

Cenvat Credit on Capital Goods

Introduction

Cenvat Credit is available on capital goods used by the manufacturer or service provider.

Definition of 'Capital Goods'

Rule 2(a) of Cenvat Credit Rules defines 'capital goods' as follows –

A. All goods classified as –

- Falling under chapters 82, 84, 85, 90, heading 6805, grinding wheels and the like, and parts thereof falling under heading 6804 of the First Schedule of the Central Excise Tariff Act
- Pollution control equipment
- Components, spares and accessories of the goods specified in clauses (1) and (2) above
- Moulds and dies, jigs and fixtures
- Refractories and refractory materials
- Tubes and pipes and fittings thereof;
- Storage tank and
- Motor vehicles other than those falling under tariff headings 8702, 8703, 8704, 8711 and their chassis, but including dumpers and tippers, used-
 - (1) in the factory of the manufacturer of the final products, but not including any equipment or appliance used in an office; or
 - (1A) Outside the factory of the manufacturer of the final products for generation of electricity for captive use within the factory; or
 - (2) For providing output service,

B. Motor Vehicles designed for transportation of goods including their chassis, registered July, 2012, if used for:

- Providing an output service of renting of such motor vehicle or
- Transportation of inputs and capital goods used for providing an output service or
- Providing an output service of courier agency

C. Motor Vehicles designed to carry passengers including their chassis, registered in the name of the service provider, is considered as capital goods w.e.f. 1st July, 2012 if used for providing an output service of

- transportation of passengers,
- renting of such motor vehicle, or
- imparting motor driving skills

D. Components, spares & accessories of motor vehicles which are capital goods for the assessee

Analysis of definition

- Capital goods covered in clause (A) (I): Tools, hand tools, knives etc. under chapter 82, Machinery under chapter 84, Electrical machinery under chapter 85, Measuring, checking and testing machines etc. under chapter 90, Abrasive powder or grain on the base of textile material, of paper, of paper board or other materials, falling under chapter heading 6805.

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- Spare parts etc need not fall under chapter 82, 84, 85 or 90. They can fall in any chapter but they should be part, component or accessory of machinery specified in clause (i)
- Capital goods need not be brought in the premises of service provider. However documentary evidence of delivery and location of capital goods should be maintained – fourth proviso to Rule 4(2)(a) of Cenvat Credit Rules inserted w.e.f. 1-4-2012.
- Installation/ use of capital goods are not required for taking Cenvat credit.
- Even capital goods obtained on hire purchase/ lease / loan are eligible for Cenvat credit – Rule 4(3) of Cenvat Credit Rules.
- Cenvat credit can be availed on the Capital goods purchased prior to obtaining registration with Central Excise but can be utilized only after crossing the full exemption limit.
- The excluded Motor vehicles are as follows:
 - Motor vehicle for transport of 10 or more persons including driver – 8702
 - Motor cars, station wagons racing cars – 8703
 - Motor vehicles for transport of goods – 8704
 - Motor cycles and Mopeds – 8711.
- Components, spares and accessories of motor vehicles will be eligible for Cenvat credit as capital goods.
- Capital goods used exclusively for exempted final products and output services are not eligible for claiming Cenvat Credit.
- Rule 2(a)(A)(1) i.e, 'in the factory of the manufacturer of the final products, but does not include any equipment or appliance used in an office' is specifically applicable to manufacturers that means Cenvat on equipment or appliance is available if it used by service provider.
- Capital goods should be used in the factory. Purpose for which it is used is immaterial.
- In case of service provider capital goods should be used for providing output services, the use may be anywhere.
- Depreciation cannot be availed on the excise portion of capital goods if the assessee has availed Cenvat Credit.
- 50% credit is available in current year and balance in subsequent financial year or years, except in case of SSI
- Removal of capital goods after use or as waste and scrap, the manufacturer or service provider has to reverse the credit after availing the following rate of depreciation or on the transaction value, whichever is higher:
 - a) For computers and computer peripherals:
 - for each quarter in the first year @10%
 - for each quarter in the second year @8%
 - for each quarter in the third year @ 5%
 - for each quarter in the fourth and fifth year @1%

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- b) For capital goods, other than computers and computer peripherals, @ 2.5% for each quarter.
- If some goods are purchased to manufacture capital goods within the factory, these will be inputs for Cenvat credit.