Frequently Asked Questions on Value Added Tax

1. What is VAT?

Value Added Tax (VAT) is a form of sales tax. It is collected in stages on transactions involving sales of goods. Tax paid on purchases (input tax) is rebated against tax payable on sales (output tax). It is a simple and transparent system of taxation that is fair to business and consumers. VAT is levied on sales of all taxable goods. VAT is not levied if sales of goods are not made in the course of or in furtherance of business.

Thus Value Added Tax [VAT] is a multi point taxation system, i.e. to say a sales tax which is payable at each stage. The concept of 'resale' / 2nd Sale is done away with.

2. How VAT is computed?

VAT is paid on the profit margin of the Dealer. While computing the tax liability, the tax paid on earlier stage [on purchases] is deducted from the tax payable [on sales] and only the **NET** amount is paid into the Government Treasury. A small example will clarify this.

Let us assume dealer A to be producer, B to be manufacturer, C to be wholesaler and D to be retailer.

Dealer A, sells his produce at Rs. 100 and pays tax at the rate of 4 per cent. The sale price of Rs. 100 would be the purchase price of dealer B, who is a manufacturer. This dealer would use wages, salaries, other manufacturing expenses and to all this he would add interest and his own profit. Assume that after adding all these costs his sale price is Rs. 200. On this sale price the gross tax (at the rate of 4%) would be Rs. 8. As dealer A has already paid tax on Rs. 100, dealer B would get credit for this tax. Therefore, his net VAT liability would be Rs. 8 minus Rs. 4 That is, dealer B would pay Rs. 4 only. Similarly, the sale price of Rs. 300 by dealer C would have net VAT liability of Rs. 4 (Rs. 12 - Rs. 8 = Rs. 4) and the sale price of Rs. 400 by Dealer D would also have net VAT liability of Rs. 4 (Rs. 16 - Rs. 12 = Rs. 4).

	A	**B**	**C**	**D**
Purchase Price		100	200	300
Tax		10	20	30
Sale Price	100	200	300	400
Tax	4	8	12	16
Set-off Allowed = Tax Collected on Sales *minus* Tax Paid on Purchases		[8-4] 4	[12-8] 4	[16-12] 4
Tax Deposited in the Govt. Treasury	4	4	4	4

The above illustration indicates that the VAT is collected at each stage of production and distribution process and, in principal, the burden falls on the final consumers.

3. ADVANTAGES OF VAT:

> This growing popularity of VAT is due to its Simple tax structure and transparency (as also reflected in the present CENVAT)

- VAT has a novel advantage of transparency of incidence of tax, As the tax component in any transaction is easily Identifiable /computable, thus helping, analysis of tax effect on various options of investment/economic choices of producers or consumers.
- Because of its anti-cascading effect, the number of times a product is traded before reaching a final consumer or how much of a value is added at what stage in production distribution process are of no consequence under VAT.
- It is also neutral regarding choice of production technique as well as business organization. It would also help in better pricing of the products by the manufacturers/traders especially exporters; this would make their products more competitive.

> Ability to provide same revenue to the Government with lower rates of tax

> Extending the tax levy on a greater portion of the value chain, thus expanding the tax base

4. WHO SHOULD PAY VAT ?

An individual, partnership, corporation, HUF etc., who sells goods in the course of business and who is registered or is required to register for VAT should pay VAT

5. WHEN IS VAT CHARGEABLE ?

VAT is chargeable if the sales of goods -

- are made in the State of Maharashtra State (WITHIN OR OUTSIDE STATE)
- are made by a VAT dealer in the State
- are made in the course of or in furtherance of a business; and
- are not specifically exempt or zero-rated.

6. What is the turnover limit for registration under VAT act ?

The turnover limit for registration (applicable to Maharashtra state) is as under

CATEGORY	Total T.O. of either Sales or Purchases to exceed	T.O. Sales or Purchases of Taxable Goods not less than
Importer (Who buys or Sales the goods outside state)	Rs.1,00,000/-	Rs.10,000/-
Manufacturer / Resaler / All other Dealers	Rs.10,00,000/-	Rs.10,000/-

7. **Is it mean that if my turnover is below the limit, I need not be registered ?**

Yes, if your turnover is not crossing the specified turnover limit then you need not to register under VAT Act & pay VAT Tax.

8. **If my turnover is not crossing the specified turnover limit , but I wish to be registered dealer. Whether it is permitted ?**

Yes, you can obtain registration under voluntary registration scheme but you will be liable to pay tax from the date of registration on all the turnover of taxable goods even though it is below the specified limit.

9. Who will be benefited by VAT, and how?

The concept of VAT is to bring in an equitable position for everybody in the trade, including the consumer.

Manufacturer will be benefited the most since they will be reimbursed fully for the tax paid on their purchases [unlike earlier where a small portion was disallowed – called retention]. Even, turnover tax & surcharge was not qualifying for set-off.

Those manufacturers, who are into exports, will also be benefited as they would be truly having a zero rated exports since they will be reimbursed fully for the tax paid on their purchases. [except Central sales tax or other central levies like excise, customs duty etc; if any]

The **Distributors/Retailers** will have to pay tax on their profit margin, instead of Resale tax – which is a direct cost – as no input tax credit is allowed against Resale Tax paid. However, under VAT, everybody will have a tax credit and so the overall tax burden will be minimised.

However, the **Consumer** will have to take the overall impact of the taxes and so it is likely that they will have to bear the ultimate tax burden, although not significant.

It may be noted that commodities like Tobacco, wheat, rice, cereals & pulses will also be covered by the Sales Tax laws.

As per the press report, textile and sugar will be taxed only after the centre issues notification.

10. Does it mean that only Sales Tax Act will be replaced with the new VAT Act?

No, once the VAT Act comes into force, all the Acts mentioned below will cease to operate and will be merged with the VAT Act:

- Bombay Sales Tax Act, 1959
- Bombay Sales of Motor Spirit Taxation Act, 1958
- Maharashtra Purchase Tax on Sugar cane Act, 1962
- Maharashtra Works Contract Tax (Re-enacted) Act, 1989
- Maharashtra Lease Tax Act, 1985

11. What will be the Rate Structure under the VAT Scenario?

The new VAT Act has six different categories containing various commodities, which attracts different rate of tax.

The unique feature under the present rate structure is a reference to the Customs Tariff Act, 1975 for classification. This means that all the principles/rules/amendments of the Customs Co-operation Councils, [Brussels] will apply. The rate schedule is as follows:

- Agriculture products & Essential Commodities - Exempted
- Gold & Precious Stones - 1%
- Industrial Inputs, Packaging materials, I.T. Products [Notification Awaited] – 4%
- Standard Rate- 12.5%
- Liquors – 20%
- Motor Spirits - > 30%

12.. WHAT OTHER TAXABLE SALES MAY BE LIABLE TO VAT ?

Other than your normal business sales, you should also account for VAT on the following sales:

a) Sales to your staff or sales from vending machines;

b) Sales of business assets (e.g. Equipment, furniture, commercial vehicles);
c) Sales under Hire-purchase agreement or lease of goods to someone else;
d) Sales under Works Contract Agreements.

13. HOW DO I KNOW IF MY SALES ARE EXEMPT OR ZERO-RATED ?

Exempted and Zero rated sales are listed in Part A of the schedule of the Act.

[Remember, any taxable sale that is not exempt, is liable to tax at one of the rates specified in the VAT Act, 2003.]

14. How do I know the rate of tax on the goods I sell?

All goods not listed in Schedule Part A to Part E of the VAT Act 2003 are liable at the standard rate as per Part F.

Classification of goods and the rates of tax are listed in the Schedules to the VAT Act 2003. A VAT dealer can find in these schedules, the rate (s) of tax applicable to the goods sold.

15. WHAT IS OUTPUT TAX ?

It is the VAT chargeable on all the taxable sales made by a VAT dealer.

16. WHAT IS INPUT TAX ?

It is VAT charged on your purchases of goods. If you are registered for VAT you can normally claim a credit for the VAT charged on most business purchases.

17. What happens to Surcharge and Turnover Tax?

The rate under the VAT Act will be a single rate. There will not be any extra levies like turnover tax, surcharge, Resale Tax, additional tax etc.

18. Will Octroi, Market Cess and Entry Tax also be abolished?

No. Octroi being a levy by the Municipal Corporation will not be disturbed. There would not be any change in Market Cess also. Entry Tax, which was introduced on 1.10.2002 seems to continue, although at present it is applicable only for selected products [mainly petroleum products].

19. What will happen to the declaration forms?

The idea of declaration is to minimise tax or to make the tax rate zero. However, the very basic philosophy of VAT is to put all dealers at par with each invoice carrying the same rate of tax. Hence, all the declaration under the local act will be abolished

20. Whether Central Sales Tax will also be abolished?

No. The Central Sales Tax will not be immediately abolished. However, the Union Finance Minister has, while presenting the Union Budget for the year 2003-04 has indicated that the rate of Central Sales Tax will be reduced from 4% to 2% **[through a Notification]** and eventually it will be made zero against "C" 'Form. The CST ACT will not abolished and full CST rate will be applicable wherever "C" is not available.

21. Does it mean that even 'F' Forms or 'C' Form will be abolished?

No. Since there will not be any change in the Central Sales Tax Act, the declaration prescribed under the CST Act will continue. Branch transfer/consignment transfer outside the state would continue to be without any levy of CST against declaration in Form 'F'. Even 'in transit / L/R sale' i.e. sales covered by section 6(2) of the Central Sales Tax Act, 1956 will also continue.

22.. Whether Transit sales or High seas sales under CST Act 1956 will be continued?

Yes, Even 'in transit / L/R sale/High Seas Sale ' i.e. sales covered by section 6(2) of the Central Sales Tax Act, 1956 will also continue as on today.

23. Whether the method of computing VAT is similar for all the dealers?

No. The computation of VAT liability is not the same for all the dealers. A special class of dealers will not have to discharge their VAT liability, but will have to pay a lump sum amount as tax [by way of composition].

The features of the composition scheme are as follows:

(i) The Scheme is not open to dealers who trade in liquor.
(ii) The Scheme is not open to any dealer who is an importer or a manufacturer.
(iii) The Retailer is neither required to collect tax nor authorised to claim set-off.
(iv) The Retailer cannot issue "tax invoice".

24. What type of dealers can opt for composition scheme? How the amount under composition is determined?(Subject to Change)

The amount of composition is worked out as follows:

Type of Dealers	Amount of Composition
Retailers having turnover between Rs.10 lakh to 20 lakh	Rs.2,000/-p.a.
Retailers having turnover between Rs.20 lakh to Rs.30 lakh	Rs.3000/- p.a.
Retailers having turnover between Rs.30 lakh to Rs.40 lakh	Rs.4000/- p.a.
Retailers having turnover in excess of Rs.40 lakh	8% of the gross profit less Rs.12000/-
Petrol pumps, LPG dealers and dealers trading in PDS kerosene: (1) turnover of sale is less than Rs. 1 crore (2) turnover of sale is between Rs. 1 crore to Rs. 5 crore (3) turnover in excess of Rs. 5 crore	 Rs. 1,000/- p.a. Rs. 2,500/- p.a. Rs. 10,000/- p.a.
Medicine dealers	0.25% of their gross profit

Restaurants [excluding permit rooms or any Hotel having gradation of Three Star or above]:	
(1) turnover is upto Rs.6 lakh	1%
(2) turnover is between Rs. 6 lakh to Rs. 10 lakh	Rs. 6,000/- + 3% of the excess
(3) turnover between Rs. 10 lakh to Rs. 25 lakh	Rs. 18,000/- + 6% of the excess
(4) turnover between Rs. 25 lakh to Rs. 50 lakh	Rs. 1,08,000/- + 8% of the excess
(5) turnover between Rs. 50 lakh to Rs. 75 lakh	Rs. 3,08,,000/- + 10% of the excess
(6) turnover in excess of Rs. 75 lakh	Rs. 4,21,000/- + 10% of the excess

It is also provided under the VAT Act, that a dealer would be considered as a retailer only if 9/10th of his turnover of sales would be sales made to customers who are not dealers.

25. What is available for set-off under the VAT Act?

- Sales tax on purchases of:
  - Capital assets [as defined under the Income-tax Act, other than Jewellery & Property and passenger vehicle not connected with business]
  - Trading goods
  - Raw materials
  - Packing material and Fuel
  - Miscellaneous goods
- Purchases tax paid/payable

26. When can one claim set-off under the VAT Scenario:

The VAT Rules are very clear on this aspect. The following table will explain the mode of claiming set-off:

Nature of Tax	**Time to claim**
Sales tax	When **purchases** are **made with tax invoice** [Linking of Manufacture/Sale to original purchase is done away with]

Purchase tax	When it is paid or become payable

27. Is there any difference in claiming set-off?

Yes, the rules for claiming set-off will be different then the earlier rules. The following table will explain the change in rules of set-off with the present system.

Set-off [of taxes paid in the state of Maharashtra] :	**Under the BST Act**	**Under the VAT Act**
Of tax paid on purchase of Raw materials [except Fuel] – when used in manufacturing – and sold	Allowed, with a retention of 3%	Fully Allowed – No retention
Of tax paid on purchase of Fuel – when used in manufacturing – and sold	Allowed, with a retention of 3%	Allowed, with a retention of 4%
Of tax paid on purchase of Raw materials – when used in manufacturing – and stock transferred (outside the state)	Allowed, with a retention of 6%	Allowed, with a retention of 4%
Of tax paid on purchase of Capital Asset	Allowed, with a retention of 4%	Fully Allowed
Of tax paid on purchases of goods meant for trading outside the state	Fully Allowed	Fully Allowed
Trading goods despatched to branches	Allowed, with a retention of 4%	Allowed, with a retention of 4%

Please note that under the existing Bombay sales tax act, 1959, turnover tax, surcharge and resale tax does not qualify for set-off.

28. Whether set-off is allowed on every purchase?

No. For the items specified below, set-off is not allowed under specific circumstances.

Items	Circumstances
On Motor Vehicles [Not goods vehicle]	When treated as capital assets and Components Parts & Accessories
On Motor Spirits	Unless traded or stock transferred
On Sugarcane	When purchased from U.R.D
On Crude oil	Only for oil refinery if such 'crude oil ' is used for refining
On any purchases	When purchased by specified dealer [e.g. Government undertaking]
On any purchases	If manufactures only waste or scrap goods
On any purchases	To whom **Entitlement Certificate** granted under the Package Scheme of Incentives - being purchase of raw material [as he will be eligible for cash refund]. The definition is likely to include Raw Material, packing material & consumables

29. WHAT IS THE EFFECT ON MY INPUT TAX IF I MAKE TAXABLE AND EXEMPT SALES ?

If you are making taxable and exempt sales you may only be entitled to full claim a credit of input tax for the part related to taxable sales and exempted (taxfree goods) you will be entitled with 4% retention as per present rule.

30. WHAT PROOF DO I NEED TO CLAIM INPUT TAX ?

You must have an original tax invoice to substantiate a claim for input tax credit. If you do not possess such a document you must obtain one, otherwise you will not be eligible to claim a credit.

31. HOW DO I CLAIM MY INPUT TAX CREDIT ?

When you complete your VAT return each month you can claim an input tax credit on that return.

If the claim for input tax credit exceeds the amount of output tax on the return, you are entitled to a refund or to carry forward a credit. You will be able to claim a refund of excess input tax if you make international exports.

32. Whether even CST paid will be allowed for input tax credit?

No. As per prevailing rules, no credit of tax paid on CST is allowed. This will continue even after introduction of VAT. Hence, this will remain as a cost.

33. **What will happen to goods lying in stock as on 31.3.2005 [or cut-off date of implementing VAT?(Subject to rules of each state)**

If the set-off is already claimed [as is done when the goods are consumed], there is no question of allowability of set-off once again. It may be noted that the manufacturer claims the set-off immediately on the purchase, therefore they would have claimed the set-off in the month of Feb/March 2003.

However, if set-off is not claimed earlier and if the tax is not shown separately [say purchases on Form 31], then the provisions of Rule 44D will apply [which talks about computation of set-off by applying a presumptive rate of gross profit]. It appears, set-off on closing stock will be available to traders/resellers.

It may be noted that Turnover Tax and Surcharge paid on such purchases will not be allowed as a set-off.

The set-off will be computed as per the Table below:

Capital Assets	Only If purchased after 1.4.01 and sold before 31.12.03 : (Subject to Change) Reduction in Set-off = S/o*N/36 N:- No of completed months between purchase and sales to be claimed when sold
Others	If dealer to file monthly return- 6 equal installments If dealer to file quarterly return- 2 equal installments The set-off will be allowed from 1.7.2003

34. Are there any special conditions to claim set-off under the VAT Scenario?

It has been clearly provided that set-off is available **only to registered dealers (**with original tax invoice). Further, set-off will be granted only when the dealer maintains **FULL** details of purchases, in a chronological order, clearly showing:

1. Date of purchase
2. Name of selling dealer
3. Description of goods
4. RC no of the dealer-if registered
5. Bill no /Invoice no
6. Purchase price
7. Amount of sales tax recovered separately by the vendor
8. Amount of Purchase Tax paid or payable by the dealer

35. Will there be only one accounting year?

Yes. The VAT Act has made it compulsory for all the dealers to follow the financial year as the accounting year, i.e. April to March. The Freedom to choose the accounting year is no longer allowed to the dealers.

36. What will be the role of a Check-post?

To monitor the movement of goods in the State and to unearth the evasion of taxes, the Check post will be set-up at different locations. The vehicles should accompany the Tax Invoice/Bill of Sale/Delivery Note/other prescribed document.

The Check post officers will also have power to detain the goods.

37. Whether a Fresh Registration is required under the VAT Act?

No, all the existing Dealers, who are registered under the earlier Acts would be considered to have been registered under the VAT Act also. Hence, the existing Registration Number will continue.

It is also proposed to allot a unique Tax Identification Number [TIN], which would be helpful to the Sales Tax Department to monitor the sales tax collection of the dealers and for doing other analysis of the trade. This would be in line with the Permanent Account Number [PAN] issued by the Income-tax Department.

38. What will be the periodicity for filing Returns under the VAT scenario?

The Returns during the year will have to be filed based on the liability [BST/MVAST+CST] of the dealer [**after adjusting set-off**] in the pervious year. The following table will explain the position.

Yearly Returns

When the Annual Sales Tax Liability in the previous year is **less** than 20,000	**Quarterly Returns –** Within 1 month from the end of the Quarter to which the return relates.
When the Annual Sales Tax Liability in the previous year is **more** than 20,000	**Monthly Returns –** Within 20 days for Jan & Feb & within 25 days for other months.
For Retailers opted for Composition scheme	**Quarterly Returns –** Within 1 month from the end of the Quarter to which the return relates.
For Oil Companies	Within 15 days of the end of month to which the return relates.

Annual Return

When the Dealer is required to get his account audited by a Chartered Accountant	On or before 30th November
When the Dealer is **not** required to get his account audited by a Chartered Accountant	On or before 31st October

39. Is there any difference in the format of Annual Return under the VAT scenario?

Yes. With an intention to move towards Self Assessment, the Annual Return will no longer be merely a Form filling exercise. It will have to be adequately supported by various other information. The Rules clearly provides that the Annual Return needs to be a correct and complete Return, and

1. All the required figures should be mentioned at relevant places;
2. It should be arithmetically accurate;
3. When Audit is required, it should be accompanied by an Audit Report;
4. When an Audit is not required, the Return should have:

a. A Balance sheet
b. A Profit and Loss Account
c. A Schedule of Fixed Assets
d. A Reconciliation Statement of figures in Annual Return with Profit & Loss A/c
e. Proof of payment of Tax
f. Details of credit purchases in prescribed form
g. A Statement of Set-off claimed [in a prescribed format]

40. **Is there any provision of Self-Assessment If I file my correct & complete annual return ? and what are the conditions?**

Yes, Under section 21 of the act you will be covered for self assessment. The following are provisions /conditions for this section.

a) Intimation will be sent when tax is payable or is refundable on the basis of the return filed.
b) Intimation to be sent within 3 years from end of the financial year in which the returns is to be filed.
c) Officers will be designated for the purpose.
d) If annual return is nil and there is no tax due or refund, then acknowledgement of return filed will serve the purpose as intimation of self assessment.

41. Is there any provision for TDS under the VAT Act? How it is applicable?

TDS provisions were there under the Works contract Act only. Now, this will be extended under the VAT Act and so while making payment, the purchasing dealer will deduct a portion of tax at source and deposit the same in the Govt. Treasury in the next month.

However, it is understood that certain institutions [Railways, Banks, Insurance companies & other big corporate companies will be notified to deduct TDS]. For awarder of works contract, TDS provisions may be applicable.

The Rate of deduction of tax at source will be notified separately.

42. What is a Sales Tax Audit?

Basically, there will be two types of Audits. Audit by a professionals which includes" Accountant "and a Revenue Audit by Sales Tax department. At present "Accountant" defined includes Chartered/Cost Accountant in states like Kerala, Andrapradesh, Gujrat, Uttaranchal, Orrisa, Goa, Karantaka etc even in some states sales tax practitioners also recognized to conduct Vat Audit .

Audit by a Professional :

As is done in Income-tax, an audit will be done by a professional (CA/CWA/STP as applicable) of the books of the resident dealer having an annual turnover in excess of a prescribed limit [i.e. 40 Lacs p.a.]. The due date for getting the books audited is 8 months from the end of the year [i.e. on or before 30th November]

For non-resident dealers, the turnover criteria would not apply – meaning all the non-resident dealers will have to get their books audited.

The Audit Report will have to be submitted along with the Annual Sales Tax Return. The following data is likely to be given under the Audit Report:

1. Reconciliation – Location wise State wise of Sales & Purchases
2. Claim of Goods returned, Scheme, discounts etc
3. Classification of Items and Set-off Claimed
4. Turnover under Works Contract, Lease Tax
5. Sales through Branches & Consignment Agents
6. Position of Forms Collected and Issued
7. Ratio Analysis for Specified Dealers.

NOTE: Though in Maharashtra State only Chartered Accountants are allowed to conduct VAT Audit ,but as mentioned in the beginning in many states Cost Accountants are also included for the purpose of VAT Audit (KERALA,GUJRAT,GOA,ANDRAPRADESH,ORRISSA,KARNATAKA,UTT RACNCHAL,TAMILNADU ETC).In few states like Gujrat & Andrapradesh even Sales Tax Practitioners are also allowed for audit certification.
*** IN ANDRAPRADESH THIS AUDIT IS REQUIRED TO BE DONE AT THE INSTANCE OF COMMISSIONER AND NO TURNOVER LIMITS ARE PRESCERIBED .**

Audit by the Sales Tax Department [Business Audit] :

As per the VAT Act, the Sales Tax Department is authorised to conduct audit of the business, under approval from the Commissioner. The Audit will be done at the premises of the dealer and can also mean a stock take or a cash verification. The audit can also be done in the sales tax office depending upon the notice issued for this purpose.

This Audit will not be done in all cases, however, the Audit may be taken up in following circumstances:

(1) If **Returns are not filed** by the prescribed date
(2) When Dealer has claimed refund of tax
(3) If Commissioner is not satisfied with the correctness of the return, claim or deduction, etc.
(4) Where Commissioner believes that detailed scrutiny is required
(5) If it is selected on the random basis criteria.

43.. What changes will be required in raising an Invoice?

Under the VAT Act, it is very clearly stated that the Invoice will have to show the tax component separately. Accordingly, every invoice – raised at any stage of sale will have to clearly mention the sale value and the tax charged thereon. It is commonly known as 'Tax Invoice'.

Dealers will be given an option to either issue an invoice or a cash memorandum – in case the buyer does not want to claim VAT credit.

It is provided under the Rules that the Invoice/Cash Memorandum must specify the full name and style of his business, the address of his place of business, the 'e-mail' address if any, and the number of his certificate of registration, the particulars of the goods sold and the sale price thereof.

Further, it is also specified that when a tax invoice is issued by a registered dealer, the following certificate must be given thereunder :-

"..I/We hereby certify that my/our registration certificate under the Maharashtra Value Added Tax Act, 2002 is in force on the date on which the sale of the goods specified in this tax invoice is made by me/us and that the transaction of sale covered by this tax invoice has been effected by me/us."

44. Is it necessary that sales tax should be shown separately each time an invoice is generated?

No. The Rule provides that if the claimant dealer [one who purchases the goods] wants to claim the set-off, it should be supported by a tax invoice, which shows the tax amount separately. Therefore, set-off is to be claimed by the customer, 'Tax Invoice' should be issued.

There is no bar for issuing invoices wherein tax amount is not separately shown. Say a distributor selling a consumer durable product directly to the end user may not show the tax amount separately, since the customer is not going to claim set-off on tax paid on such purchase.

However, at the time of discharging liability, tax collected [though in an inclusive manner] will have to be identified by applying prescribed formula.

45. **Is it necessary to track the movement of goods?**

Under the VAT Act, it will be essential to track the movement of goods. The Accounting package should track the receipt and the disposal of the goods. This will be helpful at the time of claiming set-off, when the goods will be dispatched outside the state otherwise than by way of a sale [say stock transfer] and for linking the purchase and disposal of the goods.

46. What modifications will be required in the Accounting system?

This would depend mainly on the gap between the existing system and the new record keeping/invoice generation format [under the VAT Act as explained above]. The gap has to be bridged by modifying the system suitably. A complete changeover may not be required in that case.

Say for example, if the data field of a Purchase Register does not capture the RC Nos. of the vendor, mentioned in the invoice, the field may be altered/inserted for doing so – as under the VAT Act, this detail has to be covered by the Format of the Purchase Register.

What will be the selling price for the purpose of Lease tax?

The Selling price will be amount received or as the case may be, due and payable during the year.

What will happen to the liability in case of on going lease agreements?

There is no clause in the VAT Act which provides for restricting the liability to the extent of liability under the Old Lease Act.

what will be the Rate of tax for the purpose of Lease:

The rate of tax will be as applicable to the goods [mentioned in the Schedule]:

Lease of :	Rate of Tax:
Machinery	4%
Vehicles	12.5%
Furniture	12.5%
Software	4%
IPR[Trademark etc]	4%

What will happen to the liability in case of on going works agreements?

The VAT Act specifically provides that the liability under the VAT Act will be restricted to the liability as determined under the Old Works Contract Act.

How does a liability under the Act vis-à-vis in a composition Scheme is worked out for works contract?

The Liability is worked out as follows:

A] Under the Composition Scheme

Total contract value	XXX
Less: RD purchases and URD purchases on which VAT paid	XX
Balance @ 8%	XX
Less: Set-off – total tax paid under MVAST Act*16/25	X
Balance Payable	X

B) As per provision of the VAT Act

Total contract value	XXX
Less: Deduction for labour and profits (as per rules)	XX
Balance	XX

Tax is payable at the rates at which goods are taxable under the VAT Act. [the property in goods has passed during execution of Works Contract

[Iron and steel @ 4%, Cement sand etc @ 12.5%, machine parts/woods/timber plywood etc @ 12.5%]

$$\text{Set-off} = \text{Tax paid under VAT Act} * \frac{\text{Value of the Property in the goods passed}}{\text{Total Contract Value}}$$

Tax Payable	XXX
Less: Set-off [as computed above]	XX
Net Liability	XX

WHAT RECORDS AND DOCUMENTS AM I REQUIRED TO KEEP FOR VAT ACCOUNTING PURPOSES?

The VAT Rules define the records which a VAT dealer is required to keep.

All VAT dealers are required to keep the records according to rules.

Generally it is expected to keep the follwing records to gather all the required details.

i) VAT ACCOUNT

This is the information, which is entered on your VAT return. The information can be retained in an account book, or on a computer, but many people prefer to retain a copy of the VAT return and retain these VAT return copies in a file as a permanent record.

ii) PURCHASE RECORDS

This should be divided into five separate accounts:

a)

- Details of purchases from suppliers who are not registered for VAT where no VAT is charged
- Details of purchases of goods exempt from VAT
- Details of purchases of goods used for consumption for which you cannot claim input tax credit such as vehicles, vehicle spare parts, petroleum products, food, beverages, and tobacco products unless you are in the business of selling, hiring vehicles and selling petroleum products or food, beverages and tobacco products. Details of goods used for personal consumption or as gifts should also be included in this account
- Details of imports and of purchases from other states

b) The value and the VAT paid on goods purchased at the 4% rate of VAT.

c) The value and the VAT paid on goods purchased at the standard rate of VAT.

d) The value and VAT paid on goods purchased at 1% rate of VAT.

e) The value and VAT paid on goods purchased at 20% rate of

VAT.

f) The value for VAT and VAT paid on goods where the purchase of Petroleum products (except not available for set off) are effected.

iii) PURCHASE DOCUMENTS TO BE RETAINED IN DATE ORDER

i) Original tax invoices received from your VAT dealers and filed separately under the tax rates listed at (b) to (f) above, in date order.

ii) Purchase invoices received from non-VAT dealers and purchase invoices for purchases on which you cannot claim a tax credit.

Remember if you are unable to produce an original tax invoice, the Sales Tax Department will not allow your claim for credit of input tax.

iv) SALES RECORDS:

This should be divided into seven separate accounts:

a) The value of Exempt sales as defined in Schedule-Part A of the MVAT Act, 2002 and stock transfers and consignment sales to other states.

b) The value of Zero rate sales (international exports).

c) The value of Other zero rate sales – inter state sales.

d) The purchase value of goods liable to VAT under Section 4(4) (ii) of the MVAT Act 2003 and the VAT charged.

e) The value of Taxable sales and the VAT charged at 4% rate.

f)The value of Taxable sales and the VAT charged at the standard rate.

g) The value of Taxable sales and the VAT charged at 1% rate.

h) The value of SAT goods and SAT charged.(IF any declared)

v) SALES DOCUMENTS TO BE RETAINED IN DATE ORDER.

a) Copies of invoices of exempt sales or a daily record of the value of your exempt sales. Form 'F' in the case of inter-state stock transfers.

b) Documents related to international exports:

   Copies of the invoices related to the sales

   - Copy of the customs clearance certificate
   - Evidence of transportation in the form of copies of transit documents, such as airway bills, or shipping bills of lading or road or rail transit documents.
   - Purchase orders from or contracts with the foreign customers.
   - Copies of the invoices issued to the foreign customers.
   - Evidence of payment for the goods such as a copy of the letter of credit.
   - Form H declaration.

c) Documents related to other (O.M.S.) sales:

   - Copies of the invoices related to the sales
   - Evidence of transportation in the form of waybills/other evidence.
   - Form 'C' declaration.

d) Copies of tax invoices related to your taxable sales, filed separately under the different tax rates. Copies of commercial invoices and the daily record of your cash sales to non-VAT registered persons. This can be maintained in a book or in computerized format supported by cash register rolls if available, to provide a daily record of your gross receipts at different tax rates.

53. WHAT DO I DO WITH CREDIT AND DEBIT NOTES ?

Copies of debit and credit notes issued and received should be separately filed in date order under different tax rates. The record of debit and credit notes should be entered in red and related to the appropriate purchase or sale account. It must be taken account of while adjusting the monthly total of each account.

54. WHAT ABOUT CASH RECORDS ?

Retain all records of your cash transactions including cashbooks, all vouchers, including petty cash vouchers, all account books, records of daily receipts including cash register rolls.

55. Do I need to retain stock and manufacturing records ?

Yes. These records must be maintained if appropriate to the business. They are essential for VAT accounting purposes.

56. WHAT IF I USE A COMPUTER IN MY BUSINESS ?

You must retain all your computer records related to your business activities & for the period it is specified in the Act.

57. WHAT RECORDS DO I RETAIN IF I MAKE TAXABLE AS WELL AS EXEMPT SALES ?

In these circumstances you must retain records of all your calculations in prescribed formats to claim input tax credit .

58. WHAT OTHER RECORDS AM I REQUIRED TO RETAIN ?

a) orders and delivery notes;
b) job books;
c) annual accounts including trading accounts, profit and loss accounts and balance sheet;
d) bank statements and bank pay-in slips.

59. How long do I have to retain my records and accounts ?

The MVAT Act 2002 requires that all the specified accounts and records shall be retained for a period of 8 years and made available as and when required by the Tax Department.

There are penalties for failing to maintain the specified Records .

60. Whether VAT is just mere replacement of sales Tax Act ?

No, VAT is going to change the way of doing business. It would be a misconception to believe that the implementation of VAT is only a change in the system of levy of tax and that it is just a replacement of the present sales tax Act.

61. What are effects/implication on my business?

It is commonly believed that VAT would impact only the pricing policy. Impact of VAT will encompass all facets of the business i.e., procurement, manufacturing, distribution, costing and accounting. Staffs need to be educated (From trained VAT professional) on the implications of VAT and the software need to be modified to be compatible with the VAT accounting and reporting requirements.

Though there may be certain common factors relevant to all trade and industry, the impact of VAT needs to be analysed specific to the business model of the individual business. A sound knowledge of the VAT law applicable to the individual business model alongwith sound knowledge of management consultancy is required. Planning transition to VAT will pose significant challenges to Trade and industry.

62. Is there any consequences/penalty if I fail to comply with provisions of MVAT Act 2002?

Yes, very stringent penalties are prescribed in the act. For example if you fail to file return by prescribed date then minimum penalty of RS. 1000 will be levied before issue of showcause notice thereafter Rs.2000/-

It will be better for you to refer all penalty chart given in the act.

63 . What should i do to obtain further information ?

You should contact your Chartered/Cost Accountant or Tax Advisor or nearest Sales Tax office .