

Inter-relationship of Accounting with Excise, Customs and Service Tax

Cenvat Credit

Question 1

M/s. AJ imported some inputs and paid basic customs duty ₹ 5 lakhs, surcharge on customs duty ₹ 50,000 and CVD ₹ 1 lakh. Calculate the amount that he can claim as CENVAT credit. Would it make any difference, if the assessee is not a manufacturer but a service provider?

Answer

M/s. AJ can take credit of ₹ 1,00,000 i.e. of additional duty of customs (CVD). **Rule 3(1)** of CENVAT Credit Rules, 2004 allows the credit of additional duty of customs imposed under section 3 of the Customs Tariff Act, 1975. The credit of other two duties i.e. basic custom duty and the surcharge on customs duty is not allowed.

It will not make any difference if the assessee is a service provider as credit of additional duty of customs (CVD) can be availed both by the manufacturers and the service providers alike.

Note: It has been assumed that the additional duty of customs (CVD) referred to in the question is not the additional duty of customs (CVD) leviable under section 3(5) of the Customs Tariff Act, 1975 as in that case the service provider will not be entitled to avail the CENVAT credit.

Question 2

Ascertain whether the refund of service tax paid on input services can be claimed in the following case:

Total credit of service tax on input services	₹ 6,000
Total turnover of output service	₹ 30,000
Output service exported	₹ 20,000

Answer

Rule 5 of CENVAT Credit Rules, 2004 *inter alia* provides that the CENVAT credit in respect of the input services used in providing output services which are exported shall be allowed to be utilized towards payment of service tax on taxable output services. However, where such adjustment is not possible, the refund of credit shall be allowed.

In this case the service tax liability on taxable services of ₹ 10,000 (₹ 30,000 - ₹ 20,000) is ₹ 1030 @10.3%. Therefore, there is an excess credit of ₹ 4,970 (₹ 6,000 - ₹ 1,030) which can

not be utilized. Thus, the refund of such credit can be claimed. However, the refund will be restricted to the extent of ratio of export turnover to the total turnover for the given period, i.e. ₹ 4,000 [$\text{₹ } 6,000 \times (\text{₹ } 20,000 / \text{₹ } 30,000)$].

Self-examination questions

Question 1

Enumerate any five accounting standards which may be relevant in central excise, customs or service tax matters.

Question 2

Discuss the treatment prescribed by the Guidance Note on Excise Duty for accounting excise duty in the books of account.

Question 3

How should the excise duty be disclosed in the profit and loss account?

Question 4

Explain the accounting treatment of inputs on which CENVAT credit has been availed.

Question 5

Write a brief note on divergence between accounting principles and taxation laws.