

VAT Procedures

Question 1

State the importance of VAT invoice/tax invoice in administering VAT.

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.

A VAT invoice:

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

Question 2

Answer the following questions:

- (a) *Under what circumstances registration can be cancelled under VAT?*
- (b) *State with reasons in brief whether the following statement is true or false with reference to the provisions of value added tax.*

The VAT rate on sale of lottery ticket is 4%.

Answer

- (a) VAT registration can be cancelled on:
 - (i) discontinuance of business; or
 - (ii) disposal of business; or
 - (iii) transfer of business to new location; or
 - (iv) annual turnover falling below the specified limit.
- (b) False. Since VAT is not applicable on sale of lottery tickets, the question of rate does not arise.

Question 3

Discuss filing of return under VAT.

Answer

VAT returns are to be filed monthly/quarterly/annually along with tax paid challans according to the provisions of the State Acts. They should contain details of output tax liability, value of input tax credit and payment of VAT and should be filed within the prescribed time schedule. In case of any mistakes, revised returns may be filed. The returns will be checked and any deficiency in payment of tax may have to be made good.

Filing of returns is designed with a view:

- (i) to reduce cost of compliance
- (ii) to encourage businesses to comply with their obligations; and
- (iii) to ensure efficient processing of data.

Question 4

Briefly explain the benefits of the system of cross-checking under VAT as per White Paper.

Answer

- (i) A comprehensive cross-checking system is a pre-requisite for an efficient VAT system as VAT system requires the assessee to self-assess the VAT liability and only a few returns are scrutinized on a selective basis. The system of cross checking reduces tax evasion and ultimately leads to significant growth of tax revenue.
- (ii) The system of cross checking under VAT system protects the honest dealers and penalizes the fictitious or dishonest ones. Hence, it creates a level playing field and brings more equal competition in the sphere of trade and industry

Question 5

What records should be maintained under VAT system by a registered dealer?

Answer

The following records should be maintained under VAT system:

- (i) Purchase records
- (ii) Sales records
- (iii) VAT account
- (iv) Separate records of any exempt sale

Further, the following records should also be kept and produced to an officer:

- (i) Copies of invoices

- (ii) Copies of credit and debit notes issued
- (iii) All purchase invoices, copies of customs entries, receipts for payment of customs duty or tax and credit and debit notes received
- (iv) Details of amount of tax charged on each sale or purchase
- (v) Total of the output tax and the input tax in each period and a net total of the tax payable or the excess carried forward, at the end of each month
- (vi) Details of goods manufactured and delivered from the factory
- (vii) Details of each supply of goods from the business premises, if the same are not available in invoices issued.

Question 6

State with reasons in brief whether the following statements are correct or incorrect with reference to the provision of value added tax.

- (i) *It is permitted to issue 'tax invoice' inclusive of VAT i.e. aggregate of sales price & VAT.*
- (ii) *A registered dealer is compulsorily required to get its books of accounts audited under VAT laws of different States irrespective of limit of turnover.*

Answer**(i) Incorrect**

Reason: One of the requirements under the contents of the tax invoice is that rate and amount of tax charged in respect of taxable goods should be distinctly shown in the 'tax invoice', in order to claim input credit.

(ii) Incorrect

Reason: Different States have determined different turnover limits above which a registered dealer will have to get its books of accounts audited under VAT laws.

Question 7

Briefly list out the contents of VAT invoice.

Answer

VAT legislations of all the States provide for the tax invoice. Generally, the various legislations provide that the tax invoice should have the following contents:

- (i) the words tax invoice in a prominent place;
- (ii) name and address of the selling dealer;
- (iii) registration number of the selling dealer;
- (iv) name and address of the purchasing dealer;

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- (v) registration number of the purchasing dealer (may not be required under all VAT legislations);
- (vi) pre-printed or self-generated serial numbers;
- (vii) date of issue;
- (viii) description, quantity and value of goods sold;
- (ix) rate and amount of tax charged in respect of taxable goods;
- (x) signature of the selling dealer or his regular employee duly authorized by him for such purposes.

Question 8

State with reasons whether the following are true or false in the context of VAT as per White Paper:

- (i) *No declaration form is prescribed under VAT system.*
- (ii) *Taxpayer's Identification Number (TIN) is a 10 digit alpha numeral.*
- (iii) *Self assessment concept on deemed basis is one of the important features of VAT.*

Answer

- (i) The statement is **true**. In view of the fact that lot of time and energy is wasted by the dealer in getting the declaration forms from the Department, most of earlier forms have been dispensed with. There is no declaration form prescribed under VAT.
- (ii) The statement is **false**. Taxpayer's Identification Number (TIN) is a 11 digit numeral. The first two characters represent State Code as used by the Union Ministry of Home Affairs and the next nine characters will be different in different states.
- (iii) The statement is **true**. Under VAT, a dealer assesses the VAT liability on his own and submits the return. The dealer is deemed to be self-assessed on the basis of the return filed by him if he does not receive any notice proposing departmental audit of his books of account within the time-limit specified in the VAT Act of the respective State.

Question 9

Briefly explain the system of cross checking under VAT Act.

Answer

A comprehensive cross-checking system is a pre-requisite for an efficient VAT system as VAT system requires the assessee to self-assess the VAT liability and only a few returns are scrutinized on a selective basis.

A threshold limit for purchases/sales may be specified exceeding which the dealers may be asked to submit the list of purchases/sales or the dealer-wise list from whom or to whom the goods have been purchased/sold.

A cross-checking computerized system is being worked which would facilitate the comparison between the tax returns and set-off documents of VAT system of the States and those of Central Excise and Income-tax.

Cross checking reduces tax evasion which leads to significant growth of tax revenue. It protects the honest dealers and penalizes the fictitious or dishonest ones and creates a level playing field.

Question 10

What are the different rates under VAT system?

Answer

Broadly, VAT system has following tax rates:

- (a) Zero rate for tax free goods comprising of natural and unprocessed products in unorganized sector, items which are legally barred from taxation and items which have social implications.
- (b) 1% on precious or semi-precious stones, bullion, gold and silver ornaments etc.
- (c) 4% on items of basic necessities, medicines and drugs, agricultural and industrial inputs, capital goods and declared goods.
- (d) 12.5% on other goods.
- (e) 20% on non VAT goods like petrol, diesel, ATF, other motor spirit, liquor and lottery tickets.

Question 11

"Invoices are crucial documents for administering VAT." Discuss.

Answer

Invoices are crucial documents for administering VAT as in the absence of invoices, VAT paid by the dealer earlier cannot be claimed as set off. Invoices should be preserved with full care. In case any original invoice is lost or misplaced, a duplicate authenticated copy must be obtained from the issuing dealer.

A VAT invoice:

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

EXERCISES

1. *Who should obtain registration under VAT laws?*
 - (a) *Any person who desires to provide taxable services.*
 - (b) *Any dealer, who intends to carry on the business of purchase and sale of goods in the State and is liable to pay tax.*
 - (c) *Any dealer, who intends to carry on the business of purchase and sale of goods in the State.*
 - (d) *None of the above*
2. *The registration can be cancelled on:*
 - (a) *discontinuance of business*
 - (b) *disposal of business*
 - (c) *transfer of business to a new location*
 - (d) *All of the above*
3. *The taxpayer's identification number will consist of _____ digit numerals throughout the country.*
 - (a) 10
 - (b) 12
 - (c) 11
 - (d) 9
4. *The tax invoice shall be dated and signed:*
 - (a) *only by the dealer*
 - (b) *only by his regular employee*
 - (c) *by the dealer or his regular employee*
 - (d) *None of the above*
5. *Under VAT system:*
 - (a) *there will be compulsory assessment at the end of each year*
 - (b) *the VAT liability will be self-assessed by the dealer himself.*
 - (c) *either compulsory assessment or self-assessment will be made*
 - (d) *None of the above*

6. *The basic tax rates prescribed under VAT laws are:*
 - (a) 4%, 12.5% and 1%
 - (b) 4% and 12.5%
 - (c) 2%, 4% and 10%
 - (d) 3%, 4% and 8%
7. *Which of the following records should be maintained under VAT laws?*
 - (a) Purchase records
 - (b) Sales records
 - (c) VAT account
 - (d) All of the above
8. *What is the eligible limit of turnover for registration under VAT laws?*
9. *When can the registration be cancelled?*
10. *Differentiate between voluntary and compulsory registration.*
11. *Write a brief note on tax payer's identification number.*
12. *List the records to be maintained under VAT system.*
13. *Does VAT system require declaration forms? Discuss.*
14. *What are the provisions in respect of returns under VAT Acts?*
15. *Does VAT system recognize self-assessment? Discuss.*
16. *What are the various types of audits prescribed under VAT provisions?*
17. *Briefly explain the system of cross checking under VAT laws.*
18. *Explain the provisions in respect of tax invoice.*
19. *Enlist the various contents of the tax invoice.*
20. *Discuss the importance of a tax invoice.*

Answers

1.(b); 2.(d); 3.(c); 4.(c); 5.(b); 6.(a); 7.(d)