

Claiming Set-Off for VAT

What is set-off?

Set-off is the amount of tax credit which can be claimed in the VAT return. It is the tax that you have been charged on goods that you have purchased for your business. This credit can be adjusted against the VAT payable on your sales, and the balance of VAT has to be paid to the Government.

Who can claim set-off?

Any registered dealer who has not opted to pay tax by way of composition as a retailer, owner of a restaurant / hotel or a bakery owner.

Is set-off available under a composition scheme?

No, except in the case of works contracts and dealers in second hand motor vehicles where special provisions apply.

Which taxes are available for set-off?

You can claim set-off for taxes paid under:

- Maharashtra Value Added Act 2002, i.e VAT
- Entry for Motor Vehicles into Local Areas Act, 1987, i.e Entry Tax
- Entry of Goods into Local Areas Act, 2003, i.e Entry Tax

You cannot claim set-off of tax paid under the Central Sales Tax Act, 1956 or of centrally collected taxes, taxes paid in another state or taxes paid to a municipal or other local self government.

In respect of which goods can I claim set-off?

Generally, you can claim set off for the full amount of tax paid on purchases for your business. This includes capital assets, goods the purchases of which are debited to profit and loss account, trading goods, raw materials, parts, components and spares, packing materials and fuel.

However, there are conditions related to the set-off you can claim. The tax paid on some goods does not automatically qualify for set-off, and there are restrictions in some cases on the amount of set-off that can be claimed. Consult your tax consultant or Sales Tax Office for more details.

What are the conditions related to claiming set-off?

The following conditions apply for claiming set-off:

- you must be registered for VAT
- you must not be paying tax by way of composition as a retailer, hotel / restaurant business or bakery.
- you must hold a valid tax invoice for the goods purchased on which you are claiming set-off in which the VAT must be shown separately
- you must maintain an account of all purchases in chronological order on which you are claiming set-off

Which purchases do not qualify for set-off?

You cannot claim set-off on the purchases of the following goods:

- motor vehicles (other than goods vehicles) and parts, components and accessories thereof treated as capital assets unless the dealer is in the business of transferring the right to use such vehicles.
- motor spirits, unless sold or resold in the course of inter-state trade, or exported outside India or are sent outside the state on consignment or as a branch transfer, or where the dealer is a commission agent sending the goods to the place of business of his principal.

- crude oil used for refining.
- consumables or capital assets where the dealer is principally involved in doing job-work or labour work.
- raw materials purchased by a dealer with an Entitlement certificate. (see leaflet MVAT 110)
- goods of an intangible character other than those specifically excluded.
- goods purchased by a shipping company
- purchase effected by way of works contract where the contract is for erection of immovable property.
- building materials which are not resold but are used in the activity of construction.
- office equipment, furniture, fixtures and electrical installations which are meant for own consumption.
- purchase effected by a wholesaler or retailer of drugs and medicines covered by Entry 29 of schedule C.

What are the restrictions on the set-off, which can be claimed?

In the following circumstances, the amount of set-off which can be claimed has to be reduced by deducting 4% of the purchase price from the tax paid on the purchase:

- goods used as fuel
- materials used in the manufacture of tax free goods.
- packing materials used in the re-sale of tax free goods.
- taxable goods sent outside the state on consignment or branch transfer.

In the case of a dealer executing a works contract and paying tax by way of composition, 16/25 of the tax paid on purchases can be claimed as set-off.

In the case of closure of a business, the set-off received on stock on hand at that time, not including capital assets, has to be repaid.

If receipts on account of sales are less than 50% of the gross receipts, set-off only on the purchases including purchases of packing materials, corresponding to the goods sold or consigned to other states as branch transfers.

In respect of sales by a dealer holding liquor vendor licence, if actual sale price is less than M.R.P., set-off to the extent of sum determined in accordance with the prescribed formula.

How do I claim set-off?

You claim the amount you are entitled to in your VAT return. It would normally reduce the amount of VAT you are due to pay on that return.

What happens if the set-off exceeds the tax due to be paid?

You can adjust the amount as follows:

- to reduce the amount of CST payable
- carry forward the balance to your next VAT return
- claim a refund if you are eligible to claim a refund

How do I obtain further information?

Contact your local Sales Tax Office.

There is a new series of leaflets, written in simple language, to explain the value added sales tax system.

The range of leaflets will each cover a single topic, and the topics covered will gradually be expanded over the next few months.

You will be able to get copies of the leaflets from your local Sales Tax Office.

Other leaflets that you may find useful are:

MVAT 101 – What is VAT?
MVAT 102 - Should I be registered for VAT?
MVAT 103 - How to register for VAT
MVAT 104 - Keeping records for VAT
MVAT 105 - Tax invoices for VAT
MVAT 106 – VAT: Composition Schemes
MVAT 107 - How to file a VAT Return
MVAT 109 - Accounting for VAT on Works Contracts
MVAT 110 – Incentives under VAT
MVAT 111 - VAT Advisory Visits

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 for assistance.

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