

BASIC CONCEPTS OF VAT
&
DEFINITIONS OF
IMPORTANT TERMS UNDER
BIHAR VALUE ADDED TAX ACT, 2005

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BASIC CONCEPTS OF VALUE ADDED TAX (VAT)

- What is VALUE ADDED TAX (VAT)?:
 - A general **consumption tax** on the **value added** to the goods and services
 - Applies to all commercial activities involving the production and distribution of goods and the provision of services
 - Borne ultimately by the final consumer
 - **Multi-stage tax** levied only on value added at each stage in the chain of production of goods and services
 - Provision of **set-off for the tax paid** at earlier stages in the chain
 - Objective is to **avoid cascading effect of tax**

BASIC CONCEPTS OF VAT

- Advantages of VAT:
 - Broad coverage –
 - Tax is carried on upto the retail level i.e., the payment of tax is spread out over various stages / wholesalers, retailers etc.
 - Security of revenue –
 - Curtails evasion of tax that used to take place under a General Sales Tax law
 - Cross-audit feature – tax charged by one firm is reported as a deduction by the firms buying from it

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BASIC CONCEPTS OF VAT

- Advantages of VAT (Contd.):
 - Selectivity –
 - Applied to specific goods or business entities
 - Does not burden capital goods as it provides a credit for the tax included in purchases of capital goods
 - Overcome the disadvantages of cascading effect of taxes:
 - Disadvantages of cascading effect –
 - Difficulty to know the real tax content in the price of a product as tax is levied at each stage
 - Tax burden vary widely depending on number of stages
 - Increases costs at each level

BASIC CONCEPTS OF VAT

- Methods of computation of VAT:
 - Subtraction method:
 - Value addition = Value of outputs – Cost of inputs
 - Addition method:
 - Value addition = Sum of amounts payable to the factors of production
 - Tax credit method:
 - Tax on value addition = Difference between taxes on inputs and those of outputs (set-off / credit of input tax from the output tax)
 - VAT = Output Tax – Input Tax
- India has opted for Tax Credit method

BASIC CONCEPTS OF VAT

- An Illustration of VAT:
 - Purchase Price = Rs.1000
 - Tax paid on purchase = Rs.50 (Input Tax)
 - Sale price = Rs.1200
 - Tax payable on sale price = Rs.60 (Output Tax)
 - Input Tax Credit = Rs.50
 - VAT payable = Rs.10

DEFINITIONS OF IMPORTANT TERMS UNDER BIHAR VALUE ADDED TAX ACT, 2005

- Business (Sec. 2(d)) –
 - Any trade, commerce, manufacture or any adventure or concern
 - Whether or not with a motive to make gain or profit
 - Whether or not any gain or profit accrues from such trade, commerce, manufacture or any adventure or concern
 - Any transaction of sale or purchase in connection, or incidental or ancillary to, such trade, commerce, manufacture or any adventure or concern
 - Any transaction in connection with, or incidental or ancillary to, the commencement or closure of such business
- Capital goods (Sec. 2(e)) –
 - Plant, machinery and equipment used in trade or manufacturing of goods

DEFINITIONS OF IMPORTANT TERMS UNDER BIHAR VALUE ADDED TAX ACT, 2005

- Dealer (Sec. 2(i)) –
 - Any person who,
 - regularly or otherwise,
 - in the course of business,
 - buys, sells, supplies, distributes or does anything incidental to such buying, selling, supplying or distributing of goods,
 - Directly or indirectly,
 - Whether for cash, or for deferred payment or for commission, remuneration or other valuable consideration
 - Also includes any person who is –
 - A local authority
 - A Hindu Undivided Family
 - A Company, Society (including coop. Society), club, firm or association
 - An industrial, commercial, banking, or trading undertaking, whether or not, of the Central / any State Governments or of a local authority
 - A casual trader
 - A commission agent, broker, factor, a del credere agent, an auctioneer or any other mercantile agent, by whatever name called, who carries on the business off buying, selling, supplying or distributing goods on behalf of the principal.

DEFINITIONS OF IMPORTANT TERMS UNDER BIHAR VALUE ADDED TAX ACT, 2005

- Declared goods –
 - Goods declared under Section 14 of CST Act, 1956 to be of special importance in inter-state trade or commerce
- Goods –
 - All kinds of movable property
 - Includes livestock, computer software, any electronic chip used for the purpose of storing or transmitting data or voice and all materials, commodities and articles (as such or in some other form)
 - Excludes: ***news papers, electricity, actionable claims, stocks, shares or security***
 - Materials, commodities and articles deemed to be goods –
 - Any materials, commodities and articles –
 - Attached to or forming part of an immovable property which are agreed to be severed under the contract of sale or
 - Sold or supplied as such or in some other form in the execution of works contract, lease or hire-purchase

DEFINITIONS OF IMPORTANT TERMS UNDER BIHAR VALUE ADDED TAX ACT, 2005

- Input (Sec. 2(q)) –
 - Goods (excluding goods specified in Schedule IV) purchased in the course of business –
 - For re-sale
 - For use in manufacture of goods including packing materials
 - For use as capital goods as defined under Sec. 2(e)
- Input Tax (Sec. 2(r)) –
 - Amount paid or payable by a registered dealer, by way of tax under this Act
 - In respect of purchase of any taxable goods

DEFINITIONS OF IMPORTANT TERMS UNDER BIHAR VALUE ADDED TAX ACT, 2005

- Output Tax (Sec. 2(v)) –
 - Tax charged or chargeable
 - in respect of sale or supply of goods made by a registered dealer
- Purchase price (Sec. 2(z)) –
 - Amount paid or payable by a dealer as valuable consideration in respect of purchase of goods
 - Also includes –
 - Any amount charged for anything done by the vendor in respect of the goods at the time of, or before, the delivery thereof
 - Transport costs or freight, if any
 - Trade commission, if any, by whatever name called
 - Clearing, forwarding and handling charges, if any
 - Insurance charges, if any
 - Taxes or duties under any law for the time being in force (other than tax paid or payable under this Act) by whatever name called, if any
 - Cost of packing, if any
 - Amount paid or payable by the purchaser by way of non-refundable deposit, whether by way of a separate agreement or not, in connection with or incidental or ancillary to, the said purchase of goods

DEFINITIONS OF IMPORTANT TERMS UNDER BIHAR VALUE ADDED TAX ACT, 2005

- Sale (Sec. 2(zc)) – means (with all its grammatical variations and cognate expressions) –
 - A transfer of property in goods
 - For cash or deferred payment or for other valuable consideration and includes
 - Transfer of property in any goods for cash, deferred payment or other valuable consideration (otherwise than in pursuance of a contract)
 - A transfer of property in goods (whether as goods or in some other form) involved in the execution of a works contract
 - A delivery of goods on hire-purchase or any system of payment by instalments
 - A transfer of the right to any goods for any purpose (whether or not for a specified period) for cash, deferred payment or other valuable consideration
 - A supply of goods by any unincorporated associate or body of persons to a member thereof for cash, deferred payment or other valuable consideration
 - A supply, by way of or as part of any service or in any other manner whatsoever, of goods being food or any other article for human consumption or any drink (whether or not intoxicating) where such supply or service is for cash, deferred payment or other valuable consideration

DEFINITIONS OF IMPORTANT TERMS UNDER BIHAR VALUE ADDED TAX ACT, 2005

- Sale price (Sec. 2(zd)) –
 - Amount payable to a dealer as valuable consideration for the sale or supply of any goods and includes –
 - Any amount charged for anything done by the vendor in respect of the goods at the time of or before the sale thereof
 - Transport costs or freight, if any
 - Trade commission, if any, by whatever name called
 - Clearing, forwarding and handling charges, if any
 - Insurance charges, if any
 - Taxes or duties levied under any law for the time being in force (other than tax paid or payable under this Act) by whatever name called, if any
 - Cost of packing if any
 - Amount received or receivable by the seller by way of non-refundable deposit, whether by way of separate agreement or not, in connection with or incidental to or ancillary to, the said sale of goods
 - Explanation-I – where goods are sold on hire-purchase or any system of payment by instalments – sale price includes insurance charges, interest and hire charges and such other charges related to hire-purchase or any system of payment by instalments
 - Explanation-II – where goods are sold by way of transfer of right to use such goods – sale price shall be the amount of valuable consideration received or receivable by the transferor for such transfer
 - Explanation-III – Sale price shall not include trade discount allowed by the dealer according to the ordinary trade practice, if any

DEFINITIONS OF IMPORTANT TERMS UNDER BIHAR VALUE ADDED TAX ACT, 2005

- Works Contract (Sec. 2(zh)) –
 - Any agreement, for cash or deferred payment or for other valuable consideration, for carrying out –
 - Construction, fitting out, improvement or repair of any building, road, bridge or other immovable or movable property.

THANK YOU