

Changes in CENVAT Credit Rules in Union Budget 2012-2013

Amendments in the Definition of Capital Goods:

- ❖ The facility of taking CENVAT Credit on motor vehicles other than those falling under tariff headings 8702, 8703, 8704,8711 and their chasis has been extended to manufacturers.
- ❖ Motor Vehicles falling under tariff headings 8702,8703,8704,8711 and their chasis shall be eligible for CENVAT Credit for service providers engaged in providing the following services
 1. Courier Agency Service
 2. Tour Operator Service
 3. Rent a cab service
 4. Cargo Handling agency Service
 5. Goods Transport agency Service
 6. Outdoor Caterer Service
 7. Pandal or Shamiana Service

Amendments in the definition of Input service:

- ❖ The following input services in relation to motor vehicles are not eligible for CENVAT Credit to those Manufacturers/service providers who are not eligible to take CENVAT Credit as capital goods on Motor vehicles.
 1. Rent a cab service
 2. Supply of tangible goods service
- ❖ Now the following services in relation to motor vehicles are eligible for CENVAT Credit for the following manufacturers/service providers who are not eligible to take CENVAT Credit on motor vehicles.

Name of the Service	Conditions on usage
1. General Insurance Business 2. Service Station Service	1. When used by the manufacturer who are engaged in manufacture of motor vehicle
	2. When used by the general insurance service provider in respect of motor vehicle insured or reinsured.

CENVAT Reversal for Capital goods:

- ❖ CENVAT Credit reversal on the basis of the transactional value in case of capital goods removed as waste or scrap has been done away with. Now both for removals after being put to use or cleared as waste and scrap, CENVAT Credit reversal shall be the amount of duty calculated at the previous specified rates (as was applicable for computer peripherals/ other capital goods) or the amount of duty calculated on the transaction value whichever is higher.

Conditions for allowing CENVAT Credit:

- ❖ In case of service provider, CENVAT Credit on inputs & capital goods can be taken in case where the inputs are delivered to the service provider subject to maintenance of proper documentary evidence as to location and delivery.
- ❖ This alternative condition is introduced to facilitate the service providers to take CENVAT Credit on inputs directly delivered at the place where service is performed without any obstacle in view of the fact that requirement of receipt of inputs/capital goods in their premises to take CENVAT Credit in such cases are not practicable to comply with.

Refund of CENVAT Credit:

- ❖ Earlier Rule 5 is now substituted by the new rule 5. The maximum refund allowed shall be computed as per the following formula.

Refund amount = $\frac{(\text{Export turnover of goods} + \text{Export turnover of services}) \times \text{Net CENVAT credit}}{\text{Total turnover}}$

Total turnover

This rule shall apply for exports made on or after 01st April 2012.

Amendments in Rule 6 of the CCR:

- ❖ In case where no separate records are maintained with regard to common inputs and input services used for the manufacture of exempted goods, dutiable goods, exempted services and taxable services, the option of reversal of CENVAT Credit equal to certain percentage of the value of the exempted goods and exempted services has been increased from 'five' percent to 'six' percent.
- ❖ Requirement of reversal of 20% of the CENVAT Credit by a life insurance service provider has been dispensed with.

Manner of distribution of CENVAT Credit by an Input Service Distributor (ISD):

- ❖ The following additional conditions are imposed in the manner of distribution of CENVAT Credit by an ISD
 1. Credit of service tax attributable to a service wholly used in one unit shall be distributed to that unit only.
 2. Credit of service tax attributable to a service used in more than one unit shall be distributed to the respective units in proportion of their turnovers.

This would require the ISD to maintain additional records to provide evidence as to one to one correlation with regard to unit where the service is consumed and the credit to be distributed.

Transfer of CENVAT Credit of Additional Duty:

- ❖ A new rule (Rule 10A) has been inserted to facilitate the manufacturer to transfer the CENVAT credit attributable to additional duty of customs leviable under

section 3(5) of the Customs Tariff Act, from one unit to another unit of the manufacturer subject to certain conditions as specified therein.

Recovery of CENVAT Credit wrongly taken or erroneously refunded:

- ❖ Rule 14 of the CCR has been amended stating that the recovery proceedings shall be initiated only in case if CENVAT Credit is wrongly taken and utilized to provide clarity in view of the ambiguity prevailing out of earlier wordings “wrongly taken or utilized”.

Provisions of Rule 6 not applicable for an entity providing service to a unit in SEZ:

- ❖ Sub-rule 6A of Rule 6 of the CENVAT Credit Rules, has been amended retrospectively from 10th February, 2006 to provide that the services provided to a unit in SEZ cannot be treated as exempted services for the purpose of adjustments to CENVAT credit under Rule 6.