Guidelines for the Reverse Charge Mechanism

Reverse Charge Mechanism under service tax: Don't think service tax is not applicable to you. Service tax is applicable to you though you are not in the service business i.e. say you are trader or manufacturer. Even then Service Tax is applicable to you in following cases of Reverse Charge Mechanism.

First let us understand what Reverse Charge is:

You receive telephone bill along with the service tax, you pay the full amount of bill including service tax and matter ends. E.g. you receive bill of Rs. 100 + Service Tax say @ 14% Rs, 14 = 114/- You pay full Rs. 114/- to the service Provider and matter ends.

However when you are in to the business and receives certain services then on that services you are not required to pay service tax to him and to be deposited directly in to the account of government. E.g. That is you receive bill of Rs. 100 + Service Tax say @ 14% Rs, 14 = 114/- You pay Rs. 100/- to the service Provider and Rs, 14/- to the government directly.

Example: Say Mr A(Service Receiver) Receives service of Transporter from B transport(Service Provider) . Then Mr A. is required to pay service tax and not Mr. B. That is what is called reverse charge mechanism under service tax.

Facts about Reverse Charge Mechanism:

1) Reverse Charge Mechanism is applicable on certain services only. **E.g.** you receive service of transport then service receiver is required to pay service tax and not the service provider. However when you obtain our services as a CA you are required to pay us the service tax **i.e.** there is no reverse charge mechanism.

2) Reverse Charge Mechanism is applicable to certain class of Service Provider only. **E.g.** If you provide service of manpower supply than reverse charge is applicable to you if you are Individual/ HUF/ Partnership firm AOP/ LLP and service receiver is Pvt Ltd company or Ltd Company .

3) Reverse Charge Mechanism is applicable to certain class of Service Receiver only. **E.g.** If you receive service of manpower supply than reverse charge is applicable to you if you are Pvt Ltd company or Ltd Company and service provider is Individual/ HUF/ Partnership firm AOP/ LLP.

4) Reverse Charge Mechanism is applicable on a partial basis that is partial reverse charge mechanism is applicable. **E.g**. In works contract services service receiver pays 50% of tax and another 50% of tax is payable by service provider.

Reverse Charge Mechanism Chart

Sr. No.	Description of service provided	RCM w.e.f.	Service Provider (Effective Tax %)	Service Receiver / Any Person (Effective Tax %)	Service Provider	Service Receiver	Refer Notes
1	Goods Transport Agency Service	01.04.2015	Nil	100% (3.708%)	Any Person	As mentioned in Note	**1**
2	Sponsorship Service	01.05.2006	Nil	100% (12.36%)	Any Person	Body Corporate or Partnership Firm	
3	Legal Services (Advocate)	01.07.2012	Nil	100% (12.36%)	Individual or Firm	Business entity	**2**
4	Director Service	11.07.2014	Nil	100% (12.36%)	Individual	Company or Body Corporate	**3**
5	Government Support Services	01.07.2012	Nil	100% (12.36%)	Government /Local Authority	Business Entity	**4**
	Government Services	Yet to be notified	Nil	100% (12.36%)			
6	Renting of Passenger Vehicle After Abatement of 60%	01.10.2014	50% (6.18%)	50% (6.18%)	Individual/ HUF/ Partnership firm AOP/ LLP	Business Entity registered as body corporate	**5**
7	Supply of Manpower	01.04.2015	Nil	100% (12.36%)	Individual/ HUF/ Partnership firm AOP/ LLP	Business Entity registered as body corporate	
8	Security Services	01.04.2015	Nil	100% (12.36%)			

Sl. No.	Description of service provided	RCM w.e.f.	Service Provider (Effective Tax %)	Service Receiver / Any Person (Effective Tax %)	Service Provider	Service Receiver	Refer Notes
9	Service portion on execution of Works Contract				Individual/ HUF/ Partnership firm AOP/ LLP	Business Entity registered as body corporate	
	a. Value of service excluding material (Taxable 100%)	01.07.2012	50% (6.18%)	50% (6.18%)			
	b. Original Work (Taxable 40%)	01.07.2012	50% (2.472%)	50% (2.472%)			
	c. Repairs and Maintenance of any goods (Taxable 70%)	01.07.2012	50% (4.326%)	50% (4.326%)			
	d. Maintenance, Repairing, Completion or Finishing of immovable property (Taxable value increased from 60% to 70%)	01.10.2014	50% (4.326%)	50% (4.326%)			
10	Import of service	19.04.2006	Nil	100% (12.36%)	Any Person	Any Person	**6**

Notes :

1. Person liable: any person is liable to pay freight either himself or through his agent if such person is:
    - Any factory registered under or governed by the factories act,1948 (63 of 1948); or
    - Any society registered under societies registration act, 1860 (21 of 1860)or under any other law for time being force in any part of India; or
    - Any co-operative society established by or under any law; or
    - Any dealer of excisable goods, who is registered under the central excise act 1944 (1of 1944) or the rules made there under ; or
    - Any body corporate established by or under any law; or
    - Any partnership firm whether registered or not under any law including association of persons.

    However, if such person is located in non taxable territory, the provider of such service (i.e. GTA) shall be liable to pay service tax.

    Abatement: prior to 31.03.2015 abatement /exemption available on GTA service was 75%, which was been reduced to 70% w.e.f 01.04.2015

2. Legal services (i.e. services of an advocate or firm of advocates) are exempted if service receiver is :
    - An advocate or partnership firm of advocates providing legal services; or
    - Any person other than business entity; or
    - A business entity turnover up to rupees ten lakh in the preceding financial year.
3. Services of a director of a ‘body corporate’ has been included in the purview of director services w.e.f 11.07.2014 service provided by a director incapacity of an employee the company or body corporate shall not be chargeable to service tax. Deduction of TDS under salary head can be establish the same.
4. Presently RCM is applicable on all ‘support services’ provided by government or local authority except the following:
    - Renting of immovable property;
    - Services of department of post by way of speed post, express parcel post, life insurance and agency services;
    - Service in relation to aircraft or vessel, inside or outside the precincts of a port or an airport;
    - Transportation or goods or passengers.
5. No reverse charge is applicable in similar line of business.
6. Where any taxable service is provided by a person located in non–taxable territory and as per the Place of Provision Rules 2012; Place of provision of the service is determined to be in the taxable territory, such service will be considered as Import of Service.