

Cenvat Credit on Inputs

Introduction

The definition of Input contained in Rule 2 (k) has been revised w.e.f.01/04/2011 and now mentions 'Goods used in or in relation to the manufacture of the final product.'

Inclusions:

- All goods used in the factory by the manufacturer of the final product.
- All goods including accessories cleared along with the final product and goods used for giving free warranty.
- Similarly, goods used for generation of electricity or steam for captive use also constitute inputs.
- All goods used for providing Output Service.

Exclusions:

- Light Diesel oil, high speed diesel oil, Motor spirit commonly known as Petrol.
- Any goods used for construction of building or a civil structure or laying of foundation or making of structure for support of capital goods.
- Motor Vehicles (In case of specific service providers, motor vehicle is regarded as capital goods.)
- Capital goods except when used as parts or components in the manufacture of a final product
- Any goods, such as food items, goods used in a guesthouse, residential colony, club or a recreation facility and clinical establishment, when such goods are used primarily for personal use or consumption of any employee
- Goods having no relationship whatsoever with the manufacture of final product

Conditions for availing Cenvat Credit on Inputs

Rule 4 of CENVAT Credit Rules 2004 provides for certain conditions to be fulfilled for availing CENVAT Credit.

- CENVAT credit can be availed immediately on the receipt of the goods in the registered premises of the person who gets the final products manufactured.
- Physical receipt of input is prerequisite for the availment of credit.
- It is not necessary that input should be directly used in the manufacture of final product as the word used in the definition is **“all goods used in the factory...”** not **“all goods used in the manufacture of final product....”**
- In case of removal of input as such, credit availed earlier needs to be reversed in full.

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- In case, value of any input is written off **fully or partially** or provision has been made in the books of account **fully or partially** before such input is being put to use, equivalent credit is required to be written off. In case such input is subsequently used in the manufacture of final product, credit earlier reversed may be taken back.
- Cenvat credit on input, input services and capital goods is not available when the final product manufactured by the manufacturer is chargeable to duty @ 1% under Notification 1/2011-CE.
- In case of import of inputs and capital goods, Cenvat credit of the Basic Customs Duty is not available.
- Input credit is not required to be reversed where final products are exported or deemed to be exported.
- Capital goods not defined as capital goods under Cenvat credit rules will be eligible as 'inputs' if used in factory and has some relation with manufacturing.
- Cenvat credit on goods for personal consumption of employees is not eligible as input.
- Cenvat is available on entire quantity of input even if part of input goes in process loss, since all inputs are used in the manufacture of final product, even if it is not reflected in the final product.
- If inputs are short received and there is loss during transit, the goods short received cannot be termed as 'used in the factory'. Hence Cenvat credit on such short received inputs is not available.

Thus an Assessee can claim Cenvat credit on inputs if these are used in relation to manufacture of final product or for providing an output service. The coverage is vast and Cenvat credit on any goods, including capital goods (if not covered under the definition of capital goods) can be claimed but the requirement is that the assessee should be able to prove that it is required in the business.