

Common Errors – Cenvat Credit – Part 1

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Understanding the concept of Cenvat credit by management in business/trade & industry is very important aspect. It is one of the areas where the business organisations can reduce their cash flows by optimising the Cenvat credits. On the other hand, it is also one of most disputed area under indirect taxation. Maximisation of Cenvat credit should be done within four corners of law. Following are few of the common errors which are observed in case of most of the assessee:

- 1) **Availing 100% Cenvat credit on capital goods:-** It is a common error. Categorisation of capital goods based on the definition of capital goods as per Cenvat credit rules 2004 is important. It may be noted that the capital goods for accounting purpose and Cenvat credit purpose are not same always.
- 2) **Considering inputs as capital goods:-** Wrong categorisation of inputs and capital goods could lead to excess credit or short availment of credit. It is commonly observed that the assessee fails to categorise the goods properly.
- 3) **Transfer of capital goods without depreciation:-** In case transfer of capital goods by organisations, the common mistake found was that the transfer of Cenvat credit on full value without considering the aspect of depreciation on such transferred capital goods.
- 4) **Non avaiement of Cenvat credit on leased goods:-** It is a commonly found error by organisations that the companies would have missed availing Cenvat credit benefit on capital goods which are leased from leasing companies/Non banking financial institutions.
- 5) **50% availment of SAD credit:-** its frequent mistake of availing 50% Cenvat credit of SAD amount in case of Import purchases whereas, the same shall be eligible 100% for availing as Cenvat credit.
- 6) **Avaiement of SAD by Service Providers:-** its observed in most of the service industry that, SAD availed as Cenvat credit and utilized for payment of service tax. However, SAD credit shall not be eligible for Cenvat credit for service providers.