SERVICE TAX & VALUE ADDED TAX

SUGGESTED ANSWERS TO QUESTIONS SET AT THE PREVIOUS EXAMINATIONS OF ICAI

Question No. 1 :

(a) Is an unincorporated association, liable to pay any service tax?

(b) Is e-filing of service tax return permitted?

(c) Should service tax be paid even if not collected from the client or service receiver?

(d) Will the payment to a hotelier of Rs. 10,000 on behalf of an architect by a service receiver be included in the value of taxable services?

(e) Which is the most popular and common method for computing VAT liability and at what stage is the tax imposed?

(f) Is it correct to state that VAT usually increases the retail price, as the tax is payable on the first sale price?

Answer :

(a) As per ***Explanation to Section 65*** 'Taxable Service' includes any taxable service provided or to be provided by any unincorporated association or body of persons to a member thereof, for cash, deferred payment or any other valuable consideration.

Hence, the services (falling under any category of taxable service) provided or to be provided by any unincorporated association or body of persons to a member thereof shall be liable to service tax. This provision is an exception to the ***'Principle of Mutuality'***.

(b) **E-filing of returns [Proviso to Rule 7(2)]** :

Where an assessee has paid a total service tax of rupees ten lakh or more including the amount paid by utilisation of CENVAT credit, in the preceding financial year, he shall file the return electronically.

E-filing is a facility for the electronic filing of service tax returns by the assessee from his office, residence or any other place of choice, through the Internet. E-filing of returns is an assessee facilitation measure of the department in continuation of its modernization and simplification program.

(c) Section 68 casts the liability to pay service tax upon the service provider or upon the person liable to pay service tax as per Rule 2(1)(d). The statutory liability does not get extinguished if the service provider fails to realize or charge the service tax from the service receiver.

However, sometimes it may happen that the assessee is not able to charge service tax because of the nature of service or he fails to recover the service tax from the client/customer as he is not aware that his services are taxable. Hence, in these cases the amount recovered from the client in lieu of having rendered the service will be taken to be inclusive of service tax and accordingly tax payable will be calculated by making back calculations.

For example, if bill amount is Rs. 7,000 and service tax is not shown separately in invoice, then service tax payable shall be Rs. 654 (i.e. Rs. 7,000/110.3 x 10.3).

It may be noted that service tax payable is not Rs. 721 computed by applying 10.3% to Rs. 7,000. The value of the taxable service in this case is Rs. 6,346.

The example given above can be solved by using the following formulae :

Value of taxable service = [Gross amount charged/(100 + Rate of tax)] x 100

Service tax = [Gross amount charged/(100 + Rate of tax)] x Rate of tax

(d) Service tax chargeable on any taxable service is on the basis of gross amount charged by service provider for such service provided or to be provided by him. It is not necessary that the service receiver should pay the consideration only to the service provider; any money paid to the third party is also includible. Hence, the hotel bill met by the client would be includible in the value of taxable services.

(e) Invoice method is the most common and popular method for computing the tax liability under the VAT system. Under this method, tax is imposed at each and every stage of sales on the entire sale value, and the tax paid at the earlier stage is allowed as set-off.

(f) The statement is not correct as VAT is a multi-point tax where tax is imposed at each and every stage of sales and tax paid at the earlier stage is allowed as set-off.

Question No. 2 :

(a) An assessee who has collected service tax from a client is unable to perform the service. Briefly explain the situations in which and the conditions subject to which he can adjust the service tax relating to above, against his forthcoming service tax liability.

(b) Can Vignesh & Co., providing services from different locations and billing the clients from each location, opt for centralized service tax registration?

(c) Can it be said that if the taxable service is not capable of ascertainment, the same cannot form part of value of taxable services?

(d) In case of import of services, is a recipient of such services in India liable to pay service tax?

Answer :

(a) An assessee may adjust excess payment of service tax against his liability of service tax for subsequent periods. Where an assessee has deposited service tax in respect of a taxable service which is not so provided by him either wholly or partially for any reason, he may adjust the excess service tax so paid by him (calculated on a pro rata basis) against his service tax liability for the subsequent period. For example, if the assessee, who is an individual or partnership firm, has paid Rs. 6,000 in excess of service tax liability during the previous half year ending period, the assessee can adjust Rs. 3,000 only per quarter in his subsequent tax liability and not at a stretch. Similarly, if the assessee is a company and has paid Rs. 6,000 in excess of service tax liability during the previous half year ending period, the assessee can adjust Rs.1000 only per month in his subsequent tax liability and not at a stretch.

However, for carrying out such adjustment, the assessee must have refunded the value of taxable service and the service tax thereon to the person from whom it was received.

In such cases of adjustment, the assessee is required to file the details in respect of such *suo motu* adjustments done by him at the time of filing the service tax returns. The return Form ST-3 also provides for enclosure of documentary evidence for adjustment of such excess service tax paid. It is to be noted that adjustment of excess payment of service tax is not allowed *per se*, say due to clerical mistake etc. In such cases, the assessee has to claim the refund of excess tax paid.

(b) Sometimes an assessee provides taxable service from more than one premises. Rule 4(2) of the Service Tax Rules 1994 provides that in such cases, the assessee can obtain centralized registration at his option if :

(i) he has centralized billing or centralized accounting in respect of such service, and

(ii) such centralized billing or centralized accounting systems are located in one or more offices or premises.

The assessee can register such offices or premises where centralized accounting or centralized billing systems are located.

In the given situation, centralized billing is not adopted. Hence, Vignesh & Co. cannot opt for centralized service tax registration.

(c) Where the provision of service is for a consideration which is not ascertainable, the value of such service shall be the amount as may be determined in the prescribed manner.

Section 67(1)(iii) and Service Tax (Determination of Value) Rules, 2006 (as inserted w.e.f 19.04.2006) make provisions for valuation when consideration is not ascertainable.

Hence it can't be said that if the taxable service is not capable of ascertainment, the same cannot form part of value of taxable services

(d) As per Section 66A of the Finance Act, 1994, Where any taxable service is :

(a) provided or to be provided by a person who :

(i) has established a business or

(ii) has a fixed establishment from which the service is provided or to be provided or

(iii) has his permanent address or usual place of residence,

in a country other than India, and

(b) received by a person (i.e. recipient) who has his place of business, fixed establishment, permanent address or usual place of residence, in India,

such service shall, be taxable service, and such taxable service shall be treated as if the recipient had himself provided the service in India, and accordingly all the provisions of service tax shall apply accordingly.

Provided that where the recipient of the service is an ***individual*** and such service received by him is ***otherwise than for the purpose of use in any business or commerce***, then, the same shall not be liable to tax under this Section.

Again, Rule 2(1)(d) of the Service Tax Rules, 1994 provides that in relation to any taxable service provided or to be provided by any person from a country other than India and received by any person in India, the person liable to pay service tax is the recipient of such service.

Thus, in case of import of services, recipient of such services in India shall be liable to pay service tax.

Question No. 3 :

(a) Where a service provider maintains books of accounts on mercantile basis relating to taxable services provided by him, will service tax be payable on accrual basis?

(b) Which are the documents to be submitted along with service tax return?

(c) What are the due dates for filing of service tax returns?

(d) Is a service provider allowed to pay service tax on a provisional basis?

(e) Does the VAT system bring certainty to a great extent?

(f) Can VAT be said to be non-beneficial as compared to single stage-last point system?

Answer :

(a) Service tax is not payable on accrual basis and the method of accounting is not relevant. Service tax is payable to the Government only when any payment is received, whether in advance or after the bill is raised, from the client or service receiver for the taxable services provided.

(b) Along with ST-3 return following documents should be attached :

a) copies of TR-6 challans which indicate the payment of service tax for the months/quarter covered in the half-yearly return

b) a memorandum in Form ST-3A giving full details of the difference between the amount of provisional amount of tax deposited and the actual amount payable for each month. Form ST-3A is to be attached only when the assessee opts for provisional payment of service tax.

First return :

Every assessee shall furnish to the Superintendent of Central Excise at the time of filing of return for the first time or the 31st day of January, 2008, whichever is later, a list in duplicate, of :

(i) all the records prepared or maintained by the assessee for accounting of transactions in regard to :

(a) providing of any service, whether taxable or exempted;

(b) receipt or procurement of input services and payment for such input services;

(c) receipt, purchase, manufacture, storage, sale, or delivery, as the case may be, in regard of inputs and capital goods;

(d) other activities, such as manufacture and sale of goods, if any.

(ii) all other financial records maintained by him in the normal course of business.

(c) The service tax return, in Form ST-3 should be filed on half yearly basis by the 25th of the month following the particular half year. The due dates on this basis are tabulated as under :

Half year	Due date
1st April to 30th September	25th October
1st October to 31st March	25th April

When the due date falls on public holiday : In case the due date of the filing of return i.e., either 25th October or 25th April falls on a public holiday, the assessee can file the return on the immediately succeeding working day.

(d) In case the assessee is unable to correctly estimate, at the time of the deposit, the actual amount of service tax for any month or quarter, he may make a written request to Assistant/Deputy Commissioner of Central Excise for making payment of service tax on provisional basis. The concerned officer may allow payment of service tax on provisional basis on such value of taxable service as may be specified by him. For the purpose of provisional assessment at the time of filling the return, the assessee is required to file a statement in form ST-3A giving detail of difference between service tax deposited and the service tax liable to be paid for each month or quarter.

The Assistant/Deputy Commissioner of Central Excise, on the basis of memorandum in form ST-3A may complete the assessment after calling for necessary documents or records, if need be.

(e) The VAT is a system based simply on transactions. Thus there is no need to go through complicated definitions like sales, sales price, turnover of purchases and turnover of sales. The tax is also broad-based and applicable to all sales in business leaving little room for different interpretations. Thus, this system brings certainty to a great extent.

(f) VAT system has many advantages like no tax evasion, transparency, certainty, reduction in cascading effect of taxes etc. However, since the VAT is imposed or paid at various stages and not at last stage, it ***increases the working capital requirements*** and the interest burden on the same. In this way, it may be considered to be non-beneficial as compared to the single stage-last point taxation system though to a certain extent.

Question No. 4 :

(a) J.C. Professionals, a partnership firm, gives the following particulars relating to the services provided to various clients by them for the half-year ended on 30.09.10 :

i) Total bills raised for Rs. 8,75,000 out of which bill for Rs. 75,000 was raised on an approved International Organisation and payments of bills for Rs. 1,00,000 were not received till 30.09.10.

ii) Amount of Rs. 50,000 was received as an advance from XYZ Ltd. on 25.09.10 to whom the services were to be provided in October, 2010.

You are required to work out the :

i) taxable value of services.

ii) amount of service tax payable.

(b) Compute the invoice value to be charged and amount of tax payable under VAT by a dealer who had purchased goods for Rs. 1,20,000 and after adding for expenses of Rs. 10,000 and of profit Rs. 15,000 had sold out the same. The rate of VAT on purchases and sales is 12.5%.

Answer :

(a) Computation of taxable value of services provided by the J.C. Professionals for the half year ending on 30.09.2010 :

Particulars	**Rs.**	**Rs.**
Total bills raised		8,75,000
Less : Bill raised on an approved International Organisation *(Note 1)*	75,000	
Less : Bills for which payments have not been realized *(Note 2)*	1,00,000	1,75,000
		7,00,000
Add : Advance received for the services to be provided in Oct '10 *(Note 3)*		50,000
Taxable value of services		**7,50,000**
Total service tax payable (ST @ 10%, EC @ 2% and SHEC @ 1%)		**77,250**

Notes :

1. Services provided to approved International Organisation are exempt from the service tax vide Notification No. 16/2002 ST dated 02.08.2002.
2. Service tax is payable only on the value of taxable services received [Rule 6(1) of Service Tax Rules, 1994].
3. Service tax is payable on advance received for taxable services [Section 67 of the Finance Act, 1994].

(b) Computation of Invoice Value :

Particulars	Rs.	Rs.
Cost of goods purchased		1,20,000
Add : Expenses	10,000	
Add : Profit Margin	15,000	25,000
Product Sale Value		1,45,000
Add : VAT @ 12.5%		18,125
Invoice Value		**1,63,125**

Computation of amount of tax payable under VAT :

Particulars	Rs.
VAT charged on sales	18,125
Less : Input credit of VAT paid on purchases [@ 12.5% on 1,20,000*]	15,000
Tax Payable under VAT	3,125

It has been assumed that the purchase price of Rs. 1,20,000 is exclusive of VAT.

Question No. 5 :

(a) Who is liable to pay service tax in relation to services provided by a goods transport agency?

(b) What are the due dates for payment of service tax?

(c) Briefly explain the invoice method of computing tax liability under the VAT system. What are its other names?

(d) What are the different variants of VAT and how is deduction available for tax paid on inputs including capital inputs?

Answer :

(a) In relation to taxable service provided by a goods transport agency, where the consignor or consignee of goods is :

(a) any factory registered under or governed by the Factories Act, 1948,

(b) any company formed or registered under the Companies Act, 1956,

(c) any corporation established by or under any law,

(d) any society registered under Societies Registration Act, 1860 or under any law corresponding to that Act in force in any part of India,

(e) any co-operative society established by or under any law,

(f) any dealer of excisable goods, who is registered under the Central Excise Act, 1944 or the rules made thereunder, or

(g) any body corporate established, or a partnership firm registered, by or under any law.

the person liable for paying service tax is any person who pays or is liable to pay freight either himself or through his agent for the transportation of such goods by road in a goods carriage.

(b) **Due date for payment of service tax [Rule 6] :**

The service tax shall be paid to the credit of the Central Government :

- **where the assessee is an individual or proprietary firm or partnership firm :**

  a) by the 6th day of the month, if the tax is deposited electronically through internet banking; and

  b) by the 5th day of the month, in any other case

  immediately following the ***quarter*** in which the payments are received, towards the value of taxable services

- **where the assessee is any other person :**

  a) by the 6th day of the month, if the tax is deposited electronically through internet banking; and

  b) by the 5th day of the month, in any other case

  immediately following the ***calendar month*** in which the payments are received, towards the value of taxable services.

Provided that the service tax on the value of taxable services received during the month of March, or the quarter ending in March, as the case may be, shall be paid to the credit of the Central Government by the 31st day of March of the calendar year.

(c) Invoice method is the most common and popular method for computing the tax liability under 'VAT' system. Under this method, tax is imposed at each stage of sales on the entire sale value and the tax paid at the earlier stage is allowed as set-off. In other words, out of tax so calculated, tax paid at the earlier stage i.e., at the stage of purchases is set-off, and at every stage the differential tax is being paid. The most important aspect of this method is that at each stage, tax is to be charged separately in the invoice.

This method is very popular in western countries. In India also, under the VAT law as introduced in several States and Central Excise Law, this method is followed. This method is also called the 'Tax Credit Method' or 'Voucher Method'.

(d) There are three variants of VAT viz, Gross Product Variant, Income Variant and Consumption Variant.

Gross Product Variant : Under this variant, deduction is allowed for tax paid on all inputs excluding capital inputs.

Income Variant : Under this variant, tax paid on non-capital inputs and depreciation on capital inputs is allowed.

Consumption variant : Under this variant, deduction is allowed for tax paid on all business inputs including capital inputs.

Question No. 6 :

(a) Briefly explain the nature of Service tax.

(b) A particular service has been brought into the Service tax net with effect from 1.6.2010. Mr. Vignesh has provided this service on 20.5.2010; the payment for the same was received on 10.6.2010. Is Service tax payable on the same?

(c) Mr. Saravanan has collected a sum of Rs. 15,000 as service tax from a client mistakenly, even though no service tax is chargeable for such service. Should the amount so collected be remitted to the credit of the Central Government?

(d) Who are the persons liable to File Service tax returns?

(e) Briefly explain the income variant of VAT.

(f) What is the demerit of VAT from the view point that it is a form of consumption tax?

Answer :

(a) **Nature of Service Tax :** Service tax is a tax on services. This is not a tax on profession, trade, calling or employment but is in respect of service rendered. If there is no service, there is no tax. As per ***Webster's Concise Dictionary***, 'service' means a useful result or product of labour, which is not a tangible commodity. Thus, basically, service is a value addition that can be perceived but cannot be seen, as it is intangible. Service is different from sale. The fact that some goods have been used in the course of providing 'service' does not make that transaction a 'sale'. The nature of transaction depends on the intention of the parties. If the parties intended to enter into a transaction of purchase and sale of 'goods', the transaction will be 'sale' even though some services might have been provided. Similarly, in case where goods have been used in providing services or in case where the sale of goods is incidental to the provision of services, the transaction would primarily be that of service.

(b) Services performed prior to the date of levy are not liable for payment of Service Tax. No service tax is payable for the part or whole of the value of services, which is attributable to services provided during the period when such services were not taxable. The time of receipt of payment towards the value of services will not be relevant for this purpose. In the given case, Mr. Vignesh has provided the service on 20.05.2010 and has received the payment on 10.06.2010. Assuming that, the invoice was raised by Mr. Vignesh before 01.06.2010, he will not be liable to collect service tax.

(c) **Service Tax collected by mistake :** As per Section 73A, every person, who is liable to pay service tax and has ***collected any amount in excess*** of the service tax assessed or determined, must pay the amount so collected immediately to the credit of the Central Government. This provision ensures that the service provider does not collect excess amount from the recipient of the service in the name of service tax. Further, where any person who has collected any amount, which is ***not required to be collected***, from any other person, in any manner as representing service tax, such person should also immediately pay the amount so collected to the credit of the Central Government. Hence, Mr. Saravanan has to remit the service tax collected by him on the non-taxable services to the credit of the Central Government immediately.

(d) **Persons liable to file Service Tax Returns :** Section 70(1) of the Finance Act, 1994 states that every person liable to pay service tax shall himself assess the tax due on the services provided by him and shall furnish a return to the Superintendent of Central Excise. The return shall be furnished in such manner and at such frequency as may be prescribed. Rule 7 of the Service Tax Rules, 1994 prescribes the form, manner and frequency of furnishing the return. Section 70(2) stipulates that certain notified person or class of persons shall also furnish to the Superintendent of the Central Excise, a return in such form and in such manner and at such frequency as may be prescribed.

(e) **Income Variant of VAT :** The income variant of VAT allows for deductions on purchases of raw materials and components as well as depreciation on capital goods. This method provides incentives to classify purchases as current expenditure to claim set-off. In practice, however, there are many difficulties connected with the specification of any method of measuring depreciation, which basically depends on the life of an asset as well as on the rate of inflation.

(f) **Demerit of VAT from the view point that it is a form of consumption tax :** VAT is a form of consumption tax. Since the proportion of income spent on consumption is larger for the poor than for the rich, VAT tends to be regressive. However, this weakness is inherent in all the forms of consumption tax. While it may be possible to moderate the distribution impact of VAT by taxing necessities at a lower rate, it is always advisable to moderate the distribution considerations through other programmes rather than concessions or exemptions, which create complications for administration.

Question No. 7 :

Ms. Priya rendered a taxable service to a client. A bill for Rs. 40,000 was raised on 29.4.2010; Rs. 15,000 was received from the client on 1.5.2010 and the balance on 23.5.2010. No service tax was separately charged in the bill. The questions are :

(a) Is Ms. Priya liable to pay service tax, even though the same has not been charged by her?

(b) In case she is liable, what is the value of taxable service and the service tax payable?

Answer :

Section 68 of the Finance Act, 1994 casts the liability to pay service tax upon the service provider or upon the person liable to pay service tax as per Rule 2(1)(d). This liability is not contingent upon the service provider realizing or charging the service tax at the prevailing rate. The statutory liability does not get extinguished if the service provider fails to realize or charge the service tax from the service receiver. Hence, Ms. Priya is liable to pay service tax. However, sometimes it may happen that the assessee is not able to charge service tax because of the nature of service or he fails to recover the service tax from the client/customer as he is not aware that his services are taxable. Hence, in these cases, the amount recovered from the client in lieu of having rendered the service will be taken to be inclusive of service tax and accordingly tax payable will be calculated by making back calculations. Hence value of taxable service and the service tax payable by Ms. Priya shall be calculated as follows :

Service Tax payable = Rs. 40,000 x 10.3/110.3 = Rs. 3,735.

Value of Taxable Service = Rs. 40,000 x 100/110.3 = Rs. 36,265/-.

Question No. 8 :

(a) Briefly explain about the charge of service tax.

(b) Mr. Vasudevan has rendered freely, a service to a client which is taxable, but has not charged or received any fee from the client. Is service tax payable on such free service?

(c) What are the different stages of VAT? Can it be said that the entire burden falls on the final consumer?

(d) Briefly explain how VAT helps in checking tax evasion and in achieving neutrality.

Answer :

(a) Section 66 is the charging Section of the Act which deals with the ***levy and collection*** of service tax. It prescribes the applicable rate of service tax which is to be levied on the value of various ***taxable services***. For collection of service tax, it provides that the 'prescribed manner' needs to be followed. Applicable rate is provided in the Section itself whereas the prescribed manner for collection and payment of tax is provided in the Service Tax Rules, 1994.

With effect from 18.04.2006, the rate of service tax prescribed by Section 66 is ***12%*** of the value of taxable services referred to in Section 65(105) of the Act. ***However, at present service tax rate has been reduced from 12% to 10% vide Notification No. 8/2009-ST dated February 24, 2009***.

Section 65(105) provides that ***taxable service shall not only include service provided but also the "service to be provided".*** Thus :

(a) the charge is on the services provided or ***to be provided***;

(b) the services provided or ***to be provided*** must be the one which is covered in Section 65(105);

(c) the rate of service tax is *10%;*

(d) the measure of tax is on "value of taxable services" provided which is defined in Section 67.

(b) **Service Tax not payable on Free Services :** Section 67(1)(iii) and Service Tax (Determination of Value) Rules, 2006 (as inserted w.e.f 19.04.2006) make provisions for valuation even when consideration is not ascertainable. However, these provisions apply only when there is consideration. If there is no consideration i.e., in case of free service, section 67(1)(iii) and Service Tax (Determination of Value) Rules, 2006 cannot apply. Thus, no service tax is payable when value of service is zero as the charging Section 66 provides that service tax is chargeable on the value of taxable service. Hence, if the value is zero the tax will also be zero even though the service may be taxable. However, this principle applies only when there is really a 'free service' and not when its cost is recovered through different means.

(c) **Different Stages of VAT :** The Value Added Tax (VAT) is a multistage tax levied as a proportion of the value added (i.e. Sale minus purchase) which is equivalent to wages plus interest, other costs and profits. In an economy, apart from the manufacturers and final consumers, there would be wholesalers and retailers also. The wholesaler might supply to retailer, and each one of them could supply to the manufacturer and the end consumer. VAT will be collected at each stage, and wherever applicable, the manufacturer or retailer will claim input credit. Thus, VAT is collected at each stage of production and distribution process, and in principle, its entire burden falls on the final consumer, who does not get any tax credit. Thus VAT is a broad-based tax covering the value added to each commodity by parties during the various stages of production and distribution.

(d) **No tax evasion :** It is said that VAT is a logical beauty. Under VAT, credit of duty paid is allowed against the liability on the final product manufactured or sold. Therefore, unless proper records are kept in respect of various inputs, it is not possible to claim credit. Hence, suppression of purchases or production will be difficult because it will lead to loss of revenue. A perfect system of VAT will be a perfect chain where tax evasion is difficult.

Neutrality : The greatest advantage of the system is that it does not interfere in the choice of decision for purchases. This is because the system has anti-cascading effect. How much value is added and at what stage it is added in the system of production/distribution is of no consequence. The system is neutral with regard to choice of production technique, as well as business organization. All other things remaining the same, the issue of tax liability does not vary the decision about the source of purchase. VAT facilitates precise identification and rebate of the tax on purchases and thus ensures that there is no cascading effect of tax.

<u>Question No. 9</u> :

(a) Can we say that levy of VAT will have effect on retail price of goods?

(b) Explain as to how and when the amendments made in Finance Bill, in respect service tax matters come into force?

(c) Who is responsible to pay service-tax when the recipient of sponsorship services is located outside India?

(d) Whether "free services" after sale of motor vehicles, given by the authorized dealers, for which they are reimbursed by the vehicle manufacturers, are subject to service tax?

(e) Who is liable to pay E-payment of service tax?

(f) Whether life insurer carrying on life insurance business has option to calculate service tax at different rate?

<u>Answer</u> :

(a) A persistent criticism of the VAT has been that since the tax is payable on the final sale price, the VAT usually increases the prices of the goods. However, VAT does not have any inflationary impact as it merely replaces the existing equal sales tax. It may also be pointed out that with the introduction of VAT, the tax impact on raw material is to be totally eliminated. Therefore, there may not be any increase in the prices.

(b) Amendments made by the Finance Bill, in respect of service tax matters, come into force from the date of enactment of the Finance Bill i.e., the date on which the Finance Bill receives the assent of the President of India. However, wherever it is specifically provided so in the Finance Bill, certain amendments like new taxable services introduced vide the Bill and changes made in the scope of existing taxable services become effective from a date to be notified after the enactment of the Finance Bill.

(c) As per rule 2(1)(d) of the Service Tax Rules, 1994, in relation to sponsorship service provided to any body corporate or firm located in India, the person liable to pay service tax is the body corporate or firm, as the case may be, who receives such sponsorship service. However, where the recipient of sponsorship services (assuming the recipient of service to be a body corporate or firm) is located outside India, the service provider will be responsible to pay service tax.

Note : The situation covered by the question is that of an export of service. Service tax is not liable to be paid when a taxable service is exported in terms of Export of Service Rules, 2005.

(d) Yes, "Free Services" of motor vehicles (where the customer does not pay any charges), the service charges of which are reimbursed by the vehicle manufacturer are subject to service tax.

(e) **<u>E-payment of Service Tax [Proviso to Rule 6(2)]</u> :**

Where an assessee has paid a total service tax of <u>rupees ten lakh or more</u> ***including the amount paid by utilisation of CENVAT credit***, in the preceding financial year, he shall deposit the service tax liable to be paid by him electronically, through internet banking.

Some banks provide the facility of e-payment of excise duty and service tax. It is known as Electronic Accounting System in Central Excise & Service Tax (EASIEST). In case of e-payment GAR-7 challan is used instead of TR-6 challan.

(f) An insurer carrying on life insurance business who is liable for paying service tax has the option to pay an amount calculated @ 1% of the gross amount of premium charged by him towards the discharge of his service tax liability instead of paying service tax @ 12%.

However, such option is not available in cases where :

a) the entire premium paid by the policy holder is only towards risk cover in life insurance; or

b) the part of the premium payable towards risk cover in life insurance is shown separately in any of the documents issued by the insurer to the policy holder.

Question No. 10 :

(a) Mr. X, the owner of a property had entered into an agreement with a bank. The agreement was entered into on 1st April, 2007 to give ground floor of the property on rent on monthly rent of Rs. 75,000 p.m. The bank had taken the property for commercial purpose. Explain whether Mr. X is liable to pay service tax in the year 2007-08 on the transaction with bank?

(b) Mr. Y, a consulting engineer raised a bill of Rs. 2,20,600 (including service tax) on his client for consulting services rendered by him in the month June, 2010. A partial payment of Rs. 1,65,450 was received by Mr. Y in the month March, 2011. Compute the service tax amount payable by Mr. Y and the due date by which service tax can be deposited.

Answer :

(a) With effect from 01.06.2007, services of renting of immovable property have been made taxable. Service tax is exempt in respect of the taxable services of aggregate value not exceeding Rs. 10 lakh in the year 2008-09 if the turnover of taxable services from one or more premises does not exceed Rs. 10 lakh during the preceding year 2007-08.

However, for the year 2007-08 (the period in question) the limit of turnover of taxable services was Rs. 8 lakh, i.e. service tax would be exempt till Rs. 8 lakh in the year 2007- 08 only when the turnover of taxable services from one or more premises in the year 2006-07 did not exceed Rs. 8 lakh. The turnover of taxable service of Mr. X is mathematically zero in the year 2006-07 (which is less than Rs. 8 lakh) as the agreement to render services was entered only in the year 2007-08. Therefore, it appears that Mr. X is not liable to pay any service tax in the year 2007-08 provided no other taxable services aggregating to more than Rs. 8 lakh are rendered by him in the year 2006-07.

(b) The service tax is payable to the Government only when payment is received, though the service provider charges service tax in his bill as and when the service is provided. In the given case, amount of service tax liable to be paid by Mr. Y = Rs. 15,450 (i.e. 1,65,450 x 10.3/110.3). Mr. Y is required to deposit service tax of Rs. 15,450 on or before 31.03.2011.

Note :

Rate of service tax is taken to be inclusive of 2% education cess and 1% secondary and higher education cess.

Question No. 11 :

(a) Can service-tax return be revised by a person?

(b) Explain "Input Tax Credit" in context of VAT.

(c) What are the exceptions to input tax credit?

Answer :

(a) As per Rule 7B of Service tax Rules, 1994, an assessee can submit a revised return, in Form ST-3, in triplicate, to correct a mistake or omission, within a period of 90 days from the date of submission of the original return.

(b) The essence of VAT is in providing set-off for the tax paid earlier, and this is given effect through the concept of input tax credit/rebate. This input tax credit in relation to any period means setting off the amount of input tax by a registered dealer against the amount of his output tax.

It is reiterated that tax paid on the earlier point is called input tax. This amount will be adjusted/rebated against the tax payable by the purchasing dealer on his sales. This credit availability is called input tax credit; it can also be referred to as tax credit on a sale within the State or in the course of inter- State trade or commerce.

(c) **Exceptions to Input tax Credit :** Input tax credit may not be allowed in the following circumstances :

(i) purchases from unregistered dealers;

(ii) purchases from registered dealer who opt for composition scheme under the provisions of the Act;

(iii) purchase of goods as may be notified by the State Government;

(iv) purchase of goods where the purchase invoice is not available with the claimant or there is evidence that the same has not been issued by the selling registered dealer from whom the goods are purported to have been purchased;

(v) purchase of goods where invoice does not show the amount of tax separately;

(vi) purchase of goods, which are being utilized in the manufacture of, exempted goods;

(vii) goods in stock, which have suffered tax under an earlier Act but under VAT Act they are covered under exempted items;

(viii) purchase of goods used for personal use/consumption or provided free of charge as gifts (partial credit is available in the State of Maharashtra);

(ix) goods imported from outside the territory of India (commonly known as high seas purchases);

(x) goods imported from other States viz. inter-State purchases.

Question No. 12 :

(a) Whether service tax return can be furnished after the due date?

(b) How can the excess payment of service tax be adjusted?

(c) Discuss the accountability of an "input service distributor" who may not be liable to pay service tax.

(d) Discuss the word "transparency" in the context of VAT system.

(e) When does a small service provider require to register under the Finance Act, 1994, but not liable to collect and pay service tax?

Answer :

(a) Unlike income tax, service tax law does not contain any provision for filing a late return. If the return is not filed within the prescribed time, a penalty is leviable. The Central Government has power to prescribe penalty for delayed filing of return within the overall maximum limit of Rs. 2,000. Rule 7C has been introduced for this purpose to provide penalty as follows :

Delay	Penalty
Upto 15 days	Rs. 500
16 days to 30 days	Rs. 1,000
31 days onwards	Rs. 1,000 ***plus*** Rs. 100 per day from 31 day onwards but the total penalty cannot exceed Rs. 2,000

Penalty may be reduced/waived where service tax payable is nil :

Where the gross amount of service tax payable is nil, the Central Excise Officer may, on being satisfied that there is sufficient reason for not filling the return, reduce or waive the penalty (late fee).

(b) Where an assessee has paid to the credit of Central Government any amount in excess of the amount required to be paid towards service tax liability for a month or quarter, as the case may be, the assessee may adjust such excess amount paid by him against his service tax liability for the succeeding month or quarter, as the case may be. However, such an adjustment is subject to the following conditions :

(i) Self-adjustment of excess credit would not be allowed in case of reasons involving interpretation of law, taxability, classification, valuation or applicability of any exemption notification.

(ii) Excess amount paid and proposed to be adjusted should not exceed Rs. 1,00,000 for the relevant month or quarter. However, in case of assessees opting for centralized registration, excess amount can be adjusted without any monetary limit provided the excess amount paid is on account of delayed receipt of details of payments from branch offices.

(iii) Adjustment can be made only in the succeeding month or quarter.

(iv) The details of self-adjustment should be intimated to the Superintendent of Central Excise within a period of 15 days from the date of such adjustment.

(c) As per Notification No. 27/2005 dated 07.06.2005, Central Government has notified that an input service distributor is required to make an application for registration even though he may not be liable to pay service tax.

(d) Out of total consideration paid for purchase of material, the buyer knows the tax component under a VAT system. Thus, the system ensures transparency. This transparency enables the State Government to know as to what is the exact amount of tax coming at each stage. Thus, it is a great aid to the Government while taking decisions with regards to rate of tax etc.

(e) When the gross receipts of a small service provider do not exceed Rs. 10 lakh in the preceding financial year, he is not liable to pay service tax in the current financial year till the 'aggregate value of taxable service' does not exceed Rs. 10 lakh during the period. However, he is liable to get registered when the gross receipts in any financial year exceeds Rs. 9 lakh within a period of 30 days from the date of exceeding the threshold limit of Rs. 9 lakh. Therefore, when in preceding financial year the aggregate value of taxable services exceeds Rs. 9 lakh, but does not exceed Rs. 10 lakh, the small service provider shall be required to get registered, but he shall not be liable to collect and pay service tax till the aggregate value of taxable services is less than Rs. 10 lakh in current financial year.

Question No. 13 :

(a) Compute the VAT amount payable by Mr. A who purchases goods from a manufacturer on payment of Rs. 2,25,000 (including VAT) and earns 10% profit on sale to retailers. VAT rate on purchase and sale is 12.5%.

(b) An unregistered "service provider" provides following details in respect of taxable services provided during the financial year 2010-11 :

Date	Particulars	Amount
30.06.2010	Advance received from a customer	1,00,000
30.09.2010	Part payment received against a bill of Rs. 9,50,000 raised on a customer	5,00,000
31.12.2010	Money received against taxable services provided during December, 2010	3,00,000
31.01.2011	Taxable services rendered during January, 2011	1,00,000
31.03.2011	Taxable services rendered during March, 2011	2,00,000

The service tax provider complies with the provisions of registration and collection of service tax as per service tax laws. He gets registered during the year. He received the money against the bills raised during the month of January and March 2011. Compute the service tax liability of service provider for the year 2010-11 considering service tax @ 10.3%.

Answer :

(a) Computation of VAT amount payable by Mr. A :

Particulars	Rs.
A. Purchase Price (Inclusive of VAT)	2,25,000
B. Input VAT (Rs. 2,25,000 x 12.5/112.5)	25,000
C. Purchase Price (Exclusive of VAT) [A – B]	2,00,000
D. Profit @ 10%	20,000
E. Sale price before VAT [C + D]	2,20,000
F. Output VAT [@ 12.5% on E]	27,500
G. Invoice Value [E + F]	2,47,500
H. VAT Payable [F – B]	2,500

(b) As per Notification No. 27/2005 ST dated 07.06.2005, Central Government has notified that any service provider whose aggregate value of taxable service in a financial year exceeds Rs. 9 lakh is required to make an application for registration within a period of 30 days from the date of exceeding the threshold limit of Rs. 9 lakh.

Further, Notification No. 6/2005 ST dated 01.03.2005 as amended by Notification No. 8/2008 ST dated 01.03.2008 provides that a small service provider is eligible to avail exemption from service tax on aggregate value of taxable services not exceeding Rs. 10 lakh in any financial year subject to the condition that during the preceding financial year, the aggregate value of all taxable services provided by him did not exceed Rs. 10 lakh.

In given question, since the service provider is not registered in preceding financial year 2009-10, it implies that his aggregate value of taxable services during 2009-10 was less than Rs. 9 lakh. Consequently, he is eligible for exemption under Notification No. 6/2005 dated 01.03.2005 available to small service providers in financial year 2010-11. However, the service provider will no more remain an unregistered dealer as his gross receipts exceed Rs. 9 lakh during the financial year 2010-11.

Computation of service tax liability of service provider for the service provided during the financial year 2010-11 :

Date	Particulars	Receipts
30.06.2010	Advance received from a customer	1,00,000
30.09.2010	Part payment received against a bill of Rs. 9,50,000 raised on a customer	5,00,000
31.12.2010	Money received against taxable services provided during December, 2010	3,00,000
31.01.2011	Taxable services rendered during January, 2011	1,00,000
31.03.2011	Taxable services rendered during March, 2011	2,00,000
	Total Receipts against taxable services	**12,00,000**
	Less : Exemption for small service providers	**10,00,000**
	Receipts liable to service tax	**2,00,000**
	Service Tax Payable @ 10.3% on Rs. 2,00,000	**20,600**

Question No. 14 :

(a) How is the value of taxable services is determined when the consideration against taxable services is received in other than monetary terms?

(b) How can an auditor play role to ensure that the tax payers discharge their tax liability properly under the VAT system?

Answer :

(a) Section 67 of the Finance Act, 1994 provides that if the consideration for a taxable service is not wholly or partly in terms of money, then the value of such service shall be equivalent to the total value of monetary as well as non-monetary consideration. However, the total consideration (i.e. monetary as well as non-monetary) has to be treated as inclusive the service tax payable thereon.

Example : Mr. X, a company secretary issues a Secretarial compliance Certificate to one of his clients and charges Rs. 8,000 from his client and also asks him to give a wrist watch worth Rs. 5,000. The total consideration in this case will be Rs. 13,000 and the value of taxable service shall be Rs. 11,786 (13,000 x 100 / 110.3) and Rs. 1,214 shall be the service tax payable.

(b) Under the VAT system, trust has been reposed on tax payers, as there will be no regular assessment of all VAT returns, but only a few VAT returns will be taken up for scrutiny assessment. In other cases, the return filed by the trader will be accepted. It will not be also seen whether proper records have been maintained by the trader. As a consequence, a check on compliance becomes essential. Chartered Accountants can ensure tax compliance by :

(i) helping the client in systematic record keeping;

(ii) helping the client in interpretation of the provisions of VAT law, and performing audit of VAT accounts.

(iii) reporting the under-assessment, if any, made by the dealer requiring additional payment or

(iv) reporting any excess payment of tax warranting refund to the tax payers.

Question No. 15 :

(a) Ms. X, proprietor of Royal Security Agency received Rs. 1,00,000 by an account payee cheque, as advance while signing a contract from providing taxable service; she received Rs. 5,00,000 by credit card while providing the service and another Rs. 5,00,000 by a pay order after completion of service on January 31, 2011.

All three transactions took place during the financial year 2010-11.

She seeks your advice about her liability towards value of taxable service and the service tax payable by her.

(b) X, a trader selling raw materials to a manufacturer of finished products. He imports his stock-in-trade as well as purchases the same from the local markets. Following transactions took place during the financial year 2010-11.

Calculate the VAT and invoice value charged by him to manufacturer (Assume the rate of VAT @ 12.5%) :

Cost of imported material (from other State) excluding tax	Rs. 1,00,000
Cost of local materials including VAT	Rs. 2,25,000
Other expenditure includes storage, transport, interest and loading and unloading and profit earned by him	Rs. 87,500

Answer :

(a) If Ms. X is a **new service provider**, then there is no service tax liability so long as the value of taxable services does not exceed Rs. 10,00,000. However, registration is required if the value of taxable service exceed Rs. 9,00,000. In the present case, value of taxable service before January 31, 2011 is Rs. 6,00,000. Consequently, registration is not required before January 31, 2011. On January 31, 2011, Ms. X receives a sum of Rs. 5,00,000 and the cumulative value of taxable service during the year 2010-11 becomes Rs. 11,00,000. She must now obtain registration within 30 days and pay service tax on Rs. 1,00,000 (Rs. 11,00,000 – Rs. 10,00,000). It appears that service tax is not collected separately. Rs. 1,00,000 shall be taken as inclusive of service tax. Value of taxable service and service tax payable shall be calculated as follows :

Value of taxable service = Rs. 1,00,000 x 100/110.3 = Rs. 90,662

Service tax payable = Rs. 1,00,000 x 10.3/110.3 = Rs. 9,338.

If Ms. X is **not a new service provider** and value of taxable service in the preceding year **not exceeded** Rs. 10,00,000 then value of taxable service and service tax payable by her shall be same as calculated above.

If Ms. X is **not a new service provider** and value of taxable service in the preceding year **exceeded** Rs. 10,00,000 then she will not get benefit of notification of exemption to small service provider and shall be required to pay tax on entire amount of Rs. 11,00,000 and therefore value of taxable service and service tax payable shall be calculated as follows :

Value of taxable service = Rs. 11,00,000 x 100/110.3 = Rs. 9,97,280

Service tax payable = Rs. 11,00,000 x 10.3/110.3 = Rs. 1,02,720.

(b) **Computation of VAT & Invoice Value**

	If raw material purchased from other State is subject to CST @ 2%	If raw material purchased from other State is subject to VAT @ 12.5%
A. Cost of imported material ***excluding*** tax	1,00,000	1,00,000
B. CST	2,000	12,500
C. Cost of imported material ***including*** tax (A+B)	1,02,000	1,12,500
D. Cost of local materials ***including*** VAT	2,25,000	2,25,000
E. Input VAT (Rs. 2,25,000 x 12.5/112.5)	25,000	25,000
F. Cost of local materials ***excluding*** VAT (D-E)	2,00,000	2,00,000
G. Other expenditure and profit earned by him	87,500	87,500
H. Sale price before VAT (C+F+G)	3,89,500	4,00,000
I. Output VAT @ 12.5%	48,688	50,000
J. Invoice Value (H+I)	4,38,188	4,50,000
K. Tax Payable (I-E)	23,688	25,000

Question No. 16 :

[A] Mr. X, a dealer in Mumbai dealing in consumer goods, submits the following information pertaining to the month of March, 2011:

a) Exempt goods 'A' purchased for Rs. 2,00,000 and sold for Rs. 2,50,000.

b) Goods 'B' purchased for Rs. 2,25,000 (including VAT) and sold at a margin of 10% profit on purchases (VAT rate 12.5%)

c) Goods 'C' purchased for Rs, 1,00,000 (excluding VAT) and sold for Rs. 1,50,000 (VAT rate 4%);

d) His unutilized balance of VAT input credit on 1.3.2011 was Rs. 1,500.

Compute the turnover, Input VAT, Output VAT and Net VAT payable by Mr. X.

[B] Mr. Rajesh is a registered dealer and sells his products to dealers in his State and in other States. The profit margin is 15% of cost of production and VAT rate is 12.5% of sales. From the following information You are required to compute the net tax liability and total sales value under value added tax :

i) Intra State purchases of raw material Rs. 2,50,000/- (excluding VAT @ 4%)

ii) Purchases of raw materials from an unregistered dealer Rs. 80,000/- (including VAT @ 12.5%)

iii) High seas purchases of raw materials are Rs. 1,85,000/- (excluding custom duty @ 10% Rs. 18,500)

iv) Purchases of raw materials from other States (excluding CST @ 2%) Rs. 50,000/-

v) Transportation charges, wages and other manufacturing expenses excluding tax Rs. 1,45,000/-

vi) Interest paid on bank loan Rs. 70,000/- .

Answer :

[A] Statement showing Input VAT and Output VAT

Goods	Purchases	Input VAT	Sales (Turnover)	Output VAT
A	2,00,000	-	2,50,000	-
B (See Note)	2,00,000	25,000	2,20,000	27,500
C	1,00,000	4,000	1,50,000	6,000
	5,00,000	29,000	6,20,000	33,500

Statement showing Net VAT Payable

	Rs.
Opening balance of Input VAT credit	1,500
Add : Input VAT credit for March, 2010	29,000
Total Input VAT credit available	30,500
Less : Output VAT payable on taxable turnover	33,500
Net VAT payable	3,000

Note :

	Rs.
Purchase value (including VAT)	2,25,000
Less : VAT included in above (2,25,000/112.5×12.5)	25,000
Purchase price excluding VAT	2,00,000
Add : Profit on above @ 10%	20,000
Selling price before VAT	2,20,000
VAT @ 12.5% on selling price	27,500

[B] Computation of Total Sales Value

	Rs.
Intra-State purchases of raw material (excluding VAT Rs. 10,000)	2,50,000
Purchases of raw materials from unregistered dealer [Refer Note 1]	80,000
High seas purchases of raw materials [Refer Note 2]	2,03,500
Purchase of raw materials from other States [Refer Note 3]	51,000
Transportation charges, wages and manufacturing expenses	1,45,000
Cost of production	7,29,500
Add : Profit margin 15%	1,09,425
	8,38,925
Add : VAT @ 12.5%	1,04,866
Total Sales Value	9,43,791

Computation of Net VAT Liability

		Rs.
VAT on above sales price @ 12.5%		1,04,8,66
Less : Set off of VAT on purchases :		
From high seas	Nil	
From intra-State [Refer Note 4]	10,000	
From inter-State	Nil	
From unregistered dealer	Nil	10,000
Net VAT Liability		94,866

Notes :

1. Input tax credit is not available on the purchases of raw materials from unregistered dealer. Hence, VAT paid thereon is a part of cost of production.
2. Duty paid on high seas purchases i.e., imports is not a State VAT, so the input tax credit is not available in respect of the same and it is a part of cost of production.
3. Set-off of tax paid on inter-state purchases is not allowed.
4. Tax on intra-State purchases is Rs. 10,000. As credit of the same will be available, it is not included in the cost of production.
5. Interest on loan has been excluded for calculating the cost of production on the presumption that the loan is availed for purposes other than working capital.
6. It has been assumed that the entire production is sold.

Question No. 17 :

[A] Compute net VAT liability of Rishi from the following information :

Particulars		Rs.
Raw materials from foreign market (includes duty paid on imports @ 20%)		1,20,000
Raw material purchased from local market :		
Cost of raw material	2,50,000	
Add : Excise duty @ 16%	40,000	
	2,90,000	
Add : VAT @ 4%	1,600	3,01,600
Raw material purchased from neighbouring State (includes CST @ 2%)		51,000
Storage and transportation cost		9,000
Manufacturing expenses		30,000

Rishi sold goods to Madan and earned profit @ 12% on the cost of production. VAT rate on sale of such goods is 4%.

[B] Compute the VAT payable by Mr. Shyam, who purchased goods from a manufacturer on payment of Rs. 4,16,000 (including VAT) and earned 20% profit on purchase price. VAT rate on both purchases and sales is 4%.

[C] Compute the VAT liability of Mr. P Kapoor for the month of October, 2010, using the 'invoice method' of computation of VAT :

Purchase from the local market (includes VAT @ 4%)	65,000
Storage cost incurred	750
Transportation Cost	1,750

Goods sold at a margin of 5% on the cost of such goods. VAT rate on sales 12.5%

Answer :

[A] Computation of VAT Liability

Particulars		Rs.
Raw materials purchased from foreign market (including duty paid on imports @ 20%)		1,20,000
Raw material purchased from local market :		
Cost of raw material	2,50,000	
Add : Excise duty @ 16%	40,000	2,90,000

Raw material purchased from neighbouring State (including CST @ 2%)		51,000
Storage and transportation cost		9,000
Manufacturing expenses		30,000
Cost of production		5,00,000
Add : Profit @ 12% of cost of production		60,000
Sale Price		5,60,000
VAT @ 4% on Rs. 5,60,000		22,400
Less : Input tax credit :		
Duty paid on imports	Nil	
CST paid on inter-state purchases	Nil	
VAT paid on local purchases	11,600	11,600
Net VAT payable		10,800

[B] Computation of VAT payable by Mr. Shyam

	Rs.
Payment made to manufacturer	4,16,000
Less : VAT paid [(4,16,000/104) x 4]	16,000
Purchase price	4,00,000
Add : Profit margin @ 20% on purchase price	80,000
Sale price before VAT	4,80,000
Output VAT @ 4% on Rs. 4,80,000	19,200
Less : Input tax credit	16,000
VAT payable by Mr. Shyam	3,200

[C] Computation of VAT Liability for the month of October, 2010 (using 'invoice method' of computation of VAT)

	Rs.
Purchase price (including VAT @ 4%)	65,000
Less : VAT paid on purchases (Rs. 65,000/104 x 4)	2,500
Purchase price (excluding VAT)	62,500
Add : Storage cost	750
Add : Transportation cost	1,750
Cost Price	65,000
Add : Profit @ 5% of cost price	3,250
Sale price before VAT	68,250
VAT @ 12.5% (Rs. 68,250 x 12.5%)	8,531
Less : VAT paid on purchases	2,500
VAT Liability	6,031

Question No. 18 :

[A] Raj and Co., a manufacturer of product 'X', sold its goods to a distributor at Rs. 11,250 (inclusive of tax). The distributor sold the goods to wholesaler for Rs. 13,500. The wholesaler sold the goods to a retailer for Rs. 16,875. The retailer sold the goods to consumer at Rs. 22,500. All the sales were inclusive of VAT @ 12.5%.

Compute the total VAT payable under the subtraction method.

[B] ABC & Co. received the following amounts during the half year ended 31-3-2011 :

	Rs.
i) For services performed prior to the date of levy of service tax (Assume service tax was levied from a specified date by change of law)	3,50,000
ii) Advance amount received in March, 2011 (No service was rendered and the amount was refunded to the client in July, 2011)	75,000
iii) For free services rendered to customers, amount reimbursed by the manufacturer of such product (for the period after the imposition of service tax)	50,000
iv) Amounts realized and on which service tax is payable (excluding the items (i) & (ii) above)	14,26,500

Calculate the service tax liability duly considering the threshold limit.

Answer :

[A] Calculation of VAT payable (under subtraction method)

Particulars	Turnover under VAT (Rs.)	VAT (Rs.)
Sale by manufacturer to distributor	11,250	11,250x12.5/112.5 = 1,250
Sale by distributor to whole seller	13,500 - 11,250 = 2,250	2,250x12.5/112.5 = 250
Sale by whole seller to retailer	16,875 - 13,500 = 3,375	3,375x12.5/112.5 = 375
Sale by retailer to consumer	22,500 - 16,875 = 5,625	5,625x12.5/112.5 = 625
Total VAT payable	22,500	2,500

[B] Computation of service tax liability

	Rs.
i) For services performed prior to the date of levy of service tax (not taxable though the amount is realized after the change of law levying service tax)	Nil
ii) Advance amount received in March, 2011 (on refund of amount received for the services; service tax so paid would be adjusted against service tax liability of the subsequent period)	75,000
iii) For free services rendered to customers, amount reimbursed by the manufacturer of such product (for the period after the imposition of service tax)	50,000
iv) Amounts realized and on which service tax is	14,26,500
Total	15,51,500
Less : Threshold Limit	10,00,000
Value of taxable service	5,51,500
Service tax payable = Rs. 5,51,500x10.30/110.30	51,500