ALL ABOUT SERVICE TAX

RAKESH SAINI (CA ARTICLE, B.COM)

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- ## Introduction

Service Tax is a form of indirect tax which is levied on all services except the services those are covered under the list of negative services.

List of negative services -

http://www.taxindiaonline.com/RC2/inside2.php3?filename=wnew/revised_concept_paper.htm

The levy of service tax can be traced back to recommendations made in early 1990's by the
Tax Reforms Committee headed by Professor Dr. Raja J. Chelliah. The Committee recommended imposition of tax on selected services.

Based on the above recommendations (though with certain modifications) , Dr. Manmohan Singh, the Union Finance Minister, in his Budget speech for the year 1994-95 introduced the new concept of service tax and stated that "There is no sound reason for exempting services from taxation, when goods are taxed and many countries treat goods and services alike for tax purposes. The Tax Reforms Committee has also recommended imposition of tax on services as a measure for broadening the base of indirect taxes. I, therefore, propose to make a modest effort in this direction by imposing a tax on services of telephones, non-life insurance and stock brokers.'' Thus, service tax was imposed on 3 services.

- ## General Rates of Service Tax

ST - SERVICE TAX

EC – EDUCATION CESS

SHEC – SECONDARY AND HIGHER EDUCATION CESS

S. No.	Period	ST Rate	EC	SHEC	Effective Rate
1	01.07.94 to 31.05.03	5.00 %	NA	NA	5.00 %
2	14.05.03 to 09.09.04	8.00 %	NA	NA	8.00 %
3	10.09.04 to 17.04.06	10.00 %	2.00 %	NA	10.20 %
4	18.04.06 to 31.05.07	12.00%	2.00 %	NA	12.24 %
5	01.06.07 to 23.02.09	12.00 %	2.00 %	1.00 %	12.36 %
6	24.02.09 to 31.03.12	10.00 %	2.00 %	1.00 %	10.30 %
7	01.04.12 to till date	12.00 %	2.00 %	1.00 %	12.36 %

- ***Abatements***

(Notification No. 26/2012) [Service Tax will be charged on taxable value @ 12.36%]

ENTRY NO.	DESCRIPTION OF ENTRY	AMOUNT CHARGED BY SERVICE PROVIDER		CENVAT CREDIT AVAILABLE		
		ABATEMENT (%)	TAXABLE VALUE (%)	INPUTS	INPUT SERVICES	CAPITAL GOODS
(1)	**Hire Purchase including financial leasing** *[**Lease management fee, processing fee, documentation charges and administrative fee, etc.]*	90.00% excluding Service charges	10.00% of interest + processing fees, etc.**	Yes	Yes	Yes
(2)	**Transport of goods by rail**	70.00%	30.00%	Yes	Yes	Yes
(3)	**Transport of passengers with or without accompanies belongings, by rail**	70.00%	30.00%	Yes	Yes	Yes

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ENTRY NO.	DESCRIPTION OF ENTRY	AMOUNT CHARGED BY SERVICE PROVIDER		CENVAT CREDIT AVAILABLE		
		ABATEMENT (%)	TAXABLE VALUE (%)	INPUTS	INPUT SERVICES	CAPITAL GOODS
(4)	**Catering with Renting**	30.00%	70.00% of total amount**	No credit of inputs falling under Ch. 1 to 22 of Excise Tariff; Credit allowed on other inputs	Yes	Yes
(5)	**Transport of passengers with or Without accompanies belongings, by air**	60.00%	40.00%	No	Yes	No
(6)	**Renting of any hotel, inn, etc:** Services for lodging Purposes	40.00%	60.00%	No	Yes	No
(7)	**Transport of goods by road by goods transport agency**	75.00%	25.00%	No	No	No
(8)	**Chit related Services**	30.00%	70.00%	No	No	No
(9)	**Renting of any motor vehicle** designed to carry Passengers	60.00%	40.00%	No	No	No
(10)	**Transport of goods in a vessel**	50.00%	50.00%	No	No	No
11(i)	**Tour operator –** Package tour *(Sum charged must be inclusive of entire package)*	75.00%	25.00%	No	No	No

11(ii)	**Tour operator –** Arranging Accommodation only (No other service) *(Sum charged inclusive of cost of accommodation)*	90.00%	10.00%	No	No	No
11(iii)	**Tour operator –** Residual	60.00%	40.00%	No	No	No

- ## Composition Scheme

[Rule 6 of Service Tax Rules, 1994]

RULE	DESCRIPTION OF SERVICE	COMPOSITION TAX PAYABLE
6(7)	**Air Travel Agent:** In case of domestic bookings of passage for travel by air.	ST = 0.6% of basic fare + 3% EC and SHEC thereon
	Air Travel Agent: In case of international bookings of passage for travel by air.	ST = 1.2% of basic fare + 3% EC and SHEC thereon
6(7A)	**Life Insurance Business – Risk Premium only – Option not available – Tax on full value**: The option under Rule 6(7A) is not available in cases where the entire premium paid by the policy holder is only towards risk cover in life insurance.	Service Tax shall be paid on full premium i.e, Service Tax as per normal provisions = 12.36%, of taxable value / Premium
	Life Insurance Business – Investment / savings policy – sum invested intimated to policy holder: If the amount allocated for investment, or savings on behalf of policy holder is intimated to the policy holder at the time of providing of service.	Taxable Value = Gross premium charged from a policy holder – Amount allocated for investment, or savings on behalf of policy holder. Service Tax @ 12.36% on above value.
	Life Insurance Business – Any other case	***(i) In the first year:*** 3% of premium charged from a policy holder + 3% EC and SHEC. ***(ii) In the subsequent years:*** 1.5% of the premium charged from policy holder + 3% EC and SHEC

6(7B)	**Money –** purchase of sale of foreign currency, including money changing-	
	Gross amount of currency changed up to ` 1,00,000	ST payable will be <u>higher</u> of- 0.12% of gross amount of currency exchanged; or ` 30 *EC & SHEC @ 3% Extra.*
	Gross amount of currency changed more than ` 1,00,000 but up to ` 10,00,000	ST = ` 120 + 0.06% of (gross amount of currency exchanged – 1 lakh) *EC & SHEC @ 3% Extra.*
	Gross amount of currency changed more than ` 10,00,000	ST payable will be <u>lower</u> of- ` 660 + 0.012% of (gross amount of currency exchanged – ` 10 lakh) ` 6,000 *EC & SHEC @ 3% Extra.*

6(7C)	**Lottery –** Distributor or selling agent engaged in promoting, marketing, etc. of Lottery	
	If the lottery or lottery scheme is one where the guaranteed prize payout is <u>more than 80%.</u>	` 7,000 on every ` 10 lakh or part of ` 10 lakh of aggregate face value of lottery tickets PRINTED by the organizing State for a draw. *(In case of online lottery, value of tickets sold is taken).*
	If the lottery or lottery scheme is one where the guaranteed prize payout is <u>less than 80%.</u>	` 11,000 on every ` 10 lakh or part of ` 10 lakh of aggregate face value of lottery tickets PRINTED by the organizing State for a draw. *(In case of online lottery, value of tickets sold is taken).*