

Input Tax Credit

Question 1

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.

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

Question 2

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?

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

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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 3

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.

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)

Selected Self-Examination Questions

1. Enumerate the eligible purchases in respect of which input tax credit can be availed.
2. Discuss the procedural requirements to be fulfilled in order to claim input tax credit on capital goods.
3. Differentiate between input tax and output tax.
4. Who can avail input tax credit?
5. Can input tax credit be carried forward? Discuss.
6. Mention the purchases which are not eligible for input tax credit.
7. How will the input tax credit be availed when common inputs are used for taxable and tax-free good?
8. Explain whether units in SEZ and EOU units are required to pay input tax on purchases made by them?
9. Discuss the policy contained in the White Paper with regard to availment of input tax credit on capital goods.