

VAT – POINTS TO REMEMBER (VAT PROCEDURES)

1. Registration is the process of obtaining the certificate of registration from the authorities under the VAT Acts.
2. As per White Paper, registration of dealers with **gross annual turnover above Rs.5 lakhs** will be compulsory.
3. **All existing dealers will be automatically registered.**
4. A new dealer will be allowed **30 days time from the date of liability** to get registered (An application should be made to the VAT commissioner).
5. If an assessee fails to get himself registered under the VAT Act, **the commissioner may register him compulsorily**. The commissioner may assess the tax due from such person on the basis of evidence available to him and the assessee will have to pay that amount of tax.
6. Failure to get registered shall also attract **default penalty and forfeiture of the grant of input tax credit** related to the period prior to the compulsory registration.
7. Registration can be cancelled on:
 - ⊕ Discontinuance of business
 - ⊕ Disposal of business
 - ⊕ Transfer of business to a new location
 - ⊕ Annual turnover of the dealer falling below the threshold limit
8. TIN – Tax Payer's Identification Number:
 - ⊕ It is a code to identify a tax payer
 - ⊕ **It consists of 11-digit numerals**
 - ⊕ **First two character will represent the state code** (as used by the union ministry of home affairs)
 - ⊕ **Next two digits will be check digits** to ensure correctness of TIN
 - ⊕ **The remaining 7 digits will be used for Unique Identification of any dealer in the state**
 - ⊕ It facilitates cross checking of information; anyone can know through the internet that whether the TIN given by a dealer is genuine or not.

9. VAT Invoice:

- ⊗ An invoice is a document which contains the details of the sale
- ⊗ Goods sold, Price, Tax charged and other details as may be prescribed and issued by a dealer
- ⊗ The White Paper provides for the following provisions:
 - ◆ Every dealer whose turnover exceeds the specified limit shall issue a serially numbered tax invoice to the purchaser (VAT charged should be shown separately)
 - ◆ The invoice should be dated and signed by the dealer (or his regular employee)
 - ◆ The dealer shall keep a duplicate copy of the invoice

10. Importance of Tax (VAT) Invoice:

- ⊕ It helps in determining the input tax credit
- ⊕ Checks evasion of tax
- ⊕ Facilitates multi-point taxation on the value addition
- ⊕ Prevents cascading effect of taxes
- ⊕ Promotes assurance of invoices
- ⊕ Assists in performing audit and other activities effectively

11. Contents of VAT Invoice:

- The words '**Tax Invoice**'
- Name, address and registration number of the selling dealer
- Name and address of the purchasing dealer
- Pre-printed or self generated **serial number**
- Date of issue
- **Description, Quantity and Value of goods sold**
- **Rate and amount of tax charged**
- Signature of the selling dealer

Registration number of purchasing dealer may not be required under all VAT legislations.

12. In case of **small dealers**, if the sale is to the end consumers, **other invoices are permitted without the details of tax**. However, to ensure that the revenue legally due to states is realized and remitted, **it is advisable that the invoice should contain the details of the rate of tax and the tax charged in an explicit manner.**

13. FORMAT OF A TAX INVOICE

TAX INVOICE

ORIGINAL - BUYER'S COPY

Seller's Name _____ Tax Invoice No. _____
 Address _____ Date: _____
 Phone No. _____ Challan No. and date _____
 VAT Registration No. _____ Buyer's Name & Address _____
 CST Registration No. _____ Buyer's VAT Registration No., if any _____

S No.	Quantity	Description of Goods	Price per unit	Value (Rs.)	VAT Rate	Tax Amt.	Total (Rs.)

TOTAL _____

Rupees in figures _____

E & O.E. _____ Signature _____
 (of selling dealer or his authorized employee)

14. (a) Broadly The following Records should be maintained under VAT system:

- ⊕ Purchase and sales records
- ⊕ Separate record of any exempt sale
- ⊕ VAT account

(b) Further the following records should also be kept and produced to an officer:

- Copies of all invoices issued in serial number
- Copies of all debit and credit notes issued in chronological order
- Details of the amount of tax charged on each sale or purchase
- Total of the output and input tax in each period and the net VAT payable or the excess carried forward as the case maybe
- Details of goods manufactured and delivered from the factory
- Details of each supply of goods from the business

15. There is no provision for concessional sale under the VAT Acts since the provision for set-off makes the input zero-rated; hence, there will be no need of declaration forms.

16. **RETURNS:**

- Returns are to be filed quarterly/monthly/annually as per the provisions of the State Act.
- Returns will be accompanied with payment challans. (Some states have devised payment cum challans)
- A registered dealer may be required to file a return along with the requisite details such as output tax liability, input tax credit, payment of VAT, etc.
- Opportunity may be provided to lodge revised returns.
- If any technical mistake is detected during scrutinizing, the dealer shall be required to pay the deficit.

Return filing procedures under VAT are designed with the objective of:

- Reducing the costs incurred by the businesses in completing and filing their returns.
- Encouraging businesses to comply with their obligation to file return.
- Ensuring efficient processing of data included in the returns.

17. **Deemed Assessment Concept** is a major feature of VAT. If no specific notice is issued proposing departmental audit of the books of accounts of the dealer within the time limit specified in the Act, the dealer will be deemed to have been self-assessed on the basis of the return submitted by him.

18. **SYSTEM OF CROSS CHECKING:**

- Under VAT system, emphasis has been laid on self-assessment; therefore, a system of cross-checking is essential.
- Dealers may be asked to submit a list of sales and purchases above a certain monetary value.
- Dealers may be asked to give a dealer-wise list from whom/to whom the goods have been purchased/sold.
- A cross-checking computerized system is being worked out on the basis of coordination between the tax authorities of the state government and the authorities of Central Excise and Income tax.
 - This system will reduce tax evasion
 - There will be significant growth in tax revenue
 - By protecting the interests of tax complying dealers against the tax evaders, the system will bring in more equal competition in the sphere of trade and industry.

19. AUDIT:

- ⊕ A certain percentage of dealers will be taken up for audit every year on a scientific basis; if however, evasion is detected in the course of audit, the previous records of the dealer may be taken up for audit.
- ⊕ Authorized officer of the audit department will visit the business place of the dealer to conduct the audit.
- ⊕ They will be equipped with information gathered from various agencies such as suppliers, Income Tax department, banks.
- ⊕ Officer of higher rank will supervise to ensure that the audit work is done in a free, fearless, unbiased and impartial manner.

20. Apart from the departmental audits, many states have also incorporated the audit of accounts by a CA. The selection of cases for auditing has to be made in accordance with the criteria of the size of the dealers.

21. Penal Provisions:

States have incorporated penal provisions as per their requirements. Since VAT allows additional benefits in the form of input tax credit over the earlier sales tax structure, they have introduced more stringent penal provisions to discourage evasion of tax.

22. TAX RATES UNDER VAT:

- ⊙ **4% VAT Category:** This comprises of items of basic necessities such as medicines and drugs; all agriculture and industrial inputs, capital goods and declared goods. These are largest number of goods common for all states.
- ⊙ **1% VAT Category:** The special rate of 1% is meant for **precious stones, bullion, gold and silver ornaments, etc.**
- ⊙ **12.5% VAT Category:** The remaining commodities, common for all the states, fall under the general VAT rate of 12.5%.
- ⊙ **Non-VAT Goods:** **Petrol, diesel, Aviation Turbine Fuel (ATF), other motor spirit, liquor and lottery tickets** are kept outside VAT. However, all these commodities will be subject to 20% floor rate of tax.
- ⊙ **EXEMPTED CATEGORY:** There are about 50 commodities comprising of
 - ◆ Natural and unprocessed products in unorganised sector
 - ◆ Items which are legally barred from taxation
 - ◆ Items which have social implications

Included in this category is a list of 10 commodities flexibly chosen by individual states from a list of goods which are of local social importance without having any inter-state implication. The rest of the commodities in the list will be common to all the states.

23. The few goods which are outside VAT are **Petrol, diesel, Aviation Turbine Fuel (ATF), other motor spirit, liquor and lottery tickets** since their prices are not fully market determined.
24. Some of the state governments in India were resistant towards the introduction of VAT as there maybe a loss of revenue in the initial years.
The Government of India therefore agreed to compensate 100% of the loss in the first year, 75% in the second year and 50% in the third year of introduction of VAT. The loss was computed on the basis of an agreed formula.

IT IS ALSO ESSENTIAL TO BRING IMPORTS INTO THE VAT CHAIN. BECAUSE OF THE AVAILABILITY OF SET-OFF, CASCADING EFFECT WILL BE REDUCED AND TAX COMPLIANCE WOULD ALSO IMPROVE. THIS WILL NEED A CONSTITUTIONAL AMENDMENT. THE EMPOWERED COMMITTEE IS DISCUSSING THE ISSUE WITH THE GOVERNMENT OF INDIA.