

VALUE ADDED TAX

What is VAT?

A multi point system of taxation on sale of goods where in a mechanism is provided to grant credit for tax paid on inputs.

VAT vs Sales Tax

VAT	SALES TAX
(1) VAT is multi point levy.	(1) Sales Tax generally single point tax.
(2) In VAT full set-off of the tax paid at the earlier stage is granted	(2) In Sales Tax no tax is being levied on the value addition on subsequent sales.
(3) VAT eliminates, tax cascading.	(3) Sales tax does not eliminate cascading effect of tax.

What do you mean by cascading effect of tax?

If a tax is based on selling price of a product, the tax burden goes on increasing as raw material and final product passes from one stage to other is called cascading effect of tax

For example

	Cascading effect		
	A	B	
	Rs.	Rs.	
Purchases	100	220	
Value added	100	80	
	-----	-----	
Sub – total	200	300	
Add Sales Tax @ 10%	20	30	
	-----	-----	
Sale prices	220	330	
	=====	=====	
			→ → $200 \times 10 = 20$ $20 \times 10 = 2$ $80 \times 10 = 8$

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VAT eliminates, cascading effect of tax

For example:

	No Cascading effect	
	A	B
	Rs.	Rs.
Purchases	100	200 (Rs220 – Rs 20)
Value added	100	80
	-----	-----
Sub – total	200	280
Add Sales Tax @ 10%	20	28
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Sale prices	220	308
	=====	=====

it is evident from the above example VAT levied only on value addition, hence the net tax payable by Mr.B is Rs 8 (ie out put tax payable is Rs 28 less input tax already paid is Rs 20).

Input tax

Input tax means the taxes paid on the purchases of taxable goods. The input tax cannot be calculated for the dealers who opt for compounding system and for the goods mentioned in Second Schedule of the TNVAT Act 2006. Input tax can be calculated only for the goods which are sold.

Output Tax

Output tax means the taxes payable on sale of goods at the specified rates for the commodities.

Advantages of VAT

1. VAT eliminate the Cascading effect of tax
2. Vat encourages maintaining proper books of accounts for claiming the Credit.
3. Evasion of tax can be minimized.
4. Prices will be come neutralized over a period of time.
5. VAT increases the revenue of the respective state governments.

Disadvantages of VAT

- (1) Invoice without actual purchase of goods will cause revenue deficit.
- (2) Too much documentary evidence for availing input tax credit etc.,

INPUT TAX CREDIT CANNOT BE CLAIMED

- (1) If purchase of goods without tax invoices / from a unregistered dealer
- (2) Goods used for personal purposes
- (3) Purchased goods destroyed by fire, stolen or lost
- (4) If goods are given as free samples
- (5) Inter state purchases, or goods received by consignment sales or stock transfer to this state.
- (6) Dealers paying compounding tax.
- (7) Purchase returns within 6 months
- (8) If final products are exempted
- (9) Purchase of air conditioners other than Dealer in air conditioners
- (10) Purchase of automobiles, spare parts and accessories other than dealer in automobiles.
- (11) VAT credit can be avail by the trader as well as by the manufacturer. However, VAT is not available to the customer namely end-user

Difference between Zero Rated Sales and Exempted Sales

Zero Rated Sales

- 1. VAT @ 0%
- (2) ITC can be availed
- (3) Refund available
- (4) Dealer in the VAT Chain

Exempted Sales

- (1) VAT @ NIL
- (2) No ITC on inputs
- (3) No refund at all
- (4) Dealer is out of VAT Chain

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Registration under VAT

- (1) All existing dealers will be automatically registered under the VAT Act. A new dealer will be allowed 30 days time from the date of his being liable to get registered.
- (2) Small dealers with gross annual turnover not exceeding Rs 5 lakh will not be liable to pay VAT and at the same time they are not liable to register under VAT. States will have flexibility to fix threshold limit within Rs 5 lakh.
- (3) Small dealers with annual gross turnover not exceeding Rs 50 lacs, shall however have the option for a composition scheme with payment of tax at a lower percentage of gross turnover. The dealers opting for this composition scheme will not be entitled to input tax credit.

Registration is compulsory Based on Transactions (turnover is not relevant):

- (1) Dealers Purchase Goods From Other States
- (2) Dealers Exporting Goods
- (3) Dealers Dealing With Gold, Silver,
- (4) Agent of a non-resident dealer
- (5) Broker, Commission Agent or auctioneer,
- (6) Dealers residing outside the state but carrying on the business in the Other state.

Procedure to claim ITC

This procedure may differ from state to state.

- (1) Every register dealer must file return for each month on or before due date (20th of the succeeding month).
- (2) Details of purchases during the month along with seller name, TIN, commodity code, purchase invoice with value, vat paid and category (Annexure I)
- (3) Details regarding sales, name of the buyer, TIN, commodity code, sale value, rate of tax, VAT paid and category.
(Annexure II)
- (3) Details for reversal of input tax credit during the month (Annexure III)

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- (4) Details regarding Export Sales (ie Zero Rated Sales), Description of goods, value, Details of Bill of Lading / A W B / Railway bill (Annexure IV)
- (5) ITC on opening stock allowed by the assessing authority can be adjust the credit within 6 months
- (6) Details of input tax paid and zero rate sales may be claimed as refund (Form W) within 180 days from the date of zero rate transactions or before the end of the F.Y which ever is later.
- (7) Refund is available to Zero Rate Seller, even if exempted goods are manufactured and exported / effected zero rate sales.
- (8) Entry Tax paid by the dealer can claim ITC against out put tax.

PROVISIONS RELATING TO CST UNDER VAT

- (1) Present cst @2% will continue for some time
- (2) Present forms A, B, C, E-I, E-II, F, G, H, I and J will also continue
- (3) Forms are valid even if CST becomes @0%
- (4) ITC can be claimed against inter-state sale only when those sales are supported by Form C.
- (5) If goods are sent on stock transfer outside the state against Form F, ITC to the extent of CST not allowed. It means credit available only when VAT credit over and above the CST rate
- (6) Interstate sales not supported by C Form then there is no input tax credit.

CST Rate	=	2% or local sales tax Whichever is higher
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Method of computation;

There are three methods for computation of VAT namely (a) Addition method (b) invoice method and (c) subtraction method. Among the three methods invoice method is very popular method.
