MUKESH SIR KI CLASS - VAT

MUKESH AGARWAL Good Morning to all the students!! Let us straightway start the subject and first of all we should know what your syllabus is for IPCC Vat. Somebody can narrate me and other students the syllabus. Please!

MANISH: -

Yes sir! We have a subject on taxation comprising in 3 parts. The income tax is of 50 Marks and VAT of 25 marks. The rest 25 Marks are devoted to service Tax.

MUKESH AGARWAL

Nicely said!! Thank you **MANISH**! Now somebody tell us what is our syllabus for Vat!!!

AALAM: -

Yes sir! We have to study the following under Vat

1. VAT- The concept and General principals
2. Calculation of VAT liability including the input tax credits
3. Small dealers and composition schemes
4. VAT procedures

MUKESH AGARWAL : -

Well said **AALAM**!! Students you should note that VAT in our country is basically a state subject and all the states have separate VAT Acts and Rules. So here your study is confined to the basic concept of Vat and since Vat is a state subjects so here you can not read and study the Acts and Rules of each and every subject. So I think a Good News for all of you!! No definitions no procedural aspects!!!

Students: -

Sir, really it is good thing!!

MUKESH AGARWAL

Now we are starting our study of Vat. Let us first you should know that In our country the Vat in real sense was introduced in 2005 though before that some of the states like Maharashtra (introduced and taken back) and Haryana experimented it but only success before 2005 was Haryana state and this state has successfully introduced VAT in 2003 itself . The schedule of all the states with regard to implementation of VAT is as under:-

STATES	DATE OF IMPOSITION OF VAT	NUMBER OF STATES
1.Haryana	1-4-2003	1
2. Andhra Pradesh, West Bengal, Kerala, Karnataka, Orissa, NCT Delhi, Tripura, Bihar, Arunachal Pradesh, Sikkim, Punjab, Goa, Mizoram, Nagaland, Jammu and Kashmir, Manipur, Maharashtra, Himachal Pradesh, Assam and Meghalaya.	1-4-2005	20
3.Uttaranchal	1-10-2005	1
4. Rajasthan, Gujarat, MP, Chhatisgarh and	1-4-2006	5

Jharkhand.		
5.Uttar Pradesh and Tamil Nadu	After 2006	2

PRACHI: -

Basically sir please tells us what is Vat?

MUKESH AGARWAL :-

The VAT is a multipoint taxation system in which the seller collects tax from the purchaser at each stage of sell but at the time of deposit of the same to the Government, the tax paid by the seller on his own purchases is deducted.

Let us try to understand this with the help of following examples:-

First see the meaning of Vat for a Manufacturer:-

(i). MANUFACTURER

The Manufacturing Company ZIG-ZAG shoemaker Pvt. Limited has purchased raw material worth Rs.50000.00 after paying state tax of Rs.2000.00 @ 4%. The Labour contents are Rs.40000.00 and the margin towards administrative and selling expenses and profit is Rs.10000.00 hence the total sell price is Rs. 100000.00. Suppose the tax rate is 12.5% he will charge Rs.12500.00 as tax from the whole seller. Since he has already paid tax of Rs.2000.00 on the raw material hence his net tax liability will be Rs. 10500.00 after getting a credit of Rs. 2000.00 tax paid by him on Raw material. This is VAT for manufacturer.

Now see the meaning of Vat for a Whole-Seller

(ii). WHOLE – SELLER

The whole seller Tough shoe seller has purchase goods worth Rs.100000.00 after paying tax of Rs.12500.00 as mentioned above. Let us assume his margin for profit and expenses is Rs.7000.00 then he will sell the goods for Rs. 107000.00 to the retailer and also charge tax of Rs. 13375.00 from the retailer.
Since he has already paid tax of Rs. 12500.00 on his purchases hence his net tax liability will be Rs. 13375.00 Rs. 12500.00 = 875.00. Let us see the effect of VAT on whole seller and here we will be able to understand VAT much better. Since the expenses and margin of profit for the whole seller is Rs.7000.00 and this is the value added to the product by the whole seller and value added tax on whole seller is Rs. 875.00 and one can calculate it as 12.5% 0n Rs.7000.00.

And they see how the Goods reaches to the ultimate user i.e. to consumer and for this purpose here see the meaning of VAT for a Retailer:-

(iii). RETAILER

The retailer M/s Bright Shoe Point has purchased goods for Rs. 107000.00 after paying tax of Rs. 13375.00. Suppose his margin for profit and expenses is Rs. 10000.00 thus he will sell the goods to the customer at Rs. 117000.00 and charged tax Rs. 14625.00. His net tax liability will be Rs. 14625.00 13375.00= 1250.00 and we can verify it as 12.5% of Rs. 10000.00 since the value added by the retailer is Rs.10000.00.

SHUBHAM: -

MUKESH Sir, you told us that Vat in our country was practically introduced in 2005. What was the system of taxing the sale of goods before that and how it was different from the Vat?

MUKESH AGARWAL :-

It is the fact that sale of goods was also taxed before VAT and before going to understand VAT one should know how the goods were taxed in traditional Non-VAT sales tax system.

In pre-VAT era we have a single point sales tax system in which the tax is charged on first point of sale and thereafter no tax was payable on further points of sale and goods were sold Sales Tax Paid on all such further sales within the state. Let us try to understand this with the help of an example: -

FIRST SALE

X and Company, a manufacturer of refined edible oil, sold 1000 tins of the oil to **Y and company,** a wholesale trader and the rate of state sales tax on edible oil was 4% and rate of edible oil was Rs. 1000.00 per tin. The total sale price of goods excluding sales tax was Rs. 10 Lakhs and sales tax on this amount was Rs. 40000.00. Hence the total cost of goods for**Y and company** is 10.40 Lakhs including tax.

THE SECOND SALE

Now the per tin cost of oil for **Y and company** is 1040.00 and if after adding its profit @ 5% the goods were sold by **Y and Company** to retailers at Rs. 1092.00 and this is the sale price for **Y and company** and the Goods are sold **Sales tax paid** or more better known as **STP** and no further tax is required to be paid.

THE FINAL SALE TO CONSUMER

The cost for the retailer was Rs. 1092.00 and if the goods are sold by the retailers after adding 10% as their profit then the sale price for the retailer was Rs.1200.00 and here also the retailer have sold the goods to the consumer without paying further tax i.e. goods were sold STP.

Here see that the ultimate sale of goods to the consumer was at Rs. 1200.00 but the Government had received tax only Rs.40.00 i.e. on Rs. 1000.00, the sale price of the Manufacturer. The value addition from wholesaler to retailer and retailer to consumer remained tax-free and this is the basic difference, which should be kept in mind to understand VAT, which we are discussing just now in coming paragraphs.

This is the Traditional system of tax on sale of goods and it is pre VAT system.

TARANI: -

Sir! Why it is called Value added Tax?

MUKESH AGARWAL :-

Yes a good question! We can understand it as a tax on value addition on each point of sale. A very simple definition can be given to this tax, as VAT is a tax on value added hence it is called Value added tax.What is value addition and how it was not taxable in the traditional sales tax system has been explained in the preceding paragraph and now we have also seen that how value addition has been made taxable under VAT.

In simple words value added is the difference between the sale price and purchase price for all these THREE segments of the economy and value added tax is a tax on this value added by each chain of sales and in that sense it is a different from the age old traditional sales tax.

ANKIT BANSAL:-

Sir! How the tax is calculated under Vat?

MUKESH AGARWAL :-

The tax collected by a dealer, who may be a manufacturer, whole-seller or retailer is termed as Out put Tax and tax which was paid by the seller on his own purchases is called input credit and the tax payable is the difference between the two.

The tax payable under VAT is the calculated as under: -
Tax payable= Output Tax *Less* Input credit

If for a tax period i.e. for one month or three months depending on the VAT laws of particular state, input credit is more than the out put Tax then the balance tax will be carried forward to the next tax period or refunded to the tax payer at his option, if the tax system of a particular state permits refunds for each tax period. Normally the tax is carried forward to next tax period and adjusted against the tax payable in the next tax period.

Now for the purpose of calculation of tax liability under value added tax system input tax credit and out put tax is important factors. Input tax credit is the tax paid by the dealer on eligible purchases and out put tax is tax collected by the taxpayer on his sales. Let us study this term with the help of some examples.

Example -I

A manufacturer has of a state A has purchased Raw material from the same state worth Rs. 100000.00 after paying tax of Rs. 12500.00 @ 12.5%. His input tax credit will be Rs. 12500.00.
If he sold goods worth Rs. 250000.00 @ 12.5% then his out put Tax will be 31250.00 and his tax liability will be Rs. 18750.00.

Example- II

A whole seller purchased goods from a manufacturer of the same state worth Rs.50000.00 after paying tax of Rs.6250.00 @ 12.5%. His input tax credit will be Rs. 6250.00. If he sells goods for Rs. 60000.00 @ 12.5 % then his out put Tax will 7500.00 and his net tax liability is Rs. 1250.00.

We have discussed above is based on the presumption that all the purchases have been made within the state.

SUYASH HOLANI: -

OK Sir, I understood the concept of input tax credit but sir you told us that input tax credit is allowable only on the state purchases. What is its meaning sir? Why the input credit is not allowable on the purchases from the other states?

MUKESH AGARWAL :-

As we have already mentioned above that what we have discussed above is based on the presumption that all the purchases are being made within the state and if the purchases are made from another state i.e. the seller purchased goods from the state other than his own state then such purchases are called Inter-state purchases or more popularly known as CST Purchases and no input credit is available on the tax paid on goods purchases from other states by paying central sales tax.

You may ask a question **Why Not?**

Students: -

Yes why not sir?

MUKESH AGARWAL :-

The reply of this question is very simple. The CST is collected by the selling state and naturally the tax collected by the other sates cannot be adjusted in another state. Let us try to understand this with the help of an example. A dealer of Punjab has purchased goods worth Rs.100000.00 from a dealer of Delhi after paying CST of Rs.4000.00 during the course of interstate sales against 4% against form C. He sold these goods in his own state after charging LST of Rs. 13750.00. His tax paid is Rs.4000.00 and he wants to take credit of Rs.4000.00 CST paid by him. This credit of CST paid by him will not be available to him. The tax paid by him has been charged by the state of Delhi and it will not be possible for his own state Punjab to give credit of tax received by another state.

NIDHI:-
This is really a big problem sir!

MUKESH AGARWAL :-

Since sales tax is a state subject hence this problem will remain in federal system of governance. The feasible solution will be phasing out of CST, which is being considered by the central Government and phasing out of the central sales tax is already started and the rate of CST has been reduced from 4% to 3% and then to 2% and at present the rate is 2% but the Government has promised to make it 1% in 2009 and then it will be abolished. **At present the rate of CST is 2% but we are waiting for the notification of the Government to make it 1% as it is promised and it will be**
The CST has been considered as the biggest hurdle in smooth implementation of VAT but in our country VAT was introduced successfully simultaneously with continuation of CST though it was agreed between the states and the centre at very earlier stage of the discussion of VAT that CST will ultimately be phased out.

Now the phasing out of CST has started but this is not a result of introduction of VAT but the phasing out process which is just started w.e.f. 1st. April 2007 to make way for extended version of VAT, the Goods and service tax- 2010.

MUKESH AGARWAL
So students this is our First class on VAT and we will meet in our next class on VAT soon. Good bye have a nice day

END OF CLASS FIRST

VAT-IPCC MUKESH SIR KEE CLASS-2

MUKESH AGARWAL: - Good Morning Students once Again in your IPCC VAT class. Now today we are taking the following portion of your syllabus regarding VAT :-

1. **Inception of VAT internationally.**
2. **Different variants of VAT**
3. **Different Methods of calculating of VAT.**

1. HISTORY OF VAT

SANTOSH: - **MUKESH** Sir, Please tell us how this tax was first introduced in the world and then tell us when it was introduced in some of important countries of the world.

MUKESH AGARWAL : - Yes first see the word and concept of Vat was referred and proposed by Dr. Wilhelm Von Siemens in Germany in 1919 and he referred this concept as improved turnover tax and in 1921 the same type of concept was also suggested by Professor Thomas S. Adams in USA. Again in 1949 VAT was recommended in JAPAN.

JYOTI: - Sir, It means was introduced in west so many years back?

MUKESH AGARWAL : - Students please listen and understand what I am saying very carefully because this is the theoretical section of the VAT and you can do better by understanding of the same. Here I said that these three gentlemen started the discussion on VAT in Germany (1919), USA (1921) and Japan (1949) and the overall world came to know something about VAT from these three initial discussions and references.

AALAM: - Oh! Sir it was only discussion then when first VAT was introduced in any country of the world?

MUKESH AGARWAL : - in 1954 and first country was France. See the discussions were started from Germany, USA and Japan but France took the lead and introduced VAT in 1954 and till 1960 remain the only country in the world to have the VAT in their taxation system. Ivory coast was the second country to introduce VAT in 1960 followed by Senegal in 1961 and Denmark in 1967.

NIDHI: - What about other countries sir?

MUKESH AGARWAL : - Till today more than 130 countries have introduced VAT worldwide including India. I am giving you a chart of intial introduction of VAT.

S.NO.	NAME OF COUNTRY	YEAR IN WHICH VAT INTRODUCED
1.	France	1954
2.	Ivory Coast	1960
3.	Senegal	1961
4.	Denmark/Brazil	1967
5.	Netherlands	1969
6.	Sweden	1969
7.	Luxembourg	1970
8.	Belgium	1971
9.	Ireland	1972
10.	Italy	1973
11.	United Kingdom	1973
12.	Austria	1973
13.	Portugal/Spain	1986
14.	Greece	1987
15.	Finland	1994

Students you need not to remember the entire list but please remember some of the important countries and their year of implementation to make your answer more scoring. Yes please remember France and 1954 and other will depend on your capacity.

AALAM: - What about Asian Countries Sir?

MUKESH AGARWAL :- Yes **AALAM** , Republic of Vietnam took the lead in Asian countries and introduced VAT in 1973 but within one year it was taken back and reintroduced in 1999 followed by South Korea (1977), China (1984), Indonesia (1985) , Taiwan (1986) , Philippines (1988) Japan (1989) , Thailand (1992), Singapore (1994) and Mongolia (1998)

DHARMENDRA: - And sir, When the South Asian countries prepared for introduction of VAT.

MUKESH AGARWAL : - Pakistan in 1990 followed by Bangladesh (1991), Nepal (1997) and Sri Lanka (1998). In India Vat in true sense was introduced in 2005 and at present it is working throughout the country very well.

DIFFERENT VARIANTS OF VAT

MUKESH AGARWAL : - Students, I have a talk with you in my previous class regarding the calculation of Tax etc. by giving an example of Manufacturer, wholesaler and retailer. Exactly in our country the VAT has been introduced in the same manner but there is some more form of VAT which we will discuss here. Are you ready?

STUDENTS: - Yes sir!!!!!!

MUKESH AGARWAL :- There are three widely know format of VAT which can be described as under:-
Gross product variant GPR
Income Variant.
Consumption Variant.
See the most popular one is consumption Variant and India has also implemented this type of VAT in which tax is collected on the entire sales amount and credit of tax is given on all material and capital goods i.e. business inputs consumed for making this sale.
In case of Gross product variant but the deduction is given only with respect to the inputs excluding the capital goods.
In case of Income variant the tax is collected on all the sales but credit is given on all the inputs and depreciation part of the capital goods.

ANKIT SABLANI: - Sir, Please say something about the basic difference in these three and also tell us why the third one i.e. consumption variant is most popular.

MUKESH AGARWAL : - The basic difference is the input credit of tax paid on capital Goods. In gross product variant input credit is not allowed on capital goods and in Income variant the input credit is allowed on tax paid on depreciation part of the capital goods but in true sense these two does not reflect the logical effect of VAT hence the third one in which the input credit is allowed on all the inputs i.e. material and capital goods is the most popular and logical variant of the VAT and the same is applied in most of the countries including India.

3. METHODS OF COMPUTATION OF VAT

MUKESH AGARWAL : - Now students!!! This is the last part of todays VAT class. This is related to the different methods of calculation of VAT. Here also , broadly we have three methods of calculation of VAT and these are :-
Addition Method.
Invoice Method.
Subtraction Method.
Further the Subtraction method has two more parts :-
(i). Direct subtraction Method.
(ii). Intermediate subtraction Method.
Here also see the discussion is only of theoretical importance because the most logical system is invoice system and most of the countries including India have already implemented VAT on this system. But see this is the part of your syllabus hence you have to understand all the methods.

AALAM: - As far as I understand from the present system of VAT introduced in India the output tax is calculated on the basis of Sales invoice and further the input credit is also calculated on the basis of purchases invoice including the purchases invoice of capital goods eligible for input credit. Am I right sir?

MUKESH AGARWAL : - very well informed and intelligent student!! You have done my work and you are quite right. The concept is exactly the same. It is logical, practical and less cumbersome and easy to calculate. This is the invoice method of calculating the tax payable under VAT and it is very popular system hence implemented by most of the countries including India. Let us understand this method with the help of an example :-

Sales Invoice :-
Sales price Rs. 10000.00
Vat 12.5% Rs. 1250.00 (Output Tax)
Total 11250.00
Purchase Invoice :-
Purchase price Rs. 9000.00
Vat 12.5% Rs.1125.00(Input Tax)
Total
Tax Payable = Output Tax Input Tax
1250- 1125= Rs.125
Cross check = 12.5% on value addition of Rs. 1000.00 = Rs.125.00
Since whole the calculation is based on Invoice system hence the method is called the Invoice method.

MOHIT: - Sir, How can we describe the addition Method

MUKESH AGARWAL : - Calculate all the value additions i.e. labour Expenses and profit. See here in that if the labour is Rs. 100 .00 and expenses are Rs.500.00 and rest of the amount from value addition is the profit of the dealer in the previous example we have seen in the invoice method. The value addition is Rs.1000.00 which is the difference between the sale and purchase price and see here that difference between the sale and purchase price is not always the profit of the dealer because after purchasing the goods he has to put some expenses like labour and others on it. Now here add all the expenses and profit say Rs. 100.00 + 500+ 400.00(Profit) = 1000.00 and calculate 12.5% of Rs.1000.00 and this amount is Rs. 125.00 and this is the tax payable by the dealer.
Since the tax is payable on addition of all expenses and profit hence this is called addition method of calculation of tax.
This is not very popular version because the calculation and payment of tax is not matched with the invoices received (Purchases) and invoice issued (Sales) hence the check of Tax evasion is not possible.

ANKIT SABLANI: - And what about last method Subtraction Method Sir?

MUKESH AGARWAL : - Yes this is the last method and it is called Subtraction Method. This method is very simple and in this method one has to pay tax directly on the difference between the sale and purchase price.
Direct subtraction Method:- Calculate the tax by applying the rate on difference between sale and purchase (exclusive of Tax)
Here see the Goods sold by a manufacturer to distributor is Rs. 5000.00 exclusive of tax and the distributor is selling it on Rs. 6250.00 exclusive of Tax then the difference in purchase and sale price is Rs. 1250.00 and if the rate of tax is 12.5% then the tax payable is 12.5% on Rs. 1250 .00 and comes to Rs. 156.25.
Intermediate subtraction Method:-
Calculate the tax by applying the rate on difference between sale and purchase (inclusive of Tax)

The system is used when no separate tax is mentioned in the bill but not very popular.

SHUBHANGI: - Sir, What is the basic difference in the entire three systems sir? How they will affect the overall payment of tax.

MUKESH AGARWAL : - Here see the system are basically the same and if the rate of tax is the same then there will be no difference in overall payment of tax but see at present practically the rate of tax on input is not the same some inputs (Raw Material) are taxable at 4% though the output (The finished product) is taxable at 12.5% or vice versa and in that case the perfect result can only be ascertained form the Invoice system hence this system is most acceptable.

ANKIT SABLANI: - Please explain sir, the concept of different rate and its effect with some more descripttion.

MUKESH AGARWAL : - Yes see the result in invoice method, addition and subtraction method in case of tax rate is same is the same but if the rate is different then in case of invoice method the whole goods is taxable at the rate applicable on final product and if the raw material is taxable at less tax then the revenue (i.e. the Government) is compensated and if the raw material is taxable at higher rate than the final product then the Tax payer will get the benefit. Please try to understand this with the help of an example :-

Sale price Rs.10000.00 (Tax rate 12.5%- 1250.00)
Raw material Rs.6000.00 (Tax Rate 4%- 240.00)
Labour Rs.2000.00
Expenses- Rs.1000.00
Profit Rs.1000.00
Invoice Method :-
Tax payable- Out put Tax- 1250.00- Input Tax 240.00= **1010.00**
Now analyse this tax :- 12.5% on value addition of Rs. 4000.00= 500.00
Plus the difference of Tax on Rs.6000.00 @ 8.5% = 510.00
Total tax = **1010.00 (Same)**
Government revenue- 240(Tax on raw material) + 1010Tax on finished goods= 1250.00

Here see the raw material was only taxed @ 4% hence additional tax has been imposed on it @ 8.5% to make it taxable at the rate of tax on final product.

You can your self make an example to understand the situation in case rate of tax on raw material is greater than the final product.

See here in addition system :- Add labour 2000+ Expense 1000.00 + Profit 1000= 4000.00 hence the tax payable is Rs. 500.00

The Government got Rs. 240.00 earlier on raw material hence total tax is Rs.740.00 and got the less tax of Rs. 510.00 (from invoice method 1010 on final product + 240 on Raw material= 1250- 740= 510) and this Rs.510.00 is the tax @ 8.5% on Rs.6000.00 = Rs.510.00

You can see the same problem with subtractions method.

The Invoice system takes the care of this automatically but in case of addition and subtraction system this is the big drawback of these two systems hence the Invoice system is accepted by most of the countries.

Understood?????

STUDENTS: -Very Well understood sir!!!!

MUKESH AGARWAL : - Now this is end of our todays class students. In our next class we will take up
Merits and demerits of VAT.
Input credit
Composition schemes for small dealers.
VAT in Indian context.
And after that in the last class The procedural aspects of VAT including the penal provisions.
OK goodbye have a nice day.

END OF CLASS SECOND

MUKESH SIR KEE VAT CLASS-3

MUKESH AGARWAL : - Good Morning Students! Now after going through the first two classes we are going study today the following:-

1. **Merits and Demerits of VAT**
2. **Input credit**
3. **Composition scheme**
4. **VAT in Indian context.**

Are you ready students

STUDENTS: - YES **MUKESH** SIR!!!!!!

MUKESH AGARWAL :-Vat is a scientific and logical taxation system in which the last consumer knows about his contribution to the tax. We have some merits of the Taxation system as a whole and also from the age old sales tax system of taxing the sales of goods. Let us start the merits of the VAT and these are:-

1.No tax evasion
2. Neutrality
3.Certainty
4.Transparacy
5. Better revenue collection and stability.
6. Better accounting system.
7. Effect on retail price.

NO TAX EVASION

Let us first have the No tax evasion and since in VAT the tax is payable on sales at each stage and out of which the tax paid by the seller on his purchases is deducted then if at any stage of sell tax is not paid then it will not affect the revenue because in that case no deduction is available to the seller and he has to pay the whole tax. Hence the possibility of evasion of tax is very remote.

See an example: - X purchases goods worth Rs. 1000.00 after paying tax of Rs. 40.00 @ 4% and sold these goods at 1250.00 by applying tax @ 4%. The amount of Tax is Rs. 50.00. If he has no valid bill of purchases of goods then no credit is allowed to him and revenue will get Rs.50.00 from him hence if at any point in the series of sales tax is not paid it will not affect the revenue hence it is said that there will be no tax evasion in VAT.

NEUTRALITY

The second benefit is Neutrality and it means that the taxation system does not interfere in the choice of the purchaser and this is because of systems inbuilt anti cascading effect. If there are two raw materials for production of single finished goods and A raw material is 4% taxable and B raw material is 12.5% taxable. Naturally the manufacturer will go for 4% Taxable raw material but in VAT it will not make any difference and choice of the manufacturer has noting to do with the rate of tax because if the tax is paid at 12.5% then the manufacturer will get the credit of the same and if the tax is paid @ 4% he will get the credit @ 4%. Hence he has to consider the other merits excluding the rate of tax while selecting the raw material. This is the Magic of VAT.

CRTIANTY

The third merit is certainty and in the VAT the system of payment of VAT is simple and certain. Collect the tax on sales and deduct out of this the tax paid on purchases. Vary simple and certain. No need to go for definition of Sales, turnover, purchases. What are sales in common business practice is sales and what is purchase in common business practice is purchases? Every thing connected with the payment of tax is certain hence certainty is the one more important merit of VAT.

TRANSPARENCY

Buyer knows what he is contributing to tax is the transparency. In earlier system, tax is paid on first point and in the series of sales the last consumers did not know what amount has been included in the price of goods towards Tax.

BETTER COLLECTION OF REVENUE

I have mentioned while discussing the first merit of VAT that there is very little possibility of tax evasion under VAT and the positive effect of this first merit is the fifth merit of VAT i.e. The Better collection of Tax to the revenue. This in turn makes the VAT stable and flexible source of revenue. Stable in the sense that Government will get tax without evasion and flexible in the sense if the price increased then government will get the higher amount of tax.

See here in the age old sales tax system if one commodity is purchases by the dealer by paying Rs.100.00 as cost and Rs.4.00 as sales Tax but there is a sudden spurt in prices and the commodity is sold at Rs.200.00 but since the system of tax was single point then no further tax is payable but in VAT the revenue will get tax on whole Rs.200 hence this system is called stable (Govt. will get tax on every transaction of sales) and flexible also (Government will get tax on increased price also. One more benefit of flexibility of the system is that consumer will have to pay less tax if the prices got a negative turn.

BETTER ACCOUNTING SYSTME

To get the credit of input tax and also calculate the out tax (Both are essential for calculating the tax liability of the dealer) , the dealer has to prepare proper accounts within scheduled time limit hence it will certainly promote the better accounting system amongst the dealers.

EFFECT ON RETIAL PRICE

The last merit which though we are including in the merits is a explanation to the misinformation that VAT , since it has to be paid on final price of the product, will increase the burden of tax on the consumer but since it has inbuilt anti cascading effect hence the threat of increase of price will neutralize to certain extent.

Students do you understand the merits of VAT

SUDENTS: - YES SIR!!!!

DEMERITS OF VAT

MANISH: - After going through the merits of VAT we have understood the characteristics of VAT properly, sir is this system has some demerits and shortcomings also?

MUKESH AGARWAL : - Nothing is perfect in the world. But in case of Vat the demerits of VAT are mainly not the demerits of the basic VAT system but these demerits are attributed to the way in which system is applied in a particular country. See in India VAT is not centrally applied and it is handled by the states independently, there are more than one rate of tax, there are composition schemes, the central sales tax hence this distorted form of Vat will effect the merits of the system.

ARUN: - Sir, if VAT is imposed in its true sense and without compromising on its basics then there will be no demerits?

MUKESH AGARWAL : - Yes, but see every country has some limitations like ours hence there are some demerits practically attached with VAT which we are discussing in the following paragraphs, OK.

STUDENTS: - YES SIR PLEASE CARRY ON!!!!

NEUTRALITY IS RESTRICTED TO STATE PURCHASES

In India, we have the federal system of Governance in which both state and central have the right to impose tax hence the benefit of neutrality is restricted to the purchases within the sate and not applicable from the purchases from out side the state during the interstate transaction since no credit of interstate purchases is available.

INCREASE IN ADMINISTRATIVE COST

VAT is a complicated system hence it increase the accounting cost. This burden is more on small traders and firms. Further since the tax is paid at each stage hence it increases the working capital requirement.

ANTI POOR TAX

VAT is consumption tax and since the ratio of expenditure to income is more in the case of poor as far as consumption is concerned than the rich hence to that extend it can be termed that VAT is any poor taxation system. This drawback of Vat can be neutralized by taxing the necessities at lower rate and luxuries at higher rate.

INCREASES ADMINISTRATIVE COST

And the last drawback of VAT is that it increases the administrative cost and this is automatically be compensated by increased revenue.

INPUT CREDIT
(Most important part of VAT)

MUKESH AGARWAL : - Students! Now our next aspect of VAT is detailed study on input credit of Tax. See that there are two important dimensions of Tax liability in VAT. The tax liability is calculated as under (We have already understood this aspect in my first class):-

Tax due :- Out put tax Input tax credit
Where Tax due is: - Tax payable by the dealer.
Out put tax:- tax collected from the buyers by the dealer
Input tax credit:- Tax on purchases of the dealer which is eligible for set off against the out put tax

Now the most important factor out of these three terms is Input tax credit.

MAYUR: - Sir, How can we understand Input credit in simple words?

In common meaning Input tax credit more popularly known as ITC means the tax paid by the seller within the state on his purchases. Here see all the purchases are not eligible for ITC hence only eligible purchases are taken into account in the ITC. One thing here should be noted that the purchases should be within the state.

First we should understand the concept of ITC in the form of an example before taking our discussion to other sides of the ITC

EXAMPLE: - X and company has purchases raw material worth Rs. 1.00 lakh @ 4%, procession material @ 12.5% worth Rs. 0.25 Lakhs. Calculate the input credit of X and company on these purchases.

Descripttttion	Amount	Rate	ITC
Raw Material	1,00,000.00	4%	4000.00
Processing material	25,000.00	12.5%	3125.00
Total ITC			7125.00

Now Let us have a look at eligible ITC.

Goods purchased for making the following sales shall be eligible for ITC:-

1.	Goods purchased for Sales within the state- Seller is from Mumbai (Maharashtra) and Purchaser is from Pune (Maharashtra) Both seller and purchasers are from the same state. This is called sales within the state and in that case the dealer of Mumbai who sale goods to the dealer of Pune and collect tax from him and out of this tax he will deduct ITC on his own purchases which he has paid on his own purchases in the state of Maharashtra.
2.	Goods purchased for Interstate sales- More popularly known as CST sales. For example the seller is from Rajasthan and the purchaser is from Maharashtra. The sales is called interstate sales i.e. sales between two states and please note here that though it is called CST sales because it is governed the Central sales tax Act, but the revenue goes to the state government of the selling dealer. The selling dealer will get the ITC on purchases made by him within the state if the Goods are sold in interstate sales since the revenue from interstate sales is also received by the state Government of the selling dealer and if the selling dealer has paid some tax in the state on his purchases to be sold in interstate sales , the same will be eligible for ITC.
3.	Raw Material ,Packing Material, Consumable stores required for manufacturing of taxable Goods or packing of the same for sale within the state (as mentioned in one above) or sale during the sate (as mentioned in two above).
4.	Goods purchased to be used in execution of works contract: - See here that in case of works contract such as construction of a Building etc. the material is used and the property (ownership) of the material is transferred to the awarder (who give the contract) by the awardee (i.e. the contractor) and to the extent of transferred of property in the material used in execution of works contract it is called sale and taxable under the VAT. If the tax is paid by the contractor while purchasing the goods then the same shall be eligible for ITC.
5.	Capital goods to be used in manufacture or resale of taxable goods- See capital goods means plant, machinery , furniture etc. and all these are taxable . If these capital goods are used for manufacturing of goods or are used for sale of goods then the ITC (i.e. tax paid within the state on purchase of capital goods) shall be allowed.
6.	The goods such as raw material, capital goods, consumable stores and spares and packing material which is used for manufacturing/packing of goods to be sold during the export shall also be eligible for input credit.
7.	Purchases for making the Zero rated sales:-

SHUSHIL: - Sir, if the purchases are made for a particular Raw material which can be used for making taxable goods as well as tax free goods and actually the manufacturer used the raw material for both the purchases then how ITC will be allowed?

MUKESH AGARWAL : - Yes, very good question **Kushabu**! I was just near to explain this situation but I think you are very well prepared yourself before the class! Nice thing!
When eligible purchases are made and used partially for making of taxable goods and partially for making

of tax free goods then the ITC shall be allowed propionately. See the example in this respect:-

X and company has purchased 1000 K.G of raw material amounting to Rs. 10 Lakhs by paying Vat @ 4% i.e. Rs. 40000.00 . Now 75% of the material is used for making tax free goods and 25% for taxable goods. The ITC will be allowed for Rs. 10000.00 only (25% of the tax paid) since only 25% is used for making the taxable goods.

CHANDANI: - Sir, can you explain the concept of input credit on capital Goods in detail. Sir, my uncle also a CA told me that it is not available to traders and further there are certain restrictions also on ITC on capital Goods.

MUKESH AGARWAL : - Yes, the all the capital goods are not eligible for ITC in all the states. The states have decided their own law in this respect and since I explained earlier that VAT is a state law hence each state has its own provisions and especially for ITC on capital Goods the provisions differs from state to state.
Some states have allowed ITC on all the capital goods and to all the dealers including the traders but others have only allowed the same to the manufacturers and further in some states the ITC on capital goods are available only on machinery and plants used for the purpose of manufacturing.

CHANDANI: - Is their any difference in timing of allowability of ITC on capital goods.

MUKESH AGARWAL : - Some states allow it at once but the others in installments. The maximum time period as suggested by White paper is 36 Months.
See in Maharashtra it is allowed at once but in My state Rajasthan ITC on capital goods for bill up to Rs. 1 lakh is allowed at once but if the bill is more than Rs. one lakh then it will be allowed in 2 installments and one is in Sept and other one is in March.
So provision differs from state to state.

PRACHI: - Sir, you have mentioned White paper here. Sir, what is it?

MUKESH AGARWAL : - Yes, during the process of introduction of Vat , the Government has appointed a committee of Fiannce Ministers of all the states and since in Vat ,the central Government was only a guiding factor and states have to formulate law and implement Vat so a Guidance paper was issued by the Central Government covering all the important matters on VAT in consultation with the Sates. This Guidance paper was called white paper covered various procedural aspects of Vat also. It was issued with agreement to the states finance Ministers but on matters certain states took different stance to suit their conveyance and local needs.

MUKESH AGARWAL : - Now we, after seeing what is eligible for input credit, can easily make a negative list i.e what type of purchases are not eligible for ITC and further some of the purchases which are otherwise disallowable as per the basics of the VAT. Let us see the List :-

1. Purchases from unregistered dealers: - Purchase from dealers who are not registered under the VAT law of the state and since they are not registered they are not paying tax hence the purchases for such dealers are not available for ITC.
2. Purchase from dealers who opt for composition scheme: - The small dealers who instead of going for Vat, opts for composition scheme by paying a certain percentage (decided by state up maximum of 1%) of his turnover. If the dealer opts for composition scheme then the purchase from such dealer is not eligible for ITC.
3. States have the right to restrict any purchases being eligible for ITC and while dealing the VAT in particular state one has to go for special provision of that state to see what type of purchases are not eligible for ITC.
4. The purchases for which the purchasing dealer does not have the proper invoice and further if there is evidence that the same is not issued by the selling dealer then ITC will not be allowed. In the VAT

invoice the tax should be separately charged and if the amount of tax is not separately shown in the invoice then the same will not be eligible for ITC.
5. Purchase of goods which is used for manufacturing of exempted goods. Exempted here means Tax free Goods.
6. Purchase of goods which are not sold as taxable goods i.e. which were used for personal purpose or distribute as Gifts to the customers or dealers.
7. Goods purchased from outside the state (already explained) which includes the interstate purchases and purchases during the course of import from other countries.

GOODS SOLD OUTSITE THE STATE:-

These all purchases are not eligible for ITC. Further if goods are sold outside state on which no tax is paid or payable to the state in which purchases are made then the input credit is allowed to the extend of tax paid in excess of 4% .

This is very important and complicated provision and very important for your examination purpose also so please try to understand this very well.

See first what are sales out side the sate? Since it is called SOS or consignment sale or depot sale also. If the seller is made a outright sale then he will make a bill, charge tax (CST) in the case of interstate sales and deposit the same. Now suppose one dealer of A state has sent his goods to dealer of the another state for sale i.e. on consignment sale or to his own depot to sold there then this is not interstate sales and it is called consignment sales or branch transfer on which no tax is payable.

Let us try to understand this with the help of an example: - A dealer of state of A has sent his goods for consignment sale to a dealer of State B since it is not a sale and merely a transfer of goods hence it is not taxable and if it is not taxable then state A will not get any tax on it. Hence no ITC will be allowed on its purchases of goods which are sent for consignment sales to other stats.

Though a provision has been suggested in the white paper that the restriction is only applicable up to the tax paid on 4% rate and if tax is paid @ 12.5% then ITC will be allowed over and above 4% of the Tax i.e. 8.5% of the purchase price of goods will be allowed as ITC but if the tax paid is only 4% then No ITC will be allowed.

I think the point is clear.

SUTDENTS: - Thanks sir!

MAYUR: - Only one more thing sir! Why input credit is not allowed on CST purchases?

MAYUR , please go to my Class-1 and you will get the answer but I know this problem is very relevant here also and when you have the full knowledge of input credit and basic aspects of VAT then you are now in a better position to understand this particular situation of Vat so I am reproducing here again for the benefit of other students:-

The reply of this question is very simple. The CST is collected by the selling state and naturally the tax collected by the other sates cannot be adjusted in another state. Let us try to understand this with the help of an example. A dealer of Punjab has purchased goods worth Rs.100000.00 from a dealer of Delhi after paying CST of Rs.4000.00 during the course of interstate sales against 4% against form C. He sold these goods in his own state after charging LST of Rs. 13750.00. His tax paid is Rs.4000.00 and he wants to take credit of Rs.4000.00 CST paid by him. This credit of CST paid by him will not be available to him. The tax paid by him has been charged by the state of Delhi and it will not be possible for his own state Punjab to give credit of tax received by another state.

MUKESH AGARWAL : - Students! Input credit is the main term of VAT so I think to explain it to you I have taken a little extra time. So we will take Composition Scheme and procedural aspect of VAT in my Next class.

END OF CLASS -3

MUKESH SIR KEE VAT CLASS-4

MUKESH AGARWAL : - Good Morning Students! This is my fourth class on VAT and as far as the subject is concerned this is my Last class on VAT. In my next class I will provide you the questions on whole the subject and thereafter we will start the class of Service Tax. Now in this class we first try to learn some more important terms and then Composition scheme and in the last we will take the procedural part of the VAT. OK, Are you ready for one more long class.

STUDENTS: - Why Not sir!! We are ready!! Please carry on **MUKESH** sir!!!

1.THE WHITE PAPER ON VAT

MUKESH AGARWAL : - Now first of all we are taking white paper on VAT. Here note that the introduction of VAT in our country was not as smooth as it appeared after its successful implementation. An empowered committee of Fiannce Ministers of all the states was constituted under the chairmanship of Dr. Asim Das Gupta, the Finance Minister of West Bengal. First it was decided that the VAT would be introduced in 2003 i.e. from 1st. April 2003 but due to political situation and scheduled elections in most of the states VAT was postponed though Haryana was the only state to adopt VAT in 2003 itself.

The committee of state Finance Ministers was appointed under the Leadership of Dr. Asim Das Gupta, the Finance of West Bengal.

Later in 2005 the VAT was introduced in 20 states as stated in the schedule given above and before introduction of VAT a white paper was prepared by this Empowered committee of state Finance Ministers and released by the Finance Minister of the Country. In this White paper various modalities were set regarding procedural aspect of VAT alongwith the broad suggestive guidelines regarding this new concept of taxation in our country. The white paper also suggested a broad rate structure having minimum number of rates.

RAHUL: - Sir, White paper is a binding paper on the state?

CA SUHDIR HALAKHANDI: - No it was only suggestive but there was a broad agreement between the states on its major contents.

2.EXPORTS ARE ZERO RATED

TARANI: - Sir, How exports are treated under VAT?

Exports are Zero rated under VAT i.e. the input credit on the goods purchased for exports and goods used as raw material and packing material for exports will be available to the exporter and is refundable. All the states have made special provisions for early refund in this respect and White paper has set 3 Months time limit for making available the refunds to the dealers who are exporting the Goods.

3. EXEMPTION OR REFUNDS TO SEZ OR EOU UNITS

PRACHI: - And what about SEZ or EOU Units???

MUKESH AGARWAL :- Units Located in the SEZ (Special Economic Zone) and EOU (Export oriented units) under VAT are generally get the exemption from Tax on their purchases and if the provision is not made for exempted purchases for EOU and SEZ units then they will get the refund like normal exports.

4. TAX INVOICE

MUKESH AGARWAL :- A proper Tax invoice containing the required details is the basic requirement of claiming input tax credit.In general, the states have prescribed the details of invoice without prescribing the standard Performa of the same.

Generally the Tax invoice must contain the name of selling dealer, his TIN, amount of tax charged coupled with the general information about the goods sold. Further it should be serially numbered and to be made in duplicate to keep one copy of the same with the selling dealer. The word **TAX INVOICE** should be mentioned on it prominently to make it different from Non vatable bills.

5. GOODS SOLD AT LOWER PRICE

AALAM: - Sir, the tax is value added but there may be a situation when negative value addition i.e. the loss then what happened ??

MUKESH AGARWAL :- Value added tax has an inbuilt mechanism to take care of loss on sales and this unique feature of VAT give an upper hand to the VAT over traditional sales tax system. Let us see this system of compensating the unfortunate dealers sustain genuine business losses.

Let us try to understand this situation with the help of an example: -

M/s Yash trading company has purchased goods worth Rs. 1000000.00 after paying tax of Rs.40000.00 @ 4% within the state. Due to fall in prices the, the goods were sold by it for Rs. 800000.00 after bearing the loss of Rs.200000.00. In the traditional sales tax system these goods were sold STP i.e. sales tax paid and no credit for excess payment of tax was available.
In VAT the input credit of tax is Rs. 40000.00 and out put Tax is Rs. 32000.00 hence there is an excess of input credit of Rs. 8000.00, which can be carried forward or can be claimed as refund as per the procedure laid down by state law.

6.SUPERIOR THAN SALES TAX SYSTEM

Kushabu: - Sir, the VAT system if called transparent system , Please tell something more about this transparency.

MUKESH AGARWAL :- Alongwith with the Mechanism of compensating the dealer in case of loss the VAT system has one more superior characteristic and this is related to the transparency of the system. In VAT the last consumer is in a position to know the ultimate burden of tax since tax is written on each invoice issued by a VAT dealer.

NIDHI: - Are there some more positive features of VAT for Taxpayers?

MUKESH AGARWAL :- Yes, take an example of a dealer who purchased some goods after paying tax within the state but these goods are not sold by him and remained in the stock. The same dealer has sold some other taxable goods and collected tax on it. The dealer can adjust the Tax paid by him on the goods purchased by him but not sold and remained in stock against the output tax of the other goods sold by him.

Let us try to understand this with the help of an example. M/s Mohan and company has purchased goods A worth Rs. 100000.00 after paying tax of Rs. 12500.00 within the state. This commodity they purchased with an intention to hold in stock till next 6 months. During the same month they sold a commodity B purchased from agriculturist amounting to Rs. 200000.00 And collected tax of Rs. 8000.00

Now consider this situation in the pre- VAT era i.e. in old sales tax system M/s Mohan and company has to deposit a tax of Rs. 8000.00 to the govt. though it has stock of tax paid goods, which have suffered a tax of Rs. 12500.00.
But if transaction is taking place in a VAT then there is a comfortable situation for M/s Mohan and company because due to its input credit of Rs. 12500.00 no tax will be required to be paid for their out put tax liability of Rs. 8000.00. The simple principal is there Tax paid on commodity A can be adjusted against the Tax due on commodity B and while final payment of tax whole the input tax credit is considered without differentiating between the goods sold and remained in stock.

Imagine if the amount involved is bigger the results will be far much amazing because of interest cost on money involved.

This particular benefit is the result of inbuilt system of VAT. Manufacturers stocking the raw material will be the biggest beneficiaries of this provision.

Certain industries have to stock raw material in a certain period for the whole year because of seasonal availability or because of favorable price. Suppose M/s XZY Mfg. And trading company has purchased raw material worth Rs.50 Lakh after paying of Rs. 2 Lakh. In traditional sales tax system it had to pay regular sales tax on the sale of finished goods but under VAT during the first some months its tax liability will be very low or Zero due to the adjustment of Tax paid on its purchases.

7. TAX RATES UNDER VAT

GAURAB: - Please sir, tell us something about the Tax rates in Vat.

CA MUKESH HALAKANDI:- The rates under VAT are minimum in numbers as suggested by the White paper as mentioned above and these rates are: -

1. Exempt or Tax Free.
2. 1 Percent.
3. 4 Percent.
4. 12.5 Percent.

All these four rates i.e. from Exempt to 12.5% were suggested by the White paper but most of the states have invented a new rate i.e. 20% to tax some of commodities to balance their revenue and local needs.

8. TIN- TAX IDENTIFICATION NUMBER

ANKIT BANSAL: - Sir What is TIN under VAT.

MUKESH AGARWAL : - TIN is the unique Tax identification Number issued to every dealer registered under the VAT and it is 11 digits number in which first 2 digits represents the state in which the dealer is registered and rest of 9 digits set as per the local situations of the state. A dealer is recognised by his TIN.

9.COMPOSITION SCHEMES UNDER VAT

MUKESH AGARWAL : - Now students I have replied your all the questions on different terms of Vat and we are coming to one more important aspect of VAT i.e. Composition scheme for small dealers. Now should I start?

STUDNETS: - YES SIR!!!!

For dealers dealing directly with the consumers the, composition scheme of paying composition amount in lieu of the tax, ranging from 0.25% to 1% is introduced by almost all the VAT states. The general upper limit for the Composition dealers is Rs. 50 Lakhs.

The dealers opting for this scheme are not able to claim or pass on any input credit hence practically they can sell goods to consumers only and re-sellers or non-consumers are not purchasing goods from them. Before opting for the composition scheme a cost benefit analysis is must to ascertain its feasibility.

The maximum rate of composition in lieu of tax is 1% but some of the states have introduced a much lower rate but in any case cost benefit analysis is necessary for opting for composition scheme.

Further the dealers under Composition scheme are not eligible for CST purchase i.e. they cannot purchase goods from other states and CST sales i.e. cannot sale goods to other states.

The procedure for composition dealer is very simple and they have to file very simple return.
This is purely an optional scheme.

RAHUL: - Sir, Are there any restrictions on dealer not to opt for composition scheme?

MUKESH AGARWAL :- Yes following dealers are not eligible for VAT composition scheme :-
Manufacturers.
Importers of Goods from outside the state.
Importers of Goods from out side India.
Dealers who are selling the goods in interstate trader or commerce.
Dealers who are purchasing the goods from unregistered dealers of the state.
Further it should be noted the purchases of Compositon dealers should be from the VAT registered dealers of the State.

SUKRITI:- Sir , The composition dealers are saved from the complication of VAT i.e. they need not to calculate the input credit, need not to maintain complicated VAT records and also have to file a simple return and further required to pay a very small tax on their turnover and the turnover limit for them is Rs. 50 Lakhs. Further they have to purchases and sale all the goods from inside the state and all their purchases should be from registered dealers of their own state .Is it OK sir?

CA **MUKESH** HALAKHAND: - Yes, you have described all the basic of the composition schemes but what is your question?

SUKRITI: - Yes Sir, I am coming to that. If these all facilities are given to these dealers then instead of going for VAT why all the dealers having such characteristics opt for Composition schemes.

MUKESH AGARWAL : - A Good question and it shows that you understood the subject very well. Now I have explained that :-
The Composition dealers can not take the credit of tax paid by them.
The composition amount can not be charged in the bill.
The purchasers can not claim the credit of tax on purchases from composition dealers.
Since the composition dealers can not take the credit of the tax paid and further the composition dealers can not charge the composition amount in their bill in that case it is a charge against their profit. Hence before going for the composition scheme they have to do cost benefit analysis.
Further the purchaser can not claim the credit of tax with reference to the purchases from composition dealers. This is the biggest drawback. See composition dealers purchases goods within the state by paying state Vat and if they can not pass the credit to their purchasers then the chain of VAT dealers is broken and the goods become taxable at full rate again. So no dealer or manufacturer purchases goods from the composition dealers and they can only sale the goods to the final consumers who do not need the input credit.

MUKESH AGARWAL : - One more point. There is a threshold limit also i.e. the limit up to which no tax is required to be paid by the dealers and further they do not required the registration also. The white paper has fixed the limit at Rs.5 lakhs and also give states the power to increase the limit up to Rs. 10 Lakhs.

END OF CLASS -4

MUKESH SIR KEE CLASS- 5 QUESTIONS

VAT- QUESTIONS FOR STUDENTS

Q.:- 1.Vat was first introduced as a tax in the year:-

(a). 1919
(b). 1921
(c). 1948
(d). 1954

Q.:- 2.Vat was first introduced by the:-

(a). France
(b).Germany
(c).USA
(d).UK

Q.:-3. Tax in VAT is levies at:-

(a). First stage
(b).Second Stage
(c).Last stage
(d).Every stage

Q.:- 4.Which was the first Indian state introducing VAT successfully:-

(a). Rajasthan
(b).Bihar
(c).Haryana
(d).Gujrat

Q.:-5. A dealer has purchased raw material of Rs. 1 Lakh @ 4%, and Rs. 25000.00 @ 12.5%. He sold the goods at Rs.2 lakhs and the tax rate is 4%. What is the tax payable?

(a).Rs.1725.00
(b).Rs. 1345.00
(c).Rs. 875.00
(d).Rs. 1545.00

Q.:-6.CENVAT in our country is applicable on :-

(a).Central excise
(b).Custom duties
(c).Central Excise and Service tax
(d).Service Tax

Q.:- 7. In India VAT has replaced:-

(a).Central Sales tax
(b).State Sales Tax
(c).Service tax
(d).Central Excise

Q.:- 8. Which is most common variant of VAT used world wide:-

(a).Gross profit variant
(b).Consumption variant
(c).Gross product variant
(d).Gross income variant

Q.:- 9:- Which variant has been introduced in India while introducing the VAT?

(a).Consumption Variant
(b).Gross product variant
(c).Gross Income Variant
(d).Gross profit variant.

Q.:-10. : - To claim the input credit of tax paid what is most important document:-

(a).Permission of the Sales tax authority.
(b). Proper VAT invoice
(c).Cash Book
(d).Ledger

Q.:-11:- Which document was issued by central Government to discuss the VAT:-

(a).Brown paper
(b).Black paper
(c).Red paper
(d).White Paper

Q.:-12:- VAT was first introduced in India in present form by Haryana in the year:-

(a).2006
(b).2002
(c).2005
(d).2003

Q.:-13:- Central sales tax is a:-

(a).Hurdle in implementation of VAT
(b).Support of successful implementation of VAT
(c).Increase the efficiency of VAT
(d).Decrease the efficiency of VAT

Q.:-14:- After introduction of VAT:-

(a). The process of revival of CST is also started.
(b).The process of strengthening the CST is also started.
(c).The process of phasing out of CST is also started.
(d).CST has nothing to do with vat.

Q.:-15:- What is the present rate of CST:-

(a).1%
(b).2%
(c).3%

(d).4%

Q.:16- Due to introduction of VAT:-

(a). tax evasion is restricted.
(b).tax evasion is increased.
(c).Vat has nothing to do with evasion of Tax.
(d).tax evasion has become easy.

Q.:- 17- Which out of the above are the quality of the Vat:-

(a). Transparency and accounting cost
(b).Transparency and administrative cost.
(c).Transparency and certainty .
(d).Transparency and CST

Q.:- 18- Vat introduction will certainly:-

(a). make the revenue collection worst.
(b).make the revenue collection better.
(c).the revenue collection are the same.
(d).revenue volume has nothing to do with introduction of VAT

Q.:- 19-The accounting under the VAT will be:-

(a). Regular and cheap.
(b).Regular and expensive
(c).Irregular and cheap.
(d).irregular and expensive

Q.:- 20-Which was the first Asian country to introduce Vat:-

(a).India
(b).china
(c).Republic of Vietnam
(d).Japan

Q.:-21- X and company a trader of Rajasthan purchased Goods worth Rs. 1 Lack each from Madhya Pradesh and Maharashtra by paying 2% Tax. The balance of input credit of the company is Rs. 10000.00. What will be the Balance of input credit after these two purchases on which the company has paid Rs.4000.00 as tax?

(a). 12000.00
(b).14000.00
(c). 10000.00
(d).12500.00

Q.:-22- Y and company has purchased capital goods worth Rs.10 Lakhs by paying the Vat @ 4% and as per law applicable in the state the input credit will be available in half yearly installments in the quarter ending in Sept. and March. The input credit on purchases of raw material for the II quarter is Rs. 1.32 lakhs and the out put tax is Rs. 2.00 Lakhs. Calculate the tax payable by the dealer for the II quarter.

(a).Rs.68000.00
(b).Rs.78000.00
(c).Rs. 48000.00
(d).Rs. 38000.00

Q.:-23- Roxon and company (Maharashtra) has purchased raw material worth Rs. 10 Lakhs after paying VAT Rs.40000.00 and also purchased the same raw material worth Rs. 25 Lakhs after paying inter-state sales tax amounting to Rs. 50000.00. Calculate the input credit.

(a). Rs. 90000.00
(b).Rs. 40000.00
(c).Rs. 70000.00
(d).Rs. 65000.00

Q.:-24- James and company have purchased Raw material worth Rs. 40 Lakhs by paying a VAT of Rs. 1.60 Lakhs and 67% of the same is used for production of Tax free goods. The other input credit of the company is Rs. 4.65 Lakhs and the out put tax is Rs. 12.26 Lakhs. Please calculate the tax payable by the dealer.

(a).Rs.761000.00
(b).Rs. 864000.00
(c).Rs.601000.00
(d).Rs. 708200.00

Q.:- 25-Jolly enterprises have purchased raw material worth Rs. 10 Lakhs after paying VAT of Rs. 40000.00. The manufactured goods have been sent on interstate branch transfer. The other input credit of dealer is Rs.67000.00 please calculate the total input credit.

(a). Rs.67000.00
(b).Rs. 107000.00
(c).Rs. 68000.00
(d).Rs78000.00

Q.:- 26- Jolly enterprises have purchased raw material worth Rs. 10 Lakhs after paying VAT of Rs. 125000.00.00. The manufactured goods have been sent on interstate branch transfer. The other input credit of dealer is Rs.67000.00 please calculate the total input credit.

(a). Rs.125000.00
(b).Rs. 192000.00
(c).Rs.152000.00
(d).Rs. 182000.00

Q.:-27- John and company has purchased goods worth Rs. 10 Lakhs after paying VAT Rs. 40000.00 out of these goods a sum of Rs. 1 Lakh goods used for personal purpose, Rs. 5 Lakhs sold in the state, Rs. 3 lakhs in the interstate sales and Rest in Branch transfer. How much input credit will be available to dealer?

(a).Rs. 32000.00
(b).Rs. 38000.00
(c).Rs. 40000.00
(d).Rs. 20000.00

Q.:-28 In Indian context the neutrality quality of VAT system is restricted to:-

(a). The Interstate purchases
(b).The Branch transfer
(c).The state Purchases
(d).The imports.

Q.:-29- VAT laws and provisions have been made by:-

(a).The Central Government
(b).The Finance Ministry
(c).The State Government
(d).The president of India

Q.:- 30- Which committee was constituted for introduction of VAT-

(a).Empowered committee of state Finance Ministers.
(b).Empowered committee of state and Central Ministers.
(c).The implementation committee of state finance Ministers
(d). The VAT introduction and implementation committee.

Q.:- 31 Who was the chairman of the committee of state Finance Ministers for introduction of VAT:-

(a).Dr. Chandra babu Naidu
(b).Dr. Budhdev Bhattacharya
(c).Dr. Asim Das Gupta
(d).Dr. Monteksingh Ahluwalia

Q.:- 32- Who released the white paper prepared by the committee of state Finance Ministers:-

(a).Dr. Manmohan Singh
(b).Shri Atal Bihari Bajpayee
(c).Shri P. Chidambaram
(d). Dr. Sam Pitroda

Q.:- 33- What are the basic rates of VAT in INDIA:-

(a). 1-3-12.5%
(b).1-5-12%
(c).1-4-12%
(d).1-4-12.5%

Q.:-34 Which Method of calculation of Tax under VAT has been introduced in India:-

(a). Invoice Method
(b).Addition Method
(c).Subtraction Method
(d).Addition plus invoice Method.

Q.:-35 In invoice Method of calculation of VAT ultimately:-

(a). The Finished goods and raw material are taxed at different rates.
(b).The Finished Goods and raw material are taxed at the rate of tax applicable on finished goods.
(c).The Finished Goods and raw material are taxed as per the state law.
(d).The finished Goods and raw material are taxed as per Central law.

Q.:- 36:- Which Method of calculation of Vat is superior if the Goods are taxed on more than one rate:-

(a). Addition Method
(b).Subtraction Method
(c).Addition plus subtraction Method

(d).Invoice Method

Q.:-37- If all the Goods are taxed at single rate than the results of all the three Methods of calculation of Vat will be:-

(a). The same
(b). The different
(c).The same with minor difference
(d).Some times same and some times different

Q.:- 38- TIN means:-

(a). Tax Information Number
(b).Tax India Number
(c). Tax Identification Number
(d).Tax Introduction Number

Q.:-39- The scheme of payment of tax on Gross turnover for small dealers is called:-

(a). Compromising scheme
(b).Consolidation scheme
(c).Composition scheme
(d).Clubbing Scheme

Q.:-40- The maximum limit for opting for scheme for payment of tax on gross turnover for small dealers is:-

(a).Rs 40 Lakhs
(b).Rs. 20 Lakhs
(c).Rs. 15 lakhs
(d).Rs. 50 Lakhs

Q.:- 41:- The rate of composition tax on gross turnover for the small traders can vary from:-

(a).0.33% to 050%
(b).0.25% to 1%
(c).1% to 4%
(d).1% to 2%

Q.:- 42:- The composition dealers can purchase goods:-

(a).Within the state from registered dealers only
(b).within interstate trade or commerce- CST purchase
(c). From Unregistered dealers
(d).From any one from their choice

Q.:- 43-The composition dealers

(a).Can not pass the input credit
(b).Can pass the input credit over 4% of tax
(c).Can pass the input credit of whole of the tax paid by them within the state
(d).On certain goods they can pass the input with the permission of state Government.

Q.:- 44- The VAT procedures for the composition dealers:-

(a).Are the same as VAT dealers.
(b).More complex than the VAT dealers.

(c).Simple and less complex than VAT dealers.
(d).Simple but in some areas complex.

Q.:-45- If manufacturer has the choice of purchase the raw material from composition dealer or VAT dealers then if the other condition are the same then he will purchase the goods from :-

(a).VAT dealers
(b).Composition dealers
(c).Any one of the two
(d).Non of the two

Q.:- 46- Input credit is not available on:-

(a). Capital Goods
(b).Purchases within the state
(c).CST Purchases
(d). None of the three above.

Q.:-47- The raw material is purchased by paying VAT @ 12.5% and the finished goods is sent on Branch transfer how much **%** of value of Goods is available as input credit :-

(a).4%
(b).12.5%
(c).8.5%
(d).2%

Q.:- 48-What is the General threshold limit for registration of dealer and payment of tax has been mentioned in the white paper is:-

(a).Rs. 10 Lakhs
(b).Rs. 5 Lakhs
(c).Rs. 25 Lakhs
(d).Rs. 50 Lakhs

Q.:-49-If the Gross turnover of a composition dealer is Rs. 48 lakhs and the rate of composition tax is 0.50% then what will the amount of VAT credit passed by the dealer to his purchasers is :-

(a).Rs.24000.00
(b).Rs. 12000.00
(c).NIL
(d).Rs. 48000.00

Q.:-50- A trader has purchased goods worth Rs.20 Lakhs after paying tax of Rs. 80000.00 as VAT and he sent the Goods as branch transfer. He can avail the input credit:-

(a).Rs.80000.00
(b).Rs.40000.00
(c).Rs. 20000.00
(d).NIL

ANSWER SHEET

Q.NO.	ANS	REMARK
1.	(d)	1954-VAT was first introduced in 1954.
2.	(a).	France-France was the first country to introduce VAT in 1954
3.	(d)	Every stage- Vat is a multi point taxation system in which sellers collect tax at every stage of sale and at the time of deposit of the same they deduct the tax paid by them on their purchase.
4.	(c)	Haryana- Haryana has introduced VAT in 2003 itself and was the only state to have it till the other 20 states introduced it in 2005.
5.	(c)	Rs. 875- Tax payable = (Out put tax input tax). Out put tax is 4% of Rs. 2 Lakhs- Rs. 8000.00 Input tax i.e. input credit- 4% on Rs. 1 Lakh = Rs. 4000.00 and 12.5% on Rs. 25000.00= Rs.3125.00 hence the total input credit is Rs. 7125.00 Rs.8000- Rs. 7125.00= Rs. 875.00 Tax payable by the dealer.
6.	(c)	Cenvat is central value added tax is applicable on Service tax and central excise and both are vatable to each other i.e the service tax paid on services used for manufacturing of goods can be claimed as credit while paying the excise duty and further the central excise duty paid on goods used in

		providing the service can also be taken as credit while paying the service tax.
7.	**(b)**	**State Sales tax- The value added tax system VAT as introduced in India is a replacement of traditional sales tax system in the states.**
8.	**(b)**	**Consumption Variant- The consumption variant has been formulated in such a way that it take into account the credit of VAT paid on raw material/ purchase of goods as well as capital goods hence it is superior than other two methods.**
9.	**(a)**	**Consumption variant- Since consumption variant is more logical and also popular worldwide hence India has also adopted the same.**
10.	**(b)**	**Proper tax invoice- The vat input credit can not be claimed with proper VAT invoice hence the tax invoice having TIN of seller, Name of Seller, name and address of purchaser , TIN of purchaser and tax amount written separately on invoice etc . is required to claim input credit.**
11.	**(d)**	**White paper- The empowered committee of state Finance Ministers has issued a policy documents agreed between them on the matters connected with the VAT. This is called white paper It was released by the then Finance Minister Shir P. Chidambaram.**
12.	**(d)**	**2003 It was already mentioned in the answer of question No. 4 that Haryana introduced VAT in 2003.**
13.	**(a)**	**Hurdle in the successful implementation of VAT since the credit of CST purchases is not allowed hence a process to phase out the CST has started. It has come down from 4% to 3% and then 3 % to 2% and not the trade and industry is waiting for its coming down to 1%.**
14.	**(c)**	**The process of phasing out of CST is also stated . The same has also explained in the answer of question No.13.**
15.	**(b)**	**2% - At present it is two percent and trade and industry is waiting to be declared it at 1% as promised by the Government as per its phasing out plans.**
16.	**(a)**	**Tax evasion is restricted- Since the VAT is payable at each stage and input credit can only be claimed through proper VAT invoice hence VAT restricts the evasion of Tax.**
17.	**(c)**	**Transparency and certainty The ultimate consumer knows that what he is paying as tax and further the amount of tax is payable on tax collected on sales Less tax paid on purchases so it is certain.**
18.	**(b)**	**Make the revenue collection better- since evasion is restricted and further the Government gets the tax on value addition hence the revenue collection will certainly be better.**
19.	**(b)**	**Regular and expensive- Since the payment of Vat has to be done on regular basis hence a proper and regular system of accounting is required. The Vat is a complex system then the earlier sales tax system hence the accounting will be more expensive.**
20.	**(c)**	**Republic of Vietnam Please see the module supplied by ICAI to confirm the answer.**
21.	**(c)**	**Rs.10000.00- The input credit on CST purchases i.e. purchases from Madhya Pradesh and Maharashtra is not available nothing is to be added to the balance of Rs.10000.00 in the input credit on account of the CST purchases.**

		The input credit will remain Rs.10000.00
22.	(c)	Rs. 48000.00- The input credit on capital goods is available in two installments in Sept and March hence the input credit for the quarter ending on Sept. is Rs.20000.00 (Out of total Rs.40000.00 input credit on capital Goods) . The total input credit including this Rs.20000.00 is Rs. 1, 52,000.00 (Rs. 1.32 Lakhs Plus Rs. 20000.00). The out put tax is Rs. 2.00 Lakhs. Hence the tax payable is Rs. 2 lakhs- 1.52 lakhs= Rs.48000.00
23.	(b)	Rs.40000.00 Since no input credit is available o inter state purchases.
24.	(d)	Rs. 708200.00 The input credit is available on only 33% of the raw material on which the tax paid is Rs. 1.60 lakhs. (67 % of the same has been used for making tax free goods hence not allowed as ITC) The amount if eligible ITC came to Rs 52800 and total ITC (Rs. 52800.00 Plus Rs. 4.65 lakhs) = Rs. 517800.00. The output tax is Rs. 12.26 Lakhs hence tax payable is Rs. (12,26,000- 517800)= Rs.708200.00
25.	(a)	Rs.67000.00 . Since in case of branch transfer the input credit is allowed with respect to tax paid over 4% but the rate of tax is 4% hence nothing over 4% is paid hence no ITC can be claimed on account of purchases of Rs. 10 Lakhs. The balance of ITC Rs.67000.00 is the answer and nothing can be added to it.
26.	(c)	Rs. 152000.00- Since the credit with respect to goods sent on branch transfer can be claimed over and above the tax paid @ 4%. Since tax is paid @ 12.5% hence a credit @ 8.5% is allowed and it is 8.5% of Rs. 10 Lakhs which comes to Rs. 85000.00 . Since earlier ITC is Rs. 67000.00 and if we add Rs. 67000.00 to it the total ITC will be Rs. 152000.00
27.	(a)	Rs.32000.00- The dealer can claim the credit on the Goods sold within the state and also on CST sales. No credit will be allowed on personal use and further since the rate of tax is 4% hence no credit is allowed on branch transfer. The total goods sold in within the state and Inter-state (CST) sales are Rs. 8.00 Lakhs hence @ 4% Rs.32000.00 is allowed as ITC.
28.	(c)	State Purchases- The neutrality quality of VAT means the rate of tax does not affect the decision of the manufacturer to purchases the raw material since the ITC is allowed on it. If you pay 4% then get 4% rebate and if you pay 12.5% you will get the credit of 12.5% so it is the quality of goods that decide the decision of purchaser. The effect of rate is neutral. But since credit of CST purchases is not allowed hence if one state is selling goods @ 2% and other @ 1% or exempt than it will affect the decision hence this merit is restricted to State purchases only.
29.	(c)	The state Government- The Vat is a state subject hence all the states have made their own law in this respect.
30.	(a)	Empowered committee of state Finance Ministers- This is the fact hence no comment is needed.
31.	(c)	Dr. Asim Das Gupta- This is the fact hence no comment is needed. Mr. Das Gupta was the FM of west Bengal.
32.	(c)	Mr. P. Chidambaram The white paper was prepared by the Empowered committee of the state Finance Ministers but it was released by Mr. P. Chidambaram the then finance Minister.
33.	(d)	1-4-12.5 % This is the fact hence no comment is needed.
34.	(a)	Invoice Method- Invoice method is truly reflect the effect of Vat hence India

		like other countries have introduced it.
35.	(b)	The Finished Goods and raw material are taxed at the rate of tax applicable on finished Goods.
36.	(d)	The Invoice Method
37.	(a)	The same.
38.	(c)	Tax Identification Number.
39.	(c).	Composition Scheme
40.	(d)	Rs.50 Lakhs
41.	(b)	Rs. 0.25% to 1%
42.	(a)	Within the state from registered dealers only
43.	(a)	Can not pass the input credit
44.	(c)	Simple and less complex than VAT dealers.
45.	(a)	Vat dealers
46.	(c)	CST Purchases
47.	(c)	8.5% - Over and above 4% i.e. 12.5% - 4% = 8.5%
48.	(b)	Rs. 5 lakhs
49.	(c)	NIL Since the Composition dealers can not pass the ITC.
50.	(d) .	NIL- Since the rate of tax is 4% and in case of Branch transfer the credit can only be passed on over and above 4% tax paid hence the answer is NIL.