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

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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 -

Pay = **A+D** Retain = **B+G**

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

Let **T** = total CCr taken in the month

***G&S** = Goods and Services

A= CCr on (inputs+input services) used **exclusively for Exempted G&S**
(ineligible, required to pay)

B= CCr on (inputs+input services) used **exclusively for Taxable G&S**
(eligible, thus not required to pay)

C= T-A-B
Remaining **common credit** [CCr on (inputs+input services) **used for both** taxable as well as exempted G&S]
(bifurcated into two)

D= C*E/F
(See E&F besides and then analyse) (D is proportionate ineligible CCr) (Need to pay)

G= C-D
(the remaining portion of common credit, eligible, thus not required to pay)

E = Total **value of EXEMPTED** (Goods+Services) in the **PREVIOUS FY**

F = Total **value of ALL** (Goods+Services) in the **PREVIOUS FY**

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

Let **T (An.)** = Total CCr taken in the financial year

A(An.)= CCr on (inputs+input services) used **exclusively for Exempted G&S in the whole FY**
(ineligible, required to pay)

B(An.)= CCr on (inputs+input services) used **exclusively for taxable G&S in the whole FY**
(eligible, thus not required to pay)

C(An.)= T(An.)-A(An.)-B(An.)
(bifurcated into two)

D(An.) = C(An.)*H/I

G(An.) = C(An.) - D(An.)

H = Total **value of EXEMPTED** (Goods+Services) in the **CURRENT FY**

I = Total **value of ALL** (Goods+Services) in the **CURRENT FY**

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. C**alculate A(An.) & D(An.)**,
2. S**et-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 assessees 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 %tage 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 30^{th} June)