

**Leaflet 08**

**REGISTRATION OF START-UP BUSINESS**

**01. WHAT IS A START-UP BUSINESS ?**

This is a new business enterprise which requires a period of time to create an infrastructure before being in a position to commence business operations.

**02. WHAT SPECIAL PROVISIONS ARE PROVIDED IN VAT FOR START-UP BUSINESSES ?**

Normally dealers are registered only from the date they make taxable sales. However, in the case of Start-up Businesses a facility is provided in VAT to register them before they make any taxable sales. Such businesses can claim credits of VAT on their purchases for a period of 24 months while the business is being developed.

**03. HOW DO I TAKE ADVANTAGE OF THESE PROVISIONS?**

You must apply for VAT registration on Form VAT 100 and for special registration as a Start-up business on Form VAT 104. The Commercial Taxes Department will need to be satisfied that you are setting-up a new business which will eventually make sales of goods on which VAT will be charged.

You will have to furnish full details regarding the location of your business premises and a summary of your business plans.

**04. WHAT ARE THE CONDITIONS FOR REGISTRATION AS A START-UP BUSINESS?**

You will need to satisfy the Commercial Taxes Department that:-

- a. You are setting up a new business;
- b. Your business will eventually make taxable sales. A new business, which will only make exempt sales, cannot be registered. The evidence required to satisfy the Commercial Taxes Department can be in the form of business plans, a feasibility study, proposed contracts, together with details of proposed capital assets and stock purchases;
- c. You will keep the prescribed books and records as required by VAT Act 2005 and the Rules to that Act;
- d. You accept that you can only remain registered without making taxable sales for a period of 24 months.

**05. ARE THERE ANY RESTRICTIONS ON RECLAIMING THE TAX I AM CHARGED?**

Yes. You cannot reclaim VAT you are charged on:

- a. All automobiles including commercial vehicles / two wheelers / three wheelers required to be registered under the Motor Vehicles Act 1988 and including spare parts for the repair and maintenance thereof; unless you are in the business of dealing in these goods;
- b. Fuels used for automobiles or used for captive power generation or used in power plants;
- c. Air conditioning units other than those used in plant and laboratory, restaurants or eating establishments, unless you are in the business of dealing in these goods;
- d. Any goods purchased and used for personal consumption;
- e. Any goods purchased and provided free of charge as gifts otherwise than by way of business practice;
- f. Any goods purchased and accounted for in the business but utilized for the purpose of providing facilities to employees including any residential accommodation;
- g. Crude oil used for conversion / refining into petroleum products;
- h. Natural Gas and coal used for power generation;
- i. Any inputs used in construction or maintenance of any buildings including factory or office buildings, unless you are in the business of executing works contracts;
- j. Earth moving equipment such as bulldozers, JCB's and poclain etc., and spares and accessories thereof unless you are in the business of dealing in these goods;
- k. Generators and accessories thereof used for captive generation unless you are in the business of dealing in these goods.

You can only provisionally claim a credit of input tax that is wholly attributable to your intended taxable sales. If your sales comprise exempt sales, you will be able to claim an input tax credit related to the level of taxable sales.

*(See VAT leaflet 04 "What can I claim as a credit of input tax if I am making sale of exempt goods").*

## **06. WHEN DO I RECEIVE MY VAT REFUND?**

You must complete a VAT return (Form VAT 200) to claim a credit. If you are registered for VAT as a start-up business you must file your VAT return by the 20th of the following month. The credit must be carried forward monthly until you commence making taxable sales. After you make taxable sales you will be entitled to a refund of

the tax credit if you make exports outside India. Otherwise you will have to carry the credit forward until the month of March 2007 after the start of VAT and subsequently to March every year thereafter and make a claim. You will of course be able to offset the credit against the tax due on your taxable sales in the subsequent month/months.

The refund will be made to you within 90 days from the date of receipt of the claim.

**07. WHAT HAPPENS IF I DO NOT RECEIVE MY REFUND BY THE END OF THE STIPULATED PERIOD ?**

After you have filed your VAT return, the Commercial Taxes Department will carry out an audit visit. You must provide the tax officers with the necessary documents and records within a reasonable time-scale. If you have met your obligations and the Commercial Taxes Department fails to pay your refund by the due date, they will pay you interest at the rate of 1% per month for each month or part of a month that the refund due has not been paid.

**08. WHAT SHOULD I DO TO OBTAIN FURTHER INFORMATION?**

You should contact your local Tax Office.