



C Forms Significance & Relevance in the Current Business Environment.

Synopsis



What is a 'C' Form ?

C form or D form is a declaration issued by a buying dealer to a selling dealer in the course of interstate trade to avail concessional rate of sales tax.

D form in case of Government and C Form in case of other Registered Dealers.

W.e.f 1st April 2007 the provisions relating to D forms have been changed and Government agencies have to be billed at full rate.

Extract of the relevant provisions of the Central Sales Act 1956 to give a better understanding.



Gist of the Charging Section 8 of the CST Act.

- ❑ Every dealer, who in the course of inter-state trade or commerce sells to the Government or to a Registered dealer shall be liable to pay tax at three percent or Four Percent (3% or 4%) of his turnover or at the rate applicable inside the appropriate state under the relevant Sales Tax Law of that state whichever is lower; provided the buyer issues C / D form to the selling dealer.
- ❑ On the contrary the tax rate shall be 4% or at the rate applicable inside the appropriate state under the relevant Sales Tax VAT Law of that state whichever is higher.

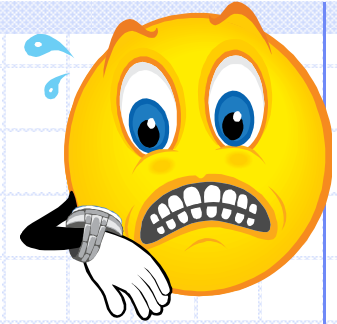


Who Can Issue C / D Form ?

Though the provision prima facie says that any registered dealer or Government can issue C Form, a closer examination evinces as under;

The purchasing dealer can issue C forms for the purchase of the following;

- ✓ Classes of goods as specified in his certificate of registration as being intended by him for re-sale or for use in manufacture.
- ✓ Packing materials as mentioned in his certificate of registration as intended for packing of the goods for sale.
- ✓ Packing materials as mentioned in his certificate of registration as intended for packing of any containers, packing materials as mentioned in the certificate of registration.



Periodicity:

When the C form has to be issued?

- The buying dealer is bound to issue a declaration in Form C / Form D at the point in time when he has effected the interstate transaction.
- Rule 12 of the CST Act 1956 permits the buying dealer to issue a single declaration to cover all transactions of sale which take place in one quarter between same two dealers.
- On the contrary; for one time transactions; the buying dealer may issue the C form at the time of purchase or at the end of the financial year as may be agreed mutually.
- Ideal time for the issue and collection of C forms for a quarter shall be before the end of the subsequent quarter by when the C forms have to be submitted to the tax department.

INTEREST



spearhead services
P R I V A T E L I M I T E D



Perspective: Selling Dealer.

Consequences of Non-Receipt of C/D Forms.

- The sale shall be treated as a normal interstate sale and the rate of tax at 4% or the local rate of the appropriate state for the relevant goods whichever is higher shall be charged.
- Results in non-compliance or ill-compliance of the prevailing laws as also financial exposure to the selling dealer as tax differential shall become payable.
- The Selling dealer shall be liable to pay the differential tax though the same has not been collected from the buyer; resulting in excessive cash-flows for penalty and interest.
- Re-course for the seller against the buyer for the collection of the differential tax shall be cumbersome.
- Effort shall be involved in convincing the tax authorities about the authenticity of the transaction.

INTEREST



Perspective: Selling Dealer.

Consequences of Non-Receipt of C/D Forms.

- Interest shall be levied by the ST authorities on the differential tax amount payable from the date it was due to the date of payment.
- Penalty shall be levied by the ST authorities for the non-payment of tax.
- What might be collected from the buyer may be the differential tax amount but not the interest and penalty in most of the times.
- Inspections and Enquiries by the Sales Tax Authorities on the C / D Form transactions real time.



Common Problems encountered in the Collection of C Forms.

- Timing difference between the transaction period and the collection period.
- Collection drives are started minimum 1-1.5 years after the transaction is done and the financial year is closed.
- Reconciliation issues between the books of the Seller and the Buyer viz.,
 - Material Non-Delivery Issues.
 - Material Return Issues.
 - Other Credit Issues.
 - Differential cut-Off procedures.
- Mis-representations by the buying registered dealers about their eligibility to avail concessional rate of tax and issue C forms.



Common Problems encountered in the Collection of C Forms.

- Mis-representations / un-precedented delays in the issue of D forms by the Government Agencies.
- Wrong Billings on Individuals, Banks etc., who are prima facie not eligible to issue C forms.
- Inadequate precautions by the sellers at the time of raising the bills at the point of sale or at the point of liasioning and freezing a sale deal.
- Terms of the Purchase Order Un-clear or In-Adequate about the C forms.
- Buyers CST registration not permitting him to issue C forms against a particular class of goods.



Precautions to be taken before billing on concessional rate against C Forms

- Ensure that the buyer has a registrationn under the CST Act and the registration is in force.
- Obtain a copy of the registration certificate if possible.
- Ensure that the buyer's CST registration permits him to issue C forms for the class of goods being negotiated.
- Ensure that the buyer has not defaulted in issuing C forms in earlier instances.
- Ensure that the buyer is not a Government organisation.
- Ensure that the buyer's purchase order states clearly that the C forms will be issued.
- Buyer has to be appraised of the fact that the C forms have to be issued once in a quarter.



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