

Valuation of Supply between Related Persons under GST (2026): Rule 28 and the Full-ITC Proviso

Description

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Quick summary

- Group companies, branches under common control, and similar related parties cannot value a GST supply at an arbitrary stated price - Rule 28 of the CGST Rules fixes a specific valuation method instead.
- The value is, in order: the open market value of the supply; failing that, the value of goods or services of like kind and quality; and failing that, the cost method or the residual method.
- A built-in safety valve applies where the recipient is eligible for full input tax credit: in that case, the invoice value itself is deemed to be the open market value, regardless of what the true open market value actually is.
- This proviso exists because, when the recipient can claim full credit, there is no revenue loss from under-valuing the supply - the recipient only gets credit for the tax actually charged, not for what should have been charged at open market value.
- The rule applies equally to goods and services, and to any transaction between related persons as defined in the Explanation to section 15, not just transactions within one corporate group.

Large groups with multiple legal entities under common control - a holding company and its subsidiaries, or sister concerns under the same promoter family - routinely supply goods and services to each other. GST does not let the price on that internal invoice be taken at face value once the parties are related.

Who is a “related person”

GST law defines related persons broadly - not limited to family relationships. Two persons are related where, among other tests, they are officers or directors of one another’s business, legally recognised partners, employer and employee, one controls 25% or more of the other’s voting stock, one directly or indirectly controls the other, both are controlled by a third person, or they are members of the same family. Two separately-incorporated group companies under common promoter control, for example, qualify as related persons even though they are distinct legal entities.

Rule 28: the valuation method

Where goods or services (or both) are supplied between related persons, other than through an agent, the value of the supply is determined, in this order:

1. **The open market value** of the supply.
2. If that cannot be determined, **the value of goods or services of like kind and quality**.
3. If neither can be determined, the **cost method** (broadly, 110% of the cost of production, manufacture or acquisition) or the **residual method**, under the general CGST Valuation Rules.

The full-ITC proviso: the practical safety valve

Rule 28 carries a proviso that matters enormously in practice: **where the recipient of the supply is eligible to claim full input tax credit, the value declared in the invoice is deemed to be the open market value of the goods or services** - regardless of what the true open market value actually is.

Worked example

Suppose Company A supplies goods worth Rs 1,50,000 (the actual open market value) to its related entity, Company B, but invoices it at Rs 1,00,000. If Company B is eligible for full input tax credit, and claims the full GST charged on the invoice - say Rs 18,000 at 18% of Rs 1,00,000 - then the invoice value of Rs 1,00,000 is deemed to be the open market value for GST purposes. Company B carries forward only Rs 18,000 of credit, not the higher amount that would have applied had the goods actually been valued at Rs 1,50,000.

Why the proviso exists

The detailed open-market-value and like-kind-and-quality methods exist to stop related parties under-pricing a supply purely to reduce tax. But where the recipient can claim full credit anyway, under-pricing the supply causes **no loss of GST revenue** - the recipient simply gets a correspondingly smaller credit, matching the smaller tax actually paid. The law therefore does not require the fuller valuation exercise in that situation, and simply accepts the invoice value.

How CSM & Co LLP can help

Deciding whether the full-ITC proviso genuinely applies, and documenting related-party pricing correctly where it does not, is a recurring question for group structures and intra-company transactions - please reach out to our team and we will be happy to assist.

Technical terms explained in simple words

Term	What it means
Related person	Parties connected by specific relationships GST law defines - common directors, business partners, employer-employee, common control, family, and similar - whose transactions need a different valuation approach than an ordinary sale.

Term	What it means
Open market value	The full value a supply would fetch between unrelated parties dealing at arm’s length.
Like kind and quality	Goods or services that are the same as, or closely resemble, the ones being valued, in characteristics, quality and reputation.
Full input tax credit	Where the recipient of a supply can claim the entire GST charged on it as credit, with no restriction or blockage.
Cost method	A fallback valuation approach based broadly on 110% of the cost of producing, manufacturing or acquiring the goods or services.

Frequently asked questions

Why can’t a sale between related persons simply use the invoice price for GST?

Because section 15(1) of the CGST Act allows transaction value (the price actually paid) only where the parties are not related persons and price is the sole consideration. Once the parties are related, the stated price cannot be assumed correct, and Rule 28 of the CGST Rules fixes the value instead.

What is the order of valuation methods under Rule 28?

First, the open market value of the supply. If that cannot be determined, the value of goods or services of like kind and quality. If neither can be determined, the cost method or the residual method under the general CGST Valuation Rules.

What is the full-input-tax-credit proviso under Rule 28?

Where the recipient of the supply is eligible to claim full input tax credit, the value declared in the invoice is deemed to be the open market value, regardless of the actual open market value - the detailed valuation methods do not need to be applied in that case.

Why does the full-ITC proviso exist?

Because when the recipient can claim full credit, under-valuing the supply does not cause any revenue loss to the government - the recipient only gets credit for the GST actually charged on the invoice, not for the higher amount of tax that would have applied at the true open market value.

Does Rule 28 apply only to transactions between group companies?

No. It applies to any supply between “related persons” as defined in the Explanation to section 15 - officers or directors of each other’s businesses, legally recognised business partners, employer and employee, parties under common control, family members, and similar relationships - not only to intra-group corporate transactions.

Official sources

- CBIC Tax Information Portal - Rule 28, CGST Rules, 2017 (Value of supply of goods or services or both between distinct or related persons, other than through an agent)
- CBIC Tax Information Portal - Section 15, CGST Act, 2017
- GST Portal

Related reading

- GST on Services (2026) Part 2: Toll TOT Model, Reseller ITC, R&D Certificate, Coffee Curing and Seed Storage
- 57th GST Council Meeting (October 2026): Arrest Powers Removed, Faster Refunds and Wider ITC
- Stock Transfer under GST (2026): When It Is Taxable, and When It Is Not

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