VAT PRESENTATION

REVISION

DEFINE VALUE ADDED TAX?

- Value Added Tax-
- Is a multi-point tax on value addition, i.e. increase in value.
- Which is collected at different stages of sale, and
- With a provision of Tax paid on inputs is available for set off against tax payable on out puts, before remitting to the Government's account

OBJECTIVES OF INTRODUCING VAT?

- To avail Credit on inputs, leading to cost efficiency.
- Ensure equitable distribution of tax impact amongst the dealers.
- Easy compliance through transparent and easy procedures.
- Easy computation of tax.
- Avoids double taxation through input credit (i.e. avoidance of cascading effect of taxes)
- Prevents distortions in trade and economy, through

WHAT ARE THE FEATURES OF VAT, AS INDICATED IN THE WHITE PAPER?

>> All tax paid goods, purchased on or after 01.04.2004 and still in stock as on 01-04-2005, would be eligible to receive input tax credit. This tax credit would be available over a period of 6 months, after an interval of 3 months.

>> Registration of dealers with GAT >Rs.5 Lakhs would be compulsory.

>> Small dealers with GAT< Rs. 5 Lakhs will not be liable to pay VAT.

>> Small dealer with GAT< Rs.50 Lakhs, who are otherwise liable to pay VAT, can opt for a composition scheme

>> Dealers opting for composition scheme will not be entitled to Input Tax Credit.

>> There would be a Tax Payer Identification Number (TIN)

Gross product variant

- Tax is levied on all sales and deduction for tax paid on inputs excluding the capital inputs is allowed.

Income variant

- Tax is levied on all sales with set – off for tax paid on inputs & only depreciation on capital goods.

Consumption variant

- Tax is levied on all sales, with deduction for tax paid, on all business inputs (including capital goods.)

Gross product variant

- Capital goods are taxed twice.
- Modernization and upgrading of P&M is delayed due to this double tax treatment

Income variant

- classify purchases as current expenditure, to claim set off.
- There are difficulties connected with the specification of any method of measuring depreciation

Consumption variant

- the system is tax neutral, with respect to techniques of production (labour or capital intensive).
- It simplifies tax administration

Methods of computation of VAT

Addition Method

Aggregating all the factor payments and profit

Invoice Method

Deducting tax on inputs from tax on sales

Subtraction method

Direct Subtraction method

Deducting aggregate value of purchases, exclusive of tax, from the aggregate value of sales, exclusive of tax.

Intermediate subtraction method

Deducting tax, inclusive value of purchases from the sales and taxing difference between them.

Addition Method	Invoice Method	Subtraction Method
Suitability: This method is mainly used with income variant of VAT	**Suitability:** Under Central Excise Law, this method is followed.	**Suitability**: This method is normally applied, where the tax is not charged separately.
Demerits: •not facilitate matching of invoices for detecting evasion. no benefit of input tax credit.	**Merits:** • the beneficiary is the trade and Industry • tax evasion is reduced to minimum	**Demerits:** suitable when VAT rate is uniform on all commodities

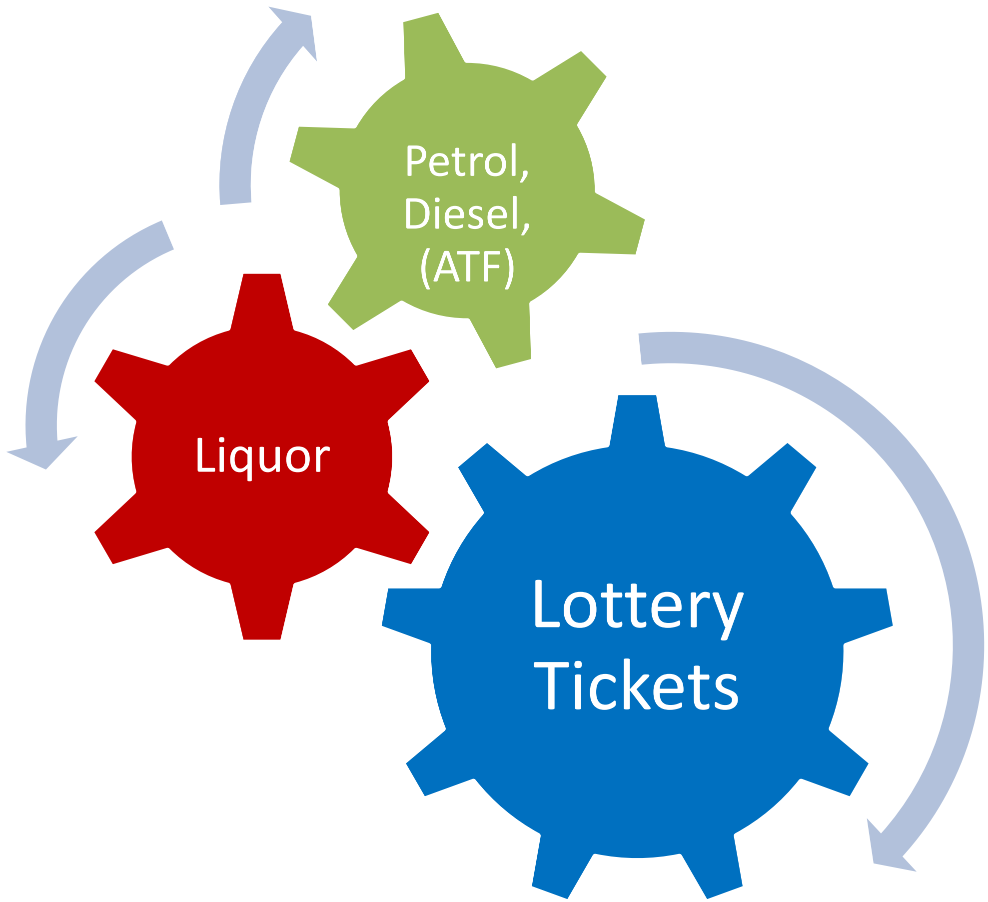
ADVANTAGES OF VAT?

- Prevents cascading effect of taxation
- Reduction in price
- Simplicity, Certainty and Less Litigations
- Transparency
- Self-assessment and less procedural formalities
- Provides neutrality
- Better accounting
- Better and Stable revenue collection
- Tax evasion is difficult

LIMITATIONS OF VAT?

- Detailed records even by small traders
- Problems due to different VAT rates, exemptions, concessions and composition schemes
- Increase in investment and inflation
- Non-integration of State VAT with Central VAT
- VAT, being a consumption tax, is regressive in nature:
- Higher administration cost

Goods are not covered under VAT?



Rates of VAT?

Rate	Description
0%	This category has about 50 commodities(maximum of 10 commodities flexibly)
1%	precious stones, precious and semi-precious metals, bullion, gold and silver ornaments,
4%	items of basic necessities all agricultural and industrial inputs, capital goods
5%	Declared goods
12.5%	All goods other
20%	Luxury goods.

Type	Particulars
Type of seller	1. Purchases from URD 2.Purchases from RD who has opted for composition scheme
Place of seller	3.Purchases of goods from other states 4.Import of goods from outside the territory of India
Proof of purchase	5.where the purchase invoice is not available 6.dealer’s invoice doesn’t show amount of tax charged separately
Purpose of purchase	7.Purchases of goods for use in the manufacture of exempted goods 8.Purchase of goods used for personal use 9.Stock transfer outside the state
others	10.Purchase of non-creditable goods 11.Purchases of capital goods (in negative list) 12.Purchases of goods for use as fuel in generation of power;

Eligible Purchases:

- Sale or resale within the state
- Sale to other parts of India in the course of inter-state trade or commerce
- For being used in the execution of a works contract.
- To be used in manufacture as a RM,CG,PM, containers(out put may be sold any where)
- For making zero

CST

CST Paid

- NO ITC

CST Payable

- Can be paid by using ITC

CARRYING OVER AND REFUND OF ITC

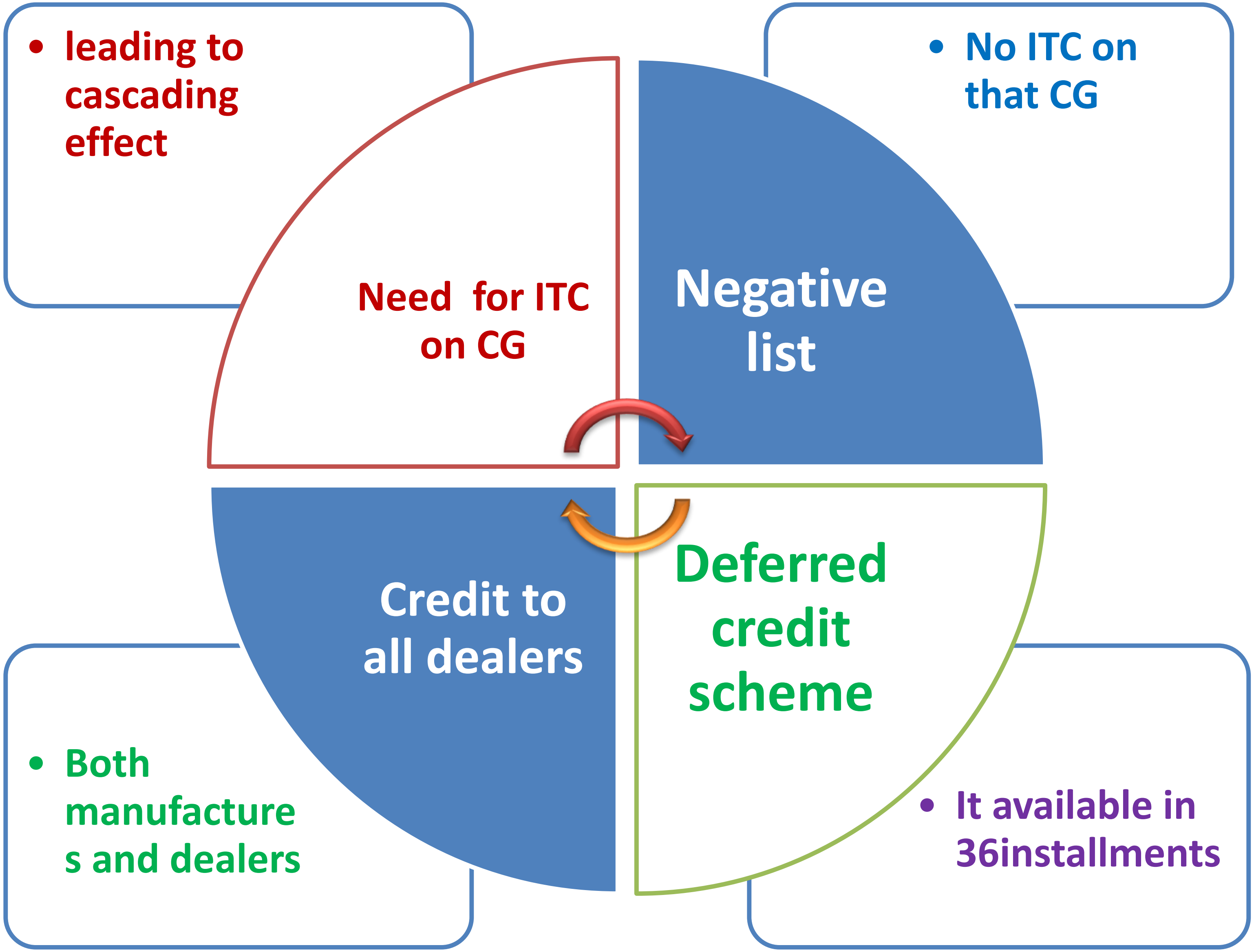
- **Utilization of ITC**

  Fist-vat payable

  Next-CST payable

- **Un utilized ITC**

  carried forward to the next tax-period and so on up to the next financial year(the same is required to be claimed as refund).



• leading to cascading effect
• No ITC on that CG
Need for ITC on CG
Negative list
Credit to all dealers
Deferred credit scheme
• Both manufactures and dealers
• It available in 36installments

Common Goods:

INPUT GOOGS

input-tax credit shall be allowed proportionately only in respect of those inputs which have been used in the manufacture, etc. of the taxable goods.

TAXABLE GOODS

TAX FREE GOODS

Exempt sale& Zero rating sale

Exempt sale(NO ITC)

Zero rating sale(ITC available)

Refund to Exporters:

- The export-sales are chargeable to VAT at “0%” rate
- They are not tax-free sales and input credit is available in respect of them
- goods exported out of India, the exporter will be allowed refund of the input-VAT paid by them. (With in 3 months from the date of export)

Exemption or refund to SEZ & EOU units

Option-1

- procurement of inputs/ capital goods without payment of any Input-VAT

Option-2

- Refund of input-VAT credit on purchases made by them within 3 months from the date/tax-period of purchase

STOCK / BRANCH TRANSFERS

- Branch transfer to out side state as such or after being manufacturing.
- Tax paid on such inputs/goods will be available as input tax credit subject to retention of 2% out of such tax by the State Governments.

COMPOSITION SCHEME

Eligibility:

- **Dealer whose turnover between 5lakhs to Rs. 50 lakhs in the PFY, is generally entitled to avail this scheme. PFY, is**

Not eligible

- **sells goods in the course of inter state**
- **sells goods in the course of import into or export**
- **branch transferring goods outside the state.**

Conditions

- **Exercise the option by intimating to the commissioner**
- **No ITC (even on opening stock also)**
- **No right to issue invoice**

Rate

- Empowered committee has permitted the states to reduce the rate of composition tax to 0.25%.

Advantages:

- Tax will be payable at a lower rate
- It saves a lot of labour and effort, in keeping records
- It also simplifies the calculation of tax liability of a dealer

Disadvantages

- Loss to seller: No ITC and not be able to pass the benefit of input tax credit
- Loss to the Purchaser: No ITC and not be able to pass the benefit of input tax credit

Registration

Normal:

- Person whose GAT >5 lakhs.
- Casual traders, agent of non-resident dealer and dealers in jeweler(no turnover limit)

Compulsory

- If an Assessee fails to obtain registration under the VAT Act, he may be registered compulsorily by the Commissioner.

Voluntary

- A dealer may also obtain registration, even if Turnover is less than the limit prescribed

Registration can be cancelled

- Discontinuance of business
- Disposal of business,
- Transfer of business to a new location
- Annual turnover of a manufacturer/ a trader, dealing in designated goods/ services, falling below the specified amount.

Tax payer's Identification Number

- **It is a code to identify the tax payer**
- **Representation of characters(consist of 11 digit numerals)**
- **First two characters represent the State code**
- **Next nine characters will be different in different states.**
- **Use: computerization and cross checking**

RETURN FILING PROCEDURE

- **Objective of return filing:**
  1. Reducing the compliance costs
  2. Encouraging business to comply with their obligations
  3. Ensuring the efficient processing
- **Procedures for return filing**

Thanking you

Sk balara

Facebook.com/sbalara

919772364728