

VAT Records and Accounts

**Inland Revenue Department
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1. Background

Value Added Tax (VAT) is tax based on the transaction of goods and services. The tax-payer has to maintain accounts of his/her transactions. This type of accounting is relatively a simple one. For this purpose, the tax-payer has to maintain a purchase book, a sales book and VAT accounts and has to issue tax invoice or abbreviated tax invoice while selling/supplying goods or services. A brief introduction to the accounting system related to these is described below.

2. Purchase Book

A registered tax-payer has to maintain a complete record of all the purchases and imports made of goods and services throughout the month.

In the purchase book, the date when a commodity or service was purchased, the invoice number, and the name and registration number of the supplier has to be stated. Similarly, the total purchase value, the purchase value of taxable goods or services, the import value of taxable goods or services and the tax amount paid should be stated. A sample of a purchase book is as follows.

Purchase Book

Tax-payer Identification Number

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Period of purchase : Month..... Year.....

Invoice				Total purchase value	Purchase value of non-taxables	Taxable purchases		Taxable imports	
Date	Invoice number	Supplier's Name	Supplier's Identification number			Value	Tax amount	Value	Tax amount
Total									

- ‘Purchase of non-taxables’ implies purchase or import of the items listed in Schedule 1 of the VAT Act. This list includes primarily goods and services related to basic needs, social welfare service, goods made for the use of disabled persons, educational and cultural goods and services, etc.
- ‘Purchase of taxables’ implies the purchase of those goods and services that do not fall in list of tax-exempt goods and services within the country. Taxable import implies the import of goods and services that is not in the ‘tax exempted’ list of goods and services.
- The purchase book does not have to be submitted at the VAT Office, but has to be shown at the time of inspection or if and when the tax officer wishes to see it.
- The person has to get the purchase book certified by the tax officer either by taking it to the Inland Revenue Office or at the time when the tax officer comes on business inspection.
- The purchase book has to be maintained safely up to a period of six years after the transaction period is over.

3. Sales Book

The sales book is similar to the purchase book. The sales of goods and services throughout the tax period should be recorded in this. An example is given below.

Sales Book

Tax-payer identification Number

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Period of purchase : Month..... Year.....

Invoice				Total sales	Sales of non-taxables	Zero-rated sales (export)	Taxable sales	
Date	Invoice number	Buyer's Name	Buyer's identification number				Value	Tax amount

Total								

- In the sales book, the date when the sale was made, the invoice number, and the name and registration number of the buyer has to be stated. Similarly, the total sales value, the sales value of non-taxable goods, the zero-rated sales value, the sales value of taxable goods and the amount of tax should be stated.
- ‘Sales of non-taxables’ implies the sales of the items listed in Schedule 1 of the VAT Act.
- Zero-rated sales implies the sale of those taxable items, listed in Schedule 2 of the VAT Act, within the country or their export outside the country. Since no tax is levied or zero-rated tax is levied in the export of zero-rated goods, the exporter does not have to pay any tax but he/she can reclaim the tax incurred in the purchase of the item exported.
- The person has to get the sales book certified either by taking it to the Inland Revenue Office or by the concerned tax officer at the time when he/she comes on an inspection of the transaction of the tax-payer.
- The purchase book does not have to be submitted at the Inland Revenue Office, but has to be shown when the tax officer wishes to see it.
- The purchase book has to be maintained safely up to a period of six years after the transaction period is over.

4. VAT Accounts

VAT accounts is an integrated, abbreviated version of the purchase book and sales book as described above. The VAT account shows the tax paid on purchases, the tax collected through sales and the self-assessed tax amount that has to be paid to the Government by the tax-payer. An example of VAT accounts is given below.

An Example of VAT Accounts

Purchase/Imports					Sales/Exports				
Date	Particulars	Purchase	Tax Rate	Tax amount	Date	Particulars	Sales	Tax Rate	Tax Amount

The tax-payer has to maintain this account each month and keep it with oneself. This does not have to be submitted at the Inland Revenue Office along with the VAT statement but has to be shown to the Tax Officer when he/she wishes to see it.

5. Tax Invoice

- There are two types of tax invoice
- a. Tax Invoice
 - b. Abbreviated Tax Invoice

5.1 Tax Invoice

A registered tax-payer has to issue a tax invoice while selling goods or services. But ‘Tax Invoice’ has to be stated as ‘title’ only in the first copy of the bill and not in the other two, out of a total of three copies. The first original copy has to given to the recipient, the second copy has to maintained in a separate record to be submitted at the tax office if and when asked for and the third copy should be maintained as record for the purpose of one’s transaction.

An Example of Tax Invoice

- Invoice number:
- Seller’s tax-payer identification number:
- Seller’s name
- Address:
- Buyer’s name:
- Transaction date:
- Date of issue of invoice:

Address:

Buyer's tax-payer identification number:

- It is not necessary that all sellers have to issue the invoice in the pattern given above. Based on one's transaction, the invoice pattern can be changed with the permission of the tax officer, but all information contained in the sample pattern above has to be entered.
- 'Tax Invoice' should be stated as title only in the first original copy of the invoice.
- Issuing and receiving invoice is one of the prime duties of a VAT registrant.
- If a tax invoice is not issued, the VAT registrant has to face penalty and will also forego the facility of tax deduction.

5.2 Abbreviated Tax Invoice

In the sale of up to NRs 5,000, including tax, an abbreviated tax invoice can be issued. An example of an abbreviated tax invoice is given below. To issue an abbreviated tax invoice the tax-payer has to take the permission of the tax officer.

An Example of an Abbreviated Tax Invoice

Date.....

Invoice Number:

Seller's Name:

Tax-payer identification Number

Tax Rate (%)

Address:

Serial Number	Particulars	Amount	Cost per Unit	Total Amount
			Discount	
			Total Amount	

Note: *This invoice cannot be issued in the sale of goods and services above NRs 5,000 (including tax). Under the columns of 'Cost per Unit' and 'Total Amount' the cost inclusive of tax should be stated.*

.....
 Seller's signature
 Name and Address

- In cases where most sales comprise of small items and low costs, the invoice can be issued by combining the items as 'some goods' under particulars.
- If the buyer demands a tax invoice instead of an abbreviated one then a tax invoice has to be issued.
- When calculating the tax amount to prepare the tax statement to be presented, the total amount in the tax invoice has to be multiplied by the tax fraction. For example (assuming that the tax rate is 10%):

$$\frac{\text{Tax rate}}{\text{Tax rate} + 100} = \frac{10}{10+100} = \frac{10}{110} = \frac{1}{11}$$

(Here the tax fraction is 1/11)

If the total sales is 400 then

$$400 \times \frac{1}{11} = 36.36 \text{ will be the tax amount.}$$

6. Credit or Debit Note

- If there is a difference in value after the commodity or service has been supplied based on the tax invoice, then a debit or credit note has to be issued.

- When issuing such a note it has to be stated whether it is a credit note or a debit note.
- The date and the names of the buyer and seller along with their tax-payer identification number and address have to be stated in the credit or debit note.
- The relevant tax invoice number also has to be stated.
- If the goods have been returned the reason for doing so has to be stated.
- The item returned along with its cost has to be stated.
- The difference arising in the tax amount after the debit or credit note has been issued also has to be clearly stated.

7. When an Item Purchased by Issuing a Tax Invoice has to be Returned

- (a) If the quantity, quality and the nature of the item is the same:
 - If an item purchased is damaged, torn or stained and is exchanged with the same or similar item, the same tax amount stated in the tax invoice has to be maintained. Or, since the tax invoice has already been issued, the item can be exchanged by preparing a credit note and issuing a new invoice.
- (b) If the item is similar but the cost is different:
 - Let us assume that the cost of the item purchased was NRs 100. But at the time of exchange, if for some reason the cost has come down to NRs 75, then a credit note has to be issued.
 - If for some reason the cost of the above item purchased at NRs 100 has reached NRs 150 at the time of exchange, then the tax amount on the additional NRs 50 has to be charged and a reference to the tax invoice number has to be made.

8. Others

Once the purchase book, sales book and the VAT accounts have been prepared, it will be easy for the taxpayer to calculate the tax amount that he/she has to pay while preparing the VAT return. To estimate how much tax has to be submitted to the Government within a stipulated time period, the tax incurred has to be deducted from the tax collected within that period. If the tax collected is more than the tax paid, then the person has to submit that extra tax amount received

from sales to the Government. But if the tax paid in purchase is more than the tax collected from sales then the person can adjust the extra amount in the tax due in the following month. If this process continues for six consecutive months and the amount is still not adjusted then the tax-payer can write an application to the concerned Inland Revenue Office to get a refund of the amount that has not been adjusted. Once such an application is received, the tax officer has to refund this amount within 60 days from the date that the application has been received. If the amount due is not refunded within 60 days, it has to be paid back along with interest.