

## Introduction of Reverse Charge Mechanism

Reverse charge mechanism was first time introduced in the year 1997. The purpose of introduction of reverse charge mechanism is to shift the burden of payments of service tax from service provider to service recipient.

### Recipient liable to pay Service Tax

Generally service provider is liable to pay the service tax, but with the introduction of reverse charge, in some cases government has made the service recipient liable to pay the service tax. As per subsection (2) of section 68, service tax shall be paid by the person, which may be the recipient of the taxable service.

According to the **Notification no.30/2012-ST** in addition to earlier services, few more services have come under the ambit of reverse charge and further three more services have been notified in respect of them both service provider and service recipient have been made liable to pay service tax on the portion specified in the said Notification No.30/2012-ST and **subsequently been amended by following Notifications:**

- i) Notifications No. 45/2012-Service Tax, Dated 7<sup>th</sup> August, 2012
- ii) Notifications No. 10/2014-Service Tax dated 11<sup>th</sup> July , 2014
- iii) Notifications No.7/2015-Service Tax , Dated 1<sup>st</sup> March ,2015

### **FOLLOWING ARE THE SERVICES COVERED BY REVERSE CHARGE MECHANISM IN CURRENT SCENARIO:**

Services Described in Detailed	Other Services
❖ Goods Transport Agency (GTA)	❖ Sponsorship Services
❖ Legal Service by an individual advocate & Firm of Advocates	❖ Arbitral Tribunal Services
❖ Services by Individual Director	❖ Support Service by Government
❖ Renting of a Motor Vehicle designed to carry Passengers	❖ Mutual fund agents & distributors Services
❖ Manpower supply and security services	❖ Selling/Marketing agents of Lottery Tickets
❖ Works Contract	❖ Aggregator Services
❖ Import of Services	❖ Insurance Agent Services
	❖ Recovery Agent Services

In view of the above mainly 7 services has been described in detail and on other services, service tax is applicable as they have been prescribed under service tax laws. After considering all the Notifications we has complied the Reverse and Partial Reverse Mechanism Chart as Applicable from 01.04.2015-

Sl. No.	Description Of Services	Services Provided or Agreed to Provided		Liability on Service Provider & Receiver	S.No of Notification No. 30/2012-ST Dated 20.06.2012(As amended from time to time)
		BY	TO		
1.	Services of goods transport agency in respect of transportation of goods by road	Goods Transport Agency(GTA)	Company, Partnership Firm, factory, Society, Co-operative society, AOP, LLP	Service Provider : NIL Service Receiver :30% of Service Tax <b>Effective rate: 4.2%</b>	2
2(a)	Legal Services	Individual Advocate or a Firm of Advocates	Any <b>Business Entity</b> having turnover exceeding Rs. 10 lakhs in preceding financial year	Service Provider : NIL Service Receiver :100% of Service Tax <b>Effective rate: 14%</b>	5
			Other than Above	Exempt as per entry no.6 of Notification No. 25/2012-ST, dated 20.06.2012	
2(b)	Services by Director	Individual (Part time/ Independent/Nominee)	Company/Body Corporate	Service Provider : NIL Service Receiver :100% of Service Tax <b>Effective rate: 14%</b>	5A- Inserted vide Notification No. 45/2012-ST and substituted by Notification No. 10/2014-ST

3(a)	Renting of a Motor Vehicle designed to carry Passengers on Abated Value	(i) any individual (ii) HUF (iii) Proprietary firm (iv) Partnership firm (v) Association of Person located in taxable territory	Business Entity registered as body corporate located in taxable territory (which is not in similar line of business)( <b>Note 1</b> )	Service Provider : NIL Service Receiver :40% of Service Tax Effective rate: 5.6%	7
3(b)	Renting of a Motor Vehicle designed to carry Passengers on <b>Non Abated Value</b>	(i) any individual (ii) HUF (iii) Proprietary firm (iv) partnership firm (v) Association of Person	Business Entity registered as <b>body corporate</b> located in taxable territory ( <b>which is not in similar line of business</b> ))( <b>Note 1</b> )	Service Provider : 50% of Service Tax Service Receiver :50% of Service Tax <b>Effective rate: 14%</b>	
4.	Supply of Manpower for any purpose or Security Services	(i) any individual (ii) HUF (iii) Proprietary firm (iv) partnership firm (v) Association of Person located in taxable territory	Business Entity registered as <b>body corporate</b> located in taxable territory	Service Provider : NIL Service Receiver :100% of Service Tax <b>Effective rate: 14%</b>	<b>8: Amended by Notification No. 07/2015-ST</b>
5(a)	Execution of Original Work contract	(i) any individual (ii) HUF (iii) Proprietary firm (iv) partnership firm (v) Association of Person located in taxable territory	Business Entity registered as <b>body corporate</b> located in taxable territory	Service Provider : 50% of Service Tax Service Receiver :50% of Service Tax <b>Effective rate: 5.6%</b>	
5(b)	In cases not covered above in 5(a) including maintenance or repair or reconditioning or restoration or servicing or any goods	(i) any individual (ii) HUF (iii) Proprietary firm (iv) partnership firm (v) Association of Person located in taxable territory	Business Entity registered as <b>body corporate</b> located in taxable territory	Service Provider : 50% of Service Tax Service Receiver :50% of Service Tax <b>Effective rate: 9.8%</b>	

5.(c)	Other works including maintenance, repair , completion and finishing services such as glazing , plastering, floor and wall tilling , installation of electrical fittings of an immovable property	(i) any individual (ii) HUF (iii) Proprietary firm (iv) partnership firm (v) Association of Person located in taxable territory	Business Entity registered as <b>body corporate</b> located in taxable territory	Service Provider : 50% of Service Tax Service Receiver :50% of Service Tax <b>Effective rate: 9.8%</b>	4
6.	Any Taxable Services i.e. <b>Import</b>	Any person located in Non Taxable Territory	Any person located in Taxable Territory	Service Provider : NIL Service Receiver :100% of Service Tax <b>Effective rate: 14%</b>	10

**NOTE 1:** In case if service of renting/hiring of motor vehicle is provided by anybody to anybody which are in similar line of activity entire service tax shall be payable by service provider.

**NOTE 2:** In some cases reverse charge is applicable only when service receiver is business entity registered as body corporate.

**NOTE 3:** Business Entity means person carrying out any activity related to industry, commerce or any other business or profession. Thus government, charitable organizations are not business entity.

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