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Draft Circular on Service Taxation of Transportation of Passengers by Air services

The Central Board of Excise & Customs (CBEC) on 27 September, 2012 has issued a draft circular to address the uncertainties prevailing over the service taxability and availability of abatement in relation to some specific charges such as re-confirmation fee, upgrade fee, excess baggage charges, 'no-show' charges, etc., recovered by Airlines from their passengers. Suggestions are requested to be sent to the CBEC by 15 October, 2012.

The draft circular proposes to levy service tax at abated rate where these additional charges are naturally bundled and a consolidate price is charged from passenger. However, where these charges are collected separately or at a point later to the

initial booking, the service tax liability needs to be determined on their respective merits.

A charge which is directly related to the main service such as re-confirmation fee, upgrade fee, preferred seat charges, etc would be taxable at abated rate, whereas charges which are not directly related to main service such as sky-meal, escort charges, etc. or charges such as cancellation fee, refund fee, no-show fee, etc. would be liable to full rate of tax.

Excess baggage charges would also be liable to full rate of tax.

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