



Recent Changes in Service Tax Provisions.

Changes in CENVAT Credit Rules, 2004 & Other Service Tax Provisions

The Hon'ble Finance Minister Shri. Arun Jaitley presented the Union Budget for 2016-17 on February 29, 2016 in the Lok Sabha. On May 5, 2016, the Lok Sabha passed the Finance Bill, 2016 and later on May 11, 2016, the Finance Bill, 2016 was passed by the Rajya Sabha. Now, the Hon'ble President has given assent to the Finance Bill, 2016 on Saturday, May 14, 2016. Accordingly, the Finance Bill, 2016 now becomes the Finance Act, 2016.



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CHANGES IN SERVICE TAX TO BE EFFECTIVE FROM JUNE 1, 2016

+ Krishi Kalyan Cess @ 0.5% on all taxable services

- ✓ Pursuing with an objective to finance and promote initiatives to improve agriculture and farmer welfare, the Government has announced a new cess namely 'Krishi Kalyan Cess' ("KKC"), to be levied at 0.5% on the value of all taxable services w.e.f June 1, 2016. In this regard, a new Chapter VI has been inserted in the Finance Bill, 2016, that contains the relevant provisions, which is applicable with an enactment of the Finance Bill, 2016. Thereby, effective rate of Service tax going to be increased from 14.5% to 15%:
- ✓ 'KKC' though said to be Cenvatable in the hands of Service Provider only, but appropriate amendments also required in the Cenvat Credit Rules, 2004: Unlike Swachh Bharat Cess ("SB Cess") imposed w.e.f. November 15, 2015, which is not Cenvatable neither in the hands of service providers nor manufacturers, in terms of TRU F. No. 334/8/2016-TRU dated February 29, 2016 [Para 3.1], it is provided that Cenvat credit of KKC paid on input services shall be allowed to be used for payment of the proposed Cess on the service provided by a service provider. However, corresponding changes are yet to be incorporated in Rule 3 of the Cenvat Credit Rules, 2004 to provide requisite legal backing for availment of Cenvat credit.
- ✓ Rate of Service tax would eventually increase to 15% w.e.f. June 1, 2016: After levy of KKC, Service tax rate would increase from 14.5% to 15%, effective from June 1, 2016. An illustration showing levy of Service tax and SB Cess & KKC is given below assuming Rs. 5,000/- as value of a taxable service:
- ✓ To understand applicability of KKC in detail with multiple practical example(s) as to what will be the scenario when new levy 'KKC' becomes applicable from June 1, 2016 @ 0.5% on value of all taxable service.

Particulars	Tax/ Cess (Rs.)
Value of taxable service: (a)	5,000/-
Add: Service tax @ 14% on (a)	700/-
Add: SB Cess @ 0.5% on (a)	25/-
Add: KKC @ 0.5% on (a)	25/-
Total:	5,750/-

Changes in the Negative List of services

1. Section 66D(o)(i) of the Finance Act: Proposed to be deleted

- ✓ Presently, Section 66D(o)(i) of the Finance Act covers “service of transportation of passengers, with or without accompanied belongings, by a stage carriage”, which is proposed to be deleted w.e.f June 1, 2016. Corresponding to this deletion, new Entry [No. 23(bb)] has been inserted in the Mega Exemption Notification to exempt services by a stage carrier other than air-conditioned stage carriage. [Read with Notification No. 9/2016-ST dated March 1, 2016 vide which changes have been made in the Mega Exemption Notification]
- ✓ Further, Service tax is proposed to be levied on service of transportation of passengers by air conditioned stage carriage @ 40% after abatement of 60% (as applicable to transportation of passengers by contract carriage) without input tax credit, with effect from June 1, 2016 [Read with Notification No. 08/2016-ST dated March 1, 2016 vide which changes have been made in the Abatement Notification]

2. Section 66D(p)(ii) of the Finance Act: Proposed to be deleted w.e.f. 01.06.2016

- ✓ Presently, Section 66D(p)(ii) of the Finance Act covers “services by way of transportation of goods by an aircraft or a vessel from a place outside India up to the customs station of clearance”, which is proposed to be deleted w.e.f June 1, 2016.
- ✓ Corresponding to this deletion, new Entry [No. 53] has been inserted in the Mega Exemption Notification to such services by an aircraft. [Read with Notification No. 9/2016-ST dated March 1, 2016 vide which changes have been made in the Mega Exemption List of Services].
- ✓ However, the services provided by vessels would be taxable and the domestic shipping lines registered in India will pay Service tax under forward charge while the services availed from foreign shipping line by a business entity located in India will get taxed under Reverse Charge at the hands of the business entity. The Service tax so paid will be available as credit with the Indian manufacturer or service provider availing such services (subject to fulfillment of the other existing conditions). It is clarified that Service tax levied on such services shall not be part of value for custom duty purposes.

- ✓ In addition, Cenvat credit of eligible inputs, capital goods and input services is being allowed for providing the service by way of transportation of goods by a vessel from the customs station of clearance in India to a place outside India as export of services. Consequential amendments are being made in the Cenvat Credit Rules, 2004.

✚ Indirect Tax Dispute Resolution Scheme, 2016 (“the IDT DRS Scheme, 2016”)

- ✓ The IDT DRS Scheme, 2016 shall come into force on June 1, 2016 (operative till December 31, 2016) and it will be applicable for all the disputes pertaining to Customs, Central Excise and Service Tax matter, which are pending before the Commissioner (Appeals) as on March 1, 2016;
- ✓ To avail the benefit of the Scheme, the Declarant will have to pay duty/tax liability along with interest and penalty equivalent to 25% of Penalty, as imposed in the Impugned Order. Order-In-Original within 15 days of the receipt of the acknowledgement from the Designated Authority and intimate the Designated Authority within 7 days of such payment.

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