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ACCOUNTING AND ADMINISTRATION OF VAT IN RAJASTHAN AND HARYANA

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Abstract

VAT is basically a tax on sale of goods. VAT is payable by seller who is termed as a 'dealer'. Powers to levy sales tax are contained in seventh schedule to Constitution of India. Tax on sale within the State is a State subject. Over the period, many distortions had come in taxation due to unhealthy competition among States by giving sales tax incentives and 'tax rate war' started to attract more revenue to State. Many steps were taken to remove the distortions and rationalize tax structure since 1999. It was decided to introduce uniform State Level VAT. After lot of persuasion by Central Government, all States ultimately agreed to introduce State Level sales tax VAT w.e.f. 1-4-2005.

Keywords: *VAT, Dealer, Levy, Tax Rate War, Tax Incentives, Tax Structure.*

Introduction

Basic Concept of VAT

VAT woks on the principle that when raw material passes through various manufacturing stages and manufactured product passes through various distributions stages, tax should be levied on the 'Value Added' at each stage and not on the gross sales price. This ensures that same commodity does not get taxed again and again and there is no cascading effect. In simple terms, 'value added' means difference between selling price and purchase price. VAT avoids cascading effect of a tax. Basically, VAT is multi-point tax, with provision for granting set off (credit) of the tax paid at the earlier stage, thus, tax burden is passed on when goods are sold. This process continues till goods are finally consumed. Hence, VAT is termed as 'consumption type' tax with 'destination principle'. VAT works on the principle of 'tax credit system'.

Procedural Provisions

General procedural provisions are as follows:

- **Tax Identification Number:** A system of audit checks have to be established to keep check on bogus invoices. One essential requirement is to give TIN (Tax Identification Number) to all registered dealers, so that a check is maintained that (a) The tax as shown in the invoice has indeed been paid (b) There is no double credit on basis of same invoice. TIN will have to be indicated on each invoice issued. It will be a 11 digit numerical code. First two digits will indicate State Code (Para 2.10 of White Paper on State-Level VAT). Thus, State level computer network with check based on TIN will be established. Otherwise, misuse will be rampant.
- **Invoice Based Credit:** Tax credit will be given on basis of document, which will be a 'Tax Invoice', cash memo or bill. Such invoice can be issued only by a registered dealer, who is liable to pay sales tax. The invoice should be serially numbered and duly signed, containing prescribed details. The tax payable should be shown separately in the Invoice. The dealer should keep counterfoil/duplicate of such invoice duly signed and dated (Para 2.8 of White Paper on State-Level VAT). In case of manufacturer, invoice issued under Central Excise Rules should serve purpose of VAT also, if the invoice contains required particulars.

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