

# **VALUE ADDED TAX**

## **Frequently Asked Questions**

### **1. What is VAT?**

VAT is a multi point levy where the tax paid on local purchases from the registered dealer can be set off against the tax payable on the sale of goods, other than special goods.

### **2. How is the method of calculation of determining the tax liability under the present Sales Tax system different from this method ?**

In the present Sales tax system, tax liability of a dealer for a particular period is determined using the multiplication method i.e. The taxable turnover of a dealer for a particular period is multiplied by the rate of tax applicable to that turnover. In VAT, the method adopted is Input Tax Credit method as stated above. This is the only difference between the present Sales Tax system and the VAT.

### **3. What are the taxes that will be replaced by VAT?**

General Sales Tax, Resale Tax, Surcharge, Additional Sales Tax will be replaced by VAT. The Central Sales Tax Act, 1956 regulating the inter-state transactions of sale and purchase will continue. The Entry Tax on Vehicles and Goods will continue.

### **4. What are rates of tax under VAT?**

The rates are 1%, 4% and 12.5% on goods eligible for input tax credit.

### **5. Is there any special rate of tax other than above 3 rates?**

Yes. There are special rates of tax on certain goods which are kept out of VAT. No input tax credit is allowable for these goods.(e.g) Petrol

## **6. Who are dealers under VAT?**

A dealer is a person who purchases, sells, supplies or distributes the goods in the course of his business for valuable consideration. The VAT Act includes:

- (1) Local authority, Company, Hindu undivided family, Association of persons, Firm
- (2) Casual trader, factor, commission agent, delcredere agent, auctioneer, local branch of the firm or company situated outside the State
- (3) Person who effects transfer of property in goods other than by way of sale
- (4) dealer in hire purchase, works contract, person who transfers right to use the goods
- (5) Dealer in eatables including food and drinks (ie., hotels, restaurants and sweet stalls).
- (6) Port Trust, Railway Administration, Shipping, Transport and Construction Companies, Air Transport Corporation and Airlines.
- (7) Any person holding permit for transport vehicles
- (8) Tamil Nadu State Road Transport Corporation
- (9) Customs Department, Insurance Company, Advertising Agencies
- (10) Corporation or Companies of State and Central Governments

## **7. Who are liable for Registration?**

- 1) Those dealers whose total turnover in respect of purchase and sales in the State is not less than Rs.10 lakhs for a year are to get registered under the Act.
- 2) The other dealers whose total turnover for a year is not less than Rs.5 lakhs shall get registered.
- 3) Casual Traders, agent of non-resident dealer and dealers in jewellery irrespective of quantum of turnover shall obtain registration.

- 4) Those dealers who intend to commence the business, on option, may obtain registration.

**8. What is the Registration fee?**

The registration fee is Rs.500/- for principal place of business and Rs.50/- for each additional place of business. (Branches, Godowns). No Security Deposit is necessary for Registration, for dealers. There is no renewal of registration under VAT and it is permanent till it is cancelled by the Department or on stoppage of business when reported by the dealer. No security deposit is necessary for Registration.

**9. Who is the registering authority?**

Head of the assessment circle in whose jurisdiction the dealer's principal place of business is situated.

**10. What is TIN?**

The registration number allotted to the dealers is popularly known as TIN i.e. Taxpayer Identification Number. This is a eleven digit number to be quoted in all VAT transactions and correspondence

**11. Whether dealer registered under Tamil Nadu General Sales Tax Act, 1959 has to apply for TIN ?**

All registered dealers under TNGST Act 1959 whose registration is in force shall be provided with TIN automatically without any fee. But after receipt of TIN, the dealers have to file application for obtaining certificate of registration under VAT. Dealers may get TIN, download application and file the details of the application online in the websites `www.tnsalestax.com, or www.tnsalestax.gov.in or www.tnvat.gov.in to speed up the process of registration

## **12. How to apply for registration?**

On Introduction of VAT, a new dealer shall file an application in the specified form along with fee as detailed above to the registering authority in whose jurisdiction, his principal place of business is situated with a sufficiently stamped self addressed enveloped, with necessary documents required in the application form.

## **13. How is the certificate of registration issued?**

The registered authority shall acknowledge the receipt of application filed by the dealer. Thereafter, he shall issue certificate of registration within 30 days from the date of receipt of application. In order to speed up the process of registration one can utilise the e-services through web sites of the department [www.tnsalestax.com](http://www.tnsalestax.com), or [www.tnsalestax.gov.in](http://www.tnsalestax.gov.in) or [www.tnvat.gov.in](http://www.tnvat.gov.in)

## **14. What is exempted sale?**

An exempted sale is a sale on which no tax is levied, and no Input Tax Credit is allowed.

## **15. What is zero rated sale?**

Zero rate sale is a sale for which no tax is levied but the tax paid on local purchases is refunded to dealer who effected that sale. The Value Added Tax Act specified the zero rated sales as:

- a) Export Sec.5(1)
- b) Sale in the course of export [5 (3) of CST Act, 1956] (ie) Sale to Exporters
- c) Sale to International organizations
- d) Sale to SEZ

## **16. Is there any provision for compounding system of tax under VAT?**

Yes there is. It is available for, on their option:

- 1) The dealers who effects second and subsequent sale in the State. The Act provides tax not exceeding 1% as notified by Government on the turnover for the above dealers whose total turnover for a year is less than Rs. 50 lakhs. **Government have notified this rate as 0.5%**
- 2) The Works contractors may opt to pay at compounded rates at 2% (civil), 4% (others) instead of paying tax at the rate prescribed for the goods involved.
- 3) The hotels, restaurants and sweet stalls may opt to pay tax at compounded rate prescribed in the Act at slab rates where total turnover is not less than Rs.10 lakhs but not more than Rs.50 lakhs.  
No Input tax credit is allowable to those dealers who have opted for compounded system.

**17. Whether the dealers must maintain detailed accounts under VAT as in TNGST regime?**

The details of accounts to be maintained are available in the Rules

**18. Whether dealers paying tax on composition basis have to maintain detailed accounts ?**

Not necessary

- (a) The dealers who opted to pay tax on his total turnover not exceeding Rs. 50 lakhs are to maintain purchase and sales accounts alone.
- (b) The dealers in hotels and restaurants are to maintain purchase and sales accounts alone.
- (c) The works contractors are to maintain the accounts showing the details of contract and payments received alone.

## **19. How the returns are to be filed?**

Every dealer who is liable to pay tax under this Act shall file return on or before 20<sup>th</sup> of the succeeding month to Assessing authority in whose jurisdiction the principal place of business is located along with statement of purchases and sales effected by him during the month in the Form specified in Rules.

Every dealer whose taxable turnover in the preceding year is Two hundred crores of rupees and above shall file return on or before 12<sup>th</sup> of succeeding month along with statement of purchases and sales effected by him during the month.

The returns shall be filed either electronically or by ICR forms. The returns so filed shall be accompanied with proof of payment.

**The category of dealers to file returns either electronically or by ICR forms may be notified by the Commissioner as per VAT rules.**

## **20. What is the mode of payment of tax ?**

(i) by remittance into a State Bank of India or any other bank authorised by Government from time to time (or)

(ii) by remittance in cash into a Government Treasury or to the assessing authority or other officer empowered to make the demand or authorised to make the collection (or)

(iii) by means of a crossed cheque in favour of the assessing authority drawn on any one of the banks situated within the city / town where office of the assessing authority is situated (or )

(iv) by means of a crossed demand draft or a banker's cheque drawn in favour of the assessing authority (or)

(v) by any other mode as authorised by the Government from time to time.

**21. How is the assessment made?**

All the assessments are self-assessments as all returns filed are to be accepted. The dealers need not appear before assessing authority or produce the accounts for annual assessments. The assessing authority shall accept the returns filed by the dealer and pass assessment order after the assessment year is over. The orders shall be served on dealers in the manner prescribed in Rules.

**22. What is self-assessment?**

Self determination of tax liability by dealer through periodical returns prescribed in the Act is called Self-assessment.

**23. Will there be any random check of accounts?**

Yes. The Commissioner of Commercial Taxes, may select assessments not exceeding 20% of total self assessments in the State for detailed check of accounts. The details of such selection shall be placed on notice board in the assessment circle and in the department websites. The accounts which are selected for detailed check shall be called and checked by assessing authority. After check, the assessing authority either accept and confirm the self assessment already passed or revise the assessment.

**24. What are inputs?**

Input means all purchases by a dealer in the course of his business, including capital goods. These goods may be meant for re-sale or use in manufacture, processing of other goods or packing of goods manufactured.

**25. What is industrial input?**

The industrial inputs are those goods which are notified by Government and generally go into manufacture of other goods and they are taxable at 4%.

## **26. What is input tax?**

Input tax is the amount of tax paid on local purchases by a registered dealer to another registered dealer.

## **27. What is output?**

Output means sale of goods made by a registered dealer to other registered dealers and Consumers in the course of his business.

## **28. What is output tax?**

Output tax is tax collected on sale of goods from the buyer. The output tax is calculated by applying the rate of tax on taxable turnover of these goods.

## **29. What is Tax invoice?**

Tax invoice is popularly known as bill, which should contain details of sale such as name and address of the purchaser with his TIN, name of goods, quantity of goods sold, its value etc. and tax rate and amount charged separately. This invoice / bill is to be issued in duplicate, the original for purchaser and duplicate to be retained by the selling dealer.

## **30. What is input tax credit?**

Input tax credit is an aggregate total amount of tax paid by a registered dealer on the total purchases made by him within the State from other registered dealers (for a particular period.); but not eligible in some cases. The input tax credit includes the purchase tax paid under Section 12 of the VAT Act.

The input tax credit can be adjusted against the tax payable by the purchasing dealer on his sales.

The dealers are not eligible for input tax credit on all inputs. There are certain restrictions and conditions on eligibility of input tax credit. They are given in detail under TNVAT Act, 2006.

**31. How is input tax credit claimed?**

Input tax credit shall be claimed only on the basis of original purchase tax invoice issued by registered selling dealer.

A registered dealer can claim input tax credit on his purchases, if he holds a valid "Tax Invoice" / bill at the time of furnishing his return to assessing authority.

**32. Whether input tax credit can be claimed , if the original invoice is lost ?**

Yes. It can be claimed on the basis of duplicate / carbon copy of the invoice obtained from selling dealer.

**33. Is this benefit available to the dealers who opt to pay tax at a Compounded rate?**

No.

**34. What are the transactions not eligible for input tax credit?**

- (a) Sale of exempted goods
- (b) purchase of goods from outside the State
- (c) goods purchased in the course of business, but used for personal facility of proprietor, partner or director
- (d) goods damaged in transit
- (e) goods stolen, destroyed or lost
- (f) goods sold in the course of inter-state sale without support of C form
- (g) goods transferred to outside the State for sale either by branch or agent without support of Form F
- (h) goods returned

**35. Can a dealer claim Input Tax Credit for goods sold in Inter-State trade?**

Yes. It can be claimed only when those sales are effected to the Registered dealers of other State against Form C.

**36. Whether claim of input tax credit is on a one to one basis?**

No. The tax paid on purchases in a period can be deducted from tax payable on sale, whether such goods is sold or not during that particular period.

**37. Will there be Input Tax Credit for all purchases?**

No, It will be available only for local purchases from registered dealers, but not on goods taken for self-use/given as samples, gifted, lost in theft, fire, damaged or destroyed/all automobiles including two wheelers, three wheelers and their spare parts for repair or maintenance, air-conditioning units, refrigerators.

**38. Whether the goods held in closing stock are eligible for input tax credit?**

Yes. A registered dealer is entitled for input tax credit for goods held in closing stock on the previous date of the commencement of VAT Act 2006. The goods should have been purchased within one year prior to commencement of the Act (closing stock relating to purchases locally made during the period January 2006 to December 2006) from registered dealer – where tax amount with rate of tax are shown separately in purchase invoices

**39. Is there any time-limit to claim the Input Tax Credit?**

Yes. In the case of goods held in Closing stock on 31.12.2006, the time-limit is within 30 days from the date of commencement of the VAT Act, that is, before 1.2.2007. In the case of other goods it is three years.

#### **40. What is the procedure to be adopted to claim input tax credit for the goods held in closing stock ?**

A registered dealer who claims input tax credit for the goods held in closing stock shall furnish details of inventory with details of input tax paid to the assessing authority within thirty days from the date of the commencement of the Act along with Photostat copy of the related purchase invoices / bills in the prescribed form. The dealer can take the credit and deduct it from tax payable on sale immediately from January 2007. The dealer shall adjust the credit within six months. After adjustment, if there is tax credit available, the same shall lapse to Government, after six months. The assessing authority, after receipt of inventory and after verification of the genuineness of the claim shall pass order determining the quantum of input tax credit eligible for the dealer within 3 months.

#### **41. What is meant by Capital Goods?**

Capital goods are, in general, the movable assets like Plant and machinery used in industry, for manufacture of goods ,but do not mean goods (stock-in-trade) for sale.

#### **42. What are Capital Goods under the VAT Act?**

Capital goods" means, –

- a) plant, machinery, equipment, apparatus, tools, appliances or electrical installation for producing, making, extracting or processing of any goods or for extracting or for bringing about any change in any substance for the manufacture of final products;
- b) Pollution control, quality control, laboratory and cold storage equipment;
- c) Components spare parts and accessories specified at (a) and (b)

above;

- d) moulds, dies, jigs and fixtures,
- e) refractors and refractory materials,
- f) tubes, pipes and fittings thereof; and
- g) Storage tanks.

used in the State for the purpose of manufacture, processing, packing or storing of goods in the course of business **excluding** civil structures and such goods as may be notified by the Government.

**43. Are capital goods held in closing stock eligible for input tax Credit ?**

No.

**44. Will there be Input Tax credit for all Capital Goods?**

Yes, but not for all. Goods notified by the Government are not eligible for Input Tax Credit which are under the negative list and not eligible for the Capital Goods purchased before 1.1.2007

**45. How the Input Tax Credit-has to be claimed and availed for Capital Goods?**

Every registered dealer while submitting monthly returns to the assessing authority/can claim the Input Tax Credit paid for all local purchases made from registered dealers on the basis of Original Tax Invoices in those returns itself for Capital Goods, after the commencement of commercial production. They can deduct the same from the Output tax, if any, payable on the local sales or inter-State sales in those monthly returns. In the first year of commencement of commercial production, 50% of the input tax credit not exceeding 50% can be availed and the rest in the second or third year. But

fees condition is not applicable to parts and accessories. At the end of the third year, any credit not availed will be lapsed to Government.

**46. Is Input Tax credit available for all?**

No. Input Tax credit is not available for Capital Goods used for manufacture of goods which are exempted from tax.

**47. Will there be Input Tax credit for Capital Goods used in Lease or Works Contract?**

Yes, but not for the dealers who have opted to pay tax under compounding system.

**48. What is the rate of tax for Capital Goods?**

The rate of tax is 4% vide item no.

**49. What is reversal of input tax credit?**

Reversal of Input Tax Credit means reduction of Input Tax Credit to nullify input tax credit wrongly claimed and availed.

**50. When the input tax credit has to be reversed?**

(1) Input tax credit was availed but subsequently the related goods have been stolen or damaged or destroyed.

(2) Input tax credit was claimed but subsequently it has been detected that related purchases are from bogus traders (bill traders).

(3) Input tax credit was availed but related goods have been given as free sample or gift to others.

(4) Input tax credit availed but subsequently the related goods are used to provide facility to the proprietor / partner / director. of the concern.

**51. How will the refund be issued to the exporters (dealers who effect zero rate sale)**

The dealer who claims refund due to zero rate sales may file an application in Form D1 to the assessing authority along with copies of the purchase invoices of related goods. After verification the assessing authority will issue refund within 90 days from the date of receipt of application in Form D1.

If the excess amount is not refunded within ninety days, whatever may be the reason, the assessing authority will issue refund along with interest at the rate prescribed in the Act. If the dealers, do not claim refund within 180 days from the date of export or before the end of the financial year, whichever is later, the amount to be refunded shall lapse to Government.

**52. Whether there will be any change in appeal procedure to the earlier TNGST Act?**

No. The appeal procedure detailed in Tamil Nadu General Sales Tax Act will continue in VAT also.

**53. Whether deferral and waiver will continue?**

Yes, by application for continuance to the Assistant Commissioner concerned. Waiver unit may opt for deferral on application

**54. What will be the role of Enforcement Wing in VAT system?**

Enforcement Wing will function as Audit Wing and do detection of wrong claim of Input Tax Credit under VAT system.

**55. What is the remedy when the Assessing Authority makes provisional order disallowing the Input Tax Credit, on scrutiny of monthly return(s)?**

A revision petition may be filed to the Deputy Commissioner concerned, as in the TNGST Act, 1959.

**56. What are the distinct features under the VAT Act?**

Self-assessment without conditions, One time registration without renewal, non-changing TIN irrespective of change of place of business, non-production of accounts annually for the purpose of assessment, simplified low rate structure, removal of salesmen permit, Input Tax Credit, abolition of additional levies like SC, AST, RST, self-declaration for Industrial Inputs in lieu of Form XVII, Input Tax Credit for Capital goods and opening stock, and refund for exporters (zero rate sellers) are the distinct features under the VAT Act.

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