

2015



Swachh Bharat Cess-FAQ

Service Tax India

KEY HIGHLIGHTS

- ❖ Introduced by Finance Act, 2015 w.e.f. 15th November, 2015
- ❖ Effective Rate of SBC is 0.50%
- ❖ Calculated on the value of Taxable Service, not on Service Tax amount
- ❖ Applicable on all taxable services
- ❖ Not payable on fully exempted services and negative list services
- ❖ To be paid in cash only, cannot be paid by utilizing cenvat credit
- ❖ Cannot take cenvat credit of SBC paid
- ❖ Point of Taxation as per Rule-5
- ❖ Reverse charge is also applicable on SBC
- ❖ In case of Reverse Charge, POT as per rule-7

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SWACHH BHARAT CESS (SBC)

FREQUENTLY ASKED QUESTIONS (FAQ)

Background:

Chapter VI (Section 119) of the Finance Act 2015 contains provisions for levy and collection of Swachh Bharat Cess (SBC). Now the Government has announced 15th November, 2015 as the date from which the provisions of Section 119 would come into effect ([Notification No.21/2015](#)-Service Tax, dated 6th November, 2015 refers).

Simultaneously, Government has also notified levy of Swachh Bharat Cess at the rate of 0.5% on all taxable services. Effectively, the rate of SBC would be 0.5% and new rate of service tax plus SBC would be 14.5%. As such SBC translates into a tax of 50 paise only on every one hundred rupees worth of taxable services. The proceeds from this cess will be exclusively used for Swachh Bharat initiatives.

Q.1 What is Swachh Bharat Cess (SBC)?

Ans. It is a Cess which shall be levied and collected in accordance with the provisions of Chapter VI of the Finance Act, 2015, called Swachh Bharat Cess, as service tax on all the taxable services at the rate of **0.5% of the VALUE of taxable service**.

Q.2 What is the date of implementation of SBC?

Ans. The Central Government has appointed **15th November, 2015** as the **date from which** provisions of **Swachh Bharat Cess will come into effect** (notification No.21/2015-Service Tax, dated 6th November, 2015 refers).

Q.3 Whether SBC would be leviable on exempted services and services in the negative list?

Ans. Swachh Bharat Cess is **not leviable** on services which are **fully exempt** from service tax or those covered under the **negative list** of services.

Q.4 Why has SBC been imposed?

Ans. SBC has been imposed for the purposes of financing and promoting Swachh Bharat initiatives or for any other purpose relating thereto.

Q. 5 Where will the money collected under SBC go?

Ans. Proceeds of the SBC will be credited to the Consolidated Fund of India, and the Central Government may, after due appropriation made by Parliament, utilise such sums of money of the SBC for the purposes of financing and promoting Swachh Bharat initiatives or for any other purpose relating thereto.

Q.6 How will the SBC be calculated?

Ans. SBC would be calculated **in the same way as Service tax is calculated**. Therefore, SBC would be levied on the same taxable value as service tax.

Q. 7 Whether SBC would be required to be mentioned separately in invoice?

Ans. SBC would be **levied, charged, collected and paid** to Government **independent of service tax**. This needs to be charged separately on the invoice, accounted for separately in the books of account and paid separately under separate accounting code which would be notified shortly. SBC may be charged separately after service tax as a different line item in invoice. It can be accounted and treated similarly to Education cesses.

Q. 8 Whether separate accounting code will be there for Swachh Bharat Cess?

Ans. **Yes**, for payment of Swachh Bharat Cess, a separate accounting code would be notified shortly in consultation with the Principal Chief Controller of Accounts. These are as follows:-

Swachh Bharat Cess	Tax Collection	Other Receipts	Penalties	Deduct Refunds
0044-00-506	00441493	00441494	00441496	00441495

Q. 9 What would be effective rate of service tax and SBC post introduction of SBC?

Ans. Effective rate of service tax plus SBC, post introduction of SBC, would be **[14% + 0.5%]**.

Q.10 Whether SBC is a 'Cess' on tax' and we need to calculate SBC @ 0.50% on the amount of service tax like we were earlier doing for calculating Education Cess and SHE Cess?

Ans. No, SBC is not a cess on Service Tax. SBC shall be levied @ 0.5% on the value of taxable services.

Q. 11 Whether SBC is levied on all or selected services?

Ans. The Central Government was empowered to impose SBC either on all or some of the taxable services. Vide notification No 22/2015-ST dated 6-11-2015, Government has notified that SBC shall be applicable on all taxable services except services which are either fully exempt from service tax under any notification issued under section 93(1) of the Finance Act, 1994 or are otherwise not leviable to service tax under section 66B of the Finance Act, 1994.

Q.12 How will the SBC be calculated for services under Reverse Charge mechanism?

Ans. In case of reverse charge under section 68(2) of the Finance Act, 1994, the liability has been shifted from service provider to the service recipient. As per section 119 (5) of the Finance Act, 2015, the provisions of Chapter V of the Finance Act, 1994, and the rules made thereunder are applicable to SBC also. Thus, the reverse charge under section 68(2) of the Finance Act, 1994, is made applicable to SBC.

(In this context, to clarify, Government has issued notification No. 24/2015-Service Tax dated 12.11.2015 to provide that reverse charge under notification No.30/2012-Service Tax dated 20.06.2012 shall be applicable for the purpose of levy of Swachh Bharat Cess mutatis mutandis.)

Q.13 How will SBC be calculated for services where abatement is allowed?

Ans. Taxable services, on which service tax is leviable on a certain percentage of value of taxable service, will attract SBC on the same percentage of value as provided in the notification No. 26/2012-Service Tax, dated 20th June, 2012. So, this notification would apply for SBC also in the same manner as it applies for service tax.

For example, in the case of GTA, [Service Tax + SBC]% would be :

(14% Service Tax + 0.5% SBC) X 30% = 4.35% (4.20%+0.15%)

Q.14 Whether Cenvat Credit of the SBC is available?

Ans. SBC is **NOT** integrated in the Cenvat Credit Chain. Therefore, **credit of SBC cannot be availed**. Further, **SBC cannot be paid by utilizing credit of any other duty or tax.**

Q.15 What would be the point of taxation for Swachh Bharat Cess?

Ans. As regards Point of Taxation, since this **levy has come for the first time**, all services (except those services which are in the Negative List or are wholly exempt from service tax) are being subjected to SBC for the first time. SBC, therefore, is a new levy, which was not in existence earlier.

Hence, **Rule 5 of the Point of Taxation Rules would be applicable** in this case.

Therefore, in cases where **payment** has been **received and invoice** is raised **before** the service becomes taxable, **i.e. prior to 15th November, 2015**, there is **no liability** of Swachh Bharat Cess.

In cases where **payment** has been received **before** the service became taxable **and invoice** is raised **within 14 days, i.e. upto 29th November, 2015**, even then the service tax **liability does not** arise.

Swachh Bharat Cess will be **payable** on **services** which are **provided on or after 15th Nov, 2015, invoice** in respect of which is **issued on or after that date and payment is also received on or after that date.**

Swachh Bharat Cess will also be **payable** where **service is provided on or after 15th Nov, 2015** but **payment is received prior to that date** and **invoice** in respect of such service is **not issued by 29th Nov, 2015.**

Q.16 How would the tax (Service Tax and SBC) be calculated on services covered under Rule 2A, 2B or 2C of Service Tax (Determination of Value) Rules, 2006.?

Ans. The tax (Service Tax and SBC) on services covered by Rule 2A, 2B or 2C of Service Tax (Determination of Value) Rules, 2006, would be computed by multiplying the value determined in accordance with these respective rules with [14% + 0.5%]. Therefore, effective rate of Service Tax plus SBC in case of original works and other than original works under the works contract service would be 5.8% $[(14\% + 0.5\%)*40\%]$ and 10.15% $[(14\% + 0.5\%)*70\%]$ respectively. Similar, would be the tax treatment for restaurant and outdoor catering services.

Q.17 How would the tax be calculated on restaurant services covered under Service Tax (Determination of Value) Rules, 2006.?

Ans. Swachh Bharat Cess would be calculated on the value arrived at in accordance with the Service Tax (Determination of Value) Rules, 2006. For example, the effective Swachh Bharat Cess in respect of services provided in relation to serving of food or beverages by a restaurant, eating joint or a mess, having the facility of air-conditioning or central air-heating in any part of the establishment, would be 0.5% of 40% of the total amount, i.e., 0.2% of the total amount. The cumulative service tax and Swachh Bharat Cess liability would be [14% ST + 0.5% SBC] of 40% of the total amount, i.e., 5.8% of the total amount charged.

Q.18 Whether SBC would be applicable on services covered by Rule 6 of Service Tax Rules (i.e. air travel agent, life insurance premium, purchase and sale of foreign currency and services by lottery distributors/selling agents)

Ans. Sub-rule (7D) to rule 6 has been inserted vide [notification 25/2015](#)-Service Tax, dated 12th November, 2015 so as to provide that the person liable for paying the service tax under sub-rule (7), (7A), (7B) or (7C) of rule 6 of Service Tax Rules, shall have the **option to pay SBC** as determined as per the following formula:-

$$\text{Service Tax liability} \times \frac{0.5\%}{14\%}$$

[calculated as per sub-rule (7), (7A), (7B) or (7C)]

The option under this sub-rule once exercised, shall apply uniformly in respect of such services and shall not be changed during a financial year under any circumstances.

Q. 19 How would liability be determined in case of reverse charge services where services have been received prior to 15.11.2015 but consideration paid post 15.11.2015?

Ans. In respect of reverse charge mechanism, SBC liability is determined in accordance with **Rule 7** of Point of Taxation Rules, as per which, point of taxation is the **date on which consideration is paid to the service provider**. Thus, SBC liability in such case will be 0.5% X Value of taxable service.

Q.20 Does a person providing both exempted and taxable service and reversing credit @7% of value of exempted service under Rule 6 of Cenvat Credit Rules, does he need to reverse the SBC also?

Ans. As SBC is not integrated in the Cenvat Credit chain and reversal under Rule 6 is payment of amount equal to 7% of the value of exempted services, hence, **reversal of SBC is not required** under Rule 6 of Cenvat Credit Rules, 2004.
