

### HIGHLIGHTS OF SIGNIFICANT BUDGET NOTIFICATIONS

#### A. SERVICE TAX

##### Changes effective from March 01, 2011

##### 1. Simplification measures

Simplified scheme introduced for units in SEZs to enable them to obtain tax-free receipt of services wholly consumed within the zone and to get refunds in a much easier manner.

*[Notification No. 17/2011-ST dated 01.03.2011]*

##### 2. Exemptions

Business exhibition services provided by an organiser of business exhibition for holding a business exhibition outside India have been exempted from service tax.

*[Notification No. 05/2011-ST dated 01.03.2011]*

(i) Works contract service rendered for the construction of residential complexes or completion and finishing services of a new complex under Jawaharlal Nehru Urban Renewable Mission (JNURM) and "Rajiv Awaas Yojana" has been exempted from service tax.

*[Notification No. 06/2011-ST dated 01.03.2011]*

(ii) General insurance service provided under "Rashtriya Swasthya Bima Yojna" has been exempted from service tax.

*[Notification No. 07/2011-ST dated 01.03.2011]*

(iii) Exemption from service tax has been provided to services provided within a port/other port/airport under the 'works contract service' for specified purposes.

*[Notification No. 10/2011 & 11/2011-ST dated 01.03.2011]*

(iv) An abatement of 25% of the gross amount charged has been provided from the taxable value of service of transport of goods through coastal and inland shipping for the purpose of levy of service tax.

*[Notification No. 16/2011-ST dated 01.03.2011]*

### **Others**

(i) Works Contract (Composition Scheme for Payment of Service Tax) Rules, 2007 have been amended to provide that the CENVAT credit of tax paid on the following taxable services shall be available only to the extent of 40% of the service tax paid when such tax has been paid on the full value of the service after availing CENVAT credit on inputs:-

1. erection, commissioning & installation;
2. commercial or industrial construction and
3. construction of residential complex.

*[Notification No. 01/2011-ST dated 01.03.2011]*

(ii) In case of telecommunication service provided by way of recharge coupons or prepaid cards or the like, the value shall be the gross amount charged from the subscriber or the ultimate user of the service and not the amount paid by the distributor or any such intermediary to the telegraph authority.

*[Notification No. 02/2011-ST dated 01.03.2011]*

### **Changes to be effective from April 01, 2011**

#### **Exemptions**

Services of transportation of goods by air/road/rail provided to a person located in India have been exempted when the goods are transported from a place outside India to a destination outside India.

*[Notification No. 08/2011-ST dated 01.03.2011]*

The transport of goods by air service has been exempted to the extent air freight is included in the customs value of goods.

*[Notification No. 09/2011-ST dated 01.03.2011]*

The rate of service tax on travel by air has been revised as follows:-

Domestic Travel	Economy Class	From Rs. 100 to Rs. 150
International Travel	Economy Class	From Rs. 500 to Rs. 750

Domestic Travel	Other than Economy Class	10% (Standard rate)
-----------------	--------------------------	---------------------

*[Notification No. 04/2011-ST dated 01.03.2011]*

**Others**

(i) The Point of Taxation Rules, 2011 would be effective from 01.04.2011 whereby the point of taxation for service tax has been shifted from receipt basis to accrual basis. The move is a precursor to the proposed GST. Consequently, a number of changes would be effective with effect from 01.04.2011 in the Service Tax Rules, 1994 to align the provisions consequent to the introduction of the Point of Taxation Rules, 2011.

Significant changes are as follows:-

1. The applicable rate of service tax shall be the rate prevailing at the time when the services are deemed to have been provided.
2. The composition rate in relation to purchase or sale of foreign currency, including money changing shall be reduced from 0.25% to 0.10%. Further, option of paying service tax on billed charges will not be available.

*[Notification No. 03/2011 & 18/2011-ST dated 01.03.2011]*

(ii) In the Export of Service Rules, 2005 and the Taxation of Services (Provided from Outside India and Received in India) Rules, 2006, some of the services which were on performance basis have been shifted to recipient basis while few have been added in the performance based criterion.

*[Notification No. 12/2011 & 13/2010-ST dated 01.03.2011]*

(iii) The rate of interest payable on delayed payment of service tax and on amount collected in excess of the service tax has been increased to 18% per annum.

*[Notification No. 14/2011 & 15/2011-ST dated 01.03.2011]*

(iv) The Service Tax (Determination of Value) Rules, 2006 have been amended to prescribe the value of service rendered in relation to money changing.

*[Notification No. 02/2011-ST dated 01.03.2011]*

## **B. EXCISE**

### **Changes effective from March 01, 2011**

(i) In case the owners of the branded garments get the garments manufactured on job-work basis, rule 4 of the Central Excise Rules, 2002 has been amended to provide that the liability to pay duty and comply with central excise procedure shall be on the person on whose behalf the goods are manufactured by job-workers.

*[Notification No. 04/2011 –CE (NT) dated 01.03.2011]*

### **(ii) Amendments in the CENVAT Credit Rules, 2004**

(a) Definition of exempted goods shall include the excisable goods which are covered by the notification relating to concessional duty with the condition that no credit of input and input service shall be availed.

(b) New sub-rule (6A) has been added to rule 6 to allow provision of services without payment of service tax to a unit in SEZ or to a developer in SEZ for their authorized operations, without requirement of reversal of any CENVAT credit on this account.

*[Notification No. 03/2011 –CE (NT) dated 01.03.2011]*

(iii) A nominal duty of 1% ad valorem has been imposed on 130 exempted items with the condition that no credit of the duty paid on input and input services is taken. Further, in respect of the items in whose case the statutory/tariff rate is not Nil, a general effective rate of 5% is being prescribed (without any condition) to enable those manufacturers who wish to avail of Cenvat credit to pay a concessional duty of 5%.

*[Notification No. 01/2011& 02/2011 –CE dated 01.03.2011]*

### **Changes to be effective from April 01, 2011**

(i) The rate of interest payable on delayed payment of excise duty under section 11AA and 11AB has been increased to 18% per annum.

*[Notification No. 05/2011 & 06/2011 –CE (NT) dated 01.03.2011]*

### **(ii) Amendments in the CENVAT Credit Rules, 2004**

The provisions of the CENVAT Credit Rules, 2004 have been amended with the intent of broadening the tax base and to simplify definitions for reducing the disputes and to achieve a more realistic attribution when common inputs or input services are used for the manufacture of both dutiable and exempt goods in the following manner:-

- (a) The definition of inputs has been substituted with a new definition in order to reduce the disputes in its interpretation by providing specific exclusions and inclusions.
- (b) The definition of input service has been modified to align it with the definition of input such that the goods that do not constitute “input” do not qualify as “input service”. Further, expression “activities relating to business” has been deleted.
- (c) It has now been clarified that exempted services will include trading services.
- (d) Rule 6(5) that allows full credit in respect of 17 specified services has been deleted
- (e) A practical scheme has been provided for the segregation of CENVAT credits used in respect of final products and output services where they are partially exempted with condition that no such credits shall be taken.

*[Notification No. 03/2011 –CE (NT) dated 01.03.2011]*

## **C. CUSTOMS**

### **Changes to be effective from April 01, 2011**

The rate of interest payable on delayed payment of customs duty under section 28AA and 28AB has been increased to 18% per annum.

*[Notification No. 17/2011-Customs (NT) dated 01.03.2011]*

*The complete text of the above notifications is available at [www.cbec.gov.in](http://www.cbec.gov.in).*

### **Disclaimer**

Information published in the newsletter are taken from publicly available sources and believed to be accurate. The Indirect Taxes Committee of ICAI takes no responsibility of accuracy and reliability of information published in the newsletter. No part of this newsletter may be reproduced, stored in a retrieval system, or transmitted in any form or by any means – electronic, mechanical, photocopying, recording, or otherwise without the permission of ICAI.

### **Feedback**

The Indirect Taxes Update is an endeavour of the Indirect Taxes Committee to apprise the readers about the amendments made in various central indirect tax laws vide significant notifications, circulars etc. We welcome your feedback on the Update and its contents.

Please email [jdtc@icai.org](mailto:jdtc@icai.org) for feedback.

You can also write to:

Secretary

Indirect Taxes Committee

The Institute of Chartered Accountants of India

ICAI Bhawan A-29, Sector -62, NOIDA (U.P.)India

Telephone Direct - +91 120 3045 906 Telephone Board - +91 120 3045900 Ext. 906