Valuation of Supply under GST (2026): Section 15, Transaction Value and Discounts

Description

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Quick summary

- GST is charged on “transaction value” - the price actually paid or payable for a supply, but only where the supplier and buyer are unrelated and price is the sole consideration.
- Section 15(2) of the CGST Act adds specific items into the taxable value: other taxes and duties (except GST itself), costs the supplier should have borne but the buyer paid, incidental charges like packing and commission, interest or late fee for delayed payment, and subsidies linked to the price (government subsidies excluded).
- A discount given before or at the time of supply, and recorded in the invoice, is never part of the taxable value - no conditions attached.
- A post-supply discount is excluded only if the supplier issues a credit note and the buyer reverses the matching input tax credit, as section 34 requires; a Finance Act, 2026 amendment to this rule is enacted but not yet notified into force.
- When price alone cannot fix the value - for example, between related persons - the value is worked out instead under the CGST Rules’ valuation methods, not simply assumed.

How much GST is charged on a supply depends on getting one number right first: the value of that supply. Get the valuation wrong - by leaving out something that should be added, or including a discount that does not qualify - and every GST figure that follows is wrong too.

New to terms such as “transaction value” or “related persons”? See the technical terms explained in simple words further down.

The starting point: transaction value

Under section 15(1) of the CGST Act, 2017 (Value of Taxable Supply), the value of a supply is its **transaction value** - the price actually paid or payable for it - but only where **two conditions both hold**:

1. The supplier and the recipient are **not related persons**, and

2. **Price is the sole consideration** for the supply - nothing else of value is changing hands alongside the money.

If either condition fails - say, a sale between group companies, or a deal bundled with some other non-cash benefit - the stated price cannot simply be taken at face value, and the valuation moves to the rules discussed further down.

What must be added to the transaction value

Section 15(2) lists specific items that are **always added** to the taxable value, even if they are not part of the headline price:

1. **Any other tax, duty, cess, fee or charge** levied under any law other than the GST Acts themselves, if charged separately by the supplier (GST itself is never added on top of GST).
2. **Costs the supplier was liable to pay, but which the recipient actually paid instead**, and which were not already built into the price.
3. **Incidental expenses**, including commission and packing, and any amount charged for anything the supplier does in connection with the supply, at or before delivery.
4. **Interest, late fee or penalty** charged for delayed payment of consideration.
5. **Subsidies directly linked to the price** - except subsidies given by the Central Government or a State Government, which are specifically excluded.

Example: A manufacturer sells machinery for Rs 5,00,000, separately charges Rs 15,000 for packing and transport, and offers 2% interest if payment is delayed beyond 30 days. The packing and transport charge is added under clause (c); any interest actually charged for a delay is added under clause (d). Both become part of the value on which GST is calculated - they are not separate, GST-free charges.

How discounts are treated

A discount given before or at the time of supply is excluded from the taxable value automatically, with only one condition: it must be **recorded in the invoice** for that supply. No further paperwork is needed.

A discount given after the supply has already happened is a stricter case. It is excluded only if:

- The supplier issues a **credit note** for the discount, and
- The recipient **reverses the input tax credit** attributable to that discount, as required under section 34.

If the recipient does not reverse the matching credit, the post-supply discount cannot be excluded from the supplier’s taxable value - which is why post-supply discount schemes (year-end rebates, volume-linked discounts, and similar) need careful documentation on both sides of the transaction, not just a credit note from the seller.

A pending change to watch: the Finance Act, 2026 (enacted 30 March 2026) has amended this exact discount provision in section 15(3)(b), but **the amendment is not yet notified into force** as of this post. Until it is notified, the current rule above - credit note plus matching credit reversal by the recipient - still applies in practice. Check for the notification date before relying on any changed treatment.

Who counts as a “related person”

Section 15's Explanation defines related persons broadly - the test is not limited to family. Two persons are related if:

- They are **officers or directors** of one another's businesses;
- They are **legally recognised partners** in business;
- One is the **employer** and the other the **employee**;
- One directly or indirectly **owns, controls or holds 25% or more** of the other's voting stock or shares;
- One directly or indirectly **controls** the other;
- Both are directly or indirectly **controlled by a third person**;
- Together they directly or indirectly **control a third person**;
- They are **members of the same family**; or
- One is the **sole agent, sole distributor or sole concessionaire** of the other, however that relationship is described.

A sale between related persons is not automatically disallowed or penalised - it simply cannot be valued at a stated price alone. The valuation has to be worked out under the CGST Rules' specific methods instead.

When the stated price cannot be used

Under section 15(4), where the value cannot be determined under section 15(1) - most commonly because the parties are related, or the consideration is not wholly in money - the value is determined **in the manner prescribed by the CGST Rules**, not simply assumed from the invoice. Broadly, these rules look (in order of preference, depending on the exact rule) at the open market value of an identical or similar supply, or fall back to cost-based or residual methods where no comparable value exists. Section 15(5) also lets the Government, on the GST Council's recommendation, prescribe a special valuation method for specific categories of supply it notifies.

How CSM & Co LLP can help

Valuation questions come up constantly in practice - whether a discount qualifies for exclusion, whether a related-party transaction needs a different valuation method, or whether a reimbursed cost should have been added to the taxable value in the first place. Please reach out to our team and we will be happy to assist with transaction structuring, discount documentation, and related-party valuation under GST.

Technical terms explained in simple words

Term	What it means
Transaction value	The price actually paid or payable for a supply, used as its GST value when the parties are unrelated and price is the only thing changing hands.
Related persons	Parties connected by specific relationships the GST law defines - officers/directors of each other, business partners, employer-employee, common control, family, and similar - whose transactions need a different valuation approach.

Term	What it means
Credit note	A document a supplier issues to reduce the value of an earlier invoice, for example for a post-supply discount or a return of goods.
Input tax credit reversal	Giving back, in the buyer's GST return, a part of the input tax credit originally claimed, because the underlying purchase value has since reduced (for example, because of a discount).
Consideration	Anything of value - money or otherwise - given or promised in return for a supply.
Open market value	The full value a supply would fetch between unrelated parties dealing at arm's length, used as a benchmark when the stated price cannot be relied on for valuation.

Frequently asked questions

What is the value on which GST is charged?

The "transaction value" - the price actually paid or payable for the supply - but only where the supplier and the recipient are not related persons and the price is the sole consideration for the supply.

What gets added to the transaction value under GST?

Under section 15(2): any other tax, duty, cess or fee charged separately (apart from GST itself), any cost the supplier should have borne but which the buyer actually paid, incidental charges such as packing and commission, interest, late fee or penalty for delayed payment, and subsidies directly linked to the price - except subsidies given by the Central or State Government.

Are discounts excluded from the value of supply?

A discount given before or at the time of supply is excluded automatically, as long as it is recorded in the invoice for that supply. A discount given after the supply is excluded only if the supplier issues a credit note for it and the buyer reverses the matching input tax credit, as required under section 34.

Who counts as a "related person" for GST valuation?

Officers or directors of each other's businesses, legally recognised business partners, an employer and employee, anyone who owns or controls 25 percent or more of both businesses' voting stock, one business controlling the other (directly or indirectly), both controlled by the same third party, both jointly controlling a third party, members of the same family, and a sole agent, sole distributor or sole

concessionaire of the other party.

What happens if the price alone cannot fix the value of a supply, such as between related persons?

Section 15(4) sends the valuation to the methods prescribed in the CGST Rules instead of relying on the stated price - these rules look at comparable open-market value, the value of similar supplies, or cost-based methods, depending on the situation.

Has section 15 changed recently?

Yes - the Finance Act, 2026 (enacted 30 March 2026) amended the discount provision in section 15(3)(b), but as of this post that amendment is not yet notified into force, so the earlier wording (credit note plus matching input tax credit reversal) still applies in practice.

Official sources

- CBIC Tax Information Portal – Section 15, CGST Act, 2017 (Value of Taxable Supply)
- 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

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