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SERVICE TAX & VAT

SUGGESTED ANSWERS IPCC MAY 2010 EXAMINATIONS

Question No.5

- a. According to sec 64 Service Tax Law extends to whole of India except Jammu and Kashmir and it also includes exclusive Economic zones and continental shelf's up to 200 nautical miles. Therefore Service Tax is payable when it is provided in territorial waters.
- b. According to sec 66 Service Tax is levied and collected on the value of taxable services. Taxable Services means which are prescribed in sec 65(105). But statutory duties are not covered. There is no need to pay Service Tax.
- c. As per 7B of Service Tax rules Service provider can file a revised return within a period of 90 days from the date of submitting of original return.
- d. Commercial training means any institute or establishment providing commercial training or coaching for imparting knowledge on any subject or field other than sports, with or without issuance of a certificate and includes coaching or tutorial classes but does not include pre-school coaching and training centre on any institute or establishment which issues any certificate or degree or any educational qualification recognized by law.

Question No. 6

- a. Legal consultancy services are taxable from 1/9/2009. Service Tax is attracted only when at the time of providing service it is taxable but not when money is received. Taxable event is providing service. Therefore the services from April to Aug 2009 are not taxable but the services from September to March 10 will be taxable.

b.

i. Membership of clubs

Scope: it shall include any service provided or to be provided to its members by any club or association in relation to provision of services, facilities or advantages for a subscription or any amount.

Exemption: The services of resident welfare associations are exempted if it satisfies following two conditions.

1. The Consideration should not exceed Rs. 3,000/-
2. Membership is restricted to particular locality or area.

ii. As per Rule 6 of Service Tax rules money changes shall have the option to pay an amount calculated as per 0.25% of the gross amount of currency exchanged.

iii. The penalty for late submission is as following

<u>Period</u>	<u>Amount</u>
Upto 15 days	Rs.500/-
15 to 30 days	Rs. 1000/-
Beyond 30 days	Rs. 1000/- + Rs.100/- per every day from 31 st day

So we have to divide the amount received in the ratio of 5:7 which is in the current year.

S.NO	PARTICULARS	AMOUNT	FOR PERIOD APRIL – AUGUST 2009	FOR PERIOD SEP – MARCH 2010
1.	Free Services	40,000	N.T	N.T
2.	Advance	5,00,000	N.T	$5,00,000 \times 7/12 = 2,91,667$
3.	Service billed Amount	12,00,000	N.T	N.T
4.	Amount received in relation to March 2009	5,90,000	N.T	--
5.	Amount received relating current year	$\frac{11,00,000}{(-) \underline{50,000}}$ 10,50,000	N.T	$10,50,000 \times 7/12 = 6,12,500$
6.	Taxable Value			9,04,167

N.T = Not Taxable

Service Tax Payable= 9,04,167 x 10.3 % = 93,129

But the Maximum Penalty is Rs. 2,000

Question No. 7

a. Additional Method:

1. **Suitability:** This method is mainly used with income variant of VAT.

2. **Demerits:**

a. This method does not easily accommodate exemptions of intermediate dealers.

b. It does not facilitate matching of invoices for detecting evasion.

3. **Computation:**

a. **Step 1:** Aggregate all the factor payments including profits to arrive at the total value addition.

b. **Step 2:** Apply the rate on **Step 1** to calculate the tax

b. Small dealers whose taxable turnover doesn't exceeds 10 lakhs are not liable to be registered

c. VAT Chain Under Composite Scheme :

Loss to the seller: If the composition scheme is availed by a dealer then such dealer cannot avail input tax credit in respect of input tax paid. Hence the dealer will be loosing the input tax credit on purchases made by him. He will not be able to pass on the benefit of input tax credit, which will add to the cost of the goods.

Loss to the purchaser: The purchaser shall not get tax credit for the purchase made by him from the dealer operating under the composition scheme. Therefore, as soon as a dealer opts for the composition scheme, the VAT chain will be broken, and the benefit of tax paid earlier will not be passed on to the subsequent buyers.

That's why VAT can be said as simple method

d. **Less Litigation:** There will be no litigation with respect to allow ability of items, as under VAT no items will be specified in the registration certificate of the dealer. The dealer will be allowed to purchase any of the items of his choice in which he intends to deal. He will also be allowed to purchase any item he requires as raw material for the purpose of manufacturing or for packing. That's why VAT can be said as simple.

Question No. 8

a. Computation of VAT

Goods (1)	Turnover Value(2)	Out put Tax (3)	Input Tax (4)	VAT (3-4)
A (Exempted good)	Nil	--	--	--
B	2,00,000+20,000 (10%) = 2,20,000	2,20,000 x 12.5% = 27,500	2,25,000 x 12.5 / 112.5 = 25,000	2,500
C	1,50,000	1,50,000x4%=6,000	1,00,000 x 4%=4,000	2,000
VAT Payable				4,500
(-) VAT Credit Balance				1,500
Net VAT Payable				3,000

b.

i. Merits in the context of tax evasion, neutrality, transparency :

Deterrent against Tax Avoidance: It will act as deterrent against tax avoidance. Under the present system, tax is charged either on first point basis or at last point basis hence the incentive to evade tax is high because the dealer saves the whole amount of tax due on such transaction, whereas under VAT the incentive to evade tax is low because the dealer saves only a part of tax i.e. (tax amount which he is liable to pay less the amount of tax he has already paid on his purchases).

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Tax Credit on purchase of Capital Goods: The dealer will be allowed to purchase capital goods for manufacturing after paying sale tax and will be entitled to get set off sales tax paid on such purchases from his sales tax liability, which will arise on the sales made by him.

Easy to Administer & Transparent: This system of charging tax is easy to administer because of its simplicity. It also reduces the cost of compliance by the dealers and is transparent, as tax is to be charged in every bill and there will be no local statutory forms.

ii. Importance of tax invoice:

Invoice is a document listing goods sold with price, tax charged and other details as may be prescribed and issued by a dealer authorized under the Act.

The whole structure of the VAT with input tax credit is founded on the documentation of a tax invoice, a cash memo or a bill. The White Paper mainly provides for the following provisions, which are mandatory, and failure to comply with these attracts penalty:

- a. Every registered dealer whose turnover of sales exceeds the specified amount shall issue to the purchaser a serially numbered tax invoice, cash memo or bill with the prescribed particulars.
- b. The tax invoice shall be dated and signed by the dealer or his regular employee, showing the required particulars.

The dealer shall keep a counterfoil or duplicate of such tax invoice duly signed and dated.

iii. Stock Transfer –Tax Consequences :

Inter-State transfers do not involve sale and, therefore they are not subjected to sales-tax.

The same position continues under VAT.

However, the tax paid on:

- a. inputs used in the manufacture of finished goods which are stock transferred; or
- b. purchases of goods which are stock transferred

Will be available as input tax credit after retention of 4% of such tax by the State Governments.

THE END