

Distribution of Credit by ISD
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Rule 7 of the Cenvat Credit Rules, 2004 has been substituted vide Notification 18/2012 CE NT Dated 17.03.2012, with effect from 01.04.2012, prescribing the manner in which cenvat credit can be distributed by an Input Service Distributor. In order to better understand the provisions, the following illustration can be given.

Illustration for distribution of credit by ISD.

- Distribution of credit for the month of April 2012.
- Let us assume that there are 3 units, Viz., Unit I, Unit II and Unit III for a company. Unit II is availing area based exemption and not paying any duty. Unit I Manufactures both dutiable and exempted goods. It also renders various services. Unit III manufactures only dutiable goods.

S.No	Details	Amount / Remarks
1	Cenvat credit on input services, exclusively pertaining to Unit II, for which invoices are received in ISD and payments made by ISD. (Example: Advertisement in respect of the product, manufactured only in Unit II; Security / telephone services pertaining exclusively to unit II.	Should not be distributed at all.
2	Cenvat credit on input services, which are common for all units – Availed by ISD during April 2012. (Example : auditing of the company as a whole, security, telephone, and other services availed in HQ, advertisement common for products of all units, etc.)	Rs.5,00,000
3	Turnover of the units during April 2012	
	Unit I – Dutiable goods – Domestic	Rs.50,00,000
	Unit I – Exempted goods – Domestic	Rs.25,00,000
	Unit I – Export	Rs.15,00,000
	Unit I – Services provided (exempted services, taxable services and export of services)	Rs.15,00,000
	Unit II – Exempted goods	Rs.20,00,000
	Unit III – Dutiable goods	Rs.30,00,000
4	Total turnover, as defined in Rule 5 of the CCR, 2004	Rs.1,55,00,000
	Proportionate credit to be distributed.	
	Unit I	$5,00,000 * 1,05,00,000 / 1,55,00,000 = \text{Rs.}3,38,710.$ Credit should be transferred in proportion of Unit I's turnover to total turnover, which also includes the value of exempted goods / exempted services. But Unit I would either reverse proportionate credit attributable to exempted goods / exempted services or pay 6 % of the value of exempted goods / exempted services, as per Rule 6 of CCR, 2004. For such reversal under Rule 6, the formula prescribed in Rule 6 would apply, which is provisional reversal based on last year's proportion of exempted turnover to total turnover and final reversal after finalisation of accounts
	Unit II	No credit can be transferred as Unit II is exclusively manufacturing exempted goods.
	Unit III	$5,00,000 * 30,00,000 / 1,55,00,000 = \text{Rs.}96,774$

It may be observed that since the turnover of all units can be ascertained only on first day of next month (hopefully), ISD can distribute the credit only on 1st of May for April. As this credit can be taken only on 1st May by the units, the same cannot be used for paying duty for the month of April, on 5th May as per first proviso under Rule 3 (4). Otherwise, the ISD invoice for every month should be issued on the last day of the month, by doing all the above calculations on the last day of the month itself and the units shall also take credit on the last day of the month.