

REFUNDABLE TAX SYSTEM

by

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ABSTRACT

In the modern world the indirect taxes take an essential part of Governments' Tax Revenue. Various countries are following various types of Indirect Taxations like Sales Tax, Value Added Tax and Goods and Services Tax. In this situation, I am introducing a new Indirect Taxation concept which I have named as "Refundable Tax System". I have written this concept to fulfill the purpose of Indirect Tax as well as to create awareness of Indirect Tax among people and also enhance the people's life by way of Refund of Tax.

DESCRIPTION

Refundable Tax System is based on Single Point Tax which levied on a product as fully paid at the point of finished products come out from manufacturer. This tax can be claimed and refunded to manufacturers and traders in certain percentage by submitting proper returns and the Refunded Tax amount will be distributed to their workers equally. Refundable Tax is a Single point tax which is levied directly on the sale value of a product, i.e. before Trade Discount. This Taxation introduces new Ledger A/cs which help to maintain books of accounts are as follows...

NEW LEDGER A/Cs

- 1. Refundable Tax – Input*
- 2. Refundable Tax - Output*
- 3. Tax Reverse Discount*
- 4. Own Risk Rebate*
- 5. Refundable Tax Collected*
- 6. Tax Expenditure*
- 7. Profit Reserve*
- 8. Tax Expenditure Reserve*

EXPLANATION

The refund of tax is calculated on sale value before tax reverse discount for the purpose of getting tax refund.

Refund of Tax: -

This concept's main theme is getting refund from tax and distributing the refunded tax to the company's workers equally. The Manufacturers, Dealers & Retailers who deal with Manufacturing and Trading, only can claim the Refund of Tax. The Refund can be claimed from the amount of input of the Tax. Usually the discount on product will be deducted on the product value after which the Sale Tax or VAT is calculated. In this concept the Refundable Tax will be calculated on the Product Value after which the Discount i.e. Tax Reverse Discount will be calculated. While claiming the Refund of Tax the discount Input (TRD), is directly deducted from the Product value after which the Actual Refundable Tax will be calculated, and the difference between the Actual Refundable Tax and Refundable Tax Paid will be refunded. The Process is explained below.

The Refund of Tax is calculated in two steps

STEP 1

As per Invoice	Amount
Purchase	10000
Add: Refundable Tax @ 10%	1000
Sub-Total	11000
Less: Tax Reverse Discount @ 5%	500
Invoice Total	10500

STEP 2

As per Returns	Amount
Purchase	10000
Less: Tax Reverse Discount @ 5%	500
Sub-Total	9500
Refundable Tax @ 10% Actual or Calculated	950
Refundable Tax @ 10% Paid (as per books)	1000
Refund of Tax	50

The Following illustration helps to understand this concept and its implementation in books of accounts and also the impacts or changes in the way of maintaining the books of accounts.

ILLUSTRATION:

Particulars	Value	RFT 10%	Sub-Total	TRD 10%	Total	Remarks
Opening Stock / Reserve	15000	1500	16500	1650	14850	Claimed
Purchases / Inputs	17000	1700	18700	1870	16830	To be claimed
Total	32000	3200	35200	3520	31680	
Transferred to Manufacture						
From Opening balance	7500	750	8250	825	7425	Claimed
From Current Purchases	9000	900	9900	990	8910	To be claimed
Total Transfers	16500	1650	18150	1815	16335	
Closing Stock / Reserve	15500	1550	17050	1705	15345	

Note: -

Margin of Profit 15%

Total Manufacturing Cost 7% on Stock used to manufacture

Tax Reverse Discount 10% on Product Price

Refundable Tax 10%

Prepare: -

Refund Workings

Stock Transfer to Manufacture Workings

Non-GP Trading A/c

Trading and Profit & Loss A/c

Step 1

As per Invoice	Amount
Purchase	17000
Add: Refundable Tax @ 10%	1700
Sub-Total	18700
Less: Tax Reverse Discount @ 5%	1870
Invoice Total	16830

Step 2

As per Returns	Amount
Purchase	17000
Less: Tax Reverse Discount @ 5%	1870
Sub-Total	15130
Refundable Tax @ 10% Actual or Calculate	1513
Refundable Tax @ 10% Paid (as per books)	1700
Refund of Tax	187

Note: The Returns Filed Refundable Tax converted to Refundable Tax Claimed and the Tax Claimed Value i.e., proportionate to Stock Used for production is treated as Tax Expenditure.

REFUND CALCULATION

Tax Calculation: -

This Refundable Tax System is based on Single Point Tax System. This concept processes the Calculation of Refundable Tax directly from the Sale Value or Purchase Value of a product after which the discount is deducted. It fulfills the object of levy of tax (Indirect Tax) on a product. It has been explained in the below example. In case of Manufacturers, the RFT Output on Finished goods cannot be set off with the RFT Input (i.e., from Purchase) because the Manufacturers produce new products.

Tax Reverse Discount: -

The Tax Reverse Discount is maintained in a separate ledger A/c as dealers' and retailers' profit as well as manufacturers. It prevents from the Profit of concern as Invisible. In this concept the Sale Value cannot be reduced by discount, but the TRD has power to reduce the Sale Value only for claiming purpose to get Refund of Tax. It is explained in the below example. In case of Manufacturers the TRD takes place in two different roles i.e. Tax Reverse Discount Input as Income and Tax Reverse Discount Output as Expenses.

Profit Reserve

This concept introduces Profit Reserve feature. It is calculated on the basis of closing balance of Tax Reverse Discount Input proportionate to the Closing Stock value. In case of Manufacturer the claimed TRD set off with the TRD utilized for Raw Material taken for Manufacturing is the Profit Earned. It has been explained in the below example....

Refundable Tax Claimed: -

The Refundable Tax Claimed is treated as Tax Expenditure and the value derived from the proportionate stock is used to manufacture. The Closing balance of RFT claimed is treated as Tax Expenditure. The process is explained below.

Reserves Calculation	Amount	Ledger Name
Opening Stock	15000	
Add: Purchases	17000	
Total Stock Value (A)	32000	
Stock Transferred to Manufacture (B)	16500	
Refundable Tax Claimed	1650	Tax Expenditure
Total	18150	
Tax Reverse Discount Used	1815	Discount Earned
Closing Stock (A-B)	15500	
Refundable Tax (Proportionate to Closing Stock)	1550	Tax Reserve
Total	17050	
Tax Reverse Discount 10%	1705	Profit Reserve

Accounts with Inventory

The major benefit of this Refundable Tax System is Accounts with Inventory. In this concept the Manufacturer can prepare two types of Trading A/c, one is Non-Gross Profit Trading Account and the other is Trading Account with Gross Profit. The Non-Gross Profit Trading A/c processes the raw materials transferred for manufacturing without any value difference. The purpose of preparing Non-Gross Profit Trading A/c is to find out whether the stock transferred to manufacture is, at the same value or not, to prevent from the manual value adjustments in Closing Stock. The Trading Account with Gross Profit is prepared after the finished goods sale take place. It has been illustrated below.

Non-Gross Profit Trading A/c

Particulars	Amount	Particulars	Amount
Opening Stock	15000	Stock transferred to Manufacture	16500
Purchases	17000	Closing Stock	15500
Total	32000	Total	32000

Margin of Profit Calculation	Amount
Stock used to manufacture	16500
Manufacturing Cost 7%	1155
Tax Expenditure	1650
Total	19305
Less: Profit used (TRD)	1815
Total	17490
Margin 15%	2623.5
Total Product Value	20113.5

The Margin of Profit can be calculated in any method, either the above example or as per costing. It is an example for Taking value of Product Sale Value.

Fixed Selling Price: -

Refundable Tax System suggests Fixed Selling Price of a Product. The price of a product remains the same till handed over to the end user. This concept ensures the stability in Product Price till Final Consumption. If a manufacturer fixes a product price it will not change at any point i.e. manufacturer to dealer to retailer to final user. It has been explained in the below example.

Manufacturer to Dealers	Amount
Sale Value or Product Price	20113.50
Refundable Tax @ 10%	2011.35
Total	22124.85
Tax Reverse Discount 10%	2212.49
Total	19912.37

Dealer to End user	Amount
Sale Value or Product Price	20113.50
Refundable Tax @ 10%	2011.35
Total	22124.85
Own Risk Rebate @ 5%	1106.24
Total	21018.61

Own Risk Rebate: -

Own Risk Rebate will be applicable only when a Retailer or Dealer or Manufacturer sells their products (also applicable to exempted goods) to the ultimate user. Own Risk Rebate has no power to get the Refund of Tax.

Trading A/c with Gross Profit

Particulars	Amount	Particulars	Amount
Opening Stock	15000.00	Sales	20113.50
Purchases	17000.00	Closing Stock	15500.00
Gross Profit	3613.50		
Total	35613.50	Total	35613.50

Trading A/c with Gross Profit is only applicable to Manufacturers because they are manufacturing a new product and it comes to the market as new product.

Profit & Loss A/c

Expenditure		Amount	Income		Amount
Tax Reverse Discount Output-10% On Cost Value		2212.49	Gross Profit b/d		3613.50
Manufacturing Cost 7%		1155.00	Tax Reverse Discount Input	3520.00	
RFT Claimed	3200.00		Less: Profit Reserve	1815.00	1705.00
Less: RFT Reserve	1550.00	1650.00			
Net Profit		411.01			
Total		5428.50	Total		5428.50

FEATURES

Non-gross profit trading a/c

The first feature is “maintaining accounts and stock”. In my concept we can easily maintain the stock, because the difference between purchase and sale will be the closing stock and as usual accounts but without gross profit only for trading companies (because there is no need of gross profit to trading companies except manufacturing companies). The dealers are simply purchasing products and selling in between this transaction there is no need for Gross Profit.

Standard Retail Price

This concept suggests the Standard Retail Price, dealers or retailers can sell the products with the price at which he bought the product at for. For example Product 1-A is purchased at Rs. 100/- the same product 1-B at Rs. 110/- the buyer asks for 2 pieces of the item, the dealer can sell it at Rs.100/- for Product 1-A and Rs.110/- for Product 1-B, he can't sell both item at Rs. 110/-. So the customer won't be affected by the price revised (The price should be printed on the Packing).

Accounts with Inventory

This concept helps to maintain Accounts with Inventory. In the present procedure the stock can be maintained manually, and chances to change the closing stock value as per own wish but this is not possible in this concept.

Proper Returns and Maintaining Books Of Accounts

This concept ensures the manufacturers, dealers and retailers to maintain Accounts properly. Only maintaining the books of accounts and proper returns filing is the only way to get Refund of Tax.

Income Other Than Salary

This concept major benefit is an income of other than Salary by equal distribution of Refunded Tax to Workers.

Avoiding Tax Evasion

Government's income will also increase in this concept, because the tax is collected in a single point, where in dealers and manufacturers have to show accounts for refund of tax. If they failed to show accounts or improper accounts the government need not refund the amount to dealers and manufacturers it increases the government's income and less chances of tax evasion. All the necessary taxes are paid when a product comes out from after manufacturing to the market. So this concept comes under single point tax system.

Prevention from Invisible Profit

It helps to maintain Income Ledger i.e., Tax Reverse Discount Input separately neither by difference in Purchase and Sale. In Financial Accounting the Profit could be derived from Purchase minus Sale and the difference is treated as Profit or Loss, but this concept it maintained in Tax Reverse Discount Ledger. It Prevents from Invisible Profit. Manual adjustment of Closing Stock to decrease the profit is not possible.

Conclusion

This tax can be claimed and refunded to manufacturers and traders in certain percentage by submitting proper returns and the Refunded Tax amount will be distributed to their workers equally.

Thank You

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