

VAT Circular – Claiming Transitional Relief

This VAT circular explains how dealers can claim relief for sales tax paid on goods held in opening stock on 1 April 2005.

In respect of stock held on the appointed day, am I eligible to get Transitional Relief?

Yes. Transitional Relief can be claimed in respect of the following taxes paid:

- Sales Tax / Purchase Tax paid under the Bombay Sales Tax Act, 1959.
- Tax paid separately under the Maharashtra Sales Tax on the Transfer of Property in Goods involved in the Execution of Works Contract Act (Re-enacted) Act, 1989
- Tax paid separately under the Maharashtra Sales tax on the Transfer of the Right to use any goods for any Purpose Act, 1985
- Tax paid separately under the Bombay Sales of Motor Spirit Taxation Act, 1958
- Entry Tax paid under the Maharashtra Tax on Entry of Motor Vehicles into the Local Areas Act, 1987
- Entry Tax paid under the Maharashtra on Entry of Goods into the Local Areas Act, 2002.

Can I claim relief by set-off for the sales tax I paid before 1 April 2005?

Yes. You can apply for transitional relief provided:

- you are not entitled to claim set-off under the old sales tax system (eg. set-off on raw-materials under Rule 41D of the BST Rules, 1959)
- you are not a retailer, restaurant, eating house, bakery or second hand car dealer opting to pay VAT under a Composition Scheme.

What action should I take now?

You must arrange to take stock of the goods you have on hand at the close of business on 31 March 2005. And then, submit a claim to your local Sales Tax Office on or before 30 April 2005.

How do I calculate the amount available for relief?

If you have evidence of the payment of sales tax on the goods on hand in the form of an invoice, bill or cash memorandum showing the exact amount of tax paid, you may claim the full amount of the sales tax paid.

If you do not have evidence of the sales tax paid, then the relief will be based on 75% of the value of the goods on hand as shown on the invoices that cover the purchases of the goods and which is supported by Form 31 issued by the seller. You must establish the appropriate rate of Bombay Sales Tax applicable to those goods and calculate the notional amount of tax paid by applying the following formula to the value of goods on hand:-

$$\frac{3P}{4} \times \frac{R}{100+R+S+T+RT}$$

Where:

P = Purchase price of the goods

R = Rate of sales tax applicable to the sales of the goods

S = Rate of surcharge i.e 10% of sales tax applicable to the sales of the goods

T = Rate of turnover tax applicable to the sale of the goods

RT = Rate of resale tax, applicable to the resale of the goods

How do I apply?

You must complete form 213, Statement of Claim of Set-off relating to Stock held on the Appointed Day, which is available from your local Sales Tax Office. The completed form should be submitted at your local Sales Tax office.

Is there a time limit for submitting form 213?

Yes. You must submit form 213 on or before April 2005. Forms submitted after this date will not be accepted and you will not be eligible for transitional relief.

Remember, you must have taken stock of the goods on hand at the close of business on 31 March 2005.

What will the Sales Tax Office do with my form 213?

They will check that the form is completed correctly and that you are eligible to claim transitional relief. Your form 213 and the claims for relief you make on your VAT returns may be examined during a subsequent VAT audit of your business records.

After I submit form 213, how do I claim the relief?

If you submit form 213 on or before 30 April 2005, you can claim transitional relief by claiming a set-off in the first return filed after 01 April, 2005

Are there any conditions for claiming Transitional Relief relating to trading goods?

Yes. Where the goods on which set-off has been claimed remain unsold on close of business on 31 December 2005, the set-off you claimed on such unsold stock must be reversed. You should adjust the original set-off claimed in Box 20(7) on your VAT return that includes the date 31 December 2005.

What is the position regarding capital assets on hand on 01 April 2005?

You can claim transitional relief for capital assets subject to the following conditions:

- you must have purchased the capital asset or the asset must have entered the State after the 1 April 2003 and
- you must re-sell the asset on or before 31 December 2005.

If you have capital assets that meet the first condition, you should show the sales tax paid in Part C of your form 213. But you are only eligible to claim the set-off when you sell the capital asset on or before 31 December 2005. You should claim the set-off amount on the VAT return for the period in which the assets are re-sold.

These notes are for guidance only. They reflect the tax position at the time of publication. They do not replace the legislation or affect your rights of appeal about your own tax position. If in doubt, contact your local Sales Tax Office.

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