

Leaflet 10

TREATMENT OF INDUSTRIAL INCENTIVES

01. I HAVE A TAX DEFERMENT, HOW WILL I BE AFFECTED UNDER VAT ?

- a) You will be required to register for VAT.
- b) You can issue tax invoices.
- c) You can claim credit for VAT charged on your purchases.
- d) The net tax (output tax less input tax) on your VAT return will be repayable from the 15th year onwards.
- e) Your net tax shown on the return will be debited to your eligibility amount.

02. WHAT IF IN A GIVEN TAX PERIOD MY INPUT TAX EXCEEDS OUTPUT TAX ?

In this case you have to carry forward the credit declared on the return upto March 2007. The excess available, if any, in March 2007 return can be claimed as refund. Thereafter, refund can be claimed in March every year.

03. WHAT IS THE POSITION IF I HAVE A TAX DEFERMENT AND MAKE EXPORT SALES WHERE THE INPUT TAX EXCEEDS THE OUTPUT TAX?

Even in this situation, you need to carry forward the excess input tax credit upto March of every year and claim refund.

04. I CURRENTLY BENEFIT FROM A TAX HOLIDAY. HOW WILL I BE AFFECTED UNDER VAT ?

- You will be required to register for VAT
- You will be treated as converted into a Deferment Unit.
- You will be eligible to issue tax invoice.
- You will be eligible to claim input tax credit on your purchases. Conversely your purchaser can also claim input tax credit.
- The unavailed period of tax holiday as on 01-04-2005 will be doubled and will be taken as eligibility period for deferment.
- The unavailed balance as on 01-04-2005 will be the eligibility amount.
- The repayment for each year's availment shall be made at the end of 14th year.

Example :-

XYZ is availing tax holiday for a period of 7 years from 1-1-2000 to 31-12-2006. The unavailed balance as on 01-04-2005 is Rs.120 Lakhs. The unit is treated as converted to deferment. The period of 1 year 9 months (21) months will be doubled

and the unit can avail tax deferment upto 30-09-2008. The amount availed during 2005-06 shall be repaid on the 1st day of 15th year i.e., 1-4-2019.

05. WHAT IF MY INPUT TAX EXCEEDS OUT PUT TAX OR IF I MAKE INTERNATIONAL EXPORTS ?

Refer to Question 2 & 3 above.

06. WHAT HAPPENS TO THE TAX LIABILITY OF THE EARLIER YEARS WHICH ARISES AFTER 01-04-2005 ?

As and when any liability arises after 01-04-2005 under APGST or CST Act for the earlier periods, such tax demands shall be debited to your eligibility amount.

07. WHAT IF I AM ELIGIBLE FOR DEFERMENT FOR ONE PRODUCT AND NOT ELIGIBLE FOR ANOTHER PRODUCT?

In this case, you have to declare turnovers pertaining to sales of both eligible and ineligible products in the appropriate output boxes of Form VAT 200. The net tax due is worked out in a manner similar to any normal VAT dealer. But you have to fill in Form VAT 502, the particulars of tax deferred in respect of eligible product and accordingly fill box 22(a) in Form VAT 200. By doing so, you are paying tax only on output of ineligible product by adjusting the tax due on eligible product towards deferment.

08. WHAT RECORDS ARE REQUIRED TO BE MAINTAINED BY ME ?

You are required to maintain normal books of accounts. However, if you are availing incentive over & above base production or having both eligible & ineligible products, you may need to maintain separate records to determine the amount of tax eligible & ineligible for deferment.

09. WHAT SHOULD I DO TO OBTAIN FURTHER INFORMATION?

You should contact your local Tax Office.