



# Krishi Kalyan Cess (KKC)

w.e.f 1<sup>st</sup> June, 2016

Doing common things, *Uncommonly well.*



**Blue Consulting Pvt. Ltd.**

Internal Audit | Taxation | F&A Outsourcing | Consulting

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# 1. Introduction

- In Finance Bill, 2016, a new Cess in the name of Krishi Kalyan Cess (“KKC”) was proposed for the purpose of financing and promoting initiatives to improve agriculture and farmers welfare.
- KKC shall be levied and collected in accordance with the provisions of Chapter VI of the Finance Act, 2016 as **Service Tax** on all the taxable services at the rate of **0.5%** on the value of such services. The effective rate of Service Tax will become **15%** (14% Service Tax + 0.5% Swachh Bharat Cess + 0.5% Krishi Kalyan Cess )
- Unlike the SBC (Swachh Bharat Cess), **Input Tax Credit** will be available for the payment of this cess.
- KKC shall be levied and collected by the Central Government under **separate accounting head/code**.

## 2 . Applicability

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- KKC would be applicable on all the taxable services.
- KKC will also be applicable to services under reverse charge mechanism just like service tax.
- In case of services where abatement is available, KKC would be charged on the percentage of taxable value after abatement.
- Following are the services that would not be covered under this cess:
  - Services falling in the “Negative List”.
  - Services in the “Mega Exemption List”.
  - Services that are exempt from Service tax by a notification issued u/s 93(1) or a Special Order issued u/s 93(2).
  - Services not leviable to Service Tax u/s 66B.
  - Services exempted, to specified percentage under the Abatement Notification No. 26/2012-ST dated June 20, 2012.
- No such activity would be leviable to Krishi Kalyan Cess which is excluded from the definition of “Service” u/s 65B(44) of the Finance Act.
- KKC will be applicable from **1<sup>st</sup> June, 2016**.



### 3. Invoicing, Accounting & Challan

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- KKC would be required to be shown as a separate line item of tax in the Tax Invoice after Service Tax and Swachh Bharat Cess.
- In the books of account, separate ledger accounts would be opened for KKC for availment, utilization and payment.
- A separate accounting head “507-Krishi Kalyan Cess” has been prescribed vide Circular No. 194/04/2016-ST dated 26th May, 2016 which needs to be taken care while depositing the KKC along with Service Tax and SBC.

## 4. Point of Taxation

- As per Explanation 1 to the Rule 5 of the Point of Taxation Rules, this rule is to be followed with regard to the point of taxation for new levy. This rule is to be applied for KKC as well when it becomes applicable from 1<sup>st</sup> June'2016.
- However, this rule will apply in case of services charged under *forward charge*.
- As per Rule 5 of the Point of Taxation Rules, KKC *will not be levied* when:
  - a. Both the date of invoice and the date of payment is before 01/06/2016
  - b. The date of payment is before 01/06/2016 and the invoice date is before 15/06/2016
- So, in the following two cases, KKC *will be levied* as per Rule 5 of the Point of Taxation Rules:
  - a. The date of payment is on or after 01/06/2016 irrespective of the date of invoice
  - b. The date of invoice is after 15/06/2016 irrespective of the date of payment

## ...contd. [4. Point of Taxation]

- There is a situation where two opinions are prevailing: What will happen to the invoices raised before 01/06/2016 which remained unpaid on 31/05/2016?
  - As per one opinion, KKC will be applicable in this scenario and a supplementary invoice needs to be issued by the service provider only for the KKC.
  - As per second opinion, KKC should not be paid on invoices which have already been subject to service tax before 01/06/2016.
  - In our opinion, KKC will not be applicable where invoices remains unpaid on 31/5/2016.
- In case of payment of KKC under *reverse charge*, point of taxation under the transition phase will be determined as per Rule 7. As per this Rule, the point of taxation should be:
  - a. if the date of payment is within 3 months of the date of invoice – date of payment
  - b. if the date of payment is after 3 months of the date of invoice – the date immediately after the said period of 3 months



## ...contd. [4. Point of Taxation]

- However, a new proviso has been inserted in Rule 7 vide Notification no. 21/2016-ST dated 30th March, 2016. As per this proviso, the point of taxation will be the date of invoice if following conditions are satisfied:
  - The service has been provided before the date of change (i.e. 1/6/2016)
  - The invoice has been issued before the date of change
  - The payment has not been made till the date of change





## 5. Cenvat Credit

- Only a provider of output service shall be allowed to take Cenvat credit of the KKC on the taxable services.
- No Cenvat Credit of KKC shall be available to a manufacturer i.e., manufacturers paying the Cess on the procurement of input services would not be able to avail the Cenvat Credit of the same.
- Cenvat credit of any duty specified in Rule 3(1) of Cenvat Credit Rules shall not be utilized for payment of KKC.
- The Cenvat Credit in respect of KKC shall be utilized only towards payment of this Cess.
- Cenvat Credit of Service Tax or Excise Duty can neither be utilized for payment of KKC or vice versa.



## 6. Refund of KKC

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- Rebate of KKC on input services will be available when such services have been used for providing output services which have been exported under Rule 6A of the Service Tax Rules, 1994.
- Refund of KKC paid will be allowed for specified services received by units located in SEZ on which ab-initio exemption was available but not claimed.

## 7. Compilation of Notifications on KKC

CBEC Notification No.	Subject
<a href="#"><u>CBEC Notification No. 27/2016-ST, dated 26 May 2016</u></a>	KKC along with service tax and SB cess shall be paid on services under the reverse charge mechanism and also under the partial reverse charge mechanism.
<a href="#"><u>CBEC Notification No. 28/2016-ST, dated 26 May 2016</u></a>	KKC shall not be paid on services specifies under the “Negative List” or exempted by a Notification, u/s 93(1) or a Special Order u/s 93(4). KKC will be levied on the value of taxable services after availing the benefits of Abatements.
<a href="#"><u>CBEC Notification No. 29/2016-ST, dated 26 May 2016</u></a>	Rebate of KKC paid on all the input services used in providing services exported in terms of Rule 6A of the Service Tax Rules, 1994, is available to the service providers.
<a href="#"><u>CBEC Notification No. 30/2016-ST, dated 26 May 2016</u></a>	Refund of KKC paid can be availed on specified services in an SEZ
<a href="#"><u>CBEC Notification No. 31/2016-ST, dated 26 May 2016</u></a>	Alternate rate of KKC has been notified for services, namely, air travel agents, insurance premium, purchase & sale of foreign currency and lottery distributor



## 8. Conclusion

- The introduction of Krishi Kalyan Cess has resulted in the effective rate of Service Tax to @15% from 14.5%.
- The KKC should be separately charged on the invoice, accounted for separately in the books & also paid separately under the accounting code as prescribed by the Central Government.
- The proceeds of this cess shall first be credited to the Consolidated Fund of India & such sums shall, then be utilized by the Central Government, after due appropriation by the Parliament.
- The Krishi Kalyan Cess shall be calculated on the taxable value of the services and not on the value of the Service Tax.
- Krishi Kalyan Cess is thus, likely to add to rate of goods and services and as a result it will increase the prices.

## 9. About us

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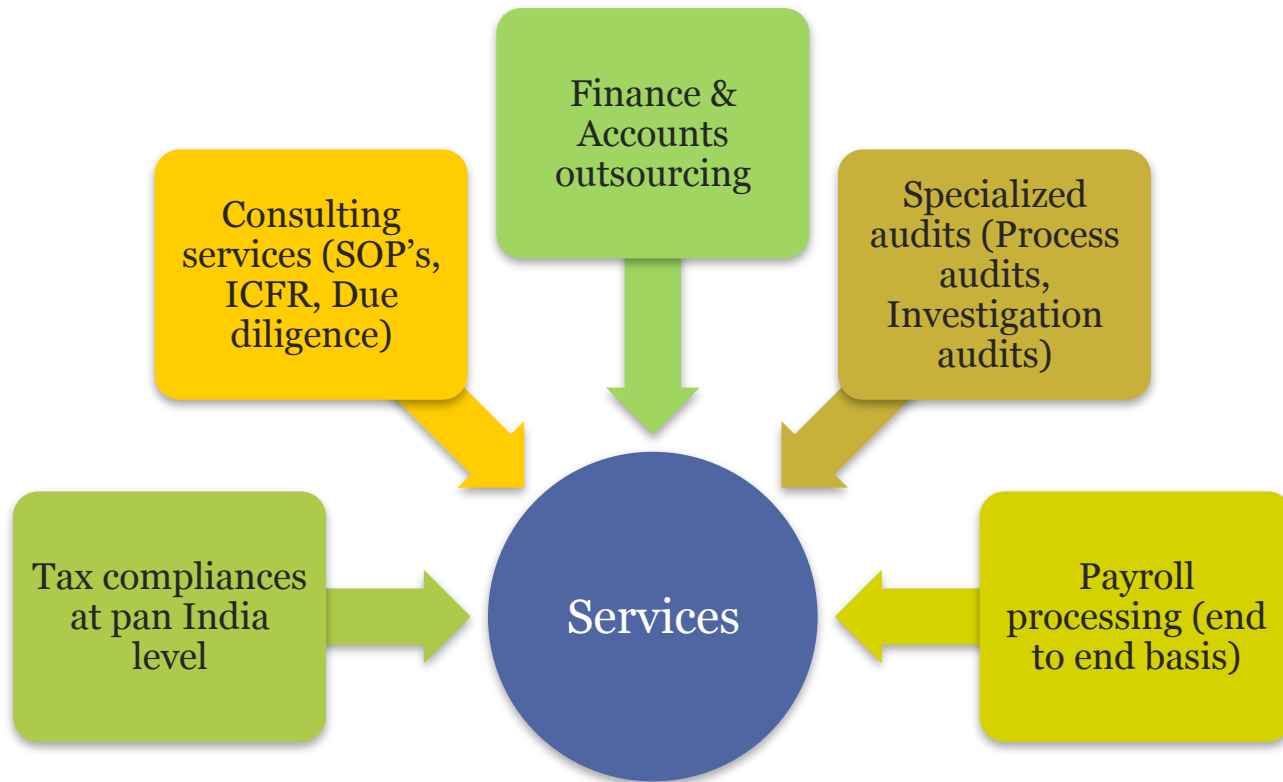
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