

Leaflet 20

RELIEF OF SALES TAX ON STOCKS

At the introduction of VAT, if you have any goods in stock on which sales tax has already been paid, relief is provided to avoid double taxation on those goods.

01. WHO IS ELIGIBLE FOR THIS RELIEF?

Any dealer who is in possession of TIN as on 01-04-2005 is eligible to claim sales tax relief. Dealers who are not registered for VAT are **NOT** eligible for this relief.

02. WHAT RELIEF IS PROVIDED FOR IN THE APVAT ACT 2005?

The tax paid on stocks and assets (including capital goods, raw materials & semi-finished goods) purchased in A.P. between 01-04-2004 & 31-03-2005 is provided as sales tax relief.

03. WHAT ARE THE CONDITIONS FOR CLAIMING RELIEF?

- 1) Goods in stock must have been purchased between 01-04-2004 and 31-03-2005;
- 2) Inventory of goods on hand should be taken by 07-04-2005;
- 3) Claim for relief should be made by 10-04-2005.

04. CAN I CLAIM SALES TAX RELIEF ON ALL THE GOODS IN STOCK?

No. There are certain restrictions. The following purchases are not eligible-

- Goods purchased from outside the State of Andhra Pradesh;
- Goods in the negative list specified in the AP VAT Rules 2005;
- Goods specified in Schedule I & Schedule VI of the AP VAT Act 2005.

05. CAN I ALSO CLAIM RELIEF FOR THE TOT PAID UNDER APGST ACT ON THE GOODS IN STOCK?

No. You cannot.

06. HOW DO I CALCULATE THE AMOUNT OF SALES TAX CREDIT I AM ENTITLED TO CLAIM?

1. Firstly you must have an invoice from your supplier proving that you purchased the goods in Andhra Pradesh.
2. If you have an invoice with sales tax charged separately, you can claim the amount of sales tax paid.

3. If your invoice does not specify the sales tax paid, you must adopt 90% of the invoice value and apply tax fraction to arrive at the tax amount that can be claimed as a credit.

The procedure to be followed is as follows :

- Reduce the value of the invoice by 10% i.e. value Rs.10,000/-(-) Rs.1,000 = Rs.9,000/-
- Apply the tax fraction to the reduced value according to the appropriate tax rate:
 - If the goods purchased were taxable @ 1%, the tax fraction is 1/101
 - If the goods purchased were taxable @ 4%, the tax fraction is 4/104 or 1/26
 - If the goods purchased were taxable @ 8%, the tax fraction is 8/108 or 2/27
 - If the goods purchased were taxable @ 10%, the tax fraction is 10/110 or 1/11
 - If the goods purchased were taxable @ 12%, the tax fraction is 12/112 or 3/28.
 - If the goods purchased were taxable @ 16%, the tax fraction is 16/116 = 4/29.

For example: (Invoices where no sales tax is specified)

Value of goods	Rs.10,000/-
Reduced value (90%)	Rs. 9,000/-
Sales tax rate under APGST (say)	16%
Amount of credit to be claimed: 4/29 of Rs.9,000/-	= Rs.1,241/-

If the rate under APGST was 4% apply the fraction of 1/26 for the 4% rate and the claim is limited to Rs.346/- only.

- 4) If you are holding goods liable to tax under the Sixth Schedule of the APGST Act, 1957, you may claim a credit of sales tax based on the full value of the invoice you hold using the tax fraction related to the sales tax rate under the APGST Act, 1957.

Illustration:

For Example :

Value of goods specified in Sixth Schedule of APGST Act '57 carrying a tax rate of 16% = Rs.10,000/-

Amount of credit to be claimed $10000 \times 16/116$ = Rs. 1,379/-

If the rate under APGST was 8% then the tax credit will be $10000 \times 8/108$ = Rs. 741/- only

07. WHAT IS THE TAX FRACTION AND HOW IS IT CALCULATED?

- a) The tax fraction is a formula, which calculates the tax element where goods are sold at tax inclusive prices, i.e., where the VAT is not shown separately.
- b) It is calculated by reference to the rate of VAT currently specified in the law. It is calculated from the formula

$$\frac{R}{R + 100}$$

R is the tax rate.

For example with a rate of 12 percent the fraction is:

$$\frac{12}{12 + 100} = \frac{12}{112} = \frac{3}{28}$$

If the rate were 20 percent, the fraction would be:

$$\frac{20}{20 + 100} = \frac{20}{120} = \frac{1}{6}$$

08. HOW DO I CLAIM SALES TAX CREDIT IF I HAVE PAID TAX AT THE POINT OF PURCHASE OR ON MY PURCHASES?

- Firstly, you must take inventory of the goods on hand on 1st of April 2005. You will then be entitled to claim a credit for the tax you have already paid for the goods on hand to the Commercial Taxes Department for the purchases made between 1st April 2004 and 31st March 2005.

Your inventory declaration will be checked by the Commercial Taxes Department and the amount of credit claimed verified against your previous sales tax returns filed with the Department.

09. HOW SHOULD I PREPARE TO CLAIM SALES TAX CREDIT?

- .. *Read leaflet 02 ('VAT & TOT Registration Guide')* and register for VAT. Consult your Tax Office if you are in doubt.
- .. Plan to take inventory by 7th April 2005. You will be able to claim credit only if you can prove the goods were in stock or possession on 31st March 2005.

10. HOW DO I CLAIM SALES TAX CREDIT?

- .. You must complete a sales tax credit claim form (VAT 115) in duplicate and provide all the information required on that form for the goods on which you are claiming a credit.
- .. You must submit this form to the tax office by the 10th April 2005.
- .. You will probably receive a visit from a tax officer to check your declaration. The tax office will notify you of the amount of sales tax credit you can claim.
- .. The tax office will advise you of the amount you can claim as input tax credit on form VAT 116 or 126.
- .. You can claim this amount in six equal sums as a credit in Box 08 (B) of your VAT return for each month from August 2005 to January 2006.

11. CAN I CLAIM TOTAL AMOUNT OF RELIEF AUTHORISED IF I AM GOING TO MAKE EXEMPT SALES AND/OR EXEMPT TRANSACTIONS IN ADDITION TO TAXABLE SALES?

No. If you are going to effect exempt sales and/or exempt transactions in a tax period during the period of claim (August 2005 to January 2006), the restrictions applicable to eligible input tax credit will also be applied to restrict the sales tax relief. You are required to apply the relevant calculation (AxB/C) to both input tax and Sales Tax relief in that tax period. The AP VAT Act & Rules provide Input Tax credit in excess of 4% paid on inputs for exempt transactions and no input tax credit for exempt sales. For further details (*see leaflets 04A, 04B, 04C & 04D*).

12. WHAT SHOULD I DO TO OBTAIN FURTHER INFORMATION?

You should contact your local Tax Office.