CENVAT CREDIT RULES

Rule 6: Obligation of manufacturer of dutiable and exempted goods and provider of taxable and exempted services

(1) The CENVAT credit shall not be allowed on such quantity of input or input service which is used in the manufacture of exempted goods or for provision of exempted services, except in the circumstances mentioned in sub-rule (2).

(2) Where a manufacturer or provider of output service avails of CENVAT credit in respect of any inputs or input services, and manufactures such final products or provides such output service which are chargeable to duty or tax as well as exempted goods or services, then, the manufacturer or provider of output service shall maintain separate accounts for receipt, consumption and inventory of input and input service meant for use in the manufacture of dutiable final products or in providing output service and the quantity of input meant for use in the manufacture of exempted goods or services and take CENVAT credit only on that quantity of input or input service which is intended for use in the manufacture of dutiable goods or in providing output service on which service tax is payable.

(3) Notwithstanding anything contained in sub-rules (1) and (2), the manufacturer of goods or the provider of output service, **opting not to maintain separate accounts**, shall follow either of the following options, as applicable to him, namely:-

(i) the **manufacturer** of goods shall **pay an amount equal to ten per cent**. of **value of the exempted goods** and the **provider of output service** shall pay an amount equal to **eight per cent. of value of the exempted services**; or
(ii) the manufacturer of goods or the provider of output service shall pay an amount equivalent to the **CENVAT credit attributable** to inputs and input services used in, or in relation to, the manufacture of exempted goods or for provision of exempted services subject to the conditions and procedure specified in sub-rule (3A).

(3A) For determination and payment of amount payable under clause (ii) of sub-rule (3), the manufacturer of goods or the provider of output service shall follow the following procedure and conditions, namely:-

(a) while exercising this option, the manufacturer of goods or the provider of output service shall intimate in writing to the Superintendent of Central Excise giving the following particulars, namely:-

(i) name, address and registration No. of the manufacturer of goods or provider of output service;
(ii) date from which the option under this clause is exercised or proposed to be exercised;
(iii) description of dutiable goods or taxable services;

(iv) description of exempted goods or exempted services;
(v) CENVAT credit of inputs and input services lying in balance as on the date of exercising the option under this condition;

(b) PROVISIONAL ASSESSMENT-the manufacturer of goods or the provider of output service shall, determine and pay, **provisionally**, for **every month,-**

(i) the amount equivalent to **CENVAT credit attributable to INPUTS** used in or in relation to MANUFACTURE OF EXEMPTED GOODS, denoted as A;

(ii) the amount of CENVAT credit attributable to **INPUTS** used for provision of EXEMPTED SERVICES (provisional)

The above will be calculated as under:

$$= \frac{\textbf{The total value of exempted services provided during the PRECEDING financial year}}{\textbf{The total value of dutiable goods manufactured and removed plus the total value of taxable services provided plus the total value of exempted services provided, during the preceding financial year}} \times \left(\textbf{Total CENVAT credit taken on inputs during the month (-) CENVAT credit attributable to INPUTS used in or in relation to MANUFACTURE OF EXEMPTED GOODS} \right)$$

(iii) the amount attributable to input services used in or in relation to manufacture of exempted goods or provision of exempted services (provisional)

$$= \frac{\textbf{Total value of exempted services provided plus the total value of exempted goods manufactured and removed during the preceding financial year}}{\textbf{Total value of taxable and exempted services provided, and total value of dutiable and exempted goods manufactured and removed, during the preceding financial year}} \times \left(\textbf{Total CENVAT credit taken on input services during the month} \right)$$

(c) **FINAL ASSESSMENT-**the manufacturer of goods or the provider of output service, shall determine **finally** the amount of CENVAT credit attributable to exempted goods and exempted services for **the whole financial year** in the following manner, namely:-

(i) the amount of **CENVAT credit attributable to** inputs used in or in relation to manufacture of **exempted goods**, on the basis of total quantity of inputs used in or in relation to manufacture of said exempted goods, denoted as **H**;

(ii) the amount of CENVAT credit attributable to **INPUTS** used for provision of exempted services.

$$= \frac{\text{the total value of exempted services provided during the financial year}}{\text{total value of dutiable goods manufactured and removed plus the total value of taxable services provided plus the total value of exempted services provided, during the financial year}} \times \left(\text{total CENVAT credit taken on inputs during the financial year (-) the amount of CENVAT credit attributable to inputs used in or in relation to manufacture of exempted goods, on the basis of total quantity of inputs used in or in relation to manufacture of said exempted goods} \right)$$

(iii) the amount attributable **to INPUT SERVICES** used in or in relation to manufacture of exempted goods or provision of exempted services;

$$= \frac{\text{total value of exempted services provided plus the total value of exempted goods manufactured and removed during the financial year}}{\text{total value of taxable and exempted services provided, and total value of dutiable and exempted goods manufactured and removed, during the financial year}} \times \left(\text{total CENVAT credit taken on input services during the financial year} \right)$$

(d) Manufacturer/service provider **shall pay difference** of **FINAL AND PROVISIONAL** ASSESSMENT, on or before **the 30th June** of the succeeding financial year, where the amount determined as per condition (c) is more than the amount paid;

(e) the manufacturer of goods or the provider of output service, shall, in addition to the amount short-paid, be liable to pay interest at the rate of twenty-four per cent. per annum from the due date, i.e., 30th June till the date of payment, where the amount short-paid is not paid within the said due date;

(f) where the amount determined as per condition (c) is less than the amount determined and paid as per condition (b), the said manufacturer of goods or the provider of output service may adjust the excess amount on his own, **by taking credit of such amount**;