

Input Tax Credit

Question 1

Calculate the VAT liability for the period Aug. 1, 2012 to Aug. 31, 2012 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, 2012 to Aug. 31, 2012:-

	₹
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 2012 -13 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, 2013

	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 used in the manufacture of exempted goods. It has been assumed that the amount of raw

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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 $(10/40 \times 60 = 15 \text{ lakh})$ 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)

Question 4

Mr. Ram, a dealer in Tamil Nadu dealing in consumer goods, submits the following information pertaining to the month of October, 2012:

Details of purchases of goods:-

Particulars (raw material purchased from within the State)	Amount (₹)	Rate of VAT
Goods 'A'	10,00,000	Exempt
Goods 'B'	20,00,000	1%
Goods 'C'	30,00,000	12.5%

Details of sales of goods:-

Particulars (Sale of finished goods)	State in which goods are sold	Amount (₹)	Rate of VAT
Produced from Goods 'A'	Tamil Nadu	5,00,000	12.5%
	Gujarat	7,00,000	1%
Produced from Goods 'B'	Tamil Nadu	24,00,000	Exempt
Produced from Goods 'C'	Tamil Nadu	35,00,000	4%

Compute the amount of Value Added Tax (VAT) payable by Mr. Ram for the relevant month. There was no opening or closing inventory.

Answer

Computation of VAT payable by Mr. Ram for the month of October, 2012:-

	Particulars	₹
(A)	Output tax payable	
	(i) On sale of finished goods produced from Goods 'A' within the State (₹ 5,00,000 × 12.5%)	62,500
	(ii) On taxable sale of finished goods produced from Goods 'C' within the State (₹ 35,00,000 × 4 %)	<u>1,40,000</u>
	Total (A)	<u>2,02,500</u>

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(B)	Input tax credit available	
(i)	Goods 'A' (Exempt)	Nil
(ii)	Goods 'B' (Note-1)	Nil
(iii)	Goods 'C' (₹ 30,00,000×12.5%)	<u>3,75,000</u>
	Total (B)	<u>3,75,000</u>
	Net VAT payable = (A)-(B)	(1,72,500)
	CST payable on inter-state sale of goods produced from Goods 'A' (₹ 7,00,000 × 1%) shall be paid from the balance of credit of Rs. 1,72,500.	
		<u>7,000</u>
	Balance of input credit carried forward to next month	<u>1,65,500</u>

Notes:

1. Since, there is no opening and closing inventory, it implies that entire purchase of the Goods 'B' is used to manufacture the finished goods (which are exempt from tax). Further, purchases of goods, which are being utilized in the manufacture of exempted goods, are not eligible for input tax credit. Hence, no input tax credit is available in respect of VAT paid on purchase of Goods 'B'.
2. If finished goods are sold in the course of inter-state trade and commerce, credit is allowed.

Question 5

Briefly explain whether the purchases are eligible for availing input tax credit in each of the following cases:-

- (a) Rohan purchased goods from a registered dealer. He claims that he has paid the amount of VAT on the said goods, but the invoice pertaining to said purchases has been lost on account of negligence of a clerk in his office.
- (b) Jain & Co. purchased goods from Tide Enterprises. Tide Enterprises is an unregistered dealer.
- (c) Ankit purchased some capital goods. The final product manufactured by Ankit using these capital goods is exported.

Answer

- (a) The purchases made by Rohan are not eligible for claiming input tax credit because the purchase invoice is not available with the claimant.
- (b) Purchases made by Jain & Co. from Tide Enterprises are not eligible for input tax credit as Tide Enterprises is not a registered dealer.

- (c) Ankit can claim the input tax credit in respect of the purchase of the capital goods as capital goods used for manufacturing/packing goods to be sold in the course of export out of the territory of India are eligible for claiming input tax credit.

Question 6

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		

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2. On the plant purchased (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)

Question 7

Shiv Ltd. of Madhya Pradesh made a total purchases of input and capital goods of ₹ 55,00,000 during the month of January, 2013. The following further information is available:

- Goods worth ₹ 9,00,000 were purchased from West Bengal on which C.S.T. @ 2% was paid.
- The purchases made in January, 2013 include goods purchased from unregistered dealers amounting to ₹ 21,50,000.
- It purchased capital goods (not eligible for input credit) worth ₹ 9,50,000 and those eligible for input credit for ₹ 9,00,000.
- Sales made in Madhya Pradesh during the month of January, 2013 is ₹ 10,00,000 on which VAT @ 12.5% is payable.

Assuming that all purchases given are exclusive of tax and VAT @ 4% is paid on them, calculate

- the amount of input tax credit available for the month of January, 2013
- VAT payable for the month of January, 2013 and
- input tax credit carried forward.

Note: The input VAT credit on eligible capital goods is available in 36 equal monthly installments.

Answer

	Particulars	₹	₹
A.	Purchases made in January, 2013		55,00,000
	Less:(i) Inter-State purchases (input credit not available)	9,00,000	
	(ii) Purchase from unregistered dealer (input credit not available)	21,50,000	
	(iii) Capital goods (not eligible for input credit)	<u>9,50,000</u>	<u>40,00,000</u>
	Total purchases eligible for tax credit		<u>15,00,000</u>
B.	Input tax credit available		
	VAT credit on input @ 4%		
	4% of (₹ 15,00,000 – Rs.9,00,000)		
	i.e. 4% of ₹ 6,00,000		24,000
	VAT credit on eligible capital goods		

	(4% of ₹ 9,00,000) x $\frac{1}{36}$		<u>1,000</u>
	Input credit available for January, 2013		<u>25,000</u>
C.	VAT on sales @ 12.5% of ₹ 10,00,000		1,25,000
	Less: Input tax credit		<u>25,000</u>
	Net VAT payable		<u>1,00,000</u>
	Input tax credit carried forward to February, 2013		<u>Nil</u>

Question 8

Strong Constructions undertakes works contracts and maintains sufficient records to quantify the labour and other service charges. From the details given below, calculate the taxable turnover, input tax credit and net VAT payable under the State VAT Law:

(i)	Total contract price (excluding VAT)	1,80,00,000
(ii)	Materials purchased and used for the contract taxable at 12.5% VAT (inclusive of VAT)	33,75,000
(iii)	Labour charges paid for execution of the contract	40,00,000
(iv)	Other service charges paid for the execution of the contract	20,00,000
(v)	Cost of consumables used not involving transfer of property in goods	10,00,000

Strong Constructions also purchased a plant for use in the contract for ₹ 20,80,000 (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 and assume output VAT at 12.5%. Make suitable assumptions where required and show the workings.

Answer

Under works contract, VAT is imposed on the sale price of the goods in which there is a transfer of property. Labour and other charges incurred for such execution are deductible.

Computation of the taxable turnover, input tax credit and net VAT payable

Particulars	₹	₹
Total contract price		1,80,00,000
Less : Deductions admissible		
Labour charges paid for executing the contract	40,00,000	
Service charges paid for execution of contract	20,00,000	

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Cost of consumables not involving transfer of property in goods	<u>10,00,000</u>	<u>70,00,000</u>
Taxable turnover		<u>1,10,00,000</u>
Output VAT payable @ 12.5%		13,75,000
Less : <u>Input tax credit admissible</u>		
On the material purchased	3,75,000	
$\text{₹} \left[33,75,000 \times \frac{12.5}{112.5} \right]$		
On the plant purchased $\text{₹} \left[20,80,000 \times \frac{4}{104} \right]$	<u>80,000</u>	<u>4,55,000</u>
Net VAT payable		<u>9,20,000</u>

Question 9

From the following information provided by M/s RA Ltd., registered under the VAT law in the State of Gujarat as dealer in consumer goods, compute the amount of VAT payable for the month of July 2012:

Purchase of raw material (within the State)

Item	Amount (₹)	Rate of VAT
Goods 'X'	7,50,000	Exempt
Goods 'Y'	25,00,000	1%
Goods 'Z'	35,00,000	12.5%

Sales

Particulars of finished goods sold	State in which goods are sold	Value ₹	VAT/CST Rate %
(i) Produced from goods 'X'	Gujarat:	5,00,000	12.5% VAT
	Interstate sales to Maharashtra:	6,00,000	2% CST
(ii) Produced from goods 'Y'	Gujarat:	30,00,000	Exempt
(iii) Produced from goods 'Z'	Gujarat:	40,00,000	4% VAT

Raw materials valued at ₹ 5 lakhs of goods 'Z' have been transferred to the branch in Madhya Pradesh during the month. Assume 2% reduction in input credit on account of such transfer.

Make assumptions where required and provide suitable explanations

Answer

Computation of VAT payable by M/s. RA Ltd. for the month of July, 2012

	Particulars	₹
(A)	Output VAT payable	
	(i) On sale of finished goods produced from Goods 'X' within Gujarat (₹ 5,00,000 × 12.5%)	62,500
	(ii) On sale of finished goods produced from Goods 'Z' within Gujarat (₹ 40,00,000 × 4 %)	<u>1,60,000</u>
	Total (A)	<u>2,22,500</u>
(B)	Input tax credit available	
	(i) Goods 'X' (Exempt)	Nil
	(ii) Goods 'Y' (Note-2)	Nil
	(iii) Goods 'Z' transferred to branch (₹ 5,00,000×10.5%)	52,500
	(iv) Remaining Goods 'Z' after transfer to the branch [₹ (35,00,000- 5,00,000)×12.5%]	<u>3,75,000</u>
	Total (B)	<u>4,27,500</u>
	Net VAT payable = (A)-(B)	(2,05,000)
	CST payable (₹ 6,00,000×2% = ₹ 12,000) on inter-state sale of goods produced from Goods 'X' would be paid from the balance of credit of ₹ 2,05,000.(Note-3)	<u>12,000</u>
	Balance input credit carried forward to next month	<u>1,93,000</u>

Notes:

1. It is assumed that there is no opening and closing inventory. Hence, entire purchases of the raw materials have been used to manufacture the respective finished goods.
2. Goods utilized in the manufacture of exempted goods are not eligible for input tax credit. Hence, no input tax credit is available in respect of VAT paid on purchase of Goods 'Y' as they have been used to produce goods which are exempt from VAT.
3. Input tax credit can be used to set off the central sales tax payable on the inter-state sales.

Question 10

From the following particulars compute net VAT payable by M/s. TAB & Co. for the period ending March 31, 2013.

Inputs procured :		₹
(i)	Raw material at Nil VAT	10,00,000

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(ii)	Raw material at 4% VAT	40,00,000
(iii)	Raw material at 12% VAT	20,00,000
Output		
(i)	Intra state sale of finished goods at 4% VAT (these goods were produced entirely from raw material at NIL VAT rate procured as inputs)	15,00,000
(ii)	Exempted sales (these goods were procured from raw material procured at 4% VAT to the extent of 50%)	20,00,000
(iii)	Sale of finished goods intrastate at 12% VAT	20,00,000
(iv)	Intrastate sale of raw material purchased at 4%	10,00,000
(v)	50% of the raw material produced at 12% VAT has been utilised to produce capital goods for the manufacturing process in TAB & Co's factory (Market Value):	15,00,000

Provide explanations where necessary.

Answer

Computation of Net VAT payable by M/s. TAB & Co.:-

Output VAT payable

S.No.	Particulars	₹
1.	Intra-state sale of goods at 4% VAT (₹ 15,00,000 × 4%) (manufactured out of exempted material)	60,000
2.	Sale of finished goods at 12% VAT (₹ 20,00,000 × 12%)	2,40,000
3.	Sale of raw materials purchased at 4% VAT (₹ 10,00,000 × 4%)	<u>40,000</u>
	Total (A)	<u>3,40,000</u>

Input tax credit available

S.No.	Particulars	₹
1.	Purchase of raw material @ 4% VAT (50% of ₹ 40,00,000 × 4%) (Note – 1)	80,000
2.	Purchase of 12% VAT including purchases used for capital goods produced (12% of ₹ 20,00,000) (Note – 2)	<u>2,40,000</u>
	Total (B)	<u>3,20,000</u>

Net VAT payable = (A) - (B) = ₹ 3,40,000 – ₹ 3,20,000 = ₹ 20,000.

Notes:

1. Input tax credit for goods used to produce exempted goods will not be allowed. Hence, 50% of the input tax credit has been disallowed on purchases of goods at 4% VAT and utilized to produce exempted goods.

2. Input tax credit on raw materials is allowed even if the same has been consumed to produce capital goods. Hence, full input tax credit on goods purchased at 12% VAT has been allowed.

Question 11

Briefly explain the policy contained in the 'white paper' on introduction of VAT with regard to availment of input credit on capital goods.

Answer

The policy contained in the 'White Paper' lays down that in relation to capital goods, set-off will be available to traders and manufacturers.

The most important factor is that the White Paper recognizes the fact that set-off is to be given to both traders and manufacturers. It is well known that under traditional sales-tax system, in some States, partial credit was allowed on capital goods to the manufacturers but no credit was allowed to traders. In the White Paper, taking into account the very basis of VAT system, laid down a policy statement that set-off will be allowed to both manufacturers and traders.

However, as per the White Paper, the State Governments can provide to give set-off on a staggering basis, at the most in 36 instalments. This is subject to the policy of individual States.

Question 12

From the following particulars, arrive at the VAT liability for the month of January 2013 and also determine the amount of input tax credit to be carried forward for the next month:

- (i) Input tax rate 5% and output tax rate is 15% in the State.
- (ii) Inputs purchased in the month from within the State – ₹ 48,00,000.
- (iii) Output sold to buyers within the State during the month – ₹ 15,00,000.
- (iv) Output sold during the month to buyers as interstate sales – ₹ 3,00,000.

(CST rate 2% against C Form).

Inputs purchased from other States as interstate purchases against C Form @ 2% - ₹ 2,00,000.

(Provide suitable explanations where required with appropriate assumptions, if necessary).

Answer

Calculation of VAT liability for the month of January' 13 and amount of input tax credit to be carried forward to next month:

- (i) Input tax credit available on the purchase of inputs from within the State will be 5% of Rs. ₹ 48 lakh, i.e. ₹ 2,40,000.
- (ii) No input tax credit will be available on inputs purchased from other States.
- (iii) VAT payable on sales within the State – 15% of ₹ 15 lakh, i.e. ₹ 2,25,000.

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- (iv) State VAT liability will be nil as the input tax credit (₹ 2,40,000) is more than the output VAT of the State (₹ 2,25,000).
- (v) CST to be paid is ₹ 6000, i.e. 2% of inter-State sales of ₹ 3 lakh. This amount can be paid from the balance credit of ₹ 15,000 (i.e. ₹ 2.40 lakh-2.25 lakh)
- (vi) The amount available for carry forward to next month will be ₹ 9,000, i.e. ₹ (15000-6000).

Question 13

Write a brief note on whether input tax credit of the VAT paid on purchases of goods that are stock transferred is available.

Answer

Inter State transfers do not involve sale and are therefore are not subjected to sales tax. The same position continues under VAT. However, tax paid on the purchases of goods which are stock transferred will be available as input credit after retention of 2% of such tax by the State Government.

Exercise

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.*