<u>**Leaflet 04-D**</u>

WHAT CAN I CLAIM AS A CREDIT OF INPUT TAX
IF I AM MAKING BRANCH TRANSFERS /
CONSIGNMENT SALES, SALE OF EXEMPT GOODS
(In addition to taxable sales)

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

01. HOW DO I CALCULATE THE AMOUNT OF INPUT TAX WHICH I CAN CLAIM AS A CREDIT IF I MAKE BRANCH TRANSFERS AND CONSIGNMENT SALES, SALE OF EXEMPT GOODS IN ADDITION TO TAXABLE SALES?

Where a VAT dealer is making **taxable sales, exempt sales** and **branch transfers/ consignment sales** in a tax period, the amount which can be claimed as input tax credit for the purchases of the goods at **tax rate of 4%** shall be calculated by the formula

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

Where

A is the total amount of input tax for tax rate of 4% for the tax period; excluding the tax paid on the negative list goods (Refer Leaflet 04-A).

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 value of branch transfers and consignment 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) of your VAT return. The value related to the tax claimed must be entered in Box (7A) of the VAT return and the balance of the value including the unclaimed input tax entered in box (6A) of the VAT return.

For **tax rate of 12.5%** paid on inputs, the tax amounting to 8.5% portion is given as input tax credit and for the remaining 4% portion; the formula mentioned above shall be applied. The total of these calculations is the amount of input tax that can be claimed in Box (8B) of your VAT return. The value related to the tax claimed must be entered in Box (8A) of the VAT return and the balance of the value including the unclaimed input tax entered in Box (6A) of the VAT return.

Note: If you are dealing in Gold & Jewellery, for **tax rate of 1%** paid on inputs, the formula mentioned above for tax rate of 4% shall be adopted and the result of this calculation can be claimed in Box (9A) of your VAT return. The value related to the tax claimed must be entered in Box (9B) of the VAT return and the balance of the value including the unclaimed input tax entered in Box (6A).

02. AM I REQUIRED TO MAKE ANY DECLARATIONS OR FILE ADDITIONAL ENCLOSURES ALONG WITH THE TAX RETURN?

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 file an annual return 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.

03. 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 stock transfers.
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 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.

04. CAN THE CT DEPARTMENT DIRECT ME TO ADOPT ONE OF THE ABOVE TWO METHODS?

The Deputy Commissioner of your division may impose any conditions or a particular method for apportionment of input tax credit.

ILLUSTRATION:

1. Dealer dealing in taxable sales, sales of exempt goods and exempt transactions of taxable goods

(VAT dealer following sub rule 9 of Rule 20)

TEE, a VAT dealer is engaged in manufacture of Cotton yarn and cloth. The dealer effects stock transfer of cotton yarn to other states besides making sales of Cotton yarn and exempt goods i.e., Cloth. The method and procedure to arrive at and claim eligible input tax for a tax period is illustrated below:

	PURCHASES (INPUT)		SALES (OUTPUT)	
RATE OF TAX	TURNOVER	VAT PAID	TURNOVER	VAT PAYABLE
4% Goods	100.00 lakhs	4,00,000	100.00 lakhs	4,00,000
12.5% Goods	8,00,000	1,00,000	NIL	NIL
Exempt goods	NIL	NIL	50.00 lakhs	NIL
Exempt transactions	NIL	NIL	50.00 lakhs (Stock transfers of cotton yarn)	NIL
TOTAL INPUT TAX		**5,00,000**	**TOTAL OUTPUT TAX**	**4,00,000**

TEE is using common inputs for sales of taxable goods, sales of exempt goods and exempt transactions. The dealer should arrive at eligible input tax credit for each tax rate for the tax period in Form 200A by applying A x B/C calculation, where;

A = Input tax paid for each tax rate

B = Taxable turnover

C = Total turnover (Taxable turnover + Sales of exempt Goods + value of exempt transactions)

S.No	DESCRIPTION	4% RATE	DESCRIPTION	12.5% RATE
1	Input tax paid in the tax period	4,00,000	Input tax paid in the tax period	1,00,000
2	Apply calculation	$\frac{400.000 \times 100 \text{ lakhs}}{2,00,00,000}$	8.5% portion $\left(\text{tax X } \frac{8.5}{12.5}\right)$	68,000
3	Eligible input tax	2,00,000	4% portion $\left(\text{tax X } \frac{4\%}{12.5\%}\right)$	32,000
			Eligible input tax in 4% portion out of 12.5% rate paid-arrive by applying calculation	$\frac{32000 \times 100 \text{ lakhs}}{200 \text{ lakhs}}$ = Rs.16,000
			Eligible input tax in 12.5% rate goods	68000+16000 = 84,000

Total eligible input tax credit for the tax period	: 2,00,000 + 84,000
	: Rs.2,84,000
VAT payable for the tax period	: Output tax – Input tax (eligible)
	: 4,00,000 – 2,84,000
	: Rs.1,16,000

NOTE:

1) TEE should submit Form VAT 200A every month, making adjustment of input tax credit to arrive at and claim eligible input tax credit for that tax period for each rate.

2) Further, TEE should also carry out adjustment of input tax credit for each tax rate for a period of 12 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.