

FSIA E-circular dt. 7th August 2012 (Service Tax)

Faridabad Small Industries Association

The face of Modern Indian MSMEs

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Dear FSIA Members,

Another Good News for MSME members from the Service Tax department :
This is going to help Lakhs of MSME units and 1-man-army consultants



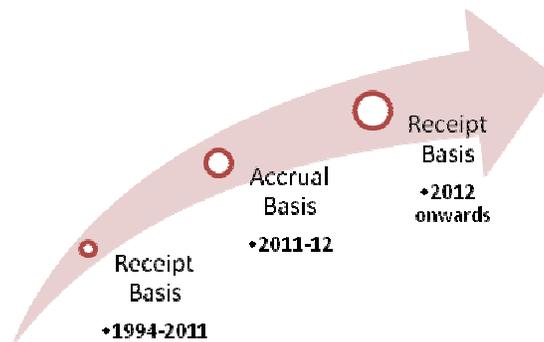
Ok, Don't pay Service Tax from your Pocket

Who will benefit ?

Small Assesseees upto Rs 50 lakhs >>

In nutshell, **small MSME units** given option for "Receipt basis"

Accrual Basis or Receipt Basis ?



The service tax regime has passed via 3 phases till now

Phase 1 (1994 to 2011)

From 1994 Till 30th June 2011, Service tax used to be paid on Receipt basis by all. That means pay service tax when you collect from your customer.

Phase 2 (1.7.2011 to 31.3.2012)

Last year in April, the law was amended, system was shifted to accrual/mercantile basis of accounting. Means, as soon as you bill your customer, pay the service tax from your pocket. (even if you don't collect the payment in that month).

All service providers were covered in this, except some exceptions like CA, CS, CWA, Advocate, Interior Decorators, Architect, Scientific or Technical Consultants, Consulting engineers.

Phase 3 (2012 onwards) : Recent Change :

To make things easy for small service providers, the law has been made “easy on cash flow” for all kinds of service providers. Not merely the CA/CS/Lawyers etc. >> But, Please note this relief is for MSME businesses only. All large scale service providers will remain on accrual basis.

Source :

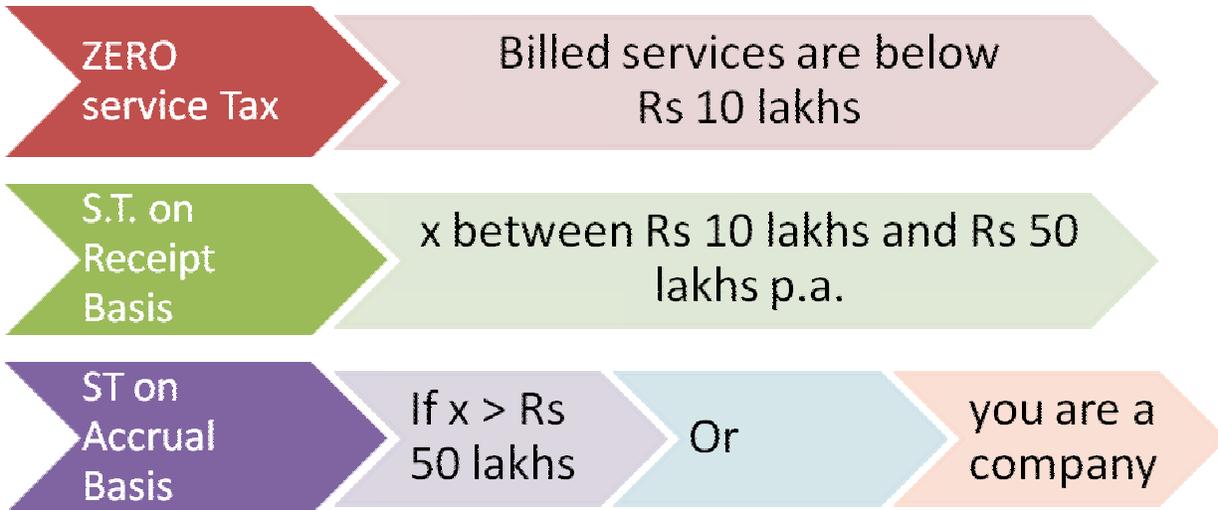
Notification No.3/2012 - Service Tax, dated, the 17th March, 2012, says

“.....Provided also that in case of **individuals** and partnership firms whose **aggregate value of taxable services** provided from one or more premises **is fifty lakh rupees or less in the previous financial year**, the service provider shall have the **option to pay** tax on taxable services provided or to be provided by him up to a total of rupees fifty lakhs in the current financial year, by the dates specified in this sub-rule with **respect to the month** or quarter, as the case may be, **in which payment is received**..... ”

So,

1. Scheme is for individuals and partnerships only (that is “Private Limited Companies” shall not get the benefit.)
2. It is an “option”, so, if you are ok with accrual basis, you can continue.
3. Rs 50 Lakhs limit is for the last year (example if your service billing in last year ending 31.3.2012 was Rs 45 lakhs, then, in this year FY 2012-13, you can use this scheme.
4. Partnerships include LLP.
5. For computing the above limits, the turnover of the whole entity is required to be summed up and not any single registration.

So, New Service tax slabs (for individuals and Partnerships only) are



This is going to benefit 70% of all assessee's. They are small. They raise the invoice, wait for payments from the customer for months. And yet they have to pay service tax from their own pockets to the Government.

Now, they can take a breath of relief.



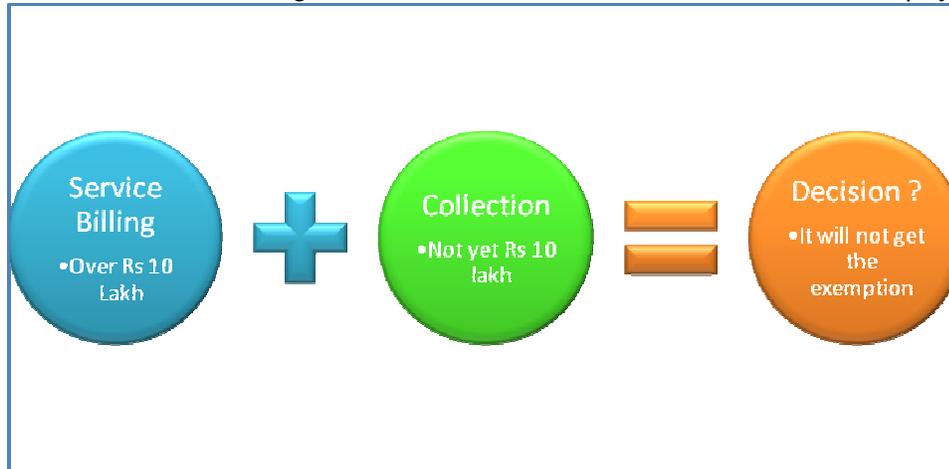
What should you do ?

If you are covered in the “Green Zone” above, then, you should go back to the earlier practice of payment of service tax on “receipt basis” only.

No Need to “pay on accrual basis”.

Another clarification

The definition of Rs 10 Lakhs for “small scale exemption” has also been amended. In future, it will be recognition of Rs 10 lakhs of invoices and not mere payment received.



Now two Warnings !!

Will CA's pay Service Tax on Accrual Basis if Turnover exceeded Rs. 50 Lakh ?

Answer. = YES, they have to. Reason : The Exemption which as unlimited earlier, is now, limited to Rs 50 lakhs of Turnover only.



Will even small Companies, Trusts, Associations, have to pay Service Tax on Accrual Basis ?

Answer. = YES, since the Rs 50 lakh scheme is for individuals and Partnerships only

For queries, suggestions and feedback , you can e-mail us

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