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## Highlights of Krishi Kalyan Cess

## KRISHI KALYAN CESS (KCC)

Hon'ble Finance Minister in his Budget speech, 2016 *proposed levy of the Krishi Kalyan Cess (KCC) with effective from 01<sup>st</sup> June 2016 to finance and promote initiatives to improve agriculture.* Enabling provisions and relevant notifications are issued by the Government of India in this regard on 26<sup>th</sup> May 2016 as summarized below:

✚ **Applicability:** Will be effective from 1<sup>st</sup> day of June 2016.

✚ **Rate:** 0.5% (in addition to Service Tax and SBC) – Effective rate of service tax incl SBC & KKC w.e.f 01<sup>st</sup> June 2016 is 15%

✚ **Assessable value for levy:** Like Service Tax it will be charged on the value of all taxable services. If any service is eligible for abatement under any notification then Krishi Kalyan Cess will be charged after availing the benefit of abatement.

### ✚ **Illustrations:**

#### **Taxable Service (without any abatement)**

|                          |   |      |
|--------------------------|---|------|
| Taxable value of service | : | 1000 |
| Service Tax @ 14%        | : | 140  |
| SBC@ 0.5%                | : | 5    |
| KKC@ 0.5%                | : | 5    |

**Original Works Contract Service (With abatement of 60%)**

|                                |   |      |
|--------------------------------|---|------|
| Works Contract                 | : | 1000 |
| Less: Abatement@60%            | : | 600  |
| Taxable works contract service | : | 400  |
| Service Tax@14%                | : | 56   |
| SBC@0.5%                       | : | 2    |
| KKC@0.5%                       | : | 2    |

 **Availability of CENVAT Credit:** Krishi Kalyan Cess paid on input services will be available for adjustment against the Krishi Kalyan Cess on output services.

 **Impact on Reverse Charge payments**

Reverse charge mechanism as applicable with respect to percentage of service tax payable by service provider and service recipient is *mutatis mutandis* (equally) applicable to KKC.

In terms of Rule 7 of Point of Taxation Rules, 2011 point of taxation on reverse charge payments will be as follows:

Based on date of payment made to Service provider,

- If the payment is made within 3 months – Date of payment
- If the Payment is not made within 3 months – Date immediately following the end of 3 months

However, whenever there is change in the liability or extent of liability of service tax to be paid under reverse charge, then

In cases where service is provided and invoice issued before the date of such change, but payment is not made on such date, point of taxation shall be date of issuance of invoice.

#### Illustrations:

| Date of service | Date of invoice | Date of payment | KKC is applicable?  |
|-----------------|-----------------|-----------------|---|
| 23/05/2016      | 28/05/2016      | 04/06/2016      | No, since both service and invoice date is prior to 01/06/2016. Date of issuance of invoice 28/05/2016 is point of taxation and KKC is not applicable |

#### Point of Taxation

In terms of Rule 5 Point of Taxation Rules, 2011 in the following two instances new levy is not applicable:

- Payment is received and invoice issued prior to introduction of levy
- Payment is received before service become taxable and invoice is issued within 14 days from introduction of new levy.

Except in the above cases in all other instances KKC is payable w.e.f 01/06/2016 on due or receipt basis accordingly.

- ✚ The provisions of Chapter V of finance act, 1994 and Rules made under will be applicable to it accordingly including those relating to refunds and exemptions from tax, interest and imposition of penalty.
- ✚ On export of services the Krishi Kalyan cess is eligible for refund under Rule 5 of Cenvat Credit Rules, 2004.

#### ✚ Accounting Code for payment

| Tax collection | Other receipts (interest) | Deduct refunds | Penalties |
|----------------|---------------------------|----------------|-----------|
| 00441509       | 00441510                  | 00441511       | 00441512  |

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