🏷️ VAT & GST – Complete Notes for Tally Users

📘 1. Introduction to VAT and GST

VAT (Value Added Tax) and **GST (Goods and Services Tax)** are indirect taxes levied on the supply of goods and services. These taxes are charged at each stage of the supply chain but are ultimately borne by the end consumer.

While **VAT** is still used in countries like **Kenya**, **GST** is a modern, consolidated version used in countries like **India** and others.

🔄 2. What is VAT?

VAT is a multi-stage tax charged on the value added at each point of sale or production. It is collected at every stage of the supply chain — from manufacturer to wholesaler, retailer, and finally the consumer.

📌 Example:

If a manufacturer sells a product to a wholesaler for KES 1,000 + 16% VAT, the VAT collected is KES 160. The wholesaler then sells it for KES 1,200 + 16% VAT, and again charges VAT on the added value (KES 200), and so on.

📃 3. What is GST?

GST (Goods and Services Tax) is a comprehensive indirect tax that replaces multiple taxes such as VAT, Service Tax, Excise Duty, etc. It is applied uniformly across goods and services and simplifies the tax structure.

In GST-compliant countries, it is usually divided into:

- **CGST** – Central GST
- **SGST** – State GST
- **IGST** – Integrated GST (for inter-state sales)

📚 4. Differences Between VAT and GST

Feature	VAT	GST
Full Name	Value Added Tax	Goods and Services Tax
Applicability	Goods only	Goods and Services
Input Tax Credit	Limited	Comprehensive and uniform
Returns	State-specific	Centralized and standardized
Number of Taxes	Multiple	One single tax
Country Example	Kenya	India, Australia, etc.

🎯 5. Objectives of VAT/GST

- Eliminate the cascading effect of taxes (tax on tax).

- Provide input tax credit to businesses.

- Improve transparency in the tax system.

- Increase government revenue collection.

- Promote tax compliance through digital returns.

🧠 6. How VAT/GST Works – Concept of Input Tax Credit (ITC)

Input Tax Credit (ITC) allows businesses to reduce the tax paid on inputs (purchases) from the tax collected on outputs (sales). This avoids paying tax twice on the same product.

✅ Formula:

Output Tax – Input Tax = Net Tax Payable

⚙️ 7. Enabling VAT/GST in Tally

Tally makes VAT and GST compliance easy by allowing configuration, tax ledgers, item classification, and auto tax calculations.

🔧 To Enable VAT/GST in Tally:

1. Go to **Gateway of Tally → F11: Features → Statutory & Taxation**.

2. Enable:

    o   **VAT (Value Added Tax)** – for Kenya and other VAT countries.

    o   **GST (Goods and Services Tax)** – for India and GST-based systems.

3. Select the country and applicable tax type.

4. Press **Ctrl + A** to accept and save settings.

📄 8. Company VAT/GST Details

Enter the following company tax info in Tally:

*   VAT/GST Registration Number

*   Applicable tax rates (e.g., 16%, 0%)

*   Default ledger classification (Output, Input, Exempt)

*   HSN/SAC codes for goods/services (for GST)

📝 9. Creating VAT/GST Ledgers in Tally

Go to **Accounts Info → Ledgers → Create**:

👉 **Output VAT/GST Ledger**

*   Name: **VAT 16%** or **GST Output @18%**

*   Group: **Duties & Taxes**

*   Type of Duty: **VAT** or **GST**

*   Rate: **16%** (or 18%, etc.)

👉 **Input VAT/GST Ledger**

*   Name: **Input VAT 16%** or **GST Input**

*   Group: **Duties & Taxes**

*   Used to claim input credit.

🛍️ 10. Creating Items for Tax Calculation

Go to **Inventory Info → Stock Item → Create**

- Set **Rate of VAT/GST** applicable for each item.

- Define **Taxable**, **Exempt**, or **Zero-rated** items.

- Use **Stock Groups** for categorization.

📃 11. Recording VAT/GST Transactions

🛒 Purchase with VAT/GST

1. Use **Purchase Voucher (F9)**

2. Select the supplier and date.

3. Enter stock items and quantities.

4. Apply **Input VAT** ledger.

5. Save with **Ctrl + A**.

🛍️ Sale with VAT/GST

1. Use **Sales Voucher (F8)**

2. Select customer, date, and items.

3. Apply **Output VAT/GST** ledger.

4. Automatically calculates tax based on rate.

5. Save.

📊 12. VAT/GST Reports in Tally

Report Name	Purpose
VAT Computation	Summary of input/output VAT
GST Summary	Displays tax liability and input credit
Purchase Register	Tracks taxable and exempt purchases

Report Name	Purpose
Sales Register	Tracks taxable and exempt sales
Tax Ledger Summary	Ledger-wise tax details
GSTR-1 / GSTR-3B (India)	GST Return Formats

📌 13. Special VAT/GST Situations

Zero-Rated VAT:

- Applies to exports and some services.

- Tax rate = 0%, but eligible for input claim.

Exempt Supplies:

- No VAT charged or claimed.

- E.g., basic food items, healthcare (depends on country laws).

Reverse Charge Mechanism:

- Buyer pays the tax directly to the government instead of the supplier.

- Common in GST systems for certain services.

🗃️ 14. Filing VAT/GST Returns

In countries like Kenya:

- Returns are submitted monthly or quarterly through platforms like **iTax (KRA)**.

- Output VAT – Input VAT = Net payable/refundable.

- Tally reports help generate figures for filing.

In GST countries:

- GSTR-1: Sales

- GSTR-3B: Summary return

- GSTR-9: Annual return

Tally helps generate these formats and export them.

✅ 15. Benefits of Using Tally for VAT/GST

- Auto-calculation of tax during vouchers.

- Built-in tax classification for stock.

- Easy tracking of input and output tax.

- Reconciliation-ready reports.

- Compliance with local tax laws.

- Saves time and reduces human error.

📌 16. Tips for Managing VAT/GST in Tally

- Always verify tax rates and ledgers.

- Regularly reconcile VAT/GST reports.

- Backup your company data before filing.

- Check for tax mismatches or incorrect classifications.

- Use updated Tally version for tax rule compliance.

📚 17. Common VAT/GST Errors to Avoid

Error	Solution
Incorrect tax rate applied	Double-check item tax setup
No tax ledger selected	Apply correct input/output VAT ledger
Tax ledger under wrong group	Should be under "Duties & Taxes"
Purchase recorded as sale	Choose correct voucher type

💬 18. Real-Life Example

Business Scenario:

You purchase goods worth KES 100,000 with 16% VAT. Your supplier invoice will read:

- Goods: 100,000

- VAT @16%: 16,000

- Total: 116,000

When you sell the goods for KES 150,000:

- Sales: 150,000

- VAT @16%: 24,000

- Total: 174,000

In your VAT return:

- Output VAT = 24,000

- Input VAT = 16,000

- Payable to KRA = 8,000

▓ 19. Summary

- VAT/GST is an indirect tax on goods/services.

- Tally supports full VAT/GST compliance and setup.

- Configure tax ledgers, stock items, and vouchers correctly.

- Generate reports for return filing and reconciliation.

- Regular updates and backups are key for accurate tax management.