

EXPLANATORY NOTES-SERVICE TAX

1. It has been proposed in the Finance Bill to extend the levy of service tax to certain new services, namely, life insurance including insurance auxiliary services relating to life insurance , cargo handling (excluding service provided in relation to export cargo and passenger baggage), storage and warehousing (excluding service provided in relation to agricultural produce and cold storage), event management , fashion designing , rail travel agent, cable operator, beauty parlour, Health club and fitness centre and dry cleaning services. For details regarding the scope of the levy, clause 142 of the Finance Bill, 2002 may be referred to.
 - 1.1 The rate of service tax is 5% of the value of taxable services. As in the previous years, the services tax on these new services will come into force from a date to be notified after the enactment of the Finance Bill.
2. Service tax has been extended to areas in the Continental Shelf and the Exclusive Economic Zone of India vide notification No. 1/2002 –ST dated 1.3.2002. This extension takes effect from 1.3.2002.
3. Certain amendments have been made in the definition of “broadcasting” and “taxable service in relation to broadcasting” and “broadcasting agency or organisation” with retrospective effect from 16.7.2002. These amendments have been made to clarify the scope and applicability of service and to remove doubts/difficulties in implementing the levy of service tax on broadcasting service. (Clause 141 of the Finance Bill, 2002 refers)
4. The service tax on specified banking and other financial service is proposed to be extended to cover such services rendered by corporate bodies. At present, the levy is limited to only such services provided by banking company or a financial institution including non banking financial institution. This extension will also come into force from a notified date.
5. The definition of “ banking company” has been amended to assign it the meaning given in the section 45A (a) of the RBI Act, to make it more exhaustive.
6. Exemption from service given to hotels vide Notification No. 12/2001-ST, dated 20.12. 2001 has been extended upto 31st March 2003. (Notification No. 2/2002-ST dated 1.3.2002 refers)
7. Certain changes have been made in service tax legislation (Chapter V of the Finance Act, 1994), which would come into force from a date to be notified later. These are summarized below.
 - 7.1 Section 73 of the Finance Act, 1994 has been amended to provide for the ‘relevant date’ for computing the time limit for issue of notice for recovery of service tax short paid, not paid, under assessed, not assessed or erroneously refunded. Further, the time limit for issue of notice has been raised from six months to one year.
 - 7.2 Section 78 has been amended to empower the Assistant Commissioner/ Deputy Commissioner of Central Excise to adjudicate penalty in cases where the value of taxable service suppressed or concealed does not exceed Rs. 2 lakhs without the prior approval of the Commissioner of Central Excise.
 - 7.3 Rate of interest for delayed payment of service tax is proposed to be reduced from 24% p.a. to 15% p.a.. In the case of delayed refunds, the applicable rate of interest would be 8% p.a.
 - 7.4 Section 11D of the Central Excise Act, 1944 is proposed to be made applicable to the Service Tax.
 - 7.5 Section 94 is proposed to be amended to provide for credit of service tax paid on input services used in the output services where both the input and output services fall within the same category of taxable service.

7.6 Section 95 has been substituted to empower the Government to issue orders for removal of difficulties arising in the implementation of new services within a period of 2 years from the date of imposition of service tax on such services.

8. Commissioners of Central Excise are requested to examine carefully the new provisions, especially those relating to new services. Further, they may also undertake a survey to ascertain the number of new assesseees, revenue potential of the new services, etc. Any problems likely to arise in the implementation of the proposed levy may be brought to the notice of TRU along with their suggestions to resolve the problem. If any legislative changes are required to be made in the definitions of new services, either to clarify the scope or to remove any inconsistency, the same may be communicated in writing by name to Shri. T.R. Rustagi, Joint Secretary (TRU) so as to reach latest by the 31st of March, 2002. The details of the survey conducted may please be sent by name to Shri. G.D. Lohani, Under Secretary (TRU) so as to reach latest by the 15th of April, 2002.