

An Analysis of Union Budget 2011-12: Impact of Service Tax

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The Union Budget of 2011-12 has left the rate of service tax unchanged at 10 per cent, with additional 2 per cent education cess and 1 per cent higher education cess (effective rate 10.3 per cent). The basic exemption limit of service tax remains unchanged at ₹ 10 Lac.

The consumer shall be burdened with additional service tax due to the levy of service tax on :

(1) Services provided by air-conditioned restaurants having a licence to serve alcoholic beverages in relation to serving of food and/or beverages. There has been a 70 per cent abatement provided from the gross bill amount which in effect will mean an increase of 3.09 per cent on the total bill amount due to impact of service tax.

(2) Short-term accommodation services provided by a hotel, inn, guesthouse, club or campsite or any other similar establishment for a continuous period of less than three months, where the declared Tariff is of ₹ 1,000 or more. Once this requirement of declared tariff being ₹ 1,000 or more is met then the same shall be liable to service tax irrespective of the fact that actual amount charged to an individual customer may be less than ₹ 1,000. There has been a 50 per cent abatement provided from the gross amount paid or payable which in effect will mean an increase of 5.15 per cent on the total bill amount due to impact of service tax.

(3) Service tax on air travel has been increased as under for :

(a) Domestic (economy): From ₹ 100 to ₹ 150

(b) International (economy): From ₹ 500 to ₹ 750

(c) Domestic (other than economy): Standard rate of 10.3 per cent.

(d) The impact of the above is that air travel will be a costlier affair.

(4) The services of repair, reconditioning, restoration or service of any motor car, light motor vehicle or two wheeled motor vehicle were taxable till date if they were provided by a service station or centre which was authorized by the manufacturer. Now an amendment is made in the same service, to provide that all persons and all motor vehicles other than those meant for goods carriage or three wheeler auto rickshaw shall now be liable to service tax, even decoration services and any other related services shall now be liable to service tax, which means even the local garage will be covered under the net. Impact will be 10.3

per cent service tax on the value of service provided or to be provided.

(5) Life insurance service is expanded to cover all services, including in relation to management of investments. Services relating to risk cover were already under the net; now services relating to managing investments for policy holders are proposed to be covered under the service tax net. Similar services provided by way of ULIP are under the net from 2008. The impact of this will be that service tax will be deducted from the gross premium collected from the policy holder @ 1.5 per cent and hence, the amount available for investments will be adjusted accordingly. The insurer also has an option to charge service tax @ 10.3 per cent on that portion of the premium that has not been invested and is so indicated in any of the documents given to the policy holder.

(6) The scope of commercial training or coaching service is proposed to be expanded to include all coaching and training that is not recognized by law, irrespective of whether the institute is providing any other course(s) recognized by law. The effect of this will be that 10.3 per cent service tax will be levied on all courses which are not recognized by law.

(7) Services provided by clubs or associations to non members are now covered under the definition of club or association. Now non-members enjoying the benefits of a club will be liable to service tax @ 10.3 per cent on the charges paid by them.

(8) The services provided under Business Support Service category are expanded to include operational or administrative assistance of any kind. The scope will cover all support activities for others on a contract or fee, that are ongoing business support functions that businesses and organizations commonly do for themselves but sometimes find it economical or otherwise worthwhile to outsource. By this amendment, outsourcing activities of business and organizations are now subject to levy of service tax.

(9) The definition of health services introduced last year is completely changed. The new definition is as follows :

(a) Services provided by a clinical establishment having the facility of central air conditioning in whole or any part of the establishment and more than 25 beds for in-patient treatment at any time of the year; and

(b) Services provided by a clinical establishment in relation to diagnostic tests of any kind or investigative services with the help of a laboratory or medical equipment

(c) Service provided by doctors, who are not employees, from the premises of a clinical establishment.

Due to this amendment, hospitals having more than 25 beds and centralised air-

conditioning, diagnostic services provided by clinical establishments, and doctors consulting from clinical establishment will have to charge service tax on 50 per cent of the gross charge, which in effect will mean service tax of 5.15 per cent on the total bill. Government hospitals have been kept outside the levy of service tax.

(10) Services provided by legal professionals have been expanded to provide that services of advice, consultancy or assistance provided by a business entity to an individual, or representational services provided by an individual to a business entity, or services provided by arbitrators to business entity will now be liable to service tax. Services provided by an individual to another individual will remain outside the purview of service tax.

* The article by Mehul Seth examines the impact of the various provisions with regard to Service Tax, as proposed by the Finance Minister in the Union Budget 2011 -12.