

M/s. Khanelwal Extractions Ltd.

Authority for Advance Ruling — Uttar Pradesh

Order No. 07

Dated 25.05.2018

Q Questions Before the Authority

- Whether Mahua De-oiled cake/ De-oiled Rice Bran being used as an ingredient of Cattle Feed, Poultry Feed and other animal feeds and is 'Waste generated' during the Solvent Extraction process?
- Whether the applicant is eligible to get entire tax input credit of GST paid on purchase of Mahua Oil Cake/Rice Bran Oil cake used in the manufacture of solvent extracted oil?

F Facts

The applicant purchases Mahua oil cake and rice bran to manufacture solvent-extracted edible oil, which is a taxable supply under HSN 1515. The extraction process generates Mahua de-oiled cake and de-oiled rice bran, which are sold as ingredients for cattle, poultry, and fish feed. The applicant sought clarity on whether these outputs are considered waste and whether full Input Tax Credit (ITC) can be claimed on the raw materials used.

H Ruling

Classification of de-oiled cake/rice bran as waste

It is a ****by-product occurred during the Solvent Extraction process** used as feed ingredient.**

Classified as an exempt feed ingredient rather than unclassified waste.

Eligibility for full ITC on raw materials

ITC is ****partially allowed** and requires proportional reversal.**

Reversal is mandated under Chapter V of CGST Rules, 2017 for inputs used in exempt supplies.

The Authority held that de-oiled Mahua cake and de-oiled rice bran are by-products utilized in animal feeds rather than non-taxable waste. Because these by-products are exempt goods, the applicant is **not eligible for full ITC** on the raw oil cake and rice bran purchased. The applicant must perform **proportionate ITC reversal** under Section 17(2) of the CGST Act, 2017 read with Chapter V of the CGST Rules.

R Reasoning

The AAR observed that de-oiled rice bran and de-oiled cake are specifically exempted under Notification No. 2/2017-Central Tax (Rate) as amended by Notification No. 7/2018-Central Tax (Rate). Under **Section 17(2) of the CGST Act, 2017**, when common input goods are used for effecting both taxable supplies (solvent extracted oil) and exempt supplies (de-oiled feed ingredients), input credit cannot be taken in full. The applicant must restrict credit strictly to the portion attributable to taxable supplies and reverse the remaining credit proportional to the exempt supplies as prescribed in Chapter V of the CGST Rules, 2017.

P Provisions Relied On

Section 17(2) of CGST Act, 2017

Chapter V of CGST Rules, 2017

Notification No. 2/2017-Central Tax (Rate) dated 28.06.2017

Notification No. 7/2018-Central Tax (Rate) dated 25.01.2018

! For the Practitioner

This ruling establishes that exempt by-products arising out of a manufacturing process trigger **proportionate ITC reversal** under Section 17(2). Solvent extractors cannot claim full ITC on raw oil cakes or rice bran if the resulting de-oiled cake or bran is exempt from GST. It reinforces that common inputs generating both taxable main products and exempt by-products require strict compliance with Rule 42/43 ITC reversal mechanics.

Source

Summary prepared from the published order, which is a scanned document. It is a reading aid and not the authority: where the two differ, the order governs. Verify every provision against the original before relying on it.

Original order: www.gstcouncil.gov.in -> up aar 07 25.05.2018 kel.pdf

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