

Rule 6 of CCR, 2004 (As amended by FA, 2016)

Case 1 - If Manufacturer/ Service Provider **only** produces/ provides **taxable** goods/ services

- **This rule does not apply.** CENVAT credit can be claimed normally

Case 2 - If Manufacturer/ Service Provider **only** produces/ provides **exempted** goods/ services

- **This Rule applies.** Effectively, **no CENVAT** credit can be claimed at all

Case 3 - If Manufacturer produces **both** exempted and non-exempted goods/ Service Provider **provides both** exempted and non-exempted services

- **One of the two Options** as described below must be exercised

Option 1 - Pay (Reverse credit) the following amt every month (by the 5th of next month, and by 31st March for the month of March)

For manufacturer
6% of the **value** of **exempted** goods produced

For service provider
7% of the value of **exempted** services provided

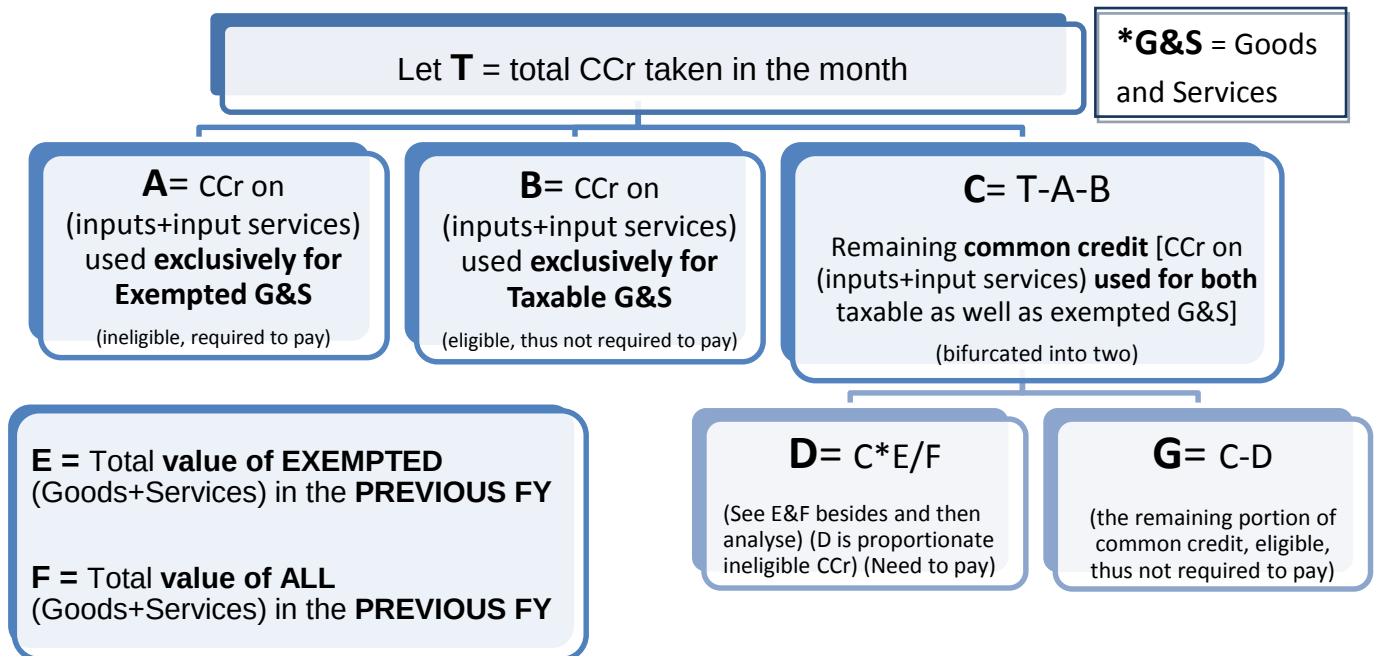
Option 2 - Pay amount as calculated under **Sub-Rule 3A**

Assessee needs to calculate **every month** the below "A, B, C, D, G"; and -

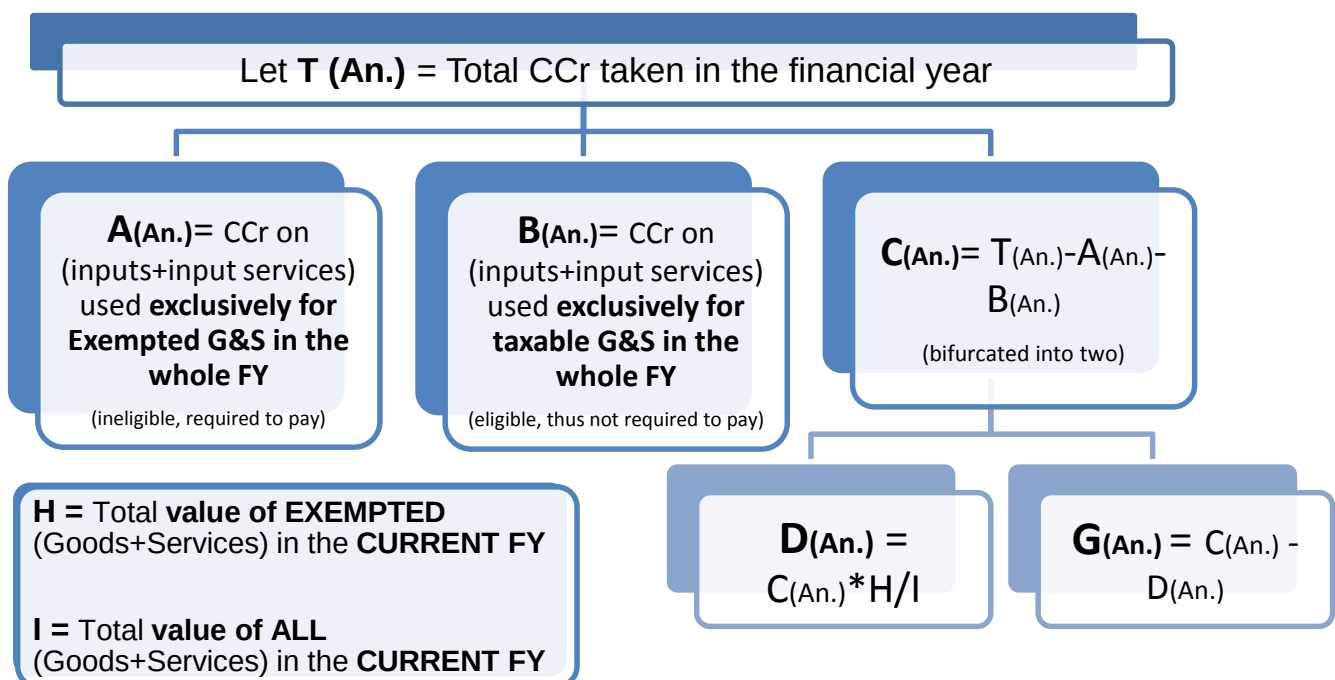
$$\text{Pay} = A + D$$

$$\text{Retain} = B + G$$

(When to pay? - by the 5th of next month, and by 31st March for the month of March)



Now, at the end of Financial Year, we need to calculate the same figures but "Annually"- ["An." denotes Annual]



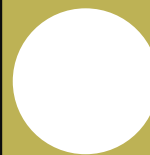


An **Important fact** (in case you missed it) that should be noticed is that, we had **calculated D using E & F**, which are based on **turnover of "PREVIOUS FY"**

But D(An.) has been calculated using H & I, which are based on **turnovers of "CURRENT FY"**.



The Government wants us to pay only **A(An.) & D(An.)**, but they cannot be calculated before the end of FY (since they are based on turnovers of the FY).



So, the law requires that we **calculate and pay A & D every month**, and then at the **end of the FY**, we

1. **Calculate A(An.) & D(An.)**,
2. **Set-off the earlier monthly paid amounts**,
3. Then **pay/ receive the differential amount**.



The Final Settlement is to be made on or before the 30th June of the next FY.

Settlement Amount =

[A(An.) + D(An.)] – [Aggregate of monthly (A + D) for the whole FY]

If positive - pay the differential amount

If negative - take cenvat credit of the differential amount

Note 1: Some miscellaneous but important points –

1. This amended provision will come into force from the **1st of April 2016**. (But there is an option for assesseees to exercise this option for the FY 2015-16 too, as specified in clause 3AB of Rule 6)
2. **Once any** one of the two **options** has been **exercised**, it shall be applicable to all goods produced/ services provided and **cannot be withdrawn** for the remaining part of the **Financial Year**.
3. If the amounts are not paid within the prescribed time-limits, then **interest @ 15%** per annum will be applicable.

Note 2: Comparing new rule with the previous rule-

In the old rule (which is technically the current rule when I am writing this), there were **three options** –

- i. Maintaining separate books of accounts
- ii. Paying a specified %age of the exempted turnover (Same as option 1 of new rule)
- iii. Determining amount payable using some formulas

After reading both the rules, we realize that Option 2 of the new rule is nothing but a combination of Option1 and Option 3 of the old rule.

Note 3: If 2nd option has been exercised, then following formalities must be done-

I. The Assessee must INTIMATE to the SUPERINTENDENT-

1. Name, Address and registration number
2. Date from which the option has been exercised/ is proposed to be exercised
3. Description of-
 - a. Inputs/ Input Services used exclusively for manufacturing exempt goods or providing exempt services
 - b. Such exempt goods and services

- c. Inputs/ Input Services used exclusively for manufacturing taxable goods or providing taxable services
 - d. Such taxable goods and services
 - 4. The amount of Cenvat credit lying in balance as on the date of exercising this option
- II. The Assessee must INTIMATE to the SUPERINTENDENT, WITHIN 15 DAYS from the date of final payment/ settlement, -
- 1. The **monthly amounts A, B, D, G** that had been calculated/ paid **for the whole FY**.
 - 2. The **annual amounts A(An.), B(An.), D(An.), G(An.)** calculated **for the FY**.
 - 3. The **date and amount of final settlement**, i.e., the “Differential amount” which was paid or equivalent to which cenvat credit was taken.
 - 4. **Interest** that is **payable/ paid** for late payment of the “final settlement amount”. (The last date is 30th June)