MORE RATIONALITY FOR HIGH CREDIT BROUGHT IN RULE -6 OF CENVAT CREDIT RULE ,2004

Rule -6(1)

Rule is amended to provide that CENVAT Credit shall not be available on input used for manufacture of exempted goods and input used for empted services. Rule further direct that procedure for calculation of credit not allowed is stated in sub rule (2) and (3) for different situation.

Rule – 6(2)

The manufacturer who exclusively manufacture exempted goods or service provider who provides only exempted services only , shall pay or reverse the entire credit and will not be entitle for CENVAT credit on input and input services.

Rule – 6(3)

When manufacturer , manufacture exempted as well taxable goods or provide taxable as well as exempted services, then the manufacturer or provider of services have one of the two option mentioned below ;

a) pay an amount equal to 6% of value of the exempted goods and 7% of value of the exempted services, subject to a maximum of the total credit taken.
b) pay an amount as determined under sub-rule (3A);

Provided that the amount paid in the first option shall not exceed the credit taken.

Rule -6 (3A)

Rule is amended to provide the condition and procedure for availing the credit allowed & credit disallowed and prescribed for such credit not allowed shall be paid, provisionally for each month.

a) No credit of inputs or input services used exclusively in manufacture of exempted goods or for provision of exempted services shall be available;

(b) Full credit of input or input services used exclusively in final products except exempted goods or output services except exempted services shall be available;

(c) Credit left thereafter is **common credit** and shall be attributed towards exempted goods and exempted services by multiplying the common credit with the ratio of value of exempted goods manufactured or exempted services provided to the total turnover of exempted and non- exempted goods and exempted and non-exempted services in the previous financial year;

(d) Final reconciliation and adjustments are provided for after close of financial year by 30th June of the succeeding financial year, as provided in the existing rule;

Existing Rule :

On or before 30th June of the subsequent year , person who opt under Rule -6(3A) shall calculate the CENVAT credit allowed and disallowed and make the payment of Credit disallowed by doing reversal of CENVAT or making payment, if the credit is not available. Calculation of actual credit disallowed shall be in same manner as discussed in condition –c above, as per the actual figures of financial year.

The difference of shortfall of the two i.e. provisional reversal and actual disallowed shall be reversed or paid by 30th June of the subsequent year. Alternatively excess provisional reversal shall be by taking credit .Thereafter the payment shall be made along with the interest .

Example :

TOTAL CENVAT - Rs. 100

CENVAT on exempted goods –	Rs. 10
CENVAT on exempted services-	Rs. 10
CENVAT on Taxable goods and Taxable Services-	Rs 40
Common CENVAT on taxable goods and exempted goods and taxable services and exempted services -	Rs. 40

Exempted goods	Rs.1000
Taxable goods	Rs. 6000
Taxable services	Rs. 2000
Exempted Services	Rs. 1000

CENVAT to be reversed or paid shall be Rs. 8 out of Rs. 40 of total Common CENVAT . CENVAT of Rs. 10 for exempted goods and Rs. 10 for exempted services will not be availed. In other word total eligible CENVAT shall be Rs.80 , 72 shall be allowed and Rs. 8 shall be disallowed.

Rule – 6 (3AA)

New Sub rule is being inserted to provide that a manufacturer or a provider of output service who has failed to follow the procedure of giving prior intimation, may be allowed by a Central Excise officer, competent to adjudicate such case, to follow the procedure and pay the amount prescribed subject to payment of interest calculated at the rate of 15% per annum

Rule – 6(3AB)

New sub rule is being inserted as transitional provision to provide that the existing Rule 6 of the Credit Rules would continue to be in operation up to 30.06.2016, for the units who are required to discharge the obligation in respect of financial year 2015-16;

Explanation – 3 & 4 is being inserted in Rule 6(1)

Provide for reversal of Cenvat credit on inputs/input services those have been commonly used in providing taxable output service and an activity which is not a "service" under the Finance Act;

Sub Rule 4

Provide that where the capital goods are used for the manufacture of exempted goods or provision of exempted service for two years from the date of commencement of commercial production or provision of service, no Cenvat credit shall be allowed on such capital goods. Similar provision is being made for capital goods installed after the date of commencement of commercial production or provision of service

About the Author:

Author is practicing chartered accountant in Gurgaon and having specialisation in Service Tax and Haryana VAT. He can be reached at ca.sanjeevkumar@hotmail.com