

Vat Important Notes

CA STUDENT Reg. No. CRO-0374428

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Topic 1

➤ **VAT MEANING AND CONCEPT:**

- (a) VAT is a **tax** on the **sale of goods**.
- (b) It is imposed on **intra state** sale i.e. sale of goods **within** the **State**.
- (c) Since it is imposed only on the amount of **value addition** made it is known as Tax on Value Added or Value Added Tax.
- (d) VAT is imposed only on the amount of **value additions**

➤ **NEED OF VAT;**

VAT prevents **cascading effect of taxation** by providing **set off / input credit** of tax paid at earlier stage. Cascading effect means imposition of tax on tax.

Illustration 1- How VAT prevents cascading effect of taxation: Mr. A acquires good from Mr. B for Rs 100 on which tax is 10%. The tax on such goods amounts to Rs. 10 and therefore Mr. A pay Rs. 110 inclusive of sales tax. Suppose Mr. A adds Rs. 40 towards his profit margin and the tax on sales made by him to the consumer is 20% in this case the ultimate cost of consumer with and without vat shall be as under

Without VAT		Under VAT	
Sale price of B	100	sale price of B	100
Add ; Tax @10%	10	Add ; Tax @10%	10
Amount to be paid by A	110	Amount to be paid by A	110
Cost A	110	Cost A (110-10)	100
Add; profit of A	40	Add; profit of A	40
sale price of A	150	sale price of A	140
Add: Tax @20%	30	Add: Tax @20%	28
Cost to consumer	180	Cost to consumer	168
Tax payable by A	30	Tax payable by A (28-10 input credit)	18

Sales tax	value added tax
1) Sales tax is a single point tax, it is levied either at the time of first sale or at the time of last sale.	1) Vat is a multi point tax which is levied at the time of every sale.
2) Sales tax is levied on the full sale price	2) Vat is levied only on the value addition.
3) Goods once subjected to sales tax are not taxed again on subsequent sale of goods.	3) Goods are subjected to vat on each and every sale thereof.
4) Sales tax system is complex with a large Number of forms and compliance	4) Vat is simple and transparent with limited number of forms due to self assessment by dealer.

VAT IMPORTANT NOTES FOR ASSESSMENT YEAR 2015-16

T.Q.1. “In the old sales tax structure, there were problems of double taxation of commodities and multiplicity of taxes, resulting in a cascading burden.” In the light of this statement, explain how VAT is an improvement over the old sales tax structure. **(CS Executive Dec. 2008) (5 marks)**

- **What are the different stages of VAT? Can it be said that the entire burden falls on the final consumer?**
VAT is collected at each stage of production and distribution process, and in principle, its entire burden falls on the final consumer, who does not get any tax credit. Thus VAT is a broad-based tax covering the value added to each commodity by parties during the various stages of production or distribution.

T.Q.2. Can we say that levy of VAT will have effect on retail price of goods? **(CA-PCC Nov. 2008, 2 marks)**

Hint: No. We had single point sales tax on last sale prior to adoption of VAT. In single point sales tax on last sale and VAT, the retail sale price always remains the same.

Topic 2

There are 3 variants or modes of VAT – (NOV11)

Different Variants of VAT

Gross product variant	Income variant	Consumption variant
VAT is levied on sales and deduction for tax paid on input is allowed excluding capital inputs.	VAT is levied on sales with set-off for tax paid on inputs and depreciation is charged only on capital goods.	VAT is levied on sales with deduction for tax paid on all business inputs including capital goods.
Credit of tax on capital goods is not allowed which discourages investments in capital goods.	Credit on capital purchases are allowed in the ratio of depreciation over life of the capital assets.	This is easy to operate and does not discriminate between labor intensive industries and capital intensive industries.
Due to this capital goods carry a heavier tax burden as they are taxed twice, therefore modernization and up gradation of capital goods is delayed due to this double taxation,	Difficulty of choosing method of depreciation. (SLM OR WDV)	Hence, this method is the most popular method all over the world.

Illustration on several of VAT.

Compute Net VAT Liability (Credit) under (a) Gross product Variant (b) Income Variant and (c) Consumption Variant-

Particulars	Amount
Purchase of Raw material (intra State)VAT @4%	70,000
Purchases of Consumable VAT @4%	10,000
Purchases of Machinery for the purpose of production of Goods.VAT@4%	2,00,000
The Machinery has a useful life of 10 years and has no residual value at the end of the 10 th year	

VAT IMPORTANT NOTES FOR ASSESSMENT YEAR 2015-16

Sale value of goods during the period VAT @4%	2,00,000
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Computation of VAT Liability/ (credit)

Particulars	Gross Product Variant	Income Variant	Consumption Variant
1. Purchase of Raw Material (Intra State)	70,000	70,000	70,000
2. VAT on the Raw material purchases (Rs. 70,000x4%)	2,800	2,800	2,800
3. Purchases of Consumables	10,000	10,000	10,000
4. VAT on Consumables (Rs.10, 000x4%)	400	400	400
5. Purchases of Machinery	2,00,000	2,00,000	2,00,000
6. VAT purchases of Machinery (Rs, 2, 00,000 x 4%)	8,000	8,000	8,000
Total VAT Paid on Purchases [2+4+6]	11,200	11,200	11,200
Sale value of goods	2,00,000	2,00,000	2,00,000
VAT @4% (2, 00,000x4%)	8,000	8,000	8,000
Less: VAT paid on Purchase eligible for Input Tax Credit On Raw Materials and Consumables	(3,200)	(3,200)	(3,200)
On Raw Materials [See Working Notes below]	-	(800)	(8000)
A Net Vat Liability /(Credit)	4,800	4,000	(3,200)

Working Notes:

- VAT paid on the Purchase of Capital Goods is not allowed as Credit under Gross Product Variant.
- The VAT paid on Machinery is allowed in proportion to Depreciation under Income Variant .Therefore the VAT Credit allowable is Rs 800 [(8,000x10%)OR(8,000x20,000÷2,00,000)].
- VAT paid on purchase of Machinery is allowed in full under Consumption Variant, since there is no distinction between Capital and Revenue purchase under this method.

T.Q.1. What are the different variants of VAT, and how is deduction available for tax paid on inputs including capital inputs? **(CA PCE Nov., 2007) (3 marks) (CA IPCC Nov. 2009 – 2 marks) (CA PCC May 2010, 3 marks) (CA IPCC Nov. 2010, 4 marks) (Marks 4, CA IPCC May 2011)**

Topic 3

➤ Methods of Computation of VAT

What are the methods for computation of VAT? M09, RTP

Method	Description
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VAT IMPORTANT NOTES FOR ASSESSMENT YEAR 2015-16

Addition Method i.e. value added=factor payments +profit.	1. Suitability: This method is mainly used with income variant of VAT 2. Computation: Step 1: Aggregate all the factor payments including profits to arrive at the total value addition Step2: Apply the rate on Step 1 to calculate the tax 3. Demerits: (a) This method does not easily take exemptions to intermediate dealers (b) It does not facilitate matching of invoice for detecting evasions. (c) There is no benefit of input tax credit
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Explain the Invoice Method of computation of VAT RTP, M09

Method	Description
Invoice Method [M 07, N 07]	1. Suitability : This method is followed under Central Excise Law 2. Salient features: (a) The most important aspect is that at each stage tax is to be charged separately in the invoice (b) This method is also called the Tax Credit Method or Voucher Method a) Computation Step 1: Compute the tax to be imposed at each stage of sales on the total sale value Step2: Set off the tax paid at the earlier stage (i.e. at the stage of purchases of set off) Step3: The differential tax is paid b) Merits: (a) In this method the beneficiary is trade and industry because the tax collection at all stage is very much lesser than the tax received by the State because of the availability of set off tax paid (b) The possibility of tax evasion is reduced to minimum because credit can be claimed only when purchase invoice is produced.

Method	Description
Subtraction method i.e. value added = sales-purchases.	1. Suitability: This method is normally applied where the tax is not charged separately. 2. Salient features: (a) Tax is charged only on the value added at each stage of the sale of goods. (b) There is no tax credit as the total value of goods sold is not taken into account. $\text{Vat liability at each stage} = \frac{\text{Rate of VAT}}{100 + \text{Rate of VAT}} \times \text{Taxable turnover (i.e. value added at each stage)}$ 3. Computation Step 1: Compute the tax to be imposed at each stage of sales on the total sale value Step2: Set off the tax paid at the earlier stage (i.e. at the stage of purchases of set off) Step3: The differential tax is paid

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T.Q.1. Briefly explain the Invoice method of computing tax liability under the VAT system. What are its other names? **(CA PCE Nov. 2007) (3 marks)**

Illustration 1 – Computation of invoice value & VAT liability: Compute the invoice to be charged and amount of tax payable under VAT by a dealer who had purchased goods for ₹ 1, 20,000 and after adding for expenses of ₹ 10,000 and of profits ₹ 15,000 had sold out the same. The rate of VAT on purchases and sales is 12.5%.

(CA PCE Nov. 2007) (3 marks)

Solution: Assuming that the purchases of ₹ 1, 20,000 are exclusive of VAT, the sale price = ₹ 1, 20,000 + ₹ 10,000 + ₹ 15,000 = ₹ 1, 45,000. VAT on sales = 12.5% of ₹ 1, 45,000 = ₹ 18,125.

Invoice value to be charged = ₹ 1, 45,000 + ₹ 18,125 = ₹ 1, 63,125.

VAT on purchases = 12.5% of ₹ 1, 20,000 = ₹ 15,000. VAT payable = ₹ 18,125 – ₹ 15,000 = ₹ 3,125.

Illustration 2 – Computation of VAT liability: Compute the VAT amount payable by Mr. A who purchases goods from a manufacturer on payment of ₹ 2, 25,000 (including VAT) and earns 10% profit on sale to retailers. VAT rate on purchase and sale is 12.5% **(CA PCC June 2009 – 3 Marks)**

Solution: Since the purchases of ₹ 2, 25,000 are inclusive of VAT, therefore, the purchases (exclusive of VAT) = ₹ 2, 25,000 × 12.5 ÷ 112.5 = ₹ 2 Lakh.

Profit of 10% (assumed that profit of 10% is on cost) = 10% of ₹ 2 Lakh = ₹ 20,000. Therefore, Sale price = ₹ 2,00,000 + ₹ 20,000 = ₹ 2,20,000.

VAT on sales = 12.5% of ₹ 2,20,000 = ₹ 27,500

Invoice value to be charged = ₹ 2,20,000 + ₹ 27,500 = ₹ 2,47,500.

VAT on purchases = 12.5% of ₹ 2,00,000 = ₹ 25,000. VAT payable = ₹ 27,500 – ₹ 25,000 = ₹ 2,500.

Illustration 3 – Invoice method: A manufacturer sold goods to distributor for ₹ 20,000. The distributor sold the goods to the wholesaler for ₹ 24,000. The wholesaler sold the goods to the retailer for ₹ 30,000. The retailer sold the goods to the final consumer for ₹ 40,000. The VAT rate is 12.5% which is charged separately. Compute VAT liability under Invoice method. State why this method is preferable? **(Marks 4, CA PCC May 2011)**

Ans: Computation of VAT liability under invoice method:

Sale by-	Sale price (before VAT)	VAT on sales @12.5%	VAT credit	Net payable	VAT
1. Manufacturer	20,000	2,500	0	2,500	
2. Distributor	24,000	3,000	2,500	500	
3. Wholesaler	30,000	3,750	3,000	750	
4. Retailer	40,000	5,000	3,750	1,250	
Total VAT received by the govt.		5,000			

T.Q. 1 Which is the most popular and common method for computing VAT liability and at that Stage is the tax imposed? **(CA PCE May 2007) (2 Marks) (CS Executive Dec. 2008, 5 Marks) (CA PCC June 2009 – 3 Marks) (CA IPCC May 2010, 2 marks)**

Topic- 4

➤ **What are the Tax applicable for various commodities Under VAT, Act?**

Exempted Sale	An Exempted sale is a sale on which –(i) no tax is levied, and (ii) No Input Tax Credit is allowed.
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Coverage of goods under VAT: All the goods, including declared goods are covered Under VAT and are eligible for the benefit of Input Tax credit. The following tables lists out the various categories of VAT rates-

Exempt	Taxable @		
	4%	12.5%	1%
1. Consists of 50 commodities which comprises of: (a) Natural & Unprocessed product in Unorganized sector, (b) Items which are legally barred from taxation (c) Items which have social importance	1. Consists of largest number of goods common for all the states . 2. It comprises of items of basic necessities such as Medicine's Drugs All Agricultural Inputs Capital goods and declared goods	The remaining commodities common for all the states fall under this general VAT rate	precious stones bullion gold and silver ornaments

Generally all goods including declared goods are covered under the vat laws of the respective states and thus get the benefit of input tax credit. However following goods are outside the Vat are-

- 1) **Petrol, diesel, aviation turbine fuel (ATF) or other motor spirit.**
- 2) **Liquor and**
- 3) **Lottery tickets**

T.Q.1. State with reasons in brief whether the following statement is true or false with reference to the provision of Value Added Tax : The VAT Rate on sale of Lottery Ticket is 4% **(CA IPCC Nov. 2009 – 2 Marks)**

[Hint: VAT is imposed only on sale/purchase of goods. Lottery tickets are not 'goods' Hence, there is no VAT on lottery tickets. Hence, the question of rate doesn't arise]

Difference between Zero Rated Sales and Exempted sales

Zero Rated Sales	Exempted Sales
(i) VAT @0%	(i) VAT @ NIL
(ii) Input tax Credit	(ii) No Input Tax Credit
(iv) Dealer in the VAT Chain	(iv) Dealer is out of VAT Chain

T.Q.2 Write a brief note on rates of VAT.

(CS Executive Dec. 2008, 5 marks)

T.Q.3 What are the different rates under VAT system?

(CA IPCC Nov. 2009 – 2 marks)

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➤ **Plain the Input tax Credit in the context of VAT**

Input	Inputs are goods meant for re –sale or use in manufacture, processing of other goods or packing of goods manufactured.
Input Tax	Input tax means the -(1) tax paid for payable under this Act ,(2) by a registered dealer to another registered dealer on the purchase of goods ,(3) including capital goods
Output	Output means sale of goods made by a registered dealer to other registered dealer and Consumers in the course of his business.
Output Tax	Output tax is tax collected on sale of goods from buyer .The output tax is calculated by applying the rate of tax on taxable turnover of these goods.
Dealer	Dealer means any person- 1. who carries on the business of buying ,selling, supplying or distributing goods ,directly or otherwise, 2. whether for Cash /Deferred payment /Commission ,Remuneration /other valuable consideration
Sales	Sales means- 1. every transfer of the property in goods (other than by way of a mortgage ,hypothecation ,charge or pledge, 2. by one person to another , in the course of business 3. For cash, deferred payment or other valuable consideration.

for example Mr. A sells goods valuing Rs. 1 lakh to Mr. B The VAT rate is 4% in this case Mr. A will collect 4,000 (4% of Rs. 1 lakh) from Mr. B this sum of Rs. 4,000 is output tax for Mr. A Mr. B will pay Rs. 1, 04,000 (Rs. 1 lakh towards the price of the goods and Rs. 4000 towards the tax Tax of Rs. 4000 paid by Mr. B Input tax for Mr. A

Topic 5

CARRYING OVER OF INPUT TAX CREDIT OR REFUND OF UNUTILISED INPUT TAX CREDIT

Input tax credit is to be utilized sequentially as under

1. for **payment of VAT**
2. excess credit remaining if any can be **adjusted against CST** for the relevant period

If after set off against VAT & CST payable for concerned period there remains any excess of input VAT credit the same will be eligible to be carried forward to next tax period and so on up to next financial year.

If there is any excess unadjusted input tax credit at the end of second year then the same is required to be claimed as refund

However **some states** grant refund after the end of first financial year itself.

INPUT TAX CREDIT ON CAPITAL GOODS

1. CAPITAL GOODS

➤ Input tax credit on capital goods is available for registered dealers being **traders as well as manufactures**. In order to manufacture goods or trades in such goods a dealer has to purchases capital goods viz. plant and machinery, furniture, fixture, electrical installations, vehicles etc.

➤ Such capital goods if taxable are liable to VAT which is borne by the dealer.

2. Need for input credit on capital goods

- A dealer is required **to pay VAT** on the purchases of capital goods
- such capital goods are used either in the **manufacture of products or in facilitating trade** in the products
- If the credit of VAT paid on capital goods is **not allowed** then the cost of the capital goods and the depreciation thereon will be included in price of the goods thereby leading to **cascading effect of taxation**.

3. **Deferred credit scheme-** The State government have been authorized to allow. 100% credit of VAT paid on capital goods immediately or alternatively on installment basis which cannot exceed 36 month or 3 years like the state of Maharashtra have provided 100% credit in respect of capital goods in the month of purchase of such capital goods. However if the **capital goods are sold** within 36 months or 3 years then the proportionate input credit thereon is **withdrawn**.

INPUT CREDIT ON COMMON GOODS USED FOR TAXABLE GOODS & TAX FREE GOODS

Input VAT credit is allowed only in respect of those goods inputs **which have been used in the manufacture or processing etc of the taxable goods** and in no case input VAT credit is allowed in respect of inputs used in manufacture etc of tax free goods.

Logic behind not allowing credit on inputs used in tax free goods: Input tax credit is necessary to avoid cascading effect of taxation so by not allowing same on tax free goods doesn't amount to cascading

Vat on stock transfer

Meaning of stock transfer:

- a) The transfer of goods made from one state to another otherwise than by way of sale.
- b) The movement of such goods from one state to another should be occasioned by way of-

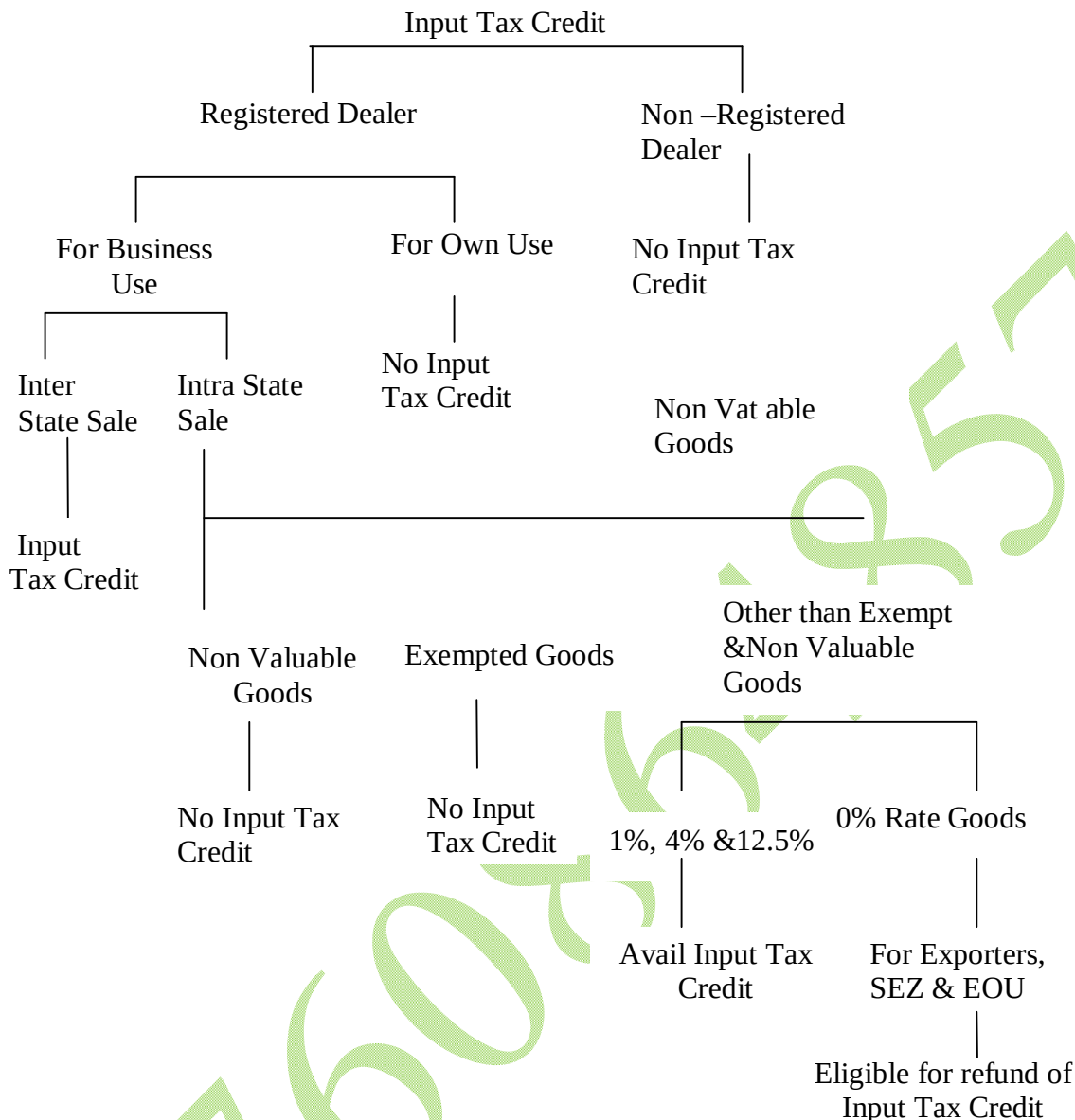
Branch transfer

Transfer to his agent or principle

- c) The burden of proof in case of such transfer lies on the dealer who sends the goods
- d) The dealer who sent the goods (principal/head office) is required to obtain a declaration from the agent /branch in the prescribed form F as per CST act along with the particular to claim vat benefits.

The tax paid on such inputs/goods will be available as input tax credit subject to retention of 2% out of such tax by the state govt. Even for stock transfer/consignment sale of goods out of the state input tax paid is 2%.

For example: Mr ram purchases goods valuing Rs 1 lakh (vat@12.5%) from Rajasthan and transfers the same to his branch located at Delhi in this case out of total input credit of Rs 12500 the credit of only Rs 10500 i.e. excess of 2% i.e. 10.5%(12.5%-2%) of Rs 1 lakh will be available.



Explain the Input tax Credit in the context of VAT

	Examples
(a) Sales or resale within the State	Computers Purchased and sold in Delhi
(b) Sale to other parts of India in the course of interstate trade or commerce	Computers Purchases in Delhi and sold in Andhra Pradesh
(c) To be used as (i) Containers of Packing materials (ii) Raw Materials (iii) Consumable store required for the purpose of manufacture of taxable goods or in the packing of such manufactured goods intended for sale in the state or in the course of inter state trade or commerce	Purchase of carton boxes and other packing materials within Delhi and used in connection with the packing of the manufactured Computer which is sold in Tamil Nadu or a Dealer in Andhra Pradesh

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(d) For being used in the execution of a works contract.	Cement and Steel Purchased by a Construction Company within the state of Delhi for usage in the execution of a civil works Contract
(e) To be used as capital goods required for the purpose of manufacture or resale of taxable goods.	Plant and Machinery installed in factory which manufactures taxable goods.
(f) To be used as (i) Raw materials (ii) Capitals goods (iii) Consumable Stores (iv) packing materials or containers for Manufacturing or packing goods to be sold in the course of export out of Territory of India	Manufacture or traded goods from Delhi being exported to USA
(g) For making zero rated sales other than those referred to in pt. (f) above	

Non availability in Input tax Credit (N 09, N 09, N10,) the following are not eligible for Input Tax Credit –

- Purchase from unregistered dealers.
- Purchase from other States / Countries.
- Purchase of goods used in manufacture of exempted goods.
- Purchase of capital goods (credit is available in installments.)
- Purchase of goods used as fuel in power generation.
- Purchase of goods to be dispatched as branch transfers outside States / Consignment.
- Purchase of goods where the Purchase Invoice is not available with the claimant or there is evidence that the same has not been issued by the selling registered dealer from whom the good are purported to have been purchased.
- Purchase of goods where the dealer does not have invoices showing amounts of tax charged separately by the selling dealer.
- Purchase of non-creditable goods.
- Purchases from a dealer who has opted for composition scheme.
- Goods in stock, which have suffered tax under an earlier Act they are covered under exempted items,
- Purchase of goods used for personal use/ consumption or provided free of charge as gifts (partial credit is available in Maharashtra)

T.Q.1. Explain input tax credit in the context of VAT. **(CA PCC Nov. 08, 3 Marks) (Marks 4, CA IPCC May 2011) (CS Executive Dec. 08, 5 marks) (CA PCC Nov. 08, 3 Marks) (CA IPCC Nov. 09 – 3 Marks) (CA IPCC Nov. 2010, 4 Marks)**

Illustration 1- Computation of VAT: Compute the VAT amount payable by Mr. Shyam, who purchased goods from a manufacturer on payment of ₹ 4, 16,000 (including VAT) and earned 20% profit on purchase price. VAT rate on both purchases and sales is 4%.

(CA IPCC Nov. 2010, 4 Marks)

Ans. Computation of VAT payable by Mr. Shyam (amounts in ₹)

Payment made to manufacturer	4,16,000
Less : VAT paid $[(4,16,000/104) \times 4]$	16,000
Purchase price	4,00,000

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Add : Profit margin @20% on purchase price (Purchase price is the "cost" of purchase)	80,000
Sale price before VAT	4,80,000
VAT @4% on sale price before VAT of ` 4,80,000	19,200
Less : Input credit	16,000
VAT payable by Mr. Shyam	3,200

Illustration 2 – VAT payable: Mr. Goenka, a trader selling raw materials to a manufacturer of finished products. He imports his stock in trade as well as purchases the same from the local markets. Following transaction took place during financial year 2011-12. Calculate the VAT and invoice value charged by him to a manufacturer. Assume the rate of VAT @12.50% (amounts in `)

(Marks 5, PCC Nov. 2009)

Cost of imported materials (from other State) excluding tax	1,00,000
Cost of local materials including VAT	2,25,000
Other expenditure includes storage, transport, interest and loading	
And unloading and profit earned by him	8, 75,000

Solution: Computation of VAT and invoice value (amounts in `)

Cost of imported materials from other state	1,12,500
(It is a case of inter-state sale, which is liable to Central Sales Tax. The CST is imposed @2% in case of registration dealers with furnishing of prescribed form. However, since the question specifically states that the VAT rate is to be assumed to be 12.5%, hence, it is assumed that the prescribed form is not furnished and, therefore, CST Rate = VAT rate = 12.5%)	
[No credit is available of CST paid for imports from other states. Hence, such amount is liable to be included in the cost of goods. Hence, cost = 1 lakh + 12.5%]	
Cost of local materials including VAT	2,00,000
[VAT on local materials purchased inside the state is eligible as input credit; hence, the same doesn't form part of cost. Accordingly, cost of local materials = $225000 \times 100 \div 112.5$]	
Other Expenditure and profits	87,500
Total Sale Price	4,00,000
Add : VAT @ 12.5%	50,000
Total Invoice Value	4,50,000
VAT Payable : VAT on sales	50,000
Less : VAT on imported materials – No credit available	NIL
VAT on local materials [$225000 \times 12.5 \div 112.5$]	25,000
Net VAT payable	25,000

Topic 6

Exemption or Refund to Special Economic Zone (SEZ) and Oriented units (EOU)

Unit located in Special Economic Zone (SEZ) and Export Oriented Units (EOU) are granted either exemption from payment of input tax or refund of the input tax paid within three months state governments may reduce the time period of 3 months.

Difference between Zero Rated Sales and Exempted sales

Zero Rated Sales	Exempted Sales
(I) VAT @0%	(I)VAT @ NIL
(ii) Input tax Credit	(ii) No Input Tax Credit
(iv) Dealer in the VAT Chain	(iv) Dealer is out of VAT Chain

➤ **Merits of VAT**

- (i) No Cascading effect.
- (ii) Price will be reduced
- (iii) No statutory forms
- (iv) Lower Tax Evasion.
- (v) Simplicity and transparency
- (vi) Better Accounting Systems
- (vii) Neutrality
- (viii) Uniformity
- (ix) Self Assessment
- (x) Easy revenue collection.

➤ **Demerits of VAT**

- (i) No credit for tax paid on Inter-state purchases
- (ii) Increase in Accounting Cost
- (iii) Increase the working capital requirements.
- (iv) Inflationary
- (v) Iniquitous.
- (vi) Administration cost

T.Q. 1. Briefly explain how VAT helps in checking tax evasion and in achieving neutrality. (CA PCC May, 2008) (3 marks)

T.Q. 2. Does the VAT system bring certainty to a great extent? (CA PCE Nov. 2007) (2 marks) (CA PCC June 2009 – 2 marks)

T.Q. 5. Do you agree with the statement the 'Tax cannot be evaded under VAT system'? (CA PCC May 2010, 2 marks) (CA IPCC May 2010, 2 marks) (CA IPCC May 2010, 3 Marks) (CA PCC Nov, 2010, 4 Marks) (CA PCE Nov. 2007) (2 Marks) (Marks 3, CA PCC Nov. 2009) (Marks 4, IPCC May 2011)

Topic- 7

COMPOSITION SCHEME – LEGAL PROVISIONS:

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1. **Discharge of VAT liability under Composition scheme:** The dealers having turnover higher than threshold exemption limit of Rs. 5 lakh (or increased limit of Rs. 10 lakh) **but not exceeding Rs. 50 lakh** can opt for composition scheme
2. Provisions of the scheme: The scheme may have one or more of the following provisions
 - (a) The rate of composition tax may be reduced up to 0.25%
3. However the following person shall not be eligible to opt for composition scheme.
 - A) A manufacture or a dealer who sell goods in the course of inters state trade of commerce i.e. dealers effecting inter state sale only or
 - (a) a dealer who sells goods in the course of import into a export out of the territory of India i.e. importers and exporters or
 - (b) a dealer transferring goods outside the state otherwise then by way of sale or for execution of works contract i.e. branch transfer viz consignor etc or works contractors
4. Mode of exercising option for availment of Composition scheme or conditions to be fulfilled by the dealer accepting the composition scheme
 - (a) Option the composition scheme is generally optional for the dealers
 - (b) Option the dealer intending to avail such composition scheme will have to exercise the option in writing for a year or a part of the year in which he gets himself registered the option so exercised shall be intimated to the Commissioner having jurisdiction over him
 - (c) No need to maintain statutory records If a dealer avails' of the composition scheme.
 - (d) No interstate purchases the dealer option for composition scheme should not have any stock of goods which were brought from outside the state on the day he exercise his option to pay tax under composition scheme

Registration

1. **Obligatory Registration:** Registration means obtaining certificate of registration from the VAT authorize. A registered dealer means a dealer registered under the VAT Act, of the respective state
2. **Requirement Eligibility for registration:** Dealers having turnover up to 5 lakh (or increased limit of Rs. 10 lakh) need not obtain registration while for others registration is mandatory all existing dealers under the state level tax laws have been deemed to be registered under the VAT Act.
3. **Application for Registration:** An application for registration is required to be made in prescribed form along with prescribed security to the Commissioner or any other specified authority within prescribed time period generally 30 days
4. **Compulsory Registration:** If an assessee though required doing so fails to obtain registration under the VAT Act, he may be compulsorily registered by the Commissioner with the following result
 - (a) The Commissioner may assess the tax due from him on the basis of evidence available with him
 - (b) The assessee shall have to pay such amount of tax forth with
 - (c) He will be liable to penalty for such default and
 - (d) He will not be eligible to set off input tax credit related to period prior to compulsory registration
5. **Voluntary registration:** A dealer for whom it is not obligatory to obtain registration if the commissioner is satisfied that the business of the applicant required registration
The commissioner may also impose any terms of conditions that he thinks fit
6. **Cancellation of registration:** The registration is liable for cancellation in any of the following cases
 - (a) Permanent discontinuance of business or

- (b) Disposal of business or
- (c) Transfer of business to a new location or
- (d) Annual turnover of a manufacture or a trader dealing in designated goods or service falling below the specified amount or
- (e) Dealer has failed to furnish requisite security or has committed fraud misrepresentation of fact,

T.Q. 1. Is any threshold exemption limit fixed for dealers to obtain VAT registration, as per the White Paper? If yes, why is the same provided? **(CA IPCC May 2010, 2 marks)**

T.Q. 2. What are the conditions to be fulfilled by the dealer accepting the composition scheme under the Value Added Tax? **(CA IPCC Nov. 2010, 4 Marks)**

T.Q. 3. M/s. Staruss & Co., a registered dealer under the local VAT law, having stock of goods purchased from outside the State, wishes to opt for the Composition Scheme. Advise him whether the same possible. Will VAT chain be broken if the dealer opts for the said scheme? **(Marks 4, CA IPCC May 2011)**

[Ans. : It is provided in the VAT laws that a dealer opting for composition scheme should not have any stock of goods which were brought from outside the State on the day he exercise his option to pay tax under composition scheme. Since M/s. Strauss & Co. has stock of goods purchased from outside the State, hence, it shall not be eligible for Composition Scheme M/s. Strauss & Co. can opt for Composition Scheme only after the stock of goods purchased from outside the State ends.

Further, once the option for composition scheme is exercised, the dealer shall not use any goods brought from outside the State.

As soon as the Composition Scheme is opted, the dealer can neither avail the credit on input, nor issue VAT-able invoices to pass on credit of tax paid on output, thereby, breaking the VAT Chain.]

T.Q. 4. Is the VAT chain continued when a purchasing dealer opts for VAT composition scheme? What is the loss to the seller and buyer opting for the composition scheme, and the subsequent buyers? **(CA IPCC May 2010, 2 Marks)**

T.Q. 5 Under what circumstances registration can be cancelled under VAT? **(CA IPCC Nov. 09 – 2 marks)**

Topic 8

VAT Invoice:-

Invoice is a document listing goods sold with price, tax charged and other details as may be prescribed and issued by a dealer authorized under the Act.

Provisions relating to Invoice:-

- (i) Every registered dealer whose turnover of sales exceeds the specified amount shall issue to the purchaser a serially numbered tax invoice, cash memo or bill with the prescribed particulars.
- (ii) The tax invoice shall be dated and signed by the dealer or his regular employee, showing the required particulars.
- (iii) A tax invoice shall be issued in duplicate;
The original being for the purchaser and
The duplicate to be retained by him as selling dealer

Contents of VAT 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, address and registration number of the selling dealer;
- (iii) name, address and registration number (if purchasing dealer is registered) of the purchasing dealer;

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- (iv) per-printed or self-generated serial number and date of issue of Tax invoice;
- (v) description, quantity and value of goods sold;
- (vi) rate and amount of tax charged in respect of taxable goods;
- (vii) signature of the selling dealer or his regular employee duly authorized by him for such purpose;

Tax Identification Number:-

A system of audit checks will have to be established to keep check on bogus invoices. One essential requirement is to give TIN (Tax Identification Number) to all registered dealers, so that a check is maintained that

- (a) The tax as shown in the invoice has indeed been paid
- (b) There is no double credit on basis of same invoice. TIN will have to be indicated on each Invoice issued. It will be an 11 digit numerical code. First two digits will indicate State code.

Show the format of a tax Invoice

No prescribed statutory format is given for tax invoice in any state VAT Act; a proforma might look as below-

SELLER NAME	TAX INVOICE – ORIGINAL BUYERS COPY
ADDRESS	TAX INVOICE NO.
PHONE NO.	DATE
VAT REGISTRATION NO.	CHALLAN NO. AND DATE
CST REGISTRATON NO.	BUYERS NAME AND ADDERES
	BUYERS VAT REGISTRATION NO. (IF ANY)

Sino.	Quantity	Description of goods	Price p.u	Value (Rs.)	VAT Rate	Tax Amount	Total

Rupees in Figures

E&O.E

(Selling Dealer or his authorized Employee

Signature

T.Q. 1. State importances of VAT invoice/tax invoice in administrating VAT.

(CA IPCC May 2010, 3 marks)

T.Q.2. Briefly list out the contents of VAT invoice. (Any eight items)

(Marks 4, CA IPCC May 2011) (Marks 4, CA PCC may 2011)

Records:-

The following records should be maintained under vat system.

- (i) Purchase records
- (ii) Sales records (within state sales / inter state sale)
- (iii) VAT account
- (iv) Separate record of any exempt sale

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- (v) Inter state transfer of goods

Documents to be retained:-

- (i) Copies of Sale Invoices issued, in serial number;
- (ii) Copies of all credit and debit notes issued;
- (iii) All purchase invoices,
- (iv) Credit and debit notes received from supplier;
- (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, as the case may be at the end of each month.

Period of Preservation:-

All such records shall be preserved for such period as specified in the respective state provisions.

T.Q. 3. What record should be maintained under VAT system by a registered dealer? **(CA IPCC Nov. 2010, 4 Marks)**

VAT Returns:-

Under VAT laws there are simple forms of returns. Returns are to be filed monthly/ quarterly/ annually as per the provisions of the state Acts / Rules. Returns will be accompanied with the payment challans.

Return filing procedures under VAT laws are designed with the objective of;

- (i) Reducing the compliance costs incurred by the business in completing and filing their returns; and
- (ii) encouraging businesses to comply with their obligations to file returns and pay VAT through the application of penalties in case of late payment of VAT and late filing of returns; and
- (iii) Ensuring the efficient processing of the data included in the returns.

T.Q. 4. Discuss filing of Return under VAT.

(CA IPCC Nov. 09 – 3 marks)

Topic 9

Role of Chartered Accountant in VAT:-

Chartered Accountants have a key role to play in proper implementation of VAT.

- (i) Record Keeping:-**
- (ii) Tax planning:-**
- (iii) Negotiations with suppliers to reduce price:-**
- (iv) Handling the audit by departmental officers:-**
- (v) External audit of VAT records:-**

Role of ICAI in VAT:-

While the various state Government have issued detailed clarifications on practical issues arising in accomplishment of VAT, the ICAI is rendering pioneering service in evolving the necessary accounting guidelines both for CENVAT as well as state level

VAT. The ICAI has brought out the following:

- (1) Guidance Notes for accounting for CENVAT as well as State level VAT. These guidance Notes address all the accounting issues in regard to CENVAT and State- Level VAT.
- (2) A comprehensive study on State-Level VAT in India. It contains an elaborate discussion of the various general principles of VAT and State Level VAT. These general principles have been incorporated in the various Stat- Level VAT legislations.

T.Q.1.How can a Chartered Accountant help a client in the handling of VAT audit called for by the Department and in conducting external audit of VAT records?

(Marks 4, CA IPCC May 2011) (Hind: Points (4) and (5))

Miscellaneous

Audit under VAT:-

Correctness of self-assessment will be checked through a system of departmental audit. A certain percentage of the dealers will be taken up for audit every year on a scientific basis. If, however, evasion is detected on audit, the concerned dealer may be taken up for audit for previous periods.

T.Q.2 State with reasons in brief whether the following statements are correct or incorrect with reference to the provision of Value Added Tax.

(CA IPCC Nov. 2010, 2 × 2 = 4 Marks)

- (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.

Ans. (i) Incorrect: One of the requirements under the contents of 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. Different State have determined different turnover limits above which a registered dealer will have to get its books of accounts audited under VAT laws.