

VAT Guide

VAT charged at Wholesale Stage



Liquified Petroleum Gas



Bars of iron or steel



Portland cement



Motor spirit and gas oils

Cigarettes containing tobacco

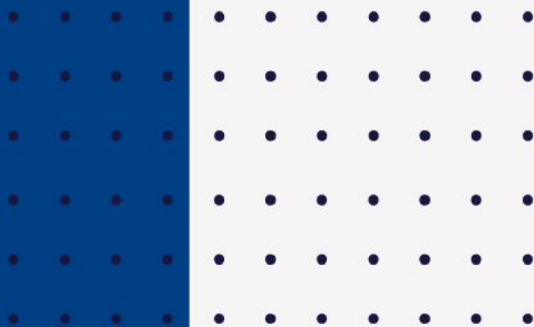


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Foreword

These guidelines have been developed with the aim to shed light on the application of **Sections 5(4), 9(9)(a), 12(6) and 12(7)** of the **Value Added Tax Act** relating to the supply of any of the goods specified in **Part I** and **Part II** of the **Seventh Schedule to the Value Added Tax Act**.

It also clarifies on the application of Section 9(9)(b) of the VAT Act relating to prepaid cards in respect of any services.

These guidelines are for information only.

For the legal provisions, you may consult the Value Added Tax Legislation. The law relating to VAT is contained in the Value Added Tax Act and the Value Added Tax Regulations 1998 as subsequently amended and are available on the website of the MRA.

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1. Vat Treatment of goods specified in the Seventh Schedule to the Value Added Tax Act

1.1 Introduction

VAT is normally chargeable at each stage in the production and distribution chain till the sale is made by the final retailer to the end consumer. However, where a supply of any goods specified in Part I and Part II of the Seventh Schedule to the Value Added Tax Act is made by a VAT registered person, VAT thereon is calculated, charged and remitted to the MRA at the point immediately before retail stage i.e at wholesale stage.

The goods on which VAT is charged at wholesale stage are specified in the two Parts of the Seventh Schedule to the VAT Act as follows:

Part I

1. Liquified Petroleum Gas (LPG)
2. Bars of Iron or Steel
3. Portland cement

Part II

1. Motor Spirit and Gas Oils
2. Cigarettes containing tobacco

1.2 Difference in treatment

For the goods specified in Part I (liquified petroleum gas, bars of iron or steel, portland cement), the VAT charged at the wholesale stage is calculated on the value of supply at the wholesale stage (i.e wholesale price), and excludes the retail margin. No VAT is charged on the retail margin.

In the case of the goods specified in Part II (Motor spirit and gas oils, Cigarettes containing tobacco), the supply at the wholesale stage is treated as if it has taken place at the retail stage and VAT on such supply is calculated on the wholesale value plus the retail margin, i.e, on the retail selling price. VAT on the retail margin is collected and paid at wholesale stage, whether or not the retailer is VAT registered.



The table below summarises the difference in VAT treatment:

Seventh Schedule to VAT Act	Specified Goods	VAT charged at wholesale stage	VAT charged at retail stage
Part I	1. Liquified Petroleum Gas 2. Bars of iron or steel 3. Portland cement	VAT charged on cost + wholesale margin	The same amount of VAT as charged at wholesale stage i.e. on cost + wholesale margin only
Part II	1. Motor spirit and gas oils 2. Cigarettes containing tobacco	VAT charged on cost + wholesale margin + retail margin	The same amount of VAT as charged at wholesale stage - i.e. on cost + wholesale margin+ retail margin

Points to be noted

- The output tax to be charged by a VAT registered retailer to the consumer is the same VAT amount that he suffered on the goods, at time of purchase, from the wholesaler.
- The calculation of VAT amount to be shown in the VAT invoice issued by the retailer is somewhat tricky. Due care must be exercised so that the customer is not overcharged VAT.
- In the VAT return of the retailer, the output tax and input tax on the items specified in the 7th Schedule is the same amount so that technically no additional VAT is payable by the retailer on those items.



2. VAT charged at wholesale stage on items specified in Part I of 7th Schedule

The wholesaler charges VAT normally to the retailer on the wholesale price of the liquified petroleum gas, bars of iron or steel and Portland cement. There is no VAT on the retail margin.

2.1 Example 1: Selling price of a bag (pochette) of cement at wholesale stage

An importer/ wholesaler of cement sells cement bags to retailers at Rs. 120 per bag.

Calculation of VAT

The VAT charged on the wholesale price is as follows:

	Rs
Wholesale price of a bag of cement	120 (cost + wholesale margin)
VAT thereon (15% of 120)	<u>18</u>
Selling price at wholesale stage	<u>138</u>

Note: The wholesale price is exclusive of the retail margin.

2.1.1 Tax treatment at wholesale stage

	Rs
Turnover for income tax purpose	120
VAT	
Value of taxable supplies	120
Output tax	<u>18</u>



2.1.2 VAT invoice issued by a wholesaler of goods specified under Part 1 of the Seventh Schedule

VAT INVOICE						
					Invoice No.: 001	
					Tel: xxx xxxx	
Name of entity: Quincaillerie en Gro Co. Ltd.						
Importer and Wholesaler in construction and hardware materials						
Address: xxxxxxxxxxxxxx						
VAT Reg No.: xxxxxxxx						
BRN: xxxxxxxxx						
Name of client:						
Address:						
Client BRN:						
Client VAT Reg No.:						
Date	Qty	Description	Unit Price		Amount	
			Rs	Cs	Rs	Cs
27.05.22	30	Bags of Cement	120	00	3,600	00
			Subtotal		3,600	00
			VAT 15%		540	00
			Total		4,140	00

Note:

VAT is calculated on the wholesale price exclusive of the retail margin.

2.1.3 Recording in the returns of a wholesaler

2.1.3.1 VAT Return

Other Names			
Proportion of taxable supplies to total turnover (annual) <input type="text"/> <input type="text"/> <input type="text"/> .00 %			
OUTPUT		COLUMN A VALUE (Rs. only)	COLUMN B VAT (Rs. only)
1	Taxable supplies		
1.1	Zero-rated supplies (Exports)	1.1	
1.2	Zero-rated supplies other than exports	1.2	
1.3	Taxable supplies made to exempt bodies or persons	1.3	
1.4	Other taxable supplies	1.4	
2	Deferred VAT on importation	2	
3	Exempt supplies		
4	Penalty on excess amount overclaimed		
5	Total	5	
INPUT Imports and Purchases			
6	Taxable input on which input tax is allowed as a credit		

Line 1.4A
Value = Rs. 3,600

Line 1.4B
VAT
= Rs. 3,600*15%
= Rs 540

2.1.3.2 Income Tax Return

TRADING AND PROFIT AND LOSS ACCOUNT (See Note 3)				
		Local	Foreign	Total
1	Turnover / Gross Income-	1		
1.1	Turnover other than those specified at 1.2, 1.3, 1.4 below	1.1		
1.2	Commissions earned in respect of goods or manufacturing activities in a financial year	1.2		
1.3	Turnover other than those specified at 1.2, 1.3, 1.4 below = Rs. 3,600	1.3		
1.4	Dividends	1.4		
2	Total Turnover / Gross Income	2		
3	Less: Cost of sales	3		
4	Gross Profit/(Loss)	4		
	Add Other Income			
5	Dividends	5		
6(a)	Interest from Peer-to-Peer Lending platform	6(a)		
6(b)	Other Interest	6(b)		
7	Provision of specified financial services	7		
8	Ships, aircrafts, locomotives and trains, including rail leasing	8		

3. VAT charged at retail stage on items specified in Part 1 of 7th Schedule

Section 12(6) of the VAT Act makes provision so that for liquified petroleum gas, bars of iron or steel and Portland cement, no VAT is chargeable on the retail margin. The retailer must charge the customer only the VAT that he suffered at the time of purchase of the item at wholesale stage.

3.1 Example 2: Selling price of a bag (pochette) of cement at retail stage

Taking the cost of purchase of a bag of cement to be Rs. 120 as in example 1 and assuming the retail profit margin thereon is Rs. 10, VAT would be calculated at retail stage as follows -

	Rs
Purchase price of a bag of cement	120
VAT paid thereon (15% of Rs. 120)	18
Retail margin	<u>10</u>
Retail price charged to final consumers	<u>148</u>

Note:

As VAT is not applicable on the retail margin, VAT charged to end consumers would be the same amount (i.e 15% of Rs. 120 = Rs. 18) as that paid at the time of purchase.

3.1.1 Tax treatment at retail stage

	Rs
Turnover for income tax purpose	130 <i>(inclusive of retail margin)</i>
Value Added Tax	
Taxable supplies	<u>120</u>
Output tax	18
Less: Input tax	<u>18</u>
VAT payable by retailer	<u>0</u>

3.1.3 Recording in the returns of a retailer

3.1.3.1 VAT Return

Other Names					
Proportion of taxable supplies to total turnover (annual) <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> .00 %					
OUTPUT					
				COLUMN A VALUE (Rs. only)	COLUMN B VAT (Rs. only)
1	Taxable supplies				
1.1	Zero-rated supplies (Exports)		1.1		
1.2	Zero-rated supplies other than exports		1.2		
1.3	Taxable supplies made to exempt bodies or persons		1.3		
1.4	Other taxable supplies		1.4		
2	Deferred VAT on importation		2		
3	Exempt supplies				
4	Penalty on excess amount overclaimed				
5	Total		5		
INPUT Imports and Purchases					
6	Taxable input on which input tax is allowed as a credit				

Line 1.4A
Value = Rs. 3,600

Line 1.4B
VAT = Rs. 3,600*15%
= Rs 540

3.1.3.2 Income Tax Return

TRADING AND PROFIT AND LOSS ACCOUNT (See Note 3)				
		Local	Foreign	Total
1	Turnover / Gross Income-	1		
1.1	Turnover other than those specified at 1.2, 1.3, 1.4 below	1.1		
1.2	Companies er	1.2		
1.3	Manufacturing holding an Inv	1.3		
1.4	Higher Educational institutions registered under the Higher Education Act and set up in India	1.4		
2	Total Turnover / Gross Income	2		
3	Less: Cost of sales	3		
4	Gross Profit/(Loss)	4		
	Add Other Income			
5	Dividends	5		
6(a)	Interest from Peer-to-Peer Lending platform	6(a)		
6(b)	Other Interest	6(b)		
7	Provision of specified financial services	7		
8	Ships, aircrafts, locomotives and trains, including rail leasing	8		

Turnover other than those specified at 1.2, 1.3, 1.4 below = Rs. 3,900

4. VAT Charged at wholesale stage on items specified in Part II of 7th Schedule

VAT on motor spirit and gas oils and cigarettes containing tobacco are charged at wholesale stage on wholesale price plus retail margin.

4.1 Example 3: VAT Charged at wholesale stage on Retail Price

Assuming the wholesale price of a bundle of cigarettes (cost price + wholesale margin) is Rs. 1910 and the retail margin is Rs. 50. The VAT to be charged by the wholesaler would be calculated based on the wholesale price inclusive of retail margin, i.e, on the **recommended** retail selling price as follows:

	Rs
Wholesale price	1,910
Add: Retail margin	50
Retail selling price	<u>1,960</u>
VAT thereon (15% of 1,960)	<u>294</u>

Total amount charged at wholesale stage

	Rs
Wholesale price	1,910
VAT thereon (15% of 1,960)	294
Total	<u>2,204</u>

4.1.1 Tax treatment at wholesale stage:

	Rs
Turnover for income tax purpose	1,910

VAT

	Rs
Value of taxable supplies	1,960
Output tax	294



4.1.3 Recording in the returns of a wholesaler

4.1.3.1 VAT Return

Other Names			
Proportion of taxable supplies to total turnover (annual) <input type="text"/> <input type="text"/> <input type="text"/> .00 %			
OUTPUT			
1	Taxable supplies		
1.1	Zero-rated supplies (Exports)	1.1	
1.2	Zero-rated supplies other than exports	1.2	
1.3	Taxable supplies made to exempt bodies or persons	1.3	
1.4	Other taxable supplies	1.4	
2	Deferred VAT on importation	2	
3	Exempt supplies		
4	Penalty on excess amount overclaimed		
5	Total	5	
INPUT Imports and Purchases			
6	Taxable input on which input tax is allowed as a credit		

	COLUMN A VALUE (Rs. only)	COLUMN B VAT (Rs. only)
1.4A	Value = Rs. 9,800	
1.4B		VAT = Rs. 9,800*15% = Rs 1,470

4.1.3.2 Income Tax Return

TRADING AND PROFIT AND LOSS ACCOUNT (See Note 3)				
		Local	Foreign	Total
1	Turnover / Gross Income-	1		
1.1	Turnover other than those specified at 1.2, 1.3, 1.4 below	1.1		
1.2		1.2		
1.3	Turnover other than those specified at 1.2, 1.3, 1.4 below = Rs. 9,550	1.3		
1.4		1.4		
2	Total Turnover / Gross Income	2		
3	Less: Cost of sales	3		
4	Gross Profit/(Loss)	4		
Add Other Income				
5	Dividends	5		
6(a)	Interest from Peer-to-Peer Lending platform	6(a)		
6(b)	Other Interest	6(b)		
7	Provision of specified financial services	7		
8	Ships, aircrafts, locomotives and trains, including rail leasing	8		

5.VAT charged at retail stage on items specified in Part II of the 7th Schedule

For goods specified in Part II (Motor spirit and gas oils, cigarettes containing tobacco) VAT charged at the retail stage amounts to the same amount of VAT charged at wholesale stage as the VAT has been calculated based on the wholesale price, as includes the retail margin (i.e. on retail selling price).

It therefore implies that VAT has already been charged on the retail margin at the wholesale stage.

5.1 Example 4: Calculation of VAT on the selling price of a bundle of cigarettes at retail stage

	Rs
Purchase price of a bundle of cigarettes	1,910
Retail margin	50
VAT thereon [15% of (1,910 + 50)]	294
Amount charged to final consumers	2,254

5.1.1 Tax treatment at retail stage:

	Rs
Turnover for income tax purpose	1,960

Value Added Tax:

VAT- Taxable supplies	1,960
Output tax	294
Less Input tax	294
VAT payable	0



5.1.3 Recording in the returns of a retailer

5.1.3.1 VAT Return

Other Names							
Proportion of taxable supplies to total turnover (annual)				00 %			
OUTPUT				COLUMN A		COLUMN B	
1	Taxable supplies			VALUE (Rs. only)		VAT (Rs. only)	
1.1	Zero-rated supplies (Exports)	...	...	1.1			
1.2	Zero-rated supplies other than exports	...	...	1.2			
1.3	Taxable supplies made to exempt bodies or persons	...	...	1.3			
1.4	Other taxable supplies	...	...	1.4			
2	Deferred VAT on importation	...	...	2			
3	Exempt supplies	...	...		
4	Penalty on excess amount overclaimed	...	...		
5	Total	...	...	5			
INPUT Imports and Purchases							
6	Taxable input on which input tax is allowed as a credit						

Line 1.4A
Value = Rs. 1,960

Line 1.4B
VAT = Rs. 1,960 * 15%
= Rs 294

5.1.3.2 Income Tax Return

TRADING AND PROFIT AND LOSS ACCOUNT (See Note 3)				Local	Foreign	Total
1	Turnover / Gross Income-			1		
1.1	Turnover other than those specified at 1.2, 1.3, 1.4 below			1.1		
1.2				1.2		
1.3				1.3		
1.4				1.4		
2	Total Turnover / Gross Income			2		
3	Less: Cost of sales			3		
4	Gross Profit/(Loss)			4		
	Add Other Income					
5	Dividends			5		
6(a)	Interest from Peer-to-Peer Lending platform			6(a)		
6(b)	Other Interest			6(b)		
7	Provision of specified financial services			7		
8	Ships, aircrafts, locomotives and trains, including rail leasing			8		
9	Reinsurance and reinsurance brokering activities			9		

Turnover other than those specified at 1.2, 1.3, 1.4 below = Rs. 1,960

6. Prepaid cards - Section 9(b) VAT Act

Where prepaid cards in respect of any services are supplied at the wholesale stage, the supplies are deemed to have taken place at the retail stage and the same treatment for VAT applies as to those goods specified in **Part II of the Seventh Schedule of the VAT Act**.



Extract of The Value Added Tax Act 1998

For the purposes of this guide, the relevant provisions of the VAT Act are reproduced hereunder for ease of reference:

Section 5 - Time of supply

“(4) Where any goods specified in Part II of the Seventh Schedule are supplied at the stage in the chain of distribution immediately before the retail stage, the time of supply of those goods shall, subject to subsection (1), be treated, for all intents and purposes, as if the supply at the retail stage has taken place.”

Section 9 - Charge to VAT

“(9) Notwithstanding the other provisions of this section, where -

(a) any goods specified in Part II of the Seventh Schedule; or

(b) prepaid cards in respect of any services,

are supplied at any stage in the chain of distribution immediately before the retail stage, the supply shall be deemed to have been made at the retail stage and VAT on such supply shall be charged on such value as includes the retail margin.”

Section 12 - Value of taxable supply

“(6) Where a supply of any of the goods specified in Part I of the Seventh Schedule is made by a registered person -

a) at the stage in the chain of distribution immediately before the stage of retail, VAT shall be calculated on such value of the supply as excludes the retail margin.

b) at the stage of retail, VAT shall be calculated on the value of the supply as specified in paragraph (a).”

“(7) Where a supply of any of the goods specified in Part II of the Seventh Schedule is made by a registered person -

a) at the stage in the chain of distribution immediately before the stage of retail, VAT shall be calculated on such value of the supply as includes the retail margin.

b) at the stage of retail, VAT shall be calculated on the value of the supply as specified in paragraph (a).”



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