

TRAINING SCHEDULE WITH MATERIAL ON VAT

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HIPA COMPLEX-76, SECTOR-18
GURGAON.
JUNE-2002.**

Time Table of the Training Course

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Day IV	Session I	Numerical examples of calculating VAT liability of a dealer.
	Session II	Numerical examples of calculating VAT liability of a dealer.
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Day I	Session I	Introduction of Tax Structure in a State. Meaning of the term "Goods". Concept of 'Sale'. Definition of 'Sale'.
	Session II	Constitutional powers of the State to levy tax. Mention of the Articles of the Constitution of India relating to the powers and domain of the State for levying tax on the sale or purchase of goods within the State. Main features of the present system of the taxation of the States. Shortcomings in the present system of taxation of the States.

I	Session III	<p>Removal of defects of the present system of the taxation in the States.</p> <p>What is VAT.</p> <p>Benefits of VAT.</p> <p>Progress towards implementation of VAT in India.</p>
	Session IV	<p>Methods of computation of VAT.</p> <p>(a) Addition Method.</p> <p>(b) Subtraction Method.</p> <p>(c) Tax credit or Invoice Method.</p> <p>Advantages and Adoption of Tax Credit Method.</p> <p>Examples of Tax Credit Method.</p>

Session – I

Objectives

In this session we shall discuss about the basic form of sale tax structure of a State and the two pillars on which the entire structure has been constructed - one is known as 'goods' and the other is 'sale'.

Session – I

- **Introduction of Tax Structure in a State.**
- **Meaning of the term “Goods”.**
- **Concept of ‘Sale’.**
- **Definition of ‘Sale’.**

Introduction of Tax Structure

The main collection of revenue of a State in India is by way of tax levied on the sale or purchase of goods effected within the State. Under the State Sales Tax Act, tax is levied either at the 1st point or the last point of sale or purchase in the State. In each State there is a large list of exempted goods on which no tax is leviable. This list has been experiencing a lot of changes for one reason or the other. Similarly various incentives have been provided by almost every State for establishing new industries in the State. There has also been a large number of rates of tax leviable on sale or purchase of different goods. The rate of tax leviable on the sale or purchase of a particular type of goods has also been changing since the inception of the State Act either for the increase in the revenue of the State or to fulfill the promise given to the public at the time of Election by the Ruling Party or to facilitate diversion of the business in the State from the neighbouring States resulting in the generation of more revenue. Many a time, the stage of levy of tax on a particular type of goods has been changed, either levy of tax has been made at the 1st point of sale or purchase or at the last point of sale or purchase of goods to satisfy the demands of a particular Trade/Manufacturing community. Thus the tax structure has become so complex and complicated in each State that it is very difficult for a common man to conduct business without any hassles. Similarly sales tax officials are also facing difficulties in enforcing the provisions of the Sales Tax Act. This has resulted into large increase in the litigation under the Sale Tax Act in each State. Thus the business men and the tax officials are to spend most of their time in the litigation. To mitigate these problems a new system of taxation is required in the State and thus VAT is the need of the hour. In ideal VAT regime, there are only one or two rates of tax common in all the States and tax is

levied on the value added at each stage of sale. The list of exempted goods is also very small and is common in all the States. Thus with the introduction of VAT which shall be discussed in detail in the subsequent sessions later on, the tax structure will be very simple, hassle-free, export oriented and will lead to a better tax compliance. This will also facilitate the country to capture a sizable share in the Global Market on account of increase in the export of goods out of the territory of the country.

What are Goods :

Goods in the tax structure means every kind of moveable property other than newspapers, actionable claims, money, stocks, shares and securities. Generally, speaking, all moveable things which contain matter excluding newspapers, actionable claims, money, stocks, shares and securities are goods.

An “actionable claim” generally means a claim to any debt. The claims paid by carriers, bailees, insurance companies etc. for loss or damage in transit of a consignment are actionable claims and are not goods.

Following have been held to be goods:

<u>Sr. No.</u>	<u>Name</u>	<u>Case Laws</u> <u>(STC-stands for Sales Tax Cases</u> <u>& SC for Supreme Court)</u>
1.	Steam	8-STC-61 at page 68
2.	Electricity	25-STC-188 (SC)
3.	Copy Right	20-STC-115
4.	Replicenses and Exim Scrips	102-STC-106 (SC)
5.	Captive Animals and Birds (Live Stock)	60-STC-89
6.	Standing Trees, Crops and Other Things attached to or forming part of the land which are agreed to be severed under the contract of sale	27-STC-116 (SC)
7.	Lottery Tickets	61-STC-165 (SC)
8.	SIM Card for cellular phone	126-STC-475

It may be mentioned here that (i) law journals such as All India Reporter are newspapers (70-STC-349)(SC) (ii) old newspapers when sold as such are newspapers (85-STC-1)(SC) but when unsold surplus copies of newspapers are disposed off by weight as waste papers, their sale cannot be regarded as the sale of newspapers (67-STC-474)(SC).

Concept of Sale:

The expression “Sale of Goods” has the same meaning which it had in the Common Law of England and in the Sale of Goods Act, 1930. Sale of goods has been specified in section 4 of the Sale of Goods Act, 1930. In order to constitute a sale under the said provision, there must exist the following four elements or ingredients:-

- i) bargain or agreement of sale;
- ii) the payment or promise of payment of price;
- iii) the delivery of goods and
- iv) the transfer of property from the seller to the buyer.

If any one ingredient or more is absent in a transaction, it could not constitute sale of goods.

Agreement of Sale

The agreement of sale may be in writing or oral or by mutual discussion and consent of parties or due to superimposition or compulsion by a statute or control order. In order to constitute a sale, it is not necessary that there should be a contract in writing. Such an agreement may be oral and may be in the nature of an understanding arrived at between the parties (38-STC-19).

It may be mentioned here that where the parties have a choice or option to mutually agree upon any one or more of the elements or ingredients of sale, although the other elements are controlled or regulated by the statute or control orders, the transaction must be held to be a sale within meaning of section 4 of the Sale of Goods Act, 1930. But where all the requisite ingredients or elements of sale are controlled or regulated by a statute or control order, whereby the contracting parties have been left without any choice or option but to transact

business due to statutory compulsion, such transactions must be termed as “compulsory acquisition” of property but not a sale (42-STC-31)(SC).

Distinction between the Sale and Agreement to Sell

There is a vital distinction between the Sale and Agreement to Sell. In a sale there is a transfer of property in the goods from the seller to the buyer while there is no such transfer in an agreement to sell. An agreement to sell becomes a sale when the property in the goods is transferred to the buyer (34-STC-65 at page 69) (SC).

Distinction between an Agreement of Sale and an Agreement of Agency

The essential distinction between an agreement of sale and an agreement of agency is that, in the former case, the property is sold by the seller as his own property and, in the latter case, the property is sold by the agent not as his own property but as the property of his principal and on his behalf (40-STC-42)(SC).

When does property pass ?

The Supreme Court in 16-STC-213 has held that property shall pass from the seller to the buyer when the contract of sale is made except in conditional sale.

Existence of Two Entities

A sale contemplates transfer of property. Hence before a transaction can be said to be a “Sale” there must be two entities involved in that transaction, so that there may be a transfer of property in the goods sold. Therefore, it could not be said that a person can sell goods to himself (43-STC-476).

A mere transfer of goods by a dealer from one place to another cannot amount to sale there of (31-STC-585)(SC). Similarly transfer of goods from Head

Office to Branch or vice versa or between two branches of the same does not constitute sale of goods (66-STC-64).

Sphere of the State Legislature and the Parliament

The State Legislature cannot treat as sale any transaction which is not a sale within the meaning of that expression in the Sale of Goods Act, 1930 (8-STC-417).

The Parliament is entitled to extend the meaning of sale from that in the Sale of Goods Act and it could therefore treat any transaction as a sale even though it would not be a sale within the meaning of Sale of Goods Act, 1930 (45-STC-368 at page 370).

Sale of goods in Works Contract

It has been laid down in (9-STC-353) by the Hon' ble Supreme Court that in case of one, entire and indivisible works contract there was no sale. However if there existed distinct and separate contracts, one for the transfer of material for money consideration and other for payment of remuneration for services and for work done, the position would be different and in that case the States will be competent to levy tax on the sale and supply of material which in fact were supplied under different agreements altogether. As a result of 46th Constitutional Amendment Act, 1982 which came into force on 02.02.1983--

1. the definition of sale and purchase was enlarged.
2. the States were empowered to enact laws to levy tax on the enlarged meaning of sale or purchase of goods taking place within the State.
3. the Parliament was empowered to enact laws to levy tax on the consignment of goods (whether consignment is to the person making it or to any other person) where such consignment takes place in the course of inter-State-trade or commerce.

4. a single and indivisible contract was brought at par with a contract containing two separate agreements one for sale of goods and other for supply of labour and services.

Sale and purchase are different aspects of the same transaction

A sale and a purchase are different aspects of the same transaction. If we look at it from the standpoint of the purchaser it is purchase and if we look at it from the standpoint of the seller it is a sale. Whether purchase or sale, it shall have the same ingredients.

Definition of 'Sale'

Sale :- Sale means transfer of property in goods for cash or deferred payment or other valuable consideration except a mortgage, hypothecation, charge or pledge and includes

- (i) the transfer, otherwise than in pursuance of a contract of property in any goods for cash, deferred payment or other valuable consideration ;
- (ii) the transfer of property in goods (whether as goods or in some other form) involved in the execution of works contract ;
- (iii) the delivery of goods on hire purchase or any system of payment by installments;
- (iv) the transfer of the right to use any goods for any purpose (whether or not for a specified period) for cash, deferred payment or other valuable consideration ;
- (v) the supply of goods by any un-incorporated association or body of persons to a member thereof for cash, deferred payment or other valuable consideration ;
- (vi) the supply, by way of or as part of any service or in any other manner whatsoever, of goods, being food or any other article for human consumption or any drink (whether or not intoxicating), where such supply or service, is for cash, deferred payment or other valuable consideration ;

and such transfer, delivery or supply of any goods shall be deemed to be a sale of those goods by the person making the transfer, delivery or supply and a purchase of those goods by the person to whom such transfer, delivery or supply is made.

Important Case Laws in respect of Sale

The important case law in respect of sale of goods in the execution of a works contract is 88-STC-204(SC) and sale in respect of right to use any goods is 119-STC-182.

Session – II

Objectives

In this session the main discussion will be on the source of powers of the State to levy tax on the sale or purchase of goods taking place within the State. Various Articles of the Constitution of India regarding taxing the sale and purchase of goods by the State. The main features and short-comings in the present system of taxation of the State.

Session – II

- **Constitutional powers of the State to levy tax.**
- **Mention of the Articles of the Constitution of India relating to the powers and domain of the State for levying tax on the sale or purchase of goods within the State.**
- **Main features of the present system of the taxation of the States.**
- **Shortcomings in the present system of taxation of the States.**

Constitutional powers of the State to levy tax.

Prior to the coming into force of the Constitution of India, the States were authorised to levy tax on the sale of goods by virtue of Entry No.48 of List II of the Seventh Schedule of the Government of India Act, 1935. The said Entry No.48 read as under :-

“Tax on the sale of goods and Advertisement”

Now the States are authorised to levy tax on the sale or purchase of goods by virtue of Entry No.54 of List II of the Seventh Schedule of the Constitution of India as per Article 246(3) of the Constitution of India.

Entry 54 of List II of the Seventh Schedule of the Constitution of India, which authorises the States to levy tax on the sale or purchase of goods is read as under :-

“Tax on the sale or purchase of goods other than newspapers, subject to the provision of Entry 92A of List-I.”

Parliament is competent to enact laws to levy tax in respect of Entry 92-A of List I and Entry 92-B of List-I which are as under:-

Entry 92-A List I: Taxes on the sale or purchase of goods other than newspapers, where such sale or purchase takes place in the course of inter-State-trade or commerce.

Entry 92-B of List-I: Taxes on the consignment of goods (whether the consignment is to the person making it or to any other person), where such consignment takes place in the course of inter-State-trade or commerce.

No law has been enacted by the Parliament to levy tax on the purchase of goods taking place in the course of inter-State-trade or commerce. Similarly no law has been enacted by the Parliament to levy tax on consignment of goods taking place in the course of inter-State-trade or commerce. Thus the States are competent to enact laws to levy tax either on sale or purchase of goods taking place within the State. Both the purchase and the sale of goods in the same transaction could not be taxed within the State. The expression ‘Sale of goods’ occurring in Entry 54 of List-II of the Seventh Schedule of the Constitution of India cannot be construed in the popular sense but only in terms of the meaning specified in section 4 of the ‘Sale of Goods Act, 1930’. Accordingly, the transaction of a sale of goods which is liable to tax, there must be occurrence of the four elements viz. (1) Parties competent to contract (2) Mutual assent (3) A thing, the absolute or general property of which is transferred from the seller to the buyer and (4) a price in money paid or promised. The States are not competent to extend the meaning of sale from that in the Sale of Goods Act while the Parliament could do so. It may be mentioned here that the property shall pass from the seller to the buyer when the contract of sale is made except in conditional sale.

Articles of the Constitution of India dealing with the powers and restrictions on the State Legislature to levy tax.

There are various Articles in the Constitution of India which empower the Union Parliament and the State Legislature to levy taxes on the sale or purchase of goods and also impose restrictions on the State Legislatures. These Articles are as under :-

1. Article 246
2. Article 265
3. Article 269
4. Article 286
5. Article 301
6. Article 302
7. Article 366 (29A)

Article 246

The power of taxation springs from the provisions contained in Article 246. There are various Schedules in the Constitution of India. The Seventh Schedule in the Constitution of India has 3 lists called Union List(List I), State List(List II) and Concurrent List(List III). The Article deals with distribution of legislative powers and fixes the fields within which Union and State Legislature are to operate. Union Parliament has full and exclusive power with respect to matters in List I and has also powers to legislate with respect to matters in List III. The State Legislature has exclusive power to legislate in respect to matters in List II. It can also legislate in respect of matters in List III but where such legislation comes in conflict with Central Legislation then, it has to give way to it.

Article 246 reads as under: -

Article 246-Subject-Matter of Laws made by Parliament and by the Legislatures of States

- (1) Notwithstanding anything in clauses (2) and (3), Parliament has exclusive power to make laws with respect to any of the matters enumerated in List I in the Seventh Schedule (in this Constitution referred to as the 'Union List').
- (2) Notwithstanding anything in Clause (3), Parliament, and subject to clause (1) the Legislature of any State also, have power to make laws with respect to any of the matters enumerated in List III in the Seventh Schedule (in this Constitution referred to as 'Concurrent list').
- (3) Subject to Clauses (1) and (2), the Legislature of any State has exclusive power to make laws for such State or any part thereof with respect to any of the matters enumerated in List II in the Seventh Schedule (in this Constitution referred to as the 'State List').
- (4) Parliament has power to make laws with respect to any matter for any part of the territory of India not included in a State notwithstanding that such matter is a matter enumerated in the State List.

Article 265

The above mentioned Article requires that: -

- (i) there must be a law
- (ii) the law must authorise the text and
- (iii) the tax must be levied and collected according to law.

Tax illegally levied must be refunded. There must not be unjust enrichment.

Article 265 reads as under: -

Article 265- Taxes not to be imposed save by authority of law.

No tax shall be levied or collected except by authority of law.

Article 269

The above mentioned Article specifies the duties which are levied and collected by the Union but are assigned to the States and do not form part of the Consolidated Fund of India. This Article also authorises the Parliament to enact laws to levy tax on the consignment of goods (whether the consignment is to the person making it or to any other person), where such consignment takes place in the course of inter-State-trade or commerce.

Article 269 reads as under: -

Article 269- Taxes levied and collected by the Union but assigned to the States.

- (1) The following duties and taxes shall be levied and collected by the Government of India but shall be assigned to the States in the Manner provided in clause (2), namely,-
 - (a) duties in respect of succession to property other than agricultural land;
 - (b) estate duty in respect of property other than agricultural land;
 - (c) terminal taxes on goods or passengers carried by railway, sea or air;
 - (d) taxes on railway fares and freights;
 - (e) taxes other than stamp duties on transaction in stock exchanges and futures markets;
 - (f) taxes on the sale or purchase of newspapers and on advertisements published therein;

- (g) taxes on the sale or purchase of goods other than newspapers, where such sale or purchase takes place in the course of inter-State-trade or commerce;
 - (h) taxes on the consignment of goods (whether the consignment is to the person making it or to any other person), where such consignment takes place in the course of inter-State-trade or commerce.
- (2) The net proceeds in any financial year of any such duty or tax, except in so far as those proceeds represent proceeds attributable to Union territories, shall not form part of the Consolidated Fund of India, but shall be assigned to the States within which that duty or tax is leviable in that year, and shall be distributed among those States in accordance with such principles of distribution as may be formulated by Parliament by law.
- (3) Parliament may by law formulated principles for determining when a sale or purchase of, or consignment of, goods takes place in the course of inter-State-trade or commerce.

Article 286

The above mentioned Article provides for the restrictions to be followed by the Constituent States in the Union in the matter of levy of Sales Tax on the sale or purchase of goods declared by Parliament to be of special importance in inter-State-trade or commerce.

Article 286 reads as under: -

Article 286 : Restrictions as to imposition of tax on the sale or purchase of goods.

- (1) No law of a State shall impose, or authorise the imposition of, a tax on the sale or purchase of goods where such sale or purchase takes place -

- (a) outside the State; or
 - (b) in the course of the import of the goods into, or export of the goods out of the territory of India.
- (2) Parliament may by law formulate principles for determining when a sale or purchase of goods taken place in any of the ways mentioned in clause (1).
- (3) Any law of a State shall, in so far as it imposes, or authorises the imposition of—
- (a) a tax on the sale or purchase of goods declared by Parliament by law to be of special importance in inter-State-trade or commerce, or
 - (b) a tax on the sale or purchase of goods, being a tax of the nature referred to in sub-clause (b), Sub-clause(c) or sub –clause(d) of clause (29-A) of Article 366.

be subject to such restrictions and conditions in regard to the system of levy, rates and other incidents of the tax as Parliament may by law specify

Article 301 reads as under: -

Article 301- Freedom of trade, commerce and intercourse

Subject to other provisions of this part, trade, commerce and intercourse throughout the territory of India shall be free.

Article 302 reads as under: -

Article 302- Power of Parliament to impose restrictions on trade, commerce and intercourse

Parliament may by law impose such restrictions on the freedom of trade, commerce or intercourse between one State and another or within any part of the territory of India as may be required in the public interest.

Article 366 (29-A)

This sub Article (29-A) has widened the scope of 'sale' so as to include in it sale like transactions i.e. transactions in the nature and character of works contract, hire purchase and lease. Thus it has conferred legislative competence in respect of the matter the State Legislature was not competent to legislate earlier.

Article 366 (29-A) reads as under: -

“(29 -A) ‘tax on the sale or purchase of goods’ includes —

- (a) a tax on the transfer, otherwise than in pursuance of a contract, of property in any goods for cash, deferred payment or other valuable consideration;
- (b) a tax on the transfer of property in goods(whether as goods or in some other form) involved in the execution of a works contract.
- (c) a tax on the delivery of goods on hire purchase or any system of payment by instalments;
- (d) a tax on the transfer of the right to use any goods for any purpose(whether or not for specified period) for cash, deferred payment or other valuable consideration;
- (e) a tax on supply of goods by any unincorporated association or body of persons to a member thereof for cash, deferred payment or other valuable consideration.
- (f) a tax on the supply, by way of or as part of any service or in any other manner whatsoever, of goods, being food or any other article for human consumption or any drink (whether or not intoxicating), where such supply or service is for cash, deferred payment or other valuable consideration.

and such transfer, delivery of supply of any goods shall be deemed to be a sale of those goods by the person making the transfer, delivery or supply and a purchase of those goods by the person to whom such transfer, delivery or supply is made.”

Main features of the present system of the taxation of the States.

1. Levy of taxes at the manufacturer level/Ist stage of sale :-

Mainly tax is levied at the manufacturer level or at the Ist point of sale and the determination of assessable value is troublesome. The manufacturers generally sell their products through their own distributors or through the wholesalers and sometimes directly to the customers. The determination of taxable value at the Ist stage of sale in the State involves careful examination of legitimate trade margins at different trade levels. Particularly sales between related entities also require careful examination. Taxation of sales at the Ist point also increases the risk to revenue because the entire tax burden is concentrated at one stage of sale. To achieve the revenue target, rate of tax has to be enhanced as the base is not wider. Higher rates of tax induce evasion of tax. To check evasion of tax, stringent anti-evasion measures are required which are not easy to enforce in the present set-up.

2. Exclusion of services :-

As per the Constitution of India tax can be levied either on the sale or purchase of goods and the services could not be subjected to tax. In modern economies, services are often an integral part of manufacturing and trade. Taking advantage of the definitional ambiguities and the exclusion of services, manufacturers have tried to minimise the assessable or taxable value of their products by making sales at artificially low values to a related distributor/wholesaler and by claiming discounts for the so called 'post manufacturing services' e.g. transportation, installation and warranty services.

Taxation of goods at manufacturer/1st point level is on a base that does not include distribution margins and associated services ; tends to distort producer and consumer choices. Items which carry large trade margins such as luxury products are favoured over essential consumer goods. It also provides an incentive for producers to push as many trading functions forward as possible to keep down the assessable value of their products.

3. Taxation of Inputs and Capital goods :-

In most of States in India, manufacturers have to pay tax either on the sales or purchases of inputs and capital goods used in the manufacturing process with no set off. This leads to cascading and constitutes another major source of economic distortion. Cascading inhibits specialisation and thus efficiency in industrial production. In many States there is now a turnover tax which falls on all commodities including inputs at more than one point of sale but does get relieved. This causes cascading and induces vertical integration with all its attendant evils.

4. High & multiple rates with too many exemptions & Concessions:-

The rates of tax are fixed at a higher level to raise the same amount of revenue. Finding it difficult to increase the rate of tax any further, the States are now resorting to additional levies like turnover tax, additional sales tax, surcharge and so on, making the system totally non-transparent and the tax incidence arbitrary and un-predictable. This also provides incentives for evasion and avoidance of tax and generates pressure for exemptions and concessions. Thus there is large number of classification(sometimes hair splitting) of commodities.

5. Complex laws and administration :-

Strict tax laws have been enacted to have a check on the evasion and avoidance of tax and simultaneously elaborate procedures and forms have been laid down. These steps have, however, not been effective in the absence of a modern system of information and administration. On the contrary, they have added to the complexities.

6. Increasing litigations :-

At present, tax is collected either at the 1st stage or purchase or at the last stage of sale or purchase. The disputes relating to the stage of sale or purchase is a major area of litigation today besides classifications of commodities taxable at a particular rate of tax.

7. Lacking of transparency in tax incidence :-

The system of levy of tax at first point of sale is not transparent as the amount of tax which the goods have suffered at first point of sale is not known at the subsequent stages of sale.

8. Taxation of Inter-State sales :-

One of the major sources of distortion is the system of taxing inter-State sales under the Central Sales Tax Act, 1956. The CST Act enacted by the Parliament, is administered by the States who retain the revenue. Operation of the inter-State sales tax, implies taxation according to 'origin', that is, where the goods are produced, no matter where they are consumed ("destination"). This constitutes a serious impediment to the free flow of trade within the country and is inimical to competition and efficiency. It also conflicts with principles of inter-jurisdictional

equity because the producing States can export their taxes to other, constraining the domestic tax base of the consuming States.

9. Lack of harmony in the sales tax systems of the States :-

The States have been trying to 'gain' taxes in the form of Central Sale Tax and at the same time under-cutting each other in sales tax rates to attract trade and industry. This has created a situation in which all States are finding it difficult to rationalise their tax structures and in some States, products like automobiles are currently being taxed at the same low rate as cereals.

Shortcomings in the present system of taxation of the States.

The present system of taxation in the States suffers mainly from the following shortcomings :-

- (1) There is high cost of compliance and enforcement.
- (2) There are hassles in the growth of common market required to promote competition and efficiency.
- (3) There are hindrances to the free flow of trade within the country.
- (4) There exists inefficiency and high cost in industry and trade.
- (5) There have been inter-jurisdictional disputes.
- (6) The present system hampers export.

Session – III

- **Removal of defects of the present system of the taxation in the States.**
- **What is VAT.**
- **Benefits of VAT.**
- **Progress towards implementation of VAT in India.**

Session – III

Objectives

In this session the main focus will be on the recap of the defects in the present system of taxation of sale and purchase of goods and how those defects could be removed. What is VAT and what are the benefits of VAT. The progress towards implementation of VAT in India.

Removal of defects of the present system of the taxation in the States.

If the ills of the present system are to be remedied, the problems have to be attacked at their roots. The guiding principles should be neutrality, simplicity and equity. It may be stated that the value added tax could provide a solution to most of the ills of the present system. In the VAT system tax is charged at each stage of sale and is payable on the value added to the goods. If levied on a comprehensive base including goods and services at a uniform rate, a VAT would help to restore neutrality, provide simplification of laws, reduce litigation and provide an elastic and stable source of revenue. This would involve following measures :-

- 1) Converting sales taxes into VAT by moving over to a multistage system of sales taxation with rebate for tax on all purchases with only minimal exceptions.
- 2) Extending the tax base to include all goods sold or leased with minimal exceptions, and services which are integral to the sale of goods. The base should also include services which are predominantly of a consumption nature and can be taxed conveniently by the States.
- 3) Allowing input tax credits for all raw materials, consumables, goods for resale, and production machinery equipments. No rebate should be allowed in respect of over-head expenses like office equipment, construction material and fixtures and purchases in use for transportation and distribution of goods.

- 4) Replacing the existing structure of tax rates with two or three rates applicable through out the country.
- 5) Removing the exemptions except for a basic threshold limit and withdrawing other concessions such as tax holiday etc.
- 6) Zero-rating the exports out of the country and also inter-State sales and consignment transfers to registered dealers with suitable safe-guards against misuse.
- 7) Taxing inter-State sales to non-registered persons as local sales.
- 8) Modernising tax administration, computerising operations and the information system, and simplifying forms and procedures.

What is VAT.

VAT stands for value added tax and “ Value Added” is the difference between sale and purchase of a business. Thus VAT is nothing but a form of sales tax only and is charged at each stage of sale on the value added to goods. Infact, it is nothing but a tax on retail sales collected in stages. Under the VAT system goods which are not exempted are taxed at every stage of sale in the State but a VAT-dealer (A person registered under the State VAT Act) effecting sale of goods is allowed rebate/set off of tax paid by him to the suppliers while making purchases of the goods from within the State. In other words VAT is a multistage tax levied on the value added at each stage of sale and is equivalent to last point sales tax.

To understand VAT, consider a very simple case. Suppose the goods are taxable @ 10% and all the goods have been purchased and sold within the State by a VAT-dealer. He will put two nails in the wall and will place all the purchase vouchers in one nail and all the sale vouchers in other nail. He will total out tax element in respect of sale vouchers.

Suppose it comes to(A).

Similarly he will total out tax element in respect of purchase vouchers.

Suppose it comes to(B).

Then VAT payable by the dealer = (A) - (B).

In addition to VAT payable by the dealer, he is also supposed to pay tax on the purchases of goods made from within the State from un-registered dealers if the goods or the goods manufactured therefrom are dispatched to other States without making inter-State sales or are disposed of otherwise than by way of sale in the State or are dispatched to consignee agents in the State on which no tax is paid by

the dealer or the agents. Thus the goods purchased by a registered dealer from un-registered persons in the State are also taxed in the VAT-regime with set off corresponding to the sale of goods or taxable goods manufactured therefrom within the State or in the course of inter-State-trade or commerce and goods or the goods including exempt goods manufactured therefrom in the course of export out of the territory of India within the meaning of section 5 of the Central Sales Tax Act, 1956.

Benefits of VAT

In the VAT system tax is charged at each stage of sale on the value added to the goods. Followings are the main benefits of the VAT system :-

1. VAT system mitigates cascading effect and economic distortions.
2. There is a greater fairness and uniformity in this system.
3. There is a better tax compliance being less chances of tax evasion.
4. There is complete transparency of tax incidence in the sale of goods.
5. VAT system is more simple than the present system of taxation as there would be no dispute regarding taxable stage of sale and classification of goods taxable at a particular rate of tax and there would be minimum requirement of declaration forms.

Progress towards implementation of VAT in India.

The Union Government convened the Meeting of the Chief Ministers of the States on November 16, 1999. The Meeting was chaired by the Union Finance Minister. Following three decisions were taken in the Meeting towards reforms of State' tax structure :-

- a) Introduction of uniform floor rates of sales tax for the States and Union Territories for ending the unhealthy 'rate war'.
- b) Discontinuation of sales-tax based incentive schemes, and
- c) Introduction of VAT on the basis of progress relating to (a) and (b) above

The Empowered Committee of the Finance Minister of the States namely West Bengal, Maharashtra, Gujarat, Punjab, Madhya Pradesh, Karnataka, Uttar Pradesh, Delhi and Meghalaya was constituted on 17.07.2000 to monitor the progress of implementation of the above decisions. The Finance Minister of West Bengal was made the Convener. On the basis of repeated interactions with the States, the Empowered Committee has been able to achieve more than 98% progress in the implementation of the decisions relating to (a) and (b) above. As a result of this progress, it has now been decided that VAT will be implemented in all the States from April 1, 2003 in place of State Sales Tax Acts. The proposed VAT structure has been evolved on the basis of a consensus among the States. The basic features of VAT will therefore be same throughout the country.

Comparison of 1st point taxation, Last point taxation and
Value added taxation(tax rate @10%).

	Economy	Ist point taxation	Last point Taxation (Tax leviable in the hands of the Retailer)	Value Added Taxation (Multistage Taxation)
Manufacturer				
P	100	100	100	100
Tax on P		10	0	10
Value Added	200	200	200	200
S		310	300	300
Tax on S		31	0	30
Wholesaler				
P		341	300	300
Tax on P		31	0	30
Value Added	100	100	100	100
S		441	400	400
Tax on S		0	0	40
Retailer				
P		441	400	400
Tax on P		0	0	40
Value Added	100	100	100	100
S		541	500	500
Tax on S		0	50	50
Final Value of the good		541	550	550

P = Purchase value in the State.

S = Sale value in the State.

Session – IV

Objectives

In this session the discussion will be on various methods of computation of VAT. Advantages of Tax Credit Method. Examples of computation of VAT by Tax Credit Method.

Session – IV

- **Methods of computation of VAT.**
 - (a) **Addition Method.**
 - (b) **Subtraction Method.**
 - (c) **Tax credit or Invoice Method.**
- **Advantages and Adoption of Tax Credit Method.**
- **Examples of Tax Credit Method.**

Methods of calculation of VAT.

As mentioned earlier VAT is nothing but a form of sales tax only and is charged at each stage of sale on the value added to the goods. “Value Added” is the difference between sale and purchase of a business. A straight forward way to compute the base of a VAT for a given period, say a quarter, is, in the case of a manufacturer, to deduct the total cost of the inputs used in production from the amount for which the manufactured goods are sold.

VAT is computed by adopting three alternative methods. These are (i) Addition method (ii) Subtraction method (iii) Tax Credit or Invoice method.

In Addition method, value added could be determined by summation of all the elements of value added i.e. wages, profits, rent and interest. The subtraction method estimates value-added by taking the difference between the value of outputs and inputs. Under the Tax Credit Method, the tax on inputs is deducted from the tax on the sales to arrive at the VAT payable by the dealer.

$$\text{VAT payable} = \text{Total tax charged on the outputs or sales} - \text{Total tax paid to the suppliers on inputs or purchases}$$

Tax Credit or Invoice Method has been adopted universally because of the inherent advantages in the credit method of calculating tax liability. The other methods namely addition method and subtraction method are not workable in the case of a manufacturer when the rate of tax is different in respect of inputs and outputs.

Advantages and Adoption of Tax Credit Method.

- (1) It makes cross-checking of tax paid at earlier stage, more amenable, as dealers are required to state the amount of tax in invoices.
- (2) Tax burden being dependent upon the tax rate at the final stage, dealers at intermediate stages do not have any incentive to seek treatment in tax rate.
- (3) Under the invoice method exports can easily be relieved of domestic indirect taxes through zero rating of exports.

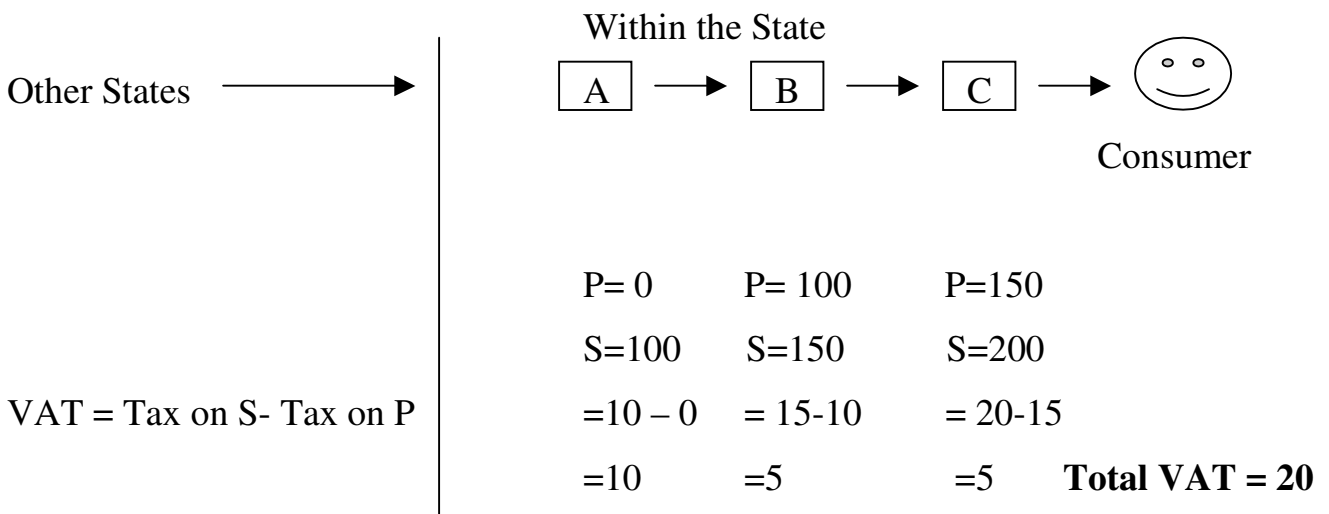
Examples of Tax Credit Method.

- (1) Suppose 'A' is dealer in the State who has made purchases of goods taxable @ 10% of Rs. 75/- from outside the State. He sells these goods at Rs. 100/- to another dealer 'B' in the State. The dealer 'B' further makes the sale of the goods at Rs. 150/- to another dealer 'C' in the State who in turn sells the goods to the consumer at Rs. 200/-. Then VAT payable by each of the dealers A, B & C is shown in the table below :-

P = Purchase in the State

S = Sale in the State

(Figure shown in rupees)



The total amount of VAT payable to Govt. in respect of the goods is equivalent to last point tax in the hands of 'C' i.e. Rs. 20/-.

(2) It may be mentioned here that if there is only one VAT rate then Subtraction method or the Tax Credit Method can easily be followed giving rise to the same result. However the workability of the Addition method is quite cumbersome. The example of computing VAT by Tax Credit method and the Subtraction method is given in the Table.

Suppose the Value addition is 100% in the hands of a manufacturer, 30% in the hands of a wholesaler and 20% in the hands of a retailer.

P = Purchase in the State.

S = Sale in the State.

Computing VAT by two methods with a uniform tax rate of 10 per cent.

	raw materials supplier	manufacturer	wholesaler	retailer
<u>The economy</u>				
P	0	100	200	260
Value Added	0	100	60	52
S	100	200	260	312
<u>Input tax credit method</u>				
i. S	100	200	260	312
ii. Tax on S	10	20	26	31.20
iii. P	0	100	200	260
iv. Tax on P	0	10	20	26
VAT (ii-iv)	10	10	6	5.20
<u>Subtraction method</u>				
i. 'S' inclusive of tax	110	220	286	343.20
ii. 'P' inclusive of tax	0	110	220	286
VAT	$\frac{(110-0) \times 10}{110}$	$\frac{(220-110) \times 10}{110}$	$\frac{(286-220) \times 10}{110}$	$\frac{(343.20-286) \times 10}{110}$
	= 10	= 10	= 6	= 5.20

Day II	Session I	Important Definitions.
	Session II	Liability to pay VAT under the VAT Act. VAT Liability- independent of the assessment. Various types of business transactions of a dealer. Types of taxable transactions of a dealer in the VAT System.
	Session III	The Basic Features of State VAT.
	Session IV	Treatment of incentives to Industrial Units under the old scheme, in the VAT System. Treatment of goods which are in the stock of a dealer as on the date of registration under the VAT Act. Treatment of works contract under the VAT System. Treatment of goods returned & other adjustments under the VAT System. Determination of taxable turnover. Rates of tax & levy of tax on taxable turnover.

Session – I

Objectives

In this session we shall discuss the definitions of important terms to be used in the VAT System.

Session – I

- **Important Definitions.**
 - **Business**
 - **Dealer**
 - **Capital goods**
 - **Exempted goods**
 - **Input tax**
 - **Output tax**
 - **Input tax credit**
 - **Zero-rating**
 - **Document**
 - **Tax Invoice**
 - **Taxable goods**
 - **Value of goods**
 - **Sale**
 - **Sale in the State**
 - **Sale Price**
 - **Gross-turnover**
 - **Registered dealer**
 - **Recipient**
 - **Date of sale**
 - **Local tax rate**
 - **Central tax rate**
 - **Works contract**
 - **Casual trader**
 - **Taxable quantum or Threshold turnover**
 - **Taxable person**
 - **Taxpayer Identification Number**
 - **Month**
 - **Year**

IMPORTANT DEFINITIONS

The definitions of various terms used in the VAT system are almost similar to those provided in the State Sales Tax Act, however definitions of some additional terms and also some important definitions are discussed here which are given below :-

1. Business includes.

- (i) any trade, commerce or manufacture, or any adventure or concern in the nature of trade, commerce or manufacture, whether or not such trade, commerce, manufacture, adventure or concern is carried on with a motive to make gain or profit and whether or not any gain or profit accrues from such trade, commerce, manufacture, adventure or concern; and
- (ii) any transaction, casual or otherwise, in connection with, or incidental or ancillary to, such trade, commerce, manufacture, or adventure or concern;
- (iii) any transaction of sale or purchase of capital assets pertaining to such trade, commerce or manufacture, adventure or concern shall be deemed to be business and the expression “capital assets” shall have the same meaning as assigned to it in the Income Tax Act, 1961.
- (iv) purchases of any goods, the price of which is debited to the business, shall be deemed to be the purchases effected in the course of business;
- (v) sales of any goods the proceeds of which are credited to the business shall be deemed to be the sales effected in the course of business.

(vi) the activity of raising of man-made forest or rearing of seedlings or plants shall be deemed to be business.

2. **Dealer means** any person who carries on the business whether regularly or otherwise in the process of which such person purchases, sells, supplies or distributes any goods directly or indirectly in the State, or receives any goods in the State from out side the State as a result of purchase or otherwise, or despatches any goods to out side the State from the State as a result of sale or otherwise, for cash, or for deferred payment, or for commission, remuneration or other valuable consideration.

Provided that a person or a member of his family who sells within the State exclusively the agricultural produce grown by himself or grown on any land in which he has an interest whether as owner, usufructuary mortgage, tenant or otherwise shall not be deemed to be a dealer.

Explanations – For the purpose of this clause :-

- (i) a department of the Central Government or any State Government or any autonomous or statutory body including a Port Trust and the like or a local authority is a dealer;
- (ii) an industrial, commercial, banking, or trading undertaking whether or not of the Central Government or any of the State Governments or of a local authority is a dealer;
- (iii) a company, firm, club, association, society, trust, or cooperative society, whether incorporated or un-incorporated, which carries on such business is a dealer;

- (iv) a commission agent, a broker, a del credere agent, an auctioneer or any other mercantile agent by whatever name called, who carries on the business of buying, selling, supplying or distributing goods on behalf of any principal is a dealer;
- (v) an agent of a non-resident dealer or a local branch of a firm or company or association situated outside the State is a dealer;
- (vi) a Hindu Undivided Family or any other system of joint family which carries on business is a dealer;
- (vii) a casual trader is a dealer;
- (viii) any person or body of persons including a department of any Government who disposes of any goods including goods as unclaimed or confiscated or as unserviceable or as scrap, surplus, old, obsolete or discarded material or waste products whether by auction or otherwise, directly or through an agent for cash or for deferred payment or for any other valuable consideration, shall be deemed to be a dealer, to the extent of such disposals, without prejudice to any liability which may accrue on account of the dealer provisions of this Act is a dealer;

3. Capital goods:- Capital goods means plant, machinery and equipment used for the purpose of manufacturing or processing of goods in the State for sale, where the purchase thereof has been capitalised and includes purchase of right to use such goods, whether such purchase is capitalized or not.

This term does not include all the capital assets of a dealer such as car, furniture and office equipments etc.

4. Exempted goods :- Exempted goods means the goods specified in the list or the schedule appended to the Act on the purchase or sale of which no tax is leviable.

The exempted goods are common for all the State. No tax is leviable on the purchase or sale of exempted goods

5. Input tax :- There are two sources of purchases by a registered dealer from within the State, one from registered dealers and other from non-registered persons. The tax paid or payable on such purchases from within the State constitutes input tax and is defined as under :-

Input tax of a registered dealer means :-

- (i) when goods have been purchased from registered dealers being not covered under the lump-sum scheme, the amount of tax charged and paid in accordance with the provisions of the State VAT Act by the selling dealers in respect of the sale of the goods, and
- (ii) when goods have been purchased from other persons not being registered dealers, the amount of tax paid or payable by him under the Act in respect of purchase of the goods.

6. Output tax :- Output tax of a registered dealer is the amount of tax charged by him under the State VAT Act on the sale of goods within the State.

7. Input tax credit :- Input tax credit is the portion of input tax of a registered dealer under the Act which is allowed as rebate or set off from the total tax liability corresponding to the sale of goods or the taxable goods manufactured therefrom within the State or in the course of inter-State-trade and commerce and goods or the goods including exempt goods

manufactured therefrom in the course of export out of the territory of India within the meaning of section 5 of the CST Act, 1956.

8. Zero-rating :- Zero-rating transactions means, there shall be no tax on the sales turnover of the transactions and the registered dealer effecting such sales transactions shall be entitled to a refund of tax on the purchase of the goods made from within the State in any form involved in such sales.

Following transactions are Zero-rating transactions:-

- (i) A sale within the meaning of section 5(1) and 5(3) of the Central Sales Tax Act, 1956 .

It means that there shall be no tax on the sales turnover of the transaction and the exporter shall be entitled to a refund of tax on purchase of the goods in any form which is so exported.

- (ii) Sale of goods to international organisations specified in the schedule appended to the Act shall be deemed to be sale of goods in the course of export out of the territory of India.

- (iii) In the later-stage, the sale in the course of inter-State-trade & commerce to a registered dealer under the Central Sales Tax Act, 1956 or consignment transfer or dispatches to the branches or the agents outside the State registered under the CST Act, 1956 shall also be made zero-rating in a phased manner.

9. Document :- Document means title deeds, writing or inscription and includes electronic data, computer programme, computer tapes, computer discs and the like, that furnishes evidence.

10. Tax Invoice :- Tax invoice means a document listing goods sold with description, quantity, price and tax element etc.
11. Taxable goods :- Taxable goods means the goods which are not exempted goods.
12. Value of goods :- Value of goods means where the goods are properly invoiced or documented such value including all ancillary and incidental charges and statutory levies as is described in the invoice or document, otherwise the market value of the like goods.
13. Sale :- Sale means transfer of property in goods for cash or deferred payment or other valuable consideration except a mortgage, hypothecation, charge or pledge and includes
- (i) the transfer, otherwise than in pursuance of a contract of property in any goods for cash, deferred payment or other valuable consideration ;
 - (ii) the transfer of property in goods (whether as goods or in some other form) involved in the execution of works contract ;
 - (iii) the delivery of goods on hire purchase or any system of payment by installments;
 - (iv) the transfer of the right to use any goods for any purpose (whether or not for a specified period) for cash, deferred payment or other valuable consideration ;
 - (v) the supply of goods by any un-incorporated association or body of persons to a member thereof for cash, deferred payment or other valuable consideration ;
 - (vi) the supply, by way of or as part of any service or in any other manner whatsoever, of goods, being food or any other article for human

consumption or any drink (whether or not intoxicating), where such supply or service, is for cash, deferred payment or other valuable consideration ;

and such transfer, delivery or supply of any goods shall be deemed to be a sale of those goods by the person making the transfer, delivery or supply and a purchase of those goods by the person to whom such transfer, delivery or supply is made.

14. Sale in the State :- A sale shall be deemed to take place within the State, if the goods are within the State-

- (a) in the case of specific or ascertained goods, at the time of contract of sale is made ; and
- (b) in the case of un-ascertained or future goods, at the time of their appropriation to the contract of sale by the seller or by the buyer, whether the assent of the buyer to such appropriation is prior or subsequent to the appropriation.

Provided that where there is a single contract of sale in respect of goods situated at more places than one, the provisions of this definition shall apply as if there were separate contracts in respect of goods at each of such places.

The expression ‘purchase in the State’ shall be construed accordingly.

15. Sale Price :- Sale Price is the amount which the seller or supplier charges from the buyer as a consideration for sale of any goods, less any sum of discount, commission or other similar commercial rebates granted on the value of the goods at the time of delivery of such goods but will include the following amounts

- (i) any sum charged for any thing done by the dealer in respect of the goods at the time of or before delivery thereof ;
- (ii) the amount of all expenditure related to transportation and distribution, installation and insurance charges which was borne by the seller or supplier at the time of or before delivery of the goods;
- (iii) excise duty, special excise or any other duty and all other taxes but not the tax imposed under this Act;
- (iv) interest accrued to the selling dealer on booking amount or advance payment, received, if any, by him from the purchaser for the sale of goods;
- (v) the amount received or receivable by the seller by way of deposit (whether refundable or not) whether by way or separate agreement or not, in connection with or incidental to or ancillary to the sale of goods.
- (vi) in relation to the transfer of property in goods (whether as goods or in some other form) involved in the execution of works contract, the amount arrived at by deducting from the amount paid or payable to a person for the execution of such works, contract, the amount representing labour and services and the profit relating to supply of labour and services which may be prescribed;
- (vii) in relation to the delivery of goods on hire purchase or any system of payment by instalments, the amount payable to a person for such delivery including hire charges, interest and other charges incidental to such transaction ;
- (viii) in relation to transfer of the right to use any goods for any purpose (whether or not for a specified period) the amount received or receivable for such transfer.

16. Gross-turnover in relation to any dealer means the aggregate of the sale prices received or receivable in respect of any goods sold including those given on lease, or delivered on hire purchase, or transferred in the execution of works contract/jobwork not covered in the scheme of composition of lump-sum, amount received or receivable in respect of works contract/jobwork covered in the scheme of composition of lump-sum, and purchase prices paid or payable in respect of any taxable goods purchased from un-registered persons in the State during a given period.

Explanation :

- (i) The turnover of the dealer, if any, in respect of forward contracts, in which goods are actually not delivered shall not be included in the gross-turnover.
- (ii) Any amount received or receivable during the period on account of escalation in the price of any goods sold in any previous period shall be made part of the gross-turnover.
- (iii) The amount arrived at by applying the following formula shall not be included in the gross-turnover

$$\frac{\text{Rate of tax} \times \text{Aggregate of sale prices}}{(100 + \text{Rate of tax})}$$

Provided that no deduction on the basis of the above formula shall be made if the amount by way of tax collected by a registered dealer, in accordance with the provisions of the Act, has been otherwise deducted from the aggregate of sale price.

Note : where the turnover of a dealer is taxable at different rates, the afore-said formula shall be applied separately in respect of each part of the turnover liable to a different rate of tax.

- (iv) Any amount paid or payable during the period on account of escalation in the price of taxable goods purchased from within the State without payment of tax under the State Act or the State Sales Tax Act in any previous period shall be made part of the gross-turnover.
- (v) The aggregate of purchase prices of taxable goods in the stock on the date of registration under the State VAT Act, purchased from within the State without payment of tax under the State VAT Act or, the State Sales Tax Act, shall be made part of the gross turnover in respect of the first tax / return period of the dealer under the State VAT Act.

- 17. Registered dealer means a dealer registered under the State VAT Act.
- 18. Recipient means a person receiving goods.
- 19. Date of sale means the date of challan or invoice whichever is earlier raised by the seller in respect of the sale of goods and the date of purchase shall be construed accordingly.
- 20. Local tax rate means the rate of tax applicable on the good sold or purchased in the State.
- 21. Central tax rate means the rate of tax specified in sub-section(I) of section 8 of the Central Sales Tax Act, 1956.
- 22. Works contract includes any agreement for carrying out for cash, deferred payment or other valuable consideration, the assembling, construction, building, altering, manufacturing, processing, fabrication, installation, fitting out, improvement, repair or commissioning of any moveable or immovable property.

23. Casual trader means a person who, whether a principal, agent or in any other capacity, carries on occasional transactions of a business nature involving the buying, selling, supplying or distribution of goods in the State, whether for cash or for deferred payment, or for commission, remuneration or other valuable consideration.
24. Taxable quantum or Threshold turnover is the gross turnover of a dealer below which the dealer is not liable to register under the VAT Act.
25. Taxable person means every person who is registered or is liable to be registered and liable to pay tax under this Act.
26. Taxpayer Identification Number is the Registration Certificate number allotted to each registered dealer under the VAT Act & is mentioned in the registration certificate issued to the registered dealer.
27. Month means the calendar month.
28. Year means the financial year.

Session – II

Objectives

In this session we shall discuss when the liability to pay VAT accrues and who are liable to pay VAT. Various types of business transactions, which a dealer could effect and the business transactions which are taxable in the VAT System.

Session – II

- **Liability to pay VAT under the VAT Act.**
- **Various types of business transactions of a dealer.**
- **Types of taxable transactions of a dealer in the VAT System.**

Liability to pay VAT under the VAT Act

1. Only the registered dealers and the dealers liable to be registered under the VAT Act are liable to pay VAT.
2. The dealers liable to pay VAT are liable to be registered under the VAT Act.
3. All the registered dealers and the dealers liable to be registered under the State Sales Tax Act are liable to pay VAT w.e.f. 1-4-2003.
4. All the dealers not dealing exclusively in the exempted goods under the VAT Act which are neither registered nor liable to be registered under the State Sales Tax Act on or before 31-3-2003 but whose turnover has exceeded the taxable quantum (Threshold Turnover) under the State Sales Tax Act on or before 31-3-2003 are liable to pay VAT w.e.f. 1-4-2003.
5. A dealer not covered in clauses 3 and 4 above shall be liable to pay VAT, from the day following the day on which his gross turnover during a year first exceeds rupees five lacs or such amount as fixed by the State.

Provided that a dealer dealing exclusively in the exempted goods shall not be liable for payment of VAT nor for registration.

Provided further that :-

- (a) a dealer who is liable to pay tax under the Central Sales Tax Act, 1956 on any day, shall be liable to pay VAT under the VAT Act from the same day or from 1-4-2003 whichever is later.
- (b) a dealer who receives any goods for the business from outside the State as a result of purchase or otherwise, shall be liable to pay VAT from the day he receives such goods.
- (c) a dealer who deals in liquor including beer or lottery tickets or such other goods as may be prescribed by the State, shall be liable to pay VAT from the day he commences his business in the State.

- (d) a dealer who purchases any goods in the State, and dispatches the goods or the goods manufactured therefrom to outside the State for business, shall be liable to pay VAT, from the day he makes purchases of such goods.
- (e) a dealer residing outside the State but carrying on business in the State, shall be liable to pay VAT from the day he commences his business in the State.
- (f) every commission agent, broker, *del credere* agent, auctioneer or any other mercantile agent by whatever name called, who carries on business of buying, selling or distributing goods on behalf of his principal, shall be liable to pay VAT from the day he commences his business in the State.
- (g) every casual trader shall be liable to pay VAT from the day he commences his business in the State.
- (h) every cooperative society or club or any association carrying on business for and on behalf of its members, shall be liable to pay VAT from the date of commencement of the business in the State.
- (i) a dealer in the form of department of any Government, or a local authority or a public authority or a body shall be liable to pay VAT from the date of commencement of the business in the State.
- (j) a dealer who has an option to adopt a scheme for payment of lump sum in lieu of tax, shall be liable to pay VAT from the day he first makes purchase or sale of any goods in the State after coming into operation of such scheme, whether or not he exercises such option.

VAT Liability – independent of the assessment

Liability to pay tax is founded on the charging section of the VAT Act although VAT is quantified by the dealer himself while filing the return or the authority while making assessment in accordance with the machinery provided in the Act. The Liability to pay VAT arises the moment the transaction of sale or purchase is completed. The quantum of tax payable at any point of time within a year is definite and certain though quantified subsequently. The moment a dealer makes a taxable sale or purchase the obligation to pay tax arises and taxability is attracted. Although that liability cannot be enforced till the quantification is made, the liability of payment of VAT is independent of the assessment (quantification of tax) by the dealer himself or by the Competent Authority.

Various types of Business Transactions of a dealer:-

Following are the various types of transactions of a dealer which could normally be effected during the course of his business :-

1. Purchase of goods within the State from the registered dealers.
2. Purchase of goods within the State from the un-registered persons.
3. Purchase of goods in the course of inter-State-trade or commerce.
4. Purchase of goods from outside the State which have been sold outside the State or in the course of inter-State-trade and commerce or in the course of export out of the territory of India.
5. Receipt of goods for sale from within the State otherwise than by way of purchase.
6. Receipt of goods for sale from outside the State otherwise than by way of purchase in the course of inter-State-trade & commerce.
7. Purchase of goods in the course of export of the goods out of the territory of India.
8. Purchase of goods in the course of import of the goods into the territory of India.
9. Works contract/jobwork got executed from the contractors within the State.
10. Works contract/jobwork got executed from the contractors outside the State.
11. Sale of goods or goods manufactured therefrom within the State.
12. Sale of goods or goods manufactured therefrom in the course of inter-State-trade & commerce.

13. Sale of goods or goods manufactured therefrom in the course of export out of the territory of India.
14. Sale of goods outside the State which have been purchased from outside the State.
15. Sale of goods in the course of import of the goods into the territory of India.
16. Consignment transfer of the goods or the goods manufactured therefrom to the branches situated outside the State.
17. Consignment dispatches of the goods or the goods manufactured therefrom to the agent outside the State for sale.
18. Consignment dispatches of the goods or the goods manufactured therefrom to the agents within the State for sale.
19. Disposal of goods or the goods manufactured therefrom within the State otherwise than by way of the sale.
20. Self use of the goods or the goods manufactured therefrom not being in the course of business.
21. Execution of works contract/jobwork of the Contractee within the State.
22. Execution of works contract/jobwork of the Contractee outside the State.

It may be noted that transfer of goods to the branches within the State has not been mentioned above because all the branches in the State are considered as one entity & registered under the same registration number under the State Act. Out of these transactions first 10 from Sr. Nos. 1 to 10 are purchases or purchase like transactions while remaining 12 from Sr. Nos. 11 to 22 are sales or sale like transactions.

Types of Taxable Transactions of a dealer in the VAT System.

Out of the above 22 types of business transactions following are the two transactions of a registered dealer which could be taxed under the State VAT Act :-

1. Sale of taxable goods effected within the State.
2. Purchase of taxable goods made from un-registered person in the State.

Session – III

Objectives

In this session we shall discuss the Basic Features of a State VAT which have been evolved on the basis of a consensus among the States.

Session – III

- **The Basic Features of State VAT.**
 - **Nature**
 - **Tax Base for VAT**
 - **Exempted goods**
 - **Commodity coverage**
 - **Rates of tax.**
 - **There will be two exceptions**
 - **Special addition tax(SAT)**
 - **Tax credit**
 - **Method of set-off**
 - **Carrying over of Tax Credit**
 - **Tax credit on Capital goods.**
 - **Treatment of Exports**
 - **Stock transfer out of the State**
 - **Input procured from other States**
 - **Incentives under the Old Scheme**
 - **Declaration Form**
 - **Registration**
 - **Procedure of Assessment of VAT Liability**
 - **Audit**
 - **Small Dealers**

The Basic Features of State VAT

1. NATURE

It is a form of sales tax only and is charged at each stage of sales on the value added to the goods.

2. TAX BASE FOR VAT

- a) Tax has to be paid by a registered dealer on the value addition of the goods when sold by him.
- b) VAT will be calculated by deducting Tax credit from Tax collected in the payment period.

3. EXEMPTED GOODS

There will be a short list of exempted goods which will be common in all the States.

4. COMMODITY COVERAGE

a) **NON-APPLICABILITY OF VAT:**

A few items like Petrol, Diesel, Aviation Turbine Fuel and Natural Gas will be taxed as per present arrangement of uniform floor rate.

b) **GOODS OTHER THAN ABOVE**

All other goods including declared goods and A.E.D. items (Sugar, Tobacco, Textiles) will be subjected to VAT.

5) RATES OF TAX

- a) There will be only two basic rates of tax in the VAT system.
- b) Some essential commodities, declared goods, capital goods and basic inputs will be taxable @ 4%. The list of the goods taxable @ 4% which will be common for all the States.

- c) All the other commodities will have a uniform floor rate of 10% and the State may fix a revenue neutral rate (RNR) of 10% or above upto 12.5%.
 - d) There will be composition of lump-sum in lieu of tax in respect of certain commodities such as lottery tickets and dealers such as works contractor.
- 6) **THERE WILL BE TWO EXCEPTIONS :**
- a) Gold, Silver, precious and semi-precious stones will have a VAT rate of 1%.
 - b) Liquor will have a higher VAT rate with a floor of 20%.
- 7) **SPECIAL ADDITION TAX(SAT) :**
- a) States may impose special additional tax (SAT) on a few commodities to keep the 'RNR' low.
 - b) SAT will be levied only at the first point of sale.
 - c) SAT will not be eligible for Tax credit.
- 8) **TAX CREDIT**
- Credit will be given within the same period for entire tax paid within the State on purchase of goods both for intra-State and inter-State sales, irrespective of when those will be utilized/sold.
- 9) **METHOD OF SET-OFF :**
- The credit which thus accumulates in any period will be utilized to deduct from the tax collected by the dealer in that period under the VAT Act.

Examples of Tax Credit and Set-Off

(Assuming tax-rate of 10%)

- | | | |
|----|---|----------------|
| a) | Input procured within the State in a month. | Rs. 1,00,000/- |
| b) | Output sold in the month | Rs. 2,00,000/ |
| c) | Input tax paid @ 10% on (a) | Rs. 10,000/- |
| d) | Tax collected 10 % on (b) | Rs. 20,000/- |
| e) | VAT payable during the month [(d)-(c)] : | Rs. 10,000/- |
- (Rs. 20,000 - Rs. 10,000)

10) CARRYING OVER OF TAX CREDIT:

If the tax credit exceeds the tax collected in a period on sale within the State, the excess credit will be carried over to the next period.

11) TAX CREDIT ON CAPITAL GOODS :

Tax paid on capital goods will be eligible for tax credit, but the same may be adjusted over a maximum period of 36 months.

EXAMPLE OF SET-OFF ON CAPITAL GOODS

- | | | |
|------|--|-----------------|
| i) | Tax paid on procurement of input /supplies in a month. | Rs. 1,00,000/- |
| ii) | Tax paid on procurement of capital goods in the month. | Rs. 12,00,000/- |
| iii) | Tax credit available in the month | Rs. 2,00,000/- |
- [(i) + (ii)/12 State gives set-off for capital goods in the 12 months.]

iv)	Tax on sale during the month.	Rs. 1,50,000/-
v)	Tax payable during the month [(iii) being greater than (iv)]	Nil.
vi)	Carry over of Tax credit for Set-Off during the next month [(iii) - (iv)]	Rs. 50,000/-

12) **TREATMENT OF EXPORTS :**

For all exports made out of the country, tax paid within the State will be refunded in full.

13) **STOCK TRANSFER OUT OF THE STATE**

For stock transfer the input tax paid in excess of 4 % will be eligible for tax credit.

14) **INPUT PROCURED FROM OTHER STATES :**

Tax paid on inputs procured from other States through stock transfer or inter-State sale will not be eligible for credit.

15) **INCENTIVES UNDER THE OLD SCHEME :**

- a) Units enjoying remission or deferment will have to pay tax on procurement of inputs and collect tax on sale of goods at usual VAT rates.
- b) Units enjoying remission will have their VAT liability deferred over a long period.
- c) VAT liability of the units enjoying deferment of tax will continue to be deferred.
- d) In both the cases the benefit will be continued for the unexpired period and for the unused portion of the monetary ceiling.

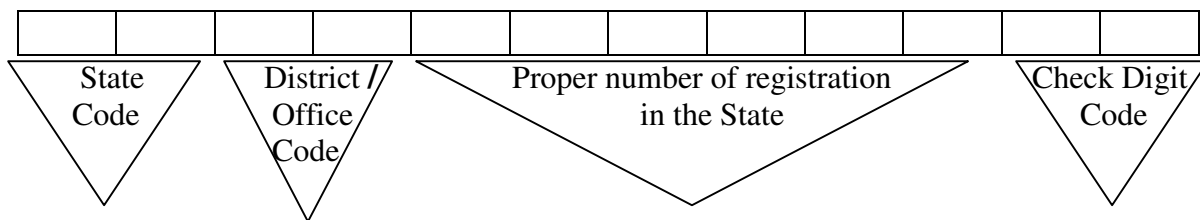
16) **DECLARATION FORM :**

There will be no need for any provision for concessional sale under the VAT Act since the provision for set-off makes the input zero rated. So no declaration form will be needed.

17) **REGISTRATION :**

Registration will be compulsory for dealers having turnover above a threshold to be decided by each State. There will be a provision for voluntary registration. The registration number (Taxpayer Identification Number TIN) of each dealer will be a twelve (12) digit unique code for the whole country.

Structure of proposed 12 digits registration number.



First two digits represent the State Code. Each State has to be assigned a particular Code number by the Central Government.

Next two digits represents the District Code. Each District/Office Code in the State has to be assigned a particular code number by the State.

Next six digits represent the Proper number of registration in the ascending order in the State. Each State shall maintain such numbers centrally.

Last two digits represent the Check Digit Code. Check Digit Code is used so that the same Registration Certificate proper number is not allotted to two different registered dealers. The Check Digit Code numbers are calculated as under:-

1. sum of the digits of the State Code, the digits of the District code & the digits of the proper number of the registration is worked out.
2. the sum of (1) above is divided by 9, then the quotient will be the 1st digit number of the Check Digit Code & the remainder will be the next number of the Check Digit Code.

18. PROCEDURE OF ASSESSMENT OF VAT LIABILITY :

- a) VAT liability will be self-assessed by the dealer in terms of submission of returns upon setting off the tax credit himself. Return forms as well as other procedures will be simple and similar in all States.
- b) There will no longer be compulsory assessment at the end of each year as is existing now.

19. AUDIT

- a) Correctness of self assessment will be checked through a system of audit.
- b) A certain percentage of the dealers will be taken up for audit every year on a scientific basis.
- c) More complying dealers will be audited less frequently.
- d) All dealers are expected to be audited at least once in five years.
- e) If evasion is detected on audit, the dealer may be assessed for all the previous periods up to last five years.
- f) The audit wing will remain delinked from the tax collection and monitoring wing to remove any bias.
- g) There will be simultaneous restructuring and computerisation in the sales tax directorates.

20. **SMALL DEALERS :**

For small dealers and retailers there may be an option for a composition scheme where he pays tax as a small percentage of gross turnover.

Proposed exempted goods

1. Natural and Unprocessed products- which are in un-organised sector.
2. Items which are legally barred from taxation on sale.
3. Items which have social implications.

Goods proposed to be taxed @ 4%.

1. Goods of basic necessities.
2. Industrial & Agricultural inputs.
3. Declared goods & AED Items.
4. Capital Goods.

General Rate

All other goods will be taxed at a general rate to be decided by the State.

The general rate will have a floor of 10%.

The New Tax Regime

Advantage of set-off, absence of declaration form, abolition of compulsory assessment and existence of mainly two rates will make the new tax structure transparent and simple to comply by the industry & trade the cascading tax burden and economic distortions will also be significantly reduced. The new VAT tax regime will thus help industry & trade and also help the Government and people.

Session – IV

Objectives

In this session we shall discuss about the fate of Industrial Units availing the tax incentives under the old scheme and the closing stock of a dealer as on the date of registration in the VAT System. Treatment of works contract in the VAT System, goods returned and other adjustments in the VAT System. How the taxable turnover is determined and tax is levied in the VAT System.

Session – IV

- **Treatment of incentives to Industrial Units under the old scheme, in the VAT System.**
- **Treatment of goods which are in the stock of a dealer as on the date of registration under the VAT Act.**
- **Treatment of works contract under the VAT System.**
- **Treatment of goods returned & other adjustments under the VAT System.**
- **Determination of taxable turnover. Rates of tax & levy of tax on taxable turnover.**

TREATMENT OF INCENTIVES TO INDUSTRIAL UNITS UNDER THE OLD SCHEME, IN THE VAT SYSTEM

- 1) The industrial units enjoying the benefit of exemption/deferment from payment of tax under the old scheme will have to pay tax on the purchase of all inputs from within the State and collect tax on sale of goods at usual VAT rates.
- 2) There will be no exemption from tax in respect of taxable goods in the VAT System. However, the units enjoying exemption/remission from payment of tax under the old scheme will be entitled to avail the benefit of deferment of payment of tax under the VAT System.
- 3) The units enjoying the benefit of deferment of payment of tax under the old scheme will continue to avail the benefit for the remaining period subject to the ceiling of unused portion of the monetary benefit in the VAT System. The payment of the deferred amount by the units shall be made as per the old policy of the Incentive Scheme.
- 4) The units enjoying the benefit of exemption from payment of tax under the old scheme, will be entitled to avail the benefit of deferment of payment of tax for the unexpired period subject to the ceiling of unused portion of the benefit, under the VAT-System. The payment of the deferred amount by the units shall be made after the expiry of 7 years or such period as fixed by the State, to the extent of the amount deferred, every quarter or month as the case may be.
- 5) The units enjoying the benefit of retention of tax by way of conversion into Capital subsidy will be entitled to avail the benefit of deferment of payment

of tax for the unexpired period in the VAT system. The payment of the deferred amount by the units shall be made after the expiry of a period of 5 years or such period as fixed by the State to the extent of the amount deferred, every quarter or month as the case may be.

Treatment of goods which are in the stock of a dealer as on the date of registration under the VAT Act

- 1) When the goods in the stock of a dealer as on the date of registration under the State VAT Act, are sold within the State, tax is leviable at the rates applicable under the Act.
- 2) The input tax credit is allowed in respect of the following goods in the stock in the very first tax/return period under the State VAT Act:-
 - a) The goods which were purchased in the State after payment of tax from registered dealers under the State Sales Tax Act or the State VAT Act.
 - b) The goods which are taxable under the VAT Act and which were purchased in the State without payment of tax either from the registered dealers under State Sales Tax Act or from un-registered persons in the State as tax is levied on these purchases.
- 3) The input tax in respect of goods taxable at a particular rate of tax under the VAT Act, in the goods covered in sub-clause 'a' of clause 2 above will be the total amount of tax paid to the sellers in the State while making purchases of the goods.
- 4) The goods which are taxable under the VAT Act and which were purchased from within the State without payment of tax either from the registered dealers under State Sales Tax Act or from un-registered persons in the State are treated in the same way as the goods purchased from un-registered persons in the State under the VAT Act. The purchase of such goods are taken in the gross-turnover/taxable turnover of the dealer in respect of the

very first tax period/return period of the VAT Act. The same shall be taxed at the rates applicable in respect of the goods under the VAT Act.

- 5) The input tax in respect of the goods taxable at a particular rate of tax under the VAT Act, covered in sub-clause 'b' of clause 2 above will be the amount of tax levied on the goods in clause 4.

Treatment of works contracts under the VAT System.

- 1) Works Contract includes any agreement for carrying out for cash, deferred payment or other valuable consideration, the assembling, construction, building, altering, manufacturing, processing, fabrication, installation, fitting out, improvement, repair or commissioning of any moveable or immovable property.
- 2) The transfer or property in goods (whether as goods or in some other form) involved in the execution of works contract is sale of the goods.
- 3) Under the VAT System tax is to be charged on each sale of taxable goods and tax invoice showing the tax element separately is to be issued in respect of every sale of taxable goods in the State by a registered dealer.
- 4) If a contractor registered dealer is engaged in the execution of works contract of moveable property of a contractee in the State and is not availing the composition of lump-sum in lieu of tax, then he will charge tax on the value of goods transferred in the works contract and will issue tax invoice to the contractee. In case the contractee is a registered dealer under the Act, he would claim input tax credit in respect of such goods received in the works contract from the contractor. The contractor-registered dealer will also be entitled to claim input tax credit in respect of the goods purchased from within the State, which were transferred in the execution of the works contract.
- 5) If a contractor-registered dealer is engaged in the execution of works contract of immovable property of a contractee in the State and is not availing the composition of lump-sum in lieu of tax, then he will charge tax on the value of goods transferred in the works contract and will issue tax invoice to the contractee. The contractee would not be entitled to claim

- input tax credit in respect of the goods received in the works contract. However, the contractor registered dealer will be entitled to claim input tax credit in respect of the goods purchased in the State, which were transferred in the execution of the works contract.
- 6) If a contractor registered dealer is availing composition of lump-sum in lieu of tax under the Act and is engaged in the execution of works contract of immovable property of a contractee in the State, then he is not entitled to charge tax in respect of the goods transferred in the works contract. The contractor registered dealer is also not entitled to claim input tax credit in respect of purchase of any goods from within the State, which were transferred in the execution of works contract of the immovable property to the contractee. The contractee registered dealer will also be not entitled to claim input tax credit in respect of the goods received by way of transfer in the works contract of immovable property from the contractor registered dealer.
- 7) If a contractor registered dealer is availing composition of lump-sum in lieu of tax under the Act and is engaged in the execution of works contract of moveable property of a contractee in the State, then he is not entitled to charge tax in respect of the goods transferred in the works contract and will not issue tax invoice to the contractee. The contractor registered dealer is also not entitled to claim input tax credit in respect of purchase of any goods from within the State, which were transferred in the execution of the works contract. The contractee registered dealer will also be not entitled to claim input tax credit in respect of the goods received by way of transfer in the works contract of moveable property, from the contractor registered dealer.

Goods Returned & other adjustments in the VAT System

When a registered dealer during the course of sale of goods in the State has raised the invoice and afterwards if one or more of the following events occur, then corresponding adjustments in relation to the sale are required to be made.

1. Invoice is cancelled due to cancellation of sale.
2. The sale is not matured or fructified.
3. There may be increase or escalation of sale price as per the terms of the contract of sale or for any other reason such as increase in the quantity of goods sold etc.
4. There may be decrease or de-escalation of sale price as per the terms of the contract of sale or for any other reason such as an offer or a discount etc.
5. The goods or part there of are returned to the seller within one hundred & eighty days from the date of sale.

The above mentioned event / events may occur in the same returned period in which the sale has been made or after the return period. In case any event/ events takes place in the same return period in which the sale has been made, then the adjustments in the sale on account of these events shall be made in the returns to be filed for that period.

However if any event / events take place after the return period in which the sale is made then the increase or escalation of sale price shall be treated as sale in respect of those goods in the return period in which the event has occurred.

In case there is decrease or de-escalation of sale price, or goods or parts there of are returned, within 180 days from the date of sale, or sale becomes unfructified after the return period in which the sale has been made, then the

deduction corresponding to these events from the turnover shall be made in the return period in which these events occur subject to the following conditions.

1. The sale relating to those events must have been made to registered dealers.
2. Credit note should have been issued by the registered dealer making the sale to the recipient of sale.

Documents Required for making Adjustments in the sale.

The documents are Credit note or Debit note issued by the selling registered dealer which are required for making adjustments in the Sale.

Credit Note :

When a registered dealer during the course of sale of any goods has raised a tax invoice then credit note is issued in the following circumstances by him to the recipient.

1. Invoice is cancelled due to cancellation of sale of the goods.
2. The sale is not matured or becomes unfructified in respect of the goods.
3. The goods sold or part there of are returned back to him.
4. The sale price of the goods sold is lowered or de-escalated as per the terms of the contract or for any other reason such as an offer or a discount.

The recipient of credit note shall repay any input tax credits claimed in prior return periods & such repayment is made in the return period in which the events took place.

Debit Note :

When a registered dealer during the course of sale of any goods has raised a tax invoice, the debit note is issued by him to the recipient in the following circumstances.

“When the sale price of the goods is increased or escalated as per the terms of the contract of sale or for any other reason such as calculation error etc.”

The increase or escalation in the sale price of a dealer in respect of the goods shall be treated as sale of those goods of the dealer in the return period in which the events took place.

Determination of taxable turnover :- 'Taxable turnover' means that part of dealer's gross turnover during a given period which remains after allowing the following deductions :

- (1) Sale price of goods sold outside the State or in the course of inter-State-trade & commerce or in the course of export out or import into the territory of India.
- (2) Sale price of goods returned within 180 days from the date of sale made to registered dealers.
- (3) Sale price in respect of sale not matured, or sale price de-escalation in respect of the goods sold to registered dealers in the previous periods.
- (4) Sale price of exempted goods.
- (5) Sale price of Petrol, Diesel, Aviation Turbine Fuel and Natural Gas on which tax has been levied in the State.

Rates of tax & levy of tax on taxable turnover

- (1) Tax is payable by the dealer on the taxable turnover of purchases and taxable turnover of sales at the following rates according to the formula :

Taxable turnover x Rate of tax

100

- (a) If the taxable turnover of sales or purchases of a dealer is in respect of gold, silver, ornaments of gold or silver and precious stones then the rate of tax is 1%.
- (b) If the taxable turnover of sales or purchases of a dealer is in respect of liquor then the rate of tax is 20%.
- (c) If the taxable turnover of sales or purchases of a dealer is in respect of essential goods which are notified then the rate of tax is 4%.
- (d) If the taxable turnover of sales or purchases of a dealer is in respect of Petrol, Diesel, Aviation Turbine Fuel and Natural Gas then the rate of tax will be as notified which will be equal to or more than the uniform floor rate. The uniform floor rate is 12% in respect of Diesel and 20% in respect of Petrol, Aviation Turbine Fuel and Natural Gas.
- (e) If the taxable turnover of dealers in respect of goods which are not covered in class (a) to (d) then the rate of tax will be as notified by the State which will be 10% or more upto 12.5%.
- (2) When goods are sold in containers or are packed in any packing material, the rate of tax applicable to such containers or packing materials, as the case may be, shall, whether the price of the containers or packing materials is charged separately or not, be the same as those applicable to the goods

contained or packed and the turnover in respect of containers and packing materials shall be included in the turnover of such goods.

- (3) Where the sale of goods contained in the container or packed in packing material is exempt from tax, then the sale of such containers or packing materials shall also be exempt from tax.

Day III	Session I	<p>Input tax credit</p> <p>Principles of computation of Input tax credit</p> <p>Salient features of computation of Input tax credit</p>
	Session II	<p>Procedure of computation of Input tax credit</p> <p>Computation of net tax payable by a registered dealer.</p>
	Session III	<p>Format of calculating net tax payable by a dealer for a particular period.</p> <p>Calculation chart of input tax credit in respect of goods taxable @ 4%.</p> <p>Calculation chart of input tax credit in respect of goods taxable @ RNR.</p> <p>Calculation chart of input tax credit in respect of goods taxable @ 1%.</p> <p>Calculation chart of input tax credit in respect of goods taxable @ 20%.</p>
	Session IV	<p>Numerical examples of calculating VAT liability of a dealer.</p>

Session – I

Objectives

In this session we shall discuss in detail what is meant by Input tax credit, what are the principles of computation of input tax credit and salient features of computation of Input tax credit.

Session – I

- **Input tax credit**
- **Principles of computation of Input tax credit**
- **Salient features of computation of Input tax credit**

Input tax credit

It is the portion of input tax of a registered dealer during a given period which is allowed as rebate or set off corresponding to the sale of goods or the taxable goods manufactured therefrom within the State or in the course of inter-State-trade or commerce and goods or the goods including exempted goods manufactured therefrom in the course of export out of the territory of India within the meaning of section 5 of Central Sales Tax Act, 1956 from his total tax liability under the Act or the Central Sales Tax Act, 1956.

Principles of computation of input tax credit

1. Input tax credit is allowed only to a registered dealer in respect of goods purchased from within the State in the same period in which the goods are purchased.
2. Input tax credit is not allowed in respect of purchase of goods from outside the State or in the course of inter-State-trade and commerce when tax has been charged by the sellers of other State.
3. Input tax credit to a registered dealer is allowed only in respect of purchase of all taxable goods from other registered dealers in the State. However input tax credit could also be allowed in respect of purchase of goods from unregistered persons in the State if tax has been paid or payable by him on the full amount of the purchase of such goods.
4. No input tax credit shall be allowed to a registered dealer in respect of goods purchased from a registered dealer unless he has an original tax invoice of the goods purchased. If the original tax invoice has been lost, the input tax

credit would be allowed on the basis of duplicate tax bill/invoice obtained against the lost bill/invoice.

5. No input tax credit shall be allowed to a registered dealer in respect of purchase of goods made from the registered dealer who has been covered under the scheme to pay lump-sum in lieu of tax by way of composition.
6. No input tax credit is allowed in respect of purchase of goods by way of transfer in the works contract of immovable property.
7. No input tax credit is allowed in respect of purchase of goods such as vehicles, office equipments, construction material, electrical installations, fixtures etc. which are incidental to the business.
8. When a registered dealer after making purchase of goods from the registered dealer on which input tax credit was claimed, returns the goods within one hundred and eighty days from the date of purchase, or purchase price of the goods purchased is lowered or de-escalated, in a return period different from the one in which the purchase of goods was made, then input tax credit will be reversed corresponding to such events in that return period.
- 9.** No input tax credit shall be allowed against tax paid or payable on goods remaining unsold at the time of stoppage or closure of business and if a dealer has already taken any input tax credit against purchase of such goods in the stock, there shall be a reverse tax credit in the return period in which stoppage or closure of business took place.
10. Input tax credit to registered dealer is allowed in respect of goods and capital goods which have been purchased after payment of the tax under the State

Sales Tax Act being in force at that time and which or the taxable goods manufactured from which being in his stock at the time of registration under the Act, are sold in the State, or in the course of inter-State-trade or commerce, or in the course of export out of territory of India.

11. No input tax credit is allowed to a registered dealer in respect of purchase of Petrol, Diesel, Aviation Turbine Fuel, and Natural Gas.
12. Input tax credit is allowed to a registered dealer in respect of purchase of any goods for intra-State sale or inter-State sale irrespective of the fact that the goods remain in the stock as on the last day of the period. In case the goods are not used fully in the intra-State sale or inter-State sale in the subsequent period/periods, then the input tax credit is reversed accordingly.
13. No input tax credit is allowed in respect of purchase of any goods which have been used in the manufacture of exempted goods which have been sold in the State, or in the course of inter-State-trade or commerce, or despatched to other States without making inter-State-sales, or disposal of otherwise than by way of sale, or put to self use or consumption.
- 14.** Input tax credit is allowed in respect of purchase of goods which have been used in the manufacture of exempted goods which have been sold in the course of export out of the territory of India.
- 15.** Input tax credit is allowed in respect of purchase of any goods which have been used in the taxable goods sold in the State, or in the course of inter-State-trade or commerce, or in the course of export out of the territory of India.

Salient Features of Computation of Input tax credit

1. Input tax credit in relation to a registered dealer is directly related to his input tax. Input tax for the purpose of determination of input tax credit in relation to a registered dealer during a given period includes.
 - (a) Amount of tax charged from him by other registered dealers on the sale of goods in the course of business.
 - (b) Amount of tax paid or payable by him on the full amount of purchase of goods from unregistered persons in the State.
 - (c) Amount of tax charged from him by the registered dealers under the State Sales Tax Act (repealed) and the registered dealers under the Act on the goods & the capital goods which or the goods manufactured from which are in his stock at the time of registration under the Act.
2. Input tax credit in respect of purchase of capital goods shall be the full amount of input tax in respect of purchases of such goods.
3. Input tax credit in respect of purchase of Petrol, Diesel, Aviation Turbine Fuel and Natural Gas shall be nil.
4. Input tax credit in respect of purchase of any goods shall be the full amount of input tax when these goods or the goods manufactured therefrom in the State are sold in the State and tax is payable on the sale of the goods.

5. Input tax credit in respect of purchase of any goods from the registered dealer availing composition of lump-sum in lieu of tax shall be nil.
6. Input tax credit in respect of purchase of any goods by way of transfer in the works contract of immovable property, shall be nil.
7. Input tax credit in respect of purchase of goods such as vehicles, office equipments, construction material, electrical installations, fixtures etc. which are incidental to the business, shall be nil.
8. Input tax credit in respect of purchase of any goods shall be the full amount of input tax when these goods or the goods manufactured therefrom in the State, are sold in the course of inter-State-trade and commerce and tax is payable on the sale of the goods.
9. Input tax credit in respect of purchase of any goods shall be the full amount of input tax when these goods or the goods manufactured therefrom in the State, are sold in the course of export out of the territory of India within the meaning of Section 5 of Central Sales Tax Act, 1956.
10. Input tax credit in respect of purchase of any goods, when these goods are used in manufacture of exempted goods in the State which are sold in the State or in the course of inter-State-trade & commerce or dispatched to other States without making inter-State sale or disposed of otherwise than by way of sale in the State, shall be :-
 - (i) where the local tax rate applicable on the goods purchased is equal to or less than the central sales tax rate, be nil, and

(ii) where the local tax rate applicable on the goods purchased is more than the central sales rate, determined by applying following formula.

$$\text{Input tax credit} = \text{Input tax} \times \frac{(\text{Local tax rate} - \text{Central tax rate})}{\text{Local tax rate}}$$

11. Input tax credit in respect of purchase of any goods shall be nil when these goods are disposed of otherwise than by way of sale in the State and no tax is payable in the State on these goods under the Act or the Central Sales Tax Act, 1956.

12. Input tax credit in respect of purchase of any goods when these goods are used in the manufacture of other goods in the State which are disposed of otherwise than by way of sale in the State in the circumstances when no tax is payable to the State on the goods under the Act or the Central Sales Tax Act, 1956, shall be nil.

13. Input tax credit in respect of purchase of any goods, when these goods or the goods manufactured therefrom are dispatched to other States for sale or for use in the manufacture of goods outside the State for sale, shall be.

(i) where the local tax rate applicable on the goods purchased is equal to or less than the central sales tax rate, be nil, and

(ii) where the local tax rate applicable on the goods purchased is more than the central sales rate, determined by applying following formula.

$$\text{Input tax credit} = \text{Input tax} \times \frac{(\text{Local tax rate} - \text{Central tax rate})}{\text{Local tax rate}}$$

14. Input tax credit in respect of purchase of any goods, when these goods or the goods manufactured therefrom are sold in the State or in the course of inter-State-trade and commerce or in the course of export out of the territory of India or dispatched to other States for sale or for use in the manufacture of other goods outside the State for sale or disposed of otherwise by way of sale, shall be calculated on prorata basis.
15. Input tax credit in respect of purchase of any goods by a registered dealer in a period for intra-State-sale or inter-State-sale, shall be the full amount of input tax even if the goods remain in his stock as on the last day of the period. In case the goods are not only used fully in the intra-State-sale or inter-State-sale of the goods, then input tax credit is reversed accordingly.
16. Input tax credit in respect of purchase of any goods when these goods are used in the manufacture of exempted goods which are sold in the State, or in the course of inter-State-trade or commerce, or dispatched to other States without making inter-State-sales, or disposed of otherwise than by way of sale, or put to self use, shall be nil.
17. Input tax credit in respect of purchase of goods when these goods are used in the manufacture of exempted goods which are sold in the course of export out of the territory of India, shall be the full amount of input tax.
18. Input tax credit in respect of goods taxable at different rates of tax are determined separately.

Session – II

Objectives

In this session we shall discuss the procedure of calculating the Input tax credit of a registered dealer and the net tax payable by a registered dealer.

Session – II

- **Procedure of computation of Input tax credit**
- **Computation of net tax payable by a registered dealer.**

Procedure of computation of input tax credit

When a registered dealer purchases goods taxable at a particular rate of tax from within the State and uses them in ‘sale of the goods in the State, or in the course of inter-State-trade or commerce, or in the course of export out of territory of India, or in the consignment-transfer to other States without making inter-State-sales, or in the consignment dispatches to the agents in the State on which tax is paid or payable under the Act or the Central Act in the State, or in the execution of works contract of a movable property, or in the self use or in the disposal otherwise’ during a period then input tax credit in respect of the goods purchased is determined in the following manner :-

1. First of all total purchases of the goods made from registered dealers excluding tax, and from unregistered persons in the State during the period, including the amount paid or payable on account of price-escalation of the goods purchased from registered dealers in the previous periods, is determined

Suppose it comes to ‘a’

2. Out of total purchases ‘a’, the following purchases of goods in respect of which input tax credit is nil, are deducted :-
 - i) purchase of Petrol, Diesel, Aviation Turbine Fuel & Natural Gas.
 - ii) purchase of goods such as vehicles, office equipments, construction material, electrical installations etc. which are incidental to the business.
 - iii) purchase of goods made from the registered dealers availing composition of lump-sum in lieu of tax under the Act.

Let the purchases of above (i), (ii), and (iii) come to 'b'.

3. Out of the remaining purchases (a-b), the purchase of capital goods is deducted.

Suppose the purchase of capital goods is 'c'.

The input tax credit in respect of goods 'c' will be the full amount of input tax. Let the Input tax in respect of goods 'c' be a_1 .

4. Balance purchases of goods from within the State comes to (a-b-c).
5. Input tax in respect of the purchases of the goods (a-b-c), is determined by applying the following formula.

$$\frac{(a-b-c) \times \text{rate of tax}}{100}$$

Suppose it comes to a_2 .

6. Proportionate input tax of column 5 in respect of the goods used in sale in the State, or in the course of inter-State-trade or commerce or in the course of export out of the territory of India, or in the sale of exempted goods manufactured by the dealer in the State in the course of export out of the territory of India, or in the consignment despatches to the agents in the State on which tax is payable under the Act or the Central Act in the State, is calculated by applying the following formula :-

$$(a_2) \times \frac{(T_1+T_2+T_3+T_4+T_5)}{(T_1+T_2+T_3+T_4+T_5+T_6+T_7+T_8+T_9)}$$

Where

- T₁ = Sale value of taxable goods in the State.
- T₂ = Sale value of taxable goods in the course of inter-State-trade or commerce, the movement of which commenced from the State.
- T₃ = Sale value of taxable goods in the course of export out of the territory of India, the movement of which commenced from the State.
- T₄ = Sale value of exempted goods manufactured by the dealer in the State which are sold in the course of export out of the territory of India.
- T₅ = Value of goods dispatched to the agents in the State on which tax is paid or payable under the Act or the Central Sales Tax Act, 1956 in the State.
- T₆ = Value of consignment-transfer of taxable goods to other State for sale or for use in the manufacture of goods for sale.
- T₇ = Value of exempted goods manufactured by the dealer in the State which are sold in the State, or in the course of inter-State-trade or commerce, or dispatched to other States without making inter-State-sales, or disposed of otherwise than by way of sale in the State, or put to self-use in the State not being in the course of business.
- T₈ = Value of goods used in the execution of works contract of a movable property.

T₉ = Value of taxable goods which are put to self-use and disposed of otherwise not covered in T₁ to T₈.

Suppose it comes to a₃. Then Input tax credit in respect of the goods purchased from within the State which were used in sale in the State, or in the course of inter-State-trade or commerce or in the course of export out of the territory of India, or in the sale of exempted goods manufactured by the dealer in the State in the course of export out of the territory of India, or in the consignment despatches to the agents in the State on which tax is payable under the Act or the Central Act in the State, will be a₃.

7. Proportionate input tax of column 5 in respect of the goods used in consignment-transfer of taxable goods to other State, or in the execution of works contract of movable property or in the manufacture of exempted goods which have been sold or transferred or disposed of otherwise than by way of sale is calculated by applying the following formula:-

$$a_2 \quad \times \quad \frac{(T_6+T_7+T_8)}{(T_1+T_2+T_3+T_4+T_5+T_6+T_7+T_8+T_9)}$$

where T₁ to T₉ have the same meaning as provided in clause 6.

Suppose it comes to a₄.

Then input tax credit in respect of the goods purchased from within the State which were used in consignment – transfer of taxable goods to other States or in the execution of works contract of moveable property or in the

manufacture of exempted goods which have been sold or transferred or disposed of otherwise than by way of sale shall

- A) Where the local tax rate applicable on the goods purchased in the State is equal to or less than Central tax rate, be nil.
- B) Where the local tax rate applicable on the goods is more than the Central tax rate, be the part of Input Tax in respect of the goods arrived at by applying the following formula:-

$$a_4 \quad x \quad \frac{(\text{Local tax rate} - \text{Central tax rate})}{\text{Local tax rate}}$$

Suppose it comes to 'a₅'

- 8. Input tax credit in respect of the goods used in the self use not being in the course of business or in the disposal otherwise will be nil.
- 9. Total input tax credit will be the total of input tax credit of clause 3, clause 6, clause 7 B.

i.e. $a_1 + a_3 + a_5$

Determination of T₈ in the execution of works contract/jobwork.

There are certain taxable goods purchased from within the State by a dealer which are consumed and vanish in execution jobwork for other persons on the materials supplied by them. The value of such goods is determined in the following manner:-

Suppose the total purchase of such goods from within the State in respect of a dealer in a given period is x_1 . The goods x_1 have been used by the dealer in the manufacture of his own goods and goods for others on job basis. Suppose the value of manufactured goods sold by the dealer in the State, or in the course of inter-State-trade or commerce, or in the course of export out of the territory of India, or despatched to others States without making inter-State sales, or disposal off otherwise than by way of sale in the State, or put to self-use not being in the course of business is x_2 . The job charges received by the dealer is x_3 .

The goods x_1 have been used in the manufacture of (x_2 -raw-material) and x_3 then T_8 is determined by applying the following formula:-

$$T_8 = \frac{x_1}{[(x_2 - \text{Raw Material}) + x_3]} \times x_3$$

Computation of Net tax payable by a registered dealer

1. The Net tax payable by a registered dealer for a given period shall be determined by the formula.

$$\text{Net tax payable} = A - B + C$$

Where

A = total tax payable by a registered dealer during a given period.

B = Rebate / set off which is the sum of the following.

- i) Input tax credit in respect of goods taxable @ 4%.
- ii) Input tax credit in respect of goods taxable @ RNR (Revenue Neutral Rate).
- iii) Input tax credit in respect of goods taxable @ 1%.
- iv) Input tax credit in respect of goods taxable @ 20%.
- v) Input tax credit brought forward from the previous period of the year.

C = Input tax credit corresponding to the purchase price of goods returned or purchased price de-escalated in the period in respect of goods purchased in the previous periods.

2. If the amount determined above is a negative amount then
 - (a) The same shall be adjusted against the tax liability under the Central Sales Tax Act, 1956, for the same period and the balance amount will be payable under the Central Sales Tax Act, 1956 .

- (b) If there is no tax liability under the Central Sales Tax Act, 1956 then the dealer may carry forward the amount to the next return period and the amount shall be deemed to be an input tax credit for that period or may be claimed as refund.

- (c) If the tax liability under the Central Sales Tax Act, 1956 is less than the amount determined in (1) above, then difference of the amount and the tax liability under the Central Sales Tax Act, 1956 may be carried forward to the next return period and shall be deemed to be an input tax credit for that period or may be claimed as refund.

Provided that no outstanding credit shall be carried forward in the next year.

Session – III

Objectives

In this session we shall discuss the particulars of various formats which are used in calculating the net tax payable by a dealer for a particular period.

Session – III

- **Performa for calculating net tax payable by a dealer for a particular period.**
- **Calculation chart of input tax credit in respect of goods taxable @ 4%.**
- **Calculation chart of input tax credit in respect of goods taxable @ RNR.**
- **Calculation chart of input tax credit in respect of goods taxable @ 1%.**
- **Calculation chart of input tax credit in respect of goods taxable @ 20%.**

**DETERMINATION OF TAX PAYABLE FOR THE PERIOD FROM _____
TO _____ OF THE YEAR _____.**

1. Name of the dealer with complete

Address: _____

2. Registration Certificate No. _____

3. Nature of business _____

4. Sale price received or receivable in respect of
goods sold excluding tax. _____

5. Amount received or receivable on account of
price escalation of goods sold in the previous
periods. _____

6. Amount received or receivable in respect of
works contract/ job work covered in the scheme
of composition of lump-sum. _____

7. Purchase price paid or payable in respect of
taxable goods purchased from unregistered
persons in the State. _____

8. Purchase price of taxable goods in the stock
on the date of registration under the Act which
were purchased from within the State without
payment of tax under the Act or under the State
Sales Tax Act. (Applicable only in the first return

period under the Act) _____

9. Gross Turnover (4+5+6+7+8) _____

LESS

a) Sale price of goods sold outside the State or in the course of inter-State trade & commerce or in the course of export out or import into the territory of India. _____

b) Sale price of goods returned within 180 days from the date of sale made to registered dealers. _____

c) Sale price in respect of sale not matured, or sale price de-escalated in respect of the goods sold to registered dealers in the pervious periods. _____

d) Sale price of exempted goods _____

e) Sale price of Petrol, Diesel, Aviation Turbine Fuel and Natural Gas on which tax has been levied in the State. _____

9. Balance Taxable Turnover **Tax Assessed**

Taxable Turnover @ 1% _____ (1)

Taxable Turnover @ 4% _____ (2)

Taxable Turnover @ RNR _____ (3)

Taxable Turnover @ 20% _____ (4)

Total Tax assessed (1+2+3+4) _____ (A)

10 Total Input Tax Credit as per the calculation charts enclosed. _____

- 11 Input Tax credit brought forward from the previous _____
period of the year.
- 12 Total Rebate/ Set off (10+11) _____ **(B)**
- 13 Input tax credit corresponding to the purchase price
returned or de-escalated/ lowered in this period in
respect of the goods purchased in the previous _____ **(C)**
periods.
- 14 Tax payable / refund / Input tax carried forward in
the next period of the year (A+C-B) _____

**CALCULATION CHART OF INPUT TAX CREDIT IN RESPECT OF
GOODS TAXABLE @ 4%**

1. Purchase price paid or payable in respect of the goods from registered dealers excluding tax, and from unregistered persons in the State. _____

ADD

a) Purchase price of the goods in the stock on the date of registration under the Act which were purchased in the State without payment of tax from registered dealers under the State Sales Tax Act or from unregistered persons in the State (Applicable in the first tax/return period under the Act) _____

b) Purchase price of the goods in the stock on the date of registration under the Act, which were purchased in the State from registered dealers under the Act (Applicable in the first tax/return period under the Act) _____

c) Amount paid or payable on account of price escalation of the goods purchased from registered dealers in the previous periods. _____

LESS

- Purchase price of the goods from the selling registered dealers availing composition of lump sum under the Act, if included in the purchase price. _____
2. Balance purchase price of the goods. _____
3. Input tax in respect of goods of Col.2 _____
4. Amount of tax in respect of the goods in the stock on the date of registration under the Act, paid to the registered dealers when purchased from them under the State Sales Tax Act(Applicable in the first tax / return period under the Act).. _____
5. Total input tax (3+4) _____
6. Less input tax in respect of capital goods. _____
7. Balance input tax (5-6) _____
8. Proportionate input tax of Col.7 in respect of the goods used in sale in the State or in the course of inter-State trade or commerce or in the course of export out of the territory of India or in the sale of exempted goods manufactured by the dealer in the State in the course of export out of the territory of India or in the

consignment despatches to the agents in the State on
which tax is paid or payable under the VAT Act or the
Central Sales Tax Act, 1956.

9. Input Tax Credit in respect of the goods of Col.6

10. Input Tax Credit in respect of the goods used in the
goods of Col.8

11. Total input tax credit (9+10).

**CALCULATION CHART OF INPUT TAX CREDIT IN RESPECT OF
GOODS TAXABLE @ RNR (REVENUE NEUTRAL RATE)**

1. Purchase price paid or payable in respect of the goods from registered dealers excluding tax, and from unregistered persons in the State. _____

ADD

a) Purchase price of the goods in the stock on the date of registration under the Act which were purchased in the State without payment of tax from registered dealers under the State Sales Tax Act or from unregistered persons in the State (Applicable in the first tax/return period under the Act) _____

b) Purchase price of the goods in the stock on the date of registration under the Act, which were purchased in the State from registered dealers under the Act (Applicable in the first tax/return period under the Act) _____

c) Amount paid or payable on account of price escalation of the goods purchased from registered dealers in the previous periods. _____

LESS

- a) Purchase price of Petrol, Diesel, Aviation Turbine Fuel and Natural Gas purchased from within the State. _____

- b) Purchase price of the goods such as vehicles, office equipments, constructional material, electrical installation etc. including those taken on lease or received in the works contract, which are incidental to the business and have been purchased from within the State. _____

- c) Purchase price of the goods from the selling registered dealers availing composition of lump sum under the Act, if included in the purchase price. _____

- 2. Balance purchase price of the goods. _____

- 3. Input tax in respect of goods of Col.2 _____

- 4. Amount of tax in respect of the goods in the stock on the date of registration under the Act, paid to the registered dealers when purchased from them under the State Sales Tax Act(Applicable in the first tax / return period under the Act).. _____

5. Total input tax (3+4) _____
6. Proportionate input tax of col.5 in respect of the goods used in sale in the State or in the course of inter-State trade or commerce or in the course of export out of the territory of India or in the sale of exempted goods manufactured by the dealer in the State in the course of export out of the territory of India or in the consignment despatches to the agents in the State on which tax is paid or payable under the State Act or Central Sales Tax Act, 1956. _____
7. Proportionate input tax of Col.5 in respect of the goods used in consignment transfer of goods to other States, or in the execution of works contract of moveable property, or in the manufacture of exempted goods which have been sold or transferred or disposed of otherwise than by way of sale in the State. _____
8. Input Tax Credit in respect of the goods used in the goods of Col.6 _____
9. Input Tax Credit in respect of the good used in the goods of Col.7 _____
10. Total input tax credit (8+9). _____

**CALCULATION CHART OF INPUT TAX CREDIT IN RESPECT OF
GOODS TAXABLE @ 1%**

1. Purchase price paid or payable in respect of the goods purchased from registered dealers excluding tax, and from unregistered persons in the State. _____

ADD

a) Purchase price of the goods in the stock on the date of registration under the Act which were purchased in the State without payment of tax from registered dealers under the State Sales Tax Act or from unregistered persons in the State (Applicable in the first tax/return period under the Act) _____

b) Purchase price of the goods in the stock on the date of registration under the Act, which were purchased in the State from registered dealers under the Act (Applicable in the first tax/return period under the Act) _____

c) Amount paid or payable on account of price escalation of the goods purchased from registered dealers in the previous periods. _____

2. Total purchase price of goods. _____
3. Input tax in respect of goods of Col.2 _____
4. Amount of tax in respect of the goods in the stock on the date of registration under the Act, paid to the registered dealers when purchased from them under the State Sales Tax Act(Applicable in the first tax / return period under the Act). _____
5. Total input tax (3+4) _____
6. Proportionate input tax of Col.5 in respect of the goods used in sale in the State or in the course of inter-State sale or in the course of export out of the territory of India or in the consignment dispatches to the agents in the State on which tax is paid or is payable under the VAT Act or the Central Sales Tax Act, 1956. _____
7. Input Tax Credit _____

**CALCULATION CHART OF INPUT TAX CREDIT IN RESPECT OF
GOODS TAXABLE @ 20%**

1. Purchase price paid or payable in respect of the goods purchased from registered dealers excluding tax, and from unregistered persons in the State. _____

ADD

a) Purchase price of the goods in the stock on the date of registration under the Act which were purchased in the State without payment of tax from registered dealers under the State Sales Tax Act or from unregistered persons in the State (Applicable in the first tax/return period under the Act) _____

b) Purchase price of the goods in the stock on the date of registration under the Act, which were purchased in the State from registered dealers under the Act (Applicable in the first tax/return period under the Act) _____

c) Amount paid or payable on account of price escalation of the goods purchased from registered dealers in the previous periods. _____

2. Total purchase price of goods. _____
3. Input tax in respect of goods of Col.2 _____
4. Amount of tax in respect of the goods in the stock on the date of registration under the Act, paid to the registered dealers when purchased from them under the State Sales Tax Act(Applicable in the first tax / return period under the Act). _____
5. Total input tax (3+4) _____
6. Proportionate input tax of Col.5 in respect of the goods used in sale in the State or in the course of inter-State sale or in the course of export out of the territory of India. _____
7. Input Tax Credit _____

Session – IV

Objectives

In this session we shall take up various numerical examples of calculating VAT Liability of a dealer.

Session – IV

- **N umerical examples of calculating VAT liability of a dealer.**
 - **Example-I**
 - **Example – II**
 - **Example - III**

Example No. 1

M/s Sunbeam Auto Ltd., is registered under the Haryana VAT Act and the Central Sales Tax Act, 1956 at Gurgaon in the State of Haryana and is engaged in the manufacturing and sale of auto parts etc. In the first period under the VAT Act the dealer has effected sale of taxable goods in the State at Rs. 47,31,89,944/- and of exempted goods manufactured by the dealer in the State at Rs. 7,70,726/- and sale of taxable goods in the course of inter-State-trade or commerce at Rs. 2,22,40,923/-. The dealer has purchased goods worth Rs. 34,10,74,974/- including capital goods worth Rs. 1,1918,449/- inclusive of tax @ 4%. Calculate the VAT liability of the dealer.(All the sales are exclusive of tax wherever applicable).

Solution

1.	Total sales	Rs. 49,62,01,593/-
2.	Less inter-State-sale	Rs. 2,22,40,923/-
3.	Less sale of exempted goods	Rs. 7,70,726/-
4.	Balance	Rs. 47,31,89,944/-
5.	T.T.O @ 10%	Rs. 47,31,89,944/-
6.	Tax Assessed	Rs. 4,73,18,994/-
7.	Total Input tax credit as per the calculation chart enclosed	Rs. 1,30,98,604/-
8.	Tax payable	Rs. 3,42,20,389/-

Calculation chart of Input tax credit in respect of goods taxable @ 4%

1.	Purchase of goods excluding tax from within the State	Rs. 32,79,56,706/-
2.	Input tax @ 4%	Rs. 1,31,18,268/-
3.	Less input tax in respect of capital goods @ 4% on 1,14,60,047/-	Rs. 4,58,402/-
4.	Balance input tax	Rs. 1,26,59,866/-
5.	Proportionate input tax of Col.4 in respect of the goods used in taxable goods sold in the State or in the course of inter-State trade or commerce.	$\begin{array}{r} 1,26,59,866 \\ \text{-----} \times 49,54,30,867 \\ 49,62,01,593 \\ = 1,26,40,202/- \end{array}$
6.	Input tax credit in respect of goods used in the goods of Col.5	Rs. 1,26,40,202/-
7.	Input tax credit in respect of capital goods	Rs. 4,58,402/-
8.	Total input tax credit	Rs. 1,30,98,604/-

Example No.2

M/s Orient Fans Ltd. is registered under the Haryana VAT Act and the Central Sales Tax Act, 1956 at Faridabad in the State of Haryana and is engaged in the manufacturing & sale of electric fans and their parts. In the first period under the VAT Act the dealer has effected sale of manufactured items in the State at Rs. 9,22,32,399/-, in the course of inter-State trade & commerce at Rs. 30,90,377/-, and in the course of export out of India at Rs. 24,33,54,610/-. The dealer has also transferred manufactured goods worth Rs. 76,10,48,835/- to the branches situated outside the State. The dealer has purchased iron sheet & bright bars worth Rs. 7,05,19,125/-(inclusive of tax @4%) & the other goods worth Rs. 10,17,19,057/-(inclusive of tax @10%) including diesel, building material & electric installation worth Rs. 32,80,408/- from other registered dealers in the State. The dealer has also purchased goods worth Rs. 4,56,752/- taxable @ 10% from unregistered persons in the State. In the stock of the dealer as on the date of the registration under the VAT Act, there were goods worth Rs 2,65,15,713/-, Rs. 2,85,06,580 and Rs. 2,05,01,575/- which were purchased after payment of tax @4%, @5% and @10% respectively, besides the goods worth Rs. 3,72,890/- purchased without payment of tax, from within the State under the Haryana General Sales Tax Act, 1973. Calculate the VAT liability of the dealer. (All the purchases are inclusive of tax and sales are exclusive of tax wherever applicable.)

Solution

1.	Total Sales	Rs. 33,86,77,386/-
2.	Purchases from unregistered persons in the State.	Rs. 4,56,752/-
3.	Purchases in the stock on the date of registration under the VAT Act made from within the State without payment of tax.	Rs. 3,72,890/-
4.	Total.	Rs. 33,95,07,028/-
5.	Less inter-State-sale and export out of India	Rs. 24,64,44,987/-
6.	Balance	Rs. 9,30,62,041/-
7.	TTO @ 10%	Rs. 9,30,62,041/-
8.	Tax assessed	Rs. 93,06,204/-
9.	Total input tax credit as per the calculation charts enclosed.	Rs. 1,00,10,680/-
10.	Input tax credit forward to the next period	Rs. 7,04,476/-

**CALCULATION CHART OF INPUT TAX CREDIT IN RESPECT OF
GOODS TAXABLE @ 4%**

1.	Purchase of goods excluding tax from within the State.	Rs. 6,78,06,850/-
	<u>ADD</u>	
2	Purchase in the stock without payment of tax	Nil.
3.	Input tax	27,12,274/-
4.	Amount of tax in respect of the goods in the stock on the date of registration under the Act paid to the registered dealers under the Haryana General Sales Tax Act, 1973.	10,19,835/-
5.	Total input tax	37,32,109/-
6.	Proportionate input tax in respect of the goods used in sale in the State or in the course of inter-State trade or commerce or in the export out of India.	$\frac{37,32,109 \times 33,86,77,386}{1,09,97,26,221} = 11,49,360/-$
7.	Input tax credit	Rs. 11,49,360/-

**CALCULATION CHART OF INPUT TAX CREDIT IN RESPECT OF
GOODS TAXABLE @ 10%**

1.	Total purchases of goods excluding tax when purchased from registered dealers, & from unregistered persons in the State.	Rs. 9,29,28,622/-
2.	Add purchases of goods made from within the State without payment of tax which are in the stock on the date of registration under the VAT Act.	Rs. 3,72,890/-
3.	Total	Rs. 9,33,01,512/-
4.	Less purchase price of diesel, building material and electrical installation excluding tax incidental to the business.	Rs. 29,82,189/-
5.	Balance	Rs. 9,03,19,323/-
6.	Input tax in respect of goods of Col.5	Rs. 90,31,932/-
7.	Amount of tax in respect of the goods in the stock on the date of registration paid to the registered dealer under the Haryana General Sales Tax Act, 1973 (13,57,456 + 18,63,780)	Rs. 32,21,236/-
8.	Total input tax (6+7)	Rs. 1,22,53,168/-
9.	Proportionate input tax in respect of goods used in sale in the State or in the inter-State trade or commerce or in the export out of India.	$1,22,53,168 \times \frac{33,86,77,386}{1,09,97,26,221} = 37,73,549/-$

10. Proportionate input tax in respect of goods
 used in consignment transfers $\frac{1,22,53,168 \times 76,10,48,835}{1,09,97,26,221} = 84,79,619/-$
11. Input tax credit in respect of the goods
 used in Col.9 Rs.37,73,549/-
12. Input tax credit in respect of the goods
 used in Col.10 $\frac{8479619 \times (10-4)}{10} = 50,87,771/-$
13. Total input tax credit (11+12) Rs.88.61.320/-

Example 3

M/s Whirlpool India Limited is registered under the Haryana VAT Act and the Central Sales Tax Act, 1956 at Faridabad in the State of Haryana and is engaged in the manufacture and sale of Refrigerators etc. and their parts. In the first period under the VAT the dealer has effected sale of manufactured items in the State at Rs.3094.02 lakhs, in the course of interstate trade and commerce at Rs.1684.65 lakhs and in the course of export out of India at Rs.230.78 lakhs. The dealer has also transferred manufactured goods worth Rs.31285.25 Lakhs to its various branches situated outside in the State. The dealer has purchased iron and steel worth Rks.1229.60 lakhs inclusive of tax @4% and the other goods worth Rs. 1844.93 lakhs inclusive of tax @10% including diesel and building material and electric installation worth Rs.496.65 lakhs from other registered dealers in the State. The dealer has also purchased capital goods (plant and machinery) worth Rs.395.38 lakhs (inclusive of tax @4%) from within the State. In the stock of the dealer as on the date of registration under the VAT Act there were goods worth Rks.853.03 lakhs, 1066.20 lakhs and Rs.1421 lakhs which were purchased after payment of tax @4%, 5% and 10%, respectively, besides the goods worth Rs.3767.77 lakhs purchased without payment of tax from within the State under the Haryana General Sales Tax Act, 1973. Calculate the VAT liability of the dealer.(All the purchases all inclusive of tax and sales are exclusive of tax wherever applicable).

Solution

(Figures in Lakhs.)

1.	Total Sales	5009.45
2.	Purchases from unregistered persons in the State.	Nil.
3.	Purchases in the stock on the date of registration under the VAT Act made from within the State without payment of tax.	3776.67/-
4.	Total.	8786.12
5.	Less inter-State-sale and export out of India	1915.43
6.	Balance	6870.69
7.	TTO @ 10%	6870.69
8.	Tax assessed	687.06
9.	Total input tax credit as per the calculation charts enclosed.	458.21
10.	Tax payable	228.85

**CALCULATION CHART OF INPUT TAX CREDIT IN RESPECT OF
GOODS TAXABLE @ 4%**

		(Figures in Lacks)
1.	Purchase of goods including capital goods excluding tax from within the State.	1562.47
	<u>ADD</u>	
2	Purchase in the stock without payment of tax	Nil.
3.	Input tax	62.49
4.	Amount of tax in respect of the goods in the stock on the date of registration under the Act paid to the registered dealers under the Haryana General Sales Tax Act, 1973.	32.80
5.	Total input tax	95.29
6.	Proportionate input tax in respect of the goods used in sale in the State or in the course of inter-State trade or commerce or in the export out of India.	$\frac{95.29 \times 5009.45}{36294.70} = 13.15$
7.	Input tax credit	13.15

**CALCULATION CHART OF INPUT TAX CREDIT IN RESPECT OF
GOODS TAXABLE @ 10%**

(Figure in Lakhs)

1.	Total purchases of goods excluding tax when purchased from registered dealers, & from unregistered persons in the State.	1677.20
2.	Add purchases of goods made from within the State without payment of tax which are in the stock on the date of registration under the VAT Act.	3767.77
3.	Total	5444.97
4.	Less purchase price of diesel, building material and electrical installation excluding tax incidental to the business.	451.50
5.	Balance	4993.47
6.	Input tax in respect of goods of Col.5	499.34
7.	Amount of tax in respect of the goods in the stock on the date of registration paid to the registered dealer under the Haryana General Sales Tax Act, 1973 (50.77+ 129.18)	179.95
8.	Total input tax (6+7)	679.29
9.	Proportionate input tax in respect of goods used in sale in the State or in the inter-State trade or commerce or in the export out of India.	$\frac{679.29 \times 5009.45}{36294.70} = 93.75$

10.	Proportionate input tax in respect of goods used in consignment transfers	$\frac{679.29 \times 31285.25}{36294.70} =$	585.53
11.	Input tax credit in respect of the goods used in Col.9		93.75
12.	Input tax credit in respect of the goods used in Col.10	$\frac{585.53 \times (10-4)}{10} =$	351.31
13.	Total input tax credit (11+12)		445.06

Day IV	Session I	Numerical examples of calculating VAT liability of a dealer.
	Session II	Numerical examples of calculating VAT liability of a dealer.
	Session III	<p>Registration under the VAT Act.</p> <p>Amendment in the certificate of VAT registration.</p> <p>Cancellation of the Registration Certificate.</p> <p>Maintenance of Accounts in the VAT System.</p> <p>Filing of returns & payment of Tax.</p>
	Session IV	<p>What to do & How to do when VAT returns not filed.</p> <p>What to do & How to do when VAT returns have been filed</p> <p>Assessment in the VAT System.</p>

Session – I

Objectives

In this session we shall take up various numerical examples of calculating VAT Liability of a dealer.

Session – II

Objectives

In this session we shall take up various numerical examples of calculating VAT Liability of a dealer.

Session –III

Objectives

In this session we shall discuss the registration of a dealer under the VAT Act. The eventualities of cancellation and amendment of the registration certificate under the VAT Act. What are the various account books which are required to be kept by a registered dealer in the VAT System. The method of filing the returns and payment of tax in the VAT System.

Session –III

- **Registration under the VAT Act.**
- **Amendment in the certificate of VAT registration.**
- **Cancellation of the Registration Certificate.**
- **Maintenance of Accounts in the VAT System.**
- **Filing of returns & payment of Tax.**

Registration under the VAT Act.

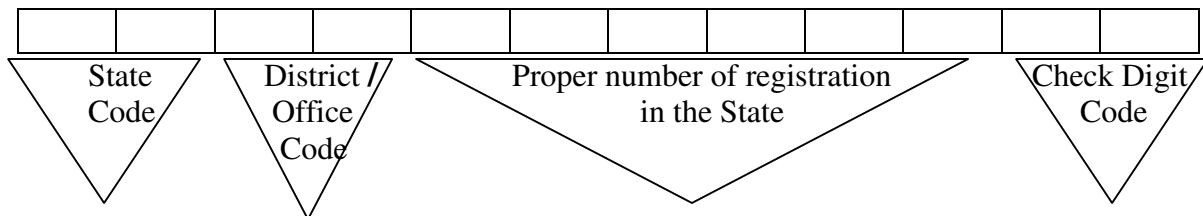
1. Every dealer liable to pay VAT shall make an application for registration in the prescribed format (specimen format enclosed) within such period alongwith such fee and such other information as may be prescribed, to the prescribed authority within fifteen days from the date of his becoming liable for payment of VAT.

Provided that the dealer registered or liable to be registered under the State Sales Tax Act on 28.02.2003 shall make the application for registration by 15.03.2003.

2. If the prescribed authority is satisfied that the applicant is a bonafide dealer and the application for registration made by him is in order, the prescribed authority shall register the person immediately.
3. When the prescribed authority is satisfied that an applicant for registration does not meet the requirements for registration, the prescribed authority shall refuse to register the applicant after affording him a reasonable opportunity of being heard & pass necessary order in this regard which shall be served upon the concerned applicant.
4. The prescribed authority shall issue to each applicant registered, a certificate of registration in the prescribed format (specimen format enclosed) which will state the name and other relevant details of the taxable person, the date from which the liability to pay VAT starts or the registration is effective, the Taxpayer Identification Number(TIN) of the dealer and such other particulars as may be specified.

5. The prescribed authority shall issue to the registered dealer an attested copy of the certificate of VAT registration for every branch mentioned in the application for registration.
6. In case the certificate of VAT-registration is lost or destroyed or defaced, the registered dealer (taxable person) may obtain a duplicate copy of the certificate from the prescribed authority by making an application along with such fee as prescribed.
7. A certificate issued under clause (4) above shall remain valid till cancelled.
8. A dealer making taxable sales in the course of the business who is not otherwise liable to register may also opt for registration as mentioned above. However the certificate of registration issued to such dealer shall remain valid at least for two years and thereafter till cancelled.
9. The registration number (Taxpayer Identification Number TIN) of each dealer will be a twelve (12) digit unique code for the whole country.

Structure of proposed 12 digits registration number.



First two digits represent the State Code. Each State has to be assigned a particular Code number by the Central Government.

Next two digits represents the District Code. Each District/Office Code in the State has to be assigned a particular code number by the State.

Next six digits represent the Proper number of registration in the ascending order in the State. Each State shall maintain such numbers centrally.

Last two digits represent the Check Digit Code. Check Digit Code is used so that the same Registration Certificate proper number is not allotted to two different registered dealers. The Check Digit Code numbers are calculated as under:-

1. sum of the digits of the State Code, the digits of the District code & the digits of the proper number of the registration is worked out.
 2. the sum of (1) above is divided by 9 then the quotient will be the 1st digit number of the Check Digit Code & the remainder will be the next number of the Check Digit Code.
10. A separate registration number is allotted to each legal entity forming a conglomerate.
11. a) where a dealer has within the State more than one place of business known as branches, he will be assigned only one registration number in respect of the branch which is declared as head office in the State. Such branch shall be the place of business of a dealer where he is conducting bulk of his sales and/or purchases and the dealer will intimate the same to all the prescribed authorities within whose jurisdiction such branches are situated together with the location thereof before the close of any year in which business is done in one or more of such branches.

Provided that a contractor dealer may declare a place in the State, where he keeps his books of accounts, as head office.

- b) Notwithstanding anything contained in sub-clause (a) above
- (i) where a dealer is a manufacturer and has within the State more than one branch of business, the branch in the district where the process of manufacturing is undertaken ;
 - (ii) where a dealer is a manufacturer and has within the State more than one branch, where the process of manufacturing is undertaken, the branch in the district where main process of manufacturing is undertaken;

shall be declared as head office.

- c) all applications, returns or statements prescribed shall be submitted in respect of all the branches jointly by the head office to the concerned prescribed authority.
 - d) the turnover for the whole business in the State shall be the aggregate of the turnover of all the branches in the State.
 - e) the person incharge of each branch shall furnish the name and address of the head office to the prescribed authority of the district in which the branch is situated.
 - f) a notice or order, issued to, or served upon, the person incharge of the head office, shall be deemed to have been issued to, or served upon, all branches of the dealer concerned.
12. Only the registered dealer having a valid certificate of VAT Registration is entitled to charge tax in the sale bill/invoice.
 13. The Certificate of Registration shall be displayed prominently at the principal place of business and copies of the Registration Certificate at all the branches in the State.
 14. Any dealer liable to be registered from a particular date but failed to register, shall be liable to pay VAT from that very date.
 15. The registered dealer shall comply with all the provisions of the Act such as maintenance of accounts, filing of returns & payment of VAT etc.
 16. Only the registered dealer is entitled to claim input tax credit.
 17. Identity card should be issued to the dealer immediately after registering his business.

Specimen Format for application for Registration under the VAT Act

- 1) Name and style of the business(to be registered) _____

- 2) Nature of the business _____

- 3) Name and the status or relation-ship of the person making the application (Proprietor, Partner, Director, Manager, Officer Incharge of the Govt. business) _____

- 4) Complete address of the place of the business (principal place in case there is more than one place of business) _____

- 5) Complete addresses of the additional places of the business if any.
a) _____
b) _____
c) _____

- 6) Complete address and location of each warehouse/godown if any in which the goods relating to the business are stored. _____

7) Name(s) and address (es) of the proprietor of the business / partners of the business/all persons having any interest in the business together with their age, father's name etc. The passport size photograph of each such person be affixed.

Sl. No.	Name in Full	Father's/Husband's Name	Age	Extent of Interest in the business	Present Address	Permanent Address	Signature	Signature and Address of witness Attesting signature in col.8 9
1	2	3	4	5	6	7	8	9

8) Name and style of the business alongwith Registration Number registered under the State sales tax Act if any.

9) Date on which the gross turnover of the dealer exceeded the threshold limit(not applicable in case of dealers covered in col. 8).

10) The above statements are true to the best of my knowledge and belief.

Name of the applicant in block letters.....

Place.....

Signature.....

Date.....

Status.....

Specimen Format of the Certificate of Registration
under the VAT Act

Effective Date of Registration

--	--	--	--	--	--	--

R.C. No./TIN(Taxpayer Identification No.)

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

This is to certify that the dealer, whose particulars are detailed below, has been registered under the VAT Act.

1. Name of the dealer _____
2. Status _____
3. Nature of business _____
4. Complete address of the main place of the business. _____
5. Addresses of additional places of business & warehouses, if any _____
.....

The dealer shall file returns monthly/quarterly_____.

Seal of Assessing Authority

Date

--	--	--	--	--	--	--

Signed.....
Assessing Authority,
.....District.

Amendment in the Certificate of VAT registration.

1. The certificate of VAT-registration could be amended in any of the following events:-
 - (a) If there is a change in the name of the dealer.
 - (b) If there is a change in the constitution of the dealer for example:- a change or addition or deletion of a partner in case of a partnership concern etc.
 - (c) If there is a change in the address of the dealer.
 - (d) If there is a change in the place of business of the dealer.
 - (e) If there is addition or deletion in the place of the business of the dealer.
 - (f) If there is a change in the nature of business of the dealer.
2. The registered dealer shall report within 15 days or such period as prescribed of the contingency arising & send his certificate of registration required to be amended along with the required information.
3. On the receipt of the information the prescribed authority may if so required amend the registration certificate & other relevant records.

Cancellation of the Registration Certificate

1. The Registration Certificate in respect of a business could be cancelled in the following circumstances :-
 - a) when there has been a closure or cessation of the business by the dealer.
 - b) when the gross turnover of the business has failed to exceed the taxable quantum or threshold limit.
 - c) when the certificate of the registration granted under the Central Sales Tax Act, 1956 has been cancelled on the basis of which the dealer is registered under the VAT Act.
 - d) when the dealer in respect of the business has violated any provisions of the VAT Act or the rules made there under.

2. In the event of sub clause (a) of clause (1) the registered dealer who ceases to carry on the business shall apply to the prescribed authority within 30 days of the cessation/closure of the business for the cancellation of the Registration Certificate.

3. In the event of sub clause (b) of clause (1) the registered dealer who ceases to be liable to be registered under the VAT Act, may apply to prescribed authority for the cancellation of the Registration Certificate at any time.

Provided that the Registration Certificate of a dealer registered voluntary other wise liable to be registered, shall remain in force at least for two year.

4. In the event of sub clause (c) of clause (1) the registered dealer may apply to prescribed authority for the cancellation of the Registration Certificate at any time after the cancellation of the Certificate of Registration under

the Central Sales Tax Act, 1956 on the basis of which he is registered otherwise he is not liable to be registered.

5. On the receipt of the application for cancellation of the Registration Certificate the prescribed authority may after making necessary enquiries, cancel or refuse to cancel the Registration Certificate of the dealer.
Provided that before passing the order of cancellation of the Registration Certificate, the prescribed authority shall obtain the Registration Certificate issued to the dealer.
6. The prescribed authority shall serve a notice in writing on the registered dealer before refusing to cancel the Registration Certificate of the dealer.
7. In the event of the sub-clause (d) of clause (1) when the registered dealer of the business has violated any provisions of VAT Act or the rules made there under the competent authority to cancel the registration certificate is the Commissioner or such other officer authorised by the State.
Provided that no order of cancellation of the Registration Certificate under this clause shall be made without affording the dealer a reasonable opportunity of being heard.
8. The prescribed authority shall make necessary entries in the record in respect of the dealer whose Registration Certificate has been cancelled.
9. The cancellation of registration takes effect from the end of the tax period in which the registration is cancelled unless the prescribed authority orders the cancellation to take effect at an earlier date.
10. The cancellation of the Registration Certificate of the dealer should also be got notified in the Gazette.

11. No input tax credit shall be allowed to the registered dealer against tax paid or payable on goods remaining unsold at the time of cessation or closure of the business and if the dealer has already taken any input tax credit against purchases of goods which are in the stock including capital goods, in any form, there shall be a reverse tax credit in the return period in which cessation or closure of the business took place.

12. The obligation and liabilities under the VAT Act of the registered dealer in respect of anything done or omitted to be done by the dealer when he was registered dealer is not effected by the cancellation of his Registration Certificate.

Provided that; the cancellation of Registration Certificate on an application of the dealer or otherwise shall not effect the liability of the dealer to pay the tax (including any penalty and interest) due for any period irrespective of such cancellation whether such tax (including penalty and interest) is assessed before the date of cancellation but remains unpaid or is assessed thereafter.

Maintenance of Accounts in the VAT System

A registered dealer in the VAT System is required to maintain at least the following record and supporting documents:-

1. **Purchase Book**
 - a) the format of the purchase books is enclosed.
 - b) when on any day any goods are purchased in the course of business the entries in respect of those purchases are made in the book on the very day.
 - c) following informations are available in respect of any tax/return period from the purchase book of the dealer:-
 - i) total purchases of exempted goods/zero rated goods from within the State as well as outside the State.
 - ii) the amount of purchases of goods taxable at a particular rate of tax from within the State as well as outside the State. In respect of the purchases from within the State the purchase value of goods without tax and the amount of tax involved in those purchases are also available.
 - d) the date of purchase, the Number and date of purchase bill/invoice, description of goods purchased and the name of the seller from whom the goods are purchased.
2. **Sale Book**
 - a) the format of the sale books is enclosed.
 - b) when on any day any goods are sold/despatched on consignment basis in the course of business the entries in respect of those sales/consignment dispatches are made in the book on the very day.
 - c) following informations are available in respect of any tax/return period from the sale book of the dealer:-

- i) sale and consignment dispatches of exempted goods.
 - ii) sale of goods taxable at a particular rate of tax in the State, or in the course of interstate trade and commerce or in the course of export out of the territory of India and consignment dispatches to the agents.
- d) the number and date of sale bill/invoice, the description of goods sold and the name of the purchaser to whom the goods are sold if he is a dealer.
3. Copies of all purchase and sale invoices(specimen of Tax Invoice/Sale Invoice enclosed).
4. Copies of all credit notes and debit notes issued (specimen of Credit note & Debit note enclosed).

Purchase Book

Date	Name & Address of the Supplier with TIN if any	Bill / Invoice No with date	Description of Goods	4% Goods			10 % Goods			Exempted / Zero rated goods	
				Out side the State	Within the State		Out side the State	Within the State		Out side the State	Within the State
					Total	Without Tax		Tax	Total		

Tax Invoice / Sale Bill

.....
.....

(Seller's Name, Address & TIN)
(Printed)

.....
.....
.....
(Purchaser's Name, Address & TIN
if any)

Invoice No.....
Date.....

Sr No.	Description of goods	Quantity	Rate	Price of goods in rupees (figure)
			Other charges	
			Taxable value	
			Tax	
			Total	

Total value (in words)Rs.....

Signature.....
(Selling dealer/Authorised person)

Debit Note

.....

(Seller's Name, Address & TIN)
 (Printed)

.....

Sr No.....

Date.....

(Purchaser's Name, Address & TIN
 if any)

Your above Account with us has been debited by Rs. as per details given below :									
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%; text-align: right; padding: 5px;">Taxable Sale value as per the Invoice No./date</td> <td style="width: 20%; text-align: center; padding: 5px;"><u>Amount</u></td> </tr> <tr> <td style="text-align: right; padding: 5px;">Revised Taxable value</td> <td style="border-top: 1px solid black; border-bottom: 1px solid black;"></td> </tr> <tr> <td style="text-align: right; padding: 5px;">Difference</td> <td style="border-top: 1px solid black; border-bottom: 1px solid black;"></td> </tr> <tr> <td style="text-align: right; padding: 5px;">Tax</td> <td style="border-top: 1px solid black; border-bottom: 1px solid black;"></td> </tr> </table>	Taxable Sale value as per the Invoice No./date	<u>Amount</u>	Revised Taxable value		Difference		Tax		
Taxable Sale value as per the Invoice No./date	<u>Amount</u>								
Revised Taxable value									
Difference									
Tax									
Reasons: _____									
(In Words)Rs.....	Total								

Signature.....
 (Selling dealer/Authorised person)

Credit Note

.....

(Seller's Name, Address & TIN)
 (Printed)

.....

Sr No.....
 Date.....

(Purchaser's Name, Address & TIN
 if any)

Your above Account with us has been credited by Rs. _____		as per details given below :
	<u>Amount</u>	
Taxable Sale value as per the Invoice No./date		
Revised Taxable value		
Difference		
Tax		
Reasons: _____		
(In Words)Rs.....	Total	

Signature.....
 (Selling dealer/Authorised person)

FILING OF RETURNS AND PAYMENT OF TAX

- 1) The following dealers shall furnish correct and complete return in the prescribed format for a period within 15 days of the end of the period.
 - a) every registered dealer.
 - b) every dealer who has applied for registration
 - c) a dealer not covered in (a) and (b) above but who has been required to do so by the Assessing Authority through notice duly served upon him.
- 2) Every dealer mentioned in clause (1) shall pay full amount of tax due according to the return for a period before filing the return.
- 3) Any amount payable by a dealer of clause 2 shall be paid either by depositing into the Government treasury or through a crossed bank draft or pay order in favour of Assessing Authority, drawn on scheduled bank.
- 4) Each return shall be accompanied by a treasury receipt or a crossed bank draft or pay order in respect of the amount of clause (3).
- 5) The dealer shall submit the return for a period in duplicate on a carbonless copy paper. However, the treasury receipt or the bank draft/pay order in respect of payment of tax due according to the returns should be attached with first copy of the return. The receiving clerk should stamp and sign with date of receipt on the second copy of the return to the dealer.
- 6) The Commissioner may, on application in writing by a registered dealer for sufficient reasons extend the period in which a tax return is to be filed, after ensuring that the tax due has been paid by the dealer.
- 7) The registered dealer shall continue to file the return(s) & pay tax due according to the return(s) for all the periods till his registration remains in force.

Session –IV

Objectives

In this session we shall discuss What to do & How to do when VAT returns not filed. What to do & How to do when VAT returns have been filed. Assessment in the VAT System and the Procedure of assessment.

Session -IV

- **What to do & How to do when VAT returns not filed.**
- **What to do & How to do when VAT returns have been filed**
- **Assessment in the VAT System.**

What to do & How to do when VAT returns not filed ?

When the return for a particular period under the VAT Act is not filed by a dealer before the prescribed authority then there are two possibilities :-

- 1) the dealer has ceased to carry on the business & the firm is closed.
- 2) the business is not closed and the firm is running.

- 1) **In case of closed firm**

When the return for a particular period under the VAT Act has not been filed by the dealer & if it is established that the business of the dealer is closed then following two actions should be initiated by the prescribed authority / competent authority simultaneously:-

- a) cancellation of the Registration Certificate of the dealer.
- b) penal action for not filing the return for the period.
- c) best judgment assessment.

For cancellation of the Registration Certificate, the competent authority should issue & serve the notice (specimen copy of the notice enclosed) upon the dealer. It must be ensured that the notice is served upon the dealer at least 10 days before the date of hearing in the interest of justice. In case no body turns up on the date of hearing, then the order of cancellation of the Registration Certificate should be passed & must be served upon the dealer (specimen copy of the order enclosed). After canceling the Registration Certificate, the necessary entries must be made in the records. The cancellation of the Registration Certificate of the dealer should also be got notified in the gazette. In case the dealer turns up on the date of hearing the necessary detailed order be passed after hearing the dealer patiently. Simultaneously penal action/interest for not filing the return should be levied. In addition to this the best judgment assessment should be made in respect of the period for which return has not been filed.

Specimen Copy of the Notice

Before Shri _____(Competent Authority)

To

M/s _____

Subject : Cancellation of Registration Certificate under Section _____ of the VAT Act.

Notice:

You being a registered dealer have failed to file the return for the period _____ and inform the prescribed authority of the closure/discontinuance of your business. Since you have violated the provisions of sections _____ and _____ of the State VAT Act, 2003, hence your Certificate of Registration number _____ under the VAT Act is liable to be cancelled.

You are therefore directed to appear before the undersigned on _____ at _____ in my office situated at _____ to explain as to why the Certificate of Registration Number _____ granted to you under the VAT Act may not be cancelled.

Please take notice, that in the event of your failure without sufficient cause to comply with this notice, action will be taken as per law without affording any further opportunity to you.

Seal,

Date:-

Signed.....

Competent Authority,

District.....

Specimen Copy of the Order

Before Shri _____ (Competent Authority)

1. Name of the dealer :
M/s.....
2. Registration Certificate Number/TIN :
.....

ORDER UNDER SECTION _____ OF THE STATE VAT ACT, 2003.

This is an order of cancellation of the Registration Certificate Number _____ under section _____ of the State VAT Act, 2003. The brief facts of the case are that the dealer M/s _____ was issued Registration Certificate Number. _____ under the State VAT Act (hereinafter called the Act) which was effective from _____.

The perusal of the record reveals that the dealer has failed to file return for the period _____ and has discontinued its business but failed to inform the prescribed authority about the discontinuance of the business. These facts clearly indicate that the dealer has violated the provisions of sections _____ and _____ of the State VAT Act and hence the Certificate of Registration Number _____ issued to the dealer is liable to be cancelled.

A detailed notice dated _____ was issued to the dealer u/s _____ of the VAT Act to explain as to why the Registration Certificate may not be cancelled. This notice was duly served upon the dealer on _____. In response to the said notice none turned up. Thus there is no other alternative with the undersigned but to decide the case on merits.

It has been verified from the office record & visiting the business premises of the dealer that :-

1. The dealer has failed to file returns for the period ending_____.
2. The dealer has discontinued its business but failed to inform the prescribed authority within whose jurisdiction the place of the business of the dealer is situated about the discontinuance of the business.

Thus the dealer has contravened the provisions of section_____ and _____ of the Act. Since the dealer has violated the provisions of section_____ and section_____ of the Act, hence Certificate of Registration Number_____ issued to the dealer under the Act is liable to be cancelled u/s _____ of the Act.

In view of the facts explained above, the undersigned hereby cancels the Registration Certificate Number._____ issued to M/s_____ under the VAT Act. The cancellation of the Registration Certificate is effective from_____.

Seal,
Date

Signed.....
Competent Authority,
District:.....

2) **In case of Running Firm**

If the return for a particular period has not been filed by the dealer who is doing the business and whose firm is running, the notice (Specimen Copy of the Notice is enclosed) for making assessment by proposing turnover in respect of that period to the best of the judgment of the Assessing Authority, should be issued and served upon the dealer. It must be ensured that the notice is served upon the dealer at least 10 days before the date of hearing in the interest of justice. After hearing the dealer on the date or the next date as the case may be patiently, the assessment should be made if the return is not submitted by the dealer by that date. If the assessment is made or the return is filed by the dealer, penal action/interest should be levied upto the date of assessment or filling of the return for that period. In case the dealer again fails to file the return for the next period, the Registration Certificate of the dealer should also be cancelled after affording him reasonable opportunity of being heard, in addition to the actions mentioned above in respect of that period. The procedure for cancelling the Registration Certificate has been laid down earlier in the case of closed firm.

**Notice under section _____ for assessment under
the State VAT Act, 2003.**

To

M/s _____

Registration/TIN No:- _____

You being a registered dealer, have failed to furnish the return for the period..... and have thereby rendered yourself liable to be assessed to the best of my judgment under section _____ of the State VAT Act, 2003. Your gross turnover for the said period to be assessed is proposed at Rs. _____. You are, therefore, directed to appear before the undersigned on _____ at _____ in my office situated at _____ to explain as to why you may not be assessed at the turnover proposed above.

Please take notice that in the event of your failure to without sufficient cause to comply with this notice, you will render yourself liable to be assessed to the best of judgment by taking gross turnover at Rs. _____ for the said period without affording any further opportunity to you.

Seal of
Assessing Authority,
Dated.....

Signature.....
Assessing Authority,
District.....

What to do & How to do when VAT returns have been filed

When the dealer has filed a return for a particular period before the prescribed authority, the return should be examined mainly in respect of the following points by the prescribed authority:-

- (i) Whether the return and the other documents accompanying the returns have been signed by the dealer or his authorised agent. For verification of this fact the prescribed authority should compare the signatures of the dealer or his authorised agent from the office record. In case the list of person authorised by the dealer to sign the return and the other documents to be submitted before the prescribed authority is not available in the office record, the prescribed authority should ask the dealer to furnish the same by issuing notice (Specimen copy of the notice enclosed).
- ii) whether the name and TIN (Tax payer Identification Number) of the dealer mentioned in the return is correct.
- iii) whether all the columns of the return are completed.
- iv) whether the arithmetical calculations in return such as determination of taxable turnover and calculation of tax at proper rate etc. are correct.
- v) whether the tax payable as per return has been deposited by the dealer.
- vi) whether the input tax credit has been worked out properly.

vii) whether the input tax credit brought-forward from the previous period is correct.

If the return is defective in respect of any of the points mentioned above, the dealer should be issued notice to correct the same. In case the dealer does not comply with the notice the penal action provided in the Act for that offence if any should be taken besides making the assessment of the dealer in respect of that period.

Specimen copy of the notice for supply of list of Authorised Agents.

From

Assessing Authority,

To,

M/s _____

Subject : List of Authorised Agents.

Memo.

It may be intimated that VAT return and other document to be submitted before the undersigned could be signed by you or your authorised agent.

You are, therefore, required to furnish the list of persons alongwith their full signatures and complete addresses authorised by you to sign the above mentioned documents within 15 days of the receipt of this communication.

Please note that in case of failure, the above mentioned documents signed by any person other than you will be treated as no document and the action warranted as per law will be taken. Please note that in the event of any change in the list, the amended list should be furnished within 7 days of the occurrence of such event.

This may be treated as urgent.

Assessing Authority,

Assessment in the VAT System

The complete return(s) furnished by the dealer shall be accepted as self assessed. However, assessment can be made in respect of the following situations under the VAT Act.

1. When the return(s) have not been filed by the registered dealer.
2. When the return(s) filed by the dealer are incomplete & even have not been completed by the dealer on receiving a notice from the Assessing Authority for doing so.
3. When there is any arithmetical error in the return(s) & the correct return(s) have not been submitted by the dealer even on receiving the notice from the Assessing Authority in this regard.
4. When the Assessing Authority is not satisfied with the correctness of the return(s) filed by the dealer on the basis of certain material information in his possession.
5. When any evasion is detected as a result of an audit of the registered dealer.
6. When the Assessing Authority has reasonable ground to believe that a dealer is liable to be registered but has failed to get himself registered with the prescribed authority.

It may be noted that assessment includes best judgment assessment and no assessment for any year shall be made after a period of 5 years from the end of the year to which the return(s) relate.

Procedure for making Assessment in the VAT System

Whenever any assessment is to be made under the VAT System the following procedure should be adopted in general:-

1. The personal file of the dealer containing the Registration Certificate & other documents/information in respect of the dealer gathered from various sources & the assessment file containing the returns etc. should be examined in detail before issuing the notice or statutory notice if any for assessment.
2. The Assessing Authority should mention in the notice various account books/documents such as purchase book and sale book, all purchase and sale vouchers, credit and debit notes issued by the dealer, trading account and balance sheet, reconciliation statement etc. required to be examined for making assessment.
3. The notice to be issued for assessment should bear the despatch number and date. Special despatch register for this purpose could be maintained in the office of the Assessing Authority.
4. The notice for assessment should be got served upon the assessee at least 10 days before the case is taken up for hearing and reasonable time should be given while issuing call memos to the dealer in this behalf.
5. The day to day proceedings on the order sheet should be recorded by the Assessing Authority himself and not by the Camp-Clerk or the Taxation Inspector etc.
6. When any case is adjourned by the Assessing Authority, the reasons for adjournment should be mentioned on the order sheet. When any adjournment is sought by the dealer, it should be given against the application of the dealer containing the valid reasons for adjournment.

7. Copy of the assessment order should be supplied alongwith the tax demand notice and challan as early as possible and not later than one month of passing the order except in special circumstances.
8. When any assessment is finalized, the details of the assessment should be entered in the respective records at the same time.
9. All dealers whether registered or unregistered against whom the proceedings for assessment are initiated, should be entered in the peshi register.
10. When any document such as trading account, balance sheet, reconciliation sale statement and other details are obtained by the Assessing Authority from the dealer at the time of assessment, the Assessing Authority must ensure that these documents are duly signed by the dealer or his authorised agent.

Day V	Session I	Audit in the VAT System. Various types of Offences in the VAT System. Various types of Evasions of VAT
	Session II	Suggestions of the Trainees for the improvement of the training.
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	Session IV	Valedictory

Session –I

Objectives

In this session we shall discuss the procedure of Audit in the VAT System, what are the offences in the VAT System and the various types of evasion of VAT which could be made by a dealer.

Session –I

- **Audit in the VAT System.**
- **Various types of Offences in the VAT System.**
- **Various types of Evasions of VAT.**

Audit in the VAT System

1. A certain percentage of the dealers will be taken up for audit every year. It may vary from 10 to 30%.
2. While selecting cases for audit, it must be ensured that all the dealers are audited at least once in five years.
3. The cases taken up for audit should contain at least 75% of those cases in which higher revenue risk is involved.
4. More tax complying dealers should be audited less frequently.
5. The audit wing should be separate from the tax collection and monitoring wing to avoid any bias.

Procedure for conducting audit

When any case is to be audited, the following procedure should be adopted in general :-

1. The personal file of the dealer containing the Registration Certificate and other related informations and the file containing informations about the activities of the dealer gathered from various sources should be examined in detail.
2. The returns filed by the dealer and mainly the returns for the year in respect of which the audit is to be done should be examined in detail.
3. The dealer should be asked through notice to produce all the relevant account books and the documents in respect of the year for the purpose of audit in the office of the audit officer. However, the audit could be done by visiting the business premises of the dealer on any day by giving prior information to the dealer in this regard.
4. It should be verified whether the dealer has paid/deposited correct VAT for each month as per the sale book and the purchase book maintained by him.
5. A particular month/period is selected for conducting detailed examination. The selection of a particular month/period for an in-depth audit will depend on number of factors such as whether there are more purchases of goods including capital goods or there is a steep fall of sales in that period.
6. The entries of each purchase invoice in that period in the purchase book should be checked.
7. It should be checked whether the purchases of goods have been entered in the purchase book at the correct place of goods taxable at a particular rate of tax.

8. It should be checked whether all the purchases in the purchase book in that period are supported by the purchase invoices.
9. It should be checked whether the capital goods purchased are meant for business and are being used for business and not for personal use.
10. It must be ensured that the input tax credit has not been claimed by the dealer in respect of purchases of vehicles, construction material etc. which are not used in the manufacture of goods.
11. It should be checked that all the sale invoices are recorded in the sale book.
12. Totals of tax charged in respect of the sale of goods in that period should be checked from the sale book.
13. Totals of tax paid in respect of purchase of goods taxable at a particular rate of tax in that period should be checked from the purchase book.
14. For each type of goods in the goods taxable at a particular rate of tax all the purchases and sales are worked out separately in that period to check the correct amount of VAT payable.
15. For a particular type of goods in the goods taxable at a particular rate of tax the stock position of the goods is to be verified on any day in that period. e.g. there may be sale of the goods on a particular day despite the non-availability of the stock of the goods.
16. If any discrepancy is found as a result of audit, assessment proceedings should be initiated immediately.

Example of Audit

M/s XYZ deals in electric goods taxable @ 10% such as electric fans, heater and geysers. During a particular year he has collected tax amounting to Rs. 5,00,000/- on the sale of the goods and has claimed input tax credit in respect of electric fans, heater and geysers at Rs. 2,00,000/-, Rs. 1,00,000/- and Rs.1,00,000/- respectively. The dealer deposited VAT of an amount of Rs. 1,00,000/- alongwith the returns. As a result of audit it has been found that there is a gross profit of 30% in respect of electric fans, 25% in respect of electric heaters and 20% in respect of electric geysers. Calculate the evasion of VAT, if any.

Solution

Amount of tax charged by the dealer on the sale = Rs. 5,00,000/-

$$\text{Sale value of the dealer inclusive of tax} = \frac{5,00,000 \times 110}{10} = 55,00,000/-$$

Tax paid to the sellers on the purchase of electric fans = Rs 2,00,000/-

$$\text{Purchase value of electric fans including tax} = \frac{2,00,000 \times 110}{10} = 22,00,000/-$$

Tax paid to the sellers on the purchase of electric heater = Rs.1,00,000/-

$$\text{Purchase value of electric heaters including tax} = \frac{1,00,000 \times 110}{10} = 11,00,000/-$$

Tax paid to the sellers on the purchase of electric geyser:-1,00,000/-

$$\text{Purchase value of electric fans including tax} = \frac{1,00,000 \times 110}{10} = 11,00,000/-$$

Sale value of electric fans keeping in view the gross profit

$$\text{of 30\% including tax} = \frac{22,00,000 \times 130}{100} = 28,60,000/- \quad (\text{a})$$

Sale value of electric heaters keeping in view the gross profit

$$\text{of 25\% including tax} = \frac{11,00,000 \times 125}{100} = 13,75,000/- \quad (\text{b})$$

Sale value of electric geysers keeping in view the gross profit

$$\text{of 20\% including tax} = \frac{11,00,000 \times 120}{100} = 13,20,000/- \quad (\text{c})$$

$$\text{Total Sale value including tax:-} \quad (\text{a} + \text{b} + \text{c}) = 55,55,000/-$$

Tax payable on the sale of Rs 55,55,000/- =

$$\frac{55,55,000 \times 10}{110} = \text{Rs. } 5,05,000/-$$

$$\text{Input tax credit} = \text{Rs. } 4,00,000/-$$

$$\text{VAT payable} = \text{Rs. } 1,05,000/-$$

$$\text{VAT paid} = \text{Rs. } 1,00,000/-$$

$$\text{Evasion of VAT} = \text{Rs. } \mathbf{5,000/-}$$

Various Types of Offences of VAT

Following are the various offences which may be committed by a dealer in general: -

- 1) A dealer when he is liable to pay VAT but does not register himself with the VAT authorities.
- 2) A registered dealer does not inform the Registering/Assessing Authority of any change or addition or deletion in the place of the business or in the constitution of the business or in the nature of business.
- 3) A registered dealer does not file the VAT returns.
- 4) A registered dealer fails to pay tax due according to the returns.
- 5) A registered dealer does not issue or falsely issues sale/tax invoice or credit note or debit note as the case may be, under the VAT Act.
- 6) A dealer does not maintain proper records.
- 7) A dealer uses the TIN (Taxpayer Identification Number) of another registered dealer in making various sales and purchases.
- 8) A registered dealer furnishes false or misleading statements or returns before the Assessing/Audit Officer in the VAT system.
- 9) A registered dealer or unregistered dealer obstructs the VAT Officer in the performance of his duties.
- 10) A registered dealer or unregistered dealer collects tax in contravention of the provisions of the VAT Act.

- 11) A dealer who carries goods without documents or proper and genuine documents in the State.
- 12) A dealer who keeps the goods any where in the State which are not accounted for in the books.
- 13) A dealer who does not keep the account books at the business premises / principal place of the business.
- 14) A dealer who fails to pay the additional VAT assessed by the Assessing Authority.

Various Types of Evasions of VAT :-

In addition to the VAT evasions which could be effected by committing VAT offences, following are the other various types of evasions of VAT which could be effected by a dealer in general: -

- 1) A dealer who is liable to pay VAT but does not register causes loss to the government revenue by not depositing tax on the value added to the goods sold.
- 2) A dealer when purchases goods from unregistered persons and does not account for these purchases. In this way VAT on the sale of such goods is not paid to the government.
- 3) A dealer who purchases goods from unregistered persons, pretends that the purchase invoice has a VAT number or creates an imaginary VAT number, causes loss to the revenue by claiming input tax credit on such purchases.
- 4) A dealer receiving the credit note in respect of the goods purchased in the earlier tax period from the seller does not repay the input tax credit in the period in which the credit note is received.
- 5) A dealer claims input tax credit against fake purchase invoices.
- 6) A dealer claims input tax credit in respect of taxable goods which are sold as exempted goods. This situation may take place when a dealer deals in taxable as well as exempted goods.
- 7) A dealer claims input tax credit in respect of vehicles, construction material etc. which are incidental to the business.
- 8) A dealer does not account for the sale of goods which are purchased from outside the State or even imported from outside the country.
- 9) A registered dealer when makes sales to another registered dealer, under reports the sale value.

- 10) A dealer after collecting VAT disappears without paying VAT to the Government.
- 11) A dealer claims input tax credit in respect of the goods, which are put to self-use by him or self-consumed.
- 12) A dealer claims refund in respect of goods, which are falsely shown as exported out of the territory of India specially when export is made by computerized data.
- 13) A dealer reflects the sale of goods taxable at a higher rate of tax in the sale of goods taxable at a lower rate. In such a situation dealer claims input tax credit at higher rate but pays tax at a lower rate on the sale of goods.
- 14) A dealer sells goods to its sister concern and does not deposit tax on such sales by issuing credit note which is given to the purchaser sister concern after a long time. In this way the input tax credit received by the purchaser represents an interest free loan till the period the credit note reconciliation is sorted and the transaction is cancelled.
- 15) A dealer who issues two VAT invoices bearing the same number to two different registered dealers in respect of the sale of same goods.
- 16) A dealer who re-uses the VAT invoice in respect of different transactions.

Session –II

Objectives

Suggestions of the Trainees for improvement of the training course.

Session –III

Objectives

Evaluation of the Trainer and the Trainees.

Session –IV

Valedictory