VALUE ADDED TAX

VAT RATES AS PER WHITE PAPER:

- 0%
- 1%
- 4%
- 12.5%

SALES:

- Inter-state trade
  - CST @2% if sale to registered dealer.
  - Normal VAT rate applicable if sale to unregistered dealer or consumer.
- Intra-state trade
  - VAT rate as applicable except if goods are exempted from taxation.
  - If exempted then no tax.
- Export
  - Not Taxed.

PURCHASE:

- Inter-state purchase
  - No input of CST paid. Forms part of cost.
- Intra-state purchase
  - Input credit of VAT paid if goods not used in production of tax-exempted goods.
- Import
  - No credit of tax paid. Tax forms part of cost.

INPUT CREDIT:

- Credit of VAT paid on purchase.
- No credit of CST paid on purchase.
- Can deduct from VAT liability i.e., VAT collected on sales.
- Deduction series = First VAT then CST.
- Export- Claim Refund.
- CST paid can’t be recovered but CST collected can be settled from available input credit.
- Balance input credit of VAT can be carried forward.

	CASE I	CASE II	CASE III	CASE IV
INPUT	10,000	10,000	10,000	10,000
COLLECTED	VAT= 6,000 CST= 2,000	VAT= 10,000 CST= 2,000	VAT= 12,000 CST= 2,000	VAT= 8,000 CST= 2,000

Case-I

Input Available= Rs.10,000
Less: VAT collected= Rs.6,000

Balance= Rs.4,000
Less: CST= Rs.2000
C/f Input= Rs.2000

Case-II

Input Available= Rs.10,000
Less :VAT collected= Rs.10,000

Balance= NIL
CST Payable= Rs.2,000

Case-III

Input Available= Rs.10,000
Less: VAT collected= Rs.12,000

VAT Payable= Rs.2,000
CST Payable= Rs.2,000

Case-IV

Input Available= Rs.10,000
Less CST collected= Rs.2,000

Balance= Rs.8,000
Less: VAT Payable Rs.8,000

In above four cases procedure followed in **CASE IV** is wrong as first we have to settle output VAT and then CST.

FORMAT:

Trading Entity:

	COST	VAT Paid (Input Available)
Purchase	Xxx	Xxx**
Add: Expenses	xxx	
Add: Profit	xxx	
Add: TAX#	Xxx	
Invoice value	xxx	

Tax Payable= Tax Collected	xxx
Input Available	xxx
Balance	Xxx
Balance can be negative as well as positive. Positive balance shows VAT Payable Negative balance shows Input carried forward.	

** If purchased from other state then no input available. CST will be included in cost of purchases.

If sold within the state then VAT if sold outside state then CST.

Manufacturing Entity:

	COST	VAT Paid (Input Available)
Purchase	Xxx	Xxx**
Add: Expenses	xxx	
Add: Profit	xxx	
Add: Excise duty	Xxx	
	Xxx	
Add: TAX#	xxx	
Invoice value	xxx	

** If purchased from other state then no input available. CST will be included in cost of purchases.

If sold within the state then VAT if sold outside state then CST.

Excise only if given in ques.

SOME POINTS TO REMEMBER:

- Implemented from 1st April,2005.
- Drawn from entry 54 List II of Seventh Schedule of constitution of India.
- Kelkar Committee proposed.
- Eligible purchase- purchase for the purpose of sale, resale of goods within the state, outside state or export. Capital goods used in the production of taxable goods.
- 2% will be deducted from Input VAT credit in case inter-state branch transfer.
- Input credit on capital goods in 24/36 installments. By default 36 installments.
- We follow destination principal for VAT.
- Three variants of VAT: Gross Product Variant; Income Variant; Consumption Variant. In Gross Product Variant input available only on input goods not on capital goods. In Income Variant input available on input goods and proportionate VAT credit on depreciation on capital goods. In Consumption variant input available on both input as well as capital goods.
- Methods of VAT calculation: Addition; Invoice; Subtraction.
- Compulsory registration after gross sales of Rs.5/10 Lakhs.
- Persons involving in trade other than intra-state trade have to compulsorily register themselves without considering gross sales.
- TIN (Tax payer identification Number) number- 11 digit numerical first 2 digits State code used by Union Ministry of Home Affairs.
- Quarterly or monthly return.
- Self-assessment by tax payer.

ILLUSTRATIVE EXAMPLE:

Raw material A purchased from Delhi for Rs.50,000 + VAT@ 12.5%
Cost of material Rs.50,000 Input available= Rs.6,250

Raw material B purchased from Mumbai for Rs.40,000 + CST@ 2%
Cost of material Rs.40,800 Input available= Rs.0

Machinery Purchased for Rs.1,00,000 + VAT@ 12.5%
Depreciation 20% SLM.

Expenses= Rs.50,000

Profit= 20% on cost.

Gross Product Variant:

Raw Material A	50,000
Raw Material B	40,800
	90,800
Depreciation (20% of 1,12,500)	22,500
	1,13,300
Expenses	50,000
	1,63,300
Profit@ 20%	32,660
Total	1,95,960

Input credit available= Rs.6,250 i.e., paid on purchase of material A.

Income Variant:

Raw Material A	50,000
Raw Material B	40,800
	90,800
Depreciation (20% of 1,00,000)	20,000
	1,10,800
Expenses	50,000
	1,60,800
Profit@ 20%	32,160
Total	1,92,960

Input credit available= Rs.8,750 i.e., paid on purchase of material A + 12.5% of depreciation of machinery.

Consumption Variant:

Raw Material A	50,000
Raw Material B	40,800
	90,800
Depreciation (20% of 1,00,000)	20,000
	1,10,800
Expenses	50,000
	1,60,800
Profit@ 20%	32,160
Total	1,92,960

Input credit available= Rs.6,597 i.e., paid on purchase of material A + 12500/36. Input credit of machinery in 36 Installments (can be 24 also).

For Detailed discussion- refer Value Added Tax [VAT]