

VAT Procedures

Question 1

What is the significance of Registration under VAT? Under what circumstances Registration can be cancelled under VAT?

Answer

Registration is the process of obtaining certificate of registration [popularly known as "RC"] from the concerned authorities. A dealer registered under the applicable VAT Act is called a Registered Dealer. Any dealer who intends to carry on the business of purchase and sale of goods [which attract VAT] in the concerned state and is liable to pay tax has to obtain RC from the concerned authorities.

The VAT Registration may be cancelled under following circumstances:

- (i) Discontinuance of business; or
- (ii) Disposal of business; or
- (iii) Transfer of business to a new location;
- (iv) Annual turnover of a manufacturer or a trader dealing in designated goods or services falling below the specified amount.

Question 2

Write a brief note on Tax Payer's Identification Number (TIN)?

Answer

Tax Payer's Identification Number (TIN) is a code to identify a tax payer. It is the registration number of the dealer. It consists of 11 digit numerals throughout the country. First two characters represent the State Code as used by the Union Ministry of Home Affairs. However, the set of next nine characters is different in various states. The basic purpose of TIN is to facilitate computer applications such as detecting stops filers and delinquent accounts. It also helps in cross-checking information in respect of tax payer compliance for example the selective cross-checking of sales and purchases amongst VAT taxpayers.

Question 3

Differentiate between Compulsory Registration and Voluntary Registration under VAT Act.

Answer

Compulsory Registration: If an assessee fails to obtain registration under the applicable VAT Act, he may be registered compulsorily by the Commissioner. The Commissioner may

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assess the tax due from such person on the basis of evidence available with him. Resultantly, the concerned assessee is bound to pay such amount of tax. In addition, failure on the part of get himself compulsorily register result in attracting default penalty and forfeiture of eligibility to set off all input tax credit related to the period prior to the compulsory registration.

Voluntary Registration: A dealer who is not eligible for registration under VAT may also obtain registration if the Commissioner is satisfied that the business of the applicant requires registration under VAT. At the time of granting voluntary registration, the Commissioner may impose certain terms or conditions if he thinks it necessary to do so.

Question 4

Briefly explain the importance of VAT invoice.

Answer

Invoices are crucial documents for administering VAT. In the absence of invoices, VAT paid by the dealer earlier cannot be claimed as set off. The importance of a VAT invoice can be gauged from the following:-

- (i) It helps in determining the input tax credit;
- (ii) It prevents cascading effect of taxes;
- (iii) It facilitates multi-point taxation on the value addition;
- (iv) It promotes assurance of invoices;
- (v) It assists in performing audit and investigation activities effectively;
- (vi) It helps in checking evasion of tax.

Question 5

What is VAT invoice? What are the mandatory provisions to be complied with while issuing a VAT invoice by a registered dealer?

Answer

VAT invoice is a document providing details of goods sold along with price, tax charged and other details as may be prescribed. Vat invoice is issued by a dealer authorized under the Act.

Mandatory provisions to be complied with:

- (i) 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.
- (ii) The VAT invoice shall be dated and signed by the dealer or his regular employee, showing the required particulars.
- (iii) The dealer shall keep a counterfoil or duplicate of such VAT invoice duly signed and dated.

Question 6

List the records to be maintained under VAT System.

Answer

Following is the list of records to be maintained under VAT System:

- (i) Purchase Records
- (ii) Sales Records
- (iii) VAT account containing the details of output tax and input tax together with credit and debit notes issued during the period.
- (iv) Separate record for exempt sale

In addition, following records should also be kept and produced before VAT Officer if the need arises:

- ü Copies of all invoices issued in serial number.
- ü Copies of all credit and debit notes issued in chronological order.
- ü All purchase invoices, copies of customs entries, receipts for payment of customs duty or tax and credit and debit notes received to be filed chronologically either by date of receipt or under each supplier's name.
- ü Details of the amount of tax charged on each sale or purchase.
- ü Total of the output tax and input tax in each period and a net total of the tax payable or the excess carried forward at the end of each month.
- ü Details of goods manufactured and delivered from the factory of the taxable person.
- ü Details of each supply of goods from the business premises, unless such details are available at the time of supply in invoices issued at or before that time.

Question 7

Briefly explain the system of cross checking under VAT laws.

Answer

Normal Cross-checking: In the VAT system more emphasis has been laid on self-assessment. Hence, a system of cross-checking has become essential. Dealers may be asked to submit the list of sales or purchases above a certain monetary value or to give the dealer-wise list from whom or to whom the goods have purchased or sold for values exceeding a prescribed monetary ceiling.

Comprehensive Computerized Cross-checking: A Cross-checking computerized system is being worked out on the basis of coordination between the tax authorities of the State Governments and the authorities of Central Excise and Income-Tax to compare constantly the tax-returns and set-of documents of VAT system of the States and those of Central Excise and

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Income-Tax. This comprehensive cross-checking will help in reducing tax evasion and also lead to significant growth of tax revenue. At the same time, by protecting the interests of tax-complying dealers against the unfair practices of tax-evaders, the system will also bring in more equal competition in the sphere of trade and industry.

Question 8

What are the various types of audits prescribed under VAT provisions?

Answer

Various types of audits prescribed under VAT provisions are given below:

- Ø **Departmental Audit:** In this audit correctness of information supplied under self-assessment system is checked. A certain percentage of the dealers are taken up for audit every year on a scientific basis. If during the course of such audit tax evasion is detected, the previous records of the concerned dealer may also be called for the purpose of audit. Under this audit authorised officers of the Department visit the business place of the dealer to conduct the audit. The auditors examine the correctness of the returns vis-à-vis the books of account of the dealer or any other information available with them. It is also worth mentioning here that the concerned auditors are equipped with the information gathered from various agencies such as suppliers, income tax department, excise and customs departments etc.
- Ø **Independent Professional Audit:** Since the Departmental Audit has not been able to curb the menace of tax avoidance and tax evasion to the desirable extent, the concept of independent professional audit by chartered accountants or cost accountants has been prescribed in some of VAT Acts in India. For instance, in Karnataka the dealer whose total turnover exceeds ₹ 60 lakhs in any year is required to get his accounts audited in respect of such year. Similarly, in Maharashtra and Rajasthan, the dealer whose turnover exceeds ₹ 40 lakhs in any year is required to get his accounts audited in respect of such year.

Selected Self-Examination Questions

1. Does VAT system require declaration forms? Discuss.
2. What are the provisions in respect of returns under VAT Acts ?
3. What is the eligible limit of turnover for registration under VAT laws?
4. Enlist the various contents of the tax invoice.
5. Does VAT system recognize self-assessment? Discuss.