

ANALYSIS OF UNION BUDGET 2011-12

Amendments in CENVAT CREDIT RULES, 2004

HIGHLIGHTS OF CHANGES CENVAT CREDIT RULES, 2004

- (i) The **rule 2** have been changed to bring more clarity and coherent by restructuring the definitions of Inputs, Input services, capital goods, exempted goods and exempted services.
- (ii) **Rule 3** is being amended retrospectively w.e.f. from 18/04/2010 to incorporate that the cenvat credit of service tax paid under section 66A of the Finance Act, 1994, relating to services received outside India, shall also be permissible.
- (iii) **Rule 3 and 4** are proposed to be amended to disallow utilization of Cenvat Credit for making payment of duty on goods in respect of which an exemption, other than full exemption is available subject to the condition that no Cenvat Credit on inputs and Input Services is taken.
- (iv) Rule 4(7) is being amended to provide for reversal of Cenvat Credit in case any payment made towards an invoice of input service is received back.
- (v) The availment of Cenvat Credit by ship breaking units is being proposed to restrict to 85% of the additional duty of customs (CVD) paid at the time of imposition of ships for breaking.
- (vi) Rule 6 is being amended to -

- a. Reduce the requirement of payment of 6% of the value of exempted services to 5%.
 - b. Provide an option to maintain separate accounts for inputs alone and reverse the amount of input services credit as per the allocation formula in rule 6(3A).
 - c. Clarify the value of services in cases where the same is not clearly defined and tax is collected on a compounding or specific principle.
- (vii) Rule 6(3B) is being introduced to provide that only 50% of the Cenvat Credit availed will be available for utilization towards payment of service tax under 'Banking and other financial services' by a banking company and financial institution.
- (viii) Rule 6(3C) is being introduced to provide that only 80% of the Cenvat Credit availed will be available for utilization towards payment of service tax by the providers of life insurance service and management of investment under ULIP.