ABOUT VAT

Q.1. What is VAT?

A.1. Value Added Tax (VAT) is a modern and progressive form of tax on goods. It is charged and collected by dealers on the price paid by the purchaser. Tax paid by dealers on their purchases is usually available for set-off against the tax collected on sales under VAT.

Q.2. Is VAT yet another tax?

A.2. No, It is not a new tax, but replaces three taxes levied under following Acts: The Gujarat Sales Tax Act, 1969 · The Bombay Sales of Motor Spirit Taxation Act, 1958, and the Gujarat Purchases of Sugarcane Act, 1989.

Q.3. What are the benefits of VAT?

A.3. . VAT is beneficial to most people because it

i. is business friendly system of taxation;
ii. is simple, transparent and progressive tax.
iii. eliminates "tax-on-tax" of existing system
iv. result in simplification in rules and procedures,
v. places greater emphasis on self assessment by the dealers
vi. reduces effective tax rate on many goods

Q.4. Why change to VAT?

A.4. VAT has already been adopted by more than 130 countries. Most of the states in India have also adopted this. This system of taxation is beneficial to both trade and industry, and consumers in general.

Q.5. What is VAT?

A.5. VAT is applicable at all the stages of trade and business, hence all dealers in the chain from producer/manufacturer to distributor to wholesaler to retailer will be liable for VAT subject to their overall turnover. It will also cover importers/exporters, work contractors, lessors and commission agents under its ambit.

Q.6. How tax liability of a dealer under VAT is calculated?

A.6. Tax liability of a dealer is generally tax collected by him on sales minus tax paid by him on purchases. Simply speaking, a dealer is required to pay tax on the value that he has added to goods purchased by him, and hence the name Valued Added Tax.

Q.7. What are rates of VAT?

A.7. Tax rates under VAT have been simplified and rationalised. There are mainly 4 kinds of rates of VAT-

i. 0% tax (or exempted goods) for items of essential needs and of local importance (Schedule-I);
ii. 1% tax for precious metals, stones and jewellery;
iii. 4% tax for items which are mainly used as input in the manufacturing process (Schedule-II); and
iv. 12.5% tax for all other items which are generally used by final consumers.

However, special rates have been prescribed for motor spirits (Schedule-III) and some specific goods.

Q.8. What are the obligations of dealers registered for VAT?

A.8. Dealers who are required to be registered for VAT must

1. Charge and collect VAT on their sales of taxable goods
2. Issue proper tax invoices
3. Keep proper records and books of account
4. Calculate the VAT due to the Government based on VAT charged on sales LESS any VAT available as a set-off or Input Tax Credit on business purchases
5. File VAT returns on a regular basis declaring their VAT liability
6. Pay any amount of VAT due to the Government with the VAT return

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