

“GST Valuation Rules and Input Tax”

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Abstract: India is considered to be a home of taxes, especially indirect taxes. Today in India both central government and state governments impose indirect taxes on transactions of goods and services. For instance: for manufactured goods excise duty is levied on, VAT is charged at the time of sale of goods, customs duty is charged on the import of goods, sales tax is charged on the inter-state sale of goods and lastly service tax is imposed on services extended for.

GST is expected to replace most of the indirect taxes in India. GST will be imposed on supply of goods and services. Hence it will bring every item taxable less than one umbrella which will enable easier compliance and monitoring.

Those which are levied by Central Government;

1. Central Excise duty
2. CVD ie Additional Duties of Customs
3. SAD ie Special Additional Duty of Customs
4. Service tax

Those which are levied by State Government;

1. VAT
2. Sales Tax
3. Entertainment and Amusement Tax
4. Tax on lotteries, gambling, and betting

Valuation Rules under GST

1. Valuation of goods or services supplied where in the consideration is not complete in money:

“Valuation of goods and services supplied where the consideration for the transactions is not complete in money,

(a) Supply of such kind of goods and services will be at the open market price;

(b) If open market value is not available, 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 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 application of rule 4 or rule 5 in that order.”

2. Value of supply of goods or services or both between distinct or related persons, other than through an agent:

“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,-

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

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

(c) if value is not determinable under clause (a) or (b), be the value as determined by application of rule 4 or rule 5, in that order.”

3. 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 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, where the goods are intended for further supply by the said recipient;
- (b) where the value of a supply is not determinable under clause (a), the same shall be determined by application of rule 4 or rule 5 in that order.”

4. 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, the value shall be one hundred and ten percent of the cost of production or manufacture or cost of acquisition of such goods or cost of provision of such services.

5. 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 1 to 4, the same shall be determined using reasonable means consistent with the principles and general provisions of section 15 and these rules: Provided that in case of supply of services, the supplier may opt for this rule, disregarding rule 4.

6. Determination of value in respect of certain supplies:

- (1) Notwithstanding anything contained in these rules, 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 purchase or sale of foreign currency, including money changing, shall be determined by the supplier of service.

7. Value of supply of services in case of pure agent:

“Notwithstanding anything contained in these rules, 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:-

- (1) the supplier acts as a pure agent of the recipient of the supply, when he makes payment to the third party on authorization by such recipient;
- (2) 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
- (3) 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”

8. Rate of exchange of currency, other than Indian rupees, for determination of value:

The rate of exchange for determination of value of taxable goods or services or both shall be the applicable reference rate for that currency as determined by the Reserve Bank of India on the date of time of supply in respect of such supply in terms of section 12 or, as the case may be, section 13 of the Act.

Input Tax

“A registered person will be eligible to claim Input Tax Credit (ITC) on fulfillment of the following conditions:

1. Possession of a tax invoice or debit note or document evidencing payment.
2. Receipt of goods and/or services.
3. Goods delivered by supplier to the other person on the direction of registered person against a document of transfer of title of goods.
4. Furnishing of a return
5. Where goods are received in lots of installments ITC will be allowed to be availed when the last lot or installment is received.
6. Failure to the supplier towards supply of goods and/or services within 180 days from the date of invoice, ITC already claimed will be added to output tax liability and interest to paid on such tax involved. On payment to supplier, ITC will be again allowed to be claimed.
7. No ITC will be allowed if depreciation has been claimed on tax component of a capital good.
8. If invoice or debit note is received after: the due date of filing return for September of next financial year or filing annual return whichever is later, No ITC will be allowed.
9. Common credit of ITC used commonly for effecting exempt and taxable supplies and business and non-business activity.”

Items on which credit is not allowed

“Valuation of goods and services on which credit is not allowed are,

1. Motor vehicles and conveyances except the below cases:
 - Such motor vehicles and conveyances are further supplied i.e., sold
 - Transportation of passengers and goods
 - Used for imparting training on driving, flying, navigating such vehicle or conveyance
2. Food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery.
3. Works contract service for construction of an immovable property (except plant & machinery or for providing further supply of works contract service)
4. Goods and/services for construction of an immovable property whether to be used for personal or business use.
5. Goods and/or services where tax has been paid under composition scheme.
6. Goods and/or services used for personal use.
7. Goods and/or services received by a non-resident taxable person except for any of the goods imported by him.
8. Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples.
9. ITC will not be available in the case of any tax paid due to non payment of short tax payment, excessive refund or ITC utilised or availed by the reason of fraud or wilful misstatements or suppression of facts or confiscation and seizure of goods.”

References:

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