GST TEST 2

(Value of Supply)

Time : 30 minutes   Marks : 20

1. *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

   (iii) After selling a product, the company re-valued the product at a lower value and issued credit note to the buyer for the differential amount.

   5 marks

2. *Durgesh rents out a commercial building owned by him to Ramesh for the month of December, for which he charges a rent of ₹ 19,50,000. Durgesh 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 Ramesh. Also, Durgesh has paid municipal tax of ₹ 2,85,000 which he has not charged from Ramesh.*

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

   Note: All the amounts given above are exclusive of GST ***5 marks***

3. *Tinaca Electronics Ltd. (hereinafter referred to as TEL) is engaged in manufacturing televisions. It is registered in the State of Haryana. It has appointed distributors across the country who sell the televisions manufactured by it. The maximum retail price (MRP) printed on the package of a televisionis ₹ 12,000. The applicable rate of GST on televisions is 18%. TEL dispatches the stock of televisions to its distributors ordered by them on a quarterly basis.*

   In order to promote its sales, the Sales Head of TEL has formulated a sales promotion scheme on 1st April. Under this scheme, TEL offers a discount of 10% (per television) on televisions supplied to the distributors if the distributors sell 500 televisions in a quarter. The discount is offered on the price at which the televisions are sold to the distributors (excluding all charges and taxes).

It appoints Sharma Electronics (an unrelated party as per GST Law) as its distributor in Haryana on 1st April and dispatches 750 televisions on 8th April as stock for the quarter April-June. TEL has sold the televisions to distributor - Sharma Electronics at ₹ 8,400 per television (exclusive of applicable taxes). Sharma Electronics has requested TEL for a special packing of the televisions delivered to it for which TEL has charged ₹ 1,200 per television.

Sharma Electronics places a purchase order of 1,000 televisions with TEL for the quarter July-September. The distributor reports sales of 700 televisions for the quarter April-June and 850 televisions for the quarter July-September. The discount policy offered by TEL as explained above is also available to Sharma Electronics as per the distributorship agreement.

While Sharma Electronics reverses the input tax credit availed for the quarter July-September, it has failed to reverse the input tax credit availed for the quarter April-June.

Examine the scenario with reference to section 15 and compute the taxable value of televisions supplied by TEL to Sharma Electronics during the quarters April-June and July-September assuming the rate of tax applicable on the televisions as 18%.

10 marks

GST TEST 2 SOLUTION

(Value of Supply)

Solution 1 :

(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 canbe specifically linked to the relevant invoices though not shown on theinvoice as the actual quantum of such discounts gets determined after the supply has been effected and generally at the year end. Such typeof 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.

(iii) This is a case of secondary discounts. These are the discounts which arenot known at the time of supply or are offered after the supply is alreadyover as per the agreement made at or before the time of supply. Therefore, such discounts shall not be excluded while determining the value of supply.

Solution 2 : Computation of the value of supply and the GST liability of Durgesh for the month of December

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

Notes:

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

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

Solution 3 : Section 15(3)(a) allows discounts to be deducted from the value of taxable supplyif the same is given before or at the time of the supply and if such discount hasbeen duly recorded in the invoice issued in respect of such supply. In other words, pre-supply discounts recorded in invoices are allowed as deduction.

Further, post supply discounts are also allowed as deduction from the value of supply under section 15(3)(b) if-

(i) such discount is established in terms of an agreement entered into ator 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.

In the given case, Sharma Electronics is entitled for 10% discount on televisions supplied by TEL for the quarters April-June as well as July-September as it has sold more than 500 televisions in each of these quarters. However, since the sales targets are achieved after the entire stock for the respective quarters of April-June and July-September has been dispatched, the discounts on thetelevisions supplied to Sharma Electronics for the quarters of April-June and July-September is a post-supply discount.

Such post-supply discount will be allowed as a deduction from the value of supply since the discount policy was known before the time of such supplyand the discount can be specifically linked to relevant invoices (invoices pertaining to televisions supplied to Sharma Electronics for the quarters of April- June and July-September) provided Sharma Electronics reverses the input tax credit attributable to the discount on the basis of document issued by TEL.

The value of supply for the quarters of April-June and July-September will thus, be computed as under:

Computation of value of supply for the quarter - April-June

Particulars	**Amount (₹)**
Price at which the televisions are supplied to Sharma Electronics [Note 1]	8,400
Add: Packing expenses [Note 2]	1,200
Less: Discount [Note 3]	Nil
Value of taxable supply of one unit of television	**9,600**
Value of taxable supply of televisions for the quarter April-June [₹ 9,600 x 750]	**72,00,000**

Notes:

(1) The value of a supply is the transaction value, which is the price actually paid or payable for the said supply, in terms of section 15(1) presuming that the supplier and the recipient of supply are not related and priceis the sole consideration for the supply as the supplier and recipient are not related parties.

(2) The value of supply includes incidental expenses like packing chargesin terms of section 15(2)(c).

(3) Since Sharma Electronics has not reversed the input tax credit attributable to such discount on the basis of document issued by TEL, the conditions specified in section 15(3)(b) have not been fulfilled. Thus, the post- supply discount will not be allowed as deduction from the value ofsupply.

Computation of value of supply for quarter - July-September

Particulars	**Amount (₹)**
Price at which the televisions are supplied to Sharma Electronics [Note 1]	8,400
Add: Packing expenses [Note 2]	1,200
Less: Discount [Note 3]	(840)
Value of taxable supply of one unit of television	**8,760**
Value of taxable supply of televisions for the quarter July-September [₹ 8,760 x 1,000]	**87,60,000**

Notes:

(1) The value of a supply is the transaction value, which is the price actually paid or payable for the said supply, in terms of section 15(1) presuming that the supplier and the recipient of supply are not related and priceis the sole consideration for the supply as the supplier and recipient are not related parties.

(2) The value of supply includes incidental expenses like packing chargesin terms of section 15(2)(c).

(3) Since all the conditions specified in section 15(3)(b) have been fulfilled, the post-supply discount will be allowed as deduction from the valueof supply. The input tax credit to be reversed will work out to be ₹1,51,200 [1,000 x (8,400 x 10%) x 18%].