<u>Leaflet 04-C</u>

WHAT CAN I CLAIM AS A CREDIT OF INPUT TAX IF I AM MAKING SALE OF EXEMPT GOODS

This leaflet is meant for VAT dealers who make sale of exempt goods in addition to taxable sales. If you are one such VAT dealer, you should read this leaflet in addition to the leaflet 04 –A.

1. WHAT IS THE AMOUNT OF INPUT TAX CREDIT THAT CAN BE CLAIMED BY ME IF I AM BUYING AND SELLING GOODS IN THE SAME FORM AND USE FEW COMMON INPUTS LIKE PACKING MATERIAL FOR SALES OF TAXABLE AND EXEMPT GOODS?

If you are buying and selling the goods in the same form, you can claim full input tax credit in respect of all taxable goods purchased in every tax period. The adjustment for the input tax credit pertaining to common inputs can be made in the year-end in the return for March.

2. AM I REQUIRED TO MAKE ANY DECLARATIONS OR FILE ADDITIONAL ENCLOSURES ALONG WITH THE TAX RETURN AND HOW DO I MAKE ANNUAL ADJUSTMENT FOR THE COMMON INPUTS?

You are required to make a declaration in the Form VAT 200 D for every tax period along with tax return giving the break up of your turnovers and input taxes. For the common inputs, you shall repay input tax related to exempt element of common inputs after making adjustment in the tax return for March by filing Form VAT 200B for the period of twelve months ending March. In the Form VAT 200B, the eligible input tax credit shall be calculated by applying formula

$$A \text{ x } \frac{B}{C}$$

Where ———

A is the total amount of input tax for common inputs for each tax rate excluding the tax paid on negative list goods.

B is the sales turnover of taxable goods including zero-rated sales

C is the “total turnover” including sales of exempt goods.

3. WHAT IS THE AMOUNT OF INPUT TAX CREDIT THAT CAN BE CLAIMED BY ME IF EXEMPT SALES ARE NEGLIGIBLE?

Where the value of taxable sales is 95% or more of the total value for that tax period, you can claim credit for the full amount of input tax paid on purchases excluding the tax paid on purchase of goods mentioned in negative list. You are not required to file any declaration every month but you should make annual adjustment by filing Form VAT 200 B in the month of March by following the calculation mentioned in answer to Question No.2.

4. WHAT IS THE AMOUNT OF INPUT TAX CREDIT THAT CAN BE CLAIMED BY ME IF TAXABLE SALES ARE NEGLIGIBLE?

Where the value of sales of exempt goods is 95% or more of the total value for that tax period, you cannot claim credit for any input tax paid on purchases. You are not required to file any declaration every month but you should make annual adjustment by filing Form VAT 200 B in the month of March by following the calculation mentioned in answer to Question No.2.

5. HOW DO I CALCULATE THE AMOUNT OF INPUT TAX WHICH I CAN CLAIM AS A CREDIT IF I AM A MANUFACTURER AND MAKE SALE OF TAXABLE GOODS AND SALE OF EXEMPT GOODS BY USING COMMON INPUTS?

If you are a manufacturer and use common inputs for making **taxable sales** and **exempt sales** in a tax period, the amount, which can be claimed as input tax credit for the purchases of the goods at **each tax rate** shall be calculated by the formula

$$A \times \frac{B}{C}$$

Where ———

A is the amount of input tax relating to common inputs for each tax rate for the tax period; excluding the tax paid on negative list goods.

B is the value of taxable sales for the tax period and which shall include value of international exports and value of inter-state sales of taxable goods – B is sum total of Boxes 13 A, 14 A, 16 A, 17 A and 19 A on your VAT return.

C is the total sale turnover which includes exempt sales – C is sum total of Boxes 12 A, 13 A, 14 A, 16 A, 17 A and 19 A on your VAT return.

The result of this calculation is the amount of input tax that can be claimed in Box (7B) and (8B) of your VAT return for the tax rates of 4% and 12.5% respectively. The values related to the tax claimed must be entered in Box (7A) and, (8A) of the VAT return respectively and the balance of the value including the unclaimed input tax entered in box (6A) of the VAT return.

You are required to file an annexure to monthly tax return in Form VAT 200 A. In addition to the monthly annexure, you are required to make an annual adjustment in Form VAT 200B. The excess input credit claimed shall be paid back or the balance input credit eligible can be claimed in the tax return for March.

6. CAN I ADOPT A DIFFERENT METHOD TO CALCULATE INPUT TAX CREDIT?

If you are able to establish that specific inputs which are meant for specific output, then you can adopt the following method to arrive at eligible input tax credit every tax period:

1. You can take credit for the full amount of input tax paid on inputs used separately for taxable goods. You need to keep with you evidence in the form of stock registers or other accounts for establishing the above.
2. For the common inputs, you can claim input tax credit by applying the formula Ax B/C for the common inputs used for taxable sale and exempt sales.
3. You are required to file an annexure to monthly return in Form VAT 200A every tax period. In addition to the monthly annexure, you are required to make an annual adjustment in Form VAT 200B. The excess input credit claimed shall be paid back or the balance input tax credit eligible can be claimed in the tax return for March.
4. Please note that once you adopt a particular method to calculate input tax credit, you need to be under that method upto the end of March. However, in case you wish to change the method of calculating input tax credit, you must intimate such option to your jurisdictional authority.

Illustrations: (indicating calculation of eligible Input Tax Credit in different circumstances)

1. Resellers of taxable goods and exempt goods
(VAT dealers following sub rule 4 of Rule 20)

SMT, a Super Bazaar, Registered for VAT is dealing in taxable goods (Soaps, Cosmetics, Food grains etc) and exempt goods (Sugar, milk, vegetables etc). SMT buys and sells these goods in the same form every month and also purchases packing material and other goods required for its business. For a tax period, SMT can claim input tax credit as under:

	PURCHASES (INPUT)		SALES (OUTPUT)	
RATE OF TAX	TURNOVER	VAT PAID	TURNOVER	VAT PAYABLE
4% Goods	1,00,000	4,000	1,20,000	4,800
12.5% Goods	1,00,000	12,500	80,000	10,000
Exempt goods	50,000	NIL	40,000	NIL
4% goods like packing material used as common inputs for both taxable & exempt goods	10,000	400	NIL	NIL
12.5% goods used in business common for both taxable and exempt goods	20,000	2,500	NIL	NIL
TOTAL INPUT TAX		**19,400**	**TOTAL OUTPUT TAX**	**14,800**

Since SMT is buying and selling the goods (taxable goods and exempt goods) in the same form, the input tax paid on common inputs can be fully claimed in that tax period.

VAT payable/Credit carried over = Output tax – Input tax

= Rs.14,800 – Rs.19,400

= (+) Rs.4,600 Credit carried over to next month.

Since SMT has availed full input tax credit on common inputs in the monthly returns:

(i) the VAT dealer should make declaration in the Form VAT 200D for each tax period indicating the details of sales of taxable goods and exempt goods and also details of common input tax and input tax paid on taxable goods meant for sale and input tax claimed in the monthly return. No adjustments need to be made for every tax period.

(ii) the dealer is required to submit a return in Form 200B to repay input tax related to exempt element of common inputs after making adjustment of input tax credit for the period of twelve months ending March for each tax rate.

At the end of March, the turnovers relating to last 12 months are as under: (Adjustments to be made in Form VAT 200B)

1. Total taxable turnover for 12 months : Rs.50.00 Lakhs-B
2. Total sales of exempt goods for 12 months : Rs.10.00 Lakhs
3. Total turnover for 12 months (Sl.No.1+Sl.No.12) : Rs.60.00 Lakhs-C
4. Input tax paid on common inputs & claimed for 12 months on 4% goods : Rs.4,800 -A for 4%
5. Input tax paid on common inputs & claimed for 12 months on 12.5% goods : Rs.30,000-A for 12.5%

SL. No.	DESCRIPTION	4% RATE OF GOODS	12.5% RATE GOODS
1.	Apply calculation	A x B/C 4800x50 lakhs 60 lakhs	A x B/C 30000x50 lakhs 60 lakhs
2.	Eligible input tax credit	4,000	25,000
3.	Input tax credit claimed in returns	4,800	30,000
4.	Balance payable	800	5,000
5.	Adjustment	Pay this amount by including in 4% output box (16B) in Form VAT 200 for March	Pay this amount by including in 12.5% output box (17B) in Form VAT 200 for March

2. Taxable goods & sales of exempt goods lesser values Manufacturers or Resellers
(VAT dealer following sub rule 5 of Rule 20)

RMR, a rice miller, registered for VAT is engaged in converting Paddy into rice and selling the same along with other byproducts. RMR is not having any consignment sales or branch transfers. For a tax period, RMR can claim input tax credit as under:

	PURCHASES (INPUT)		SALES (OUTPUT)	
RATE OF TAX	TURNOVER	VAT PAID	TURNOVER	VAT PAYABLE
4% Goods (Paddy from other traders & gunnies)	1,00,000	4,000	1,50,000 (Rice, broken rice, bran)	6,000
12.5% Goods (Machinery items)	10,000	1,250	NIL	NIL
Exempt goods (Paddy husk)	NIL	NIL	1,000	NIL
TOTAL INPUT TAX	**5,250**		**TOTAL OUTPUT TAX**	**6,000**

VAT payable = Output tax – Input tax
= Rs.6,000 – Rs.5,250
= Rs.750

Since the value of taxable goods is more than 95% of the total sale value, RMR can claim full amount of input tax credit. However, if the value of taxable sales is less than 5% of the total sale value, the VAT dealer should not claim input tax credit for that tax period.

Further, RMR is required to make an adjustment of input tax credit for each tax rate in the month of March for the 12 month period ending March on Form VAT 200B.

At the end of March, the turnovers relating to last 12 months are illustrated below: (Adjustments to be made on Form VAT 200B)

1. Total taxable turnover for 12 months : Rs.80.00 lakhs -B
2. Total sales of exempt goods for 12 months : Rs.50,000
3. Total turnover for 12 months : Rs.80.50 lakhs -C
4. Input tax paid & claimed for 12 months on 4% rate goods : Rs. 48,000 -A for 4%
5. Input tax paid & claimed for 12 months on 12.5% rate goods : Rs. 15,000-A for 12.5% goods

Sl. No	Description	4% rate of goods	12.5% rate of goods
1.	Apply calculation	A x B/C 48000x80 lakhs 80.50 lakhs	A x B/C 15000x80 lakhs 80.50 lakhs
2.	Eligible input tax credit	47,700	14,907
3.	Input tax credit claimed in returns	48,000	15,000
4.	Balance payable	300	93
5.	Adjustment	Pay this amount by including in 4% output box (16B) in Form VAT 200 for March	Pay this amount by including in 12.5% output box (17B) in Form VAT 200 for March

3. Manufacturing & selling taxable goods and exempt goods

(VAT dealer following sub rule 7 of Rule 20)

TEC, a dairy plant is registered for VAT and engaged in production and sales of both taxable goods and exempt goods. The procedure for claiming input tax credit for a month is shown below:

		PURCHASES (INPUT)		SALES (OUTPUT)	
Rate of Tax	Goods	Turnover	VAT paid	Turnover	VAT Payable
4%	Common for taxable and exempt goods	2,00,000	8,000	1,00,000	4,000
12.5%	Common for both taxable and exempt goods	60,000	7,500	NIL	NIL
NIL	Exempt goods	5,00,000	NIL	7,00,000	NIL
TOTAL INPUT TAX			**15,500**	**TOTAL OUTPUT TAX**	**4,000**

VAT payable = Output tax – Input tax (eligible)

To arrive eligible input tax credit, the VAT dealer should make calculation A x B/C in Form VAT 200A for the tax period for each tax rate.

A = Input tax paid for each tax rate

B = Taxable turnover

C = Total turnover (Taxable turnover + turnover of sales of exempt goods)

Sl. No.	Description	4% rate of goods	12.5% rate goods	Total eligible
1.	Input tax paid in the tax period	8000	7500	NIL
2.	Apply calculation	$8000 \times \frac{100000}{800000}$	$7500 \times \frac{100000}{800000}$	NIL
3.	Eligible input tax	1000	938	1938

VAT payable in the tax period : Rs.4000 – Rs.1938

: Rs.2062

NOTE: 1) TEC should submit Form VAT 200A every month, making adjustment of input tax credit to arrive and claim eligible input tax credit for that tax period.

2) Further, TEC should also carry out adjustment of input tax credit for each tax rate for a period of twelve months ending March and submit such details in Form VAT 200B

3) Such adjustment shall be made as below:

a) Any excess claimed in the monthly VAT returns shall be paid back in the return for March by adding it to the appropriate box in the output column for each tax rate.

b) Any balance credit eligible in the monthly returns shall be claimed in the return for March by adding it to the appropriate box in the input column for each tax rate.