



# FAQ's on Value of Supply

( updated on 10<sup>th</sup> April, 2017)



## FAQs ON VALUE OF SUPPLY

1. What is the significance of value of supply?

Ans. It is used for determining the amount on which GST is required to be charged.

2. Under restricted conditions, what is the value of supply for the purpose of charging GST?

Ans. Transaction value is to be considered as the value of supply if certain conditions are satisfied.

3. What is meant by transaction value?

Ans. The price actually paid or payable is considered as the transaction value on which GST is required to be paid.

4. What are the conditions in which transaction value is to be considered as the value of supply?

Ans. There are two conditions which need to be satisfied for considering transaction value as the value of supply:

- a. The supplier and recipient are not related
- b. Price is the sole consideration in a transaction

5. What is meant by the term consideration?

Ans. Consideration has been defined in Section 2(28) of the Revised Model GST Law. It can be basically summarized as below:

- a. Any payment in money or otherwise for supply whether by the recipient or any other person
- b. Monetary value of act or forbearance for supply whether by the recipient or any other person. The act or forbearance may be voluntary or non-voluntary.
- c. Consideration excludes the subsidy paid by Central Government or State Government
- d. Deposits when applied by the supplier as consideration for supply. The deposit may be refundable or non-refundable.

6. A landlord takes a 3 month rental deposit worth Rs. 90,000 in August, 2017 for adjustment if the tenant fails to deposit the rent for a particular month. This

adjustment occurs in October, 2017. What will be considered as the date of payment?

Ans. The date of payment of consideration is said to occur on the date when the supplier applies the same as consideration. Here, the adjustment of the deposit of rent is occurring in October, 2017. So, the date of payment will also be considered in this month.

7. A non-refundable deposit has not been applied as consideration by a supplier. Will it be included in the value?

Ans. No, even a non-refundable deposit will not be part of the total consideration unless the said amount is applied as consideration by the supplier.

8. Give an example of monetary value of forbearance.

Ans. A former employee of a company signs a non-compete agreement for Rs. 10,00,000 which states that he cannot engage in the same line of business as the company at least for the next 2 years. In this situation, Rs. 10,00,000 is the consideration against the forbearance to engage in the particular line of business.

9. Will the GST valuation rules be applicable in case of import of goods?

Ans. No, the valuation provisions as per the Customs law will be applicable in case of import of goods.

10. Will the valuation provisions of Customs apply in respect of import of services?

Ans. No, the Customs provisions apply to import of goods only and not services.

11. Are the valuation provisions separate for goods and services?

Ans. The value of supply principles is common for both goods and services.

12. Will the value of supply be inclusive or exclusive of GST?

Ans. The taxes paid under CGST/SGST/IGST/UTGST/GST Compensation Act, 2016 will not form part of the total value of supply.

13. If the total amount charged also includes other indirect taxes apart from GST, will that also form part of the total value of supply?

Ans. For the purpose of calculating value of supply, any taxes, duties, cesses, fees and charges levied under any statute other than GST will form part of the value of supply if it has been charged separately by the supplier to the recipient.

14. Will free supply of materials by the recipient to the supplier form part of the value in case of a works contract?

Ans. As per the contract, if the supplier was liable to procure the materials which is ultimately given by the recipient, then the said amount will be included in the value of supply. Obviously, this will be subject to the fact that the price has actually been decreased to the extent of this free supply.

15. If the recipient directly makes any payment on behalf on the supplier and it is proven that the contract value has not decreased due to this payment, will the amount of payment be included in the total value of supply?

Ans. No, if the payment made is already included in the price actually paid or payable and the value of contract has not decreased, then this payment will not be included in the total value. This is because if it had been included, it would have resulted in inclusion of the same value twice.

16. Transportation, insurance and packing expenses are charged by the supplier along with the cost of goods delivered by the supplier to his recipient. Should these charges be included in the value of the supply?

Ans. Any incidental expenses charged by the supplier for anything done by him at the time of or before delivery of goods will be included in the value of supply. So, all the three aforesaid expenses will be included in the value of supply.

17. In an ex-factory delivery contract, the delivery is undertaken by the recipient on a transporter recommended by the supplier. Should the amount paid to the transporter be included in the value ?

Ans. This activity is not being undertaken by the supplier. So, the transportation charges paid by the recipient will not be included in the value of supply.

18. As per the terms of the contract, in case of a delay in payment of consideration, late payment charges need to be paid by the recipient. Should this be part of the value?

Ans. Any kind of charges in form of interest or late fees or penalty in case of a delayed payment of consideration will be included in the value of supply.

19. Will revenue subsidies paid by the Central Government against supply be part of the total value of supply?

Ans. Subsidies paid by the Central Government or State Government are not part of the definition of consideration. Also, the said subsidy by Central or State Government has also been specifically provided as an exception to the inclusions in the total value of supply. So, such subsidies will not be included in the value of supply.

20. Should capital subsidy for setting up a factory be part of the value of supply?

Ans. Subsidies directly linked to the price will only be part of the value. Capital subsidy for setting up a factory is not linked to the price. So, it will not be included in the value of supply.

21. Subsidy of Rs. 5,00,000 will be paid on supply of 50,000 units. Will this be included in the value?

Ans. It will be included as it directly influences the price of the goods by Rs. 10/unit. It is needless to state here that the subsidy should be paid by any authority other than the Central or State Government.

22. Will subsidy be included in the value of the supplier or the recipient?

Ans. The subsidy is to be included in the value of the supplier who receives the subsidy.

23. Will the trade discount of 10% shown on the face of the invoice be included in the transaction value?

Ans. No, discount allowed before or at the time of supply will not be included in the transaction value. This is subject to the discount having been recorded in the invoice.

24. A cash discount of 5% will be provided as per the terms of the contract if the payment is made within 2 months. Assuming the said payment is made within 2 months and the input tax credit has been reversed by the recipient, should this discount be included in the transaction value?

Ans. Cash discount will not be included in the transaction value if:

1. The discount was established as per the terms of the contract agreed at or before the time of supply
2. It is specifically linked to the relevant invoice
3. Input Tax credit has been reversed by the recipient with respect to the said discount

Hence in the given case, cash discount will not form part of the value of supply.

25. Unhappy with the quality of goods, the recipient pays Rs. 90,000 to the supplier instead of Rs. 1,00,000 agreed as per the original contract terms. Both the parties agree to show Rs. 10,000 as a discount. Will be this be part of the value?

Ans. Such discount will be included in the transaction value because it was not agreed as per the terms of the original agreement entered at or before the time of supply.

26. A quantity discount agreed as per the terms of the contract is provided by the supplier. The recipient even after availing the said discount does not reverse the input tax credit on it. Should this be included in the value of supply?

Ans. Yes, this will continue to be included in the value till the recipient reverses the input tax credit on it.

27. What will be the value of supply when transaction value cannot be determined for a particular supply?

Ans. In such cases, value will be determined as per the valuation rules which will be prescribed.

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