Service Tax – CA Final & IPCC

(Suggested Numericals after ICAI Notification, dated 07.09.2012, relevant for Nov'12)

Q.1 M/s Mangal Pvt. Ltd., a consultant, provides you the following details regarding the services provided by them during FY 2012-13 :-

a) Total Invoices issued to various clients towards consultancy fees amounts to Rs. 15,00,000, out of which only Rs. 12,00,000 were received during this year.

b) Advance received from M/s Lohar & co. towards services to be provided in the month of May'13 - Rs. 5,00,000/-

c) Services exported to M/s Bharat & Co. located in Australia and received Rs. 8,00,000/- towards consultancy fees.

d) Services provided to a project of UNO in India. Consultancy fees received - Rs 10,00,000/-

e) Services Provided to RBI. Consultancy fees received - Rs. 2,00,000/-

f) Services Provided to M/s DEF & Co. Worth Rs. 7,00,000/-. Due to Financial Crunch, M/s DEF & Co. was declared insolvent and nothing could be realised from them.

g) Assessee had delayed in making payment of service tax amounting to Rs. 1,00,000 by 150 days during FY 2012-13.

Compute the amount of service tax payable by M/s Mangal Pvt. Ltd. You may assume that all the invoices were issued within the time period allowed u/r 4A of STR, 1994 and assessee opted for various options beneficial for it. All amounts are exclusive of S.T. Given that during f. y. 2011-12 its turnover of taxable services was Rs 75 Lacs.

Q.2 What would be your answer, if in Q.1, the Turnover of taxable services of M/s Mangal Pvt. Ltd. was Rs. 40 Lacs during FY 2011-12.

Q.3 What would be your answer, if in Q.1, M/s Mangal Pvt. Ltd. had commenced their business during the current FY 2012-13 only.

Q.4 What would be your answer, if in Q.1, the service provider was M/s Mangal & Co., a Limited Liability Partnership (LLP) Firm instead of M/s Mangal Pvt. Ltd.

Q.5 What would be your answer, if in Q.1, the service provider was M/s Mangal & co., a Limited Liability Partnership (LLP) Firm and the Turnover of taxable services of the firm was Rs. 40 Lacs during FY 2011-12.

Suggested Answers

Ans.1 Computation of amount of Service Tax Liability of M/s Mangal Pvt. Ltd.:

S.No.	Particulars	Amount (Rs.)
a)	Total Invoices issued to Various clients (As per rule 3 of POTR, service tax is payable on issue of invoice even if Payment is not received)	15,00,000
b)	Advance recd. from M/s Lohar & co. towards services to be provided in the month of May' 13. (As Per Rule 3 of POTR, if Advance is Recd., then also S.T. is Payable)	5,00,000
c)	Service exported to M/s Bharat & Co. Located in Australia (Since, amount is not received in convertible foreign Exchange, so, S.T. will be payable)	8,00,000
d)	Services provided to a project of UNO in India. [S.T. is exempt on services provided to UNO]	-
e)	Services provided to RBI [S.T. is Payable, since services provided by RBI are exempt. But services received by RBI are not exempt (except in case of reverse charge mechanism)]	2,00,000
f)	Services provided to M/s DEF & Co. [As per rule 3 of POTR, S.T. is payable even in case of Bad Debts.]	7,00,000
(A)	Total Value of Taxable Services (A)	37,00,000
	S.T. @ 12%	4,44,000
	EC @ 2% of 4,44,000	8,880
	SHEC @ 1% of 4,44,000	4,440
(B)	Total Tax on Services (B)	4,57,320

(g) In case of delay in payment of S.T., simple interest is payable @ 18% P.A.

Interest = 100000 x 18% x 150/365= Rs. 7,397.26

Ans. 2 (1) If the Turnover of taxable services of M/s Mangal Pvt. Ltd. was Rs 40 Lacs during FY 2011-12, then also there would not be any change in the amount of S.T. liability, because option to pay S.T. on "Receipt of payment" Basis as per rule 6 of STR, 1994, is available only to Individuals and Partnership firms and not to Company. Since. M/s Mangal Pvt. Ltd. is a company, it will have to follow point of taxation rules, only.

(2) But, in this case, assessee would be liable to pay interest only at the rate of 15% P.A. on the amount of delayed payment by it, since the value of taxable services provided during previous financial year did not exceed Rs. 60 Lacs.

Interest = 100000 x 15% x 150/365 = Rs. 6,164.38

Ans. 3 As per Notification No. 06/2005 – ST, dated 1.03.2005, if the Turnover of taxable services provided during Previous FY was up to Rs.10 Lacs, Then assessee may opt for small service provider (SSP) exemption during Current FY for the first consecutive invoices issued or required to be issued up to Rs. 10 Lacs.

In the Current case, as the assessee has commenced its business during Current FY only so, its Turnover during previous FY was zero i.e. not exceeding Rs. 10 Lacs, so, assessee may opt for SSP exemption during Current FY.

Computation of Service tax liability

S. No.	Particulars	Amount (Rs.)
(a to f)	Total Turnover of taxable services during Current FY [As per Ans. 1 – Points (a) to (f)]	37,00,000
Less:-	SSP Exemption	(10,00,000)
(A)	Total Value of Taxable Services (A)	27,00,000
	S. TAX @ 12%	3,24,000
	EC @ 2% of 3,24,000	6,480
	SHEC @ 1% of 3,24,000	3,240
(B)	Total Tax on Services (B)	3,33,720

(g) Interest = 1,00,000 x 15% x 150 / 365 = Rs. 6,164.38

Ans. 4 If the service provider was M/s Mangal & co., a limited liability partnership firm, instead of M/s Mangal Pvt. Ltd., then also there would not be any change in the answer. [Hint – Because Turnover during Previous FY was Rs. 75 Lacs].

Ans. 5 As per Rule 6 of STR, 1994, an option to pay service tax on "Receipt of Payment" Basis on taxable services provided during Current FY upto Rs. 50 lacs is available to the individual and partnership firm (including LLP), if the Turnover of taxable services during P.F.Y. was upto Rs. 50 Lacs. Since, in the current case, above conditions are fulfilled, so assessee should opt for the option available, as it is beneficial for the assessee.

As per this option amount of service tax liability will be computed as under:

Sr. No.	Particulars	Amount (Rs.)
a)	Total payment received out of the invoices issued to various clients	12,00,000
b)	Advance recd. from M/s Lohar & co.	5,00,000
c)	Service exported to M/s Bharat & Co. located in Australia (Since, amount is not received in convertible foreign Exchange, so, S.T. will be payable)	8,00,000
d)	Services provided to a project of UNO in India. [S.T. is exempt on services provided to UNO]	-
e)	Services provided to RBI [S.T. is Payable, since services provided by RBI are exempt. But services received by RBI are not exempt (except in case of reverse charge mechanism)]	2,00,000
f)	Services provided to M/s DEF & Co. [Since no payment is recd. so, no S.T. is payable]	-
(A)	Total Value of Taxable Services (A)	27,00,000
	S. TAX @ 12%	3,24,000
	EC @ 2% of 3,24,000	6,480
	SHEC @ 1% of 3,24,000	3,240
(B)	Total Tax on Services (B)	3,33,720

(g) Interest = 1,00,000 x 15% x 150 / 365 = Rs. 6,164.38

Note: Students of CA Final & IPCC are advised to go through practice manual and revision test papers issued by ICAI for practice of numerical questions (except the questions with respect to specific services in the area of service tax).

Additional Clarification from Board of Studies, ICAI dated 11.09.2012

Further clarification - Non-applicability of taxable services in Final-Paper 8: Indirect Tax Laws for November, 2012 examinations

We have received large number of queries from the students with regard to the BoS' announcement dated 07.09.2012 relating to the non-applicability of taxable services in Final - Paper 8: Indirect Tax laws for November 2012 examinations. In this regard, it is reiterated that the Examination Committee at its 497th meeting held in September, 2012 has decided that students appearing in November 2012 examinations will not be examined with respect to specific services in the area of service tax laws in Paper 8: Indirect Tax Laws (Final Examination).

Therefore, it is clarified that ALL the taxable services (including the thirty two (32) services notified earlier by the BOS through its announcement dated 14.09.2011) will not be relevant for November 2012 exams.

It is further clarified that Chapter 4 : Gamut and Coverage of Taxable Services of Study Material and Practice Manual for Paper 8: Indirect Tax Laws will NOT be applicable for November 2012 exams.

However, it may be noted that all other chapters of the Study Material and Practice Manual are relevant for November 2012 examination.

Based on the queries received from the students, the following are further clarified:
(i) Negative list of services and other amendments made vide the Finance Act, 2012 are not relevant for Nov 2012 exams.
(ii) Marks distribution between the three sections viz. Central Excise (40 marks), Service Tax and VAT (40 marks) and Customs (20 marks) has not changed.

Director Board of Studies

For any assistance contact at ca.yashvantmangal@gmail.com

Best wishes

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