Vat for students

For CA PCC /IPCC/Final CWA/ CS

Every attempt is made for error and Omission free.
Any error or omission is unintentional. Feed back may be given to

CA N Raja Sekhar M.Com FCA DISA (ICAI)
Chennai
rajdhost@yahoo.com

Tax Levy

Power to levy taxes in Constitution

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Tax law drafts (Bills) in Parliament/Assembly

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Discussion and Approval in Parliament /Assembly

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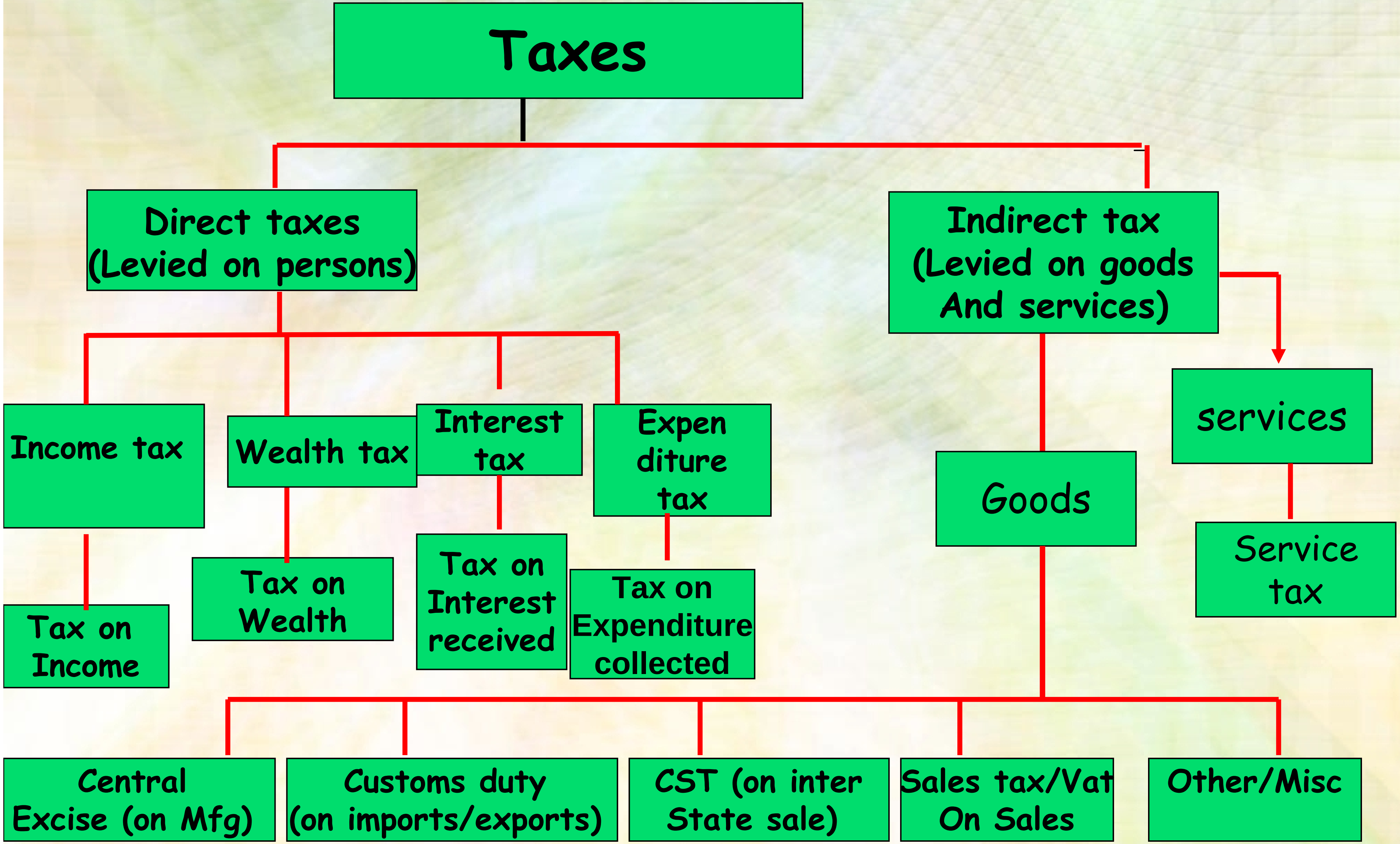
Tax law (Act)

Types of taxes



Difference between direct and indirect tax

S No	Direct taxes	Indirect taxes
1	Levied on persons	Levied on goods and services
2	Person paying the tax has to bear the burden	Burden will pass on to consumer
3	No cascading effect	Cascading effect (increases the prices of goods and services)
4	Assessment and filing of returns yearly one	Assessment and filing of returns yearly normally Monthly/quarterly/half yearly
5	Will not be allowed as deduction (income tax wealth tax) in computing income	Allowed as deduction in computing income

VAT (VALUE ADDED TAX)

- Vat is indirect tax levied on sale of goods
- Vat was introduced primarily as a replacement of existing sales tax in many states in India with effect from 01.04.2005

- The Vat structure has been evolved on the basis of consensus among the states.
- The basic features of Vat will be therefore will be same through the country.

What is Value Added Tax ('VAT')

- Tax on Value addition
- Multi-point taxation
- A state subject

MEANING OF VAT

- Vat is a tax levied on the value added to any product AT EVERY STAGE"
- Provision for input tax credit tax Credit paid at the previous point of purchase.
- The tax paid by a registered dealer is netted.
- Tax is ultimately borne by the consumer

No VAT

VAT not levied on

- Inter-state sale / Inter-state branch transfer
- Imports/Exports
- Dealers below threshold level

WHITE PAPER ON

STATE LEVEL VALUE ADDED TAX

WHITE PAPER ON VAT Salient Features

Uniform concepts of VAT for all States

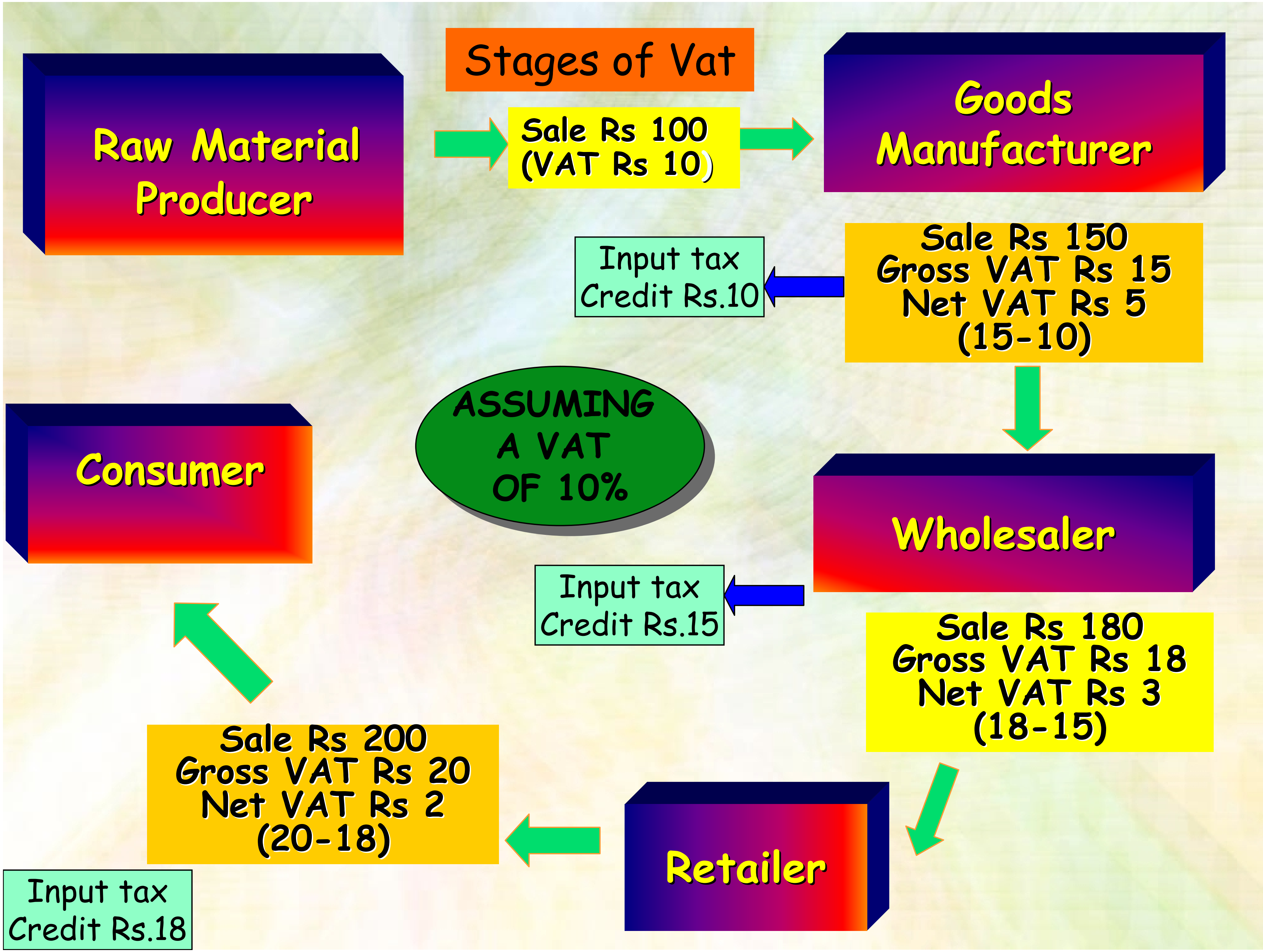
* Design for State Level VAT
* Input Tax Credit
* Treatment of Exports
* Inputs procured from other States
* Treatment of opening stock
* Registration
* Small dealers
* Composition Scheme
* Classification of commodities and
* VAT Rates

All State VAT Laws are required to be in accordance with these concepts

WHITE PAPER ON VAT Salient Features Contd...

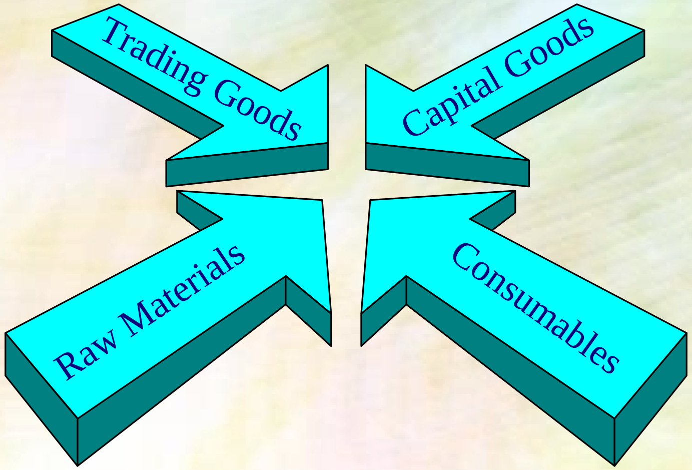
Non Applicability of VAT on Petrol, Diesel, Aviation Turbine Fuel, Liquor, Lottery Tickets,

May be taxed under VAT Act or any other Act at higher rates.


Stages of Vat
Raw Material Producer
Sale Rs 100 (VAT Rs 10)
Goods Manufacturer
Input tax Credit Rs.10
Sale Rs 150 Gross VAT Rs 15 Net VAT Rs 5 (15-10)
ASSUMING A VAT OF 10%
Consumer
Wholesaler
Input tax Credit Rs.15
Sale Rs 180 Gross VAT Rs 18 Net VAT Rs 3 (18-15)
Sale Rs 200 Gross VAT Rs 20 Net VAT Rs 2 (20-18)
Retailer
Input tax Credit Rs.18

Input and Output Tax

Input Tax



Output Tax

VAT paid by a registered business dealer on taxable input purchases for business

VAT charged by a registered business dealer on sales made by the business to its customers

Input Tax Credit (ITC)

- **Credit of VAT paid on purchases within the State**
- **ITC available only to VAT registered dealer on:**
  - Purchases made from another VAT registered dealer
  - Against a valid VAT invoice

Purchases include raw material, consumables, Packing material, capital goods .

Input Tax Credit on Capital goods

- Available and to be adjusted over a period of 36 monthly instalments (3 years)
- States can reduce this period
- No input tax credit on Capital Goods specified in negative list

Use of inputs to avail credit

The purchased inputs can be used for

- For sale/resale with in state or outside state
- As raw material for manufacture of goods
- As a packing material/consumables in sale of goods
- As goods in execution of works contract.

Carry forward of Input Tax Credit

- Unutilised Credit will be carried over till the end of the succeeding financial year and if it remains unutilised will be refunded.
- VAT Credit will be refunded within three months in case of exports

Units in SEZ and EOU have an option of either

- Not paying VAT on inputs; or
- Claim full refund within three months

No input tax credit in case of

- Inputs used in the manufacture of exempted goods
- Purchases for other than manufacture/re-sale (Captive Consumption)
- Purchases made inter State/in-transit
- if VAT registered dealer purchases from Unregistered dealer (Output tax payable on full sale price)
- Purchase from a registered dealer who opts of composition scheme.
- Purchased from registered dealer where invoice does not show tax amount separately.

Purchases of goods of negative list

- Delhi - Fuel in the form of Petrol, Diesel and Kerosene, LPG, CNG, Coal
- AP - Fuel, Coal and Natural Gas used for power generation
- Jharkhand - Consumables
- Tripura – Credit available in excess of 4% on petroleum products (other than petrol, ATF and diesel) and other fuels

Input tax credit on stock transfers

- inputs used in the manufacture of finished goods which are stock transferred; or
- purchases of goods which are stock transferred
- Input tax credit available in excess of 4% of vat paid on such purchases.

Utilisation of vat Credit

Credit can be utilized towards

- VAT payable on Finished Goods
- CST payable on Inter State Sales
- Any interest or penalty under VAT

Refund in case of exports

- Refund of unutilized credit at the end of specified period

Common inputs for exempted sale and taxable sale

- Option 1- maintain separate records for inputs used in exempted sale and taxable sale
- Option 2- Proportionate input tax credit on inputs used in taxable sale

Vat payable

- Vat payable = Output tax – Input Tax credit.

In other words, out of the tax charged on your sales, you will first deduct the tax charged on your purchases, and pay balance to the department.

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Vat Invoice

- Invoices are important documents for administering VAT.
- In the absence of invoices VAT paid by the dealer earlier cannot be claimed as set off
- Every registered dealer whose turnover of sales exceeds the specified amount shall issue to the purchaser a serially numbered tax invoice, .
- The tax invoice shall be dated and signed showing the required particulars.
- The dealer shall keep a counterfoil or duplicate of such tax invoice duly signed and dated.

Particulars of Vat Invoice

- the words 'tax invoice' in a prominent place
- name and address of the selling dealer;
- registration number of the selling dealer;
- name and address of the purchasing dealer;
- registration number of the purchasing dealer (not under all VAT legislations);
- pre-printed or self-generated serial number;
- date of issue;
- description, quantity and value of goods sold;
- Rate and amount of tax charged in respect of taxable goods;
- signature of the selling dealer or his regular employee duly authorized by him for such purpose.
- The provisions relating to tax invoice do not apply to a selling dealer who has opted to avail the composition scheme '.

Example on Vat payment

Dealer

PURCHASES = Rs. 200
Tax charged = 10% of 200
from dealer =20

SALES = Rs.250
Tax charged = 10% of 250
From customer = 25

Out of Rs. 25 charged from the customer, Dealer will pocket (take credit) Rs. 20 (tax paid at the time of purchase) and pay balance Rs. 5 to the department.

Example No 2	
Computation of Vat Payable	
	Rs
Inputs procured with in State in the month	1,00,000
Vat @ 4% on Inputs purchased	4,000
Output sold in the month	2,00,000
Vat collected on output 10%	20,000
Vat Payable by the dealer to Government	
20,000-4,000	16,000

Example No 3	
Computation of Vat Payable	
	Rs
Inputs procured with in State in the month	1,00,000
Vat @ 4% on Inputs purchased	4,000
Input procured from Other state	50,000
CST paid @ 2%	1,000
Output sold in the month	2,00,000
Vat collected on output 10%	20,000
Vat Payable by the dealer to Government	
20,000-4,000	16,000
Note: No vat Credit on inputs purchased from out	
side state	

Example No 4	
Computation of Vat Payable	
	Rs
Inputs procured with in State in year	1,00,00,000
Vat @ 4% on Inputs purchased	4,00,000
Capital goods procured with in state	60,00,000
Vat @ 4% on Capital goods purchased	2,40,000
Output sold in the Year	2,00,00,000
Vat collected on output 10%	20,00,000
Vat Payable by the dealer	
20,00,0000-4,00,0000-80,000(1/3 of 2,40,000)	15,20,000
Note: Credit on Capital goods available in 3 years	
(36 monthly installments)	

Example No 5	
Computation of Vat Payable	
	Rs
Inputs procured with in State in year	1,00,00,000
Vat @ 4% on Inputs purchased	4,00,000
Capital goods procured with in state	60,00,000
Vat @ 4% on Capital goods purchased	2,40,000
Output sold in the Year with in state	2,00,00,000
Vat collected on output 10%	20,00,000
Output sold in the Year in other sate	50,00.000
CST Collected on the output @ 2%	1,00,000
Vat Payable by the dealer	
20,00,0000 +1,00,000 -4,00,0000-80,000(1/3 of 2,40,000)	16,20,000
Note: Credit on Capital goods available in 3 years (36 monthly installments), Vat credit can be utilised for payment of CSt	

Merits of Vat

- Eliminates multiple taxation of full sale price
- No tax evasion. Because of input tax credit on valid vat invoice
- Neutral on choice of production technique, the vat liability will not vary
- Simple method.
- Lowering tax burden.
- Transparency. – purchase price value addition, vat paid
- Better revenue collection and stability.
- Better accounting systems.- tax paid at earlier stage received back

Demerits of vat

- VAT does not cover services.
- Non integration of central VAT with state VAT. Discourage in purchasing outside state
- Accounting burden.
- Cost of administration for government as the number of dealers will increase
- Exemptions on good, Non applicability of vat, make more cascading effect

Vat Variants

Gross Product Variant

Tax is levied on all sales and deduction for tax paid on inputs excluding capital Goods .

Double taxation Of Capital goods. Delay in modernization of industry

Income Variant

Tax is levied on all sales and set off for tax paid on inputs Depreciation on capital Goods

Allows method of set off On Capital goods. Choosing the appropriate Method of depreciation May be difficult

Consumption variant

Tax is levied on all sales and set off for tax paid on inputs and on capital Goods

Simple and easy method Tax admin is convenient Most countries use

METHODS FOR VAT TAXATION (Computation of value added)

- Addition method
- Invoice Method
- Subtraction Method
- With single VAT rate tax under both invoice and subtraction system will be same.

Methods for Computation of Vat

Addition Method

Aggregation of all
Factors of payment
And Profit

Mainly used in income
Variant.
does not facilitate
matching of invoices for
detecting evasion.

Invoice Method

Deducting tax
on inputs
from tax on sales.

Most common Popular
method. . Tax is imposed
at each stage of sales on
the entire sale value and
the tax paid at the earlier
stage is allowed as set-off

Subtraction Method

Deducting the value
Of purchases
From value of sales

Direct subtraction
Method
Intermediate
Subtraction method

Example on invoice method

Stage	Particulars	VAT Liability	Less VAT Credit	Tax to Government
1.	A Manufacturer sells to B distributor the State Value Rs.1000. Rate of tax is 12.50%.He will not get any VAT credit, being the first seller.	125	-	125
2.	B Distributor sells the goods to a C wholesale dealer for say Rs. 1200 @ 12.50% and will get set-off of tax paid at earlier stage at Rs. 125. His tax liability will be Rs. 25.	150	125	25

Example on invoice method contd.

3.	C Wholesale dealer sells the goods to a D retailer at say Rs. 1500. Here again he will have to pay the tax on Rs. 1500. He will get credit of tax paid at earlier stage of Rs. 150. His tax liability will be Rs. 37.50.	187.50	150	37.50
4.	D Retailer sells the goods to E consumer at say Rs. 2000. Here again he will have to pay tax on Rs. 2000. He will get credit for tax paid earlier at. Rs. 187.50. His tax liability will be Rs.62.50.	250	187.50	62.50
	Total	712.50	462.50	250

Example on Subtraction method

Particulars	Invoice	Purchase Price	Value Added	VAT @ 12.50%
Inputs for A	710	--	--	79
On Input 'A' to 'B'	1125	710	415	46
'B' to 'C'	1800	1125	675	75
'C' to 'D'	2250	1800	450	50
'D' to 'E'	2700	2250	450	50
FINAL	2700	--	--	300

Composition scheme under vat

- Applicable to Every registered dealer who is liable to pay vat and whose turnover does not exceed Rs.50 lakhs in the last financial year
- The scheme is optional. Intimation to Commissioner to exercise option in any whole year or part of year
- Dealer need not maintain any statutory records as prescribed under the Act. The records for purchase, sales, inventory should be maintained

Composition scheme under vat Contd.

- Turnover will be taxed at low rate as 0.25%
- No input tax credit on purchases
- Cannot issue tax invoice, the buyer from composition scheme dealer cannot avail input tax credit

Non eligibility of composition scheme

For the following dealers composition scheme not applicable. They cannot avail

- Dealers of importers and exporters
- Dealers having interstate sales
- Dealers having interstate branch /depot/works contract transfers

Rates of VAT

- 0% -36 commodities –Agricultural Products., sea products
- 1%- 3 commodities (Gold, Silver, Precious metals & Stone, etc.)
- 4%-About 340 commodities Industrial, Packing and IT products
- 12.5% (RNR) All other goods

RATES OF VAT NOT APPLICABLE

- Non Applicability of VAT on Petrol, Diesel, Aviation Turbine Fuel, Liquor, Lottery Tickets,
- May be taxed under VAT Act or any other Act at higher rates.

VAT Registration

Compulsory Registration

Automatic registration under the VAT Act of all the existing dealers

Dealers who 'Cross 50 lakhs turnover
Composition scheme dealers

New dealers Time limit with in 30 days From the date of first state sale

Voluntary Registration

Optional for Dealers below limit
(5 lakhs/10 lakhs)

No Time limit- Any time

Cancellation of registration

- discontinuance of business; or
- disposal of business
- transfer of business to a new location
- annual turnover of dealer falling below the specified amount.

Dealer obligation

- Inform surrender original RC, pay tax up to date

Threshold limit on Vat

0-5 Lacs - Not liable for Registration
5-50 Lacs - can opt for composition at lower rate up to 0.25% (Only for retailers)

50 Lacs Above - Compulsory VAT

- Some states the limit is Rs. 10 lakhs instead of 5 lacs

RECORDS under vat

- Purchase records
- sales records
- VAT account (Input tax credit, utilization, balance)
- Separate record of any exempt sale
- Other documents such as tax invoice, delivery note, bills, credit notes, debit notes

Declaration forms under vat

- No declaration forms
- Old declaration forms under sales tax law dispensed with.
- No concessional sale under vat, Hence no need of forms.

TIN NO. Tax payer Identification Number

NEW UNIFORM TIN NO. issued to registered dealers

11 DIGIT NUMBER:

First two characters will represent the State code as used by the Union Ministry of Home Affairs.

The set-up of the next nine characters will be, however, different in different States

VAT RETURNS

- To be filed quarterly or monthly.
- No Annual Returns.
- Simplified returns form to include
  - * Turnover of sales
  - * Calculation of output tax
  - * Claim of set-off
- Return should be duly filled in all respect.
- Defect memo to be issued on scrutiny of returns.

Vat Return

Return contain particulars about

- Name Address and Registration Number of dealer.
- Period of Return.
- Turnover of sales and purchase.
- Claim of Set-off.
- Amount of set-off carried forward.
- Amount of set-off claimed as refund.
- Calculation of Tax
- Declaration that particulars given in return are true and correct

Assessments under Vat

- Most are the self assessment, where dealer calculate vat liability and pay vat as per law and files monthly returns
- Cross checking by department at the end of year to ensure vat paid correctly.

Audit under vat

- Some states provide vat audit by CA
- Other cases, department do audit on specific selected criteria

Vat in case of special transactions

- Vat in case of Works contract
- Vat in case of lease transactions
- Vat in case of hire purchase transaction

Vat on Works Contract

- The works contract is a deemed sale
- Vat is levied on goods involved in works contract (Steel. Cement, paints, fittings etc)
- Sale price of goods transferred in works contract is the turnover for the purpose of Vat
- The amount representing labour and other service charges incurred for such execution should be excluded from vat purview.
- Where such labour and other service charges are not quantifiable, the sale price shall be the cost of acquisition of the goods and the margin of profit + all other expenses in transferring the property

Tax rates on works Contract

- Option 1- Normal vat schedule rate on goods involved in works contract. Rate applicable for each items is considered Input tax credit is available on Purchases
- Option 2- Composition scheme rate on the total value of works contract including labour and overheads. No input tax credit is available on Purchases
- Input credit on Capital goods purchased in works Contract is not available, as the works contract execution is not manufacturing and processing of goods.

Vat on Lease transactions

- Constitution provides power to levy tax on the transfer of the right to use any goods (lease)
- Lease is a deemed sale and vat can be levied
- Taxable event is the transfer of the right to use any goods

Vat on Lease transactions contd.,

- Lease rentals collected by lessor is consideration and treated as turnover. Some states provide deduction of interest and finance charge from lease rentals
- Tax rate applicable on the goods given on lease
- Sub lease is also taxable
- Lessor can get input tax credit on the tax paid on purchase of leased asset

Vat on hire Purchase transactions

- Delivery of goods under hire-purchase or installment sale will be taxable event for vat. And not the completion of sale on exercise of option by hirer or last installment paid by buyer
- VAT laws as applicable to normal sales are equally applicable to hire-purchase and installment sales.
- Hire charges/ Installment amount will be taxed
- When all the hire charges and installments are taxed no vat tax on when the sale was concluded on last installment/when hirer exercise option to buy.

Vat & CST

- CST levied on Interstate sales where vat levied on local state sales.
- CST paid on outside state purchases is not vatable hence CST have the cascading effect.
- CST is an origin-based tax collected by the exporting State whereas VAT is a destination based consumption tax, both cannot go together
- After vat was introduced it is decided to phased out CST slowly by 2010-2011. Now 2008-09 it is 2% and in 2009-10 it is proposed to 1% and in 2010-2011- 0%

AMENDMENTS IN CST ACT TO FACILITATE INTRODUCTION OF VAT

- CST act sec 15 amended to tax declared goods at more than one stage
- Notification u/s 8 to reduce CST to 2% wef 01.06.2008

End of chapter

Good wishes

CA N Raja Sekhar M.Com FCA DISA (ICAI)
Chennai
rajdhost@yahoo.com