AN ANALYTICAL STUDY OF VAT

Dr. Pandurang Korde
Principal, Jog College, Pune
Email: pbarke@gmail.com

ABSTRACT

Each commodity passes through different stages of production and distribution before finally it reaches the Consumer. Some value is added at each stage of the production and distribution chain. Value Added Tax (VAT) is tax on value addition at each stage. Under VAT system, a dealer collects tax on his sales, retains the tax paid on his purchase and pays balance to the Govt. Treasury. It is a consumption tax because it is borne ultimately by the final Consumer. The tax paid by the dealer is passed on to the buyer. It is not a charge on the dealer. Hence, VAT is a multipoint tax system with provision for set off of tax paid on purchases at each point of sale.

Keywords: VAT

INTRODUCTION

Value Added Tax

Indirect tax system plays an important role in the economic development of a country by influencing the rate of production and consumption. The government of India after committing to the World Trade Organization (WTO) regime, decided to modernize and streamline its indirect taxation, in the light of the experience of WTO member countries. Value Added Tax is the Tax which is payable only on value added - it is multi point tax system but without the effect of double taxation. Value is added to the products which an organization buys from other organizations such as Raw material, Partly Finished goods etc. After buying the organization applies its own labour and machine to manufacture the final products.

Vat is a Tax, which is imposed at every stage of production i.e. from Production level to Retail level. Under Vat Tax is calculated on Value Added where Value Added is the difference between Sales Value and Purchase Value. This is accomplish by taking full tax on all sales, but Refunding the tax difference to the sellers.

History of VAT

- VAT was originally a French idea. Maurice Laure, Joint Director of France Tax authority, The Direction Generate Des Impots, was first to introduce VAT on 10th April 1954 in France. Although German industrialist Dr. Wilhelm Von Siemens proposed the concept in 1918.
- VAT in India was introduced as an Indirect Value Added Tax (VAT) into the Indian Taxation system from 1st April 2005. The existing General Sales Tax Laws were replaced with the Value Added Tax Act (2005) and associated VAT Rules.
- The State level VAT introduced in terms of entry 54 of State list of the Constituents.
- Currently There are 160 Countries in the world that have implemented VAT. And India is among the last few to introduce it.
States Welcoming VAT in India

These few States opted to stay out of VAT Taxation System during the initial introduction of Vat, before adopting the VAT at a later date.

- Uttar Pradesh
- Tamil Nadu
- Uttaranchal
- Madhya Pradesh
- Rajasthan
- Jharkhand
- Gujarat
- Chhattisgarh

As of 2nd June 2014 VAT has been implemented in all the States & Union territories in India, except in Andaman and Nicobar Island and Lakshadweep Island.

Maharashtra Value Added Tax JM-Vat1

Maharashtra is one of the 21 States which have introduced the Value Added Tax (VAT) system of taxation from 1st April 2005. The empowered committee of State Finance Ministers Constituted by the Ministry of Finance government of India, On the basis of the resolution adopted in the conference of Chief Ministers on Nov. 16 1999 under the Chairmanship of Dr. Assim Das Gupta came out with a white paper on State level VAT which was released on Jan 17, 2005 by P. Chidambaram, the Finance Minister then the Government of India. Haryana became the first State in India that had adopted the taxation on 1st April 2003.

VAT replaced the single point Sales Tax. Single Point Sales Tax had a number of disadvantages, primarily that of Double Taxation. VAT is a modern and progressive taxation system. In addition to offering the possibility of a set-off of tax paid on purchases. VAT has other advantages for both business and Government.

Company Profile

1. **Title of the Research Project:** The Project Is entitled as a Study of the VAT Audit Procedure and its Implications with reference to "Raut Jadhav And Associates"

2. **Name of the Firm:** "Raut Jadhav And Associates"

3. **Date of Establishment:** 10th April 2012

4. **Vision Statement:** Providing wide range of accounting and financial services to clients in India.

5. **Mission Statement:** To deliver outstanding services to clients & to provide fulfilling career & professional satisfaction for the people & to achieve success,

6. **About Company:** "Raut Jadhav and Associates" is an Indian Chartered Accountant firm based in Pune. They provide all sort of Chartered Accountant services relate to accounting, auditing, income tax, financial Services, company law matters, foreign collaborations, imports exports consultancy, sales tax, vat matter, Service tax, STPI, Transfer pricing related

7. **Matters etc:** In order to meet the specific requirement of the clients. They provide best possible solution and consultancy for their respective matters with active support they receive from their competent team of Professionals. They have managed to provide the effective services to their various esteemed clients.
8. **Human Resources:** firm has dedicated & experienced team of Chartered Accountant and other Professionals that are committed to provide world class CA services.


10. **Email Information:** raut.jadhav@gmail.com

11. **Contact Number:** 9881951403

12. **Service Provided:** Accounting Services

13. Return Filing Internal Auditing

**RESEARCH METHODOLOGY**

In today's world, Research has become an important activity in overall social life. Research Methodology provides a framework to conduct research. Research in common parlance refers to a search of knowledge. The process used to collect information and data for the purpose of making business decisions. The methodology may include publication research, interviews, surveys and other research techniques, and could include both present and historical information.

**Definition:** “Research is a systematized effort to gain new knowledge”

**Information Sources**

- **Primary Data:** The study is based on both primary and secondary data. Primary data means data which are collected from the field under the control & supervision of an investigator. It is original data. Primary data s collected from the officials, Chartered Accountant.

- **Secondary Data:** Secondary data is the data that has been already collected by readily available from other sources. It involves less cost, time & effort- Secondary data may be obtainable from many sources including literature, newspaper, magazines-

**OBJECTIVE OF THE STUDY**

1. To study the theoretical background of Vat Audit.
2. To study the actual Vat Audit Procedure.
3. To identify the characteristics of Vat Audit S implementation domain.
4. To study the existing Vat Audit Procedure used by accountancy firm for tax audit.
5. To find out the implications of Vat Audit

**SCOPE OF THE STUDY**

- The present study has been undertaken to study the overall Vat Audit Procedure.
- The scope of the study includes the concept of Vat Audit, Overall theoretical information, Procedure & Return Filing of Vat & Accounting of Business.

**HYPOTHESIS OF THE STUDY**

1. Vat Audit refers to checking / verification of Vat computation.
2. It is a system through which correctness of self assessed Vat is examined.
3. The audit wing is delinked from tax collection wing to remove any bias.
4. The Audit work is to be completed within a prescribed time limit of 6 months.

**LIMITATIONS OF THE STUDY**

- The study was restricted to Indian Vat Audit System only.
Vat Audit is not carried out usually by all the trading concerns.

Data available is not sufficient.

Vat Audit is not encouraged because the dealer the dealers do not have adequate knowledge.

**Introduction of VAT Audit**

Vat Audit is the auditing of Vat that has been computed, to check errors and rectify them with adherence to the principles of Auditing. The concept of Vat Audit is popular even in foreign countries where Vat is in practice since long in the field of indirect taxation.

In countries like France and Korea Vat Audit by independent professionals has proved to be an effective tool to check the evasion of tax, which was mostly done by producing fake invoices etc.

**Objectives of VAT Audit**

The overall aim is to check the correct amount of tax is collected and improve compliance by dealers. To achieve these objectives, Auditors should be required to:

- Confirm the dealer is correctly registered.
- Note the accounting measures used by the dealers.
- Assess the level of risk posed by the dealer to the Vat regime and identify the appropriate counter measures.
- Ensure that any unsatisfactory features disclosed on an earlier visit have been corrected.

**Importance of VAT Audit**

- VAT is simple to administer as compared to other indirect tax,
- VAT is transparent and has minimum burden to consumers as it is collected in small fragments at various stages of production and distribution.
- VAT is based on Value added not on total price. So price does not increase as a result of Vat.

**Procedure of VAT Audit**

Vat is the value added tax. We pay only the difference in our total VAT output and VAT input. Audit of Vat is supportive for checking the correctness of VAT and following all the latest provisions and amendments of law. From few years, it has become compulsory for many organizations. For example, in Maharashtra state, if turnover is more than Rs, 60, it is compulsory to audit of vat. Following are the 3 main steps of audit of vat in India,

**Tin Basis Safes and Purchase Matching**

It is the duty of auditor to match Sale and purchase on tin basis. Now- when dealer provided his whole sale, purchase, Tin, invoices and his paid VAT information to auditor. On this information CA can get the information whether his showing turnover as per tin is equal to the other buyers' buying under tin. If there is any difference it may be the chance of cheating of one side. If there is any error it should be rectified.

**Check the Accounting System**

Almost all the computer accounting system calculates the VAT input and VAT output and balance payable automatically. Auditor should check the mathematical correctness of accounting system by taking small sample and try to calculate the VAT manually and verify whether it is equal to the
calculation by accounting system. On this basis, system error can be found. There are some accounting system like tally in which you can use re-audit. It has simplified the process of tax audit.

**Check Whether Accounting System Following Laws All Provisions**

Time to time, state govt. may give the notification for new amendments in VAT. Auditor should check that dealer has followed all these new rules and regulations for paying the VAT. For example, Govt. may increase the rate; system should adjust the VAT on this basis.

**SUGGESTION**

- As there has been a decline in audit work carried out by the accounting firm which can be because of lack of interest of employees, Employer should keep some Management Training Programme for its Auditing staff boost up their moral.
- The trading concerns should be given adequate information about Vat as Vat Audit has not gained much importance because of lack of information.
- VAT out comes and VAT benefits are analogs to each other. The VAT real process and its implementation are able to ascertain the exact VAT feature. The VAT implementation gives the maximum benefits to the Customers and its features are tending towards benefits for the sellers and customers.
- It is strongly recommended that the tax consultant and the government should periodically to monitor the procedure.
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**CONCLUSION**

- The introduction of Vat & its Audit has been benefitted in the growth of Indian Economy.
- The existed Vat Audit Procedure used by accounting firm for tax audit & filling Return of concerned dealers, i.e. Business is understood practically.
- The actual Vat Audit Procedure is required to be well compiled.
- It depends on the details provided by the dealers.
- VAT out comes and VAT benefits are analogs to each other. The VAT real process and its implementation are able to ascertained the exact VAT feature.
- The VAT implementation gives the maximum benefits to the customers and its features are tending towards benefits for the sellers and customers.

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