

## **Excise impact on jewellery**

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### **Background:-**

In the union budget it was announced that jewelry excluding Silver jewellery other than which stubbed with diamonds and precious stones will be liable to excise duty from 01.03.2016. In order to bring the jewelry people in tax bracket, government started imposing excise duty on jewelry. **As per the basic understanding, the liability to pay Central Excise duty is on the person who manufactures the goods irrespective whether he has manufactured on his own or has done to a principle on a job-work basis but in the case of jewelry sector, the person who gives order to job worker to make jewelry needs to pay the excise duty on jewelry and not the job worker/Manufacturer.** However, excise duty needs to be paid at the time of removal from the place of manufacture. Further, excise duty shall not be payable on stock available as on 01.03.2016 in show room as the same was removed from Job worker Place and excise duty needs to be payable on removal from the place of manufactures. However if the showroom and the place of manufacture is once and the same then the stock as on 01.03.2016 suffers tax.

**Rate of Duty:-** Rate of duty will be 1% on jewelry without CENVAT Credit on Capital goods and Inputs. However, CENVAT Credit can be taken on Input services. Further, With CENVAT Credit duty needs to be paid at the rate of 12.5%.To avail the benefit of 1% than jewellery must be manufactured out of input and capital bought on which excise duty has been paid.

For example:if a jeweler purchase inputs of Rd.100 and excise duty has been paid at 12.5% which is rs.12.5 and jewellery has been manufactured and valued at 120 on the date of clearance from place of manufacture and excise duty has been charged at 12%which is 15 than he needs to pay the duty of Rs.2.5 (15-12.5) to the credit of the central government or he can pay Rd.1.2 without availing cenvat credit and not required to keep any document for credit. However, if the said input is not purchased from excise dealer or manufacture than he has no other option except paying at 12.5% i.e Rs.15.

**Note:-** If jeweler wish to pay duty at 12.5% after availing CENVAT Credit on Input, Capital good, Input Service, than Reversal of CENVAT Credit under 6(3) of CENVAT Credit Rules,2004 may get applicable as trading generally take place at the jewellery business. Jeweler needs to reverse the credit attributable to trading of goods.

**SSI Exemption:-**

- A Person can avail this exemption when value of clearance of manufacture goods of jeweler is less than Rs.12 crores in previous year than upto Rs.6 crores in current year person does not required to pay duty. However, CENVAT Credit on inputs and Capital Goods should not be availed upto Rs. 6 Crores.
- When customer give old gold and wants to make jewelry out of it and jeweler manufacturing the jewelry out of the provided old gold, than he (jeweler manufacturing) should be treated as job worker and SSI exemption will be available to customer and not the job worker.

**Valuation:-** If the workshop/showroom is at same than duty can be paid at the time of sale to customer on the Transaction Value, however if both are not same than duty needs to be paid when the jewellery has been cleared from workshop to showroom and needs to be calculated by taking value prevailing at show room on the day clearance from workshop.

**Payment of duty:-** Duty needs to be paid on or before 6th of the succeeding month, and in case of month of march duty needs to be paid on 31st march. It will be difficult to calculate on the duty on the day of 31st march as the clearance would be there on 31st march also. In that case clearance could be stopped in last hours of that day and can be postponed to next day. However, if that would not be possible than duty can be calculate on provisional basis and on actual assessment on next day if it falls short payment of duty than differential duty must be paid along with interest at the rate of 15%p.a. Further, if it would be excess payment of duty than the same shall be refunded along with interest at the rate of 15%p.a from next day.

**Registration:-** Every person who manufactures, produces or holding private showroom and gets jewellery manufactures on job work-basis required to get registration under Central Excise. Registration needs to be taken within 30 days from the day

when liability arises. Registration may be obtained by June 2016 as the circular issues in this regard. Registration will be granted within 2 working days in case of jewellery registration. There shall not be physical visit for giving the registration unlike any other manufacturer.

**Records:-**

- If the jeweler wish to pay duty at the rate of 1% than he needs to maintain daily stock account (i.e. Production register) and CENVAT Credit register of input service as CENVAT Credit is eligible only on input service for the jeweler who wish to pay at 1%.
- If the jeweler wish to pay duty at the rate of 12.5% than he needs to maintain in addition to above records CENVAT Credit on Inputs & Capital goods.
- Job work register needs to be maintained for goods sent for job work premises.

**Return:-** Return must be filed by jeweler in ER-8 in case he is paying duty under 1% and ER-1 in case he is paying duty @ 12.5%.

**Effect of excise on jewellery:-** Generally in case of manufacturing the manufacture pay the duty while removing the goods from factory for sale and can recover the same as excise duty from the customer. Whereas in case of jewelry sector the showroom person who give order to job-worker to make jewelry, needs to pay the at the time of removal but cannot recover the same as excise duty from customer as at 2nd point of time it does not amount to manufacture. However, the same should be recovered as product cost which means the credit cannot be passed on and the same will be borne by the purchaser of jewelry from show room. The ultimate effect will be end user paying more money as cost of jewellery which will be included on Cost of jewellery plus excise duty plus Profit margin.