on such credit notes the recipient of discount has to reverse the proportionate ITC claimed earlier. However in the above example, if after reviewing distributors' performance during the year the company announces turnover discount, then the discounts are based on performance slabs and are given as cash-back. As for these discounts, there was no prior agreement at the time of supply of the goods and thus, they will not be deducted from AV Example 3: DK Sweets Ltd. has a long outstanding of Rs.30,000/- from one of its distributors. The company writes it off as discount in its books of accounts and wants to claim it as a reduction in the value of other supplies made. Such bad debts named as discount cannot be claimed as a reduction since there was no prior agreement for such discounts.		

Valuation

Includes →

Taxes received by Supplier

GST & GST Cess	CGST, SGST, UTGST, IGST, Compensation Cess, etc.	NOT Included in Value
Other Taxes	Municipal Taxes, Excise Duty on Tobacco, etc.	Included in Value

Example: Manufacturer of tobacco is selling his goods for Rs.100 on which he is paying Excise Duty of Rs.30. Such excise duty will be added to AV and thus, final AV for levy of GST will work out to be Rs.130 (i.e. GST will be charged on Basic Price + Excise Duty).

Payment to 3rd Parties by Recipient on behalf of Supplier

Direct payment of some liabilities of supplier *by recipient to third parties on behalf of supplier* and thus, supplier not charging this amount in the invoice; but the same shall be included in value of Supplier

Example: Big Planners Co. contracts with Samsung Ltd. to conduct a meet. Big Planners Co. contracts with vendors to deliver goods/services, like water, soft drinks, audio system, projector, catering, etc. at the venue. Big Planners Co. is liable to make these payments as contracted. However, soft-drinks vendor supplier wants payment upon delivery; Samsung Ltd. agrees to pay the bill raised by the soft drinks vendor on Big Planners Co. on receiving the crates of soft drinks. This amount is not billed by Big Planners Co. to Samsung Ltd. However, it would be added to AV of service provided by Big Planners Co. to Samsung Ltd. for payment of GST.

Incidental Expenses charged by Supplier

Incidental expenses charged by Supplier, such as commission, packing or any amount charged for *anything done by supplier* in respect of supply *at the time of or before delivery* of the goods / supply of the services shall be included in value of Supplier

Interest / Late Fees charged by Supplier

Interest on Non-Taxable Supply & Exempt Supply (0%)	Interest or late fees paid by recipient for <i>delayed payment</i> of consideration in respect of <i>non-taxable supply & exempt supply</i>	NOT Included in Value
Interest on Taxable Supply (5%, 12%, 18% and 28%)	Interest or late fees paid by recipient for <i>delayed payment</i> of consideration in respect of <i>taxable supply</i>	Included in Value

Note: It is also to be noted that what is sought to be included is only late fee / penalty for delayed payment of consideration. Hence, all penalties may not be included in the 'value' for the purpose of GST.

Example: Supplier priced goods at Rs.2,000 with a credit period of 1 month for payment. Thereafter interest of 12% is charged. The payment is received after the lapse of 2 months. Supplier collected Interest of Rs.20 for period after 1 month interest-free period ($\text{Rs.2,000} \times 12\% \times 1/12$). Such interest will be added to AV and thus, final AV will work out to be Rs.2,020.

Subsidies received by Supplier

Subsidy from Government	Subsidy from Central Government and State Government	NOT Included in Value
Subsidy from Private Entity	Subsidy from other than Govt. <i>directly linked to price</i>	Included in Value

Example: SP of a notebook is Rs.50. For notebooks sold to students of Govt. School, Infosys uses its CSR funds to pay the seller Rs.30, so that students pay only Rs.20 per notebook. AV will be Rs.50, as this is Non-Government subsidy. If same subsidy is paid by Government, AV will be Rs.20

Valuation

Notes:

(1) Clarification regarding Valuation in case of Free of Cost Supply by Original Equipment Manufacturer (OEM) to Component Manufacturer – CBIC Circular 47/21/2018 – CGST

Issue	Whether moulds and dies owned by Original Equipment Manufacturers (OEM) say <i>Tata Ltd.</i> that are sent free of cost (FOC) to a component manufacturer say <i>MRF Tyres Ltd.</i> is leviable to tax and whether OEMs are required to reverse input tax credit in this case?
Clarification	<p>▪ Component Manufacturer was NOT under obligation to use his Moulds / Dies and they have supplied FOC by OEM</p> <p>(a) <i>Reversal of ITC by OEM:</i> Moulds and dies <i>owned by OEM</i> which are provided <i>to a component manufacturer</i> (the two not being related persons or distinct persons) on FOC basis does NOT constitute a <i>supply</i> as there is no consideration involved. Further, since the moulds and dies are provided on FOC basis by the OEM to the component manufacturer in the <i>course or furtherance of his business</i>, there is <i>no requirement for reversal of input tax credit</i> availed on such moulds and dies by the OEM.</p> <p>(b) <i>Valuation of Component supplied by Component Manufacturer:</i> It is further clarified that while calculating the value of the supply made by the component manufacturer, the <i>value of moulds and dies</i> provided by the OEM to the component manufacturer on FOC basis shall NOT be added to the value of such supply because the cost of moulds/dies was not to be incurred by the component manufacturer and thus, does not merit inclusion in the value of supply in terms of Section 15(2)(b) of the CGST Act.</p> <p>▪ Component Manufacturer was under obligation to use his Moulds / Dies but they have supplied FOC by OEM</p> <p>(a) <i>Valuation of Component supplied by Component Manufacturer:</i> If the contract between OEM and component manufacturer was for supply of components made by using the moulds/dies belonging to the component manufacturer, but the same have been supplied by the OEM to the component manufacturer on FOC basis, the <i>amortised cost of such moulds/dies</i> shall be added to the value of the components.</p> <p>(b) <i>Reversal of ITC by OEM:</i> In such cases, the OEM will be required to reverse the credit availed on such moulds/ dies, as the same will NOT be considered to be provided by OEM to the component manufacturer in the course or furtherance of the former's business.</p> <p><u>Author's Note:</u> Reversal of ITC by OEM on moulds / dies supplied FOC by OEM on the logic that it is NOT used by OEM in the course or furtherance of business seems to be illogical.</p>

(2) Clarification regarding Valuation Methodology of Ascertainment of GST on TCS under Income Tax Act, 1961 – CBIC Circular 76/50/2018 – CGST

Valuation

Clarification	<p>Section 15(2) of CGST Act specifies that the value of supply shall <i>include “any taxes, duties cesses, fees and charges”</i> levied under any law for the time being in force other than CGST Act, the SGST Act, the UTGST Act and the GST (Compensation to States) Act, if charged separately by the supplier.</p> <p>It has been clarified that for the purpose of determination of value of supply under GST, tax collected at source (TCS) under the provisions of the <i>Income Tax Act, 1961</i> would NOT be <i>includible</i> as it is an interim levy not having the character of tax.</p>
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Example: If Selling Price of an item is Rs.1,00,000, GST is applicable @ 18% and Income Tax TCS is applicable @ 1%, then

➔ GST = Rs.1,00,000 * 18% = Rs.18,000

➔ Income Tax TCS = Rs.1,18,000 * 1% = Rs.1,180

(3) Clarification regarding Value for computing GST on services of Business Facilitator (BF) or Business Correspondent (BC) to Banking Company – CBIC Circular 86/05/2019 – CGST

Issue	What is the value to be adopted for the purpose of computing GST on services provided by BF / BC to a banking company?
Clarification	<p>As per RBI's Circular and subsequent instructions on the issue (referred to as 'guidelines' hereinafter), banks may pay reasonable commission / fee to the BC, the rate and quantum of which may be reviewed periodically.</p> <ul style="list-style-type: none"> ▪ The agreement of <i>banks</i> with the <i>BC</i> specifically <i>prohibits</i> them from <i>directly charging any fee to the customers</i> for services rendered by them on behalf of the bank. ▪ On the other hand, <i>banks</i> (and not BCs) are permitted to <i>collect reasonable service charges from the customers</i> for such service in a transparent manner. The arrangements of banks with the BCs specify the requirement that the transactions are accounted for and reflected in the bank's books by end of the day or the next working day, and all agreements/contracts with the customer shall clearly specify that the bank is responsible to the customer for acts of omission and commission of the BF/BC. ▪ Hence, <i>banking company</i> is the <i>service provider</i> in the <i>BF model or the BC model</i> operated by a banking company as per RBI guidelines. The <i>banking company</i> is liable to pay <i>GST on the entire value of service charge</i> or fee charged to customers <i>whether or not received via BF or BC</i>.

Recent Amendment

(4) Clarification on issue of GST on Airport levies – CBIC Circular 115/34/2019 – CGST

Levy of GST	<ul style="list-style-type: none"> ▪ Passenger Service Fee (PSF): It is charged under Rule 88 of Aircraft Rules, 1937 according to which the <i>airport licensee</i> may collect <i>PSF</i> from <i>embarking passengers</i> at such rates as <i>specified</i> by the <i>Central Government</i>. According to the rule the airport license shall utilize the said fee for <i>infrastructure and facilitation of the passengers</i>. ▪ User Development Fee (UDF): It is levied under Rule 89 of the Aircraft Rules 1937 which provides that the <i>licensee</i> may
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Valuation

	<p>levy and collect, at a major airport, the <i>User Development Fee</i> at rate as prescribed in the <i>Airports Economic Regulatory Authority</i> of India Act, 2008. Though the rule does not prescribe the specific purpose of levy and whether it is to be charged from the airlines or the passengers. However, it is seen from section 2(n) of Airports Economic Regulatory Authority of India Act 2008, that the <i>authority which manages the airport</i> is eligible to levy and charge <i>UDF</i> from the <i>embarking passengers</i> at any airport. The User Development Fees (UDF) shall be collected <i>from the passengers by the airlines</i> at the time of issue of air ticket and the same shall be <i>remitted to the operator</i> i.e. Airports Authority of India [AAI] in the line system / procedure in vogue. For this, <i>collection charges</i> of Rs.5/- shall be receivable <i>by the airlines from AAI</i>.</p> <ul style="list-style-type: none"> ▪ Supply of Service: The above facts clearly indicate that <i>PSF and UDF are charged by airport operators</i> for providing the services <i>to passengers</i> and is liable to GST. However for convenience, the <i>airlines collect the same</i> from passengers and <i>remit it</i> to the airport operators for which the airlines <i>charge</i> the airport operator a <i>convenience fee</i> of say Rs.5/- (which is also liable for GST).
Issue 1	PSF & UDF are collected from the passengers by the airlines & the remitted to the operator. Is the airlines also liable to pay GST on PSF & UDF i.e. will it be included in the valuation for supply of services by the airlines to the passengers?
Clarification	<ul style="list-style-type: none"> ▪ <i>PSF and UDF</i> being charges levied <i>by airport operator</i> for services provided <i>to passengers</i> are <i>collected by the airlines</i> as an <i>agent</i> and is NOT a consideration for any service provided by the <i>airlines</i>. Thus, airline is <i>not responsible</i> for payment of <i>GST on UDF or PSF</i> provided the airline satisfies the conditions prescribed for a Pure Agent under Rule 33 of the CGST Rules. It is the licensee that is the <i>airport operator</i> (AAI, DIAL, MIAL etc) which is liable to pay <i>GST on UDF and PSF</i>. ▪ Accordingly, the airline acting as pure agent of the passenger should <ol style="list-style-type: none"> (a) <i>Separately indicate</i> actual amount of <i>PSF, UDF and GST payable</i> on such PSF and UDF by the airport licensee, in the <i>invoice</i> issued by airlines to its passengers. (b) <i>Not take ITC of GST</i> payable or paid on <i>PSF and UDF</i>. (c) Recover ONLY the <i>actual PSF and UDF and GST payable</i> on such PSF and UDF by the airline operator. <p>The amount so recovered will be <i>excluded</i> from the value of supplies made <i>by the airline to its passengers</i>.</p>
Issue 2	Can ITC of GST charged on PSF and UDF be availed?
Clarification	<ul style="list-style-type: none"> ▪ The airlines CANNOT avail <i>ITC of GST charged</i> on PSF/UDF as it is <i>not the recipient of service</i>, its acting only as an agent i.e. pure agent. ▪ The <i>registered passengers</i>, who are the <i>ultimate recipient</i> of the airport services, may take <i>ITC of GST paid on PSF and</i>

Valuation

	UDF on the basis of <i>pure agent's invoice</i> issued by the <i>airline</i> to them.
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Issue 3	Is GST payable on collection charges collected by the airlines from the operator?
Clarification	<ul style="list-style-type: none"> The <i>collection charges</i> paid by airport operator to <i>airlines</i> are a <i>consideration</i> for the services provided by the airlines to the airport operator (AAI, DAIL, MAIL etc.) and <i>airlines shall be liable to pay GST</i> on the same under <i>forward charge</i>. ITC of the same will be available with the <i>airport operator</i>.

Recent Amendment

(5) Clarification regarding applicability of GST on Additional / Penal Interest – CBIC Circular 102/21/2019 – CGST

Issue	Whether the additional / penal interest on the overdue loan would be: <ul style="list-style-type: none">▪ exempt from GST in terms of Sl. No. 27 of NN 12/2017-CT(R) or▪ such penal interest would be treated as consideration for liquidated damages amounting to a separate taxable supply of services under GST covered under Entry 5(e) of Schedule II of the CGST Act, 2017 i.e. “agreeing to the obligation to refrain from an act, or to tolerate an act or a situation, or to do an act”		
Clarification	Example	Valuation OR Exemption	Entry 5(e) of Schedule II
	<p>Example 1: X sells a mobile phone to Y. The cost of mobile phone is Rs.40,000. However, X gives Y an option to pay in instalments, Rs.11,000 every month before 10th day of the following month, over next four months (Rs.11,000 *4 = Rs.44,000). Further, as per the contract, if there is any delay in payment by Y beyond the scheduled date, Y would be liable to pay additional / penal interest amounting to Rs.500/- per month for the delay.</p> <p>X is charging Y Rs.40,000/- for the mobile and is separately issuing another invoice for providing the services of extending loans to Y, the consideration for which is the interest of 2.5% per month and an additional / penal interest amounting to Rs.500 per month for each delay in payment.</p>	<p>As per Section 15(2)(d) the amount of penal interest is to be included in the value of supply. The transaction between X and Y is for supply of taxable goods i.e. mobile phone.</p> <p>Accordingly, the penal interest would be taxable as it would be included in the value of the mobile, irrespective of the manner of invoicing.</p>	<p>Additional / penal interest satisfies the definition of “interest” as contained in EN 12/2017-CT (Rate). Thus, the same does not constitutes a separate services as per Entry 5(e) of Schedule II “agreeing to the obligation to refrain from an act, or to tolerate an act or a situation, or to do an act”.</p>
	<p>Example 2: X sells a mobile phone to Y. The cost of</p>	<p>The additional / penal interest is</p>	<p>Additional / penal interest</p>

Valuation

<p>mobile phone is Rs.40,000. Y has the option to avail a loan at interest of 2.5% per month for purchasing the mobile from M/s ABC Ltd. The terms of the loan from M/s ABC Ltd. allows Y a period of four months to repay the loan and an additional / penal interest @ 1.25% per month for any delay in payment.</p>	<p>charged for a transaction between Y and M/s ABC Ltd., and the same is covered EN 12/2017-CT (Rate). Accordingly, in this case the 'penal interest charged thereon on a transaction between Y and M/s ABC Ltd. would not be subject to GST. However, any service fee / charge that are levied by M/s ABC Ltd. in respect of the transaction related to extending deposits, loans or advances does not qualify to be interest and the same will not be exempt.</p> <p>The value of supply of mobile by X to Y would be Rs.40,000 for the purpose of levy of GST.</p>	<p>satisfies the definition of "interest" as contained in EN 12/2017-CT (Rate). Thus, the same does not constitutes a separate services as per Entry 5(e) of Schedule II "agreeing to the obligation to refrain from an act, or to tolerate an act or a situation, or to do an act".</p>
<p>Note: As per EN 12/2017-CT (Rate), "'interest' means interest payable in any manner in respect of any moneys borrowed or debt incurred (including a deposit, claim or other similar right or obligation) but does not include any service fee or other charge in respect of the moneys borrowed or debt incurred or in respect of any credit facility which has not been utilized.</p>		

Valuation

VALUATION WHEN PRICE IS NOT SOLE CONSIDERATION OR TRANSACTION IS BETWEEN RELATED PERSON RULE 27 TO RULE 31 OF CGST RULES, 2017

Rule 27	Value of Supply of Goods OR Services where Consideration is NOT wholly in Money (i.e. Price is NOT the Sole Consideration)	Rule 27(a) – Open Market Value
		Assessable Value = Open Market Value of such Supply of Goods or Services or both
		If Open Market Value is not available, then follow Rule 27(b)
		Rule 27(b) – Monetary Consideration + Monetary Value of Non-Monetary Consideration
		Assessable Value = Consideration in Money + Such further amount in Money as is equivalent to Consideration NOT in Money
		If the Value is not determinable under Rule 27(a) & Rule 27(b), then follow Rule 27(c)
		Rule 27(c) – Value of Supply of Goods / Services of Like Kind & Quality
		Assessable Value = Value of Supply of Goods or Services or both of Like Kind and Quality
		If the Value is not determinable under Rule 27(a), Rule 27(b) & Rule 27(c), then follow Rule 27(d)
		Rule 27(d) – Value as per Rule 30 and Rule 31 in that order
		Assessable Value = Consideration in Money + Such further amount in Money as is equivalent to Consideration NOT in Money as determined by application of <i>Rule 30 and Rule 31 in that order</i>

Notes:

→ Meaning of “Open Market Value” as per Explanation to Rule 35 of CGST Rules, 2017

Open Market Value	
<i>Means</i>	<ul style="list-style-type: none"> <i>Full value in money</i>, excluding the IGST, CGST, SGST and the cess payable by a person in a transaction, where the supplier & the recipient of the supply are <i>not related</i> & the price is <i>sole consideration</i>, to obtain such supply <i>at the same time</i> when the supply being valued is made;

→ Meaning of “Supply of Goods or Services or both of Like Kind and Quality” as per Explanation to Rule 35 of CGST Rules, 2017

Supply of Goods or Services or both of Like Kind and Quality	
<i>Means</i>	Any other supply of goods or services or both made under <i>similar circumstances</i> that, in respect of the <ul style="list-style-type: none"> <i>characteristics, quality, quantity, functional components, materials, and the reputation</i>

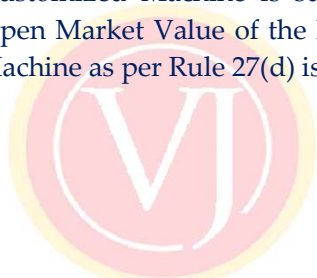
Valuation

- of the goods or services or both first mentioned, is the same as, or *closely or substantially resembles*, that supply of goods or services or both.

Example 1: New Phone is supplied for Rs.20,000 along with the exchange of an Old Phone. The price of the new phone without exchange is Rs.24,000. The value of new phone as per Rule 27(a) is the Open Market Value of the New Phone = Rs.24,000.

Example 2: Laptop is supplied for Rs.40,000 along with the barter of a Printer that is manufactured by the recipient. The value of the Printer known at the time of supply is Rs.4,000 but the Open Market Value of the Laptop is not known. The value of Laptop as per Rule 27(b) is Money Consideration + Money Value of Non-Monetary Consideration (i.e. Printer) = Rs.40,000 + Rs.4,000 = Rs.44,000.

Example 3: Customized Machine is supplied to unrelated customer in return for a Bike whose COST is Rs.50,000. As the machine is customized, Open Market Value of the Machine is not available and also there are no goods of like kind and quality. Thus, the value of the Customized Machine as per Rule 27(d) is 110% of Cost of Bike given by Recipient = Rs.50,000 * 110% = Rs.55,000.



Valuation

Rule 28	Value of supply of Goods OR Services between Distinct or Related Persons other than through Agent (i.e. Transaction between Related Person)	Regular Valuation			
		(The methods are to be used in order of sequence; the one coming later in the sequence is applicable ONLY IF the previous method(s) are not applicable)			
		Rule 28(a) – Open Market Value			
		Assessable Value = Open Market Value of such Supply of Goods or Services or both			
		Note on Concept of Deemed Market Value:			
		Where the recipient is eligible for full ITC, the Value Declared in the invoice shall be deemed to be the Open Market Value of the Goods or Services.			
		If Open Market Value is not available, then follow Rule 28(b)			
		Rule 28(b) – Value of Supply of Goods / Services of Like Kind & Quality			
		Assessable Value = Value of Supply of Goods or Services or both of Like Kind and Quality			
		If the Value is not determinable under Rule 28(a) and Rule 28(b), then follow Rule 28(c)			
Rule 28(c) – Value as per Rule 30 and Rule 31 in that order					
<table><tr><td>Rule 30</td><td>Rule 31</td></tr><tr><td>Assessable Value = 110% of the Cost of Production / Manufacture OR 110% of Cost of Acquisition of such Goods OR 110% of Cost of Provision of such Services</td><td>Assessable Value = Using Reasonable Means consistent with the principles and the general provisions of Section 15 and Rules</td></tr></table>		Rule 30	Rule 31	Assessable Value = 110% of the Cost of Production / Manufacture OR 110% of Cost of Acquisition of such Goods OR 110% of Cost of Provision of such Services	Assessable Value = Using Reasonable Means consistent with the principles and the general provisions of Section 15 and Rules
Rule 30	Rule 31				
Assessable Value = 110% of the Cost of Production / Manufacture OR 110% of Cost of Acquisition of such Goods OR 110% of Cost of Provision of such Services	Assessable Value = Using Reasonable Means consistent with the principles and the general provisions of Section 15 and Rules				
However, Supplier of Service can OPT directly for principle of Rule 31 ignoring principle of Rule 30					
Optional Valuation					
If the GOODS are intended for further supply AS SUCH by the Recipient (i.e. Recipient should be a Trader of Goods ONLY), the value shall be an amount equivalent to 90% 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.					

Valuation

Notes:



→ Meaning of “Agent” as per Section 2(5) of CGST Act, 2017

Agent	
<i>Means</i>	▪ a person who carries on the <i>business</i> of supply or receipt of goods or services or both <i>on behalf of another</i> ;
<i>Includes</i>	▪ a factor, broker, commission agent, arhatia, del-credere agent, an auctioneer or any other mercantile agent, by whatever name called,

Example 1: DK Ltd. dealing in iron boxes has its head office in Coimbatore and branch office in Bangalore. The head office supplies 100 units of iron box to its branch. The branch further sells them at Rs.410 per piece to its unrelated customers. The value of the supply as per Rule 28 (Optional Valuation) made by the head office shall be 90% of Rs.41,000 = Rs.36,900.

Example 2: A cosmetics company buys its products from a vendor, who supplies “mirrors” of various shapes & sizes to be placed in retail outlets, free of charge. These are of different size from the product that is sold. The company and the vendor are related persons. As Rule 28(a) and Rule 28(b) will not work for valuing these mirrors, the value as per Rule 28(c) will have to be determined by using reasonable means consistent with the principles and general provisions of Section 15 and the Rules. A possible method may be pro rata reduction of the price based on difference in size from the product that is sold.

Valuation

Rule 29	Value of supply of Goods OR Services through an Agent	Regular Valuation	
		(The methods are to be used in order of sequence; the one coming later in the sequence is applicable ONLY IF the previous method(s) are not applicable)	
		Rule 29(a) – Open Market Value	
		Assessable Value = Open Market Value of such Supply of Goods or Services or both	
		If Open Market Value is not available, then follow Rule 29(b)	
			
		Rule 29(b) – Value as per Rule 30 and Rule 31 in that order	
		Rule 30	Rule 31
		Assessable Value = 110% of the Cost of Production / Manufacture OR 110% of Cost of Acquisition of such Goods OR 110% of Cost of Provision of such Services	Assessable Value = Using Reasonable Means consistent with the principles and the general provisions of Section 15 and Rules
			
		However, Supplier of Service can OPT directly for principle of Rule 31 ignoring principle of Rule 30	
Optional Valuation			
If the GOODS are intended for further supply AS SUCH by the Recipient (i.e. Recipient should be a Trader ONLY), the value shall be an amount equivalent to 90% 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.			

Example: A principal supplies groundnut to his agent and the agent is supplying groundnuts of like kind and quality in subsequent supplies at a price of Rs.5000 per quintal on the day of the supply. Another independent supplier is supplying groundnuts of like kind and quality to the said agent at Rs.4,550 per quintal. The value of the supply made by the principal shall be Rs.4,550 per quintal OR where he exercises the option, the value shall be 90% of Rs.5,000 i.e. Rs.4,500 per quintal.

Valuation

Rule 30	Value of Supply of Goods OR Services based on Cost	<p style="text-align: center;">Rule 30 – 110% of Cost of Production</p> <p style="text-align: center;">Assessable Value = 110% of the Cost of Production / Manufacture OR 110% of Cost of Acquisition of such Goods OR 110% of Cost of Provision of such Services</p> <p style="text-align: center;"><i>If the Value is not determinable under Rule 30</i></p>
Rule 31	Residual Method for Value of Supply of Goods OR Services	<p style="text-align: center;">Rule 31 – Best Judgment Value</p> <p style="text-align: center;">Assessable Value = Using Reasonable Means consistent with the principles and the general provisions of Section 15 and Rules</p> <p style="text-align: center;"><i>However, Supplier of Service can OPT directly for Rule 31 ignoring Rule 30</i></p>

Note: There can be instances where a case may not be covered under Rule 27, Rule 28 and Rule 29 for valuation and thus, Rule 30 and Rule 31 will be directly applied. For example, if there is a supply without consideration between unrelated persons covered under Schedule I of CGST Act, 2017, then in such a case valuation will be directly by application of Rule 30 and thereafter Rule 31 without applying Rule 27 to Rule 29.

Valuation

DIFFERENCE BETWEEN RULE 27, RULE 28 AND RULE 29

Particulars	Rule 27	Rule 28	Rule 29
Scenario	Transaction containing Non-Monetary Consideration (wholly or partly) (Supply may be of Supply of Goods or Supply of Services)	Transaction between Related Persons or Distinct Persons (Supply may be of Supply of Goods or Supply of Services)	Transaction between Principal and Agent (Supply is always of Supply of Goods)
No. of Methods	4 (applied in sequence) ➔ Open Market Value ➔ Monetary Consideration + Money Value of Non-Monetary Consideration ➔ Like Kind and Quality Goods / Services Value ➔ Monetary Consideration + Money Value of Non-Monetary Consideration as per Rule 30 / Rule 31	3 (applied in sequence) ➔ Open Market Value ➔ Like Kind and Quality Goods / Services Value ➔ Value as per Rule 30 / Rule 31	2 (applied in sequence) ➔ Open Market Value ➔ Value as per Rule 30 / Rule 31
Optional Valuation	Not Available	Available for Supply of Goods (90% of Value of Like Kind and Quality Goods if supplied BY Recipient AS SUCH TO his Customer being Unrelated Person)	Available for Supply of Goods (90% of Value of Like Kind and Quality Goods if supplied BY Recipient AS SUCH TO his Customer being Unrelated Person)
Deemed Open Market Value	Not Available	Available for Supply of Goods and Supply of Service if Recipient is eligible for Full ITC	Not Available

Valuation

VALUATION OF SUPPLY NOTIFIED CASES RULE 31A TO RULE 35 CGST RULES, 2017

RULE 31A – ACTIONABLE CLAIM [LOTTERY, BETTING, GAMBLING AND HORSE RACING]			
Lottery – Rule 31A(2)		Betting, Gambling and Horse Racing – Rule 31A(3)	
Case	AV	Case	AV
Lottery run by State Governments	AV = Higher of 100/112 of Face Value of Ticket OR 100/112 Price as notified in Official Gazette by Organizing State	Betting, Gambling and Horse Racing in Race Club	AV = 100% of Face Value of Bet OR Amount paid into Totalisator
Lottery authorized by State Governments	AV = Higher of 100/128 of Face Value of Ticket OR 100/128 Price as notified in Official Gazette by Organizing State		

Note: It is important to note that ITC on Inward Supply is available in above cases.

Notes:

→ Meaning of “Lottery run by State Government”

Lottery run by State Government

Means	Lottery NOT allowed to be sold in any State other than the <i>Organizing State</i>
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→ Meaning of “Lottery authorized by State Government”

Lottery authorized by State Government

Means	Lottery which is authorized to be sold in <i>State(s) other than the Organizing State</i>
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Valuation

RULE 32 – MONEY CHANGER [SERVICE OF PURCHASE / SALE OF FOREIGN CURRENCY INCLUDING MONEY CHANGING]					
Option 1 – Rule 32(2)(a)			Option 2 – Rule 32(2)(b)		
Case	AV		Value of Exchange	AV	
If one of the currencies is Indian Rs. AND RBI Reference Rate is available	$AV = (\text{RBI Rate} - \text{Buying Rate}) * \text{Units of For-ex Purchased}$ $AV = (\text{Selling Rate} - \text{RBI Rate}) * \text{Units of For-ex Sold}$		Gross Currency Exchanged upto Rs.1 lakh	AV = 1% of Gross Currency Exchanged subject to <i>minimum</i> of Rs.250	
If one of the currencies is Indian Rs. AND RBI Reference Rate is NOT available	AV = 1% of Gross Amount of Indian Rupees exchanged for For-ex		Gross Currency Exchanged upto Rs.10 lakhs	AV = Rs.1,000 + 0.50% of Gross Currency Exchanged	
If both the currencies are NOT Indian Rs.	AV = Lower of the Two 1% (RBI Rate * Units of For-ex Purchased) i.e. $1\% * (\text{Rs}/\$ * \$)$ OR 1% (RBI Rate * Units of For-ex Sold) i.e. $1\% * (\text{Rs}/\text{£} * \text{£})$		Gross Currency Exchanged above Rs.10 lakhs	AV = Rs.5,500 + 0.10% of Gross Currency Exchanged subject to <i>maximum</i> of Rs.60,000	
Note: The above formula has to be applied for each transaction independently.					
<i>Any option has to be chosen for a Financial Year and once chosen it cannot be withdrawn during the remaining part of a Financial Year</i>					
Note: It is important to note that ITC on Inward Supply is available in above cases.					

Examples on Option 1 – Rule 32(2)(a)	Examples on Option 2 – Rule 32(2)(b)
Example 1: On 12th June, Mr. DK purchased USD \$ 100 by paying Rs.6,400 @ Rs.64 per USD. RBI reference rate on 12th June for US \$ is Rs.63 per US \$. Assessable Value = $(\text{Rs.64}/\$ - \text{Rs.63}/\$) * \$ 100 = \text{Rs.100}$ Example 2: If the RBI reference rate is not available in above case, then Assessable Value = 1% of Rs.6,400 = Rs.64	Example 1: Compute the AV for Mr. PK, a money changer, who has entered the following transactions: (a) 600 transactions of conversion of Dollar into Rupees of Rs.20,000 / transaction. (b) 500 transactions of conversion of Dollar into Rupees of Rs.1 lakh / transaction. (c) 200 transactions of conversion of Rupees into Dollar of Rs.5 lakhs

Valuation

Example 3: US \$ 9,000 are converted into UK £ 4,500. RBI reference rate at that time for US \$ is Rs.63 per US dollar and for UK £ is Rs.82 per UK Pound. In this case, neither of the currencies exchanged is Indian Rupee. Hence, in the given case, Assessable Value would be 1% of the lower of the following:

→ US Dollar converted into Indian Rupees = \$ 9,000 × Rs.63/\$ = Rs.5,67,000

→ UK Pound converted into Indian Rupees = £ 4,500 × Rs.82/£ = Rs.3,69,000

Thus, Assessable Value = 1% of Rs.3,69,000 = Rs.3,690



/ transaction.

(d) 100 transactions of conversion of Euro into Rupees of Rs.500 lakhs / transaction.

(e) 300 transactions of conversion of Dollar into Euro of Rs.1,000 lakhs / transaction.

Transaction	Value / Transaction	No. of Trans.	AV (Rs.)
a. \$ into Rs.	Rs.20,000 * 1% = Rs.200 (Sub. to min. of Rs.250)	600	1,50,000
b. \$ into Rs.	Rs.1 lakh * 1% = Rs.1,000	500	5,00,000
c. Rs. into \$	Rs.1,000 + (Rs.4 lakhs * 0.5%) = Rs.3,000	200	6,00,000
d. € into Rs.	Rs.5,500 + (Rs.490 lakh * 0.1%) = Rs.54,500	100	54,50,000
e. \$ into €	Rs.5,500 + (Rs.990 lakh * 0.1%) = Rs.1,04,500 (Sub. to max. of Rs.60,000)	300	1,80,00,000
Assessable Value			2,47,00,000

Valuation

RULE 32 – AIR TRAVEL AGENT [SERVICE IN RELATION TO BOOKING OF TICKETS FOR TRAVEL BY AIR PROVIDED BY AN AIR TRAVEL AGENT]	
Domestic Bookings	International Bookings
Assessable Value = 5% of Basic Fare	Assessable Value = 10% of Basic Fare
<i>Basic Fare means the Air Fare on which commission is normally paid by the Airlines to the Air Travel Agent</i>	
Note: It is important to note that ITC on Inward Supply is available in above cases.	

Example: Determine the Assessable Value for AJ, an Air Travel Agent gives you the following details:

Particulars	Domestic Travel (Rs.)	International Travel (Rs.)
Basic Fare	1,05,000	2,05,000
Other Charges and Fee	9,250	18,520
Travel Taxes	5,187	10,127
Total Value of Tickets (Assessable Value for Airline Company)	1,19,437	2,33,647
Assessable Value of Supply for ATA (5% of Basic Fare / 10% of Basic Fare)	Rs.5,250	Rs.20,500

Valuation

RULE 32 – LIFE INSURANCE COMPANY [SERVICE IN RELATION TO LIFE INSURANCE BUSINESS]	
Premium only containing Risk Portion	Premium containing Risk Portion and Savings Portion
Assessable Value = Gross Premium charged from the Policy Holder (Normal Valuation as discussed in the beginning)	2 Types (Special Valuation as given below)
Savings Portion is intimated to Policy Holder Assessable Value = Gross Premium – Savings / Investment Portion	Savings Portion is NOT intimated to Policy Holder
	2 Types
Single Premium Annuity Policy Assessable Value = 10% of Gross Premium	Multiple Premium Policy
	Assessable Value = 25% of Gross Premium in First Year AND Assessable Value = 12.50% of Gross Premium in Subsequent Years

Note: It is important to note that ITC on Inward Supply is available in above cases.

Example: LIC has charged gross premium of Rs.180 lakh from policy holders with respect to life insurance policies in the 2018-19; out of which Rs.100 lakh have been allocated for investment on behalf of the policy holders. The following shall be the value of supply:

- (a) If the amount allocated for investment has been intimated by LIC to policy holders at the time of supply of service: Value of Supply = Rs.80 lakhs (Rs.180 lakhs – Rs.100 lakhs)
- (b) If the amount allocated for investment has not been intimated by LIC to policy holders at the time of providing of service:
 - (i) Assuming Rs.180 lakhs is towards single premium annuity policy: Value of Supply = 10% of Rs.180 lakhs = Rs.18 lakhs
 - (ii) Assuming Rs.180 lakhs is not for single premium annuity policy & it is for 1st year: Value of Supply = 25% of Rs.180 lakhs = Rs.45 lakhs
 - (iii) Assuming out of Rs.180 lakhs, Rs.80 lakhs is premium of 1st year and balance is premium of subsequent years: Value of Supply = Rs.80 lakhs * 25% + Rs.100 lakhs * 12.50% = Rs.32.50 lakhs
 - (iv) Assuming out of Rs.180 lakhs, Rs.50 lakhs towards single premium annuity policy and out of balance Rs.130 lakhs, Rs.30 lakhs is premium of 1st year and balance is premium of subsequent years: Value of Supply = Rs.50 lakhs * 10% + Rs.30 lakhs * 25% + Rs.100 lakhs * 12.50% = Rs.25 lakhs

Valuation

RULE 32 – SECOND HAND GOODS [BUYING OF SECOND HAND GOODS AND SELLING THEM AS SUCH OR AFTER MINOR PROCESSING WHICH DOESN'T CHANGE THE NATURE OF GOODS]	
When ITC is availed on Purchase of such Goods	When ITC is NOT availed on Purchase of such Goods
Assessable Value = Transaction Value <i>(Normal Valuation under Section 15 as discussed in the beginning)</i>	Assessable Value = Sale Price – Purchase Price ** (If Sale price < Purchase Price → then ignore Negative Value) <i>(Special Valuation called as Margin Scheme)</i>
** Purchase Price in case of Repossession of Goods under Margin Scheme: In various scenarios, the lender repossesses the goods on which loan was given from a defaulting borrower, being <i>unregistered</i> and then sells the goods in the open market for recovery of debts. Such lender can also opt for Margin Scheme and Purchase Price of such repossessed goods shall be as follows: Purchase Price under Margin Scheme = Purchase Price of such goods by the Defaulting Borrower – 5% per quarter or part thereof between the <i>date of purchase</i> and the <i>date of disposal by the person making such repossession</i>	
Note: It is important to note that the dealer under Margin Scheme cannot claim ITC of goods purchased for which he has opted under Margin Scheme. However, he can claim ITC of other goods and services.	

Example 1: A company DK Ltd, which deals in buying and selling of second hand bikes, purchases a bike of March 2017 make (Original Price Rs.1 lakh) for Rs.30,000 from an unregistered person and sells the same after minor furbishing for Rs.35,000.

- (a) The supply of the bike to the company for Rs.30,000 shall be exempted
- (b) The supply of the same by the company to its customer for Rs.35,000 shall be taxed and the Value under Margin Scheme shall be Rs.5000 (Rs.35,000 – Rs.30,000).

Assuming that in above example, the company sells the said bike for Rs.25,000, the Value under Margin Scheme shall be ignored i.e. 0 as Sale Price < Purchase Price) and thus, no GST shall be payable.

Assuming that in above example, the company purchases the said bike from another registered person for Rs.30,000/- plus GST Rs.8,400/-, and sells the same for Rs.40,000, the Value under Margin Scheme shall be Rs.1,600 (Rs.40,000 – Rs.38,400) as the company can opt for Margin Scheme only if it doesn't avail ITC of Rs.8,400 and so the same gets added to Purchase Price

Valuation

Example 2: A company DK Finance Ltd, which deals in financing bikes, repossesses a bike from Mr. VK who has defaulted in repayment of dues of two wheeler. The bike was purchased in April, 2017 (Original Price Rs.1 lakh). The company repossesses the bike in July 2017 and sells the same in November 2017 for Rs.90,000.

Value under Margin Scheme = Sale Price – Purchase Price reduced by 5% for every quarter or part thereof between the date of purchase and the date of disposal by the person making such repossession.

Purchase Price = Rs.1,00,000 – (Rs.1,00,000 * 5% * 3 Quarters) = Rs.85,000

Value under Margin Scheme = Rs.90,000 – Rs.85,000 = Rs.5,000



Valuation

RULE 32 – REDEEMABLE VOUCHER

**[VALUE OF A TOKEN / VOUCHER / COUPON / STAMP (OTHER THAN POSTAGE STAMP)
WHICH IS REDEEMABLE AGAINST A SUPPLY OF GOODS OR SERVICES OR BOTH]**

Assessable Value = Money Value of the Goods or Services or both redeemable against such Token / Voucher / Coupon / Stamp

RULE 32 – RELATED PARTY TRANSACTIONS

[SERVICES SUPPLIED BETWEEN RELATED PERSONS OR BETWEEN DISTINCT PERSONS UNDER SECTION 25]

Assessable Value = Nil

Value shall be Nil ONLY if below 3 conditions are satisfied:

- (a) Supply is **ONLY of Services** (NOT of Goods) between related persons or between distinct persons as specified in Section 25 AND
- (b) Such Services are **notified** by the Government on recommendations of the GST Council AND
- (c) Where **ITC** would have been available to the Recipient

Example: M/s PK Detective Agency has got its head office in Ahmedabad and branch in Coimbatore. Both the units are operating as separate profit centers. Coimbatore branch renders services to Ahmedabad head office and raises an internal invoice for the same.

Value of such supply of services shall be Nil if it is notified and if ITC is available for such inward supply to the Ahmedabad head office.

DIFFERENCE BETWEEN RULE 28 AND RULE 32 – RELATED PARTY TRANSACTIONS

Particulars	Rule 28	Rule 32
Applicability	Transaction between Related Persons or Distinct Persons in relation to ANY Goods or ANY Services	Transaction between Related Persons or Distinct Persons in relation to ONLY Notified Services
Assessable Value	AV may be opted as Deemed Market Value if Recipient can avail Full ITC	AV is Nil if Recipient can avail Full ITC

Valuation

RULE 33 – PURE AGENT [EXCLUSION FROM VALUE OF SUPPLY OF GOODS / SERVICES]			
Introduction	<p>During the course of supply of goods or service, it may so happen that the supplier has to incur certain expenditures on behalf of the recipient (as a pure agent of the recipient) and the supplier then claims reimbursement of such expenses at actuals from the recipient. Such reimbursements received by the supplier are excluded from value of supply for the purposes of GST provided the conditions prescribed are satisfied.</p> <p>Pure Agent is one who</p> <ul style="list-style-type: none"> ➔ while making a supply to the recipient, ➔ also receives and incurs expenditure on some other supply on behalf of the recipient and ➔ claims reimbursement (as actual, without adding it to the value of his own supply) for such supplies from the recipient of the main supply. <p>While the relationship between them (supplier and recipient) in respect of the main supply is on a principal to principal basis, the relationship between them in respect of other ancillary supplies is on pure agent basis</p>		
Meaning of Pure Agent	Means	<p>A person who</p> <p>(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;</p> <p>(b) Does not hold any title to the goods or services so procured or provided as pure agent of the recipient of supply;</p> <p>(c) Does not use for his own interest such goods or services so procured; and</p> <p>(d) Receives only the actual amount incurred to procure such goods or services in addition to the amount received for supply he provides on his own account.</p>	<p><i>Contractual Agreement</i></p> <p><i>No Title</i></p> <p><i>No Use</i></p> <p><i>No Profit</i></p>
Conditions for concept of Pure Agent	<p>(a) Supplier acts as a pure agent of the recipient of the supply, when he makes the payment to the third party on authorization by such recipient;</p> <p>(b) Payment made by the pure agent on behalf of the recipient of supply has been separately indicated in the invoice issued by the pure agent to the recipient of service</p> <p>(c) Supplies procured by the pure agent from the third party as a pure agent of the recipient of supply are in addition to the services he supplies on his own account.</p>		<p><i>Pure Agent</i></p> <p><i>Split-Up Pricing System</i></p> <p><i>Additional Output Service</i></p>

Valuation

Valuation	<p>The expenditure or costs incurred by a supplier as a pure agent of the recipient of supply shall be excluded from the value of supply upon satisfaction of above mentioned conditions.</p> <p>Note: It may be noted that as per Section 15, Transaction Value includes '<i>obligation of supplier met by recipient</i>', therefore it implies that in the vice versa case i.e. if it is the obligation of the recipient met by the supplier it may not be included in the Transaction Value. Hence, the concept of Pure Agent. If it is established with proper documentation that certain goods / services were procured by the supplier acting as pure agent, then such value will be excluded from value of supply.</p>
Relevance of Pure Agent	<p>Whenever the supplier intends to act as a pure agent, care should be taken to ensure that ALL the conditions specified for such pure agents are met so that only the real value of the goods / service provided is subjected to GST</p> <p>The pure agent concept is very important for businesses for the following reasons:</p> <ul style="list-style-type: none"> (a) Direct implications on the value of taxable supply. (b) Direct bearing on the amount of GST charged on a particular supply. (c) Impact on the Aggregate Turnover of the Supplier and therefore, on calculating the threshold limit for Registration, Audit, other compliances based to aggregate turnover such as quarterly return filing / monthly return filing etc.

Example 1: Corporate Services firm M/s. VJ MNC Solutions are engaged to handle the legal work pertaining to the incorporation of Company charging Rs.1,00,000. Other than its service fees, it also recovers from its clients, registration fee amounting to Rs.50,000 and approval fees for the name of the company amounting to Rs.1,000 paid to the Registrar of Companies. In this case, M/s. VJ MNC Solutions are merely acting as a pure agent in the payment of those fees. Therefore, recovery of such expenses (Rs.50,000 + Rs.1,000) is a disbursement and not part of the value of supply made by M/s. VJ MNC Solutions to its clients.

Example 2: The following are the elements of invoice issued by a Customs House Broker:

S. No.	Component of Invoice	Amount (Rs.)	Included in Value / Not Included in Value
1	Agency Income	5,000	Included
2	Traveling Expenses and Hotel Expenses	3,000	Included
3	Customs Duty	15,000	Not Included (<i>Pure Agent</i>)
4	Docks Dues	3,000	Not Included (<i>Pure Agent</i>)
5	Port Fees	2,000	Not Included (<i>Pure Agent</i>)
6	Port Charges	3,000	Not Included (<i>Pure Agent</i>)

Example 3: Expenses incurred by C&F Agent and reimbursed by principal such as Freight, Godown Charges are not included in the value as C&F Agent is acting as Pure Agent for such expenses.

Valuation

RULE 34 – RATE OF EXCHANGE [CONVERSION OF FOREIGN CURRENCY TO INDIAN CURRENCY]		
PARTICULARS	RATE OF EXCHANGE FOR DETERMINING VALUE OF SUPPLY	RELEVANT DATE
For Supply of Goods	Rate of exchange as notified by the Board under Section 14 of the Customs Act, 1962	Time of Supply of such goods in terms of Section 12 of CGST Act, 2017
For Supply of Services	As per Generally Accepted Accounting Principles	Time of Supply of such services in terms of Section 13 of CGST Act, 2017

Notes:

- **Step 1:** Find Relevant Date using Time of Supply
- **Step 2:** Find Exchange Rate (and also Rate of Tax) as on that Relevant Date
 - For Goods → ER is CBIC Rate and
 - For Services → ER is GAAP Rate

RULE 35 – CUM-TAX COMPUTATION [WHERE THE VALUE OF SUPPLY IS INCLUSIVE OF GST TAXES]
$\text{Tax Amount} = (\text{Value inclusive of taxes} * \text{Tax Rate}) / (100 + \text{Tax Rate})$

Example 1: If the selling price is Rs.100 and applicable GST rate is 18% but GST has not been collected from customer, then $\text{GST} = 100 * 18 / 118 = \text{Rs.15.25}$

Example 2: If the selling price is Rs.100 and GST charged @ 12% is Rs.12 and later on it is found that correct rate is 18%, then $\text{GST} = 112 * 18 / 118 = \text{Rs.17.08}$. Thus, Differential GST to be paid is $\text{Rs.17.08} - \text{Rs.12} = \text{Rs.5.08}$.

Example 3: If the selling price is Rs.100 and GST charged @ 18% is Rs.18 and later on it is found GST is not charged on incidental charges collected from customer amounting to Rs.10, then $\text{GST} = 128 * 18 / 118 = \text{Rs.19.53}$. Differential GST to be paid is $\text{Rs.19.53} - \text{Rs.18} = \text{Rs.1.53}$

Valuation



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