Metro Dairy Ltd

Authority for Advance Ruling — West Bengal

23/WBAAR/2019-20 Dated **23.09.2019**

Q Questions Before the Authority

- How far, and in what proportion, is input tax credit admissible on capital goods that the applicant bought for producing taxable UHT milk and that will also be used for producing exempt goods (milkshake, curd and lassi)?
- How far, and in what proportion, is input tax credit admissible on input services that are common to the production of taxable and exempt goods?

F Facts

The applicant has set up a plant to manufacture UHT milk (taxable), milkshake, curd and lassi (exempt). Commercial production of UHT milk began in December 2018, and the other products were expected to start later. Capital goods and input services are common to both taxable and exempt production.

H Ruling

Input tax credit on capital goods used for both taxable and exempt supplies	**Applicant must compute the admissible credit over the useful life of the capital goods, counted from the date of invoice, and reverse the balance already credited to the electronic credit ledger.**	The order states a useful life of sixty months from the date of invoice under rule 43(1)(c). The applicant's argument that the period should run from commencement of commercial production was not accepted. Apportionment follows the proviso to rule 43(1)(d) and rule 43(1)(e), (f) and (g).
Input tax credit on input services common to taxable and exempt supplies	**The entire input tax on input services is admissible during 2018-19.**	Subject to the provisions of rule 42(2). This follows because commercial production of exempt goods had not begun in 2018-19, so the exempt-attributable share (D1) is zero for those periods.

The Authority agreed with the Revenue that input tax on capital goods first used only for taxable supplies must be credited in full, then apportioned over the useful life under rule 43, with the balance reversed once exempt production starts. For input services, **the entire input tax is admissible during 2018-19** , because no exempt supplies were made in that year, so the exempt-attributable share is nil.

R Reasoning

The Authority applied section 17(2) and (3) of the GST Act, read with rules 42 and 43 of the CGST and WBGST Rules. For capital goods, it adopted the Revenue's method: the input tax initially credited is treated as a corpus,

Prepared as a reading aid. Where this summary and the original order differ, the order governs.

and the portion attributable to taxable supplies in the period before exempt production began is worked out under the proviso to rule 43(1)(d). The remaining balance is then apportioned under rule 43(1)(e) to (g) over the sixty-month useful life from the invoice date. For input services, the Authority relied on rule 42(1)(h) to (m). It applied the formula D1 = (E/F) x C, where E is the value of exempt supplies and F is total turnover in the State. Because E is nil in 2018-19, no common credit is attributable to exempt supplies in that year. It also presumed the applicant makes no exempt supplies other than those it manufactures.

P Provisions Relied On

- Section 17(2) and (3) of the CGST/WBGST Act, 2017
- Section 97(2)(d) of the CGST Act, 2017 (admissibility)
- Section 100 of the CGST Act, 2017 (appeal reference in preamble)
- Section 103 of the CGST Act, 2017 (validity of ruling)
- Section 104(1) of the CGST Act, 2017 (ruling declared void)
- Rule 42 of the CGST/WBGST Rules, 2017, including rule 42(1)(h), (i), (j), (k), (l), (m) and rule 42(2)
- Rule 43 of the CGST/WBGST Rules, 2017, including rule 43(1)(b), (c), (d) and its proviso, (e), (f) and (g)

! For the Practitioner

This ruling is useful to a dairy or food manufacturer that makes both taxable and exempt products from shared plant and services. It confirms that capital goods are credited in full and then reversed over a sixty-month period from invoice date, and that input services remain fully creditable until exempt production begins. It does not settle the apportionment figures for any particular year. It also does not address whether the useful life runs from invoice date or from commencement of production in other fact situations, and it is limited to the applicant's facts.

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 -> wb_aar_23_2019-20_mdl_23.09.19.pdf

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