1. Changes applicable w.e.f. 11th July, 2014

1. **Changes related to Mega Exemption**

a. **Service Tax on Air-conditioned Contract Carriages [S. No. 23(b)]**

The scope of exemption related to transport of passengers by a contract carriage other than for specified purposes has been constrained by *excluding the exemption available to air conditioned contract carriages*. Therefore, service tax will be applicable on air conditioned contract carriages. Further, service tax will be charged at abated value of 40%, meaning thereby that the effective tax, rate will be 4.944%.

As a result of this alteration, a leisurely travel by an air conditioned carriage will now be pricey.

b. **Service Tax on Clinical Research Organisation [S. No. 7]**

The exemption available under clause 7, by way of technical testing or analysis of newly developed drugs by a clinical research organisation which is approved by Drug Controller general of India has now been excluded from the purview of exemption notification. Therefore, from now onwards, any such clinical research organisation will be liable to pay service tax.

c. **Services received by Educational Institutes [S. No. 9]**

In the field of education, the base notification provided exemption to the services provided by educational institutions to its students, staff and faculty which was further withdrawn vide Notification No 3/2013-ST dated 1st March 2013 w.e.f. 1st April 2014. Now, the exemption to the services provided by educational institutions to its students, staff and faculty has been brought again to the Mega Exemption Notification. Therefore, the services of transportation facility, air conditioned canteen, health services etc. provided to students, faculty and staff by the educational institutions now became exempt. This clause was peculiarly operated by the sub clause (a) which defined *auxiliary educational services*. The clause left various scope for interpretation. Barring all, the government has now introduced an exhaustive list wherein exemption will be available only to the specified services provided to an educational institution, viz:

- Transportation of students, faculty and staff of educational institution,
- Catering services including any mid-day meal scheme sponsored by government,
- Security or cleaning or house-keeping services in such educational institution,
- `Services relating to admission to such institution or conduct of examination.

Further, exemption in respect of providing services of renting of immovable property to educational institutions stands withdrawn. The government has therefore limited the scope of exemption in lieu of such services.

d. Services provided by Municipality [S. No. 25]

In clause 25 of the exemption notification, the scope of exemption has been constrained by omitting the phrase *"in relation to"*, thereby limiting the exemption only to the services by way of *water supply, public health, sanitation conservancy, solid waste management or slum improvement and up gradation.* Any service in relation to the specified services such as designing, consultancy etc. will be taxable which are not directly linked to these specified services.

e. Services provided by Dharamshala etc. [S. No. 18]

The antecedent exemption notification provided exemption to services by way of renting of hotel, inn, guest house, club, campsite, or other commercial places. However, owing to doubts raised by the public, the word, *"commercial",* has now been omitted. The implication will be that the exemption will now be available to any entity such as *ashrams, dharamshala, etc.* subject to capping of Rs. 1000/- as declared tariff of a unit of accommodation.

f. Service Tax on Tours wholly conducted outside India [New Entry at S. No.42]

Services provided by the Indian tour operators to foreign tourists in relation to tours wholly conducted outside India are being exempted. This exemption is available to Indian tour operators in cases where they organize tours for a foreign tourist wholly outside India, e.g., service provided to a Sri Lankan for a tour conducted in Bhutan. It may be noted that service provided by a tour operator in relation to an inbound or an outbound tours continue to be leviable to service tax

g. Other Exemptions

i. All life micro-insurance schemes approved by the Insurance Regulatory Development Authority (IRDA), where sum assured does not exceed Fifty Thousand Rupees are being exempted from service tax. **[S. No. 26A]**

ii. Transport of organic manure, cotton, ginned or baled by vessel, rail or road (by GTA) is being exempted by amending entries at Sl. No. 20 and 21. Therefore, organic manure will be on par with fertilizer which is already exempted. **[S. No. 20 & 21]**

iii. Services by way of loading, unloading, packing, storage or warehousing, transport by vessel, rail or road (GTA), of cotton, ginned or baled, is being exempted. **[New Entry at S. No. 40]**

iv. Services provided by Common Bio-medical Waste Treatment Facility operators by way of treatment, disposal of bio medical waste or processes incidental to such treatment or disposal are being exempted. **[New Entry at S. No. 2B]**

v. Service provided by Employees" State Insurance Corporation (ESIC) during the period prior to 1.7.2012 is proposed to be exempted from service tax. This exemption for services by ESIC would come into effect from the date the Finance (No.2) Bill, receives the assent of the President. It may be noted that any service provided by ESIC

to persons governed under the Employees" Insurance Act, 1948 is already exempt for the period commencing from 1.7.2012. **[S. No. 36]**

vi. Specialized financial services received by RBI from outside India, in the course of management of foreign exchange reserves, e.g. external asset management, custodial services, securities lending services, are being exempted. **[New Entry at S. No. 41]**

[Notification No. 6/2014 - ST]

2) Changes in Reverse Charge Mechanism:

a. Services provided by Directors

Services provided by Directors to Body Corporate like RBI is being brought under the reverse charge mechanism. Earlier, services provided by Directors to company were only covered under Reverse Charge Mechanism.

[Notification No. 9/2014 -ST and 10/2014-ST]

b. Services provided to Banks, Financial Institution and NBFC

Services provided by Recovery Agents to Banks, Financial Institutions and NBFC is being brought under the reverse charge mechanism; service receiver will be the person liable to pay service tax.

[Notification No. 9/2014 -ST and 10/2014-ST]

c. GTA Service

The condition for availing abatement in case of GTA service is being amended to clarify that the burden of proof for non- availment of credit is required to be satisfied by the service providers only. Service recipient will not be required to establish satisfaction of this condition by the service provider. *[Notification No. 8/2014 -ST]*

3) Changes related to SEZ:

Following Changes are being made in Notification No. 12/2013-ST so as to simplify the procedure for availing benefit under the said notification:

a. Central Excise Officer would issue authorization in Form A-2, within fifteen working days from the date of receipt of Form A-1 by the Central Excise Officer.

b. Authorization will have validity from the date on which Form A-1 is verified by the Specified Officer of SEZ. However, if Form A-1 is furnished after a period of 15 days from the date of its verification by the Specified Officer, the authorization shall have validity from the date of furnishing of Form A-1 to the Central Excise Officer.

c. SEZ Units or the Developer will, pending issuance of Form A-2, be entitled to avail upfront exemption on the basis of Form A-1. However, in such a case, the SEZ Unit/Developer

would be required to furnish a copy of authorization issued by the Central Excise Officer within 3 months from the date of receipt of specified services. If a copy of authorization is not provided within the said period of three months, the service provider shall pay service tax on the service so provided availing the exemption.

d. As regards services covered under full reverse charge, it is being mentioned specifically in Form that there would be no requirement of furnishing service tax registration number of service provider.

e. It is being provided that a service shall be treated as exclusively used for SEZ operations if the recipient of service is SEZ unit or developer, invoice is in the name of such unit/developer and the service is used exclusively for furtherance of authorized operations in SEZ. Therefore, Service provided by sub-contractor to contractor who is further providing services (except Works Contract Service) to SEZ unit or the developer, benefit of exemption shall not be available to the sub-contractor.

[Notification No. 07/2014-ST]

4) Other Changes:

a) In case of service tax paid under full reverse charge, the condition of payment of invoice value to the service provider for availing credit of input services is being withdrawn. However, there is no change in respect of partial reverse charge.

[Notification No. 21/2014-CE(NT)]

b) Re-credit of CENVAT credit reversed on account of non-receipt of export proceeds within the specified period or extended period, to be allowed, if export proceeds are received within one year from the period so specified or extended period.

[Notification No. 21/2014-CE(NT)]

c) The resident private limited company is being included as a class of persons eligible to make an application for Advance Ruling in service tax.

[Notification No.15/2014-ST]

2. Changes to be effective from the date to be notified after the Finance (No. 2) Bill, 2014 receives the assent of the president

1. Sale of Space or Time for Advertisement

Service Tax leviable currently on sale of space or time for advertisements in broadcast media, namely radio or television [section 66D (g) read with section 66B], is proposed to be extended to cover such sales on other segments like online and mobile advertising. The new levy would further extend to advertisements in internet websites, out-of-home media, on film screen in theatres, bill boards, conveyances, buildings, cell phones, Automated Teller Machines, tickets, commercial publications, aerial advertising, etc. Sale of space for advertisements in print media, however, would continue to be in the negative list and hence remain excluded from service tax. Print media is being defined in service tax law for the purpose.

Major impact of these changes will be as under:-

Items	**Under Existing Scheme**	**Under Proposed scheme**
Advertisement Broadcast by radio or Television	Taxable	Taxable
Sale of space for online and mobile advertising	Non- taxable	Taxable
Advertisements on internet websites	Non- taxable	Taxable
Advertisements in Out of home media	Non- taxable	Taxable
Advertisements on film screens in theatres	Non- taxable	Taxable
Advertisements in ATM's	Non- taxable	Taxable
Advertisements on tickets	Non- taxable	Taxable
Advertisements in Commercial publications	Non- taxable	Taxable
Aerial Advertising	Non- taxable	Taxable
Advertisement in print media such as newspapers etc.	Non- Taxable	Non- Taxable
Advertisement in business directories, yellow pages and trade catalogues	Non- Taxable	Taxable
Advertisement in book other than business directories, yellow pages and trade catalogues	Non- Taxable	Non- Taxable
Advertisements in bill boards, conveyances, buildings, cell phones etc.	Non- taxable	Taxable

2. Transportation of Passengers

Earlier, Services of transportation of passengers, with or without accompanied belongings, by metered cabs, radio taxis or auto rickshaws were non- taxable.

But now Service tax is proposed to be levied on services provided by radio taxis or radio cabs, whether or not air-conditioned [Section 66D (o)(vi)]. The abatement presently available to rent-a-cab service would also be made available to radio taxi service, to bring them on par. A definition of radio taxi is being included in the exemption Notification No.25/2012-ST.

"Radio taxi" means a taxi including a radio cab, by whatever name called, which is in two-way radio communication with a central control office and is enabled for tracking using Global Positioning System (GPS) or General Packet Radio Service (GPRS).

3. Changes to be effective after the Finance (No. 2) Bill, 2014 receives the assent of the president

1) The Finance Bill 2014 has proposed to enhance the scope of Section 83, *vide* which the provisions of Central Excise Act, 1944 are made applicable *mutatis mutandis* to Service Tax. The said section has been amended to include reference to Sections 5A (2A), 15A and 15B of the Central Excise Act which provide as under:

- Section 5A(2A): It prescribes that insertion of Explanation in any Notification/ Orders within one year of issue of such Notification shall have effect as if it had always been part of the first such notification/ order.
- Section 15A: This section is being inserted in Central Excise Act to prescribe that specified third party sources shall furnish periodic information in the manner as may be prescribed.
- Section 15B: This section is being inserted in Central Excise Act to provide to penal consequences in the event of failure to provide information under Section 15A.

Further, Section 35F of Central Excise Act, which is already applicable to Service Tax is now being substituted with a new section to prescribe a mandatory pre-deposit, stated as under:

Appellate Authority	**Percentage of duty demanded or penalty imposed or both ***
Appeal before the Commissioner(Appeal) or the Tribunal at First stage	7.5%

Appeal before Tribunal at second stage	10%

*subject to a ceiling of Rs. 10 crores.

It is pertinent to mention that all pending appeals/ stay application would be governed by the statutory provisions prevailing at the time of filing such Stay Applications/ Appeals.

2) Section 73 is being amended by way of insertion of new sub-section (4B) to prescribe time limits for completion of adjudication:
(a) within six months from the date of notice where it is possible to do so, in respect of cases whose limitation is specified as eighteen months in sub-section (1);

(b) within one year from the date of notice, where it is possible to do so, in respect of cases falling under the proviso to sub-section (1) or the proviso to sub-section (4A).;

3) Section 80 which provides for non-imposition of penalties in case there is a reasonable cause for failure is being amended to exclude the reference of first proviso to sub section (1) of section 78. This amendment, in effect, removes the power to waive the 50% penalty imposable in cases where service tax has not been levied, not paid or short levied or short paid on account of suppression of facts or willful misstatement but true and complete details of transactions are available in the specified record. Consequently, in such a case levy of 50% penalty would be mandatory even if the assessee proves that there was a reasonable cause of such failure.
4) Section 82(1) is being amended, along the lines of section 12F (1) of the Central Excise Act, so that Joint Commissioner or Additional Commissioner or any other officer notified by the Board can authorize any Central Excise Officer to search and seize.
5) Sub-section (6A) of section 86 which specifies a fee of Rs. 500/- in case application is filed to Appellate Tribunal for grant of stay or for rectification of mistake or for any other purpose or for restoration of appeal is being amended to omit the words "for grant of stay or".
6) Section 87 is being amended to incorporate power to recover dues of a predecessor from the assets of a successor purchased from the predecessor as it is presently provided for in section 11 of the Central Excise Act, 1944.
7) Section 94 is being amended to obtain rule making powers (a) to impose upon assessees, inter alia, the duty of furnishing information, keeping records and making returns and specify the manner in which they shall be verified; (b) for withdrawal of facilities or imposition of restrictions (including restrictions on utilization of CENVAT credit) on service provider or exporter, to check evasion of duty or misuse of CENVAT credit; and (c) to issue instructions in supplemental or incidental matters.

8) In Section 67A, for determination of rate of exchange, rules would be prescribed for calculation of taxable value in respect of certain services. (Rules would be prescribed in due course after the Finance bill receives the assent.)

4. Changes applicable w.e.f. 1st October, 2014

1. Variable Rates of Interest:

To encourage prompt payment of service tax, it is being proposed to introduce interest rates which would vary on the extent of delay. Simple interest rates per annum payable on delayed payments under section 75, are prescribed as follows:

Extent of delay	**Simple interest rate per annum (Revised)**	**Simple interest rate per annum (Existing)**
Up to six months	18%	18%
More than six months & upto one year	18% for first six months, and 24% for the period of delay beyond six months	18%
More than one year	18% for first six months, 24% for second six months, and 30% for the period of delay beyond one year	18%

Note:
As specified in the proviso to section 75, three per cent concession on the applicable rate of interest will continue to be available to the small service providers i.e. assessee having the turnover nor exceeding Rs. 60 lakhs during the preceding F/Y or during any of the financial years covered by the notice.

This new interest rate regime will become operational only on or after 1st October 2014. In other words, up to 1st October, 2014, the rate of interest of 18%, presently applicable, will continue to apply. The variable interest rates will apply only on or after 1st October, 2014.

Illustration: Assume a case where service tax became due, say, on the 6th of July, 2012 and the assessee pays the dues on 6th of December, 2014. In such a case, the interest to be charged would be as below:

(i) 18% simple interest upto September, 30th, 2014.

(ii) For the period from 1st October, 2014 to 6th December, 2014, the rate of interest will be 30% since the period of delay is beyond one year.

[Notification No.12/2014-ST]

2. E-payment:

E-payment of service tax which was presently subject to monetary limit of Rs. 1 lakhs is being made mandatory for every assessee. Relaxation from e-payment may be allowed by the Deputy Commissioner/Asst. Commissioner on case to case basis.

[Notification No. 09/2014-ST]

3. Place of Provision of Service Rules, 2012

1) Rule 4: Place of Provision of repair service carried out on temporarily imported goods

Provision for prescribing conditions for determination of place of provision of repair service carried out on temporarily imported goods is being omitted. The second proviso to rule 4(a) is being amended to prescribe that it would suffice for the purpose of exclusion of repair service from applicability of rule 4(a) that the goods imported for repair are exported after repair without being put to any use other than that which is required for such repair. It may please be noted that this exclusion does not apply to goods that arrive in the taxable territory in the usual course of business and are subject to repair while such goods remain in the taxable territory, e.g., any repair provided in the taxable territory to containers arriving in India in the course of international trade in goods will be governed by rule 4.

[Notification No. 14/2014-ST]

2) Rule 9: Place of Provision of specified services

Relevant clause	**Description of Services**	**Relevant Changes**
(c)	Intermediary Services	The definition of intermediary is being amended to include the intermediary of goods in its scope. Accordingly, with effect from 1.10.2014, an intermediary of goods, such as a commission agent or consignment agent shall be covered under rule 9(c) of the Place of Supply of Services Rules.
(d)	Service consisting of hiring of means of transport, upto a period of one month	Service consisting of hiring of Vessels (excluding yachts) and Aircraft is being excluded from rule 9(d). Accordingly, hiring of vessels, or aircraft, irrespective of whether short term or long term, will be covered by the general rule, that is, the place of location of the service receiver. Hiring of yachts would however continue to be covered by rule 9 (d).

[Notification No. 14/2014-ST]

4. Point of Taxation Rules, 2011

Rule 7: Determination of point of taxation in case of specified services or persons:

As per the first proviso to Rule 7 of POT Rules, 2011, for reverse charge services, if payment is not made within a period of 6 months of the date of invoice, POT will be governed by Default Rule 3 of POT Rules, 2011.

However, first Proviso to rule 7 of the Point of Taxation Rules (POTR) is being amended to provide that point of taxation in respect of reverse charge will be the payment date or the first day that occurs immediately after a period of three months from the date of invoice, whichever is earlier. This amendment will apply only to invoices issued after 1st October, 2014. A transition rule is being prescribed (new rule 10 of POTR). *Notification No.13/2014-ST]*

5. Simplification of Partial Reverse Charge mechanism

In renting of motor vehicle, where the service provider does not take abatement the portion of service tax payable by the service provider and service receiver will be modified as 50% each. Earlier the said percentage was 40% for service receiver and 60% for service provider

[Notification No.10/2014-ST]

6. Abatement provisions

(i) Taxable portion in respect of transport of goods by vessel is being reduced from 50% to 40%. Effective service tax will thus decrease from the present 6.18% to 4.944% of Gross amount charged. However, the condition for taking the abatement will remain same that CENVAT credit on inputs, capital goods and input services, used for providing the taxable service, has not been taken under the provisions of the CENVAT Credit Rules, 2004.

(ii) For Renting of any motor vehicle designed to carry passengers, the word 'motor cab' will be substituted for the word 'motor vehicle'. Further, CENVAT credit of input service of renting of motorcab is allowed to a Rent a Cab Service provider taking the benefit of abatement scheme. Accordingly, revised provision will read as under providing for similar abatement of 40% with the conditions as under:

Revised conditions	**Existing conditions**
(i) CENVAT credit on inputs and capital goods, used for providing the taxable service, has not been taken under the provisions of the CENVAT Credit Rules, 2004; *(ii) CENVAT credit on input service of renting of motorcab has been taken under the provisions of the CENVAT Credit Rules, 2004, in the following manner:* *(a) Full CENVAT credit of such input service received from a person who is paying service tax on forty percent of the value; or* *(b) Up to forty percent CENVAT credit of such input service received from a person who is paying service tax on full value;* *(iii) CENVAT credit on input services other than those specified in (ii) above, has not been taken under the provisions of the CENVAT Credit Rules, 2004.*	CENVAT credit on inputs, capital goods and input services, used for providing the taxable service, has not been taken under the provisions of the CENVAT Credit Rules, 2004.

(iii) The following will be inserted in Abatement provision (*applicable w.e.f 11th July, 2014*):

Sl. No.	**Description of taxable service**	**Percen-tage**	**Conditions**
9A	Transport of passengers, with or without accompanied belongings, by a contract carriage other than motorcab.	40	CENVAT credit on inputs, capital goods and input services, used for providing the taxable service, has not been taken under the provisions of the CENVAT Credit Rules, 2004.

However, for the entry in the column (2), the following entry shall be substituted with effect from such date as the Central Government may notify for omission of the words "radio taxis" in the section 66D(o)(vi) of the Finance Act 1994, namely:-

"Transport of passengers, with or without accompanied belongings, by-

a. a contract carriage other than motorcab.

b. a radio taxi.

(iv) For the services provided by Tour Operator, for the words "input services", the words "input services other than the input service of a tour operator" shall be substituted with the result that Tour operator service providers are also being allowed to avail CENVAT credit on the input service of another tour operator, which are used for providing the taxable service. This is being provided to avoid cascading of taxes. (Sl. No. 11 refers).

[Notification No. 08/2014-ST]

7. Service Tax on service portion in Works Contract- Rationalization

In Rule 2A of the Service Tax (Determination of Value) Rules, 2006, category "B" and "C" of works contracts are proposed to be merged into one single category, with percentage of service portion as 70%; This rationalization by way of merger of categories has been made to avoid disputes of classification between these two categories. The changes will be read as under:

Description	**Revised Taxable Value**	**Existing Taxable Value**
in case of works contract entered into for maintenance or repair or reconditioning or restoration or servicing of any goods	*70% of the total amount charged for the works contract*	*70% of the total amount charged for the works contract*
in case of works contract entered into for maintenance, repair, completion and finishing services such as glazing, plastering, floor and wall tiling, installation of electrical fittings of an immovable property	*70% of the total amount charged for the works contract*	*60% of the total amount charged for the works contract*

[Notification No.11/2014-ST]

5. Changes applicable w.e.f. 1st September, 2014

A manufacturer or a service provider shall take credit on inputs and input services within a period of six months from the date of issue of invoice, bill or challan. Currently, CENVAT Credit can be claimed at any time after receipt of invoice.

[Notification No. 21/2014-CE(NT)]