

FAQ

1. What is VAT?

A. Unlike the name suggest, VAT is NOT a tax on the margin of the business. VAT is a Consumption Tax, meaning, tax on consumption of goods by the consumers. VAT is to be borne by the consumers.

2. What is the similarities and differences between Sales Tax and VAT?

A. Both Sales tax and VAT are Consumption tax. To take an example, if a consumer consumes a goods worth Rs. 100 on which tax rate is 10%, the objective of both the system is to collect Rs 10 (i.e. 10% of Rs 100) to the Government. Both are Indirect Tax, meaning the consumer does not pay the tax to directly the government, but to the business from whom he has purchased the goods. The business remits it to the Government.

In Sales tax, the entire tax collected from the consumer by the dealer is paid by one of the dealer (out of the chain through whom the goods have passed). Chain meaning Chain of business comprising of Manufacturer -Wholeseller - Intermediate - Retailer etc. To take the above example, the said tax of Rs. 10 would be collected from one of the person in the chain, it can be the manufacturer or Wholeseller or the Retailer (depending on the type of Sales tax system in the State). In VAT system, the same Rs 10 would be collected in installments from every dealer in the chain. Each dealer will contribute a portion of the tax in proportion to his margin of operation.

3. Does VAT System increase the incidence of Tax on consumer?

A. No. The tax incidence remains the same.

4. Will VAT system complicate the Book of Accounts to be maintained by the dealer?

A. No. On the Other hand, it will simplify it. A dealer is expected to maintain two registers. Sales Book and Purchase Book. In Sales Book, he would record chronologically sales made and tax collected from the purchaser. In Purchase book, similarly, he will record purchases made and tax paid on such purchases.

5. How will the Net Tax payable be calculated?

A. First, the 'Output tax' is calculated from Sales Book by adding the tax collected from the consumer in respect of sales made in the quarter. Then 'Tax Credit' is calculated by adding the tax paid on purchases made in the same quarter. The Net tax payable is the Output Tax minus Tax Credit. If this value is negative, dealer gets a refund from the department in that quarter.

6. What kind of purchases is eligible for Tax Credit?

A. All business inputs, be it raw material, capital goods, computer, record books or anything which is used by the dealer to conduct his business. However there are two exceptions. Tax Credit can-not be availed in respect of purchase of items used for conducting business of Exempt items. Also there is a list of 'non-creditable purchases' specified in the Seventh Schedule of the A.P. Goods Tax Bill.

7. What is the implication of reduction of CST to zero, as announced by the Chief Minister?

A. It means that if a dealer in Arunachal Pradesh makes a sale to a dealer outside Arunachal Pradesh, no tax will be charged by the Government of Arunachal Pradesh. In addition, if any tax is paid on inputs to produce or trading of the said item, it will be eligible for tax credit.

8. Is any declaration Form required for claiming zero CST for interstate sales?

A. Yes. Sale can be made against any CST declaration form such as C-Form, F-Form, H-Form etc.

9. What is Entry Tax? Will it not make purchases of a dealer in Arunachal more costly?

A. Entry tax is a tax levied on all imports into Arunachal. It is levied on all importers, (whether dealers or consumers) so long as the value of goods imported is more than Rs. 10,000. This entry tax levied is fully VAT-able, i.e., a dealer making resale of such goods or use of such goods in his business, can claim full tax credit of entry tax paid. Thus Entry tax will not be an additional levy on the business, but on the other hand will protect the Arunachal business from the dealers of Assam, who make direct sales to consumers in Arunachal Pradesh. It gives level playing field to honest tax complying dealers.

10. Will Entry Tax not cause hindrance in movement of goods at the borders?

A. Mostly No. The importers will be expected to pre-pay the entry tax due at the Starting locations itself (such as Guwahati) before commencement of movement of goods, and carry the proof of payment. If the goods are imported through 'Approved Road Transporters', entry tax can be paid in Arunachal before taking the delivery of the goods. Such vehicles can pass across the borders without stopping.

11. I make purchases on Inter-state basis. Do I get credit of CST charged on such purchases?

A. No. CST has been charged by the state of origin, and hence, Arunachal government will not give any credit on account of tax charged by the other State Governments.

12. Is Registration compulsory?

A. No. Registration is compulsory only to dealers whose turnover in the year exceeds Rs.5 Lakhs. For other dealers, it is optional.

13. Can VAT system work on items where MRP inclusive of tax is prescribed?

A. Yes. MRP can be inclusive of tax. Tax component and tax exclusive price can be calculated by applying tax fraction $[r/(r+100)]$ where r is the tax rate] on the MRP.

14. Will dealers be allowed to sell their goods without charging sales tax separately ?

A Dealer can include tax on the sale price.

15. How will MRP mentioned on the goods be calculated in the VAT system ?

A. MRP can be inclusive of tax and tax can be calculated by applying tax fraction.

16. Will Central sales tax be abolished ?

A. Central Sales Tax Act will not be abolished because it is required for documentation of Inter-state sales. However, for Inter-state sale made from Arunachal, the CST rate (against C form) shall be zero. (Presently this rate is 4%)

17. Will first point tax end ?

A. Yes, the first point tax would end.

18. Will the entry tax applicable be collected at the State borders ?

A. Normally, entry tax will not be payable at borders. It is to be paid by the importer before he receives delivery of goods. We propose to install Facilitation Counters at rail, roads and airports to provide additional avenues for tax payment.

19. Would entry tax have a negative impact on the imports to the state ?

A. No, entry tax just ensures levy of tax on all goods coming into Arunachal. It does not make imports difficult; on the other hand, it gives level playing field to honest tax complying traders.

20. Would there be uniform tax rates across the states implementing VAT ?

A. Tax system should be such that no trade diversion takes place despite tax differentials. There may exist some differential tax rates for each state implementing VAT. Uniform tax rates takes away the leverage of states to optimize their revenues.

21. Is the tax rate going to be the same all over India ?

A. Yes with minor variations.

22. Are the tax rates the same for all items ?

A. There would be two basic slabs of 4 percent 12.5 percent in which most of the goods will get covered. Apart from this a very few items shall have 1% and 20% tax rate. Essential items like foodgrains etc. shall be exempt.

23. Can dealers below the threshold register ?

A. Yes, Voluntary registration is available.

24. Will RC No. of purchasing dealer be required to be recorded for each transaction?

A. For retail/consumer sale, details of purchaser is not required. Sale to registered dealers, which are to be covered under tax invoices, name and address of purchasing dealer has to be recorded.

25. What if the total sales in the quarter are less than the purchases (and stocks are carried forward in the next quarter)?

A. You can carry forward the net credit in your favour to the next quarter.

26. What if my total tax liability on outputs is less than the tax levied on purchases?

A. You can claim refund after each return.

27. Would dealers be permitted to adjust the tax credit in the next financial year ?

A. Yes, dealers would be allowed to adjust the tax credit in the next year.

28. Will refund be carried forward to the next year ?

A. Yes, you will be allowed to carry forward refund to the next year.

29. Would credit be given on the tax paid on the opening stock on the commencement of the act ?

A. Yes, credit would be given on the tax paid on the opening stock on the commencement of the act.

30. With the implementation of VAT, would dealers be required to keep more working capital ?

A. No. The tax on the stock inventory is to be paid from the tax collected by you on your sales and not from your pocket.

31. What is the frequency of returns ?

A. The frequency of returns is quarterly for those dealers with annual turnover less than Rs.5 crore and monthly for those with annual dealers with annual turnover more than Rs. 5 crore. However, you can choose to file monthly returns even if your turnover is below Rs. 5 crore.

32. By how much time will refunds be paid ?

A. The refund will be paid within 30 days. In case of a delay, interest will be paid on the refund amount.

33. What is the rate of interest in case of delayed refunds ?

A. The rate of interest of late payment is 1 percent. This rate is as prescribed for delayed payment for Income tax/Excise laws.

34. What is the documentation required to be submitted with the return to get refunds ?

A. Normally, proof of exports is required to be submitted with the return to get refunds.

35. Which inputs can I claim set-off of ?

A. Any business inputs which is used to produce a taxable output in Arunachal is allowed for set-off. However, there is a list of items that if consumed even in business process are not allowed for input tax credit.

36. Apart from input credit on raw material would dealers be allowed to claim credit on other costs like labor, overheads ?

A. VAT paid on any business input would be allowed to be set off. Since services are not a part of VAT as of now, no tax is levied on it and no credit allowed. However, in future, when services will be included, full credit shall be given even for service inputs.

37. I am a manufacturer. Goods manufactured by me are both taxable and exempt. How do I do the entries in the Purchase Book when the inputs are purchased ?

A. Inputs (raw material as well as finished goods) that go in exclusively for manufacture of taxable goods are to be put in creditable purchases (provided other conditions are also met). Similarly, inputs that go in exclusively for manufacture of exempt goods are to be put in non-creditable purchases. However, the inputs that go in partially for manufacture of exempt goods and partially for taxable goods, such purchases are to be appropriated in the ratio of taxable : exempt output. Alternatively, you can maintain two separate inventories of such inputs (a) for use in manufacture of taxable goods and (b) for use in manufacturing of exempt goods. Then, all the purchases that are credited into inventory (a) can be claimed credit of and for all others, credit is not allowed.

38. How do I calculate Input Tax credit on purchases against which partial credit is available?

A. If you are using the second method as explained in the last question, you can avail input tax credit of all purchases of input that you credit into the inventory "for use in manufacture of taxable goods" while all the purchases of inputs that are credited to the inventory "for use in manufacture of exempted goods", shall not be entitled for input tax credit.

If you are using the first method, at the end of each quarter, the input tax charged on purchases for which partial credit is available, is to be proportionately divided using the following formula :

$$\text{Credit Allowed} = I * T / (T + E)$$

I : Input tax charged on purchases, for which partial credit is available, made during the quarter.

T : Total sales of taxable manufactured goods made during the quarter and zero rated sales.

E : Total sales of exempt manufactured made during the quarter + revenues from outputs not available under VAT system.

Finally, at the time of filing the last quarter return, you are required to perform the same calculation based on the total value of purchases for which partial credit is available, and total value of sales (of exempted and taxable manufactured goods) made during the year. This will be the total credit allowable for the year (on account of inputs for which partial credit is available). After adjusting the credits already taken in the previous quarters, the remaining credit can be availed in the last quarter.

39. I am making inter-state sales, which type of invoice am I supposed to issue ?

A. Retail invoices are to be issued in case of interstate sales, interstate branch transfers and exports.

40. Keeping in mind the C & H forms requirements, what is the stipulated time for filing self assessment ?

A. With the streamlining of issue of C forms, CST self-assessment can be completed in 6 months after the close of the year. Filing of return is the Self Assessment under the Arunachal Goods Tax.

41. What are the documents required to be submitted for refunds arising in cases of interstate sales ?

A. You have to file a bank Guarantee of the amount of refund claimed in lieu of Central Statutory forms. This Bank Guarantee shall be released whenever you furnish the Central Statutory forms.

42. I make purchases intended for sale on Inter-State basis. Can I avail input tax credits on such purchase ?

A. Yes, on purchases intended for sale on Inter-State basis as well as exports, input tax credits can be availed.

43. What are the timelines for providing refunds ?

A. Refunds would be provided in 30 days from the date of filing returns.

44. Is a guarantee required for refunds ?

A. Normally not. If the documentation with the return is complete (i.e. you file the C/F forms etc.) no guarantee is to be filed. However, in case where the C/F forms etc. are not filed with returns, bank guarantee equal to the amount claimed as refunds is required until the C/F forms are filed.

45. Can we get refunds or only adjustments ?

A. You can avail of either based on your personal choice.

46. What is an Approved Warehouse ?

A. Approved warehouses are authorized warehouses, where a re-exporter can temporarily store the goods, without levy of Entry Tax on it.

47. Would there be entry tax on goods imported for exports ?

A. If goods are not stored in the Approved warehouses, in such cases, entry tax is required to be paid first and then refunded. There are providing provisions for "Approved warehouses" to take care of such cases and thereby solve the case flow problems of the re-exporters.

48. Will we get set-off for Entry Tax on stock transfers ?

A. If you stock your goods (intended for re-exports) in a bonded warehouse, no Entry Tax is levied. Hence there would be no set-offs either (which means that you can bring goods in Arunachal free of Entry Tax, store it in an Approved Warehouse and subsequently branch transfer it again, free of tax). Otherwise also, if you purchase locally /pay entry tax on imports and subsequently branch transfer it, you will get input tax credits on branch transfers also.

49. Should VAT be implemented as long as CST and Entry tax are in force ?

A. VAT is a reform of local tax law, independent of CST, VAT will make Arunachal trade more competitive, irrespective of whether CST rate in Assam and other States is reduced or not. Entry tax is a part of VAT implementation methodology. In fact, VAT can't work without entry tax.

50. Should VAT be implemented in all states simultaneously?

A. VAT is expected to make Arunachal trade more competitive vis-à-vis other states and therefore it is not necessary for us to wait for other states to implement the same.

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50. Should VAT be implemented in all states simultaneously?

A. VAT is expected to make Arunachal trade more competitive vis-à-vis other states and therefore it is not necessary for us to wait for other states to implement the same.

51. Are services included in VAT?

A. Services would be included in future.

52. Will exemptions continue ?

A. Yes exemptions would continue of few commodities.

53. Are there any statutory declaration forms under VAT ?

A. There are no statutory forms under VAT.

54. Would the product classification under each category be uniform ?

A. Yes, we are trying to classify products using a uniform system of nomenclature.

55. Is it possible to use old local sales tax number as new sales tax number for VAT?

A. Yes, it is possible to do the same if your turnover exceeds the threshold value (Rs. 5 Lakhs).

56. Will the new registrants have to give surety ?

A. No, only if you are below the threshold, surety is required.

57. What will be the frequency of filing returns ?

A. Frequency of filing returns would be monthly/quarterly.

58. What is the rate of interest on late payment ?

A. The rate of interest of late payment is 2 per cent. This rate is as prescribed for delayed payment for Income tax/ Excise laws.

59. Would dealers be allowed to print their own stationery of statutory declaration forms ?

A. There are no statutory forms under VAT system. Dealers are allowed to print their own tax invoices.

60. How will management of accounts be easier ?

A. Since all sales would be taxable and all purchases be tax paid, the classification/bifurcation of various kinds of taxable/non taxable sales need not be maintained.

61. What is an invoice ?

A. Invoices are crucial documents for administering VAT because they record each supply of goods, whether taxable exempt. They are to be issued by all registered dealers for each of their sales. An invoice establishes both the tax liability of the supplier and the deduction (credit) to the registered purchaser. There are two kinds of invoices that can be issued under VAT i.e. Tax Invoice & Retail Invoice.

62. What kinds of invoices are required for VAT? Why is the name and address of the printer mandatory?

A. Tax and retail invoices for a registered dealer/ consumer sale respectively is a normal VAT practice. Name and address of the printer is not mandatory.

63. What is a Tax invoice and when can I issue it ?

A. If you are making a local sale to another registered dealer of Arunachal, a tax invoice can be issued. Specially, tax invoice should always mention :

- Identity of the seller (with pre-printed registration number, name & address)
- Identity of buyer (with name & address); and
- Amount charged with the amount of tax charged in the transaction indicated separately.

The purchaser, on the strength of the tax invoice, can claim the benefit of input tax credit of the VAT paid on his purchases. (Provided his purchases are such that credit of the tax paid on them is allowable)

64. What is a Retail Invoice and when can I issue it ?

A. In retail sales, which are much more numerous and of smaller amounts, simplified sale invoices or retail invoices can be issued. Although retail invoice should always identify the seller, indication of buyer's name is optional and tax charged can be included in the sale price. No tax credit can be availed by the purchaser on the strength of a retail invoice.

65. What kinds of books of accounts are required to be maintained under VAT?

A. The VAT book-keeping is very simple and can be kept even by enterprises that do not maintain full books of accounts or do not use double entry accounting.

Taxpayers are essentially required to keep two books:

- Purchases Book ; and
- Sales Book.

These books are a record purchases and sales respectively and are specifically designed for easy calculation of VAT. Simplicity of record keeping is the major objective in designing of these books.

66. Describe the format of the Purchase Book.

A. The Purchase Book is a record required to be maintained by all registered dealers. It should be used to log those purchases against which credit is allowed and those against which credit is not allowed, separately.

67. On which purchases can I not take credit?

A. Credit is not allowable for any purchase used for consumption or producing non-taxable output. Further, purchase of fuel for consumption, food, liquor etc. is also eligible for credit.

68. On which purchases can I take credit?

A. You can take credit on all business inputs that are used to produce taxable output.

69. Describe the format of the Sales Book.

A. The sales book is a record to be maintained by all registered dealers, and is used to record the total volume of sale, and to distinguish between export, exempt, inter-state and taxable sale.

70. In case of original tax invoice being lost will credit be allowed on personal surety and not on duplicate invoices?

A. No, this is normal VAT practice.

71. How will the scrutiny be targeted?

A. Scrutiny would be targeted by using computerized selection.

72. Will there be a compulsory scrutiny for returns filed late?

A. No. Continuous default in returns will lead to increased possibility of scrutiny.

73. Will some of the self-assessed returns be scrutinized ?

A. Yes a small percentage will be selected for audit assessment.

74. Would assessment be conducted at the business premise of the dealers ?

A. Yes, this is normal VAT practice.

75. Is there a provision for revision of assessment order in the Arunachal Goods Tax Bill?

A. Appeal provision is available. There is no need for a parallel alternate forum.

76. With the introduction of Entry tax, would transporters be also required to register for VAT?

A. The liability of Entry tax is on importer. If the importer is a businessman, he gets full credit of the entry tax paid. Transporters will have option to obtain an Approval Certificate from the Tax Department.

77. What will be the responsibility of the transporter?

A. If you are an approved transporter, then before handing delivery you must ensure that the importer has fulfilled liability of Entry Tax. If you are not an approved transporter, then before entering Arunachal, you have to ensure that the importer has fulfilled liability of Entry Tax.

78. What happens if I do not do this?

A. You will be liable for penalty.

79. Are Railways and Airlines also covered under the system?

A. Yes.

80. Are transporters required to file any returns?

A. No.

81. Will there be any assessment / audit of the transporters?

A. Yes, transporters, railways, airlines can be assessed / audited for levy of penalty, if any.

82. Is Input Tax credit available to unregistered declares also?

A. For dealers below the threshold and unregistered, there is no out put tax liability nor any input tax credits. However, if you cross the threshold, you are liable for

output taxes, and can avail input tax credits. If you choose not to register (even after the crossing the threshold), you are liable for penalty and you don't get any refunds.

83. Can a registered dealer claim credits for a purchase from an unregistered dealer?

A. No, you cannot claim credits for purchase from an unregistered dealer. However, there is a special "deemed credit" system for purchases of "second hand" goods from unregistered dealers, if you are in the business of sale/purchase of "second hand" goods.
