



FINAL – November 2017

INDIRECT TAXATION

Test Code –

Branch (MULTIPLE) (Date : 04.06.2017)

(50 Marks)

Note: All questions are compulsory.

Answer 1(6 Marks)

Prior to 01.04.2016, definition of inputs under rule 2(k) of CCR, *inter alia*, included all goods used for generation of electricity or steam for captive use. However, with effect from 01.04.2016, the said definition has been amended to also include within its scope goods used for pumping of water for captive use.

Thus, CENVAT credit will be available on the inputs used for pumping of water for captive use.

(2 Marks)

With effect from 01.04.2016, a new clause (v) has been inserted in the definition of inputs as contained in rule 2(k) of the CCR, 2004.

The scope of said definition has been widened to include therein all capital goods which have a value up to ` 10,000 per piece. Thus, on such capital goods, whole of the CENVAT credit can be taken in the same year in which they are received.

Consequential amendment has been made in said definition [Item (C)] to provide that input excludes those capital goods whose value exceeds ` 10,000 per piece.

(2 Marks)

Earlier, rule 4(5)(b) extended the CENVAT credit in respect of jigs, fixtures, moulds and dies sent by manufacturer of final products to:-

- another manufacturer for the production of goods, or
- a job worker for the production of goods on his behalf according to his specifications.

With effect from 01.04.2016, rule 4(5)(b) has been amended to allow a manufacturer of final products to take CENVAT credit on tools of Chapter 82 of the Central Excise Tariff in addition to credit on jigs, fixtures, moulds & dies, when the same are sent to another manufacturer or a job-worker for production of goods as per specification of manufacturer of final products.

(2 Marks)

Answer 2 (5 Marks)

As per rule 3 of the Baggage Rules, 2016, an Indian resident arriving from any country other than Nepal, Bhutan or Myanmar, shall be allowed clearance free of duty articles in his bona fide baggage, that is to say, used personal effects and travel souvenirs; and articles [other than certain specified articles], upto the value of Rs 50,000 if these are carried on the person or in the accompanied baggage of the passenger.

Thus, there is no customs duty on used personal effects and travel souvenirs and general duty free baggage allowance is Rs 50,000 per passenger. Thus, duty liability of Mr. Sujoy and his wife is nil for the used personal effects worth Rs 80,000 and 2 music systems each worth Rs 50,000.

(3 Marks)

As per rule 5 of the Baggage Rules, 2016, the jewellery allowance is as follows:

Jewellery Bought by	Duty free allowance
Gentleman Passenger	Jewellery upto a weight of 20 grams with a value cap of Rs 50,000
Lady Passenger	Jewellery upto a weight of 40 grams with a value cap of Rs 1,00,000

However, the jewellery allowance is applicable only to a passenger residing abroad for more than 1 year.

Consequently, there is no duty liability on the jewellery brought by Mr. Sujoy as he had stayed abroad for period exceeding 1 year and weight of the jewellery brought by him is 20 grams with a value less than Rs 50,000.

However, his wife is not eligible for this additional jewellery allowance as she had stayed abroad for a period of less than a year. Thus, she has to pay customs duty on the entire amount of jewellery brought by her as she has already exhausted the general duty free baggage allowance of Rs 50,000 allowed under rule 3.

(2 Marks)

Answer 3 (6 Marks)

Computation of net duty payable (in cash) by Prajakta Processors Pvt. Ltd. for the month of October, 2016

Particulars	Amount
Excise duty @ 12.5% on dutiable goods manufactured [No duty is payable on exempted and non-excisable goods]	1,50,000.00
Less: CENVAT credit available for set off [Refer working note below]	71,000.00
Excise duty payable in cash	79,000.00

(2 Marks)

Working Note:

Prajakta Processors Pvt. Ltd. manufactures both dutiable goods and exempted goods in terms of rule 6(3)(a) of the CENVAT Credit Rules, 2004 [CCR] and pays the proportionate amount payable under clause (ii) of rule 6(3) of CCR (second option). Such amount payable by Prajakta Processors Pvt. Ltd. for the month of October, 2016 will be computed in terms of sub-rule (3A) of rule 6 by sequentially following the steps given below:

- First, full CENVAT credit on all inputs and input services will be taken (T).
- From such total CENVAT credit, CENVAT credit attributable to inputs and input services used exclusively in manufacture of exempted goods (A), and CENVAT credit attributable to inputs and input services used exclusively in manufacture of dutiable goods (B), will be reduced.
- The remaining balance will be common CENVAT credit attributable to inputs and input services used for manufacture of both exempted goods and dutiable goods (C).
- Out of such common CENVAT credit (C), CENVAT credit on inputs and input services attributable to manufacture of exempted goods (D) will be in the same proportion which the turnover of exempted goods of the previous financial year (E) bears to the total turnover of the previous financial year [(F) viz. exempted goods plus dutiable goods].

Therefore, (D) = $E/F \times C$. (D) will be ineligible CENVAT credit required to be paid.

- Thus, amount required to be paid for the month of October, 2016 = (A) + (D)

	Particulars	Amount	
I	CENVAT credit on inputs and input services		
	Total CENVAT credit [(T)]	1,00,000	
	Less: CENVAT credit on inputs and input services used exclusively for manufacture of exempted goods [including non-excisable goods – (Note 1)] [(A)] [` 8,000 + ` 8,000 + ` 2,000 + ` 2,000]	(20,000)	
	Less: CENVAT credit on inputs and input services used exclusively for manufacture of dutiable goods [(B)] [` 10,000 + ` 10,000]	<u>(20,000)</u>	
	Common CENVAT credit [(C)]	60,000	
	Out of common CENVAT credit, ineligible CENVAT credit attributable to inputs and input services used in the manufacture of exempted goods [(D)] [(` 80,00,000 / ` 2,00,00,000) x ` 60,000]		
	CENVAT credit on inputs and input services used exclusively for manufacture of exempted goods [(A)]	<u>20,000</u>	
	Total amount payable provisionally [(D) + (A)]	44,000	
	Eligible CENVAT credit on inputs and input services available for set off (T) – [(D) + (A)]	56,000	
	II	Eligible CENVAT credit on capital goods [Note 2]	<u>15,000</u>
		Total eligible CENVAT credit on inputs, input services and capital goods	71,000

(4 Marks)

Question 4 (5 Marks)

Computation of value of clearances during preceding financial year for determining the eligibility for SSI exemption in the current year

Particulars	Amount in Lakhs
Total value of clearances during preceding financial year	950
Less: VAT included in above	<u>80</u>
	870
Less: Exports excluding exports to Bhutan (500 - ` 250) lakh (2 marks)	250
Clearances of goods without payment of duty to a unit in Electronic Hardware Technology Park(1 Mark)	20
Job work under <i>Notification No. 84/94 CE dated 11.04.1994</i> and under <i>Notification No. 83/94 CE dated 11.04.1994</i> i.e., ` 100 + ` 100) lakh (2 marks)	<u>200</u>
Value of eligible clearances during preceding financial year	<u>400</u>

Note: In order to claim the benefit of SSI exemption under *Notification No. 8/2003 C.E. dated 01.03.2003* in a financial year, the total turnover of a unit should not exceed ` 400 lakh in the preceding year

In terms of *Notification No. 8/2003 CE dated 01.03.2003*, while computing such value of clearances during preceding financial year (` 400 lakh)-

- (i) export turnover is excluded. However, export to Bhutan cannot be excluded as these are treated as "clearances for home consumption". With effect from 01.03.2016, clearances made to Nepal are treated like normal exports and are thus, not considered for the purpose of computing limit of ` 400 lakh.
- (ii) job work under *Notification No. 84/94 CE dated 11.04.1994* and *Notification No. 83/94 CE dated 11.04.1994* is not taken into consideration.
- (iii) clearances of excisable goods without payment of duty to a unit in Electronic Hardware Technology Park are excluded.
- (iv) clearances of excisable goods bearing brand name of National Small Industries Corporation are included.

Conclusion: Since the value of clearances in the previous financial year does not exceed ` 400 lakh, Aim & Company is eligible to claim the benefit of *Notification No. 8/2003 CE dated 01.03.2003* in the current financial year.

(5 Marks)

Question 5 (6 Marks)

Computation of central excise duty payable by UVW Ltd. (1 mark for every transaction)

Particulars	(₹)	(₹)
Retail sale price of 400 packages containing 60 packs each packed for safety in transportation (60 x ` 120 x 400)	28,80,000	
Less: Abatement @ 30%	<u>8,64,000</u>	
Assessable value (A) [Note 1]		20,16,000
Retail sale price of 2,000 packs (2,000 x ` 120)	2,40,000	
Less: Abatement @ 30%	<u>72,000</u>	
Assessable value (B) [Note 2]		1,68,000
Retail sale price of 60 packs given as free samples (60 x ` 120)	7,200	
Less: Abatement @ 30%	<u>2160</u>	
Assessable value (C) [Note 3]		5040
Retail sale price of 500 packs manufactured on job work basis (500 x ` 120)	60000	
Less: Abatement @ 30%	<u>18,000</u>	
Assessable value (D) [Note 4]		42000
Retail Sale Price of 400 multi-packs (400 x ` 170) [Note 5]	68000	
Less: Abatement @ 30%	20400	

Assessable value (E) [Note 5]	47600
Total assessable value (A) + (B) + (C) + (D) +(E)	<u>22,78,640</u>
Excise duty @ 12.5% of ` 22,78,640 (1 Mark)	284830

Notes:

- Outer packaging for protection/safety during transportation is not wholesale package. Such packaging does not require details like name/address, cost, month year etc. [State of Maharashtra v. Raj Marketing (2011) 272 ELT 8 (SC)].
Therefore, valuation of such package will be done on the basis of section 4A i.e., RSP less abatement.
- Provisions of section 4A of Central Excise Act, 1944 override the provisions of section 4 of the said Act. Therefore, assessable value will be retail sale price declared on the package less abatement irrespective of the quantity discounts offered to the buyer [Indica Laboratories v. CCE (2007) 213 ELT 20 (CESTAT 3 Member Bench)].
- Free samples of the products covered under MRP based assessment are valued under rule 4 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 by taking into consideration the deemed value under section 4A [Circular No. 915/05/2010 CX dated 19.02.2010].
- Provisions of section 4A override the provisions of section 4. Therefore, in case of goods cleared on job-work basis, assessable value will be retail sale price declared on the package less abatement and not the value as determined under rule 10A of Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 viz., the price at which the principal manufacturer sells the goods.
- Retail sale price (RSP) of the multi-pack (` 170) is considered and product supplied free (small soap) in the multi-pack is not assessed separately. Further, since scored out RSP cannot be considered as RSP either by seller or by buyer, the same (` 120) is not taken as the RSP for the purpose of valuation of excisable goods.
- Since the turnover of UVW Ltd.in the previous financial year is ` 470 lakh, it will not be entitled for SSI exemption available under Notification No. 8/2003 CE dated 01.03.2003 in the current year.

Question 6 (5 Marks)

Computation of assessable value of machine imported by Robust & Co. Ltd.

Particulars	Amount (£)
Price of the machine	5,000
Add: Engineering and design charges paid in UK [Note 1]	250
Licence fee relating to imported goods payable by the buyer as a condition of sale (20% of price of machine) [Note 1]	<u>1,000</u>
Total (1 Mark)	<u>6,250</u>
	Amount (`)
Value in Indian currency [£ 6,250 x ` 100] [Note 2] (1 Mark)	6,25,000
Add: Materials and components supplied by Robust & Co. Ltd free of cost [Note 1] (1 Mark)	<u>10,000</u>
FOB	6,35,000

Add: Freight [Note 3] (1 Mark)	1,00,000
Insurance paid to insurer in India	3000
CIF Value	738000
Add: Landing Charges @ 1 % (Note 4) (1 Mark)	7380
Assessable value (rounded off)	745380

Notes:

1. Engineering and design charges paid in UK, licence fee relating to imported goods payable by the buyer as a condition of sale, materials and components supplied by the buyer free of cost and actual insurance charges paid are all includible in the assessable value [Rule 10 of the Customs (Determination of Value of Imported Goods) Rules, 2007].
2. As per Explanation to section 14(1) of the Customs Act, 1962, assessable value should be calculated with reference to the rate of exchange notified by the CBEC.
3. If the goods are imported by air, the freight cannot exceed 20% of FOB price [Second proviso to rule 10(2) of the Customs (Determination of Value of Imported Goods) Rules, 2007]. Since in this case, the freight paid does not exceed 20% of FOB, so actual freight paid will be includible in the assessable value.
4. Landing charges @ 1% of the CIF value are includible in the assessable value, whether actually incurred or not [Clause (ii) of first proviso to rule 10(2) of the Customs (Determination of Value of Imported Goods) Rules, 2007].
5. Buying commission is not included in the assessable value [Rule 10(1)(a) of the Customs (Determination of Value of Imported Goods) Rules, 2007].
6. Only ship demurrage charges on chartered vessels are included in the cost of transport of the imported goods. Thus, demurrage charges for delay in clearing the machine from the Airport will not be includible in the assessable value [Explanation to Rule 10(2) of the Customs (Determination of Value of Imported Goods) Rules, 2007].

Question 7 (6 Marks)

Section 28BA of the Customs Act, 1962 provides that provisional attachment of property can be resorted to by the Proper Officer during the pendency of the following proceedings:

- (i) Under section 28, in respect of cases not involving suppression, collusion, wilful misstatement, etc. as well as in cases involving suppression, collusion, wilful misstatement, etc.
- (ii) Under section 28AAA, in relation to fraudulent utilization of duty relating to instruments issued under Foreign Trade (Development and Regulation) Act, 1992.
- (iii) Under section 28B, in relation to duties collected from buyers but not deposited with the Central Government.

(1 Marks)

Such an attachment shall be done only when the Proper Officer is of the opinion that the attachment is necessary for the purpose of protecting the interests of revenue. However, a previous approval of the Principal Commissioner/Commissioner of Customs, by order in writing, is a prerequisite for such provisional attachment.

(1 Mark)

Such an attachment can be done for a period of 6 months. This period will commence from the date of the order of the Principal Commissioner/Commissioner of Customs permitting such provisional attachment.

(1 Mark)

However, this period may be extended by the Principal Chief Commissioner/Chief Commissioner of Customs by such further period or periods as he thinks fit. The reasons for such an extension shall be

recorded in writing. It is to be noted that the total period of extension in any case shall not exceed 2 years. **(1 Mark)**

If an application for settlement of a case under section 127B is made to the Settlement Commission, the period commencing from the date on which such an application is made and ending with the date on which an order under section 127C(1) is made shall be excluded from the extended period mentioned above. **(1 Mark)**

Conclusion: Since as per section 28BA, provisional attachment of the property can be resorted to during the pendency of the proceeding under section 28, which includes cases involving non-fraud reasons too, claim of Mr. X is not right. **(1 Mark)**

Question 8 (6 Marks)

Rule 8 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, has been amended vide *Notification No. 14/2013 CE (NT) dated 22.11.2013* to provide that where whole or part of the excisable goods are not sold by the assessee but are used for captive consumption, the value of goods meant for captive consumption shall be 110% of the cost of production or manufacture of such goods.

Cost of production is to be determined as per 'Cost Accounting Standard (CAS)-4: Cost of Production for Captive Consumption' issued by ICWAI [*CBEC Circular No. 692/8/2003 dated 13.02.2003*].

Since in the present case, only a part of the excisable goods are used for captive consumption (80% of 1,000 units i.e., 800 units), assessable value of such 800 captively consumed units will be determined in accordance with rule 8 of Valuation Rules. The assessable value of remaining 200 units sold to unrelated buyers will be determined under section 4 of Central Excise Act, 1944 i.e., transaction value.

Computation of cost of production as per CAS-4 and value of product 'X'

S. No.	Particulars	
1.	Material consumed: (1 Mark)	
	Cost of direct materials	₹ 22,500
	Less: Central excise duty $\frac{₹ 22,500}{112.5} \times 12.5$	₹ 2,500 (Note 1)
		20,000
2.	Direct wages and salaries: (1/2 Mark)	
	Cost of direct salaries (including house rent allowance of ₹ 12,000)	30,000
3.	Works overheads:	
	Consumable stores and repairs (1/2 Mark)	8,400
	Depreciation of machinery (1/2 Mark)	500
4.	Quality control cost (1/2 Mark)	4,300
5.	Research & development cost (1/2 Mark)	2,700
6.	Administrative overheads (relating to production activity): (1/2 Mark)	<u>2,000</u>
	Total	67,900
	Less: Scrap value realized (1/2 Mark)	<u>1,500</u>
	Cost of production of 1,000 units of product 'X'	66,400
	Cost of production for 800 units of product 'X' $\frac{₹ 66,400}{1,000} \times 800$	53,120
	Add: Amortised cost of moulds and tools received free of cost from unit 'B' for being used only in the manufacture of goods to be consumed by unit 'B' (1/2 Mark)	<u>600</u>

Cost of production of 'X' produced for captive consumption		53,720
Value of 800 units of product 'X' consumed captively	[₹ 53,720 ×	59,092
110%](1/2 Mark)		

Notes:

1. Since CENVAT credit is available on central excise duty paid on direct materials, it has been deducted from the cost of direct materials in accordance with the Cost Accounting Standard-4 [CAS-4].
2. Administrative overheads in relation to activities other than manufacturing activities like project management activities have not been included in cost of production [CAS-4].
3. Interest and financial charge being a financial charge has not been considered to be a part of cost of production [CAS-4].
4. Abnormal cost like break down of machinery does not form part of cost of production [CAS-4].
5. Selling and distribution cost have not been considered while computing the cost of production as they are not in relation to production activity [CAS-4].

Value of 800 units of product 'X' consumed captively for the purpose of excise duty is ₹ 59,092.

Value of 200 units of product 'X' sold to unrelated buyers for the purpose of excise duty is ₹ 15,000 (200 units × ₹ 75) [Section 4 of Central Excise Act, 1944].

Question 9 (5 Marks)

- (i) **Computation of amount of CENVAT credit allowable for financial years 2014-15 and 2015-16: (2 Marks)**

		Amount [₹]
Cum duty price of Pollution Control Equipment	₹ 15,14,240	
Rate of excise duty	12.5%	
Excise duty paid on equipment		
= ₹ 15,14,240 $\frac{12.50}{112.50}$		1,68,248.89
Excise duty paid on equipment (rounded off)		1,68,249
CENVAT credit allowable on pollution control equipment for the		
Financial Year 2014-15 @ 50% [Note-1]		84,124.50
Financial Year 2015-16 @ 50% [Note 1]		84,124.50

- (ii) **Computation of amount payable towards CENVAT credit on disposal of equipment in the financial year 2016-17(3 Marks)**

Particulars	Amount (₹)	
Total CENVAT credit availed on the equipment		1,68,249
Less:		
(i) First 50% credit = [₹ 84,125 × 2.5%] × 10 quarters (credit availed on 01.09.2014)	21,031.25	
(ii) Next 50% credit = [₹ 84,125 × 2.5%] × 7 quarters (credit availed on 01.04.2015)	<u>14,721.88</u>	35,753.13
Amount payable on disposal of machinery		1,32,495.87
Duty leviable on transaction value (₹ 12,00,000 × 12.5%)		1,50,000
Amount payable towards CENVAT credit on disposal of equipment [Note 2]		1,50,000

Notes:

1. Pollution control equipment is an eligible capital goods under rule 2(a) of the CCR, 2004 and credit upto 50% can only be taken in the financial year in which the capital goods is received. Balance credit can be taken in any subsequent financial year. [Clause (a) and (b) of rule 4(2) of the CCR, 2004].
2. As per rule 3(5A) of the CENVAT Credit Rules, 2004, if the capital goods, on which CENVAT credit has been taken, are removed after being used, higher of the following two amounts has to be paid
 - (i) an amount equal to the CENVAT credit taken on the said capital goods reduced by 2.5% by straight line method for each quarter of a year or part thereof from the date of taking the CENVAT credit
 - OR
 - (ii) duty leviable on transaction value.
