

MANUFACTURE YOUR CAPITAL GOODS

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Introduction of CENVAT credit on Capital goods, is a corner stone in the CENVAT scheme. With its inception since 1994, the scheme of CENVAT credit on capital goods has gone a roller-coaster. On date, governed by the CENVAT credit Rules 2002, the capital goods are well defined under Rule 2 (b) of the said rules. The conditions for allowing CENVAT credit on capital goods as per Rule 4 of the said rules are as under:

1. Only upto 50% of the duty paid on the capital goods can be availed as credit in the financial year of the receipt of such capital goods.
2. The balance 50% to be availed on any subsequent financial year subject to the condition that such capital goods are in possession and use in the factory in such subsequent years.
3. No depreciation to be availed in respect of the amount of duty on such capital goods under Section 32 of IT Act 1961.

These conditions are not imposed on inputs on which CENVAT credit is availed. In other words, the manufacturer can avail 100% of the duty paid on inputs whereas the capital goods has the above embargo.

Explanation 2 to Rule 2 of CENVAT credit Rules 2002, reads as under:

“Inputs include goods used in the manufacture of capital goods which are further used in the factory of the manufacturer”. From the above, it could be observed that, if a manufacturer manufactures capital goods within his factory and further use the said capital goods within his factory, he is entitled to avail credit on all the inputs used for the manufacture of such capital goods. In other words, if he purchases capital goods he will be entitled only for 50% of the credit during the year of receipt whereas he is entitled for the full 100% of the credit if he desires to manufacture such capital goods.

Such capital goods manufactured by the manufacturer and used within his factory are categorically exempted vide notification 67/95.

The above situation leads to a conclusion that, in case of the same capital goods, a manufacturer who procures the capital goods as such and avail CENVAT credit on the same is placed at a disadvantageous position against a manufacturer who procures inputs and manufacture such capital goods and use them within his factory of production.

So, whenever you intend to purchase capital goods, please think for a while and see whether you can manufacture it by yourself.