



## All You Need To Know About Krishi Kalyan Cess

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

Finance Minister Arun Jaitley while presenting the Budget for 2016-17, proposed to impose a Cess, called the **Krishi Kalyan Cess**, at 0.5 per cent on all taxable services, proceeds of which would be exclusively used for financing initiatives relating to improvement of agriculture and welfare of farmers.

Krishi Kalyan Cess has been introduced with effect from 1st June, 2016 in Union Budget 2016. The cess is governed by Section 161 to Chapter VI of the Finance Act, 2016.



**Rajput Jain & Associates**  
Chartered Accountants

**A tabular analysis is presented for changes in CCR, 2004 & Other Service Tax provisions:**

S. No.	Nature of amendment	Rule Reference	New Version	Analysis
1.	Allowance of CENVAT Credit of Krishi Kalyan Cess (KKC)	<b>Insertion of Rule 3(1a) vide Not. No. 28/2016 – CE (N.T.)</b>	“(1a) A provider of output service shall be allowed to take CENVAT credit of the Krishi Kalyan Cess on taxable services leviable under section 161 of the Finance Act, 2016 (28 of 2016);”	<b>An output Service Provider shall be allowed CENVAT Credit of Krishi Kalyan Cess paid on Input Services. Manufacturer of Final Products is not eligible for CENVAT Credit of KKC.</b>
2.	Normal CENVAT Credit not allowed for payment of KKC	<b>Addition of Tenth proviso to Rule 3(4) vide Not. No. 28/2016 – CE (N.T.)</b>	“Provided also that the Cenvat credit of any duty specified in sub-rule (1) shall not be utilised for payment of Krishi Kalyan Cess leviable under section 161 of the Finance Act, 2016 (28 of 2016);”	<b>Payment of Krishi Kalyan Cess can only be done from the available CENVAT Credit of Krishi Kalyan Cess paid on Input Service.</b>
3.	Applicability of provisions of Rule 3(7) on KKC	<b>Insertion of words ‘sub-rule (1a)’ in Rule 3(7) vide Not. No. 28/2016 – CE (N.T.)</b>	after the words, figures and brackets “sub-rule (1)”, the words, figures and brackets “, sub-rule (1a)” shall be inserted;	<b>The provisions of sub-rule 7 of Rule 3 of CCR, 2004 shall apply <i>mutatis mutandis</i> to CENVAT Credit of Krishi Kalyan Cess.</b>
4.	Clarificatory clause for utilization of Krishi Kalyan Cess	<b>Addition of clause (d) to Sub-Rule 7 of Rule 3 vide Not. No. 28/2016 – CE (N.T.)</b>	“(d) Cenvat credit in respect of Krishi Kalyan Cess on taxable services leviable under section 161 of the Finance Act, 2016 (28 of 2016) shall be utilised only towards payment of Krishi Kalyan Cess on taxable services leviable under section 161 of the Finance Act, 2016 (28 of 2016);”	<b>Clarification on utilization of CENVAT Credit Krishi Kalyan Cess. CENVAT Credit of Krishi Kalyan CESS can only be utilized for payment of Output Krishi Kalyan Cess</b>
5.	Applicability of Reverse Charge provisions	<b>Notification 27/2016 – ST dated 26<sup>th</sup> May, 2016</b>	The provisions of Notification No. 30/2012 (Reverse Charge Mechanism) shall apply <i>mutatis mutandis</i> for the purpose of Krishi Kalyan Cess.	<b>Krishi Kalyan Cess shall also be liable to be paid under Reverse Charge (Partial or Full).</b>

6.	Applicability of Exemption under Service Tax	<b>Notification 28/2016 – ST dated 26<sup>th</sup> May, 2016</b>	Services that are currently exempt from Service Tax under any Notification or special order issued under Section 93(1) or 93(2) of the Finance Act, 1994 or are not liable to Service Tax under Section 66B, shall also be exempt from applicability of Krishi Kalyan Cess.	<b>No Krishi Kalyan shall be charged on exempted services.</b>
7.	Applicability of Benefit of Abatement	<b>Notification 28/2016 – ST dated 26<sup>th</sup> May, 2016</b>	Krishi Kalyan Cess to be levied on that percentage of services which is specified in column (3) for the specified taxable services in column (2) of the Table in the notification No. 26/2012-Service Tax.	<b>Krishi Kalyan Cess shall also be calculated at abated rate while calculating Service Tax liability for Services falling under the ambit of Notification No. 26/2012 – Service Tax.</b>
8.	Benefit of Rebate on Input Service for providing Export of Services	<b>Insertion to Explanation 1 of clause (d) of Notification No. 39/2012 – ST vide Notification 29/2016 – ST dated 26<sup>th</sup> May, 2016</b>	“(e) Krishi Kalyan Cess as levied under sub-section (2) of section 161 of the Finance Act, 2016 (28 of 2016).”	<b>Rebate shall also be allowed for Krishi Kalyan Cess paid on Input Services used providing service exported in terms of rule 6A of the Service Tax Rules, 1994.</b>
9.	Refund of Krishi Kalyan Cess to SEZ Unit	<b>Changes in Item (i) &amp; (ii) of clause (ba) of sub-para III of paragraph 3 of Notification No. 12/2013 vide Notification 30/2016 – ST dated 26<sup>th</sup> May, 2016</b>	(ii) in clause (ba), (a) in item (i), after the words “Swachh Bharat Cess”, the words “and Krishi Kalyan Cess” shall be inserted; (b) in item (ii) for the words “by effective rate of Swachh Bharat Cess”, the words “by sum of effective rates of Swachh Bharat Cess and Krishi Kalyan Cess” shall be substituted.	<b>A SEZ unit or Developer shall also be entitled to refund of Krishi Kalyan Cess paid on specified services.</b>

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10.	Change in language for calculation of tax rate under Rule 6(7D) of Service Tax Rules, 1994	<b>Changes in Rule 6(7D) of STR, 1994 vide Notification No. 31/2016 – ST dated 26<sup>th</sup> May, 2016</b>	(i) in sub-rule (7D), for the figures “0.5” the words “effective rate of Swachh Bharat Cess” and for the words, figures and brackets “14 (fourteen)”, the words and figures “rate of service tax specified in section 66B of the Finance Act, 1994” shall be substituted;”;	<b>The modus for calculating tax rate under sub-rule 7D has been changed from a fixed rate to whatever rate that might be in force.</b>
11.	Composition rate for Krishi Kalyan Cess as applicable to Service Tax under sub-rules 7,7A,7B,7C of rule 6 of STR, 1994	<b>Addition of sub-rule 7E to Rule 6 of Service Tax Rules, 1994 vide Notification No. 31/2016 – ST dated 26<sup>th</sup> May, 2016</b>	"(7E) The person liable for paying the service tax under sub-rule (7), (7A), (7B) or (7C) of rule 6, shall have the option to pay such amount as determined by multiplying total service tax liability calculated under sub-rule (7), (7A), (7B) or (7C) of rule 6 by effective rate of Krishi Kalyan Cess and dividing the product by rate of service tax specified in section 66B of the Finance Act, 1994, during any calendar month or quarter, as the case may be, towards the discharge of his liability for Krishi Kalyan Cess instead of paying Krishi Kalyan Cess at the rate specified in sub-section (2) of section 161 of the Finance Act, 2016 (28 of 2016) and 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."	<b>Assessee shall also have an option to pay tax at composite rate. The option once opted for cannot be changed during the financial year.</b>

The Central Government vide Circular No. 194/4/2016-ST dated May 26, 2016 has notified separate accounting codes for payment of Krishi Kalyan Cess (KKC) in the following manner:

<b>KKC (Minor Head)</b>	<b>Tax Collection</b>	<b>Other Receipts (Interest)</b>	<b>Deduct Refunds</b>	<b>Penalties</b>
0044-00-507	00441509	00441510	00441511	00441512

## CORPORATE OFFICE

P-6/90, Connaught Place,  
Connaught Circus, New Delhi-  
110001, India.

Phone No: 011-23343333

[www.carajput.com](http://www.carajput.com)



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