

No.C1/520/2006/CT

Office of the Commissioner,
Department of Commercial Taxes,
Thiruvananthapuram.
27th November 2006

CIRCULAR No. 42/2006

Sub:- Kerala Finance Act.2006- Amendments under KVAT Act,2003- Payment of tax at compounded rate - Dealers in jewellery- Instructions - issued -reg..

As per Kerala Finance Act, 2006 certain amendments were made in section 8 of the KVAT Act,2003 providing for payment of tax at compounded rate by dealers in ornaments or wares or articles of gold, silver or platinum group of metals.

In this connection the following instructions are issued.

1. Compounding is an option to be exercised on an yearly basis. So the effective date of operation of this option will be from 1st April,2006.
2. Dealers who had commenced business after 30/9/2006 will not be eligible to pay tax at compounded rate for the year 2006-07.
3. In the case of jewellery, all dealers in ornaments or wares or articles of gold, silver or platinum group of metals who have dealings in items covered under serial number 51A of the third schedule and under serial numbers (1), (3), (4) and (5) of second schedule are eligible for compounding under section 8(f) of KVAT Act.
4. The 'tax payable' in the relevant years to be considered for the purpose of arriving at the compounded tax liability will be the total of the tax under section 5(1) and 5A of KGST Act,1963 for the periods prior to 1/4/2005. For the subsequent periods it will be the total of the net tax payable and purchase tax u/s section 6(2) under KVAT Act, 2003. In order to arrive at the compounded tax liability of dealers in jewellery u/s 7 of the KGST Act, 1963 the tax liability u/s 5A of the said Act was also considered; the same yardstick is adopted for fixing the tax liability u/s 8(f) of KVAT Act, 2003.

5. The compounded tax to be paid by such dealers for 2006-07 will be calculated as follows:
 - (i) At 200% of the highest tax payable for a period of twelve months during any of the years 2003-04, 2004-05 or 2005-06.
 - (ii) At 400% of the tax payable or paid for the year 2005-06 in the case of dealers who do not qualify for compounding as per sub clause(i) of clause (f) of section 8.
 - (iii) In the case of a dealer commencing business during the period from 1/4/2006 to 30/9/2006, the compounded tax per month shall be at 150% of the average monthly tax paid or payable from the commencement of business till 30/9/2006
 - (iv) In the case of a “branch” opened by a dealer after 31/3/2005, who has opted to pay tax as in item (i) and (ii) above, the tax payable for the new branch will be worked out as in sub clause (i) and (ii) based on the figures used for computing the tax liability, by taking the average of the tax paid or payable for the principal place of business and other branches, as if the new branch had not been opened.
6. Branches are treated as independent units for the purpose of compounding. So if need be, dealers are at liberty to opt out of compounding in respect of any branch and compound for the rest.
7. In the event of a revision of tax liability in pursuance to any best judgment assessment or on account of any orders of an appellate authority, the tax payable shall be the tax finally arrived at by such orders.
8. No purchase tax under section 6(2) of the KVAT Act,2003 shall be additionally payable by any dealer opting for compounding under the section 8(f) of the said Act in the year for which he compounds.
9. Dealers who have no output tax liability during the year 2005-06 will not be eligible for compounding under the said section.
10. In respect of dealers who had opted for compounding under Section 7 of the Kerala General

- Sales Tax Act, tax payable for the purpose of compounding under Kerala Value Added Tax Act will be the compounded tax fixed or the actual tax collected, whichever is higher in respect of the respective year.
11. In respect of the dealers opting for compounding during 2006-07, the tax paid during the year shall be adjusted against the compounded tax liability fixed under Section 8(f) of the Kerala Value Added Tax Act.
 12. The last date for filing application for compounding for the year 2006-07 will be 30th of November, 2006.
 13. No specific forms shall be insisted upon for filing application for compounding for this year; so dealers may apply for compounding this year on their letter head.

All officers are directed to see that the above instructions are strictly complied with.

COMMISSIONER