VALUE

- Value means value of the commodity.
- i.e. the utility relating to the user.
- e.g. Material, labour, Profit etc.
- As the use increases, Value of the product increses.

+

ADDED

- Addition in the Value
- i.e. Product is purchased and some work performed for increaing it's Value.

+

TAX

- Taxation on such Value Addition.

=

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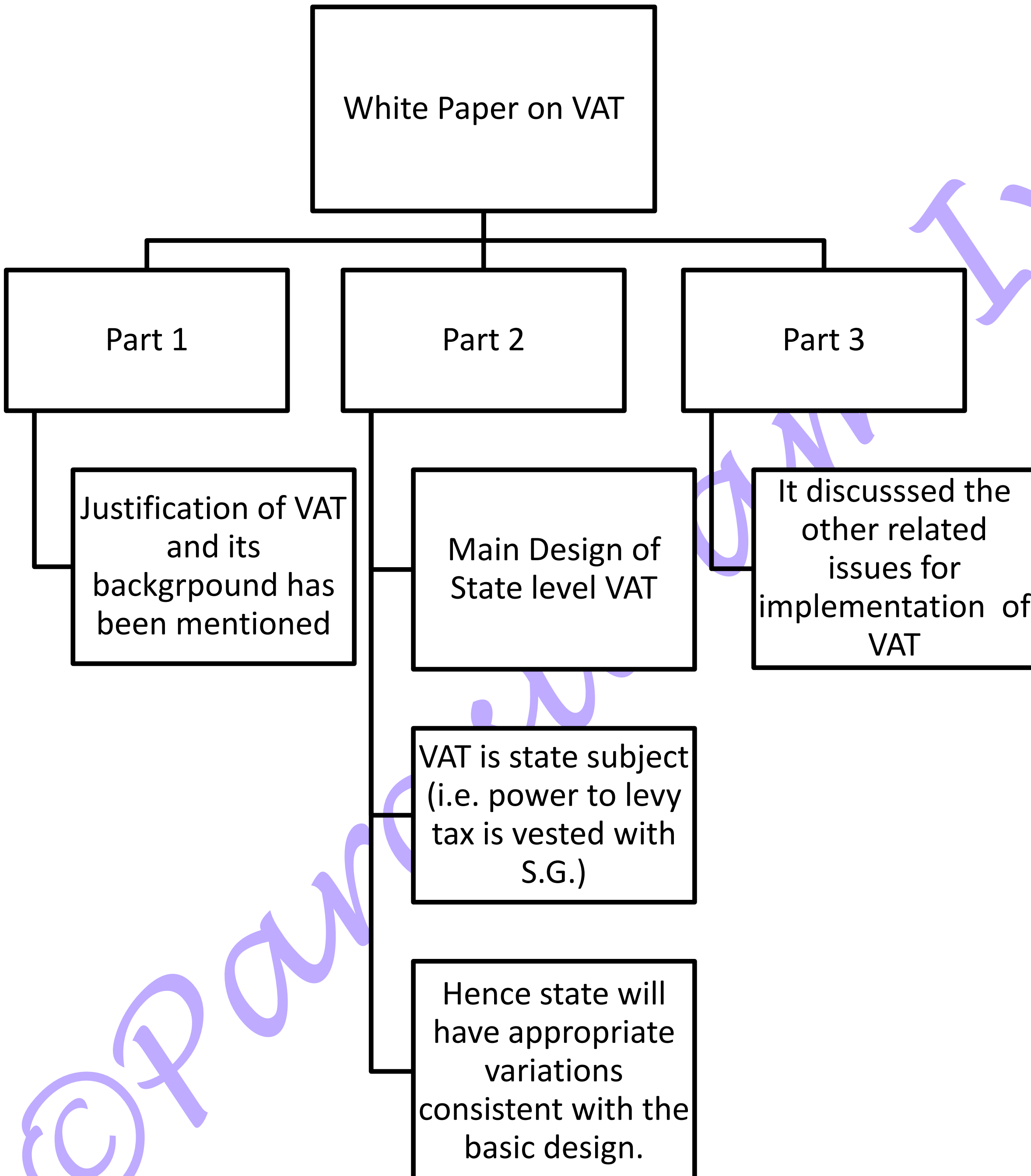
T

HISTORY OF VAT	• VAT is a broad based tax levied at multiple stages with tax on input credit against taxes on output. • VAT was first introduced in France in 1954. • Later was introduced in Brazil in Mid 1960 then it was slowly spread in European Countries by the end of 1970s and now almost more than 130 nations are under it's coverage.
HISTORY OF VAT in INDIA	• In India most of the State including Union Territories implemented VAT w.e.f. 1st April 2005 which substituted local sales tax laws. • But VAT had already laid its stone way back in 1986 as it had been introduced under Central Excise Law & in 2002 in Service Tax Law. • VAT in India is not comparable to that of other countries because it is replacement of State level sale tax and not entire indirect tax structure. • VAT in India is a State subject. • The States of Madhya Pradesh & Maharashtra introduced the concept of tax on Value Addition way back in 90's but could not succeed in implementing the same in the desired manner. • With the joint effort of Central & State government, VAT was implemented by a majority of States with effect from 1st April 2005. • The power to levy tax on sale transactions in the form of VAT is drawn from entry number 54 in List II of Seventh Schedule of Constitution of India by the S.G. • Under the VAT every transaction taking place in the course of business is taxed enabling the S.G. to collect revenue on the Value Addition on every stage.
<u>EVOULTION OF VAT IN INDIA</u>	
Old System	India had a system of tax collection at one point from the transaction involving the sale of goods. The tax was either collected at 1st or at last stage. Disadvantage of Single point taxation (First Stage): • Since sales tax was levied and collected at 1st stage (i.e. by wholesaler) the tax rate had to be higher. This lead to tax evasion & it became tax on honesty on the part of the assessee. • In such case if the goods escaped 1st stage, the goods escaped the entire tax net altogether. • It had great scope of undervaluation of goods at 1st stage as there was no tax on subsequent sale. Disadvantage of Single point taxation (Last Stage): • The tax evasion was maximum since the price charged at the last stage was the highest. • It was difficult to track the goods evading tax since there was no record of there earlier movements and after earlier movements and after the last point sale, the goods reached in the hands of the consumers. • This encourages under – involving generation of black money due to cash dealings at the last point of sale.
New System	• VAT is collected at various stage, all the above disadvantages of old system had been overcome. • The cascading effect had been eliminated.

	• More transparent structure is made up & compliances are improved. • The S.G. had been indifferent in undertaking any reforms in their sales tax system although it accounts for more than 60% of the revenue of tax.
Introduction in India	• **Kelkar Committee** was formed and it made the observation that **"each State levied multiple taxes on the same item in different stages e.g. Entry Tax, Luxury Tax, etc."** • They had the opinion that **"it is necessary that State VAT should be the tax to unify all the State-level taxes i.e. Sales Tax, Purchase Tax, Work Contract Tax, Entry Tax, Special Additional Tax, etc. should all be covered under State VAT."**
White Paper on VAT	• The Committees of State's Finance Ministers (in 1995 amd 1998, respectively) and of Chief Ministers and Finance Ministers held on 16th November 1999 and introduction of State VAT in lieu of Sales Tax was finally scheduled to be made with effect from 01.04.2003. • The schedule had been revised by the Empowered Committee of State due to agitated trade unions to 01.06.2003 & it was expected that the most of the state & union will adopt the same by that date but it didn't happened. • Later the VAT has been postponed for some more time. Beside consensus of all the state over the model law and introduction of VAT on uniform basis was necessary. • In this connection the empowered committee of State Finance Ministers met regularly and bought out white paper on state level VAT on 17/01/2005.

WHITE PAPER ON VAT



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Justification Of VAT and its background	• In the existing sales tax structure, there were problems of double taxation of commodities and multiplicity of taxes resulting in cascading effect. • In old tax structure commodity was taxed when it was purchased having input tax load when enters into production process again leads to tax on tax. • There were multiplicity of tax such as surcharge, turnover tax, additional tax etc. this taxes were abolished with introduction of VAT and also Central Sales Tax(CST) took a backseat. As a result overall tax burden decreased. • VAT gives set-off of input tax. • VAT has replaced the existing system of inspection by department and has more faith on Self Assessment by the dealers and Audit. • This improved the tax compliance and helped in revenue growth.
MEANING OF VAT	VAT means tax on **difference between Input and out Put:** • i.e. it is multi – point Sales Tax. • It is collected on Value Addition on each Stage. • Payment by dealer towards VAT earlier purchase is allowed as deduction from the Tax payable by such dealer.

Difference Between VAT and Sales Tax System.

Earlier Sales Tax System	VAT System
1. Tax was levied at the stages of first sales or at the final stage. Thus it was levied at single stage.	Tax is levied and collected at every point of sale. Thus, it is a multi – stage tax.
2. Successive sales (resale) of goods on which tax is already paid did not attract tax.	Tax is collected at every point of sale and the tax already paid by dealer at time of purchases of goods will be deducted from the amount of tax paid at the next sale.
3. Dealers reselling tax paid goods did not collect any tax on resale and file **NIL** return.	Dealer reselling tax-paid goods will have to collect VAT and file return and pay VAT at every stage of sale (Value Addition).
4. Computation of tax liability was complex	It is transparent and easier.
5. Sale Tax was not levied at the time of purchases against statutory forms but there was misuse of such forms resulting in tax evasion.	VAT dispenses with such forms and sets off all tax paid at the time of purchase from the amount of tax payable on sale.
6. Return and Challans were filed separately and the dealers had to give numerous details.	The return and the challans are filed together in a simple format after self-assessment.
7. A large number of form were required	At the most a few forms are required.
8. Tax on goods only.	Tax on goods and services both.
9. Assessment was done by the department.	Self – Assessment is done by dealers.
10. Penalty for defaulters/ evaders not strict.	Penalties are stricter.

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INPUT TAX CREDIT

- Tax paid by the registered dealer at the time of purchase.
- Purchase can of a goods are purchased for the further process or of Capital Goods.
- Such input tax credit is allowed **as deduction** from the **tax payable** by the **assessee.**

VAT Calculated − **Input Tax Credit** = **VAT Payable**

Illustration 1.

Mr Rahul sells goods to Mr. Shardhul for ₹ 1,00,000/-. He charges sales tax/ VAT @ 12.5% on the sale price. Mr. Shardhul sells the same goods to Mr. Rohit by adding ₹ 25,000/- as his profit and charges sales tax @ 12.5%.

Compute the tax payable under:

(a) The existing sale tax system assuming sales tax is charged at each stage.
(b) VAT.

Illustration 2.

a. Mr Jay is a Manufacturer of two raw-material viz., M & N. These two raw-materials have been manufactured by talking the basic produced of mines on which VAT has not been allowed. The selling cost of raw-material M is ₹ 200/- per kg. and the rate of VAT is 4% whereas selling cost of raw – material N is ₹ 240/- per kg and the rate of VAT is 12.5%.
b. Mr. Kay has used 1 kg each of both the above raw – materials by purchasing it from Mr Jay and manufactured product O. The aggregate of wages, conversion cost and profit on the sale of produce O is ₹ 1,000/-.Thus Product O has been sold for ₹ 1440/- and VAT has been charged @ 12.5%.
c. Mr. Jeet who purchased the above product O from Mr. Kay has sold the same to Mrs. Uma for ₹ 2000/- and VAT has been charged @ 12.5%.
d. Mrs. Uma sold the product O to the customer Miss Riddhi for ₹ 3000/- and VAT @ 12.5%.

Compute the tax payable at various stages under VAT.

CENTRAL SALES TAX (CST) AND VAT	
• CST is charged by the dealer when he makes **Inter-state sales** (i.e. sales made to the dealer/ consumer in the other state). • In this case goods moves from one state to another. • VAT is charged on the goods when the dealer makes **Intra-state sale** (i.e. sales within the same state).	
Who will levy CST & VAT	• CST is levied by the Central Government but it is **collected and retained** by the State Government from where the movement of goods started (i.e. **selling state**). • VAT is levied by the respective State Government and is **collected and retained** by the **same State Government.** • **Inter State Purchased Goods** are **not vatable** goods as they are subject to CST. Such CST paid is **not eligible for input tax credit.**
Rate of CST	• If the goods are sold to a registered dealer under CST Act in the other State and such registered dealer provides **"Form – C"** to the Seller & the CST shall be levied at VAT rate (local sales tax rate) Subject to maximum rate of CST which shall be 2%. • On the other hand if the goods are sold to any other person in the other state, CST

	shall be equal to VAT rate of State from where the Goods are sold.
Eligible Purchases for Input Tax Credit	• Input Tax Credit is available on **goods purchased** from the **same state** for the following purpose: o Sale/Resale within the State. o For sale in the course of **inter-state** trade or commerce. o To be used as-- ▪ Container/packing material ▪ Raw material ▪ Consumable Stores And the goods so manufactured by the use of the above Raw Material, Packing Material are sold within **same state or inter state** o Execution of **Works contract** o Capital goods required for the manufacturing of taxable goods

Illustration 3.

Will the input tax credit be available in the following cases:

(A) Purchase within the State and resale of the same good within the same state

(B) Purchase of a raw material within the same state for the purpose of manufacturing a product and the sale of manufactured product within the same state

(C) Purchase of goods from other states for the purpose of resale within the state.

(D) Purchase of raw material and consumable from other states for the purpose of manufacturing and the sale of such goods within the state.

(E) Purchase of goods within the state for the sale of same goods to other states.

(F) Purchase of raw materials and consumable from within the state and for the sale of manufactured goods to other states

(G) Purchase of goods from within the state for the sale of same goods within the state and other states

(H) Purchase of raw material and consumables within state for the sale of manufactured goods within the same state or other state

(I) Purchase of goods from other state and sale of the same goods to other states

COVERAGE OF INPUT TAX CREDIT & ITS SETOFF	
Instant credit of	• Input Credit will be given to both manufacturer as well as trader of the goods.

input tax	• Sale can be both inter-state as well as within the state.
Carry forward of VAT credit.	• If VAT credit exceeds the VAT payable over sales within the state in the same month it shall be adjusted against CST payable. • After adjustment of CST payable if VAT's credit is still left it shall be carried forward to the subsequent month or months. • But the unadjusted VAT credit after the end of specified period are eligible for refund also (subject to doctrine of **unjust enrichment**)
No input credit on Central Sales Tax(CST) paid on purchases from other states	• **No Credit** of CST as it is purchased from other State.
Input Credit on stock transfers to other states	• Stock transfer to branches or on consignment basis **dose not amount to sale**. • It is **not subjected** to CST or VAT. • If the goods sent outside State on stock transfer/ consignment basis, credit (set-off) of tax paid on the inputs purchased within the state is available only to the extent of tax paid in excess of 2% as 2% is retained by the State Government. • Eg. It the tax paid on input is 12.5%, input credit of 10.5% is available. • If the stock are transferred to the other branches within the same state 100% input credit is allowed.
Treatment of Input tax in case of export sales	• Export sales are Zero Rate (i.e. no VAT or CST is payable on export sales). • Thereby exporters are either granted refund of input taxes paid by them on purchases made from the same State or they can adjust such input tax while making domestic sale.

Illustration 4.

Riya Sen purchases goods from Ashmit Patel for ₹ 4, 50,000 /- which includes VAT @ 12.5%. Riya Sen sells 25% goods to Amisha Patel in the same state by adding profit @ 25% on cost. Balance 75% goods are sold to Vina Malik who is carrying on business in other state. The profit charged in this case was 33.33% on cost. VAT charged is 12.5% and CST charged is 2%.Compute the Input Tax credit and its set-off is allowed to Riya Sen.

Illustration 5.

Rakhi of Nagpur purchased goods from Mika of Nagpur amounting to ₹ 6, 75,000 which includes VAT @ 12.5%. Rakhi sold the same goods to the following parties 50% of the goods was sold to Sawariya of Nagpur by charging profit @ 25% on cost.

20% of gross was sold to Pappu who is carrying on business in Indore by charging profit @ 30% on cost. CST charged @ 2%. Balance 30% of the goods was transferred by Rakhi to her branch in Hyderabad. Compute the input-tax credit and it's set-off.

Illustration 6.

Raveena of Nagpur purchased goods from Akshay of Nagpur for ₹ 11, 25,000 which includes VAT @ 12.5%. Raveena sold the goods to the following parties:

(a) 90% of the goods were sold to Twinkle of Nagpur by charging profit @20% on cost.

(b) 2% of the goods were sold to Shilpa of Mathura by charging profit @25% on cost. CST was charged @ 2%/

(c) 2.5% of the goods were sold to Urvashi of Germany by charging profit @10% on cost. No tax was charged.

(d) Balance 5.5% of the goods was transferred to the branch at Ludhiana (Punjab).

Compute the input tax credit and the set-off allowed and the VAT & CST payable.

PURCHASE NOT ALLOWED FOR INPUT TAX CREDIT	• Purchase from **Unregistered Dealer**. • Purchase from registered dealer who opt for **Composition Scheme** under the provision of the Act. • Purchase of goods as may be notified by the State Government. • Where **Purchase Invoice** is **not** available. • Invoice which do **not show tax** separately (inclusive invoice). • Purchase of goods, which are **utilized** in the **manufacture of exempt goods**. • Goods purchased for **personal use**. • Goods imported from outside the territory of India. • **Inter - state purchase**. • Goods purchased are **given away as sample**. • Goods purchased are **destroyed** by **fire or are stolen or lost**. • Goods received on **consignment sales or stock transfer** from other state. • Goods **purchased & returned** within the same state within specified period. • Purchase of **automobile and its spare parts & accessories** by a person other than a dealer.
INPUT TAX CREDIT	• Tax credit on Capital Goods may be adjusted over a **Maximum** of **36 equal**

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ON CAPITAL GOODS	**monthly installments (State at it's own opinion may reduce the installment)** • There is a negative list of capital goods which are not eligible for input tax credit.
CENVAT CREDIT OF EXCISE & SERVICE TAX	• Excise Duty & Service tax are levied by the Central Government. • VAT is levied by the State Government. • Hence Manufacturer/ Assessee is allowed Cenvat Credit of Excise & Service Tax on input goods/ input service while making the payment of Central Excise Duty and Service Tax under the Central Law.

Illustration 7.

Determine how much credit shall be available to the dealer Salman in Mumbai in respect of the following purchases:

(a) Goods purchased from Chennai ₹ 2,04,000/- which includes Central Sales Tax (CST) @ 2%.

(b) Good purchased from dealer in Mumbai Sangeeta ₹ 3, 00,000/-. VAT charged 12.5% i.e. ₹ 37,000. Total value of purchase invoice ₹ 3, 37,500/-.

(c) Goods purchased from unregistered dealer ₹ 24,000/-.

(d) Goods purchased from a dealer Aishwaria under composition scheme ₹ 60,000. Aishwaria paid 1% as tax under composition scheme.

(e) Purchased from dealer Pooja in Mumbai for ₹ 1, 50,000/-. VAT charged @ 4% ₹ 6,000/- . Total value of purchase ₹ 1, 56,000/-.

(f) Purchases from Zareen in Mumbai ₹ 42,000/-. VAT is not separately charged in the invoice.

(g) Purchase of CapitalGoods ₹ 7,20,000/-. ₹ 6, 30,000/- is price of capital good & ₹ 90,000 VAT amount separately charged/ input credit is allowed 36 months.

(h) Goods purchased ₹ 62,000/- which includes 4% VAT which is separately shown. Such goods have been utilized in the manufacture of exempted goods.

(i) Value of goods imported from Germany ₹ 6, 00,000/-

COVERAGE OF GOODS UNDER VAT	• All the goods including declared goods are covered under VAT and will get benefit of Input tax credit. • Few goods which are outside the preview of VAT are **liquor, lottery tickets, petrol, diesel, aviation turbine fuel and other motor spirit** since they are not fully market determined. • These goods will be tax under **any other State Act** or even by making **special provisions in VAT Act** itself & at uniform floor rates decided by the Empowered Committee.
VAT RETURN AND CLASSIFICATION OF COMMODITIES	• Under the VAT system covering more than 550 goods, there are **two basic rate 4/5% and 12.5%**. • A specified category of tax – exempted goods and • Special VAT rate of **1%** only for **gold & silver ornaments**.

NON – AVAILIBILITY OF INPUT TAX CREDIT IN CERTAIN CASE	• **Final Product is Exempt**:- Credit of tax paid on input is available only if the **final product is taxable.**
	• **No credit if input lost/damaged/ stolen before use**
	• **No credit on certain purchase:-**
	  o Purchase of automobile.
	  o Fuel. However, some State are allowing input credit for the same.

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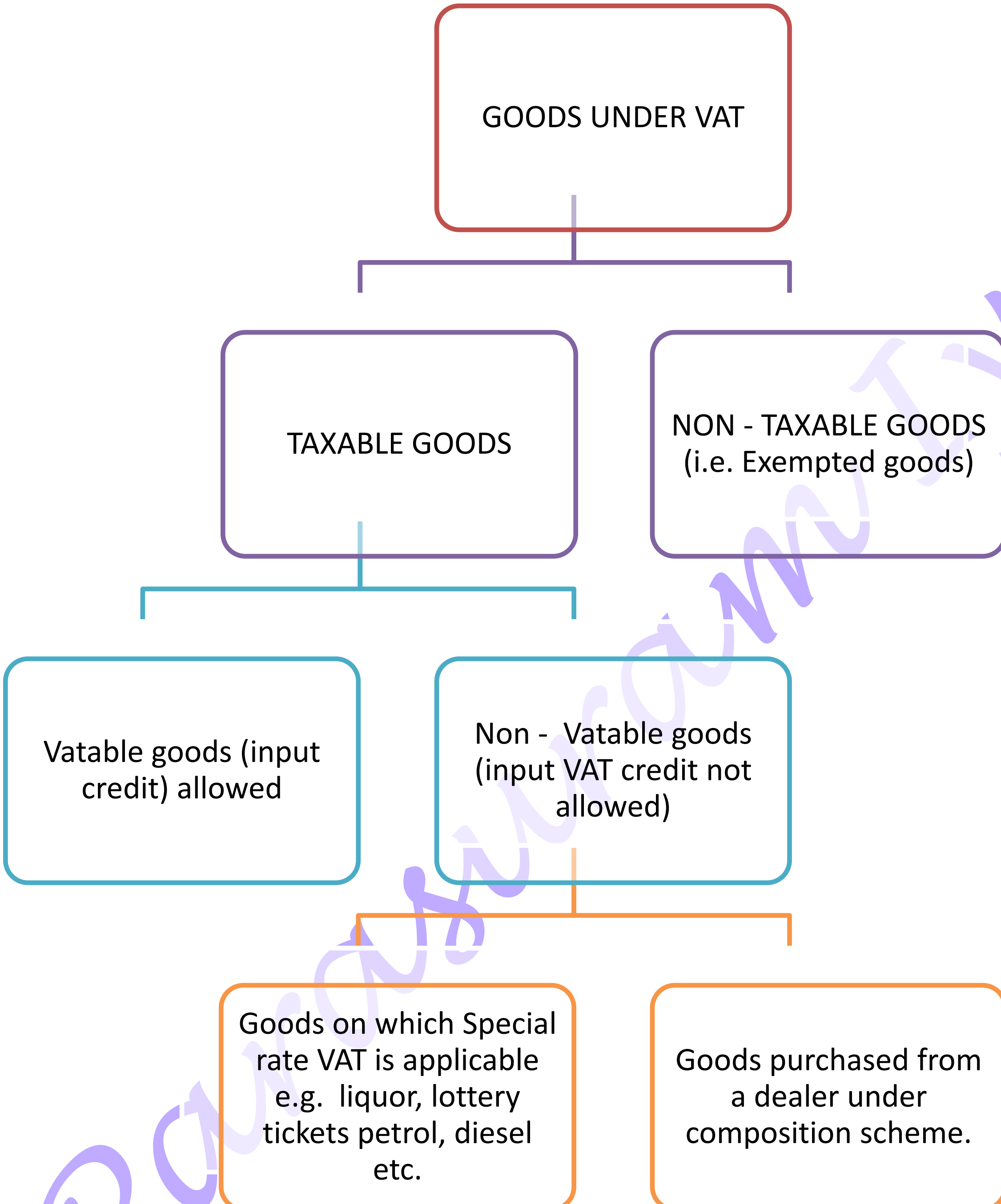

EXEMPTED GOODS	Under exempted goods category, the empowered committee has listed about 50 commodities comprising of: • Natural products • Unprocessed products • Items which are legally barred from taxation and • Items which have social implication Further **10 commodities** out of commodities **listed** in the exempted category will be **flexibly chosen by individual State** which are of local importance for the individual State example: • Books, periodicals and journals including maps, charts and globes • Blood including blood components • Fresh vegitable and fruits • Earthern Pot • Electricity energy • Course grains other than paddy, rice and wheat • Fresh plants, saplings and fresh flowers • Kum Kum, Bindi, Sindur etc. • All bangles except those made of previous metels • Curd, Lassi, Butter milk and separated milk • Betel leaves • Animal driven or manually operated agricultural implements their spare parts, components and accessories.

PRINICPLE OF
VAT

Origin Principle

VAT added domestically on all goods wether they are ment for exports or to be consumed in India is subject to Tax. Hence if the Value Added abroad tax cannot be levied in India.

Destination Principle

Under this principle VAT irrespective of the place of origin Rather it is taxable if the goods are consumed within the country.
It means that Export are exempt while Imports are taxable.
In India this is preferred.

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VARIANTS OF VAT

GROSS PRODUCT VARIANT

- VAT is levied on **all Sales.**
- Input Credit on purchase of all raw material & components are allowed.
- Input Credit on Capital Goods **Not** Allowed.

INCOME VARIANT

- VAT is levied on **all Sales.**
- Input Credit on purchase of all raw material & components are allowed.
- Input Credit on Capital Goods is Allowed to the **extent** of **Depreciation**.
- It is apportioned using the ratio of depreciation over its useful life.

CONSUMPTION VARIANT

- VAT is levied on **all Sales.**
- Input Credit on purchase of all raw material & components are allowed.
- Input Credit on Capital Goods is **Allowed** at once.
- It does **not distinguish** between **Capital & Current expenditure.**
- VATon capital goods **do not** form **cost of Asset** .
- However Input Credit is allowed **over 24/36 months** in Instalments depending on state.

Consumption Variant of VAT	It is the most popular of the three because: • This variant is tax neutral as it do not affect decision regarding investment because the tax on capital goods is also set-off against the VAT liability. • The consumption variant is convenient from the point of administrative expenditure as it simplifies tax administration. • It does not cause any cascading effect.

Illustration 8.

Raj submits you with the following information. Compute (i) the Selling Price of Product, (ii) Cost to Consumer, (iii) VAT Payable to Government under: (a) Gross product Variant (b) income variant (c) consumption variant.

	₹
Purchase of Raw – Material & Component	4,00,000/-
5% VAT on the above Purchase	20,000/-
Purchase of Capital Goods (machinery life 10year)	12,00,000/-
12.5% VAT on the above machinery	1,50,000/-
Direct & Indirect Expense	3,00,000/-
Profit	20% on total cost
VAT Payable on sales	12.5%

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METHOD OF COMPUTING VAT

ADDITION METHOD

- In this mehod VAT is **levied** only **on** the **Value Addtion** made by the manufacturer or dealer.
- Value Addition is also Known as **Factor Payment**
- Factor Payment includes:
  - Wages & salary
  - power & electricity
  - rent, depreciation on capital asset
  - manufacturing/ trading expenses
  - interest on capital
  - & profit margin
- VAT payable = Factor Payment **X** VAT Rate

INVOICE METHOD/ TAX CREDIT METHOD

- Tax is Calculated on the total Selling Price of goods.
- On such tax calculated **input tax credit** is **allowed**.
- VAT Payable= **VAT** on **Sales of goods -** VAT **paid** at the time of **purchase** by such dealer.
- This is the most common & well adopted method
- It is most useful when ther is a **difference between selling VAT rate & Purchasing VAT rate**

SUBSTRACTION METHOD

- Under this method the **purchase price is deducted from sale price & VAT rate is chaged** in the Value Addition.
- This is the most **unpopular & complicated** method.
- There are two ways of using substraction method:
  - Direct Substraction method:
    VAT Payable= (Sales price excluding VAT - Purchase price excluding VAT) X VAT Rate
  - Intermediate Substraction method:
    VAT Payable= (Sales price including VAT - Purchase price including VAT) X VAT Rate/100+VAT Rate

Illustration 9. Rajnee purchases raw material for ₹ 1,00,000/- (excluding VAT of ₹ 4,000) and incurred the following manufacturing and trading expense.

	₹
Direct & indirect manufacturing expenses excluding depreciation	80,000/-
Depreciation on assets used in manufacturing activities	10,000/-
Trading Expenses	15 ,000/-

Depreciation on asset used for purpose other than manufacture	4,000/-
Profit	20,000/-VAT
payable	4% on Sales

Compute the tax payable by following the addition method.

Illustration 10.

Ganpat Rao a 'manufacturer' sells the manufactured goods in Nagpur to 'Rajesh' a distributor for ₹ 1,00,000/- .Ganpat Rao was not entitled to VAT credit on the purchases of raw material the raw material was not liable for VAT. Rajesh the distributor sells the same goods to whole sale dealer Rakesh for ₹ 1,20,000/- (which includes fright and other expenses ₹ 15,000/- and his profit ₹ 5000.rakesh sells the same goods to dealer Ramesh for ₹ 1,30,000/- and sold the same good s to consumer Varun for ₹ 1,50,000/-.

Compute VAT payable at each stage assuming rate of VAT at each stage is 12.5%.

Illustration 11.

Manufacturer Amit of Nagpur sold product 'X' to Bhukesh of Gorakhpur @ ₹ 1,000/- per unit. He has charged CST @ 2% on the said product and paid 80 as fright.

Bhukesh of Gorakhpur sold goods to Chitresh of Gorakhpur @ ₹ 1,250/- per unit and charged VAT @ 12.5%.

Chitresh of Gorakhpur sold goods to Dharmesh, a consumer @ ₹ 1,500/- per unit and charged VAT @ 12.5%.

Illustration 12.

Sailesh a manufacturer sells goods to a trader for ₹ 2,200/- which include tax charged @ 10%. The trader sells the same goods to a consumer for ₹ 3,080/- which also includes tax charged @ 10%. Compute VAT using Direct Subtraction method and Intermediate subtraction method.

<table>
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<td>ADVANTAGES OF VAT</td>
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Easy to administer and transparent:-
It is easy to administer.
It also reduced cost of compliance.
Less Litigation:-
No litigation with respect to allowability of item, as VAT no items will be specified in registration of the dealer.
Tax credit on Purchase of Capital Goods:-
VAT on capital good is allowed to be set-off and will reduce the tax burden of the assessee.
Abolition of Statutory Forms:-

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	o No forms under VAT. o Hence all the problem related to forms are resolved. o He did not have to visit department for issuance of any form. o Hence cost is saved at both end i.e. customer as well as department. • **Self-Assessment:-** o Dealer is not required to appear in front of any authority. o He can himself assessee the tax and pay. o This reduces cost of compliances. o The department has faith in the assessee. • **Deterrent against Tax avoidance:-** o In the earlier system tax was either charged at first or at last stage where it was easy to evade tax. o Whereas under the VAT evasion of tax is low as it is charged at every stage & the person liable to pay tax can claim Input tax credit & for that he has to maintain the invoices. o If he forward goods without charging tax the other person cannot claim the credit. • **No Cascading Effect:-** o It do not have any cascading effect as there is no tax on tax. • **Effective Audit & Enforcement Strategies:-** o The input tax credit method by generating a trail of invoices is argued to be system that encourages better compliance since the purchaser seeks an invoice to get input tax credit. o This trail of invoice support effective audit and enforcement strategies. • **Minimum Exemptions:-** o The system will be more effective because of minimum exemption. • **Removal of Anomaly of First Point Taxation:-** o VAT eliminates the limitation of the single point taxation. o As the tax is charged every point is difficult to evade tax. o And the burden to collect and pay tax is also divided at various stages. • **Competitiveness of Exports:-** o Export can be3 freed from domestic trade taxes in real sense. • **Instrument to Tax consignment of goods:-** o It is also useful in taxing consignment / stock transfer as the transferring state retains 2% of Input tax credit.
DISADVANTAGES/ LIMITATION OF VAT	• **Detailed records:-** o It requires maintenance of detail record. o This increases cost of compliance. o It is though said to be the simple method but it is more complex than single point tax system. • **Causes inflation:-** o It's impact depends on various factors such as inventory holding period, demand & supply position of that particular, product, number of intermediaries, etc. o Investment in stock is bound to increase as tax will be paid at the time of purchase, hence one will have to carry tax paid stock. • **Refund of Tax:-** o Credit of tax paid on input/ capital goods is available to be utilized against

	tax liability which is calculated on final product. o VAT Credit can not be availed if no tax is payable on the final product. o Hence if the final product is exempt then this credit will laps. o If the product is taxable at lower rate the processing of refund also takes time. • **Increase in Investment:-** o Dealer has to pay tax at the time of purchase of the commodity. o Therefore investment in stock goes up. • **No credit for Tax paid on Inter-State Purchases:-** o The biggest problem of introduction of VAT is non-availability of credit for tax paid on inter - state purchases. o It also result in cascading effect. • **Composition Scheme:-** o Introduction of composition scheme will obstruct the flow of audit trail and this scheme can be misutilised by unscrupulous dealer. • **Audit under VAT:-** o Audit under VAT is important for effective & better implementation of VAT System. o However, it is better to go for external audit instead of internal audit by the department. o Audit may in certain cases **cause undue hardship & increase the cost of compliance**.
WHY EXTERNAL AUDIT COMPULSORY UNDER VAT	• **Lack of Education among Traders Community:-** o Since trading community is not educated enough therefore they face problem in understanding the requirement of tax laws. o Due to lack of knowledge and unawareness, the traders are not equipped to understand the implications of VAT system of Taxation. o Keeping all this things in knowledge the State Government arranges its affair to fall in line with requirement of State level VAT, calculate & discharge there exact tax liability under the VAT Law should incorporate External Audit provision in VAT Acts. • **Lack of Resources with Taxation Authorities:-** o The authorities do not have proper resources to educate tax payer and inform them about the procedural requirement and accounting changes that all the required under VAT system. o Due to this the authority is not in position to ensure the compliance being full field by the tax payer. o Hence there is a requirement of the external audit. • **Self-Assessment under VAT:-** o The assessee have been allowed self assessment under this Act. o Hence the dealers may try to evade the tax. o Hence to keep check on the dealers the external audit is must under any VAT Law.
ROLE OF CHARTERED ACCOUNTANT	• **Record Keeping:-** o VAT requires proper maintenance of record and accounting. o Systematic records of input credit and its proper utilization is necessary for

UNDER VAT	the dealer to take input tax credit. • **Tax Planning:-** o CA are competent to analyze various alternatives and its impact on dealer so as to minimize the impact of tax. • **Negotiation with suppliers to reduce price:-** o VAT credit alters cost structure of goods supplied as inputs. A C.A. will ensure that the benefit of such cost reduction is passed on by the supplier to the company. • **Helping to Departmental officers:-** o There will be audit wing in department and certain percentage of dealers will be taken up for audit every year on scientific basis. o C.A. can ensure proper record keeping so as to satisfy the departmental auditor. • **External audit of VAT records:-** o Under VAT system, self assessment has been brought into force. o CA can play a very vital role in ensuring tax compliance by the VAT accounts.

PROCEDURAL REQUIREMENT OF VAT	
COMPULSORY ISSUE OF TAX INVOICE & RETAIL INVOICE.	• The system of VAT is based on **Issue of Invoice**. • Dealer crossing the specified turnover of sale shall issue a **serially numbered tax invoice**. • **Date & signature** of the **dealer or authorized officer** is mandatory on such invoice.

PARTICULARS OF TAX INVOICE	• The word '**tax invoice**' should be printed.
	• **Name, Address, registration number & TIN No.** of selling registered dealer.
	• Invoice should be **Serial Number.**
	• **Date** should be mentioned.
	• **Description, quantity, volume and Value of goods sold & service provided** and the **amount of tax charged** thereon indicted separately.
	• The **signature** of **selling dealer or employee or manager**.
	• **Retail Invoice**:
	  o Sale is to consumer or inter – state trade or commerce or for export to other country.
	  o No input credit is available to purchase on the basis of retail invoice.
	  o All the particulars are same but **retail Invoice should be mentioned in prominent place.**

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REGISTRATION UNDER VAT REGIME

Compulsory Registration

BASED ON TURNOVER

Compulsory, if the Turnover of dealer xceeds the limit of ₹ 5,00,000/- /10,00,000/- Registration has to e applied within 30 days of crossing the threshold limit ₹ 5,00,000/- /10,00,000/-

BASED ON TRANSACTION

Registration is compulsory irrespective of the turnover:

- Dealer purchasing goods from other states.
- Dealer is selling goods to other states.
- Dealer is exporting and importing goods from a country outside India.
- Dealer is liable to pay tax at special rate i.e. 20% on goods like liquor, lottery ticket, petrol, diesel etc.

Voluntary Registration

Transaction is less than ₹ 5,00,000/- /10,00,000/- as the case may be

Advantage of Voluntary Registration:

- The buyer from such dealer will get input tax credit.
- He can take input credit on the purchases made by him.

CANCELLATION OF REGISTRATION	Registration can be cancelled by the VAT authorities in the following cases: • The dealer has discontinued the business. • The dealer has become insolvent. • There is a charges in the constitution of the business • The dealer has sold the entire business.
COMPOSTION SCHEME	• VAT act is made so that the large dealer should not escape the tax net where as small dealer should also not be under burden of compliance. • **So for them composition scheme are framed & features of such scheme are as under:** o Dealer should be registered under VAT Act. o A dealer should be a small dealer (i.e. his turnover should not exceed ₹ 25 lacs & ₹ 50 lacs in case of Delhi). o He has to pay tax at lower rate on gross turnover. o Dealer will not be allowed any input tax credit on any purchase. o Simple return form to cover longer period return. o The purchaser will not be allowed any input tax credit. o Dealer is not required to maintain hefty records. o Such scheme is optional. • **Who cannot opt**: o A manufacturer or any other dealer who makes inter - state purchase. o A manufacturer or any dealer who makes inter - state sales. o A manufacturer or any dealer who exports or imports goods from other countries. o A dealer who want to issue VATable Invoice. o A dealer who wants to transfer goods outside the State otherwise than by way of sales. • ***Advantages of Scheme***: o No requirement of maintaining detailed record. o Simple form of return and it is longer periodicity. o Tax rate is much lower. But it cannot be collected separately from purchaser but included in the sale value of goods. o Simple tax calculation as no Input Tax credit. • **Disadvantages of Scheme**: o No input tax credit can be availed by the dealer under composition scheme on its purchase. o No input tax credit will be available to the dealer who has purchased goods from the dealer who is under composition scheme. o VAT chain breaks on opting of composition scheme as the person under composition scheme cannot issue tax invoice which is main requirement of availing input tax credit and continuing of VAT Chain.

TAX PAYERS IDENTIFICATION NUMBER (TIN)	• There shall be 11 digits numerical which will be unique for each dealer. • First two characters represent state code used by Ministry of Home Affairs. • Coding of rest nine characters varies from state to state. • It is used in computer application, cross checking of information relating to sale or purchase of a dealer across the State.
Records to be maintained under VAT System	• **Purchase Records:** o The dealer shall have to maintain complete records of purchase made to take Input tax credit. o Copy of each Debit/Credit notes issued in chronological order. o He shall also maintain records of purchase made without payment of tax, purchase from composition dealer and purchase made from outside the state. • **Sales Records**: o All sales invoice in serial number. o Separate record of tax invoice retail invoices. o Copies of all credit and debit notes issued in chronological order. o Sales record showing separately sales, made at different tax rates. o Details of the amount of tax charged on each sale. • **Complete details of VAT Account**: o Records of Input Tax. o Records of Output Tax. o The net tax payable in each period or o The excess carried forward. • **Other Records to be maintained**: o Record of orders received and delivered challans, wherever applicable. o Bank records. o Cash book, day book and ledger. o Annual accounts including Trading, Profit and loss account and Balance Sheet. o Tax audit report.
Return of VAT	• A registered dealer shall be required to file a return alongwith the requisite details such as output tax liability, value of input tax credit, payment of VAT. • Simplified return are filed either monthly, quarterly or half-yearly. • Every return shall be scrutinized within a stipulated period.
Self Assessment by the dealer	• The basic simplification in VAT is that the VAT liability will be self-assessed by the dealer themselves in terms of submission of returns upon setting off the tax credit. • Return & there filing procedure are simple. • There will no longer be compulsory assessment at the end of each year as is exist now. • If no notice issued within specified time it will be assumed that the dealer had been assessed.
Audit under VAT in various state	• No compulsory assessment every year. But self assessment shall be checked through system of departmental audit.

	• Certain percentage of dealer shall be takenup every year for audit. • This audit wing will remain delinked from tax collection wing to remove any biasness. • Audit wing will conduct audit within stipulated time i.e. within 6 months. • The report shall be transparently sent to dealer also. • Cross checking can be done with other department such as Central Excise, Income Tax etc. • This comprehensive checkup will reduce tax evasion and also lead to significant growth of tax revenue.
No declaration form required	• No requirement of any declaration form to be obtained/ issued as invoice will be raised for each sale & VAT shall be levied.
Most of the Commodities are covered under VAT	• There is compulsory coverage of all goods under VAT as only few commodities has been exempted from VAT.

Illustration 13.

Sengupta is a trader in Nagpur who purchased goods 'X' from Dipankar of Kolkata for ₹ 6,00,000/- and paid CST 2% on such purchases. He sold the entire goods purchased from Dipankar to Atish of Nagpur for ₹ 7,50,000/- and charged VAT @ 12.5%.
Furthur, Sengupta purchased goods 'Y' in Nagpur for ₹ 8,00,000/- and paid VAT @ 12.5% .The whole of goods 'Y' was sold for ₹ 10,00,000/- to a registered dealer in Punjab and Sengupta charged central sales tax @2%.
Compute the VAT payable by Sengupta.

Illustration 14.

Rajat submit you the following information.

Purchase of Raw-Material from Sujeet inclusive of VAT 4%	₹ 6,24,000/-
Manufacture and other expenditure	₹ 3,00,000/-
Profit	25% on cost.

The entire manufactured goods are sold to Sheetal a dealer by charging Central Excise @ 10% plus education cess & SHEC 3%. The rate of VAT for the manufactured goods is 12.5%. Dealers sells the goods to Raginee by charging 20% profit on cost.
Compute the VAT excise duty & VAT payable by Rajat. How much input tax credit shall be allowed to Sheetal and what shall be the VAT Payable Sheetal.

Illustration 15.

Chitrangada is a manufacturer at Mumbai and has Purchased raw-material Q from Abhay a manufacturer at Mumbai for ₹ 9,00,000/- who charged excise duty @10.30% and VAT @ 5%.

She also purchased another raw-material R from Akshay of Kolkata for ₹ 6,00,000/- who charged excise duty @ 10.30% and CST @ 2%.

The manufacturing and other expenditure incurred by Chitrangada were ₹ 6,00,000/- and profit included ₹ 1,80,000/-.

The final product was sold to Arjun a trader in Mumbai. Excise duty charged was 10.30% and VAT charged @ 12.50%.

Arjun after incurring expenditure amount to ₹ 50,000/- and adding profit @ 25% on cost sold the goods Deepika.

Compute the excise duty payable by R & VAT Payable by Chitrangada & Arjun.

Illustration 16.

Minisha a dealer at Nagpur purchased goods from Shreyas of Nagpur for ₹ 13,50,000/- including VAT @ 12.50% on the cost and sold the same goods to a retailer Tushar.

Compute the amount of VAT payable by Minisha.

Illustration 17.

Shasharukh a manufacturer of Nagpur purchased raw – material "M" from Madhya Pradesh for ₹ 6,00,000/- and paid CST @ 2%. He incurred purchased raw-material "N" from Nagpur for ₹ 8,00,000/- and paid VAT @ 4%.

He incurred ₹ 2,00,000/- as manufacturing and other expenses and earned a profit of ₹ 1,00,000/-.

60 % of goods were sold in Nagpur and VAT charged @ 12.5% and remaining 40% of goods were sold to Dealer in MP and CST was charged @ 2%.

Compute the VAT & CST Payable.

Illustration 18.

From the following information of Mr. Ajay, a registered dealer at Nagpur, compute the tax liability for the year ending 31.03.2013.

Purchase of Raw Material with in Nagpur inclusive of VAT	₹ 8,32,000/-
Inter State purchase of Raw Material inclusive of CST 2%	₹ 3,12,000/-
Import of Raw Material from France inclusive of Custom Duty of ₹ 50,000/-	₹ 5,50,000/-
Capital goods purchased on 01.04.2013 inclusive VAT 12.5% (ITC installment 36 months)	₹ 2,25,000/-

Manufacturing and other Expenses	₹ 1,60,000/-
Sale of taxable goods within State inclusive of VAT levy @ 4%	₹ 16,64,000/-
Sale of taxable goods outside the State inclusive of CST @ 2%	₹ 6,12,000/-

20% of the raw-material from Nagpur was still in stock as on 31.03.2013.

Illustration 19.

Compute the invoice value to be charged and amount of tax payable under VAT by a dealer VAT by a dealer who had purchased goods for ₹ 1,20,000/- and after adding for expenses of ₹ 10,000/- and profit ₹ 15,000/- had sold out the same.
The rate of VAT on purchase and sales is 12.5%.

Illustration 20.

Manufacturer Rajesh sold product "X" to Ramesh of Nagpur @ ₹ 20,000/- per unit. He has charged CST @ 2% on the said product and paid ₹ 1,600/- as freight.
Ramesh of Nagpur sold goods to Suresh of Nagpur @ ₹ 12,500/- per unit and charged VAT @ 12.5%.
Suresh of Nagpur sold the product to Rupesh, a consumer @ ₹ 30,000/- per unit and charged @ 12.50%.

Illustration 21.

Determine how much input credit shall be available to the dealer Rajeev in Nagpur in respect of the following purchases:

(a) Goods purchased from Kolkata ₹ 3, 06,000/- which includes Central Sales Tax(CST) @ 2%
(b) Goods purchased from a dealer in Nagpur 'Anushka' ₹ 3, 60,000/-. VAT charged 12.5% i.e. ₹ 45,000. Total value of purchase invoice ₹ 4, 05,000/-
(c) Goods purchased from unregistered dealer ₹ 40,000/-
(d) Purchases from a dealer Mona under composition scheme ₹ 80,000/-. Y has paid 1% as tax under composition scheme.
(e) Purchase from dealer Palak in Nagpur for ₹ 2, 80,000/-. VAT charged @5% ₹ 14,000/-. Total value of purchase ₹ 2, 94,000/-.
(f) Purchases from dealer Pooja in Nagpur ₹ 75,000/-. VAT is not separately charged in the invoice.
(g) Purchase of capital goods ₹ 10, 12,500/-. ₹ 9, 00,000/- is price of capital goods and ₹ 1, 12,500/- is VAT amount separately charged.
(h) Goods purchased ₹ 1, 05,000/- which includes 5% VAT which is separately shown. Such goods have been utilized in the manufacture of exempted goods.
(i) Value of goods imported from Germany ₹ 9, 00,000/-.

Illustration 22.

Compute the VAT amount payable by Rahul, who purchased goods from a manufacturer on payment of ₹ 6, 30,000/-(including VAT) and earned 20% profit on sale price. VAT rate both on purchases and sales is 4%.

Illustration 23.

Amitabh, a manufacturer, sells goods to Rekha, a distributor for ₹ 2, 40,000/- (exclusive of VAT). Rekha sells goods to Jaya, a wholesale dealer for ₹ 3, 00,000/-. The wholesale dealer sells the goods to a retailer for ₹ 4, 00,000/-, who ultimately sells to the consumers for ₹ 5, 00,000/-

Compute the tax liability, input credit availed and tax payable by the manufacturer, distributor, wholesale dealer and retailer under invoice method assuming VAT rate @12.5%.

Illustration 24.

Rimi, a dealer in Nagpur dealing in consumer goods, submits the following information pertaining to the month of March, 2012:

(a) Exempt goods M purchased for ₹ 3, 00,000/- and sold for ₹ 3, 60,000
(b) Goods N purchased for ₹ 5, 62,500/- (including VAT) and sold at a margin of 15% profit on purchases (VAT rate 12.5%)
(c) Goods O purchased for ₹ 2,00,000/- (excluding VAT) and sold for ₹ 2, 80,000/- (VAT rate 4%)
(d) His unutilized balance in VAT input credit on 1.3.2011 was ₹ 3,400/-

Compute the turnover, Input VAT, Output VAT, and Net VAT payable by Rimi.

Illustration 25.

Compute the VAT liability of Karishma for the month of December, 2012 using the invoice method of computation of VAT:

	₹
Purchases of goods from the same city	4, 57,600/-
Cost of transportation of the above goods	37,500/-
Storage Cost	11,400/-
Goods sold at a margin of 10% of cost of such goods	

Illustration 26.

Shahid a trader in Nagpur selling raw material to manufacturers of finished products. He imports his stock in trade both from foreign country as well as from other states of India. Following transactions to place during the financial year 2012-13:

a.	Cost of raw-material imported from Germany	12,00,000/-
b.	Cost of imported raw-material(from other States of India)	20,40,000/-
c.	Cost of goods purchased from Nagpur (including VAT of 12.5%)	22, 50,000/-
d.	Other expenditure which includes storage, transport, interest, loading and unloading	2, 00,000/-
e.	Net profit earned by him	25% on Sales price
f.	60% of goods sold to Kareena in Nagpur	
g.	30% of goods sold to Saif Ali Khan of Bombay	
h.	10% of goods were sold to U of USA	

Compute the VAT, CST payable and invoice value charged by him to the various manufacturers. Assume the rate of VAT @12.5% and CST rate 2%.