INDIRECT TAXES- NOV. 2011

FIRST OF ALL Read Carefully –[Green portion expected]

- ✓ *Recent case laws [given in practice booklet IN QUESTION ANSWER FORM] SEE NOTE-1*
- ✓ *Amendments -o1-11-10 to 31-04-2011 [given in Amendment booklet.*

Specially -1.cir.no. 940/01/2011, SEC 3(2) AV = TARIFF VALUE

2. N/N 1/2O11

3. DEF. OF INPUT, C. G., I/S., EXEMPTED SERVICES

4. RULE 14 OF CCR, 2004

5. Num. question on forex (banking co.)

6. N/N 8/2011 AND N/N 9/2011 (SERVICE TAX)

- ✓ *Appeal, demand, refund, (Related to Customs Laws and Service Tax)- ONLY simple READING*
- ✓ *PLEASE SOLVE RTP -NOV-2011 (ICAI) IN EXAM CONDITION{IT COVERS 10-12 MARKS}*

Excise Laws

BASIC CONCEPTS	-	SEC 2(f), marketability, ASSEMBLY, PROVISO TO SEC 3
VALUATION	-	Rele, 4, 5, 6, 9,
CER, 2002	-	Rule-7, 8,10 12 BB, 16, 17, 21
CER, 2004	-	RULE 2(a), 2(k), 2(l) and rule 6[short question expected], RULE 3(5), 3(5B), RULE 3(7)(a), Rule 5, 6, 9, 13, 14, 15
Demand	-	Sec 11 A(1)/ (2), SEC 11D
Refund	-	SEC 11B(1) AND 11BB
SSI	-	Computation of limit. , and packing material concept
Penalties	-	Sec 9, 9A, 9AA, 34A , PENALTIES FOR NON SUBMISSION OF ER FORMS[pg. 61 of amendment book]
FORMS-	-	ER-1, ER2,……………. ER.8[FILING OF Return u/r 12 of CER, N/N -1/2011]

Custom Laws

Def	-	Imported goods, Coastal goods, Dutiable Goods, Importer, PIC, FGV, Importer
Valuation	-	Numerical Question,
Types of Duty	-	Calculation of custom duty.
Section	-	12, 13,1 8, 19,20, 23, 25, 26A, 35, 45, 47, 48, 49, 61, 64, 65, 69, 70, 71,72,74 75A, 76, 80,110,123,124,125

Service Tax

VARIOUS RULES & SECTIONS
SERVICE TAX RULES, 1994 (Rule-4A,4B, 7)
SERVICE TAX (determination of value) **RULES**, 2006 [Rule 5 (Pure Agent),6, 7]
Taxation of Services (Provided from outside India and received in India) Rules, 2006 [Rule 3]
SECTIONS: 65A, **66A**, 68, **69**, 70, 72, **76, 77, 78**,

TAXABLE SERVICES :-[Bold portion- M imp]

1. **Intellectual property services.**
2. **Copyright services**
3. **Banking and financial services**
4. **Tour operator's services.**
5. **Port services by major ports and other ports.**
6. **Airport services.**
7. Goods transport agency's services.
8. **Transport of goods by rail services.**
9. **Transport of air passenger service**.
10. **Transport of coastal goods and goods through inland water including national waterways.**
11. **Telecommunication services.**
12. Construction of commercial or industrial buildings or civil structures.
13. **Preferential location services.**
14. **Services involved in the execution of a works contract**
15. **Services of renting of immovable property**
16. **Management, maintenance or repair services.**
17. **Business auxiliary services**
18. **Health care services.**
19. **Promotion of brand services.**

State Level – Vat

- ⇒ **Origin destination Principle**
- ⇒ **Vat and CST**
- ⇒ **Zero rated Sales**
- ⇒ **Tax invoice**
- ⇒ **Registration**
- ⇒ **Composition scheme**
- ⇒ **Works contract**

Additional case laws (as provided by ICAI)

Q. The appellant was a manufacturer of electronic transformers, semi-conductor devices and other electrical and electronics equipments. During the course of such manufacture, the appellant also manufactured machinery in the nature of testing equipments to test their final products.

The appellant had stated in their balance sheet that the addition to the plant and machinery included testing equipments. The said position was further substantiated in the Director's report wherein it was mentioned that during the year, the company developed a large number of testing equipments on its own.

However, the assessee contended that such items were assembled in the factory for purely research and development purposes, but research being unsuccessful, same were dismantled. Hence, it would not amount to manufacture. The appellant further submitted that the said project was undertaken only to avoid importing of such equipment from the developed countries with a view to save foreign exchange.

Decide **whether assembling of the testing equipments for testing the final product in the factory amounts to manufacture?**

Ans. In the case of Usha Rectifier Corpn. (I) Ltd. 2011(S.C.) the Supreme Court observed that-

- Once the appellant had themselves made admission regarding the development of testing equipments in their own Balance Sheet, which was further substantiated in the Director's report, it could not make contrary submission later on.
- Moreover, assessee's stand that testing equipments were developed in the factory to avoid importing of such equipments with a view to save foreign exchange, confirmed that such equipments were saleable and marketable.
- Hence, the Apex Court elucidated that duty was payable on the testing equipments.

Q. A roll of aluminum foil was cut horizontally to make separate pieces of the foil and word "PULL' was embossed on it. Thereafter fixed number cigarettes were wrapped in it. An aluminum foil being a resistant to moisture was used as a protector for the cigarettes and to keep them dry. Revenue's submitted that the process of cutting and embossing aluminum foil amounted to manufacture. Since the aluminum foil ws used as a shell for cigarettes to protect from them moisture; the nature, form and purpose of foil were changed. **Does the process of cutting and embossing aluminum foil for the purpose of packing of the cigarettes amount to manufacture?**

Ans. In the case of **GTC Industries Ltd. 2011 (Bom.)** the High Court pronounced that –

- Cutting and embossing did not transform aluminum foil into distinct and identifiable commodity. It did not change the nature and substance of foil.
- The said process did not render any marketable value, only made it usable for packing. There were no records to suggest that cut to shape/embossed aluminum foils used for packing cigarettes were distinct marketable commodity.
- Since, foil was cut to size in a continuous process, process **did not amount to manufacture as per section 2(f) of Central Excise Act, 1944.**
- Only the process which produces distinct and identifiable commodity and renders marketable value can be called manufacture.

Q. Can separate penalty under section 112 of the Customs Act be imposed on the partners when same has already been imposed on partnership firm?

ANS. In the case of Mohmmed Farookh Mohammed Ghani 2010 (Guj.) the High Court observed that-

- Once penalty was levied on the firm for contravention of any provision of the Act or the Rules framed thereunder, it amounted to levy of penalty on the partners.
- Hence, there was no question of penalizing the partners separately for the same contravention, **unless expressly provided in the statute(as in case of company) .**
- For instance, Explanation to section 140 of the Customs Act equated partnership firm with company (which stands as separate entity distinct from its shareholders) in respect of commission of offences. However, there was no such corresponding provision in relation to imposition of penalty under section 112.
- In the light of the above discussion, the High Court pronounced that separate **penalty could not be imposed** on the partners in addition to the penalty on the partnership firm.

Q. Whether Chartered Accountant's certificate alone is sufficient evidence to rule out the unjust enrichment under customs?

Ans. In the case of BPL Ltd. 2010 (Mad.) the High Court noted that-

- section 27 of the Customs Act mandates on the importer to produce such documents or other evidence, while seeking refund, to establish that the amount of duty in relation to which such refund is claimed, has not been passed on by him to any other person.
- However, in the given case, the respondent had not produced any document other than the certificate issued by the Chartered Accountant to substantiate its refund claim.

- The certificate issued by the Chartered Accountant was merely a piece of evidence acknowledging certain facts. It would not automatically entitle a person to refund in the absence of any other evidence.
- Hence, the respondent could not be granted refund merely on the basis of the said certificate.

Thus, the High Court, overruling the Tribunal's decision, answered the question of law in favour of revenue.

VAT- NUMERICAL QUESTIONS *[DO IT IF POSSIBLE]*

Q. From the following particulars, arrive at the VAT liability for the month of January 2010 and also determine the amount of input tax credit to be carried forward for the next month.

(i) Input tax rate 5% and output tax rate is 15% in the State.

(ii)Inputs purchased in the month from within the State – 48,00,000

(iii) Output sold to buyers within the State during the month – 15,00,000

(iv)Output sold during the month to buyers as interstate sales – 3,00,000

(CST rate 2% against C Form)

(v)Inputs purchased from other States as interstate purchases against C Form @2% - 2,00,000(Provide suitable explanations where required with appropriate assumptions, if necessary) (5 marks)

Answer: - Calculation of VAT liability for the month of January 10 and amount of input tax credit to be carried forward to next month.

(i) Input tax credit available on the purchase of inputs from within the State will be 5% of Rs. 48 lakh i.e Rs.2, 40,000.

(ii) No input tax credit will be available on inputs purchased from other States.

(iii) VAT payable on sales within the State – 15% of Rs. 15 lakh i.e. Rs. 2,25,000

(iv) State VAT liability will be nil as the input tax credit (Rs. 2,40,000) is more than the output VAT of the State(Rs. 2,25,000)

(v) CST to be paid Rs. 6,000, i.e. 2% of inter-State sales of Rs. 3 lakh. This amount can be paid from the balance credit of Rs. 15,000(i.e. Rs. 2.40 lakh -2.25 lakh)

(vi) The amount available for carry forward to next month will be Rs. 9,000 i.e. Rs.(15000-6000) .

Q. The particulars regarding sale, purchase etc. of Shubham Udhyog for the last quarter of the year 2009-10 are as under:

			Rs.
1.		Purchases of raw material within the State	
	(i)	taxable at 1%	40,00,000
	(ii)	taxable at 4%	60,00,000
	(iii)	taxable at 12.5%	10,00,000
2.		Sale of goods manufactured from raw material purchased @4% tax rate	
	(i)	Taxable sale within the State (tax rate 4%)	20,00,000
	(ii)	Exempted sale within the State	10,00,000
	(iii)	Sale in the course of Inter – State trade or commerce (tax rate 4%)	10,00,000
3.		Sale of raw material purchased @1% tax rate	44,00,000

4.		Goods manufactured from the raw material purchased @12.5% tax rate were given on lease. The deemed sale price of such goods is Rs. 12,00,000,taxable @12.5%	

You may assume that input tax credit of tax on raw material used in manufacture of leased goods is available immediately. Compute the amount of Value Added Tax (VAT) payable by M/S. Shubham Udhyog for the relevant quarter. There was no opening or closing inventory.

How can he utilized the balance of input tax credit available, if any? (5 marks)

Answer

Computation of VAT payable for the quarter ending 31st March, 2010:-

	Particulars	**Rs.**
(A)	Output tax payable	
(i)	On sale of taxable finished goods within the state (Rs.20, 00,000 X 4%)	80,000
(ii)	On raw material (Rs. 44, 00, 000 X 1%)	44,000
(iii)	On leased goods (12,00,000 * 12.5%) [deemed sale]	1,50,000
	Total (A)	2,74,,000
(B)	Input tax credit available	
(i)	On raw material purchased@1% (Rs.40, 00,000 X 1%)	40,000
(ii)	On raw material purchased@1% (Rs.60, 00,000 X 4%) X 75% (Note- 1)	1,80,000
(iii)	On raw material purchased @ 12.5% (Rs.10, 00,000 X 12.5%)	1,25,000
	Total(B)	3,45,000
	Net VAT payable = (A)- (B)	(71,000)
	CST payable on inter- state sale adjusted (Rs.10, 00,000 X 4%)	40,000
	Balance of input tax credit carried forward to next quarter (Rs.40,000 – Rs.71,000)	31,000

Notes:

1. If the goods manufactured from raw material are exempt from tax, no input tax credit available on such raw material. Out of total sales of Rs. 40, 00,000 of goods manufactured from raw material purchased @ 4%.Credit will not be allowed in respect of the inputs used in the manufacture of exempted goods sold. It has been assumed that the amount of the exempted sale in the total sales of goods manufactured from raw material purchased @4% assuming the input output ratio to be constant. Hence, input tax credit has been allowed to the extent of 75%.
2. If finished goods are sold in the course of inter-state trade and commerce, credit is allowed.

Q. From the following particulars compute net VAT payable by M/s. TAB & Co. for the period ending March 31, 2011.

	Inputs procured:	Rs.
i.	Raw material at Nil VAT	10,00,000
ii.	Raw material at 4% VAT	40,00,000
iii.	Raw material at 12% VAT	20,00,000
	Output:	
i.	Intra state sale of finished goods at 4% VAT (these goods were produced entirely from raw material at NIL VAT rate procured as inputs).	15,00,000
ii.	Exempted sales (these goods were procured from raw material procured at 4% VAT to the extent of 50%)	20,00,000
iii.	Sale of finished goods intrastate at 12% VAT	20,00,000
iv.	Intrastate sale of raw material purchased at 4%	10,00,000
v.	50% of the raw material produced at 12% VAT has been utilized to produce capital goods for the manufacturing process in TAB & Co.'s factory.	15,00,000

Provide explanations where necessary. (5 Marks)

Ans. Computation of Net VAT payable by M/s. TAB & Co.:-

Output VAT payable.

S.No.	Particulars	Rs.
1.	Intra-state sale of goods at 4% VAT (Rs. 15,00,000 x 4%) (manufactured out of exempted material)	60,000
2.	Sale of finished goods at 12% VAT (Rs. 20,00,000 x 12%)	2,40,000
3.	Sale of raw materials purchased at 4% VAT (Rs. 10,00,000 x 4%)	40,000
	Total (A)	**3,40,000**

Input tax credit available

S.No.	Particulars	Rs.
1.	Purchase of raw material @ 4% VAT	80,000
2.	Purchase of 12% VAT including purchases used for capital goods produced (12% of Rs. 20,00,00) (Note-2)	2,40,000
	Total (B)	**3,20,000**

Net VAT payable = (A)-(B)=Rs.3,40,000 – Rs. 3,20,000=Rs. 20,000.

Notes:

1. Input tax credit for goods used to produce exempted goods will not be allowed. Hence, 50% of the input tax credit has been disallowed on purchases of goods at 4% VAT and utilized to produce exempted goods.
2. Input tax credit on raw materials is allowed even if the same has been consumed to produce capital goods. Hence, full input tax credit on goods purchased at 12% VAT has been allowed.

Q Compute the VAT payable at each stage using invoice method' from the particulars given below:-

Stage	Particulars	profit (as% of cost price)
I	Sambhav Medicaids Ltd sold the medicines manufactured By it to the distributors of medicines-Rishabh Pharmacy at Rs.4, 000	--
II	Rishabh Pharmacy sold the medicines to the Wholesalers-Suhani Medicos	56.25%
III	Suhani Medicos sold the medicines to the retailers Galaxy Medicines	25%
IV	Galaxy Medicines sold the medicines to the ultimate consumers	25%

Assume that the VAT rate is 4% and that there was no value addition at various stages of sale except profit margin.

Answer . Computation of VAT payable:-

Stage	particulars	VAT Liability	Less VAT credit	Tax to Government
I	Medicines sold by Sambhav Medicaids Ltd .to Rishabh Pharmacy at Rs. 4,000	=4,000X4%=160	--	160
II	Medicines sold by Rishabh Pharmacy to Suhani Medicos at Rs. (4,000+160)X156.25%	=6,500X4%=260	160	100
III	Medicines sold by Suhani to Galaxy Medicines at Rs. (6,500+100)X125%	=8,250X4%=330	260	70
IV	Medicines sold by Galaxy to ultimate consumers at Rs.(8,250+70)X125%	=10,400X4%=416	330	86

Author;-In our opinion the above solution as suggested by ICAI is not correct.

The correct solution will be as follows-

Stage	***particulars***	***VAT Liability***	***Less VAT credit***	***Tax to Government***
I	***Medicines sold by Sambhav Medicaids Ltd .to Rishabh Pharmacy at Rs. 4,000***	***=4,000X4%=160***	***--***	***160***
II	***Medicines sold by Rishabh Pharmacy to Suhani Medicos at Rs. (4,000)X156.25%***	***=6,250X4%=250***	***160***	***90***
III	***Medicines sold by Suhani to Galaxy Medicines at Rs. (6,250)X125%***	***=7,813X4%=313***	***250***	***63***
IV	***Medicines sold by Galaxy to ultimate consumers at Rs.(7,813)X125%***	***=9,766X4%=391***	***313***	***78***

Q . Rosesh Ltd. of Gujarat made a total purchases of input and capital goods of Rs. 55, 00,000 during the month of January, 2010 .The following further information is available:

(i)Goods worth Rs. 15, 00,000 were purchased from Assam on which C.S.T.@2% was paid.

(ii)The purchases made in January, 2010 include goods purchased from unregistered dealers amounting to Rs. 18, 50,000.

(iii)It purchased capital goods (not eligible for input credit) worth Rs. 6, 50,000 and those eligible for input credit for Rs. 9, 00,000.

(iv)Sales made in Gujarat during the month of January, 2010 is Rs.10, 00,000 on which VAT @12.5% is payable.

Assuming that all purchases given are exclusive of tax and VAT@4% is paid on them, calculate

(i)the amount of input tax credit available for the month of January,2010

(ii)VAT payable for the month of January, 2010 and

(iii)input tax credit carried forward.

Note: The input VAT credit on eligible capital goods is available in 36 equal monthly installments.

Answer .

	Rs	Rs
A. Purchases made in January, 2010		55, 00,000
Less: (i) Inter state purchases (input credit not available)	15, 00,000	
(ii)Purchase from unregistered dealer (input credit not available)	18, 50,000	
(iii)Capital goods (not eligible for input credit)	6, 50,000	40, 00,000
		15, 00,000

B. Input tax credit available

VAT credit on **input @4%**

4% of (Rs. 15, 00,000 –Rs.9, 00,000)

i.e.4% of Rs. 6, 00, 000	24,000
VAT credit on **eligible capital goods**	
(4% of Rs 9, 00,000) X 1/36	1,000
Input credit available for January, 2010	25,000
C. VAT on sales @12.5% of Rs. 10, 00,000	1, 25,000
Less: Input tax credit	25,000
Net VAT payable	1,00,000
Input tax credit carried forward to February,2010	Nil

Q

1. A dealer purchases the following goods in a State during the month of March 20X6

particulars	Total amount (Rs.)	Input Tax Paid (Rs.)	Net Amount (Rs.)
4% VAT Goods	10,40,000	40,000	10,00,000
12.5% VAT Goods	9,00,000	1,00,000	8,00,000
VAT Exempt Goods	2,00,000	-	2,00,000
Total	21,40,000	1,40,000	20,00,000

2.The input tax paid on purchase of goods is eligible for VAT credit.
3.Sales made by the dealer during the month are as below:

Particulars	Gross Amount (Rs.)	Output Tax Collected(Rs.)	Net Sales Consideration (Rs.)
4% VAT Goods	1,1,44,000	44,00,000	11,00,000
12.5% VAT Goods	10,12,500	1,12,000	9,00,000
VAT Exempt Goods	2,50,000	-	2,50,000
Total	24,06,500	1,56,500	22,50,000

Answer-

1. The dealer passes the following entry to record the goods purchased and input tax paid thereon:

4%VAT Goods Purchase A/c	Dr.	Rs. 10,00,000	
12,5% VAT Goods Purchase A/c	Dr.	Rs. 8,00,000	
VAT Exempt Goods Purchase A/c	Dr.	Rs.2,00,000	
VAT Credit Receivable (Inputs)A/c	Dr	Rs. 1,40,000	
To Bank A/c			Rs.21,40,000

2.The dealer passes the following entry to record the goods sold and VAT collected thereon:

Bank A/c	Dr.	Rs.24,06,500	
To 4% VAT Goods A/c			Rs.11,00,000
To 12.5% VAT Goods A/c			Rs.9,00,000

To VAT Exempt Goods Sales Goods A/c Rs.2,50,000
To VAT Payable A/c Rs.1,56,000

3.The dealer passes the following entry to record the liability for VAT payable met by using the balance in the VAT Credit Receivable (INPUTS)Account and balance by bank.

VAT Payable A/c Dr Rs. 1,56,000
To VAT Credit Receivable (Inputs)A/c Rs.1,40,000
To Bank Rs.16,500

Q . On June 1, 2009 a dealer purchases one machine in a state for the total cost of Rs. 93,60,000 which includes input tax of Rs. 3,60,000 .As per the state VAT laws, input tax paid on purchase of machinery adjustable as VAT credit over 36 equal monthly installments beginning July 1 2009.Toll the end of the year, the "dealer has to utilized the VAT credit available on the machine.

Answer-

1. The dealer passes the following entry to record the machinery purchased and input tax paid thereon

Machinery A/c Dr. Rs 90,00,000
VAT Credit Deferred (Cap Goods)A/c Dr. Rs 3,60, 000
To Bank A/c Rs. 93, 60,000

2. When the VAT credit becomes actually available. The dealer passé the following entry to recognize the same every month.

VAT Credit Receivable (Cap Goods)A/c Dr. Rs. 10,000
To VAT Credit Deferred (Cap Goods)A/cRs. 10,000

3. The dealer depreciation on the cost of machinery excluding VAT Credit (i.e. Rs. 93,60,000 – Rs.3,60,000 = Rs. 90,00,000).
4. Balances in VAT credit Deferred (Capital Goods)A/c and VAT Credit Receivable (Capital Goods)A/c are disclosed in the balance sheet as on March 31,2010 as below:

Extracts from the Balance Sheet

ASSETS	Amount (Rs.)
LOANS AND ADVANCES	
VAT Credit Deferred (Cap Goods)A/c	2,70,000
VAT Credit Receivable (Cap Goods)A/c	90,000

Q Operation of VAT system and VAT accounting : XYZ Mfg. Co Ltd of Rajasthan Purchased raw material A from Rajasthan for Rs. 10,400(inclusive of 4% VAT), raw material B from Rajasthan for Rs. 22,500 (inclusive of 12.5% VAT),raw material C from China for Rs. 33,000 (inclusive of 10% import duty and raw material D from Maharashtra for Rs. 15,450 (inclusive of 2% CST). The plant and machinery required for manufacture was purchased for Rs. 2,08,000 (inclusive of 4% VAT).The manufacturing and other expenses (excluding depreciation)were Rs. 61, 550 .The plant is to be depreciated at 100%. The manufacturer's margin is 20% on cost. The VAT rate on the manufactured product is 4%

By way of necessary accounting entries and VAT chart, show the mode of operation of VAT system. Ignore the Central Excise implications, assuming that there is no excise duty on the manufactured product.

Answer-

Raw Material A (net of VAT Rs.400) Raw Material B (net of VAT Rs.2,500)	10,000 20,000
Raw material C (import duty will from part of cost, as it is not available as credit Raw material D (CST will from part of cost, as it is not available as credit) Depreciation on plant and machinery (100% of 2,00,000 i.e. price net VAT of Rs. 8,000) Manufacturing and other expenses	33,000 15,450 200,000 61,550
Cost of the product Add: 20% margin	340,000 68,000
Selling Price Add: VAT @4% of 4,08,000 Cost to the purchaser	408,000 16,320 424,320

VAT payable in cash by the manufacturer = 16,320 – 400 -2,500-8,000 = Rs. 5,420

ACCOUNTING ENTRIES

	Dr. Rs	Cr. Rs.
1. Purchase of Raw material A - Raw material A A/c Input Credit A/c To Bank	 10,000 400	 10,400
2. Purchase of Raw material B Raw material B A/c Input Credit A/c To Bank	 20,000 2,500	 22,500
3. Purchase of Raw material C Raw material C A/c To Bank	 33,000	 33,000
4. Purchase of Raw material D Raw material D A/c To Bank	 15,450	 15,450
5. Purchase of Plant and Machinery i.e. capital goods		

Plant and machinery A/c Input Tax Credit A/c To Bank	200,000 8,000	 208,000
6. Manufacturing and other expenses Manufacturing and other expenses A/c To Bank	 61,550	 61,550
7. Depreciation Depreciation A/c To Plant and machinery A/c	 200,000	 200,000
8. Sale of manufactured product Bank A/c To Sales A/c To VAT payable A/c	 424,320	 408,000 16,320
9. Purchase of Raw material C VAT payable A/c To Input Tax Credit A/c To Bank	 16,320	 10,900 5,420

Q Purchases by S &Co. for the month of December are as follows:
(1)Rs. 1,00,000 at 4%
(2)Rs. 5,00,000 at 12.5% VAT
Sales of S &co. for the month of December are as follows:
(1) Sales of Rs. 3,00,000 at 4% VAT
(2) Sales of Rs. 3,00,000 at 12.5% VAT
Compute eligible input tax credit and VAT payable for the month.

Answer-
Computation of input tax credit and VAT payable (amounts in Rs.)

Input Tax paid by S& Co on Rs. 1,00,000 @4%	4000
Input Tax paid by S& Co on Rs. 5,00,000 @12.5%	62500
Total input tax credit eligible	66500
Output tax payable on Rs. 3,00,000 @4%	12000
Output tax payable on Rs. 3,00,000 @12.5%	37500
Total tax payable	49500
Net input tax allowed to be carried over (Rs. 66,500 –Rs. 49,500)	17000
VAT payable by S &Co.	NIL

Q Vat liability at different stages : Manufacturer A extracted raw product X and raw produce Y from mines at Rs. 10,000 and Rs. 15,000 respectively and sold the same at 100% margin to Manufacturer B (VAT rate is 4% on produce X and 12.5% on produce Y). Manufacturer B used X and Y as raw material and sold the resultant product for Rs. 2,00,000 to wholesaler C (VAT rate is 4%). Whole sale C sold the same to Retailer D at 25% above cost (VAT rate is 4%). The retailer D sold the same to a consumer at 20% above cost (VAT rate is 4%).Compute the amount of VAT payable in cash by each person.

Answer-

VAT CHART (all amounts in Rs.)

1.VAT payable in cash by Manufacturer A		
4% on produce X i.e. 4% of 20,000 (10,00,000 +100% of 10,000)	800	
12.5% on produce Y i.e. 12.5% of 30,000 (15,000 + 100% of 15,000)	3,750	4,550
2.VAT payable in cash by Manufacturer B		
VAT@ 4% on sale price of Rs.2,00,000	8,000	
Less: VAT credit on raw produce X&Y	4,550	3,450
3.VAT payable in cash by Wholesaler C		
VAT@4% on sale price of Rs. 2,50,000(2,00,00+ 25% of 2,00,000)	10,000	
Less: VAT credit on purchases from manufacturer B	8,000	2,000
4.VAT payable in cash by Retailer D		
VAT@4% on sale price of Rs. 3,00,000(2,50,00+ 20% of 2,50,000)	12,000	
Less: VAT credit on purchases from Wholesaler C	10,000	2,000
Total VAT paid on the Government		12,000

The above illustration shows that the VAT paid to the Government at various stages (here, Rs. 12,000) is equal to the VAT collected from the ultimate consumer (here Rs. 12,000 or 4% of 3,00,000)

WISH U ALL THE BEST

CA Raj Kumar

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