

CAPITAL GOODS

Definition of the term “Capital Goods” under the Central Goods and Services Tax (CGST) Act, 2017 :

As per Section 2(19) of the Central Goods and Services Tax (CGST) Act, 2017, unless the context otherwise requires, the term “capital goods” means goods, the value of which is **capitalised in the books of accounts** of the person claiming the input tax credit and which are **used or intended to be used** in the course or furtherance **of business**.

This will have the effect that certain goods will be considered as inputs even when they are used with capital goods if the said goods are not capitalised in the books of accounts.

However, **non-capitalisation of goods** in books of accounts will also lead to **loss of claim of depreciation** by the assessee

Goods that are **used with capital goods** but are **not capitalised** will have **effect** in following situations:

1. The provisions regarding payment of amount on **supply of used capital goods** will not apply for such goods. In case of supply of capital goods or plant and machinery on which input tax credit has been taken, the registered taxable person shall pay an amount equal to the **input tax credit taken** on the said capital goods or plant and machinery **reduced by percentage** points as prescribed or **transaction value** of capital goods whichever is **HIGHER**.
2. There is different **time period** specified for job work of inputs and capital goods. In case of job work of **inputs**, the time limit for receipt of goods by the principal is specified as **one year**, while in case of job work of **capital goods**, the time limit for receipt of capital goods by the principal is specified as **three years**.

If the goods are not capitalised, lesser time as applicable in case of inputs would be relevant

ITC Rules for Capital Goods under GST: RULE 43

Below are the high level rules for determination of Input Tax Credit (ITC) w.r.t. Capital Goods and reversal if any:

A. Credit of Input Tax will not be available on the following:

- i. Capital Goods used exclusively for effecting **exempt supplies**
- ii. Capital Goods used exclusively for **non-business (personal) activity**

B. Credit of Input Tax will be available in totality where Capital Goods have been used for effecting taxable supplies and business activity without any restrictions

C. Amount of input tax referred in above **points A and B must be indicated in Form GSTR-2** and however only point **B will be credited to electronic credit ledger.**

D. Where Capital Goods is used **commonly for exempt and taxable supplies and/or business and non-business** activity the credit of input tax shall be calculated in the following manner:

1. Such amount shall be credited to Electronic Credit Ledger
2. Useful life of such capital good shall be taken to be 5 years from the date of purchase
3. Now the total amount of input tax credited to Electronic Credit Ledger w.r.t. whole useful life such common capital good shall be distributed over the useful life

Credit for tax period = input tax credited to electronic ledger
60 months (5yrs*12mths)

4. The above amount shall be calculated for all such common capital goods for every tax period namely a month

5. The amount of credit to be **added to output tax liability attributable to exempt supplies**

=
$$\frac{\text{Value of exempt supplies} * \text{credit for period}}{\text{Total turnover}}$$

6. Remaining amount *after deducting credit attributable towards exempt supplies* will be allowed as ITC

7. All the above calculations must be done separately for:

• Central tax • State Tax • Union Territory Tax • Integrated Tax

E. Where a capital good which was earlier used or intended to be exclusively used for:

1. Non- business purpose
2. Effecting exempt supplies

Later to be used commonly as under **point D** for:

1. Business and non-business purpose
2. Effecting taxable and exempt supplies

Input tax to be credited to electronic credit ledger would be:

= Input Tax – 5% of Input tax for every quarter or part thereof

Let us understand the situation through an example

Mr. XXX bought a Capital Good intended to be used for effecting exempt supplies only, for Rs 1,00,000/- paying Rs 28,000 as input tax on 01/04/2017 and now on 12/12/2018 he wishes to use the capital good commonly for taxable and exempt supplies.

Now the eligible common input tax credit will be calculated as follows

= Input Tax – 5% of Input tax for every quarter or part thereof

= 28,000 – 5% of 28000 * 3 quarters

= 28,000 – 4200

= 23800

Now Mr. Avinash will credit Rs 23,800 to Electronic Credit ledger and follow the steps shown in point D to calculate the input tax attributable to exempt supplies out of common credit

F. Where a capital good which was earlier used, or intended to be exclusively used for effecting taxable supplies and business purpose

Later to be used commonly for

1. Business and non-business purpose 2. Effecting taxable and exempt supplies

Input tax to be credited to electronic credit ledger would be:

= Input Tax – 5% of Input tax for every quarter or part thereof Manner of reversal of credit under certain circumstances

Under the following circumstances attributable credit of input tax will be added to output tax liability:

1. Where a normal taxpayer opts to pay tax under composition scheme or goods and/or services supplied by him become exempt
2. In case of supply of capital goods or plant and machinery, on which input tax credit has been taken
3. Every registered person whose registration is cancelled

Input tax credit involved in the remaining useful life in months shall be computed on pro-rata basis, taking the useful life as five years.

The amount determined must form part of output tax liability and furnished in:

1. Where a normal taxpayer opts to pay tax under composition scheme or goods and/or services supplied by him become exempt- FORM GST ITC-03
2. Registration is cancelled- FORM GSTR-10

Along with certification from a practicing chartered accountant or cost accountant.

In case of sale of capital good, where the amount determined as above is greater than the tax on transaction value of such supply, the amount determined as above will be added to output tax liability and details to be furnished in FORM GSTR1 Capital goods sent on job work

Where a capital good including plant & machinery have been **send to a job worker** for job work, credit of input tax shall be allowed to the principal manufacturer.

Such goods must be **received back** within **a period of 3 years** of being send out or else it shall be treated as supply on the date on which goods was earlier send and tax would be payable along with interest for late payment of taxes

Where capital goods have been send directly to job worker after purchase of such capital goods, the period of three years would be calculated from the date of receipt of such goods by the job worker.

For any doubts and clarifications please contact below

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