

What is VAT?

To put it simply, Value Added Tax or VAT for a dealer is the difference of tax payable on sales effected by him during a tax period after deducting therefrom the tax paid or payable on purchases effected from within West Bengal, during the same period.

The essence of VAT is in providing set-off through the concept of input tax credit or rebate for the tax paid or payable by a registered dealer while purchasing goods in West Bengal (input tax) against the tax payable on the sales effected by him in West Bengal (output tax). The VAT is based on the value addition to the goods, and the related VAT liability (**net tax**) of the dealer is calculated by deducting input tax credit from the tax collected on sales during the tax period (say, a month).

VAT is equivalent to the sales tax at retail level but is collected through the entire chain of production and distribution within the State.

Liability to pay tax under VAT.

A. AN EXISTING DEALER—

- (a) who is registered under the West Bengal Sales Tax Act, 1994 or Central Sales Tax Act, 1956; or
- (b) who is not registered but is liable to pay tax under the West Bengal Sales Tax Act, 1994 or Central Sales Tax Act, 1956; or
- (c) whose gross turnover of sales/purchases or contractual transfer price exceeds taxable quantum on the day immediately preceding the appointed day,

will be liable to pay VAT from the appointed day, irrespective of quantum of sale, purchase or works contract under the aforesaid Acts.

Note: Appointed day means the day from which the West Bengal Value Added Tax Act, 2003, comes into force.

B. A NEW DEALER WHO—

- (a) being a manufacturer or reseller of goods in West Bengal exceeds turnover of sales of five lakh rupees in an accounting year will be liable to pay VAT with effect from the next day; or
- (b) is a works contractor and exceeds contractual transfer price of five lakh rupees any time during an accounting year will be liable to pay VAT with effect from the next day; or
- (c) is an occupier of jute mills or shipper of jute will be liable to pay tax under the VAT Act with effect from the date of first purchase in West Bengal; or
- (d) sells goods brought from outside West Bengal will be liable to pay VAT from the very first sale; or
- (e) is liable to pay tax under Central Sales Tax Act, 1956, will also be liable to pay VAT; or
- (f) is liable to pay tax as works contractor will be liable to pay VAT on all other sales; or
- (g) is a transferee of business of a registered dealer (for example acquisition of business by way of purchase or inheritance or gift), either in part or in full, will be liable to pay VAT from the date of such transfer; or
- (h) gets himself registered voluntarily will be liable to pay VAT from the date of registration.

Note: The definition of contractual transfer price under the VAT Act means the aggregate of amount received or receivable for the transfer of property in goods, (whether as goods or in any other form) involved in the execution of works contract.

Registration under VAT.

- (a) All the dealers registered under the West Bengal Sales Tax Act, 1994 on the day immediately preceding the day on which the West Bengal Value Added Tax Act, 2003 (hereinafter referred to as the VAT Act) comes into force, will be deemed to have been registered under the VAT Act from the very first day. These dealers, however, are required to furnish certain information in the prescribed form to facilitate issue of certificate of registration under the VAT Act.
- (b) Dealers not falling under category (a) and incurring liability to pay tax under the VAT Act will have to apply in the prescribed form within 30 days from the date of incurring liability. The application will be disposed of within 21 days of filing of the application. Such dealers, if apply for registration within 30 days from the date of incurring liability, will be entitled to issue tax invoice from the very first day of incurring liability.
- (c) A dealer who is not liable to pay tax under the VAT Act is also eligible for getting himself registered voluntarily provided he sets up a business of selling or purchasing goods in West Bengal.

Taxpayer's Identification Number (TIN).

All dealers registered under the VAT Act will have to use 11 digit TIN or Taxpayer's Identification Number. Dealers registered under the West Bengal Sales Tax Act, 1994 and Central Sales Tax Act, 1956, have already been allotted the TIN and intimated accordingly.

Identification of TIN meant for VAT is very simple. The third digit from right of 11 digit TIN indicates–

- (a) the West Bengal Sales Tax Act, 1994, if it is 1, for example 19578989139;
- (b) the Central Sales Tax Act, 1956, if it is 2, for example 19578989236; and
- (c) the West Bengal Value Added Tax Act, 2003, if it is 0, for example 19578989042.

Maintenance of books of accounts.

A dealer is required to maintain true and up to date account of the quantity and value of goods purchased, manufactured or sold by him or used in execution of works contract or held by him in stock. Books of accounts that a dealer normally maintains will continue to be maintained under the VAT Act along with input tax account, output tax account and input tax credit account in the ledger and certain statutory document like tax invoice. Such books of accounts and documents are to be preserved by a dealer for atleast eight years, as under the West Bengal Sales Tax Act, 1994.

In case of dealers opting for compounded rate of tax, only output tax account need be maintained and gross sale value or gross amount of contractual transfer price will suffice to calculate liability under the VAT Act.

Rates of tax under VAT.

Multiplicity of sales tax rates existing under the West Bengal Sales Tax Act, 1994 have been done away with. There are only two basic VAT rates of 4% and 12.5%. Basic necessities such as medicines and drugs, all agricultural and industrial inputs, capital goods and declared goods have been placed under 4% category. Majority of remaining taxable commodities will fall under the general VAT rate of 12.5%. Besides this a few goods namely, gold, silver, platinum and ornaments thereof and tea sold through auction at tea auction centres in West Bengal duly authorised by the Indian Tea Board, will attract a lower rate of tax of 1% only. There is also a list of goods exempted from payment of tax. Details of goods and VAT rate applicable to the sales thereof can be seen from Schedules appended to the VAT Act. Works contractors are liable to pay tax @ 4% on that part of their taxable

contractual transfer price which represents transfer of declared goods and the remaining contractual transfer price will attract tax @ 12.5%.

A dealer registered under the VAT Act is also liable to pay tax on his purchases effected from unregistered dealers within West Bengal at the rate equivalent to the rate of VAT. Besides this, an occupier of jute mill and shipper of jute are liable to pay tax @ 2% on purchases of raw jute effected from within the State.

Purchase tax payable against purchases made from unregistered dealers by a registered dealer, as well as purchase tax payable by the occupier of jute mill, is eligible for input tax credit. However, a shipper of jute is not entitled to enjoy input tax credit.

Note: No purchase tax is payable on purchases made from a dealer who on incurring liability to pay tax under the VAT Act has applied for registration within 30 days of incurring liability to pay tax, and whose application has not yet been disposed of. Provided that the selling dealer indicates in tax invoice that he has applied for registration.

Exempt and zero-rated sales.

No tax is chargeable on either exempt sales or zero-rated sales. Sales of tax-free goods, that is the sale of goods enumerated under Schedule A of the VAT Act, do not entitle a dealer for input tax credit (unless he is an exporter). Sales effected in the course of export or to dealers in Special Economic Zones are termed as zero-rated sales and dealers effecting such sales are entitled to claim input tax credit.

Treatment of Export sales and sales to units located in Special Economic Zones.

All exports made out of the country by 100% Export Oriented Units (EOUs), situated outside Special Economic Zones (SEZs), will be eligible for refund in full for tax paid within the State, and this refund will be made within three months. Units located in SEZs will be able to purchase goods without payment of VAT, whereas EOUs will be granted refund of VAT paid by them at the time of making purchase from another dealer in West Bengal, if any. A dealer will be entitled to receive payment of interest for refunds delayed beyond three months.

Special tax rates for smaller dealers.

A reseller, registered under the VAT Act and engaged in buying and selling goods within West Bengal, and having an annual turnover of sales not exceeding fifty lakh rupees in the preceding year will have an option to pay tax at the compounded rate of 0.25 %, on the entire turnover of sales. Dealers having gross sales not exceeding fifty lakh rupees in the year 2004-2005, under the West Bengal Sales Tax Act, 1994, can also opt for this scheme. However, dealers effecting inter-State sales or inter-State purchases are not eligible for this scheme.

Similarly, works contractors registered under the VAT Act will have an option to pay tax at a compounded rate of 2% on the entire contractual transfer price, irrespective of quantum of contractual transfer price.

Once a dealer has exercised option for payment of tax at the compounded rate, it will be valid for one financial year.

It may be mentioned here that the dealers opting for payment of tax at compounded rate are not entitled to input tax credit and can not issue tax invoices.

Tax on Maximum Retail Price (MRP).

An option to pay tax on maximum retail price (MRP) will be available to manufacturers and importers of certain goods, to be notified/specified by the State Government in this behalf. Some of the features of the scheme are given below:

- (a) The option to pay tax on MRP will be available only to importers and manufacturers of goods notified/specified by the State Government.
- (b) The option is applicable only for sales effected in West Bengal.
- (c) A dealer opting for the scheme will have to pay tax on the sale of notified/specified goods by applying full VAT rate on MRP and not on his actual sale price.
- (d) The selling dealer will clearly indicate "INVOICE FOR TAX ON MRP" on the body of tax invoice issued by him.
- (e) The dealer purchasing goods against 'Invoice for tax on MRP' will not get input tax credit against such invoice but he will be entitled to claim re-imburement of the exact amount, paid or payable by him at the time of purchase of such goods, from the buyer, provided that the MRP excludes tax. In case where MRP includes tax, no tax can be realised separately from buyers.
- (f) Sale of goods purchased against 'MRP Invoice' will not form part of the gross turnover of sales of the subsequent dealer.

Tax Invoice.

Entire design of VAT with input tax credit is crucially based on documentation of tax invoice, invoice, cash memo or bill. Tax invoice can be issued only by either a dealer registered under the VAT Act or by a dealer who has incurred liability to pay tax under the Act and has applied for registration within 30 days from the date of incurring liability.

A dealer who has opted to pay tax at the compounded rate of 0.25 % on his turnover of sales or a works contractor who has opted to pay tax at the compounded rate of 2% on his contractual transfer price is, however, not entitled to issue a tax invoice.

Note: It is pertinent to mention here that under the VAT regime, since the tax paid on purchase of goods can be set off against sale of any goods, the amount of tax paid at the time of purchase should not be taken into consideration while adding up profit and fixing the sale price of goods.

Compulsory Issue of Tax Invoice, Cash Memo or Bill.

Every registered dealer, except those opting for payment of tax at the compounded rate of 0.25 % on turnover of sales or at the rate of 2% on contractual transfer price, shall issue to the purchaser serially numbered tax invoice with the prescribed particulars. This tax invoice will be signed and dated by the dealer or his authorised regular employee, showing the required particulars. The dealer shall keep a counterfoil or duplicate of such tax invoice duly signed and dated. Failure to comply with the above provisions will attract penalty.

It is mandatory for every dealer registered under the VAT Act and for a dealer who is not registered but whose turnover of sales has exceeded two lakh and fifty thousand rupees in an accounting year, to issue a serially numbered tax invoice, invoice, bill or cash memo for each and every transaction of sale exceeding rupees fifty. It is reiterated that "Tax invoice" can be issued only by either a dealer registered under the VAT Act or by a dealer who has incurred liability to pay tax under the Act and has applied for registration within 30 days from the date of incurring liability.

A. There is no fixed format for tax invoice but the law requires that following particulars must be incorporated in the tax invoice by the selling dealer:

- (a) It shall contain the words, "TAX INVOICE" in bold letters at the top or at any other prominent place;
 - (b) date of sale;
 - (c) date of challan or despatch as the case may be;
 - (d) name and full postal address of the selling dealer;
 - (e) telephone number, e-mail address, fax number, if any, of the selling dealer;
 - (f) registration certificate number of the selling dealer;
 - (g) name, full postal address, and registration certificate number of the purchasing dealer;
 - (h) full description of the goods sold;
 - (i) quantity or number, as the case may be, of the goods sold;
 - (j) value of the goods sold;
 - (k) rate and amount of tax charged in respect of taxable goods;
 - (l) total amount of the invoice taking into consideration all the amount payable under different heads; and
 - (m) signature of the selling dealer or his regular employee, duly authorised by him for such purpose.
- B.** There shall be only one original copy of tax invoice and it is to be prominently marked as "ORIGINAL – BUYER'S COPY".
- C.** One copy must be marked as "SELLER'S COPY" and must be retained by the seller. It must be readily available for inspection for purposes like audit, cross-verification, etc., under the VAT Act.
- D.** More copies may be prepared by the seller as per his own requirement or those of buyer. On demand, a copy of the tax invoice, marked "TRANSPORTER'S COPY" may also be issued to the buyer.
- E.** Tax invoices can be entirely printed or prepared mechanically and sale particulars may be filled in by hand in the pre-printed formats so long as they conform to the statutory provisions.
- F.** Tax invoices must be serially and consecutively numbered during an accounting year. Dealers having more than one place of business may maintain serial number for each place of business but the same must bear a different prefix along with the number to identify that they have been issued from different places of business.
- G.** The selling dealer may incorporate additional particulars in the tax invoice which may be required under any other law like Central Excise in order to use a composite invoice and avoid duplication.

It is clarified that:

- (a) Tax invoices either received or issued by a dealer are not required to be furnished along with the return for claiming input tax credit.
- (b) No purchase price or profit made by the seller is required to be indicated in the tax invoice.
- (c) The tax to be charged in tax invoice is the applicable VAT rate on total sales and not the difference which a dealer ultimately pays after adjusting input tax credit under the VAT Act.

Input tax, Output tax and Input tax credit.

VAT paid by a registered dealer while purchasing goods in West Bengal from another registered dealer or from such unregistered dealer who has incurred liability to pay tax under

the VAT Act and has applied for registration within 30 days of incurring such liability, and where such purchase is supported by a tax invoice and purchase tax paid by him on purchases effected from within the State during a tax period (say a month) constitutes the **input tax** for that period.

The aggregate of tax payable by a dealer under the VAT Act on his sales, purchases and works contract constitute the **output tax** for that period.

Subject to certain conditions a registered dealer is entitled to set off the input tax against the output tax of the same tax period and this is called **input tax credit**.

Input tax credit is available to manufacturers for purchases of raw materials, consumable stores and packing materials. Similarly, reseller can enjoy input tax credit for purchase of goods for resale and packing materials used in packing of such goods. Works contractors too, can enjoy input tax credit for purchase of goods for use in the execution of works contract.

Input tax credit on capital goods also is available for resellers, manufacturers and works contractors. However, no input tax credit is available on the old stock of capital goods as on the day the VAT Act comes into force or on the day dealer gets himself registered under the VAT Act. Tax credit on capital goods may be adjusted over a maximum of four equal half yearly instalments. However, capital goods worth rupees one crore purchased in West Bengal during a month will be allowed input tax credit during the same month.

Input tax credit is also available for the goods lying in stock on the day immediately before the day the VAT Act comes into force. However, it is reiterated that no input tax credit is available on stock of capital goods. Input tax credit is also available on purchase of goods and subsequent stock transfer/consignment sale of goods out of the State subject to the condition that such credit will be available only on input tax paid in excess of 4%.

A dealer, however, shall not be entitled to input tax credit unless he is in possession of tax invoice in original. In case of loss of original tax invoice credit can only be allowed if the dealer applies to the Commissioner in the prescribed manner and the Commissioner allows his prayer after causing such enquiry as he thinks fit.

Input tax credit is not available when goods purchased are not directly used in business. *Note:* It is clarified here that no goods matching is required for claiming input tax credit. For example, input tax of goods A, B and C gets set off against the sale of goods X and Y effected during the same tax period, while claiming input tax credit at the end of the tax period.

Input tax credit on old stock.

A dealer will be allowed input tax credit on one year old closing stock which is brought forward as opening stock on the day the VAT Act comes into force. Thus goods purchased between 1st April, 2004 and 31st March, 2005 remaining in closing stock as on 31st March, 2005, will be allowed input tax credit as under:

- (a) Goods purchased from within West Bengal on payment of tax where tax is shown to have been charged separately, will be allowed input tax credit in full, that is equivalent to the amount of tax paid to another dealer while purchasing such goods in the State.
- (b) Closing stock of goods on which no tax is shown to have been charged separately at the time of purchase, commonly referred to as tax paid goods, will be allowed input tax credit by applying full rate of tax upon 80 % of valuation of such closing stock, if rate of tax on sales thereof under the West Bengal Sales Tax Act, 1994 (excluding surcharge, additional surcharge and turnover tax) does not exceed 10% and upon 70% of valuation of such closing stock of goods, if rate of tax, as stated

here, exceeds 10%. It is clarified that the input tax credit will be available on goods held in stock, irrespective of whether or not such goods were originally manufactured in a unit enjoying any of the tax incentives under the West Bengal Sales Tax Act, 1994.

- (c) Input tax credit on finished and semi-finished goods held in stock by a manufacturer will be available provided the raw materials used therein were purchased in West Bengal. Method of valuation and basis of raw material component in finished and semi-finished goods should be reasonable and consistent and in conformity with the acceptable principles of accounting.
- (d) Input tax credit will not exceed the concessional rate of tax, if such goods or raw materials or finished and semi-finished goods thereof held in stock, were purchased by the dealer claiming input tax credit, at a concessional rate of tax under the West Bengal Sales Tax Act, 1994.
- (e) There is no bar on sale of goods from old stock till the time it is verified by the appropriate authority under the VAT Act. Goods out of this stock can be sold or used in manufacture, etc., as usual but proper documentation showing description, quantity and value of goods so sold or used in manufacture must be maintained.

No input tax credit will, however, be available on closing stock of goods which—

- (i) is purchased from outside West Bengal;
- (ii) is enumerated under Schedule I (tax-free goods) of the West Bengal Sales Tax Act, 1994;
- (iii) falls under the category of capital goods; and
- (iv) does not fall under the ambit of the VAT Act, like lottery tickets, petrol, diesel, foreign liquor, country liquor, etc.

A registered dealer intending to enjoy input tax credit or input tax rebate on stock of goods lying on the day the VAT Act comes into force, shall, within thirty days from such day, submit to the appropriate assessing authority, a statement giving-

- A. list of goods lying in stock, where purchase invoice or bill shows the tax separately, other than semi-finished goods and finished goods of a manufacturer;
 - B. list of goods lying in stock, where purchase invoice or bill does not show the tax separately, other than semi-finished goods and finished goods of a manufacturer; and
 - C. a break-up of semi-finished goods and finished goods lying in the stock of a manufacturer and the value of raw materials and consumable stores used for manufacturing such semi-finished or finished goods,
- as the case may be, in the following format:

STATEMENT OF STOCK OF GOODS AS ON the 1ST APRIL, 2005

Name of the dealer :

Address :

Registration Certificate No.:

[Under the West Bengal Value Added Tax Act, 2003].

A. Statement of goods lying in stock, where purchase invoice or bill shows the tax separately, other than semi-finished goods and finished goods of a manufacturer.

Rate of tax under the West Bengal Sales Tax Act, 1994 on the items specified in column (3)	Serial No.	Item	Name and Address of the selling dealer.	Registration Certificate No. (if any) of the selling dealer.	Invoice/Bill No. with date of the selling dealer	Quantity/ Number Lying in stock	Purchase Value (excluding tax, sch. and addl. Sch., if any) of the qty./ no. lying in stock (Rs)	Aggregate purchase price for individual tax rates [sub total]	Input tax credit/ input tax rebate claimed (Tax+Sch.+ Addl Sch + eligible TOT, if any)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
@ 1%	i) ii) iii)								
@ 2%	i) ii) iii)								
@ 3%	i) ii) iii)								
@ 4%	i) ii) iii)								
@ 4.55%	i) ii) iii)								
@ 4.80%	i) ii) iii)								
@ 5%	i) ii) iii)								
@ 7%	i) ii) iii)								
@ 8%	i) ii) iii)								
@ 10%	i) ii) iii)								
@ 12%	i) ii) iii)								

@ 12.5%	i) ii) iii)									
@ 15%	i) ii) iii)									
@ 17%	i) ii) iii)									
@ 20%	i) ii) iii)									
@	i) ii) iii)									
@	i) ii) iii)									
@	i) ii) iii)									
TOTAL										

B. Statement of goods lying in stock, where purchase invoice or bill does not show the tax separately, other than semi-finished goods and finished goods of a manufacturer.

Rate of tax under the West Bengal Sales Tax Act, 1994 on the items specified in column (3)	Serial No.	Item	Name and Address of the selling dealer.	Registration Certificate No. (if any) of the selling dealer.	Invoice/Bill No. with date of the selling dealer	Quantity/ Number Lying in stock	Purchase Value of the quantity /number lying in stock (Rs)	Aggregate purchase price for individual tax rates [sub total]	70% / 80% of the amount specified in column (9).	Input tax credit/ input tax rebate claimed
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
@ 1%	i) ii) iii)									
@ 2%	i) ii) iii)									
@ 3%	i) ii) iii)									
@ 4%	i) ii) iii)									
@ 4.55%	i) ii) iii)									
@ 4.80%	i) ii) iii)									
@ 5%	i) ii) iii)									

@ 7%	i) ii) iii)									
@ 8%	i) ii) iii)									
@ 10%	i) ii) iii)									
@ 12%	i) ii) iii)									
@12.5%	i) ii) iii)									
@15%	i) ii) iii)									
@ 17%	i) ii) iii)									
@ 20%	i) ii) iii)									
@	i) ii) iii)									
@	i) ii) iii)									
@	i) ii) iii)									
TOTAL										

C. Break-up of value of semi-finished goods and finished goods of a manufacturer.

	Raw materials consumed.		Consumable Stores consumed.		Others, if any	Direct Labour	Over-head	Total
	Purchase from W.B.	Purchase from outside W.B.	Purchase from W.B.	Purchase from outside W.B.				
	Tax charged	Tax not charged	Tax charged	Tax not charged				
Semi-finished goods								
Finished goods								
Total								

Certified that the details given above are true to the best of my knowledge.

Signature: _____

Name: _____

Status: _____

Requirements for availing input tax credit on old stock.

To avail benefit of input tax credit on closing stock of goods, as aforesaid, a dealer will have to furnish detailed closing stock inventory to his assessing authority within 30 days from the day the VAT Act comes into force. The inventory may be verified by the assessing authority within two months of such submission and input tax credit will be available on the expiry of the said period.

If the valuation of closing stock, qualifying for input tax credit, exceeds ten lakh rupees in case of a manufacturer or works contractor and twenty lakh rupees in case of a reseller and others, the same must be certified by a Chartered Accountant. It is needless to say that Chartered Accountants will have to be careful in certification and they must understand tax rates under the West Bengal Sales Tax Act, 1994 and exercise caution while working out the component of raw materials purchased in West Bengal in the finished and semi-finished goods of a dealer.

Carrying over of tax credit.

If the input tax credit exceeds the tax payable on sales in a tax period, the excess credit will be carried over to the next tax period or next financial year, as the case may be. If there is any excess unadjusted input tax credit at the end of second year, then the same will be eligible for refund in normal course.

There are separate provisions regarding adjustments of input tax credit for dealers enjoying incentives under the West Bengal Sales Tax Act, 1994 and who continue to enjoy incentives for unexpired amount or unexpired period under the VAT Act.

Reverse credit.

In case where a registered dealer avails of input tax credit for purchase of goods and subsequently disposes of such goods not in accordance with the provisions of the VAT Act, then the input tax credit so availed of shall be deducted from the input tax credit of the tax period during which such occasion arises.

Following are some of the instances where reversal of input tax credit will take place in the tax period when such occasion arises:

- (a) goods purchased and subsequently returned to the seller for any reason whatsoever;
- (b) goods purchased for business but used for personal consumption, gift or given out as free samples;
- (c) goods stolen or destroyed;
- (d) goods remaining in stock at the time of closure of business.

Note: Goods purchased in West Bengal and subsequently transferred to other States, otherwise than by way of sale (like branch transfer or transfer to an agent), will lead to a reversal of input tax credit to the extent of 4%.

For example, a dealer purchases television sets on payment of VAT at the rate of 12.5% in West Bengal in May, 2005 and avails of full input tax credit but subsequently transfers the same to his branch office outside the State in July, 2005. He will have to reverse 4% of input tax credit in July, 2005. In other words the dealer is entitled to avail of only 8.5% of input tax as input tax credit and 4% is ineligible.

Computation of tax liability.

Calculating tax liability under the VAT Act is very simple. The total amount of input tax, that is tax paid on purchases effected during a tax period, duly supported by tax invoices, is to be deducted from the output tax, that is tax chargeable on all taxable sales and purchase

tax payable under the VAT Act during the same tax period, subject to eligibility under the provisions of input tax credit. The difference of output tax over input tax is payable by a dealer as net tax under the Act. In case input tax credit exceeds the amount of output tax, the same will be carried forward to the next tax period.

Net tax = Output tax – Input tax

Benefits for dealers enjoying tax incentives.

Dealers enjoying tax incentives, namely Tax holiday, Remission of tax and Deferment of payment of tax under the West Bengal Sales Tax Act, 1994, will continue to enjoy such incentives in a restricted manner after making these compatible with the VAT Act.

To maintain the continuity of VAT, dealers enjoying tax incentives will have to buy goods paying tax and will have to sell goods charging VAT and issue tax invoice accordingly. The output tax chargeable will qualify to be remitted or deferred in the prescribed manner. The input tax credit for a dealer enjoying tax incentive will, however, be deferred and the accumulated input tax credit will be available for adjustment against output tax of the dealer after the expiry of such incentive. In other words such dealers can carry forward input tax credit accumulated during the incentive period and adjust the same against output tax after the expiry of the incentive period.

In so far as zero rated sales are concerned, namely sales in the course of export out of the territory of India and sales to units in Special Economic Zone, such dealers will be eligible to claim input tax credit proportionately and claim refund.

Inter-State sales.

The Central Sales Tax Act, 1956, will continue for the time being and all inter-State sales will continue to be taxed as usual, though the Act may be phased out within next few years. The use of declaration in form 'C' or certificate in form 'D' will also continue for inter-State sales.

Input tax credit or rebate will be available against inter-State sales effected from West Bengal for VAT paid in West Bengal while purchasing goods, but no input tax credit will be available on inter-State purchases of goods which are sold or used in manufacture in West Bengal.

It may be mentioned here that input tax credit will be available in full for inter-State sales irrespective of whether the rate of tax under the Central Sales Tax Act, 1956 is more or less than the VAT rate in West Bengal.

Manner of claiming input tax credit in inter-State sales.

The input tax credit for goods purchased from within West Bengal and sold to other States will be first adjusted in the return under the West Bengal Value Added Tax Act, 2003, and if there is any excess of input tax credit then the same will be adjusted with the tax liability under the Central Sales Tax Act, 1956.

Capital Goods.

Capital goods means plant and machinery meant for use in manufacture, or in works contract, and such other goods required by a reseller, to keep the goods in saleable condition or, to effect the sale properly, as may be notified by the State Government from time to time in the Official Gazette, when such purchases are capitalised in the books of account of such manufacturer, works contractor, or reseller, as the case may be.

Note: 1. The goods purchased must be notified as 'capital goods',

2. The expenditure incurred has to be of the nature of capital expenditure.

3. Such expenditure should appear in the dealer's books of accounts under the heading 'Plant and machinery account' as per general accounting principle.

Return filing and payment of VAT.

Under VAT, return will be simple where the number of tax rates have been brought down to two principal rates, namely, 4% and 12.5%. Since obtaining or issuing of declaration forms will no longer be required for majority of sales, computation of tax has become very simple.

Payment of tax will continue to be monthly while returns will have to be filed quarterly as under the West Bengal Sales Tax Act, 1994 and Central Sales Tax Act, 1956. Under the VAT Act a dealer will get an English calendar month's time to submit return from the end of the quarter instead of existing 30 days.

Interest.

For delay in payment of tax of any period interest will be payable by a dealer at the rate of 1% per month and the interest will be determined for each day of default.

Assessment.

The VAT liability will be self-assessed by the dealers themselves in terms of submission of returns by setting off the input tax credit against the output tax. There will no longer be compulsory assessment at the end of each year as is existing now. If no specific notice is issued proposing assessment within the time limit specified under the VAT Act, the dealer will be deemed to have been assessed on the basis of returns submitted by him.

Audit.

Correctness of self-assessment will be checked through a system of Departmental Audit. A certain percentage of dealers will be selected for audit within the month of January of the following year by applying a scientific method of selection. If no anomaly is detected upon audit, the matter will be closed. If, however, evasion is detected on audit, the concerned dealer may be taken up for assessment for previous periods also. The Audit Wing will remain de-linked from tax collection wing to remove any bias. The audit team will conduct its work in a time bound manner and the process of audit will be completed within six months. A copy of audit report will also be sent to the dealer.

Provisional Certificate.

Provisional Certificates (PC) issued to persons who intend to set up a manufacturing unit under the West Bengal Sales Tax Act, 1994, will no longer be valid with effect from the day the VAT Act comes into force. There will be no provision for issue of PC under the VAT Act.

Way Bills.

The provision of way bill for transportation of goods to and from West Bengal will continue as it exists under the West Bengal Sales Tax Act, 1994 and the way bills already issued to dealers will remain valid as usual.

Impact of VAT on prices.

An overall fall in prices is expected after VAT comes into force due to removal of cascading effect of tax on tax. Prices are also expected to fall as tax component will come down from the present level in case of a number of consumer goods and necessities like drugs and medicines. The list given below shows the favourable impact of VAT on some of such goods:

SL. No.	NAME OF COMMODITY	EFFECTIVE TAX RATE UNDER SALES TAX %	TAX RATE UNDER VAT %
1.	Aerated water	19.55	12.50
2.	Cement	20.25	12.50
3.	Cooked food	17.25	12.50
4.	Cosmetics	26.00	12.50
5.	Drugs and medicines	8.00	4
6.	Fertiliser	4.6	4
7.	Fluorescent tubes	17.25	12.50
8.	Furnace oil	23.00	4
9.	Gold jewellery	1.15	1
10.	Health drinks	19.55	12.50
11.	L.P.G.	17.00	12.50
12.	Lubricants	17.25	12.50
13.	Motor vehicles	13.8	12.50
14.	Paints	13.8	12.50
15.	Paper	9.2	4
16.	Refrigerators	17.25	12.50
17.	Soaps	17.25	12.50
18.	Tea	8	4
19.	Television sets	20.70	12.50
20.	Tooth brush, Deodorants	19.55	12.50
21.	Washing detergents	17.25	12.50

Illustration :

CALCULATION OF VAT LIABILITY

Transactions of a trader dealing in Leather Goods and Accessories

Sl. No.	Date	Transaction	Amount Rupees	Tax Rate %	Tax amount Rupees	Total Value Rupees
1	01.4.2005	Purchase of leather shoes	10000.00	12.50%	1250.00	11250.00
2	02.4.2005	Purchase of ladies' leather bags	6000.00	12.50%	750.00	6750.00
3	03.4.2005	Purchase of size measuring stool	800.00	12.50%	100.00	900.00
4	04.4.2005	Sale of leather shoes	2000.00	12.50%	250.00	2250.00
5	05.4.2005	Sale of leather shoes	1000.00	12.50%	125.00	1125.00
6	06.4.2005	Purchase of leather suitcases	8000.00	12.50%	1000.00	9000.00
7	07.4.2005	Sale of ladies' bags	3000.00	12.50%	375.00	3375.00
8	08.4.2005	Purchase of gents' purse	1000.00	12.50%	125.00	1125.00
9	09.4.2005	Purchase of office stationery	600.00	4.00%	24.00	624.00
10	10.4.2005	Sale of leather suitcases	2000.00	12.50%	250.00	2250.00
11	11.4.2005	Purchase of Cash Register Machine	2200.00	12.50%	275.00	2475.00
12	12.4.2005	Sale of gents' purse	400.00	12.50%	50.00	450.00
13	13.4.2005	Purchase of leather shoes	8000.00	12.50%	1000.00	9000.00
14	14.4.2005	Purchase of gents' leather belts	2000.00	12.50%	250.00	2250.00
15	15.4.2005	Sale of leather shoes	1800.00	12.50%	225.00	2025.00
16	16.4.2005	Purchase of leather belt	200.00	12.50%	25.00	225.00
17	17.4.2005	Purchase of leather pouch	1000.00	12.50%	125.00	1125.00
18	18.4.2005	Sale of gents' leather belts	400.00	12.50%	50.00	450.00
19	19.4.2005	Sale of leather shoes	2000.00	12.50%	250.00	2250.00
20	20.4.2005	Sale of leather pouch	400.00	12.50%	50.00	450.00
21	21.4.2005	Sale of ladies' leather bags	1000.00	12.50%	125.00	1125.00
22	22.4.2005	Purchase of office stationery	400.00	4.00%	16.00	416.00
23	23.4.2005	Sale of leather shoes	2000.00	12.50%	250.00	2250.00
24	24.4.2005	Sale of gents' leather belts	200.00	12.50%	25.00	225.00
25	25.4.2005	Sale of leather shoes	1000.00	12.50%	125.00	1125.00
26	26.4.2005	Purchase of socks	3000.00	4.00%	120.00	3120.00
27	26.4.2005	Sale of leather shoes	1500.00	12.50%	187.50	1687.50
28	26.4.2005	Sale of leather shoes	2000.00	12.50%	250.00	2250.00
29	26.4.2005	Sale of leather shoes	3000.00	12.50%	375.00	3375.00
30	26.4.2005	Sale of leather shoes	2000.00	12.50%	250.00	2250.00
31	26.4.2005	Sale of socks	1500.00	4.00%	60.00	1560.00

Other Information:

1. Shoes sold on 25th April, 2005 were returned by the customer on 29th April.
2. One pair of shoes, out of the purchase made on the 1st April, 2005, was taken by the Proprietor for his own use on 30th April, 2005. The input tax involved is Rs.150.00.

INPUT TAX ACCOUNT

Dr.			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount
01.04.2005	To party (supplier) A/c or Cash / Bank A/c	1250.00	01.04.2005	By input tax credit A/c*	1250.00
02.04.2005	-do-	750.00	02.04.2005	-do-*	750.00
03.04.2005	-do-	100.00	03.04.2005	-do-*	**100.00
06.04.2005	-do-	1000.00	06.04.2005	-do-*	1000.00
08.04.2005	-do-	125.00	08.04.2005	-do-*	125.00
09.04.2005	-do-	24.00	09.04.2005	By office stationery A/c*	24.00
11.04.2005	-do-	275.00	11.04.2005	By office equipment A/c*	275.00
13.04.2005	-do-	1000.00	13.04.2005	By input tax credit A/c*	1000.00
14.04.2005	-do-	250.00	14.04.2005	-do-*	250.00
16.04.2005	-do-	25.00	16.04.2005	-do-*	25.00
17.04.2005	-do-	125.00	17.04.2005	-do-*	125.00
22.04.2005	-do-	16.00	22.04.2005	By office stationery A/c*	16.00
26.04.2005	-do-	120.00	26.04.2005	By input tax credit A/c*	120.00
30.04.2005	To input tax credit A/c [reversal of credit]	150.00	30.04.2005	By purchase A/C*	150.00
		5210.00			5210.00

* Instead of daily entry a single consolidated entry may be made at the end of the tax period.

** Provided that the item is capitalised in dealer's books of accounts.

Notes:

1. Input tax account will be debited with the tax amount only to the extent which has been paid by a registered dealer, other than those who opt to pay tax at the compounded rate.
2. The portion of the input tax, on which input tax credit is available shall be transferred to the input tax credit A/c and the portion on which no input tax credit is available is to be transferred to other accounts like Purchase A/c or Office equipment A/c or Office stationery A/c, etc., as the case may be.

INPUT TAX CREDIT ACCOUNT

Dr.			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount
01.04.2005	To Input tax A/c	1250.00	30.04.2005	By input tax credit A/c [reversal of credit]	150.00
02.04.2005	-do-	750.00	30.04.2005	By out put tax A/c	3147.50
03.04.2005	-do-	100.00	30.04.2005	By balance carried forward	1447.50
06.04.2005	-do-	1000.00			
08.04.2005	-do-	125.00			
13.04.2005	-do-	1000.00			
14.04.2005	-do-	250.00			
16.04.2005	-do-	25.00			
17.04.2005	-do-	125.00			
26.04.2005	-do-	120.00			
		4745.00			4745.00
01.05.2005	To balance B/F	1447.50			

OUTPUT TAX ACCOUNT

Dr.			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount
29.04.2005	To party (customer) A/c or Cash / Bank A/c (goods returned)	125.00	04.04.2005	By party (customer) A/c or Cash / Bank A/c	250.00
30.04.2005	To input tax credit A/c	3147.50	05.04.2005	-do-	125.00
			07.04.2005	-do-	375.00
			10.04.2005	-do-	250.00
			12.04.2005	-do-	50.00
			15.04.2005	-do-	225.00
			18.04.2005	-do-	50.00
			19.04.2005	-do-	250.00
			20.04.2005	-do-	50.00
			21.04.2005	-do-	125.00
			23.04.2005	-do-	250.00
			24.04.2005	-do-	25.00
			25.04.2005	-do-	125.00
			26.04.2005	-do- (187.50+250+375 +250+60)	1122.50
		3272.50			3272.50

Note: Since the dealer's amount of input tax credit for the month of April, 2005 is in excess of his output tax, net tax payable for the month will be Nil and the input tax credit of Rs.1,447.50, being in excess, will be carried forward to the next month, that is May, 2005.

TAX INVOICE***ORIGINAL – BUYER’S COPY**

Phone No. :
 E-mail :
 VAT Registration No.
 CST Registration No.

M/S. A B C & CO.
11, A ROAD, KOLKATA -

Tax Invoice No.:
 Date :
 Challan No. and Date:

Buyer’s name and address:
 Buyer’s VAT No., if any

Sl. No.	Quantity	Description of goods	Price Per Unit	Value (Rs)	VAT Rate	Tax Amount	Total (Rs.)
1.	1 pair	Leather shoes	450.00	450.00	12.5%	56.25	506.25
2.	1 piece	Leather bag	250.00	250.00	12.5%	31.25	281.25
3.	2 pairs	Socks	75.00	150.00	4%	6.00	156.00

Total 943.50

Rupees Nine hundred forty three and fifty paise only.

E & O.E.

Signature

(of selling dealer or his authorised employee)

* In case of manufacturing dealer, “TAX INVOICE–CUM–EXCISE INVOICE” may be mentioned, if required.

Note:

1. There is no prescribed format for tax invoice, however, it must show particulars prescribed under the VAT Act and rules framed thereunder (for details see page 4 and page 5). The tax invoice shown above is only illustrative to indicate the required particulars. The dealer may have his own format with additional particulars such as those required for Central Excise. Dealer can have a combined tax invoice for VAT and Central Excise purposes. Important requirement for original tax invoice is that it should be retained by the buyer so that it could be produced for inspection before the officials, if required, in the course of audit or verifications.
2. Tax invoices or copies thereof, received for purchases or issued against sales, are not required to be submitted to the Directorate of Commercial Taxes at the time of filing of return or claiming input tax credit.
3. VAT liability is calculated by adding up tax payable on sales during the month and total of input tax credit for purchases made during the month. Thus, purchases may be say, of 300 pieces and sales of only 200 pieces. In such a case, tax credit will be available on tax paid or payable on purchase of 300 pieces while tax payable will be only on 200 pieces. It is reiterated that there is no relation between purchases and sales in so far as individual invoices are concerned. Tax credit is available at the time of purchase itself, without waiting for sale of goods so purchased and goods may continue to be in stock, even though input tax credit has already been availed of.
4. It does not matter even if particular goods have been sold below the purchase price.

This is a sample where a reseller prefers to issue an invoice inclusive of VAT.

<u>INVOICE</u>	<u>ORIGINAL – BUYER’S COPY</u>
Phone No. : <u>M/S. X Y Z & CO.</u> E-mail : <u>14, C ROAD, KOLKATA -</u> VAT Registration No. CST Registration No.	INVOICE INCLUSIVE OF VAT Invoice No.: Date : Challan No. and Date: Buyer’s name and address: Buyer’s VAT No., if any

SI. No.	Quantity	Description of goods	Total (Rs.)
1.	1 pair	Leather shoes	506.25
2.	1 piece	Leather bag	281.25
3.	2 pairs	Socks	156.00

Total **943.50**

Rupees Nine hundred forty three and fifty paise only.

E & O.E.

Signature
(of selling dealer or his authorised employee)

Note: Since VAT has not been charged separately by the seller, the buyer does not get any benefit of input tax credit.

Computation of output tax on invoices inclusive of VAT can be worked out by applying the following formula:

$$\frac{\text{Rate of tax} \times \text{Value including tax}}{\text{Rate of Tax} + 100}$$

VAT payable on the above invoice is calculated as under:

	Computation	Output tax (Rs.)
Leather shoes taxable @ 12.5% sold for Rs.506.25 including VAT	(12.5 X 506.25) / (12.5 +100)	56.25
Leather bag taxable @ 12.5% sold for Rs.281.25 including VAT	(12.5 X 281.25) / (12.5 +100)	31.25
Socks taxable @ 4% sold for Rs.156.00 including VAT	(4 X 156.00) / (4 +100)	6.00
	<u>Total</u>	93.50