

Leaflet - 01

**VALUE ADDED TAX GUIDE**

## **Introduction**

*Value Added Tax (VAT) is a form of sales tax. It is collected in stages on transactions involving sales of goods. Tax paid on purchases (input tax) is rebated against tax payable on sales (output tax). VAT is levied on sales of all taxable goods. VAT is not levied if sales of goods are not made in the course of or in furtherance of business.*

### **01. WHO SHOULD PAY VAT?**

An individual, partnership, company etc., who sells goods in the course of business and who is registered or is required to register for VAT should pay VAT (*See VAT leaflet 02 “VAT & TOT Registration Guide”*).

### **02. WHEN IS VAT CHARGEABLE?**

VAT is chargeable if the sales of goods:

- are made in the State of Andhra Pradesh
- are made by a VAT dealer in the State
- are made in the course of or in furtherance of a business; and
- are not specifically exempt or zero-rated.

### **03. WHAT ARE TAXABLE SALES?**

Sales of goods made in / or from the State of Andhra Pradesh, which are not exempt, are taxable sales.

Sales are outside the scope of VAT if they are

- made by someone who is not a VAT dealer ; or
- not made in the course of or in furtherance of business.

### **04. WHAT OTHER TAXABLE SALES MAY BE LIABLE TO VAT?**

Other than your normal business sales, you should also account for VAT on the following sales:

- a. Sales to your staff or sales from vending machines;
- b. Sales of business assets (e.g. Equipment, furniture, commercial vehicles);
- c. Sales under Hire-purchase agreement or lease of goods to someone else;
- d. Works contracts

### **05. ARE THERE ANY OTHER KINDS OF SALES?**

Apart from taxable sales, there are sales that the Value Added Tax Act, 2005 specifies as exempt.

- 06. HOW DO I KNOW IF MY SALES ARE EXEMPT OR ZERO-RATED ?**  
Exempt sales are listed in Annexure-I and zero-rated sales are listed in Annexure-II to this leaflet.  
**[Remember, any taxable sale that is not exempt, is liable to tax at one of the rates specified in the APVAT Act, 2005.]**
- 07. WHAT IS THE DIFFERENCE BETWEEN EXEMPT AND ZERO-RATED SALES?**  
With both zero-rated sales and exempt sales you don't charge VAT. For zero-rated sales you are eligible to claim a tax credit for the input tax paid on your purchases; whereas for exempt sales you are not eligible to claim a tax credit for the input tax paid on your purchases relating to such exempt sales.
- 08. WHAT IS THE VAT LIABILITY OF BRANCH TRANSFERS AND CONSIGNMENT SALES?**  
Such transactions are exempt from VAT liability, but you are eligible to claim an input tax credit for the tax paid in excess of 4% on inputs.
- 09. WHAT ARE THE RATES OF VAT?**  
There are three main rates of tax. The rates are 1%, 4%, (lower rates) and a standard rate of 12.5%. There will be Special rates on Liquor, Petrol and Diesel.
- 10. HOW DO I KNOW THE RATE OF TAX ON THE GOODS I SELL?**  
All goods not listed in Schedule I, III, IV & VI of the VAT Act 2005, are liable to tax at the standard rate.  
Classification of goods and the rates of tax are listed in the Schedules to the APVAT Act 2005. A VAT dealer can find in these schedules, the rate (s) of tax applicable to the goods sold.
- 11. WHAT IS OUTPUT TAX ?**  
It is the VAT chargeable on all the taxable sales made by a VAT dealer.
- 12. WHAT IS INPUT TAX ?**  
It is VAT charged on your purchases of goods. If you are registered for VAT you can normally claim a credit for the VAT charged on most business purchases.
- 13. CAN I ALWAYS CLAIM CREDIT FOR MY INPUT TAX ?**  
Normally, you are eligible to claim input tax credit on your purchases of:
- raw materials;
  - capital goods eg: machinery, equipment for use in the business;
  - packing material;
  - tools and accessories used in the business; and
  - goods for resale.

However, you cannot claim credit for VAT paid on goods not meant for business and those goods listed in the APVAT Rules 2005.

**14. WHAT ARE THE GOODS ON WHICH I CANNOT CLAIM AN INPUT TAX CREDIT ?**

You cannot claim an input tax credit for the following goods:

- a. All automobiles including commercial vehicles / two wheelers / three wheelers required to be registered under the Motor Vehicles Act 1988 and including tyres and tubes, spare parts and accessories for the repair and maintenance thereof; unless you are in the business of dealing in these goods.
- b. Fuels used for automobiles or used for captive power generation or used in power plants.
- c. Air conditioning units other than those used in plant and laboratory, restaurants or eating establishments, unless you are in the business of dealing in these goods.
- d. Any goods purchased and used for personal consumption.
- e. Any goods purchased and provided free of charge as gifts otherwise than by way of business practice.
- f. Any goods purchased and accounted for in the business but utilized for the purpose of providing facilities to employees including any residential accommodation.
- g. Crude oil used for conversion / refining into petroleum products.
- h. Natural Gas and coal used for power generation.
- i. Any inputs used in construction or maintenance of any buildings including factory or office buildings, unless you are in the business of executing works contracts.
- j. Earth moving equipment such as bulldozers, JCB's and poclain etc., and spares and accessories thereof unless you are in the business of dealing in these goods.
- k. Generators and accessories thereof used for captive power generation unless you are in the business of dealing in these goods.
- l. Goods listed in Schedule VI to the Act.

**15. WHAT IS THE EFFECT ON MY INPUT TAX IF I MAKE TAXABLE AND EXEMPT SALES ?**

If you are making taxable and exempt sales you may only be entitled to claim a credit of input tax for the part related to taxable sales (*see VAT leaflet 04 "What can I claim as credit of Input Tax if I am making sale of Exempt-Goods?"*).

**16. WHAT PROOF DO I NEED TO CLAIM INPUT TAX ?**

You must have an original tax invoice to substantiate a claim for input tax credit. If you do not possess such a document you must obtain one, otherwise you will not be eligible to claim a credit.

**17. HOW DO I CLAIM MY INPUT TAX CREDIT ?**

When you complete your VAT return each month you can claim an input tax credit on that return.

If the claim for input tax credit exceeds the amount of output tax on the return, you are entitled to a refund or to carry forward a credit. You will be able to claim a refund of excess input tax if you make international exports. You can also adjust excess credit against your Tax due under CST Act for the Tax period.

**18. WHAT SHOULD I DO TO OBTAIN FURTHER INFORMATION ?**

You should contact your local Tax Office.

**ANNEXURE – I  
LIST OF GOODS EXEMPT FROM TAX**

<b>S.No.</b>	<b>NAME OF THE COMMODITY</b>
1.	Agricultural implements manually operated or animal driven
2.	Aids and implements used by handicapped persons
3.	Aquatic feed, poultry feed and cattle feed including grass, hay and straw
4.	Betel leaves
5.	Books, periodicals and journals
6.	Charkha, Ambar Charkha and Gandhi Topi
7.	Charcoal
8.	Jowar, Maize, Ragi, Bajra, Kodan, Kutki, Barley, Varigalu or variga rice, Korralu or Korra Rice.
9.	Condoms and contraceptives
10.	Cotton Yarn in hank and silk yarn in hank
11.	Curd, Lussi, Butter Milk and separated milk
12.	Earthen pot
13.	Electrical energy
14.	Firewood other than casuarina poles, eucalyptus logs and cut sizes thereof
15.	Fishnet and fishnet fabrics
16.	Fresh milk and pasteurized milk other than UHT milk and skimmed milk powder
17.	Fresh plants, saplings and fresh flowers
18.	Vegetables & fruits other than those cured, frozen, preserved, processed, dried, dehydrated or canned
19.	Garlic and Ginger
20.	Bangles made of shell, Glass, Lac or Plastic
21.	Handlooms, parts and accessories thereof and goods produced from handlooms
22.	Human blood and blood plasma
23.	Kumkum, Bindi, Alta and Sindur
24.	Meat, Fish, Chicken, Prawn, Prawn seed and other aquatic products when not cured or frozen, eggs, livestock and animal hair

25.	National Flag
26.	Organic manure
27.	Non-judicial stamp paper sold by Government Treasuries; postal items like envelope, post card etc. sold by Government; rupee note, when sold to the Reserve Bank of India and cheques, loose or in book form
28.	Raw wool
29.	Semen including frozen semen
30.	Silk worm laying, cocoon and raw silk
31.	Slate and slate pencils
32.	Tender green coconut
33.	Toddy, Neera and Arrak
34.	Unbranded bread
35.	Unprocessed and unbranded Salt
36.	Water other than- i) aerated, mineral, distilled, medicinal, ionic, battery, de-mineralised water and ii) water sold in sealed container
37.	Prasadam, Bhog or Maha Bhog by Religious Institutions
38.	Plantain Leaves
39.	Bamboo Matting
40.	Puffed Rice, Parched Rice, Murmuralu and Atukulu
41.	Husk of pulses, paddy, groundnut and wheat bran
42.	Leaf plates, leaf cups-pressed or stitched and loose and unstitched vistarakulu
43.	Unbranded broomsticks
44.	Seeds of grass, Vegetables and flowers
45.	Cotton Fabrics, man made fabrics and woollen fabrics
46.	Sugar
47.	Tobacco

Explanation: The goods mentioned in entries 45, 46 & 47 of this schedule shall be goods included in the relevant heads and sub-heads of the 1<sup>st</sup> Schedule to the Additional Duties of Excise (Goods of special importance) Act 1957, but does not include goods where no additional duties of excise are levied under that schedule.

#### **ANNEXURE – II**

##### **TRANSACTIONS ZERO-RATED AND ELIGIBLE FOR INPUT TAX CREDIT**

<b>Sl.No.</b>	<b>DESCRIPTION</b>
1.	Sale of taxable goods in the course of inter state trade or commerce falling within the scope of Section 3 of the Central Sales Tax Act, 1956 .
2.	Sale of goods falling within the scope of Section 5(1) and Section 5(3) of the Central Sales Tax Act, 1956.
3.	Sales of goods to any unit located in Special Economic Zone.