About VAT

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 the tax structure since 1999. It was decided to introduce uniform State Level VAT. It was announced that all States have agreed to introduce VAT w.e.f. 01.04.2005.

Basic Concept of VAT

VAT works on the principle that when raw material passes through various manufacturing stages and manufactured product passes through various distribution 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. VAT works on the principle of 'tax credit system'.

System of VAT works on tax credit method. In Tax Credit Method of VAT, the tax is levied on full sale price, but credit is given of tax paid on purchases. Thus, effectively, tax is levied only on 'Value Added'. Most of the countries have adopted 'tax credit' method for implementation of VAT.

In Consumption Type VAT, 'Value Added' is considered by deducting all purchases, raw materials and capital items. Consumption type VAT is popular and it is adopted by most of the countries for following reasons : (a) Administration control is easy due to 'credit method' that can be adopted (b) It makes no distinction between capital intensive and labour intensive activities (c) Tax avoidance by classifying capital goods purchases as revenue purchases is avoided. (d) It is in harmony with the 'destination principle' (e) It simplifies tax administration as there is no need to distinguish between purchase of capital goods and consumption goods.

Advantage of VAT over conventional system of taxation

Advantage of VAT are as follows :

- Exports can be freed from domestic trade taxes
- It provides an instrument of taxing consumption of goods and services
- Interference in market forces is minimum

- Aids tax enforcement by providing audit trail through different stages of production and trade. Thus, it acts as a self – policing mechanism.

The disadvantages are that paper work required increases considerably and it is not as simple as a single point sales tax.

The advantage of 'consumption type' VAT is that tax burden is only at the last i.e. consumption stage. This is useful for taxation structure based on 'destination principle'. At all the earlier stages of production, there is no tax burden in view of the credit obtained when the inputs are used for production of final product. Thus, it becomes easier to give concessions to goods used by common man or goods used for manufacture of capital goods or exported goods and charge heavy duty on luxury goods.

Advantage of State Level VAT

The advantages are as follows, as enumerated in para 2.20 of White Paper on State-Level VAT.

- Rationalization of tax burden, which is expected to bring down price level
- Un healthy tax-rate 'war' among States
- Trade diversion among States, which affects all States

Simplicity and transparency

Scheme of Exemption :-

a) Exemption under local and central sales tax :-

The scheme of sales tax exemption was launched on 01.01.1984 for 15 years from the 1st sales or first consignment/ branch transfer of the goods manufactured, processed or assembled for the industrial development in the UT of Dadra and Nagar Haveli.

The said exemption were once again allowed by the G.O.I. vide Notifications dated 31/12/1999. The industries LSI/MSI/SSI which have applied or obtained the provisional registration prior to 30.04.2000 and commenced first manufacturing prior to 31/12/2002 were granted the sales tax exemption benefit vide notification dated 31/12/1999.

The exemption scheme has also been continued for the balance period of exemption to LSI/MSI/SSI units under VAT Regulation,2005 vide order dated 21/04/2005. under the exemption scheme the sales of goods manufactured by the eligible units are zero taxable i.e. the input credit is allowed on purchases of creditable goods but no tax is be levied on sales by the exempted units.

The above Regulation / Rules are made available in the department's website namely www.dnh.nic.in relating to citizen charter.

Exemption under central sales tax :

The exemption scheme under CST Act has been extended to the industry registered even after 30.04.2000 vide notification dated 05.02.2003 for a period of 15 years from commencing production or up to 31.12.2017 which even is earlier.

The rate of tax defined under section 4 of the Dadra & Nager Haveli Value Added tax Regulation are as under:

Rate of Tax	Schedule	No. of items (up to 2007-08)
0%	I	60
1%	II	5
4%	III	441
20%	IV	8
12.5%	Not specified in above schedule.	Residucy goods.

There are various provisions empowering the Commissioner (VAT), Administrator for a making/amending existing rules, forms schedules etc. for proper implementation of the VAT Rules.