

No. C7-16382/06/CT

Office of the Commissioner of Commercial Taxes,  
Thiruvananthapuram,  
dated 8-5-2006.

**CIRCULAR No. 19/06/CT**

Sub: Levy of tax on used cars – instructions – issued.

As per Entry 136 of the Third Schedule to the Kerala Value Added Tax Act, 2003, Used Motor Vehicle is taxable @ 4%. As per Rule 10(i) of the Kerala Value Added Tax Rules, 2005, in determining the taxable turnover, the purchase cost of the vehicle may be deducted from the turnover if the vehicle has been registered in the State paying tax under KGST/KVAT Acts and used for at least fifteen months. This rule will not apply in case the used motor vehicle has been purchased from outside the State; in that case tax shall be levied on the entire sales turnover.

But it is complained that the officers are levying tax on the entire turnover of used motor vehicles even when the vehicle satisfies the requirements of the Act and Rule 10(i). This is illegal. If the vehicle had been originally registered in Kerala and the Certificate of Registration evidences purchase from a Registered Dealer in the State, it may be considered as sufficient proof for payment of tax under the Kerala General Sales Tax Act if all the other conditions are fulfilled.

If however, it is found that Rule 10(i) is being misused and the purchase value has been inflated to evade tax on value addition, the matter will be investigated to find out the actual value received by the seller and action taken to realize the tax on the correct value addition and also to levy penalty as provided in law on the dealer concerned.

All officers are directed to note the above provision of law and act accordingly.

Wherever any tax has been levied or any penalty imposed in violation of the above provision of law, the mistake may be rectified under Section 66 of the Act.

Commissioner

To

All Officers