- ♣ The principles of VAT are common for the whole country.
- ♣ Tax is levy at the point of sale not at the point of purchase.
- ♣ VAT system are intra-state sale {within the state} and CST system are inter-state sale {outside the state}.
- ♣ Union territories are also treated as states.
- ♣ VAT is implemented by giving set-off of the tax suffered by the purchases {called Input Tax Credit}.
- ♣ Under VAT system buyer and seller are within the state. VAT money goes within the seller's state. So buyer can take Input Credit.

Variants of VAT

Gross Product Variant | Income Variant | Consumption Variant

<u>Gross Product Variant</u>

- ➢ Tax is levied on all sales.
- ➢ Deduction is allowed on all purchases of raw materials.
- ➢ No deduction is allowed on capital goods.
- ➢ The seller can take credit of tax paid only on the raw materials purchased by him and set off such credit against the tax payable on his products.
- ➢ VAT to be remitted = VAT payable on sales ***minus*** VAT credit allowed on raw material.

<u>Income Variant</u>

- ➢ Tax is levied on all sales.
- ➢ Deduction is allowed on all purchases of raw materials as well as depreciation on capital goods.
- ➢ There are different methods of depreciation to arrive the depreciation amount and the life of all capital goods is not the same.
- ➢ Credit can be availed on a pro-rata basis as and when depreciation is charged on the capital goods.
- ➢ VAT to be remitted = VAT payable on sales ***minus*** VAT credit allowed on input goods ***plus*** proportionate VAT credit allowed on depreciation on capital goods.

<u>Consumption Variant</u>

- ➢ Tax is levied on all sales.
- ➢ Deduction is allowed on all purchases of raw materials as well as capital goods.
- ➢ No need to examine whether the goods are capital goods or not.
- ➢ No need to calculate depreciation on capital {Refer Income variant}.
- ➢ VAT to be remitted = VAT payable on sales ***minus*** VAT credit allowed on input ***plus*** capital goods.

Methods for computation of VAT Tax

Addition method | Invoice method | subtraction method

Addition Method

- The tax is levied on "Value addition at every stage of sale."
- Value addition is arrived at by aggregating all factor payments and profit.
- The chain of sales, the goods may enjoy exemption at certain stages of sale. i.e. tax is worked out on exempted goods also.
- No scope for matching of sales invoices with purchase invoices.

Invoice method

- Tax is levied at every stage of sale and calculated on the total sale value.
- Tax worked out on the total value is passed on to buyer.
- Seller will "deduct" the tax suffered by his purchase and "pay" only the balance to the Government.
- Government receives the tax money in stages and not in lump sum.
- Without proper purchase vouchers the dealer cannot avail the input credit. So, the dealer will be forced to account for all purchases.

Subtraction method

a. Direct subtraction method.
b. Intermediate subtraction method.

Direct subtraction method: Tax is levied on the difference between aggregate value of sales "exclusive" of tax and aggregate value of purchases "exclusive" of tax.

Intermediate subtraction method: Tax is levied on the difference between aggregate value of sales "inclusive" of tax and aggregate value of purchase "inclusive" of tax.

- Tax is levied at every stage of sale.
- Tax is calculated only on the value addition made at each stage of sale.
- The method is followed where tax is not charged separately:

Tax = (Tax rate/(100 + Tax rate)) * Taxable Turnover

Merits of VAT

- For VAT Input credit purpose, the dealer should maintain proper books of accounts, otherwise he will lose the benefit of input credit.
- VAT is applicable to all sales. No need to see the turnover, sales, sales price etc.
- Transparency in tax payable to Government.

Demerits of VAT

- Input credit cannot taken for composition schemes and exemption schemes.
- Input credit only for purchase within the state not purchase from outside the state.
- For small dealers such detailed accounting of purchases will be a big burden.
- Tax payable has an impact on their working capital.

Role of ICAI & CAs in VAT

- As a statutory body ICAI has prescribed "Guidance note on accounting for state level Value Added Tax".
- To enable effective checks, the department may need the expertise of a CA.
- Going through the books of accounts.
- Analyzing and interpreting the provisions of the state-level VAT laws.
- Reporting any shortage payment of tax.
- Reporting any excess payment of tax.
- A Chartered Accountant will ensure that benefits of such cost reduction are passed on by the suppliers to his company.

♣ Input credit can be availed once the tax is actually paid {at the time of purchase} even on the unsold goods.
♣ If goods are sent outside the state on stock transfer or consignment basis, credit or set-off of tax paid on 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.
♣ Full input tax credit shall be available if stock transfer is to another branch in the same state.

Ineligible purchase of input credit

- Purchase from unregistered dealers & Composition scheme.
- Purchase invoices not available.
- Exempted goods.
- Imported goods.
- Personal use, gifts.

Carry forward

- The input tax credit shall first be adjusted against the VAT liability.
- The excess, if any, after setting off VAT may be adjusted against the CST for the said period.
- If there is excess credit even after adjusting VAT & CST, it shall be carried forward to the end of the next year.

Registration

Registration based on

Turnover Transaction

Turnover

- Turnover exceeds Rs. 5 lakhs / Rs. 10 lakhs {depend on state}.
- The registration to be made within 30 days of crossing the limit.

Transaction

- Dealers purchasing goods from other states.
- Dealers selling goods to other states.
- Dealers exporting and importing goods from a country outside India.
- Dealer is liable to pay tax @ 20% on goods {petrol, diesel etc.}.

Cancellation of Registration

- Dealer transfer his business to a new location.
- Annual turnover falls below the specified amount.
- Discontinue of business.
- Dealer has become insolvent.
- Change of business.

Composition scheme

- Dealers who are liable to pay VAT but whose gross turnover does not exceed Rs. 50 lakhs, eligible for composition scheme.
- Under the composition scheme, tax shall be payable as a small percentage of the gross turnover.
- Under the composition scheme Input tax credit cannot be availed.

- Composition scheme not eligible for:
  - Who sells goods to other states.
  - Who sells goods to import or export.
  - Who transfers goods outside the state otherwise than by way of sale for the execution of a work contract.
  - Who purchases from other states.
  - Manufacture / dealer who want to issue VAT invoice.

Records to be maintained

- Following are the records to be maintained under the VAT law:
  - Purchase details.
  - Sales details.
  - Exempted sales under VAT.
  - VAT account.
- Following records have to be produced from time to time:
  - Copies of all invoices issued and debit and credit note issued.
  - Copies of customs entries and receipt for payment of customs.
  - Details of input credit and output and net of VAT payable or excess credit carried forward at the end of each month.
  - Details of goods manufactured and delivered from the factory of the taxable person.

VAT Invoice

- Registered dealer whose gross turnover exceeds the specified amount shall issue tax invoice with the prescribed particulars.
- Tax invoice signed by the dealer or his employee and the counterfoil or duplicate copy of such invoice shall be maintained by the dealer.

Contents of VAT Invoice

- Name, address and registration number of the seller.
- Name, address and registration number of the purchaser.
- Date of sales.
- Details such as description, quantity and value of goods.
- VAT invoice contains signature of the seller / his employee.

Tax payer's Identification Number {TIN}

- TIN is 11 digit number.
- First two characters represent the respective state codes.
- Other characters vary from state to state.

Points for solving the problem

- Exempted purchases and Exempted sales does not play any role in VAT computation.
- Total turnover include Exempted sales.
- Profit margin calculated exclusive of VAT input credit. i.e. only purchase costs and other costs.
- Any amount paid under CST purchase, the CST amount should include in the purchase cost but any amount paid under VAT purchase, the VAT amount does not include in the purchase cost.
- Input credit on raw materials cannot be claimed if the same were used in production of exemption goods.
- Opening stock & Closing stock does not play any role in VAT calculation.