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Centre mulls hike in service tax rate if GST rollout is delayed

NEW DELHI, JANUARY 10:

The Centre could consider increasing the service tax rate in the coming Budget as a fallback option in case the rollout of the Goods and Services Tax (GST) is delayed beyond April 1.

“There is some thinking of an increase in the service tax rate in case the GST is not implemented from April. A higher rate will help improve revenue and also bring it closer to the proposed standard rate under GST,” said a person familiar with the development.

The official, however, said there is no concrete proposal on such a move at present.

Most services are likely to be taxed at a higher rate of 18 per cent under GST against the current rate of 15 per cent. This was part of the four-tier rate structure approved by the GST Council at its meeting on November 3. The other three rates proposed under GST are 5 per cent, 12 per cent and 28 per cent.

The decision will however, be taken later in the month and closer to the presentation of the Union Budget on February 1.

“It has to be closely examined at the highest level before it is announced. On the other hand, there is a case to be made that the indirect tax structure should not be tweaked for just a few months before the GST rollout,” he added, noting that taxpayers may not take it very favourably, especially after the impact of demonetisation.

Budget 2016-17 hiked the service tax rate to 15 per cent with the introduction of the Krishi Kalyan Cess at the rate of 0.5 per cent on all taxable services.

Finance Ministry officials, however, stressed that efforts are still on to roll out GST from April 1, 2017. “It is a tight schedule, but it is still very much doable. Much will depend on the January 16 meeting of the GST Council,” said an official.

States are, however, pushing for a mid-year rollout of GST — from June 1 or September 1.

Sources said a higher service tax rate would also help the Centre raise additional revenue. “For whatever part of the fiscal that the GST is not implemented, a higher service tax rate will increase tax collections while paving the way for GST,” said the source. Tax experts said such a move, while possible, would require the government to notify the increase in service tax rates immediately, like in the case of central excise and customs duty.

“Since the rate of taxation of services under GST will be close to 18 per cent, there is a possibility of an increase in the service tax rate,” said Pratik Jain, Partner and Leader Indirect Tax, PwC India.

At present, the service tax rate changes announced in the Budget come into effect from May or June, once the Finance Bill receives Presidential assent.

REFERENCE

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