SERVICE TAX

Introduction

Service tax is an indirect tax levied on certain category of services provided by a person, firm, agency, etc. The Government of India has marked a set of services as taxable under the service tax structure. The seller provides a service and the responsibility of paying the service tax to the government rests with the seller.

Information on service tax

Currently, the rate of service tax on all the taxable services is 12%. Presently, service tax is applicable on 97 categories of services. A few of the listed services have an abatement facility. Service tax returns are to be filed to the Commissionerate of Service Tax for the fiscal half-year. Information on the registration, rules, list of services, rate of service tax, forms, etc can be found on the official website for service tax-http://www.servicetax.gov.in/

Service Tax Flow

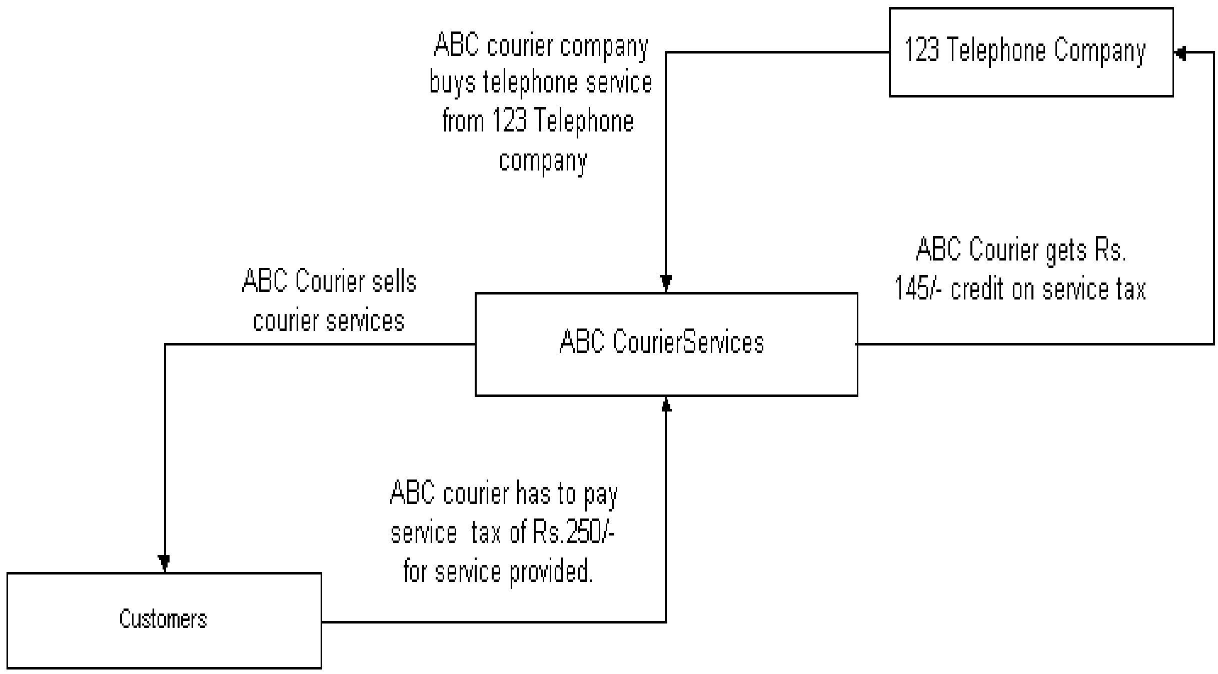
When you buy and sell services?

A person/firm providing a service that comes under the service tax category has to pay service tax. Service tax is to be shown separately in the invoice and is payable based on the payment realized and not on the total amount shown in the invoice. Similarly, when you buy a service that falls under service tax category, you avail service tax credit based on the payment made. So, you pay service tax on the services that you sell and get credit on the service tax payable when you buy a service.

Adjusting credit?

While you pay service tax on sale of services that come under the service tax category, you can adjust service tax credit availed on purchase of services (Buyer). This deduction is called *adjusting credit against service tax*. The difference between the service tax that you have to pay for selling services and the service tax credit on purchases that can be adjusted is the *payable service tax*.

Service tax (sales) that is adjustable against service tax credit (purchases) is also called *availing input credit*. Let us look at an example.



Service tax paid on services provided	(B)	= Rs.250/-
Service tax credit on payment to telephone company	(A)	= Rs.145/-
Total service tax payable by ABC Courier company	(B-A)	= Rs.105/-

Adjusting 100% credit & 20% credit

If your input service (Purchase) can be directly related to the output service (Sales) then you can use 100% credit adjustment on the service tax payable. For example: If you are providing a consultancy service over the phone, then you can use the input credit from the telephone charges to adjust against 100% of the service tax payable on your consultancy service. If the input service is not solely used for the output service, then 20% credit adjustment is applicable.

Input service tax credit can be adjusted to both output service tax and output cess (surcharge on tax). But input cess credit can be adjusted only towards output cess.

Assessable value

Service tax is calculated on the assessable value. The assessable value is the service charge value minus abatement and expenses.

Abatement

The government has given a deduction on the value to be considered for service tax on a few categories of services. For example, some categories of services include material value. A caterer has to procure materials to prepare food products and sell services. Service tax is charged on the total amount for the service and does not include the rate of the materials procured. Hence a deduction is provided. This deduction from the service charges to be considered for service tax is called *abatement*. Abatement is either a percentage of the service charges or a lump sum value.

Example:

a. Charge on Service	Rs.10, 000/-
b. If an abatement of 30% is applied, then abatement	Rs.3, 000/-
c. Here, the assessable value is (a-b)	Rs.7, 000/-
Therefore, service tax @ 12 % on Rs.7, 000/-	Rs.840/-

Expenses

Expenses can be deducted from the total service charge to get the taxable amount.

E.g. A technical consultant might travel to different locations with respect to work.

The invoice is prepared as 'consultancy' and the travel expenses are included in the total service charges. If supported by records, you can deduct the travel expenses from the total service charge to derive the assessable value on which service tax is applicable.

Payment of Service Tax

How much do I pay?

A seller provides a service to a buyer and bills the buyer for the service. The bill is inclusive of the service tax. The seller does not have to pay service tax on the total bill amount but only on the payment received.

Example:

Charge on service	Rs. 10, 000/-
Service tax @ 12%	Rs. 1, 200/-
Cess on Service Tax @ 2%	Rs. 24/-
Secondary Cess @ 1%	Rs. 12/-
Total bill	Rs. 11, 236/-

Here, the service-tax calculated turns out to be

Service Tax @ 12%	Rs. 1, 200/-
Cess on Service Tax @ 2%	Rs. 24/-
Secondary Cess @ 1%	Rs. 12/-
Total	Rs. 1, 236/-

Assuming, the buyer pays the seller Rs.5, 000/- as part payment, the service-tax payable for the payment received is calculated as given below.

Charge paid on service	(10,000 x 5,000)/11,236	Rs. 4449.98
Service tax on Rs.5000/- is	(1,200 x 5,000)/11,236	Rs. 533.99
Cess on service tax is	(24 x 5,000)/11,236	Rs. 10.67
Secondary Cess on Service Tax is	(12 x 5,000)/11,236	Rs. 533

Hence, service tax is payable only on the value of payment received by the seller and not on the gross amount charged or billed (invoice value).

Another case is when you receive an advance payment on services to be provided. Service tax is not applicable on advances paid until it is adjusted against the invoice.

Where do I pay?

The service tax amount is to be paid in **Form GAR – 7 Challan** in a bank designated by the Commissionerate of Service Tax. For a particular area there is a Focal bank, with branch and code. This is the designated bank. Service tax payments will be accepted in all the branches of the bank, which are connected with the focal branch. The list of the banks and their branches accepting service tax payments is available with the Commissionerate of Service Tax.

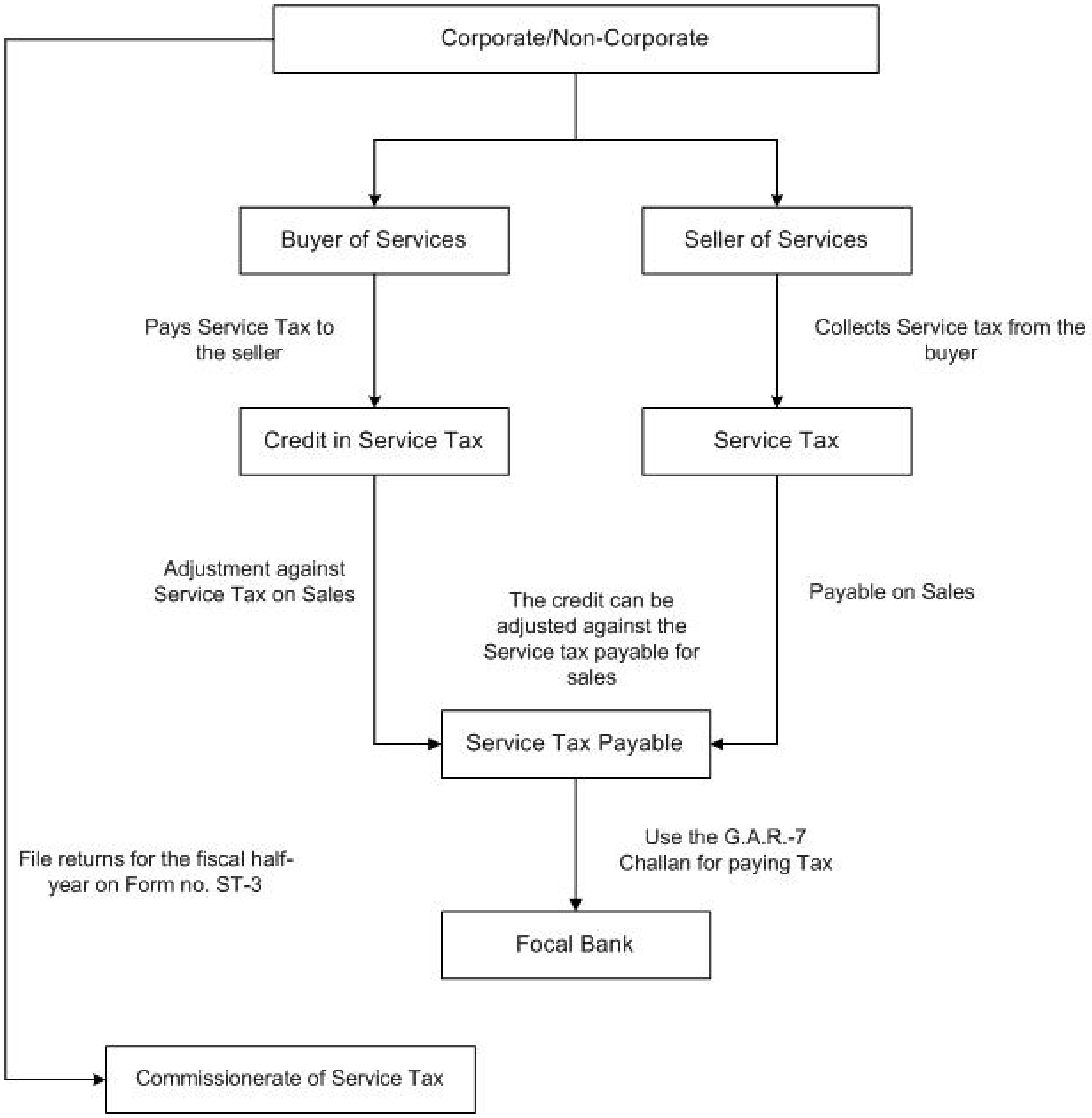
If your company is a corporate company, service tax is payable on a monthly basis by the **5th** of the following month. For example, Service tax has to be paid by **5th January** for the month of December.

Non-corporate like individuals, proprietary firms, partnership firms and so on, have to pay service tax for the fiscal quarter. The payment is to be made by the **5th day** of the month following the quarter. For example, service tax for the quarter ending 30th June is to be paid by 5th July.

For the corporate and non-corporate bodies, service tax for the month of March is payable by **31st** of **March**.

Filing returns

Corporate and non–corporate organizations have to file service tax half-yearly with details in **Form ST-3** and **Input Credit Form (Form 5)** to the Commissionerate of **Service Tax**. The filing of returns should be within **5** days from the last day of the fiscal half-year. For the fiscal half-year ending-date of 30th September, the last day for filing service-tax returns is 5th October. Copies of all **GAR – 7** issued during the period must be attached.



Service Tax in Tally

Features of Service Tax in Tally

Service tax integrated in Tally takes care of your service tax transactions. It eliminates error-prone information, incorrect remittance, penalties, interests, compliance issues, etc. Service Tax in Tally needs a one-time configuration for service tax features to be activated.

- Tally tracks bill-wise (bill-by-bill) detail and automatically calculates service tax payable and input credit with the flexibility to make adjustments later.
- Service tax is part of a regular transaction. Information on service tax is maintained and produced category-wise, which is mandatory in service tax returns.
- Adjusts input credit towards service tax payable.
- Accounts for abatement and expenses.
- Provision for exemption notification details.
- Built-in assessable value feature on which service tax is calculated.

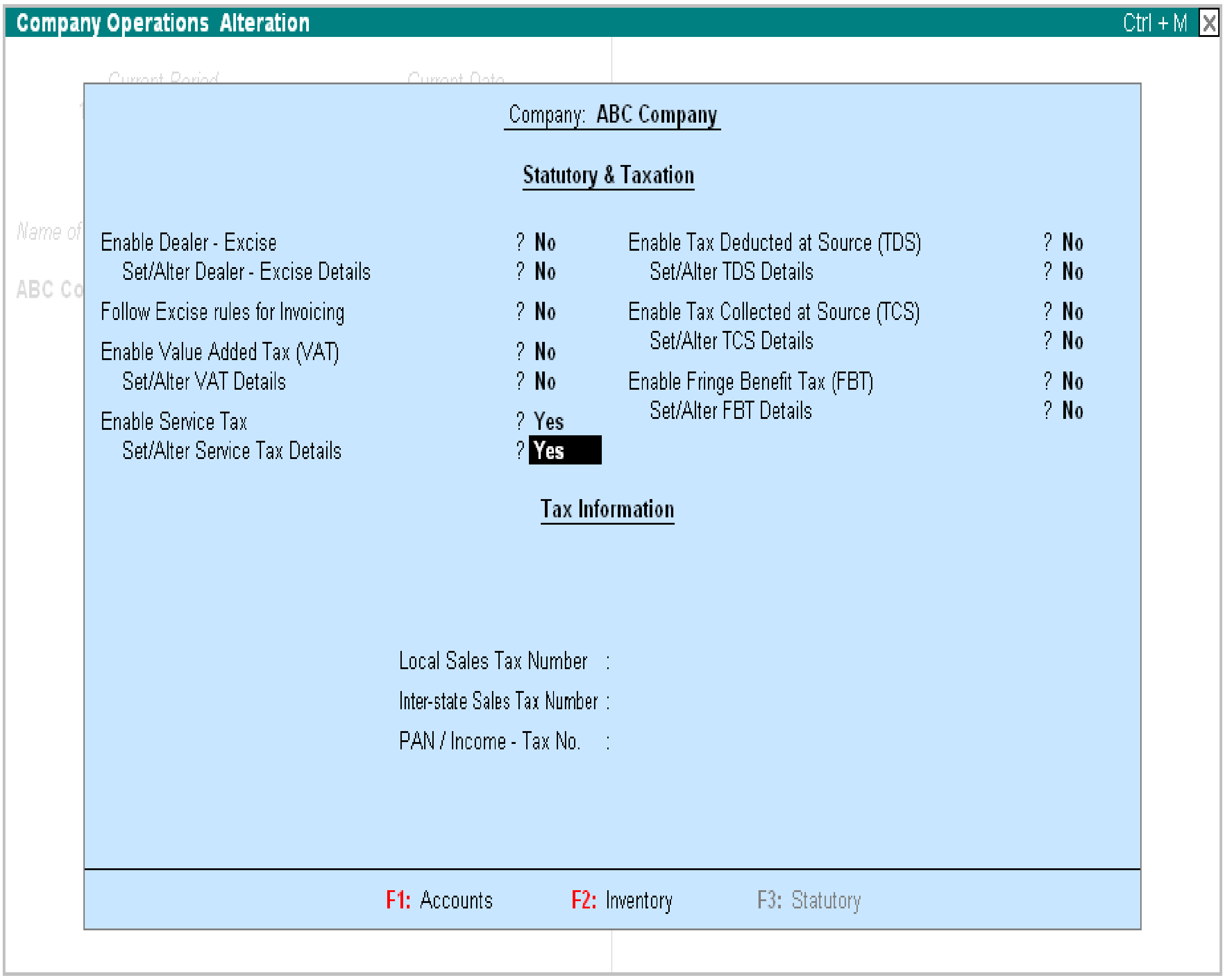
- Transfer earlier pending service tax payable and available service tax input credit in to Tally
- Reports are generated as per government suggested format. Print and file reports: G.A.R.-7 Challans, Input Credit Form, ST3 Report and ST3-A Report.
- Management Information Services (MIS) reports: Service Tax Payable Report and Input Credit Form

Enabling Service Tax in Tally:

To enable **Service Tax**,

Go to ***Gateway of Tally > F11: Features > Statutory & Taxation***

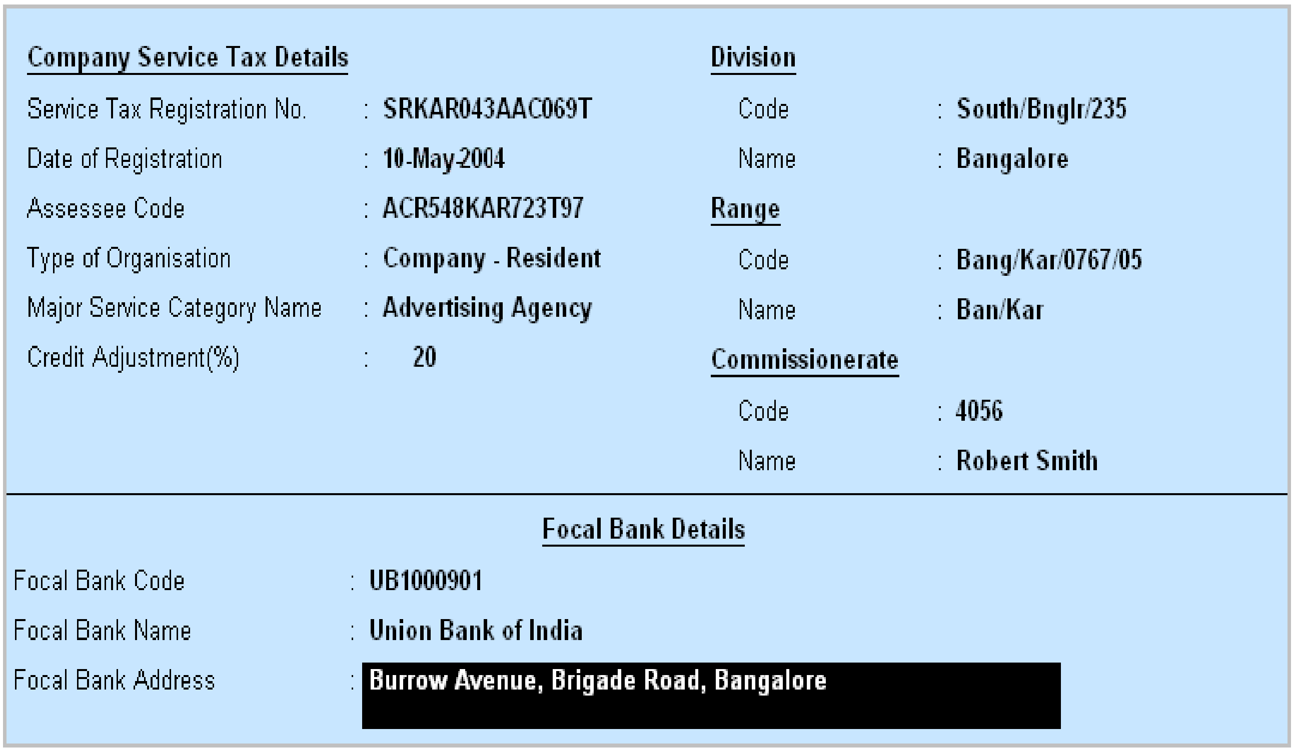
Set **Enable Service Tax** to **Yes**



Set **Set/Alter Service Tax Details** to **Yes** to enter the **Company Service Tax Details**.

Company Service Tax Details

The **Company Service Tax Details** screen is where you will enter the service tax details. The name of the company is displayed at the top followed by different fields.



Company Service Tax Details:

Service Tax Registration No. – Enter the registration number allotted to you by the **Service Tax** Department.

Date of Registration – Enter the **date of registration** of **Service Tax** for your service.

Assessee Code- Enter the code given to your company by the **Service Tax Department**.

Type of Organization – In this field select the type of your organization from the **List of Organisations** menu.

Major Service Category Name- Here you will find options for different categories that come under the service tax net. You might be providing two or more services in a company. In such a situation, select the service category that is the mainstay or forms the major part of your business.

Select the relevant option from the **List of Service Categories** that applies to your company.

Credit Adjustment (%) – By default this field is set to 20. Enter the percentage of credit adjustment that you would like to avail.

Division

Code- Enter the code of the division in which your company falls.

Name - Enter name of the division under which your company falls.

Range

Code- Enter the code of the range of your company.

Name- Enter the name of the range under which your company falls.

Commissionerate

Code- This is the code of the **Commissionerate of Service Tax** under which the address of your registered premise is located.

Name- This is the name of the **Commissionerate of Service Tax** under whose range the address of your registered premise falls.

Focal Bank Details

Focal Bank Code-The Commissionerate of Service Tax allots a code to banks nominated for payment of service tax in a particular area. This code is available with the Commissionerate of Service Tax.

Focal Bank Name- This is the name of the bank nominated by the **Commissionerate of Service Tax** to receive service tax payments in a particular area. This information is available with the **Commissionerate of Service Tax**.

Focal Bank Address- Enter the address of the branch of the **focal bank**.

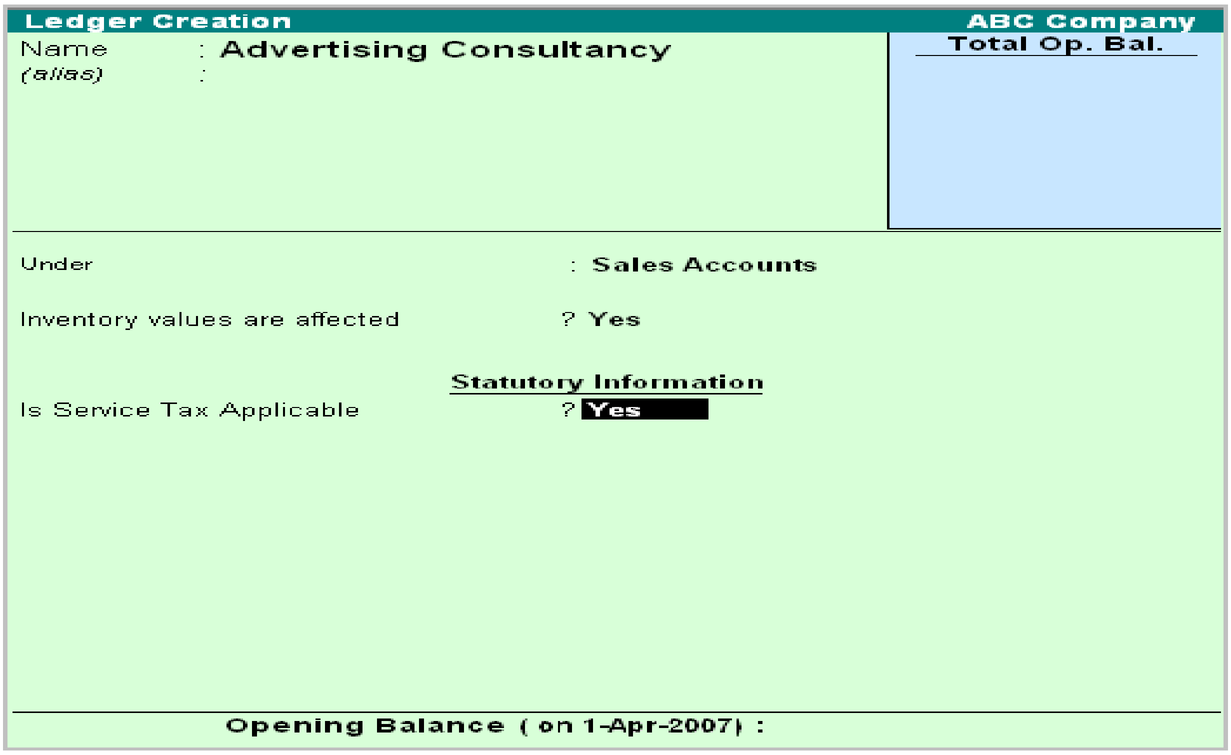
Creating Sales Ledgers for Services:

Go to ***Gateway of Tally > Accounts Info > Ledgers > Create***

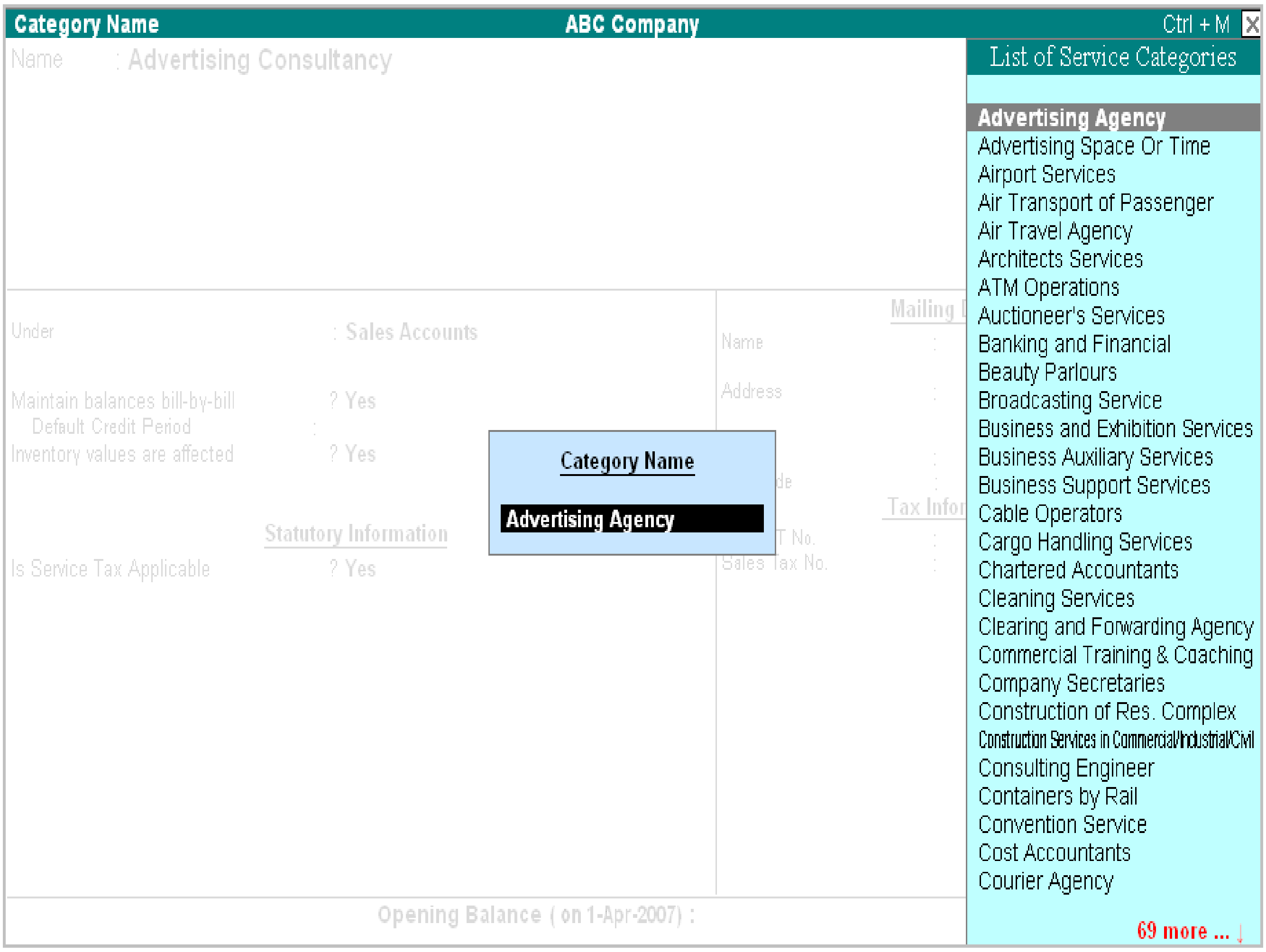
1. Enter the **Name** of the **Sales** ledger
2. Select the Group **Sales Accounts** in the field **Under**
3. Set **Inventory Values are affected** to **Yes**

Note: Set the **Inventory Values are affected** field to **Yes,** if you are maintaining service as item. For example: You sell consultancy charged by the number of hours.

4. Set **Is Service Tax Applicable** to **Yes**



6. Select the **Category Name** from the **List of Service Categories**.



7. Accept the screen to **Save**.

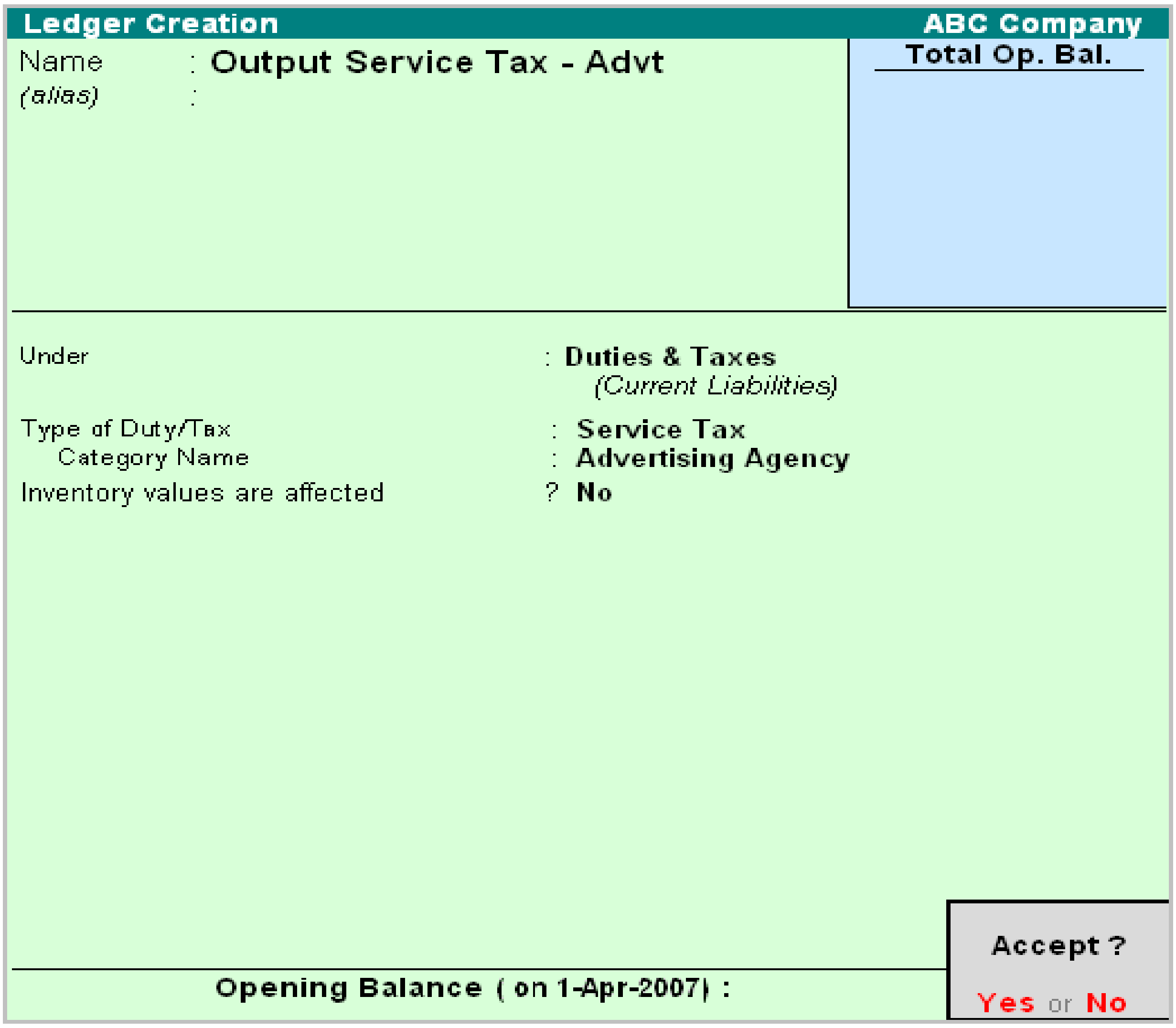
Note: Create a **Service Tax** ledger for each service category. For example, if you purchase services in two categories and sell services in three categories, create five service tax ledgers

Creating Output Service Tax ledger:

To create an Output Service Tax ledger:

Go to ***Gateway of Tally*** > ***Accounts Info*** > ***Ledgers*** > ***Create***

1. Enter the **Name** of the ledger
2. Select **Duties & Taxes** in the field **Under**
3. Select the **Type of Duty** from the **List of Types of Duty/Tax**
4. Select the **Category Name** from the **List of Service Categories**
5. Set **Inventory Values are affected** to **No**



6. Accept the screen to **Save**

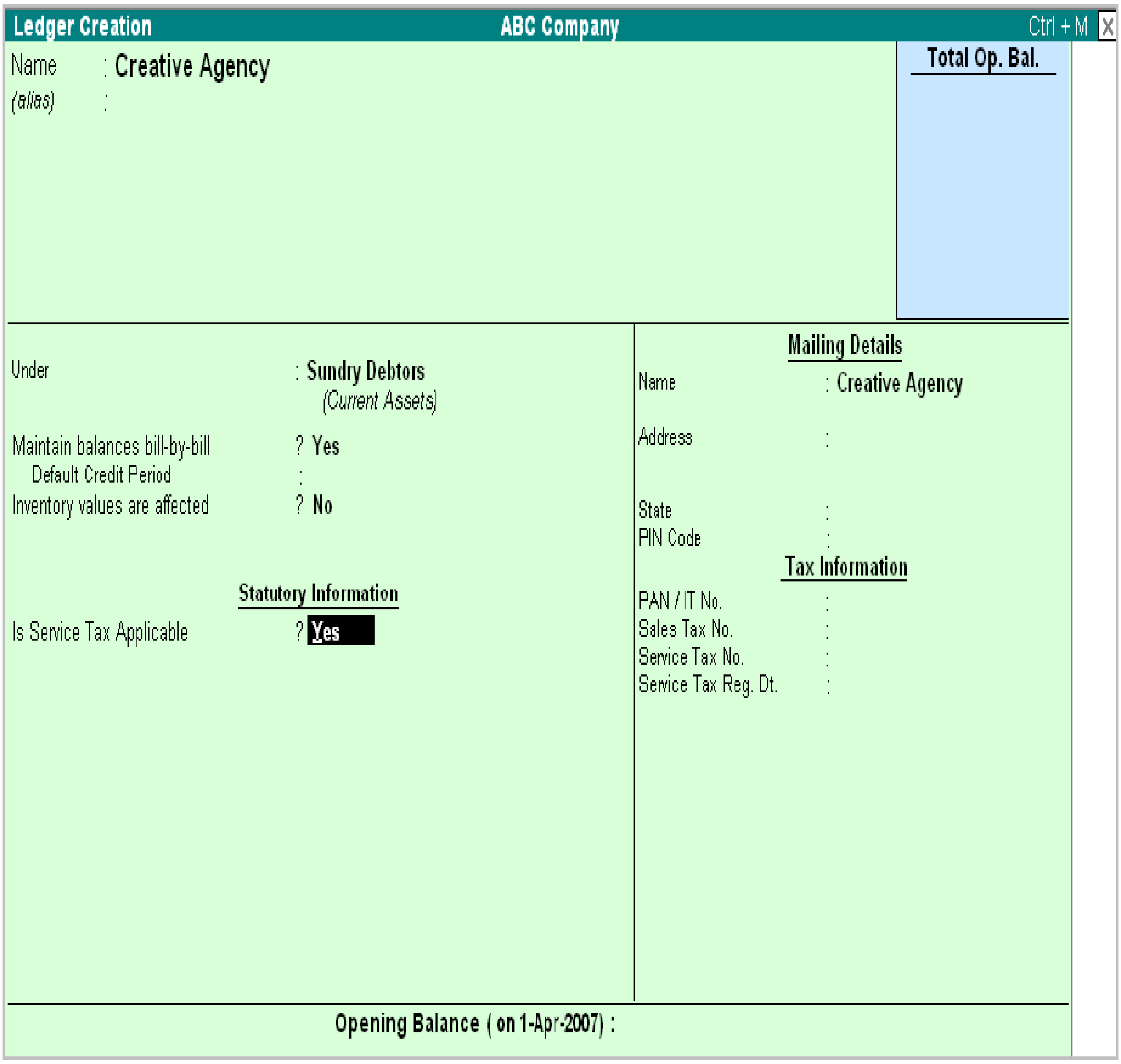
Similarly, you can create ledgers for **Input Service Tax**

Creating a Customer Ledger:

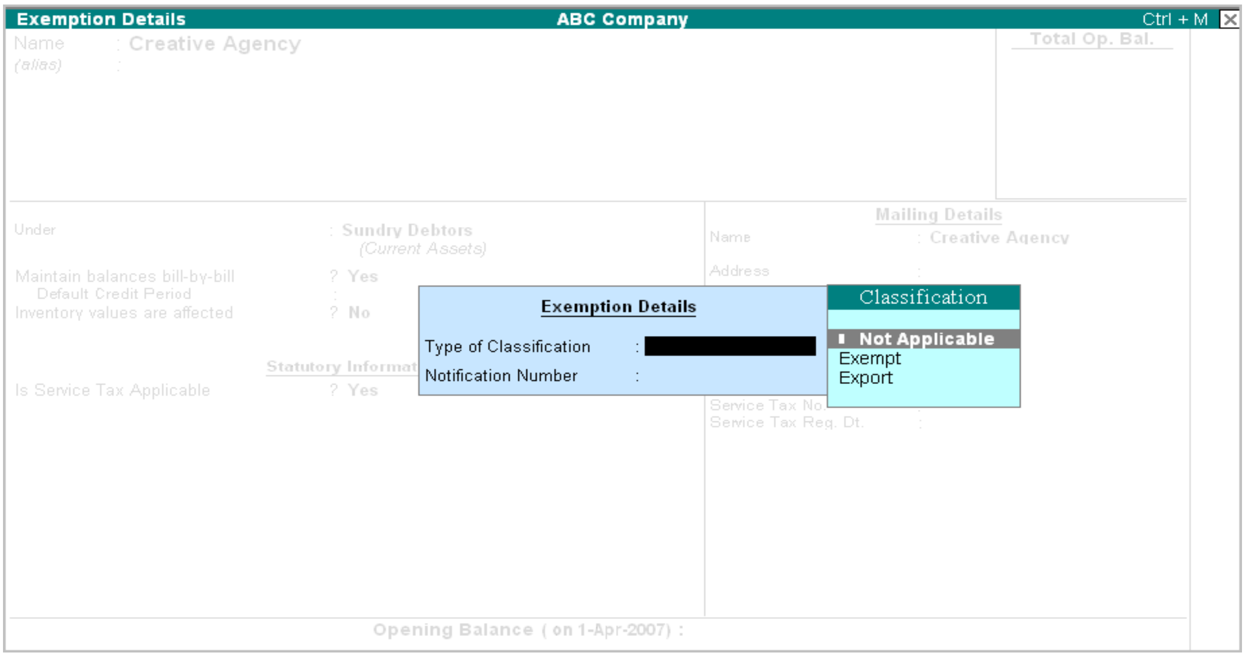
To create a Customer ledger:

Go to ***Gateway of Tally*** > ***Accounts Info*** > ***Ledgers*** > ***Create***

1. Enter the **Name** of the ledger
2. Select the group from the **List of Groups**
3. Set **Maintain Balances Bill by Bill** to **Yes.** Enter the **Default Credit Period**, if any
4. Set **Inventory Values are affected** to **No**
5. Set **Is Service Tax Applicable** to **Yes**

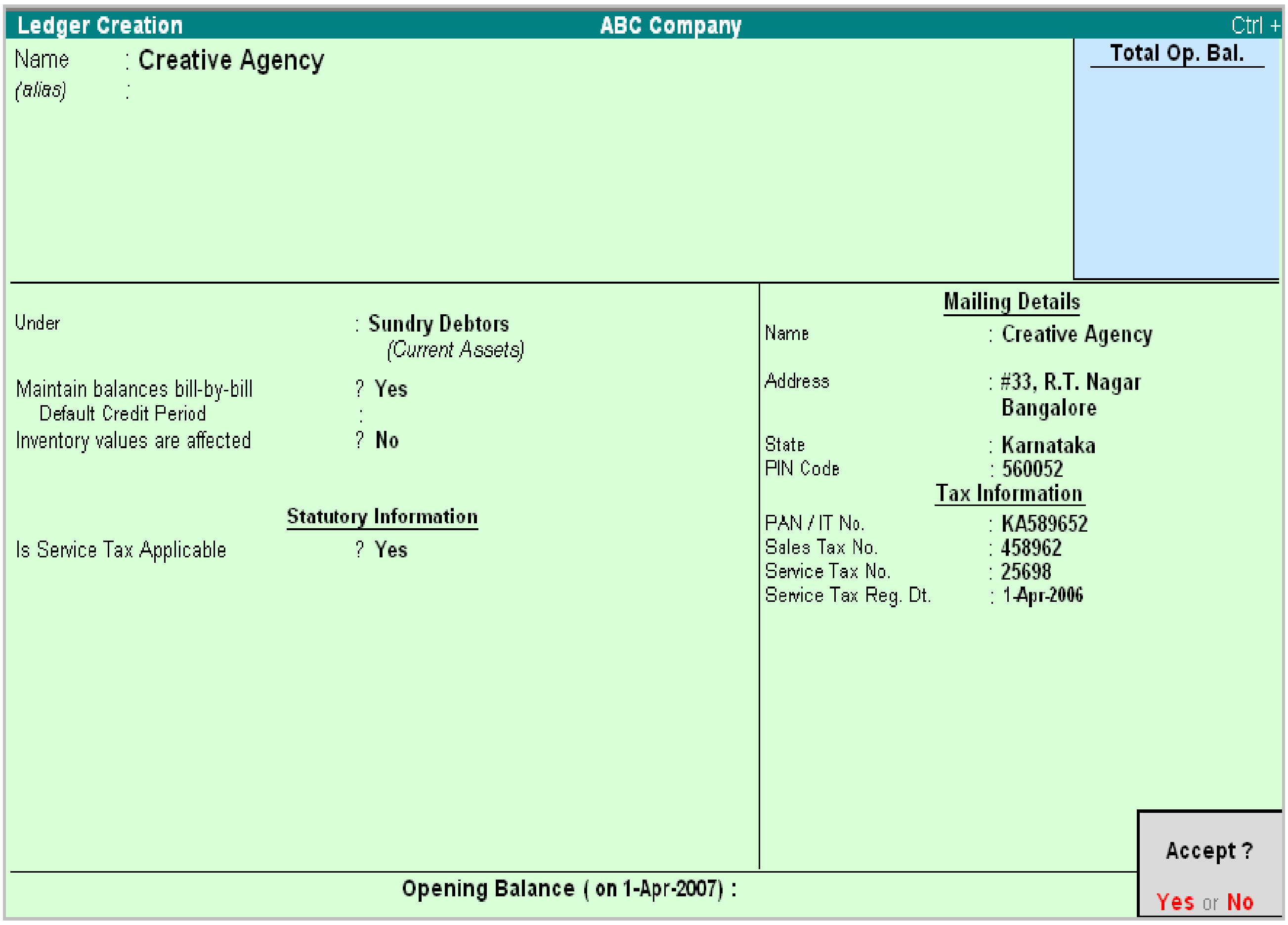


6. Select the **Type of Classification** in the **Exemption Details** screen



Note: If Exempt classification is selected, then the Notification number has to be entered. The number will appear in the **ST3 Half Yearly** return of exempt section

7. Enter the **Mailing Details**



8. **Accept** the screen to save

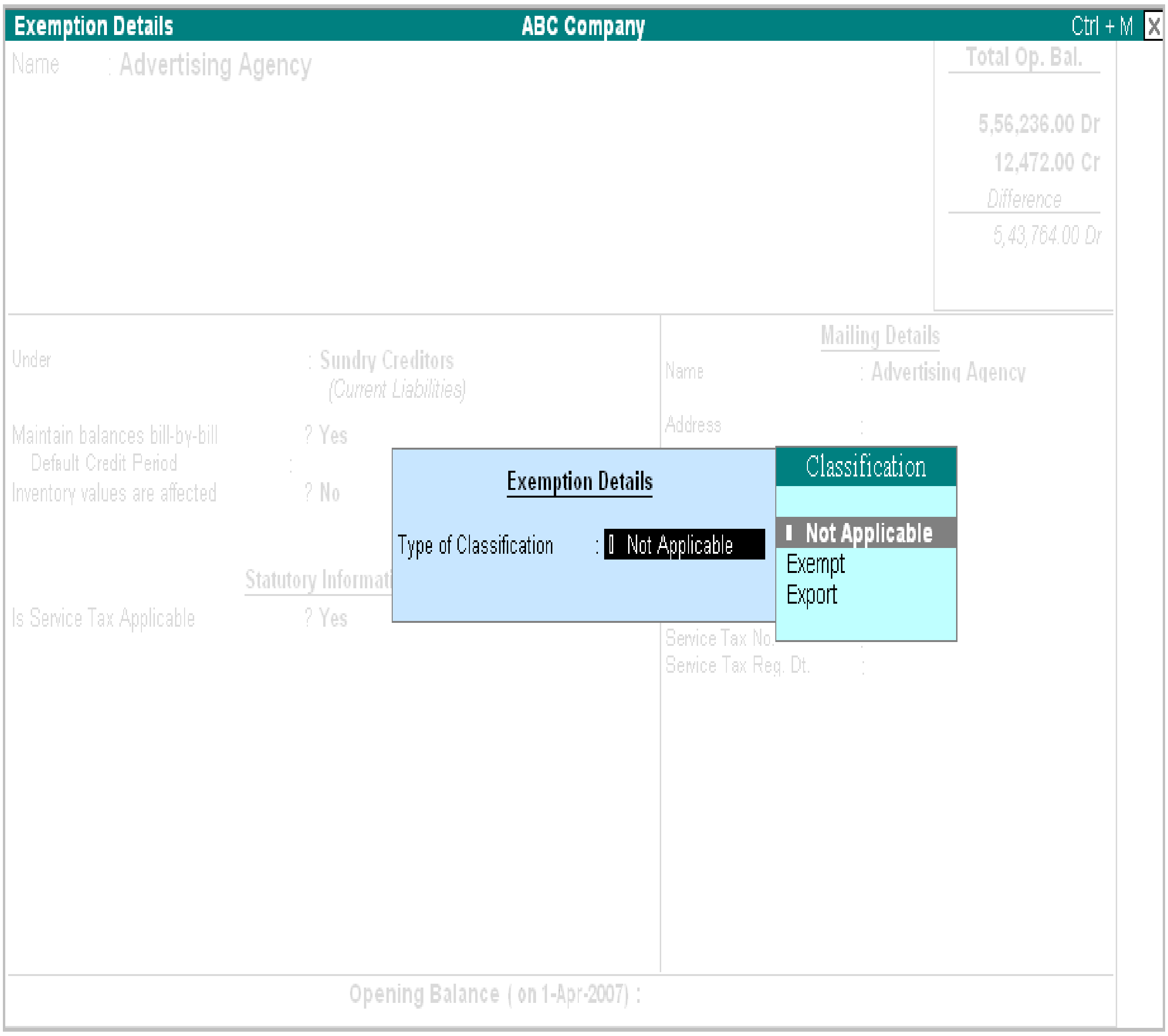
Creating Party Ledgers for Service Tax

Creating Party Ledgers for Service Tax

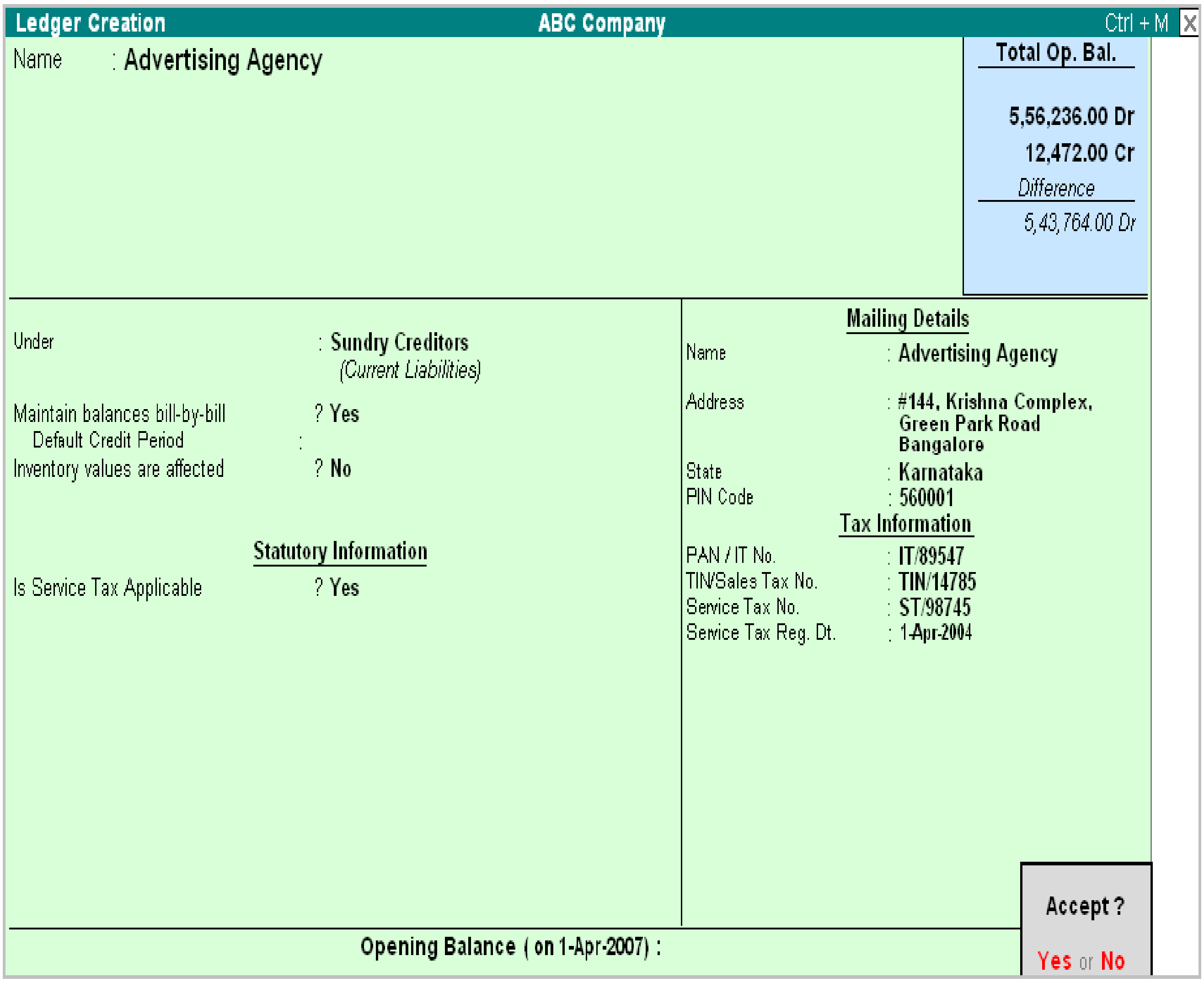
To create a Party Ledger for Service Tax,

Go to ***Gateway of Tally*** > ***Accounts Info*** > ***Ledgers*** > ***Create***

1. Enter the **Name** of ledger
2. Select the Group from the **List of Groups** in the field **Under**
3. Set **Maintain Balances Bill by Bill** to **Yes.** Enter the **Default Credit Period**, if any
4. Set **Inventory values are affected** to **No**
5. Set **Is Service Tax Applicable** to **Yes**
6. Select the **Type of Classification** from the **List of Classification**



7. Accept the screen to **save**


Ledger Creation
ABC Company
Ctrl + M
Name : Advertising Agency
Total Op. Bal.
5,56,236.00 Dr
12,472.00 Cr
Difference
5,43,764.00 Dr
Under : Sundry Creditors
(Current Liabilities)
Maintain balances bill-by-bill ? Yes
Default Credit Period :
Inventory values are affected ? No
Statutory Information
Is Service Tax Applicable ? Yes
Mailing Details
Name : Advertising Agency
Address : #144, Krishna Complex,
Green Park Road
Bangalore
State : Karnataka
PIN Code : 560001
Tax Information
PAN / IT No. : IT/89547
TIN/Sales Tax No. : TIN/14785
Service Tax No. : ST/98745
Service Tax Reg. Dt. : 1-Apr-2004
Opening Balance (on 1-Apr-2007) :
Accept ?
Yes or No