

Central Sales Tax Test

Total Marks: 40

Answer Sheet

Q 1 a)

- i) **No, the statement is not valid.** Profit motive is not essential to call an activity a “business” under the CST Act. **The definition of “business” clearly specifies** that for an activity to be called “business”, **profits motive is not necessary.**
- ii) **Yes, the statement is valid.** CST is leviable on transactions of leasing / hiring of assets for a defined period. As per the **definition of sale**, transaction of leasing and hiring of assets for a defined period is deemed to be a sale.
- iii) **Yes, the statement is valid.** The **definition of place of business** specifically includes the place of business of an agent where a dealer carries on business through such agent.
- iv) **No, the statement is not valid.** Although as per the definition of goods, goods include all materials, articles and all other kinds of movable property, newspapers have been specifically excluded from the said definition. Hence, newspapers cannot be considered as goods.
- v) **No, the statement is not valid.** According to section 9 (1) of Central Sales Tax Act 1956, Sales Tax is collected by the State Government of State from which the movement of goods is commenced.

Q1 b)

Computation of Mr. Ravi's CST payable

Particulars	₹	₹
Total inter-State sales		93,87,000
Less: Freight shown separately in the invoices [Note-2]	2,00,000	
Installation and commissioning charges shown separately [Note-3]	52,000	2,52,000
Turnover including CST		91,35,000
<u>2</u>		
CST payable = 91,35,000 × $\frac{2}{100}$ (B) [Note-4]		1,79,118

Notes:

1. Dharmada and cost of packing material are includible while calculating turnover.
2. Freight charges of ₹1,20,000 are not deductible while calculating the turnover as they are not shown separately in invoices. Remaining amount of freight, shown separately in the invoices, is deductible.
3. Installation and commissioning charges are deductible while calculating the turnover since shown separately in the invoices.
4. The CST on transactions covered by valid “C” Form is 2% or the sales tax rate within the State, whichever is lower. Since, in this case, the State sales -tax rate is higher than 2%, the rate of CST is taken as 2%.

Q 1 c)

If a tax has been levied on sale or purchase of any declared goods inside a State and the same goods are subsequently sold in the course of inter -state trade or commerce and is subjected to tax under the CST Act, sales tax paid has to be reimbursed to the dealer. However, sales tax paid within the state can be reimbursed only when the CST has been paid subsequently and not otherwise.

Hence, in this case, Mr. Yogesh can claim refund of tax paid within the State after payment of central sales tax in respect of such declared goods.

Q 2 a)

i) Business -

Business- includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture, whether or not such trade, commerce, manufacture , adventure or concern is carried on with a motive to make profit and whether or not any gain or profit accrues from such trade, commerce, manufacture, adventure or concern. It also includes any transaction in connection with, or incidental or ancillary to such trade, commerce, manufacture, adventure or concern [Section 2(aa)].

ii) Place of Business –

Place of business: includes (i) in any case when a dealer carries on business through an agent (by whatever name called), the place of business of such agent; (ii) a warehouse, godown or other place where a dealer stores his goods; and (iii) a place where a dealer keeps his books of account [Section 2(dd)].

Q2 b)

Computation of Mr. Mani's taxable turnover and CST payable

Particulars	₹	₹
Total inter-State sales		45,00,000
Less: Freight shown separately in the invoices [Freight not shown separately in invoices is not deductible]	1,50,000	
Goods returned by Mr. X [deductible as returned within 6 months]	45,000	
Goods rejected by Mr. Z after 6 months [deductible although returned after 6 months, as it is a case of an un-fructified sale]		
	<u>30,000</u>	<u>2,25,000</u>
Turnover (including CST)		42,75,000
Taxable turnover (rounded off) [$42,75,000 \times 100/102$]		41,91,176

CST @ 2% [$42,75,000 \times 2/102$]		
Since transactions are covered by valid „C“ Form, CST is 2 % or sales tax rate within the State (5%), whichever is lower, i.e., 2%		
CST payable (rounded off)		83,824

Q 2 c)

A sale or purchase of goods shall be deemed to take place in course of export of goods out of the territory of India only if:-

- (i) sale or purchase occasions such export, or
- (ii) sale or purchase is effected by a transfer of documents of title to the goods after the goods have crossed the customs frontiers of India, or
- (iii) it is penultimate sales.

Q 3 a)

The first sale by Nathuram to Mahendra is chargeable to central sales tax. However, sale of goods by Mahendra to Santhosh is exempt as it is a subsequent sale by transfer of documents of title to the goods during their movement provided subsequent sale is made to a registered dealer (in the given case Santhosh is a registered dealer), Form C is furnished by the buying dealer, Santhosh to Mahendra of Chennai and Mahendra has collected Form E1 from Nathuram of Kolkata.

Q 3 b)

Dealer means any person who carries on (whether regularly or otherwise) the business of buying, selling, supplying or distributing goods, directly or indirectly, for cash, or for deferred payment, or for commission, remuneration or other valuable consideration, and includes-

- (i) a local authority, a body corporate, a company, any cooperative society or other society, club, firm, Hindu undivided family or other association of persons which carries on such business;
- (ii) a factor, broker, commission agent, del credere agent, or any other mercantile agent, by whatever name called, and whether of the same description as hereinbefore mentioned or not, who carries on the business of buying, selling, supplying or distributing, goods belonging to any principal whether disclosed or not; and
- (iii) an auctioneer who carries on the business of selling or auctioning goods belonging to any principal, whether disclosed or not and whether the offer of the intending purchaser is accepted by him or by the principal or a nominee of the principal.

Q 3 c)

Central Sales Tax	Central Excise Duty
Levied under Entry 92A of List I of Seventh Schedule to Constitution of India.	Levied under Entries 84 of List I of Seventh Schedule to Constitution of India.
The levy is on sale of goods.	Levy is on manufacture or production of goods.
Revenue is collected and retained by	Revenue is collected and retained by the Central Government
Tax is payable only when goods move from one State to another.	Duty is payable when manufactured goods are removed from the factory.

