Module 4 · Valuation P19 · topics 4.1–4.6

SM pp. 423–504 (exercise 523–530); the rule 32 special cases sit in the Module 1 exemption chapter (air travel agent SM 147–149, money changer 174–176, insurer 185–187). **7–21 marks every paper since Dec'23** (expected 13.1). **Q5(b) is a rule 32 sum in all 6 papers since Dec'23**; Q8(a) a s.15 valuation sum in December; Q4(b) related persons rotates. **The exam copies the SM illustrations**: D23 / D24 Q5(b) = Illus. 93 with new figures; D25 Q5(b) = Illus. 114; D25 Q8(a) = Illus. 11 (= MQP Q3(a)); MQP Q5(b) = Illus. 109; MQP Q8(a) = Illus. 42; PTP Q5(b) = Illus. 94.

Paper	Q5(b) rule 32	Other valuation questions
Dec'23	**Air travel agent**: normal vs 32(3)	Q4(b) related and distinct persons · Q8(a) **s.15 value**: FOR freight, trade discount, waived interest, NGO subsidy
Jun'24	**Money changer** 32(2)(b) + condition to opt	MCQ TVs to employees at 70% discount (related)
Dec'24	**Air travel agent**: normal vs 32(3)	–
Jun'25	**Money changer** 32(2)(b)	Q4(b) rule 28 · MCQ margin scheme (second-hand car)
Dec'25	**Life insurer** 32(4)	Q8(a) **job worker** (MRP goods, technology fee, discount) · MCQ open market value on exchange
Jun'26	**Money changer** 32(2)(a) and (b)	–
ICMAI	MQP money changer · PTP / postal **tour operator**	MQP Q3(a) job worker, Q4(b) related person, Q8(a) **works contract** · PTP Q3(a) rule 30, Q8(a) **customs broker as pure agent**

HOW IT IS EXAMINED · DEC'26 PREDICTION

- **Q5(b) 7 marks, near-certain**: December papers asked the **air travel agent** (D23, D24) and the **insurer** (D25); June papers the money changer. Learn all four + tour operator + second-hand goods.
- **Q8(a) 7 marks, likely in December**: s.15 value with additions / deductions, or the job worker; unused ICMAI variants: works contract with free materials (MQP), customs broker as pure agent (PTP).
- **Q4(b)**: related persons + rule 28. **MCQ (iv)**: open market value, margin scheme, rule 30.

MAP OF THIS MODULE

1. s.15 transaction value: add / deduct ★★★ (problems box 1)
2. Rules 27–31: OMV, related / distinct persons, agent, cost, residual ★★
3. Rule 32 special cases ★★★ (problems box 2)
4. Pure agent, exchange rate, tax-inclusive value, works contract ★★
5. Supplementary changes: lottery 31A, RSP rule 31D, post-sale discounts ★★
6. Revision sheet

A Section 15 — transaction value · Q8(a)

WHAT IT IS Value = **transaction value**, the price actually paid or payable, where the supplier and recipient are **not related** and the **price is the sole consideration**; otherwise the valuation rules (s.15(4) + rules 27–31) apply. [SM 427]

Add (s.15(2)) if not already in the price	Deduct / exclude
(a) taxes, duties, cesses, fees, charges under any other law (not CGST / SGST / UTGST / IGST / compensation cess) — entertainment tax on tickets (Illus. 1). TCS under income tax is **not** added. [SM 427–428]	**Discount** before or at the time of supply, recorded in the invoice. [SM 438]
(b) amounts the supplier is liable to pay but the **recipient pays** — freight the seller had to bear: ₹2,50,000 + ₹2,500 = ₹2,52,500 (Illus. 2). [SM 428]	**Post-supply discount agreed before or at the time of supply** and linked to invoices (credit note) — 0.5% early-payment discount in Illus. 7. [SM 438, SM 444]
(c) commission, packing, anything charged for the supply before delivery (removal of old furniture ₹5,000 → ₹5,80,000, Illus. 3). [SM 430–431]	**Not** deductible: a discount given after supply and not known at the time of supply (2% for paying in 2 days, Illus. 8). [SM 438, SM 445]
(d) interest, late fee or penalty for **delayed payment** (penal interest on a loan stays exempt, entry 27). [SM 431]	Government subsidy; subsidy credited to the buyer (LPG ₹200 → value stays ₹800, Illus. 4). [SM 433]
(e) subsidies **directly linked to the price**, other than Government subsidies. [SM 431]	Pure-agent reimbursements (rule 33, section D). [SM 487]

⚠ SM SLIP · ILLUSTRATION 5 (FERTILISER SUBSIDY)

The question text says the Government subsidy "will form part of value of supply"; its own solution says it will **not** (s.15(2)(e) excludes Government subsidies). Follow the solution. [SM 433]

PROBLEMS BOX 1 · s.15 VALUE SUM (D23 Q8(a), D25 Q8(a); MQP Q3(a))

WORKED PATTERN · SM ILLUSTRATION 11 (JOB WORKER, MRP GOODS) = MQP Q3(a)

Raw material supplied by the principal ₹30,000	not a supply (s.143)
Job worker's charges incl. profit	10,000
Transport of raw material to the job worker ₹3,000	not added
Transport of finished packets back [s.15(2)(b)]	4,500
Technology fee paid by the principal ₹22,500 (FOC to job worker, Circular 47/21/2018)	not added
Less: discount shown in the invoice [s.15(3)]	(2,000)
Transaction value	**12,500**

MRP on the packets is irrelevant to the job worker's value. [SM 445–446]

D25 Q8(a) (same template, our working with the SM method): 40,000 + 8,500 − 6,000 = **₹42,500**; raw material 35,000, inward transport 8,200 and technology fee 32,000 out.

D23 Q8(a) MACHINE (OUR WORKING)

Contract price	6,00,000
Less: trade discount 3% in the invoice	(18,000)
Add: freight — F.O.R. contract, seller's cost	40,000
Interest for delay — **waived**, so not charged	Nil
NGO subsidy **not linked to the price**	Nil
Taxable value (CGST + SGST ₹72,000 never added)	**6,22,000**

STEPS

1. Start with the price; check "related? sole consideration?" — if not, go to rules 27–31.
2. Walk s.15(2)(a)–(e): add each item the price does not yet include; name the clause.
3. Walk s.15(3): deduct only discounts in the invoice or agreed in advance and linked.
4. Strike out GST itself, pure-agent items, Government subsidies, free items the job worker did not pay for.

PRACTISE THESE

SM Illus. 1–12 (SM 427–447) · D23 Q8(a) · D25 Q8(a) · MQP Q3(a) · postal Q7(b)(ii) · **ICMAI Practice Workbook Ch6 illus. 1–13, 15** · MCQ bank Q39 (= SM M4 MCQ 7).

B Rules 27–31 · related persons (Q4(b))

- **Rule 27** (consideration not wholly in money): (a) **open market value**; (b) money + money value of the non-monetary part (uniforms worth ₹20,000 → ₹1,00,000, Illus. 15); (c) like kind and quality; (d) rule 30, then rule 31. New TV ₹42,000 with an old TV, normal price ₹45,000 → OMV **₹45,000** (Illus. 13; D25 MCQ). [SM 449–450]
- **Rule 28** (distinct persons s.25(4)/(5) or related persons, not through an agent): (a) OMV; (b) like kind and quality; (c) rule 30 / 31. Goods for further supply **as such**: at the supplier's option **90%** of the price the recipient charges an unrelated customer. Recipient eligible for **full ITC**: invoice value = OMV. [SM 457]
- **Rule 28(2)** corporate guarantee to a bank for a related recipient in India: **1% of the guarantee per annum** or the actual consideration, whichever is higher (w.e.f. 26th October 2023); full ITC → invoice value. ₹10 crore for 5 years → ₹50 lakh, GST ₹9 lakh. [SM 457, SM 476]
- **Rule 29** (principal ↔ agent): OMV or, at the supplier's option, **90%** of the agent's price to unrelated customers (groundnut ₹4,550 OMV or ₹4,500 = 90% of ₹5,000, Illus. 25). [SM 478]
- **Rule 30** cost: **110%** of the cost of production / acquisition / provision of services (CAS-4; GST excluded; selling and non-production admin out; scrap deducted). Illus. 17: cost ₹1,455 → value **₹1,600.50**. [SM 451–452]
- **Rule 31** residual: reasonable means consistent with s.15; a **service** supplier may skip rule 30 and use rule 31. [SM 456]
- **Related persons** (eight cases: officers / directors of each other, partners, employer–employee, **25%** voting shares of both held by one person, control, common control, joint control of a third, same family; "person" includes legal persons; sole agent / distributor / concessionaire). [SM 425]
- **Distinct persons**: each registration of the same person (s.25(4)); establishments in other States (s.25(5)). [SM 426]

Q4(b) ANSWER SKELETON (D23, J25; MQP Q4(b))

1. Define related persons (the eight cases) and distinct persons (s.25(4), (5)).
2. Schedule I para 2: supply even without consideration; gifts to employees up to ₹50,000 out.
3. Rule 28: OMV → like kind → rule 30 / 31; 90% option; full-ITC proviso; 28(2) guarantee 1%.
4. Example: stock transfer to a depot in another State.

C Rule 32 — special valuation · Q5(b) every paper

32(2) MONEY CHANGING (JUNE PAPERS; MQP)

- **(a)** INR involved: (buying / selling rate − **RBI reference rate**) × units. No RBI rate → **1% of the gross INR**. Neither currency INR → 1% of the **lower** of the two currencies converted at RBI rates. [SM 175–176]
- **(b)** at the supplier's option: slabs on the gross amount exchanged; the option holds for the **whole financial year** (the "condition" asked in J24, J25). [SM 175]

Gross amount exchanged	Value under 32(2)(b) (SM chart)
up to ₹1 lakh	1%, minimum ₹250 (so at most ₹1,000)
₹1 lakh – ₹10 lakh	₹1,000 + 0.5% of the excess over ₹1 lakh (at most ₹5,500)
above ₹10 lakh	₹5,500 + 0.1% of the excess, maximum ₹60,000

⚠ The SM prints this as a chart image with only the rates and caps ("Max 1000", "Max 5,500", "Max 60,000"); the "₹1,000 +" and "₹5,500 +" build-up is the rule's wording, which the caps imply. [SM 175 (chart)]

32(3) AIR TRAVEL AGENT (D23, D24)

- Normal: GST 18% on **commission** + service / handling charges (+ year-end bonus); full ITC. Option (transaction by transaction): value = **5% of basic fare (domestic)**, **10% (international)**, GST 18% on it. [SM 147–148]

32(4) LIFE INSURER (D25)

- Premium covers **risk only** → GST on the gross premium. Savings part **intimated** to the policy holder → gross − savings. Not intimated → **25% of first-year premium**, **12.5% of subsequent years** (single-premium annuity 10%, SM chart). [SM 185–187]

32(5) SECOND-HAND GOODS (J25 MCQ)

- Dealer in used goods (as such or minor processing), **no ITC** on purchase → value = **selling price − purchase price**; negative → ignored (Nil). With ITC → tax on full value. [SM 482]
- Repossessed from an unregistered defaulting borrower: purchase value = borrower's price less **5% points per quarter** or part. [SM 482, SM 485]
- Only for dealers in used goods — not a new-car dealer taking an exchange (Illus. 28). [SM 483]

32(6) VOUCHERS · 32(7) DISTINCT PERSONS

- Value of a voucher / coupon = the money value of the goods or services redeemable. [SM 485] (time of supply rules for vouchers were omitted from 1-10-2025, see M2.)

TOUR OPERATOR (PTP Q5(b), POSTAL Q2(a))

- **5% on the gross amount, without ITC** (ITC of input services in the same line at 5% allowed), if the invoice shows the charge is **inclusive of accommodation and transportation**; else 18%. [SM 149]
- Foreign tourist, tour partly abroad: the abroad days' share is exempt (≥ 12 hours = a day, less = half a day). [SM 151]

⚠ SM ILLUS. 94 vs ICMAI PTP ANSWER (SAME FOUR TOURS)

SM: Tours 1, 2, 4 at 5% (150 lakh → ₹7.50 lakh); Tour 3 (accommodation only, bill silent) at 18% (₹7.20 lakh). **ICMAI PTP**: Tours 1, 2, 3 at 5% (140 → ₹7 lakh); Tour 4 (bill says "solely accommodation") at 18% (₹9 lakh). They swap Tours 3 and 4. Write the condition (invoice inclusive of accommodation + transport), state your reading of each bill, and show the working — the examiner marks the reasoning.

PROBLEMS BOX 2 · RULE 32 SUMS (Q5(b), 6 OF 6 PAPERS) — RECOMPUTED BY SCRIPT

WORKED PATTERN A · SM ILLUSTRATION 93 (AIR TRAVEL AGENT) = D23 / D24 Q5(b) TEMPLATE

Normal: commission 4,50,000 + year-end bonus 50,000	5,00,000
GST 18%	90,000
Rule 32(3): 50,00,000 × 5% (domestic) + 80,00,000 × 10% (international)	10,50,000
GST 18%	1,89,000
Liability is not reduced by the option → not economical	

[SM 148–149]

Our working, same method: **D23** normal ₹92,700 v option ₹1,80,000 · **D24** normal ₹94,500 v option ₹1,64,700 → option not reduced in both.

WORKED PATTERN C · SM ILLUSTRATIONS 107, 109 (MONEY CHANGER) = MQP Q5(b)

- USD 100 sold at ₹72, RBI ₹71 → (72 − 71) × 100 = **₹100**, GST ₹18; no RBI rate → 1% of ₹7,200 = **₹72**, GST ₹12.96 (Illus. 107). [SM 175–176]
- US$9,000 at ₹71, RBI ₹72 → **₹9,000**; no RBI rate → 1% of (71 × 9,000) = **₹6,390**; USD into GBP 4,500 (RBI ₹73 / ₹101) → 1% of lower ₹4,54,500 = **₹4,545** (Illus. 109). [SM 176]

32(2)(b) ON PAST QUESTIONS (OUR WORKING)

- J24: 250 × 77 = 19,250 → 1% = 192.50 → minimum **₹250** · 2,300 × 76.50 = 1,75,950 → 1,000 + 0.5% × 75,950 = **₹1,379.75**.
- J25: 23,240 → **₹250** · 1,98,000 → **₹1,490**.
- J26: (i) bought 1,200 at ₹79, RBI ₹80.80 → (a) 1.80 × 1,200 = **₹2,160**; (b) 1% of 94,800 = **₹948** · (ii) sold 2,600 at ₹78, no RBI rate → (a) 1% of 2,02,800 = **₹2,028**; (b) 1,000 + 0.5% × 1,02,800 = **₹1,514**.

WORKED PATTERN D · SECOND-HAND GOODS (ILLUS. 27, 29, 30)

Car bought ₹2,00,000, sold ₹2,50,000 → margin ₹50,000 × 28% = CGST ₹7,000 + SGST ₹7,000; sold ₹1,80,000 → Nil (Illus. 27) · camera, ITC taken → ₹1,400; no ITC → (15,000 − 12,800) × 28% = ₹616 (Illus. 29) · repossessed machine

WORKED PATTERN B · SM ILLUSTRATION 114 (LIFE INSURER, ₹ LAKH) = D25 Q5(b) TEMPLATE

General policies: first year 5,000 × 25%	1,250
Subsequent years 7,000 × 12.5%	875
Risk-only policies (gross)	500
Variable policies 8,000 − 80% investment shown separately	1,600
Taxable value · CGST 9% = SGST 9%	**4,225 · 380.25**

[SM 186–187]

D25 (our working): 1,500 + 1,000 + 475 + 1,800 = **₹4,775 lakh**; GST 18% = ₹859.50 lakh.

₹2,00,00,000 less 5% × 2 quarters = ₹1,80,00,000; sold ₹1,90,00,000 → IGST ₹1,80,000 (Illus. 30). [SM 483–485]

PRACTISE THESE

D23, J24, D24, J25, D25, J26 Q5(b) · MQP Q5(b) · PTP Q5(b) · postal Q2(a) · J25 MCQ (iv) · SM Illus. 93, 107–109, 113–114 (SM 148–187), Illus. 27–30, 94 · **ICMAI Practice Workbook Ch6 illus. 19–40** · MCQ bank Q105, Q113, Q115.

D Pure agent, exchange rate, tax-inclusive price, works contract · PTP / MQP Q8(a)

- **Pure agent (rule 33)**: contract to act for the recipient and incur costs; no title; no own use; recovers **only the actual amount**. Excluded from value if: paid to the third party on the recipient's authorisation, **shown separately in the invoice**, and in addition to his own services. [SM 487]
- **Customs broker** (Illus. 34): agency ₹10,000 + travel ₹5,500 + hotel ₹9,500 = **₹25,000**; customs duty and dock dues out. Illus. 36 (= PTP Q8(a)): agency + hotel + travel + phone = **₹5,97,000**; unloading, transport, duty, dock, port charges out — but a **lump sum** of ₹13,00,000 makes him not a pure agent → value ₹13,00,000. [SM 488–491]
- **Rule 34**: goods — exchange rate notified by the CBIC u/s 14 of the Customs Act on the date of time of supply; services — GAAP rate on the date of time of supply. [SM 492]
- **Rule 35**: tax-inclusive price → tax = value × rate ÷ (100 + rate); ₹100 sold "exempt" but taxable at 18% → value ₹84.75, IGST ₹15.25 (Maruti Udyog, SC). [SM 492–493]
- **Works contract**: the whole (materials + labour + consumables + profit) is one composite service at 18% (₹50,00,000 → ₹9,00,000, Illus. 39). [SM 494]
- Materials supplied by the recipient: add their **fair market value**, less any amount charged: 1,00,00,000 + 10,00,000 − 5,00,000 = **₹1,05,00,000**, GST ₹18,90,000 (Illus. 40). [SM 494]
- **Illus. 42 (= MQP Q8(a), ₹ lakh)**: contract 90 + steel and cement supplied free 10 [s.15(2)(b)] + goods billed separately but used 2 + free electricity and water 1.50 [rule 27(b)] = **103.50**; GST 18% = **18.63**. [SM 495]
- Works contract (18%, land excluded) vs construction (5%, land included): ₹270 crore v ₹125 crore → construction cheaper (Illus. 41). [SM 495]

SUPPLEMENTARIES · VALUE RULES CHANGED

- **Rule 31A** lottery (w.e.f. 22-9-2025): value = higher of **100/140** of the face value or of the notified price (was 100/128); betting, gambling, horse racing = 100% of the bet. [Supp J26 p.8]
- Post-sale discounts: Circular 212/6/2024 (CA / CMA certificate of ITC reversal) **withdrawn** by Circular 253/10/2025 GST dated 1-10-2025; financial / commercial credit notes do not reduce the supplier's tax, so the recipient keeps full ITC (Circular 251/08/2025). [Supp J26 p.8, Supp J26 p.10]
- **Rule 31D** (w.e.f. 1st day of February 2026): pan masala, cigarettes, chewing tobacco and other notified tobacco — value from the **retail sale price**: tax = RSP × rate ÷ (100 + rate); highest RSP if several; a raised RSP counts; area-wise RSP for that area. The price to the distributor is irrelevant. [Supp D26 p.5–6, Supp D26 p.9]

RULE 31D EXAMPLE (GST 40% INSIDE THE RSP) · RECOMPUTED

Pan masala 4,000 × ₹350 = 14,00,000 × 100/140	10,00,000
Cigarettes 2,000 × ₹450 (higher RSP)	6,42,857
Chewing tobacco 3,000 × ₹280 (revised RSP)	6,00,000
Tobacco 1,500 × ₹560 (South India RSP)	6,00,000
Taxable value · GST	**28,42,857 · 11,37,143**

[Supp D26 p.8–9]

R Revision sheet · valuation numbers

Rule	Number to learn	SM
Rule 28 / 29 — goods for further supply as such	**90%** of the recipient's price to unrelated buyers (option)	[SM 457, SM 478]
Rule 28(2) corporate guarantee	**1%** per annum of the guarantee or actual, higher	[SM 457]
Rule 30 cost method	**110%** of cost	[SM 451]
Rule 32(3) air travel agent	**5%** domestic / **10%** international basic fare	[SM 147]
Rule 32(4) life insurer (savings not intimated)	**25%** first year · **12.5%** later years	[SM 186–187]
Rule 32(2)(a) no RBI rate	**1%** of gross INR	[SM 175]
Rule 32(5) repossessed goods	less **5%** points per quarter	[SM 482]
Rule 31A lottery	**100/140** of face value or notified price	[Supp J26 p.8]
Tour operator	**5%** without ITC (input services same line at 5%)	[SM 149]

MEMORY HOOK · RULE 32

"Money–Air–Life–Used" = (2) money changer · (3) air travel agent 5/10 · (4) life insurer 25/12.5 · (5) used goods margin. December asks Air and Life; June asks Money.