



PIONEER ONE

JUST A MINUTE (JAM)

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LEARN GST SERIES

The discussion is continued from our newsletter for the month of April 2022. If you missed the previous edition, please visit <https://pioneerone.in/monthly-newsletter/> to view/download all of our previous newsletters.

Valuation Rules

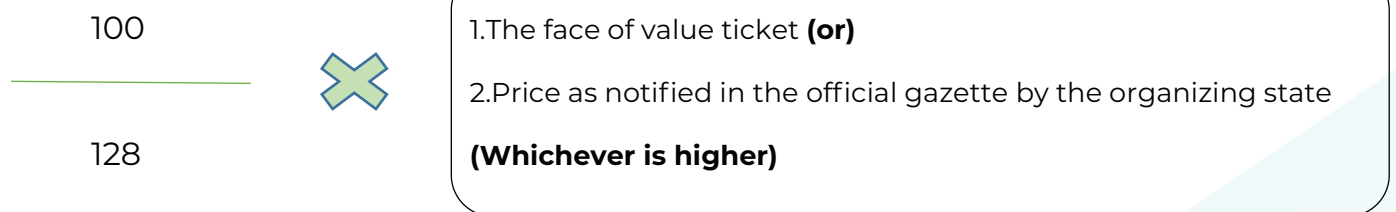
We saw in the previous newsletter that, if the conditions given in section 15(1) of the CGST Act, 2017 are not satisfied, the valuation rules will be applied to find out the value of supply (VOS).

Out of the 11 valuation rules, the April edition covered 5 Rules, this newsletter will cover Rule 31A and Rule 32 of the valuation rules.

Recap: Value of supply (VOS) is the amount on which GST is calculated and levied in respect of a supply/transaction.

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

A. VOS in case of lottery:



B. VOS in case of betting, gambling and horse racing:

VOS = 100 % of face value of bet

(Note: Ignore the winnings, the value of supply is the face value of bet)

Rule 32: Determination of value in respect of certain supplies

This Rule provides the valuation methods for five specific supplies which are as under,

- A. Purchase or sale of foreign currency including money changing
- B. Booking of tickets for air travel by an air travel agent
- C. Life Insurance business
- D. Supply of second hand goods
- E. Redeemable vouchers/ stamps/ coupons /tokens.

A. Purchase or sale of foreign currency including money changing:

- 1. Value of supply if the foreign currency is exchanged from, or to, Indian Rupees. (RBI reference rate available). Eg. USD to INR or INR to USD.**

In case of **purchase** of foreign currency by service provider =

$$\text{VOS} = (\text{RBI reference rate} - \text{Buying rate}) * \text{Total units of foreign currency}$$

In case of **sale** of foreign currency by service provider =

$$\text{VOS} = (\text{Selling Rate} - \text{RBI Reference Rate}) * \text{Total units of foreign currency}$$

- 2. Value of supply if the foreign currency is exchanged from, or to, Indian Rupees. (RBI reference rate not available). Eg. USD to INR or INR to USD.**

$$\text{VOS} = 1\% \text{ of the gross amount of Indian rupees provided or received}$$

- 3. Value of supply when neither of the currencies exchanged are indian Rupees. Eg. USD to GBP or EURO to USD.**

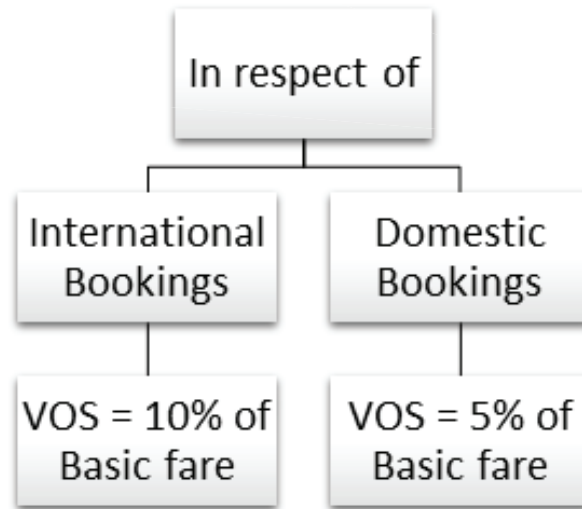
Step 1: Convert the Foreign currency sold into INR at the prevailing RBI reference rate

Step 2: Convert the Foreign currency purchased into INR at the prevailing RBI reference rate

$$\text{VOS} = (\text{Step 1 amount or Step 2 amount, whichever is less}) * 1\%$$

B. Booking of tickets for air travel by an air travel agent

VOS on which GST should be charged by the air travel agent is as follows,



C. Life Insurance business

The amount of premium on which GST should be charged is,

- a. Where the amount allocated for investment out of the premium is intimated to the policyholder:

VOS = Gross premium paid – Amount allocated for investment

- b. Single premium annuity policy where amount allocated for investment is not intimated to the policyholder:

VOS = 10% of single premium paid

- c. Other cases:

VOS = 25% of premium paid in the 1st year
12.5% of premium paid in the subsequent years

- d. Where premium paid is only towards risk cover:

VOS = Entire premium paid

D. Supply of second hand goods

- 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 allowed to pay tax on the **margin** i.e. the difference between the sale value and purchase.
- If there is no margin, no GST is charged for such supply.

Note: If margin scheme is opted for a transaction of second hand goods, the person selling the car to the company shall not issue any taxable invoice and the company purchasing the car shall not claim any ITC.

- However, a person can choose to follow the normal method of valuation ignoring the margin scheme at his/her option.

E. Redeemable vouchers/ stamps/ coupons /tokens.

- Supply of redeemable vouchers, stamps or coupons will also attract GST.

The value on which GST shall be levied = Money value of goods or services or both redeemable against such voucher/stamp/coupon.

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