

REVERSE CHARGE

MECHANISM UNDER SERVICE TAX

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 latest 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.

Person liable for paying service tax in respect of notified services and the extent of service tax payable thereon-

1. Insurance Agent Services- In relation to service provided or to be provided by an insurance agent to any person carrying on the insurance business, the recipient of service. Thus, in such case the recipient is liable to pay **100%** service tax.

2. Goods Transport Agency Services (GTA)- In relation to service provided or to be provided by a goods transport agency in respect of transport of goods by road, any person who pays or is liable to pay freight either himself or through his agent, where the person liable to pay freight is-

- Any factory registered under or governed by the Factories Act, 1948;
- Any society registered under the Societies Registration Act, 1860;
- Any co-operative society established by or under the law;
- Any dealer of excisable goods, who is registered under the Central Excise Act, 1944;
- Anybody corporate established, by or under any law; or
- Any partnership firm whether registered or not under any law including association of persons

Thus in such cases, the said person, who pays freight will be liable to pay 100% service tax, subject to available abatement/exemption.

3. Sponsorship Services- In relation to service provided or to be provided by way of sponsorship to any body corporate or partnership firm located in the taxable territory, the recipient of taxable services. Thus, the recipient will be liable to pay 100% service tax.

4. Service by Arbitral Tribunal- In relation to service provided or to be provided by an arbitral tribunal to any business entity located in the taxable territory, the recipient of such service. Thus the recipient is liable to pay 100% service tax.

5. Legal Service by an individual advocate- In relation to legal service provided or to be provided by an individual advocate to any business entity located in the taxable territory, recipient of such legal service. The recipient will be liable to pay 100% service tax.

Here, "legal service" means any service provided in relation to advice, consultancy or assistance in any branch of law, in any manner and includes representational services before any court, tribunal or authority.

6. Support Service by Government or Local Authority- In relation to service provided or to be provided by Government or local authority to any business entity located in the taxable territory, the recipient of such service. The recipient in such case will be liable to pay 100% service tax. However reverse charge mechanism will not be applicable in case of following services provided by Government/Local Authority-

- Renting of immovable property,
- Services by the department of posts by the way of speed post, express parcel post, life insurance and agency services provided to a person other than Government,
- Services in relation to an aircraft or a vessel, inside or outside the precincts of the port or an airport,
- Transport of goods and passengers.

7. Services from non-taxable territory to taxable territory- In relation to any taxable services provided or to be provided by a person who is located in non-taxable territory and received by any person located in the taxable territory, the recipient of such service. The recipient is liable to pay 100% service tax.

8. Reverse charge on sharing basis for specified services- In relation to service provided or to be provided by the way of following ways, the service provider and service recipient both are liable to pay service tax on sharing basis-

| S.No. | Description of Service | Rate (Recipient) | Rate(Provider) |
|-------|---|------------------|----------------|
| 1 | Hiring of Motor Vehicle designed to carry passenger. | | |
| | ➤ With Abatement | 100% | Nil |
| | ➤ Without Abetment | 40% | 60% |
| 2 | Supply of Man Power | 75% | 25% |
| 3 | Work Contract Service | 50% | 50% |