

INPUT TAX CREDIT

Question 1

From the following particulars compute net VAT payable by M/s. Tab & Co. for the period ending March 31, 2011:

Inputs procured :		
(i)	Raw material at Nil VAT	10,00,000
(ii)	Raw material at 4% VAT	40,00,000
(iii)	Raw material at 12% VAT	20,00,000
Output		
(i)	Intra state sale of finished goods at 4% VAT (these goods were produced entirely from raw material procured at NIL VAT rate)	15,00,000
(ii)	Exempted sales (these goods were procured from raw material procured at 4% VAT to the extent of 50%)	20,00,000
(iii)	Sale of finished goods intra-state at 12% VAT	20,00,000
(iv)	Intra-state sale of raw material purchased at 4%	10,00,000
(v)	50% of the raw material purchased at 12% VAT has been utilised to produce capital goods for the manufacturing process in Tab & Co's factory (Market Value)	15,00,000

Provide explanations where necessary.

(5 Marks)(May 2011)

Answer

Computation of Net VAT payable by M/s. Tab & Co:-

Output VAT payable

S.No.	Particulars	₹
1.	Intra-state sale of goods at 4% VAT (₹ 15,00,000 × 4%) (manufactured out of exempted material)	60,000
2.	Sale of finished goods at 12% VAT (₹ 20,00,000 × 12%)	2,40,000

3.	Sale of raw materials purchased at 4% VAT (₹ 10,00,000 × 4%)	<u>40,000</u>
	Total (A)	<u>3,40,000</u>

Input tax credit available

S.No.	Particulars	₹
1.	Purchase of raw material @ 4% VAT (50% of ₹ 40,00,000 × 4%) (Note – 1)	80,000
2.	Purchase of 12% VAT including purchases utilized to produce capital goods (12% of ₹ 20,00,000) (Note – 2)	<u>2,40,000</u>
	Total (B)	<u>3,20,000</u>

Net VAT payable = (A) - (B) = ₹ 3,40,000 – ₹ 3,20,000 = ₹ 20,000.

Notes:

- Input tax credit is not allowed on goods used to produce exempted goods. Hence, 50% of the input tax credit on raw material (4% VAT) utilized to produce exempted goods has been disallowed.
- Input tax credit on raw materials is allowed even if the same is consumed to produce capital goods. Hence, full input tax credit on goods purchased at 12% VAT would be allowed.

Question 2

Briefly explain the policy contained in the 'White Paper' on introduction of VAT with regard to availment of input tax credit on capital goods. (3 Marks) (May 2011)

Answer

The policy contained in the 'White Paper' laid down that in relation to capital goods, set-off will be available to both traders and manufacturers. It is well known that under traditional sales-tax system, in some States, partial credit was allowed on capital goods to the manufacturers but no credit was allowed to traders.

However, as per the White Paper, the State Governments can provide to give set-off on a staggering basis, at the most in 36 instalments. This is subject to the policy of individual States.

Question 3

From the following particulars, arrive at the VAT liability for the month of January 2011 and also determine the amount of input tax credit to be carried forward for the next month:

- Input tax rate 5% and output tax rate is 15% in the State.
- Inputs purchased in the month from within the State – ₹ 48,00,000.
- Output sold to buyers within the State during the month – ₹ 15,00,000.
- Output sold during the month to buyers as inter-state sales – ₹ 3,00,000. (CST rate 2% against C Form).

- (v) Inputs purchased from other States as inter-state purchases against C Form @ 2% - ₹ 2,00,000.

(Provide suitable explanations where required with appropriate assumptions, if necessary)

(5 Marks)(Nov2010)

Answer

Computation of VAT liability for the month of January' 11 and amount of input tax credit to be carried forward to next month:

- (i) Input tax credit available on the purchase of inputs from within the State will be 5% of ₹ 48 lakh, i.e. ₹ 2,40,000.
- (ii) No input tax credit will be available on inputs purchased from other States.
- (iii) VAT payable on sales within the State – 15% of ₹ 15 lakh, i.e. ₹ 2,25,000.
- (iv) State VAT liability will be nil as the input tax credit (₹ 2,40,000) is more than the output VAT of the State (₹ 2,25,000).
- (v) CST to be paid is ₹ 6000, i.e. 2% of inter-State sales of ₹ 3 lakh. This amount can be paid from the balance credit of ₹ 15,000 (i.e. ₹ 2.40 lakh-2.25 lakh)
- (vi) The amount available for carry forward to next month will be ₹ 9,000, i.e. ₹ (15000 – 6000).

Question 4

Write a brief note on whether input tax credit of the VAT paid on purchases of goods that are stock transferred is available.

(2 Marks)(Nov 2010)

Answer

As per the White Paper, Inter-State transfers do not involve sale and are therefore are not subjected to sales tax.

The same position continues under VAT, however, tax paid on the purchases of goods which are stock transferred will be available as input credit after retention of 2% of such tax by the State Government.

Question 5

The particulars regarding sale, purchase etc. of Shubham Udyog for the last quarter of the year 2010 -11 are as under:

			₹
1.		Purchases of raw material within the State	
	(i)	taxable @ 1%	40,00,000
	(ii)	taxable @ 4%	60,00,000
	(iii)	taxable @ 12.5%	10,00,000

2.		Sale of goods manufactured from raw material purchased @ 4% tax rate	
	(i)	Taxable sale within the State (tax rate 4%)	20,00,000
	(ii)	Exempted sale within the State	10,00,000
	(iii)	Sale in the course of Inter-State trade or commerce (CST rate 2%)	10,00,000
3.		Sale of raw material purchased @ 1% tax rate	44,00,000
4.		Goods manufactured from the raw material purchased @ 12.5% tax rate were given on lease. The deemed sale price of such goods is ₹ 12,00,000, taxable @ 12.5%.	

You may assume that input tax credit of tax paid on raw material used in manufacture of leased goods is available immediately. Compute the amount of Value Added Tax (VAT) payable by M/s Shubham Udyog for the relevant quarter. There was no opening or closing inventory.

How can he utilise the balance of input tax credit available, if any? (5 Marks)(May 2010)

Answer

Computation of VAT payable for the quarter ending 31st March, 2011:-

	Particulars	₹
(A)	Output tax payable	
(i)	On sale of taxable finished goods within the state (₹ 20,00,000 × 4%)	80,000
(ii)	On raw material (₹ 44,00,000 × 1 %)	44,000
(iii)	On leased goods (₹ 12,00,000 × 12.5%) (Deemed sale)	<u>1,50,000</u>
	Total (A)	<u>2,74,000</u>
(B)	Input tax credit available	
(i)	On raw material purchased @ 1% (₹ 40,00,000 × 1%)	40,000
(ii)	On raw material purchased @ 4% (₹ 60,00,000 × 4%) × 75% (Note-1)	1,80,000
(iii)	On raw material purchased @ 12.5% (₹ 10,00,000 × 12.5%)	<u>1,25,000</u>
	Total (B)	<u>3,45,000</u>
	Net VAT payable = (A)-(B)	(71,000)
	CST payable on inter state sale adjusted (₹ 10,00,000 × 2%)(Note-2)	<u>20,000</u>
	Balance of input tax credit carried forward to next quarter (₹ 20,000-₹ 71,000)	<u>51,000</u>

Notes :

1. If the goods manufactured from raw material are exempt from tax, no input tax credit is available on such raw material. Out of total sales of ₹ 40,00,000 of goods manufactured from raw material purchased @ 4%, credit will not be allowed in respect of the inputs used in the manufacture of exempted goods. It has been assumed that the amount of raw material used in the manufacture of exempted goods is proportionate to amount of the

exempted sale in the total sales of goods manufactured from raw material purchased @ 4% assuming the input output ratio to be constant ($10/40 \times 60 = 15$ lakh) Hence, input tax credit has been allowed to the extent of 75% [$(60-15)/60 \times 100 = 75\%$]

2. If finished goods are sold in the course of inter-state trade and commerce, input tax can be set off against the output tax liability.

Question 6

Determine the taxable turnover, input tax credit and net VAT payable by a works contractor from the details given below on the assumption that the contractor maintains sufficient records to quantify the labour charges. Assume output VAT at 12.5%

	Particulars	₹ (in lakh)
(i)	Total contract price (excluding VAT)	100
(ii)	Labour charges paid for execution of the contract	35
(iii)	Cost of consumables used not involving transfer of property in goods	5
(iv)	Material purchased and used for the contract taxable at 12.5% VAT (VAT included)	45

The contractor also purchased a plant for use in the contract for ₹ 10.4 lakhs (inclusive of VAT). In the VAT invoice relating to the same, VAT was charged at 4% separately. Assume 100% input tax credit is available on capital goods immediately.

Make suitable assumption wherever required and show the working notes. (5 Marks) (Nov 2009)

Answer

Under the works contract, the turnover for imposition of VAT is the sale price of the goods in which there is a transfer of property. The amount representing the labour and other charges incurred for such execution is deductible.

Computation of the taxable turnover, input tax credit and net VAT payable by the works contractor:-

Particulars		₹	
Total contract price		1,00,00,000	
Less : Deductions admissible			
1. Labour charges paid for executing the contract	35,00,000		
2. Cost of consumables in which no property is transferred	<u>5,00,000</u>		
Total deductions		<u>40,00,000</u>	
Taxable turnover		<u>60,00,000</u>	
Output VAT payable @ 12.5% (on ₹ 60,00,000)		7,50,000	(A)

Less : Input tax credit admissible			
1. On the material purchased (on ₹ 45,00,000 x 12.5/112.5)	5,00,000		
2. On the plant purchases (on ₹ 10,40,000 x 4/104)	<u>40,000</u>		
Input tax credit		<u>5,40,000</u>	(B)
Net VAT payable		<u>2,10,000</u>	(A-B)

Question 7

Purchases by S & Co. for the month of December are as follows:

- (1) ₹ 1,00,000 at 4% VAT
- (2) ₹ 5,00,000 at 12.5% VAT.

Sales of S & Co. for the month of December are as follows:

- (1) Sales of ₹ 3,00,000 at 4% VAT
- (2) Sales of ₹ 3,00,000 at 12.5% VAT.

Compute eligible input tax credit and VAT payable for the month. (3 Marks)(June 2009)

Answer**Computation of input tax credit and VAT payable:-**

	₹
Input tax paid by S & Co on ₹ 1,00,000 @ 4%	4,000
Input tax paid by S & Co on ₹ 5,00,000 @ 12.5%	<u>62,500</u>
Total input tax credit eligible	<u>66,500</u>
Output tax payable on ₹ 3,00,000 @ 4%	12,000
Output tax payable on ₹ 3,00,000 @ 12.5%	<u>37,500</u>
Total tax payable	<u>49,500</u>
Input tax credit allowed to be carried over (₹ 66,500-₹ 49,500)	17,000
VAT payable by S & Co.	Nil

Question 8

Which purchases are not eligible for input tax credit of VAT paid? (6 Marks)(June 2009)

Answer

Input tax credit is not allowed on the following purchases:

- (i) purchases from unregistered dealers;

- (ii) purchases from registered dealer who opt for composition scheme under the provisions of the Act;
- (iii) purchase of goods as may be notified by the State Government;
- (iv) purchase of goods where the purchase invoice is not available with the claimant or there is evidence that the same has not been issued by the selling registered dealer from whom the goods are purported to have been purchased;
- (v) purchase of goods where invoice does not show the amount of tax separately;
- (vi) purchase of goods, which are being utilized in the manufacture of, exempted goods;
- (vii) purchase of goods used for personal use/consumption or provided free of charge as gifts (partial credit is available in the State of Maharashtra);
- (viii) goods imported from outside the territory of India (commonly known as high seas purchases);
- (ix) goods purchased from other States viz. inter-State purchases.

Question 9

Calculate the VAT liability for the period Aug. 1, 2011 to Aug. 31, 2011 from the following particulars:

Inputs worth ₹ 1,00,000 were purchased within the State. ₹ 2,00,000 worth of finished goods were sold within the State and ₹ 1,00,000 worth of goods were sold in the course of inter-State trade. VAT paid on procurement of capital goods worth ₹ 1,00,000 during the month was at 12.5%. If the input and output tax rate in the State are 12.5% and 4% respectively and the central sales tax rate is 2%, show the total tax liability under the State VAT law and under the Central Sales Tax Act. (5 Marks)(Nov 2008)

Answer

Computation of the tax liability for the period **Aug. 1, 2011 to Aug. 31, 2011:-**

	₹
Inputs purchased in the month [12.5% VAT]	1,00,000
Output sold in the month (within the State)	2,00,000
Inter-State sales	1,00,000
Input credit (including capital goods) (₹ 12,500 + ₹ 12,500)	25,000
Output tax	8,000
CST for Inter-State sale @ 2%	2,000
State VAT liability (₹ 8,000 – ₹ 25,000)	Nil
Excess credit carried forward to subsequent month	17,000
Central sales tax to be paid (₹ 2,000 – ₹ 17,000)	Nil
Excess credit carried forward to subsequent period	15,000