

**PRESS INFORMATION BUREAU
GOVERNMENT OF INDIA**

**FM RELEASES GUIDANCE PAPER ON SERVICE TAX: NEW APPROACH
INTENDED TO TAKE COUNTRY AND ECONOMY A STEP CLOSER TO GST**

**New Delhi: Jyaistha 30, 1934
June 20, 2012**

Union Finance Minister, Shri Pranab Mukherjee released the Guidance Paper on the new approach to service tax, here today. The release of the Guidance Paper marks the culmination of the year long efforts made by the Government to introduce a negative list based comprehensive approach to taxation of services as a part of the Budget exercise. The new approach to taxation of services is intended to take the country and the economy a step closer towards the introduction of Goods and Service Tax (GST).

Speaking on the occasion, Union Finance Minister Shri Pranab Mukherjee said that the journey of service tax has been a step-by-step progress that began in 1994 and will complete 18 years at the end of this month. The revenue has also increased from nearly Rs.400 crore in the first year to more than Rs.97,000 crore in the last financial year, an increase of nearly 37% over 2010-11, he said. The current year is also witnessing growth in excess of 40% in the first two months.

The Finance Minister said that we are now about to move towards an entirely new system of taxation, popularly called the Negative List. Henceforth, all services will be liable to taxation except those indicated in the Negative List or otherwise exempted. More than as a revenue garnering measure, Negative List is expected to make the administration of the tax simple, both for the Department as well as the taxpayers, reduce litigation and usher a regime much closer to our eventual goal of Goods and Services Tax, he said.

Shri Mukherjee stated that we have made some further changes to the list of exemptions. The new exemptions relate to certain support services in the field of formal education, exemption to firms of advocates on the same lines as to individual advocates, construction works under the JNNURM and Rajiv Awas Yojna, construction of monorail and metro and transportation by cable car. He stated that there are also exemptions relating to the repairs and maintenance of aircrafts to Government, services provided by sub-contractors to the main contractors who are exempt, services by public libraries and Employees State Insurance Corporation (ESIC), services by way of public conveniences and sale of going concerns.

The Finance Minister said that we have also taken note of the concerns of many States that some of the autonomous bodies set up under a special law may not be able to enjoy the benefits that are available to Government or local authorities. Accordingly, services provided by Government authorities in relation to functions entrusted to municipalities and a number of other services provided to such authorities have also been brought within the purview of exemption, he said. The Finance Minister said that as a result of these exemptions and some other minor changes, the total number of exemptions has gone up from 34 to 38.

Shri Mukherjee stated that we have already released the final version of Place of Provision Rules, 2012. He stated that as he had said earlier, these rules will also provide a framework for discussion for the Inter-State taxation of services under the GST.

The Finance Minister complimented and commended the officers of Tax Research Unit who have painstakingly come out with the Guidance Paper on taxation of services by way of Negative List. He said that he had been informed that this Guidance paper is an extremely bold initiative to address some of the most intricate issues relating to service tax which even experts find difficult to grapple with. He hoped this will help in keeping the possible areas of conflict and litigation to the minimum. He said that he was aware that that transition towards negative list was not easy. The Finance Minister said that he was particularly impressed by the participation of all sections of our stakeholders in contributing to the process of making the new law. To that extent, it has been a true collaborative effort, he said.

In his concluding remarks the Finance Minister stated that while we have set a target of Rs.1,24,000 crore from service tax for the current year, he was hopeful that the new reform will act as a catalyst to help us exceed the target significantly. He once again commended the CBEC, its Chairman, the concerned Members and Team TRU, ably guided by the Finance Secretary in this bold experiment.

The release of the Guidance Paper on the new approach marks the end of the positive list based selective approach to taxation of services, which is in vogue since 1994. The Guidance Paper has become necessary to explain the changes which have been brought about as a result of the new approach. The Guidance Paper brings out in a lucid language, the magnitude and depth of the changes arising on account of the introduction of the new approach. Comprehensive in coverage, the Guidance Paper attempts to anticipate and answer almost all the questions that may arise in the minds of an ordinary taxpayer in the wake of implementation of the new approach.

SS/SL