

Paper-10 Applied Indirect Taxation

Time Allowed: 3 hours

Full Marks: 100

Working notes should form part of the answers.

Answer Question No. 1 which is compulsory and any five from the rest.

Question 1.

(a) Fill up the blanks:

- (i) Registration under VAT for those dealers is compulsory whose gross annual turnover is above _____.
- (ii) _____ is used by the seller for claiming the exemption on making penultimate sales in Central Sales Tax.
- (iii) _____ means a person engaged in the manufacture or production of goods on behalf of a principal manufacturer from any inputs or goods supplied by the said principal manufacturer or by any other person authorised by him.
- (iv) _____ Scheme is presently applicable only to stainless steel pattas/pattis and aluminium circles.
- (v) Additional Duty of customs equal to excise duty is payable on imported goods u/s _____ of Customs Tariff Act.
- (vi) Goods are classified under Central Excise Tariff Act based on the "Harmonized System of Nomenclature" having _____ digit classification.
- (vii) Sea beyond _____ miles from the coastal base line is called High Sea.
- (viii) The effective rate of service tax _____ % of the value of taxable service.
- (ix) In customs _____ means transfer from one conveyance to another with or without payment of duty.
- (x) Form F in CST is used in _____.
- (xi) VAT prevents the _____ effect of tax by providing set-off/ input credit of tax paid earlier.
- (xii) _____ products are such products, which are produced in a process naturally in the course of manufacture of a finished product, which involves more than one process.
- (xiii) In excise, Design and Engineering Charges being an essential process/activity for the purpose of manufacture shall be _____ (included/ excluded) in the Assessable value.
- (xiv) _____ goods in custom means any goods, the import or export of which is subject to any prohibition under the Customs Act or any other law for the time being in force.
- (xv) _____ means a contract for carrying out any work which includes assembling, construction, building, altering, manufacturing, processing, fabricating, erection, installation, fitting out, improvement, repair or commissioning of any movable or immovable property.

[15 × 1]

Answer to Question 1(a):

- (i) ₹ 5 lakh
- (ii) Form H
- (iii) Job worker
- (iv) Compounded Levy

- (v) 3(1)
- (vi) Eight
- (vii) 200 nautical
- (viii) 12.36
- (ix) Transshipment
- (x) Stock/Branch Transfers
- (xi) cascading
- (xii) Intermediate
- (xiii) Included
- (xiv) Prohibited
- (xv) Works contract

(b) State with reasons whether the following are 'True' or 'False':

- (i) In excise, an SSI unit whose turnover was less than or equal to ₹ 3 crores in current financial year are entitled to full exemption upto ₹ 150 lakhs in the same i.e. current financial year.**
- (ii) No duty is payable in the event of pilferage of the imported goods.**
- (iii) Sawdust generated while cutting wood is not amount to manufacture under Central Excise law.**
- (iv) Similar Goods means imported goods which are same in all respects, including physical characteristics, quality and reputation except for minor differences in appearance that do not affect the value of the goods.**
- (v) Valuation Audit is conducted as per Section 14AA of the Central Excise Act when it is suspected that goods are not correctly valued or are undervalued. [5×2]**

Answer to Question 1(b):

- (i) False: In excise, an SSI unit whose turnover was less than or equal to ₹ 4 crores in previous year are entitled to full exemption upto ₹ 150 lakhs in current financial year.
- (ii) True: As per Section 13 of the Customs Act, 1962 no duty is payable at all if the goods are pilfered. If the duty is paid before finding the pilferage, refund can be claimed if goods are found to be pilfered during examination but before order for clearance are made.
- (iii) False: Sawdust generated while cutting wood is manufacture under Central Excise law. Sawdust is a different product and can be used as raw material in manufacturing paper and it is distinctly marketed.
- (iv) False: If any imported goods which are same in all respects, including physical characteristics, quality and reputation except for minor differences in appearance that do not affect the value of the goods, they are called Identical Goods.
- (v) False: Valuation Audit is conducted as per Section 14A of the Central Excise Act when it is suspected that goods are not correctly valued or are undervalued.

Question 2.

(a) If there is a matter in Concurrent List and both Centre and State make a law on that matter, which law will prevail? [3]

Answer:

The law made by parliament shall prevail over the law made by the state legislature and the latter will be valid only to the extent to which it is not repugnant to the former.

(b) Who can make a law on tax – Centre or State? [2]

Answer:

Article 246(1) of Constitution of India states that Parliament has exclusive powers to make laws with respect to any of matters enumerated in List I in the Seventh Schedule to Constitution (Called 'Union List'). As per Article 246(3), State Government has exclusive power to make laws for State with respect to any matter enumerated in List II of Seventh Schedule to Constitution. List III (concurrent list) contains entries where both Union and State Governments can exercise power.

(c) Vendibility criterion/Marketability is a litmus test to be fulfilled before any goods can be subjected to levy of excise duty. Discuss this statement with the help of decided cases. [10]

Answer:

The provisions relating to marketability of goods is discussed as under –

(1) Marketability: Marketability is the capability of the product of being bought and sold into the market. The Supreme Court in *Bhor Industries v, CCEX*. [1989] 40 ELT 280 (SC) has held that merely because an article is specified in the Tariff schedule, it will not be liable to duty of excise unless it is marketable in the condition in which the department wants to levy excise duty.

(2) Important aspects of marketability: Certain important features with respect to marketability are –

(a) Actual sale is not necessary to constitute marketability.

(b) The usage in captive consumption is not a determining factor of marketability.

(c) There is no requirement that the article, material or substance must be commercially known product and must be worthwhile to trade in. [this is evident from the Explanation to section 2(d)]

(d) The goods must be marketable in the condition in which the department wants to levy excise duty. Thus, theoretical possibility of goods being sold is not enough to constitute marketability. It must be shown that article is actually capable of being sold.

(e) The fact that the product in question is generally not bought and sold or has no demand in the market is irrelevant.

(f) Marketability is not confined to territorial limits of India.

(g) There need not be a market of whole lot of persons to constitute marketability. Even a single buyer can constitute marketability. – *AP State Electricity Board v. CCEX*. [1994] 70 ELT 3 (SC)

(h) Burden of proof of marketability is on the revenue department.

(3) Concept of “Deemed Marketability”: Explanation to Section 2(d) introduces a concept of “deemed marketability” by providing that “goods” include any article, material or

MTP_Intermediate_Syllabus 2008_Dec2014_Set 1

substance which is capable of being bought and sold for a consideration and such goods shall be deemed to be marketable.

Question 3.

(a) Determine the assessable value for purpose of excise duty under the Central Excise Act, 1944 in the following cases:

- (i) An assessee sells his excisable goods for ₹ 120 per piece and does not charge any duty of excise in his invoice. Subsequently it was found that the goods were not exempted from excise duty but were liable at 20% advalorem.
- (ii) Certain excisable goods were sold for ₹ 120 per piece and 20% advalorem is the rate of excise duty. Subsequently it was found that the price cum duty was in fact ₹ 140 per piece as the assessee had collected ₹ 20 per piece separately.
- (iii) The cum duty price per piece was ₹120 and the assessee had paid duty at 20% advalorem. Subsequently it was found that the rate of duty was 30% advalorem and the assessee had not collected anything over and above ₹ 120 per piece. [8]

Solution:

The assessable value shall be calculated as under-

$$\text{Assessable Value} = \frac{\text{Price cum duty} - \text{Permissible deductions}}{100 + \text{Rate of Excise duty}} \times 100$$

It is assumed that all the prices given in question excludes permissible deductions i.e. sales taxes and other taxes and EC & SHEC have also been ignored.

$$(i) \text{ Assessable Value} = \frac{\text{Price cum duty} - \text{Permissible deductions}}{100 + \text{Rate of Excise duty}} \times 100 \text{ i.e., } \frac{120}{100 + 20} \times 100 = ₹ 100$$

$$(ii) \text{ Assessable Value} = \frac{\text{Price cum duty} + \text{Additional consideration} - \text{Permissible deductions}}{100 + \text{Rate of Excise duty}} \times 100$$

$$\text{i.e., } \frac{120 + 20}{100 + 20} \times 100 = ₹ 116.67$$

$$(iii) \text{ Assessable Value} = \frac{\text{Price cum duty} - \text{Permissible deductions}}{100 + \text{Rate of Excise duty}} \times 100 \text{ i.e., } \frac{120}{100 + 30} \times 100 = ₹ 92.30$$

(b) Give the consequences regarding excise duty liability if goods manufactured by EOU (Export Oriented unit) & brought to DTA (Domestic tariff Area). [4]

Answer:

Goods manufactured by EOU (Export Oriented unit) & brought to DTA (Domestic tariff Area) will be liable to excise duty equal to customs duty [Proviso to section 3(1) of the Central Excise Act].

Any excisable goods -

- (i) manufactured by a 100% Export Oriented Units (EOU) and
- (ii) brought to any other place in India (termed, "Domestic Tariff Area" or DTA) are also liable to excise duty.

MTP_Intermediate_Syllabus 2008_Dec2014_Set 1

However, Excise duty = Aggregate of customs duties which would be leviable under Customs Act, 1962, or any other law on like goods produced/manufactured outside India if imported into India.

For this purpose -

- (i) Valuation as per Customs law : The value of such goods shall be determined in accordance with the provisions of the Customs Act, 1962 and the Customs Tariff Act, 1975 ; and
- (ii) Highest rate to be taken in case of different rates: Where in respect of any such like goods, any duty of customs is leviable at different rates, then, the highest of those rates shall be taken.

(c) There are different forms of Bonds available under Central Excise. Write briefly about those Bonds which are very common in Excise. [3]

Answer:

Forms of Bonds in Excise:

Bonds are of different nature and for various purposes. Forms of bond etc. have been standardised. The main bonds are as follows:

- **B-1 general bond**- The bond is for due dispatch of excisable goods removed for export without payment of duty. The bond can be with surety or security.
- **B-2 Bond** - This is a General Bond for provisional assessment. It can be with security or surety.
- **B-5A Bond** - It is for due arrival and re-warehousing of excisable goods removed from a warehouse in India to a factory in SEEPZ (*Santacruz Electronics Export Processing Zone*).
- **B-8 Bond** - This bond is for obtaining goods at Nil or concessional rate of duty under Central Excise (Removal of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules.
- **B-11 Bond** - Often, goods are seized by excise officer, if there is reason to believe that goods are liable to confiscation. The goods are actually confiscated only after these are confiscated after adjudication. This may take a long time. Hence, the assessee can get the seized goods released after execution of bond in form B-11. The bond is for provisional release of seized goods. It can be only security bond.
- **B-17 Bond** - This is a general surety/security bond to be executed by EOU/EHTP/STP/BTP units. It is for provisional assessment of goods for export of goods to foreign countries without payment of duty and for disposal of excisable goods procured without payment of duty.

Question 4.

(a) Determine the cost of production on manufacture of the under-mentioned product for purpose of captive consumption in terms of Rule 8 of the Central Excise Valuation Rules, 2000

(Amount in ₹)

Direct material	11,648
Direct wages & salaries	8,400
Works overheads	6,200
Quality control costs	3,500
Research and development costs	2,400
Administrative overheads	4,100
Selling and distribution costs	1,600
Realizable value of scrap	1,200

The Administrative Overheads are in relation to production activities.

Material cost includes Excise duty ₹ 1,648.

[7]

MTP_Intermediate_Syllabus 2008_Dec2014_Set 1

Answer:

Calculation of cost of production in terms of Rule 8 of Valuation Rules, 2000 (amounts in ₹)

Direct material (11,648 – 1,648 = 10,000)	WN 1	10,000
Direct wages & salaries		8,400
Works overheads		6,200
Quality control costs	WN 2	3,500
Research and development costs	WN 2	2,400
Administrative overheads	WN 2	4,100
Selling and distribution costs	WN 3	-
Total		34,600
Less : Realisable Value of scrap	WN 4	1,200
Cost of production		33,400
Value of excisable goods under Rule 8 @ 110% of cost of production		36,740

Working notes:

1. Raw-material cost shall be taken net of excise duty assuming Cenvat credit is available
2. Quality control cost, Research and Development cost and Administration overheads related to production shall form part of cost of production as per CAS-4.
3. Selling and distribution costs shall not form part of cost of production
4. Realizable value of scrap shall be deducted to arrive at cost of production.

(b) State briefly with reasons whether credit under the CENVAT Rules, 2004 would be available in the following cases:

- (i) Inputs are pilfered from the store-room.
- (ii) Final product is cleared in durable and returnable packing material.
- (iii) An input becomes a waste and is sold as scrap.
- (iv) Inputs used in trial runs

[8]

Answer:

The admissibility of CENVAT credit is discussed as under –

- (i) **Inputs are pilfered from the store-room:** No, since credit on inputs is available only for inputs used in the factory of manufacturer of final products. If the inputs are lost in the store-room without being used at all, credit of duty paid on such inputs will not be available.
- (ii) **Final product is cleared in durable and returnable packing material:** Yes, The definition of 'input' covers all goods used in the factory of production by the manufacturer and such packing has relationship with the manufacture of the final products therefore, Cenvat credit will be available on durable and returnable packing material. Besides this, since the proportionate cost of durable container is included in assessable value of final product, they are eligible for Cenvat credit.
- (iii) **An input becomes a waste and is sold as scrap:** Yes. If inputs becomes waste and sold as scrap, it cannot be said that input is cleared 'as such' [Rule 3(4) of the Cenvat Credit Rules 2004]. What is cleared is 'waste' and duty will be payable as if waste has been removed. In case the inputs have become waste during the manufacturing process, then the CENVAT credit shall be allowed on such waste, even if such waste is exempted or chargeable with nil rate of duty.
- (iv) **Inputs used in trial runs:** Yes. Inputs used in trial runs during the production or commissioning of plant are eligible for CENVAT credit as they are used in the manufacture of final product. Since trial run/ production is a pre-requisite for manufacture of the final product, hence, they bear relationship with the manufacture of the final product. Hence, they are eligible as 'input'. - Fertiliser Corporation of India v. CCEX.

MTP_Intermediate_Syllabus 2008_Dec2014_Set 1

Question 5.

(a) Answer the following questions with reference to the Section 14 of the Customs Act, 1962 & relevant Rules regarding the valuation of goods:

- (i) What shall be the value if there is price rise between the date of contract and the date of actual importation?
- (ii) Whether the payment for post-importation process is includible, if the same is related to imported goods and is a condition of the sale of the imported goods?
- (iii) Bill of Entry was filed on 27.10.2013. Will you apply the Exchange Rate notified by the CBEC on 25.9.2013 or notified on 25.10.2013? [5]

Answer:

The situation-wise treatments will be as follows:

Situation	Treatment
1. Price Rise between date of contract and date of actual importation.	The escalated price is the value for the purpose of Customs, if the contract contains an Escalation Clause .
2. Payment for Post-Importation process.	Rule 10 of Customs Valuation Rules provides that any payment as Condition of Sale of Imported goods is included in the Transaction Value. Hence, the value of post-importation process is includible .
3. Relevant exchange rate.	Exchange Rate applicable for a month is the rate notified by CBEC on 25th of previous month. Hence, Exchange Rate notified on 25/09/2013 is applicable.

(b) Describe the procedures to be followed in clearance of goods imported by post. [5]

Answer:

The procedures to be followed in clearance of goods imported by post:

- (1) **Procedure on receipt of parcel mail:** Post master has to handover details regarding parcels received along with parcel bills to the Appraiser.
 - (2) **Scrutiny & Detention of dutiable/prohibited articles:** The parcels are scrutinised and those suspected to contain dutiable or prohibited articles are detained and presented to customs appraiser.
 - (3) **Segregation:** Parcels are segregated into: (1) Assessable on basis of label; (2) Assessable after opening of packet; and (3) Assessable only after further inquiry.
 - (4) **Assessment:** The parcels shall be assessed based on label or based on examination or after calling requisite information. The rate of duty, value, etc. shall be determined. Such duty is recovered by the postal authorities from the addressee at the time of delivery and sum is credited to Customs Department.
 - (5) **Evasion/Prohibition cases:** In case of mis-declared, undervalued or prohibited goods, the parcel/packet is detained and not allowed to be cleared, except with order of the Customs] Officer.
- (c) Compute taxable value and service tax from following sums received by M/s. ABC Medical Centre (exclusive of service tax) (Ignore small service provider's exemption) -
- (1) Testing (with Transmission of medical samples between laboratories): ₹ 6 lakh ;
 - (2) Medicines consumed as a part of health care services : ₹ 5 lakh ;

MTP_Intermediate_Syllabus 2008_Dec2014_Set 1

- (3) Preventive health care services : ₹4 lakh ;
 - (4) Treatment along with Facilities provided such as TV, AC, room rent, meal to patient (as a part of package): ₹33 lakh ;
 - (5) Genetic affinity examination for determining biological father : ₹4 lakh ;
 - (6) Hair transplant services due to injury in a fire accident: ₹7 lakh ;
 - (7) Cosmetic surgery of a film star : ₹16 lakh ;
 - (8) Conducting medical examinations of individuals : ₹1 lakh
- [5]

Solution:

Computation of service tax liability

- (1) Testing (with Transmission of medical samples between laboratories) - Exempt;
 - (2) Medicines consumed as a part of health care services - Such medicine are never sold - Dominant nature is health care services, which is exempt - Fully exempt.
 - (3) Preventive health care services : ₹ 4 lakh - Exempt ("care" is also exempt);
 - (4) Treatment along with Facilities provided such as TV, AC, room rent, meal to patient (as a part of package): ₹ 33 lakh - Natural bundling in ordinary course of business - Essential character is "health care services", which is exempt - Fully exempt;
 - (5) Genetic affinity examination for determining biological father : ₹ 4 lakh - Not related to "diagnosis or treatment or care for illness, injury, deformity, abnormality or pregnancy" - Not exempt - Taxable ;
 - (6) Hair transplant services due to injury in a fire accident : ₹ 7 lakhs – Exempt, as it has been done to restore damage due to fire accident;
 - (7) Cosmetic surgery of a film star : ₹ 16 lakhs – Not exempt – Taxable;
 - (8) Conducting medical examinations of individuals: ₹ 1 lakhs – Exempt;
- Taxable value = ₹ (4 + 16) lakhs = ₹ 20 lakhs and service tax thereon @ 12.36% = ₹ 2,47,200.

Question 6.

- (a) What are the specified services where the place of provision is the location of the service provider?** [5]

Answer:

Following are the specified services where the place of provision is the location of the service provider:-

- i) Services provided by a banking company, or a financial company, or a non-banking financial company to account holders;
 - ii) Online information and database access or retrieval services;
 - iii) Intermediary services;
 - iv) Service consisting of hiring of means of transport, up to a period of one month.
- (b) Mr. Sen has provided the following services during the year 2013-14. Determine whether he is eligible for threshold exemption (Small Service Providers exemption) during the year 2014-15:**

- (1) Services provided outside India: ₹ 2 lakh;
- (2) Services (falling under negative list): ₹ 2 lakh;
- (3) Services fully exempt under other notifications: ₹ 5 lakh;
- (4) Declared Services (Sum charged ₹ 4 lakh, but, value determined as per the valuation rules is 60% i.e., ₹ 2,40,000);
- (5) Services (where amount charged is ₹ 60,000, but, after abatement, value is ₹ 20,000). [5]

MTP_Intermediate_Syllabus 2008_Dec2014_Set 1

Solution:

Mr. Sen would be eligible for threshold exemption or small service providers' exemption if the "aggregate value" of taxable services provided during the year 2013-14 is upto ₹ 10 lakhs. The relevant computations are shown below —

Case	Treatment	₹
(1) Services provided outside India	Not taxable service, as not liable to service tax u/s 66B of Finance Act, 1994 – Not includible	NIL
(2) Services (falling under negative list)	Not taxable service, as not liable to service tax u/s 66B of Finance Act, 1994 – Not includible	NIL
(3) Services fully exempt under other notifications	Specifically excluded in determination of aggregate value	NIL
(4) Declared Services	Value as determined as per section 67 of Finance Act, 1994 and Valuation Rules is to be taken	2,40,000
(5) Services eligible for abatement	Abatement is a form of partial exemption. Value as per section 67 of Finance Act, 1994 viz. ₹ 60,000 shall be taken.	60,000
Aggregate Value for Financial Year 2013-14		3,00,000
Since the aggregate value of service is ₹ 3 lakhs (i.e., not exceeding ₹ 10 lakhs) during financial year 2013-14, Mr. Sen is eligible for threshold exemption (Small Service Providers exemption) during the financial year 2014-15.		Eligible for exemption

(c) AB Ltd. Carried out following works, all of which are leviable to sales-tax/VAT as transfer of property involved in the execution of works contract (the sum charged given below are exclusive of all taxes) -

- (1) **New constructions: ₹ 50 lakh;**
- (2) **Additions and alterations to damaged structures on land to make them workable: ₹ 25 lakhs;**
- (3) **Supply along with erection, commissioning and installation of plants: ₹ 72 lakhs;**
- (4) **Maintenance and repair of goods: ₹ 40 lakhs;**
- (5) **Maintenance and repair of immovable property: ₹ 30 lakhs;**

Compute taxable value and service tax thereon.

[5]

Solution:

Computation of taxable value & service tax: Since data regarding valuation under Rule 2A(i) is not given, value is computed as per Rule 2A(ii) at specified % of gross amount charged.

	Amount charged ₹	% of amount charged	Taxable Value ₹
New constructions (It is "original works")	50,00,000	40.00%	20,00,000
Additions and alterations to damaged structures on land to make them workable (It is "original works")	25,00,000	40.00%	10,00,000
Supply along with erection, commissioning and installation of plants (It is "original works")	72,00,000	40.00%	28,80,000

MTP_Intermediate_Syllabus 2008_Dec2014_Set 1

Maintenance and repair of goods	40,00,000	70.00%	28,00,000
Maintenance and repair of immovable property	30,00,000	60.00%	18,00,000
Total Taxable Value under Rule 2A(ii)			1,04,80,000
Service Tax @ 12.36%			12,95,328

Question 7.

(a) What are the details contained in the service tax return?

[5]

Answer:

The service tax return contains the following major details:

- (i) particulars of assessee viz. name, registration number, address, etc.;
- (ii) particulars of taxable services viz. Nature;
- (iii) particulars of period viz. financial year, half year period (April-September or October-March),
- (iv) particulars of value of taxable services viz. amount received, advance received, details of exempted services, abatement/exemption claimed, etc.;
- (v) particulars of service tax viz. service tax & education cess payable, details of payment, interest or penalty paid, payment of excess collection of service tax, if any, etc.;
- (vi) particulars of Cenvat Credit viz. opening balance, availed, utilized, closing balance, etc.

(b) An interior decorator charges ₹ 6,50,000 from a client for providing professional services. The breakup of the bill is as follows:-

(a) Value of furniture sold to the client – ₹ 3,00,000

(b) Labour and facility charges – ₹ 2,00,000

(c) Value of materials consumed in providing the service – ₹ 1,50,000

Compute the amount of service tax to be charged from the client.

[5]

Solution:

Computation of service tax payable (amounts assumed exclusive of service tax)

	(₹)
Value of furniture sold to the client [Sale of furniture is 'sale of goods', which cannot be regarded as a service. Though sale is in course of providing the service, however, it constitutes a separate sale, because the parties intend to have separate rights arising out of sale. Such sale cannot be charged to service tax.]	Sale, not service
Add: Labour and facility charges [They are for provision of interior decoration service; hence, includible in value]	2,00,000
Add: Value of materials consumed in providing the service [Materials consumed viz. consumables, etc. in providing services are a part of the value of the service, because service cannot be provided without them.]	1,50,000
Value of service	3,50,000
Service Tax @ 12.36%	43,260

(c) What are the essential ingredients of a sale under CST Act?

[5]

Answer:

Essential ingredients of a sale under CST Act:

- There must be two parties to the contract of sale (i.e.) the buyer & the seller.
- There must be valid consent of both the above parties.
- There must be an actual transfer of property in goods (i.e. agreement to sell is not a sale).
- There must be a consideration in cash or in deferred payment or any other valuable consideration in money or money's worth.
- Sale includes deemed sales but it does not include a mortgage or hypothecation of or a charge or pledge on goods.

Question 8.

(a) Determine the Taxable Turnover, Input Tax Credit and net VAT payable by a Works Contractor from the details given below on the assumption that the Contractor maintains sufficient records to quantify the labour charges. Output VAT at 12.5%:

Particulars	₹ in Lakhs)
Total Contract Price (excluding VAT)	105
Labour Charges paid for execution of the contract	40
Cost of Consumables used not involving transfer of property in goods	5
Material purchased and used for the Contract, taxable at 12.5% VAT (VAT included)	45

Contractor also purchased a Plant for use in the contract for ₹ 10.4 lakhs. In the VAT Invoice, VAT was charged at 4% separately, and the said amount of ₹ 10.4 Lakhs is inclusive of VAT.[5]

Solution:

Computation of Taxable Turnover, Input Tax Credit and net VAT liability

Particulars	₹ Lakhs
Total Contract Value (excluding VAT)	105
Less: Labour Charges paid for execution of the contract	(40)
Less: Cost of Consumables used not involving transfer of property in goods	(5)
Taxable Turnover, i.e.	60
Output VAT Payable [₹ 60 lakhs x 12.5%]	7.5
Less: Input Tax Credit	
• On Materials Purchased Inclusive of VAT $\left[\frac{12.5}{112.5} \times ₹ 45 \text{ lakhs} \right]$	(5)
• On Plant purchased $\left[\frac{4}{104} \times ₹ 10.4 \text{ lakhs} \right]$	(0.4)
Net VAT Liability	2.1

MTP_Intermediate_Syllabus 2008_Dec2014_Set 1

- (b) Calculate the total tax liability under the State VAT law and under the Central Sales Tax Act for the month of October 2013 from the following particulars:

Particulars	₹
Inputs purchased within the state	1,70,000
Capital goods used in the manufacture of the taxable goods (not included in the negative list)	50,000
Inputs purchased from a registered dealer who opts for composition scheme under the provisions of the Act	10,000
High seas purchases of inputs	1,20,000
Finished goods sold: (a) within the state	2,00,000
(b) in the course of inter-State trade	2,50,000

Applicable tax rates are as follows:-

Case (A): VAT rate on capital goods 12.5%; Input tax rate within the state 12.5%; Output tax rate within the state 4%; Central sales tax rate 2%.

Case (B): VAT rate on capital goods 4%; Input tax rate within the state 4%; output tax rate within the state 12.5%; Central sales tax rate 2%. [5]

Solution:

(a) Computation of VAT liability – Case (A)

	Value (₹)	Rate	Tax (₹)
I. VAT payable on Sales for the month	2,00,000	4.00%	8,000
Add: CST payable on inter-state sales made for the month	2,50,000	2.00%	5,000
Total sum required to be paid during the period (1)			13,000
II. Input Tax Credit Balance (Opening)	NIL	NIL	NIL
Add: Credit available on inputs	1,70,000	12.50%	21,250
Add: Credit available on capital goods (assumed fully allowed)	50,000	12.50%	6,250
Add: Credit available on purchases from dealer opting for Composition Scheme and High-sea purchases – Not eligible for credit. (₹ 10,000 + ₹ 1,20,000)	1,30,000	NIL	NIL
Total Input Tax Credit (ITC) (2)			27,500
VAT payable in cash [1-2] (if positive)			0
Balance of ITC to be carried forward [2-1] (if positive)			14,500

Computation of VAT liability – Case (B)

	Value (₹)	Rate	Tax (₹)
I. VAT payable on Sales for the month	2,00,000	12.50%	25,000
Add: CST payable on inter-state sales made for the month	2,50,000	2.00%	5,000
Total sum required to be paid during the period (A)			30,000
II. Input Tax Credit Balance (Opening)	NIL	NIL	NIL
Add: Credit available on inputs	1,70,000	4.00%	6,800
Add: Credit available on capital goods (assumed fully allowed)	50,000	4.00%	2,000
Add: Credit available on purchases from dealer opting for Composition Scheme and High-sea purchases – Not eligible for credit. (₹ 10,000 + ₹ 1,20,000)	1,30,000	NIL	NIL
Total Input Tax Credit (B)			8,800
VAT payable in cash [A-B] (if positive)			21,200
Balance of ITC to be carried forward [B-A] (if positive)			0

(c) What are the records to be maintained by the persons availing credit?

[5]

Answer:

The following records have to be maintained by the manufacturer or provider of output services as given under Rule 9 -

(i) Maintenance of proper records of inputs/capital goods [Rule 9(5)] : The manufacturer of final products or the provider of output service shall maintain proper records for the receipt, disposal, consumption and inventory of the input and capital goods. Following information must be recorded therein,-

- > Value;
- > duty paid;
- > CENVAT credit taken and utilised; and
- > the person from whom the input or capital goods have been procured.

(ii) Maintenance of proper records of input services [Rule 9(6)] : The manufacturer of final products or the provider of output service shall maintain proper records for the receipt and consumption of the input services. Following information must be recorded therein,-

- > Value;
- > tax paid;
- > CENVAT credit taken and utilised; and
- > the person from whom the input or capital goods have been procured.