Central Excise Act, 1944

1. In the case of ***CCE v M M Khambhatwala* (1996) SC,** Mr. Khambhatwala was the owner of raw material. He supplied the raw material to the household ladies who were manufacturing the 'dhoop, agarbatti; etc. in their houses. There was no control or supervision over their work and payment to the ladies was on the basis of number of pieces manufactured. It was held that the household ladies, and not Mr. Khambhatwala, were the manufacturers.

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2. Product X is produced on 1st February 2016 by X Ltd. On that date X is an excisable commodity with a tariff rate of 12.5%. Subsequently on 31st March, 2016 Product X was removed from the factory. Hence, the taxable event is on 1st February 2016 and not on 31st March 2016.

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3. A Ltd. was engaged in fabrication, assembly and erection of waste treatment plant. The plant could not function as such until it was wholly built including civil construction. A Ltd. purchased duty paid parts of water treatment plant in unassembled form and assembled to the ground with civil work. Hence, excise duty is not required to pay. Because, the product emerges as immovable in nature. **Larsen & Toubro Limited v UOI 2009 (243) ELT 662 (Bom).**

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4. M/s X Ltd., engaged in the manufacture of drums mix/hot mix plant by assembling and installing its parts and components. The machine is fixed by nuts and bolts to a foundation not because the intention was to permanently attach it to the earth, but because a foundation was necessary to provide a wobble free operation to the machine. Hence, the Supreme Court held that the plants in question were not immovable property. Consequently, duty would be levied on them ***[CCE v Solid & Correct Engineering Works and Ors 2010 (252) ELT 48 1 (SC)].***

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5. M/s X Ltd. manufactured Double Textured Rubberized Fabric (i.e. upper lace of the shoe) and removed from the factory for job work, it has no marketability, because the said product known in the market with no buyer **[*Bata India Ltd.* v *CCE* 2010 (252) ELT 492 (SC)].**

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6. X Ltd is engaged in the activity of conversion of gray cloth into embroidered dyed cloth. In the course of the various activities it gets the sizing done by S and dyeing by D. The cost of gray cloth is Rs.50 per meter. S charges Rs.10 per meter for sizing and D charges Rs.30 per meter. The finished product is sold by X Ltd for Rs.100 per meter. In the context of Central Excise Act, 1944, is there any manufacture involved? Who will be regarded as the manufacturer in this situation?

Ans: As per the decided case law of the Supreme Court in Ujagar Paints v Union of India (1998), the end product should be one which is distinctive in name, usage and commercial character. In the given case, consequent to the value addition made to the grey cloth which is the input, the end product which emerges is commercially different with its own price structure, customs and commercial incidents. Hence, there is manufacture within the meaning of section 2(f) of the Central Excise Act, 1944.

It is not necessary that manufacturer should be the owner of the end product. Hence, in the given case, S and D will be regarded as manufacturers.

7. M/s Antony India Ltd. imported various components of TV (i.e T.V part) in different consignments separately. They assembled these parts to bring into existence TV, it is a complicated procedure. Therefore, components cannot be considered as if they were finished goods. Hence, assembling of TV parts called as manufacture.

However, in Enfield India Ltd. case the tribunal held that an assembly, repair or reconditioning only improves the quality of performance of something which is not otherwise useful or fit to use, it would be manufacture. Assembling of various parts and component result in new product which is movable & marketable.

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8. Cigarettes were wrapped in it with the help of roll of Aluminum Foil. It did not change the nature and substance of foil. The said process did not render any marketable value, only made it usable for packing. ***CCE v. GTC Industries Ltd. 2011 (266) E.L.T. 160 (Bom.)***.

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9. Mr. Ram use to purchase duty paid MS tubes from its manufacturers and cut the same into requisite length. Thereafter, put it in the swaging machine for undertaking swaging process whereby dies fitted in the machine imparted "folds" to the flat surface of the MS tube/pipe. The Department took the plea that swaging process amounted to manufacture and hence duty was payable on the goods manufactured by Mr. Ram.

Ans: As per Section 2(f) of the Central Excise Act, 1944, Manufacture includes 'any process incidental or ancillary to the completion of a manufactured product'. However, input and output must be different with each other. Therefore, the process of swaging amounts to manufacture. Mr. Ram was liable to pay the duty. **[*Prachi Industries v CCEx., Chandigarh* 2008 (225) ELT 16 (SC)]**

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10. X Pvt. Ltd is job worker locat at Tambaram South, Chennai, received raw material for manufacture of articles of apparel, clothing , knitted or crocheted and worn clothing from Peter England a brand owner. Hence, the liability to pay excise duty is on brand owner namely Peter England.

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11. Assessee repairs his worn out machineries / parts with the help of welding electrodes, mild steel, cutting tools, M.S. Channel, M.S. Beam etc, in this process M.S. Scrap and Iron Scrap generated. Repairing activity in any possible manner cannot be called as a part of manufacturing activity in relation to production of end product. The generation of metal scrap or waste during the repair of worn out machineries/parts of cement manufacturing plant does not amount to manufacture. ***GRASIM INDUSTRIES LTD v UOI 2011 (273) E.L.T 10 (S.C.)***

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12. Mr. A manufactured wooden table. There is no ambiguity or confusion while classifying the said product. Hence, the said product can be classified as wooden table.

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13. Glass mirror cannot be classified as Glass and Glassware because glass loses its basic character after it is converted into mirror. It means that mirror has reflective function **[Atul Glass Industries Ltd v CCE (SC) (1986)]**

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14. M/s. Baidyanath Ayurved Bhawan Limited manufacturing a product called "Dant Manjan Lal" (DML). The assessee contended that the product DML was a medicament under Chapter sub-heading 3003.31 of the Central Excise Tariff Act, 1985. However, the stand of the Department was that the said product was a cosmetic/toiletry preparation/tooth powder classifiable under Chapter heading 33.06, by considering common parlance test.

15. Motor Car not fitted with wheels or tyres will be classified under the heading of Motor Vehicle.

16. The Motor Car contains the stereo (music system), here two different products namely Motor Vehicle and Electronic System, hence we have to refer the Rule 3 for solution. It means to say that if Rule 2(b) is applied, or for any other reason, goods are prima facie classifiable with two or more headings then classification shall be under Rule 3.

17. Electrical lighting used for motor vehicles is more specifically classified as part of motor vehicle.

18. Cell phone which consist a calculator will be called as Cell phone and not a Calculator. It means to say that the classification should be done according to its main function and additional function may be ignored.

19. If a product by virtue of its essential character comes under two headings namely 8512 and 8513 equally then the said product can be classified under the heading 8513 (i.e. Latter the better)

20. Manufacturer manufacturing the following products can be understood as most akin products:

(a) Window mirror of the car

(b) Front mirror of the car

21. Packing material used as cases for camera classifiable as camera product.

22. (a) Excise Duty payable on cigarette is based on the length of the Cigarette. If the length of cigarette is 5 mm the rate of duty is say Rs.2 flat irrespective of the price at which it is sold.

(b) Excise duty payable on sugar is based on quintals of sugar. The excise duty is say Rs.100 per 100 Kg of sugar produce irrespective of the price at which it is sold.

23. The price of readymade garment is Rs.500 per unit. Suppose the government fixes a rate of 60% for computing tariff value. In this case, the tariff value is 60% of Rs.500 i.e. Rs.300. If the duty rate is 12.5%, the excise duty payable will be Rs.300 × 12.5% = Rs.37.50 per unit

24. The MRP of an Air-condition Machine is Rs.40,000 and the abatement per cent is 40%. The Excise duty is the BED rate is 12.5% will be as under:

	Maximum Retail Price	=	Rs. 40,000
Less:	Abatement (40%)	=	Rs. 16,000
	Assessable Value	**=**	**Rs. 24,000**
	Central Excise Duty (12.5%) [**24,000 x 12.5/100]**	=	Rs. 3,000
	Total Excise Duty Payable	=	Rs. 3,000

25. (i) The rate of compounded levy in case of cold rolled Stainless Steel patties/pattas, manufacturer has to pay Rs.30,000 per cold rolling machine per month plus cess as applicable.

(ii) The rate of compounded levy on aluminum circles is Rs.12,000 per machine per month plus cess as applicable.

(iii) Duty as % based on Assessable Value (i.e. Transaction Value) fixed under section 4 (Ad-valorem duty) (If not covered in any of above)

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26. Raj & Co. furnish the following expenditure incurred by them and want you to find the assessable value for the purpose of paying excise duty on captive consumption. Determine the cost of production in terms of rule 8 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 and as per CAS-4 (Cost Accounting Standard-4)

a) Direct material cost per unit inclusive of excise duty at 12.5% - Rs.1,320,
b) Direct wages - Rs.250,
c) Other direct expenses - Rs.100,
d) Indirect materials - Rs.75,
e) Factory Overheads - Rs.200,
f) Administrative overhead (25% relating to production capacity) Rs.100
g) Selling and distribution expenses - Rs.150,
h) Quality Control - Rs.25,
i) Sale of scrap realized - Rs.20,
j) Actual profit margin - 15%.

Ans:

Sr. No.	Particulars	Amount (Rs.)
1.	Direct material (Exclusive of Excise Duty) [1,320 x100/12.5]	1173.33
2.	Direct Labour	250
3.	Direct Expenses	100
4.	Factory Overheads (Indirect material - 75 + Factory OHs - 200)	275
5.	Quality Control	25
6.	R & D Cost	Nil
7.	Administrative overhead (to the extent relates to production capacity)	25
Less:	Realizable Value of Scrap	**-20**
	Cost of Production	***1828.33***
Add:	10% as per Rule 8	182.83
	Assessable Value	***2011.16***

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27. Determine the cost of production on manufacture of the under-mentioned product for purpose of captive consumption in terms of Rule 8 of the Central Excise Valuation (DPE) Rules, 2000 - Direct material - Rs.11,600, Direct Wages & Salaries - Rs.8,400, Works Overheads - Rs.6,200, Quality Control Costs - Rs.3,500, Research and Development Costs - Rs.2,400, Administrative Overheads Rs.4,100, Selling and Distribution Costs Rs.1,600, Realisable Value of Scrap - Rs.1,200. Admin overheads are in relation to production activities Material cost include Excise duty Rs.1,289.

Ans: Cost of production is required to be computed as per CAS-4. Material cost is required to be exclusive of Cenvat credit available.

Sr. No.	Particulars	Amount (Rs.)
1.	Direct material (Net of Excise Duty) [11,600 - 1,289]	10311
2.	Direct Wages & Salaries	8400
3.	Direct Expenses	-
4.	Factory Overheads	6200
5.	Quality Control Cost	3500
6.	R & D Cost	2400
7.	Administrative overhead	4100
Less:	Sale of Scrap	**-1200**
	Cost of Production	***33711***
Add:	10% Profit margin on Cost of Production (i.e 33,771 x10%)	3371
	Assessable Value	***37082***

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28. Hero Electronics Ltd. is engaged in the manufacture of colour television sets having its factories at Kolkata and Gujarat. At Kolkata the company manufactures picture tubes which are stock transferred to Gujarat factory where it is consumed to produce television sets. Determine the Excise duty liability of captively consumed picture tubes from the following information: - Direct material cost (per unit) Rs.800; Direct Labour Rs.100; Indirect Labour Rs.50; Direct Expenses Rs.100; Indirect Expenses Rs.50; Administrative Overheads Rs.50; Selling and Distribution Overheads Rs.100. Additional Information: -

(1) Profit Margin as per the Annual Report of company for 2014-15 was 12% before Income Tax.

(2) Material Cost includes Excise Duty paid Rs.89

(3) Excise Duty Rate applicable is 12.5%.

Ans: Cost of production is required to be computed as per CAS-4. Material cost is required to be exclusive of Cenvat credit available.

Sr. No.	Particulars	Amount (Rs.)
1.	Material Consumed (Net of Excise duty) (800 – 89)	711
2.	Direct Labour	100
3.	Direct Expenses	100
4.	Factory Overheads	100
5.	Quality Control Cost	-
6.	R & D Cost	-
7.	Administrative overhead	50
Less:	Credit for Recoveries/Scrap/By-Products/Misc Income	**-**

Sr. No.	Particulars	Amount (Rs.)
	Cost of Production	***1061***
Add:	10% Profit margin on Cost of Production (i.e 33,771 x10%)	106
	Assessable Value	***1167***
	Excise Duty @ 12% of Rs.1,185	145.88

Total Duty Liability = Rs.145.88

- **Note -**

a) Indirect labour and indirect expenses have been included in Works Overhead
b) In absence of any information, it is presumed that administrative overheads pertain to production activity.
c) Actual profit margin earned is not relevant for excise valuation.

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29. A Trader supplies raw material of Rs.1,150 to processor. Processor processes the raw material and supplies finished product to the trader. The processor charges Rs.450, which include Rs.350 as processing expenses and Rs.100 as his (processor's) profit. Transport cost for sending the raw material to the factory of processor is Rs.50. Transport charges for returning the finished product to the trader from the premises of the processor is Rs.60. The finished product is sold by the trader at Rs.2,100 from his premises. He charges Vat separately in his invoice at applicable rates. The rate of duty is 12.5%. What is the AV, and what is total duty payable?

Ans: Assessable Value is to be calculated on basis of selling price of trader which is Rs.2100(Cum-duty). This price is to be treated as inclusive of excise duty.

- Hence, assessable value will be (2,100 x 100)/112.50 i.e. Rs.1,866.67. Basic excise duty @ 12.5% will be Rs.233.33.

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30. 1,500 pieces of a product 'A' were manufactured during the financial year. Its list price (i.e. retail price) is Rs.250 per piece, exclusive of taxes. The manufacturer offers 20% discount to wholesalers on the list price. During the year, 840 pieces were sold in wholesale, 510 pieces were sold in retail, 35 pieces were distributed as free samples. Balance quantity of 115 pieces was in stock at the end of the year. The rate of duty is 12.5%. What is the total duty paid during the financial year?

Assume that the manufacture is not eligible for SSI concession.

Ans: The total selling price is as follows –

Qty	Price	Total (Rs.)
510	250	1,27,500
840	200	1,68,000
35	200	7,000
Total		**3,02,500**

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31. A manufacturer has appointed brokers for obtaining orders from wholesalers. The brokers procure orders for which they get brokerage of 5% on selling price. Manufacturer sells goods to buyers at Rs.250 per piece. The price is inclusive of State Vat and Central Excise Duty. State Vat rate is 4% and excise duty rate is 12.5%. What is the AV, and what is duty payable per piece?

Ans: Assume that Assessable Value = *x*. No deduction is available in respect of brokerage paid to third parties from Assessable Value.

Since Excise duty is 12.5%, State Vat rate is 4%, price including excise will be 1.125*x*.

State Vat @ 4% of 1.125*x* is 0.045*x*.

Hence, price inclusive of sales tax and excise duty will be 1.17*x*.

Now, 1.17*x* = Rs.250.00

Hence, X = Rs.213.68

- Check the answer as follows –

Assessable Value	Rs.213.68
Add: Excise Duty @ 12.5%	Rs.26.71
Add: State Vat @ 4% on Rs.240.39 (213.68+26.71)	Rs.9.61
Total Price (Including duty and tax) (213.68+26.71+9.61)	**Rs.250.00**

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32. Find Assessable Value and duty payable. The product is not covered under section 4A. Maximum Retail Trade Price : Rs.1,100 per unit, State Vat, Octroi and other Local Taxes: 10% of net price, Cash Discount : 2%, Trade Discount: 8%, Primary and Secondary packing cost included in the above MRP: Rs.100, Excise duty rate: 12.5% ad valorem.

Ans: Cash discount Rs.22 (2% of Rs.1,100) and trade discount Rs.88 [8% of Rs.1,100] are available as deduction. Packing cost is not allowable as deduction. Hence, price of excise purposes is Rs.990. [Rs.1,100 – 22 – 88].

Now, if x is the assessable value, price inclusive of excise duty is 1.125*x*. State Vat and local taxes @ 10% of 1.125*x* will be 0.11125*x* and price including Excise duty is inclusive of excise duty and sales tax will be 1.2375*x*.

Now, 1.2375 x = Rs.990.00

x = Rs.990.00/ 1.2375

Hence, = Rs.800

Excise Duty @ 12.5% = Rs.100

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33. A manufacturer has agreed to supply a machinery on following terms and conditions :

a) Price of machinery : Rs.3,40,000 (net of taxes and duties),

b) Machinery erection expenses : Rs.26,000,

c) Packing (normally done by him for all machinery) : Rs.4,000,

d) Design and drawing charges relating to manufacture of machinery : 30,000 or (Net of taxes/duties),

e) Central Sales Tax @2%,

f) Central Excise Duty @ 12.5%,

g) Cash discount of Rs.5,000 will be offered if full payment is received before dispatch of goods,

h) The buyer made all payment before delivery,

i) The manufacturer incurred cost of Rs.1,200 in loading the machinery in the truck in his factory. These are not charged separately to buyer.

Find the 'Assessable Value'and the duty payable.

Ans: Erection expenses are not includible in AV. Cash discount is allowable as deduction. Duty is not payable on optional bought out accessories supplied along with the machinery. The cost of Rs.1,200 is already included in the selling price of machinery (as it is not charged separately) and hence is not to be added again. Hence, AV is Rs.3,69,000 [Rs.3,40,000 + Rs.4,000 + Rs.30,000 – Rs.5,000]. Duty @ 12.5% will be Rs.46,125.

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34. M/s. XYZ Ltd., sold machinery to Mr. Kapoor at a price of Rs.5 lakhs on 15th June, 2015 and the same was removed from the factory at Kolkata. The rate of excise duty applicable is 12.5% on the date of removal. Mr. Kapoor refused to take delivery of the machine when it reached his destination. In the meantime, M/x. XYZ Ltd. increased the prices of the similar type of machinery to Rs.6 lakhs with effect from 16th June, 2015. The machinery as refused by Mr. Kapoor has been sold on 20th June 2015 to Mr. Lal at the revised price of Rs.6 lakhs. The excise duty including Education Cess is 12.5% applicable with effect from 10th June, 2015.

a) Explain the following with reasons:

a) What is the value to be taken as assessable value?

b) What is the rate of excise duty applicable and duty payable on above transaction?

c) The Central Excise Officer is demanding duty on the price of Rs.6 lakhs at the time of sale to Mr. L. Is he right in his approach?

d) Does cost of production have any bearing on the assessable value?

Ans:

a) The price prevailing at the time of removal from factory i.e. Rs.5 lacs on 15th June 2015 is the assessable value.

b) The applicable rate of duty is @12.5% and duty amount is Rs.62,500 (i.e. Rs.5 lacs x 12.5/100).

c) The Central Excise Officer is not right in his approach.

d) Cost of production has no bearing with assessable value in present case. Central Excise valuation can be below manufacturing cost. If price is the sole consideration and dealing between seller and buyer are arm's length, assessable value will be decided on the basis of selling price, even if it is below manufacturing cost. So cost of manufacturing will not change the assessable value.

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35. ABC Ltd of Kanpur agreed to sell an electronic motor to DEF Ltd of New Delhi for Rs.15,000.00 on ex-factory basis. Other particulars are:

a) Transportation and transit insurance were arranged by ABC Ltd. This was at the request of DEF Ltd and amounted to for Rs.1,250 and Rs.1,500 respectively which were charged separately. Actual transportation charges amounted to Rs.1,000 only.

b) A discount of Rs.1,000 was given to DEF Ltd. on the agreed price on payment of an advance of Rs.3,500 with the order. (Ignore notional interest on advance).

c) Interest of Rs.800 was charged from DEF Ltd. as it failed to make the payment within 30 days.

d) Packing charges of the motor amount to Rs.1300.

e) The expenditure incurred by ABC Ltd. towards 'free after sale service' during warranty period comes out to be Rs.500 per motor.

f) Dharmada charges of Rs.200 were recovered from DEF Ltd.

g) ABC Ltd. sold a lubricant worth Rs.250 along with the motor to the interested customers. Lubricant which was purchased from the market by ABC Ltd. at Rs.200 ensured durability and high efficiency of the motor. DEF Ltd. opted for the said lubricant.

Compute the Assessable Value.

Ans: Calculation of Assessable Value

- Offered Price to DEF = 14,000

Add: Discount = 1,000

Add: Packing Charges = 1,300

Add: Free After sale service = 500

Add: Dharmada Charges = 200

Assessable Value = 17,000

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36. How will the assessable value under the subject transaction be determined under section 4 of the Central Excise Act, 1944? Give reasons with suitable assumptions where necessary.

Contracted sale price for delivery at buyer's premises Rs.10,00,000. The contracted sale price includes the following elements of cost:

a) Cost of drawings and designs Rs.3,000

b) Cost of primary packing Rs.3,500

c) Cost of packing at buyer's request for safety during transport Rs.7,500

d) Excise duty Rs.2,11,200

e) VAT (Sales tax) Rs.37,000

f) Octroi Rs.9,500

g) Freight and insurance charges paid from factory to 'place of removal' Rs.20,000

h) Actual freight and insurance from 'place of removal' to buyer's premises Rs.42,300

Ans:

Sale Price = 10,00,000

Less: Excise Duty = -2,11,200

Less: VAT = -37,000

Less: Octroi = -9,500

Less: Freight & Insurance = -42,300

Assessable Value = 7,00,000

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37. Determine the assessable value for purpose of excise duty under the Central Excise Act, 1944 in the following cases:

a) An assessee sells his excisable goods for Rs.1,12,360 per unit and does not charge any duty of excise in his invoice. Subsequently it was found that the goods were not exempted from excise duty but were liable at 12.5%.

b) Certain excisable goods were sold for Rs.1,12,360 per unit and @12.5% is the rate of excise duty. Subsequently it was found that the price cum duty was in fact Rs.1,40,000 per unit as the assessee had collected Rs.40,124 per unit separately.

c) The cum duty price per unit was Rs.1,10,300 and the assessee had paid duty at 12.36%. subsequently it was found that the rate of duty was 12.5% and the assesee had not collected anything over and above Rs.1,10,300 per unit.

Ans: Statement showing Assessable Value for the Purpose of Excise Duty in each case: (As per CBE&C DO letter No. 334/1/2003- TRU dated 28.2.2003)

Sr. No.	Particulars	Value (Rs.)	Workings
1.	Assessable value	99,876	Rs. 1,12,360 x 100/112.50 = Rs. 99,876
2.	Assessable value	1,24,444	Cum-duty price Rs. 1,12,360 (12.5% duty inclusive). Hence, assessable value is Rs. 99,876. Additional consideration received subsequently of Rs. 40,124. Hence, Cum-duty price is Rs. 1,40,000. Rs. 1,40,000 x 100/112.5 = Rs. 1,24,444
3.	Assessable value	98,044	Cum-duty price Rs. 1,10,300 (excise duty included @12.36%). However, correct rate of duty is 12.5%. If no additional consideration has been received, then Rs. 1,10,300 is it self considered as inclusive of excise duty @12.5%. 1,10,300 x 100/112.5 = Rs. 98,044.

- **Maximum Retail Price (MRP)**

38. B Ltd manufactures two products namely, Eye Ointment and Skin Ointment. Skin Ointment is a specified product under section 4A of the Central Excise Act, 1944. The sale prices of the two products are Rs.43 per unit and Rs.33 per unit respectively. The sale price of both the products included 12.5% excise duty as BED, education cess of 2% and SAH of 1%. It also includes CST of 2%. Additional information is as follows:

Units cleared: Eye Ointment - 1,00,000 units, Skin Ointment – 1, 50,000 units. Deduction permissible under section 4A: 40%

Calculate the total excise duty liability of B Ltd for both the products.

Ans:

Eye Ointment:

- Let us assume x as the assessable value

	Assessable Value	= X
Add:	BED @12.5%	= 0.125X
		= 1.125 X
Add:	CST @ 2%	= 0.0225X
	Selling price	**= 1.1475X**

- Assessable value per unit = Rs.43 x 1/1.1475

  = Rs.37.47 per unit

  Total Assessable Value = Rs.37,47,000 (i.e. Rs.37.47 x 1,00,000 units)

  Excise duty @12.5% on 1,00,000 units = Rs.4,68,375 (37,47,000 x 12.5%)

- **Skin Ointment**

	Maximum Retail Price	= Rs.33
Less:	Abatement @40%	= Rs.(13)
	Assessable Value (per unit)	**= Rs.20**
	Total Assessable Value	= Rs.30,00,000 (i.e. Rs.20 x 1,50,000 units)
Add:	Excise Duty @12.5%	= Rs.3,75,000 (30,00,000 x 12.5%)
	B Ltd liable to pay total excise duty	**= Rs.8,43,375**

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39. Cost of production of a product X calculated as per Cost Accounting Standard is Rs.350 per piece. 550 pieces of a product were manufactured. 120 pieces were sold at Rs.700 per piece to Industrial Consumers. 70 pieces were sold to a Central Government department @ Rs.690 per piece. 210 pieces were sold to wholesalers at Rs.720 per piece. 70 pieces were sold in retail @ Rs.800 per piece. 20 pieces were given out as free samples. Out of the 70 pieces sold to Government department, 25 pieces were rejected, which were subsequently sold to other customers @ Rs.300 per piece, without bringing them in the factory. Balance pieces were in stock, out of which 25 pieces were so damaged that they became unsaleable.

Note that all the prices are exclusive of excise and sales tax. The rate of duty on the product is 12.5% plus education cess as applicable.

a) What is the total duty payable?

b) Advise Management about step to be taken in respect of 25 pieces which were damaged in storage.

Ans: Calculation of duty payable on product X

Name of the buyer	Number of pieces	Rate per piece (Rs.)	Total (Rs.)
1. Industrial Consumers	120	700	84,000
2. Central Government department	70	690	48,300
3. Wholesalers	210	720	1,51,200
4. Retailers	70	800	56,000
5. others (Free samples) (Rule 4)	20	720	14,400
Assessable Value			**3,53,900**

- Total Excise Duty @ 12.5% (3,53,900 x 12.5 %) = Rs.44,238

  As per Rule 21 of the Central Excise Rules, 2002, obtain the remission certificate from the central excise department for the damaged units of 25 pieces.

- **Valuation Rules:**

40. Compute the assessable value and excise duty under the Central Excise Act, 1944 in the following case:

Production	: 2,000 units on 1.7.2015
Quantity sold	: 450 units @ Rs.200 per unit
	: 650 units @ Rs.190 per unit
Samples clearances	: 50 units
Balance in stock	: 850 units (at the end of factory day for 1-7-2015)

Assume that the rate per unit is exclusive of Central Excise duty. Basic Excise Duty @12.5%.

Ans: Assessable value

Units	Rate per Unit (Rs.)	Total (Rs.)	Remarks
450	200	90000	
650	190	123500	
50	190	9500	Samples are valued as per rule 4 read with rule 2(c) of C.Ex. Valuation Rules, 2000
Assessable Value		**2,23,000**	

- **Total excise duty** = Rs.27,875 (i.e.Rs.2,23,000 x 12.5%)

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41. A manufacturer having a factory at Mumbai has uniform price of Rs.2,000 per unit (exclusive of taxes and duties) for sale anywhere in India. During the financial year 2015-16, he made the following sales:

Particulars	Quantity sold in units	Cost of transportation (Rs.)
1. Goods sold at factory in Mumbai	1,000	Nil
2. Goods sold from New Delhi	500	12,000
3. Goods sold from Chennai	600	48,000
4. Goods sold from Kolkata	900	30,000

- Find assessable value per unit and total excise duty payable by the manufacturer. Excise duty @12.5%.

Ans:

	Selling price per unit	= Rs.2,000 (Rule 5 of valuation rule)
Less:	cost of equalized freight	= Rs.30
	Assessable value per unit	**= Rs.1,970**
	Total excise duty payable	= Rs.7,38,750 (3,000 units x Rs.1 ,970 per unit × 12.5%)

- **Working Notes**

1.

Particulars	Quantity sold in units	Cost of transportation (Rs.)
Goods sold at factory in Mumbai	1,000	Nil
Goods sold from New Delhi	500	12,000
Goods sold from Chennai	600	48,000
Goods sold from Kolkata	900	30000
TOTAL	**3000**	**90000**

2. Cost of equalized freight = Rs.30 (Rs.90,000/3,000 units)
3. The aforesaid equalized freight has to be certified by the Cost Accountant/Chartered Accountant/ Company Secretary in practice.

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42. Compute the assessable value and amount of excise duty payable under the Central Excise Act, 1944 and rules made there-under from the following information:

Particulars	No. of units	Price at Factory Per unit	Price at Depot Per unit	Rate of Duty Advalorem
1. Goods transferred from factory to depot on 8th August	1,000	Rs.200	Rs.220	12.5%
2. Goods actually sold at depot on 18th August	950	Rs.320	Rs.350	8%

Ans: (Rule 7 of valuation rules)

		Amount (Rs.)	
1.	Assessable Value	2,20,000	[i.e 1,000 units x Rs.220]
2.	Total Excise Duty	27,500	[i.e 2,20,000 units x 12.5%]

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43. Name the Cost Accounting Standard which is to be used while calculating cost of production for valuation for captive consumption under Central Excise. Is the standard mandatory? AS per that standard, which of the following costs are includible/not includible in 'Cost of Production'?

(i) Research and Development Cost

(ii) Interest on capital borrowed,

(iii) Lay-off wages to workmen

(iv) Packing cost.

Ans: (Rule 8 of valuation rules)

- The Cost Accounting Standard 4 is required to be used while calculating cost of production for valuation for captive consumption under Central Excise. As per circular issued by CBEC, cost of production is required to be calculated as per CAS-4 issued by the Central Council Members of The Institute of Cost Accountants of India (ICAI). Hence, the standard is mandatory.

Cost includible		Cost not includible	
1.	Research and Development	**1.**	Interest on capital borrowed
2.	Packing cost	**2.**	Lay off wages to workmen

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44. X Ltd. manufacturer manufactured components within factory for own use. Cost of raw materials purchased for Rs.50,000 to manufacture said components. Cost of overheads as certified by a Cost Accountant, as per Cost Accounting Standard (CAS) – 4 is Rs.20,000. Profit margin on inter departmental transfer @20%. These components are subject to Excise Duty @12.5% and State VAT rate @12.50%. You are required to answer

a) Assessable Value of these Components,

b) Total Excise Duty and

c) Value Added Tax (VAT).

Ans: (Rule 8 of valuation rules)

	Cost of Material	= Rs.50,000
	Overhead Cost	= Rs.20,000
	Cost of Production	**= Rs.70,000**
Add:	10% profit margin (as per Rule 8 of Valuation Rules)	= 7,000
	Assessable Value	**= Rs.77,000**

a) Excise Duty = Rs.77,000 x 12.5/100 = Rs.9,625

b) VAT payable is nil, since these components are consumed internally.

VAT will attract only when there is a sale.

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45. R & Co. furnish the following expenditure incurred by them and want you to find the assessable value for the purpose of paying excise duty on captive consumption.

- Determine the cost of production in terms of rule 8 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules 2000 and as per CAS – 4 (Cost Accounting Standard):

1.	Direct material cost per unit inclusive of excise duty at 12.5%	Rs.880
2.	Direct wages	Rs.250
3.	Other direct expenses	Rs.100
4.	Indirect materials	Rs.75
5.	Factory overheads	Rs.200
6.	Administrative overhead (25% relating to production capacity)	Rs.100
7.	Selling and distribution expense	Rs.150
8.	Quality control	Rs.25
9.	Sale of scrap realised	Rs.20
10.	Actual profit margin	15%

Ans: Cost of production is required to be computed as per CAS-4. Material cost is required to be exclusive of Cenvat credit available.

Sr. No.	Particulars	Amount (Rs.)
1.	Material Consumed (Net of Excise duty) (800 – 97.77)	782.23
2.	Direct Labour	250
3.	Direct Expenses	100
4.	Factory Overheads [indirect material (Rs.75) + factory overhead (Rs.200)]	275
5.	Quality Control Cost	25
6.	Administrative overhead (25% relates to production activity)	25
Less:	Sale of Scrap	**-20**
	Cost of Production	***1437.23***
Add:	10% Profit margin on Cost of Production (i.e 33,771 x10%)	143.72
	Assessable Value	***1580.75***

Note : Actual profit margin is not relevant for excise valuation.

- **Tax Planning**

46. A company manufacturing a dutiable product in the factory at Cochin, was making sales through its depot in Mumbai. The sale price at Mumbai depot at Rs.30,000 per piece inclusive of transport charges from Cochin to Mumbai of Rs.3,000. The depot price includes excise duty @12.5% but excludes Maharashtra VAT. Annually 2,000 pieces are sold by the depot. The company decides to make direct sale from Cochin to its customers which would attract CST at 2% to be borne by the company. The company wants to close down the depot at Mumbai bringing cost saving of Rs.5,00,000 per annum. The sale price will continue to be as earlier.

Evaluate the implications of the decision.

Ans: Presently, goods are sold from depot. If the sale is from depot, excise duty is payable on the depot price of Rs.30,000. No deduction of transport cost from Cochin to Mumbai depot is allowed.

Since, the price is inclusive of excise duty @ 12.5%, the duty payable is Rs.3,333.33 (i.e.Rs.30,000 x 12.50 /112.50) and Assessable Value is Rs.666.67 (i.e. Rs.30,000 x 100/112.5).

		Value per piece
	Depot Sale Price	Rs. 30,000
Less:	Transport Charges	Rs. 3,000
Less:	Excise Duty	Rs. 3,333
	Net Revenue if depot continues	**Rs. 23,667**

- **Depot closes down:**
  If goods are sold directly from Cochin, CST @ 2% will be payable. The price chargeable to dealers is required to remain unchanged at Rs.30,000 per piece.

	Net price of Product	x
Add:	Excise Duty @ 12.50%	0.125x
	Taxable turnover	**1.125x**
Add:	CST @ 2% on 1.125x	0.0225x
	Total price	**1.1475x**
Add:	Transport charges	Rs.3,000
	Total Invoice Value	**1.1475x + 3,000**

- **Note.** Excise duty and CST are not payable on transport charges, if charged separately in invoice, because sale is from factory.

  Now, 1.1475x + 3,000 = Rs.30,000
  Net price of the product = Rs.23,529 [(i.e. Rs.30,000 – 3,000)/1.1475]

- Net realizable value is Rs.23,529 per piece if the depot closes down.

	If depot continues the revenue	Rs.23,667
Less:	If depot closes down the revenue	Rs.23,529
	Net revenue loss if depot closes down	**Rs.138**
	Total revenue loss for 2,000 pieces annually if depot closes down (i.e. 2,000 pieces × Rs.138 per piece)	Rs.2,76,000
Less:	Savings on account of closes down the depot	Rs.5,00,000
	Net savings on account of close down the depot	**Rs.2,24,000**

If depot is closed, there will be net savings of Rs.2,24,000 per annum.
Hence, it is economical to close down the depot.

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47. A manufacturer has place of business in the Factory in one location and in the warehouse at another location. If these locations are bifurcated by road, railway etc then with the permission of Pincipal Commissioner or Commissioner of Central Excise the assessee can avail a single registration for these two locations. Otherwise each location has to be registered separately. In that case each factory of the manufacturer is considered a separate registration.

Centralized registration: Every mine engaged in the production/manufacture of specified goods is exempt from obtaining registration where the producer/manufacturer of such goods has a centralized billing/accounting system in respect of such goods produced by different mines and opts for registering only the premises or office from where such centralized billing or accounting is done

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48. A Ltd. is having a manufacturing unit at Faridabad. In the financial year 2015-16 the value of total clearances from the unit was Rs.750 lakhs as per the following details:

a) Exports to USA - Rs.100 lakhs; to Nepal - Rs.50 lakhs
b) Clearances to a 100% export oriented unit - Rs.75 lakhs
c) Clearances as loan licensee of goods carrying the brand name of another upon full payment of duty - Rs.200 lakhs
d) Clearances exempted *vide* Notification No. 214/86-C.E. dated 25-3-86 - Rs.125 lakhs.
e) Balance clearances of goods in the normal course: Rs.200 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 in the financial year 2009-10.

Ans: Following is includible for calculating limit of Rs.400 lakhs :

(i) Exports to Nepal - Rs.50 lakhs

(ii) Normal clearances Rs.200 lakhs. Total Rs.250 lakhs.

Since the turnover is less than Rs.400 lakhs, A Ltd. is entitled to SSI concession in 2016-17.

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49. Z Associates 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. in the year 2015-16. Determine the value of the first clearance and duty liability on the basis of data given below:

a) Total value of clearances of goods with own brand name - Rs.75,00,000,

b) Total value of clearances of goods with brand name of other parties - Rs.90,00,000,

c) Clearances of goods which are totally exempt under another notification (other than an exemption based on quantity or value of clearances) Rs.35,00,000.

Normal rate of Excise duty @12.5%. Calculations should be supported with appropriate notes. It may be assumed that the unit is eligible for exemption under Notification No. 8/2003.

Ans: While calculating SSI exemption limit of Rs.150 lakhs, goods cleared under brand name in rural area are to be included, since goods manufactured in rural area with brand name of others are entitled for SSI exemption. However, goods which are exempted from duty under notification other than exemption based on quantity or value of clearances is not required to be considered. Thus, for purpose of SSI exemption, the value of turnover is Rs.165 lakhs. His first turnover of Rs.150 lakhs is exempt. Thus, he is liable to pay excise duty on Rs.15 lakhs.

Hence, Excise duty @ 12.5% is Rs.1,87,500.

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50. S & Co., a small scale unit, had cleared goods of the value of Rs.750 lakhs during the financial year 2015-16. Records show that the following clearances were included in the total turnover of Rs.750 lakhs :

a) Total exports during the year - Rs.200 lakhs (30% of total exports were to Nepal),

b) Job-work in terms of Notification No. 214/86 - Rs.50 lakhs,

c) Job-work in terms of Notification No.83 /94-E - 50 lakhs,

d) Clearances of excisable goods without payment of duty to a 100% E.O.U. Rs.20 lakhs,

e) Goods manufactured in rural area with others brand - Rs.100 lakhs.

Find out whether the unit is eligible to avail concession for the year 2016-17, under Notification No. 8/2003-CE dated 1st March, 2003, giving reasons for your answer.

Ans: Turnover not to be considered for Rs.400 lakhs - (i) Rs.140 lakhs, (ii) Rs.50 lakhs, (iii) Rs.50 lakhs, (iv) Rs.20 lakhs. Excluding this turnover, his turnover during 2013-14 was Rs.490 lakhs. Since it is more than Rs.400 lakhs, he is not eligible for SSI exemption in 2016-17.

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51. The clearances of Dreams Ltd. were Rs.400 lakh during the financial year 2015-16. The following are included in the said clearances: (i) Exports to Nepal and Bhutan - Rs.1,20,00,000, (ii) Exports to countries other than Nepal and Bhutan - Rs.1,00,00,000 (iii) Job work exempted from duty under Notification No. 214/86 - Rs.90,00,000, (iv) Sales to 100% EOU against Form CT-3 - Rs.50,00,000. The company is of the view that it is not liable to pay any duty on its clearances in the financial year 2016-17 as per Notification No. 8/2003 dated 1st March, 2003. Do you agree with the company? Give reasons for your answer.

Ans: SSI exemption is available upto first clearances of Rs. 150 lakhs.

While calculating limit of Rs. 150 lakhs, exports to countries other than Nepal and Bhutan, job work under notification No. 214/86-CE and supplies to EOU (deemed exports) are not required to be considered. However, supplies to Nepal and Bhutan are required to be considered. If these are excluded, the turnover of the assessee for purpose of calculation of limit of Rs. 150 lakhs is Rs. 160 lakhs [(= Rs.400 – Rs.100 – Rs. 90 – Rs.50) lakhs]. Thus, the assessee can avail exemption of Rs. 150 lakhs and will have to pay duty on Rs. 10 lakhs.

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52. A Small Scale Unit (SSI) has effected clearances of goods of the value of Rs.460 lakhs during the financial year 2015-16. The said clearances include the following: (i) Clearance of excisable goods without payment of Excise duty to a 100% EOU unit - Rs.40 lakhs. (ii) Export to Nepal and Bhutan - Rs.50 lakhs, (iii) Job-work in terms of Notification No. 214/86 C.E., which is exempt from duty - Rs.60 lakhs. (iv) Goods manufactured in rural area with the brand name of others - Rs.70 lakhs. Write a brief note with reference to the Notifications governing SSI under the Central Excise Act whether the benefit of exemption would be available to the unit for the F.Y 2016-17.

Ans: Turnover in respect of sale to EOU (Rs.40 lakhs) and job work under notification No. 214/86-CE (Rs.60 lakhs) is required to be excluded for purpose of SSI exemption limit of Rs.400 lakhs. Turnover of SSI excluding these sales is Rs.360 lakhs (Rs.460-Rs.40-Rs.60 lakhs). Hence, the SSI unit will be entitled to exemption in 2016-17 upto first turnover of Rs.150 lakhs.

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53. A SSI unit has effected clearances of goods of the value of Rs.475 lacs during the Financial Year 2015-16. The said clearances include the following: (i) Clearance of excisable goods without payment of excise duty to a 100% EOU unit Rs.120 lacs, (ii) Job work in terms of notification no. 214/86 CE, which is exempt from duty - Rs.75 lacs, (iii) Export to Nepal and Bhutan - Rs.50 lacs, (iv) Goods manufactured in rural area with the brand name of the others Rs.90 lacs. Examine with reference to the notification governing SSI, under the Central Excise Act whether the benefit of exemption would be available to the unit for the Financial Year, 2016-17.

Ans: While calculating the turnover of Rs.400 lakhs, following are not required to be considered -

a) Deemed exports i.e. supplies to 100% EOU (Rs. 120 lakhs);

b) Job work that amounts to 'manufacture' done under notifications No. 214/86-CE, 83/ 94-CE and 84/94-CE (Rs. 75 lakhs).

Turnover in respect of sale to EOU (Rs.120 lakhs) and job work under notification No. 214/86-CE

(Rs.75 lakhs) is required to be excluded for purpose of SSI exemption limit of Rs.400 lakhs. Turnover of SSI excluding these sales is Rs.280 lakhs (Rs.475-Rs.120-Rs.75 lakhs). Hence, the SSI unit will be entitled to exemption in 2016-17 upto first turnovers of Rs.150 lakhs.

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54. A SSI unit has effected clearances of goods of the value of Rs.475 lacs during the Financial Year 2015-16. The said clearances include the following: (i) Clearance of excisable goods without payment of excise duty to a 100% EOU unit Rs.120 lacs, (ii) Job work in terms of notification no. 214/86 CE, which is exempt from duty - Rs.75 lacs, (iii) Export to Nepal and Bhutan - Rs.50 lacs, (iv) Goods manufactured in rural area with the brand name of the others Rs.90 lacs. Examine with reference to the notification governing SSI, under the Central Excise Act whether the benefit of exemption would be available to the unit for the Financial Year, 2016-17.

Ans: While calculating the turnover of Rs.400 lakhs, following are not required to be considered -

a) Deemed exports i.e. supplies to 100% EOU (Rs.120 lakhs);

b) Job work that amounts to 'manufacture' done under notifications No. 214/86-CE, 83/ 94-CE and 84/94-CE (Rs.75 lakhs).

Turnover in respect of sale to EOU (Rs.120 lakhs) and job work under notification No. 214/86-CE (Rs.75 lakhs) is required to be excluded for purpose of SSI exemption limit of Rs.400 lakhs. Turnover of SSI excluding these sales is Rs.280 lakhs (Rs.475-Rs.120-Rs.75 lakhs). Hence, the SSI unit will be entitled to exemption in 2016-17 upto first turnovers of Rs.150 lakhs.

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55. Small and company a small scale industry provides the following details. Determine the eligibility for exemption based on value of clearances for the Financial year 2015-16 in terms of Notfn. No. 8/2003-CE dated 1.3.2003 as: (I) Total value of clearances during the financial Year 2014-15 (including VAT Rs.50 lakhs) Rs.870 lakhs, (II) Total exports (including for Nepal and Bhutan Rs.200 lakhs) Rs.500 lakhs, (III) Clearances of excisable goods without payment of duty to a Unit in software technology park Rs.20 lakhs, (IV) Job work under Notfn.No.84/94-CE dated 11.4.1994 Rs.50 lakhs. Job work under Notfn. No. 214/86-CE dated 25.3.1986 Rs.50 lakhs (v) Clearances of excisable goods bearing brand name of Khadi and Village Industries board Rs.200 lakhs. Make suitable assumptions and provide brief reasons for your answers where necessary.

Ans:

	Total turnover	870
Less:	Value of clearances including VAT	**-50**
Less:	Total Exports excluding Nepal & Bhutan (500-200)	**-300**
Less:	Clearance for STP jobs	**-20**
Less:	Clearance for job work	**-100**
	Turnover (for calculating limit of crores)	***400***

- Goods bearing brand name of Khadi and Village Board are eligible for SSI exemption. Hence, its turnover cannot be excluded for calculating limit of Rs.4 crores.

  Thus, his turnover for purpose of SSI exemption limit is 400 lakhs. The requirement is that turnover should not exceed Rs.400 lakhs. Since it is not exceeding Rs.400 lakhs, the company will be entitled to avail exemption upto first Rs.150 lakhs in financial year 2015-16.

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56. M/s Punctual Ltd., (manufacturing watches) has cleared goods of the value of Rs.120 lakhs during the financial year 2015-16 exclusive of duties and taxes. The goods attract 12.5% *ad valorem* Excise Duty. Determine the Excise Duty liability when the assessee opts for CENVAT facility and also in the case when the assessee decides not to avail CENVAT benefit.

The turnover of the assessee in the previous year 2014-15 was Rs.100 lakhs.

Ans: Watches are not eligible for SSI exemption. Hence, the assessee has to pay excise duty on entire turnover of Rs.120 lakhs @12.5%. Thus, total duty payable is Rs.15 lakh.

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57. Mahesh Ltd., which is engaged in manufacturing of excisable goods, started its business on 1st June, 2014. It availed SSI exemption during the financial year 2015-16. The following are the details available to you:

a) 12,500 Kg of inputs purchased @ Rs.1,190.64 per Kg (Inclusive of Central excise duty @12.5%) Rs.1,48,83,000;

b) Capital goods purchased on 31.5.2015 (Inclusive of Excise duty @12.5%) Rs.80,09,400;

c) Finished goods sold (at uniform transaction value throughout the year) Rs.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 2016-17. Rate of duty on finished goods sold may be taken @12.5% 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.

Ans: Statement showing Excise duty liability of M/s Mahesh Ltd for the financial year 2015-16

	Particulars	**Value (Rs.)**	**Cenvat credit (Rs.)**
	Cost of Purchases [i.e. Rs.1,48,83,000 × 100/112.5]	1,32,29,333	16,53,667
Add:	Cost of Capital goods [i.e. Rs.80,09,400 × 100/112.5] CENVAT credit on capital goods Rs.8,89,933 (i.e. Rs.80,09,400 - Rs.71,19,467)	71,19,467	8,89,933
	Total CENVAT credit		**25,43,600**
	Value of Finished goods	3,00,00,000	
Less:	Exemption limit	(1,50,00,000)	
	Value of Finished goods attract excise duty	1,50,00,000	
	Excise duty @12.5% on Rs.1,50,00,000	**18,75,000**	
Less:	CENVAT credit (Note 1)		
	— on input goods (note 1)	(8,26,834)	
	— on capital goods	(8,89,933)	
	Net Excess Excise Duty C/F	**1,58,233**	

- **Working Notes:**

1. Output Value = Rs.3,00,00,000

   Input Value = Rs.1,50,00,000

   Eligible Cenvat credit on input goods used for manufacture of finished goods beyond Rs.150 lakhs is Rs.8,26,834 (i.e. 16,53,667 × Rs.150 : Rs.300).

2. For SSI unit, Excise duty is nil, upto Rs.1,50,00,000 of Finished Goods.

3. **Rule 2(a) of the CENVAT Credit Rules, 2004**

   CENVAT credit on Capital Goods allowed upto 100% in the year of receipt of such goods for SSI units (w.e.f. 01.04.2010).

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58. An SSI unit (manufacturing goods eligible for benefits of SSI exemption notification) has cleared goods of the value of Rs.60 lakhs during the financial year 2015-16. The effective rate of Central Excise Duty on the goods manufactured by it is 12.5% Ad valorem.

What is the correct amount of duty which the unit should have paid on the above clearances for 2015-16?

Ans: (a) If unit intends to avail Cenvat credit on inputs, duty payable is normal duty i.e. 12.5% of Rs.60 lakhs, i.e. Rs.7,50,000.

(b) If unit does not intend to avail Cenvat credit on inputs, duty payable is Nil.

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59. The value of excisable goods viz. Iron and Steel articles manufactured by M/s. Alpha Ltd. was Rs.120 lakhs during the financial year 2015-16, net of taxes and duties. The goods attract 12.5% *ad-valorem* basic duty. Determine the excise duty liability when the assessee opts for 'CENVAT' and opts for not to avail 'CENVAT' under SSI exemption notification respectively.

Ans: M/s Alpha Ltd has no option to opt for SSI exemption benefit since Iron and Steel are ineligible industries for availing the said benefit.

Hence, the duty liability can be calculated is as follows:

- Basic Excise duty = Rs.120 Lakhs x 12.5% = **Rs. 15 Lakhs**

Therefore the total excise duty payable is Rs.15 Lakhs

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60. A small scale manufacturer had achieved sales of Rs.86 lakhs in 2014-15. Turnover achieved during 2015-16 was Rs.1.52 crores. Normal duty payable on the product is 12.5%. Find the total excise duty paid by the manufacturer during 2015-16 (a) If the unit has availed Cenvat credit, (b) If the unit has not availed Cenvat credit. [The turnover is without taxes and duties].

Ans: (a) If the unit has availed Cenvat credit, it has to pay full duty on entire turnover. Hence, duty payable is 12.5% of Rs.1.52 crores i.e. Rs.19 lakhs.

(b) If the SSI unit has not availed Cenvat, the duty payable is as follows:

1. On first Rs.150 lakhs : Nil
2. On subsequent sales - Normal duty of 12.5%. Thus, duty on remaining Rs.2 lakhs will be Rs.25,000. Thus, excise duty paid is Rs.25,000.

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61. Z Ltd. is a small-scale industrial unit manufacturing a product X. The Annual report for the year 2015-16 of the unit shows a gross sale turnover of Rs.1,91,40,000, which includes excise duty and sales tax. The product attracted an excise duty rate of 12.5% as BED, Sales Tax 10%.

Determine the duty liability under Notification No. 8/2003-CE, if SSI unit had availed SSI exemption and then paid duty. On the other hand, if SSI had availed Cenvat Credit on all its inputs, what would be the excise duty liability?

Ans: Duty liability of Z Ltd. in each case is as follows -

a) In respect of first net turnover of Rs.150 lakhs (Rs.1,50,00,000), excise duty is Nil. Sales tax @ 10% is payable on net turnover on Rs.1,50,00,000. Hence, sales tax @ 10% is Rs.15,00,000. Thus, gross sale turnover in respect of first net turnover of Rs.150 lakhs (excise duty is not paid) is Rs.1,65,00,000.

   Therefore, balance gross sale turnover is Rs.26,40,000 (Rs.1,91,40,000 - Rs.1,65,00,000). This includes excise duty at 12.5% and sales tax @ 10%.

   Excise Duty = [(Rs.26,40,000 × 100/110) × 12.5/112.5] = Rs.2,66,667

   Sales Tax = Rs.26,40,000 × 10/110 = 2,40,000

b) If SSI unit intends to avail Cenvat credit on all its inputs, it has to pay full 12.50% duty on its entire turnover is as follows:

   Excise duty = [(Rs.1,91,40,000 x 100/110) x 12.5/112.5] = Rs.19,33,333

   Sales tax = Rs.1,91,40,000 x 10/110 = Rs.17,40,000.

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62. A small scale manufacturer produces a product ‘ P’. Some of the production bears his own brand name, while some productions bears brand name of his customer. The customer purchases the goods from the small scale unit and sales himself by adding 20% margin over his purchase cost Rs.3,53,00,000. He achieved clearances SSI unit in 2015-16 was Rs.445 lakhs.

The following break up [These clearances are without considering excise duty and sales tax] are —

Clearances with his own brand name - Rs.80 lakhs, (ii) Clearances of product bearing his customer’s brand name - Rs.365 lakhs. Normal excise duty of his product is 12.5%. The SSI unit intends to avail Cenvat benefit on inputs on goods supplied to the brand name owner but intends to avail SSI exemption on his own clearances.

A) Find the total duty paid by the manufacturer in 2015-16, if
   i. Inputs are common but SSI unit is able to maintain separate records of inputs in respect of final products under his brand name and those with other’s brand name
   ii. The inputs are common and SSI unit is not able to maintain separate records on inputs used in final products manufactured under his brand name and with other’s brand name.

B) What will be the rate of excise duty payable by him in April 2016
   i. On product bearing his own brand name and
   ii. On product bearing his customer’s brand name.

C) Will there be any difference in duty payable in April 2016 if all his clearances of Rs.445 lakhs in 2015-16 were of product under his own brand name?

Ans:

A) SSI unit can avail Cenvat on final products cleared under other’s brand name and avail SSI exemption in respect of his own production.

i. In the first case, he has to pay duty @ 12.5% on Rs.365 lakhs, i.e. Rs.45.63 lakhs. He cannot avail Cenvat credit in respect of inputs used to manufacture product under his own brand name.

ii. In the second case, since he is unable to maintain separate record of inputs, he will have to pay 6% on Rs.80 lakhs as per rule 6(3) (i) of Cenvat Credit Rules.

- Thus, he has to pay duty of Rs.45.63 lakhs, plus an 'amount' of Rs.4.80 lakhs. He can avail Cenvat on all the inputs. — Note that in respect of goods bearing customer's brand name, duty is payable on his selling price to the customer even if customer sells them subsequently at higher price.
- The assessee has to carefully do his costing and decide
  a) whether to avail Cenvat on all inputs, pay full duty on all final products and 6% on final products cleared under his own brand name or
  b) Not avail Cenvat at all and avail exempt from duty on his own production with his brand name.

B) The turnover of SSI during 2015-16 was not exceeds Rs.4 crores. However, for purposes of calculating the upper limit of Rs.4 crores, clearances with other's brand name are not to be considered. Hence, from 1st April 2016, he can clear goods bearing his own brand name upto Rs.150 lakhs without payment of duty, if he does not avail Cenvat credit on inputs used in such products. If he is unable to maintain separate records, he will have to pay 6% 'amount' on goods manufactured under his own brand name.

C) If total turnover of Rs.4.45 crores in 2015-16 was under his own brand name, the manufacturer is not eligible for any Small Scale industry concession in April 2016, and he will have to pay duty at normal rates on his total clearances in April 2016.

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63. The value of clearances from four units of M/s X Ltd. during 2015-16 are as follows:—

Units situated at	**Value of clearances (Rs. in lakh)**
• Guwahati	120
• Patna	100
• Delhi	130
• Chennai	170

M/s X Ltd. seeks your advice as a consultant whether benefit under Notification No. 8/2003 shall be available to M/s X Ltd. during 2016-17. You are required to indicate your advice in this context.

Ans: In the given case M/s X Ltd. total turnover for the year 2015-16 is Rs.520 Lakh (i.e. Rs.120 + Rs.100 + Rs.130 + Rs.170). Hence, the benefit of exemption Notification No. 8/2003 shall not be available to M/s X Ltd. in the year 2016-17.

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64. Determine the amount CENVAT Credit available to M/s Y Ltd. in respect of following items procured by them in the month of October 2015:

i. If the aggregate value of clearances of M/s Y Ltd. for the financial year 2014-15 is Rs.450 lakhs;

ii. If the aggregate value of clearances of M/s Y Ltd. for the financial year 2014-15 is Rs.350 lakhs and in the current year opted to claim the benefit of the SSI exemption from payment of duty.

Items	**Excise duty paid (Rs.)**
1. Raw materials	52,000

2. Capital goods used for generation of electricity for captive use within the factory	1,00,000
3. Motor spirit	40,000
4. Inputs used for construction of a building	1,00,000
5. Dairy and bakery products consumed by the employees	5,000
6. Motor vehicle (not capital goods)	4,50,000

Ans:

Statement showing CENVAT Credit allowed or not allowed:

Items	Excise duty paid (Rs.)	Remarks
1. Raw materials	52,000	100% CENVAT Credit allowed
2. Capital goods used for generation of electricity for captive use within the factory	1,00,000	For SSI Units 100% C.C allowed. For other than SSI Units upto 50% in the 1st year of receipt of capital goods and balance in subsequent year's
3. Motor spirit	Nil.	CENVAT Credit not allowed
4. Inputs used for construction of a building	Nil.	CENVAT Credit not allowed
5. Dairy and bakery products consumed by the employees	Nil.	CENVAT Credit not allowed
6. Motor vehicle (not capital goods)	Nil.	CENVAT Credit not allowed

- **Statement showing CENVAT Credit allowed amount:**

Despcription	CENVAT Credit eligible for the month of October, 2015 (Rs.)	
1. The aggregate value of clearances of M/s Y Ltd. for the financial year 2014-15 is Rs.450 lakhs.	1,02,000 (i.e. 52,000 + [1,00,000 × 50%])	
2. The aggregate value of clearances of M/s Y Ltd. for the financial year 2014-15 is Rs.350 lakhs.	CENVAT Credit on input goods (i.e. Rs.52,000 x 30 lakhs/180 lakhs)	8667
	CENVAT Cenvat on Capital goods	1,00,000
	Therefore, total CENVAT Credit	1,08,667

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65. XYZ & Co., a SSI unit manufactures different products and the value of the clearances for the financial year 2014-15 is given below:

Products:	**A1**	**A2**	**A3**
1. Clearance for home consumption	55	40	60
2. Captive consumption in the manufacture of excisable goods	100	80	60
3. Export to U.S.A.	90	80	Nil.
4. Export to Nepal	50	40	39
5. Job work done under Notification 214/86-C.E.	55	30	60
6. Goods manufactured in rural area with brand name of others	45	35	35

- The unit seeks your advice as to whether they are eligible for SSI unit exemption for the year 2015 -2016. Explain the basis for your conclusions.

Ans: Statement showing aggregate clearance in the financial year 2014-15 (Rs.in lakhs)

Products:	**A1**	**A2**	**A3**	**Total**	**Remarks**
1. Clearance for home consumption	55	40	60	155	
2. Captive consumption in the manufacture of excisable goods	-	-	-	-	This turnover not addable, since it is forming part of finished goods
3. Export to U.S.A.	-	-	-	-	Export turnover excluded
4. Export to Nepal	50	40	39	129	Not considered as export turnover.
5. Job work done under Notification 214/86-C.E.	-	-	-	-	Not addable, because it is exempted from duty in the hands of jobworker
6. Goods manufactured in rural area with brand name of others	45	35	35	115	
Total	**150**	**115**	**134**	**399**	

- ***Note:*** Option to claim SSI exemption benefit is applicable only when the previous year turnover is less than Rs.400 lakhs.

  For current year 2015-16 XYZ & Co. is eligible to avail the SSI exemption since, during the previous year the aggregate clearance is Rs.399 lakhs.

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66. M/s XYZ. are in the business of supplying "Turbo-alternators" to various customers. They manufacture steam turbines in the factory, which are removed to the customer's site on payment of Central Excise Duty. They purchase duty paid alternators from the market which are delivered at the customer's site. M/s XYZ assemble both the items and fix them permanently on a platform at the site. Department demands central excise duty payable on "Turbo-alternator" when it comes into existence after being assembled on the platform embedded to the earth. Is the view taken by the department correct. Discuss with the help of case laws, if any.

Ans: In the present case two issues are involved

(a) Whether assembly of steam turbines and duty paid alternators amounts to manufacture of turbo alternators, and

(b) Whether such assembly results in manufacture of excisable goods.
The facts of the case are similar to the case of ***Triveni Engineering and Industries Ltd. v C. CEX, 2000*** **(120) El,T 273 (SC)**

- In the present case, the Appellants were, according to specified designs, combining steam turbine and alternator by fixing them on a platform and aligning them. As a result of this activity of the Appellants, an new product, turbo alternator, came into existence, which has a distinctive name and use different from its components.
- Therefore, the process involved in fixing steam turbine and alternator and in coupling and aligning them in a specified manner to form a turbo alternator, a new commodity, is nothing but a manufacturing process.
- Though the process of assembling results into a new commodity and therefore is a process amounting to manufacture, yet the turbo alternator set (known in the market as such) comes into existence only when a steam turbine and alternator with all their accessories are fixed at the site. Further, in order to be brought in the market the turbo would not remain turbo alternator. Thus, its is obvious that without fixing to the ground the turbo alternator does not come into being. The installation or erection of turbo alternator on the platform specially constructed on the land cannot be treated as a common base, therefore, such alternator would be immovable property. Accordingly, such activity could not be considered as 'excisable goods'.

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67. Snow White Ltd. Manufactures paper and in the course of such manufacture, "waste paper" is produced (paper being the main product and dutiable goods). The Central Excise Tariff Act, 1985 (CET) was amended w.e.f. 1-3-1995, so as to include waste paper. White Ltd. was issued a show cause notice by the Central Excise Officer, demanding duty of Rs.2 lakhs on waste paper produced during October, 1994 to February, 1995, but cleared during April-May, 1995. A reply is due to be filed immediately to the notice. As Counsel of Snow White Ltd. you we required to advise the company about –
The legality and validity of the proposed levy and collection of duty on waste paper for the period prior to 1-3-1995; and State (with the help of decided cases) the reasons for your advice/opinion.

Ans: The issue involve in the given case is determination of taxable event for the purpose of levy of excise duty. As per section 3 of the Central Excise Act, 1944, the taxable event for levy of Central Excise is **"manufacture of excisable goods"**. The date for determination for rate of duty and tariff valuation is the date of actual removal of the goods from the factory or warehouse.

- However, there must be a levy of duty of excise at the time of manufacture and only then, the duty can be collected at the time of removal as has already been held in Vazir Sultan Tobacco Industry's case 1996 (83) ELT 3(SC).

- Therefore, the waste paper produced prior to the levy will not be chargeable to duty of excise even though it has been cleared after such levy and the proposed show cause notice demanding Rs.2 lakhs of excise duty on such waste paper is invalid and illegal and liable to be quashed.

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68. Kagaz Karkhana Ltd., manufactures paper in the year 2012-13, it embarked on a major expansion programme, and for the purpose, fabricated at site, 75% of the portion of papermaking machine and procured (paying excise duty) the remaining part of the papermaking machine from other suppliers. Having done so, it assembled all the parts together into a paper-making machine at site.The erection and installation was completed during November, 2012 and the machine was firmly fastened to the earth, with the help of bolts, nuts and grouting material on a concrete bed, to prevent rattling and ensure wobble-free operation and presently the machine is functional and operating. During July, 2015, the Central Excise authorities served the company a show cause demanding excise duty of Rs.5 crores, on the paper-making machine, alleging that the activity resulted in manufacture of excisable goods, falling under chapter 84 of CETA. The company engages you as 'counsel' to represent them and desires to contest the case on the grounds :

(a) That the activity of erection and installation was not manufacture,
(b) That the activity resulted in "immovable property" emanating at site and
(c) That the demand is time-barred
You are required to discuss the tenability or otherwise of the contentions of the notice client and advice them drawing support from the judicial decision.

Ans: There are three issues involved in the present case:

(i) Whether the activity of erection and installation was not manufacture,
(ii) Whether the activity resulted in "immovable property" emanating at site and
(iii) Whether the demand is time-barred

(a) In respect of the first issue, it is to be noted that the excise duty is levied on the excisable goods manufactured in India, and hence it will not be attracted where goods are not produced from the manufacturing process.

- A commodity is said to be manufactured if by application of the process its identity is changed and it is known in the market as a separate and distinct commodity having separate name, character and use.
- The assembly of parts results in paper-making machine which has distinct identity, name and character and use and hence such assembly amounts to manufacture.

(b) The second issue is whether erection and installation of such machine on a concrete base results in a immovable property. The SC, in **Sirpur Paper Mills v C.C.Ex., Hyderabad 1998 (97) ELT 3 (SC)**, has held that papermaking machine if assembled and erected at site & embedded in concrete base to ensure wobble free operation will not become an immovable property.

- The machine can be dismantled from its base and sold in parts.
- Hence, the assessee's first two contentions are untenable and incorrect as the activity has resulted in the manufacture of goods and there is no immovable property brought into existence and assembly operations are liable to duty of excise.

(c) The third issue is whether the demand notice is time barred. Under section 11A of the Central Excise Act, 1944, the extended period of limitation can be invoked only when there is a fraud, collusion, willful misstatement, suppression of facts or contravention of the provisions of the Act with an intent to evade the payment of duty of excise. If the manufacturing activity of paper-making machine was known to the department then the department cannot invoke the extended period of limitation. Hence, the contention of the assessee is an arguable point and the same is legally tenable.

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69. Regarding the applicability of excise duty, Computers are covered under Heading no 84.71 of the First schedule to the Central Excise Tariff Act, 1985 which describes computers as automatic data processing machines. XYZ Ltd. has undertaken upgradation of its computers both in terms of storage capacity and processing speed by increasing the hard disc capacity, RAM, changing of processor chip from 386 to 486 and in certain cases from Pentium III to Pentium IV. The Department's contention is that new goods with a different name character and use have come into existence and the upgraded products are chargeable to excise duty. Discuss in the light of provision of section 2(f) of the Central Excise Act, 1944 relating to "manufacture" whether this stand of the Department is justified.

Ans: The computers covered under heading No. 84.71 of the Schedule to the Central Excise Tariff Act, 1985 are described as automatic data processing machines. An automatic data processing machine will be known by this name, irrespective of its capacity of storage and processing, which may be enhanced by increasing the hard disk capacity. RAM or by changing the mother board or the processor chip. However, it cannot be said that new goods with a different name, character and use have come into existence, which can be subjected to duty again.

- Accordingly, upgrading of old and used computer systems would not amount to manufacture, as the upgradation does not bring into existence goods with a distinct new name, character and use.

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70. Full exemption is granted by exercising Central Excise Notification which explains all products of printing industry including newspapers & printed periodicals." A manufacturer, is manufacturing cardboard cartons and subsequently doing varied printing on them, claims benefit of the said exemption notification on the ground that every material on which printing is done becomes a product of the printing industry. Is the claim of the manufacturer justified?

Give reasons for your view.

Ans: The cited Central Excise exemption notification grants full exemption to – "all products of printing industry including newspapers and printed periodicals". The products in respect of which exemption is claimed are cardboard, cartons although subsequently varied printing is done on them.

- These products relate to the packaging industry. The mere fact that printing is done on these products will not render these products as the products of the printing industry.
- Accordingly, the products of the packaging industry shall not be entitled to the exemption granted to "all products of printing industry including newspapers and printed periodicals".The case in support is ***Rollatainiers Ltd. v UOI*** **(1994) 72 ELT 793(SC)**.

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71. How would you arrive at the assessable value for the purpose of levy of excise duty from the following particulars-Cum-Duty selling price exclusive of sales Tax Rs.10,000, Rate of excise duty applicable to the product - 12.5% (including education cess), Trade discount allowed – Rs.1,200, Freight Rs.750 from factory to buyer place.

Ans: In computation of assessable value for the purpose of levy of excise duty, trade discount and freight are allowed as deductions.

Thus, Net price = Selling Price – (Trade Discount + Freight)

= Rs.10,000 – (1,200 + 750)

= Rs.8,050

Since the price is inclusive of excise duty @12.5%, Therefore,

- Assessable Value = Rs.8,050 x 100/112.5 = **Rs.7,156**
- Excise Duty will be Rs.8,050 – Rs.7,156 = **Rs.894**

Check : 12.5% of Rs.7,156 is Rs.894

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72. X Ltd. is engaged in the manufacture of 'paracetamol' tablets that has an MRP of Rs.9 per strip. The company cleared 1,00,000 tablets and distributed as physician's samples. The goods are not covered by MRP, but the MRP includes 12.5% Excise Duty and 2% CST. If the cost of production of the tablet is 40 paise per tablet, determine the total duty payable.

Ans: If the product is not covered under MRP provisions, valuation provisions under section 4A do not apply. In that case, valuation is required to be done as per Central Excise Valuation Rules.

As per the CBEC's circular, any physicians samples or other samples distributed free of cost are to be valued under Rule 11 read with Rule 8 of Central Excise Valuation Rules, 2000.

As per Rule 8, such samples are to be valued at 110% of cost of production or manufacture.

The given cost of production is 40 Paise, Assessable Value will be 44 Paise. Therefore, duty payable @ 12.5% on 44 paise = 12.5% × 0.44 = 0.055 paise per tablet.

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73. M/s. A.U.L. avail of CENVAT credit of the duty paid on the inputs namely, steel sheets. The scrap generated during the manufacture of their final product was cleared by them without payment of duty. Subsequently the Department raised a demand of Excise duty on waste and scrap. M/s. A.U.L. accepted the duty liability, but contended that the price at which waste and scrap had been sold should be considered to be cum-duty price and assessable value should be determined after deducting the element of excise duty. The contention of the Department is that as no central Excise duty was paid by them while clearing the scrap, no deduction on account of excise duty is available to M/s. A.U.L.

Ans: The facts of the given case are similar to those decided by the Supreme Court in ***C.C.Ex. v Maruti Udyog Ltd.* (2002) 141 ELT 3 (SC)** in the said case, the department raised duty demand on waste and scrap and the price realized by the assessee was taken as the assessable value. The assessee contended that the price of such waste and scrap was includive of excise duty. The Supreme Court decided the issue in favour of the assessee. Accordingly, in the given case, as the Department has raised duty demand on waste and scrap, the price collected by M/s. A.U.L. will be considered as the Cum-Duty price and it shall be deemed that the element of excise duty is already included in such price. The manufacturer will therefore be entitled for deduction on account of such price.

- Thus the assessable value will be worker out as under –

Assessable value = $\frac{\text{(Cum-Duty Price – Permissible Deduction)} \times 100}{100 + \text{Rate of Duty}}$

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74. State whether the following elements are to be included or not as part of the 'Transaction value' under section 4 of the Central Excise Act, 1944.

(i) Erection and commissioning charges

(ii) System software etched in the computer system

(iii) Cylinder holding charges

(iv) After-sales warranty charges –

Ans:

(a) Any payment made by buyer to assessee is includible in assessable value only if it is in'connection' with sale. In case of erection and commissioning charges for erecting machinery at site, these are incurred after goods are removed from the factory. These may be in 'relation' to sales but are not in 'connection' with sales as there is no 'cause and effect' relationship between the two. Hence these are not includable in assessable value. This is also confirmed vide CBE&C Circular No. 643/34/2002-CX, dated 1-7-2002.

(b) A computer manufacturer loads bought out computer software on computer while selling. Thus, the system software is loaded on computer while computer is cleared from the factory. Computer software as such is exempt from duty. Department had earlier clarified that value of computer software etched or loaded on computer will be includible. However, if computer software is supplied separately on floppy disc or tapes, its value will not be includible.
[However, as per CBE&C circular dated 28-2-2003, value of computer software will not be includible in assessable value of computer].

(c) In case of durable and returnable containers, the container is returnable after the gas or other material inside is used. Often, manufacturing companies take some deposit and charge some rent for the container. These are 'cylinder holding charges'. CBE&C, vide its Circular No. 643/34/2002-CX, dated 1-7-2002, has clarified that rental charges or cost of maintenance of reusable metal containers like cylinders etc. are to be included in assessable value. This view is correct as such rental charges and the sale of gas are so intrinsically connected that there can be no sale without such charges.

(d) Compulsory after sales warranty charges are includible as the sale goods and such charges are inseparable. However, optional service charges are not includable as there is no connection between the sale of goods and the optional service charges.

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75. A Ltd., a manufacturer to tyres was extending a warranty discount on any tyres that, were defective. The scheme of warranty discount operated thus, the customers lodged their claim with regard to any defects in the tyres. Such claims were then scrutinized by a Technical Committee of A Ltd., which would decide the amount of refund due to the customer on the basis of the reduction in the normal life of tyre attributable to the defect. This refund was to be given by the Technical Committee. This practice was being followed by A Ltd. for the last 15 years. A Ltd. claimed the 'warranty discount' as a Trade discount which is deductible in computing the assessable value of the tyres. Is this correct? Discuss in the light of the provisions under Section 4 of the Central Excise Act, 1944.

Ans: According to section 4 of the Central Excise Act, 1944, regarding discounts, transaction value does not make a direct reference. Now actually the excise duty is paid/payable on the net price of the goods after deduction of discounts. If in any transaction discount is allowed in accordance with normal practice of trade and it is passed to the buyer, till inclusion of such discount is not justified.

However, the said amount to be allowed as deduction must be in the nature of discount.

- From the facts of the above case, the manufacturer was extending warranty discount on any tyres that were defective. Though this was known as discounts, but it was only a compensation for defects in tyres, which was given to the customers. Hence, it will not be allowed as deduction from the transaction value as was held in **GOI v MRF (1995) 77 ELT 433(SC).**

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76. How would you arrive at the assessable value for the purpose of levy of excise duty from the following particulars :

a) Cum-duty selling price exclusive of sales tax Rs.20,000

b) Rate of excise duty applicable to the product 12.5%

c) Trade discount allowed Rs.2,400

d) Freight Rs.1,500

Ans: Trade discount of Rs.2,400 and freight of Rs.1,500 are allowed as deductions. Hence, net price will be Rs.16,100 [Rs.20,000 – Rs.2,400 – Rs.1,500].

Since the price is inclusive of excise duty of 12.5%, Excise Duty will be Rs.1,788.89 (Rs.16,100 × 12.5)/112.5) and Assessable Value will be Rs.14,311.11 [Rs.16,100 – Rs.1,788.89]

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77. M/s U.T.A. manufacture welding electrodes which are put first in Polythene bags and then packed together in cardboard cartons. They sell electrodes at the factory gate packed in cardboard cartons whereas such electrodes are also packed in wooden boxes when sold to their customers located at outstations. Is the department justified to include the cost of wooden boxes in the assessable value of the welding electrodes? Discuss with the help of case laws, if any.

Ans: The new Section 4 of the Central Excise Act, 1944, does not make any specific reference to packing charges. In normal commercial transactions the price of goods charged includes the cost of packing charges. The charges that are recovered on account of packing are obviously the charges in relation to sale of goods under assessment and will form the part of transaction value.Whatever be the nature of packing that is whether the packing is primary or secondary or special or packing for the purpose of transportation, the cost of such packing shall be includible.

- In light of the new Section 4, the earlier case laws hold no significance now.

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78. A1 Ltd., manufactures three soft drinks namely Coke, Pep, and Maaza. Coke was sold only to A2 Ltd., a subsidiary company of A1 Ltd. Pep was sold to A3 Ltd., where the Managing Director of A1 Ltd., is a Manager. Maaza was sold to A Ltd, who is sole distributor of A1 Ltd., and was coming under same management of A1 Ltd.

Determine the assessable value of the three products in the hands of A1 Ltd. on the basis of the following information:

1) Price of A1 Ltd to A2 Ltd. is	Rs.1,00,000
2) Price of A1 Ltd. to A3 Ltd. is	Rs.50,000
3) Price of A1 Ltd. to A Ltd. is	Rs.20,000
4) Price of A2 Ltd. to Consumer is	Rs.1,20,000
5) Price of A3 Ltd. to Consumer is	Rs.60,000
6) Price of A Ltd. to consumer is	Rs.30,000

- **Note:** sale prices are exclusive of duties and taxes.

Ans: (Rule 10)

Statement showing computation of Assessable value for A1Ltd.

Particulars	Assessable value (Rs.)	Relationship	Applicable Rule	Remarks
1. **Coke sold to A2 Ltd.**	1,20,000	Relative	Rule 10 of the Valuation Rules, 2000	Price at which relative buyer, sells goods in the open market to non relative buyer
2. **Pep sold to A3 Ltd.**	50,000	Non relative	_	Relation ship will come into exist only when there is holding and subsidary concept persist.
3. **Maaza sold to A Ltd.**	20,000	Non relative	_	Relation ship will come into exist only when there is holding and subsidary concept persist.

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79. M/s R.M.T. Industries manufactures cigarettes which are sold in wholesale, exfactory, at cum-duty price to wholesale dealers. The price charged to all the dealers from the cigarettes is the same. However, the dealers who purchase on credit are required to deposit interest free security with M/s R.M.T. The department has demanded duty from M/s R.M.T. contending that they had earned notional interest in the security deposit received from the dealers which should be included in the assessable value of the cigarettes being the additional consideration. Duty on cigarettes is being charged on advalorem basis.

Discuss the stand taken by the department with decided case laws, if any.

Ans: The facts of this case are similar to the case of **VST Industries Ltd. v C.C.(1998) ELT 395(SC).**

In the instant case the interest free deposit scheme was introduced by the assessee because of commercial consideration of covering the risk of credit sales, no special consideration flowing form the assessee to the buyer keeping tile deposit, the SC held that the notional interest cannot be included in the assessable value.

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80. Determine the value on which Excise duty is payable in the following instances. Quote the relevant section/rules of Central Excise Law.

a) A. Ltd. sold goods to B Ltd., at a value of Rs.100 per unit in turn, B Ltd. sold the same to C Ltd. at a value of Rs.110 per unit. A Ltd. and B Ltd. are related, whereas B Ltd. and C Ltd. are unrelated.

b) A Ltd. and B. Ltd. are inter-connected undertakings, under section 2(g) of MRTP Act. A Ltd. sells goods to B Ltd. at a value of Rs.100 per unit and to C Ltd. at Rs.110 per unit,who is an independent buyer.

c) A Ltd. sells goods to B Ltd. at a value of Rs.100 per unit. The said goods are captively consumed by B Ltd. in its factory. A Ltd. and B Ltd. are unrelated. The cost of production of the goods to A Ltd. is Rs.120 per unit.

d) A Ltd. sells motor spirit to B Ltd. at a value of Rs.31 per litre. But motor spirit has administered price of Rs.30 per litre, fixed by the Central Government.

e) A Ltd. sells to B Ltd. at a value of Rs.100 per unit. B Ltd. sells the goods in retail market at a value of Rs.120 per unit. The sale price of Rs.100 per unit is wholesale price of A Ltd. Also, A Ltd. and B Ltd. are related.

f) Depot price of a company are -

Place of removal	Price at depot	Price at depot	Actual sale price at
1. Amritsar Depot	Rs.110 per unit	Rs.105 per unit	Rs.115 per unit
2. Bhopal Depot	Rs.120 per unit	Rs.115 per unit	Rs.125 per unit
3. Cuttack Depot	Rs.130 per unit	Rs.125 per unit	Rs.135 per unit

- **Additional information :** (i) Quantity cleared to Amritsar Depot – 100 units, (ii) Quantity cleared to Bhopal Depot – 200 units, (iii) Quantity cleared to Cuttack Depot – 200 units, (iv) The goods were cleared to respective depots on 1-1-2016 and actually sold at the depots on 1-2-2016.

Ans:

a) Transaction value Rs.110 per unit (Rule 9 of Valuation value Rules). [Sale to unrelated party].

b) Transaction value Rs.100 per unit for sale to B and Rs.110 for sale to C – Rule 10 read with Rule 4 [Note that inter connected undertaking will be treated as 'related persons' for purpose of excise valuation only if they are 'holding and subsidiary' or are 'related person' as per any other part of the definition of 'related person'. Note that A is selling directly to C as per the question, and not through B Ltd].

c) Transaction value will be Rs.100. – section 4(1)—Incase of sale to unrelated person, question of cost of production does not arise.

d) Transaction value Rs.31. – section 4. – Since the goods are actually sold at this price, administered price is not considered.

e) Transaction value Rs.120 per unit – Rule 9 read with section 4 of Central Excise Act. Sale to an unrelated buyer. [Under new rules, there is no concept of 'wholesale price and retail price']

f) Under Rule 7, the price prevailing at the Depot on the date of clearance from the factory will be the relevant value to pay Excise duty.

- **Therefore –**

i. Clearance to Amritsar depot will attract duty based on the price as on 1-1-2016. Transaction value Rs.110x 100 units = Rs.11,000

ii. Clearance to Bhopal depot, so depot price on 1-1-2016. Therefore, transaction value Rs.120 × 200 units = Rs.24,000

iii. Clearance to Cuttack Depot, depot price on 1-1-2016. Transaction value Rs.130x120 units = Rs.26,000. Note the relevant date is 1-1-2016, since the goods were cleared to the depots on that date. No additional duty is payable even if goods are later sold from depot at higher price.

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81. Having regard to the provisions of section 4 of the Central Excise Act, 1944, compute/derive the assessable value of excisable goods, for levy of duty of excise, given the following information :

Cum-duty wholesale price including sales tax of Rs.2,500	Rs.15,000
Normal secondary packing cost	Rs.1,000
Cost of special secondary packing	Rs.1,500
Cost of durable and returnable packing	Rs.1,500
Freight	Rs.1,250
Insurance on freight	Rs.200
Trade discount (normal practice)	Rs.1,500
Rate of C.E. duty as per C.E. Tariff	12.5% Advalorem

State in the footnote to your answer, reasons for the admissibility or otherwise of the Deductions.

Ans: The assessable value from cum-duty price can be worked out by the under-mentioned formula

$$\textbf{Assessable Value} = \frac{(\text{Cum-Duty Price} - \text{Permissible Deduction}) \times 100}{100 + \text{Rate of Duty}}$$

- **Computation of Assessable Value**

	Cum-duty price		15000
Less:	**Deductions (See Notes)**		
Less:	Sales tax	-2500	
Less:	Durable & returnable-packing	-1500	
Less:	Freight	-1250	
Less:	Insurance	-200	
Less:	Trade Discount	-1500	-6950
	Total		**8050**
Less:	Central Excise Duty thereon @ 12.5% 8,050 × 12.5/112.5		894.44
	Assessable Value		**7155.56**

- **Notes :**

1. The transaction value does not include Excise duty, Sales tax and other taxes.
2. The Excise duty is to be charged on the net price, hence trade discount is allowed as deduction.
3. With regards to packing, all kinds of packing except durable and returnable packing is included in the assessable value. The durable and returnable packing is not included as the such packing is not sold and is durable in nature.
4. Freight and insurance on freight will be allowed as deduction only if the amount charged is actual and it is shown separately in the invoice as per Rule 5 of the Central Excise Valuation Rules, 2000.

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82. Explain whether the following items can be included in/excluded from the transaction value under section 4 of the Central Excise Act, 1944.

a) Collection expenses incurred in respect of empty bottles for filling aerated water from the premises of buyers to the manufacturers.

b) Delivery and collection charges of gas cylinders and collection of empty cylinders.

c) Interest notional or real accruing on deposits for sale/return of gas cylinders as well as rentals.

d) Cash discount known at the time of clearance of goods but not availed by the customer.

e) Value of system software in case of computers.

Ans:

1) Transaction value includes any amount charged in addition to the price of the goods by reason of or in connection with the sale. Since collection expenses are incurred by reason of or in connection with the sale, it would be included in the transaction value.

2) CBEC has vide Circular No. 643/34/2002, dated 1-7-2002 clarified that delivery and collection charges of gas cylinders are by reason of or in connection with the sale of goods and therefore, the

3) same would be included in the transaction value.

4) The interest on advances taken from the customers would not be included in the assessable value, unless the receipt of such advance had no effect of depressing the wholesale price.

   In ***VST Industries Ltd. v C.C.Ex, Hyderabad*** **1998 (97) ELT 395(SC)**, where interest free deposits were taken because of commercial consideration of covering the risk of credit sales, no special consideration flowing from the assessee to the buyer keeping the deposit was found and the Supreme Court held that notional interest cannot be included in the assessable value.

5) However, in such case, the burden of proof lies on the Department to prove a nexus between the fact of advance taken and the depression in the value.

6) The transaction value is the price actually paid or payable for the goods. In the given situation, as the case of cash discount has not been pass on to tile customer, it will not be allowed as deduction. As per tile CBEC & Circular No. 644/35/2002-CX, dated 12-7-2002 the Software can be of the following types –

- ***Systems software/Operating software:*** which is designed to control the operation of the computer system.
- ***Application software –*** Which is developed for specific applications only.

Valuation of goods is done in the form in which it is cleared. Therefore, computer *systems* will be valued by including the value of the software loaded on the hard disc. No distinction is to be made between an 'operating software' and an 'application software'.

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83. Thunder TV Ltd is engaged in the manufacture of colour television sets having its factories at Bangalore and Pune. At Bangalore the company manufactures picture tube; which are stock transferred to Pune factory where it is consumed to produce television sets. Determine the Excise duty liability of the captively consumed picture tubes from the following information:

Direct Material Cost (per Unit)	Rs.600
Indirect Material Cost	Rs.50
Direct Labour	Rs.100
Indirect Labour	Rs.50

Direct Expenses	Rs.100
Indirect Expenses	Rs.50
Administrative overheads	Rs.50
Selling and Distribution overheads	Rs.100

- **Additional Information:**

  Profit margin as per the Annual Report for the company for 2014-15 was 15% before income tax.

  (i) Material cost includes Excise duty paid Rs.100.

  (ii) Excise duty rate applicable is 12.5%.

Ans:

- As per Rule 8 of The Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, the valuation of captively consumed goods is 110% of the cost of production. The cost of production of goods would include cost of material, labour cost and overheads including administration cost and depreciation etc.
- The cost of material would be net of excise duty if CENVAT credit is availed in respect of such inputs. Accordingly, the assessable value will be determined as follows:

Raw materials Cost (net of excise duty)	Rs.500
Indirect material	Rs.50
Direct Labour	Rs.100
Indirect Labour	Rs.50
Direct Expenses	Rs.100
Indirect Expenses	Rs.50
Administrative overheads (assumed related to production activity)	Rs.50
Total cost of production	**Rs.900**
Assessable value (*i.e* 110% of the cost of production)	Rs.990

- Total Duty Liability = Rs.990 x 12.5/100 = Rs.123.75

  The raw material cost has been taken at Rs.500 after deducting the duty element assuming that the CENVAT credit has been availed.

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84. Mrs. E fails to pay Excise Duty of Rs.60,000 on the goods cleared in February by 5th March of 2015. The assessee, Mrs. E, is owner of a SSI unit. What is the interest payable under Rule 8 of Central excise Rules, 2002 if the duty was actually paid on 10th May of 2015?

Ans: Interest = Rs.60,000 x 18/100 x 40 days /365 days = Rs.1,184

Note: w.e.f. 1-4-2011 rate of interest is @18% p.a. simple interest

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85. From the following data, determine the CENVAT allowable if the goods are manufactured in a FTZ or by a 100% EOU and used in any other place in India.

Assessable value : Rs.770 per unit,

Quantity cleared 77,770 units,

BCD – 10%,

CVD – 12.5%

Ans: As per Rule 3 of CENVAT Credit Rules, 2002

- This formula is to be used if a unit in DTA purchases goods from EOU –

	Assessable value	Rs.770
Add:	50% on BCD 10%	Rs.38.50(10% x 50%= 5% on Rs.770)
	Balance	Rs.808.50
Add:	CVD 12.5%	Rs.101.06(12.5% on Rs.808.50)

- CENVAT Credit allowed to the extent of CVD. Therefore, Rs.101.06 per unit for 77,770 units is Rs.78,59,436.

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86. X Ltd. purchased a Boring-Drilling machine at a cum-duty price of Rs.37,27,360. The Excise duty rate charged on the said machine was @12.36%. The machine was purchased on 1.4.2013 and disposed of on 30.6.15 for a price of Rs.12,00,000 in working condition as second hand machinery (Excise duty @12.5%). The company was claiming depreciation @25% following Straight Line Method on the value of machine. Using the said information, answer the following questions:

What is the excise duty paid on the machine?

What is the CENVAT credit allowable under CENVAT Credit Rules?

What is the amount of CENVAT credit reversible or duty payable at the time of clearance of the said machinery?

Ans:

a) Excise duty is Rs.4,10,023 (i.e.Rs.37,27,360 × 12.36/112.36)

b) Upto 50% allowed as CENVAT credit in the year 2013-14 on 1-4-2013 and balance CENVAT credit in the year 2014-15 on 1-4-2014.

c)

Year	**No. of Quater**	**Working**
2013	2	April – December
2014	4	January – December
2015	2	January – June
Total	**9**	

Particulars	**Amount (Rs.)**	**Workings**
Cenvat credit on capital goods	4,10,023	
Less: Reduction	(46,128) (25,627)	Rs.2,05,012 × 2.5% × 9 qtrs. Rs.2,05,012 × 2.5% × 5 qtrs.

Amount to be paid	**3,38,268**	
Or		
Excise duty on transaction value	1,50,000	Rs.12 lakhs × 12.5%
Amount to be paid	**3,38,268**	**Whichever is higher**

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87. Prepare a Cenvat account in the books of A Ltd., and determine the balance as on 30-9- 2015 from the following data :

Opening balance as on 1-4-2015 Rs.47,000.

Inputs received on 04-04-2015 involving excise duty paid Rs.14,747

Purchased a lathe for Rs.1,16,000-cum duty price @ excise duty rate of 12.5% on 5-4-2015 and received the lathe into the factory on 5-12-2015.

On 6-4-2015 paid excise duty on final products @12.5% through Cenvat A/c (cum duty price of the goods Rs.2,32,000).

Inputs cleared as such to a job worker on 1-4-2015 not returned in 180 days, quantity 1,000 Kgs; Asssessable value Rs.2 lacs; ED @ 12.5% of the above, 50% of the inputs were received on 1-10-2015.

Common inputs were used in a product, which was exempted from payment of duty cleared at a price of Rs.100/unit, which included taxes of Rs.20/unit ; quantity cleared 1,000 units.

On 7-4-2015 duty paid on inputs amounting to Rs.17,867 was taken credit for in the Cenvat A/c as Rs.17,687.

Ans: CENVAT Credit Receivable Account in the Books of A Ltd., as on 30-9-2015

Date	Particulars	Debit (Rs.)	Date	Particulars	Credit (Rs.)
01/04/15	To Opening Balance	47000	06/04/15	By Excise duty paid on Final product (Rs.2,32,000/112.5)×12.5	25778
04/04/15	To Sundry Creditors	14747	30/09/15	By Reversal of CENVAT A/c (6% Amount on Exempted goods)	6180
07/04/15	To Sundry Creditors	17687	30/09/15	By Reversal of CENVAT A/c (Amount equal to duty on inputs not return within 180 days)	24720
07/04/15	To Sundry Creditors (Credit short taken on 7-4-2015)	180	30/09/15	By Balance c/d	22936
Total		**79614**	**Total**		**79614**

- **Notes :**

a) Since capital good (lathe) was receive only on 5-12-2015, the credit is permissible only on 5-12-15 and not before that date.

b) When 50% of inputs are received on 1-10-2015 (sent on job work), the credit is allowable for 50% only on 1-10-2015.

c) Where goods are exempted, an 'amount' is payable @ 6% on sale price less taxes.

d) For wrong amount of credit, rectification entry is passed.

e) The 'amount' paid on 30-9-2015 is reversal of Cenvat credit. It is not 'excise duty'.

Hence, a separate account 'Reversal of Cenvat Account' or "Payment of 'Amount' under Central Excise Rules" may be opened. At the year end, the balance may be transferred to expenses account. Strictly legally, it is not 'excise duty' paid.

CENVAT Credit

1.

Details	**Transaction without VAT**		**Transaction without VAT**	
	A (Rs.)	B (Rs.)	A (Rs.)	B (Rs.)
Purchases	-	**110**	-	**100**
Value Added	100	40	100	40
Sub-Total	**100**	**150**	**100**	**150**
Add: Tax @ 10%	10	15	10	14
Total	**110**	165	**110**	164

- 'B' is purchasing goods from 'A'. In second case i.e. under Vat, his purchase price is Rs.100 as he is entitled to Cenvat credit of Rs.10 i.e. tax paid on purchases. His invoice shows tax paid as Rs.14. However, since he has got credit of Rs.10, effectively he is paying only Rs.4 as tax, which is 10% of Rs.40, i.e. 10% of 'value added' by him. Cenvat (Central Value Added Tax) scheme is used to achieve the aim of levying tax only on 'value added' at each stage.

2.

	Particulars	**Amount (Rs.)**
	Goods Purchased by Mr. Y by paying Rs.224 from Mr. X out of which Rs.24 towards excise duty which is not considered as cost	200
Add:	Value Addition	80
	Taxable Turnover	280
Add:	CENVAT Credit @ 12.5%	
	Sales Inclusive of Excise Duty	**315**

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3. M/s X Ltd. (not a SSI unit) is a manufacturer produced dutiable finished goods in the month of December 2015 for Rs.20,00,000, exclusive of excise duty payable is @12.5%. Input goods (i.e. raw material) purchased for Rs.5,61,800 inclusive of excise duty @ 12.5%. Capital goods purchased in the same month for Rs.10,00,0000 (exclusive of excise duty 12.5%). Input services used from a consultant for Rs.2,00,000 (exclusive of service tax 14.5%). Finished goods removed from the factory in the month of December 2015. Find the net excise duty payable by M/s X Ltd., and due date of payment of excise duty?

Ans:

	Particulars	Excise Duty	Workings
	Finished Goods	2,50,000	Rs.20 Lacs × 12.5%
Less:	CENVAT CREDIT on input goods	-62422	5,61,800 × 12.5/112.5 = Rs.62,422
Less:	CENVAT CREDIT on Captial goods	-62500	Rs.10,00,000 × 12.5% = Rs.1,25,000 Up to 50% allowed as CENVAT credit in the first year of receipt of capital goods and balance allowed in the subsequent year or years
Less:	CENVAT CREDIT on input Services	-29000	Rs.2,00,000 × 14.5% = Rs.29,000
	Net Excise duty payable	**96078**	**Due date of payment of excise duty is on or before 6th January 2016**

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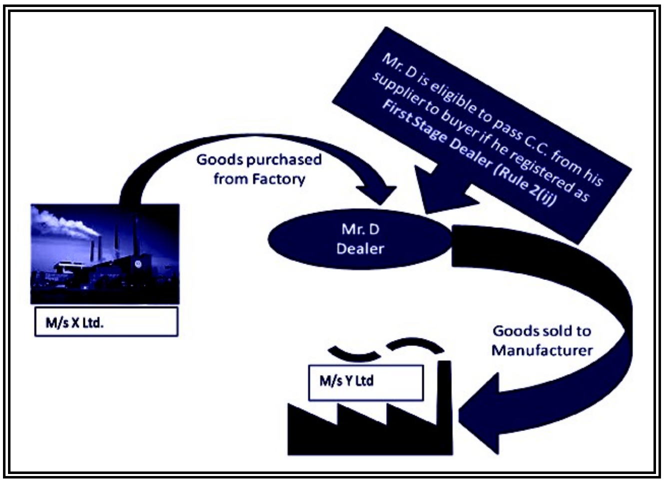
4. Mr. D purchased dutiable goods from M/s X Ltd by paying excise duty and the same sold to M/s Y Ltd. In the given case Mr. D (registered under Central Excise as registered dealer) is competent to pass the excise duty as CENVAT Credit from M/s X Ltd to M/s Y Ltd. The same has been explained in the following diagram:

Ans: **C.C** = CENVAT Credit



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5. X Ltd. removed cookers along with packing material from factory but used for packing at depot had to be considered as have been used in or in relation to the manufacture of final products and credit of duty paid on such master cartons (i.e. packing material) could not have been denied. The entire packing material is to be considered as has been used in or in relation to the manufacture of the final product. Accordingly they are entitled to avail the credit of duty paid on the packing material ***Hawkins Cookers Ltd. (2010) (HC).***

Ans: Construction Services is not an 'Input Service to any manufacturer or service provider w.e.f. 1/4/11

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6. -Laboratory, test or quality check is always in relation to the manufacture of finished goods. It is immaterial whether or not the input is physically present in the final finished product as such; therefore, the laboratory test in relation to the manufacture of final product is a part of manufacture. Hence Cenvat Credit is available on raw material destroyed in laboratory test. ***Tata Engineering & Locomotive Co. Ltd. 2010 (HC).***

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7. Y Ltd. manufactured cars which have been destroyed by fire within the factory. If Y Ltd. obtained remission of duty on finished goods, then duty on input goods had availed as CENVAT credit should be reversed.

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8. M/s X Ltd (a unit of 100% EOU) sold goods to M/s A Ltd. for Rs.20 lac. BCD @10%, CVD 12.5% and Spl. CVD @4% (VAT exempted) are applicable. Find the total duty of excise. How much Cenvat Credit allowed to M/s A Ltd.

Ans:

	Particulars	**Value in Rs.**	**Workings**
	Assessable Value	20,00,000	
Add:	Basic Customs Duty 10%	1,00,000	20,00,000 x 10% x 50%
	Balance	**21,00,000**	
Add:	CVD @ 12.5%	2,62,500	21,00,000 x 12.5%
	Balance	**23,62,500**	
Add:	E.C @ 2%	7250	3,62,500 x 2%
Add:	S.H.E.C @ 1%	3625	3,62,500 x 1%
	Balance	**23,73,375**	
Add:	Spl. CVD @ 4%	94935	23,73,375 x 4%
	Value of import	**24,68,310**	

- Cenvat Credit allowed is Rs.3,57,435 (i.e. CVD + Spl. CVD)

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9. Export of dutiable goods = Rs.60,000
Domestic turnover = Rs.30,000
Cenvat Credit = Rs.4,500
Excise duty Liability = Rs.3,708

Ans:

- Refund is Rs.792

(Rs.60,000/ Rs.90,000) x Rs.4,500 = Rs.3,000 **OR**

Cenvat Credit balance = Rs.792 (i.e. 4500 – 3708) Whichever is less.

Refund claim should be after paying excise duty liability.

Note: Time limit for claiming refund is ONE year from the date of provision of the services.

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10. Mr. A is service provider and service tax on services provided by him is payable on partial reverse charge. 40% of service tax on services provided by Mr. A is payable by service recipient and balance tax is paid by him. The total service tax on services provided by him is Rs.2,00,000 out of which his liability is Rs.1,20,000. He receives inputs and input services on which credit of Rs.2,20,000 is available. Discuss whether he can claim refund under Rule 5B ? What will be your answer, if 100% of the service tax is payable by the receiver of service.

Ans: The two situations are discussed below –

- **Case I -** Partial Reverse charge: If Mr. A is liable to pay 60% of service tax, which amounts to Rs.1,20,000, then, such service will amount to output service and, hence, he can taken credit of Rs.2,20,000; utilise it for payment of service tax of Rs.1,20,000 and balance Rs.1,00,000 of credit can be claimed as refund under Rule 5B.
- **Case II -** 100% reverse charge: If whole of service tax on services provided by Mr. A is payable by recipient of services, then, such service is not output service under Rule 2(p) for Mr. A. Hence, he cannot take credit. When credit cannot be taken, there is no question of refund under Rule 5B.

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11. An assessee cleared various manufactured final products during June 2015. The duty payable for June 2015 on his final products was as follows:

Basic Excise duty Rs.2,00,000.

During June he received various inputs on which duty paid by suppliers of inputs was as follows:

Basic Excise Duty Rs.50,000.

Excise duty paid on capital goods received during the month was as follows: Basic Excise Duty Rs.12,000.

Service Tax paid on input services was as follows:

Service Tax Rs.10,000.

Due date of payment of duty is 6th July 2015. He receives some inputs on 4th July, 2015 on which the excise duty paid is Rs.1,000. Compute the amount of excise duty payable by him for the month of June 2015?

Ans:

- Excise duty liability for the month of June 2015

	Particulars	**BED (Rs.)**	**ST (Rs.)**
	On final product:		
	Duty payable	2,00,000	
Less:	Input tax credit On other than capital goods On capital goods On input services	50000 6,000 -	 - 10,000
	CENVAT Credit	**56000**	**10000**
	Net Duty Payable (Rs.)	**1,34,000**	

- **Note:** Input tax credit Rs.1,000 received during the month of July 2015 can be adjusted against the duty liability due as on 31st July, 2015.

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12. A manufacturer purchased certain inputs from Z. The, assessable value was Rs.20,000 and the Central Excise duty was calculated at Rs.3,296 making a total amount of invoice at Rs.23,296. However, the buyer manufacturer paid only Rs.20,800 to Z in full settlement of this bill. How much CENVAT credit can be availed by the manufacturer and why?

Ans: CENVAT credit that can be availed by the manufacturer is Rs.3,296.

CENVAT credit cannot be reversed just because the supplier of inputs has given some reduction in price after removal of goods or the buyer manufacturer paid only reduced amount than that of invoice [unless supplier of inputs claims and get refund of excise duty paid by him].

- **[CCE v Trinetra Texturisers 2004 (CESTAT]**

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13. Prepare a CENVAT account in the books of A Ltd., and determine the balance as on 31.3.2016 from the following data:-

i. Opening balance as on 1.8.2015 Rs.47,000

ii. Inputs received on 15.8.2015 involving excise duty paid Rs.14,747

iii. Purchased a Lathe for Rs.1,10,300 (excise duty @10.30% inclusive) on 5.10.2015 and received the Lathe into factory on 1.4.2016.

iv. On 6.10.2015 paid excise duty on final products @10.30% through CENVAT credit account (cum duty price of the goods Rs.3,52,960).

v. Inputs worth Rs.2,00,000 (excise duty @16.48%) cleared as such to a job worker on 1.7.2015, these goods were received back on 1.4.2016.

vi. Common inputs were used for manufacture of dutiable and exempted final products. Manufacturer opted to pay 6% as an amount on exempted final products. These goods (1,000 units) are cleared from the factory on 1.12.2015 at a price of Rs.100 per unit inclusive of VAT Rs.20 per unit.

vii. On 15.3.2016 duty paid on input amounting to Rs.1 7,867 was taken credit for in the CENVAT account as Rs.17,687.

Ans:

CENVAT Credit Receivable Account in the Books of A Ltd., for the year 2015-16

Date	**Particulars**	**Debit (Rs.)**	**Date**	**Particulars**	**Credit (Rs.)**
01/08/15	To Opening Balance b/d	47000	06/10/15	By Excise duty payable	32960
15/08/15	To Bank	14747	01/12/15	By Profit and Loss A/c (6% on final goods exempted from duty)	4800
15/03/16	To Bank	17687	28/12/15	By Profit and Loss A/c (reversal of CENVAT credit on 181 days)	32960
31/03/16	To Bank	180	31/3/16	By Balance c/d	8894
	Total	**79614**		**Total**	**79614**
01/04/16	To Opening Balance b/d	9694			

- **Note:**

1. Purchased a lathe (i.e. Capital goods) for Rs.1,10,300 (excise duty @10.30% inclusive) on 5.10.2015 and received the lathe into factory on 1.4.2016.

Excise duty = Rs.10,300 (i.e. Rs.1,10,300 x 10.30/110.30).

Up to 50% of Rs.10,300 is allowed in the year of receipt of capital goods and balance will be allowed in the subsequent year or years. However, lathe received into factory on 1.4.2016, and hence, Rs.5,150 can be allowed as CENVAT credit in the year 2016-17 and balance in the subsequent year. Thereby, no CENVAT credit is allowed for the year ended 31st March, 2016.

2. On 6.10.2015 paid excise duty on final products @10.30% through CENVAT credit account (cum duty price of the goods Rs.3,52,960). Excise duty on final goods = Rs.32,960 (i.e. Rs.3,52,960 x 10.30 /110.30)

3. Inputs worth Rs.2,00,000 (excise duty @16.48%) cleared as such to a job worker on 1.7.2015, these goods were received back on 1.4.2016.

   In case goods sent for job work are not returned within 180 days from the date of dispatch, then the input tax credit on those goods need to reverse or pay the amount equal to input tax credit availed. Therefore, on 28th Dec 2015 CENVAT credit of Rs.32,960 has been reversed (i.e. on 181 day).

   However, CENVAT credit is allowed only when these goods were returned to factory. In the given case these goods are returned into factory on 1.4.2016, and hence, the manufacturer is eligible to take credit on 1.4.2016.

4. Common inputs were used for manufacture of dutiable and exempted final products. Manufacturer opted to pay 6% as an amount on exempted final products. These goods are clear from the factory on 1.12.2015 at a price of Rs.100 per unit inclusive of VAT Rs.20 per unit.

   Assessable value = Rs.80 per unit (i.e.Rs.100 – Rs.20)

   An Amount = Rs.4,800 (i.e. 1,000 units x Rs.80 x 6%)

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14. M/s X & Co. Ltd. have cleared their goods manufactured final products during April, 2015 and the duty payable is Rs.2,40,000 plus. Given below are the details of excise duty payable by them during the month at the time of purchase of goods.

Particulars	**Amount (Rs.)**	**Notes**
1. On inputs (RM)	1,00,000	(Invoice for excise duty of Rs.20,000 paid was received by the assessee on 4.5.2015)
2. On input service	20000	
3. On welding electrodes for repairs and maintenance of capital goods	5000	
4. Fuel (excluding HSD/Petrol)	6000	
5. Storage tank	8000	
6. Tubes and Pipes (used in the factory)	14000	
7. Air Conditioner for the office of the Factory Manager	12000	

- **Note:** Find the total duty payable by the assessee for the month of April, 2015 after taking into account the Cenvat credit available.

Ans:

Cenvat Credit receivable as on 30th April 2015: (value in Rs.)

Sr. No.	Particulars	Basic Excise Duty (Rs.)	Service Tax (Rs.)	Remarks	Workings
1.	Input Goods	80000		Rs.20,000 allowed as Cenvat credit in the month of May 2015.	Rs.1,00,000 -20,000 =**Rs.80,000**
2.	Input services		20000	It is assumed that input service tax was paid	
3.	On welding electrodes for repairs and maintenance of capital goods	2500		Considered as capital goods as per the SC judgment in case of *Hindustan Zinc Ltd.*	Rs.5000 x 50% = **Rs.2500**
4.	Fuel (excluding HSD/ Petrol)	6000		Considered as inputs	
5.	Storage tank	4000		Capital goods	Rs.8000 x 50% = **Rs.4000**
6.	Tubes and Pipes (used in the factory)	7000		Capital goods	Rs.14000 x 50 % = **Rs.7000**
7.	Air Conditioner for the office of the Factory Manager	-	-	Not considered as input goods	
CENVAT Credit Receivable at the end of April 2014		**99500**	**20000**		

- **Excise duty payable for the month of April, 2015;**

Sr. No.	Particulars	Basic Excise Duty (Rs.)	Service Tax (Rs.)	Remarks	Workings
1.	Output	2,40,000	-		
	Total	**2,40,000**	-		

- **Statement showing total duty payable by the assessee for the month of April 2015:**

Sr. No.	Particulars	Basic Excise Duty (Rs.)	Service Tax (Rs.)	Workings
1.	Output	2,40,000	-	
2.	C.C Receivable	1,19,500	-	99500 + 20000 = **Rs.1,19,500**
	Excise Duty liability after CENVAT Credit.	1,20,500	-	

- **Eligibility of CENVAT Credit**

15. C Limited is engaged in manufacturing water pipes. Compute the CENVAT credit admissible to C Ltd. The excise duty paid at the time of purchase of following goods is:—

	(Value in Rs.)
Raw Steel	12,000
Water pipe making machine	25,000
Lubricating oil	2,000
Equipments used in the office	10,000
Petrol	15,000
Pollution control equipment	22,000
Components, spares and accessories used in machinery	12,000

Ans: Calculation of Cenvat Credit admissible to C Ltd.

Particulars	**Nature of Goods**	**Value (Rs.)**	**Eligibility**	**C.C (Rs.)**
Raw Steel	Other than Capital goods	12000	100.00%	12000
Water pipe making machine	Capital goods	25000	50.00%	12500
Lubricating oil	Other than Capital goods	2000	100.00%	2000
Equipments used in the office	Capital goods	10000	Not Eligible	-----
Petrol	Other than Capital goods	15000	Not Eligible	-----
Pollution control equipment	Capital goods	22000	50.00%	11000
Components, spares and accessories used in machinery	Capital goods	12000	50.00%	6000
Total C.C Admissible				43500

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16. Following transactions took place in the factory of A Ltd.:

a) An imported consignment of raw materials was received vide Bill of Entry dated 2.12.15 showing the following customs duty payments: Basic Customs duty Rs.25,000; Additional duty (CVD) Rs.20,000; Special Additional duty Rs.5,800.

b) A consignment of 1,000 kgs of inputs was received. The Excise duty paid as per the invoice was Rs.10,000. While the input was being unloaded 50 kgs were damaged and were found to be not usable.

c) A vehicle containing machinery was received. The machinery was purchased through a dealer and not from the manufacturer. The dealer's Invoice No. 925, dated 3.9.15 marked 'original for buyer' certified that the excise duty paid by the manufacturer of machinery was Rs.24,000. The dealer is registered with the Central Excise Authorities.

d) Some inputs for final products were received. These were accompanied by a certified Xerox copy (photo copy) of Invoice No. 286 dated 15.1.2016 indicating that Excise duty of Rs.6,400, has been paid on inputs. The original or duplicate copies of invoice are not traceable.

- Indicate the eligibility of CENVAT Credit in each case under the CENVAT Credit Rules, 2004 with explanations where necessary.

Ans:

a) CENVAT credit available for the following:

Additional duty (CVD) = Rs.20,000;

Special Additional duty = Rs.5, 800

b) CENVAT credit available for 950 Kgs

Eligible CENVAT credit = Rs.10,000 x 950/1000 = Rs.9,500.

c) CENVAT credit can be availed if the goods are purchased from a first or second stage dealer. The eligible CENVAT credit for the first year = Rs.24,000 x 50% = Rs.12,000.

The balance CENVAT credit for the second and subsequent years

d) CENVAT credit is not available based on the certified Xerox copy of invoice. CENVAT credit can be availed only when any one of the following invoices available:

(a) Original for buyer (b) Duplicate for transporter (c) Triplicate for seller.

However, It is pertinent to note that the High Court held that Cenvat Credit could be taken on the strength of private challans (i.e. other than prescribed documents) as the same were not found fake and there was proper certification that duty has been paid ***(CCEx.* v *Stelko Strips Ltd.* 2010 (255) E.L.T. 397 (P&H)).** Therefore in the given case Xerox copy of invoice can be considered as a valid document for taking CENVAT credit.

- **Removal of Capital Goods after use**

17. X Ltd received capital goods on 15-12-2012 for Rs.9,00,000 (Excise Duty @ 10.30%). The said machinery was sold for Rs.5,50,000 from the factory after being used in the manufacture of dutiable goods on 1st July 2015. Excise duty attributable for said machine at the time of removal @12.5%. You are required to compute the amount of CENVAT credit to be reversed.

Ans:

Year	No. of Quarters	Workings
2012	1	October to December
2013	4	January to March
2014	4	April to June
2015	3	July to September
Total	**12**	

- **Statement Showing CENVAT Credit to be Reversed:**

	Particulars	Amount (Rs.)	Workings
	Cenvat credit taken on capital goods	92700	9,00,000 x 10.30%
Less:	Reduction @2.5% per quarter or part thereof from the date of taking Cenvat credit up to the date of removal 46,350 x 2.5% x 12 quarters = Rs.13,905 46,350 x 2.5% x 10 quarters = Rs.11,588	-25493	Up to 50% taken on 15-12-2012 (2012-2013) Balance 50% taken on 1-4-2013 (2013-14)

	Amount to be paid	**67207**	
	OR		
	Excise duty on transaction value	68750	5,50,000 × 12.5%
Amount payable or credit to be reversed under Rule 3(5A) of Cenvat Credit Rules, 2004.		**68750**	**Whichever is higher**

- **Dutiable and non Dutiable Goods Manufactured**

18. Mr. A is manufacturing goods with other's brand name. Mr. A has manufactured goods of Rs.90,00,000 in the FY 2015-16. Out of this, Rs.70,00,000 are taxable final products and Rs.20,00,000 are exempt final products.

- Excise duty paid on his inputs is Rs.10,00,000.
- Rate of basic excise duty on final products is 12.5%.

Discuss the options available to Mr. A for availment of CENVAT credit, if he is not able to bifurcate inputs between those used for exempt goods and taxable final products.
Calculate CENVAT Credit available to him under different options and explain which option is beneficial to him.

Ans: **Option 1:**

- Maintain separate records for taxable and exempt goods and accordingly take the credit attributable for taxable final goods.

Option 2:

	Excise duty on taxable goods	= Rs.8,75,000 (i.e. Rs.70,00,000 × 12.5%)
Less:	CENVAT credit allowed	= Rs.(10,00,000)
	Excess Credit	= Rs.(1,25,000)
Add:	6% amount payable on exempted goods	= Rs.1,20,000 (i.e. Rs.20,00,000 × 6%)
	Net Excess credit	**= Rs.5,000**

Option 3:

•	Excise duty payable on taxable goods	= Rs.8,75,000
Less:	proportionate credit allowed	
	(Rs.10,00,000 x Rs.70 lacs /Rs.90 lacs)	= Rs.(7,77,778)
	Net Excise Duty payable by GAR -7 Challan	**= Rs.97,222**

✔ **Option 2 is beneficial.**

Custom Laws

1. Goods imported by the assessee for consumption on oil rigs which are situated in Continental Shelf/Exclusive Economic Zones of India, are deemed to be a part of Indian Territory. Therefore, the supply of imported spares or goods or equipments to the rigs by a ship will attract import duty ***[Aban Lloyd Chilies Offshore Ltd.* v *UOI* (2008) 227 ELT24 (SC)].**

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2. The vessel sunk within territorial waters of India and therefore there is no export. Accordingly, no duty drawback shall be available in this case. ***[Union of India v Rajindra Dyeing & Printing Mills Ltd. 2005]***

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3. A ONGC vessel and a vessel owned by A Ltd. of USA are drilling oil beyond 12 nautical miles in the sea. Hence, both the vessels are called as foreign going vessels.

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4. The proper officer of customs has reason to believe that any vessel in Indian Customs waters is being used in the smuggling of any goods, he may at any time stop any such vessel and examine and search any goods in the vessel (Section 106(1)(b) of the Customs Act, 1962).

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5. An assessee submitted the shipping bill on 1st January 2016. At that time the export duty was nil (i.e. duty free). Let export order (i.e. entry outwards) was granted on 5th January 2016.

   However, due to some problems goods could not be loaded into ship. On 25th March 2016, the shipping bills were voluntarily resubmitted by the assessee with the request to permit the shipment by a different vessel. Subsequently, on 27th March 2016, let export order was granted. However, in the mean time the duty at the rate of 10% ad valorem was levied with effect from 1st March 2016. Examine, whether exporter is liable to pay duty?

Ans: In the given case actual export took place only after revised shipping bill was submitted on 25th March 2016, for which entry outwards granted on 27th March, 2016. Hence, the rate prevalent as on the date of entry outwards granted to the vessel is relevant for determination of rate of duty. Therefore, assessee is liable to pay exportduty @10%.

Note: Export duties do not carry any cess.

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6. An importer imported some goods for subsequent sale in India at $12,000 on CIF basis. Relevant exchange rate as notified by the Central Government and RBI was Rs.45 and Rs.45.50 respectively. The item imported attracts basic duty at 10%. If similar goods were manufactured in India, Excise Duty payable as per Tariff is 14%.Arrive at the Assessable value and the total duty payable thereon.

Ans:

	Assessable Value	Rs.5,45,400
Add:	Basic Customs Duty 10% x 5,45,400	Rs.54,540
	Balance	**Rs.5,99,940**

Add:	CVD 14% on Rs.5,99,940	Rs.83,992
Add:	E.C @ 2%	Rs.2,771
Add:	S.H.E.C @ 1%	Rs.1,385
	Total value of impoted goods	**Rs.6,88,088**

- **Working Notes**

	CIF Value	**12000 US $**
	Total CIF value in Rs. @ 45.00 US $	Rs.5,40,000
Add:	Landing charges @ 1% of CIF	Rs.5,400
	Assessable value	**Rs.5,45,400**

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7. An importer imported some goods for subsequent sale in India at $ 20,000 on CIF basis. Relevant exchange rate as notified by the Central Government Rs.45. The item imported attracts basic duty at 10% and education Cess as applicable. If similar goods were manufactured in India, Excise Duty payable as per Tariff is 12.5%. Special Additional Customs Duty is 4%. Find the total duty payable.

Ans:

	CIF value USD 20,000 X 45	900000
Add:	Loading and unloading @1%	9000
	Assessable Value	**909000**
Add:	Basic Customs Duty @10% on Rs.9,09,000	90900
Add:	Additional Customs Duty [@12.5% x Rs.9,99,900]	124987.5
Add:	E.C @ 2% on (Rs.90,900 + Rs.1,24,988)	4317.75
Add:	S.H.E.C @ 1% on (Rs.90,900 + Rs.1,24,988)	2158.88
	Total	**1131364.13**
Add:	Special Additional Customs Duty [@4% × Rs.11,31,365]	45254.57
	Total value of imported goods	**1176618.7**

- ***Valid points:***

a) While calculating CVD we should not take into account NCCD of excise.

b) CVD can also be imposed even if there is exemption from Basic Customs Duty.

c) Imported goods contain more than one classification and the importer is unable to give the breakup of each item with value then the highest rate of duty among them will be considered.

d) CVD can be levied only when the importer imported manufactured goods. It means CVD can be levied only if goods are obtained by a process of manufacture ***Hyderabad Industries Ltd* v *Union of India* (1995) (SC)**.

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8. Mr. X imported the coal from USA. Exporter in USA exported the coal after washing coal to reduce its ash content. Hence, no CVD on coal, because the imported product was not manufactured and the same imported into India.

a) If the importer is the manufacturer, he can claim the CENVAT credit of CVD.

b) No CVD on Anti Dumping Duty, Safeguard Duty, Protective Duty or Countervailing Duty on Subsidized articles.

If the importer is the manufacturer availing the benefit of SSI Exemption benefit under Notification No.8/2003 under Central Excise. Thereby he is not paying excise duty on his final product manufactured by him in India. Such a manufacturer is not liable to pay CVD (equivalent of Excise Duty) on his imports, even if he is not liable to pay any duty under Central Excise Act, 1944.

- **Anti-dumping Duty**

9. Mr. X an importer imported certain goods CIF value was US $20,000 and quantity 1,000 Kgs. Exchange rate was 1 US $ = Rs.50 on date of presentation of Bill of Entry. Customs Duty rates are

a) Basic Customs Duty 10%,

b) Education Cess 2%,

c) SAH Education Cess 1%.

There is no excise duty payable on these goods if manufactured in India. As per Notification issued by the Government of India, anti-dumping duty has been imposed on these goods. The anti-dumping duty will be equal to difference between amount calculated @ US $30 per kg and landed value of goods. Compute Customs Duty liability and anti-dumping liability.

Ans:

	PART-I	**Amount in Rs.**
	CIF value USD $ 20,000 X 50	1000000
Add:	Landing Charges @1%	10000
	Assessable Value	**1010000**
Add:	Basic Customs Duty @10% on Rs.10,10,000	101000
Add:	E.C @ 2% on (Rs.90,900 + Rs.1,24,988)	2020
Add:	S.H.E.C @ 1% on (Rs.90,900 + Rs.1,24,988)	1010
	Value of imported goods	**1114030**
	Total Customs Duty payable is Rs.1,04,030.	

	Part-II	
	Rate as per Anti Dumping Notification is Rs.15,00,000 [US $ 30 per kg x 1,000 Kgs x Rs.50]	**15,00,000**
	Part-III	
	Computation of anti-dumping duty	
	Rate as per Anti Dumping Notification	**15,00,000**
Less:	Value of imported goods as computed above	(11,14,030)
	Anti Dumping Duty payable	**3,85,970**

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10. An importer imported some goods. Description of goods: Mulberry Raw Silk (not thrown) (HS Code 5002 00) from People's Republic of China. CIF value was US $ 20,000 and quantity 1,000 Kgs. Exchange rate was US $ =Rs.44 on date of presentation of Bill of Entry. Customs Duty rates are (i) Basic Customs Duty 10%, (ii) Education Cess 2%, (iii) SAH Education Cess - 1%. There is no excise duty payable on these goods if manufactured in India. As per Notification No. 106/2003-Cus dated 10-7-2003, anti-dumping duty has been imposed on these goods imported from China, manufactured by any producer in People's Republic of China. The anti-dumping duty will be equal to difference between amount calculated @ US $31.69 per Kg and 'Landed value' of goods. Compute Customs Duty liability & anti-dumping liability.

Ans:

A.	***Computation of Customs Duty :***	
	Total CIF Price	US $ 20000
	CIF @ Rs.44 per 1 US $	880000
Add:	Landing charges @ 1%	8800
	Assessable Value	**888800**
	Basic duty @ 10%	88880
	E.C @ 2% on 88,880.00	1777.6
	S.H.EC 1%	888.8
	Total Customs Duty payable	**91546.4**
B.	***Computation of landed value***	
	Assessable Value Under Customs Act	888800
Add:	All Duties of Customs	91546.4
	Landed Value as per Anti-Dumping Notification	**980346.4**

C.	***Computation of anti-dumping duty***	
	Rate of Silk Yarn as per Anti-Dumping Notification	
	(US $ 31.69 per kg) × 1000 kgs =	US $ 31,960
	Value @ Rs.44 per US $ = (31,690$ x Rs.44)	1394360
Less:	Landed value as per Anti-Dumping	980346
	Anti-Dumping Duty Payable	**414014**

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11. D Ltd., an actual user imports certain goods from USA, at Chennai port, at cost of $1,00,000 FOB. The other details are as follows:

a) Packing charges: $22,000.
b) Sea freight to Indian port: $28,000.
c) Transit insurance: $10,000.
d) Design and development charges paid to a consultant in USA by importer: $9,000.
e) Selling commission to be paid by the Indian importer:Rs.5,000.
f) Rate of exchange announced by RBI:Rs.40.60/$.
g) Rate of exchange notified by the Central Board of Excise and Customs:Rs.40.70/$.
h) Rate of basic custom duty: 15%.

Compute the assessable value of the imported goods and the basic customs duty payable.

Ans:

	Particulars	**Value (in US $)**	**Remarks**	**Workings**
	FOB	100000		
Add:	Packing charges	22000	Included into the Assessable value	
Add:	Sea freight	28000	-Do-	No restriction on sea freight.
Add:	Insurance	10000	-Do-	
Add:	Design and development charges	9000	-Do-	
Add:	Selling Commission	122.85	-Do-	Rs.5,000/Rs.40.70
	CIF value	**169122.85**		
Add:	1% loading and unloading on CIF	1691.23		$ 1,69,122.8501 x 1%
Assessable Value		**170814.08**		

Value in Rs.

	Assessable Value	6952133		$ 170814.08 x Rs.40.70
Add:	Basic Customs Duty	1042819.95		Rs.69,52,133 x 15%
Add:	E.C @ 2%	20856.4		Rs.10,42,820 x 2%
Add:	S.H.E.C @ 1%	10428.2		Rs.10,42,820 x 1%
Landed Value		**8026237.55**		

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12. The following information is furnished by Mr. K on 8th June 2015, in respect of articles of jewellery imported from USA in the month of April 2015.

FOB value	$20,000
Exchange rate	$1 =Rs.44
Air freight	$4,500
Insurance charges	Not known
Landing charges	Rs.1,000
Basic customs duty	10%
Excise duty chargeable on similar goods in India as per tariff rate	12.5%
Additional duty of customs u/s 3(5) of the Customs Tariff Act, 1975	As applicable.

Calculate the total customs duty payable by Mr. K.

Ans:

- **Statement showing customs duties payable by Mr. K.**

	Particulars	**Value (in US $)**	**Remarks**	**Workings**
	FOB	20000		
Add:	Air freight	4000	Air freight should not exceed 20% on FOB	20,000$ x 20% = 4000
Add:	Insurance	225		1.125% on FOB
	CIF value	**24225**		
Add:	1% loading and unloading on CIF	242.25		24225 x 1%
	Assessable Value	**24467.25**		

Value in Rs.

	Assessable Value	1076559		USD 24467.25 x Rs.44
Add:	Basic Customs Duty	107655.9		Rs.1076559 x 10%
Add:	CVD @ 12.5%	148027		Rs.11,84,215 x 12.5%
Add:	E.C @ 2%	5114		Rs.2,55,683 x 2%
Add:	S.H.E.C @ 1%	2557		Rs.2,55,683 x 1%
Landed Value		**1339912.9**		
Add:	Spl.CVD u/s. 3(5)	53597	Spl.CVD is 4%	Rs.13,39,913 x 4%
	Value of imported goods	1393510		
	Total Custom Duty	316951		

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13. A consignment is imported by air. CIF price is 2,000 Euro. Air freight is 550 Euro and insurance cost is Euro 50. Exchange rate announced by CBEC as per customs notification 1 Euro = Rs.54.15. Basic customs duty payable is 10%. Excise duty on similar goods produced in India is 12.5%. Find value for customs purpose and total customs duty payable. How much Cenvat can be availed by importer, if he is manufacturer?

Ans:

	Particulars	Value in Euro (€)	Remarks	Workings
	CIF price	2000		
Less:	Air freight	-550		
Less:	Insurance	-50		
	FOB price	**1400**		
Add:	Air freight	280	Restricted to 20% on FOB	€1400 x 20%
Add:	Insurance	50		
	CIF (corrected value)	**1730**		€1700 x 1%
Add:	1% unloading on CIF value	17.3		
Assessable Value		**1747.3**		
		Value in Rs.		
	Assessable Value	94616.3		€17,47.30 x 54.15
Add:	Basic Customs Duty	9462		Rs.9,46,16 x 10%
Add:	CVD @ 12.5%	13010		Rs.1,04,078 x 12.5%
Add:	E.C @ 2%	449		
Add:	S.H.E.C @ 1%	225		
Landed Value		**117762.3**		
Add:	Spl.CVD u/s. 3(5)	4710.49	Spl.CVD is 4%	1,17,762 x 4%
	Value of imported goods	122472.79		
	Total Custom Duty	27856.49		

- Importer, if he is manufacturer can avail the following duties as Cenvat credit under Cenvat Credit Rules, 2004 is as follows:

  CVD = Rs.13,010 & Spl. CVD = Rs.4,710

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14. M/s. Premium Industries Ltd., has imported a machine from Japan at an F.O.B. cost of 1,00,000 yen (Japanese). The other expenses incurred were as follows:

a) Freight from Japan to Indian port 10,000 yen;
b) insurance paid to insurer in India Rs.5,000;
c) Designing charges paid to consultancy ifrm in Japan 15,000 yen;
d) M/s Premium Industries Ltd. spent Rs.50,000 in India for development work connected with the machine;
e) Transportation cost from Indian port to factory Rs.15,000;
f) Central Government has announced exchange rate prevailing in the market was 1 yen = Rs.0.40 by notification under section 14(3). However the exchange rate prevailing in the market was 1 yen = Rs.0.4052
g) M/s Premium Industries Ltd. made payment to the bank based on exchange rate of 1 ¥ = Rs.0.4150,
h) The commission payable to the agent in India was @5% of F.O.B. price in Indian rupees.

The rate is BCD @10%. Similar goods are subject to 12.5% excise in India.Education cess and special CVD is as applicable. Find the customs duty and other duties payable. How much CENVAT can be availed by importer, if he is manufacturer?

Ans:

	Particulars	**Japanese Yen**
	FOB	1,00,000
Add:	Freight	10000
Add:	Designing charges	15000
	Sub-Total	**1,25,000**

	Particulars	**Value in Rs.**
	Sub-Total (1,25,000Yen x Rs.0.40)	50000
Add:	Freight	5000
Add:	Designing charges	2000
	Sub-Total	**57000**
Add:	1% Unloading on CIF	570
	Assessable Value	**57570**

	Assessable Value	57570
Add:	Basic Customs Duty @ 10%	5757
Add:	CVD @ 12.5%	7916
Add:	E.C @ 2%	273
Add:	S.H.E.C @ 1%	137
	Landed Value	**71653**
Add:	Spl.CVD u/s. 3(5) of Customs tariff Act, 1975 @ 4%	2866.12
	Value of imported goods	74519.12
	Total Custom Duty	**16949.12**

1.	CVD @ 12.5%	7916
2.	Spl.CVD @ 4%	2866
	CENVAT Credit	**10782**

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15. Compute the Customs duty from the following data— (i) Machinery imported from USA by Air (FOB) 8,000 US $, (ii) Accessories were compulsorily supplied with Machine (Electric Motor & others) (FOB) 2,000 US $, (iii) Air freight 3,000 US$ (iv) Insurance 100 US $, (v) Local agents commission to be paid in Indian Rupees is Rs.4,500 (say equivalent to US $ Dollars 100), (vi) The exchange rate is 1 US Dollars = Indian Rupees is Rs.45, (vii) Customs duty on Machinery –10% ad valorem, (viii) Customs Duty on Accessory –normal rate 20% *ad valorem,* (ix) CVD – 24% (Effective Rate is 16% by a notification), (x) Education Cess and special CVD is as applicable. How much Cenvat can be availed by importer, if he is manufacturer?

Ans:

	Particulars	US $
	FOB Value of Machine	8000
Add:	FOB Value of Accessories were compulsorily supplied with Machine	2000
	Total FOB Value	**10000**
Add:	Air freight on 2,000 US $ or 3,000 US $ (Whichever is lower)	2000
Add:	Insurance	100
Add:	Commission	100
	CIF Value	**12200**
Add:	1% Unloading on CIF	122
	Assessable Value	**12322**

- **Assessable Value** (i.e. US $ 12,322 x Rs.45) = Rs.5,54,490

	Assessable Value	554490
Add:	Basic Customs Duty @ 10%	55449
Add:	CVD @ 16%	97590.24
Add:	E.C @ 2%	3060.78
Add:	S.H.E.C @ 1%	1530.39
	Landed Value	**712120.42**
Add:	Spl.CVD u/s. 3(5) of Customs tariff Act, 1975 @ 4%	28484.82
	Value of imported goods	740605.23
	Total Custom Duty	**186115.23**

- CENVAT Credit

1.	CVD @ 16% (97590 x 50%)	48795
2.	Spl.CVD @ 4%	28485
	CENVAT Credit	**77280**

- ***Note:*** CENVAT credit on CVD can be availed up to 50% in the 1st year and balance in the subsequent years.

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16. 'A' import by air from USA a gear cutting machine complete with accessories and spares. Its HS classification is 8461 40 10 and value US $ F.O.B. 20,000 other relevant date/ information: (1) At the request of the importer, US $ 1,000 have been incurred for improving the design, etc. of machine, but is not reflected in the invoice, but will be paid by the party, (2) Freight – US $ 6,000, (3) Goods are insured but premium is not shown/ available in invoice, (4) Commission to be paid to local agent in India Rs.4,500, (5) Freight and insurance from airport to factory is Rs.4,500, (6) Exchange rate is US $ 1 = Rs.45, (7) Duties of customs: basic – 10%, CVD – 12.5% Education Cess on duty as applicable. Compute (i) Assessable value (ii) customs duty. How much CENVAT can be availed by importer, if he is manufacturer?

Ans:

	Assessable Value	1151021
Add:	Basic Customs Duty @ 10%	115102
Add:	CVD @ 12.5%	158265
Add:	E.C @ 2%	5467
Add:	S.H.E.C @ 1%	2734
	Value of imported goods	**1432589**
	Total Custom Duty	281568

- CENVAT Credit

1.	CVD @ 12.5%	151935
	CENVAT Credit	**151935**

- ***Note:*** CENVAT credit is Rs.1,51,935 (CVD). Up to 50% of CVD can be avail in the 1st year and the balance in the subsequent years. It is assumed that Spl. CVD is exempted.

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17. Compute the duty payable under the Customs Act, 1962 for an imported equipment based on the following information:

a) Assessable value of the imported equipment US $10,100.

b) Date of Bill of Entry 25.4.2015 basic customs duty on this date 20% and exchange rate notiifed by the Central Board of Excise and Customs US $ 1 = Rs.65.

c) Date of Entry inwards 21.4.2015 Basic customs duty on this date 12% and exchange rate notiifed by the Central Board of Excise and Customs US $ 1 =Rs.50.

d) Additional duty payable under section 3(1) and (2) of the Customs Tariff Act, 1975: 12.5%.

e) Additional duty under section 3(5) of the Customs Tariff Act, 1975: 4%.

f) E.C @2% in terms of the Finance Act, 2004 and S.H.E.C @ 1% in terms of the Finance Act, 2007.

Make suitable assumptions where required and show the relevant workings and round off your answer to the nearest Rupee.

Ans:

	Assessable Value (10,100 x 65)	656500
Add:	Basic Customs Duty @ 20%	131300
Add:	CVD @ 12.5%	98475
Add:	E.C @ 2%	4596
Add:	S.H.E.C @ 1%	2298
	Landed Value	**893169**
Add:	Spl.CVD u/s. 3(5) of Customs tariff Act, 1975 @ 4%	35727
	Value of imported goods	928896
	Total Custom Duty	272396

18. CIF value of imported goods is Rs.10,00,000. Basic Customs duty payable is 10%. If the goods were produced in India, excise duty payable would have been 12.5%. Education Cess is 2% and SAH Education Cess is 1 %. Special CVD is payable at appropriate rates. Find the Customs duty payable. What are the duty refunds /benefits available if the importer is (a) manufacturer or, (b) service provider or, (c) trader?

Ans: Statement showing assessable value and customs duties

	CIF value USD 20,000 X 45	1000000
Add:	Loading and unloading @1%	10000
	Assessable Value	**1010000**
Add:	Basic Customs Duty @10% on Rs.10,10,000	101000
Add:	CVD @ 12.5% [@12.5% × Rs.11,11,000]	138875
Add:	E.C @ 2%	4798
Add:	S.H.E.C @ 1%	2399
	Total	**1257072**
Add:	Special Additional Customs Duty [@4% × Rs.12,57,072]	50283
	Total value of imported goods	**1307355**

- The following import duties are allowed as CENVAT credit:

	Duties	Manufacturer	Service Provider	Dealer
1.	**BCD**	C.C not Allowed	C.C not Allowed	C.C not Allowed
2.	**CVD**	138875	1,38,875	C.C not Allowed
3.	**Spl. CVD**	50283	C.C not Allowed	**C.C not Allowed***
4.	**E.C**	C.C not allowed	C.C not allowed	C.C not Allowed

<u>However, Refund is allowed if VAT is paid (50,283)</u>

- **Revised CIF Value:**

19. Robotics Private Limited imported some goods by air from ABC Inc. of US. Compute the value of the goods for the purpose of levying the duty:-

Particulars	**Dollars ($)**
CIF Value	5,000
Freight paid	1,500
Insurance paid	500

- The banker realized the payment from importer at the exchange rate of Rs.45 per US $.
- Central Board of Excise and Customs notified the exchange rate as Rs.44.50 per US $.
- Basic Customs Duty @10% advalorem. There is no CVD and Special CVD.
  Find the total import duty.

Ans:

	Particulars	**Value (in US $)**
	CIF Value	5000
Less:	Air freight	1500
Less:	Insurance	500
	FOB	**3000**
Add:	Air freight @ 20% on FOB	600
Add:	Insurance	500
	CIF value	**4100**
Add:	1% loading and unloading on CIF	41
Assessable Value		**4141**
Add:	Assessable value in Rs. (i.e.Rs.44.50 x US $ 4,141)	**184274.5**
Total Custom Duty (i.e.Rs.1,84,275 x 10.30%)		**18980.27**

- **Import of MRP Products and Cenvat Credit**

20. Assessable value of certain goods imported from USA in Rs.10,00,000. The packet contains 10,000 pieces with maximum retail price Rs.200 each. The goods are assessable under Section 4A of the Central Excise Act, 1944, after allowing an abatement of 40%.

    The excise duty rate is 8% advalorem. Calculate the amount of Additional duty of Customs under Section 3(1) of the Customs Tariff Act, 1975; assuming basic customs duty@10% advalorem

Ans: MRP of imported goods = Rs.20,00,000 (i.e. Rs.200 x 10,000 pieces)

Less: Abatement @ 40% = Rs.8,00,000 (i.e. Rs.20 lakhs x 40%)

Assessable for CVD purpose = Rs.12,00,000

- Additional Duty of Customs under Section 3(1) of the Customs Tariff Act, 1975 is **Rs.96,000.** (i.e. Rs.12 lakhs x 8%)

- **Valuation of Imported Goods (Rule 4)**

21. A consignment of 8,000 units of product X was imported from USA by a charitable organization in India for free distribution to below poverty line citizens in a backward area. This being a special transaction, a nominal price of US$ 50 per product was charged for the consignment to cover the freight and insurance charges. The Customs House found out that at or about the time of import of this gift consignment, there were following imports of product X from USA:

Sr. No.	Quantity imported in metric tonnes	Unit price in US $ (CIF)
1.	200	260
2.	1000	220

3.	5000	200
4.	9000	175
5.	4000	180
6.	7800	160

- The rate of exchange on the relevant date was 1 U S $ = Rs.50.00 and the rate of basic customs duty was 10% ad valorem. There is no countervailing duty or special additional duty. Calculate the amount of duty leviable on the consignment under the Customs Act, 1962 with appropriate assumptions and explanations where required.

Ans:

		Value in US ($)
	CIF Value	**160**
Add:	1% Unloading on CIF	1.6
	Assessable Value	**161.6**

		Value in Rs.
	Assessable Value (i.e. 161.60 x 8000 units x Rs.50)	**64640000**
Add:	Customs Duty (i.e. 64640000 x 10.30%)	6657920
	Total value of imports	**71297920**

- **Anti-Dumping Duty**

22. A commodity is imported into India from a country covered by a notification issued by the Central Government under section 9A of the Customs Tariff Act, 1975. Following particulars are made available:

CIF value of the consignment: US$25,000

Quantity imported: 500 kgs.

Exchange rate applicable: Rs.50 = US$1

Basic customs duty: 20%

Education and secondary and higher Education Cess as applicable as per the Finance Act, 2008.

As per the notification, the anti-dumping duty will be equal to the difference between the costs of commodity calculated @US$70 per kg. and the landed value of the commodity as imported.

Appraise the liability on account of normal duties, Cess and the anti-dumping duty.

Assume that only 'Basic Customs Duty' (BCD) and Education Cess and Secondary and Higher Education Cess are payable.

Ans:

- Statement showing land value of imported goods and anti-dumping duty:

	CIF Value	**$25,000.00**
Add:	1% Unloading on CIF	$250.00
	Assessable Value	**$25,250.00**

		Value in Rs.
	Assessable Value (i.e. 25,250 x Rs.50)	1262500
Add:	Customs Duty @ 20.60% on Assessable value	260075
	Landed Value (or value of imported goods)	**1522575**
Add:	Market Value (50 kgs x Rs.50 x US $ 70)	1750000
	Anti-dumping Duty (Rs.17,50,000 - Rs.15,22,575)	227425
	Total Custom Duty payable	**487500**

- **Transit of goods**

23. A vessel Bhishma, sailing from U.S.A. to Australia via India. Bhishma carries various types of goods namely ' A, B, C & D' . ' A & B' are destined to Mumbai Port and balance remains in the same vessel. Subsequently vessel chartered to Australia.

    Find the imported goods and transit goods?

Ans: Imported Goods are A & B ; Transit goods are C & D

- **Transhipment of goods**

24. A vessel Bhishma, sailing from U.S.A to Australia via., India carries various types of products namely 'A, B, C & D'. 'A & B'are destined to Mumbai Port. On account of submission of **bill of transhipment** product 'A' transshipped to Chennai port as ultimate destination in India and product 'B' transhipped to Srilanka.

    Find the imported goods, Transhipment goods and transit goods?

Ans: Product 'A' is imported goods because its ultimate destination is in India.

- Products ' A & B' are called as Transhipment goods, since these goods are transshipped to another vessel, Product ' A' transhipped to Chennai attracts import duty whereas product ' B' is destined to Srilanka without payment of duty.
- Products C & D are transit goods since these goods remains in the same vessel Bhishma chartered to Australia.

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25. X Ltd. exported product ' P ' to Y Ltd of USA on 1.1.2016. The duty paid on export of product 'P' for Rs.1,00,000. Y Ltd. returned product ' P ' to X Ltd., on 1.8.2016. The return is otherwise than by way of sale (i.e. it may be sale return or rejected goods, goods sent on consignment returned by the overseas agent or goods sent for exhibition coming back etc.). It means to say that Y Ltd. should not be sold ' P ' to X Ltd. Moreover, exported goods are returned within One year from the date of exportation. Hence, X Ltd. can claim for refund of Rs.1,00,000 within Six months from Customs clearances order for imported goods (i.e. 1.8.2016).

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26. An importer imported some goods in February, 2016 and the goods were cleared from Mumbai port for warehousing on 8th February, 2016 after assessment. Assessable value was Rs.4,86,000 (US $ 10,000 at the rate of exchange Rs.48.60 per US $). The rate of duty on that date was 20% (assume that no additional duty is payable). The goods were warehoused at Pune and were cleared from Pune warehouse on 4th March, 2016, when rate of duty was 15% and exchange rate was Rs.48.75 = 1 US $.

    What is the duty payable while removing the goods from Pune on 4th March, 2016?

Ans:

The rate of exchange will be Rs.48.60 per USD Assessable Value	486000
(i.e. US$ 10,000 at Rs.48.60 per US$) Rate of duty	15.00%
Basic duty @ 10%	72900
E.C @ 2% on 88,880.00	1458
S.H.EC 1%	729
Total Customs Duty payable	**75087**

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27. Certain goods were imported in February 2015. "Into bond" bill of entry was presented on 14th February, 2015 and goods were cleared from the port for warehousing. Assessable value was $5,00,000. Customs officer issued the order under section 60 permitting the deposit of the goods in warehouse on 21st February, 2015 for 3 months. Goods were not cleared even after warehousing period was over, *i.e.,* 21st May, 2015 and extension of time was also not obtained. Customs officer issued notice under section 72 demanding duty and other charges. Goods were cleared by importer on 28th June, 2015. What is the amount of duty payable while removing the goods?

    Compute on the basis of following information (assume no additional duty or special additional duty payable).

	14.02.2015	**21.05.2015**	**28.06.2015**
Rate of Exchange per USD	Rs.48.30	Rs.48.40	Rs.45.50
Basic customs duty	35.00%	30.00%	25.00%

Ans:

Rate of duty applicable	@ 30%
Exchange rate	Rs.48.30
Assessable value (i.e. $ 5,00,000 x Rs.48.30)	**24150000**
Customs Duty @30% x Rs.2,41,50,000	7245000
E.C @ 2% (2% x Rs.72, 45,000)	144900
S.H.E.C @ 1% (1% x Rs.72, 45,000)	72450
Total Customs duty payable	**7462350**

- ***Note:*** Goods not removed from the warehouse within the permissible period, is considered as deemed to be removed *improperly* on the due date, even though, the goods actually removed at a later date. The rate of duty prevailing on the date on which the goods should have been removed is to be considered *i.e.* 30% (21-5-2015) ***[Kesoram Rayon* v *Commissioner of Customs* (1996)]**

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28. An importer imported some goods on 1st January, 2015 and the goods were cleared from Mumbai port for warehousing on 8th January, 2015 by submitting Bill of Entry, exchange rate was Rs.50 per US $. FOB value US $ 10,000. The rate of duty on 8th January, 2015 was 20%. The goods

were warehoused at Pune and were cleared from Pune warehouse on 31st May, 2015, when rate of basic customs duty was 15% and exchange rate was Rs.48.75 per 1 US $. What is the duty payable while removing the goods from Pune on 31st May, 2015? CVD @10% and Special CVD 4% are applicable.

- You are required to find:

(a) The total Customs duty payable?
(b) The interest if any payable?

Ans: **(US $)**

	FOB	**10000**
Add:	20% freight on FOB	2000
Add:	1.125% Insurance on FOB	112.5
	CIF (corrected value)	**12112.5**
Add:	1% unloading on CIF value	121.13
Assessable Value		**12233.63**

Value in Rs.

	Assessable Value (12233.63 x Rs.50)	**611681.5**
Add:	Basic Customs Duty @15%	91752.23
Add:	Additional Customs Duty @ 10%	70343.37
Add:	E.C @ 2%	3241.91
Add:	S.H.E.C @ 1%	1620.96
	Total	**778639.97**
Add:	Special Additional Customs Duty @4%	31145.6
	Total value of imported goods	**809785.56**

- **Interest:**

(i.e. Rs.1,98,104 x 15% x 54/365) 4,396.28

Jan 24 days + Feb 28 days + Mar 31 + April 30 days + May 31 days = 144 days
144 days – 90 days = 54 days.

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29. Mrs. & Mr. Menon visited Germany and brought following goods while returning to India after 6 days stay abroad on 8th April 2015.

a) Their personal effects like clothes, etc., valued at Rs.45,000.
b) A personal computer bought for Rs.56,000.
c) A laptop computer bought for Rs.95,000.
d) Two liters of liquor bought for Rs.1,600.
e) A new camera bought for Rs.37,400.

What is the amount of customs duty payable?

Ans:

a) Their personal effects like clothes, etc., valued at Rs.45,000.	Exempt
b) A personal computer bought for Rs.56,000.	56,000
c) A laptop computer bought for Rs.95,000.	Exempt
d) Two liters of liquor bought for Rs.1,600.	1,600
e) A new camera bought for Rs.37,400.	37,400
Total	**95,000**
Less: General Free Allowance Rs.45,000 + Rs.45,000	90,000
Baggage taxable	**5,000**

- **Customs Duty is Rs.1,803 (i.e. 5,000 x 36.05%) payable by Mrs. & Mr. Menon.**

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30. After visiting USA, Mrs. & Mr. Rao brought to India a laptop computer valued at Rs.80,000 personal effects valued at Rs.90,000 and a personal computer for Rs.52,000. What is the customs Duty payable?

    Ans: Duty payable on baggage = Rs.(52,000 – 45,000) x 36.05% = Rs.2,524

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31. Mr. Ram an Indian resident, aged 45 years, returned to India after visiting USA on 10/05/2015. He had gone to USA on 1/05/2015. On his way back to India he brought following goods with him –

a) His personal effects like clothes etc. valued at Rs.90,000:
b) 2 liter of Wine worth Rs.11,000;
c) A video camera worth Rs.21,000;
d) A watch worth Rs.23,000.

Find the customs duty payable by Mr. Ram

Ans:

	2 ltrs of wine	Rs.11000
Add:	Video camera	Rs.21000
Add:	Watch	Rs.23000
	Total	**Rs.55000**
Less:	GFA (General Free Allowance)	(Rs.45000)
	Net value	Rs.10000
Customs duty @ 36.05% on Rs.10,000		**Rs.3605**

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32. Mr. Venkatesh, an IT professional and a person of Indian origin, is residing in U.S.A. for the last 14 months. He wishes to bring a used microwave oven (costing approx. Rs.11,200 and weighing 15 kg) with him during his visit to India. He purchased the oven in U.S.A. 6 months back and he has been using that oven for his personal use in his kitchen. He is not aware of Indian customs rules. Could you please provide him some advice in this regard?

Ans: Free allowances to professionals in respect of their professional equipments upto Rs.40,000 if Indian passenger returning to India after at least 6 months and in case of house hold articles it is upto Rs.12,000.In the given example Venkatesh brings the used household articles worth Rs.11,200 which is free of duty. As per the rule 5 of the Baggage Rules, 1998 he is not liable to pay any duty.

33. Mr. C is a Cost Accountant, Indian resident worked in USA for 4 months, brought with him the following items on his return to India.

a) Personal effects like clothes etc. of Rs.5,50,000;
b) Jewellery of Rs.25,000
c) A Camera for Rs.50,000
d) Household articles of Rs.30,000
e) Professional equipments like electronic diary, calculator and other items worth Rs.40,000
f) A Laptop worth for Rs.3,00,000
Compute the duty payable by Mr. C

Ans:

	Jewellery	Rs.25000
Add:	Video camera	Rs.50000
Add:	Household articles	Rs.30000
Add:	Professional equipments	Rs.40000
	Total	**Rs.55000**
Less:	GFA (General Free Allowance)	Rs.45000
	Net value	Rs.10000
Customs duty @ 36.05% on Rs.10,000		**Rs.3605**

34. Mr. Kishore is a Chartered Accountant (aged 40 years) an Indian resident goes to Nepal on tour. He purchased one computer for Rs.50,000, one laptop computer for Rs.1,50,000 and hair dryer of Rs.2,000 in a duty free shop in Nepal and brings the same to India. What is the duty payable?

a) If he returns on 3rd day by air
b) If he returns on 3rd day by land route
c) If he returns on 15th day by air
d) If he returns on 15th day by land route

Ans:

a) If he returns on 3rd day by air:

Value of Computer and hair dryer is taxable @36.05% One laptop is exempt from duty

General Free Allowance not allowed

Customs Duty = Rs.18,746 (i.e. 52,000 x 36.05%)

b) If he returns on 3rd day by land route:

Value of Computer and hair dryer is taxable @36.05% One laptop is exempt from duty

General Free Allowance not allowed

Customs Duty = Rs.18,746 (i.e. 52,000 x 36.05%)

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35. Calculate the amount of duty drawback allowable under section 74 of the Customs Act, 1962 in following cases:

a) Salman imported a motor car for his personal use and paid Rs.5,00,000 as import duty. The car is re-exported after 6 months and 20 days.

b) Nisha imported wearing apparel and paid Rs.50,000 as import duty. As she did not like the apparel, these are re-exported after 20 days.

c) Super Tech Ltd. imported 10 computer systems paying customs duty of Rs.50 lakh. Due to some technical problems, the computer systems were returned to foreign supplier after 2 months without using them at all.

Ans:

a) The amount of duty drawback is Rs.4,40,000 (i.e. Rs.5,00,000 x 88%), since these goods used in India.
b) Duty drawback is not allowed on wearing apparel.
c) Duty drawback is Rs.49,00,000 *(i.e.* Rs.50,00,000 x 98%), since these goods are re-exported without being used.

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36. Computation of duty drawback: 'A' exported a consignment under drawback claim consisting of the following items—

Particulars	Chapter Heading	FOB Value (Rs.)	Drawback rate
1. 200 pieces of pressure stoves mainly made of beans @ Rs.80/piece	74.04	16000	4% of FOB
2. 200 Kgs. Brass utensils @Rs.200 per Kg.	74.13	40000	Rs.24/kg
3. 200 Kg. Artware of brass @Rs.300 per Kg.	74.22	60000	17.50% of FOB subject to a max. of Rs.38/Kg.

- On examination in docks, weight of brass Artware was found to be 190 Kgs. and was recorded on shipping bill. Compute the drawback on each item and total drawback admissible to the party.

Ans: The drawback on each item and total drawback admissible to the party shall be-

Particulars	FOB Value (Rs.)	Drawback rate	Drawback Amount (Rs.)
1. 200 pieces of pressure stoves mainly made of beans @ Rs.80/piece	16000	4% of FOB	640
2. 200 Kgs. Brass utensils @Rs.200 per Kg.	40000	Rs.24/kg	4800
3. 200 Kg. Artware of brass @Rs.300 per Kg.	60000	17.50% of FOB subject to a maximum of Rs.38 per Kg.	7220
Total Drawback Admissibile			12660

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37. X Ltd has exported following goods: Product P, FOB value worth Rs.1,00,000 and the rate of duty drawback on such export of goods is 0.75%. FOB value of product 'Q' worth Rs.10,000 and the rate of duty drawback on such export of goods is 1%. Will X Ltd be entitled to any duty drawback?

Ans: Duty drawback on product P allowed is Rs.750 (i.e. 1,00,000 x 0.75%), since amount is more than

Rs.500. Duty drawback on product Q is allowed, because the amount of duty drawback Rs.100 (which is more than Rs.50).

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38. Y Ltd has been exported following goods to USA. Discuss whether any duty drawback is admissible under section 75 of the Customs Act, 1962.

Product	FOB Value of Exported goods (Rs.)	Market Price of goods (Rs.)	Duty drawback rate
A	2,50,000	1,80,000	30% of FOB
B	1,00,000	50,000	0.75% of FOB
C	8,00,000	8,50,000	3.50% of FOB
D	2,000	2,100	1.50% of FOB

- ***Note:*** Imported value of product C is Rs.9,50,000.

Ans: Duty draw back amount for all the products are as follows:

- **Product A:**
  Drawback amount = 2,50,000 x 30% = Rs.75,000 or Rs.1,80,000 x 1/3 = Rs.60,000

  Allowable duty draw back does not exceed 1/3 of the market value.

  Hence, the amount of duty drawback allowed is Rs.60,000

- **Product B:**
  Drawback amount allowed is Rs.750 (i.e. Rs.1,00,000 x .0.75%). Since, the amount is more than Rs.500 even though the rate is less than 1%.

- **Product C:**
  No duty drawback is allowed, since the value of export is less than the value of import (i.e. negative sale)

- **Product D:**
  No duty drawback is allowed, since the duty drawback amount is Rs.30 (which is less than Rs.50). Though rate of duty drawback is more than 1%, no duty drawback is allowed.

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39. Sale value of domestic industry at factory gate Rs.120 (net of taxes). Landed Value of imports Rs.90. Hence, Price under cutting = Rs.120 (-) Rs.90 = Rs.30. This is positive undercutting. It creates pressure on domestic industry from imports, as the imported goods are sold at Rs.90, which is less than the price charged by domestic industry.

    On the contrary, if the Sale value of domestic industry at factory gate (net of taxes) is Rs.100 and the Landed value of imports Rs.115, then, Price under cutting = Rs.100 (-) Rs.115 = Rs.(15). This is negative undercutting. The domestic industry is in a comfortable position, as the price of imports is more than the price charged by the domestic industry.

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40. Let NIP Rs.150, Landed value of imports Rs.120. Then, the price underselling by exporters = Rs.150 – Rs.120 = Rs.30.

    A positive price underselling shows the inability of the domestic industry to sell its product at a price which is non-injurious to it on account of pressure from imports coming into the country

On the contrary, if the NIP is Rs.120 and the Landed value of imports Rs.140, then the price under-selling by exporters = Rs.120 (-) Rs.140 = Rs.(20). This negative price underselling represents a comfortable position for the domestic industry, as the price of its products is lower than imported goods.

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41. **FORMAT "CI" - STATEMENT OF COST OF PRODUCTION**

Name of the Company: XYZ Limited

1. Installed Capacity					1,00,000 units			
2. Production in Installed capacity					65,000 units			
3. Capacity Utilization (%)					65.00%			
4. Production in Investigation Period					56,000 units			
5. Capacity Utilisation in Investigation period					56.00%			
6. Sales (quantity)	61,000 units				51,000 units			
Particulars	**Previous Accounting Year**				**Investigating Year**			
	Qty	Rate (Rs.)	Value (Rs.)	Cost per Unit (Rs.)	Qty	Rate (Rs.)	Value (Rs.)	Cost per Unit (Rs.)
Manufacturing Expenses:								
Raw Materials (specify the major raw materials) (MT)	10000	100	1000000	15.38	8000	120	960000	17.14
Utilities			200000	3.08			190000	3.39
Depreciation			195000	3			175000	3.13
Others (specify nature of expenditure)								
Administrative Expenses:								
Fixed			130000	2			112000	2
Variable			78000	1.2			78000	1.39
Selling & Dist. Expenses:								
Fixed			61000	1			56000	1.1
Variable			40000	0.62			40000	0.71
Financial Expenses:								
Fixed			130000	2.13			35700	0.7
Variable			21000	0.32			21000	0.38
Less: Miscellaneous Income (from product concerned) – Sale of Scrap raw materials			-25000				-20000	

Total Cost to make and sell			**1855000**	**28.73**			**1667700**	**29.94**
Selling Price				35				32
Profit/Loss				**6.27**				**2.06**

- ***Note:** This Statement of Cost of Production is to be authenticated by a Cost Accountant in Practice*

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42. One of the major reasons for this decrease in the quantity of sales is identified to be import of like/similar goods by a foreign company to India. The selling price of such goods, in Indian market, as fixed by the foreign counterpart is Rs.23, while the same goods are normally sold at that foreign country for Rs.35. Landed Value of Imports Rs.25. XYZ Ltd. being deceived requested the competent authority to have a review. Ascertain the injury margin and suggest the measure suitable to safeguard the Indian Industry.

Ans:

Particulars	Amount (Rs.)
Price of the "Product under Consideration (PUC) or "Article under Investigation" from the Exporting Country / Export Price	23
Normal Value of such product, when sold in the domestic market of the exporting country	35
Dumping Margin or Margin of Dumping (DM) = 35.00 – 25.00	10
Non Injurious Price (NIP) – this is the constructed sale price of the domestic industry which will give a reasonable return on investment and if the domestic industry is able to sale its product at that price, it will not claim any injury	30 (say)
Landed Value of Imports (including all the expenses incurred during the course of importation upto the port including the non-creditable duties of customs	25
Injury Margin (IM) = Non Injurious Price (-) Landed Value of Imports = 30.00 (-) 25.00	5

- Thus, for XYZ Ltd. the Injury Margin is ascertained at Rs.5 per unit. Accordingly, the Authorities shall cause to initiate necessary proceedings to levy additional duty of customs (under the aegis of Anti-dumping Laws) to safeguard the domestic industry.

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43. Following is the relevant extract from the Trial Balance of ABC Ltd. for the year ended 31.3.2015.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Raw Materials	5,00,000	Sales	10,95,000
Consumable Stores and Spares (Other Inputs)	3,00,000	Other Income	3,000
Utilities (Power, Fuel, Steam, Water, etc)	1,80,000		
Direct Labour	4,00,000		

Manufacturing Overheads	1,50,000		
Research & Development	60000		
Administrative Overheads	90000		
Selling & Distribution Cost	50000		
Depreciation	30000		
Financial expenses	10000		
Other Miscellaneous Expenses	12000		

- Company deals with two products for which necessary information is furnished:

Particulars	**Product X1**	**Product X1**
Raw Materials (Ratio of utilization)	60.00%	40.00%
Consumable Stores and Spares (Other Inputs)	in proportion to raw materials	
Utilities (Power, Fuel, Steam, Water, etc)	in proportion to raw materials	
Direct Labour	Rs.2,45,000	Rs.1,55,000
Manufacturing Overheads	30.00%	35.00%
Research & Development	35.00%	40.00%
Administrative Overheads	30.00%	40.00%
Selling & Distribution Cost	35.00%	50.00%
Depreciation	45.00%	55.00%
Financial expenses	50.00%	30.00%
Other Miscellaneous Expenses	25.00%	25.00%

- Prepare Statement showing Allocation and Apportionment of Expenditure for assessment under Anti-dumping laws in India for Product X1, which is the Product under Investigation

Ans:

Format CII

Statement Showing Allocation and Apportionment of Expenditure for Product X1

Sr No.	Particular of Expenses	Total applicable to product under investigation	Share applicable to product under investigation	Share not allocation / apportionment	Basis
1.	Raw Materials (Ratio of utilization)	300000	300000	Nil	Actual Ratio

Sr No.	Particular of Expenses	Total applicable to product under investigation	Share applicable to product under investigation	Share not allocation / apportionment	Basis
2.	Consumable Stores and Spares (Other Inputs)	180000	180000	Nil	Raw Material Ratio
3.	Utilities (Power, Fuel, Steam, Water, etc)	108000	102000	6000	CAS 8
4.	Direct Labour	245000	241000	4000	CAS 7 Actual
5.	Manufacturing Overheads	45000	38000	7000	Cost Driver
6.	Research & Development	21000	15000	6000	Wrong Basis
7.	Administrative Overheads	27000	24000	3000	CAS - 11
8.	Selling & Distribution Cost	17500	16000	1500	CAS - 15
9.	Depreciation	13500	11500	2000	CAS-16, Value of Asset
10.	Financial expenses	5000	5000	Nil	CAS-17, Actual utilize of borrowed funds
11.	Other Miscellaneous Expenses	3000	3000	Nil	Actual
12.	**Total Expenditure Total of (1) to (11)**	965000	935500	29500	
13.	Sales	1095000	1095000	Nil	
14.	Other Income (Sale of Scrap of Product X1)	3000	3000	Nil	
15.	**Total Income (13+14)**	**1098000**	**1098000**	**Nil**	
16.	Profit/Loss	133000	162500		

- ***Note:*** *This statement is to be certified by a Practicing Cost Accountant.*

Service Tax

1. X Ltd, an advertising company is not liable to collect and pay service tax on advertisement service rendered to the Approved International Organisation in India, even though for the same service to another entity X Ltd will have to collect and pay tax. ("Who is the Service receiver" principle)

2. Mr. A, a professional dealing in indirect tax gives consulting advice to the government of India, he is required to collect service tax from the Government of India and remit the same to the Service Tax department. However, if the Reserve Bank of India were to render the same service to the Government of India it is not required to collect and pay service tax. ("Who is the Service provider" principle) such services are taxable services; RBI is not liable to pay the service tax. Likewise any services provided by the service provider which are in the nature of statutory services, then service tax cannot be levied.

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3. (1) Services provided to the branch office in India of a multi-national company by the headquarters of the multi-national company located outside India;

(2) Services provided by a club to its members, would be taxable provided other conditions relating to taxability of service are satisfied.

(3) Activity must be carried out for a consideration:

4.

a) Grants given for a research where the researcher is under no obligation to carry out a particular research would not be a consideration for such research. Conditions in a grant stipulating merely proper usage of funds and furnishing of account will not result in making it a provision of service.

b) Donations to a charitable organization is not consideration unless charity is obligated to provide something in return e.g. display or advertise the name of the donor in a specified manner or such that it gives a desired advantage to the donor. *(Circular No.* 127/09/2010-ST, *dated* 16-8-2010)

5.

a) Life time achievement award will not comprise an activity for a consideration.

b) Artist performing at street where viewers are under no obligation to pay any amount.

c) Provision for free tourism, access to free TV channels or governmental activities without charges will not comprise an activity for a consideration.

d) Grant of pocket money, a gift or reward (which has not been given in terms of reciprocity), amount paid as alimony for divorce would be examples in this category.

However a reward given for an activity performed explicitly on the understanding that the winner will receive the specified amount in reciprocity for a service to be rendered by the winner would be a consideration for such service.

Thus amount paid in cases where people at large are invited to contribute to open software development (e.g. Linux) and getting an amount if their contribution is finally accepted will be examples of activities for consideration.

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6. A builder carrying out an activity for a client wherein a flat is constructed by the builder for the client for which payments are received in instalments and on completion of the construction the title in the flat is transferred to the client involves two elements namely provision of construction service and transfer of title in immovable property. The two activities are discernibly separate.

The activity of construction carried out by the builder would therefore be a service and the activity of transfer of title in the flat would be outside the ambit of service.

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7. Mr. B is providing erection, commissioning and installation and mining services in addition to Mandap keeping services. How many applications for registration under service tax provisions Mr. B need to apply?

Ans: Single ST-1 Form is enough for all multiple services rendered by Mr. B.

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8. Mr. Ram provider of interior decorating services since 2009, hold's service tax registration under service tax provisions. Mr. Ram subsequently sold the entire business to Mr. Y for Rs.10 lacs. You are required to answer wether the registration number of Mr. Ram will be the registration number of Mr. Y?

Ans: No, the registration certificate under the service tax is non-transferable.

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9. X Ltd. has three units namely:

Place	Nature	Turnover for the April 2015 (Rs.)	Output
Chennai	Factory	2,50,000	Dutiable goods
Bangalore	Factory	1,50,000	Dutiable goods
Hyderabad	Service unit	1,10,000	Taxable service
Total		**5,10,000**	

- M/s Mudra Pvt. Ltd an advertising agency provided services for Rs.3,00,000 in the month April 2015 by charging Service Tax @14.5% to X Ltd. to promote products of Chennai and Bangalore factories. However, Hyderabad unit not received input services from M/s Mudra Pvt. Ltd.
- In the given case X Ltd can distribute the CENVAT CREDIT on input service to Chennai and Bangalore factory, in respect of their turnover ratio. It means input service distributor should not distribute the CENVAT CREDIT on input service to the Hyderabad unit. Since, this unit were not received any input service.

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10. X Ltd an Indian company, imported services from A Ltd of USA for the personal purposes. X Ltd liable to pay service tax in India, since there is no personal service in the case of a body corporate.

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11. Ferrari conducting the Formula 1 races by displaying logo or brand name of various companies. Hence, companies receiving sponsorship services from Ferrari are liable to pay service tax.

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12. Sponsorship services provided for events like Indian Premier League (IPL) cricket matches, golf and tennis etc., are covered under reverse charge.

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13. Mr. Ram who markets his goods under the brand name of TATA Company.

Therefore, it is very clear that Mr. Ram is a provider of services under the brand name of the company and his services are taxable under Business Auxiliary Services.

- Hence, he can not avail the benefit of Rs.10,00,000 exemption.

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14. Sri R is a practicing Chartered Accountant. His Gross taxable services during the year 2015- 16 are Rs.9,50,000. Is Registration compulsory for him? If so in which year?

Ans: Yes, Registration is compulsory in the year 2015-16 (i.e. exceeded Rs.9,00,000).

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15. Mr. Hari, an engineer, renders the taxable services during the year 2014-15 for Rs.4,00,000. During current year 2015-16 he rendered the taxable services Rs.9,00,010 up to the end of the 30th June 2015. Explain for him registration is compulsory? If so what the last date for registration?

Ans: Yes, Registration is required in the year 2015-16 on or before 30th July 2015.

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16. Mr. X is a provider of taxable service under the brand name of others. He started his business in April, 2012. Taxable turnover for the year 2015-16 is Rs.5 lakh.

Is Registration compulsory for him?

Ans: Yes, Registration is compulsory for service provider irrespective of his turnover, if he provides service under the brand name of others. For Mr. X registration is compulsory under the Finance Act, 1994.

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17. Mr. D is provider of taxable services from head office located at Hyderabad and from two branch offices located at Chennai and Mumbai.

a) Is centralized registration is permissible, if centralized billing and accounting carried out from Head Office?

b) Who will be the competent authority to grant centralized registration?

c) Rework (a) and (b) if his turnover is Rs.8 lacs for the year 2015-16, but acting as input service distributor?

Ans:

a) Yes, centralized registration is permissible

b) DGST

c) Registration is compulsory. Service provider should obtain multiple registrations to act as input service distributor.

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18. State briefly whether the following persons are liable to apply for registration under the Finance Act, 1994 and Service tax (Registration Special Category of Persons) Rules, 2005 and if so from which date:

a) An input service distributor who starts his business with effect from 1st January, 2016.

b) A provider of taxable service under an unregistered brand name of another person.

In both cases aggregate value of taxable services was Rs.6,00,000 upto 31-3-2016.

Ans:

a) In case of input service distributors registration is compulsory without any threshold limit. Such person has to obtain the registration within 30 days from the date of commencing the business.

b) A Job worker or a person who renders taxable services under some other brand name, then such person is not eligible to get the exemption limit. Therefore such a job worker is liable for registration within 30 days from the date of under taking such activities.

- **Reverse Charge**

19. ABT transport providing goods transport services. 'A Ltd' sold goods from Mumbai to 'B Ltd' of Chennai. Freight charged by ABT transport for transporting said goods is Rs.1,00,000 (exclusive of ST) as per consignment note, dated 1st July 2014. Freight paid by A Ltd on 15th September 2015.

You are required to answer:

a) Name of provider of service and recipients of service?

b) Who is liable to pay service tax and why?

c) Due date of payment of service tax?

d) Service Tax liability?

Ans:

a) Service Provider ƒ 'ABT' transport services,

Service Recipients ƒ Both 'A Ltd.' & 'B Ltd.'

b) Either 'A Ltd' (or) 'B Ltd' being the recipients of the services. However, in the given case A Ltd is liable to pay service tax, since, freight paid by A Ltd.

c) 6th October, 2014. In any Other case 5th October,2014.

d) Service tax Liability

	Service tax Liability		**Rs.**
	Total Amount of freight paid	=	100000
Less:	Abatement of 75% on the value of Freight (Rs.1,00,000 x 75%)	=	(75,000)
	Taxable Services	=	**25,000**

Service tax = Rs.3,625 (i.e. Rs.25,000 x 14.5/100)

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20. A Ltd. provided services valuing Rs.8 lakhs during the financial year 2014-15. During 2015-2016, it has provided taxable services valuing Rs.10 lakhs and has received payments towards payable services Rs.8.5 lakhs. It has also received services in the nature of transport of goods by road on 1-4-2015, valuing Rs.50,000 (exclusive of service tax), in respect of which it is the person liable to pay service tax. Freight has been paid on 10-6-2015. Compute the service tax, if any, payable by A Ltd. for the financial year 2015-2016. It is given that goods transport service is exempt to the extent of 75% of value thereof.

Ans:	Value of transport services received	=	Rs.50000
Less:	Abatement 75% on Rs.50,000	=	(Rs.37500)
	Taxable services	=	**Rs.12000**
	Service tax liability in the hands of A Ltd (2015-16)	=	Rs.1812.50
			(i.e. Rs.12500 x 14.5/100)

- **Note:**

a) The company is eligible for small service provider exemption during the financial year 2015-16, as the value of taxable services provided during financial year 2014-15 does not exceed Rs.10 lakhs.

b) For the value of taxable services provided during the financial year 2015-16, no tax liability would arise, as the payments received or services provided do not exceed Rs.10 lakhs.

However, for goods transport agency services received, in respect of which M/s. A Ltd. is the person liable to pay service tax, the company cannot claim for small service provider exemption.

- **Interest**

21. Mr. X practicing Cost Accountant received Rs.20,00,000 (exclusive of service tax)in the June 2015. He paid service tax on 26th July 2015. Gross receipt in the year 2014-15 is Rs.25 lakhs.

You are required to calculate Interest on delay payment of service tax.

Ans: Service tax @14.5% on Rs.20,00,000 = Rs.2,90,200.

- Due date of payment of service tax = 6th July, 2015.
- No. of days delay = 20 days

Interest = Rs.2,383.56 (i.e. Rs.2,90,000 × 15/100 × 20/365)

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22. M/s X Pvt. Ltd is provider of taxable services namely Construction of Commercial Complexes.The taxable services in the financial year 2014-15 were Rs.9,50,000. In the current financial year 2015-16 the following services provided and also opted the small service provider exemption.

Ans:

Invoice Dt.	Particulars	Value in (Rs.) (exclusive of service tax)	Abatement	Small Service Provider Exemption limit	Remarks
10/04/15	Construction of one shop	12,00,000	67.00%	Applicable for the portion of Rs.3,96,000 (i.e. Rs.12 lakhs x 33%)	Exemption limit of Rs.10 lakhs applicable only for the portion of invoice which is non-exempted from service tax. Therefore, Rs.3,96,000 exempted from service tax.
	Payment received against the previous year bills (2014-15).	9,50,000	Nil	Not applicable.	Exemption to the the small service provider shall be on the basis of the value of invoice in a financial year and not on the basis of payment received in that year.
15/04/15	Advance received (i.e.services to be provided in May 2015)	28,00,000 (includes Rs.18 lakhs services provided in the state of **J & K**	75.00%	Applicable for the portion of Rs. 2,50,000. Therefore, fully exempt from service tax	Exempted services, any how exempt from Service tax. Therefore, exempted services should not be adjusted against exemption limit of Rs.10 lakhs.
30/04/15	Construction of super market	15,00,000	67.00%	Applicable for the portion of Rs. 3,54,000	Over and above Rs.10 Lakhs of exemption limit is fully taxable @14.5%. therefore service tax is Rs.20,445.

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23. The value of service provided by a consulting engineer is Rs.10,00,000. He has paid Rs.50,000 as cess under section 3 of the Research and Development Cess Act, 1986.

What is the amount of service tax payable by him?

Ans: Value of taxable services = Rs.10,00,000

Service Tax @ 14.5% = Rs.1,45,000

Less: Cess paid = Rs. 55,000

Net Service Tax Payable = Rs. 95,000

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24. Mr. X a composer of a song having the copyright for his song. When he allow the recording of the song on payment of some royalty by a music company for further distribution, if so Mr. X is required to pay service tax on the royalty amount received from a music company?

Ans: No, as the copyright relating to original work of composing song falls u/s 13(1)(a) of the Indian Copyright Act, 1957 which is exempt from service tax.

- Similarly an author having copy right of a book written by him would not be required to pay service tax on royalty amount received from the publisher for publishing the book. A person having the copyright of a cinematographic film would also not be required to pay service tax on the amount received from the film exhibitors for exhibiting the cinematographic film in theatres.

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25. Payment was credited in the books of accounts on 7.6.2015 Payment was credited in the bank account on 10.6.2015.

Date of change in effective rate of tax is on 8.6.2015.

Ans: Date of payment is 7.6.2015 ,Date of payment shall be the date of credit in the bank account.

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26. Payment was credited in the books of accounts on 1.6.2015 Payment was credited in the bank account on 10.6.2015.

Date of change in effective rate of tax is on 5.6.2015

Ans: Date of payment is 10.6.2015

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27. In the case of construction services if the payments are linked to stage-by-stage completion of construction, the provision of service shall be deemed to be completed in part when each stage of construction is completed.

Wherever the provider of taxable service receives a payment up to Rs.1,000 in excess of the amount indicated in the invoice, the point of taxation to the extent of such excess amount, at the option of the provider of taxable service, shall be the date of receipt of such amount.

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28. M/s X Pvt. Ltd. provided services for Rs.1,00,000 and service tax charged separately @14.5% vide invoice dated 1-4-2015. Payment received Rs.1,15,400 on 1st July 2015. It means excess payment received is Rs.900. Hence, no need to issue separate invoice for the same.
Hence, the point of taxation for the invoice value is 1-4-2015, whereas for Rs.900 the point of taxation is 1st July 2015.

- **POT = Point of Taxation**

29. The applicability of the rule will be clear from the following table: M/s X Pvt. Ltd. is provider of service.

Ans:

Sr. No.	Date of completion of service	Date of invoice	Date on which payment recd.	Point of Taxation	Due date of payment	Remarks
1.	10/04/15	20/05/15	30/06/15	20/04/15	06/05/15	Invoice issued in 30 days from the date of completion of service. Dt. of invoice **or** Dt. of payment **which ever is earlier**
2.	10/04/15	26/05/15	30/06/15	10/04/15	06/05/15	Invoice not issued within 30 days and payment received after completion of service
3.	10/05/15	20/05/15	15/04/15	15/04/15	06/05/15	Invoice issued in 30 days but payment received before invoice
4.	10/04/15	26/05/15	05/04/15 **(Part)** or 25/05/15 **(Remaing)**	05/04/15& 10/05/15 for respective amounts	06/05/15	Invoice not issued in 30 days. Part payment before completion, remaining later

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30. Mr. C, Practicing C.A. started profession in the year 2015-16 has been chosen the option to pay service tax on receipt basis in the current year. **(Rs. in Lakhs)**

Particular	**1st Qtr.**	**2nd Qtr.**
services provided	20	2
services to be provided (i.e. advance)	35	Nil.
Total	55	2
S.T. @14.5%	**5.08** (35 x 14.5%)	**0.29** (2 x14.5%)

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31. Mr. C, Practicing C.A. started profession in the year 2015-16 has been chosen the option to pay service tax on receipt basis in the current year.

Particular	**1st Qtr.**	**2nd Qtr.**
services provided	55	2
services to be provided (i.e. advance)	Nil.	Nil.
Total	55	2
S.T. @14.5%	**7.98** (55 x 14.5%)	**0.29** (2 x14.5%)

- **Note :**

a) Small service provider exemption not availed
b) Since, Rs.50 lakhs exceeds in the 1st quarter, services provided over and above Rs.50 lakhs is taxable as per point of taxation rule 3.
c) Service tax is payable on Rs.5 lakhs on provisional basis and balance Rs.50 lakhs will be taxable on receipt basis.
d) From 2nd quarter onwards services are taxable based on point of taxation rule 3

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32. Mr. C, Practicing C.A. started profession in the year 2015-16 has been chosen the option to pay service tax on receipt basis in the current year.

Particular	**1st Qtr.**	**2nd Qtr.**
Services provided	Nil.	2
Services to be provided (i.e. advance)	55	Nil.
Total	55	2
S.T. @14.5%	**7.98** (55 x 14.5%)	**0.29** (2 x14.5%)

- **Note :**

a) Small service provider exemption not availed

b) Since, in the 1st quarter services to be provided for which advance received exceeds Rs.50 lakhs, then the entire value on receipt basis taxable, and subsequently service provider is liable to pay service tax as per Point of Taxation Rule 3.

33.

(a) The applicability of the rule will be clear from the illustrations in the following table:

Sr. No.	Date of provision of service	Date of invoice	Date on which payment recd.	Point of Taxation
1.	Before change	After change	After change	Date of payment or invoice, whichever is earlier
2.	Before change	Before change	After change	Date of invoice
3.	Before change	After change	Before change	Date of payment

(b) In case a taxable service has been provided after the change in effective rate,-

i. Where the payment for the invoice is also made after the change in effective rate but the invoice has been issued prior to the change in effective rate, the point of taxation shall be the date of payment; **OR**

ii. Where the invoice has been issued and the payment for the invoice received before the change in effective rate, the point of taxation shall be the date of receipt of payment or date of issuance of invoice, whichever is earlier; **OR**

iii. Where the invoice has also been raised after the change in effective rate but the payment has been received before the change in effective rate, the point of taxation shall be date of issuing of invoice.

(c) Explanation:

For the purposes of this rule, “change in effective rate of tax” shall include a change in the portion of value on which tax is payable in terms of a notification issued under the provisions of Finance Act, 1994 or rules made thereunder.

(d) Alternative:

There are three voters namely date of provision of service, date of invoice and date of payment received and two candidates’namely new rate of tax and old rate of tax. Hence, majority wins.

34.

Sr. No.	Date of provision of service	Date of invoice	Date on which payment recd.	Point of Taxation
1.	Before change	**After change**	**After change**	**New Rate**
2.	**Before change**	**Before change**	After change	**Old Rate**
3.	**Before change**	After change	**Before change**	**Old Rate**
4.	**After change**	Before change	**After change**	**New Rate**
5.	After change	**Before change**	**Before change**	**Old Rate**
6.	**After change**	**After change**	Before change	**New Rate**

35. Queen Pvt. Ltd., provider of taxable services. These services are taxable w.e.f. 1-5-2012. Payment was received from a customer for Rs.5,00,000 on 20-4-2012. The invoice has been issued on 4-5- 2012 (i.e. within 14 days of the date when the service is taxed for the first time). Hence, service provider not liable to pay service tax on the entire value of Rs.5,00,000.

36. The service provider, a chartered accountant whose previous year (2014-15) turnover less than Rs.50 lakhs, received an amount of Rs.1,00,000 in April 2015, for a consulting engagement worth Rs.5,00,000 which he completes in the month of July 2015 and for which balance payment is received on August 2015. Service tax is payable on Rs.1,00,000 for the quarter April to June on or before 6th July 2015. Service tax liability for the balance of Rs.4,00,000 for the quarter July to September, on or before 6th October 2015. Service provider is liable to pay service tax on receipt basis as per rule 3 of the Point of Taxation Rules, 2011 read with rule 6 of Service Tax Rules, 1994

37. Information technology software services provided by X Ltd. for Rs.25,00,000 lakhs and an invoice issued on 1st July 2015. Service provider has not been received consideration upto the end of 31st July, 2015. As per rule 3 of the Point of Taxation Rules, 2011 service provider is liable to pay service tax on the value of invoice on or before 6th August, 2015.

38. A Ltd., being an interior decorator received the advance money from his customer of Rs.30,000 in the month of July 2015, for which he is going to work in the month of September, 2015. A Ltd. being service provider is liable to pay the service tax @ 14.5% on Rs.30,000 for the month of July, 2015 on or before 6th August, 2015. The order has been cancelled on 25th August, 2015.

Hence, A Ltd. can file refund for the amount paid as service tax. Alternatively he can adjust the same against any taxable output services

39. X Ltd. provided cargo handling services for Rs.15,00,000 in the month of 15th May, 2015. Invoice issued on 1st July 2015. 50% has been received on 1st April, 2015 and balance on 5th July, 2015.

You are required to find out due dates of payment of service tax.

Ans: As per rule 3 of the Point of Taxation Rules, 2011, point of taxation for the first 50% received on 1st April, 2015 (i.e. date of completion of service or date of receipt of payment whichever is earlier, since, invoice has not been issued within 30 days of completion of service).

Therefore, due date of payment of service tax is 6th May, 2015.

Point of taxation for the balance 50% is 15th May, 2015 (i.e. date of completion of service or date of receipt of payment whichever is earlier, since, invoice has not been issued within 30 days of completion of service).

Therefore, due date of payment of service tax is 6th June, 2015.

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40. A provider (X Ltd.) of information technology software services received on advance of Rs.10 lakhs on 21st July 2015 and the balance Rs.40 lakhs on 1st October 2015. Information technology software service was listed as a taxable service w.e.f. 16-5-2008. Services actually rendered on 1st August 2015 and invoice issued on 10th August 2015. There will be service tax liability @14.5% on Rs.10 lakhs for the month of July 2015, and on Rs.40 lakhs for the month of August 2015.

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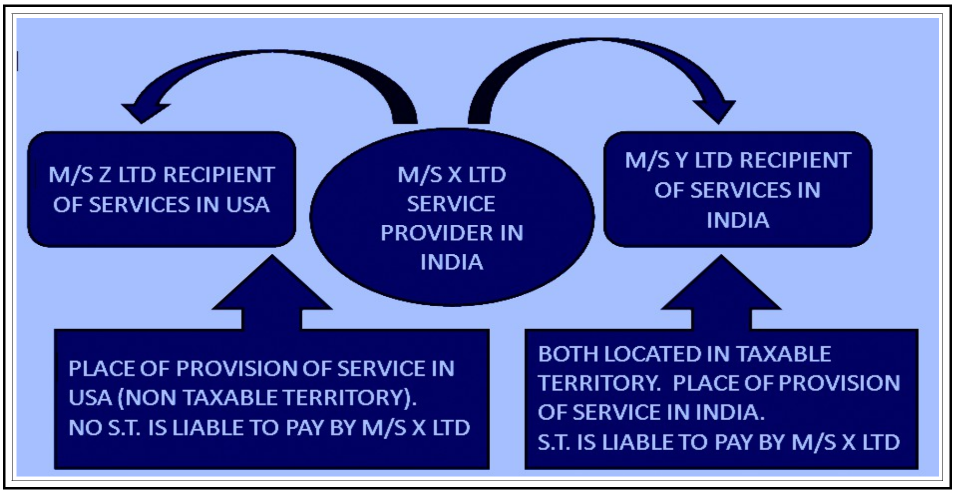
41. Location of the receiver:

The place of provision of a service shall be the location of the recipient of service:

Provided that in case the location of the service receiver is not available in the ordinary course of business, the place of provision shall be the location of the provider of service.



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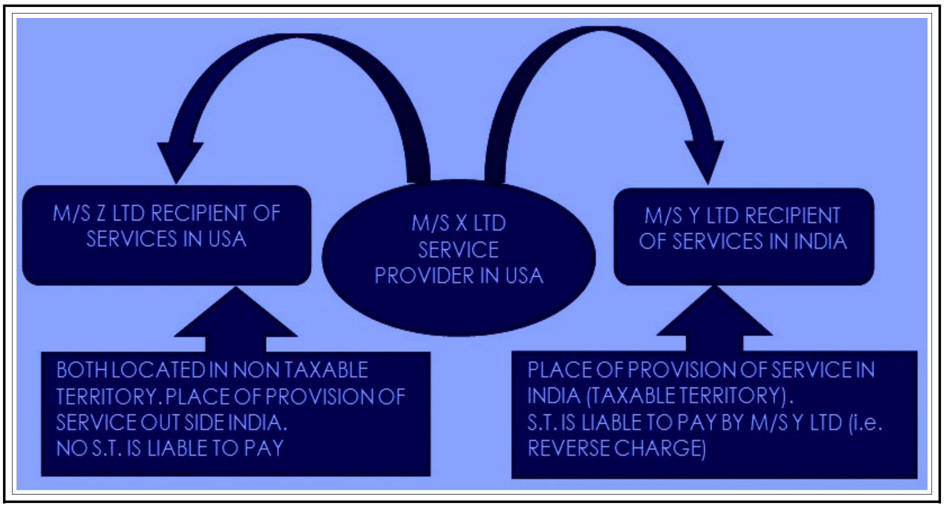
42. Location of the receiver:



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43. A video game or a movie on demand is provided as on board entertainment during the Kolkata – Delhi leg of a Bangkok-Kolkata-Delhi flight. The place of provision of this service will be Bangkok (outside taxable territory) and hence not taxable,

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44. A lady leaves her car at a service station for the purpose of servicing. She asks her chauffer to collect the car from the service station later in the day, after the servicing is over. The chauffer makes the payment on behalf of the lady owner and collects the car.
Here the lady is the 'person obliged to make the payment' towards servicing charges, and therefore, she is the receiver of the service.

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45. A modelling agency contracts with a beauty parlour for beauty treatment of say, 20 models. Here again is a situation where the modelling agency is the receiver of the service, but the service is rendered to the models, who are receiving the beauty treatment service on behalf of the modelling agency. Hence, notwithstanding that the modelling agency does not qualify as the individual receiver in whose presence the service is rendered, the nature of the service is such as can be rendered only to an individual, thereby qualifying to be covered under this rule.

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46. A management school located in USA intends to organize a road show in Mumbai and New Delhi for prospective students. Any service provided by an event manager, or the right to entry (participation fee for prospective students, say) will be taxable in India.

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47. An Indian fashion design firm hosts a show at Toronto, Canada. The firm receives the services of a Canadian event organizer. The place of provision of this service is the location of the event, which is outside the taxable territory. Any service provided in relation to this event, including the right to entry, will be non-taxable.

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48. An Indian firm provides a 'technical inspection and certification service' for a newly developed product of an overseas firm (say, for a newly launched motorbike which has to meet emission standards in different states or countries). Say, the testing is carried out in Maharashtra (20%), Kerala (25%), and an international location (say, Colombo 55%).

Notwithstanding the fact that the greatest proportion of service is outside the taxable territory, the place of provision will be the place in the taxable territory where the greatest proportion of service is provided, in this case Kerala.
This rule is, however, not intended to capture insignificant portion of a service rendered in any part of the taxable territory like mere issue of invoice, processing of purchase order or recovery, which are not by way of service actually performed on goods.

It is clarified that this rule is applicable in performance-based services or location-specific services (immovable property related or event-linked). Normally, such services when provided in a non-taxable territory would require the presence of separate establishments in such territories. By virtue of an explanation of sub-clause (44) of section 65B, they would constitute distinct persons and thusit would be legitimate to invoice the services rendered individually in the two territories.

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49. A helicopter of Pawan Hans Ltd (India based) develops a technical snag in Nepal. Say, engineers are deputed by Hindustan Aeronautics Ltd, Bangalore, to undertake repairs at the site in Nepal. But for this rule, Rule 4, sub-rule (1) would apply in this case, and the place of provision would be Nepal i.e. outside the taxable territory. However, by application of Rule 7, since the service provider, as well as the receiver, are located in the taxable territory, the place of provision of this service will be within the taxable territory.

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50. A freight forwarder arranges for export and import shipments. There could be two possible situations here one when he act on his own account, and the other, when he acts as an intermediary.

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51. A consignment of cut flowers is consigned from Chennai to Amsterdam. The place of provision of goods transportation service will be Amsterdam (outside India, hence not liable to service tax). Conversely, if a consignment of crystal ware is consigned from Paris to New Delhi, the place of provision will be New Delhi.

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52. A goods transportation agency ABC located in Delhi transports a consignment of new motorcycles from the factory of XYZ in Gurgaon (Haryana), to the premises of a dealer in Bhopal, Madhya Pradesh. Say, XYZ is a registered assessee and is also the person liable to pay freight and hence person liable to pay tax, in this case. Here, the place of provision of the service of transportation of goods will be the location of XYZ i.e. Haryana.

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53. A goods transportation agency ABC located in Delhi transports a consignment of new motorcycles from the factory of XYZ in Gurgaon (Haryana), to the premises of a dealer in Jammu (non-taxable territory). Say, as per mutually agreed terms between ABC and XYZ, the dealer in Jammu is the person liable to pay freight. Here, in terms of amended provisions of rule 2(1)(d), since the person liable to pay freight is located in non-taxable territory, the person liable to pay tax will be ABC. Accordingly, the place of provision of the service of transportation of goods will be the location of ABC i.e. Delhi.

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54. A video game or a movie-on-demand is provided as on-board entertainment during the Kolkata-Delhi leg of a Bangkok-Kolkata-Delhi flight. The place of provision of this service will be Bangkok (outside taxable territory, hence not liable to tax).

If the above service is provided on a Delhi-Kolkata-Bangkok-Jakarta flight during the Bangkok-Jakarta leg, then the place of provision will be Delhi (in the taxable territory, hence liable to tax).

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55. An architect based in Mumbai provides his service to an Indian Hotel Chain (which has business establishment in New Delhi) for its newly acquired property in Dubai. If Rule 5 (Property rule) were to be applied, the place of provision would be the location of the property i.e. Dubai (outside the taxable territory). With this result, the service would not be taxable in India.

Whereas, by application of Rule 8, since both the provider and the receiver are located in taxable territory, the place of provision would be the location of the service receiver i.e. New Delhi. Place of provision being in the taxable territory, the service would be taxable in India.

By application of Rule 14, the later of the Rules i.e. Rule 8 would be applied to determine the place of provision.

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56. For the Ms Universe Contest planned to be held in South Africa, the Indian pageant (say, located in Mumbai) avails the services of Indian beauticians, fashion designers, videographers, and photographers. The service providers travel as part of the Indian pageant’s entourage to South Africa. Some of these services are in the nature of personalized services, for which the place of provision would normally be the location where performed (Performance rule-Rule 4), while for others, under the main rule (Receiver location) the place of provision would be the location of receiver.

Whereas, by application of Rule 8, since both the provider and the receiver are located in taxable territory, the place of provision would be the location of the service receiver i.e. New Delhi. Place of provision being in the taxable territory, the service would be taxable in India.

By application of Rule 15, the later of the Rules i.e. Rule 8 would be applied to determine the place of provision.

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57. A hotel provides a 4-D/3-N package with the facility of breakfast. This is a natural bundling of services in the ordinary course of business. The service of hotel accommodation gives the bundle the essential character and therefore, be treated as service of providing hotel accommodation.

- A 5 star hotel is booked for a conference of 100 delegates on a lump sum package with the following facilities:

1. Accommodation for the delegates
2. Breakfast for the delegates,
3. Tea and coffee during conference
4. Access to fitness room for the delegates
5. Availability of conference room
6. Business centre

As is evident a bouquet of services is being provided, many of them chargeable to different effective rates of tax. None of the individual constituents are able to provide the essential character of the service. However, if the service is described as convention service it is able to capture the entire essence of the package. Thus the service may be judged as convention service and chargeable to full rate. However it will be fully justifiable for the hotel to charge individually for the services as long as there is no attempt to offload the value of one service on to another service that is chargeable at a concessional rate.

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58. A house is given on rent one floor of which is to be used as residence and the other for housing a printing press. Such renting for two different purposes is not naturally bundled in the ordinary course of business. Therefore, if a single rent deed is executed it will be treated as a service comprising entirely of such service which attracts highest liability of service tax. In this case renting for use as residence is a negative list service while renting for non-residence use is chargeable to tax. Since the latter category attracts highest liability of service tax amongst the two services bundled together, the entire bundle would be treated as renting of commercial property.

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59. The services by the Reserve Bank of India, being the main service within the meaning of clause (b) of section 66D, does not include any agency service provided or agreed to be provided by any bank to the Reserve Bank of India. Such agency service, being input service, used by the Reserve Bank of India for providing the main service, for which the consideration by way of fee or commission or any other amount is received by the agent bank, does not get excluded from the levy of service tax by virtue of inclusion of the main service in clause (b) of the negative list in section 66D and hence, such service is leviable to service tax.'.

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60. US$1000 are sold by a customer at the rate of Rs.65 per US$.

Ans:		**Amt (Rs.)**
	RBI reference rate for US$ is Rs.65.50 at that time.	= 65.50
Less:	Selling rate by a customer	= 65.00

Difference (irrespective of Plus or Minus) = 0.50

The taxable value = Rs.500 (i.e. US $1000 x Rs.0.50)

Service Tax (Standard Rate) = Rs.72.50 (i.e. Rs.500 x 14.5%)

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61. INR70000 is changed into Great Britain Pound (GBP) and the exchange rate offered is Rs.70, thereby giving GBP 1000.

RBI reference rate for that currency at that time for GBP is Rs.69.

Ans: **Amt (Rs.)**

RBI reference rate for US$ is Rs.65.50 at that time. = 69

Less: selling rate by a customer = 70

Difference (irrespective of Plus or Minus) = 1.00

The taxable value = Rs.1000 (i.e. GBP1000 x Rs.1.00)

Service Tax (Standard Rate) = Rs.145.00 (i.e. Rs.1000 x 14.5%)

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62. INR70000 is changed into Great Britain Pound (GBP) and the exchange rate offered is Rs.70, thereby giving GBP 1000.

RBI reference rate for that currency at that time for GBP is not available.

Ans: The taxable value = Rs.700 (i.e. GBP1000 x Rs.70 x 1%)

Service Tax (Standard Rate) = Rs.101.50 (i.e. Rs.700 x 14.5%)

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63. US$ 1,000 is changed into UK £ 571 .4286 (i.e. 1 UK POUND = US$ 1.75).

RBI reference rate for that currency at that time for 1 US$ is Rs.45 and for 1 UK POUND = Rs.85

Ans:

Particulars	**Value in Rs.**	**Remarks**
US Dollars converted into RBI reference rate at that time of exchange	45,000	USD 1000 x Rs.45
UK Pounds converted into RBI reference rate at that time of exchange	48,571	UK £ 571.4286 x Rs.85

The lower of the above two currencies at RBI reference rate is Rs.45,000. Therefore, the taxable value is Rs.450 (i.e. Rs.45,000 x 1%)

Service Tax (Standard Rate) = Rs.65.25 (i.e. Rs.450 x 14.50%)

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64. Food King Pvt. Ltd. Supplies foods and beverages only.

(a) At a restaurant for Rs.11,250 (inclusive of VAT Rs.1,250) located at Mylapore, Chennai and

(b) Supplied food to Infosys company for Rs.22,500 (including of VAT Rs.2,500).

Find service tax liability?

Ans:

		Amt (Rs.)
i.	Value of service = 10,000 x 40%	= 4,000 (i.e. restaurant services)
ii.	Value of service = 20,000 x 60%	= 12,000 (i.e. Outdoor Catering services)
	Total Value of Services	= 16,000
	Service Tax 14.5% on 16,000	**= Rs.2,320**

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65. Reimbursement expenses can be viewed as Octroi or entry tax paid by carriage and freight forwarding agent on behalf of owner of goods, Customs duty by customs house agent on behalf of client, Advertisement charges paid by an advertising agency to newspaper on behalf of clients, Ticket charges paid by Travel Agent and recovered from his customer.

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66. X contracts with Y, a real estate agent to sell his house and thereupon Y gives an advertisement on television. Y billed X including charges for Television advertisement and paid service tax on the total consideration billed. In such a case, consideration for the service provided is what X pays to Y. Y does not act as an agent on behalf of X when obtaining the television advertisement even if the cost of television advertisement is mentioned separately in the invoice issued by Y. Advertising service is an input service for the estate agent in order to enable or facilitate him to perform his services as an estate agent.

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67. In the course of providing a taxable service, a service provider incurs costs such as traveling expenses, postage, telephone, etc., and may indicate these items separately on the invoice issued to the recipient of service. In such a case, the service provider is not acting as an agent of the recipient of service but procures such inputs or input service on his own account for providing the taxable service. Such expenses do not become reimbursable expenditure merely because they are indicated separately in the invoice issued by the service provider to the recipient of service.

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68. A contract with B, an architect, for building a house. During the course of providing the taxable service, B incurs expenses such as telephone charges, air travel tickets, hotel accommodation, etc., to enable him to effectively perform the provision of services to A. In such a case, in whatever form B recovers such expenditure from A, whether as a separately itemized expense or as part of an inclusive overall fee, service tax is payable on the total amount charged by B. Value of the taxable service for charging service tax is what A pays to B.

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69. A contract with B, an architect, for building a house. During the course of providing the taxable service, B incurs expenses such as telephone charges, air travel tickets, hotel accommodation, etc., to enable him to effectively perform the provision of services to A. In such a case, in whatever form B recovers such expenditure from A, whether as a separately itemized expense or as part of an inclusive overall fee, service tax is payable on the total amount charged by B. Value of the taxable service for charging service tax is what A pays to B.

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70. Company X provides a taxable service of rent-a-cab by providing chauffeur-driven cars for overseas visitors. The chauffeur is given a lump sum amount to cover his food and overnight accommodation and any other incidental expenses such as parking fees by the Company X during the tour. At the end of the tour, the chauffeur returns the balance of the amount with a statement of his expenses and the relevant bills.

Company X charges these amounts from the recipients of service. The cost incurred by the chauffeur and billed to the recipient of service constitutes part of gross amount charged for the provision of services by the company X. This sum is subject to service tax.

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71. In respect of delay payment charges recovered by the service provider is includable in the value of taxable service?

Ans: Vide CBEC LETTER 137/25/2011 dt.3.8.2011, it is clarified in the following manner:

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72. A mandap keeper lets out his premises to a contactor at market rates. The contractor then gave donation of Rs.20 lakhs to the mandap keeper as contribution to corpus of the mandap. This amount was not in relation to service of mandap provided by mandap keeper and hence will not attract service tax. ***CKP Mandal* v *CCE* (2006) (Bom. HC).**

However, in the above instance if the market rate is say Rs.5 lakhs and the service has been offered at Rs.2 lakhs, the difference between Rs.5 lakhs and Rs.2 lakhs i.e. Rs.3 lakhs will suffer service tax and the balance i.e. Rs.20 lakhs less Rs.3 lakhs will not suffer service tax. This is laid out in Service Tax (Determination of Value) Rules, 2006 which says that if any amount is received indirectly as part of consideration for the services rendered then such indirect consideration will form part of the value of taxable services.

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73. M/s Martin Pvt. Ltd. is a distributor or selling agent authorized by a State in India. Following is the details of lotteries of a distributor to be organized by the State.

Particulars	Lakhpati (Printed)	Crorepati (Online)
No. of tickets proposed	2,50,000	3,00,000
Face value of ticket	Rs.10 each	Rs.500 each
Guaranteed prize payout	@60%	@90%
No. of tickets sold	2,00,000	2,35,000

- Calculate the service tax under composition scheme as per Rule 6(7C).

Ans: ***Lakhpati lottery tickets - Printed***

No. of tickets proposed	2,50,000 tickets
Face value of ticket	Rs.10 each
Total face value	**Rs.25,00,000**
Guaranteed prize payout	@60%
Multiples of TEN lakhs or part of TEN lakhs (i.e.Rs.25,00,000 / Rs.10,00,000)	3 (i.e 2.5 = 3)
Service tax payable for every Rs.10 lakhs or part thereof	Rs.12,800
Total Service tax (subject to Cess) (i.e. 12,800 x 3)	***38400***

- ***Crorepati Lottery tickets - Online***

No. of tickets proposed	2,35,000 tickets
Face value of ticket	Rs.500 each

Total face value	**Rs.11,75,00,000**
Guaranteed prize payout	@90%
Multiples of TEN lakhs or part of TEN lakhs (i.e.Rs.11,75,00,000 / Rs.10,00,000)	118 (i.e 117.5 = 118)
Service tax payable for every Rs.10 lakhs or part thereof	Rs.8,200
Total Service tax (subject to Cess)	***9,67,600 (i.e. 118 x Rs.8,200)***

- ***Total service tax liability payable by M/s Martin Pvt. Ltd.***

Particulars	**Amt. (Rs.)**
Lakhpati lottery tickets - Printed	38400
Crorepati lottery tickets – Online	967600
Total	**1006000**

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74. Mr. X, an architect has received the fees of Rs.4,48,500 after the deduction of Income Tax of Rs.51,500. The Service Tax is payable on Rs.4,48,500 whether the statement is correct?

Ans: No, the service tax can be payable on value of services. Hence, the value of services is Rs.5,00,000 and the service tax @ 14.5% can be levied on Rs.5,00,000.

Hence, the service tax liability is Rs.63,319 (i.e. Rs.5,00,000 x 14.5/114.5)

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75. X Ltd. filed the ST-3 return on 30th November 2015 for the period from 1st April 2015 to 30th September 2015. Subsequently on 1st February 2016, some mistakes were found in the ST-3 return which was originally submitted on 30th November 2015. Service tax authorities rejected the revised return filed by the X Ltd. on 5th February, 2016, since the revised return was filed by the assessee after 90 days from the due date of filing the return (i.e. 25th October, 2015). Is the action of the department correct?

Ans: No, the department action is not sustainable in the eyes of law. As per Rule 7B of the Service Tax Rules, 1 994, the time limit of 90 days for filing of revised return counts only from the date of filing of the original return and not from the due date for filing of original return as contained in the Explanatory Notes. Therefore, X Ltd. can file revised return by 5th February, 2016.

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76. Sun Academy Pvt. Ltd., is providing commercial training services since, 2009. During the year 2014-15 service tax liability arises to pay was Rs.12,00,000. However, service tax paid was paid Rs.8 lacs after adjustment of CENVAT CREDIT of Rs.4 lacs. In the month of April 2015, 60 students were joined for pursing Point of Taxation Rules (from 1st April'15 to 10th April'15). Fee per student is Rs.3,000 (inclusive of Service tax) paid by all students the month of June 2015. Service Tax @14.5% paid on 5th july 2015. Calculate the following:

(a) Point of Taxation

(b) Due Date

(c) Service Tax liability

(d) Interest if any

Ans:

(a) Point of Taxation : April 2015

(b) Due Date : 6th May, 2015

(c) Service Tax liability : Rs.22,795 (i.e.3000 x 60 x 14.5/114.5)

(d) Interest if any : Rs.586 (i.e. 19,800 x 18/100 x 60/365)

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77. State briefly whether the following service under the Finance Act, 1994 relating to service tax are taxable service.

a) Service provided in the State of Rajasthan by a person having a place of business in the State of Jammu and Kashmir.

b) Service provided from India for use outside India

c) Service provided from outside India and received in India by Individual otherwise than purpose of use in business or commerce.

d) Service provided to an Export Oriented Unit

Ans:

a) These are taxable services. Services rendered within India (except in the state of **J & K**) are come under the service tax net, provided these services are taxable services.

b) These services can be considered as export of services, which are exempted from the service tax liability.

c) Services in the nature of import are taxable if these are imported for the purpose of business or commerce. Services imported for the purpose of personal use by individuals are exempted from service tax.

d) Service provided to export oriented undertaking is liable to service tax. Service rendered to EOU or supplies of services by EOU in domestic market is not presently exempt from service tax.

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78. Answer the following with reference to the Finance Act, 1994 as amended relating to applicability of service tax:

Service provided by educational institutions like IIM by charging a fee from prospective employers like corporate houses regarding recruiting candidates through campus interviews.

Ans: Manpower recruitment or supply agency is defined as 'any person engaged in providing any service, directly or indirectly, in any manner for recruitment or supply of manpower, temporarily or otherwise, to a client.

Educational institutes like IITs, IIMs etc. fall within the above definition. Thus, service tax is liable to be paid on services provided by such institutes in relation to campus recruitment.

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79. Answer the following:

a) A particular service has been brought into service tax net with effect from 1-5-2015. Mr. Vignesh has provided this service on 10-05-2015 and invoice has been issued on the same date. The payment for the same was received on 30-4-2015. Is service tax payable on the same?

b) Mr. Saravanan has collected Rs.15,000 as service tax from a client mistakenly, even though no service tax is chargeable for such service. Should the amount so collected be remitted to the credit of the Central Government?

c) Briefly explain the nature of the service tax

Ans:

a) As per Rule 5(b) of the Point of Taxation Rules, 2011, no tax shall be payable if the payment has been received before the service becomes taxable and invoice has been issued within the period referred to in rule 4A of the Service Tax Rules, 1994.

As per rule 4A of the Service Tax Rules, 1994, an invoice is required to be issued within 30 days from the date of completion of service or from the date of receipt of any payment of taxable service, whichever is earlier.

In the given case, Mr. Vignesh is not liable to pay service tax.

b) Section 73A of the Finance Act, 1994 casts an obligation on every person who has collected service tax from any recipient of service in any manner as service tax, to remit the same to the credit of the Central Government. On account of this provision, where any person has collected any amount, which is not required to be collected from any other person, in any manner as representing service tax, he should also immediately pay the amount so collected to the credit of the Central Govt.

Hence, Mr. Saravanan has to remit the service tax collected by him on the non taxable services to the credit of Central Government of India.

c) Section 70 of the Finance Act, 1994 enjoins that every person liable to pay service tax shall himself assess the tax due on the services provided by him and shall furnish a return to the Superintendent of Central Excise.

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80. Ms. P rendered taxable services to a client. A bill of Rs.40,000 were raised on 29-4-2015. Rs.15,000 were received from the client on 1-5-2015 and the balance on 23-5-2015. No service tax was separately charged in the bill.

a) Is Ms. P liable to pay service tax, even though the same has not been charged by her?

b) If so, what is the value of taxable services and the service tax?

c) Due date of payment of service tax?

Note: previous year turnover is Rs.25 lakhs

Ans:

a) Ms. P is liable to pay service tax even though she has not collected the service tax from his client, by considering the service tax is inclusive in the value of the bill. The point of taxation is 29-4-15. It means she is liable to pay service tax for the month of April, 2015.

b) Service tax liability is as follows:

<u>Value of taxable services</u> = 40,000 x 100/114.5 = Rs.34,934

<u>Service tax liability</u> = 34,934 x 14.5/100 = Rs.5,066

c) Due date of payment of service tax is 6th July 2015.

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81. Mr. Vasudevan is a practicing Cost Accountant, has rendered freely, a service to a client which is taxable, but has not charged or received any fee from a client. Is service tax payable on such free services?

Ans: Service tax is payable when services are provided for consideration as per Section 67 of the Finance Act, 1994. Moreover the charging section 66 provides that service tax is chargeable on the value of taxable service. Hence, if the value is Free no service tax is payable even though the service may be taxable. However, this principle applies only when there is really a ‘free service’ and not when its cost is recovered through different means.

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82. Mr. Harish, a consulting engineer raised a bill of Rs.2,20,600 (including service tax @14.5%) on his client for consulting services rendered by him in the month of June, 2015. A partial payment of Rs.1,65,450 was received by Mr. Harish in the month of September 2015 as full and final settlement. Compute the service tax amount payable by Mr. Harish and the due date by which service tax can be deposited. Previous year taxable services are Rs.74 lakhs.

Ans: Service tax is payable only on the basis of point of taxation rules. Hence, service tax is required to be paid on the entire bill value. The service tax is required to be paid on the value of service which is actually billed in the month of June 2015.

Value of taxable services (Rs.2,20,600 x 100/114.5)	= Rs.1,92,664
Service tax payable on Rs.1,92,664 @ 14.5%	= Rs.27,936
Total	**= Rs.2,20,600**

Therefore, service tax payable to the government Rs.27,936.

Due dates of payment of service tax is quarterly for an individual. Therefore, due date is on or before 6th July 2015.

- **Tax Deduction at Source**

83. A Ltd. provided Information Technology & Software services to B Ltd. in the month of July 2015. A bill inclusive of Service Tax issued in the month of July 2015. B Ltd paid Rs.24,81,750 (after deducting TDS under sec 1 94J of the Income Tax Act, 1961 @10% towards TDS) in the month of August, 2015. You are required to calculate:

(a) Service tax liability

(b) Due date of payment of service tax.

Ans:		**Amount** (Rs.)	
a)	Net payment received	= 24,81,750	= 90%
	TDS @ 10%	= 2,75,750	= 10%
	Total bill value	**= 27,57,000**	**= 100%**

- Service tax liability = Rs.27,57,500 x 14.5/114.5 = 3,49,203

b) Due date of payment of service tax in case of electronically payment through interest banking is on or before 6th of August 2015. Due date of payment of service tax in case of other than e-payment is on or before 5th August 2015.

- **Interest**

84. Mr. X practicing Chartered Accountant received Rs.20,00,000 in the June 2015. He paid service tax on 26th July 2015 by way of e-payment. Gross receipts in the year 2014-15 were Rs.25 lakhs.

You are required to calculate Interest on delay payment of service tax.

Ans: Service tax @14.5% on Rs.20,00,000 = Rs.2,90,000.

Due date of payment of service tax = 6th July, 2012.

No. of days delay = 20 days

Interest = Rs.2,384 (i.e.Rs.2,90,000 x 15/100 x 20/365)

85. What is the rate of interest for late filing of return (i.e. V Form ST-3)?

Ans: No interest will be levied in case of late filing of return Form ST-3.

Interest for Delayed Payment of Service Tax.

86. X Ltd. is liable to pay service tax of Rs.1,00,000 on or before 6th July 2015 but he paid it on 16th July 2015. What is the penalty for non-payment or delayed payment of service tax?

Can this penalty be waived or reduced?

Ans:

1) Where service tax has not been levied or paid, or has been short-levied or short-paid or erroneously refunded, for any reason, other than the reason of fraud or collusion or wilful mis-statement or suppression of facts or contravention of any of the provisions of this Chapter or of the rules made thereunder with the intent to evade payment of service tax, the person who has been served notice u/s 73(1) shall, in addition the service tax and interest specified in the notice, be also liable to pay a penalty not exceeding ten per cent of the amount of such service tax:

   Provided that where service tax and interest is paid within a period of thirty days of –

   i. the date of service of notice under sub-section (1) of section 73, no penalty shall be payable and proceedings in respect of such service tax and interest shall be deemed to have been concluded;

   ii. the date of receipt of the order of the Central Excise Officer determining the amount of service tax under sub-section (2) of section 73, the penalty payable shall be twenty-five per cent of the penalty imposed in that order, only if such reduced penalty is also paid within such period.

2) Where the amount of penalty is increased by the Commissioner (Appeals), the Appellate Tribunal or the court, as the case may be, over the above the amount as determined under sub-section (2) of section 73, the time within which the reduced penalty is payable under clause (ii) of the proviso to sub-section (1) in relation to such increased amount of penalty shall be counted from the date of the order of the Commissioner (Appeals), the Appellate Tribunal or the court, as the case may be.]

87. SM Ltd. filed its service tax returns for the half years ending on September 2014 and March 2015 on 25-11-2014 and 31-7-2015. The two half yearly returns show a service tax liability of Rs.2,00,000 and Rs.1,00,000 respectively. Is any late fee/fine payable by SM Ltd.? If yes, what is the quantum of such fee in both the cases?

Will your answer be different if SM Ltd. files a Nil return for the half year ending on Sept. 2014?

Ans: Form ST-3 half yearly – due dates
25th October for the first half year ending 30th September

25th April for the second half year ending 31st March

Actual No. of days delay for the first half year return = 31 days (Oct 6 days + Nov 25 days)

Therefore, penalty is Rs.1,100

Actual No. of days delay for the 2nd half year return = 97 days (5 days+31 days+30 days+31 days)

Upto 30 days of delay Rs.1,000 plus Rs.100 per day of delay subject to maximum of Rs.20,000 (w.e.f. 8-4- 2011) Therefore, penalty is Rs.7,700.

Adjudication, Penalties And Appeals In Indirect Taxes

1. B Ltd. was engaged in the manufacture of lead and zinc concentrates. At the time of carrying out the physical stock taking, some difference was found between the physically verified stock and the stock as per the books. According to B Ltd., this difference was due to de-bagging, shifting of concentrates, seepage of rain water and storage and loading on trucks. B Ltd. applied for the remission of duty under rule 21 of the Central Excise Rules, 2002. Revenue claimed that the shortage could have been avoided or minimized by the assessee, as they were neither due to natural causes, nor due to unavoidable accident. Thus, the prayer for remission was declined.

Ans: In the case of **UOI v Hindustan Zinc Limited 2009 (233) ELT 61 (Raj)**, the High court said that Revenue's claim is not valid in law. B Ltd can get benefit under Rule 21 of the Central Excise Rules 2002.

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2. Mr. X, paid the duty for the month of June 2015 on 15th July 2015. Hence, the interest @18% p.a. is calculated on the amount of duty for 10 days of delay (i.e. due date is 5th July 2015).

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3. Mr. Y, paid the duty for the month of June 2015 on 5th July for Rs.10,300. It was found by the department officer, the actual amount of duty is Rs.15,450 for the June 2015. Hence, the interest @18% p.a. is calculated on the amount of duty which is short paid from the 1st day of the month following the month in which the duty ought to have been paid, till the date of payment. It means delay number of days count start from 6th July 2015 upto the date of actual payment.

   Interest @18% p.a. is payable from 6th July 2015 upto the date of payment.

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4. X Ltd. manufactured and sold goods to its buyer by collecting excise duty. Subsequently X Ltd. claimed refund of excise duty for the same transaction. Hence, such refund of duty to the manufacturer will amount to excess and un-deserved profit. This is called as 'Unjust Enrichment'

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5. Y Ltd. collected the excise duty and not remitted to the department of Excise. This is known as 'Unjust Enrichment'

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6. Z Ltd. claimed the Cenvat credit of excise duty and duty drawback. This is called as 'Unjust Enrichment'.

   Where refund is due (i.e. Unjust Enrichment) it should be transferred to a Consumer Welfare Fund instead of paying it to the assessee. Thereby, provisions in respect of 'Unjust Enrichment' were incorporated under Central Excise Act, 1944 which will be applicable even for Service Tax and Customs duty.

   Refund of Duty and interest (Section 11B of Central Excise Act, 1944)

a) The assessee can claim the refund of duty if due to him along with interest (w.e.f. 10.05.2008).

b) The refund should be filed in form 'R' in duplicate in the office of Assistant Commissioner of Central Excise or Deputy Commissioner of Central Excise.

c) Application for refund should be made within ONE year from the relevant date. Time limit not applicable in the following cases:—

i. duty paid by the assessee under protest

ii. in case of appeal, order is decided in favour of assessee then the time limit of one year not applicable.

d) The relevant date of one year count starts from the date of order.

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7. The assessee had paid excess amount of interest under section 11AA of Central Excise Act, 1944. Consequently, a refund claim for the said interest was filed by the assessee under section 11B. The Department objected to the refund claim on the ground that section 11B merely provides for refund of duty paid erroneously and not interest.

Ans: As per the decision of the High Court, the payment of interest is automatic with payment of duty in case of delayed payment of duty and in case of delayed payment of refund of duty.Therefore payment of interest cannot be excluded from provisions of section 11B merely because it uses the expression of 'refund of duty' **[*CCEx.* v *Northern Minerals Ltd.* 2007 (216) ELT 198 (P&H)]**

8. The assessee had never applied for revision of classification and once the classification is finalized and duty is paid accordingly, unless and until such classification is challenged and/or disturbed, it is not possible for the assessee to make refund claim based on some order passed by the Appellate authority in other case. Such order cannot universally be applied without going into facts of the case. Therefore, in the given case refund of duty is not allowed to the assessee- Wood Polymer Limited 2010 (H.C.).

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9. Greenview Technologies Ltd. has paid excess amount of interest under section 11AA of Central Excise Act, 1944. Consequently, a refund claim for the said interest was filed by Greenview Technologies Ltd. under section 11B. The Department raised the objection to the refund claim on the ground that section 11B merely provides for refund of duty paid erroneously and not the interest. Do you think that the objection raised by the Department is valid in law?

Ans: The provision applicable for refund of duty extended to refund of interest with effect from 10th May 2008. Hence, application for refund of duty has to be made by the assessee within one year from the relevant date to the Assistant or Deputy Commissioner of Central Excise. Therefore Greenview Technologies Ltd is eligible to claim refund of interest along with duty. Department view is not valid.

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10. X Ltd. received a protective demand notice from the department on 18.12.2015 under Section 11A of the Central Excise Act, 1944 where the duty demanded is Rs.5,00,000, in addition to interest of Rs.10,000 and Penalty of Rs.1,00,000. The assessee went for appeal and filed the case in the Commissioner (Appeals) on 18.01.2016. Subsequently on 30.03.2016, the Commissioner (Appeals) decided the case in favour of the assessee. The Committee of Commissioners can delegate the authority to the department officers to go for further appeal on its behalf to the Appellate Tribunal (CESTAT) against such order.

Ans: As per the Central Board of Excise and Customs (CBE&C) instructions (vide F.No. 390/Misc./163/ 2010- JC dated 17-8-2011), in a case involving duty below Rs.10,00,000, no appeal shall henceforth (i.e. w.e.f. 17-12-2015) be filed in the Tribunal (CESTAT).

Hence, in the given case, no appeal shall henceforth be filed in the Tribunal as the duty involved is below the monetary limit of Rs.10,00,000.

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11. The CESTAT passed its order on 01.01.2015. The assessee filed the application for rectification of a mistake apparent from the record in the said order on 23.05.2015. However, the Tribunal could not dispose of the application till 30.06.2015. Thereafter, the Tribunal rejected the application on the ground that the six months period had lapsed. Do you think that the stand taken by the Tribunal is valid in law?

Ans: The assessee has filed the application for rectification of mistake apparent from the record within six month from the date of passing the original order. Hence, it is apparent that Tribunal is not justified in rejecting the application on the ground that the six months period has lapsed as the application had been filed before the expiry of SIX months. ***Sree Ayyangar Spg & Wvg Mills Ltd.* v *CIT* 2008 (229) ELT 164 (SC).**

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12. The High Court held that in a case of confiscation of goods because of their under valuation, Tribunal could not cancel the confiscation order for want of evidence from the foreign supplier.

***CCus.* v *Jaya Singh Vijaya Jhaveri* 2010 (251) ELT 38 (Ker).**

An order passed by CESTAT based on consent and the matter was remanded at the instance of Revenue, then Revenue could not pursue an appeal against such order in a higher forum.

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13. The Tribunal had remanded the matter in order to re-compute the duty payable by the assessee on the basis of representation of Revenue. Thereafter, the Revenue filed an appeal against the said order. The assessee contended that the appeal filed by the Revenue was not maintainable since the order had been passed by the Tribunal on the submission of the representative of the Revenue. Further, since it is a consent order, no appeal would lie. Hence, the High Court held that an appeal against the consent order cannot be filed by the Revenue **(*CCus* v *Trilux Electronics* 2010 (253) ELT 367 (Kar).**

State Level VAT

1. Mr. X commenced business with effect from 1st July, 2008 for buying and selling automobile parts within the state of Tamil Nadu. His turnover exceeds Rs.10 lakhs in the month of 1st of December, 2008 then he has to get register within 30 days from the date of crossing the threshold limit of Rs.10 lakhs.

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2. Special rate of tax will be levied on a few commodities in Schedule VI to the APVAT Act, like Liquor, petrol other than aviation motor sprit, Aviation motor sprit, Aviation turbine fuel, Diesel.

i. Every commission agent, broker, del-credere agent, auctioneer or any other mercantile agent by whatever name called, who carries on the business of buying, selling, supplying or distributing goods on behalf of his non-resident principal.

ii. Every person availing an industrial incentive in the form of a tax holiday or tax deferment.

iii. Very dealer executing any works contract exceeding Rs.5 lakhs for the State Government or a local authority and any dealer executing works contract and opting to pay tax by way of composition.

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3. Mr. Amit the owner of a restaurant selling food. He opted to pay the VAT by way of composition of tax. For January, 2016, his total sales was Rs.1,50,000. He also purchased the input material after payment of VAT of Rs.3,000.

The net VAT payable is as follows:

Particulars	Amount (Rs.)
Output tax payable = Rs.1,50,000 × 60% × 12.5%	11,250
Less: Input Tax Credit	Nil
VAT Payable	**11,250**

---

4. M/s Fin Finance Ltd. purchased equipment on 1.7.2015 from a vendor for Rs.100 lakhs (exclusive of VAT @5%) on behalf of a dealer for giving on lease. The deemed sale Price of such goods is Rs.1,20,00,000 (principal amount), taxable @5% of VAT and interest for the lease period is Rs.30,00,000. The lease term covers substantially the whole useful life of the equipment. Assume input tax credit on purchased equipment is fully allowed in the first year.

Find VAT payable by M/s Fin Finance Ltd.

Ans:

Sr. No.	Particular	Amount (Rs.)
	VAT on deemed sale @5% x Rs.120 lakhs	600000
Less:	Input tax credit Rs.100 lakhs x 5%	-500000
	Net VAT liability	**100000**

- **Note:** the interest of Rs.30 lakhs will be subject to service tax with an abatement of 90%.

---

5. Purchases by A & Co. for the month of December 2015 are as follows:

(1) Rs.1,00,000 at 5% Vat

(2) Rs.5,00,000 at 13.5% Vat.

Sales of A & Co. for the month of December 2015 are as follows:

(1) Sales of Rs.3,00,000 at 5% Vat

(2) Sales of Rs.3,00,000 at 13.5% Vat

- Compute eligible inputs tax credit and Vat payable for the month.

Ans: Statement showing VAT payable on sales

Sr. No.	Particulars	Value (Rs.)	VAT (Rs.)
	5% VAT Sales	300000	15000
Add:	13.5% VAT Sales	300000	40500
	Total	**600000**	**55500**

Eligible input tax credit is Rs.55,500

- Statement showing VAT Input tax credit

Sr. No.	Particular	Value (Rs.)	VAT (Rs.)
	5% VAT Sales	100000	5000
Add:	13.5% VAT Sales	500000	67500
	Total	**600000**	**72500**

- Excess Input Tax Credit (ITC) carried forward into next month:

VAT payable on Sales = Rs.55,500

Less: ITC = Rs.72,500

Excess ITC = Rs.17,000

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6. Compute the VAT amount payable by Mr. A who purchases goods from a manufacturer on payment of Rs.2,27,000 (including VAT) and earn 10% profit on cost to retailers? VAT rate on purchase and sale is 13.50%.

Ans: Cost of purchases Rs.2,27,000 x 100/113.5 = Rs.2,00,000

Add: Profit Rs.2,00,000 x 10% = Rs.20,000

Taxable Turnover = Rs.2,20,000

- **Net VAT Tax liability**

VAT payable on Sales Rs.2,20,000 x 13.5% = Rs.29,700

Less: ITC Rs.2,27,000 x 13.5/113.5 = Rs.27,000

Net VAT Liability = Rs.2,700

---

7. Calculate the total VAT liability under the State VAT law for the month of October 2015 from the following particulars:

Particulars	**Amt (Rs.)**
Inputs purchased within the state	1,70,000
Capital goods used in the manufacture of the taxable goods	50,000
Finished goods sold within the state	2,00,000

Applicable tax rates are as follows:-

VAT rate on capital goods 13.5%

Input tax rate within the state 13.5%

Output tax rate within the state 5%

Ans: Input Tax Credit available = (1,70,000 + 50,000) x 13.50% = Rs.29,700

Less: Output Tax payable on sales = 2,00,000 x 5% = Rs.10,000

Excess of credit can be carried forward into next month = Rs.19,700

---

8. Compute the VAT liability of Mr. X for the month of January 2015, using 'invoice method' of computation of VAT, from the following particulars:

Particulars

Purchase price of the inputs purchased from the local market (inclusive of VAT) Rs.52,500

VAT rate on purchases 5%

Storage cost incurred Rs.2,000

Transportation cost Rs.8,000

Goods sold at a profit margin of 5% on cost of such goods

VAT rate on sales 13.5%

Ans: Cost of Purchases = Rs.52,500 x 100/105 = Rs.50,000

Add: Storage cost and transportation cost = Rs.10,000

Total cost = Rs.60,000

Addl profit 5% on Cost (Rs.60,000 x 5%) = Rs.3,000

Taxable Turnover = Rs.63,000

Add; VAT on Taxable Turnover (Rs.63,000 x 13.50%) = Rs.8,505

- **Net VAT Tax liability**

VAT payable on Sales = Rs.8,505

Less: ITC (Rs.52,500 – Rs.50,000) = Rs.2,500

Net VAT payable = Rs.6,005

Net VAT liability payable by Mr. X for the month of Jan 2016 = Rs.6,005

---

9. Mr. X, a manufacturer sells goods to Mr. B, a distributor for Rs.2,000 (excluding of VAT). Mr. B sells goods to Mr. K, a wholesale dealer for Rs.2,400. The wholesale dealer sells the goods to a retailer for Rs.3,000, who ultimately sells to the consumers for Rs.4,000.

Compute the Tax Liability, input credit availed and tax payable by the manufacturer, distributor, wholesale dealer and retailer under Invoice method assuming VAT rate @ 13.5%

Ans: (Invoice Method)

Particulars	**Amount (Rs.)**	**VAT Liability** (Rs.)	**VAT Credit** (Rs.)	**TAX to Government** (Rs.)
Mr. X sold to Mr. B				
Taxable turnover @13.50%	2000	270	-	270
Mr. B sold to Mr. K	2400	324	270	54
Mr. K sold to Retailer	3000	405	324	81
Retail sold to consumer	4000	540	405	135

- **Note:** Total VAT paid into the credit of Government (i.e. from the Manufacturer to Consumer) is Rs.540/- (i.e. Rs.270 + 54 + 81 + 135).

10. Mr. Y dealer, purchases goods for Rs.2,50,000 (exclusive of VAT). He incurs Rs.35,000 on the goods and sells them at a profit of Rs.15,000. Compute the invoice value to be charged and amount of tax payable under VAT. The rate of VAT on purchases and sales is 5%.

Ans: Computation of invoice value

	Particulars	Rs.
	Cost of goods purchased	2,50,000
Add:	Expenses	35,000
	Profit margin	**15,000**
	Taxable turnover	3,00,000
Add:	VAT @ 5% on Rs.3,00,000	15,000
	Invoice Value	**3,15,000**

- Computation of amount of tax payable under VAT

	VAT payable on sales	15,000
Less:	Input credit of VAT paid on purchases @ 5% on 2,50,000	(12,500)
	Tax Payable under VAT	**2,500**

---

11. Mr. X is regularly paying excise duty and value added tax on his manufacturing and sales activities respectively. He seeks your advice while calculating the Value Added Tax on sales as well as net VAT liability from the following information:

Purchases from local market (VAT inclusive of @13.5%) Rs.1,41,875.
Manufacturing expenses is Rs.75,000.
Profit on Cost @ 80%.
Excise Duty @12.5%
Output VAT @13.5%

Ans:	Cost of Purchases	1,25,000	(i.e. Rs.1,41,875 x 100/113.5)
Add:	Manufacturing expenses	75,000	
	Total cost	**2,00,000**	
Add:	Profit @80% on cost	1,60,000	(i.e. Rs.2,00,000 x 80/100)
	Assessable Value	**3,60,000**	
Add:	Excise Duty	45,000	(i.e. Rs.3,60,000 x 12.5/100)
	Taxable Turnover	**4,05,000**	
Add:	VAT	54,675	(i.e. Rs.4,05,000 x 13.50%/100)
	Aggregate Sales	**4,59,675**	
	Value Added Tax payable	54,675	
Less:	Input Tax Credit	16,875	
	Net Value Tax Payable	**37,800**	

---

12. Mr. G, a trader selling raw materials to a manufacturer of finished products. He imports his stock in trade as well as purchases the same from the local markets.

Following transactions took place during financial year 2015-16. Calculate the VAT and invoice value charged by him to a manufacturer.

Assume the rate of VAT @ 13.50%:

Cost of imported materials (from other State) excluding tax 1,00,000

Cost of local materials including VAT 2,27,000

Other expenditure includes storage, transport, interest and loading and unloading and profit earned by him 87,500

Ans:

Cost of Imported material from other states	Rs.1,00,000
Cost of local material Rs.2,27,000 x 100/113.50	Rs.2,00,000
Cost of other expenditure and profit	Rs.87,500
Taxable Turnover	**Rs.3,87,500**
VAT payable on sales	Rs.52,313
Invoice Value or Sale Value	**Rs.4,39,813**

Net VAT payable by Mr. G is Rs.25,313 (i.e. Rs.52,313 – Rs.27,000)

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13. R Ltd. of Gujarat made total purchases of input and capital goods for Rs.65,00,000 during the month of January 2016. The following further information are as follows:

a) Goods worth Rs.25,00,000 were purchased from Tamil Nadu on which C.S.T @2% was paid.

b) The purchase made in January 2016 includes goods purchased from un-registered dealers amounting to Rs.18,50,000.

c) It purchased capital goods for Rs.6,50,000 (not eligible for Input Tax Credit) and those eligiblefor input tax credit for Rs.9,00,000.

Sales made in the state of Gujarat for Rs.10,00,000 on which VAT @13.50% during the month of January 2016. All purchases are exclusive of tax and VAT on purchases @5%. Calculate net VAT liability.

Note: Credit on capital goods is available in 36 equal monthly installments.

Ans:	Total Purchases in the month of January, 2016	= Rs.65,00,000
Less:	Interstate purchases	= Rs.(25,00,000)
	Purchases from unregistered dealer	= Rs.(18,50,000)
	Capital goods for which no ITC	= Rs.(6,50,000)
	Total Purchases eligible for input tax credit	**= Rs.15,00 000**
Less:	Purchases (capital goods) eligible for input tax credit	= Rs.(9,00,000)
	Purchases (other than capital goods) eligible for ITC	**= Rs.6,00,000**

• ITC on capital goods Rs.9 lacs x 5% x 1/36	= Rs.1,250
ITC on input goods Rs.6 lacs x 5%	= Rs.30,000
Total ITC	**= Rs.31,250**

•	VAT payable on sales Rs.10 lacs x 13.5%	= Rs.1,35,000
Less:	Input Tax Credit (ITC) receivable	= Rs.(31,250)
	Net VAT payable	**= Rs.1,03,750**

---

14. Compute the net VAT liability from the following information:-

Particulars	Amt(Rs.)
Raw material purchased from foreign market (including duty paid on imports @ 20%)	12,000
Raw material purchased from local market (including VAT charged on the material @5%)	21,000
Raw material purchased from neighbouring state (including CST paid on purchases @ 2%)	7,140
Storage, transportation cost and interest	2,500
Other manufacturing expenses incurred	600

The goods are sold at 10% profit on cost of production. VAT rate on sale of such goods is 13.5%.

	Particulars	Amt.(Rs.)
Ans:	Raw material purchased from foreign market	12,000
Add:	Raw material purchased from local market (21,000-1,000)	20,000
	[Rs.21,000 x 5/105 = Rs.1,000]	
	Raw material purchased from neighbouring state	7,140
	Storage, transportation cost and interest	2,500
	Other manufacturing expenses incurred	600
	Cost of production	**42,240**
Add:	Profit @10% on Rs.42,240	4,224
	Sale Price	**46,464**
	VAT @ 13.5% x 46,464	6,273

• Computation of VAT liability:-

	VAT on sale price	6,273
Less:	Input tax credit on purchases	1,000
	Net VAT payable	**5,273**

---

15. Compute net VAT liability of Mr. Ram from the following information:

	Particulars	Amt (Rs.)	Amt (Rs.)
	Raw material from the foreign market		120000
	(Including duty paid on imports @20%)		
	Raw material purchased from local market		
	Cost of material	250000	

Add:	Excise duty 12.5%	31250	
	Total	**281250**	
Add:	VAT @4%	11250	292500
	Raw material purchase from neighboring State (includes CST @2%)		51000
	Storage and transportation cost		9000
	Manufacturing expenses		30000

Mr. Ram sold goods to Mohan and earned profit @12% on cost of production.

VAT rate on sale of such goods is 5%.

Ans: Statement showing net VAT liability of Mr. Ram

	Raw material from the foreign market	= Rs.1,20,000
	Raw material from local market	= Rs.2,81,250
	Raw material from neighboring State	= Rs.51,000
	Storage and transport cost	= Rs.9,000
	Manufacturing expenses	= Rs.30,000
	Cost of production	**= Rs.4,91,250**
Add:	Profit @12% on cost of production	= Rs.58,950
	Taxable turnover	**= Rs.5,50,200**
Add:	VAT @ 5% on taxable turnover	= Rs.27,510
	Sale value	**= Rs.5,77,710**
•	VAT payable on sales	= Rs.27,510
Less:	ITC on purchases	= Rs.11,250
	Net VAT liability	**= Rs.16,260**

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16. Mr. Raj is a registered dealer and gives the following information. You are required to compute the net tax liability and total sales under the VAT from the following information.

Raj sells his products to dealers in his state and other states as well.

The profit margin in 15% of cost of production and VAT rate of sales is 13.5% of sales.

a) Intra state purchase of raw material is Rs.2,50,000 (excluding VAT of 5%)

b) Purchase of raw material from an unregistered dealer Rs.80,000 (including VAT of 13.5%)

c) Import of raw material Rs.1,85,000 (excluding custom duty of 10%

d) Purchase of raw material from other state Rs.50,000 (excluding CST of 2%)

e) Transportation charges, wages and other manufacturing expenses excluding tax Rs.1,45,000

f) Interest on bank loan Rs.1,60,000

Ans:

- Statement showing net VAT liability and total sales for Mr. Raj

	Particulars	**Amt(Rs.)**
	Intra state purchases	2,50,000
	Raw material purchased from unregistered dealer including VAT	80,000
	Import of raw material (including customs duty)	2,03,500
	Purchase of raw material from other states (including CST)	51,000
	Transportation charges, wages etc.	1,45,000
	Total cost of production	**7,29,500**
Add:	Profit @15%	1,09,425
	Taxable turnover	**8,38,925**
Add:	VAT @ 13.5%	1,13,255
	Sales	**9,52,180**

Net VAT liability is Rs.1,00,755 (i.e. Rs.1,13,255 – Rs.12,500)

- **Taxable as Well as Exempted Turnover:**

17. Mr. Y, a dealer in Mumbai dealing in consumer goods, submits the following information pertaining to the Month of March, 2016.

a) Exempt goods 'P' purchased for Rs.2,00,000 and sold for Rs.2,50,000.

b) Goods 'Q' purchased for Rs.2,27,000 (including VAT) and sold at a margin of 10% profit on purchases (VAT rate 13.5%);

c) Goods 'R' purchased for Rs.1,00,000 (excluding VAT) and sold for Rs.1,50,000 (VAT rate 5%);

d) His unutilized balance in VAT input credit on 1.3.2016 was Rs.1,500.

Compute the turnover, Input VAT, Output VAT and Net VAT payable by Mr. Y.

Ans: Net VAT liability payable by Mr. Y

	VAT payable	Rs.37,200 (2,00,000 × 110% × 13.5% + 1,50,000×5%)	
Less:	Input Tax Credit		
	Opening balance	Rs.1,500	
	During the month (5,000+27,000)	Rs.32,000	Rs.33,500
	Net VAT payable		**Rs.3,700**

- **Works Contract**

18. Determine the taxable turnover, input tax credit and net VAT payable by a works contractor from the details given below on the assumption that the contractor maintains sufficient records to quantify the labour charges. Assume output VAT at 13.5%:

a) Total contract price (excluding VAT) 100

b) Labour charges paid for execution of the contract 35

c) Cost of consumables used not involving transfer of property in goods 5

d) Material purchased and used for the contract taxable at 13.5% VAT (VAT included) 45.40

The contractor also purchased a plant for use in the contract for Rs.10.5 lakhs. In the VAT invoice relating to the same VAT was charged at 5% separately and the said amount of Rs.10.5 lakhs is inclusive of VAT. Assume 100% input credit on capital goods.

Make suitable assumption wherever required and show the working notes.

Ans:		**Rs.lakhs**
	Total contract price (excluding VAT)	100.00
Less:	Labour charges paid for execution of the contract	(35.00)
Less:	Cost of consumables used not involving transfer of property in goods	(5.00)
	Taxable Turnover	**60.00**
•	VAT @13.50% on Rs.60 lakhs	8.10
Less:	ITC Rs.45.40 lakhs x 13.50/113.50	(5.40)
Less:	ITC Rs.10.50 lakhs x 5/105	(0.50)
	Net VAT payable	**2.20**

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19. Compute the purchases eligible for availing input tax credit from the following particulars:-

	Purchases	**Amt**(Rs.)
	Goods for resale within the State	10,000
	Capital goods required for the purpose of the	
	Manufacture or resale of taxable goods	14,000
	Goods purchased from the unregistered dealer	3,200
	Goods which are being utilized in the manufacture of exempted goods	6,600
	High seas purchases	2,300
Ans:	Goods for resale within the State	10,000
	Capital goods required for the purpose of the	
	Manufacture or resale of taxable goods	14,000
	Eligibile input tax Credit	**24,000**

Central Sales Tax, 1956

1. (a) Temples sell prasadam which is an ancillary activity. However, the main activity of temples is not business. Hence, sale of prasadams cannot be taxed. ***(Tirumala Tirupathi Devasthanam Case)***.

(b) The sale of assets by bank for realisation of loans (an ancillary activity) cannot be taxed as the main activity of bank is not business (trade, commerce, manufacture etc.) ***(Canara Bank Case)***

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2. 'Central Government can become a dealer, but the State Government cannot - is the statement correct? Give reasons.

Ans:

a) The statement is not correct. According to Explanation 2 under Sec 2(b), "a Government which, whether or not the course of business buys, sells, supplies or distributes goods……shall….. be deemed to be a dealer for the purposes of CST Act',

b) The word used is 'Government' and not Central Government,

c) No distinction is sought to be made between Central Government and State Government,

Hence every government, be it Central or State, buying/selling goods will be deemed to be a dealer.

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3. Arun sells his land along with the standing crops and trees for Rs.20 lakhs. Sales tax officer wants to assess for sales tax the value of standing crops and trees. Comment.

Ans:

a) What is sold is land along with standing crops and trees.

b) The sale does not pertain to the latter alone in which case they are uprooted and removed. Consequently, they become goods.

c) In the instant case, the standing crops and trees are immovable.

d) They are not goods and hence do not attract sales tax.

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4. Are sale of bundles of old newspapers as waste papers exempt from CST?

Ans: As per section 2(d), goods do not include 'news paper'.

In *Sait Rikhaji Furtarnal Vs State of AP*, the Supreme Court held that when old newspapers are sold as newspapers, they are only in the character of newspapers and they are not goods.

However, when the newspapers are sold as waste papers, they are not newspapers and hence they are goods. Therefore, sale of bundles of old newspapers as waste papers is taxable. ***(The Hindu vs. State of Tamil Nadu)***

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5. Is transfer of property in goods without consideration chargeable to CST?

Ans: Sale u/s 2(g) means transfer of property for cash or deferred payment or for any other valuable consideration. Where there is transfer of property in goods without consideration, it does not amount to sale within the meaning of the definition under the act and therefore CST is not attracted.

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6. Is transfer by way of mortgage chargeable to CST?

Ans: The definition of 'sale' u/s 2(g) specifically excluded mortgage, hypothecation of goods, charge or pledge on goods. Hence, CST cannot be charged when there is transfer by way or mortgage.

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7. Is sale by VPP liable to Central Sales Tax?

Ans:

a) In order to be an interstate sale, there must be movement of goods in connection with the sale as stipulated in Section 3.

b) In a sale by VPP, both the requirements of Section 3 are satisfied. In a sale by VPP, there is an order by the buyer on the seller.

c) The seller dispatches the goods by post parcel and the goods are to be delivered by postal authorities to the buyer on payment of price.

d) The sale takes place in the state where the parcel is received and its value is paid to the post office.

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8. Goods worth Rs.1,02,000 are sold by A of Andhra Pradesh to C of Chennai, CST @ 2% is included in the above. If the local sales tax rate is 0%, 1%, 5% or 13.5% on such sale within the state of Andhra Pradesh. What will be the tax liability?

(i) If buyer is the registered dealer and C Form given.

(ii) If buyer is the unregistered dealer.

Ans: First we have to find the taxable turnover

Taxable turnover Rs.1,02,000 x 100/102 = Rs.1,00,000

• **Local sales tax rate:**	**0%**	**1%**	**5%**	**13.5%**
(i) Buyer is the registered Dealer	0%	1%	2%	2%
(ii) Buyer is the Unregistered Dealer	0%	1%	5%	13.5%
• **Tax liability**				
(i) Buyer is the registered Dealer	0	Rs.1,000	Rs.2,000	Rs.2,000
(ii) Buyer is the unregistered Dealer	0	Rs.1,000	Rs.5,000	Rs.13,500

From the above discussion we came to know the tax implicit and its relevance under CST Act, 1956. The concept of minimum of 10% CST has been removed w.e.f. 1-4-2007, the CST for sale to persons other than registered dealers, would be equal to the local VAT rate applicable in the state of the selling dealer, which may be 1%, 5% or 13.5%.

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9. Mr. Ram furnishes the following information pertaining to inter-state sales effected by him:

	Products		
	L	**M**	**N**
Local VAT Rates	13.50%	5.00%	1.00%
Total Sales value	7,84,000	5,40,000	4,12,000

- **Additional information**

a) In respect of product L sold in May, 2015, goods of total sales value of Rs.67,200 were returned in July, 2015 and Rs.44,800 in December, 2015: Rs.56,000 were rejected and returned in Jan, 2016.

b) Buyer of product N did not produce C forms.

c) Buyer of product M for total sale value Rs.43,200 did not furnish C form as the product was not covered in his registration certificate.
Compute the taxable turnover and the sales tax liability of the three products L, M and N, for the financial year 2015-16.

Ans:

- **Product-L**

Total Sales	7,84,000
Less: Sales return within 6 month	(67,200)
Less: Rejection	(56,000)
	6,60,800

6,60,800

↓

Sales	**Sales Return**
Rs.6,16,000	Rs.44,800
C' Form Given	C' Form not Given beyond 6 months
CST = 2% (or) 13.5% whichever is lower	Hence CST = 13.5%
Therefore,	
CST= Rs.6,16,000 x 100/113.5 x 2/100	CST= 44,800 x 13.50/113.5
CST = Rs.10,855	CST = Rs.5,329

- **Product-M**

5,40,000

↓

Sales	**Sales Return**
Rs.4,96,800	Rs.43,200
C' Form Given	C' Form not Given
CST = 2% (or) VAT Rate 5% whichever is lower	Inclusive of CST = 5%
CST= Rs.6,16,000 x 100/105 x 2/100	CST= 43,200 x 5/105
CST = Rs.9.463	CST = Rs.2,057

- **Product-N** **Amt.**(Rs.)

Total Sales 4,12,000

Buyer of product 'N' did not produce 'C' Forms

Therefore CST = Local VAT rate

Hence CST = 4,12,000 x 100 /101 x 1% = Rs.4,079

10.

a) State with proper reasons whether the following statements are True/False with regard to the provisions of the Central Sales Tax Act, 1956:

i. Works contract does not include a contract of alteration of a building.

✔ **False:** The definition of 'Works Contract' under section 2(ja) of the Central Sales Act, 1956 includes a contract for alteration of any movable or immovable property.

ii. The damaged goods of the insured are taken possession by the insurance company. The insurance company is a dealer if such goods are sold by it later on.

- ✔ **True:** Selling of damaged goods is incidental or ancillary to the business of insurance and hence, the insurance company is a dealer.

iii. Rajkumar of Rajkot of Gujarat comes to Jaipur of Rajasthan and purchases goods and brings them with him to Rajkot of Gujarat. The sale is an Inter-State Sale.

- ✔ **False:** the sale is an intra-State sale.

iv. During the course of penultimate sale, the declaration is to be signed by the dealer selling the goods.

- ✔ **False:** It is to be filled in and signed by the exporter to whom the goods are sold and it is to be furnished to the prescribed authority by the dealer selling the goods.

v. The burden of proving that the transfer of goods is otherwise than by way of sale shall be on the Sales Tax Authority.

- ✔ **False:** the burden of proving that the transfer of goods is otherwise than by way of sale shall lie on the dealer claiming the exemption of tax.

b) **Fill in the blanks with reference to the provisions of the Central Sales Tax Act, 1956:**

i. Mr. A, a dealer in West Bengal, has sold goods to Mr. S in Gujarat for which the sales-tax rate in West Bengal is 2% and the rate in Gujarat is 5%. The CST leviable is **2%**

ii. The copy of every order passed by the Appellate Authority shall be sent to **Appeallant** and **Assessing Authority**

iii. Government subsidy **does not** form part of sale price.

iv. A newspaper publisher sold the unsold copies of the paper as waste. This sale is **Liable** to Central Sales-tax.

v. Praveen effected his first inter-State sale on 25.3.15 and applied for registration on 15.4.15. The effective date of registration will be **25.03.2015**

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11. Mr. A, a first stage dealer in pharmaceutical plant and boiler in the State of Tamil Nadu, furnishes the under mentioned information:

		Amt (Rs.)
i.	Total inter-State sales during financial year 2015-16 (CST not shown separately)	2,31,25,000
ii.	Trade commission for which credit notes have to be issued separately	5,78,125
iii.	Freight and transportation charges (of this Rs.1,50,000 is on inclusive basis)	4,50,000
iv.	Insurance premium paid prior to delivery of goods	70,000
v.	Installation and commissioning charges levied separately in invoices	75,000

vi. Compute the tax liability under the CST Act, assuming the rate of tax @ 2%.

Ans:

	Particulars	**Value in Rupees (Rs.)**
	Sales turnover	23125000
Less:	Trade Commission	-578125
Less:	Freight and transportation charges to the extent shown separately in the invoices	-300000

Less:	Installation and commissioning charges levied separately in invoices	-75000
	Total Turnover	**22171875**
Less:	Central Sales Tax (Rs.2,21,71,875 x 2/102)	-434743
	Taxable Turnover	**21737132**

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12. W dispatches goods from Karnataka and raises invoice on X in Madhya Pradesh, W charges 2% CST and pays the same in Karnataka. During the course of movement of goods, X sells goods to Y in West Bengal and Y ultimately sells goods to Z in Kolkata. Z takes delivery of goods and the movement of goods comes to end. Sales from X to Y and Y to Z are by transfer of lorry way bill receipts. Explain the forms to be issued so that the first and subsequent sales are exempt from central sales tax.

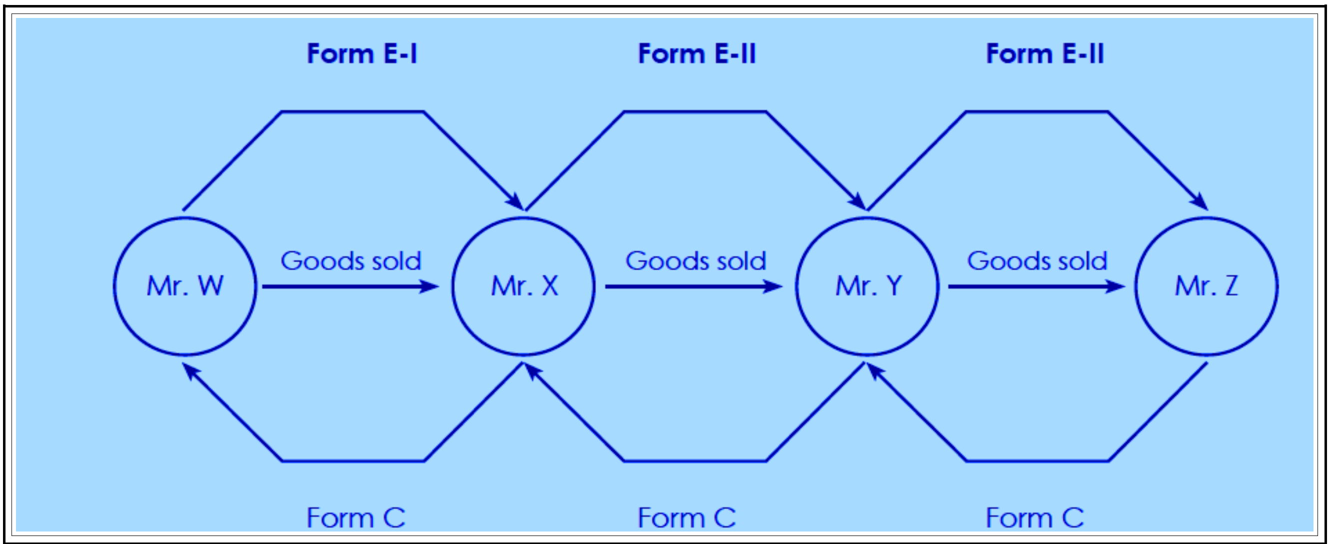
Ans: W will receive declaration in 'C' Form from X and will issue declaration in E-I Form to X.

Later, X will issue declaration in E-II Form to Y and receive declaration in 'C' Form from 'Y'

Finally, Y will issue declaration in E-II Form to Z and receive declaration in 'C' Form from Z, which will complete the chain. Because, Z has taken the possession of goods, thereby movement of goods from one state to another ends.

If the chain is broken, CST will be payable again. Otherwise, all subsequent sales will be exempt from sales tax.

The same can be explained in the following diagrammatic presentation:



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13. A dealer effected following inter-state sales during the quarter July, 2015-September, 2015.

(a) Invoice No. 25 dated 5th July, 2015: Rs.1,12,400 (tax not shown separately),

(b) Invoice No. 26, dated 13th August, 2015: Rs.50,000 plus tax @ 5% i.e. Rs.2,500. Total Rs.52,500,

(c) Invoice No. 27 dated 18th September, 2015: Rs.20,000 plus tax @ 5% Rs.1,000 i.e. Total Rs.21,000,

(d) Invoice No. 28 dated 27th September, 2015: Rs.31,200. Tax not shown separately.

Goods returned within 6 months were Rs.8400 (inclusive of taxes). Sales Tax rate is 5% if goods are sold within the State.

i. What is the turnover and what is tax payable, if the buyers did not issue C Form?

ii. What is the impact of VAT on CST?

Ans:

a) Statement showing total turnover, taxable turnover and central sales tax payable for the quarter July 2015 to September 2015:

Date	Invoice No.	Total Turnover (Rs.) (A)	Total Turnover (Rs.) (A - B)	Central Sales Tax payable (Rs.) (B)	Workings
5th July 2015	25	112400	107048	5352	Rs.112400 x 5/105 = **5352.38**
13th Aug 2015	26	52500	50000	2500	Rs.52500 x 5/105 = **2500**
18th Sep 2015	27	21000	20000	1000	Rs.21000 x 5/105 = **1000**
27th Sep 2015	28	31200	29714	1486	Rs.31200 x 5/105 = **1485.71**
Sub-total		**217100**	**206762**	**10338**	
Less: sales return within six months from the date of sale		8400	8000	400	Rs.8400 x 5/105 = **400**
Net Amount		**208700**	**198762**	**9938**	

b) The impact of VAT on CST:

i. If goods are purchased from another state, Input Tax Credit (ITC) of CST paid in other state will not be granted by the State where the goods are consumed or sold.

ii. If goods are sent to another State on stock transfer basis, only restricted input credit will be given. It means up to @2% tax paid on inputs ITC not allowed.

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14. Vivitha & Co., is a dealer in an electronic product, chargeable to CST at 2%. For the year ended 31.3.2016, the dealer has shown total turnover (including CST) at Rs.38,76,000. In the above, the dealer has treated the following amounts thus:

i.	Dharmada collected from buyers, shown separately in invoice	Rs.28,000
ii.	Weighment Charges incidental to sale	Rs.14,000
iii.	Central excise duty collected	Rs.2,06,000

- The dealer has recorded the following amount in separate folios in the ledger:

i.	Packing charges (These have been collected from buyers through Debit notes)	Rs.45,000
ii.	Cash discount allowed to buyer	Rs.18,000
iii.	Indemnity/guarantee charges collected from buyer to cover loss during transit	Rs.12,000

iv. Marine insurance premium for transporting goods to the premises of buyers, collected from buyers — Rs.32,000

Determine the total and taxable turnover under CST Act 1956 for the financial year 2015-16. You are required to show the treatment of each and every item distinctly.

Ans: Determination of turnover for CST purposes

	Particulars	Amt(Rs.)
	Turnover including CST as per books	3876000
Less:	CST included in above 38,76,000 x 2/102	76000
	Turnover as per books excluding CST	**3800000**
Add:	Packing Charges	45000
	Marine insurance	32000
	Taxable turnover	**3877000**
Add:	CST @ 2% on 38,77,000	77540
	Total Turnover	**3954540**

- **Note:**

The following items addable in the selling price, which has been added already in the sale price:

a) Dharmada collected from buyers, shown separately in invoice Rs.28,000

b) Weighment Charges incidental to sale Rs.14,000

c) Central excise duty collected Rs.2,06,000

The dealer has recorded the following amount in separate folios in the ledger:

a) Packing charges (These have been collected from buyers through Debit notes) is Rs.45,000. It is addable into the assessable value even though the same has charged separately. The Honorable Supreme Court of India in ***Rai Bhart Das and Brothers* v *CST* (1988) 71 STC 277** held that the packing charges realized by the dealer was an integral part of the sale price. (Service charges are different from charges for packing materials).

b) Cash discount allowed to buyer is Rs.18,000, it is assumed to be already deducted from the price

c) Indemnity/guarantee charges collected from buyer to cover loss during transit is Rs.12,000 charged separately. Hence, not Included in the sale price.

d) Marine insurance premium for transporting goods to the premises of buyers, collected from buyers is Rs.32,000 is included in the selling price, because Freight and insurance charges incurred by the assessee prior to the delivery of the goods at their places of business to their customers, form part of turnover.

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15. Sri Ram, a Registered Dealer at Mumbai, furnishes the following information:

		Amt(Rs.)
i.	Inter-state sale of goods	40,00,000

- This includes the following—

ii. Excise duty 42,000

iii. Goods returned on 17/1/2016 [These goods were sold on 12/4/2015] 1,05,000

iv. Cash discount shown in invoice and allowed according to prevailing trade practice 50,000

v. Freight and transportation charges (of this Rs.1,50,000 is on inclusive basis) 4,50,000

vi. Insurance premium paid prior to delivery of goods 70,000

vii. Installation and commissioning charges levied separately in invoices 75,000

Compute the tax liability under the CST Act, assuming the rate of tax @ 2%.

Ans:

	Particulars	**Amt(Rs.)**
	Sales Turnover	4000000
Less:	**Deductions**	
	Cash discount according to normal trade practice	50000
	Freight and transportation charges to the extent shown separately in the invoices	300000
	Installation and commissioning charges levied separately in invoices	75000
	Turnover inclusive of CST	**3575000**
Less:	Central Sales Tax	700498
	Taxable Turnover	**2874502**

- **Note:** It is assumed that local VAT rate of the seller state is @2%. Therefore, goods returned after 6 months from the date of sale attracted CST @2%.

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16. Diamond Ltd., Mumbai sells goods for a value of Rs.20,00,000 inclusive of central sales tax @ 2% to Goldie Ltd. in Cochin, both of them are registered dealers. The local sales tax on goods in Mumbai is 1%. Ascertain sales tax payable. If Goldie Ltd. were unable to submit Form-C, being an unregistered dealer, what will be the central sales tax liability, if the local sales tax rate is 13.50%?

Ans: Central Sales Tax payable against Form 'C' sales = Rs.19,608 [i.e. (Rs.20,00,000 x 100/102) x 1/100].

- Central Sales Tax payable (if Form 'C' not received) = Rs.2,64,706 [i.e. (Rs.20,00,000 x 100/102)× 13.50/100]

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17. Mr. Vishal is a dealer. His sales during the first quarter of 2014-15 (April to June) are as under:

	Date	**Invoice No.**	**Amount** (Rs.)
1.	05/04/15	103/FCA/01/2015	10,000 plus tax @2%
2.	12/04/15	103/FCA/02/2015	80,000 plus tax @2%

3.	05/05/15	103/FCA/03/2015	62,400 (inclusive of tax)
4.	06/06/15	103/FCA/04/2015	14,000 plus C.S.T. @2%
5.	27/06/15	103/FCA/05/2015	18,000 plus C.S.T. @2%
6.	Goods worth Rs.7,000 (exclusive of tax) against Invoice No.103/FCA/04/2014 were returned on 29-6-2015.		
7.	Goods worth Rs.13,000 (inclusive of tax @2%) sold on 26-12-2014 were returned on 30-6-15.		
8.	Goods worth Rs.6,500 (inclusive of tax @2%) sold on 27-12-2014 were returned on 30-6-2015.		

- All the above sales were made in the course of interstate trade against Form 'C'. Calculate the turnover and CST payable @2%. Value Added Tax in the state of seller 5%.

Ans: Statement showing taxable turnover and central sales tax payable for the first quarter from April 2015 to June 2015:

Date	Invoice No.	Taxable Turnover	Central Sales Tax payable (Rs.)	Total Turnover	Working
05/04/15	103/FCA/01/2015	10000	200	10200	10,000 x 2%
12/04/15	103/FCA/02/2015	80000	1600	81600	80,000 x 2%
05/05/15	103/FCA/03/2015	61176	1224	62400	61176 x 2%
06/06/15	103/FCA/04/2015	14000	280	14280	14000 x 2%
27/06/15	103/FCA/05/2015	18000	360	18360	18000 x 2%
Sub-Total		**183176**	**3664**	**186840**	
Less: sales returns within 6 months from the date of sales		-7000	-140	-7140	7000 x 2%
Net Amount		**176176**	**3524**	**179700**	

- Sales returns beyond six months from the date of sale considered as sales made to unregistered dealer (since, buyer can not issue Form 'C' for returns):

  Sales returns beyond six months from the date of sales attract CST @ 5%. (i.e. 2% or Local VAT rate 5% whichever is higher):

- Taxable turnover = Rs.19,118 [(i.e. Rs.13,000 + Rs.6,500) x 100/102]

  CST payable = Rs.956 (i.e. Rs.19,118 x 5/100)

- **Summary**

	CST payable against Form 'C' sales	= Rs.3,524
Add:	CST payable (Form 'C' not received)	= Rs.956
	Sub-Total	**= Rs.4,480**
Less:	CST already paid on sales returns beyond six months	= Rs.382 (i.e. Rs.19,118 x 2%)
	Net CST liability for the 1st quarter (April – June)	**= Rs.4,098**

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18. Mr. Y reported sales turnover of Rs.36,20,000. This includes the following:

i. Excise duty Rs.3,00,000; and

ii. Deposit for returnable containers and packages Rs.5,00,000.

- Sales Tax was not included separately in the sales invoice.

Compute tax liability under the CST Act, assuming the rate of tax @ 2%.

Ans: Computation of Central Sales Tax liability of Mr. Y

	Particulars	**Amt(Rs.)**
	Turnover (including Central sales tax and deposit received towards returnable containers and packages)	3620000
Less:	**Deductions**	
	Deposit received towards returnable containers and packages not to be considered in turnover	500000
	Turnover inclusive of CST	**3120000**
Less:	Central Sales Tax thereon = 31,20,000 x 2/102	61176
	Taxable Turnover	**3058824**

- ***Note:*** Excise duty is part of turnover and hence should not be excluded from turnover.

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19. Mr. H, the proprietress of Aarav Enterprises is a registered dealer in Vadodara (Gujarat). From the under mentioned particulars relating to the quarter ended 31st March, 2016. Find out her taxable turnover and the tax payable under the Central Sales Tax Act, 1956:

a) Goods worth Rs.2,20,000 were invoiced to its against at NOIDA (U.P) while the goods were in transit, these were sold to Uttar Pradesh Government for Rs.2,41,020. The rate of tax in respect of such goods in the appropriate state is 13.5%.

b) Sale to a 100% Export Oriented Undertaking (EOU), goods worth Rs.20,20,000 in Mumbai. The rate of tax in the State is 1%.

The above selling prices are inclusive of the central sales tax.
The dealer has submited all necessary declarations, wherever required.

Ans: Taxable Turnover = Rs.2,12,352 (i.e. Rs.2,41,020 x 100/113.5)

Taxable Turnover = Rs.20,00,000 (i.e. Rs.20,20,000 x 100/101)

Total = Rs.22,12,352

- Central Sales Tax payable

CST on sale of goods to UP Government = Rs.28,668 (i.e. Rs.2,12,352 x 13.5/100)

CST on sale of goods to 100% EOU = Rs.20,000 (i.e. Rs.20,00,000 x 1/100)

Total = Rs.48,668

- ***Notes:***

a) Branch transfer exempted from Central Sales Tax against Form F. However, goods are sold during the movement from one state to another state which will attract CST.

b) Goods sold to 100% Export Oriented Units subject to Central Sales Tax.

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20. Mrs. Vasudha, a registered dealer in Chennai, furnishes the following information relating to Inter-State sales made by her during the year ended 31.3.2016: **Amt.**(Rs.)

Sales turnover as per books 36,72,000

- **Above includes**

a)	Excise duty	3,20,000
b)	Freight (of this Rs.30,000 alone is shown separately in sales invoices)	1,10,000
c)	Deposit for returnable containers	2,40,000
d)	Transfer to branch (covered by Form F)	12,15,000
e)	Packing charges	35,000

Further, in ascertaining the sales turnover above which includes CST also, the dealer has deducted the following:

1) Turnover relating to goods worth Rs.10,000 (exclusive of tax) covered by invoice dated 2.4.2015, which were returned on 1.10.2015.

2) Goods worth Rs.12,400 (including tax) covered by invoice dated 13.4.2015 were rejected by the customer and the dealer received back the goods on 14.10.2015.

Vasudha deals only in one type of commodity which is chargeable to VAT at 2% in Tamil Nadu.

You are required to compute the total turnover, CST and taxable turnover for the financial year 2015-16. Treatment of each item above should be shown distinctly.

Ans: Statement showing taxable turnover, CST and total sales for the year 2015-16:

	Particulars	**Taxable Turnover (Rs.)**	**Working**
	Total sales	3672000	
Less:	Freight shown separately	-30000	
Less:	Deposit of returnable containers	-240000	
Less:	Transfer to Branch	-1215000	No CST against Form F
Less:	sales returns within 6 months from the date of sales	-	Deductible, already deducted
Less:	Goods rejected	-	Allowed to deduct irrespective of time, already deducted
	Total sales	2187000	

Less:	Central Sales Tax	42882	Rs.21,87,000 x 2/102
	Taxable Turnover	2144118	

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21. Ram & Co., a registered dealer with head office at Kolkata, furnishes to you the information:

		Amt.(Rs.)
1.	Inter-State sale of goods (it includes Rs.10,00,000 being the value of goods transferred to Chennai Branch covered by Form F)	49,20,000
2.	Dharmada collected	25,000
3.	Weighment dues charged separately from buyers	2,15,000
4.	Cash discount shown in invoice as per trade practice	60,000
5.	Indemnity charges (recovered from buyers to cover transit loss based on their request)	53,000

Calculate the turnover and CST payable, on the assumption that all the sales were made to registered dealers.

Ans: Statement showing taxable turnover, CST and total sales for the year 2015-16:

	Particulars	**Amt.**(Rs.)
	Total sales	4920000
Less:	Branch transfer against Form F	-1000000
Add:	Weighment charges charged separately	215000
Add:	Dharmada Collected	25000
Less:	Cash discount	-60000
	Taxable Turnover	4100000
	CST @2% on taxable turnover	82000

- ***Notes*:**

  Indemnity charges do not form part of sale price – Hence, should not be added

  It is assumed that dharmada, weighment dues and indemnity charges are shown separately in the invoice and have not been included in the total value of inter-State sale of Rs.49.20 lakh and cash discount has also not been deducted therefrom.

  It is also assumed that the sale value of Rs.49.20 lakh does not include Central Sales-tax.

  Cash discount allowed as per trade practices does not form part of sale price. Hence, should be deducted.

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22. Mr. Raja, a first stage dealer in packing machinery in the State of Tamil Nadu furnishes the following data:

		Amt.(Rs.)
a)	Total inter-state sales during F.Y. 2015-16 (CST not shown separately)	92,50,000
b)	Above sales include:	
1.	Excise duty	9,00,000
2.	Freight (Of this Rs.50,000 is not shown separately in invoices)	1,50,000
3.	Insurance charges incurred prior to delivery of goods	32,000
4.	Installation and commissioning charges shown separately	15,000
5.	Incentive on sales received from manufacturer	30,000

Determine the turnover and CST payable, assuming that all transactions were covered by valid 'C' Forms.

Ans: Computation of turnover of Mr. Raja turnover and central sales tax payable by him:

	Particulars	**Amt**(Rs.)
	Total inter-State sales	Rs.92,50,000
Less:	Freight shown separately in the invoices	Rs.1,00,000
	Installation and commissioning charges shown separately	Rs.15,000
	Aggregate turnover	**Rs.91,35,000**
	CST payable (i.e. Rs.91,35,000 x 2/102) is	Rs.1,79,118
	Taxable turnover (i.e. Rs.91,35,000 – 1,79,118) is	**Rs.89,55,882**

- ***Notes:***

Excise duty forms part of the sale price and is not deductible.

Freight not shown separately in the invoices and insurance charges incurred prior to delivery of goods are not deductible in calculating the turnover.

Sale price includes incentive on sales received from manufacturer.

The CST on transactions covered by valid 'C' forms is 2% or the State sales-tax rate, whichever is lower. It has been assumed that in this case, the State VAT rate is higher than 2%. Therefore, the rate of CST is taken as 2%.

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23. Total interstate sale for the Financial Year 2015-16 of X Ltd. is Rs.1,50,70,000, which consists of the following:

	Amt. (Rs.)
4% CST Sales	91,50,000
2% CST Sales	59,20,000

Out of the goods sold for Rs.91,50,000, on 16.7.2015 that were liable to CST @ 4% goods worth Rs.50,000 were returned on 12.12.2015 and goods worth Rs.1,20,000 were returned on 01.2.2015. A buyer to whom goods worth Rs.55,000 carrying 2% CST was dispatched on 16.4.2015, rejected the goods and the same were received back on 15.1.2016.

Compute the taxable turnover and tax liability of X Ltd., since all the relevant Forms have been received.

Ans: Statements showing taxable turnover and CST payable:

Particulars	Taxable Turnover (Rs.)	CST Payable (Rs.)	Workings
Sales against Form 'C'	86,34,615	1,72,692	91,00,000 – 1,20,000 = **Rs.89,80,000.** CST = **Rs.1,72,692** (89,80,000 x 100 x104) x 2%
Sales against Form 'C'	57,50,000	1,15,000	58,65,000 x 100/102 = **Rs.57,50,000**
Sales without Form 'C'	1,15,385	4615	1,20,000 x 100/104 = **Rs.1,15,385**
Total	**1,45,00,000**	**2,92,307**	

- **Working Note:**

Particulars	4% CST Sales (Rs.)	2% CST Sales (Rs.)
Sales	91,50,000	59,20,000
Less: sales return within six months from the date of sale	50000	
Less: Rejected	-	55000
Sub-Total	**91,00,000**	**58,65,000**

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24. M/s. Snow White Ltd., Mumbai sells iron rods to M/s. Hyderabad Ltd. in Vijayawada for a value of Rs.10,00,000 inclusive of Central Sales Tax @ 2%. The local sales tax on iron rods in Mumbai is 13.5%. Both the dealers are registered dealers.

i. Ascertain the Central Sales-tax payable.

ii. If Hyderabad Ltd. were unable to submit Form 'C', being an unregistered dealer, what will be the Central Sales Tax liability, if the local sales tax rate is 13.5%?

- ***Note:*** Iron rods are not declared goods.

Ans:

i. CST payable if both are registered dealer = Rs.19,608 [(i.e. Rs.10,00,000 x 100/102) x 2/100]
ii. CST payable if Hyderabad Ltd. is unregistered dealer = Rs.1,32,353 [(i.e. Rs.10,00,000 x 100/102) x 13.5/100]

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25. Mr. K of Kolkata sells goods to Mr. C of Chennai and delivers the same at Kolkata to MKS Transport. The lorry receipt was sent to Mr. C by post. While goods were in transit, Mr. C sells the goods to Mr. V of Vijayawada by making an endorsement of LR and goods were diverted to Vijayawada. Is the second sale between Mr. C and Mr. V chargeable to tax?

Ans: The first sale by Mr. K to Mr. C is chargeable to central sales tax. However, sale of goods by C to V is exempt under Section 6(2) i.e. subsequent sale by transfer of documents to avoid multiple tax incidences.

- ***Note:*** Form E-I from K and Form C from V has to be received by C.