

EXEMPTION BASED ON VALUE OF CLEARANCES (SSI)

Question 1

SSI & Co. is eligible for exemption in terms of Notification No. 8/2003-CE dated 1-3-2003 for the year 2010-11. It provides the following particulars with regard to the clearances of goods effected during the said year. Determine the duty payable in respect of the year 2010-11:

Aggregate	₹ (in lakhs)
Value of domestic clearances of goods with own brand name	120
Value of clearances of goods with the brand name of others (including ₹ 30 lakhs in respect of goods manufactured in a rural area)	100
Value of clearances for exports	50
Value of clearances for captive consumption	40
Value of clearances of exempted goods	20
(Assume rate of excise duty at 10%)	

Show your workings with explanations where required.

(5 Marks) (May 2011)

Answer

Computation of excise duty payable by M/s. SSI & Co. during the year 2010-11:-

Particulars	₹ in lakh
Turnover to be excluded:	
Value of clearances for export [Note – 1]	50
Value of clearances for captive consumption [Note – 1]	40
Value of clearances of exempted goods [Note – 1]	20
Value of domestic clearance of goods with brand name of others (excluding goods manufactured in rural area) [Note – 2]	70

<i>Turnover to be included:</i>	
Value of domestic clearances with own brand name	120
Value of clearances of goods with brand name of others manufactured in rural area	<u>30</u>
Total	<u>150</u>
Tax liability	
On 1 st clearance of ₹150 lakh duty is	Nil
On clearances with brand name of others worth ₹ 70 lakh (excluding rural area clearances) duty @ 10% [Note 3]	7,00,000
Add: Education cess and secondary and higher education cess @ 3%	<u>21,000</u>
Total duty liability	<u>7,21,000</u>

Notes:

1. As per Notification No. 8/2003 CE dated 01.03.2003, export clearance, captive consumption and exempted clearances are not included in determining the limit of first 150 lakh for SSI exemption.
2. As per Notification No. 8/2003 CE dated 01.03.2003, the clearances with the brand name of others which are ineligible for SSI exemption has to be excluded while determining the limit of ₹150 lakh. However, clearances with the brand name of others manufactured in rural area are eligible for SSI exemption and hence, such clearances are included while determining the limit of ₹150 lakh.
3. Export clearance, captive consumption and exempted clearances are exempted from excise duty. Thus, duty will be payable only in respect of the goods manufactured with brand name of others.

Question 2

X Ltd. is having a manufacturing unit at Faridabad. In the financial year 2010-11, the value of total clearances from the unit was ₹850 lakhs as per the following details:

- (i) Exports to USA. ₹100 lakhs; to Nepal : ₹50 Lakhs
- (ii) Clearances to a 100% export oriented unit : ₹75 lakhs
- (iii) Clearances as loan licensee of goods carrying the brand name of another upon full payment of duty: ₹200 lakhs
- (iv) Clearance exempted vide Notification No. 214/86-C.E. dated 25.3.86: ₹125 lakhs.
- (v) Balance clearances of goods in the normal course : ₹300 lakhs.

You are required to state with reasons whether the unit is entitled to the benefit of exemption under Notification No. 8/2003-C.E. dated 1.3.2003 as amended for the financial year 2011-12.

(4 Marks) (Nov 2010)

Answer

As per **Notification No. 8/2003 dated 01.03.2003**, in order to claim exemption as small scale industry in the financial year 2011-12, the total eligible clearances of the manufacturing unit should not exceed ₹ 400 lakh in the previous financial year 2010-11.

For the purpose of computing the eligible clearances:-

- (i) Export turnover of ₹ 100 lakh to USA would be excluded, while the export to Nepal of ₹ 50 lakh would be included.
- (ii) Clearances of ₹ 75 lakh without payment of duty to a 100% EOU would be excluded.
- (iii) Clearances of ₹ 200 lakh as a loan licensee of goods carrying the brand name of another on payment of duty would not be included.
- (iv) Clearances of ₹ 125 lakh exempt under *Notification No. 214/86* would be excluded.
- (v) Normal clearances of excisable goods of ₹ 300 lakh would be considered.

Thus, the eligible turnover for exemption is as follows:-

= ₹ 850 lakh – ₹ 500 lakh (100 + 75 + 200 + 125)

= ₹ 350 lakh

Since the eligible clearances do not exceed ₹ 400 lakh in the financial year 2010-11, the manufacturing unit will be entitled for SSI exemption in financial year 2011-12.

Question 3

Mahesh Ltd., which is engaged in manufacturing of excisable goods, started its business on 1st June, 2011. It availed SSI exemption during the financial year 2011-12. The following are the details available to you:

		₹
(i)	12,500 kg of inputs purchased @ ₹1,190.64 per kg (inclusive of Central excise duty @ 10.30%)	1,48,83,000
(ii)	Capital goods purchased on 31.5.2011 (inclusive of excise duty @ 10.30%)	80,09,400
(iii)	Finished goods sold (at uniform transaction value throughout the year)	3,00,00,000

You are required to calculate the amount of excise duty payable by M/s Mahesh Ltd. in cash, if any, during the year 2011-12. Rate of duty on finished goods sold may be taken as 10.30% for the year and you may assume the selling price exclusive of central excise duty.

There is neither any processing loss nor any inventory of input and output. Output input ratio may be taken as 2:1.

(5 Marks) (May 2010)

Answer

Computation of the excise duty payable by M/s. Mahesh Ltd. during the financial year 2009-10:-

Excise duty on dutiable clearances:-

Particulars	Amount (₹.)
Clearances of finished goods made during the year	3,00,00,000
Less : Exemption of ₹ 150 lakh under Notification No. 8/2003 dated 01-03-2003	<u>1,50,00,000</u>
Dutiable clearances	<u>1,50,00,000</u>
Excise duty @ 10.30% (₹1,50,00,000 × 10.30%)	<u>15,45,000</u>

CENVAT credit available on inputs:

(Used in the manufacture of dutiable clearance. No CENVAT credit will be available in respect of exempt clearances)

% of dutiable goods in the finished goods sold = $\frac{1,50,00,000}{3,00,00,000} \times 100$	50%
Excise duty paid on the value of inputs consumed in manufacture of dutiable clearances = $(148,83,000 \times 10.30)/110.30 \times 50\%$ (Since output input ratio is fixed)	6,94,900

CENVAT credit available on capital goods:-

(CENVAT credit will be available @ 50% of total excise duty in current financial year 2011-12; balance credit to be availed during the next financial year 2012-13)

Particulars	Amount (₹)
(50% of ₹ 80.094 lakh) × 10.30/110.30 CENVAT credit can be availed on capital goods, but can be utilized only in respect of duty payable on clearances after first clearances of ₹ 150 lakhs	3,73,966

Excise duty payable

Particulars	Amount (₹)
Excise duty on dutiable goods	15,45,000
Less: CENVAT credit available on inputs	6,94,900
Less: CENVAT credit available on capital goods	<u>3,73,966</u>
Excise duty payable	<u>4,76,134</u>

Question 4

Small & Company, a small scale industry, provides the following details. Determine the eligibility for exemption based on value of clearances for the financial year 2011-12 in terms of Notification No. 8/2003-CE dated 1.3.2003 as amended:

	Particulars	₹. (Lakhs)
(i)	Total value of clearances during the financial year 2010-11 (including VAT ₹ 50 lakhs)	870
(ii)	Total exports (including for Nepal and Bhutan ₹.200 lakhs)	500
(iii)	Clearances of excisable goods without payment of duty to a unit in Software Technology Park	20
(iv)	Job work under Notification No. 84/94-CE dated 11.4.94	50
	Job work under Notification No. 214/86-CE dated 25.3.86	50
(v)	Clearances of excisable goods bearing brand name of Khadi and Village Industries Commission	200

Make suitable assumptions and provide brief reasons for your answers where necessary.

(5 Marks) (Nov 2009)

Answer**Calculation of value of clearances during financial year 2010-11**

Particulars	₹ (in lakhs)
Total value of clearances during the financial year 2010-11	870
Less : VAT included in above	<u>50</u>
	820
Less : 1. Exports excluding exports to Nepal and Bhutan ₹ (500-200) lakh	300
2. Clearances of excisable goods without payment of duty to a unit in Software Technology Park	20
3. Job work done under Notification No. 84/94-CE dated 11.04.94 and under Notification No. 214/86-CE dated 25.3.86 i.e..₹ (50 + 50) lakh	<u>100</u>
Value of clearances during the financial year 2010-11	<u>400</u>

Notes:-While computing value of clearances during financial year 2010-11 (as shown above),

1. export turnover has been excluded. However, export to Nepal and Bhutan cannot be excluded as these are treated as "clearances for home consumption".

2. job work under Notification No. 214/86 - CE and Notification No. 84/94-CE is not taken into consideration.
3. clearances of excisable goods without payment of duty to a unit in Software Technology Park are deducted.
4. clearances of excisable goods bearing brand name of Khadi and Village Industries Commission are included.

In order to claim the benefit of exemption under Notification No. 8/2003 – C.E. in a financial year, the total turnover of a unit **should not exceed ₹ 400 lakh in the preceding year**. Since the value of clearances in the previous financial year 2010-11 does not exceed ₹ 400 lakh, the Small & Company is eligible to claim the benefit of Notification No. 8/2003 dated 1st March, 2003 in the financial year 2011-12.

Question 5

Y & Co. is a small scale unit located in a rural area and is availing the benefit of small scale exemption under Notification No. 8/2003-C.E. during the year 2011-12. Determine the value of the first clearances of the unit and duty liability on the basis of data given below:-

		₹
(1)	Total value of clearances of goods with own brand name	75,00,000
(2)	Total value of clearances of goods with brand name of other parties	90,00,000
(3)	Clearances of goods which are totally exempt under another notification (other than an exemption based on quantity or value of clearances)	35,00,000
	Normal rate of Excise duty - 10%	
	Education cess @ 2% of Excise duty.	
	Secondary and higher education cess@ 1% of Excise duty.	

Calculations should be supported with appropriate notes.

It may be assumed that the unit is eligible for exemption under Notification No. 8/2003.

(5 Marks) (June 2009)

Answer

Computation of the value of first clearances and the duty liability:-

	Particulars	₹
1.	Value of clearances of goods with own brand name	75,00,000
2.	Value of clearance of goods with brand name of other parties (Note-1)	<u>90,00,000</u>
	Total value of first clearances	<u>1,65,00,000</u>
	Value on which duty is chargeable (₹ 1,65,00,000 – 1,50,00,000) =	

₹ 15,00,000	
Excise duty payable @ 10% (₹15,00,000 × 10%)	1,50,000
Education cess payable @ 3% (₹. 1,50,000 × 2%)	3,000
Secondary and higher education cess @ 1% of Excise duty. (₹1,50,000 ×1 %)	1,500
Total excise duty liability	<u>1,54,500</u>

Notes:

1. SSI units in **rural areas** are eligible to clear goods **with others' brand name** availing the exemption as per Notification No. 8/2003.
2. Notification No. 8/2003 also provides that value of clearances of goods totally exempt under other notifications need not be taken into account for calculation of aggregate value of first clearances.

Question 6

CTL Ltd. has a manufacturing unit situated in Lucknow. In the financial year 2010-11, the total value of clearances from the unit was ₹ 450 lakh. The break up of clearances is as under:

- (i) Clearances worth ₹.50 lakh of certain non-excisable goods manufactured by it.
- (ii) Clearances worth ₹ 50 lakh exempted under specified job work notification.
- (iii) Exports worth. ₹ 100 lakh (₹.75 lakh to USA and ₹.25 lakh to Nepal).
- (iv) Clearances worth. ₹ 50 lakh which were used captively to manufacture finished products that are exempt under notifications other than Notification No. 8/2003-CE dated 1.3.2003 as amended.
- (v) Clearances worth ₹ 200 lakh of excisable goods in the normal course.

Explain briefly, the treatment for various items and state, whether the unit will be eligible for the benefits of exemption under Notification No. 8/2003-CE dated 1.3.03 as amended for the year 2011-12.

(7 Marks) (Nov 2008)

Answer

In order to claim the benefit of exemption under Notification No. 8/2003 – C.E. in a financial year, the total turnover of a unit should not exceed ₹ 400 lakh in the preceding year. For the purpose of computing the turnover of ₹ 400 lakh:-

- (i) Turnover of non-excisable goods has to be excluded. Therefore, clearances of non-excisable goods of worth ₹ 50 lakh shall be excluded.
- (ii) Clearances exempted under job work notifications should not be considered. Therefore, exempted clearances of ₹ 50 lakh under job work notification will be excluded.

- (iii) Export turnover has to be excluded. However, export to Nepal and Bhutan cannot be excluded as these are treated as "clearance for home consumption". Therefore, clearances worth ₹ 75 lakh exported to USA will be excluded while clearances worth ₹ 25 lakh exported to Nepal will be included.
- (iv) Value of intermediate products manufactured has to be included if the final product is exempt under any notification other than Notification No. 8/2003-CE dated 1-3-2003*. Therefore, clearances worth ₹ 50 lakh which were used captively to manufacture finished products exempt under notifications other than Notification No. 8/2003 will be included.
- (v) Clearances of excisable goods of ₹ 200 lakh in the normal course will be considered.

Therefore, the turnover of CTL Ltd. for claiming the SSI exemption will be:-

$$= ₹ 450 \text{ lakh} - (₹ 50 \text{ lakh} + ₹ 50 \text{ lakh} + 75 \text{ lakh}) = ₹ 275 \text{ lakh}$$

Since the turnover is less than ₹ 400 lakh, CTL Ltd. will be eligible for exemption under Notification No. 8/2003 – CE in the financial year 2011-12.

***Note** - It is assumed that the value of clearances of final products manufactured from such intermediate products is not included in the total turnover of ₹ 450 lakh of the unit.