

Valuation of Excisable goods when price is not the sole consideration

Introduction

Excise duty is computed on the value of goods manufactured by applying the rates in force. Goods can be evaluated on the following basis:

1. Based on specific duty
2. Based on Tariff section (Sec 3(2) of Central excise act)
3. Based on compounded levy scheme (Rule 15 of Central Excise act, 1944)
4. Based on MRP (Section 4A of the Central excise act 1944)
5. Based on Transaction value (Sec. 4(1) of Central Excise act)

Where, under this act, duty of excise is chargeable on any excisable goods with reference to their value, it shall be transaction value. However, one of the conditions is, 'price is sole consideration for the same.'

Determination of Price of Excisable Goods

When price is not the sole consideration, the value should be determined as per Rule 6 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, wherein the value of such goods shall be deemed to be the aggregate of the transaction value and the amount of money value of any additional consideration flowing directly or indirectly at free or reduced cost from the buyer to the assessee.

The buyer may supply any of the following directly or indirectly, free or at reduced cost:

- value of materials, components, parts and similar items relatable to such goods;
- value of tools, dies, moulds, drawings, blue prints, technical maps and charts and similar items used in production of such goods;
- value of material consumed, including packaging materials, in the production of such goods;
- value of engineering, development, art work, design work and plans and sketches undertaken elsewhere other than in the factory of production and necessary for the production of such goods.

In such cases, value of such additional consideration will be added to the price charged by the assessee to arrive at the 'transaction value'.

Further, where an assessee receives any advance payment from the buyer against delivery of any excisable goods, no notional interest on such advance shall be added to the value unless the Central Excise Officer has evidence to the effect that the advance received has influenced the fixation of the price of the goods by way of charging a lesser price from or by offering a special discount to the buyer who has made the advance deposit.

Shikha Singhania

Example

A, an assessee, manufactures and supplies certain goods as per design and specification furnished by B at a price of Rs. 10 lakhs. A takes 50% of the price as advance against these goods and there is no sale of such goods to any other buyer. There is no evidence available with the Central Excise Officer that the notional interest on such advance has resulted in lowering of the prices. Thus, no notional interest on the advance received shall be added to the transaction value.

In *Texmaco Ltd V. CCE (1991) 77 ELT 501 (SC)*, the assessee was manufacturing wagons for railways. Railways had supplied wheels and axles which were used by the company in manufacturing railway wagons. It was held that the value of this material should be added for considering the value of the wagons for purpose of excise duty.

Valuation in case of Job worker

Sometimes the buyer/trader supplies raw materials and manufacturing operations are carried out by Job worker/ processor as per requirements of buyer/trader and the material is returned to the buyer after job work/processing.

In such case, duty is payable by job worker on basis of price at which goods are sold by raw material supplier in the market (Rule 10A). Since excise is a duty on such goods, it is immaterial who has supplied the raw material.

In many cases the buyer/trader supplies patterns/dies/masters etc., it is obvious that price charged is not the sole consideration. In such cases, proportionate cost should be added to transaction value to arrive at assessable value. However, if cost of pattern/die is not charged separately, it is obvious that its cost is included in the selling price of final product and hence separate addition is not necessary. It is the same with cost of drawings, charts etc.