CBEC makes amendments in service tax exemption and CENVAT Credit Rules

February 4, 2016

In brief

Central Board of Excise and Customs has issued Notification Nos. 1-3/2016-Service Tax and 2/2016-Central Excise (N.T.), both dated 3 February, 2016, making amendments in service tax exemption and CENVAT credit rules respectively.

In detail

Key summary of the amendments is as under:

- Notification No. 1/2016-ST amends the scheme of grant of rebate of service tax paid on input services by exporters of goods under notification no. 41/2012. Presently, services used beyond the place of removal, as per the Central Excise Act, were eligible for rebate. Now, it is changed to services used beyond factory or any other place or premises of production or manufacture of the goods, for their export. Furthermore, the rate at which rebate is granted under the notification (when claiming rebate at specified rates, instead of on actual basis) is increased, considering the increase in service tax rates.

- Notification No. 2/2016-ST amends Notification No. 12/2013 granting outright exemption or refund of service tax on input services received and used by the Special Economic Zone (SEZ) unit or developer. Now, the SEZ unit or developer can claim refund of Swachh Bharat Cess charged by the service providers, if the outright exemption is not claimed. The notification also provides for refund of Swachh Bharat Cess component, in case, there are common services used for SEZ and DTA units and the credit of service tax on such common services is distributed to the SEZ.

- Notification No. 3/2016-ST amends Notification No. 39/2012, which grants rebate of service tax paid on input services by a service exporter, if no CENVAT credit is claimed. Now, such an exporter of services can also claim rebate of Swachh Bharat Cess paid on the eligible input services.

- Notification No. 2/2016-CE (NT) amends CENVAT Credit Rules to include an explanation in the definition of input service, clarifying that sales promotion includes services by way of sale of dutiable goods on commission basis. The CENVAT Credit Rules are further amended to provide that CENVAT credit cannot be used for making payment of Swachh Bharat Cess.

The takeaways

Some of these amendments are either consequential amendments or for clarifying the position, and do not make substantial changes in the law. However, while the service exporter claiming rebate of the service tax paid on input services and the SEZ units/ developers can now claim refund of Swachh Bharat Cess, the exporters claiming refund of accumulated CENVAT credit will still be unable to claim

refund of Swachh Bharat Cess paid on input services. It is hoped that the scheme of refund of accumulated CENVAT credit would be suitably amended as well.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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