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IN THE HIGH COURT OF JUDICATURE AT MADRAS

DATED: 11.08.2021

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THE HONOURABLE DR. JUSTICE ANITA SUMANTH

W.P. Nos.14166, 14176, 14171, 14173 & 14175 of 2021
and
WMP. Nos.15052, 15054, 15055, 15046 & 15051 of 2021

M/s.R.K.Ganapathy Chettiar
Rep. by its Partner
138, Mathur Road,
Veeranampalayam, Kangeyam.

... Petitioner in all WPs

Vs

The Assistant Commissioner (ST),
Kangeyam Assessment Circle, Kangeyam.

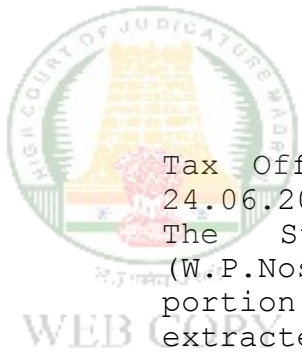
... Respondent in all WPs

Common Prayer: Writ Petitions filed under Article 226 of the Constitution of India praying to issue Writ of Certiorari, to call for the records of the respondent in his proceedings in TIN 3323080006/2011-12, TIN 3323080006/2015-16, TIN 3323080006/2012-13, TIN 3323080006/2013-14 and TIN 3323080006/2014-15 respectively, quash the assessment order dated 08.06.2021 made therein.

For Petitioner (in all WPs)	:	Mr.R.L.Ramani, Senior Counsel for Mr.B.Raveendran
For Respondent (in all WPs)	:	Mr.T.N.C.Kaushik Government Advocate

COMMON ORDER

Pleadings are complete in the matter and both learned counsel would bring to the attention of this Court that the issue relating to reversal of Input Tax Credit (ITC) on invisible loss, in terms of Section 19(9)(iii) of the Tamil Nadu Value Added Tax Act, 2006 (in short 'Act') occasioned during the process of manufacture of Ghee, is covered by earlier decisions of this Court in the case of Rupa and Co. Ltd. Vs. CESTAT, Chennai (324 ELT 295) applied in the context of Commercial Taxes in A.R.S. Steels and Alloy International Pvt. Ltd. Vs. The State



Tax Officer, Chennai (W.P.Nos.2885 of 2020 and batch) dated 24.06.2021 and Saradhambika Paper and Board Mills Pvt. Ltd. Vs. The State Tax Officer, Gobichettypalayam and Another (W.P.Nos.590 of 2021 and batch) dated 30.06.2021. The relevant portion of the order in W.P.Nos.2885 of 2020 and batch is extracted below:

'This batch of Writ Petitions relates to two sets of assessment orders passed in the case of two assesseees under the provisions of Goods and Services Tax Act, 2017 (in short 'GST Act') for the periods 2017-18, 2018-19 and 2019-20. They are disposed by way of this common order, since the legal issue that arises in these cases is one and the same.

2. In W.P.No.3936 of 2020, it is argued by Mr.Joseph Prabakar, learned counsel for the petitioner that an additional issue is raised in regard to stock reconciliation. The admitted position as far as this issue is concerned is that the vehicle movement register correlating to the vehicle gate passes issued, have been specifically sought for by the authorities but not produced at the time of assessment. Though the learned counsel for the petitioner states that the details have produced before this Court, learned counsel for the respondent would point out that this issue is factual in nature and as such, it would be better that the petitioner approach the appellate authority by way of a statutory appeal.

3. I agree, Since the evidences in support of the petitioner's stand have been produced only at this stage, it would be appropriate that this issue should be dealt with by the departmental authorities at the first instance. The petitioner is permitted to file a statutory appeal as regards this issue within a period of four weeks (4) from today.

4. As far as W.P.Nos.2885, 2888 and 2890 of 2020 are concerned, Mr.Mudimannan, learned counsel for the petitioner submits that apart from the legal issue raised in these Writ Petitions, statutory appeals have been filed with regard to the other issues.

5. This order is thus confined to a decision on the legal issue as to whether a reversal of Input Tax Credit (ITC) is contemplated in relation to loss arising from manufacturing process.



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6. The petitioners are engaged in the manufacture of MS Billets and Ingots. MS scrap is an input in the manufacture of MS Billets and the latter, in turn, constitutes an input for manufacture of TMT/CTD Bars. There is a loss of a small portion of the inputs, inherent to the manufacturing process. The impugned orders seek to reverse a portion of the ITC claimed by the petitioners, proportionate to the loss of the input, referring to the provisions of Section 17(5)(h) of the GST Act.

7. As regards the Legislative history of this provision, the erstwhile Tamil Nadu Value Added Tax Act, 2006 (in short 'TNVAT Act') contained an equivalent provision in Section 19 thereof, which deals with various situations arising from the grant and reversal of ITC. Section 19 (1) grants eligibility to ITC of the amount of tax paid under the TNVAT Act by a registered dealer. It sets out situations where such ITC shall be denied as well.

8. The provisions of Section 19, as relevant for the issue dealt with in these matters, are extracted below:

19. Input tax credit .-

(1) There shall be input tax credit of the amount of tax paid Omitted[or Payable] under this Act, by the registered dealer to the seller on his purchases of taxable goods specified in the First Schedule :

Provided that the registered dealer, who claims input tax credit, shall establish that the tax due On purchase of goods has actually been paid in the manner prescribed by the registered dealer who sold such goods and that the goods have actually been delivered Provided further that the tax deferred under section 32 shall be deemed to have been paid under this Act for the purpose of this sub-section.

.....

(8) No input tax credit shall be allowed to any registered dealer in respect of any goods purchased by him for sale but given away by him by way of free sample or gift or goods consumed for personal use.



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- (e) goods or services or both on which tax has been paid under section 10;
- (f) goods or services or both received by a non-resident taxable person except on goods imported by him;
- (g) goods or services or both used for personal consumption;
- (h) goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples; and
- (i) any tax paid in accordance with the provisions of sections 74, 129 and 130.

10. The impugned assessment orders reject a portion of ITC claimed, invoking the provisions of clause (h) extracted above. This relates to goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples. In my considered view, the loss that is occasioned by the process of manufacture cannot be equated to any of the instances set out in clause (h) above.

11. The situations as set out above in clause (h) indicate loss of inputs that are quantifiable, and involve external factors or compulsions. A loss that is occasioned by consumption in the process of manufacture is one which is inherent to the process of manufacture itself.

12. In the case of Rupa & Co. Ltd. V. Cestat, Chennai (2015 (324) ELT 295), a Division Bench of this Court decided a question of law in regard to the entitlement to Cenvat credit involving the measure of inputs used in the manufacturing process, in terms of the provisions of Section 9A and 2(g) of the CENVAT Credit Rules, 2002.

13. In that case, a certain amount of input had been utilised by the assessee, whereas the input in the finished product was marginally less. The department proceeded to reverse the cenvat credit on the difference between the original quantity of input and the input in the finished product.

14. The Bench, noticing at paragraph 13 that some amount of consumption of the input was inevitable in the manufacturing process, held that cenvat credit should be granted on the original amount of input used notwithstanding that the entire amount of input would not figure in the finished product. They state at paragraph 13 as follows:



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13. To say that what is contained in finished product is only a quantity of all the inputs of the same weight as that of the finished product would presuppose that all manufacturing processes would never have an inherent loss in the process of manufacture. The expression 'inputs of such finished product', 'contained in finished products' cannot be looked at theoretically with its semantics. It has to be understood in the context of what a manufacturing process is. If there is no dispute about the fact that every manufacturing process would automatically result in some kind of a loss such as evaporation, creation of by-products, etc., the total quantity of inputs that went into the making of the finished product represents the inputs of such products in entirety.'

15. In the light of the discussion as above, I am of the view that the reversal of ITC involving Section 17(5)(h) by the revenue, in cases of loss by consumption of input which is inherent to manufacturing loss is misconceived, as such loss is not contemplated or covered by the situations adumbrated under Section 17(5)(h).

16. The impugned orders to the above extent are set aside. Writ Petitions in W.P.Nos.2888, 2890 and 3936 of 2020 are partly allowed and W.P.Nos.2885, 3930 and 3933 of 2020 are allowed in full. No costs. Connected Miscellaneous Petitions are closed.'

2. The above order has been passed in the context of TNVAT and would be applicable to the facts and legal position in this case as well. The sole distinction is that the commodity in that case was steel whereas the product in the present case is Ghee and this difference is not material.

3. These writ petitions are allowed. No costs. Connected Miscellaneous Petitions are closed.

Sd/-
Assistant Registrar(CS IV)

//True Copy//

Sub Assistant Registrar

vs



To

The Assistant Commissioner (ST),
Kangeyam Assessment Circle,
Kangeyam.

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+1cc to M/s.Special Government Pleader (Taxes) Sr No.40526

+1cc to M/s.B.Raveendran, Advocate Sr No.40475

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and

WMP. Nos.15052, 15054, 15055, 15046 & 15051 of 2021

JPII (CO)

PR (06/09/2021)