

Frequently Asked Questions on Krishi Kalyan Cess (KKC) @ 0.5% w.e.f. 1st June, 2016



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01.06.2016

Krishi Kalyan Cess (KKC) introduced @ 0.5% on value of all taxable services from 1st June,

2016

On the Budget date, Finance Minister, Mr. Arun Jaitley, had announced a new levy called '**Krishi Kalyan Cess**' (KKC) with the objective of financing & promoting initiatives to improve agriculture and farmers welfare. The provisions were introduced vide Section 161 of Finance Act, 2016 which is effective from 1st June, 2016 @ 0.5% on value of all taxable services.

1. Whether KKC is leviable on specified services only?

Similar to SBC, KKC is leviable on all taxable services Including Services covered under reverse Charge Mechanism except services listed under section 66D of Finance Act,1994 (i.e negative list of services) & Service exempted by way of various exemption notification. Further, the assessee has to discharge KKC on services covered under Reverse Charge Mechanism as well¹.

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Notification No. 27/2016 – ST dated 26th May, 2016

2. How to calculate KKC, is it on the amount of tax or value of services?

Unlike EC and SHEC², KKC would be chargeable on value of services and not on tax element.

Therefore, the effective rate of Service tax would be 15.00% (14%+0.50%+0.50%).

3. In case of certain services, the valuation Rules³ provides for certain presumptive values. How to calculate KKC in such cases?

It is clarified that KKC shall be applicable on taxable value of services as determined vide Valuation Rules⁴. Therefore, following would be the effective rate of Service tax on such services:

Nature of Service	Taxable value (%)	Effective Service Tax Rate	SBC	KKC	Effective Rate (incl. KKC)
Works Contract for Original works	40	5.60%	0.20%	0.20%	6.00%
Other Works Contracts	70	9.80%	0.35%	0.35%	10.50%

² EC: Education Cess; SHEC: Secondary and Higher Education Cess

³ Service tax (Determination of Value) Rules, 2006

⁴ Notification No. 29/2016-ST dated 26th May, 2016

Nature of Service	Taxable value (%)	Effective Service Tax Rate	SBC	KKC	Effective Rate (incl. KKC)
Money Changing	Value prescribed ⁵	14%	0.50%	0.50%	15.00%
Restaurant	40	5.60%	0.20%	0.20%	6.00%
Outdoor Catering	60	8.40%	0.30%	0.30%	9.00%

4. Certain services are exempted partially (abatement⁶). How to discharge KKC on such partially exempt services?

It is notified that the assessee shall levy KKC on abated value⁷. Therefore, following would be the effective rate of Service tax on such services:

⁵ Rule 2B of Service tax (Determination of Value) Rules, 2006

⁶ Notification No. 26/2012-ST dated 20th June, 2012

⁷ Notification No. 28/2016-ST dated 26th May, 2016

FAQs on Krishi Kalyan Cess

Nature of Service	Taxable Portion (%)	Service Tax	SBC	KKC	Effective Rate (incl. KKC)
Financial Leasing including hire purchase	10	1.40%	0.05%	0.05%	1.50%
Transport of Goods by Rail	30	4.20%	0.15%	0.15%	4.50%
Transport of Goods in containers by Rail other than railways	40	5.60%	0.20%	0.20%	6.00%
Transport of Passenger by Rail	30	4.20%	0.15%	0.15%	4.50%
Mandap Keeper	70	9.80%	0.35%	0.35%	10.50%
Transport of passengers by Air –Economy	40	5.60%	0.20%	0.20%	6.00%
Transport of passengers by Air – Other than Economy	60	8.40%	0.30%	0.30%	9.00%
Renting of hotels, guest houses etc.	60	8.40%	0.30%	0.30%	9.00%
Goods Transport Agency – General	30	4.20%	0.15%	0.15%	4.50%

FAQs on Krishi Kalyan Cess

Nature of Service	Taxable Portion (%)	Service Tax	SBC	KKC	Effective Rate (incl. KKC)
Goods Transport Agency – for household use	40	5.60%	0.20%	0.20%	6.00%
Renting of motor cab	40	5.60%	0.20%	0.20%	6.00%
Transport of passengers by contract carriage/ radio taxi	40	5.60%	0.20%	0.20%	6.00%
Transport of goods in a vessel	30	4.20%	0.15%	0.15%	4.50%
Tour Operator’s services – Only arranging or booking accommodation in relation to tour	10	1.40%	0.05%	0.05%	1.50%
Tour Operator’s services – Other than above	30	4.20%	0.15%	0.15%	4.50%
Construction of Complex – Others	30	4.20%	0.15%	0.15%	4.50%

5. How to discharge KKC in case of services liable to presumptive rates of taxation?

In respect of following specified services, optional presumptive rate of Service tax has been prescribed⁸:

- Air travel agent
- Insurer carrying on life insurance business
- Purchase or sale of foreign currency including money changing
- Distributor or selling agent in relation to lottery

Now, for such specified services, optional presumptive rate for discharge of KKC is also introduced⁹ which has to be calculated vide following formula:

$$\frac{\text{Service tax Liability} * 0.5}{14}$$

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6. In case of prospective charge, whether services provided by assessee before 1st June, 2016 would attract levy of KKC? i.e. Whether KKC needs to be paid on outstanding value of Debtors as on 31.05.2016?

Rule 5 of POTR¹⁰ has been amended to impose tax on new services to include new levy of services. KKC, being new levy, its applicability will be determined as per provisions of Rule 5

⁸ Rules 6 (7), (7A), (7B) and (7C) of Service tax Rules, 1994

⁹ Notification No. 31/2016-ST dated 26th May, 2016

¹⁰ Point of Taxation Rules, 2011

of POTR. A table summarising the effective rate of tax applicable to assessee in various situations has been pasted hereunder for ready reference¹¹:

Situation	Invoice issued on	Payment Received	KKC leviable or not?
Invoice issued & Payment received Prior to 01.06.2016	Prior to 01.06.2016	Prior to 01.06.2016	No
Payment received prior to 01.06.2016 & Invoice issued within 14 days from date of Services	Upto 14.06.2016	Prior to 01.06.2016	No
	Post 14.06.2014	Prior to 01.06.2016	Yes
Invoice Issued prior to 01.06.2016 & Payment received post 01.06.2016	Prior to 01.06.2016	01.06.2016 and thereafter	Yes
Invoice Issued & Payment received post 01.06.2016	01.06.2016 and thereafter	01.06.2016 and thereafter	Yes

Thus, KKC needs to be discharged on debtors balance outstanding as on 31.05.2016. However, in case of part receipt of consideration against invoice, KKC shall be applicable on balance amount of consideration which is outstanding as on 31.05.2016. Thus, point of taxation of KKC on debtors outstanding as on 31.05.2016 shall be the date of receipt of consideration.

¹¹ Rule 5 of Point of Taxation Rules, 2011

Another school of thought could be that since the services are already provided, the point of taxation is already determined during the period prior to introduction of KKC and therefore, raising of invoice and making of payment may not be relevant at all. In other words, the POT rules cannot go beyond Section 67A of the Finance Act, 1994 and no KKC shall be levied on provision of services which are completed prior to 1st June, 2016. However, in absence of any clarity from CBEC, this issue could be subject matter of litigation.

7. Whether assessee may collect KKC from service receiver? If yes, whether the same needs to be shown separately on the invoice?

Similar to Service tax & SBC, assessee may collect KKC from service receiver. Further, it needs to be shown separately on the invoice.

8. Whether assessee has to create separate ledger in the accounting/ERP system for KKC?

Since this is a separate levy, assessee has to open new ledgers with respect to KKC in his books of accounts.

9. How to make payment of KKC in Government Treasury?

The following accounting codes have been allocated to make payment of KKC into Government Treasury:

Tax collection	Other Receipts	Penalties	Deduct Refunds
00441509	00441510	00441512	00441511

10. What would be the consequence of delayed payment of KKC?

Delayed payment of KKC would attract interest as applicable to Service tax.

11. What would be the consequence of non-payment of KKC?

Non-Payment of KKC would attract Penalty, Prosecution, and Recovery as squarely applicable to Service tax.

12. Whether assessee can take CENVAT Credit of KKC?

Unlike Swachh Bharat Cess which is not Cenvatable in hands of Service providers as well as Manufacturers, KKC is Cenvatable in hands of Service providers only. Further, service providers paying KKC on their input services can utilize it only against KKC which is payable on output.

It would be pertinent to note that manufacturers are debarred from claiming its Cenvat credit and it would become part of their cost¹².

¹² Notification No. 28/2016 CE (N.T.) Dated 26th May, 2016

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