



केन्द्रीय उत्पाद शुल्क एवं सेवा कर आयुक्त का कार्यालय  
नं.1, विलियम्स रोड, कन्टोनमेंट, तिरुच्चिरापल्ली - 620 001-

OFFICE OF THE COMMISSIONER OF CENTRAL EXCISE & SERVICE TAX  
NO.1 WILLIAMS ROAD, CANTONMENT, TIRUCHCHIRAPPALLI - 620 001.

Trade Notice No.2/2014

Date: 11.07.2014

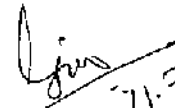
Sub: Service Tax - Manner of distribution of common input service  
Credit under rule 7(d) of the Cenvat Credit Rules, 2004-Regarding.

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Copy of letter F.No.334/15/2014-TRU (Circular No.178/04/2014-ST) received from  
Central Board of Excise & Customs, New Delhi is enclosed herewith for information.

The contents of the Trade Notice may be brought to the knowledge of the constituent  
members of the Trade Associations and Chamber of Commerce.

(Issued in File C.No.IV/16/4/2014-STC)

  
11.7.2014  
( K.B. RAJU )  
JOINT COMMISSIONER

Encl.As above

To  
As per Mailing List I /II /III

F.No.334/15/2014-TRU  
Government of India  
Ministry of Finance  
Department of Revenue  
Central Board of Excise & Customs  
Tax Research Unit

North Block, New Delhi  
11<sup>th</sup> July, 2014

To,

Chief Commissioners of Central Excise and Service Tax (All),  
Director General (Service Tax), Director General (Audit),  
Director General (Central Excise Intelligence),  
Commissioners of Service Tax (All),  
Commissioners of Central Excise and Service Tax (All).

Madam/Sir,

**Subject: Manner of distribution of common input service credit under rule 7(d) of the Cenvat Credit Rules, 2004 -- regarding.**

Doubts have been raised regarding the manner and extent of the distribution of common input service credit in terms of amended rule 7 [especially rule 7(d)] of the Cenvat Credit Rules, 2004 (CCR). Rule 7 provides for the mechanism of distribution of common input service credit by the Input Service Distributor to its manufacturing units or to units providing output services. An amendment was carried out vide Notification no. 05/2014-CE (N.T.) dated 24<sup>th</sup> February, 2014, amending inter-alia rule 7(d) providing for distribution of common input service credit among all units in their turnover ratio of the relevant period. Rule 7(d), after the amendment, reads as under:

*'credit of service tax attributable to service used by more than one unit shall be distributed pro rata on the basis of the turnover of such units during the relevant period to the total turnover of all its units, which are operational in the current year, during the said relevant period'*

2. These doubts have arisen with respect to the meaning of the words 'such unit' used in rule 7(d). It has been stated in the representations that due to the use of the term 'such unit', the distribution of the credit would be restricted to only those units where the services are used. It has been interpreted by the trade that in view of the amended rule 7(d) of the CCR, the credit available for distribution would get reduced by the proportion of the turnover of those units where the services are not used.

3. Rule 7 was amended to simplify the method of distribution. Prior to this amendment there were a few issues raised by the trade regarding distribution of credit under rule 7 such as determining the turnover of each unit for each month and distributing by following the nexus of the input services with the units to which such services relate. The amendment in the said rule was carried out to address these issues. The amended rule 7(d) seeks to allow distribution of input service credit to all units in the ratio of their turnover of the previous year. To make the intent of the amended rule clear, illustration of the method of distribution to be followed is given below.

4. An Input Service Distributor (ISD) has a total of 4 units namely 'A', 'B', 'C' and 'D', which are operational in the current year. The credit of input service pertaining to more than one unit shall be distributed as follows:

$$\text{Distribution to 'A'} = \frac{X}{Y} * Z$$

X = Turnover of unit 'A' during the relevant period

Y = Total turnover of all its unit i.e. 'A'+ 'B'+ 'C'+ 'D' during the relevant period

Z = Total credit of service tax attributable to services used by more than one unit

Similarly the credit shall be distributed to the other units 'B', 'C' and 'D'.

Illustration:

An ISD has a common input service credit of Rs. 12000 pertaining to more than one unit. The ISD has 4 units namely 'A', 'B', 'C' and 'D' which are operational in the current year.

Unit	Turnover in the previous year (in Rs.)
A (Manufacturing excisable goods)	25,00,000
B (Manufacturing excisable and exempted goods)	30,00,000
C (providing exclusively exempted service)	15,00,000
D (providing taxable and exempted service)	30,00,000
<b>Total</b>	<b>1,00,00,000</b>

The common input service relates to units 'A', 'B' and 'C', the distribution will be as under:

(i) Distribution to 'A' =  $12000 * \frac{2500000}{10000000}$

$$\begin{aligned} &= 3000 \\ \text{(ii) Distribution to 'B'} &= 12000 * 3000000/10000000 \\ &= 3600 \end{aligned}$$

$$\begin{aligned} \text{(iii) Distribution to 'C'} &= 12000 * 1500000/10000000 \\ &= 1800 \end{aligned}$$

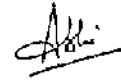
$$\begin{aligned} \text{(iv) Distribution to 'D'} &= 12000 * 3000000/10000000 \\ &= 3600 \end{aligned}$$

The distribution for the purpose of rule 7(d), will be done in this ratio in all cases, irrespective of whether such common input services were used in all the units or in some of the units.

5. Reference may be made to Sh. G. D. Lohani, Director (TRU) in case of any further doubt. Trade Notice/Public Notice may be issued to the field formations and tax payers. Please acknowledge receipt of this Circular.

6. Hindi version to follow.

Yours sincerely,



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Technical Officer, TRU  
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