CHAPTER 6

VALUE OF SUPPLY



The section numbers referred to in the Chapter pertain to the CGST Act, unless otherwise specified. Examples/illustrations/Questions and Answers given in the Chapter are based on the position of GST law existing as on 30.04.2026

LEARNING OUTCOMES

After studying this Chapter, you will be able to –

- comprehend and analyse as to what constitutes the value of a taxable supply of goods / services when the supply is made to an unrelated person and price is the sole consideration for the supply
- identify the various inclusions in/exclusions from the value of supply
- comprehend and analyse the various rules providing the mechanism to value a supply in situations where transaction value cannot be adopted and in respect of certain special supplies
- compute the value of a taxable supply in different scenarios

© The Institute of Chartered Accountants of India

1. INTRODUCTION

Every fiscal statute makes provision for the determination of value as tax which is normally payable on *ad-valorem* basis. In GST also, tax is payable on *ad-valorem* basis i.e., percentage of value of the supply of goods or services.



Thus, it becomes important to know how to arrive at the value on which tax is to be paid. Provisions relating to 'value of supply' set out the mechanism to compute such value basis which CGST and SGST/UTGST (intra-State supply) and IGST (inter-State supply) should be paid.

Section 15 of the CGST Act supplemented with the rules under Chapter IV: Determination of Value of Supply of the CGST Rules, 2017 prescribes the provisions for determining the value of supply of goods and services made in different circumstances and to different persons.

Section 15 of the CGST Act provides common provisions for determining the value of supply of goods and services. Sub-section (1) of section 15 provides the mechanism for determining the value of a supply which is made between unrelated persons and when price and only the price is the sole consideration for the supply.

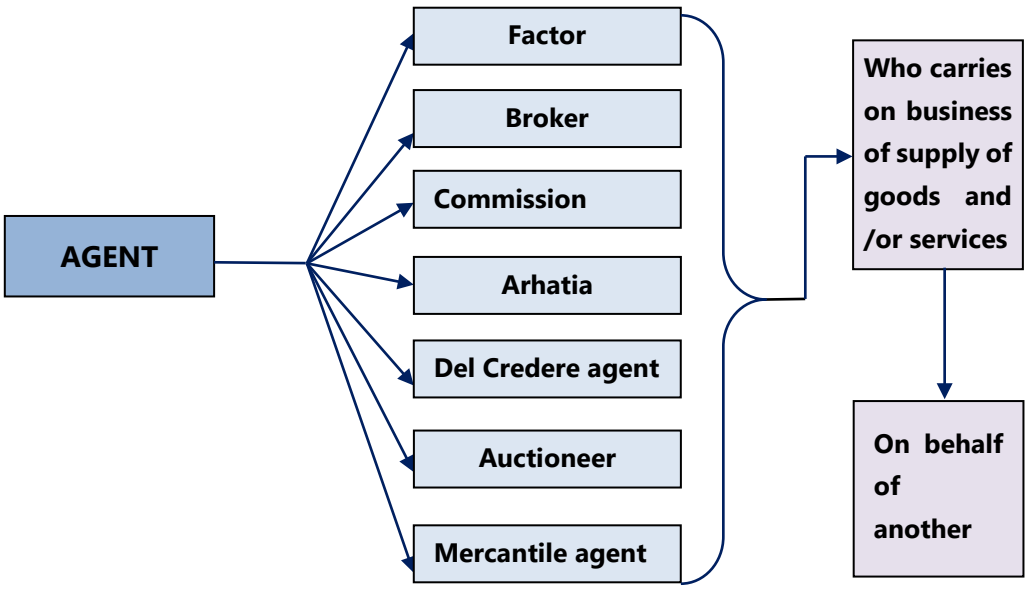
In most of the cases of regular normal trade, the invoice value (i.e. transaction value) is the taxable value, which is specified under section 15(1). However, when value cannot be determined under section 15(1); and for certain specific transactions, the value is determined using Chapter IV: Determination of Value of Supply of CGST Rules.

Provisions of value of supply under CGST Act have also been made applicable to IGST Act vide section 20 of the IGST Act.

© The Institute of Chartered Accountants of India

2. RELEVANT DEFINITIONS

❖ **Agent** means a person, including a factor, broker, commission agent, arhatia, del credere agent, an auctioneer or any other mercantile agent, by whatever name called, who carries on the business of supply or receipt of goods or services or both on behalf of another [Section 2(5)].



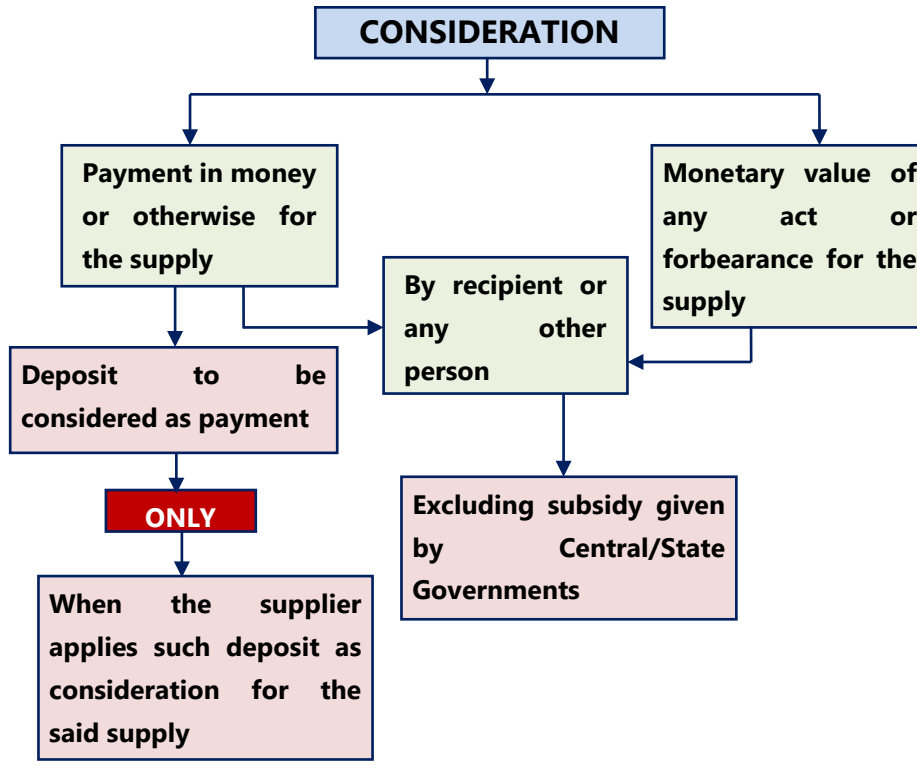
❖ **Consideration** in relation to the supply of goods or services or both includes –

(a) any payment made or to be made, whether in money or otherwise, in respect of, in response to, or for the inducement of, the supply of goods or services or both, whether by the recipient or by any other person but shall not include any subsidy given by the Central Government or a State Government;

(b) the monetary value of any act or forbearance, in respect of, in response to, or for the inducement of, the supply of goods or services or both, whether by the recipient or by any other person but shall not include any subsidy given by the Central Government or a State Government:

Provided that a deposit given in respect of the supply of goods or services or both shall not be considered as payment made for such supply unless the supplier applies such deposit as consideration for the said supply [Section 2(31)].

© The Institute of Chartered Accountants of India



❖ **Family** means,—

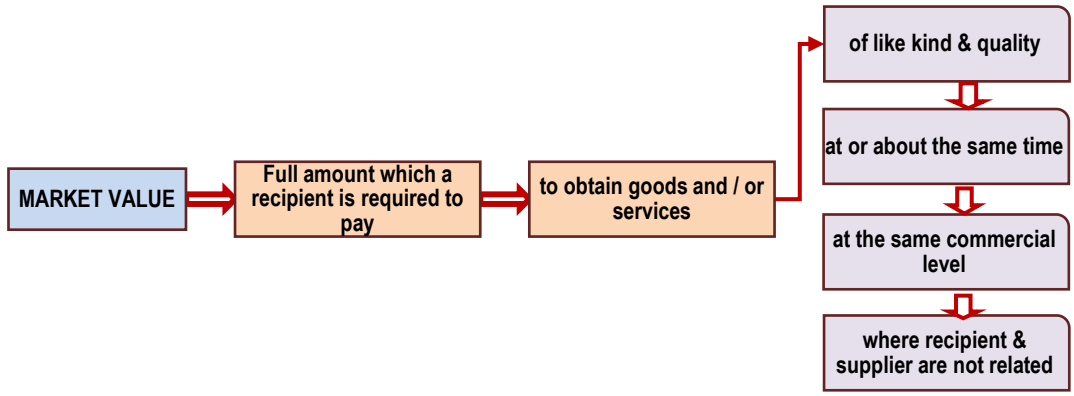
(i) the spouse and children of the person, and

(ii) the parents, grand-parents, brothers and sisters of the person if they are wholly or mainly dependent on the said person [Section 2(49)].

❖ **Goods** means every kind of movable property other than money and securities but includes actionable claim, growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under a contract of supply [Section 2(52)].

❖ **Market value** shall mean the full amount which a recipient of a supply is required to pay in order to obtain the goods or services or both of like kind and quality at or about the same time and at the same commercial level where the recipient and the supplier are not related [Section 2(73)].

© The Institute of Chartered Accountants of India



❖ **Person** includes-

(a) an individual;

(b) a Hindu Undivided Family;

(c) a company;

(d) a firm;

(e) a Limited Liability Partnership;

(f) an association of persons or a body of individuals, whether incorporated or not, in India or outside India;

(g) any corporation established by or under any Central Act, State Act or Provincial Act or a Government company as defined in section 2(45) of the Companies Act, 2013;

(h) any body corporate incorporated by or under the laws of a country outside India;

(i) a co-operative society registered under any law relating to cooperative societies;

(j) a local authority;

(k) Central Government or a State Government;

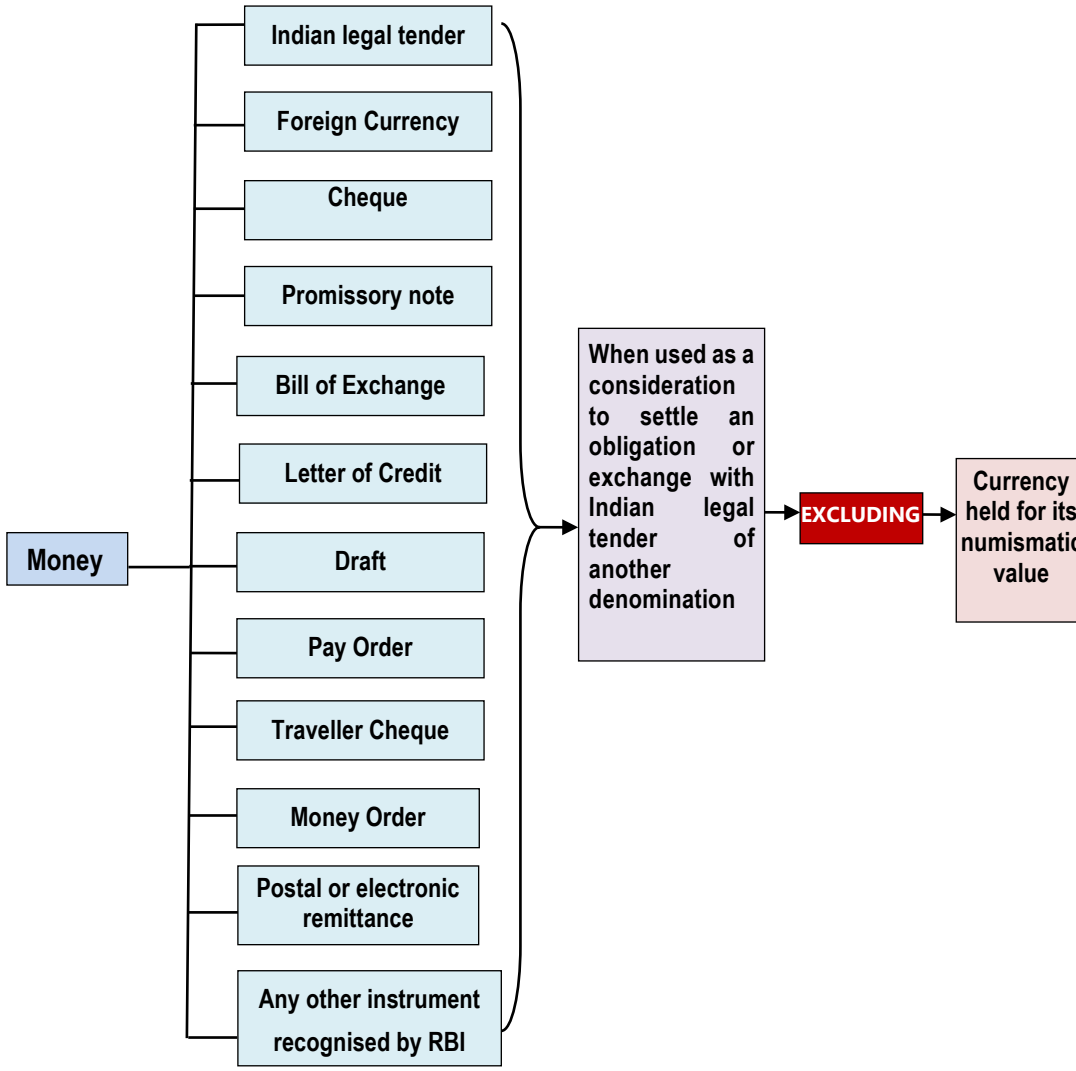
(l) society as defined under the Societies Registration Act, 1860;

(m) trust; and

(n) every artificial juridical person, not falling within any of the above [Section 2(84)].

© The Institute of Chartered Accountants of India

❖ **Money** means the Indian legal tender or any foreign currency, cheque, promissory note, bill of exchange, letter of credit, draft, pay order, traveller cheque, money order, postal or electronic remittance or any other instrument recognised by the Reserve Bank of India when used as a consideration to settle an obligation or exchange with Indian legal tender of another denomination but shall not include any currency that is held for its numismatic value [Section 2(75)].



© The Institute of Chartered Accountants of India

- **Prescribed** means prescribed by rules made under this Act on the recommendations of the Council [Section 2(87)].
- **Principal** means a person on whose behalf an agent carries on the business of supply or receipt of goods or services or both [Section 2(88)].
- **Recipient** of supply of goods or services or both, means—

  (a) where a consideration is payable for the supply of goods or services or both, the person who is liable to pay that consideration;

  (b) where no consideration is payable for the supply of goods, the person to whom the goods are delivered or made available, or to whom possession or use of the goods is given or made available; and

  (c) where no consideration is payable for the supply of a service, the person to whom the service is rendered,

  and any reference to a person to whom a supply is made shall be construed as a reference to the recipient of the supply and shall include an agent acting as such on behalf of the recipient in relation to the goods or services or both supplied [Section 2(93)].
- **Services** means anything other than goods, money and securities but includes activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination for which a separate consideration is charged.

  Explanation - For the removal of doubts, it is hereby clarified that the expression "services" includes facilitating or arranging transactions in securities [Section 2(102)].
- **Supplier** in relation to any goods or services or both, shall mean the person supplying the said goods or services or both and shall include an agent acting as such on behalf of such supplier in relation to the goods or services or both supplied.

© The Institute of Chartered Accountants of India

However, a person who organises or arranges, directly or indirectly, supply of specified actionable claims, including a person who owns, operates or manages digital or electronic platform for such supply, shall be deemed to be a supplier of such actionable claims, whether such actionable claims are supplied by him or through him and whether consideration in money or money's worth, including virtual digital assets, for supply of such actionable claims is paid or conveyed to him or through him or placed at his disposal in any manner, and all the provisions of this Act shall apply to such supplier of specified actionable claims, as if he is the supplier liable to pay the tax in relation to the supply of such actionable claims [Section 2(105)].

3. VALUE OF SUPPLY [SECTION 15]

STATUTORY PROVISIONS

Section 15	***Value of taxable supply***	
Sub-section	***Clause***	***Particulars***
(1)	*The value of a supply of goods or services or both shall be the transaction value, which is the 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 and the price is the sole consideration for the supply.*	
(2)	*The value of supply shall include-*	
	(a)	*any taxes, duties, cesses, fees and charges levied under any law for the time being in force other than this Act, the State Goods and Services Tax Act, the Union Territory Goods and Services Tax Act and the Goods and Services Tax (Compensation to States) Act, if charged separately by the supplier;*

© The Institute of Chartered Accountants of India

	(b)		*any amount that the supplier is liable to pay in relation to such supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods or services or both;*
	(c)		*incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply and any amount charged for anything done by the supplier in respect of the supply of goods or services or both at the time of, or before delivery of goods or supply of services;*
	(d)		*interest or late fee or penalty for delayed payment of any consideration for any supply; and*
	(e)		*subsidies directly linked to the price excluding subsidies provided by the Central Government and State Governments.*
	Explanation.—For the purposes of this sub-section, the amount of subsidy shall be included in the value of supply of the supplier who receives the subsidy.		
(3)	*The value of the supply shall not include any discount which is given*		
	(a)		*before or at the time of the supply if such discount has been duly recorded in the invoice issued in respect of such supply; and*
	(b)	*after the supply has been effected, if—*	
		(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 the recipient of the supply.*

© The Institute of Chartered Accountants of India

(4)	*Where the value of the supply of goods or services or both cannot be determined under sub-section (1), the same shall be determined in such manner as may be prescribed.*
(5)	*Notwithstanding anything contained in sub-section (1) or sub-section (4), the value of such supplies as may be notified by the Government on the recommendations of the Council shall be determined in such manner as may be prescribed.*

Explanation—For the purposes of this Act,—

(a)	*persons shall be deemed to be "related persons" if—*	
	(i)	*such persons are officers or directors of one another's businesses;*
	(ii)	*such persons are legally recognised partners in business;*
	(iii)	*such persons are employer and employee;*
	(iv)	*any person directly or indirectly owns, controls or holds twenty-five percent or more of the outstanding voting stock or shares of both of them;*
	(v)	*one of them directly or indirectly controls the other;*
	(vi)	*both of them are directly or indirectly controlled by a third person;*
	(vii)	*together they directly or indirectly control a third person; or*
	(viii)	*they are members of the same family;*
(b)	*the term "person" also includes legal persons;*	
(c)	*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*	



ANALYSIS

© The Institute of Chartered Accountants of India

The CGST law has different provisions for determining the value of a supply of goods / services in the following situations:

A. Supplies made solely for a price in money (monetary consideration), to unrelated persons - Valuation governed by sub-section (1) of section 15;

B. Supplies made solely for non-monetary consideration, or for part monetary consideration and part non-monetary consideration, or involving additional consideration, or to related persons – Valuation governed by sub-section (4) of section 15 read with relevant rules

C. Supplies of specified categories of goods or services – Valuation governed by sub-section (5) of section 15 read with relevant rules

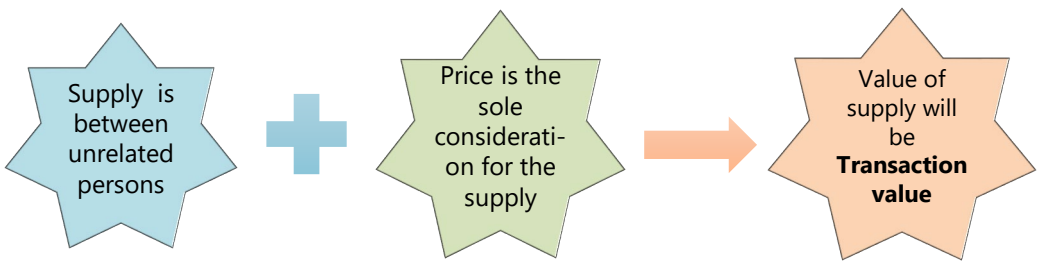
A. Supplies to unrelated persons where price is the sole consideration

(i) Transaction value [Section 15(1)]

When a transaction of supply of goods / services is made

- between two persons (see definition of "person") who are not related to each other (see definition of "related person" in 'Explanation' to section 15), and
- price is the sole consideration (see definition of consideration) for the supply,

the value of the supply is the **"transaction value"**.

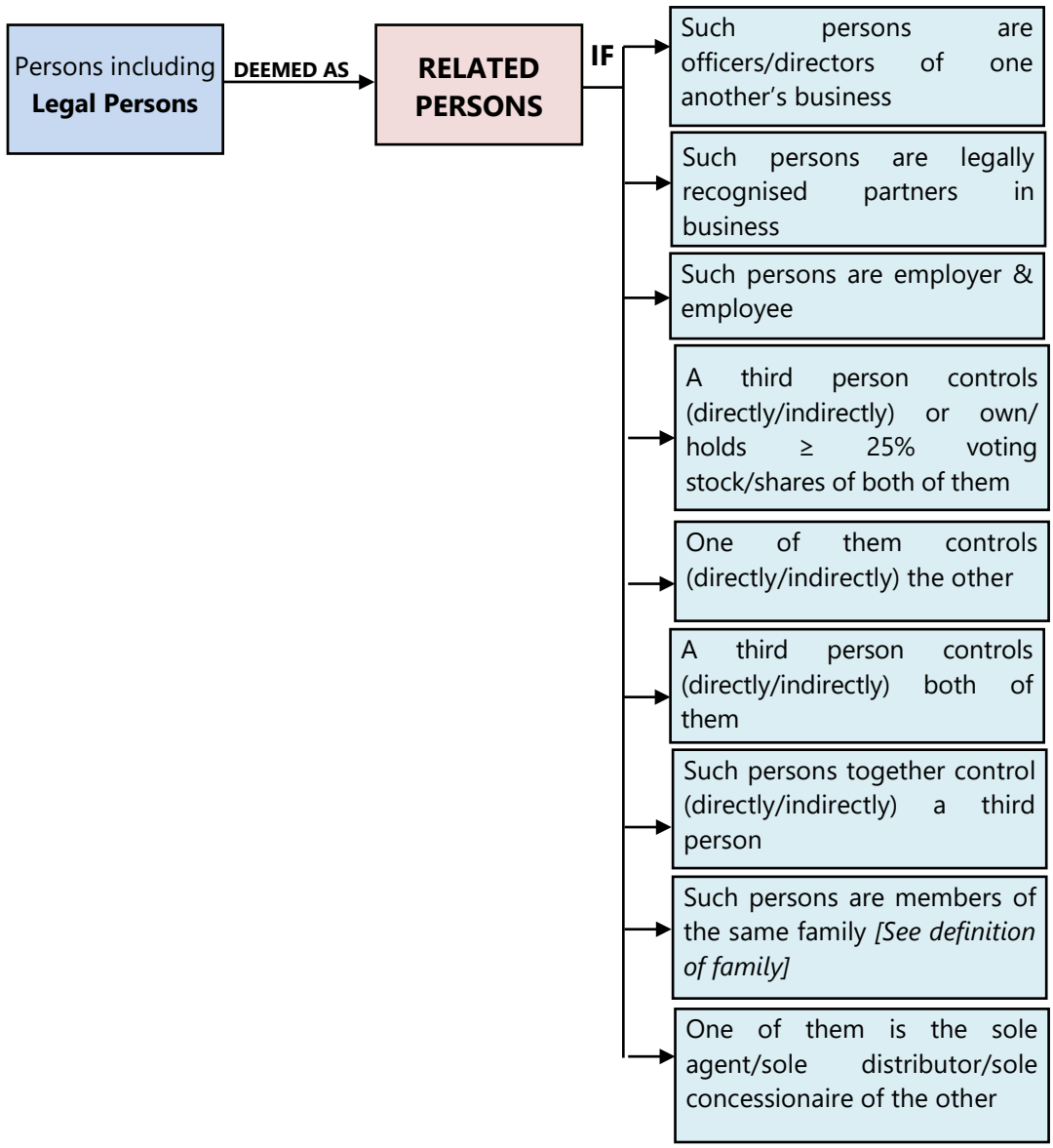


The definition of 'related person' under the explanation to section 15 covers various situations of control, including sole agent, sole distributor and sole concessionaire. The concept of related person has been presented by way of a diagram in ensuing pages.

© The Institute of Chartered Accountants of India

Therefore, if the supply is between persons who are related in terms of the explanation to section 15, the value of the supply would not be the transaction value but would be determined through the valuation rules provided in the CGST Rules. Only when the supply is between unrelated persons and price is the sole consideration, the value thereof would be the transaction value in terms of section 15(1).

Related Persons [Explanation to section 15]



© The Institute of Chartered Accountants of India



(1) Ms. Priya holds 30% shares of ABC Ltd. and 35% shares of XYZ Ltd. ABC Ltd. and XYZ Ltd. are related.

(2) Q Ltd. has a deciding role in corporate policy, operations management and quality control of R Ltd. It can be said that Q Ltd. controls R Ltd. Thus, Q Ltd. and R Ltd. are related.

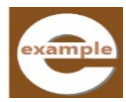
(3) Alpha Ltd. controls the composition of Board of directors of Beta Ltd. and Gama Ltd. It is said to control both Beta Ltd. and Gama Ltd. Beta Ltd. and Gama Ltd. are related persons.

(4) Brita Ltd. and Grita Ltd. together control Margarita Ltd. Brita Ltd. and Grita Ltd. are related persons.

Under section 15(1), the transaction value which is applicable between unrelated persons where price is the sole consideration for the supply is -

the price actually paid or payable for the said supply of goods or services or both.

This is the price for the specific supply that is being valued. It includes the amount already paid at the time the supply is being valued for tax, as well as the amount payable and not yet paid at that time. The word 'payable' refers to price that is agreed to be paid for the goods / services.



(5) Wholesale price for 1 MT of cement sold by X Ltd. in the ordinary course of business: ₹ 7,000.

Price of 1 MT of cement sold by X Ltd. to an unrelated customer Y : ₹ 6,700.

Value of supply made by X Ltd. to Y is ₹ 6,700 which is the price actually paid or payable and not the wholesale price.



The value of taxable supply of goods and services shall ordinarily be 'the transaction value' which is the price paid or payable, when the parties are not related and price is the sole consideration. Section 15 of the CGST Act further elaborates various inclusions and exclusions from the ambit of transaction value. For example, the transaction value shall not include refundable deposit, discount allowed subject to certain conditions.

© The Institute of Chartered Accountants of India

(ii) Inclusions in value [Section 15(2)]

The value of supply includes certain elements which are enumerated and discussed below.

- Taxes, duties, cesses, fees and charges other than CGST, SGST, UTGST, GST Compensation Cess, if charged separately
- Payments to third parties → Any amount that the supplier is liable to pay in relation to supply but which has been incurred by the recipient of the supply and not already included in the price.
- Incidental expenses, such as, commission and packing, charged by the supplier to the recipient of a supply
- Any amount charged for anything done by the supplier in respect of the supply of goods and/or services at the time of, or before delivery of goods /supply of services
- Interest or late fee or penalty for delayed payment of consideration
- Subsidies, directly linked to the price, other than subsidies given by the Central Government or State Governments

The above elements are discussed below.

Taxes other than GST & GST Compensation Cess [Section 15(2)(a)]

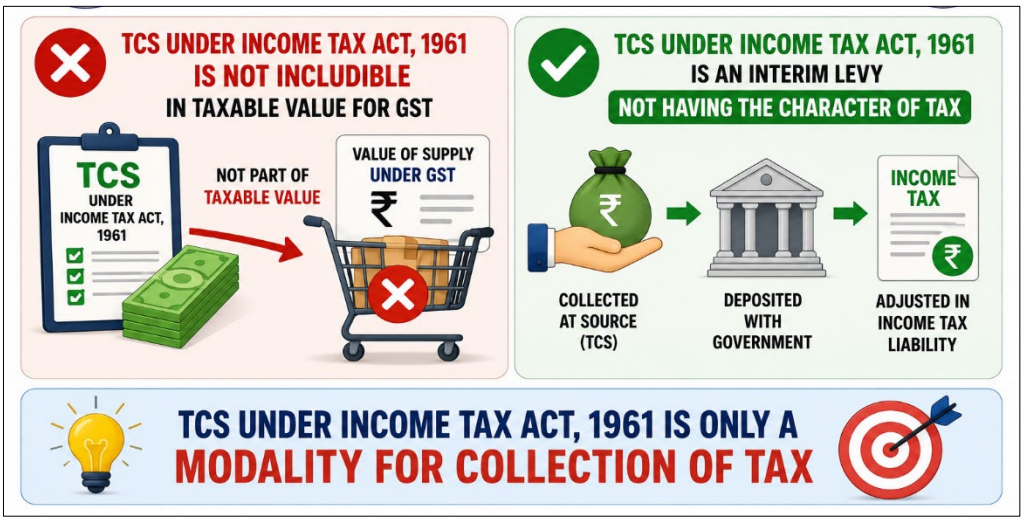
Any taxes, duties, cesses, fees and charges levied under any law for the time being in force except the CGST Act, the SGST Act, the UTGST Act and the GST (Compensation to States) Act, if charged separately by the supplier, are includible in the value of supply. In case of inter-State supply liable to IGST, the value of supply will include taxes other than IGST and the GST Compensation Cess in terms of third proviso to section 20 of IGST Act. In effect, all the taxes, duties etc. which are not subsumed in GST form part of the taxable value for the purpose of levying GST.

For instance, if a supplier of goods pays municipal tax in relation to the goods being supplied and charges the same separately, such tax will form part of the value of supply.

© The Institute of Chartered Accountants of India

TCS under Income-Tax Act, 1961 not includible in the taxable value for the purpose of GST

For the purpose of determination of value of supply under GST, tax collected at source (TCS) under the provisions of the Income Tax Act, 1961 would not be includible as it is an interim levy not having the character of tax. In other words, TCS under Income-Tax Act, 1961 (though other than GST) is not includible in the taxable value for the purpose of GST as it is only a modality for collection of tax[1].



Payments made to third parties by the recipient on behalf of the supplier in relation to the supply [Section 15(2)(b)]

A supplier may need to incur various expenses in order to make a particular supply of goods / services. In the normal course, he would pay these amounts and they would form part of the price that he charges from the customer (recipient of supply). However, even if the customer makes direct payment of some of such liabilities (of the supplier) to the third parties, and the supplier does not include this amount in his bill, it would still form part of the value of the supply.

[1] *Circular No. 76/50/2018 GST dated 31.12.2018 (amended vide corrigendum dated 7.03.2019)*

© The Institute of Chartered Accountants of India

A point to note here is that amount paid by the recipient to third parties will be added to the value under this clause only when the supplier is under contractual liability to make payment to such third parties and the said payment is in relation to such supply.



(6) Grand Biz contracts with ABC Co. to conduct a dealers' meet. In furtherance of this, Grand Biz contracts with vendors to deliver goods / services, like water, soft drinks, audio system, projector, catering, flowers etc. at the venue on the stipulated dates at the stipulated prices. Grand Biz is liable to make these payments as contracted.

The soft drinks supplier wants payment upon delivery; ABC Co. agrees to pay the bill raised by the soft drinks vendor on Grand Biz on receiving the crates of soft drinks. This amount is not billed by Grand Biz to ABC Co. However, it would be added to the value of supply provided by Grand Biz to ABC Co. for payment of GST.

Valuation of supply made by a component manufacturer using moulds and dies owned by Original Equipment Manufacturers (OEM) sent free of cost (FOC) to him

While calculating the value of the supply made by the component manufacturer using moulds and dies owned by Original Equipment Manufacturers (OEM) sent free of cost (FOC) to him, the value of such moulds and dies shall not be added to the value of supply made by him 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).

However, 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 amortised cost of such moulds/dies shall be added to the value of the components[2] [3].

---

[2] *Circular No. 47/21/2018 GST dated 08.06.2018*

[3] *Aspects relating to reversal of input tax credit on moulds and dies supplied free of cost, which have been clarified in this Circular, have been included in Chapter 7: Input Tax Credit in Module 2 of this Study Material.*

© The Institute of Chartered Accountants of India

This clarification affirms the view that if an element or a constituent of a supply, which the supplier is responsible to incur/provide for the same, is actually paid for or made by the recipient, the value of such element or constituent of the supply is to be added to the value of the supply being charged by the supplier. If, however, the supplier is not responsible to incur/provide for such element or constituent and the recipient provides for the same, the respective value is not to be added to the value of supply.

Incidental expenses [Section 15(2)(c)]

Incidental expenses, such as, commission and packing charged by the supplier or anything else done by the supplier in relation to the supply at the time of or before delivery of goods or supply of services must be added to value.

example

(7) Commission: This may be paid to an agent and recovered from the buyer of the goods/services; this is part of the value of the supply.

(8) Packing, if charged by the supplier to the recipient, is similarly part of the value of the supply.

(9) Inspection or certification charges is another element that will be added to the value, if incurred before/at the time of supply and billed to the recipient of supply.

(10) Installation and testing charges at the recipient's site will also be added, being an amount charged for something done by the supplier in respect of the supply at the time of making the supply.

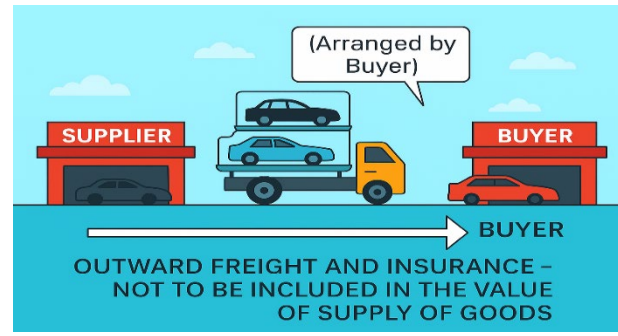
(11) Weighment charges, loading charges, designing charges etc. incurred before/at the time of supply will be added to the value, if billed to the recipient of supply.



© The Institute of Chartered Accountants of India

Outward freight, transit insurance

Where the supplier agrees to deliver the goods at the buyer's premises and arranges for transport and insurance the contract of supply becomes a composite supply; the principal supply being the supply of goods. Therefore, outward freight and transit insurance become part of the value of the composite supply and GST is payable thereon at the same rate as applicable for the relevant goods. However, if the contract for supply is on ex-factory basis where buyer pays the outward freight and insurance, the same will not be included in the value of supply of goods.



Interest, late fee or penalty for delayed payment [Section 15(2)(d)]

The value for a supply will include not only the base price but also the charges for delay in payment.

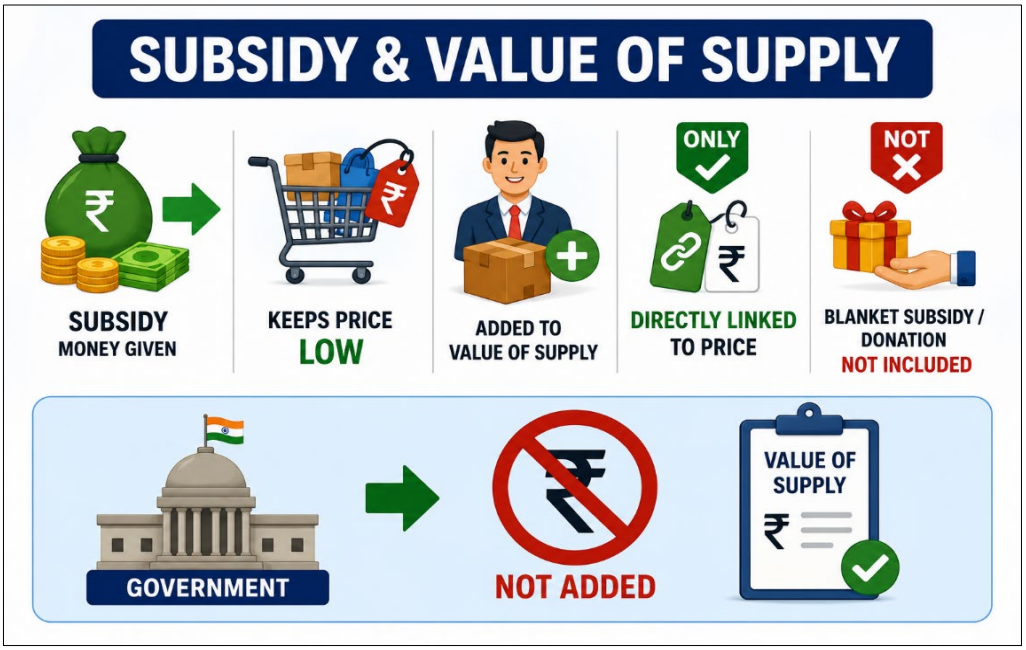
(12) A supply priced at ₹ 2,000 is made, with a credit period of 1 month for payment. Thereafter interest @ 12% is chargeable. The payment is received after the lapse of two months from the date of supply. The amount of interest @ 12% p.a. (i.e. 1% per month) on ₹ 2,000 for one month after the free credit period of one month, is ₹ 20. Such interest will be added to the value and thus, the value of supply will work out to be ₹ 2,020, assuming the interest to be exclusive of GST.

Time of supply for such interest/ late fee/ penalty is the date when such amount is received by the supplier. Further, since such charges are an addition in the value of supply, same rate of tax as applicable on the main supply of goods / service are applicable on such charges as well.

© The Institute of Chartered Accountants of India

Subsidies linked with price [Section 15(2)(e)]

Subsidy is a sum of money given to keep the price of a service or commodity low. The subsidy is added to the value of supply of the supplier who receives the subsidy. It must be noted that only subsidies directly linked to the price of goods/services are added to the value. Blanket subsidy/ donation received are not includible in the value. Note that if the subsidy is given by the State or Central Government, it is not to be added to the value of supply.



(13) The selling price of a notebook is ₹ 50. For notebooks sold to students in Government schools, a company uses its receives price linked subsidy of ₹ 30 per notebook from an NGO, so that the students pay only ₹ 20 per notebook. The value of the notebook will be ₹ 50, as this is a non-government subsidy. If the same subsidy is given/granted by the Central Government or State Government, the value of the notebook would be ₹ 20.

(iii) Exclusion of discounts from value [Section 15(3)]

Discounts are a common phenomenon for businesses. Numerous kinds of discounts are given by the suppliers to their customers namely, trade discounts, cash discounts, quantity/volume/performance discounts etc. Such

© The Institute of Chartered Accountants of India

discounts are reduced from the sale price of the supply. Since, the value of a taxable supply is the transaction value, GST is leviable on the value after deducting the discounts.

However, not all discounts offered by the supplier to their customers are allowed as a deduction from the value. Only such discounts which satisfy the conditions prescribed in section 15(3), are allowed as deduction from the value. The essence of the conditions prescribed in section 15(3) is that the price as established at the time of supply should form the basis of value. The discounts which do not fulfill the conditions specified in section 15(3) are not deductible from the value, i.e. GST in such a case is levied on the gross value of the supply without considering the discount.

Discounts that are allowed as deduction from the value are as follows:

(a) **Discounts given before or at the time of supply and shown in the tax invoice** – Example for such discount can be discounts that are offered for making the payment at the time of supply itself. Such discounts are thus, recoded in the invoice and thus, GST is charged on the gross value less discount duly recorded in the invoice.

(b) **Post supply discounts-** It is not always commercially feasible to determine all discounts before or at the time of supply or record them in the invoice. For instance, cash discount given for making the payment within a stipulated time. Even though the discount is established before/at the time of supply, the supplier cannot record such discount in the invoice as he does not know if the buyer will make the payment within the stipulated time. Likewise, in case of quantity/volume/ performance discount also, the supplier is not aware before/ at the time of supply as to whether the buyer would purchase the requisite quantity within the stipulated time. Therefore, in this case also, the discount cannot be recorded in the invoice. In such cases, initially the GST is paid on the gross value indicated in the invoice without considering the discount. The supplier, however, passes the discount to the buyers subsequently by issuing credit notes.

© The Institute of Chartered Accountants of India



Post supply discounts, i.e. the discounts that are given after supply is made are allowed as a deduction from the value of supply if the following two conditions are satisfied:

- Discount is in terms of an agreement that existed at the time of supply and can be worked out invoice-wise[4]; and
- Proportionate input tax credit is reversed by the recipient - The buyer would have availed input tax credit of GST payable on the gross value specified in the invoice. Thus, when a credit note[5] is issued to him by the supplier for the discount, the buyer will reverse the proportionate credit; consequent to which, the supplier's output tax liability will be reduced by the same amount.

If any of the above conditions are not satisfied, the GST liability of supplier cannot be reduced. The supplier, however, can issue a

---

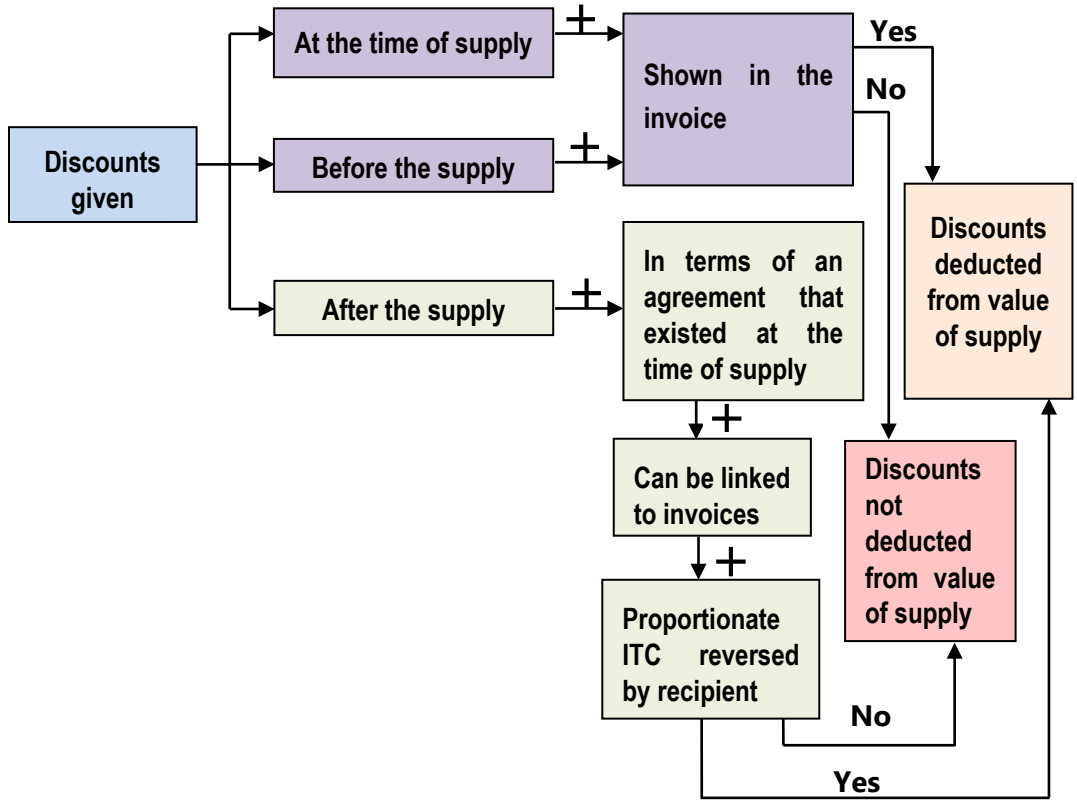
[4] Students may note that conditions for availing post supply discount are proposed to be amended by the Finance Act, 2026. Consequently, when said amendment comes into effect, it will no longer be necessary for post supply discount to be in terms of an agreement existing at the time of supply and capable of being linked invoice-wise. Such discount will be excluded from the value of supply if the supplier issues a credit note and the recipient reverses the proportionate input tax credit.

[5] Credit notes governed under GST law are issued under section 34. Provisions of section 34 are discussed in Chapter 9: Tax Invoice; Credit & Debit Notes in Module 2 of this Study Material.

© The Institute of Chartered Accountants of India

commercial credit note[6] for the value of discount. In such a scenario, the buyer will not be required to reverse any input tax credit.

The provisions relating to allowability of discount as a deduction from the value have been depicted by way of a diagram given below.



Allowability of certain specific types of discounts offered by the suppliers as clarified vide Circular No. 92/11/2019 GST dated 07.03.2019

(i) Staggered discounts ('Buy more, Save more' offers): In case of staggered discounts, rate of discount increases with increase in purchase volume. For example – One may get 10 % discount for purchases above ₹ 5,000/-, 20% discount for purchases above ₹ 10,000/-

[6] *A commercial credit note is not governed under GST law and is issued only for the value of discount/reduction in value of the supply, without any GST.*

© The Institute of Chartered Accountants of India

and 30% discount for purchases above ₹ 20,000/-. Such discounts are shown on the invoice itself. Such discounts are excluded to determine the value of supply.

(ii) Periodic / year ending discounts/volume discounts: These discounts are offered by the suppliers to their stockists, etc. For example- Get additional discount of 1% if you purchase 10,000 pieces in a year, get additional discount of 2% if you purchase 15,000 pieces in a year. Such discounts are established in terms of an agreement entered into at or before the time of supply though 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. In commercial parlance, such discounts are colloquially referred to as "volume discounts". Such discounts are passed on by the supplier through credit notes.



Such discounts are excluded to determine the value of supply provided they satisfy the parameters laid down in section 15(3) including the reversal of ITC by the recipient of the supply as is attributable to the discount on the basis of document (s) issued by the supplier.

(iii) Secondary discounts: These are the discounts which are not known at the time of supply or are offered after the supply is already over. For example, M/s A supplies 10,000 packets of biscuits to M/s B at ₹ 10/- per packet. Afterwards, M/s A re-values it at ₹ 9/- per packet. Subsequently, M/s A issues credit note to M/s B for ₹ 1/- per packet.

Such secondary discounts shall not be excluded while determining the value of supply as such discounts are not known at the time of supply and the conditions laid down in section 15(3)(b) are not satisfied.

It may be noted that financial / commercial credit note(s) can be issued by the supplier even if the conditions mentioned in section 15(3)(b) are not satisfied. Such credit notes do not include GST, and do not have any impact on value of supply for the purposes of GST.

© The Institute of Chartered Accountants of India

Examples of discount deductible from value of supply

(14) Royal Biscuit Co. gives a discount of 30% on the list price to its distributors. Thus, for a carton of Spice biscuit, in the tax invoice the list price is mentioned as ₹ 200, on which a discount of 30% is given to arrive at the final price of ₹ 140. The value is ₹ 140, as the discount is allowed at the time of supply and shown in the invoice.

Post supply discounts

(15) The agreement of Raju Electrical Appliances with its dealers is that purchase of rice cookers over 1,000 pieces in the Diwali month shall entitle them to discount of 5% per cooker. Therefore, the quantum of discount can be determined only at the end of Diwali month. However, since the agreement relating to discount was in existence at the time of supply, and the discount can be worked out for each invoice, such post supply discount will be allowed as a deduction from the value of supply of rice cookers.

Raju Electrical Appliances can issue credit note for discount of 5% of the value of goods along with GST and claim adjustment of excess tax paid. The dealer must reverse the proportionate input tax credit on the relevant stock to bring it in line with the reduced tax.

(16) Pink and Blue Pvt. Ltd. (PBPL) sold goods to Orange Pvt. Ltd. (OPL) on 15th January at ₹ 50,000 (exclusive of taxes and discounts) and charged ₹ 9,000 as IGST @ 18%. The terms of supply stipulated that discount @ 2% will be given to OPL if it makes the payment within one month of the supply. OPL avails the input tax credit of ₹ 9,000 in the month of January and makes the payment for the goods on 10th February. PBPL issues credit note for ₹ 1180 [₹ 1,000 for value of discount and ₹ 180 for proportionate IGST leviable thereon] to OPL on 11th February. After receiving credit note, OPL reverses the input tax credit of ₹ 180 attributable to the discount given by the PBPL. PBPL can reduce its GST liability of the month of February by ₹ 180. OPL would have paid ₹ 57,820 (₹ 50,000 + ₹ 9,000 - ₹ 1,000 - ₹ 180) to PBPL on 10th February.

Examples of discount not deductible from value of supply

(17) In the above example, if the terms of supply did not provide for discount @ 2% for payment within one month but PBPL offers such discount to OPL at the time of payment after negotiation, the discount will not be allowed as a deduction from the value. PBPL will issue a commercial credit note for only

© The Institute of Chartered Accountants of India

the value of discount, i.e. for ₹ 1,000. OPL will not reverse any input tax credit and PBPL will also not be able to reduce its GST liability for the month of February. In this case, OPL would pay ₹ 58,000 (₹ 50,000 + ₹ 9,000 - ₹ 1,000) to PBPL on 10th February.



(18) A company announces turnover discounts after reviewing dealer performance during the year. The discounts are based on performance slabs and are given as cash-back. As these discounts were not known at the time of supply of the goods, they will not be deducted from value of those goods. Hence, the company will not be able to adjust excess tax paid from its tax liability.

Clarification on various doubts related to treatment of secondary or post-sale discounts under GST

Circular No. 251/08/2025 GST dated 12.09.2025 has clarified as follows:

Issue:

Whether a post-sale discount offered by a manufacturer to its dealer/ distributor would be treated as a consideration paid by the manufacturer for the dealer's supply of the same goods to the end customer as a monetary value of the inducement to supply of goods manufactured by him to the end customer?

Clarification:

Section 2(31) defines consideration as to include the monetary value of any act for the inducement of the supply of goods or services, whether by the recipient or by any other person. In cases where there is no agreement between the manufacturer and the end customer, there are two independent sale transactions, one from the manufacturer to the dealer and the other from the dealer to the end customer.

The essence of the matter is that in a contract of sale, the sale is completed on the transfer of title to the goods to the buyer. Once this happens, the buyer becomes the owner of the goods, and the seller has no vestige of the title or claims therein. The dealer takes ownership of the goods purchased from the manufacturer and subsequently sells them to the end customer and transaction between the manufacturers to dealer operates on a principal-to-principal basis.

© The Institute of Chartered Accountants of India

These discounts are simply given for competitive pricing to push sales and merely reduce the sale price of the goods and are not linked to any independent activity rendered to the manufacturer. Therefore, it is clarified that such a discount cannot be included in consideration as the monetary value of the inducement of further supply of these goods.

However, in cases where the manufacturer has some agreement with an end customer to supply goods at a discounted price, the manufacturer may issue commercial or financial credit notes to the dealer, enabling such dealer to provide the goods at the agreed discounted rate to the end consumer. Therefore, it is clarified that such a post-sale discount, given by the manufacturer to the dealer for supplying goods to the end customer at a discounted rate, should be included in the overall consideration as it is an inducement towards the supply of goods by the dealer to the end customer.

Issue:

Whether a post-sale discount extended by the manufacturer to the dealer can be treated as a consideration in lieu of the activities performed to promote the sale of the goods?

Clarification:

When dealers receive such post-sale discounts, they may engage in promotional activities to boost sales. However, these activities ultimately enhance the sale of goods that the dealers themselves own, thereby increasing their own revenue. In this context, the discount merely reduces the sale price of the goods and is not linked to any independent service rendered to the manufacturer. Therefore, it is clarified that post-sale discounts offered by manufacturers to dealers in such cases shall not be treated as consideration for a separate transaction of supply of services.

However, GST would be leviable in cases where a dealer undertakes specific sales promotional activities, such as advertising campaigns, co-branding, customization services, special sales drives, exhibition arrangements, or customer support services, etc., only when such services are explicitly stated in the agreement with a clearly defined consideration payable for such a

© The Institute of Chartered Accountants of India

supply. In such cases, the dealer provides a distinct service to the supplier, and accordingly, GST would be chargeable.

No Claim Bonus permissible as deduction under section 15(3)(a) for the purpose of calculation of value of supply of the insurance services provided by insurance company to insured

The issue which arose for clarification was whether 'No Claim Bonus' (NCB) provided by the insurance company to the insured can be considered as an admissible discount for the purpose of determination of value of supply of insurance service provided by the insurance company to the insured.



The insurance companies make the disclosure of the fact of availability of discount in form of NCB, subject to certain conditions, to the insured in the insurance policy document itself and also provide the details of the NCB in the invoices also. The pre-disclosure of NCB amount in the policy documents and specific mention of the discount in form of NCB in the invoice is in consonance with the conditions laid down for deduction of discount from the value of supply under section 15(3)(a).

Since as per section 15(3)(a), value of supply shall not include any discount which is given before or at the time of supply if such discount has been duly recorded in the invoice issued in respect of such supply, it is, therefore, clarified that NCB is a permissible deduction under said section for the purpose of calculation of value of supply of the insurance services provided by the insurance company to the insured.

Accordingly, where the deduction on account of NCB is provided in the invoice issued by the insurer to the insured, GST shall be leviable on actual insurance premium amount, payable by the policy holders to the insurer, after deduction of NCB mentioned on the invoice[7].

[7] *Circular No. 186/18/2022 GST dated 27.12.2022*

© The Institute of Chartered Accountants of India

ILLUSTRATION 1

BW Ltd. manufactures tobacco products. It has provided the following particulars relating to goods sold by it to CF Ltd.

Particulars	₹
Price of the goods (exclusive of all taxes/duties and discounts)	*60,000*
Excise duty	*6,000*
Packing charges	*2,000*
Freight (arranged by BW Ltd.)	*1600*
Total amount billed to CF Ltd. before any discount	*69,600*
Discount @ 2% of the price of goods recorded in the invoice	

The final amount charged from CF Ltd. is ₹ 69,600 less discount @ 2% calculated on the price of the goods.

Determine the value of taxable supply made by BW Ltd.

ANSWER

Computation of value of taxable supply

Particulars	₹
Price of the goods (exclusive of taxes and discounts)	60,000
Add: Excise duty [Note 1]	6,000
Packing charges [Note 2]	2,000
Freight [Note 3]	1,600
Less: Discount @ 2% on ₹ 60,000 [Note 4]	(1,200)
Value of taxable supply	**68,400**

© The Institute of Chartered Accountants of India

Notes:

(1) As per section 15(2)(a), any taxes, duties, cesses, fees and charges other than CGST, SGST, UTGST, IGST and GST Compensation Cess, if charged separately by the supplier should be included in the value of supply. Thus, excise duty charged separately has been added in the value.

(2) As per section 15(2)(c), incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply should be included in the value. Thus, packing charges have been added in the value.

(3) Since transport is arranged by the supplier, the contract of supply becomes a composite supply; the principal supply being the supply of goods. Therefore, freight becomes part of the value of the composite supply.

(4) As per section 15(3)(a), the value of the supply does not include any discount which is given before or at the time of the supply if such discount has been duly recorded in the invoice issued in respect of such supply. Therefore, since in this case, discount is known at the time of supply and recorded in the supply, it is deductible from the value.

ILLUSTRATION 2

SA Ltd. is a manufacturer of biscuits. The price of a 200 gm pack of biscuit sold by SA Ltd. is ₹ 30. It has received price linked subsidy of ₹ 5 per pack of biscuit sold from NM Ltd. as part of NM Ltd.'s CSR activity. SA Ltd. supplied 1000 packs of biscuits @ ₹ 25 per pack to one of its wholesalers namely, MA Pvt. Ltd. during a tax period. Loading charges of ₹ 1200 have also been charged separately from MA Pvt. Ltd. MA Pvt Ltd. delayed the payment of consideration and thus, paid ₹ 5,000 as interest (no separate amount of GST is paid on the interest by MA Ltd.) in the next tax period. Assume the rate of GST to be 18%.

Determine the value of taxable supply made by SA Ltd.

© The Institute of Chartered Accountants of India

ANSWER

Computation of value of taxable supply

Particulars	₹
Price of 1,000 packs of biscuits @ ₹ 25	25,000
Add: Subsidy received from NM Ltd. @ ₹ 5 for 1000 packs of biscuits [Note 1]	5,000
Loading charges [Note 2]	1,200
Interest for delay in payment of consideration [Note 3] (rounded off)	4,237
Value of taxable supply	**35,437**

Notes:

(1) As per section 15(2)(e), subsidies directly linked to the price excluding subsidies provided by the Central Government and State Governments should be included in the value.

(2) As per section 15(2)(c), incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply and any amount charged for anything done by the supplier in respect of the supply of goods or services or both at the time of, or before delivery of goods or supply of services should be included in the value.

(3) As per section 15(2)(D), interest or late fee or penalty for delayed payment of any consideration for any supply should be included in the value. However, as per section 12(6), the time of supply to the extent it relates to an addition in the value of supply by way of interest is the date when such interest is received. In the given case, since GST has not been paid separately on the interest, the same is inclusive of GST. Thus, the value has been computed by making back calculations $\left[\frac{\text{Interest}}{100+\text{tax rate}}\times 100\right]$. The time of supply in relation

© The Institute of Chartered Accountants of India

to the addition in value by way of such interest will fall in the next tax period on the date when the same is received.

B. Supplies where value cannot be determined u/s 15(1) [Sub-section (4) of section 15]

Section 15(4) lays down that where sub-section (1) is not applicable, i.e. if the **transaction is with a related party**, and/or **price is not the sole consideration** for the supply of goods / services, then the value will be determined in the manner as prescribed (see the definition of 'prescribed'), which means as stipulated in the rules for valuation, i.e. Chapter IV: Determination of Value of Supply of CGST Rules. Further, section 15(5) lays down that **in respect of certain notified supplies also**, the value will be determined in the manner as stipulated in the rules for valuation. Rules 27 to 31 of the CGST Rules provide the mechanism to determine value in all such scenarios. These rules are discussed under Heading 4 in the ensuing pages of this Chapter.

C. Supplies of specified categories of goods or services [Sub-section (5) of section 15]

Section 15(5) lays down that in respect of certain notified supplies also, the value will be determined in the manner as stipulated in the rules for valuation. Thus, the methodology of transaction value will not apply for such notified categories of transactions; instead the rules will prescribe a different method of determining value for these notified transactions. Government has notified the following supplies under the said sub-section, namely:—

(i) supply of online money gaming;

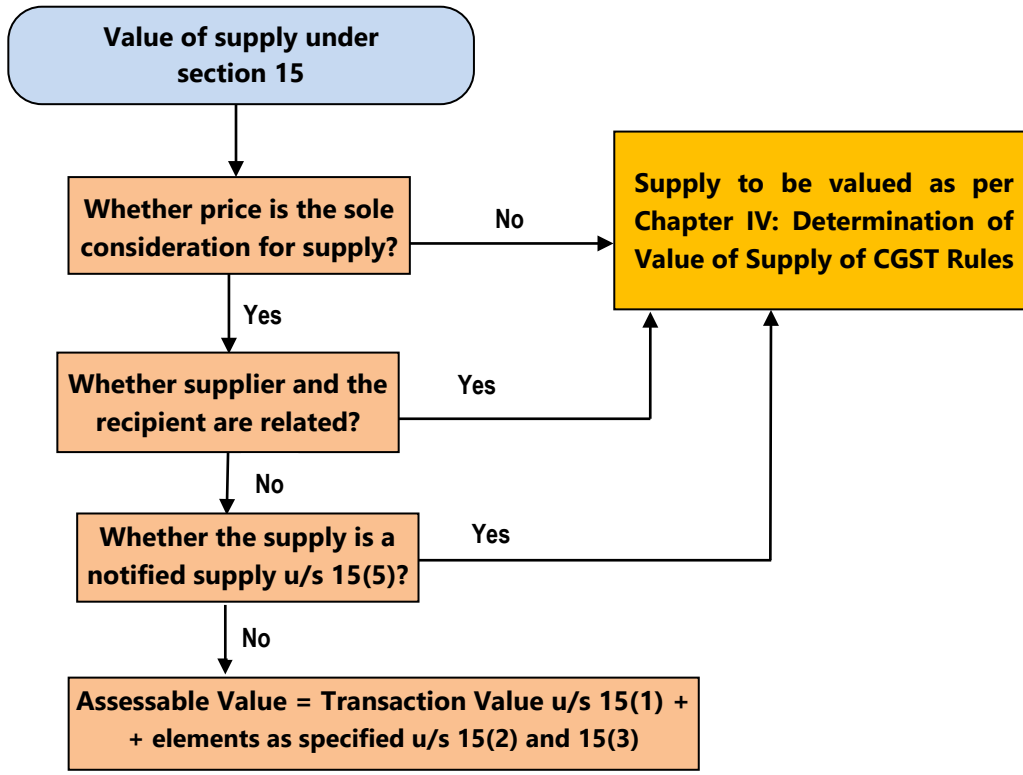
(ii) supply of online gaming, other than online money gaming; and

(iii) supply of actionable claims in casinos.

(iv) supply of the specified goods on which retail sale price is declared [discussed in detail under rule 31D].

© The Institute of Chartered Accountants of India

The scheme of valuation as provided under section 15 is depicted by way of a diagram given below:



4. RULES FOR VALUATION OF SUPPLY OF GOODS AND/OR SERVICES

CHAPTER IV: DETERMINATION OF VALUE OF SUPPLY OF CGST RULES

Rule 27	***Value of supply of goods or services where the consideration is not wholly in money.-***	
Sub-rule	***Clause***	***Particulars***
	Where the supply of goods or services is for a consideration not wholly in money, the value of the supply shall,-	

© The Institute of Chartered Accountants of India

	(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 value is not determinable under clause (a) or clause (b) or clause (c), be the sum total of consideration in money and such further amount in money that is equivalent to consideration not in money as determined by the application of rule 30 or rule 31 in that order.*
	Illustration: *(1) Where a new phone is supplied for twenty thousand rupees along with the exchange of an old phone and if the price of the new phone without exchange is twenty four thousand rupees, the open market value of the new phone is twenty four thousand rupees.* *(2) Where a laptop is supplied for forty thousand rupees along with the barter of a printer that is manufactured by the recipient and the value of the printer known at the time of supply is four thousand rupees but the open market value of the laptop is not known, the value of the supply of the laptop is forty four thousand rupees.*	
Rule 28	***Value of supply of goods or services or both between distinct or related persons, other than through an agent.-***	
Sub-rule	***Clause***	***Particulars***
(1)	*The value of the supply of goods or services or both between distinct persons as specified in sub-section (4) and (5) of section 25 or where the supplier and recipient are related, other than where the supply is made through an agent, shall-*	

© The Institute of Chartered Accountants of India

	(a)	*be the open market value of such supply;*
	(b)	*if the open market value is not available, be the value of supply of goods or services of like kind and quality;*
	(c)	*if the value is not determinable under clause (a) or (b), be the value as determined by the application of rule 30 or rule 31, in that order:*
	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 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:	
	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 the goods or services.	
(2)	*Notwithstanding anything contained in sub-rule (1), the value of supply of services by a supplier to a recipient who is a related person located in India, by way of providing corporate guarantee to any banking company or financial institution on behalf of the said recipient, shall be deemed to be one per cent of the amount of such guarantee offered per annum, or the actual consideration, whichever is higher:* *Provided that where the recipient is eligible for full input tax credit, the value declared in the invoice shall be deemed to be the value of said supply of services.*	
Rule 29	***Value of supply of goods made or received through an agent.-***	
	The value of supply of goods between the principal and his agent shall-	
	(a)	*be the open market value of the goods being supplied, or at the option of the supplier, be 90 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.*

© The Institute of Chartered Accountants of India

		Illustration: 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 five thousand rupees per quintal on the day of the supply. Another independent supplier is supplying groundnuts of like kind and quality to the said agent at the price of four thousand five hundred and fifty rupees per quintal. The value of the supply made by the principal shall be four thousand five hundred and fifty rupees per quintal or where he exercises the option, the value shall be 90 percent of five thousand rupees i.e., four thousand five hundred rupees per quintal.
	(b)	*where the value of a supply is not determinable under clause (a), the same shall be determined by the application of rule 30 or rule 31 in that order.*
Rule 30	***Value of supply of goods or services or both based on cost***	
	Where the value of a supply of goods or services or both is not determinable by any of the preceding rules of this Chapter, the value shall be one hundred and ten percent of the cost of production or manufacture or the cost of acquisition of such goods or the cost of provision of such services.	
Rule 31	***Residual method for determination of value of supply of goods or services or both***	
	Where the value of supply of goods or services or both cannot be determined under rules 27 to 30, the same shall be determined using reasonable means consistent with the principles and the general provisions of section 15 and the provisions of this Chapter:	
	Provided that in the case of supply of services, the supplier may opt for this rule, ignoring rule 30.	
Rule 31A	***Value of supply in case of lottery, betting, gambling and horse racing***	
(1)	*Notwithstanding anything contained in the provisions of this Chapter, the value in respect of supplies specified below shall be determined in the manner provided hereinafter.*	

© The Institute of Chartered Accountants of India

(2)	*The value of supply of lottery shall be deemed to be 100/140 of the face value of ticket or of the price as notified in the Official Gazette by the Organising State, whichever is higher.*
	Explanation: - For the purposes of this sub-rule, the expression "Organising State" has the same meaning as assigned to it in clause (f) of sub-rule (1) of rule 2 of the Lotteries (Regulation) Rules, 2010.
(3)	*The value of supply of actionable claim in the form of chance to win in betting, gambling or horse racing in a race club shall be 100% of the face value of the bet or the amount paid into the totalisator.*
Rule 31B	***Value of supply in case of online gaming including online money gaming***
	Notwithstanding anything contained in this chapter, the value of supply of online gaming, including supply of actionable claims involved in online money gaming, shall be the total amount paid or payable to or deposited with the supplier by way of money or money's worth, including virtual digital assets, by or on behalf of the player: *Provided that any amount returned or refunded by the supplier to the player for any reasons whatsoever, including player not using the amount paid or deposited with the supplier for participating in any event, shall not be deductible from the value of supply of online money gaming.*
Rule 31C	***Value of supply of actionable claims in case of casino***
	Notwithstanding anything contained in this chapter, the value of supply of actionable claims in casino shall be the total amount paid or payable by or on behalf of the player for - *(i) purchase of the tokens, chips, coins or tickets, by whatever name called, for use in casino; or* *(ii) participating in any event, including game, scheme, competition or any other activity or process, in the casino, in cases where the tokens, chips, coins or tickets, by whatever name called, are not required:* *Provided that any amount returned or refunded by the casino to the player on return of token, coins, chips, or tickets, as the case may be,*

© The Institute of Chartered Accountants of India

	or otherwise, shall not be deductible from the value of the supply of actionable claims in casino. *Explanation.—For the purpose of rule 31B and rule 31C, any amount received by the player by winning any event, including game, scheme, competition or any other activity or process, which is used for playing by the said player in a further event without withdrawing, shall not be considered as the amount paid to or deposited with the supplier by or on behalf of the said player.*
Rule 31D	***Value of supply of goods on basis of retail sale price***
(1)	***Notwithstanding anything contained in the provisions of this Chapter, the value of supply of goods bearing the description specified in column (3), falling under the corresponding Chapter/ heading/ sub-heading/ tariff item specified in column (2), of the Table below, shall be deemed to be the retail sale price declared on such goods, less the amount of tax as applicable, namely: -***

S. No.	***Chapter / Heading / Sub-heading / Tariff item***	***Description of Goods***
1.	***2106 90 20***	***Pan masala***
2.	***2401***	***Unmanufactured tobacco; tobacco refuse [other than tobacco leaves]***
3.	***2402***	***Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes***
4.	***2403***	***Other manufactured tobacco and manufactured tobacco substitutes; "homogenised" or "reconstituted" tobacco; tobacco extracts and essences (other than biris)***

© The Institute of Chartered Accountants of India

	5.	2404 11 00	Products containing tobacco or reconstituted tobacco and intended for inhalation without combustion
	6.	2404 19 00	Products containing tobacco or nicotine substitutes and intended for inhalation without combustion
(2)	The amount of applicable tax referred to in sub-rule (1) shall be determined in the following manner, namely: — Tax amount = (Retail sale price X tax rate in % of applicable taxes) / (100+ sum of applicable tax rate). Explanation. — For the purposes of this rule, — (a) "applicable tax" means IGST or CGST or SGST or UTGST as the case may be. (b) "retail sale price" means the maximum price declared on goods at which such goods in packaged form may be sold to the ultimate consumer and includes all taxes, duties, surcharge or cess by whatever name called; (c) where on the package of any specified goods more than one retail sale price is declared, the maximum of such retail sale price shall be deemed to be the retail sale price; (d) where the retail sale price declared on packages of any specified goods is altered to increase the retail sale price at any stage before, during, or after the supply, such altered retail sale price shall be deemed to be the retail sale price; (e) where different retail sale prices are declared on different packages for the sale of any specified goods above in packaged form in different areas, each such retail sale price shall be the retail sale price for the purposes of valuation of the specified goods intended to be sold in the area to which the retail sale price relates."		

© The Institute of Chartered Accountants of India

Rule 32	Determination of value in respect of certain supplies		
(1)	Notwithstanding anything contained in the provisions of this Chapter, the value in respect of supplies specified below shall, at the option of the supplier, be determined in the manner provided hereinafter.		
(2)	The value of supply of services in relation to the purchase or sale of foreign currency, including money changing, shall be determined by the supplier of services in the following manner, namely:-		
	(a)	for a currency, when exchanged from, or to, Indian Rupees, 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 reference rate for that currency at that time, multiplied by the total units of currency:	
		Provided that in case where the Reserve Bank of India reference rate for a currency is not available, the value shall be one percent of the gross amount of Indian Rupees provided or received by the person changing the money:	
		Provided further that in case where neither of the currencies exchanged is Indian Rupees, the value shall be equal to one percent 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.	
		Provided also that a person supplying the services may exercise the option to ascertain the value in terms of clause (b) for a financial year and such option shall not be withdrawn during the remaining part of that financial year.	
	(b)	at the option of the supplier of services, the value in relation to the supply of foreign currency, including money changing, shall be deemed to be-	
		(i)	one percent 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;

© The Institute of Chartered Accountants of India

		(ii)	*one thousand rupees and half of a percent 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 percent of the gross amount of currency exchanged for an amount exceeding ten lakh rupees, subject to a maximum amount of sixty thousand rupees.*
(3)	*The value of the 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 five percent of the basic fare in the case of domestic bookings, and at the rate of ten percent of the basic fare in the case of international bookings of passage for travel by air.*		
	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 airlines.		
(4)	*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 an 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 percent of single premium charged from the policy holder; or*	
	(c)	*in all other cases, twenty five percent of the premium charged from the policy holder in the first year and twelve and a half percent of the premium charged from the 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.		

© The Institute of Chartered Accountants of India

(5)	*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 the purchase of such goods, 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:*	
	Provided that the purchase value of goods repossessed from a defaulting borrower, who is not registered, for the purpose of recovery of a loan or debt shall be deemed to be the purchase price of such goods by the defaulting borrower reduced by five percentage points for every quarter or part thereof, between the date of purchase and the date of disposal by the person making such repossession.	
(6)	*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.*	
(7)	*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, as referred to in paragraph 2 of Schedule I of the said Act between distinct persons as referred to in section 25, where input tax credit is available, shall be deemed to be NIL.*	
Rule 33	***Value of supply of services in case of pure agent.***	
	Notwithstanding anything contained in the provisions of this Chapter, 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, if all the following conditions are satisfied, namely,-	
	(i)	*the supplier acts as a pure agent of the recipient of the supply, when he makes the payment to the third party on authorisation by such recipient;*
	(ii)	*the payment made by the pure agent on behalf of the recipient of supply has been separately indicated in the*

© The Institute of Chartered Accountants of India

		invoice issued by the pure agent to the recipient of service; and
	(iii)	*the 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.*
	Explanation.- For the purposes of this rule, the expression "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 supplied 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 in addition to the amount received for supply he provides on his own account.*
	Illustration.- Corporate services firm A is engaged to handle the legal work pertaining to the incorporation of Company B. Other than its service fees, A also recovers from B, registration fee and approval fee for the name of the company paid to the Registrar of Companies. The fees charged by the Registrar of Companies for the registration and approval of the name are compulsorily levied on B. A is merely acting as a pure agent in the payment of those fees. Therefore, A's recovery of such expenses is a disbursement and not part of the value of supply made by A to B.	
Rule 34	***Rate of exchange of currency, other than Indian rupees, for determination of value.-***	
(1)	*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 for the date of time of supply of such goods in terms of section 12 of the Act.*	

© The Institute of Chartered Accountants of India

(2)	*The rate of exchange for determination of value of taxable services shall be the applicable rate of exchange determined as per the generally accepted accounting principles for the date of time of supply of such services in terms of section 13 of the Act.*
Rule 35	***Value of supply inclusive of integrated tax, central tax, State tax, Union territory tax.-***
	Where the value of supply is inclusive of integrated tax or, as the case may be, central tax, State tax, Union territory tax, the tax amount shall be determined in the following manner, namely,-
	Tax amount = (Value inclusive of taxes X tax rate in % of IGST or, as the case may be, CGST, SGST or UTGST) ÷ (100+ sum of tax rates, as applicable, in %)
Explanation.- For the purposes of the provisions of this Chapter, the expressions-	
(a)	*"open market value" of a supply of goods or services or both means the full value in money, excluding the integrated tax, central tax, State tax, Union territory tax and the cess payable by a person in a transaction, where the supplier and the recipient of the supply are not related and the price is the sole consideration, to obtain such supply at the same time when the supply being valued is made;*
(b)	*"supply of goods or services or both of like kind and quality" means any other supply of goods or services or both made under similar circumstances that, in respect of the characteristics, quality, quantity, functional components, materials, and the reputation 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.*

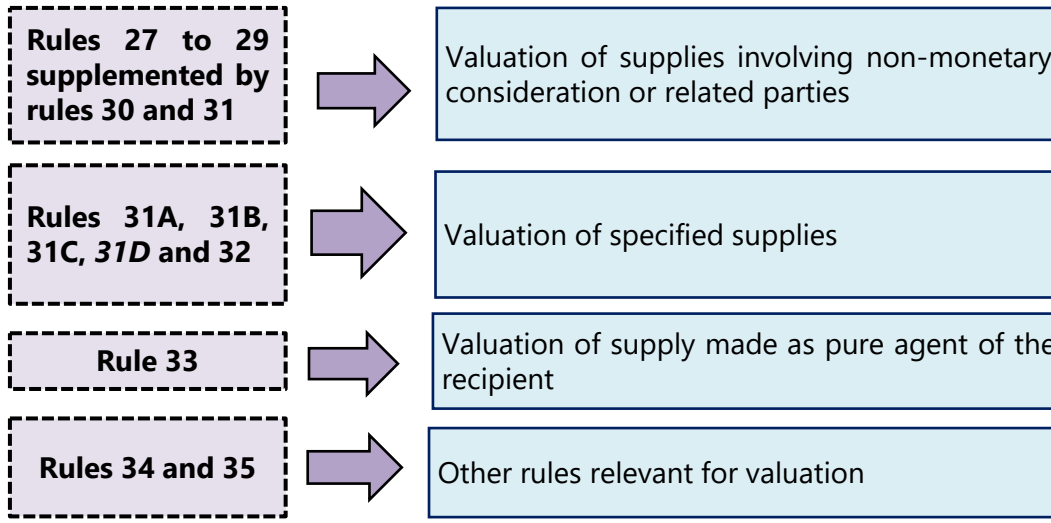


ANALYSIS

When a supply cannot be valued in terms of section 15(1) as also in case of certain specified supplies, valuation rules need to be resorted to. Rules 27-35 of Chapter IV of CGST Rules provide the different methods of valuation in such scenarios.

Rules 27 to 35 may be categorized as under for the purpose of discussion:

© The Institute of Chartered Accountants of India



Rule 27 - Value of supply of goods or services where the consideration is not wholly in money

If the consideration for a supply of goods and /or services is wholly or partly in non-monetary terms, the supply is valued in accordance with provisions of rule 27.

Examples of supplies valued as per rule 27

- **Barter transaction**
- **Exchange transaction**
- **Permanent transfer or disposal of business assets where input tax credit has been availed on such assets**

The methods provided in rule 27 are to be used in order of sequence, i.e. the one coming later in the sequence is applicable only if the previous method(s) are not applicable.

© The Institute of Chartered Accountants of India

Rule 27 lays down the following methods to value a supply when the consideration thereof is not solely in terms of money:

(a) The open market value of such supply;

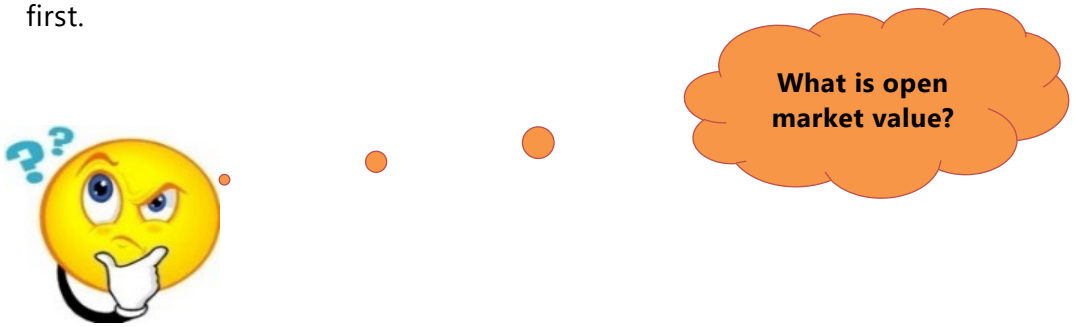
(b) If open market value of the supply is not known, the consideration in money plus the money equivalent of the non-money consideration, if such amount is known at the time of supply;

(c) If the value cannot be determined under the previous two clauses, the value of supply of goods and/or services of like kind and quality;

(d) Finally, if the value is not ascertainable by using the above methods, the consideration in money plus the money equivalent of the non-money consideration, as worked out based on cost of the supply plus **10%** mark-up [Rule 30-Cost based valuation] or by other reasonable means [Rule 31-Best Judgement method] in that sequence.

First, rule 30 is to be applied, if that is not feasible, rule 31 is to be applied. However, in case of supply of services, the supplier has an option to skip rule 30 and directly apply rule 31. *[Rule 30 regarding cost-based valuation and rule 31 regarding reasonable means are discussed in subsequent pages of this Chapter]*.

To understand the method of valuation provided in the above rule, the concepts of 'Open Market Value' and 'Supply of like kind and quality' need to be understood first.



© The Institute of Chartered Accountants of India

Open market value means

- ✓ full value of money excluding taxes under GST law,
- ✓ payable by a person to obtain such supply
- ✓ at the time when supply being valued is made,



- ✓ provided such supply is between unrelated persons and
- ✓ price is the sole consideration for such supply.

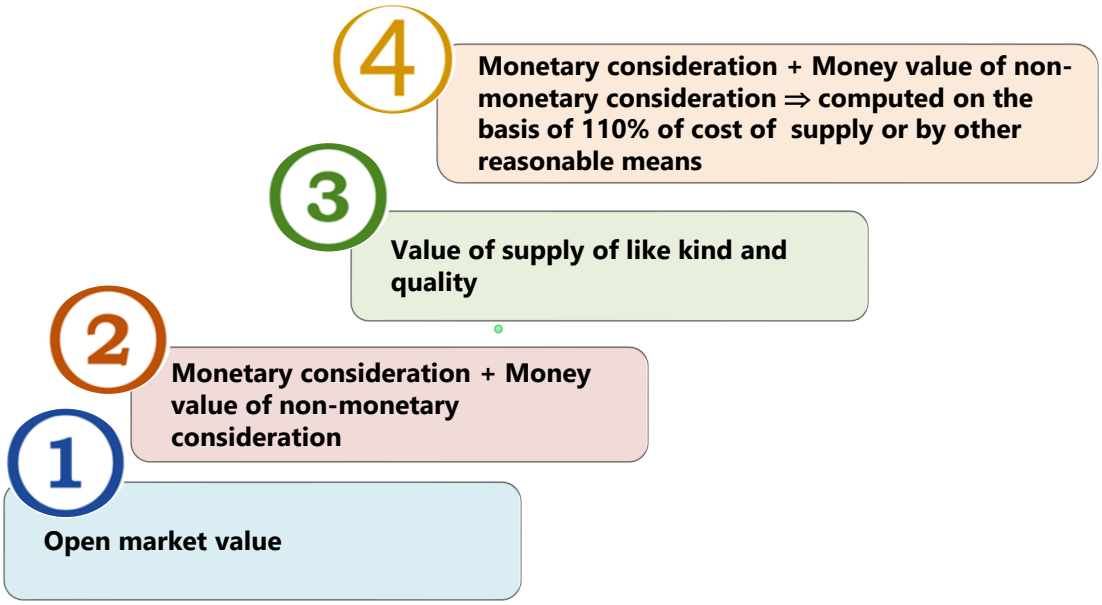
Supply of like kind quality means

- ✓ any other supply made under similar circumstances,
- ✓ which is same or closely or substantially resembles
- ✓ in respect of characteristics, quality, quantity, functionality, reputation
- ✓ to the supply being valued.

(19) X Pvt. Ltd. offers a new mobile phone worth ₹ 20,000/- to Y in exchange of old mobile phone and cash payment of ₹ 16,000. Exchange value of old phone lowers the price of a new phone. The known market value of the new phone (without exchange of old phone), i.e. the open market value is ₹ 20,000, which is the taxable value in this case.

(20) Laptop is manufactured and supplied for ₹ 40,000. Further, a printer valued ₹ 4,000 is also received in the barter. Market value of the laptop is not known. Its taxable value will be ₹ 44,000.

© The Institute of Chartered Accountants of India



Rule 28 - Value of supply of goods or services or both between distinct or related persons, other than through an agent

A person who is under influence of another person is called a related person like members of the same family (*See definition of family)* or subsidiaries of a group company etc. Under GST law various categories of related persons have been specified and as relation may influence the price between two related persons therefore, special valuation rule has been framed to arrive at the taxable value of transactions between related persons.

Rule 28 deals with transactions between related persons *[See definition of related person in Explanation to section 15]* and between 'distinct persons' as specified under section 25, which means different registrations/establishments of the same entity (with same PAN) *[Refer Chapter 8: Registration in Module 2 of this Study Material for a detailed discussion on the concept of 'distinct persons']*. **This rule, however, does not provide the value of the supply made through an agent.**

It may be recollected that a supply between related persons or between distinct persons as specified in section 25, when made in the course or furtherance of business is treated as supply even if made without consideration in terms of

© The Institute of Chartered Accountants of India

paragraph 2 of Schedule I of CGST Act. **Thus, rule 28 provides the value of such kind of supplies when the same are made for a consideration as well as when the same are made without consideration.**

The concept of related person has been explained by way of diagram given in the preceding pages.



Example of related person

(21) Mr. A and Mr. B are legally recognised partners in the partnership firm A&B Co. Mr. A & Mr. B are related persons. Thus, a transaction of supply between Mr. A & Mr. B in the course or furtherance of business is treated as supply even if made without consideration.



✪ ***A person who 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 [Section 25(4)].***

✪ ***Where a person who has obtained or is required to obtain registration in a State or Union territory in respect of an establishment, has an establishment in another State or Union territory, then such establishments shall be treated as establishments of distinct persons for the purposes of this Act. [Section 25(5)].***

Examples of supplies valued as per rule 28

- **Intra-State stock transfer of goods between different registrations of an entity under same PAN**
- **Inter-State stock transfer of goods between different registrations of an entity under same PAN**
- **Import of services by a company from a holding/ subsidiary company in course or furtherance of business**

© The Institute of Chartered Accountants of India

The methods of valuation of transactions between related persons and between distinct persons, **in the sequence in which they are to be applied, are as follows:**

(a) the open market value of such supply;

(b) if open market value is not available, the value of supply of goods or services of like kind and quality;

(c) if value cannot be determined under the above methods, it must be worked out based on the cost of the supply plus **10%** mark-up *[Rule 30 regarding cost-based valuation has been discussed in subsequent pages of this Chapter)* or by other reasonable means, in that sequence *[Rule 31 regarding reasonable means has been discussed in subsequent pages of this Chapter].*

If the recipient is eligible for full ITC, the invoice value is accepted as open market value (taxable value).

If the goods are intended to be supplied AS SUCH by the recipient

Value = 90% of the price charged for the supply of goods of like kind and quality by the recipient to his unrelated customer

However, it is not mandatory for the supplier to adopt this method of valuation. He can opt to value his goods in accordance with the valuation methods prescribed in clause (a), (b) or (c) above.

It is important to note that as per valuation rule 32(7), the value of taxable services provided by notified class of service providers, without any consideration, between distinct persons is NIL, if ITC is available.

© The Institute of Chartered Accountants of India

Rule 32 has been discussed in detail in subsequent pages of this Chapter. The valuation mechanism prescribed in rule 28 read with rule 32(7) has been explained by way of a flow diagram in the ensuing pages.

Value declared is accepted when recipient is eligible for full input tax credit

As mentioned in sticky note on previous page, 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. This provision is applicable only in following cases:

(a) distinct person as specified in section 25(4) and 25(5) of CGST Act i.e. where same person with single PAN has taken separate registration in different States or even in the same State

(b) related person.

The rationale behind this simplified valuation is that since the recipient can take entire input tax credit, there cannot be any intention to evade tax. It enables 'ease of doing business' as it simplifies the valuation in case of transactions between related persons and reduces disputes and litigation.



(22) ABC Pvt. Ltd., a registered supplier, is a manufacturer of taxable goods. The company's factory is located in Noida, Uttar Pradesh and depot in Gurugram, Haryana. Gurugram depot is eligible for full ITC. Noida factory agrees to supply goods worth ₹ 1,00,000 to a customer of Gurugram depot (on its behalf). Noida factory ships the goods directly to the customer in Gurugram and bills the Gurugram depot. Noida factory has the option of billing to Gurugram depot at ₹ 90,000 (90% of ₹ 1,00,000). It can also bill the Gurugram depot on actual cost as Gurugram depot is eligible for full ITC.

In the same scenario, if goods are replaced by services, the option of valuing the services @ 90% of value charged by the recipient to unrelated customer will not be available. However, since recipient is eligible for full ITC, the value of supply of service declared in the invoice shall be taken as open market value (taxable value).

© The Institute of Chartered Accountants of India

Cross Charge Mechanism under GST

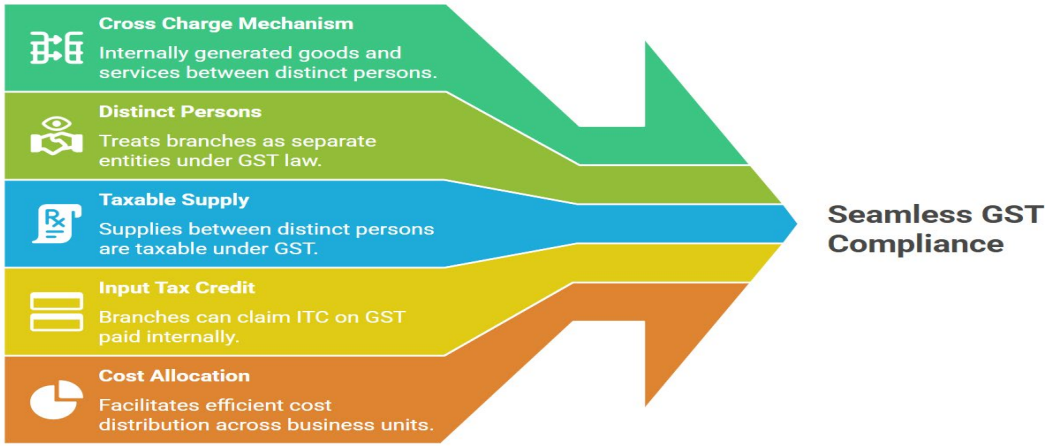
Under sections 25(4) and 25(5), different GST registrations of the same legal entity in different/same States or Union Territories are considered as distinct persons. Further, supply of goods or services between these distinct persons—even without consideration—is treated as a taxable supply under section 7(1)(c) read with Schedule I. *This has already been discussed in Chapter 1- Supply under GST of this Module of the Study Material.*

This framework gives rise to the **cross-charge mechanism**, which applies when one unit (generally the Head Office) provides internal services or goods—such as HR, IT, admin, legal or accounting support—to another unit (such as a branch) of the same legal entity registered in another State.



Key points:

- Cross charge involves issuing a GST tax invoice from the supplying unit (e.g., HO) to the receiving unit (e.g., branch).
- GST is levied on the value of such internal supply, and the recipient unit can claim input tax credit (ITC).
- It is applicable to both goods and services supplied inter-unit.
- No additional registration is needed beyond the standard GST registrations.



© The Institute of Chartered Accountants of India

Valuation of internally generated services - where HO is providing certain services to the BOs or where the foreign affiliate is providing certain services to the related domestic entity[8]

Issue	Clarification
WHERE FULL ITC IS AVAILABLE In respect of internally generated services, there may be cases where HO is providing certain services to the BOs for which full ITC is available to the concerned BOs. However, HO may not be issuing tax invoice to the concerned BOs with respect to such services, or the HO may not be including the cost of a particular component such as salary cost of employees involved in providing said services while issuing tax invoice to BOs for the services provided by HO to BOs. Whether the HO is mandatorily required to issue invoice to BOs under section 31 for such internally generated services, and/ or whether the cost of all components including salary cost of HO employees	The value of supply of services made by a registered person to a distinct person needs to be determined as per rule 28 above read with section 15(4). As seen above, as per rule 28(a), the value of supply between distinct persons shall be the open market value (OMV) of such supply and where the recipient is eligible for full ITC, the value declared in the invoice shall be deemed to be the OMV of the goods or services [Second proviso to rule 28]. Accordingly, in respect of supply of services by HO to BOs, in cases where full ITC is available to a BO, the value declared on the invoice by HO to the said BO in respect of said supply shall be deemed to be the OMV of such services, irrespective of the fact whether cost of **INVOICE ISSUED** **Value declared in invoice= OMV = Value of supply**

[8] *Circular No. 199/11/2023 GST dated 17.07.2023 read with Circular No. 210/4/2024 GST dated 26.06.2024*

© The Institute of Chartered Accountants of India

involved in providing the said services has to be included in the computation of value of services provided by HO to BOs when full ITC is available to the concerned BOs?	any particular component of such services, like employee cost etc., has been included or not in the value of the services in the invoice. Further, in such cases where full ITC is available to the recipient, if HO has not issued a tax invoice to the BO in respect of any particular services being rendered by HO to the said BO, the value of such services may be deemed to be declared as Nil by HO to BO, and may be deemed as OMV in terms of second proviso to rule 28. **INVOICE NOT ISSUED** **Value of supply = OMV= Nil**
WHERE FULL ITC IS NOT AVAILABLE In respect of internally generated services provided by the HO to BOs, in cases where full ITC is not available to the concerned BOs, whether the cost of salary of employees of the HO involved in providing said services to the BOs, is mandatorily required to be included while computing the taxable value of the said supply of services provided by HO to BOs?	In respect of internally generated services provided by the HO to BOs, the cost of salary of employees of the HO, involved in providing the said services to the BOs, is not mandatorily required to be included while computing the taxable value of the supply of such services, even in cases where full ITC is not available to the concerned BO.

© The Institute of Chartered Accountants of India

In case of import of services by a registered person in India from a related person located outside India, the tax is required to be paid by the registered person in India under reverse charge mechanism. In such cases, the registered person in India is required to issue self-invoice under section 31(3)(f) and pay tax on reverse charge basis. Accordingly, in cases where the foreign affiliate is providing certain services to the related domestic entity and where full ITC is available to the said related domestic entity, how will the value of said services be determined?	In such cases, the value of such supply of services declared in the invoice by the said related domestic entity may be deemed as open market value in terms of second proviso to rule 28(1). **INVOICE ISSUED** **Value declared in invoice= OMV = Value of supply** Further, in cases where full ITC is available to the recipient, if the invoice is not issued by the related domestic entity with respect to any service provided by the foreign affiliate to it, the value of such services may be deemed to be declared as Nil, and may be deemed as open market value in terms of second proviso to rule 28(1). **INVOICE NOT ISSUED** **Value of supply = OMV= Nil**

Value of supply of service of providing corporate guarantees to banks/financial institution by a supplier to a related person located in India

If a supplier gives a corporate guarantee on behalf of a related party located in India for securing of credit facilities from a bank/financial institution by such related party, the value of service will be determined as follows:

© The Institute of Chartered Accountants of India

1% of the amount of guarantee offered per annum

Actual consideration

whichever is higher

Exception

Where the recipient is eligible for full ITC:

Value declared in the invoice shall be deemed to be the Value of said supply of services.

Loan only partly availed or not availed at all

In cases where the loan is only partly availed or not availed at all by the recipient, value of supply of corporate guarantee will be calculated based on the amount guaranteed and not based on the amount of loan actually disbursed to the recipient.

Further, the recipient would be eligible to avail full ITC irrespective of when the loan is actually disbursed to him and irrespective of the amount of loan actually disbursed.

Takeover of existing loans

In case of service of corporate guarantee, service provider is corporate entity providing said guarantee and recipient is related entity for whom guarantee is provided.

Thus, in the case of takeover of existing loans by another banking company/ financial institution, there is **merely an assignment of an already issued corporate guarantee.**

Said activity of taking over of the loan does not fall under the service of providing corporate guarantee to any banking company/financial institution by a supplier to a recipient. Thus, GST will not be payable again unless there is issuance of fresh corporate guarantee/there is renewal of existing corporate guarantee.

© The Institute of Chartered Accountants of India

Intra-group corporate guarantee

(i) Where **domestic corporate** issue intra-group guarantees, GST is to be paid under **forward charge mechanism**, and invoice is to be issued by the supplier of the service of providing corporate guarantee to the related recipient under section 31.

(ii) Where corporate guarantee is provided by the **foreign/ overseas entity** for a related entity located in India, GST would be payable under **reverse charge mechanism**, by the recipient of service, i.e., the related entity located in India.

Export of service

Above provisions will not apply in cases of export of the services of providing corporate guarantee between related persons, i.e where the **recipient** of service between related persons is **located outside India**.

Corporate Guarantee for multiple years or for less than 1 year

Value of supply of said **service provided for a particular number of years** shall be 1% of amount of such guarantee offered multiplied by the number of years for which the said guarantee is offered or the actual consideration, whichever is higher. GST is payable at the time of issuance of such guarantee.

Where the **corporate guarantee is provided for a period less than a year**, say 6 months (half a year), then in those cases as well, the valuation may be done on proportionate basis for the said period, i.e., in this case, value of the said supply of services may be taken as half of 1% of the amount of such guarantee offered (6/12 × 1%), or the actual consideration, whichever is higher.

Corporate guarantee by multiple related entities

In cases where corporate guarantee is being provided by multiple related entities / co-guarantor, we first need to determine which of the two values is higher – sum of actual consideration paid to co-guarantors or 1% of total guaranteed amount.

If total actual consideration is higher, value of supply will be sum of the actual consideration paid/ payable to co-guarantors. If 1% of total guaranteed amount is higher, GST shall be payable by each co-guarantor proportionately on 1% of the amount guaranteed by them.

© The Institute of Chartered Accountants of India



(23) If there are two co-guarantors, A and B, who jointly provide a corporate guarantee to a banking/ financial institution on behalf a related recipient C for ₹ 1 crore, then A and B shall each pay GST on 0.5% of the amount guaranteed.

However, if in the above case of A and B providing corporate guarantee jointly to a banking/ financial institution on behalf of a related recipient C for ₹ 1 crore, A provides guarantee for 60% of the guarantee amount and B provides guarantee for the remaining 40% of the guaranteed amount, then GST shall be payable by A and B proportionately i.e., 0.6% and 0.4% of the amount guaranteed. This is to say that A shall pay GST on 1% of the amount guaranteed by A, i.e., 1% on ₹. 60 lakh and B shall pay GST on 1% of the amount guaranteed by B, i.e., 1% on ₹ 40 lakh.

(24) If a corporate guarantee is issued for a period of say 5 years, then the value of such guarantee is to be calculated at 1% per year of the amount of such guarantee offered, or the actual consideration, whichever is higher, i.e., the value of such corporate guarantee provided would be 5% of the amount guaranteed or the actual consideration, whichever is higher. Therefore, GST would be payable on such amount at the time of issuance of such corporate guarantee, i.e., 5% of the amount guaranteed or the actual consideration, whichever is higher.

However, if a corporate guarantee is issued, say for a period of 1 year and is renewed 5 times, for a period of 1 year each, then tax would be payable on 1% of the amount of such guarantee offered, or the actual consideration, whichever is higher, on the issue of such corporate guarantee in the first year as well as on every renewal in subsequent years.

Valuation of corporate guarantee provided by a related person without consideration

Where the corporate guarantee is provided to the bank/financial institutions by:

(i) a company for providing credit facilities to the other company, where both the companies are related,

(ii) a holding company, for securing credit facilities for its subsidiary company [related in terms of explanation to section 15],

© The Institute of Chartered Accountants of India

the activity is to be treated as a supply of service between related parties even when made without any consideration [in terms of section 7(1)(c) read with para 2 of Schedule I]. In such cases, the taxable value will be determined as per rule 28(2)[9].

Valuation of personal bank guarantee by Directors to bank for the company

Let us first analyse whether the activity of providing personal guarantee by the Director of a company to the bank/ financial institutions for sanctioning of credit facilities to the said company without any consideration will be treated as a supply of service.



Since Director and company are related persons [in terms of Explanation (a) to section 15], the activity of providing personal guarantee by the Director to the banks/ financial institutions for securing credit facilities for their companies is to be treated as a supply of service, even when made without consideration [in terms of section 7(1)(c) read with para 2 of Schedule I[10]]. As seen above, value will be open market value (OMV) of such supply.

However, as per the mandate provided by the RBI Guidelines in this regard, no consideration by way of commission, brokerage fees or any other form, can be paid to the director by the company, directly or indirectly, in lieu of providing personal

Consequently, there is no question of such supply/ transaction having any OMV.

Accordingly, it is clarified that OMV of the said transaction/ supply may be treated as zero and therefore, no tax is payable on such supply of service by the director to the company. However, in exceptional cases, where remuneration is payable to the director[11], the taxable value of such supply of service shall be the remuneration/ consideration provided to such guarantor by the company, directly or indirectly.

---

[9] Circular No. 204/16/2023 GST dated 27.10.2023

[10] Provisions of section 7(1)(c) and Schedule I have been discussed in detail in Chapter 1 – Supply under GST in this Module of the Study Material.

[11] Instances where consideration is payable to the director may include cases where the director, who had provided the guarantee, is no longer connected with the management but continuance of his guarantee is considered essential because the new management's guarantee is either not available or is found inadequate, or there may be other exceptional cases where the promoters, existing directors, are paid remuneration/ consideration in any manner, directly or indirectly.

© The Institute of Chartered Accountants of India

Rule 29 – Value of supply of goods or received through an agent

Supply of goods between principal and agent[12] *[Refer definitions of principal and agent under Heading 2: Relevant Definitions]* is valued by the following methods, **applied in sequence:**

(a) Open market value of goods being supplied

OR

90% of the price charged for the supply of goods of like kind and quality by the recipient to his unrelated customer

This rule is applicable only for valuation of supply of goods between principal and agent.

[Supplier has the option to choose either of the two methods]

(25) ABC Ltd. supplies goods to its agent and the agent is supplying goods of like kind and quality in subsequent supplies at a price of ₹ 1,000 per unit on the day of the supply.

ABC Ltd. also supplies goods to an unrelated customer at the price of ₹ 950 per unit on the day of the supply. The value of the supply made by ABC Ltd. to agent shall be ₹ 950 per unit or where it exercises the option, the value shall be 90% of ₹ 1,000 i.e., ₹ 900 per unit.

(b) In case value cannot be determined under (a) then following values have to be considered sequentially to determine the taxable value:

i. Value of supply based on cost i.e. cost of supply plus 10% mark-up

ii. Value of supply determined by using reasonable means consistent with principles & general provisions of GST law (Best Judgement Method)

It may be noted that only the supply of goods between principal and agent is valued vide this rule. Therefore, supply of services like commission-based services

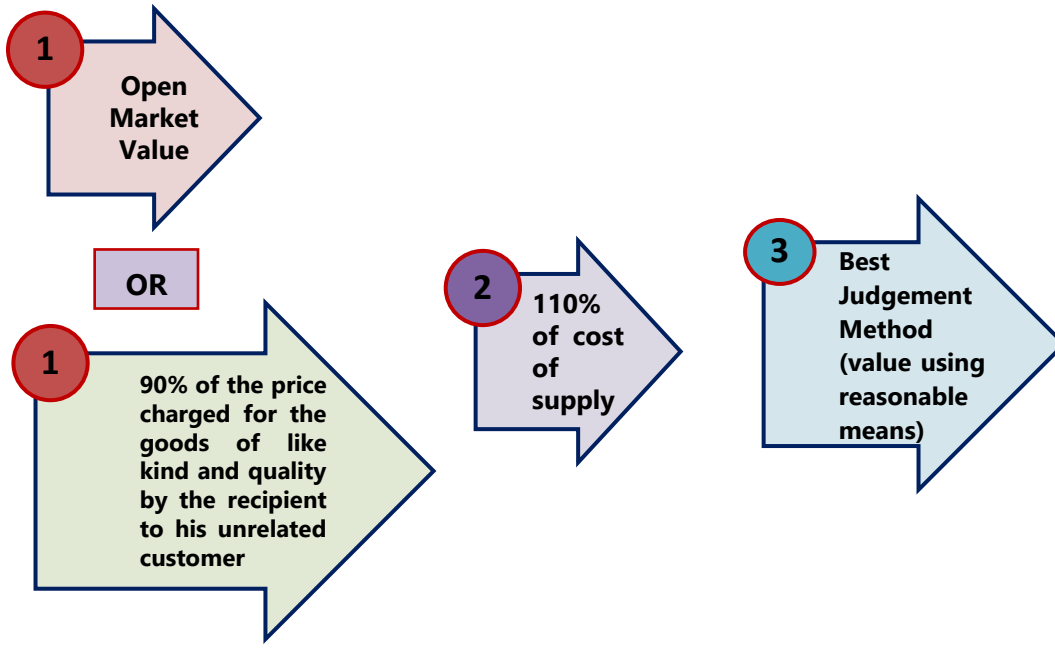
[12] *The relationship between principal agent has been discussed in detail in Chapter 1: Supply under GST in this Module of this Study Material.*

© The Institute of Chartered Accountants of India

provided by a commission agent for procuring orders, undertaking market research etc. are not valued as per rule 29.

Examples of supplies valued as per rule 29

- **Supply of goods by a principal to his agent when the agent supplies the goods on behalf of the principal**
- **Supply of goods by an agent to his principal when the agent receives the goods on behalf of the principal**



Rule 30 – Value of supply of goods or services or both based on cost

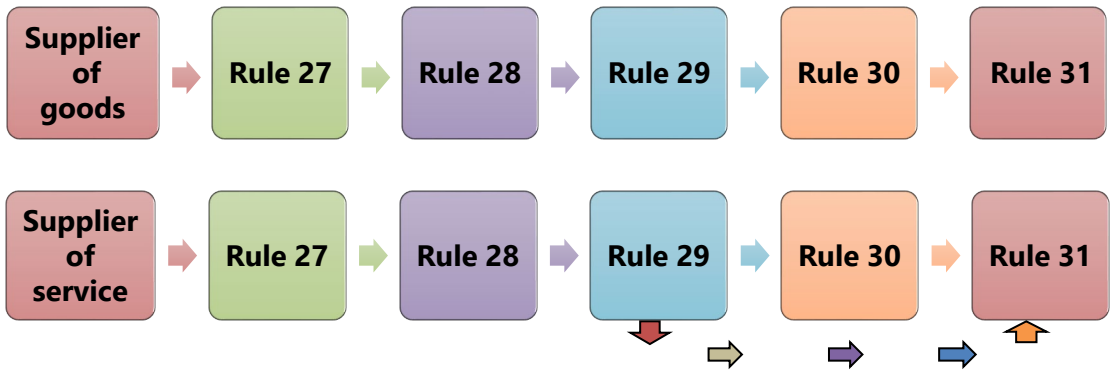
If the value of a supply of goods and/or services cannot be worked out by the foregoing methods, its value will be 110% of the cost of production/ manufacture/acquisition of such goods or cost of provision of such services.

© The Institute of Chartered Accountants of India

Rule 31 – Residual method for determination of value of supply of goods or services or both [Best Judgement Method]

The supplier of goods needs to sequentially follow rules 27 to 30 before valuing goods as per this residual rule 31. Service providers, however, have the option of valuing services as per rule 30 or rule 31 after sequentially following rules 27 to 29.

The residual method consists of determination of value by using reasonable means consistent with the principles and general provisions of section 15 and these Rules.



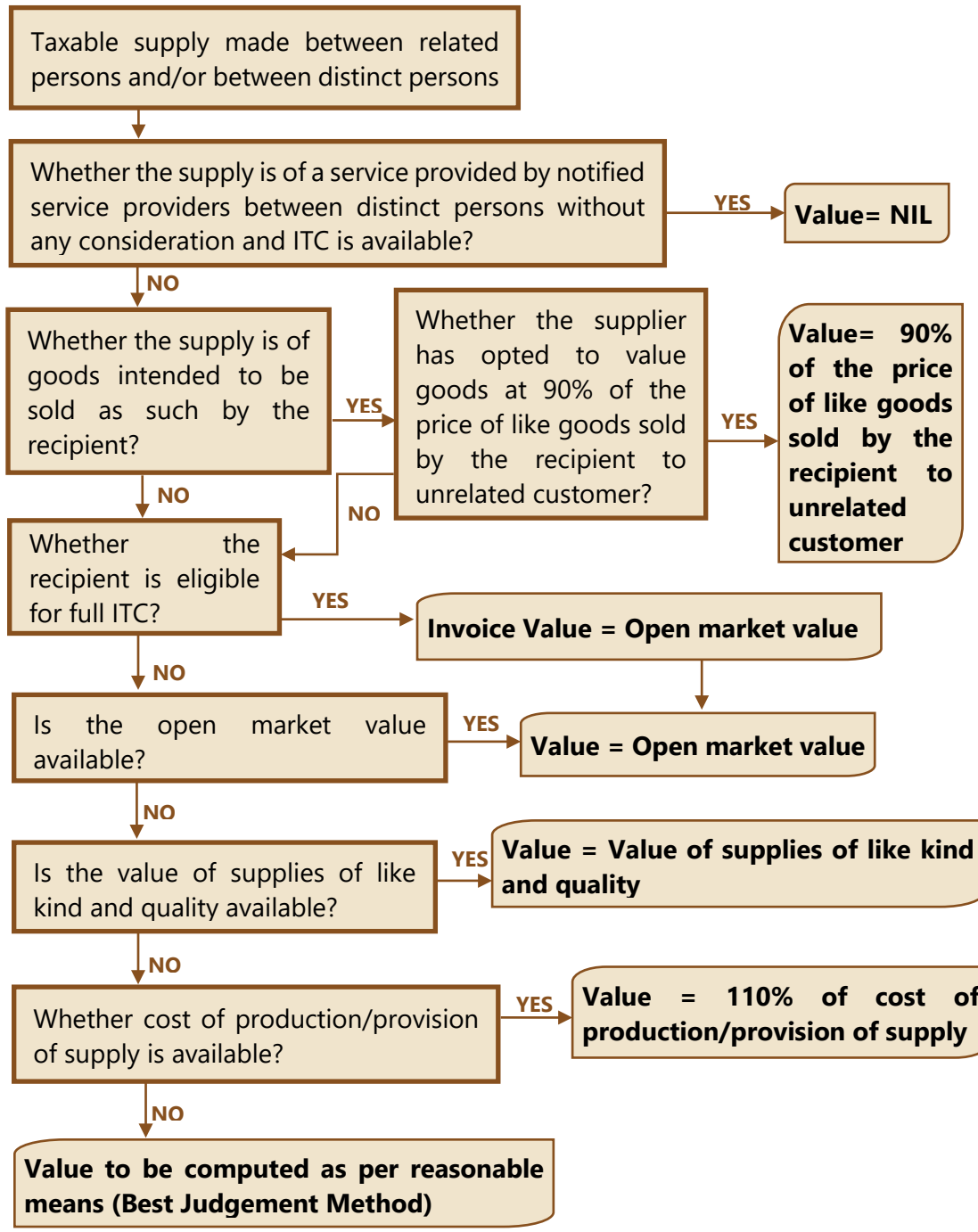
(26) A cosmetics company buys its products from a subcontractor, who supplies "testers" of each product, to be placed in retail outlets, free of charge. These are of different size from the product that is sold.

The company and the sub-contractor are related persons. The sub-contractor does not have details of cost of acquisition of such testers.

As none of the methods in rules 27 to 30 will work for valuing these testers, the value 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.

© The Institute of Chartered Accountants of India



© The Institute of Chartered Accountants of India

Rule 31A – Value of supply in case of lottery, betting, gambling and horse racing

A new rule 31A has been inserted in CGST Rules to provide for valuation of supply of lottery and actionable claim in the form of chance to win in betting, gambling or horse racing in a race club. The rule provides that valuation of such supplies will be governed by the specific provisions set out in the said rule and not by any other valuation rule.

Supply	Value
Supply of lottery by the Organising State Organising State means the State Government which conducts the lottery either in its own territory or sells its tickets in the territory of any other State	**Higher of the two amounts to be deemed as the value** ***100/140*** of the face value of ticket OR ***100/140*** of the price as notified in the Official Gazette by the organising State
Supply of actionable claim in the form of chance to win in betting, gambling or horse racing in a race club	100% of the face value of the bet or the amount paid into the totalisator*

* *Totalisator is a computerised device that pools the wagers/bets (after deduction of charges and statutory taxes) of various persons placing the bet and also divides the total wager amount to be distributed to the winning persons.*

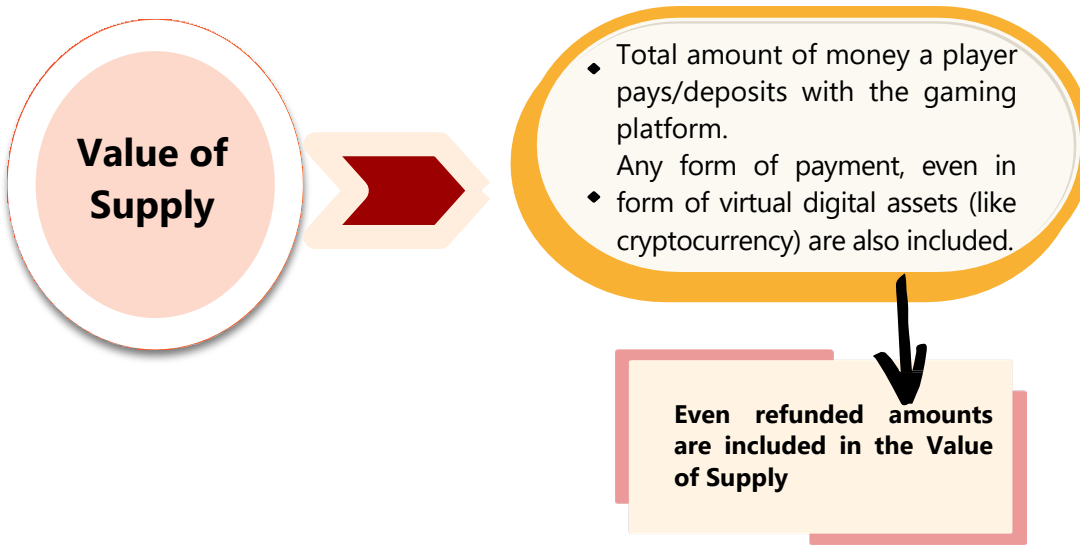


(27) The Government of a State runs a lottery where face value of a lottery ticket is ₹ 250 and the price notified by the State Government in the Official Gazette is ₹ 240. Here, the value of lottery is 178.57, i.e. higher of 178.57 (250 x 100/140) or 171.43 (240 x100/140)

(28) The Government of a State runs a lottery where face value of a lottery ticket is ₹ 250 and the price notified by the State Government in the Official Gazette is ₹ 260. Here, the value of lottery is ₹ 185.71, i.e. higher of ₹ 178.57 (250 x 100/140) or ₹ 185.71 (260 x 100/140).

© The Institute of Chartered Accountants of India

Rule 31B – Value of supply of online gaming including online money gaming



Online money gaming means **online gaming**** in which players pay or deposit money or money's worth, including virtual digital assets, in the expectation of winning money or money's worth, including virtual digital assets[13], in any event including game, scheme, competition or any other activity or process, whether or not its outcome or performance is based on skill, chance or both and whether the same is permissible or otherwise under any other law for the time being in force.

Online money gaming

****Online gaming** means offering of a game on the internet or an electronic network and includes online money gaming [Section 2(80A)].

Online gaming

[13] *Virtual digital asset shall have the same meaning as assigned to it in section 2(47A) of the Income-tax Act, 1961 [Section 2(117A)].*

© The Institute of Chartered Accountants of India

For online gaming including supply of actionable claims involved in online money gaming, the "value of supply" is the total amount paid or payable to or deposited with the supplier by way of money or money's worth, including virtual digital assets, by or on behalf of the player.

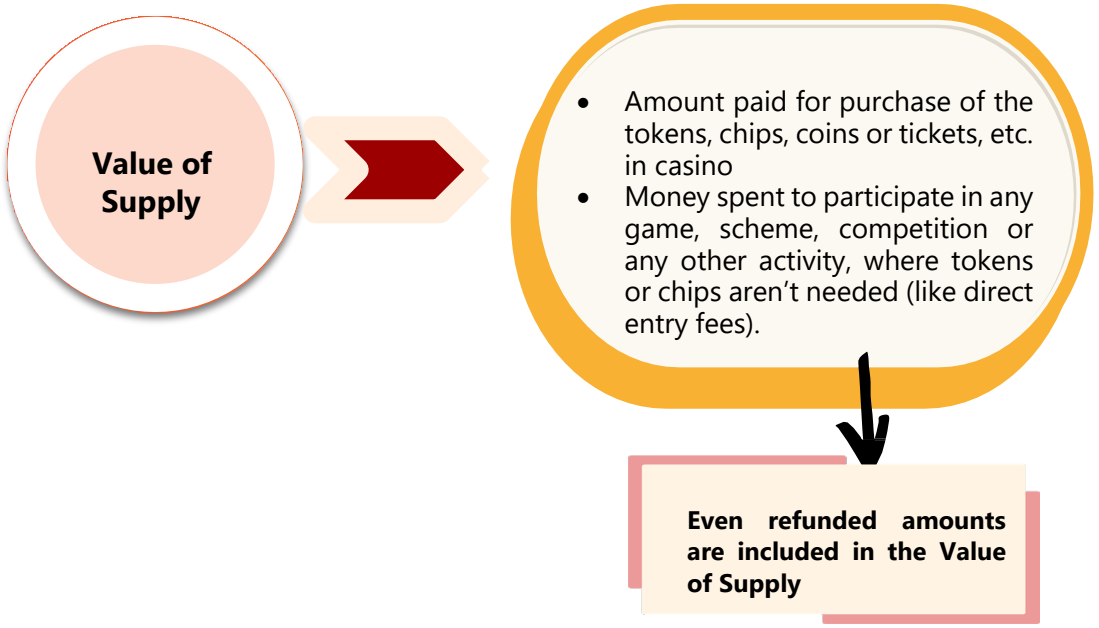


No Deductions for Refunds: If the gaming platform returns any money to the player for any reasons whatsoever (for example, if the player didn't use it in a game or for any other reason), that refunded amount does not reduce the total value computed above.

In short, any money or money's worth paid by a player to the platform counts towards the value, even if part of it is later refunded.

The provisions of this rule override the provisions of the Chapter IV: Determination of Value of Supply of the CGST Rules, 2017.

Rule 31C – Value of supply of actionable claims in casino



© The Institute of Chartered Accountants of India

When someone plays at a casino, value of supply shall be:

- Total amount paid or payable by or on behalf of the player for buying tokens, chips, coins, or tickets used for use in casino, no matter what they are called.
- Total amount paid or payable by or on behalf of the player for participating in an event, including game, scheme, competition or any other activity or process in the casino, where tokens, chips, coins or tickets aren't needed for that event.



No Deductions for Refunds: If the casino gives any money back to the player (for example, if the player returns unused tokens, coins, tickets or chips), this refund does not reduce the total value. The full amount the player paid originally is still considered for determining the value.

In short, the money a player spends at the casino, whether on tokens, chips, or events, counts as the "value" for the casino, and refunds won't reduce this amount.

The provisions of this rule override the provisions of the Chapter IV: Determination of Value of Supply of the CGST Rules, 2017.

For the purpose of rule 31B and rule 31C above, any amount received by the player by winning any event, including game, scheme, competition or any other activity or process, which is used for playing by the said player in a further event without withdrawing, shall not be considered as the amount paid to or deposited with the supplier by or on behalf of the said player.

This implies that when a player wins money or credits from a game or activity (like a casino game or an online money game) and chooses to use those winnings to play more games instead of withdrawing them, such amount is not counted as new money deposited by the player and is thus, not included in the value. So, if a player keeps reusing their winnings within the platform, those reused winnings won't add to the total amount counted as "deposited" or "paid" by the player.

© The Institute of Chartered Accountants of India

Rule 31D – Value of supply of goods on basis of retail sale price

This rule provides that notwithstanding anything contained in the provisions of this Chapter, the value of supply of notified goods (as given below), shall be deemed to be the retail sale price declared on such goods, less the amount of tax as applicable. This provision overrides all other provisions.

S. No.	Chapter / Heading / Sub-heading / Tariff item	Description of Goods
1.	2106 90 20	Pan masala
2.	2401	Unmanufactured tobacco; tobacco refuse [other than tobacco leaves]
3.	2402	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes
4.	2403	Other manufactured tobacco and manufactured tobacco substitutes; "homogenised" or "reconstituted" tobacco; tobacco extracts and essences (other than biris)
5.	2404 11 00	Products containing tobacco or reconstituted tobacco and intended for inhalation without combustion
6.	2404 19 00	Products containing tobacco or nicotine substitutes and intended for inhalation without combustion

The amount of applicable tax shall be determined in the following manner, namely: —

Tax amount = (Retail sale price X tax rate in % of applicable taxes) / (100+ sum of applicable tax rate).

© The Institute of Chartered Accountants of India

For the purposes of this rule, —

(a) "applicable tax" means IGST or CGST or SGST or UTGST as the case may be.

(b) "retail sale price" means the maximum price declared on goods at which such goods in packaged form may be sold to the ultimate consumer and includes all taxes, duties, surcharge or cess by whatever name called;

(c) where on the package of any specified goods more than one retail sale price is declared, the maximum of such retail sale price shall be deemed to be the retail sale price;

(d) where the retail sale price declared on packages of any specified goods is altered to increase the retail sale price at any stage before, during, or after the supply, such altered retail sale price shall be deemed to be the retail sale price;

(e) where different retail sale prices are declared on different packages for the sale of any specified goods above in packaged form in different areas, each such retail sale price shall be the retail sale price for the purposes of valuation of the specified goods intended to be sold in the area to which the retail sale price relates.

Rule 32 – Determination of value in respect of certain supplies



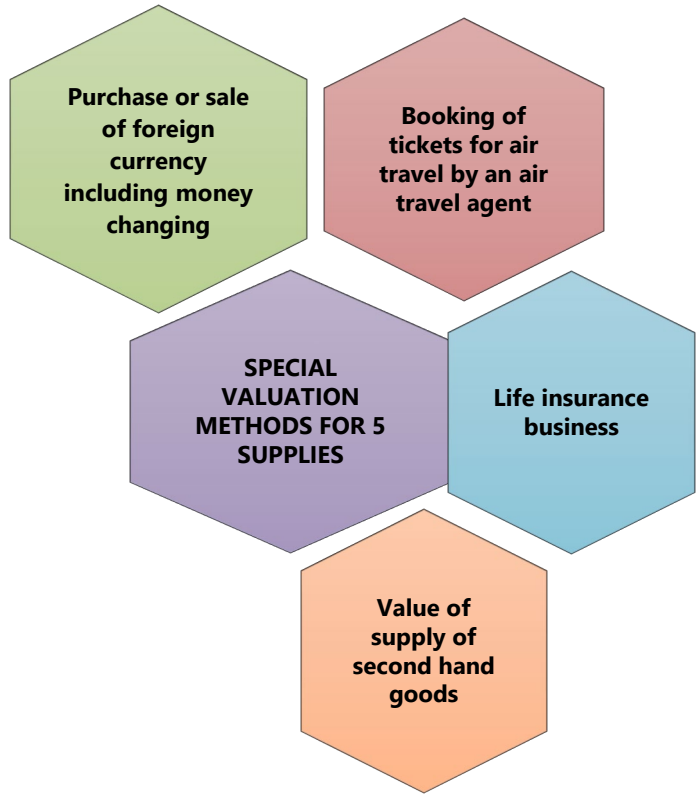
✪ ***Rule 32 provides the valuation methods for five specific supplies.***

✪ ***Rule 32 overrides other rules of valuation. Thus, the supplies prescribed in this rule need not be valued by sequentially following rules 27 to 31.***

✪ ***The valuation methods prescribed under rule 32 are optional; the supplier can use them if he so desires. He can also opt to value his supplies in accordance with other valuation rules.***

© The Institute of Chartered Accountants of India

The special provisions related to determination of value of such specific supplies are discussed below:



(i) Special provision relating to determination of value of service of purchase or sale of foreign currency including money changing [Sub-rule (2)]

The value of service in relation to purchase or sale of foreign currency, including money changing, is determined by either of the two methods:

Method-1

Case 1: Transaction where one of the currencies exchanged is Indian Rupees



The value of supply is difference between buying rate or selling rate of currency and RBI reference rate for that currency at the time of exchange multiplied by total units of foreign currency.

© The Institute of Chartered Accountants of India

However, if RBI reference rate for a currency is not available then value of supply is **1%** of the gross amount of Indian Rupees provided/ received by the person changing the money.

(29) On 10th May, Mr. Doshi converted USD $ 100 into ₹ 7,400 @ ₹ 74 per USD through Eastern Money Changers. RBI reference rate on 10th May for US $ is ₹ 75 per US $. The value of supply in this case is (₹ 75 – ₹ 74)* $ 100 = ₹ 100 and GST will be levied on this amount.

If the RBI reference rate is not available, then 1% of ₹ 7,400 i.e., ₹ 74 will be the value of supply of service.

Case 2: Transaction where neither of the currencies exchanged is Indian Rupees

The value of supply is 1% of the lesser of the two amounts the person changing the money would have received by converting (at RBI reference rate) any of the two currencies in Indian Rupees.



(30) US $ 9,000 are converted into UK £ 4,500. RBI reference rate at that time for US $ is ₹ 74 per US dollar and for UK £ is ₹ 98 per UK Pound. In this case, neither of the currencies exchanged is Indian Rupee.

Hence, in the given case, value of taxable service would be 1% of the lower of the following:-

(a) US dollar converted into Indian rupees = $ 9,000 × ₹ 74 = ₹ 6,66,000

(b) UK pound converted into Indian rupees = £ 4,500 × ₹ 98 = ₹ 4,41,000

Value of supply of service = 1% of ₹ 4,41,000 = ₹ 4,410

Method-2

The person supplying the service may also exercise the following option (based on slab rates) to ascertain the value of service, however, once opted he cannot withdraw it during the remaining part of the financial year:

© The Institute of Chartered Accountants of India

S. No.	Currency exchanged	Value of supply
1.	Upto ₹ 1,00,000	**1%** of the gross amount of currency exchanged OR **₹ 250,** whichever is higher
2.	Exceeding ₹ 1,00,000 and upto ₹ 10,00,000	**₹ 1,000 + 0.50%** of the (gross amount of currency exchanged - ₹ 1,00,000)
3.	Exceeding ₹ 10,00,000	**₹ 5,500 + 0.1%** of the (gross amount of currency exchanged - ₹ 10,00,000) OR **₹ 60,000,** whichever is lower

ILLUSTRATION 3

X Pvt. Ltd., a money changer, has exchanged US $ 10,000 to Indian rupees @ ₹ 74 per US $. X Pvt. Ltd. wants to value the supply in accordance with rule 32(2)(b) of CGST Rules.

Determine the value of supply made by X Pvt. Ltd.

ANSWER

As per rule 32(2)(b) of CGST Rules, the value in relation to the supply of foreign currency, including money changing, is deemed to be-

(i) 1% of the gross amount of currency exchanged for an amount up to ₹ 1,00,000, subject to a minimum amount of ₹ 250;

(ii) ₹ 1,000 and 0.5% of the gross amount of currency exchanged for an amount exceeding ₹ 1,00,000 and up to ₹ 10,00,000.

Therefore, the value of supply, made by X Pvt. Ltd., under rule 32(2)(b) of CGST Rules is computed as under:

© The Institute of Chartered Accountants of India

Particulars	₹	₹
Value of currency exchanged in Indian rupees [₹ 74 x US $ 10,000]	7,40,000	
Upto ₹ 1,00,000		1,000
For ₹ 6,40,000 [0.50% x ₹ 6,40,000]		3,200
Value of supply		**4,200**

(ii) Special provision relating to determination of value of service of booking of tickets for air travel by an air travel agent [Sub-rule (3)]

Value of service of booking of tickets for air travel by an air travel agent is 5% of basic fare in case of domestic travel and 10% of basic fare in case of international travel.

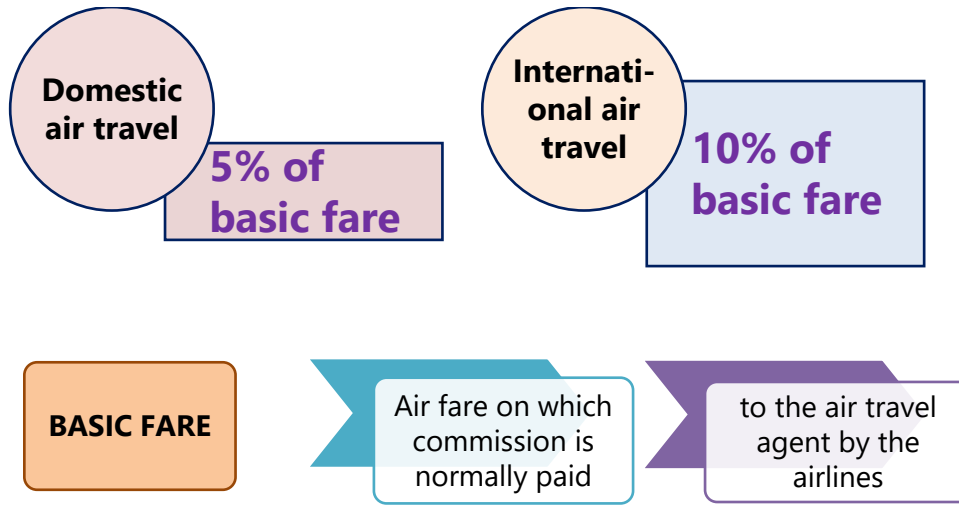


ILLUSTRATION 4

UB & Sons is an air travel agent. Compute the value of supply of service made by the firm during a month with the help of following particulars furnished by it:

© The Institute of Chartered Accountants of India

Particulars	*Basic fare (₹)*	*Other charges & fee (₹)*	*Taxes (₹)*	*Total value of tickets (₹)*
Domestic Bookings	*1,00,900*	*9,510*	*4,990*	*1,15,400*
International Bookings	*3,16,880*	*20,930*	*15,670*	*3,53,480*

ANSWER

Computation of value of supply of services made by UB & Sons in a month

Particulars	₹	₹
Basic fare in case of domestic bookings	1,00,900	
Value of supply @ 5% **[A]** Refer Note below		5,045
Basic fare in case of international bookings	3,16,880	
Value of supply @ 10% **[B]** Refer Note below		31,688
Value of supply [A] + [B] (rounded off)		**36,733**

Note:

As per rule 32(3) of CGST Rules, the value of the supply of services in relation to booking of tickets for travel by air provided by an air travel agent is 5% of the basic fare in the case of domestic bookings, and 10% of the basic fare in the case of international bookings.

(iii) Special provision relating to determination of value of service in relation to life insurance business [Sub-rule (4)]

Value of life insurance service varies with nature of insurance policy. The details are as follows:

© The Institute of Chartered Accountants of India

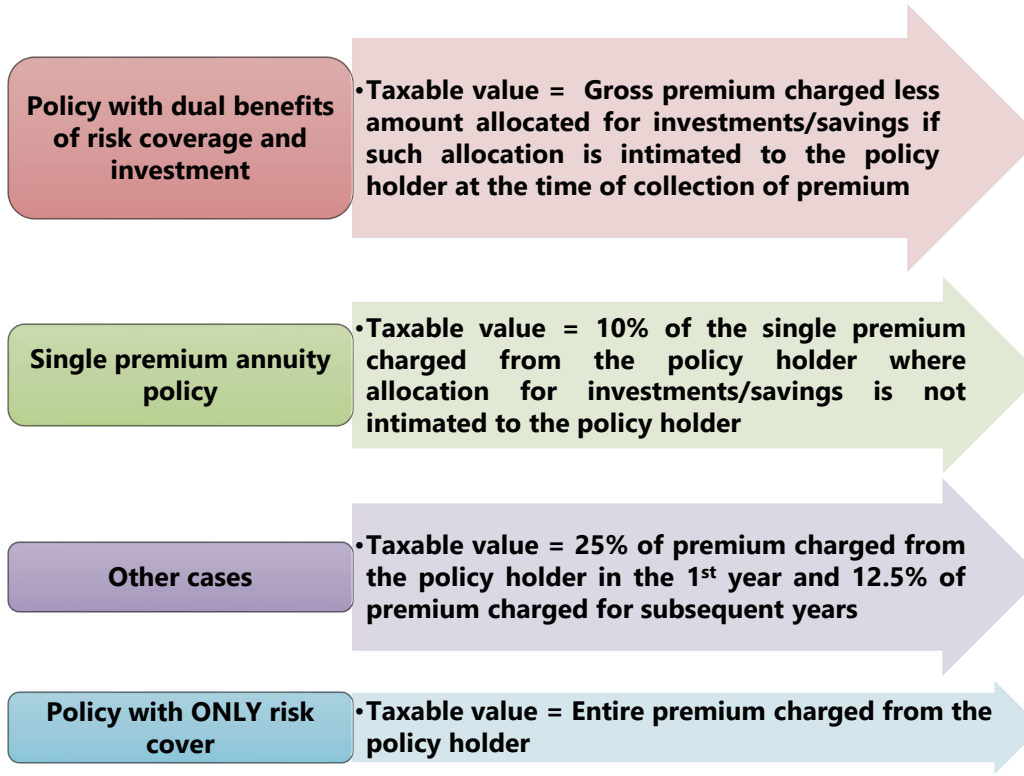


ILLUSTRATION 5

Arihant Life Insurance Company Ltd. (ALICL) has charged gross premium of ₹ 180 lakh from policy holders with respect to life insurance policies in the FY 2025-26; out of which ₹ 100 lakh have been allocated for investment on behalf of the policy holders.

Compute the value of supply of life insurance services provided by ALICL:

(i) if the amount allocated for investment has been intimated by ALICL to policy holders at the time of supply of service.

(ii) if the amount allocated for investment has not been intimated by ALICL to policy holders at the time of providing of service.

(iii) if the gross premium charged by ALICL from policy holders is only towards risk cover.

© The Institute of Chartered Accountants of India

Note: ALICL has started its operations in the FY 2025-26. Thus, the entire gross premium of ₹ 180 lakh is the premium for the first year of all the policies. ALICL has not issued any single premium annuity policy.

ANSWER

As per rule 32(4) of the CGST Rules, value of supply of services in relation to life insurance services is

(a) the gross premium reduced by the amount allocated for investment on behalf of the policy holder, if such an amount is intimated to the policy holder at the time of supply of service;



(b) in all other cases, 25% of the premium in the 1st year and 12.5% of the premium in subsequent years

However, where the entire premium paid by the policy holder is only towards risk cover, such gross premium is the value of supply of life insurance services.

In the light of the aforesaid provisions, value of supply of life insurance services provided by ALICL in financial year 2025-26 will be computed as follows:

(i) Amount allocated for investment intimated to policy holder at the time of supply of service

Value of service = ₹ (180-100) lakh = ₹ 80,00,000

(ii) Amount allocated for investment not intimated to policyholders at the time of supply of service

Value of service = 25% of ₹ 180 lakh = ₹ 45,00,000

(iii) Gross premium received is only towards risk cover

Value of service = ₹ 180 lakh

(iv) Special provision relating to determination of value of second hand goods by a dealer of second hand goods – Margin Scheme [Sub-rule (5)]

Normally GST is charged on the transaction value of the goods. However, in respect of second hand goods, a person dealing in such goods may be

© The Institute of Chartered Accountants of India

allowed to pay tax on the margin, i.e. the difference between the value at which the goods are supplied and the price at which the goods are purchased, if ITC is not availed. If there is no margin, no GST is charged for such supply.



The purpose of the margin scheme is to avoid double taxation as the goods, having once borne the incidence of tax, re-enter the supply chain.

The taxable value of supply of second hand goods, i.e. used goods as such or after such minor processing which does not change the nature of goods is the difference between the purchase price and the selling price, provided no ITC has been availed on purchase of such goods. However, if the selling price is less than purchase price, that negative value is ignored.

VALUE OF SECOND HAND GOODS

When ITC is not availed [Margin Scheme]	When ITC is availed
•Value = Selling price - Purchase price •Selling price < Purchase price ⇒ Ignore negative value •CGST on second hand goods received from unregistered supplier exempt	•Normal valuation as per other applicable provisions



(31) A company X Ltd., which deals in buying and selling of second hand cars, purchases a second hand Maruti Alto Car of March, 2015 make (Original price ₹ 5 lakh) for ₹ 3 lakh from an unregistered person. It incurs ₹ 30,000 on minor furbishing and sells the car for ₹ 3,50,000. The company does not avail any ITC. The value for GST purpose shall be ₹ 50,000, i.e. the difference between the selling and the purchase price of the company.

© The Institute of Chartered Accountants of India

✪ ***Persons who purchase second hand goods after payment of tax to supplier of such goods, are governed by this valuation rule only when they do not avail ITC on such input supply. If ITC is availed, then such supply is governed by normal GST valuation provisions.***

✪ ***Margin scheme is available only for supply of used goods by a person dealing in buying and selling of second-hand goods.***

Old and used motor vehicles[14]:



Different rates of taxes have been prescribed for old and used vehicles depending upon the size and engine capacity of such motor vehicles and value of supply in such case, when ITC is not availed, is value that represent margin of the supplier, on supply of such goods determined as follows

(i) In case of a registered person who has claimed depreciation under section 32 of the Income-Tax Act,1961on the said goods,

- Value = Consideration received - Depreciated value on the date of supply,
- Consideration < Depreciated value ⇒ Ignore negative value

(ii) In any other case

- Value= Selling price **-** Purchase price
- Selling price < Purchase price ⇒ Ignore negative value

When ITC is availed

Normal valuation as per other applicable provisions

[14] *vide Notification No. 8/2018 CT(R) dated 25.01.2018*

© The Institute of Chartered Accountants of India

Purchase value of supply of goods repossessed from a defaulting borrower

Many a times goods taken on loan are repossessed by the lender in the event of default in payment of the loan. The purchase value of such repossessed asset is-

If the defaulting borrower is un-registered	If the defaulting borrower is registered
Purchase value = Purchase price in the hands of such borrower 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	**The repossessing lender agency will discharge GST at the supply value without any reduction from actual/notional purchase value**

(v) Special provisions relating to determination of value of services provided by notified service providers between distinct persons [Sub-rule (7)]

Value of taxable services provided by notified class of service providers, without consideration, between distinct persons [as referred to in Para 2 of Schedule 1 of CGST Act], **is deemed to be NIL if ITC is available.**

No such services have been notified so far.

© The Institute of Chartered Accountants of India

Rule 33 – Value of supply of services in case of pure agent

Supply as a pure agent is an independent concept relevant for valuation. It may happen sometimes that a supplier making a supply also incurs some expense for the recipient which is not a part of the supply made by him. If such expense is incurred by the supplier as a pure agent of the recipient, it is not includible in the value of supply; if not incurred as pure agent, the same is includible in the value of supply.



Broadly speaking, a pure agent is one who 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.

While the relationship between them (provider of service and recipient of service) in respect of the main service is on a principal to principal basis, the relationship between them in respect of other ancillary services is on pure agent basis.

The concept of **'pure agent'** is identical to concept of **'Reimbursement of expenses incurred by supplier on behalf of customer'**. Since GST is on 'supply of goods or services', transactions which are not part of 'supply' will not form part of value of goods or services supplied.

However, if such expenses are part of supply of goods or services, these cannot get covered under concept of 'pure agent' or 'reimbursement of expenses incurred by supplier on behalf of buyer'.

(32) A is an importer and B is a custom broker. A approaches B for customs clearance work in respect of an import consignment. The clearance of import consignment and delivery of the consignment to A would also require taking service of a transporter. So A, also authorises B, to incur expenditure on his behalf for procuring the services of a transporter and agrees to reimburse B for the transportation cost at actuals. Here, B is providing customs brokers service to A, which would be on a principal-to-principal basis.

© The Institute of Chartered Accountants of India

The ancillary service of transportation, is procured by B on behalf of A as a pure agent and expenses incurred by B on transportation should not form part of value of customs broker service provided by B to A. This, in sum and substance is the relevance of the pure agent concept in GST.

The important thing to note is that a pure agent does not use the goods or services so procured for his own interest and this fact has to be determined from the terms of the contract.

In the illustration of importer and customs broker given above, assuming that the contract was for clearance of goods and delivery to the importer at the price agreed upon in the contract, the customs broker would be using the transport service for his own interest (as the agreement requires him to deliver the goods at the importers place) and thus, would not be considered as a pure agent for the services of transport procured.

Another important fact is that the person who provides any service as a pure agent receives only the actual amount for the services provided. Coming back to our example of importer and customs broker, the agreement provides reimbursement of transport services utilised at actuals.

In this case, let's say the value of transport service was ₹10,000/-.If the customs broker charges any amount more than ₹10,000/-, then he will not be considered as a pure agent for the services of transport and the value of transport service will be included in the value of his customs broker service.

Relevance of pure agent under GST: Expenditure/costs incurred as pure agent excluded from value of supply

Subject to fulfilment of certain conditions, the **expenditure and costs incurred by the supplier as a pure agent of the recipient of supply of service, has to be excluded from the value of supply.**

The preceding paras explained who is considered as a pure agent. The valuation rules provide that expenditure incurred as pure agent, are excluded from the value of supply, and thus, also from aggregate turnover.

However, such exclusion of expenditure incurred as pure agent is possible *only and only if all the conditions required to be considered as a pure agent and further conditions stipulated in the rules are satisfied by the supplier in each case.*

© The Institute of Chartered Accountants of India

Expenditure or costs incurred by the supplier of services ('S') as pure agent of the recipient of services ('R') is excluded from the value of supply, if all the following conditions (in addition to the conditions required to be satisfied to be considered as a pure agent) are satisfied:

- ❑ The payment arises out of a contract between 'R' and a third party, and 'S' acts as pure agent of 'R' when he makes the payment;
- ❑ 'R' authorizes 'S' to make payment on his behalf;
- ❑ 'S' shows the payment separately in the invoice issued by him to 'R';
- ❑ The supplies procured by 'S' from the third party as pure agent of 'R' are in addition to the supplies that he provides on his own account.

'Pure agent' here means a person 'S' who -



- ➔ enters into contractual agreement with 'R' to act as his pure agent to incur expenditure/costs in the course of supply of goods and /or services;
- ➔ does not hold or intends to hold any title to the goods and / or services so procured or supplied as pure agent of 'R';
- ➔ does not use for his own interest such goods or services so procured; and
- ➔ receives only the actual amount incurred to procure such goods or services (apart from the amount for the services provided on his own account)

The supplier needs to fulfil **ALL** the above conditions in order to qualify as a pure agent. In case the conditions are not satisfied, such expenditure incurred is included in the value of supply under GST.

The following illustration will make the concept clearer:

(33) Corporate services firm A is engaged to handle the legal work pertaining to the incorporation of Company B.

- ➢ Other than its service fees, A also recovers from B, registration fee and approval fee for the name of the company paid to Registrar of the Companies.

© The Institute of Chartered Accountants of India

- The fees charged by the Registrar of the Companies for registration and approval of the name are compulsorily levied on B.
- A is merely acting as a pure agent in the payment of those fees.
- Therefore, A's recovery of such expenses is a disbursement and not part of the value of supply made by A to B.

Some examples of expenditure/costs incurred as pure agent are:

(34) Port fees, port charges, custom duty, dock dues, transport charges etc. paid by customs broker on behalf of the owner of goods.

(35) Expenses incurred by C&F agent and reimbursed by principal such as freight, godown charges.

(36) Suppose a customs broker issues an invoice for reimbursement of a few expenses and for consideration towards agency service rendered to an importer. the amounts charged by the customs broker are as below:

S.No.	Component charged in invoice	Amount
1	Agency income	₹ 10,000/-
2	Traveling expenses; Hotel expenses	₹ 15,000/-
3	Customs duty	₹ 55,000/-
4	Docks dues	₹ 5000/

In the above situation, agency income and travelling/ hotel expenses shall be added for determining the value of supply by the customs broker whereas docks dues and the customs duty shall not be added to the value, provided the conditions of pure agent are satisfied.

(37) If supply contract is ex-factory, but the supplier pays freight to transporter for convenience and then recovers the same, it will not form part of 'value'.

(38) Advocate paying Court fees on behalf of client.

© The Institute of Chartered Accountants of India

The pure agent concept is very important for businesses as it has direct implications on the value of taxable supply. It has direct bearing on the amount of GST charged on a particular supply. It also has bearing on the aggregate turnover of the supplier and therefore, on calculating the threshold limit for registration.

Whenever the supplier intends to act as a pure agent, care should be taken to ensure that the conditions specified for such pure agents and other conditions given in the valuation rules are also met so that only the real value of the service provided is subjected to GST.

Taxability of airport levies collected by airlines as pure agent - *Circular No. 115/34/2019 GST dated 11.10.2019*

Services provided by an airport operator to passengers against consideration in the form of user development fee (UDF) and passenger development fee (PSF) are liable to GST[15]. PSF and UDF are collected by the airlines as an agent and is not a consideration for any service provided by the airlines. Thus, airlines is not responsible for payment of GST on UDF or PSF provided the airline satisfies the conditions prescribed for a pure agent under rule 33. It is the licensee, that is the airport operator which is liable to pay GST on UDF and PSF.

The airlines acting as pure agent of the passenger should separately indicate actual amount of PSF and UDF and GST payable on such PSF and UDF by the airport licensee, in the invoice issued by airlines to its passengers. The airline shall not take ITC of GST payable or paid on PSF and UDF. The airline would only recover the actual PSF and UDF and GST payable on such PSF and UDF by the airline operator. The amount so recovered will be excluded from the value of supplies made by the airline to its passengers.

In other words, the airline shall not be liable to pay GST on the PSF and UDF (for airport services provided by airport licensee), provided the airline satisfies the conditions prescribed for a pure agent under rule 33. The registered passengers,

---

[15] *The chargeability of USF and PSF has been explained in detail by Circular No. 115/34/2019 GST dated 11.10.2019. The same has been discussed in Chapter 2: Charge of GST of this Module of the Study Material.*

© The Institute of Chartered Accountants of India

who are the ultimate recipient of the airport services, may take ITC of GST paid on PSF and UDF on the basis of pure agent's invoice issued by the airline to them.

The collection charges paid by airport operator to airlines are a consideration for the services provided by the airlines to the airport operator (AAI, DAIL, MAIL etc) and airlines shall be liable to pay GST on the same under forward charge. ITC of the same will be available with the airport operator.

Applicability of GST on supply of electricity by the real estate companies, malls, airport operators etc., to their lessees or occupants

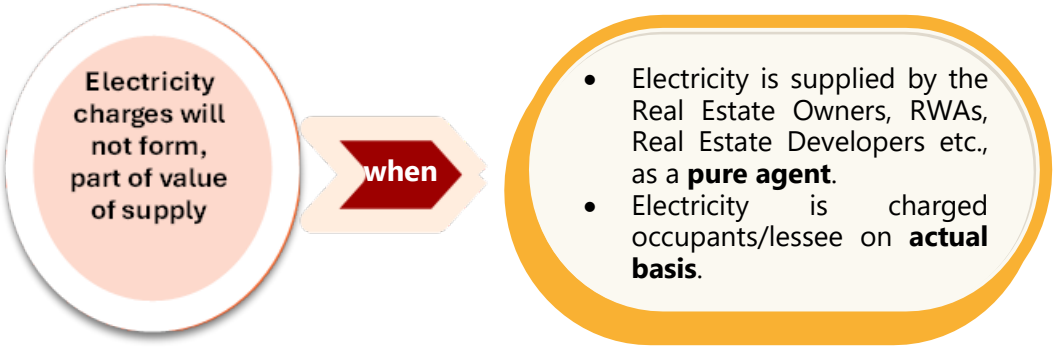
It is clarified that whenever electricity is being supplied as bundled with renting of immovable property and/or maintenance of premises, as the case may be, it forms a part of composite supply and shall be taxed accordingly. The principal supply is renting of immovable property and/or maintenance of premise, as the case may be, and the supply of electricity is an ancillary supply as the case may be. Even if electricity is billed separately, the supplies will constitute a composite supply and therefore, the rate of the principal supply i.e., GST rate on renting of immovable property and/or maintenance of premise, as the case may be, would be applicable.

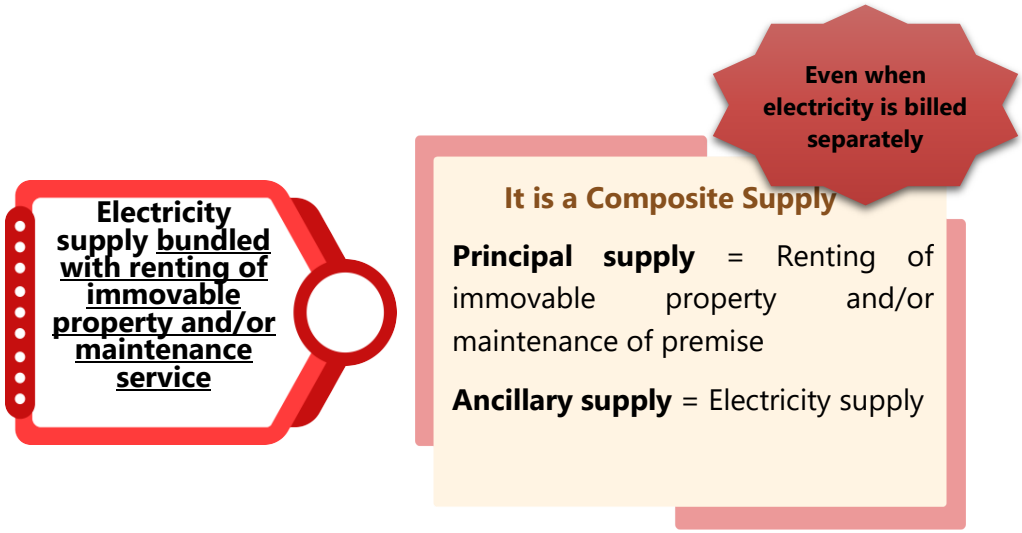


However, where the electricity is supplied by the Real Estate Owners, Resident Welfare Associations (RWAs), Real Estate Developers etc., as a pure agent, it will not form part of value of their supply. Further, where they charge for electricity on actual basis that is, they charge the same amount for electricity from their lessees or occupants as charged by the State Electricity Boards or DISCOMs from them, they will be deemed to be acting as pure agent for this supply[16].

[16] *Circular No. 206/18/2023 GST dated 31.10.2023*

© The Institute of Chartered Accountants of India





Rule 34 – Rate of exchange of currency, other than Indian rupees, for determination of value

Goods: The relevant rate of exchange for determining the value of taxable goods is the rate notified by CBIC under section 14 of the Customs Act, 1962, prevalent on the date of time of supply of said goods.

Services: The relevant rate of exchange for determining the value of taxable service is the rate determined as per GAAP, prevalent on the date of time of supply of said service.

© The Institute of Chartered Accountants of India

Rule 35 – Value of supply inclusive of integrated tax, central tax, State tax, Union territory tax

Where the value of supply is inclusive of GST, the tax amount is determined in the following manner:

Tax amount = (Value inclusive of taxes x GST rate in %) [IGST or CGST, SGST/UTGST] / (100 + sum of GST rates in %)

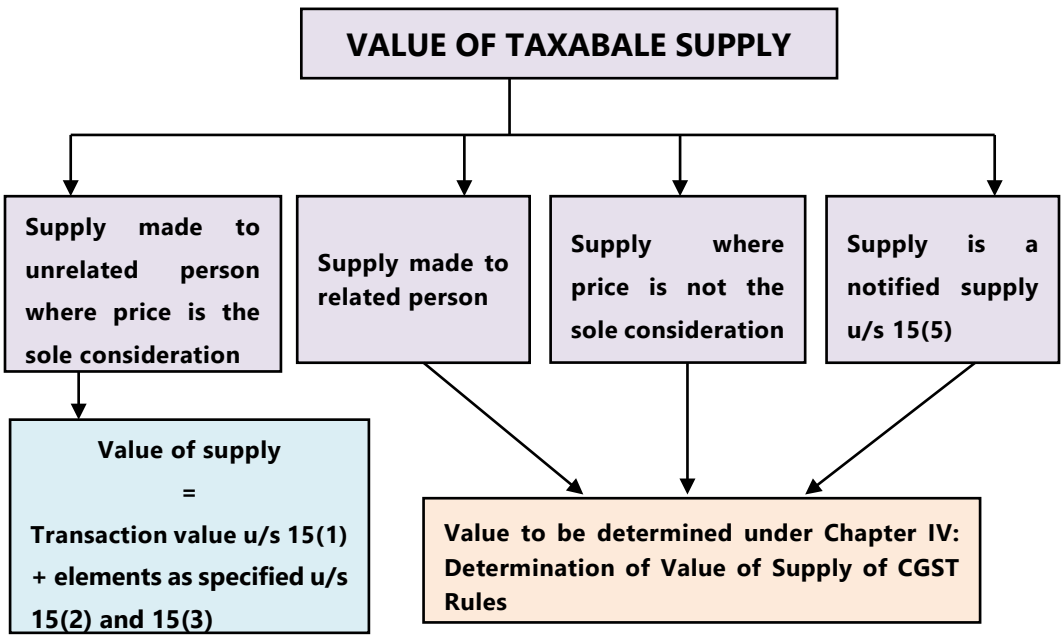


(39) If the value inclusive of tax is ₹ 100/- and applicable GST rate is 18% [IGST or CGST, SGST/UTGST] then,

Tax amount = (100x18)/(100+18)= 1800/118=₹ 15.25

© The Institute of Chartered Accountants of India

LET US RECAPITULATE



Inclusions in value u/s 15(2)

- ⇒ Taxes other than GST
- ⇒ Third party payments made by recipient in relation to supply, which supplier was liable to pay and were not included in the price
- ⇒ Incidental expenses including anything done by the supplier in respect of the supply till delivery of goods/supply of services, if charged to recipient
- ⇒ Subsidies directly linked to price of supply other than the ones given by Central/State Governments
- ⇒ Interest/late fee/penalty for delay in payment of consideration

Exclusions from value u/s 15(2)

- ⇒ Discounts given before or at the time of supply and recorded in the invoice
- ⇒ Post supply discount/incentive, if known till supply & linked to invoices and proportionate ITC reversed by the recipient on the basis of document issued by supplier

© The Institute of Chartered Accountants of India

VALUATION RULES

RULE 27: Consideration not wholly in money

Value shall be either of the following in the given order:

- open market value
- total of consideration in money + amount equal to the consideration not in money
- value of supplies of like kind and quality
- consideration in money + money value of non-monetary consideration computed as per rule 30 or 31 in that order.

RULE 28: Supply between distinct/ related persons, other than agent

Value shall be either of the following in the given order:

- open market value
- value of supplies of like kind and quality
- value as per rule 30 or 31 in that order.

♦ Option to supplier to value goods sold as such by recipient⇒Value= 90% of price charged by recipient to its unrelated customer

♦ Recipient eligible for ITC ⇒ invoice value = open market value (taxable value)

RULE 29: Supply made/received through an agent

Value shall be either of the following in the given order:

- open market value or 90% of price charged by recipient to his unrelated customer for supplies of like kind and quality;
- value as per rule 30 or 31 in that order.

RULE 30: Value based on cost

Value shall be 110% of cost of production/ acquisition/ provision of goods or services

RULE 31: Residual method (Best Judgement Method)

Value shall be determined using reasonable means consistent with the principles and general provisions of section 15 & valuation rules. For services, rule 31 can be adopted before rule 30.

© The Institute of Chartered Accountants of India

RULE 31A: Value of supply of lottery, chance to win in betting/ gambling/ horse racing in race club

Lottery organised by State Government - ***100/140*** of the face value of ticket OR ***100/140*** of the price as notified in the Official Gazette by the organising State, whichever is higher

Actionable claim in form of chance to win in betting, gambling or horse racing in a race club - 100% of the face value of the bet or the amount paid into the totalisator

Organising State - State Government which conducts the lottery either within the State or outside the State

RULE 31B: Value of supply in case of online gaming including online money gaming

= Total amount paid or payable to or deposited with the supplier by way of money or money's worth, including virtual digital assets, by or on behalf of the player.

Any amount returned/refunded to player including player not using the amount paid/deposited with supplier for participating in any event, shall not be deductible from the value of supply of online money gaming.

RULE 31C: Value of supply of actionable claims in case of casino

= Total amount paid or payable by or on behalf of the player for:

(i) purchase of tokens, chips, etc., for use in casino; or

(ii) participating in any event, including game, scheme, etc., in the casino, in cases where the tokens, chips, etc., are not required.

Any amount returned/refunded by the casino to the player on return of token, coins, chips, or tickets, or otherwise, shall not be deductible from the value of the supply of actionable claims in casino.

RULE 31D: Value of supply of specified goods on basis of retail sale price

For specified pan masala and tobacco products, the value of supply

= Retail Sale Price (RSP) declared on the goods – applicable tax.

Tax = RSP × Tax rate ÷ (100 + applicable tax rate)

where "applicable tax" means IGST or CGST or SGST or UTGST as the case may be.

© The Institute of Chartered Accountants of India

RULE 32: Value in respect of certain specific supplies

⇒ **Purchase/sale of foreign currency:**

1st method:

Value = [Buying/Selling rate - RBI reference rate at that time] x total units of currency. If no RBI reference rate, value = 1% of INR received/provided. If the currencies exchanged are not in INR, value = lesser of the 2 amounts that would have been received by converting any of currencies into INR at RBI reference rate

OR 2nd method

Currency	Value
Upto ₹ 1,00,000	1% or ₹ 250 whichever is higher
From ₹1,00,001 to ₹ 10,00,000	₹ 1,000 + 0.5%
From ₹ 10,00,001	₹ 5,500 + 0.1% subject to maximum of ₹ 60,000

⇒ **Booking of tickets by air travel agent:** Value = 5% of basic fare for domestic bookings and 10% of the basic fare for international bookings.

⇒ **Life insurance business:** If amount allocated for investment is intimated - Value = Gross premium less amount allocated for investment;
Single premium annuity policies where amount allocated for investment is not intimated - Value = 10% of single premium;
Other cases – Value = 25% of premium in 1st year and 12.5% of premium in subsequent years;
Policy only towards risk cover – Value = Entire premium

⇒ **Buying & selling of second hand goods:** Value = Selling price – Buying price (ignore if value is negative); Purchase value of goods repossessed from unregistered borrower = Purchase price- 5% per quarter or part thereof from date of purchase till the date of disposal by the person making repossession

⇒ **Notified services between distinct persons without consideration:** Value = Nil, if ITC is available

RULE 33: Supply as a pure agent

Costs incurred by the supplier as a pure agent of recipient shall be excluded from value

RULE 34: Rate of exchange for determination of value

Goods = Rate notified by CBIC under Customs Act on the date of time of supply of such goods;
Services = Rate as per GAAP on the date of time of supply of such services

Rule 35: Value inclusive of taxes

Where value of supply is inclusive of CGST, SGST/UTGST or IGST, the tax amount is calculated by making back calculations.

Tax amount = (Value inclusive of GST x GST rate in % of IGST or CGST, SGST/UTGST)/100 + sum of applicable GST rates in %)

© The Institute of Chartered Accountants of India



TEST YOUR KNOWLEDGE

1. *Income tax collected at source should be included in value of the supply in terms of section 15(2)(a). Examine the correctness of the statement.*

2. *How should the supply made by a component manufacturer be valued, when he uses moulds and dies owned by the original equipment manufacturer sent free of cost to him? Explain.*

3. *Examine whether the following discounts ought to be excluded to determine the value of supply:*

   (i) Company offering 20% discount for single purchase above ₹ 10,000

   (ii) Company offering additional discount of 1% on purchase of 10,000 pieces in a year

4. *Rajesh & Co., a partnership firm, provides financial and management consultancy to a group of companies for an annual retainership fee of ₹ 15 lakh. Further, the firm is provided with a car (along with a driver) for its exclusive use throughout the year. The fuel cost is also borne by the Group. Rajesh & Co. pays GST on the amount of ₹ 15 lakh.*

   Is the value for the service provided by Rajesh & Co. correct under GST law? If not, please elaborate.

5. *The supplies of commodity 'y' to the market are channelled through a State Marketing Corporation which conducts an auction each day to arrive at the price. Gupta and Co. supplies commodity 'y' through the State Marketing Corporation.*

   How will the supply of 'y' made by Gupta and Co. to State Marketing Corporation be valued for paying tax?

6. *A pharmaceutical company supplies a drug intermediate to its own unit in another State for conversion into formulations. The drug intermediate is exclusive to this company, and there is no market sale in India of this drug intermediate. Goods of like kind and quality are also not available. After conversion, the finished product is sold from the said unit itself by the company.*

© The Institute of Chartered Accountants of India

How will the value of the supply of this drug intermediate be determined under GST law?

7. *Dushyant rents out a commercial building owned by him to Bharat for the month of December, for which he charges a rent of ₹ 19,50,000. Dushyant pays the maintenance charges of ₹ 1,00,000 (for the December month) as charged by the local society. These charges have been reimbursed to him by Bharat. Also, Dushyant has paid municipal tax of ₹ 2,85,000 which he has not charged from Bharat.*

You are required to determine the value of supply and the GST liability of Dushyant for the month of December assuming CGST and SGST rates to be 9% each.

Note: All the amounts given above are exclusive of GST.

8. *Vayu Ltd. provides you the following particulars relating to goods supplied by it to Agni Ltd.:*

Particulars	***Amount (₹)***
List price of the goods (exclusive of taxes/duties and discounts)	*76,000*
Special packing at the request of customer to be charged to the customer	*5,000*
Duty levied by local authority on the sale of such goods	*4,000*
CGST and SGST charged separately in invoice	*14,400*
Price linked subsidy received from an NGO in relation to the goods sold (The price of ₹ 76,000 given above is after considering the subsidy)	*5,000*

Vayu Ltd. offers 3% discount on the list price of the goods which is recorded in the invoice for the goods.

Determine the value of taxable supplies made by Vayu Ltd.

© The Institute of Chartered Accountants of India

9. *Fortune 365 is an online money gaming platform operating from UAE. It provides its users a platform to play and win money in different games that are available on its portal.*

In the month of December, Player A, an unregistered person located in India, deposited an amount of ₹ 15,000 (inclusive of GST) in the master wallet available on the portal of Fortune 365. Subsequently, following transactions were undertaken by Player A in said month:

i. Player A utilized the amount of ₹ 2,000 from the master wallet towards playing a virtual racing game on the portal. As a winning amount, ₹ 15,000 was credited to the master wallet of Player A.

ii. On another portal operated by Fortune 365 in the name of Bet 180, Player A placed a bet of face value of ₹ 11,000 on an international wrestling match. The amount of such bet was paid by the master wallet of Player A. However, he lost the bet and hence the bet amount of ₹ 11,000 with applicable taxes was transferred from the master wallet to the bank account of Bet 180.

iii. Player A transferred the balance amount from the master wallet to his bank account after the aforesaid transactions. Assume all the above transactions to be exclusive of GST unless otherwise specified.

iv. Rate of GST applicable is 40% (Please ignore the bifurcation of GST amount into CGST, SGST and IGST.)

Based on the information provided above, answer the following questions, providing brief reasons:

(1) Compute the total GST payable on the aforesaid given transactions.

(2) Determine the net amount transferred by Player A to his bank account after the aforesaid transactions.

(3) Ascertain whether Fortune 365 is required to obtain registration under GST in India. Will your answer be different if Player A is registered under GST in India?

10. *Prada Forex Private Limited, registered in Delhi, is a money changer. It has undertaken the following purchase and sale of foreign currency:*

(i) 1,000 US $ are purchased from Nandi Enterprises at the rate of ₹ 74 per US $. RBI reference rate for US $ on that day is ₹ 74.60.

© The Institute of Chartered Accountants of India

(ii) 2,000 US $ are sold to Menavati at the rate of ₹ 74.50 per US$. RBI reference rate for US $ for that day is not available.

Determine the value of supply in each of the above cases in terms of rule 32(2)(a) and rule 32(2)(b).

11. *Rolly Polly Manufacturers Ltd., registered in Mumbai (Maharashtra), is a manufacturer of footwear. It imports a footwear making machine from USA. Rolly Polly Manufacturers Ltd. enters into a contract with Rudra Logistics, a licensed customs broker with its office at Ahmedabad (Gujarat), to meet all the legal formalities in getting the said machine cleared from the customs station.*

Apart from this, Rolly Polly Manufacturers Ltd. authorises Rudra Logistics to incur, on its behalf, the expenses in relation to clearance of the imported machine from the customs station and bringing the same to the warehouse of Rolly Polly Manufacturers Ltd. which shall be reimbursed by Rolly Polly Manufacturers Ltd. to Rudra Logistics on the actual basis in addition to agency charges.

Rudra Logistics provided following details in the invoice issued by it to Rolly Manufacturers Ltd.:

S. No.	***Particulars***	***Amount (₹)***
(i)	*Agency charges*	*5,00,000*
(ii)	*Unloading of machine at Kandla port, Gujarat*	*50,000*
(iii)	*Charges for transportation of machine from Kandla port, Gujarat to its Rudra Logistics' godown in Ahmedabad, Gujarat*	*25,000*
(iv)	*Charges for transportation of machine from Rudra Logistics' Ahmedabad godown to the warehouse of Rolly Polly Export Import House in Mumbai, Maharashtra*	*28,000*
(v)	*Prepared and submitted Bill of Entry and paid customs duty*	*5,00,000*

© The Institute of Chartered Accountants of India

(vi)	*Dock dues paid*	*50,000*
(vii)	*Port charges paid*	*50,000*
(viii)	*Hotel expenses*	*45,000*
(ix)	*Travelling expenses*	*50,000*
(x)	*Telephone expenses*	*2,000*

Compute the value of supply made by Rudra Logistics with the help of given information.

Would your answer be different if Rudra Logistics has charged ₹ 13,00,000 as a lump sum consideration for getting the imported machine cleared from the customs station and bringing the same to the warehouse of Rolly Polly Manufacturers Ltd.?

12. *Rustagi & Co. manufactures customized products at its unit situated and registered in Madhya Pradesh. Cost of production of 1,000 products for Rustagi & Co. is ₹ 20,00,000.*

These products require further processing before sale, and for this purpose products are transferred from its Madhya Pradesh unit to its another unit situated and registered in Himachal Pradesh. The value declared on the invoice for such transfer is the cost of production of such products.

The Himachal Pradesh unit, apart from processing its own products, engages in processing of similar products of other persons who supply the products of the same kind and quality. Thereafter, the Himachal Pradesh unit sells these processed products to wholesalers. There are no other factories in the neighbouring area which are engaged in the same business as that of Himachal Pradesh unit.

1,000 units of the products of same kind and quality are supplied to Himachal Pradesh unit, at the time when goods are sent by Madhya Pradesh unit, by another manufacturer located in Himachal Pradesh.

The ex-factory price of such goods is ₹ 19,00,000. The Himachal Pradesh unit of Rustagi & Co. is eligible for full ITC.

© The Institute of Chartered Accountants of India

Determine the value of 1000 products supplied by Rustagi & Co. to its Himachal Pradesh unit.

13. *Dev Enterprises is the supplier of water coolers. Dev Enterprises supplied water coolers to an unrelated party, Vimal Traders for consideration of ₹ 2,95,000 (inclusive of GST @ 18%). Vimal Traders also gave some materials to Dev Enterprises [valuing ₹ 10,000 (exclusive of GST)] as an additional consideration for such supply.*

    At the same time, Dev Enterprises has supplied the same goods to another unrelated person at price of ₹ 2,97,360 (inclusive of GST@18%).

    You are required to:

    (1) Determine the value of goods supplied by Dev Enterprises to Vimal Traders.

    (2) What would your answer be if price of ₹ 2,97,360 is not available at the time of supply of goods to Vimal Traders? Explain briefly.

14. *Chirayu Life Insurance Company Limited (CLICL) has collected premium from policy subscribers. It does not intimate the amount allocated for investment to subscribers of the policy at the time of supply of insurance services. The company has provided the following details in relation to its receipts:*

Sl. No.	***Particulars***	***Amount***
1.	*Premium for only risk cover*	*25,00,000*
2.	*Premium from new policy subscribers*	*40,00,000*
3.	*Renewal premium*	*80,00,000*
4.	*Single premium on annuity policy*	*1,00,00,000*

    All amounts are exclusive of tax. You are required to compute the value of supply by CLICL in terms of rule 32(4).

15. *Aviant Ltd., registered in Noida (Uttar Pradesh), is a supplier of machinery used for making bottle caps. The supply of machinery is effected as under:*

    – *The wholesale price of the machinery (excluding all taxes and other expenses) at which it is supplied in the ordinary course of the business to various customers is ₹ 42,00,000.*

© The Institute of Chartered Accountants of India

However, the actual price at which the machinery is supplied to an individual customer varies within a range of ± 10% depending upon the terms of contract of supply with the particular customer.

- *Apart from the price of the machinery, Aviant Ltd. charges from the customer the following incidental expenses:*
  - *associated handling and loading charges of ₹ 10,000*
  - *installation and commissioning charges of ₹ 1,00,000*
- *The machinery can be dismantled and erected at another site, if required. The above charges are compulsorily levied in case of each supply of machinery.*
- *Transportation of machinery to the customer's premises is arranged by Aviant Ltd. through a third-party service provider [Goods Transport Agency (GTA)].*

  The customer enters into a separate service contract with the GTA and pays the freight directly to it.
- *A cash discount of 2% on the price of the machinery is offered at the time of supply, if the customer agrees to make the payment within 15 days of the receipt of the machinery at his premises.*

  In the event of failure to make the payment within the stipulated time, the company-
  - *recovers the discount given at the time of receiving payment from the customer (no separate amount of GST is recovered); and*
  - *charges simple interest @ 1% per month or part of the month (no separate amount of GST is recovered) on the total amount due from the customer (towards the machinery supplied) from the date of making the supply till the date of payment. However, no interest is charged on the tax dues.*
- *For every machinery supplied, Aviant Ltd. receives a price linked subsidy of ₹ 2,00,000 from its holding company Diligent Ltd.*

© The Institute of Chartered Accountants of India

Aviant Ltd. has supplied a machinery to an unrelated party, Daffodil Pvt. Ltd. on 29th August at a price of ₹40,00,000 (excluding all taxes). Invoice was issued on 29th August by Aviant Ltd.

The corporate office of Daffodil Ltd., which is at New Delhi, has entered into contract with Aviant Ltd. for supply of machinery. However, the machinery has been installed at Daffodil Pvt. Ltd's registered manufacturing unit located in Gurugram (Haryana). Daffodil Pvt. Ltd. has paid the freight directly to the GTA.

Discount @ 2% on the price of machinery excluding taxes was given to Daffodil Pvt. Ltd. as it agreed to make the payment within 15 days. However, Daffodil Pvt. Ltd. paid the consideration on 30th September.

Assume the rates of taxes to be as under:

Bottle cap making machine		
CGST – 6%	*SGST – 6%*	*IGST – 12%*
Service of transportation of goods		
CGST – 2.5%	*SGST – 2.5%*	*IGST – 5%*
Other services involved in the above supply		
CGST – 9%	*SGST – 9%*	*IGST – 18%*

Calculate the GST liability [CGST, SGST or IGST, as the case may be] with respect to the supply of machinery and support your conclusions with legal provisions in the form of explanatory notes.

Make suitable assumptions, wherever needed.

ANSWERS

1. The statement is not correct. CBIC vide *Circular No. 76/50/2018 GST dated 31.12.2018* (amended vide corrigendum dated 7.03.2019) has clarified that for the purpose of determination of value of supply under GST, tax collected at source (TCS) under the provisions of the Income Tax Act, 1961 would not be includible as it is an interim levy not having the character of tax.

2. *Circular No. 47/21/2018 GST dated 08.06.2018* has clarified that while calculating the value of the supply made by the component manufacturer

© The Institute of Chartered Accountants of India

using moulds and dies owned by Original Equipment Manufacturers (OEM) sent free of cost (FOC) to him, the value of such moulds and dies shall not be added to the value of supply made by him 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).

However, 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 amortised cost of such moulds/dies shall be added to the value of the components.

3. (i) The given case is a case of staggered discounts where rate of discount increases with increase in purchase volume. Such discounts are shown on the invoice itself. Therefore, the same are excluded to determine the value of supply.

(ii) The given case is a case of volume discount which are offered by the suppliers to their stockists, etc. Such discounts are established in terms of an agreement entered into at or before the time of supply which can be specifically linked to the relevant invoices though 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. Such type of volume discounts are excluded/deducted to determine the value of supply provided they satisfy the parameters laid down in section 15(3) including the reversal of ITC by the recipient of the supply as is attributable to the discount on the basis of document (s) issued by the supplier.

4. Rajesh & Co. gets a car along with driver (including the fuel) for the whole year, which is an additional non-monetary consideration for its services. Here, the value of supply must first be determined as the Open Market Value of the consultancy services under Rule 27(a). Only if such Open Market Value is not ascertainable, then the equivalent monetary value of such additional consideration must be added to the retainership fee (₹ 15 lakh) in order to arrive at the value of the taxable service provided by Rajesh & Co, as per Rule 27(b) relating to valuation.

5. The State Marketing Corporation is an 'agent' in the meaning of the expression as defined in section 2(5), which includes an auctioneer.

© The Institute of Chartered Accountants of India

Therefore, the value of supply of 'y' will be determined in terms of rule 29 relating to valuation.

There is no open market for the first supply of commodity 'y', as it is compulsorily supplied to the State Marketing Corporation. However, Gupta & Co. has the option of valuing the supply of 'y' at 90% of price of goods of like kind and quality sold by the State Marketing Corporation to its unrelated customers.

If the value cannot be determined by this method, it needs to be determined on the basis of the cost plus 10% mark up as per rule 30 or on the basis of Best Judgement Method as per rule 31, in that order.

6. Since the supply is made to a distinct person, the same will be valued in accordance with rule 28 relating to valuation.

There is no open market value of the drug intermediate as also there are no like goods. Therefore, value of supply of such drug intermediate will be determined in terms of clause (c) of rule 28 i.e., by using rule 30. Thus, the value of supply of such drug intermediate will be 110% of its cost of production or manufacture.

However, if the recipient unit is eligible for full ITC, the value declared in the invoice by the supplier will be deemed to be the open market value of the drug intermediate and thus, the invoice value will be the value of taxable supply.

7. Computation of the value of supply and the GST liability of Dushyant for the month of December

Particulars	**Amount (₹)**
Rent of the commercial buiding	19,50,000
Maintenance charges paid to the local society, reimbursed by Bharat [Note 1]	1,00,000
Municipal tax paid by Dushyant [Note 2]	Nil
Value of supply	**20,50,000**
CGST @ 9%	**1,84,500**
SGST @ 9%	**1,84,500**

© The Institute of Chartered Accountants of India

Notes:

(1) Since such charges are reimbursed by the tenant (Bharat), such charges ultimately form part of the rent paid by Bharat to Dushyant and thus, form part of the value as per section 15(2)(c).

(2) Since municipal tax is paid by the supplier (Dushyant) and not charged to the recipient, the same is not includible in the value.

8. Computation of value of taxable supplies by Vayu Ltd.

Particulars	**₹**
List price of the goods	76,000
Add: Special packing [Note 1]	5,000
Duty levied by local authority on sale of goods [Note 2]	4,000
CGST and SGST charged [Note 2]	-
Subsidy received from an NGO [Note 3]	5,000
Less: Discount offered = 3% of List price = ₹ 76,000 × 3% [Note-4]	(2,280)
Value of taxable supplies	**87,720**

Notes:

1. Being incidental expenses charged by the supplier to the recipient of supply, packing charges are includible in the value as per section 15(2)(c).

2. Taxes, duties, etc. levied under any law for the time being in force other than CGST, SGST/UTGST, IGST are includible in the value as per section 15(2)(a).

3. Subsidy directly linked to the price received from a non-Government body is includible in the value in terms of section 15(2)(e).

4. Since discount is known at the time of supply, it is deductible from the value in terms of section 15(3)(a).

© The Institute of Chartered Accountants of India

9. The value of online money gaming related supply shall be determined as per rule 31B. As per said rule, the value of supply of online gaming, including supply of actionable claims involved in online money gaming, shall be the total amount paid or payable to or deposited with the supplier by way of money or money's worth, including virtual digital assets, by or on behalf of the player.

Further, rule 31A provides the manner of determining the value of supply of actionable claim in the form of chance to win in betting. The value for such supply shall be 100% of the face value of the bet.

In accordance with the above provisions:

(1) Total GST payable on given transactions is as follows:

(i) Value of supply of online money gaming = Total amount deposited with the supplier by the player in terms of rule 31B

= Initial deposit of ₹ 15,000 (inclusive of GST) by Player A with Fortune 365 after excluding GST= ₹ 10,714 (₹ 15,000 × 100/140)

GST payable = ₹ 10,714 × 40% = ₹ 4,286 **– [A]**

(ii) Value of supply of online bet = 100% of the face value of the bet in terms of rule 31A = ₹ 11,000

GST payable = ₹ 11,000 × 40% = ₹ 4,400 **– [B]**

Total amount of GST that would be collected by the Government on the given transactions = [A] + [B] = 8,686 (rounded off)

(2) Total amount transferred by Player A to his bank account from the master wallet is as follows:

Particulars	**Amount (₹)**
Initial Deposit	15,000
Less – GST on deposit	4,286
Less – Payment for virtual racing game	2,000
Add – Winning from virtual racing game	15,000

© The Institute of Chartered Accountants of India

Less – Payment for bet placed on Bet 180	11,000
Less – GST on the bet place on Bet 180	4,400
Net balance available for transfer	**8,314**

(3) As per section 24(xia), every person supplying online money gaming from a place outside India to a person in India shall be required to obtain registration on a mandatory basis in India. Accordingly, Fortune 365 being a supplier of online money gaming operating from UAE and supplying services in India shall be liable to obtain registration compulsorily in India. The answer will not change irrespective of the fact that Player A is registered under GST in India or not.

10. Rule 32(2) prescribes the provisions for determining the value of supply of services in relation to the purchase or sale of foreign currency, including money changing.

Determination of value under rule 32(2)(a)

(i) Value of supply of services for a currency, when exchanged from, or to, Indian Rupees, 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. Thus, value of supply is:

= (RBI reference for US $ - Buying rate of US $) × Total number of units of US $ bought

= (74.6 – 74) × 1,000 = ₹ 600/-

(ii) When 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. Thus, value of supply is:

= 1% of the gross amount of Indian Rupees received

= 1% of (74.50 × 2,000) = ₹ 1,490/-

© The Institute of Chartered Accountants of India

Determination of value under rule 32(2)(b)

Rule 32(2)(b) provides that value in relation to the supply of foreign currency, including money changing shall be deemed to be –

S. No.	Currency exchanged	Value of supply
1.	Upto₹ 1,00,000	**1%** of the gross amount of currency exchanged **OR** **₹ 250** whichever is higher
2.	Exceeding ₹ 1,00,000 and upto₹ 10,00,000	**₹ 1,000 + 0.50%** of the (gross amount of currency exchanged - 1,00,000)
3.	Exceeding ₹ 10,00,000	**₹ 5,500 + 0.1%** of the (gross amount of currency exchanged - 10,00,000) **OR** **₹ 60,000** whichever is lower

Thus, the value of supply in the given cases would be computed as under:

(i) Gross amount of currency exchanged = ₹ 74 × 1,000 = ₹ 74,000.

Since the gross amount of currency exchanged is less than ₹ 1,00,000, value of supply is 1% of the gross amount of currency exchanged i.e. 1% of ₹ 74,000 or ₹ 250, whichever is higher, i.e. = ₹ 740/-

(ii) Gross amount of currency exchanged = ₹ 74.50 × 2,000 = ₹ 1,49,000.

Since the gross amount of currency exchanged exceeds ₹ 1,00,000 but is less than ₹ 10,00,000, value of supply is ₹ 1,000 + 0.50% of (₹ 1,49,000 - ₹ 1,00,000), i.e. = ₹ 1,245/-

11. As per explanation to rule 33, a **"**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 supplied as pure agent of the recipient of supply;

© The Institute of Chartered Accountants of India

(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 in addition to the amount received for supply he provides on his own account.

The supplier needs to fulfil **all** the above conditions in order to qualify as a pure agent.

In the given case, Rudra Logistics has entered into a contractual agreement with recipient of supply, Rolly Polly Manufacturers Ltd., to incur, on behalf of such recipient, the **expenses mentioned in S. No. (ii) to (vii)** incurred in relation to clearance of the imported machine from the customs station and bringing the same to the warehouse of the recipient. Further, Rudra Logistics does not hold any title to said services and does not use them for his own interest.

Lastly, Rudra Logistics receives only the actual amount incurred to procure such services in addition to agency charges. Thus, Rudra Logistics qualifies as a pure agent.

Further, rule 33 stipulates that notwithstanding anything contained in the provisions of Chapter IV – Determination of Value of supply, 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, if all the following conditions are satisfied, namely-

(I) the supplier acts as a pure agent of the recipient of the supply, when he makes the payment to the third party on authorisation by such recipient;

(II) the 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; and

(III) the 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.

© The Institute of Chartered Accountants of India

Since conditions (I) to (III) mentioned above are satisfied in the given case, expenses (ii) to (vii) incurred by Rudra Logistics as a pure agent of Rolly Polly Manufacturers Ltd. shall be excluded from the value of supply.

Accordingly, value of supply made by Rudra Logistics is as follows:

Particulars	**Amount (₹)**
Agency charges	5,00,000
Add: Unloading of machine at Kandla port, Gujarat	Nil
Charges for transport of machine from Kandla port, Gujarat to its godown in Ahmedabad, Gujarat	Nil
Charges for transport of machine from Rudra Logistics' Ahmedabad godown to the warehouse of Rolly Polly Export Import House in Mumbai, Maharashtra	Nil
Customs duty	Nil
Dock charges	Nil
Port charges	Nil
Hotel expenses	45,000
Travelling expenses	50,000
Telephone expenses	2,000
Value of supply	**5,97,000**

Yes, the answer would be different. If an un-itemized lump sum of ₹13,00,000 is charged, the entire amount becomes taxable. This is because Rule 33(II) strictly requires pure agent expenses to be separately and distinctly indicated on the invoice; a lump-sum charge fails this condition, thereby disqualifying all exclusions.

12. As per section 25(4), a person who 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

© The Institute of Chartered Accountants of India

treated as distinct persons for the purposes of this Act. Therefore, units of Rustagi & Co. in Madhya Pradesh and Himachal Pradesh are distinct persons under GST.

As per rule 28, the value of the supply of goods between distinct persons, other than where the supply is made through an agent, shall –

(a) be the open market value of such supply;

(b) if open market value is not available, be the value of supply of goods of like kind and quality;

(c) if value cannot be determined under the above methods, be cost of the supply plus 10% mark-up or be determined by other reasonable means, in that sequence.

Rule 28 also provides 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 for the supply of goods of like kind and quality by the recipient to his customer not being a related person.

Further, rule 28 provides that where the recipient is eligible for full input tax credit, the value declared in the invoice by the supplier shall be deemed to be the open market value of the goods or services.

In the given case, the option of valuing the goods @ 90% of the price charged by the recipient to his unrelated customer is not available as the goods are not further supplied 'as such' but only after processing at Himachal Pradesh unit. However, since the Himachal Pradesh unit is eligible for full ITC, the value declared by the Madhya Pradesh unit in the invoice for transfer of such products, i.e. ₹ 20,00,000 shall be deemed to be the open market value of the products.

Thus, the value of 1000 products supplied by Rustagi & Co. to its Himachal Pradesh unit in terms of rule 28 is the open market value of such products which is ₹ 20,00,000.

13. **(1)** In the given case, price is not the sole consideration for the supply. Apart from monetary consideration, the buyer has given some material to the supplier as consideration for such supply. Hence, the value of the supply cannot be determined on the basis of the transaction value in terms of section 15(1).

© The Institute of Chartered Accountants of India

Here, the value will be determined with the help of rule 27 which specifies that where the consideration for a supply is not wholly in money, the value will be the open market value.

Open market value of a supply means the full value in money, excluding the applicable GST, where the supplier and the recipient of the supply are not related and the price is the sole consideration, to obtain such supply at the same time when the supply being valued is made.

Therefore, in the given case, the open market value of the goods supplied is ₹ 2,52,000 (₹ 2,97,360 x 100/118) and is therefore, the value of such goods.

(2) Rule 27 further provides that if open market value of the supply is not known, the value of the supply will be the consideration in money plus the money equivalent to the non-monetary consideration, if such amount is known at the time of supply.

Therefore, the value in the given case will be ₹ 2,50,000 (₹ 2,95,000 x 100/118) + ₹ 10,000, which is ₹ 2,60,000.

Note: Further ₹ 1,800 tax is required to be collected from Vimal Traders by Dev Enterprises with respect to the additional consideration of ₹ 10,000.

14. As per rule 32(4), the value of supply of services in relation to life insurance business, when the amount allocated for investment/ savings on behalf of the policy holder is not intimated to the policy holder at the time of supply of service, is-

(i) in case of single premium annuity policies,10% of single premium charged from the policy holder;

(ii) in all other cases, 25% of the premium charged from the policy holder in the first year and 12.5% of the premium charged from the policy holder in subsequent years;

(iii) in case the entire premium paid by the policy holder is only towards the risk cover in life insurance, the premium so paid.

Therefore, in the given case, the value of the services provided by CLICL will be computed as under:

© The Institute of Chartered Accountants of India

Computation of value of supply for CLICL

Particulars	**Amount (₹)**
Premium for only risk cover	25,00,000
Premium from new policy subscribers 25% of ₹ 40,00,000	10,00,000
Renewal premium 12.5% of ₹ 80,00,000	10,00,000
Single premium on annuity policy10% of ₹ 1,00,00,000	10,00,000
Total value of supply	**55,00,000**

15. Computation of GST liability of Aviant Ltd.

Particulars	**(₹)**
Price of machine [Note 1]	40,00,000
Add: Handling and loading charges [Note 2]	10,000
Installation and commissioning charges [Note 3]	1,00,000
Transportation cost [Note 4]	Nil
Price linked subsidy from Diligent Ltd. [Note 5]	2,00,000
Total price of the machine	43,10,000
Less: 2% cash discount on price of machinery = ₹ 40,00,000 × 2% [Note 6]	(80,000)
Taxable value of supply	42,30,000
Tax liability for the month of August [Note 10]	
IGST @ 12% [Note 7 and Note 8] – **[A]**	5,07,600
Tax liability for the month of September [Note 10]	
Interest collected @ 2% on ₹ 41,10,000 [Note 9]	82,200
Add: Cash discount recovered [Note 9]	80,000
Value of interest and cash discount inclusive of tax	1,62,200
IGST = (₹1,62,200/112) x 12 - **[B]**	17,379
Total IGST payable on the machinery [A] + [B]	**5,24,979**

© The Institute of Chartered Accountants of India

Notes:

(1) As per section 15(1), the value of a supply is the transaction value i.e., the price actually paid or payable for the said supply when the supplier and the recipient of the supply are not related and the price is the sole consideration for the supply.

(2) All incidental expenses charged by the supplier to the recipient of a supply are includible in the value of supply in terms of section 15(2)(c).

(3) Any amount charged for anything done by the supplier in respect of the supply of goods at the time of, or before delivery of goods is includible in the value of supply in terms of section 15(2)(c).

(4) Transportation cost has not been included in the value of supply of the machinery as it is a separate service contract between the customer and the third-party service provider. The customer pays the freight directly to the service provider.

The supplier (Aviant Ltd), in this case, merely arranges for the transport and does not provide the transport service on its own account. Therefore, there will be no impact from valuation point of view on transport expenses incurred for supply of machinery as the supplier is not the party to such supply of services.

(5) Subsidies directly linked to the price excluding subsidies provided by the Central Government and State Governments are includible in the value of supply in terms of section 15(2)(e).

(6) Cash discount was deducted by Aviant Ltd. upfront at the time of supply on 29th August, and hence, the same is excluded from the value of supply as it did not form part of the transaction value.

(7) In the given case-

- the location of the supplier is in Noida (UP); and
- the place of supply of machinery is the place of installation of the machinery i.e., Gurugram (Haryana) in terms of section 10(1)(d) of the IGST Act, 2017.

Therefore, the given supply is an inter-State supply as the location of the supplier and the place of supply are in two different States [Section

© The Institute of Chartered Accountants of India

7(1)(a) of IGST Act, 2017]. Thus, the supply will be leviable to IGST in terms of section 5(1) of the IGST Act, 2017.

(8) The given supply is a composite supply involving supply of goods (machinery) **and** services (handling and loading and installation and commissioning) where the principal supply is the supply of goods.

As per section 8(a), a composite supply is treated as a supply of the principal supply involved therein and charged to tax accordingly. Thus, tax rate applicable to the goods (machinery) has been considered.

(9) Interest for the delayed payment (which excludes subsidy related amount of Rs 2,00,000 as the same was not recoverable from the recipient) of any consideration for any supply is includible in the value of supply in terms of section 15(2)(d). Further, cash discount recovered will also be includible in the value of supply as now the transaction value i.e., the price actually paid for the machinery is devoid of any discount.

The cash discount recovered and interest respectively are inclusive of tax. Thus, tax payable thereon has to be computed by making back calculations in terms of rule 35.

(10) Invoice for the supply has been issued on 29th August. Thus, the time of supply of goods is 29th August in terms of section 12(1)(a).

As per section 12(6), the time of supply in case of addition in value by way of interest, late fee, penalty etc. for delayed payment of consideration for goods is the date on which the supplier receives such addition in value. Thus, the time of supply of interest received and cash discount recovered on account of delayed payment of consideration is 30th September, the date when the full payment was made. The supplier may issue a debit note for such interest and cash discount recovered.

© The Institute of Chartered Accountants of India

AMENDMENTS MADE VIDE THE FINANCE ACT, 2026

The Finance Act, 2026 has come into force from 30.03.2026. However, most of the amendments made under the CGST Act and the IGST Act vide the Finance Act, 2026 would become effective only from a date to be notified by the Central Government in the Official Gazette. Such a notification has not been issued till 30.04.2026. Therefore, the applicability or otherwise of such amendment for May 2027 and/or November 2027 examinations shall be informed by the ICAI by way of an announcement.

In the table given below, the existing provisions of section 15(3)(b) are compared with the provisions as amended by the Finance Act, 2026.

Once the announcement for applicability of such amendments for examination(s) is made by the ICAI, students should read the amended provisions given hereunder in place of the related provisions discussed in the chapter.

Section No.	Existing provisions	Provisions as amended by the Finance Act, 2026	Remarks
15(3)(b)	*after the supply has been effected, if—* *(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 the recipient of the supply.*	***after the supply has been effected, if for such discount, a credit note has been issued by the supplier and input tax credit as is attributable to such discount has been reversed by the recipient of the supply, in accordance with the provisions of section 34.***	Sub-section (3) of section 15 is to be amended to do away with the requirement of linking the post-sale discount with an agreement and to refer to issuance of credit note under section 34 where the input tax credit is reversed by the recipient.

© The Institute of Chartered Accountants of India