LESSON – 22
CENTRAL SALES TAX

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STRUCTURE

22.0 INTRODUCTION

According to the article 265 of the constitution of India no tax of any nature can be levied or collected by the central or State Governments except by the authority of law. The constitution of India vide entry no. 54 of the state list, gave power to the state legislature to levy sales tax on sale or purchase of goods other than newspapers, which takes place within the state. However, at that time the parliament was not empowered to levy any type of sales tax. Therefore, only state legislature enacted state sales tax laws in their respective state for levy of sales tax on sale or purchase of goods other than newspapers.

Although, the State Government were empowered to levy and collect tax on sales made within its own territory but there was no specific provisions of levying tax on sale and purchase having interstate composition. As a result, same goods came to be taxed by several states on the ground that one or more ingredient of sale was present in their state. This led to multiple levy of tax. There for central sales tax Act 1956 was enacted by the Parliament and received the assent of the president on 21.12.1956. Imposition of tax became effective from 01.07.1957.

22.1 OBJECTIVE

The primary concern in this lesson has been to enable the students understand:

- Concept of State, Dealer, Declared Goods
- Principles for determining where sale or purchase of goods takes place
- When sale or purchase in the course of import or export take place
- Determination of taxable turnover
- Registration of dealers
- How and when central sales tax is imposed

22.2 IMPORTANT FEATURES OF THE ACT.

1. It extends to the whole of India.
2. Every dealer who makes an inter-state sale must be a registered dealer and a certificate of registration has to be displayed at all places of his business.
3 There is no exemption limit of turnover for the levy of central sales tax.
4. Under this act, the goods have been classified as:
   - Declared goods or goods of special importance in inter-state trade or commerce and
   - Other goods.

   The rates of tax on declared goods are lower as compared to the rate of tax on goods in the second category.

5 The tax is levied under this act by the Central Government but, it is Collected by that state government from where the goods were sold. The tax thus collected is given to the same state government which collected the tax. In case of union Territories the tax collected is deposited in the consolidated fund of India.

6 The rules regarding submission of returns, payment of tax, appeals etc. are not given in the act. For this purpose, the rules followed by a state in respect of its own sales tax law shall be followed for purpose of this act also.

7 Even though the central sales tax has been framed by the central government but, the state governments are allowed to frame such rules, subject to such notification and alteration as it deem fit.

22.3 IMPORTANT DEFINITIONS

Following are the important definitions under the Central Sales Tax.

22.3.1 APPROPRIATE STATE [SECTION 2 (A)]-

It means –

(1) In relation to a dealer who has one or more place of business situated in the same state, that state, and

(2) In relation to a dealer who has more than one place of business situated in different states, every such state with respect to the place or places of business situated within its territory

Illustration 22.1

Mr. X has one place of business at Faridabad and other at Sonepat, since both the cities are in the state of Haryana therefore, the appropriate state will be Haryana.

22.3.2 BUSINESS [SECTION 2 (AA)] –

(a) Any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture, whether or not it is carried on with a motive to make gain or profit and whether or not any profit or gain accrues from it, and

(b) Any transaction in connection with or incidental or ancillary to such trade, commerce, manufacture, adventure or concern.
According to the above definition –

- It is not necessary to have profit motive to call an activity a business.
- Regularity of business is not essential.
- Business may be legal or illegal.

Any transaction incidental or ancillary to business will also be treated as business. For example, if a registered dealer sells outdated machines, he will be liable to pay central sales tax on it.

22.3.3 DEALER [SECTION 2(B)]

Any person who carries on (whether regularly or otherwise) the business of buying, selling, supplying or distributing goods, directly or indirectly, for cash or for deferred payment, or for commission, remuneration or other valuable consideration It includes - ..

1 A local authority, a body corporate, a company, any cooperative society, other society, club, firm, Hindu undivided family, association of persons which carries on such business.

2 A factor, broker, commission agent who carries on business of buying, selling, supplying or distributing goods belonging to any principal

3 An auctioneer who carrier on the business of selling or auctioning goods belonging to any principal.

4 Government.

However, in case of sale, supply or distribution of old obsolete or waste products, government is not liable to pay tax under this Act. This exception does not apply to government companies, public sector undertakings, and private enterprises. Under this Act services are not considered. Therefore, if a person is rendering professional service of any type say teacher, doctor etc. shall not be treated as dealer.

Registered dealer [Section 2 (f)]

This means a dealer who is registered under Section 7 of the Act.

22.3.4 DECLARED GOODS [SECTION 2(C)]

It includes those goods which are considered to be of special importance in inter-state trade or commerce under section 14.Some of these goods is –

- Cereals
- Coal
- Cotton
- Crude Oil
- Jute
- Oilseeds

- Pulses
- Sugar

Goods [section 2(d)]

This includes all material articles or commodities and all kind of movable property excluding newspapers, actionable claims, stocks, shares, and securities. If newspapers are sold as scrap then, it will be charged to central sales tax if it is an inter- state sale.

22.3.5 PLACE OF BUSINESS [SECTION 2 (DD)]

Central sales tax is collected by that state Government where the dealer has place of business. This includes –

1. the place of business of agent if, business is carried on through such agent.

2. place where dealer stores his goods like warehouse, godown.

3. place where a dealer keeps his books of accounts.

22.3.6 SALE [SECTION 2 (G)]

It means transfer of property in goods by one person to another for cash or for deferred payment or for any valuable consideration. However, a mortgage, hypothecation of, or a charge, or pledge on goods is not included.

Essential elements of sale:

- Goods should be transferred
- General property in good should be transferred
- Price must be paid
- There must be a seller and a buyer
- There must be a valid consent of both buyer and seller

22.3.7 SALE PRICE [SECTION 2 (H)]

It means amount payable to a dealer as consideration for the sale of any goods which includes the following -

- Central sales tax
- Excise duty
- Cost of packing material
- Packing Charges
- Bonus given for effecting additional sales
- Insurance charges, if goods are insured by seller

- Freight charges if, not shown separately
- Any sum charged for anything done by the dealer in respect of goods at the time of or before delivery thereof

Sale price does not includes the following -

- Freight or transport charges for delivery of goods, if charged separately
- Cost of installations, if charged separately
- Cash discounts for making timely payments.
- Trade discount
- Insurance charges of goods insured on behalf of the buyer
- Goods rejected
- Goods returned within 6 months of the date of sale

22.3.8 SALES TAX LAW [SECTION 2 (I)]

It means any law for the time being in force in any state, or part thereof, which provides for the levy of taxes on the sale or purchase of goods generally. Now VAT Legislation of a state shall also be included within the ambit of the definition of "State Tax Law".

22.3.9 TURNOVER [SECTION 2 (J)]

It is the aggregate of the sale prices received and receivable by the dealer in respect of sales of any goods in the course of inter-state trade or commerce made during a prescribed period. Prescribed period is the period in which sales tax return is filed.

22.3.10 YEAR [SECTION 2(K)

It means the year applicable in relation to a dealer under the general sales tax law of the appropriate state, and if, there is no such year applicable, it is the financial year.

CHECK YOUR PROGRESS

Activity A

Tax on inter-state sale is levied by:

A. Central government
B. State government
C. Municipal corporation

Activity B

Which is not a good under central sales tax?

A. Cereals
B. Sugar
C. Cotton
D. Newspaper
E. Pulses

Activity C

A Delhi book shop sells old newspaper (Hindustan Times, Delhi edition) of June 5, 1990 to a researcher in Jaipur for Rs 600. Is it chargeable to central sale-tax or not ?

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22.4 PRINCIPLES FOR DETERMINING PLACE OF SALE OR PURCHASE

It is necessary to determine when a sale or purchase of goods take place in the course of inter-state trade in order to impose central sales-tax.

22.4.1 IN THE COURSE OF INTER STATE TRADE

According to section 3, a sale or purchase of goods shall be deemed to take place in the course of inter state trade or commerce if the sale or purchase:

(i) Occasions the movement of goods from one state to another; or

(ii) Is effected by a transfer of documents of title to goods during their movement from one state to another.

Occasions movement of goods section 3 (a)

This means there is a completed sale in pursuance of contract of sale or purchase where by goods move from one state to another.
A sale can be treated as an inter- state sale if, all the following conditions are satisfied.

1. Transaction is a Completed sale.

2. The contract of sale contains a condition for the movement of goods from one state to another.

3. There should be physical movement of good from one state to another

4. The sale concludes in the state where the goods are sent and that state is different from the state from where the goods actually moved.

5. It is not necessary that sale precedes the inter- state movement of goods, sale can be entered before or after the movement of goods.

6. It is immaterial in which state the ownership of goods passes from seller to buyer.

Illustration 22.2

A of Banglore sends goods in his own name to Delhi. At Delhi goods are sold to different parties by the employees of A. In this case, the movement of goods is not result of sale or agreement to sell. It is sale which takes place in Delhi and not subject to central sales tax.

CHECK YOUR PROGRESS

Activity D

The central sales tax is collected in the state :

A. Where the goods are delivered
B. Where the goods are manufactured
C. Where the movement of goods commences

Activity E

Levy of central sales tax is on

A. Sale of goods
B. Purchase of goods
C Sale or purchase of goods

Activity F

X of Bombay comes to Hyderabad to purchase good from Y.Y sends goods through a transport company in the name of X. state whether it is an inter-state sale or not?.

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Sale by transfer of documents Section 3 (b)

If sale or purchase of goods is effected by transfer of documents of title to the goods during their movement from one state to another then, such sale or purchase shall be deemed to take place in the course of inter- state trade.

A Document of title to goods, bears internal evidence of ownership of goods by holder of document. Some of the examples are Lorry Receipt (LR) in case of transport by road; Railway receipt (RR) in case of transport by rail, bill of Lading (BL)in case of transport by sea, Airway bill (AWB) in case of transport by air.

Illustration 22.3

A of Kanpur sends goods to B of Delhi. The Railway Receipt is sent by post to B while the goods are in transit B sells goods by transfer of documents to C of Bombay. In this case sale was effected by transfer of documents of title to goods (Railway Receipt) to the buyer when the goods were in movements from Kanpur to Delhi.

22.4.2 SALE OR PURCHASE OF GOODS OUTSIDE A STATE

As per section 4 (1) when a sale or purchase is inside a state as per section 4 (2) such sale or purchase shall be deemed to have taken place outside all other States

Sale inside a state as per section 4 (2) means –

1. In case of specific goods or ascertained, if goods are within the state at the time of the contract of sale is made.

2. In case of unascertained or future goods, if goods are within the state, at the time of their appropriation to the contract.

CHECK YOUR PROGRESS

ACTIVITY G
X of Gurgaon goes to Y of Indore to buy 500 bags of wheat. The goods are ascertained and ready at y'0s warehouse. State whether it is sale outside a state or not?

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22.4.3 SALE OR PURCHASE OF GOODS IN THE COURSE OF IMPORT AND EXPORT – SECTION 5

State Government cannot impose any tax on sale or purchase of goods in course of import and export. In order to make our exports competitive no central sales tax are imposed, and tax is also not imposed on imported goods because they are already subjected to custom duties.

Export of Goods out of India – Section 5 (1)

A sale or purchase of goods shall be deemed to take place in the course of export of goods outside India if, such sale or purchase -

(i) either occasions such export, or

(ii) is effected by transfer of documents of title to the goods after the goods have crossed the customs frontier of India.

As per section 5 (3), last sale or purchase of any goods preceding the sale or purchase occasioning the export of these goods shall also be deemed to be in the course of such export, if following conditions are satisfied –

(i) The last sale or purchase has been made after the purchaser of such goods has obtain the order of export or agreement for export was entered into by him.

(iii) Such last sale or purchase has been made for the purpose of complying with such order of export or agreement of export.

(iii) Form 'H' has been submitted by the dealer to the prescribed authority. The form should be signed by the exporter to whom the goods are sold.

Deemed Exports Section 5 (5)

If any designated Indian carrier purchases Aviation Turbine Fuel for the purpose of it's International flight such purchase shall be deemed to take place in the course of the export of goods out of territory of India.

Illustration 22.4

X of Bombay receives an order for export of certain good from A of U.S.A. To execute this order X makes purchases from R of Kerala. This sale of goods by R to X will be treated as export sale even though sale has been made in India.

Import of goods into India Section 5 (2)

A sale or purchase of goods shall be deemed to take place in the course of the import of the goods into India if, such sale or purchase :

(i) either occasions such import, or

(ii) is effected by transfer of documents of title of goods before the goods have crossed the customs frontiers of India.

CHECK YOUR PROGRESS

Activity H

A an importer imports goods, then he transfers documents of title to H of India, and H Clears goods from the customs. State whether sale will be treated as import ?

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22.5 LIABILITY TO TAX ON INTER-STATE SALES

As per Section 9 (1) central Sales tax shall be levied by the central government but shall be collected and retained by the state government where the movement of goods have commenced.

Illustration 22.5

A dealer in Delhi sells goods to B of Banglore. The central sales tax will be collected by government of Delhi because sale commenced from Delhi.

Generally tax is levied only on the first inter-state sale. However, at times goods are sold several times from one person to another during the course of movements of goods from one state to another. Therefore, in order to claim exemption from central sales tax on such subsequent sales following conditions should be satisfied

(i) The sales takes place during the movement of the goods.

(iii) The sale is a subsequent sale.

(iv) The sale is from one registered dealer to another registered dealer on Form C or to the Government on Form D

(v) Sale is effected by transfer of documents of title to goods.

(vi) The sale is of the goods mentioned in the certificate of Registration of the dealer who purchases such goods either for manufacture or for resale, and

(vi) The dealer effecting the subsequent sale furnishes to the assessing authority a certificate in Form C, D, E-I, or E-II.

Form E-I : This form is filled by the dealer who effects the first sale under the Inter-State trade or commerce.

Form E-II : This form is filled by the dealer who effects the subsequent sale under inter–state trade or commerce.

22.5.1.RATES OF TAX

The rate of central sales tax is 4 % or local state rate whichever, is lower on the first point of inter-state sale if, the goods are sold to the government or to a registered dealer, and on the fulfillment of specified condition, subsequent sales during the movement of same goods will be exempted from tax. But, if any of the dealers in these subsequent sales is or an unregistered dealer then the last registered dealer will collect tax @ 10% from an unregistered dealer to whom goods have been sold.

Illustration 22.5

A, a dealer in Bombay, sells some goods to B of Patna. The goods are sent by road and the L/R is sent to B. Before, the goods reach Patna, B sells the goods to D of Orissa by transferring the L/R. D takes the delivery of goods at Patna.

If all the dealers A, B, D are registered dealers them sale between A and B will be charged to central sales tax and all other subsequent sales will be exempted from this tax. A will issue Form E-I, to B and B will issue Form E-II, to D. If D is an unregistered dealer then B will charge central sales tax @ 10% or local sales tax rate whichever is higher from D.

Incidence of central sales tax in different situations

	Declared goods Rate of tax	Undeclared goods Rate of tax
Sale to Government on Form D	Lower of 4% or local sales rate	lower of 4% or local sales rate
Sale to registered dealer of specified goods on Form C	Lower of4% or local sales rate	Lower of 4% or local sales rate
Tax free goods in state	Nil	Nil
Notified reduced rate on Form C and D	Notified rate	Notified rate
Other sale	Twice the local sales tax	10% or local sales tax rate whichever is higher

CHECK YOUR PROGRESS

Activity I

X, a dealer in Delhi sells undeclared goods to Y of Punjab. The local sales rate is Nil, 3%, 12.5%. What are the central sales tax rates if Y is a registered dealer and issues Form C.

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22.5.2 DETERMINATION OF TURNOVER

As per section 8 (A) , to determine turnover following amounts will be deducted –

- Central sales tax
- Sale price of goods returned within six months
- Other items as the central government may notify

Central Sales Tax

If tax forms a part of aggregate sales price then amount of tax collected by a registered dealer shall be deducted from his gross turnover. Tax is calculated by the following formula.

$$\frac{\textbf{Rate of tax x Aggregate of sales price}}{\textbf{100+Rate of tax}}$$

If the turnover of a dealer is taxable at different rates, then above formula shall be applied separately in respect of each part of the turnover liable to a different rate of tax.

Illustration 22.6

Ajay sells goods A and B. Goods A are charged @ 4% and goods B @ 2%. The aggregate sales price before deducting central sales tax of A and B, is Rs. 8,00,000/- which includes Rs. 5,00,000 of goods A and Rs. 3,00,000 of goods B. calculate turnover of Ajay.

Goods A	**Rs**
Aggregate Sales price (a)	5,00,000/-
Rate of tax	4%
C.S.T. to be deducted (b)	
(4 x 5,00,000/-) ÷ (100 + 4)	19,230.7/-
Turnover (a - b)	4,80,769.3/-
Goods B	
Aggregate sales price (a)	3,00,000/-
Rate of tax	2%
C.S.T. to be deducted (b)	
(2 x 3,00,000/-) ÷ (100 + 2)	5,882.3/-
Turnover (a - b)	2,94,117.7/-
Aggregate turnover of A & B	7,74,886.6/-

Returned Goods shall be deducted

If goods are returned by the buyer within 6 months, it's sales price will be deducted from aggregate sale price after submitting necessary evidence. Sale price of rejected goods will be deducted even after six months .

Transaction exempt from sales tax

a. Subsequent sale by transfer of documents;

b. Sale of goods which are generally exempt or chargeable under the local sales tax provisions at lower rate;

c. Exemption by virtue of a notification;

d. Sale in course of import or export ;

e. Sale to a registered dealer to manufacture or processing of goods in a special economic zone; and

f. Sale to any official of foreign diplomatic mission in India or UN body.

22.5.4 COLLECTION OF TAX SECTION 9 A

The central sales tax can be collected from the buyers only by the registered dealers on the inter-state sale effected by them. According to rules prescribed under this Act., Dealers who are not liable to pay tax under general sales tax law the period of filing the return in a financial year is

Quarter ending on 30 June

Quarter ending on 30 September

Quarter ending on 31 December

Quarter ending on 31 March

CHECK YOUR PROGRESS

Activity J

Name some of the transactions which are exempted from central sales tax.

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22.6 REGISTRATION OF DEALERS

According to Section 7, registration of dealer can be done in any of the two ways-

1. Compulsory registration
2. Voluntary registration

22.6.1 COMPULSORY REGISTRATION SECTION 7 (1)

Every dealer who is liable to pay Central sales tax should make an application for registration under the Act. to appropriate authority in his state. If a dealer does not get himself registered, he would be subject to penalty under section 10 which is imprisonment which may extend to six months or fine or both and in case of continuing offence, a fine of Rs. 50 per day till the default continues.

22.6.2 VOLUNTARY REGISTRATION SECTION 7 (2)

Under following circumstances any dealer can voluntarily apply for registration even though he is not liable to pay tax under central sales tax Act.

1. If he is registered under sales tax law of state but, is not liable to pay tax under central sales tax Act
2. If there is no sales tax Act in a state or any part of it, any dealer having a place of business in that state or part there of
3. If he deals in a tax-free goods in a state

The dealer can apply for registration at any time and ,if he does not apply for registration no penalty will be imposed upon him.

Advantages of Registration

1. A registered dealer has to pay actual sales Tax @ 4% only on goods purchased by him for manufacture or resale and, he buys the same against Form C. otherwise, he will be charged @ 10%.
2. Subsequent sales in the course of movement of goods by transfer of documents of title to goods will be exempted from central sales-tax if, registered dealer effecting sales is able to produce Form E-I or E-II.

22.6.3 PROCEDURE FOR REGISTRATION

1. The dealer must make an application to the concerned authority in the appropriate state, in Form A within 30 days of the day when he becomes liable to pay tax. The form contains the following details.

   (i) Name of the manager of business

(ii) Name and addresses of proprietor or partner of the business.

(iii) Date of establishment of business.

(iv) Date on which first inter-state sale was made.

(v) Name of the Principal place and other places of business in the appropriate state.

(vi) Particulars of any license held by the dealer.

2. Single Place of business – If a dealer has single place of business in the appropriate State and he is registered in that state, he shall apply to the sales tax authority of that state only for obtaining registration under central sales tax Act

2. More than one place of business in the same state – If a dealer has more than one place of business in the same state , he shall select one of these places as the principal place of business and , get only one certificate of registration.

3. More than one place of business in different states. If a dealer has more than one place of Business in different states, he will get a separate certificate of registration with respect to each state.

4. Fees for Registration is Rupees twenty five to be paid in cash or court fee stamp.

5. The application has to be signed by, in case of –

- Sole proprietorship , the proprietor
- Partnership firm, any one the partner
- HUF, the karta
- Company, the director
- Government, authorized officer

Grant of Certificate of Registration sec 7 (3)

If the application is in order and assessing officer is fully satisfied with the facts contained therein, he will register the dealer under this Act and issue a certificate of Registration in Form B. If a dealer has more than one place of business then additional copies of certificate will be issued.

22.6.4 AMENDMENT OF CERTIFICATE OF REGISTRATION

Certificate of registration may be amended –

(i) At the request of dealer.

(ii) By authorities themselves after giving one notice to the dealer.

The amendment will be made

1. If dealer has changed the name, place or nature of his business or
2. If dealer has changed the class or classes of goods.
3. For any other reasons.

22.6.5 CANCELLATION OF CERTIFICATE OF REGISTRATION

It may be cancelled either.

1. At the request of the dealer.
2. By authority granting registration.

Cancellation at the Request of Dealer

Dealer shall submit an application along with his certificate and copies thereof to the registering authority within six months before the end of the relevant year. The certificate will be cancelled if dealer is not liable to pay any tax under CST Act.

Cancellation by the authority

Certificate of registration will be cancelled under following situation.

- The dealer has discontinued the business.
- The dealer dies.
- Dealer fails to furnish security or additional security.
- Dealer has failed to pay tax or penalty under CST Act.
- Voluntarily registered dealer has ceased to be liable to pay tax under state tax law of that state.
- For any other sufficient reasons.

CHECK YOUR PROGRESS

Activity K

From the information given below ascertain whether registration is required –

1. A of Delhi purchases goods from Mumbai for domestic use.

2. B of Mumbai purchases of goods from Mumbai for manufacture & sale in Mumbai.

Activity L

Application for registration under the central sales tax Act must be made in

A. Form A
B. Form B
C. Form C
D. Form D
E. Form E-I
F. Form E-II

22.7 VALUE ADDED TAX (VAT)

The recent biggest change in the tax system in India is the introduction of value added tax (VAT) from April 2005. VAT is not new for our country because over the years the traders have been paying an excise duty which is nothing but a central VAT on production. In the state, the state government charges sales tax on the sale of goods and also many other charges like octroi, electricity tax, motor vehicle tax, entertainment tax and many more. Different state government charges different rates of tax. While in order to attract industries and promote trade some state government give tax concessions. By introducing VAT at state level, all different rates of sales tax will become uniform throughout the India.

Definition

VAT is a tax paid at each point of exchange of goods where value is added starting from production till final consumption.

Difference between VAT and sales tax.

In case of VAT consumer pays tax on the value of product only once while in case of sales tax he pays tax on some parts of the product more than once

For instance, a car manufacturer may produce some parts, import some parts, and buys some other parts. On the parts purchased he has to pay sales tax. When the car is sold to the final consumer, then consumer has to pay sales tax on the car which also includes tax on the parts on which sales tax has been already paid by the seller. Thus consumer is paying tax more than once. But, under VAT every buyer has to pay tax. After adding value to it, the seller charges VAT from the consumer and after filing VAT return the seller can deduct the amount of VAT he has paid to the seller and pays the difference between the VAT he has charged from the consumer and the VAT he has paid to the seller, to the government.

Incidence of VAT

Every business already registered for sales tax is automatically registered for VAT on 1 April 2005. If annual turnover is less than Rs. 5 lakhs then no need to register for VAT. Businesses with a turnover of between Rs. 5 and 50 lakhs have two options -

1. Register for VAT
2. Pay tax at the small percentage of turnover also called as composition scheme under this dealer will not be entitled to claim refund of VAT he has paid to the supplier.

Basic VAT Rates

There are four rates 0%, 1%, 4%, and standard rate of 12.5%.

- On natural and unprocessed products of the unorganized sector that are legally excluded from taxes, VAT is 0%.

- 1% VAT is payable on gold and silver ornaments, precious and semi-precious stones.

- 4% VAT is payable on basic necessities (including medicines and drugs) declared goods, capital goods consisting of 270 items and all industrial and agricultural raw materials. This category has largest number of goods common for all states.

- 12.5% VAT is payable on most consumer goods.

Bills / Cash Memo

Whenever goods and bought or sold VAT has to be paid so cash memos or bills are issued and every transaction becomes official. Earlier traders were carrying on cash Business. Traders were not issuing cash memos while making sales and customers were also not asking for cash memos/bill because then they had to pay more for on account of sales tax. Thus huge part of income was never disclosed leading to tax evasion. But with the introduction of VAT, to claim the difference in VAT he has paid to his supplier and the VAT he has collected from his customer, a business will issue cash memo / bill. As a result the system of trading without sales documents and not paying tax will be over.

Benefits of VAT

- India will become a single common market with the abolition of sales taxes and local taxes in 28 states and union territories.

- With the reduction in taxes, cost of products will decline and Indian goods well become competitive in export market. This well lead to earning of more foreign exchange.

- VAT will lead to increase in tax collection, revenue so generated will help in providing more and better facilities and services for the citizen. This will also help in faster economic development Haryana was the first state to introduce VAT in 2003 and within 2 years its tax collection increased by 27.5 percents.

CHECK YOUR PROGRESS

Activity M

Which is not a VAT rate ?

A. Zero %
B. 1%
C. 4%
D. 10%
E. 12.5%

22.8 LET US SUM UP

Central sales tax is a tax imposed by central Government but collected by appropriate Sate Government in the course of Inter-State trade or commerce. There is no uniform central sales tax rates. Rates vary depending upon the class of goods and type of person to whom it is sold. Now, with the introduction of VAT. there will be gradual phasing out of Central Sales Tax. Tax evasion on account of so called cash business will be reduced to a greater extent. Further, there will be uniform rates for goods all over the India.

22.9. GLOSSARY

The various key words which arise in this chapter are :

- **Custom frontier :** The limits of the area of customs station in which imported goods or export goods are ordinarily kept before clearance by customs authorities.
- **Ascertained goods :** It means goods are segregated out of the whole lot which are intended to be sold .

- **Hypothecation :** It means a pledge without transferring the possession of goods to the lender. The owner of goods can use his goods in the normal course of his business. But, if the owner fails to repay the loan to the lender then lender can take possession of the hypothecated goods.
- **Pledge :** It means transferring possession of goods to the lender in order to get loan.

22.10 SELF ASSESSMENT EXERCISE

1. Write notes on the following under central Sales Tax Act :

   (a) Goods; (b) Place of business (c) Turnover.

2. What is meant by Inter-State sale or purchase ? when does a sale or purchase of goods take place in the course of import or export ? Explain.

3. How will you determine taxable turnover under the C.S.T. Act ? Explain.

4. Explain the procedure for registration of dealers under the central Sales-Tax Act.

5. Who levies Central Sales-Tax and who collects its ? Explain liability to tax in the course of Inter-State or commerce

22.11 FURTHER READINGS

- Daley, V.S., 2005. *Indirect taxes*, Taxman publisher, Delhi. Twentieth Edition.
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