## Existing Sales tax System: Tax at each stage. Assuming sales tax rate 10%

<table>
<thead>
<tr>
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The Existing system of tax led to cascading effect of tax i.e same amount which has been taxed earlier was also taxed in subsequent sale. This led to increase in prices of products.

**Disadvantages of Cascading Effect of Taxes**

A tax purely based on selling price of a product has cascading effect, which has the following disadvantages:

- **Real tax content** in the price of a product cannot be known, as a product passes through various stages and tax is levied at each stage.

- **Tax burden** on any commodity will vary widely depending on the number of stages through which it passes in the chain from first producer to the ultimate consumer.
Ancillarisation is discouraged and manufacturer tries to manufacture all parts and do all processes in his plant itself. This increases manufacturing costs. The govt tried to prevent cascading effect by levying tax on 1st point.

### 1st point taxation

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Limitation of 1st point taxation:

### Last point taxation

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Limitation of last point taxation:
REAL ALTERNATIVE - TAX ON VALUE ADDITION

Method of computation of value addition:

1. Addition method/Income Approach:

Under this method VAT is levied on Value addition

\[ \text{VAT PAYABLE} = \text{VAT rate} \times \text{Value addition} (\text{Manufacturing/trading expenses + Profit}) \]

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<th>VAT PAYABLE BY ADDITION METHOD</th>
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Limitations of Addition Method:
2. **Subtraction method/Product Approach**:

Under this method also VAT is levied on Value addition

\[
\text{VAT PAYABLE} = \frac{\text{VAT rate}}{100} \times \text{Value addition (Sales price less purchase price)}
\]

**VALUE ADDITION BY SUBTRACTION METHOD**

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**Limitations of Addition Method:**
BEST METHOD OF CALCULATION OF VALUE ADDITION

3. Invoice method / Tax Credit method / Voucher method:

Under this method VAT is calculated on sale price, however credit is available of tax paid on input. This method is most famous method of calculating VAT.

**VAT payable = Output tax less Input tax**

**VALUE PAYABLE BY INVOICE METHOD**

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Comparison of Past Sales tax and VAT

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<tr>
<th>Points of comparison</th>
<th>Sales tax</th>
<th>Vat</th>
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<tbody>
<tr>
<td>1. Stage of levy of tax</td>
<td>Levied at each stage or 1st stage or last stage</td>
<td>Levied at each stage of value addition</td>
</tr>
<tr>
<td>2. Subsequent sales of goods after the 1st sale</td>
<td>Not liable to tax &amp; therefore reseller does not collect tax</td>
<td>Liable to tax on the value addition at each stage as its is a multistage tax Reseller collect tax and deposits tax with govt.</td>
</tr>
<tr>
<td>3. Tax liability</td>
<td>Computation is complex</td>
<td>Computation is transparent and easy.</td>
</tr>
<tr>
<td>4. Forms</td>
<td>Lots of form were required which led to misuse &amp; led tax evasion.</td>
<td>No requirement of such form under VAT</td>
</tr>
<tr>
<td>5. Assessment</td>
<td>Done by department</td>
<td>Done by assessee himself</td>
</tr>
<tr>
<td>6. Penalty</td>
<td>Penalty for default were not strict.</td>
<td>Penalties for default are strict.</td>
</tr>
</tbody>
</table>

Benefit of VAT

1. **Removes Tax Evasion**: Under vat credit of tax paid on purchase is allowed against the liability on the final product sold. This credit is available to the dealer only if proper records are maintained of various inputs. Therefore if a dealer suppresses his purchase he will not be entitled to claim credit of tax paid on such purchase.

2. **Tax transparency**: Out of total consideration paid for purchase of material, the buyer knows the tax component under a VAT system. Thus, the system ensures transparency. This transparency enables the State Government to know as to what is the exact amount of tax coming at each stage. Thus, it is a great aid to the Government while taking decisions with regards to rate of tax etc.

3. **Simple**: VAT has simplified the indirect tax system. Under VAT, tax rates and classification of goods have been made simpler. Vat is also easy to understand as there are no complex definitions. When applied uniformly on all states, complexities of tax structure will be removed.
4. **Avoid cascading effect on prices**: Since tax is levied on value addition, price of product will not unduly increase.

5. **Stable source of revenue**: Since under VAT, tax evasion is reduced, govt. is able to collect the tax fully as revenue leakage is reduced to minimum

6. **Promotes Ancillarisation**: If credit of tax paid on raw material is not available, a manufacturer tries to manufacture components himself but under VAT tax credit is available. Therefore a manufacturer are motivated to purchase components from outside and hence promoting ancillarisation.

7. **Neutral**: VAT structure is independent of nature, type, size or turnover of the business. Vat liability is also not dependent on how many times product has traded before reaching the final consumer.
   The system is also neutral with regard to choice of production technique, as well as business organisation

8. **Promotes better Accounting**: Since maintenance of record of inputs is a precondition for availing input tax credit, accounting records will be kept upto date by the dealers

9. **Certainty**: The VAT is a system based simply on transactions. Thus there is no need to go through complicated definitions like sales, sales price, turnover of purchases and turnover of sales. The tax is also broad-based and applicable to all sales in business leaving little room for different interpretations. Thus, this system brings certainty to a great extent

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**Demerits of VAT**

1. **Exclusion of Service**: VAT is levied only on goods and not on services. Tax on service is levied by the central government whereas VAT is levied by the state govt.

2. **High tax rate**: The general rate of VAT of 12.5% is unduly high

3. **Exemption**: VAT was introduced with the concept that exemption will be minimum. However under pressure from traders exemption have been increased.

4. **Non integration with CST**: The tax paid on inter state purchase is not available as credit against VAT paid on sales in the state. This leads to cascading effect on prices.
5. **Detailed record and increase in cost**: Under the VAT system a trader has to maintain detailed records of purchases and sales which leads to high cost of accounting.

6. **Different vat rates**: Concept of VAT works if there is a single VAT rate. But due to social & economic needs, there are varying VAT rates in India.

7. **Increase in investment cost**: Under VAT tax is levied at each stage of value addition. There is time gap in availment of credit on input and utilization of such credit against payment of VAT on sales. The dealer would have to carry tax paid stock, which would lead to higher investment in stock & higher working capital requirement.

8. **Regressive in Nature**: VAT is a tax on consumption of goods, as it is imposed on the sale price of the goods, which are sold to ultimate consumer. Therefore VAT is a form of consumption tax. Since the poor spends greater portion of their income on consumption as compared to the rich, incidence of VAT tends to be higher on the poor, making it regressive.

   However, this weakness is inherent in all the forms of consumption tax. While it may be possible to moderate the distribution impact of VAT by taxing necessities at a lower rate, it is always advisable to moderate the distribution considerations through other programmes rather than concessions or exemptions, which create complications for administration.

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**VARIANTS OF VAT**

1. **Gross Product Variant**

   Under this variant, deduction is allowed for all taxes on purchase of raw materials but no deduction is allowed for taxes on capital goods.

   In this way tax on capital goods such as plant and machinery are neither deductible in the year of purchase nor deductible in subsequent years.

   This discourages investments in capital goods. This also raises disputes about distinction between ‘inputs’ and ‘capital goods’.

2. **Income Variant**

   Under this variant, deduction is allowed for taxes on purchase of raw material, together with taxes of capital goods.
However deduction for taxes on capital goods is allowed proportionately on the basis of % of depreciation.

In this method difficulty arises regarding calculation of method of such depreciation.

3. **Consumption Variant**

Consumption method is the most popular method all over world.

Under this variant **deduction is allowed** for all taxes on purchase of raw material **together with taxes of capital goods**.

Deduction of taxes on capital goods is allowed **irrespective of % of depreciation**

No distinction is made within capital & revenue expenditure.

This is easy to operate and does not discriminate between labour intensive industries and capital intensive industries.
Committee of State Finance Ministers

After the introduction of VAT in the area of manufacture, a need for uniformity arose wherein similar system was proposed to be incorporated in the area of sales thereby replacing the existing sales tax system.

To materialize this concept, the then Union Finance Minister called a meeting of the State Finance Ministers in May 1994 and a high power committee consisting of senior representatives of all 29 States was constituted under Chairmanship of Dr. Asim Dasgupta, Finance Minister, West Bengal.

The committee had to examine all aspects of sales tax reform, including the introduction of VAT.

White Paper on State-Level VAT in India

The Empowered committee of State Finance ministers met regularly and with the repetitive discussions and collective efforts brought out a White paper on 17.01.2005, which provided a base for the preparation of various State VAT legislations.

It has been recognized that VAT is a State subject and therefore, the States will have freedom for appropriate variations consistent with the basic design as agreed upon at the Empowered Committee.

Highlights of policy regarding State VAT as contained in White Paper

The highlights are as follows.

1. Tax Credit : Manufacturer/trader will be entitled to credit of tax paid on inputs purchased within the State used by him in manufacture/resale. Credit will not be available of certain goods purchased like petroleum products, liquor, petrol, diesel, motor spirit.

   Tax credit on Capital Goods :
   - Credit will be available of tax paid on capital goods purchased within the State.
   - Credit will be available only in respect of capital goods used in manufacture or processing.
   - The credit will be spread over 3 financial years
   - There will be a negative list of capital

   No credit is available in case of Inter-State purchases of Inputs or Capital Goods.

   Instant credit : Credit will be available as soon as inputs are purchased. It is not necessary to wait till these are utilized or sold
2. **Very few sales tax forms**: Most of present sales tax forms will disappear. Forms under CST Act will continue.

3. **One to One correlation not required**: Vat does not require one to one i.e. Bill to Bill correlation between input and output. Credit is available as soon as inputs/capital goods are purchased. The credit can be utilized for payment of VAT on any final product. It is not necessary to wait till the input is actually consumed/sold.

4. **Entry tax/ Octroi will continue**: There is no proposal to extend VAT to Octroi levied by local authorities. These will continue.

5. **Phasing out CST gradually**

**Impact of VAT on CST**

- CST has been reduced from 4% to 2%
- CST forms will also continue.
- There will be no credit of CST paid on inter-state purchases.
- If goods are sent to another State on stock transfer basis, only restricted input credit will be given, i.e. there will be no credit on first 2% tax paid on inputs.

**GOODS AND SERVICE TAX**

- The ultimate system of indirect taxes in India will be Goods and Service tax.

- Under such a system there will be one central authority administering a uniform goods and service tax.

- Input tax credit will be available between goods and services throughout the country. However, such a development will require constitutional amendment. Under such a uniform tax system, there will be no trade barriers like octroi

- There will be a free flow of trade and commerce throughout the length and breadth of the country. India will then become a vast common market.
CERTAIN GENERAL DEFINITIONS

SALES

The definition of sales is different under each State VAT act.

Generally the definition means
Transfer of property in goods by one person to another person for cash or deferred payment or other valuable consideration and includes:
1. Transfer, otherwise than in pursuance of a contract,
2. Transfer of goods on hire purchase or other system of installments;
3. Transfer of property in goods involved in the execution of works contract;
4. Transfer of right to use goods i.e. leasing/Hiring
5. Supply of goods by a unregistered association (society, club, firm etc) to its members;
6. Supply of goods being food or any other article for human consumption

VAT & HIRE PURCHASE TRANSACTION

Hire purchase is a deemed sale and therefore Hire purchase is also chargeable to VAT

Taxable Event : Date of delivery of goods on hire purchase
Taxable Turnover : Aggregate of sales price including interest. However some State VAT laws provide for deduction of interest

VAT & WORKS CONTRACT

Work contract is a deemed sale and therefore transfer of property in goods in a work contract liable to VAT

The entire contract price cannot be subjected to VAT but only value of goods in which the property will pass during execution of work contract is liable to VAT

Taxable Turnover : Total consideration less Labour & service charges
VAT & LEASE/HIRE TRANSACTION

“Transfer of Right to use the goods” (i.e giving goods on lease/Hire) is a deemed sale and therefore Lease is chargeable to VAT.

Such transaction is chargeable to VAT only if exclusive possession of goods & right to enjoy them freely for contracted period is given.

If owner retains effective control with him, there is no “Transfer of right to use goods”. In such cases VAT is not levied but Service Tax could be levied.

VAT & SALE OF GOODS BY UNINCORPORATED ASSOCIATIONS

For a valid sale there must be existence of two parties. A person cannot sell goods to himself. Unregistered associations have no separate legal entity from its members. But sale by unregistered associations to its members shall be treated as Deemed Sale and chargeable to VAT.

VAT & SUPPLY OF GOODS BEING FOOD OR ANY OTHER ARTICLE FOR HUMAN CONSUMPTION

Provision of food/drinks in hotels & restaurants is treated as deemed sale and not service and therefore Chargeable to VAT.

The following transaction are not regarded as sales:

1. Charge/Mortgage/Hypothecation/pledge
2. Consignment/Branch transfer
3. Barter/Exchange
4. Free Gifts
Declared Goods of special Importance

Sec 2 of CST act defines Declared goods as goods declared under sec 14 of CST Act

Sec 14 of CST act declares the following goods as declared goods of special importance
- Cereals
- Coal
- Cotton
- Crude oil
- Hides & skins
- Iron & steel
- Oil seeds & pulses
- Sugar
- wool

Implication of Declared goods and VAT

TAX on Declared goods cannot exceed 4%/5% within a state(Sec 15 of CST act)

Tax paid on Declared good in a state is reimbursed if the same goods are sold in an Interstate sale provided goods must in same form

TAX RATES UNDER VAT

- **0% (Exempted)** on natural and un-processed products in unorganized sector, goods having social implications eg.Bread, atta etc and items which are legally barred from taxation e.g. newspapers, national flag
- **1% floor rate** for gold and silver ornaments, precious and semi-precious stones.
- **4%** for goods of basic necessities (including medicines and drugs), all industrial and agricultural inputs, declared goods & capital goods.

*Rate of declared goods has also been increased to 5% by many States after amendment of CST Act*
12.5 % RNR (Revenue Neutral Rate) on other goods. But most of the States have subsequently increased this rate to 13.5%.

Non Vat Goods: Aviation turbine fuel (ATF) and petroleum products (petrol, diesel and motor spirit) Liquor, lottery tickets will be out of VAT regime.

However, Liquor, cigarettes, lottery tickets are taxable by state governments @ 20 %
(No VAT credit available on such goods)
CONCESSIONS FOR SMALL DEALERS

✓ According to white paper on State-level VAT, VAT tax will be payable only by those dealers whose turnover exceeds Rs.5 lakhs per annum.

✓ They can register on optional basis.

✓ Dealers having turnover exceeding 5 lakhs should register within 30 days from date of liability to get registered.

✓ However, the empowered committee allowed the states to increase the limit for small dealers to Rs.10 lakhs, with the condition that the concerned state will bear the revenue loss on account of increase of limit beyond 5 lakhs.

COMPOSITION SCHEME FOR DEALERS

1. **Eligibility**: As per White Paper on State-Level VAT, Small dealers having Gross turnover exceeding Rs. 5 lakhs (now 10 lakhs) but up to Rs. 50 lakhs have the option of composition scheme. They will have to pay a small percentage of Gross Turnover.

2. **Vat Rate Applicable**: Minimum 0.25% to 1%

3. **Advantages**: If a dealer opts for a composition scheme, he need not maintain any statutory records as prescribed under the Act. e.g. Purchase & sale register, Stock register, Records of Input/Output tax. However, he has to maintain purchase & sale vouchers.

4. **Disadvantages**: Dealers opting for composition scheme will not be entitled to any Input tax credit and also cannot issue vatable invoices.

5. **Optional**: The scheme is optional. Dealer can opt to pay normal VAT tax and avail credit of input tax.
6. **Persons who cannot opt for composition scheme**

*Following dealers are not liable for composition scheme*

1. Dealers who make inter-State sales/ Interstate purchases
2. Dealer who exports goods out of India/imports goods into India
3. Dealer transferring goods outside the state otherwise by way of sale or for execution of works contract
4. Dealer purchasing goods from unregistered dealer

7. **Consequences of availing Composition scheme**

*Loss to Seller*
If a dealer opts for the composition scheme, he cannot claim input tax credit on input tax paid. Therefore such tax will add to its cost of goods.

*Loss to Purchaser*
The purchaser shall not get any credit of tax paid for his purchases from a dealer registered under the composition scheme. This will result in breakage of VAT chain and benefit of tax paid earlier will not be passes to subsequent buyers
CHAPTER – 1(e)

VAT LIABILITY & INPUT TAX CREDIT

STEPS FOR CALCULATION OF VAT PAYABLE

Step 1: Determine **Output tax liability** for particular **Tax period** for

- Sales within the State (VAT ) &
- Inter State sales (C/S/T)

Step 2 : Determine **Input tax credit available** during that **Tax Period**

**Opening balance** of Input tax credit A/c for a particular Tax period

**Add:** New Input tax credit for the tax period

**Less:** Input Tax credit reversed for the tax period

**Balance** is Input Tax credit available for a tax period

**Special Points** : Tax credit

- VAT paid on **Raw materials/Capital Goods/packing material**
- Purchased **within** the **state**
- for manufacturing/processing/resale of
- goods **within or outside** state

*Even for stock transfer/consignment transfer out of the State, input tax paid in excess of 2% will be eligible for tax credit.*

**Purchases not eligible for Input Tax Credit**

1) Purchases from person **unregistered dealer** (Unregistered dealer cannot charge tax on its sale);
2) Purchase of goods from other states (**Inter state purchases**)
3) From a **casual dealer** (this dealer can only issue retail invoices and the input tax credit is allowed on the basis of tax invoices);
4) Purchases of **goods notified** by state government
5) Purchase of goods where purchase invoice is **not available**
6) Purchase of goods where invoice **does not show tax separately**
7) **Non-creditable goods** i.e. goods on which input tax credit shall not be allowed;
8) From a dealer who has elected for composition scheme (this dealer can also only issue retail invoices).
9) Purchase of goods which are used exclusively for the manufacture, processing or packing of exempted goods.
10) Goods purchased from other countries

**Input tax Credit on Capital Goods**

(1) Input tax credit on capital goods is also available for traders and manufacturers.
(2) This credit can be adjusted over a maximum of 36 equal monthly installments. The state may at their option reduce this number of installments.
(3) There is also a negative list for capital goods which are not eligible for input credit

**Step 3 : Set off Input Tax Credit available (step 2) from output tax liability (step 1)**

1. Input tax credit is first utilized for payment of VAT.
2. Then excess credit will be adjusted against Central Sales tax liability for the said period

**Step 4: Output Tax Payable/Carry over of Input tax credit**

After adjustment under Pt 3,

If ITC available is less than Output tax liability : Balance is Output tax payable

If ITC available is more than Output tax liability : Balance ITC shall be C/f to next tax period
Special point: **Refund of Tax Credit**  
*White Paper on State-Lever VAT*

1. Excess unadjusted credit at end of second year will be eligible for refund

2. When final product is exported: Entire input tax will be refundable within three months

3. In respect of sale to EOU/SEZ: There will be either exemption of input tax or tax paid will be refunded within three months.

**Distinction between ‘Zero Rated sale’ and ‘Exempt sale’**

Certain sales are ‘**Zero rated**’ i.e. tax is not payable on final product in certain specified circumstances. In such cases, credit **will be available** on the inputs in form of refund. Examples of Zero rated sales:

1. Export sales
2. Sale in course of export
3. Sales to international organizations
4. Sales to SEZ

While in case of exempt goods, they are exempt from Tax & credit of tax paid on inputs is not available.
Importance of VAT invoice (Tax invoice)
Invoices are crucial documents for administering VAT. In the absence of invoices VAT paid by the dealer earlier cannot be claimed as set off. In case any original invoice is lost or misplaced, a duplicate authenticated copy must be obtained from the issuing dealer.

A VAT invoice:
1. Helps in determining the input tax credit;
2. Prevents cascading effect of taxes;
3. Facilitates multi-point taxation on the value addition;
4. Assists in performing audit and investigation activities effectively;
5. Checks evasion of tax.

CONTENTS OF VAT INVOICE
1. The word “tax invoice” in a prominent place;
2. Name and address of the selling dealer;
3. Registration number of the selling dealer;
4. Name and address of the purchasing dealer;
5. Registration number of the purchasing dealer (may not be required under all VAT legislations);
6. Pre-printed or self-generated serial number;
7. Date of issue;
8. Description, quantity and value of goods sold;
9. Rate and amount of tax charged in respect of taxable goods;
10. Signature of the selling dealer or his regular employee duly authorized by him for such purpose.

Other invoices (Retail Invoices)
Normally, a VAT dealer is expected to indicate the rate of tax and the amount of tax charged in the invoice issued. However, in case of small dealers or dealer under composition scheme, other invoices are permitted without the details of tax. Such invoices should contain the following particulars:
1. Name and address of the selling dealer;
2. Registration number of the selling dealer;
3. Name and address of the purchasing dealer;
4. Registration number of the purchasing dealer;
5. Pre-printed or self generated serial number;
6. Date of issue
7. Description, quantity and value of goods sold;
8. Signature of dealer of his/her representative.
Debit note and Credit note

Where a tax invoice has been issued in respect of the sale and some adjustment has to be made in billed amount, due to such adjustments:
1. Tax already shown in the invoice exceeds adjusted tax payable: Then Credit note will be issued by the dealer to the purchaser
2. Tax already shown in the invoice is less than adjusted tax payable: Then Debit note will be issued by the dealer to the purchaser

The debit or Credit note should contain the following particulars:
   1. The Name, address and registration number of the selling registered dealer
   2. The Name, address and registration number of the purchasing registered dealer
   3. Reasons for issuing credit/debit note
   4. Serial number of tax invoice already issued
   5. Tax amount shown in the original invoice

2. Registration of Dealers
   - Dealers, whose gross annual turnover exceeds 5 lakhs has to compulsory register themselves
     [White paper]
   - However, Empowered committee allowed states to increase the limit to 10 lakhs
   - All dealers registered under local sales tax have been automatically registered under VAT.
   - A new dealer commencing business has to get himself registered within 30 days from the date of liability to get registered
   - Application for registration shall be made to Vat commissioner
   - Under VAT, small dealers having turnover upto a specified limit are exempted from registration.

Compulsory registration
   - If an assessee fails to obtain registration under the VAT act, he may be compulsorily registered by the commissioner
   - Then the commissioner shall assess the tax due from the assessee
   - Failure to get registered shall also result in penalty and forfeiture of eligibility to set off input tax credit

Voluntary registration
   - Any dealer not liable for registration may apply for voluntary registration
   - If commissioner is satisfied that business of applicant requires voluntary registration, the he may grant such registration
   - Commissioner may also impose any terms and conditions as he deem fit
Cancellation of Registration
The registration can be cancelled on:
1. Discontinuance of business
2. Disposal of business
3. Transfer of business to new location
4. Annual turnover of manufacturer falling below specified amount

3. Tax Identification Number
   • It is a code to identify a tax payer.
   • It is the registration number of the dealer.
   • It is 11 digit numerical code. First two digits will indicate State Code.
   • Has to mentioned TIN on Invoice/Tax challans/ Returns
   • Tin helps to detect dealer not filing their returns, whether input tax paid is correct or not

4. Records required to be kept for VAT
   The following records should be maintained under VAT system:
   i. Purchase records
   ii. Sales records
   iii. VAT account
   iv. Separate record of any exempt sale

   Further, the following records should also be kept and produced to an officer:
   1. Copies of all invoices issued
   2. Copies of all credit and debit notes issued
   3. All purchase invoices and credit and debit notes received
   4. Details of amount of tax charged on each sale or purchase;
   5. Total of the output tax and the input tax in each period
   6. Details of goods manufactured and delivered from the factory

Failure to keep these records may attract penalty. All such records should be preserved for the period specified in respective State provisions.

5. Returns

✓ Under VAT laws there are simple forms of returns.

✓ Returns are to be filed monthly/quarterly/annually as per the provisions of the State Acts/Rules.

✓ A registered dealer may be required to file a monthly/quarterly/annual return along with the requisite details such as output tax liability, value of input tax credit, payment of VAT etc. Opportunity may be provided to lodge revised returns.
Every return furnished shall be scrutinized within the prescribed time limit from the date of filing the return. If any technical mistake is detected on scrutinizing, the dealer shall be required to pay the deficit appropriately.

Return filling procedures under VAT laws are designed with the objective of:

a) Reducing the compliance costs incurred by the businesses in completing and filling their returns; and

b) Encouraging businesses to comply with their obligations to file returns and pay VAT through the application of penalties in case late payment of VAT and filling of returns; and

c) Ensuring the efficient processing of the data included in the returns.

7. **Self Assessment**

Under VAT system, there is no compulsory assessment at the end of each year. The VAT liability is self-assessed by the dealer himself in terms of submission of returns upon setting off the tax credit.

If no specific notice is issued proposing departmental audit of the books of account of the dealer within the time limit specified in the Act, the dealer is deemed to have been self-assessed on the basis of the returns submitted by him.

VAT presupposes that all the dealers are honest. Scrutiny is done in cases where a doubt arises of under-reporting of transaction or evasion of tax. Honest dealers are protected and dishonest dealers are penalized.

8. **Audit by Department**

Correctness of self-assessment is checked through a system Departmental Audit.

A certain percentage of the dealers are taken up for audit every year on a scientific basis.

Authorized officers of the department visit the business place of the dealer to conduct the audit. The auditors examine the correctness of the returns vis-à-vis the books of account of the dealer or any other information available with them.
9. **Penal Provisions**

Since VAT is purely a state subject, States have incorporated penal provisions as per their requirements. However, these are in general more stringent than those in the earlier sales tax laws.

Since, the State taxation laws have allowed certain additional benefits in the form of input tax credit, which was not available earlier, they have introduced more stringent penal provisions to discourage evasion of taxes.

10. **Role & Position of Company Secretary**

(1) **AUTHORIZED REPRESENTATIVE BEFORE VAT AUTHORITIES**

The Company Secretaries play poignantly role in their professional capacity before VAT. The acceptability of company secretaries before the VAT authorities is increasing day by day. Company Secretaries in Practice have now been recognized to act as an authorized representative for the purpose of appearing before VAT authorities under Statutes of various States. The Company Secretaries in Practice have been recognized to act as Authorized Representative under VAT Law of

(i) Maharashtra
(ii) West Bengal
(iii) Bihar
(iv) Goa
(v) Karnataka
(vi) Kerala
(vii) Daman & Diu
(viii) Jharkhand
(ix) Delhi
(x) Uttar Pradesh
(xi) Arunachal Pradesh
(xii) Haryana
(xiii) Meghalaya
(xiv) Rajasthan

(2) **CERTIFICATION OF DOCUMENTS**

(3) **FILING OF RETURNS**

(4) **SCRUTINY OF RECORDS AND ADVISING TO CLIENTS**

(5) **VAT AUDIT**

The Company Secretaries in Practice have been recognized to conduct VAT Audit under the following States:

(a) Jharkhand
(b) Karnataka
(c) Gujarat
11. VAT IN OTHER COUNTRIES

VAT does not primarily link tax liability to residence. This means that foreign companies can also become liable for VAT in countries other than the country where they have their business establishment.

In order to be sure that both parties, i.e., supplier and customer, are fully aware of the VAT (but also e.g., customs, excise, sales tax) treatment, it is recommendable to verify the tax clauses of the contract or sales conditions before the agreement is concluded.

Value Added Tax (VAT) is a type of sales tax. In some countries, including Australia, Canada, New Zealand and Singapore, this tax is known as “goods and services tax” or GST; and in Japan it is known as “consumption tax”.

VAT is an indirect tax, in that the tax is collected from someone other than the person who actually bears the cost of the tax (namely the seller rather than the consumer). As VAT is intended as a tax on consumption, exports (which are, by definition, consumed abroad) are usually not subject to VAT or VAT is refunded.

VAT was first introduced in France in 1954. Worldover more than 145 countries have adopted VAT.

List of few countries that collect VAT include: Algeria, Argentina, Azerbaijan, Bangladesh, Belarus, Belgium, Brazil, Bulgaria, Cameroon, Chile, China, Colombia, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Guatemala, Guyana, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Latvia, Lebanon, Lithuania, Luxembourg, Malta, Mexico, Monaco, Montenegro, Morocco, Netherlands, Norway, Pakistan, Panama, Peru, Philippines, Poland, Portugal, Romania, Russia, Senegal, Serbia, Slovakia, Slovenia, South Africa, South Korea, Spain, Sweden, Taiwan, Thailand, Tunisia, Turkey, Ukraine, United Kingdom, Uruguay, Uzbekistan, Venezuela, Vietnam, Zambia.

AUSTRALIA

The Australian Goods and Services Tax (‘GST’) is a value–added tax introduced in Australia in July 2000. It is similar to the European Union’s VAT system, requiring re-calculation and payments to the tax authorities at each transaction point in the onward sales chain.

The Australian GST is collected by the Australian Tax Office. The revenue is then redistributed to the states and territories via the Commonwealth Grants Commission process. In essence, this is Australia’s program of horizontal fiscal equalisation.

Whilst the rate is currently set at 10%, there are many domestically consumed items that are effectively zero-rated (GST-free) such as fresh food, education, and health services, as well as exemptions for Government charges and fees that are themselves in the nature of taxes.

CANADA

Value added tax in Canada is known as Goods and Services Tax. The goods and services tax was introduced in Canada on the 1st of January 1991. The goods and services tax in Canada replaced the manufacturers’ sales taxes. The main purpose behind introducing the goods and services tax was that the manufacturers’ sales tax was having a negative impact on the export prospects of the manufacturing sector in Canada. The manufacturers’ sales tax was hidden and the rate of taxation was 13%. The goods and services tax could be called a multi-level tax. In Canada the value added taxes are taken along with the sales taxes that are applicable for the particular provinces.
THE EUROPEAN UNION
The value added tax was perceived by the member-countries of the European Union as the ideal means to "promote neutrality and uniformity of the tax burden and to provide incentives for increased productivity and industrialization. Though the EC Fiscal and Financial Committee had recommended as early as 1962 that all member-countries should shift to the VAT system, the change for the original members was completed only in 1973 when Italy switched over to the VAT. However, certain other recommendations of the committee regarding uniformity of rates and eventual adoption of the original principle for taxation of trade within the EC were not implemented immediately.
Sec 1: Short Title, Extent & Commencement

(1) This Act may be called the Central Sales Tax Act, 1956.

(2) It extends to the Whole of India

(3) It shall come into force on such date as Central Government may, by notification in Official Gazette, appoint & different dates may be appointed for different provisions of this Act.

Sec 6(1): Charging section

- Every dealer shall,

- be liable to pay tax under this Act

- on all sales

- of goods

- other than electrical energy

- effected by him

- in the course of inter-State trade or commerce

- during any year

- Provided that a dealer shall not be liable to pay tax

- on any sale of goods

- which is a sale in the course of export out of India u/s 5

Sec 3: Sale or Purchase of goods in the course of Inter-state Trade or Commerce

A sale or purchase of goods shall be deemed to take place in course of inter-State trade or commerce if the sale or purchase, -
(a) **Occasions the movement of goods** from one State to another or

**Explanation : What is not movement**
Where the movement of goods commences and terminates in the same State it shall not be deemed to be a movement of goods from one State to another by reason merely of the fact that in the course of such movement the goods pass through the territory of any other State.

(b) Is effected by a **transfer of documents** of title to goods during their **movement** from one State to another.

**Explanation : Commencement & Termination of Movement**
Where goods are delivered to a **carrier or other bailee** for transmission, the movement of the goods shall be deemed to commence at time of such delivery and terminate at the time when delivery is taken from such carrier or bailee.

*Explanation 3 has been inserted to section 3 of Central Sales Tax Act, 1956 to provide that where the gas sold or purchased and transported through a common carrier pipeline or any other common transport or distribution system becomes co-mingled and fungible with other gas in the pipeline or system and such gas is introduced into the pipeline or system in one State and is taken out from the pipeline in another State, such sale or purchase of gas shall be deemed to be a movement of goods from one State to another.*

**Sec 6(2) : Subsequent sale during Interstate Sale Exempt**

- Any subsequent sale
- during Movement of goods
- from one State to another
- due to Interstate sale,
- effected by a transfer of documents of title to such goods
- to a registered dealer,
- shall be exempt from CST
- if the goods are of description u/s 8(3)
Conditions for claiming Exemption:

1. The first dealer who makes inter state sale shall give form E-1 to the purchaser. The subsequent seller shall give form E-II to the purchaser.

2. The seller should obtain form C from the purchaser

   *Form C NOT REQUIRED if:*—
   
   (a) LST of the appropriate State is less than 2% and
   
   (b) Seller proves sale is of the nature referred to in this sub-section.

Sec 9: Levy and collection of Tax and Penalties

(1) The tax shall be levied by the Central government.

(2) It shall be collected by the state from where the movement of goods have started.

(3) In case of subsequent sale, not exempt u/s 6(2), the tax shall be collected

   A. By State from which the registered dealer can obtain form prescribed of declaration
   B. By State from which subsequent sale is effected, if it is by unregistered dealer.

(4) The Sale tax authorities of the appropriate state are empowered to assess, re-assess, collect and enforce payment of any tax under CST Act on behalf of government of India

(5) The proceed of any tax, including any interest or penalty levied and collected shall be assigned to the State and shall be retained by it and the proceeds attributable to Union territories shall form part of the Consolidated Fund of India.

Sec 9A: Collection of tax to be only by registered dealers

No person who is not a registered dealer shall collect in respect of any sale by him of goods in the course of inter-State trade or commerce.
Chapter 2(b)
Calculation of Tax

Sec 8: Rates of CST on Inter state Sales

1. CST AT CONCESSIONAL RATES:

- 2% of Turnover or

- Rate applicable to sale or purchase of such goods inside appropriate State under sales tax law of that State,

whichever is lower

Conditions:

1. Sale of Specified Goods:
   (a) Goods specified in certificate of registration & purchased for
      - Re-sale or
      - Manufacture or processing of goods for sale or
      - In tele-communications network or
      - In mining or
      - In generation or distribution of electricity or any other form of power

   (b) Containers or other materials specified certificate of registration for packing of goods for sale

2. Sale to registered dealer

3. Selling dealer is required to obtain a declaration in form C from the purchasing dealer & furnish to the officer

2. CASES WHERE CONCESSIONAL RATE OF CST IS NOT APPLICABLE:
   In case any of the aforesaid three conditions is not fulfilled the rate of CST would be the rate applicable to the sale or purchase of such goods inside the appropriate State under the sales tax law of that State.

<table>
<thead>
<tr>
<th>In case rate of sales tax within the State is</th>
<th>CST rate in case of sale to registered dealers is</th>
<th>CST rate in case of sale to unregistered dealers is</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 3%</td>
<td>applicable rate of sales tax within the State</td>
<td>applicable rate of sales tax within the State</td>
</tr>
<tr>
<td>3% or more</td>
<td>2%</td>
<td>applicable rate of sales tax within the State</td>
</tr>
</tbody>
</table>
Illustration: B of Gujarat, a registered dealer, purchases goods from A of Maharashtra. Calculate the CST rate applicable in case the rate of sales tax within Maharashtra is:-

(i) Nil
(ii) 1%
(iii) 2%
(iv) 3%
(v) 4%
(vi) 5%
(vii) 8%
(viii) 10%
(ix) 12.5%
(x) 20%

Solution:

<table>
<thead>
<tr>
<th>Sales tax rate for sale within the State</th>
<th>CST rate in case of sale to registered dealers</th>
<th>CST rate in case of sale to unregistered dealers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>3%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>4%</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>5%</td>
<td>2%</td>
<td>5%</td>
</tr>
<tr>
<td>8%</td>
<td>2%</td>
<td>8%</td>
</tr>
<tr>
<td>10%</td>
<td>2%</td>
<td>10%</td>
</tr>
<tr>
<td>12.5%</td>
<td>2%</td>
<td>12.5%</td>
</tr>
<tr>
<td>20%</td>
<td>2%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Sec 2(h) : Sale price means

Amount payable to a dealer as consideration for the sale of any goods,

Includes:
sum charged for anything done by dealer on goods at time of or before delivery

Excludes:
a) Cash Discount as per trade practices,
b) cost of Freight or Delivery or the cost of Installation if such cost is separately charged
Sale price in case of work contract
Sale price to be determined in prescribed manner by making prescribed deduction from the total consideration

Analysis of Sales Price

1. Dharmada - Charity or dharmada collected by the dealer will form part of the sale price because so far as the purchaser is concerned, he has to pay the whole amount for purchasing the goods.

2. Weighment dues - If the services of weighing are in respect of the goods and incidental to their being sold, the dues charged are to be included in the sale proceeds.

3. Insurance charges - Insurance charges incurred by the assessee prior to the delivery of the goods form part of sale price.

4. Packing charges - The packing charges realised by the dealer is an integral part of the sale price and hence includible. Further, cost at packing material is also includible in sale price.

5. Indemnity/Guarantee charges - Indemnity / guarantee charges recovered from the same buyers to incur loss during transit at buyers’ request do not form part of the sale price.

6. Discount according to trade practice - Any sum allowed as cash discount according to the practice normally prevailing in the trade will not form part of the “sale price”. It is to be noted that such deductions are to be restricted to “cash discount”.

7. Excise duty - Excise duty paid by a dealer in respect of the goods which he sells will not be liable to be deducted from his turnover.

8. Government subsidies - Where a product is ‘controlled’ and has to sell at ‘controlled price’ subsidies are granted by the Government to manufacturers to compensate the cost of production which is usually higher than the controlled price. Such subsidy will not form part of sale price or turnover.

9. Incentive paid to supplier/manufacturer – Any subsidy paid to suppliers/to others on behalf of suppliers to ensure scheduled delivery is includible. These are not post sales expenses.

10. Design Charges – Design charges charged separately in respect of goods manufactured as per design and sold to buyer is includible.

11. Deposits for returnable containers/bottles: are not includible in the sale price.

12. Free of cost material supplied by customer – is not includible on sale price.
13. **Sale price in case of works contract**: In the case of a transfer of property in goods (whether as goods or in some other form) involved in the execution of a works contract, the *sale price of such goods shall be determined in the prescribed manner* by making such deduction from the total consideration for the works contract as may be prescribed and such price shall be deemed to be the sale price for the purposes of this clause.

**Sec 2(j) : Turnover means**
- Aggregate of Sale prices
- Received/Receivable
- for Sales of any goods
- In course of Inter-State trade or commerce
- made during any prescribed period and
- determined as per Act & Rules

**Sec 8A : Determination of Turnover**

(1) In determining the turnover of a dealer, **ONLY following deductions** shall be made from aggregate of sale prices, namely:

(a) **Amount arrived** at applying the following formula :

\[
\text{Rate of tax} \times \text{aggregate of sale prices} \div \left(100 + \text{rate of tax}\right)
\]

(b) **Sale price** of all goods returned to dealer by the purchasers of such goods, within a period of 6 months from the date of delivery of the goods

*PROVIDED that satisfactory evidence of such return of goods & of refund or adjustment in accounts is produced before competent authority to assess or reassess the tax payable*

(c) Such other prescribe deductions by Central Government having regard to prevalent market conditions, facility of trade and interests of consumers.

**Sec 9B : Rounding off of tax, etc**

The amount of tax, interest, penalty, fine or any other sum payable, and the amount of refund due, shall be rounded off to the nearest rupee and, for this purpose, where such amount contains a part of a rupee consisting of paise, then, if such part is fifty paise or more it shall be increased to one rupee and if such part is less than fifty paise, it shall be ignored:
PROVIDED that nothing in this section shall apply for the purpose of collection by a dealer of any amount by way of tax under this Act in respect of any sale by him of goods in the course of inter-State trade or commerce.

**Illustration 1:** Mr. D, a first stage dealer in packing machinery in the State of Gujarat furnishes the following data:

<table>
<thead>
<tr>
<th>(i)</th>
<th>Total inter state sales during F.Y. 2015-16</th>
<th>92,50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CST not shown separately</td>
<td></td>
</tr>
<tr>
<td>(ii)</td>
<td>Above sales include:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Excise duty</td>
<td>9,00,000</td>
</tr>
<tr>
<td></td>
<td>Freight</td>
<td>1,50,000</td>
</tr>
<tr>
<td></td>
<td>(of this `50,000 is not shown separately in invoices)</td>
<td>32,000</td>
</tr>
<tr>
<td></td>
<td>Insurance charges incurred prior to delivery of goods</td>
<td>15,000</td>
</tr>
<tr>
<td></td>
<td>Installation and commissioning charges shown separately</td>
<td>30,000</td>
</tr>
<tr>
<td></td>
<td>Incentive on sales received from manufacturer</td>
<td></td>
</tr>
</tbody>
</table>

Determine the turnover and CST payable, assuming that all transactions were covered by valid ‘C’ Forms and State Sales Tax rate is 5%.

**Solution:**

**Computation of Mr. D’s turnover and central sales tax payable**

<table>
<thead>
<tr>
<th></th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total inter-state sales</td>
<td>92,50,000.00</td>
</tr>
<tr>
<td>Less: Freight shown separately in the invoices</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Installation and commissioning charges shown separately</td>
<td>15,000</td>
</tr>
<tr>
<td>Turnover including CST (A)</td>
<td>91,35,000.00</td>
</tr>
<tr>
<td>CST payable (91,35,000 × 2/102) (B)</td>
<td>1,79,117.65</td>
</tr>
<tr>
<td>Turnover excluding CST (A- B)</td>
<td>89,55,882.35</td>
</tr>
<tr>
<td>Central Sales tax payable (rounded off)</td>
<td>1,79,118</td>
</tr>
</tbody>
</table>

**Notes**

1. Excise duty forms part of the sale price and is not deductible.
2. Freight not shown separately in the invoices and insurance charges incurred prior to delivery of goods are not deductible in calculating the turnover.
3. Sale price includes incentive on sales received from manufacturer.
4. The CST on transactions covered by valid ‘C’ forms is 2% or the State sales-tax rate, whichever is lower. Since, in this case, the State sales-tax rate is higher than 2%, the rate of CST is taken as 2%.
Illustration 2: Mr. X reported sales turnover of ` 36,20,000. This includes the following:

(i) Excise duty ` 3,00,000; and
(ii) Deposit for returnable containers and packages ` 5,00,000.

Sales Tax was not included separately in the sales invoice.

Compute tax liability under the CST Act, assuming the rate of tax @ 2%.

Solution: Computation of Central Sales Tax liability of Mr. X

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover (including Central sales tax and deposit received towards returnable</td>
<td>36,20,000.00</td>
</tr>
<tr>
<td>containers and packages)</td>
<td></td>
</tr>
<tr>
<td>Less: Deposit received towards returnable containers and packages not to be</td>
<td>5,00,000.00</td>
</tr>
<tr>
<td>considered in turnover</td>
<td></td>
</tr>
<tr>
<td>Turnover (including central sales tax)</td>
<td>31,20,000.00</td>
</tr>
<tr>
<td>Less: Central sales tax thereon = 31,20,000 x 2/102</td>
<td>61,176.47</td>
</tr>
<tr>
<td>Turnover (excluding central sales tax)</td>
<td>30,58,823.53</td>
</tr>
</tbody>
</table>

The Central Sales Tax liability is ` 61,176 [rounded off] (being 2% of ` 30,58,823.53)

Note – Excise duty is part of turnover and hence should not be excluded from turnover.

Illustration 3: Mr. A’s turnover is ` 52,00,000 for the year ended 31-03-16. Further, goods sold in March, 2016 have been returned by the customers to the value of ` 5,20,000 in May, 2016. He had not charged tax separately in the sale invoices. Assuming the tax rate is 2%, compute his tax liability under the Sales Tax Act.

Solution:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total turnover</td>
<td>52,00,000</td>
</tr>
<tr>
<td>Less: Sale price of goods returned to the dealer by the purchaser of such</td>
<td>5,20,000</td>
</tr>
<tr>
<td>goods (within 6 months from the date of delivery of the goods)</td>
<td></td>
</tr>
<tr>
<td>Turnover in terms of the Central sales tax Act</td>
<td>46,80,000</td>
</tr>
</tbody>
</table>

Mr. A has not charged the amount of sales tax separately in the sales invoices. Therefore, according to section 8A, the sales tax has to be worked out applying the following formula
Rate of tax × Aggregate of sale price
100 + Rate of tax

Central Sales tax liability = \( \frac{2 \times 46,80,000}{100 + 2} \)

= \( \frac{93,60,000}{102} \)

= `91,765 (rounded off)

Illustration 4: From the following details, compute the central sales-tax payable by a dealer carrying on business in New Delhi:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total turnover for the year which included</td>
<td>16,00,000</td>
</tr>
<tr>
<td>(i) Trade commission for which credit notes have to be issued</td>
<td>48,000</td>
</tr>
<tr>
<td>(ii) Installation charges</td>
<td>25,000</td>
</tr>
<tr>
<td>(iii) Excise duty</td>
<td>80,000</td>
</tr>
<tr>
<td>(iv) Freight, insurance and transport charges recovered separately in the invoice</td>
<td>60,000</td>
</tr>
<tr>
<td>(v) Goods returned by dealers within six months of sale, but after the end of the financial year</td>
<td>40,000</td>
</tr>
<tr>
<td>(vi) Central Sales tax Buyers have issued ‘C’ forms for all purchases</td>
<td></td>
</tr>
</tbody>
</table>
Solution:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross turnover</td>
<td>16,00,000</td>
</tr>
<tr>
<td>Less : Trade commission</td>
<td>48,000</td>
</tr>
<tr>
<td>Installation charges</td>
<td>25,000</td>
</tr>
<tr>
<td>Freight, transport charges</td>
<td>60,000</td>
</tr>
<tr>
<td>Goods returned within 6 months</td>
<td>40,000</td>
</tr>
<tr>
<td>Turnover including CST Central sales tax @ 2%</td>
<td>14,27,000</td>
</tr>
<tr>
<td>(\text{\textdollar}14,27,000 \times 2 / 102)</td>
<td>27,980.39</td>
</tr>
<tr>
<td>Turnover</td>
<td>13,99,019.61</td>
</tr>
<tr>
<td>CST at 2% thereof (rounded off)</td>
<td>27,980</td>
</tr>
</tbody>
</table>
Chapter 2(c)
Objective of CST

Sec 4: When is a sale or purchase of goods said to take place outside a state

A. A sale or purchase of goods shall be deemed to take place inside a State, if goods are within the State

(1) For Specific or Ascertained goods, at the time the contract of sale is made; and

(2) For Unascertained or Future goods, at the time of their appropriation to the contract of sale by the seller or by the buyer, whether assent of the other party is prior or subsequent to such appropriation.

Explanation: Where there is a single contract of sale or purchase of goods situated at more places than one, it will be treated as if there were separate contracts in respect of the goods at each of such places.

B. Sale or purchase of goods shall be deemed to take place outside a State,
Subject to section 3, when a sale or purchase of goods take place inside a State as above, such sale or purchase shall be deemed to have taken place outside all other States.

Objective of CST ACT

The Central Sales tax Act has been designed:

(i) To formulate principles for determining when a sale takes place
   (a) in the course of inter-State trade or commerce, or

   (b) outside a State, or

   (c) in the course of import into or export from India

(ii) to provide for the levy, collection and distribution of taxes on sales of goods in the course of inter-State trade or commerce

(iii) to declare certain goods to be of special importance in inter-State trade or commerce
Sec 5: Sale or Purchase of goods in course of Import or Export

Sale or purchase of goods in course of export

A sale or purchase of goods shall be deemed to take place in the course of the export of the goods out of the territory of India only if

a) Sale or purchase either occasions such export or

b) Is effected by a transfer of documents of title to goods after the goods have crossed the customs frontiers of India.

Special points:

1. Penultimate sale
   - Last sale or purchase of any goods
   - preceding the sale or purchase occasioning the export of those goods
   - shall also be deemed to be in the course of such export,
   - if such last sale or purchase took place
   - After and was for complying with,
   - Such export.

For claiming exemption such last seller has to submit prescribed form to the Prescribed authority

Special point:
If any designated Indian carrier purchases Aviation Turbine Fuel for the purposes of its international flight, such purchase shall be deemed to take place in the course of the export of goods out of the territory of India

Sale or purchase of goods in course of import

A sale or purchase of goods shall be deemed to take place in the course of the import of the goods into the territory of India only if

a) Sale or purchase either occasions such import or

b) Is effected by a transfer of documents of title to the goods before the goods have crossed the customs frontiers of India.
Sec 2(ab) : Crossing the customs frontiers of India means

- Crossing in the limits
- of the area of a customs station
- in which imported goods or export goods
- are ordinarily kept
- before clearance by customs authorities.

EXEMPTIONS

Sec 6(3) : Sale to Diplomatic mission

Notwithstanding anything contained in this Act,

CST shall be Not be payable for sales of goods (Personal or official purpose) to any official, personnel, consular or diplomatic agent of

(i) Foreign diplomatic mission or consulate in India; or

(ii) United Nations or any other similar international body.

Conditions for availing exemption : Dealer selling such goods furnishes to Prescribed authority a certificate in Prescribed manner on the prescribed form duly filled & signed by the official, personnel, consular or diplomatic agent

Sec 8(6) : Sale to SEZ

a) Overriding : Notwithstanding anything contained in this section

b) Sale : Interstate sale of Any Goods to registered dealer
c) **Purpose**:
- For Setting up, operation, maintenance, manufacture, trading, production, processing, assembling, repairing, reconditioning, packaging or for use as packing material in *unit located in Special Economic Zone* or
- For Development, Operation & Maintenance of Special Economic Zone by *developer of Special Economic Zone*

d) **Goods**: Goods or classes of goods as specified in certificate of registration

e) **Conditions**: Dealer selling such goods shall furnishes to prescribed authority a declaration in prescribed manner on the prescribed form obtained from the authority specified by Central Government duly filled in & signed by the registered dealer to whom such goods are sold.

**Sec 8(5) : Exempted Goods by state government**

1. **Overriding**: Notwithstanding anything contained in this section

2. **Authority**: State Government

3. **Conditions**: Fulfillment of conditions + necessary so to do in public interest

4. **Method**: By notification in Official Gazette
Chapter 2(d)
Definitions

Sec 2(d) : **Goods**” includes

- All **materials, articles, commodities** and all other kinds of **movable property**.

**but does not include**

- Newspapers
- Actionable claims,
- Stocks, shares and securities.

Sec 2(dd) : **Place of business” includes**

(i) Dealer carries on business through an agent : **Place of business of such agent**

(ii) **Warehouse, Godown** or other place where a dealer stores his goods and

(iii) **Place** where a dealer keeps his **books of account**

Sec 2(a) : **Appropriate State means**

(i) Dealer who has one or more places of business situated in same State : That State

(ii) Dealer who has places of business situated in different States : Every such State with respect to the place or places of business situated within its territory

Sec 2(g) : **Sale means**

✓ Any **Transfer of property in goods**
✓ by one person to another
✓ for cash or deferred payment or other valuable consideration,
✓ and includes

**Includes Deemed sale**

(a) Transfer, otherwise than in pursuance of a contract, of property in any goods

(b) Transfer of property in goods involved in the execution of a **works contract**

(c) Delivery of goods on **hire-purchase** or by system of **installments**
(d) Transfer of the right to use any goods for any purpose

(e) Supply of goods by unincorporated association or body of persons to a member

(f) Supply of food or other article for human consumption or any drink (whether or not intoxicating)

Excludes

Mortgage or hypothecation of or charge or pledge

Sec 2(b) : Dealer Means

✓ Any person who carries on (whether regularly or otherwise)
✓ Business of Buying, Selling, Supplying or Distributing Goods,
✓ Directly or indirectly,
✓ for Cash or Deferred payment or commission or other valuable consideration & incudes

(i) Local authority, body corporate, company, society, club, firm, HUF or AOP

(ii) Broker, agent etc

(iii) Auctioneer auctioning goods belonging to disclosed/undisclosed principal

Deemed Dealer

Following shall be deemed to be a dealer for the purposes of this Act.

A. Agent of One state & Principal of other state

An agent, in any State of Dealer residing outside that State as
✓ Mercantile agent or
✓ Agent for handling of goods or documents of title relating to goods or
✓ Agent for collection or payment of sale price of goods

B. Branch in one State & Head office in Other state

✓ Branch Office in a State of a firm registered outside that State or
✓ Company/Other body corporate, principal office or headquarters is outside that State,
C. Government deemed as Dealer

- Government (business or not)
- Buys, sells, supplies or distributes, goods,
- for cash or deferred payment or for commission or other valuable consideration,

Exception : Sale, supply or distribution of surplus, un-serviceable or old stores or materials or waste products or obsolete or discarded machinery or parts

Sec 2(aa) : Business includes

- Trade,
- Commerce or
- Manufacture or
- Any adventure or concern in the nature of trade, commerce or manufacture,

whether or not carried on with motive to profit
whether or not profit accrues & includes
any transaction incidental or ancillary to such

Sec2 (c) : Declared goods means goods declared u/s 14 to be of special importance in inter-State trade or commerce.

Sec 14 : Goods to be of special importance in inter-state trade or commerce

Following goods are of special importance in inter-State trade or commerce:—


Sec 15: Restrictions on Sale or Purchase of Declared goods within a state

(i) Sales tax within the State not to exceed 5%
LST on declared goods cannot exceed 5%

(ii) Local sales tax to be reimbursed if goods sold inter-State subsequently
If LST paid on declared goods and the same goods are sold in inter-State sale, the LST paid realised previously shall be reimbursed provided inter-State sale must be in the same form.

(iii) If LST is paid on paddy, it shall be deducted while levying tax on rice

(iv) Pulses whether whole or separated and whether with or without husk shall be treated as a single commodity for the purposes of levy of sales tax by States.
Chapter 2(e)
Miscellaneous

Registration of Dealer

Sec 2(f) : Registered dealer means a dealer who is registered u/s 7

Sec 7 : Registration of Dealers

Sec 7(1) : Compulsory Registration
✓ Every Dealer
✓ liable to pay tax under this Act
✓ Shall within prescribed time
✓ make an application for registration
✓ containing prescribed particulars
✓ to such authority in appropriate State

Sec 7(2) : Voluntary Registration
• Any dealer liable to pay tax under the sales tax law of appropriate State, or
• Other dealer having a place of business in that State
• May,
• notwithstanding that he is not liable to pay CST
• apply for registration under this Act
• to the authority referred to in sub-section (1), and
• every such application shall contain such particulars as may be prescribed.

Special point :
Dealer shall be deemed to be liable to pay tax under the sales tax law of appropriate State notwithstanding that under such law a sale or purchase made by him is exempt from tax or a refund or rebate of tax is admissible.

Furnishing of security

• Where it appears necessary to the authority
• to whom an application is made u/s 7(1) or 7(2)
• for the proper realisation of CST or for the proper custody & use of the forms
• he may, by an order in writing and for reasons to be recorded,
• impose as a condition for the issue of a certificate of registration
• that the dealer shall furnish in prescribed manner and prescribed time
• specified security
Grant of Registrarion certificate :

✓ Authority is satisfied
✓ that application is as per Act and rules
✓ and condition, if any, imposed of security has been complied with
✓ he shall register the applicant &
✓ grant to him a certificate of registration in the prescribed form
✓ which shall specify the class or classes of goods for the purposes of sec 8(1)

Furnishing of security/Additional security after issue of Registration certificate

• Where it appears Necessary to the authority
• For proper Realisation of CST or for proper custody & use of forms
• He may
• At any time while certificate is in force
• By an order in writing and for reasons to be recorded,
• Require the dealer, to whom the certificate has been granted,
• To furnish within specified time and in prescribed manner
• Such Security or such Additional security

No dealer shall be required to furnish any security or additional security unless he has been given an opportunity of being heard.

Quantum of security

The amount of security shall not exceed—

(a) Dealer other than a dealer who has made an application, or who has been registered in pursuance of an application, under sub-section (2),
= CST payable Estimated turnover of dealer for the year as per estimate of such authority

(b) Dealer who has made an application, or who has been registered in pursuance of an application, under sub-section (2),
= CST leviable, on sales to dealer in course of inter-state trade or commerce in the year in which such security or, as the case may be additional security is required to be furnished, had such dealer been not registered under this Act.in accordance with the estimate of such authority
Death / Insolvency of surety
- Where the security furnished by a dealer
- is in form of a surety bond and
- Surety becomes insolvent or dies
- Dealer shall, within 30 days
- Of Insolvency or Death
- Inform the authority and
- Shall within 90 days
- Furnish a fresh surety bond or other security in prescribed manner for same amount

Forfeiture of security
- The Authority
- May by order and for good and sufficient cause
- Forfeit the whole or any part of the security,
- For realising any amount of tax or penalty payable by the dealer
- If dealer is found to have misused any of forms or have failed to keep them in proper custody:

Provided that no order shall be passed without giving the dealer an opportunity of being heard

Insufficiency of security
- Where by reason of forfeiture,
- Security furnished by any dealer is rendered insufficient,
- he Shall make up the Deficiency
- In Prescribed manner and time

Refund of security
- Authority May,
- On Application by the dealer
- Order Refund of security or part of security
- If not required for the purposes of this Act.

Appeal against order of Authority
- Any person aggrieved by an order passed u/s (2A), u/s (3A), u/s (3D) or u/s (3G)
- May, within 30 days of the service of the order on him,
- But After furnishing the security,
- Prefer, in Prescribed form & manner
- An Appeal against such order to Appellate authority
Special point:
1. **Appeal after 30 days**
   Appellate authority may, for sufficient cause, permit such person to present the appeal
   (a) After the expiry 30 days or
   (b) Without furnishing the whole or any part of such security.

2. The order passed by the appellate authority in any appeal under sub-section (3H) shall be final.

**Amendment & Cancellation of Registration**

**Amendment of Registration**

1. **Application**; By Dealer or **Suo moto**, after due notice to dealer

2. **Authority**; By **Authority which granted** certificate of registration

3. **Reasons** : Change of Name, Place, Nature of Business or Class of Goods or other Reason

**Cancellation of Registration**

**On Application by Dealer**

1. **Manner** : Prescribed manner
2. **Time period** : Upto 6 months before end of a year
3. **Authority** : **Authority which granted** certificate of registration
4. **Conditions** : Provided dealer is not liable to pay CST
5. **Effect** : Cancellation shall have effect from the **End of year**.

**Cancellation Suo Moto**

1. **Authority** : **Authority which granted** certificate of registration
2. **Notice** : Due notice to dealer
3. **Reasons** :
   a) Dealer has ceased to carry on business or
   b) Dealer ceased to exist or
   c) Dealer has failed without sufficient cause, to comply with an order u/s (3A) or (3C) or (3E) or
   d) Dealer failed to pay any tax or penalty payable under this Act
   e) Dealer registered under sub-section (2) has ceased to be liable to pay tax under the sales tax law of
      the appropriate State
   f) or for any other sufficient reason.
Sec 6A : **Burden of proof in case of transfer of goods claimed otherwise than by way of sale.**

1. **Conditions :**
   - Burden of proving shall be on that dealer and
   - He Shall furnish to assessing authority,
   - Within prescribed time/further time
   - Declaration, duly filled and
   - Signed by principal officer, or his agent or principal
   - containing the prescribed particulars in the prescribed form
   - obtained from prescribed authority,
   - along with evidence of despatch of such goods

2. **Failure to furnish declaration** : If the dealer fails to furnish such declaration, then, the movement of such goods shall be deemed as inter state sale

3. **Order of Assessing Authority**
   - If the assessing authority is satisfied
   - after making such inquiry as he may deem necessary
   - that the particulars contained in the declaration are true,
   - he may make an order to that effect and
   - thereupon movement of goods to which the declaration relates
   - shall be deemed to have been occasioned otherwise than as a result of sale.

**Special point** : Assessing authority in relation to a dealer, means the authority for the time being competent to assess the tax payable by the dealer under this Act.
MCQ
OF
VAT & CST

MULTIPLE CHOICE QUESTIONS

VALUE ADDED TAX

(1) VAT is a tax on the-
   (a) Intrastate sale of goods
   (c) Interstate sale of goods
   (b) Interstate purchase of goods
   (d) Impart of goods

Ans. (a)

(2) For the first time, VAT was proposed as turnover tax for in ____________
   (a) Japan; 1921
   (c) Germany; 1919
   (b) Belgium; 1919
   (d) South Korea; 1921

Ans. (c)
(3) VAT was first introduced at international level in –
   (a) India  (b) USA  (c) France  (d) UK.
   Ans.(c)

(4) The first State to introduced VAT w.e.f 1st April, 2003 was-
   (a) Maharashtra  (b) Punjab  (c) Haryana  (d) Karnataka.
   Ans.(c)

(5) VAT was suggested for the USA by –
   (a) Professor Siemens  (b) Professor Thomas S. Adams  (c) Professor J. Batty Robert  (d) N. Anthony
   Ans.(b)

(6) VAT is imposed only on the amount of –
   (a) Full sale price of goods  (b) Purchase price of goods  (c) Value addition measured by deducting price from sale price  (d) Manufacturing cost of the goods purchase
   Ans.(c)

(7) The white paper on state level VAT in India consists of –
   (a) Justification of VAT and Background  (b) Design of state level VAT  (c) Steps taken by the states  (d) All of the above
   Ans.(d)

(8) Under VAT the general rates are -
   (a) 0%, .1%, .2%, .3% + Surcharge  (b) 0%, 1%, .4%, .12.5% with no additional tax or surcharge  (c) 0%, .1%, .2%, .4% with no additional tax or surcharge  (d) 0%,.1%,.4%,.12.5% + surcharges
   Ans.(b)

(9) Which of the following is not a rate of VAT as per the White Paper on VAT -
   (a) 0%  (b) 4%  (c) 10%  (d) 20%
   Ans.(c)

(10) The general VAT rate under VAT system is -
   (a) 1%  (b) 2 %  (c) 4%  (d) 12.50%
   Ans.(d)

(11) Vat rate applicable on unprocessed agricultural goods is-
   (a) 0 %  (b) 1%  (c) 4 %  (d) 12.5%
   Ans.(a)

(12) Vat rate applicable on capital goods is-
   (a) 0 %  (b) 1%  (c) 4 %  (d) 12.5%
   Ans.(c)

(13) Vat rate applicable on luxury goods is-
   (a) 12.5%  (b) 1%  (c) 4%  (d) 20%
   Ans.(d)

(14) The special rate is meant for precious stones, bullion, gold and silver ornaments, etc. under VAT system is -
   (a) 1%  (b) 2%  (c) 4%  (d) 12.5%
   Ans.(a)
(15) VAT doesn't apply to –
   (a) Foods
   (c) Petrol
   (b) Cloths
   (d) All of the above
   Ans.(c)

(16) Tax is levied under VAT at : 
   (a) Last stage of sale
   (c) First stage of sale
   (b) Multi Stage
   (d) First and last stage of sale
   Ans.(b)

(17) Choose the correct answer- 
   (a) VAT is a single point tax
   (b) VAT is a tax on goods as well as services
   (c) Goods subjected to VAT are not taxed again on sale thereof
   (d) VAT is levied on the full sale price subsequent
   Ans.(b)

(18) Under VAT levy, in respect of local purchases of business inputs, a dealer pays _
   (a) Output tax
   (b) Input tax
   (c) Last point tax
   (d) First point tax.
   Ans.(b)

(19) VAT is-
   (a) First point tax
   (b) Last point tax
   (c) Single point tax
   (d) Multi-point tax.
   Ans.(d)

(20) Choose the correct difference between sales tax system and VAT system.
   (a) Sales tax is levied on the full sale price but VAT is levied on half sale price.
   (b) Sales tax is a multi-point tax but VAT is a single point tax.
   (c) Goods subjected to sales tax are not taxed again on subsequent sale but Goods subjected to VAT are taxed again on each and every sale.
   (d) All of the above.
   Ans.(c)

(21) A manufacturer sells a product for `400. While the product passes through wholesalers, it is sold ultimately in retail for `1,000. The sales tax rate is 4. There is a single point tax on first sale. Therefore the Government looses-
   (a) `32
   (c) `40
   (b) `16
   (d) `24
   Ans.(d)

(22) Under VAT, sales tax is charged at the time of –
   (a) First sale
   (b) Last sale
   (c) Every sale
   (d) First subsequent sale
   Ans.(c)

(23) Under VAT system credit will be admissible of –
   (a) Custom duty
   (b) Central sales tax on inter-state purchases
   (c) Service tax
   (d) VAT imposed on purchases made with in state
   Ans.(d)

(24) XYZ Mfg. Co. Ltd. have balance in the input tax credit a/c `10,900. The selling price of the goods is `4,08,000 and cost to purchaser is `4,24,320. What is the amount of VAT payable in cash by the XYZ mfg.co Ltd.
   (a) `10,900
   (c) `5,420
   (b) `16,320
   (d) Nil
   Ans.(c)

(25) Under Gross product variant of VAT, VAT credit/set off/ deduction is allowed only of VAT paid on ……………
   (a) Purchase of plant & machinery
   (b) Raw material
   (c) Non capital inputs
   (d) (b) and (c) both
   Ans.(d)
(26) Under gross product variant of VAT, capital goods are-
(a) Taxed twice
(b) Taxed at lower rate
(c) Not taxed
(d) (b) or (c)  \[ Ans.(a) \]

(27) VAT credit ______ due to less payment of VAT on sales.
(a) Is not allowed
(b) Reduces the working capital needs
(c) Increase the sale price of the goods
(d) Increases the working capital needs  \[ Ans.(b) \]

(28) Choose the correct answer in respect of Income Variant of VAT -
(a) VAT credit helps in modernization and upgradation of plant & machinery
(b) VAT credit reduce the working capital requirements
(c) There is uncertainty in computation of VAT credit on Plant & Machinery
(d) All of the above. \[ Ans.(d) \]

(29) Under consumption variant of VAT, 100 VAT credit/set off/deduction is allowed of VAT paid on-
(a) Raw Material
(b) Purchase of Plant & Machinery
(c) Non-capital goods
(d) All of the above \[ Ans.(d) \]

(30) Which variant of VAT, is the most widely used variant-
(a) Income variant
(b) Gross product variant
(c) Consumption variant
(d) Profit variant \[ Ans.(c) \]

(31) Which of the following is not a method of VAT computation- \[ (Dec. 2014) \]
(a) Subtraction method
(b) Addition method
(c) Tax credit method
(d) Output method. \[ Ans.(d) \]

(32) Which of the following is a method of computation of VAT - \[ (June, 2015) \]
(a) Gross product method
(b) Income method
(c) Consumption method
(d) Tax credit method. \[ Ans.(d) \]

(33) Under .................method of VAT levy in India, the rate of tax is applied to the difference between the value of output and the cost of input \[ (June, 2015) \]
(a) Invoice
(b) Addition
(c) Subtraction
(d) Tax credit. \[ Ans.(c) \]

(34) Under the addition method for computation of VAT liability, value added is -
(a) Sale price - purchase price
(b) Vat on sales - VAT on purchases
(c) Factor payment + profit
(d) VAT on purchases + Profit \[ Ans.(c) \]

(35) Under the invoice method for computation VAT liability, VAT payable is -
(a) Sale price - Purchase Price
(b) VAT on sales - VAT on purchases
(c) Factor payments + Profit
(d) VAT on purchases + Profit \[ Ans.(b) \]

(36) A manufacturer ‘A’ of Delhi extracted raw produce X from mines at `25,000 and sold the same at 150 of cost to manufacturer “B” of Delhi. Find out the amount of VAT payable by “A” under the invoice method of computation of VAT (VAT rate is 4%):
(a) `2,500
(b) `1,000
(c) `1,500
(d) Nil \[ Ans.(c) \]
(37) What would be the amount of VAT payable in the above case, if “B” sold the same to wholesaler “C” of Delhi at 100 above his cost? :

(a) ` 3,000  
(b) ` 1,500  
(c) ` 2,500  
(d) Nil  
Ans.(b)

(38) Under subtraction method for computation of VAT liability, value added is -

(a) Sale - Purchases  
(b) VAT of sales - VAT on purchases  
(c) Factor payments + profit  
(d) VAT on purchase price + profit  
Ans.(a)

(39) Choose the correct statement -

(a) VAT is not inflationary in nature  
(b) VAT is inflationary in nature  
(c) VAT increases retail sale price  
(d) All of the above  
Ans.(a)

(40) Value added inclusive of VAT is ` 2,08,000 and VAT rate is 4. Find out the VAT liability under subtraction method.

(a) ` 8,320  
(b) ` 2,000  
(c) ` 8,000  
(d) ` 4,000  
Ans.(c)

(41) Under Vat, input tax credit is allowed of the following

(a) Excise duty  
(b) Custom duty  
(c) Central sales tax  
(d) Local sales tax  
Ans.(d)

(42) Mr. X purchases a product for ` 5,000 and sells the same for ` 6,000. The said prices are exclusive of sales tax/VAT. The VAT rate is 4%. Compute the VAT liability.

(a) 40  
(b) 240  
(c) 200  
(d) 440  
Ans.(a)

(43) Mr. X purchases a product for ` 5,200 and sells the same for ` 16,640. The said prices are inclusive of sales tax/VAT. The VAT rate is 4%. Compute the VAT liability.

(a) 200  
(b) 440  
(c) 840  
(d) 640  
Ans.(b)

(44) The rate of Central Sales Tax is –

(a) 2%  
(b) 4%  
(c) 5%  
(d) 1%  
Ans.(a)

(45) Mr. X, a manufacturer, purchased raw material for ` 1,10,000 (inclusive of 10 VAT) and capital goods for ` 5,62,500 (inclusive of 12.5 VAT). The manufacturing and other expenses (excluding depreciation) are ` 1,17,000. He sells the resultant product at 80 above cost (VAT on sales is 20). Ascertain the VAT payable in cash as per Gross Product Variant.

(a) ` 1,18,745  
(b) ` 97,495  
(c) ` 50,620  
(d) ` 1,28,745  
Ans.(a)

(46) Mr. X, a manufacturer, purchased raw material for ` 1,10,000 (inclusive of 10 VAT) and capital goods for ` 5,62,500 (inclusive of 12.5 VAT). The manufacturing and other expenses (excluding depreciation) are ` 1,17,000. He sells the resultant product at 80 above cost (VAT on sales is 20%). The capital goods are to be depreciated at 25% straight line. Ascertain the VAT payable in cash as per Income variant.

(a) ` 1,18,745  
(b) ` 97,495  
(c) ` 50,620  
(d) ` 1,28,745  
Ans.(b)
(47) Mr. X, a manufacturer, purchased raw material for ₹ 1,10,000 (inclusive of 10 VAT) and capital goods for ₹ 5,62,500 (inclusive of 12.5% VAT). The manufacturing and other expenses (excluding depreciation) are ₹ 1,17,000. He sells the resultant product at 80 above cost (VAT on sales is 20%). The capital goods are to be depreciated at 25% straight line.

Ascertain the VAT payable in cash as per consumption variant.

(a) ₹ 1,18,745  (b) ₹ 97,495  (c) ₹ 50,620  (d) ₹ 1,28,745

Ans.(c)

(48) X Co. furnishes you the following information: Raw material purchased at ₹ 5,00,000 plus VAT @ 4. Manufacturing expenses (revenue nature) ₹ 2,00,000. Sale price ₹ 8,00,000 plus VAT @ 4%. Plant & machinery acquired ₹ 2,50,000 plus VAT @ 4% eligible for input tax credit in the year of acquisition itself. Compute VAT liability under: Gross product variant.

(a) ₹ 12,000  (b) ₹ 2,000  (c) ₹ 50,620  (d) ₹ 14,000

Ans.(a)

(49) X Co. furnishes you the following information: Raw material purchased at ₹ 5,00,000 plus VAT @ 4. Manufacturing expenses (revenue nature) ₹ 2,00,000. Sale price ₹ 8,00,000 plus VAT @ 4%. Plant & machinery acquired ₹ 2,50,000 plus VAT @ 4% eligible for input tax credit in the year of acquisition itself. Compute VAT liability under: Consumption variant.

(a) ₹ 12,000  (b) ₹ 2,000  (c) ₹ 32,000  (d) ₹ 14,000

Ans.(b)

(50) Mr. X, a manufacturer, purchased a raw material for ₹ 3,30,000 (including 10% VAT) and plant and machinery for ₹ 5,00,000 (VAT Nil). The manufacturing and other expenses (including building hire charges, wages, etc.) are ₹ 4,50,000. He sells the resultant products at 80% mark-up above cost (VAT on sales is @ 4%). Depreciation on plant and machinery is @ 10% straight line. Ascertain the VAT payable adopting the addition method.

(a) ₹ 45,600  (b) ₹ 30,000  (c) ₹ 15,600  (d) ₹ 75,600

Ans.(a)

(51) Ms. Vivitha, a registered dealer in Tamil Nadu, bought 10 units of raw material - A from another registered dealer in the same State for a sum of ₹ 73,500 inclusive of 5 VAT. She sold the same to a consumer in Tamil Nadu at a profit of 30% on selling price. Net VAT liability payable to the State Government is - (June, 2015)

(a) ₹ 1,000  (b) ₹ 2,050  (c) ₹ 2,050  (d) None of the above.

Ans.(d)

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

(a) ₹ 1,63,125  (b) ₹ 1,45,000  (c) ₹ 1,63,125  (d) ₹ 18,125

Ans.(a)

(53) Compute the VAT amount payable by Mr. A who purchases goods from a manufacturer on payment of ₹ 2,25,000 (including VAT) and earns 10% profit on sale to retailers. VAT rate on purchase and sale is 12.5%.

(a) ₹ 27,500  (b) ₹ 25,000  (c) ₹ 2,500  (d) ₹ 5,000

Ans.(c)

(54) The following is not an advantage of VAT.

(a) Certainty  (b) Transparency  (c) Simplicity  (d) Regressive

Ans.(d)

(55) Input tax credit is allowed to -

(a) Registered dealer  (b) Unregistered dealer  (c) Composite dealer  (d) None of these

Ans.(a)
(56) Which of the following is not eligible for input tax credit -

(a) Purchases made in the course of inter-State trade
(b) Purchase for zero rated intra-State sales
(c) Purchase for intra-State trade
(d) Purchases for execution of intra-State works contract.

Ans. (a)

(57) In which of the following case, input credit is available -

(a) Inter-State purchase
(b) Goods imported
(c) Goods lost by fire
(d) Goods sold to unregistered dealer.

Ans. (d)

(58) The following purchases are not eligible for input tax credit:

(a) Purchases of goods for resale within the state
(b) Purchases of goods for resale outside the state
(c) Purchases of goods from Composite dealer
(d) Purchases of goods to be used as containers or packing materials required for the purpose of manufacture of taxable goods

Ans. (c)

(59) The following purchases are not eligible for input tax credit:

(a) purchases from unregistered dealers;
(b) purchases of goods from other states viz. interstate purchases;
(c) purchases from registered dealer who opts for composition scheme under the provisions of the Act;
(d) All of these.

Ans. (d)

(60) Compute the VAT liability of Mr. Kapoor for the month of October, using the 'Invoice method' of Computation of VAT.

Purchases from the local market (Includes VAT @ 4)
Storage cost incurred
Transportation Cost
Goods sold at a margin of 5 on the cost of such goods.

VAT rate on Sales 12.5%.

(a) `8,531
(b) `6,031
(c) `76,781
(d) `2,500

Ans. (b)

(61) Under Vat input tax credit of the tax paid on capital goods is available to-

(a) Manufacturer
(b) Traders
(c) Manufacturer as well as traders
(d) Non of these

Ans. (c)

(62) The White Paper specifies that registration for VAT will not be compulsory for dealers having annual turnover upto

(a) `5,00,000
(b) `10,00,000
(c) `25,00,000
(d) `50,00,000

Ans. (a)

(63) The dealers having turnover upto during the financial year have an option to opt for composition scheme.

(a) `5,00,000 (c)
(b) `10,00,000
`25,00,000
(d) `50,00,000

Ans. (d)

(64) The following persons are not be eligible to opt for composition scheme -
(a) a manufacturer or a dealer who sells goods in the course of inter-state trade or commerce (b) a dealer who sells goods in the course of import into or export out of the territory of India
(c) a dealer transferring goods outside the State otherwise than by way of sale or for execution of works contract (d) All of these.

Ans.(d)

(65) The following dealers are not eligible for composition scheme under VAT -

(a) Dealers who make inter-State purchase (b) Dealers who make inter-State sales
(c) Dealers who make inter-State stock transfer (d) All of the above.

Ans.(d)

(66) The VAT -chain is interrupted when the goods are sold to -

(a) an unregistered dealer, (b) a dealer opting for composition scheme,
(c) a dealer the goods produced by whom are exempt/tax-free, (d) Any of these.

Ans.(d)

(67) Under VAT, exempted goods are same as -

(a) 0% tax rate goods (b) Declared goods
(c) Tax rate not specified (d) None of the above.

Ans.(d)

(68) The registration obtained by a dealer can be cancelled in the following circumstances -

(a) discontinuance of business; or (b) disposal of business; or
(c) transfer of business to a new location; or (d) Any of these.

Ans.(d)

(69) TIN is a………………..numerical code which represents the registration number of a dealer.

(a) 10 digit (b) 11 digit
(c) 9 digit (d) 12 digit

Ans.(b)

(70) Which of the following is true with regard to conducting VAT audit -

(a) Only Practising Company Secretaries can do VAT audit (b) Only non-Practising Company Secretaries can do VAT audit
(c) Practising Company Secretaries can also do VAT audit (d) Non-Practising Company Secretaries can also do VAT audit.

Ans.(c)

(71) The basic document on basis of which input tax credit can be taken under VAT is-

(a) Lorry receipt (b) Bill of entry
(c) Shipping bill (d) Invoice

Ans.(d)

(72) Vat invoice is important because it-

(a) determines the input tax credit; (b) prevents cascading effect of taxes;
(c) assists multi-point taxation on the value addition; (d) All of these.

Ans.(d)

(73) X purchased goods worth `40,000 and paid VAT @ 5%. Later on, after processing and incurring `5,000 further expenses, he sold the goods for `60,000. VAT collected by him 4% . Input VAT and VAT payable by him are -

(a) `2,250; `150 (b) `2,000; `400
(c) `2,000; `2,400 (d) `2,250; `2,400.

Ans.(b)

(74) The correctness of self-assessment under VAT is checked through a system of-

(a) Departmental audit (b) Internal audit
(c) Secretarial audit (d) Statutory audit.

Ans.(a)
(75) X purchased goods from a manufacturer on payment of ₹4,16,000 (including VAT) and earned a profit of 20% on purchase price. VAT rate on both purchase and sale is 4%. The net VAT payable on sale price is -
(a) ₹ 16,000  
(b) ₹ 6,400
(c) ₹ 3,200  
(d) ₹ 19,200  
Ans.(c)

(76) X & Co. purchased goods during the month of January, 2015 :
(i) ₹ 1,20,000 at 4% VAT
(ii) ₹ 2,50,000 at 12.5% VAT
Sold goods during the month:
(i) Sale of ₹ 3,50,000 at 4% VAT
(ii) (ii) Sale of ₹ 3,00,000 at 12.5% VAT
The eligible input tax credit and VAT payable for the month is -
(a) ₹ 36,050 and ₹ 31,250 respectively  
(b) ₹ 36,050 and ₹ 15,450 respectively
(c) ₹ 31,050 and ₹ 18,800 respectively 
(d) ₹ 36,050 and ₹ 14,000
Ans.(b)

(77) Under which method of computation of VAT, the tax rate is applied to the difference between the value of output and the cost of input -
(a) Tax credit method 
(b) Bonus method
(c) Addition method 
(d) Subtraction method.  
Ans.(d)

(78) The revenue neutral rate of VAT means the rate of -
(a) 1%  
(b) 4%
(c) 20%  
(d) 12.50%
Ans.(d)

(79) For goods transferred between branches located in other State, the input tax credit for goods transferred is reduced by -
(a) 3%  
(b) 2%
(c) 5%  
(d) Nil
Ans.(b)

(80) 'Zero rate' sale is advantageous than 'exempt sale' in VAT, since the zero rate sale is -
(a) Exempt from VAT levy 
(b) Eligible for refund of VAT on inputs used
(c) Export sale 
(d) Unsaleable goods.  
Ans.(b)

(81) Balaji bought raw material by paying VAT of ₹20,000. He produced a different commodity which is exempt from VAT. He is eligible for refund of VAT paid on raw material to the extent of -
(a) ₹ 20,000  
(b) Nil
(c) ₹ 10,000  
(d) ₹ 5,000
Ans.(b)

(82) (i) Input tax credit availed during the month of April, 2017 is ₹20,500; (ii) Output tax payable for April, 2017 is ₹16,000; (iii) CST payable on inter-State sales for April, 2017 is ₹3,800.
From the above, amount of VAT credit that can be carried over to next month is _
(a) ₹ 4,500  
(b) Nil
(c) ₹ 700  
(d) None of the above.
Ans.(c)

(83) Which method of VAT computation is generally adopted by the Indian States -
(a) Tax credit method 
(b) Addition method
(c) Subtraction method 
(d) Bonus method.  
Ans.(a)

(84) Within how many….. days, a new dealer having reached turnover above the threshold limit must apply for VAT registration -
(a) 10 Days  
(b) 30 Days
(c) 15 Days  
(d) 60 Days  
Ans.(b)
(85) A registered dealer exported goods outside India. He paid `15,000 as VAT on raw materials used in manufacture of goods exported. The VAT so paid is -

(a) Not eligible for refund  
(b) Not eligible for adjustment against input tax  
(c) Deductible as business expenditure  
(d) Eligible for refund or adjustment against input tax

Ans.(d)

(86) VAT on which of the following goods is not eligible for input tax credit -

(a) Sugar  
(b) Textiles  
(c) Tobacco  
(d) Aviation turbine fuel.

Ans.(d)

(87) Manohar & Co. paid input VAT at 13.5% on raw materials. It transferred the manufactured goods to its branch in Andhra Pradesh. How much claim of VAT input is allowed -

(a) Nil  
(b) 14 %  
(c) 11.5%  
(d) 2 %

Ans.(c)

(88) Reverse credit of input tax of VAT would arise when –

(a) VAT is refunded  
(b) Input VAT is adjusted against output VAT  
(c) Input tax credit is reduced to rectify wrong availed  
(d) None of the above credit

Ans.(c)

(89) Prakash purchased yam liable for VAT at 4% and manufactured cloth which was exempt from VAT in the State of Tamil Nadu. He wants to claim refund of VAT paid on input, i.e., yam. For refund of VAT, he is -

(a) Not eligible, since VAT chain is broken  
(b) Eligible for refund  
(c) Eligible for only 50% of VAT paid  
(d) Eligible for refund on producing

Ans.(a)

(90) Which method of VAT computation has been adopted in India -

(a) Subtraction method  
(b) Addition method  
(c) Tax credit method  
(d) Income variant.

Ans.(c)

(91) Input tax credit under VAT shall be allowed to -

(a) Registered dealers  
(b) Manufacturers  
(c) Traders  
(d) All of the above

Ans.(a)

(92) Which of the following purchase is not eligible for input tax credit -

(a) Purchase for resale within the State  
(b) Purchase for being used in the execution of works contract  
(c) Inter-State purchase  
(d) Purchase of packing material

Ans.(c)

(93) TIN, a code number used to identify VAT assessee, has 11 digits. The first two digits of TIN represent -

(a) The State  
(b) The Product  
(c) The Region  
(d) The Assessee.

Ans.(a)

(94) Central sales tax is levied by the Central Government but administered by -

(a) Local authorities  
(b) State Government  
(c) Central Board of Excise and Customs  
(d) None of the above.

Ans.(b)

(95) Which article of the constitution amended in relation to central sales for -

(a) Article 286  
(b) Article 386  
(c) Article 486  
(d) Article

Ans.(a)
(96) The Central sales Tax was notified on
(a) 5th Jan 1957  (b) 4th Jan 1957  
(c) 1st Oct 1958  (d) 1st July 1957  
Ans.(a)

(97) Which act empowers the Central Government to appoint an authority to settle disputes in course of inter-state trade & commerce-
(a) CST Act, 1956  (b) CST Act, 2001  
(c) Both a & b  (d) None  
Ans.(c)

(98) Which one is not true about CST Act 1956-
(a) Extend to whole India  (b) Divided into 6 chapters & 26 sections  
(c) Extend to whole India excluding J&K  (d) Goods classified as declared goods  
Ans.(c)

(99) In which Section is " Appropriate state" is defined –
(a) Section 2(a)  (b) Section 2(b)  
(c) Section 2(9)  (d) Section 2(cea)  
Ans.(a)

(100) A dealer includes -
(a) a body corporate  (b) a factor  
(c) a broker  (d) all of the above  
Ans.(d)

(101) Rate of sales tax on sale or purchase of declared goods inside the state does not exceed _
(a) 4%  (b) 5%  
(c) 2 %  (d) 1%  
Ans.(b)

(102) From the following which one is not a declared goods.
(a) Waste  (b) Cotton  
(c) Cotton fabrics  (d) Cotton Yam  
Ans.(a)

(103) On which commodity CST is not levied.
(a) Cotton  (b) Crude oil  
(c) Electric energy  (d) Sugar  
Ans.(c)

(104) The section for exemption on subsequent sales is -
(a) Section 6(2)  (b) Section 6(1A)  
(c) Section 6(1)  (d) Section 8(3)  
Ans.(a)

(105) A subsequent sale is made only to a -
(a) Dealer  (b) Registered Dealer  
(c) Factor  (d) All  
Ans.(d)

(106) Persons effecting the subsequent sales under inter state trade or commerce fills.
(a) Form E-I & Form E-II  (b) Form G  
(c) Form H  (d) Form F  
Ans.(a)

(107) Which form has to be furnished for transfer of goods other than sale -
(a) Form E-I  (b) Form F  
(c) Form H  (d) Form E-II  
Ans.(b)
(108) Maximum limit of Sales Tax for declared goods is
   (a) 1%  
   (c) 3%  
   (b) 2%  
   (d) 5%  
   Ans.(d)

(109) In case of State Vat Rate is 8%, the CST rate for Registered and unregistered dealer is-
   (a) 2% & 2%  
   (c) 2% & 8%  
   (b) 1% & 20%  
   (d) 2% & 12.5%  
   Ans.(c)

(110) From C is issued by the -
   (a) Purchasing dealer  
   (e) Income tax authority
   (b) Selling dealer
   (d) Appellate authority
   Ans.(a)

(111) The exporter to avail exemption for tax on export has to issue which certificate and to whom -
   (a) Form F to sales tax department
   (c) Form H to Income tax department
   (b) Form H to sales tax department
   (d) Form H to Central Excise department
   Ans.(b)

(112) Central sales tax is not payable on the following -
   (Dec. 2014)
   (a) Declared goods  
   (b) Sold in the course of export
   (c) Both (a) and (b) above 
   (d) None of the above.
   Ans.(b)

(113) If a dealer has furnished Form C, he is liable to pay central sales tax at the rate of -
   (Dec. 2014)
   (a) 10%  
   (c) 4%  
   (b) 5%  
   (d) 2%  
   Ans.(d)

(114) Anil of Chennai made sale of goods to B Ltd. of Mumbai who bought the same to meet pre-existing export order. The sale by Anil to B Ltd. is -
   (Dec. 2015)
   (a) Taxable as inter-State sale
   (e) Intra-State sale
   (b) Exempt as deemed export
   (d) Exempted sale.
   Ans.(b)

(115) The principles for determining sales taking place in course of interstate trade or inside or outside state on in the course of import or export are formulated in section -
   (a) Section 3
   (c) Section 5
   (b) Section 4
   (d) All
   Ans.(d)

(116) Conditions supporting a sale as inter-state sale is/ are -
   (a) A sale of goods
   (c) Movement of Goods must be caused
   (b) Transport of goods from on state another
   (d) All of the above
   Ans.(d)

(117) Section Explaining Inter-state sales-
   (a) Section 3
   (c) Section 4
   (b) Section 5
   (d) All
   Ans.(a)

(118) Movement of goods from one state to another by transfer of document of titles is covered under -
   (a) Inter-state transaction
   (e) Inter-state sales
   (b) Transfer of documents
   (d) Transport of Goods
   Ans.(c)

(119) Factors which determine the place of sale for purposes of taxation are.
   (a) Location of ascertained Goods
   (c) Both of above are necessary.
   (b) Place of appropriation of unascertained goods
   (d) Only (a) is a factor
   Ans.(c)
(120) Phased manner to oblige CST will give rise to -
(a) New CST act  
(c) Sales duty  
Ans.(b)
(b) Integrated Goods Service Tax  
(d) All of the above
(121) Which dealers has to get his name registered -
(a) dealer carrying on the business of sale.  
(c) All financial advisor.  
Ans.(d)
(b) dealer carrying on the purchase business.  
(d) Except C, all of the above.
(122) A registered dealer as compared to unregistered dealer has to pay -
(a) Low rate of CST  
(c) Both  
Ans.(a)
(b) High rate of CST  
(d) None
(123) Two types of registration are -
(a) Compulsory Registration  
(c) Both a & b  
Ans.(c)
(b) Voluntary Registration  
(d) None of the above
(124) Dealer carrying out the Inter-state trade and having a turnover of ` 50,00,000 has to apply for -
(a) Compulsory Registration  
(c) Both  
Ans.(a)
(b) Voluntary Registration  
(d) None
(125) A dealer has to get himself registered voluntarily if -
(a) He carries inter state trade  
(c) Dealer has a place in business in state & there is no state sales tax law  
Ans.(d)
(b) He does not carry Inter-state trade but registered dealer under State sales tax law  
(d) Only b&c.
(126) Time limit for applying for compulsory registration is within -
(a) 30 days after 1 year from sale  
(c) 30 days  
Ans.(a)
(b) 30 days from the date of 1st Inter-state sale  
(d) None of the above
(127) Time limit for applying for voluntary registrations is -
(a) 30 days  
(c) 1 year  
Ans.(d)
(b) 6 months  
(d) No time limit
(128) Amount of fee in respect of every application for registration is
(a) ` 25  
(c) ` 50  
Ans.(a)
(b) ` 75  
(d) ` 100
(129) Grant of certificate of registration is in the form of -
(a) Form A  
(c) Form C  
Ans.(b)
(b) Form B  
(d) Form D
(130) Copy of registration certification is required for -
(a) Every place of business within the state  
(c) Every place of business inside & outside India  
Ans.(a)
(b) Every dealer for every branch  
(d) None of the above
(131) When the application for registration is rejected -
(a) Authority not satisfied with particulars  
(c) Dealer fails to furnish the security  
Ans.(d)
(b) Non-payment of fees  
(d) All of the above
(132) A certificate of registration may be amended –
   (a) On the application of dealer
   (b) When authority deems necessary
   (c) Both a & b
   (d) None  \( Ans.(c) \)

(133) On death or insolvency of surety the dealer must inform the authority within -
   (a) 30 days
   (b) 60 days
   (c) Any time
   (d) 90 days  \( Ans.(a) \)

(134) Central sales tax is levied on –
   (a) Gross turnover
   (b) Net turnover
   (c) Taxable turnover
   (d) Anyone of them  \( Ans.(c) \)

(135) From Gross Turnover which of the following is are deducted -
   (a) Sales price of exempted goods
   (b) Sales price of exported goods
   (c) Sales price of goods sold inside a state
   (d) All of the above \( Ans.(d) \)

(136) Sales price of goods returned is deducted if –
   (a) Goods are returned within 6 months
   (b) Goods are returned within 9 months
   (c) Goods are returned within 1 year
   (d) Anyone of the case  \( Ans.(a) \)

(137) Registered dealer under Central Sales Tax Act, 1956 is liable to pay tax at the rate specified in-
   (a) Section 5
   (b) Section 8
   (c) Section 9
   (d) Section 12  \( Ans.(b) \)

(138) Sale price under the Central Sales Tax Act, 1956 does not include-
   (a) Excise duty
   (b) Central Sales Tax
   (c) Packing charges
   (d) Trade discount.  \( Ans.(b) \)

(139) While determining 'turnover' under the central sales tax, what is the time-limit within which the sold goods returned are eligible for exclusion -
   (a) One month
   (b) Six months
   (c) Three months
   (d) Two months  \( Ans.(b) \)

(140) 'Sale price' under section 2(h) of the Central Sales Tax Act, 1956 does not include-
   (a) Excise duty
   (b) Central Sales tax
   (c) Trade discount
   (d) Freight charges when not shown separately.  \( Ans.(c) \)

(141) Which of the following is not a 'declared goods' under the central sales tax -
   (a) Cotton
   (b) Jute
   (c) Sugar
   (d) Jewellery  \( Ans.(d) \)