

Frequently Asked Questions

Q 1) Can we avail input credit for all purchases like stationery, consumables, machine parts etc., made in Karnataka if our supplier issues a tax invoice, charging VAT?

Q 2) In case our input credit is more than our vat tax payable, what will happen? Will you remit the excess amount by cheque and what is the time to claim such excess amount?

Q 3) Should a dealer opting for Composition scheme furnish the option every month. If not when? Is there any prescribed format for exercising the option of Composition scheme?

Q 4) I am a registered dealer in Karnataka, and I have a branch in Maharashtra. The raw materials are stock-transferred from that branch to Karnataka, and my finished out of this raw material, are sold in Karnataka. Am I eligible for a rebate?

Q 5) Please confirm whether Credit Notes in respect of rebates and allowances to dealers are eligible for reduction from turnover of sales under the Karnataka VAT Act.

Q 6) We are a company where raw materials such as paper and strawboards are procured to manufacture student notebooks for sale. We also buy and sell stationery products. All our procurements are made within the State. The products dealt by us are listed under category of restricted goods under Schedule 5. Since we procure all materials for the purpose of resale, we would like to know whether we are eligible for input tax set off.

Q 7) Please clarify the rate of tax applicable under VAT for manufacture & supply of electronic equipment to Indian Defence establishments against 'Declaration Form'.

Q 8) I understand that a hotelier, restaurateur or caterer has to pay composition tax at 4%. In this connection, I wish to mention that some of the hotels are still collecting 12.5% VAT on the pretext that hotels which are attached with bar, do not come under Composition scheme and, hence, their output VAT is at 12.5%. Please clarify.

Q 9) We are dealing in lab apparatus, chemicals and other equipment required by schools, colleges, industries etc., for their labs. We know that our items are scheduled in two types, one at 4% and the balance items under 12.5% as VAT. Our problem is we deal in a number of chemicals which are used in labs for testing, research etc. As per your notification, certain chemicals are put under one category which is used as industrial input for which the tax is 4% and buyers can take advantage of rebate on such taxes. It is okay if it is used as industrial input, but what if used in pathology labs, college & School labs, hospital labs etc?

Q 10) As per Rule 142, dealers who have opted for Composition are denied benefit of the Composition scheme if the total turnover exceeds Rs.15 lakh within a period of four consecutive quarters and will be liable to pay tax under Section 3 for the period starting from the first day of the month succeeding the month in which he exceeded the threshold. Please clarify if these dealers are eligible for input tax credit on stocks held on the date of becoming regular dealers, since output tax will be required to be paid henceforth, in respect of this stock.

Q 11)

1 (a) Whether an Industry enjoying exemption under KSt & CST Acts so far, can claim exemption/refund on inter-state sale as in local sales as per the new Notification FD 56 CSL 2005(1) dated 18-04-2005?

(b) If so, whether the unit has to collect CST in the inter-state Bill and pay 'net tax payable' after claiming input credit ?

(c) If the CST cannot be collected whether the unit can claim input credit on inter-state sales?

2. Are 'freight charges' collected as post-sale expenses in the VAT Invoice vatable?

Q 12) We are a company, which undertakes painting of furniture items. Our material input in this regard is nil. The material, the paint, thinner for the paint, chemical are all supplied to us by companies. We only undertake painting of the furniture goods given to us. We do not carry on any other activity on the items given to us. Our input is only the labour. We only raise a labour bill for painting charges. Under KST, there was no tax applicable. What is the position under VAT. Moreover, we are registered under VAT, and not under Composition Scheme or Works Contract.

Q 13) We manufacture silk fabrics especially (silk sarees) which are described in Column 2 of I Schedule to the Additional Duties of Excise (goods of special Importance) Act 1957 (Central Act 58 of 1957). All varieties of textiles covered by the above Act are exempt from VAT under item no.4 of the I Schedule to VAT Act. However, the specific mention of silk fabric is not forthcoming. Please clarify as to whether the silk fabric is exempt from VAT under item 4 of the I Schedule to the VAT Act 2003.

Q 14) We are an exporter having registered office in Bangalore and factories in Karnataka, Maharashtra and Andhra Pradesh. Till last year we used to buy materials from the suppliers who are located near our factories and were issuing Form H. Now it seems that for purchases made in Karnataka for our factory in Karnataka, we have to pay input tax and claim rebate. The same is the case with factories in other States too. Question.14 As we have to block input tax at least for 3 months and also the process of getting rebate is cumbersome, we are forced to buy materials for our factories from other States. This involves huge transportation costs besides delay in getting the materials on time. Please clarify whether there is any provision whereby input tax need not be paid for goods purchased locally and meant for export.

Q 15) We are manufacturers of machines and machine parts. We buy raw materials, components, consumable stores, packing materials, which are used in production and packing material (as inputs). We understand that VAT applicable for inputs is 4%, but our suppliers do not agree with VAT at 4%. Instead they are charging 12.5% from April 1. Please let us know whether VAT applicable for inputs is 4% or 12.5%.

Q 16) I am a retail and wholesale cement dealer. As per Rule 29 and 30 of VAT Rules 2005, only two forms of billing is permitted.

(a) Tax invoice for taxable sales to TIN dealers

(b) Sales bill for VAT exempt goods

Q 17) This being the case which invoice should be issued to direct consumers of taxable goods. Tax invoice cannot be issued as they do not have TIN number and sale bill cannot be issued as the goods are not exempt. Kindly clarify.

(a) What each digit indicates in the 11 digit TIN Number?

(b) If we purchased goods locally from the registered dealer and stock-transferred the same to outside the state, what will be the input rebate available. Assume the rate of tax is 12.5%.

ANSWERS

1.) Can we avail input credit for all purchases like stationery, consumables, machine parts etc., made in Karnataka if our supplier issues a tax invoice, charging VAT?

Ans: Subject to the restriction mentioned in the 5th schedule to the VAT Act, all the goods purchased in the course of business for use in business would be eligible for input tax rebate. If those goods purchased find entry under the said schedule, then it would not be eligible for input tax credit. In fact, the return Form in VAT 100 clearly specifies the purchases other than those coming under schedule 5 of the VAT Act.

2.) In case our input credit is more than our vat tax payable, what will happen? Will you remit the excess amount by cheque and what is the time to claim such excess amount

Ans: If the input tax paid is in excess of output tax payable the credit would be carried forward to the next month or you would be eligible for cash refund of the excess input tax.

3.) Should a dealer opting for Composition scheme furnish the option every month. If not when? Is there any prescribed format for exercising the option of Composition scheme?

Ans: The option for Composition would be a permanent feature till the option is revoked by either a law or by a dealer on his own volition. In the first instance, the total turnover exceeding Rs. 15 lakh in a year would make him ineligible to continue under the Composition. Or else, the dealer could choose to opt out due to change of circumstances in business; for instance, if he intends to buy from outside the State etc.

4.) I am a registered dealer in Karnataka, and I have a branch in Maharashtra. The raw materials are stock-transferred from that branch to Karnataka, and my finished products out of this raw material, are sold in Karnataka. Am I eligible for a rebate?

Ans: As for the raw materials received from a branch outside Karnataka, the input tax paid on them in that State would not be eligible for input tax rebate in the State of Karnataka. If the inputs are purchased within the State of Karnataka and are used in the manufacture of goods for sale, then the input taxes paid on the raw materials would be eligible for rebate.

5.) Please confirm whether Credit Notes in respect of rebates and allowances to dealers are eligible for reduction from turnover of sales under the Karnataka VAT Act.

Ans: Details regarding 'credit and debit notes' are given under Rule 31 and 32 of the VAT Rules, the query would be answered if you follow those Rules.

Rule 31 is extracted below for your ready reference:

"Where a registered dealer has given a tax invoice in respect of a sale of goods and thereafter, the goods or any part thereof, are returned to the seller if the sale is cancelled or for any other reason, or the value of the sale is altered, whether due to a discount or otherwise, he shall, subject to the provisions of Section 30, give to the buying dealer a credit or debit note containing the following details, namely,-

- (1) the nature of the document issued;
- (2) a consecutive serial number;
- (3) the date of the issue of the document;
- (4) the name, address and registration number of the selling dealer;

- (5) the name and address of the buyer, together with buyer's registration number, if registered;
- (6) the number and date of the relevant tax invoice;
- (7) the value of the goods and the amount of the tax credited or debited to the buyer; and,
- (8) signature of the selling dealer or his agent."

6.) We are a company where raw materials such as paper and strawboards are procured to manufacture student notebooks for sale. We also buy and sell stationery products. All our procurements are made within the State. The products dealt by us are listed under category of restricted goods under Schedule 5. Since we procure all materials for the purpose of resale, we would like to know whether we are eligible for input tax set off.

Ans: The Fifth schedule read with Section 11 (a) (2) is intended to prevent rebating of input tax paid on certain business inputs which are not for resale or for manufacture or any other process of other goods for sale. Generally in the VAT concept, all the purchases made in the course of business would be entitled to input rebate. In the VAT design set out by the 'Empowered Committee', certain business inputs could be restricted for input rebate. For example, if a dealer buys an air conditioner for use in his business premises, the input tax paid on such business input is not rebatable as per the Fifth Schedule. But if a dealer in air conditioner buys for resale he would be entitled for input tax rebate. Similarly if you procure all the materials for resale you would be entitled to rebate on input paid on the locally purchased goods.

7.) Please clarify the rate of tax applicable under VAT for manufacture & supply of electronic equipment to Indian Defence establishments against 'Declaration Form'.

Ans: The concessional rate of tax under declaration in form D is not available under the VAT regime; the supplies would be liable to regular rate of tax on the commodity under question. Further, even for inter-state sale, the concessional rate is not available from 1-4-2007 as Form D is abolished. The rate of tax applicable for interstate sale to the Defence establishment is the rate applicable under the VAT Act

8.) I understand that a hotelier, restaurateur or caterer has to pay composition tax at 4%. In this connection, I wish to mention that some of the hotels are still collecting 12.5% VAT on the pretext that hotels which are attached with bar, do not come under Composition scheme and, hence, their output VAT is at 12.5%. Please clarify.

Ans: The payment of taxes by way of composition at the rate of 4% on the total turnover is an option available to a hotelier, restaurateur or caterer under Rule 135 of the VAT Rules. The conditions set out under the provision are:

135. A dealer opting to pay tax by way of composition under section 15, shall satisfy the following conditions.

(1) He shall be a dealer registered under the Act or a dealer who has made an application for registration under the Act.

(2) He shall not have any goods in stock which are brought from outside the State on the date he opts to pay tax by way of composition and shall not sell any goods brought from outside the State after such date.

(3) He shall not be a dealer who has claimed tax rebate on stock in hand under section 18 as at the date of commencement of the Act.

(4) He shall not be a dealer selling liquor.

(5) He shall not be a dealer selling goods in the course of inter-State trade or commerce or in the course of export out of the territory of India.

(6) He shall not be a dealer who has withdrawn his option to pay tax by way of composition and (a) has paid tax under section 3 for a period of less than twelve months; or (b) was not registered under the Act during the preceding period of twelve months.

(7) He shall not be a casual dealer or a dealer who is voluntarily registered under Section 23.

As per the said sub-rule (4) mentioned above the dealer running a restaurant is not eligible for payment of tax under Composition scheme and therefore, the liability of tax is at the regular rate of 12.5%, with input tax credit facility and compulsion to charge and collect taxes on sale.

9.) We are dealing in lab apparatus, chemicals and other equipment required by schools, colleges, industries etc., for their labs. We know that our items are scheduled in two types, one at 4% and the balance items under 12.5% as VAT. Our problem is we deal in a number of chemicals which are used in labs for testing, research etc. As per your notification, certain chemicals are put under one category which is used as industrial input for which the tax is 4% and buyers can take advantage of rebate on such taxes. It is okay if it is used as industrial input, but what if used in pathology labs, college & School labs, hospital labs etc?

Ans: Please refer to the list of industrial inputs published on May 1, 2005. In that list 195 items with sub-items have been identified as industrial input for the rate of tax at 4%. Those goods would be liable for rate of tax of 4% irrespective of the end-user identification, that is irrespective of whether the buyer is an industry, retailer or consumer, etc.,. The earlier system of declaration to identify the industrial user has been done away with. The list of chemicals mentioned by the Commercial Taxes department is quite vague. There are hundred and thousands of other chemicals originated from Ammonia, Chlorine, Oxygen and a number of metals such as iron, manganese, lead and so on. Not only that, there are a number of chemical compounds in Organic Chemistry. We cannot enlist that here. The VAT is at 4% on the chemicals you have pointed out, but what about other chemicals which are not enlisted by the department. In our opinion, if it is a chemical whether it is organic or inorganic the rate of tax should be one type, either 4% or 12.5%. Earlier, the KST was 4% and, hence VAT also may be kept at 4%. There is a category as papers of all kinds including blotting, carbon paper etc., but what about filter papers of imported make as well as Indian make, made either by machine or hand? We deal in papers such as testing papers namely litmus paper, starch paper etc., which are made of filter papers. Please clarify the rate of tax on these? The industrial input list released on May 1, 2005 is quite exhaustive and it deals with a wide range of chemicals with Central Excise classification codes. Those goods not identified in that list are taxable at 12.5%. As regards the filter paper, litmus paper etc, the rate of tax is 12.5%.

10.) As per Rule 142, dealers who have opted for Composition are denied benefit of the Composition scheme if the total turnover exceeds Rs.15 lakh within a period of four consecutive quarters and will be liable to pay tax under Section 3 for the period starting from the first day of the month succeeding the month in which he exceeded the threshold. Please clarify if these dealers are eligible for input tax credit on stocks held on the date of becoming regular dealers, since output tax will be required to be paid henceforth, in respect of this stock.

Ans: The entitlement for rebate on the stock held before switching over to the full VAT registration due to turnover restriction under composition is dealt under Rule 146 which reads thus:

“Every dealer whose certificate Form VAT 8 has been cancelled shall be entitled to deduction of input tax allowed subject to the restrictions imposed by section 11, in respect of tax charged to him by a seller on taxable sale of goods made to him for the purpose of the business within three months prior to the effective date of cancellation of his certificate in Form VAT NIC provided that the goods are in stock at such date.”

11.) (a) Whether an Industry enjoying exemption under KSt & CST Acts so far, can claim exemption/ refund on inter-state sale as in local sales as per the new Notification FD 56 CSL 2005(1) dated 18-04-2005?

(b) If so, whether the unit has to collect CST in the inter-state Bill and pay 'net tax payable' after claiming input credit ?

(c) If the CST cannot be collected whether the unit can claim input credit on inter-state sales?

2. Are 'freight charges' collected as post-sale expenses in the VAT Invoice vatable?

Ans: for 1, (a) if an industrial unit is exempted from tax under CST Act as an incentive, the incentive continues under VAT regime also.

(b) The input tax paid on the locally purchased inputs would be available for rebate on the interstate sale of goods under Section 20 of the Act.

(c) In your case the CST payable is nil but input tax is available as per Section 20 of the Act.

With respect to question 2, the freight charges do not constitute part of input or output value, and therefore do not coming under the scope of rebate.

12.) We are a company, which undertakes painting of furniture items. Our material input in this regard is nil. The material, the paint, thinner for the paint, chemical are all supplied to us by companies. We only undertake painting of the furniture goods given to us. We do not carry on any other activity on the items given to us. Our input is only the labour. We only raise a labour bill for painting charges. Under KST, there was no tax applicable. What is the position under VAT. Moreover, we are registered under VAT, and not under Composition Scheme or Works Contract.

Ans: Since the nature of transaction explained above makes it obvious that it is only a labour work and does not involve transfer of any goods, there would not be any liability of tax under the VAT Act, as it was prevalent under the KST Act.

13.) We manufacture silk fabrics especially (silk sarees) which are described in Column 2 of I Schedule to the Additional Duties of Excise (goods of special Importance) Act 1957 (Central Act 58 of 1957). All varieties of textiles covered by the above Act are exempt from VAT under item no.4 of the I Schedule to VAT Act. However, the specific mention of silk fabric is not forthcoming. Please clarify as to whether the silk fabric is exempt from VAT under item 4 of the I Schedule to the VAT Act 2003.

Ans: Silk fabrics is a goods coming under all varieties of textiles and hence not liable to tax under the VAT Act 2003.

14.) We are an exporter having registered office in Bangalore and factories in Karnataka, Maharashtra and Andhra Pradesh. Till last year we used to buy materials from the suppliers who are located near our factories and were issuing Form H. Now it seems that for purchases made in Karnataka for our factory in Karnataka, we have to pay input tax and claim rebate. The same is the case with factories in other States too. As we have to block input tax at least for 3 months and also the process of getting rebate is cumbersome, we are forced to buy materials for our factories from other States. This involves huge transportation costs besides delay in getting the materials on time. Please clarify whether there is any provision whereby input tax need not be paid for goods purchased locally and meant for export.

Ans: The 'H Form' sale continues to be there under VAT regime also, but it is not clear from your query whether you purchase the goods in the course of export or not. If so, all the earlier provisions of the CST Act would continue to apply; If not, the goods purchased are used in the manufacture of goods for export, and then the input taxes paid on the locally purchased goods (within the State of Karnataka) would be subjected to tax in the hands of the seller, and such input tax paid by you on purchases would be eligible for input tax rebate under Section 20 of the VAT Act. However, the input taxes paid on the outside state purchases would not be liable for rebate under the VAT Act. The input taxes paid during a tax period, namely a month, would be entitled to rebate during that month only, whether it is subjected to the process or not. Since the output taxes are zero for export, the facility of cash refund of excess input tax credit on a month on month basis is provided under Rule 128 of the VAT Rules.

15.) We are manufacturers of machines and machine parts. We buy raw materials, components, consumable stores, packing materials, which are used in production and packing material (as inputs). We understand that VAT applicable for inputs is 4%, but our suppliers do not agree with VAT at 4%. Instead they are charging 12.5% from April 1. Please let us know whether VAT applicable for inputs is 4% or 12.5%.

Ans: Under entry SI.no. 34 in the III schedule to the VAT Act, there is this mention that 'industrial inputs and packing materials as may be notified.' In the absence of a specific mention of the raw materials and packing materials, it is difficult to answer your query. It suffices if it is clarified that the industrial inputs listed in the notification along with HSN code. All the goods falling under this list would be liable for VAT at 4%. Besides, there is a list of goods itemised in the III schedule to the Act, and those goods are also to be taxed at 4% under VAT. Any goods outside this apart from those mentioned under I and II schedule would be liable to tax at 12.5%. With respect to consumables, tax paid on purchases attributable to naphtha, LPG, furnace oil, light diesel oil, superior kerosene oil, kerosene and any other petroleum products when used as fuel in production of any goods for sale is eligible for input tax credit in excess of 2%.

16.) I am a retail and wholesale cement dealer. As per Rule 29 and 30 of VAT Rules 2005, only two forms of billing is permitted.

(a) Tax invoice for taxable sales to TIN dealers

(b) Sales bill for VAT exempt goods

This being the case which invoice should be issued to direct consumers of taxable goods. Tax invoice cannot be issued as they do not have TIN number and sale bill cannot be issued as the goods are not exempt. Kindly clarify.

Ans: A VAT dealer should issue 'tax invoice' for his sales irrespective of whom he is selling the goods to. If the buyer is the final consumer, there is no question of his claiming input tax credit. Buyer's TIN is not required on the 'tax invoice' if the buyer is not a dealer registered under the VAT Act. Only name and the address of the buyer are required.

17.) (a) What each digit indicates in the 11 digit TIN Number?

(b) If we purchased goods locally from the registered dealer and stock-transferred the same to outside the state, what will be the input rebate available. Assume the rate of tax is 12.5%.

Ans: In the TIN, the first two digits indicate State code, i.e., 29 for Karnataka. The next two digits indicate check digit and the remaining seven digits indicate the running number of the dealer. On stock transfer of locally purchased goods, there is no levy of any tax as there is no sale involved in stock transfer.