Value Added Tax (VAT) is a modern and progressive form of sales tax. It is charged and collected by dealers on the price paid by the customer. VAT paid by dealers on their purchases is usually available for set-off against the VAT collected on sales.

**Is VAT yet another tax?**

No, it will replace these four existing taxes · The Bombay Sales Tax Act, 1959 · The Maharashtra Sales Tax on the Transfer of Right to Use Any Goods For Any Purpose Act, 1985 · The Maharashtra Sales Tax on the Transfer of Property in Goods Involved in the Execution of Works Contract (re-enacted) Act, 1989 · The Bombay Sales of Motor Spirit Taxation Act, 1958

**Why change to VAT?**

VAT is a modern and progressive tax system now used in over 130 other countries. Most of the States have agreed to change over to a VAT system providing uniformity. A few remaining states have agreed to VAT in principle and are likely to join it a while later.

**What are the benefits of VAT?**

1. It is simple, transparent and progressive
2. Business friendly system of taxation
3. Reduction in the number of tax rates to only two main rates - 4% and 12.5%
4. Reduction in the effective tax rate for many goods
5. Elimination of “tax on tax” existing in the sales tax system
6. Full set-off available for VAT paid on most business purchases
7. Simplification of tax forms and procedures
8. Greater reliance on self assessment and voluntary compliance by dealers

**What types of businesses are liable for VAT?**

VAT applies to all types of businesses including:
1. Importers
2. Manufacturers
3. Distributors
4. Wholesalers
5. Retailers
6. Works Contractors
7. Lessors

**How is VAT charged?**

All registered dealers, regardless of where they are in the chain of manufacture and production, must charge VAT on their sales of taxable goods and collect it from their customers. Registered dealers must issue a tax invoice to other registered dealers showing the VAT amount being charged as a separate amount. Registered dealers who pay VAT on their purchases can normally claim a “set-off” for the VAT paid to their suppliers. As a result, VAT is not a cost to the dealers. Dealers must ensure that tax is charged separately in their purchase invoice in order to be eligible to claim set-off. Certain dealers who sell mainly to consumers at retail level can opt for a simplified system of VAT calculation and payment under a Composition Scheme. Under the Composition Scheme, dealers will not issue a tax invoice or show VAT as a separate amount on a bill or cash memorandum.

**What are the obligations of dealers registered for VAT?**

Dealers who are required to be registered for VAT must:
1. Charge and collect VAT on their sales of taxable goods
2. Issue proper tax invoices
3. Keep proper records and books of account
4. Calculate the VAT due to Government based on VAT charged on sales LESS any VAT available as a set-off on business purchases
5. File VAT returns on a regular basis declaring their VAT liability
6. Pay any amount of VAT due to the Government with the VAT return

**What is the rate of VAT?**

Under the VAT, the tax rates have been simplified. There are only two main rates of VAT: (1) 4% for items consisting mainly of raw materials used in the manufacturing process, IT products and some goods of common consumption (2) 12.5% for all goods unless they are listed under the other rates. Foodgrains including pulses, milk, vegetables and books are not subject to VAT. In addition, there are two other rates for specific items: (1) 1% for gold, silver, other precious metals, precious and semi precious stones and their jewellery (2) 20% for liquor. The only exception to these rates is for the sale of motor spirits, which have special tax rates based on the existing Bombay Sales of Motor Spirit Taxation Act, 1958, subject to a floor rate of 20%.