

Ref. VAT Cell/
(Circular No. 008/2006)

Office of the Commissioner of
Commercial Taxes,
Chepauk,
Chennai- 600 005.

Dated: 30.1.2007

REVISED CIRCULAR

Sub : Tamil Nadu Value Added Tax Act 2006 – Input tax Credit for
goods held in stock as on 31.12.2006 - guide lines issued –
regarding.

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The Tamil Nadu Value Added Tax Act 2006 has been enacted and implemented with effect from 01.01.2007 repealing the Tamil Nadu General Sales Tax Act 1959, to levy tax on the sale or purchase of goods in the State of Tamil Nadu. The Act provides that a dealer shall pay tax on every sale of the goods specified in the First Schedule at the rate specified therein. However the tax payable by him shall be reduced to the extent of tax paid on his purchase of goods specified in the First Schedule. In fine every dealer dealing in Vatable goods are eligible to deduct the tax paid on purchases (input tax) from the tax payable on sales subject to conditions prescribed.

2) The input tax credit is available on the purchases effected from the date of commencement of the Act. A question arises as to what happens when the dealer effects sales of goods which had suffered tax under the TNGST Act,1959 and are held in stock on the date of commencement of the TNVAT Act 2006. Section 88(6) of the VAT Act provides that the dealer is entitled to claim input tax credit for the tax paid on the purchases under the TNGST Act 1959 and held in stock on the commencement of the VAT Act. But such goods should have been purchased **not more than one year prior to the date of commencement of the ACT.** i.e. goods purchased on and after 01.01.2006 and held in stock on 31.12.2006, alone are eligible for input tax credit.

3) The Registered Dealer who claims input tax credit on stock has to furnish to the Assessing Authority, a stock inventory statement tax rate wise in Form V in duplicate along with a photostat copy of related purchase invoices within 30 days from the date of commencement of the Act, i.e. before 30.1.2007 as per Rule 10(3)(b). A dealer who has not submitted the stock inventory on or before 30.1.2007 is not entitled to claim input tax credit on the closing stock of goods held on 31.12.2006. He can avail the input tax credit immediately on submitting his claim without any monthly ceiling upto six months from the date of commencement of the Act. However, the unavailed credit if any after the expiry of six months shall lapse to the Government

4). The Assessing Authority on receipt of the Statement in Form V shall acknowledge and retain one copy with him and send the other copy to the Assistant Commissioner (CT) concerned. The Assessing Authority shall furnish a list of dealers who have filed Form V within the specified time along with the copies of Form V to the Assistant Commissioner (CT) on every Monday . The Assistant Commissioners (CT) are instructed to have the duplicate copies received from the Assessing Officer in their safe custody.

5)The Assessing Officer shall verify the correctness of the inventory with reference to the copies of invoices furnished by the dealer along with Form V. The Assessing Officer shall verify the correctness of the rate of tax under the TNGST Act and satisfy himself that the claim is not disproportionate to the turnover of the dealer in the previous years. The Assessing Officer shall issue within 3 months from the date of receipt of the inventory statement, a proceedings informing the dealer the amount of input tax credit available to him for adjustment against the output tax to be paid. A copy of the proceedings shall be marked to the Assistant Commissioner (CT) concerned. The Assessing Officer shall open a register in the following format to watch the claim of input tax credit

by the dealers allotting a folio for each dealer to whom the proceeding was issued.

1. Name of the dealer :
2. TIN :
3. Date of receipt of claim :
4. Value of closing stock :
(Rate wise)
5. Input tax credit claimed :
6. Input tax credit allowed :
7. Date of order :
8. Input tax availed :

Sl.No.	Month	Availed in the month	Availed up to the month
1			
2			
3			
4			
5			
6			
		Lapsed	

6) In cases where the Assessing Authority has not accepted fully or partially the input tax credit claimed by the dealer in Form V, he may reject or reduce the input tax credit, but only after giving an opportunity to the dealer. The dealer who claims input tax credit on stock has to keep all the original purchase invoices and connected documents relating to the claim for input tax credit for a period of 5 years from 1.1.2007 and to produce such documents, if required as per Rule 10(3)(b)(viii).

- 7) The input tax credit is allowable subject to the following conditions:
- i) The purchases should have been effected from a first seller in the State who charged the tax separately in the invoice. The input tax credit is allowed to the VAT dealer to the extent of tax paid by him as per purchase invoices for the stock held on stock.
 - ii) **Where the purchases have been effected from second and subsequent dealer, the claim for input tax credit shall be restricted to the extent of the tax collected on the purchase value of goods after deducting fifteen per cent and by using the tax fraction formula at the rate specified in the relevant schedule under the TNGST Act 1959. The tax fraction formula is**

$$\frac{t \times r}{r + 100} = \begin{array}{l} \text{'t' is taxable sale inclusive of tax and} \\ \text{'r' is the rate of tax applicable to the sale} \end{array}$$

Separate statement to claim input tax credit under this head shall be furnished.
 - iii) If the purchases were effected from second and subsequent sellers who have charged re sale tax separately, the VAT dealer claiming input tax credit is eligible to get the re sale tax paid at 1% in addition to the above credit arrived by adopting the above tax fraction formula.
 - iv) In respect of goods which were taxable under the TNGST Act 1959 input tax credit is not available, if those goods are exempted under VAT Act 2006.
 - v) If the VAT dealer has already paid tax on goods which are taxable at the point of purchases, he is eligible to claim input tax credit on the purchase tax paid by him.

- vi) **In respect of semi finished goods(work in progress) and finished goods held on stock by a manufacturer, the corresponding purchase of inputs is eligible for input tax credit. Containers, labels and other packing materials held on stock are also eligible for input the credit.**
- vii) The input tax credit is not eligible for capital goods held in closing stock on 31.12.2006.
- viii) The input tax credit on stock is not available to a works contractor opting to pay tax under section 6 and to a dealer in food and drinks opting to pay tax under section 8.
- ix) The input tax credit is not available to VAT dealers who have opted to pay compounding tax under section 3(4) of the VAT Act.
- x) The input tax credit is not available on closing stock held by exporters

8) In short, the following are to be borne in mind in respect of input tax credit on closing stock.

- Only goods in stock (other than capital goods) purchased after 1.1.2006 & upto 31.12.2006 are eligible.
- Dealers opting to pay tax at compounded rate under VAT Act are not eligible for the claim.
- Claim has to be submitted in duplicate to the assessing Officer on or before 30.1.2007.
- Claim has to be submitted tax rate wise.
- Assessing Officer has to pass orders within 90 days of receipt of claim.
- If claim is disallowed fully or partly opportunity has to be given to the dealer.

- The input tax credit on opening stock has to be adjusted within six months from the date of commencement of the Act.
- Copies of Form V and proceedings must be sent to the Assistant Commissioner

9) A copy of the Form V, specimen proceedings and acknowledgement format are enclosed for reference. The receipt of the reference may be acknowledged by return of post. The Deputy Commissioners are requested to ensure that the circular reaches all the subordinate officers at the earlier.

Encl: . 1) Copy of Form V
 5) Specimen Proceedings
 6) Acknowledgment format

Commissioner of Commercial Taxes .

To

The Joint/Deputy Commissioner (CT) including Enforcement and ISIC

The Director, CTSTS, Chennai

The State Representative, STAT(AB) Chennai

All the Joint/Deputy Commissioner's in the Office of the Spl. Commr. & Commr. of Commercial Taxes including Dy. Commr (CS) Chennai and Dy. Commr. (Legal) Madurai.

