

## **Service Tax payment under Reverse Charge Mechanism**

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The Finance Act, 2012 has brought significant changes in service tax in the approach of taxing the services as well as manner of payment of service tax. In general the liability to pay service tax is on the service provider, however, in certain cases the liability has been shifted to the service recipients also. However, Finance Act 2012, amended Section envisages a situation where in the case of certain categories of services the recipient of service shall alone be liable to pay Service Tax and in the case of other specified categories of services the service recipient and the service provider shall jointly bear the liability to pay Service Tax in a fixed proportion. The said mechanism is called 'Reverse Charge Mechanism' or 'Tax Shift'.

These services and payment mechanism are discussed hereinbelow:-

**Insurance Agent Service** – The service provided by the insurance agent to the person carrying on the insurance business was already covered under the reverse charge mechanism. 100% liability shall be discharged by the person carrying on insurance business.

**Goods Transport Agency** –tax liability of payment of service tax is on the service recipient , who makes the payment of freight and where the consignor or consignee is one of the following person:-

- (a) Factory registered or governed by Factories Act, 1948.
- (b) Society registered under the Societies Registration Act, 1860 or any other law in force.
- (c) Co-operative society
- (d) Dealer of excisable goods registered under the Central Excise Act.
- (e) Body Corporate,
- (f) Partnership firm and
- (g) Association of person

Tax payable by the service recipient on 25% of value if abatement benefit availed by the service provider if not service tax will be payable on 100% of the value The aforesaid provision also exists prior to Finance Act 2012.

**Sponsorship Service** – Entire tax payable by service receiver, if it is a body corporate or partnership firm. If service recipient is not a body corporate or partnership firm then the service provider(i.e. the person receiving the sponsorship money ) will be liable to pay service tax.

**Services of Arbitral Tribunal** – where the recipient of service is a business entity, the full tax liability shall be discharged by business entity only.

**Service Provided by Individual Advocate or Advocate firms** - where the recipient of service is a business entity, the full tax liability shall be discharged by business entity only.

**Renting or hiring of motor vehicle designed to carry passengers** – the service provided by individual, HUF, proprietary or partnership firm, AOP, to a business entity. The payment mechanism of service tax depends upon the availment of abatement by service provider. If the service provider opts for the payment of service tax on abated value i.e. 40% of the total value of service then the full tax liability shall be discharged by the service recipient(i.e. Business entity ). If the service provider does not opt for abatement then the service recipient shall pay 40% of the total tax liability and remaining 60% shall be paid by the service provider.

**Manpower Supply service** - supply of manpower for any purpose by individual, HUF, proprietary or partnership firm, AOP to a business entity. If the said condition is satisfied then service recipient shall pay 75% of the total tax liability and 25% shall be paid by service provider.

**Works Contract Service** – Service portion in execution of works contract by individual, HUF, proprietary or partnership firm, AOP to a business entity. If the said condition is satisfied tax on 50% of value by service provider and 50% by service receiver.

**Import of service (service received from non taxable territory )-** service provided by any person which is located in a non taxable territory and received by any person located in taxable territory . Entire tax would be paid by service recipient located in taxable territory.

**Support service by government or local authority** –

Services provided by the government are not taxable in general since covered under the negative list. However , support services by government or local authority except (a) renting of immovable property and (b) services specified under Section 66D(a)(i)(ii)and (iii) of the Act to any business entity located in the taxable territory. Entire tax payable by service receiver.