

Service tax Rate Reduction – A Practical Guide – Feb 24, 2009

SERVICE TAX GETS REDUCED BY 2% wef FEBRUARY 24, 2009 – A PRACTICAL GUIDE

1. What is the text of the Notification reducing the service tax rate?

NOTIFICATION NO 8/2009-ST, Dated : February 24, 2009

In exercise of the powers conferred by sub-section (1) of section 93 of the Finance Act, 1994 (32 of 1994) (hereinafter referred to as the Finance Act), the Central Government, on being satisfied that it is necessary in the public interest so to do, hereby exempts all the taxable services specified in sub-section 105 of section 65 of the Finance Act from so much of service tax leviable there on under section 66 of the Finance Act, as is in excess of the rate of ten per cent of the value of taxable services.

F. No. 354/210/2008-TRU(part)

(Unmesh

Sharad

Wagh)

Under Secretary to the Government of India

2. What is the effective new rate and the date from which it comes into force? Is the reduction applicable for all services?

The effective new rate is 10.3% inclusive of education cess and is effective from 24.02.2009 on all services provided.

3. How does this work in the case of on-going services ?

The service tax rate that is applicable for services rendered up to February 23, 2009 would be 12% plus education cess of 3% (effective rate is 12.36%), while the service tax rate for services rendered on or after February 24, 2009 would be 10% plus education cess of 3% (effective rate would be 10.3%)

4. How does a service provider raise an invoice for the month of February 2009, in the case of a monthly service?

The service provider would have to preferably show, two separate rows, viz. one for the service tax @ 12% plus education cess for the period February 1 to February 23, 2009 and the other, for the service tax @ 10% plus education cess for the balance part of the month. Thus, a lessor/landlord, would need to bifurcate his monthly rental bill to show the service tax applicability for the period Feb 1 to 23 and for the period Feb 24 to 28, on the following lines, viz.

Rental / Value of services rendered for February 2009:

Add : Service tax for the period Feb 1 to 23, 2009 :

Add : Secondary Education Cess @ 1%

Add : Service tax for the period Feb 24 to 28, 2009

Add : Education Cess @ 2%
Add: Secondary Education Cess @ 1%

5. Whether all the receipts that are received after 24.02.2009 are taxable at 10.3%?

The deduction of 2% is with respect to taxable services provided on or after February 24, 2009. Hence, the service provider will need to track his receipts and accordingly discharge his service tax liability. Accordingly, the receipts received in respect of services rendered on or after February 24, 2009, would attract service tax @ 10.3% inclusive of education cess. Hence, it would be totally incorrect to say that all receipts after February 24, 2009 would be taxable at 10.3%.

6. What is the service tax rate applicable for advance receipts against taxable services to be provided?

In the case of advances against services to be provided in the future, the rate of service tax would be 10.3% inclusive of education cess.

7. What would happen if a service provider receives his dues in March 2009, in respect of services rendered in January 2009?

Since the service tax rate is applicable vis-à-vis the date of providing of the services, the rate here would be 12.36% inclusive of service tax.

8. What would happen to Works Contractors who have opted for the Composition Scheme?

There will be no impact, as the rate of 4.12% for Works Contractors who have opted for the Composition Scheme remains intact.

9. What would happen to Service Providers / Developers / Builders who have opted for the Abatement benefit under Notification No. 1/2006?

The overall service tax rates would come down, in terms of the 2% reduction. Thus, for a Developer who is following the Notification No. 1/2006, the effective rate would be 3.4% (33% of 10.3%).

10. Is the reduction applicable to Service Providers who are going under Notification 12/2003?

The overall service tax rate under Notification 12/2003 would be 10.3% on the non-material/goods component. Thus, for a Developer/Builder going under Notification No. 12/2003, the rate would be 3.09% (10.3% on 30% of the gross value).

11. Is the reduction applicable to Importers of services also?

Yes. The importers would also now need to pay 10.3% on imported services on or after February 24, 2009.