



VALUATION UNDER THE CGST ACT, 2017

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17th January, 2021

Fundamentals of a valid levy



- Taxable Event
- Taxable Person
- Rate of Tax
- Measure of Tax
- Valuation therefore an integral part of a valid levy
- Under Customs Law – it is the Transaction Value read with valuation rules in case of related parties etc + Cost & Service inclusions
- Under Sales tax – It used to be the sale price – no concept of related party
- Under Service tax – it used to be gross amount charged read with valuation rules
- Under GST – Valuation would be as prescribed in Section 15
- Why need valuation in a multi point taxation ?



Section 15 of CGST Act

- **Section 15(1)** provides - Value of supply is '**transaction value**' i.e., price actually paid or payable when supplier and recipient are **unrelated** and price is the **sole consideration**.
- Value of supply **includes**-
 - Taxes, duties, cesses, fees and charges other than CGST, SGST etc. if charged separately
 - Any amount payable by supplier but incurred by recipient and not included in price payable
 - Incidental expenses like commission and packaging
 - Interest/ late fee/penalty for delayed payment of consideration
 - Price-linked subsidies provided by Central or State Government
- Value **does not include [Section 15(3)]**-
 - Pre-supply discount duly recorded in invoice
 - Post-supply discount given (i) as per agreement (ii) entered into before/ at the time of supply (iii) linked to specific invoices and (iv) recipient reverses ITC
- If not determinable under 15 (1) - valuation Rules to trigger



Valuation under Rules

- Rule 27- value of supply **when consideration not wholly in money-**
 - Open market value, if available, else
 - Consideration in money plus any money equivalent of consideration not in money, if known at the time of supply; else
 - Value of supply of goods or services or both of like kind and quality; else
 - 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.



Related Parties under GST

- Rule 28- Value of supply to **distinct or related person-**
 - If recipient eligible to avail full ITC- invoice value. If not eligible to credit then,
 - Open market value, if available, else
 - Value of supply of goods or services or both of like kind and quality; else
 - As determined under Rule 30 or 31 in that order
 - If intended for further supply 'as such' by recipient - supplier has option to assign 90% of value of like supply by the recipient to their un related customer;
- According to **Explanation to Section 15** persons are deemed as '**related**' if -
 - Officers or directors of each other's business
 - Legally recognized as partners
 - Employer and employee
 - Directly/ indirectly, owns/ controls/ holds 25% or more voting stock or shares

Related Parties under GST



- 'Related persons' continued-
 - One of them directly/ indirectly controls the other
 - Both are directly/ indirectly controlled by third person or together control a third person
 - Members of the same family
 - Associated in each other's such that one is a sole agent/ distributor/ concessionaire of the other.

Rule 29-31 of CGST Rules



- Rule 29- value of supply **through agent**-
 - open market value if available, else
 - 90% of value of like supply provided by recipient to unrelated party or
 - if not determinable as above – to be determined under Rule 30 or 31
- Rule 30- value determined **based on cost**- to be 110% of cost of production/ manufacture/ acquisition of such goods/ cost of provision of such service
- Rule 31- **residual method**- determined using reasonable means consistent with the principles and provisions of section 15 - provided that for services, supplier may bypass Rule 30 for this rule

Key Definition



- “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;
- “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.