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The hard impact of new service tax rules

By Sudipto Dey

Budget 2008 was not a bad deal for industry, in terms of excise duty cuts and concessions. But a new modification in the service tax rules could turn out to a spoiler for many companies that hire equipment, machinery and vehicles or wet lease.

The service tax net now has four categories. Three of them—asset management services provided under ULIP, services provided by stock and commodity exchanges and clearing houses, customised software—are self-explanatory. But the fourth category—and right to use goods in cases where VAT is not payable—is the tricky one. It will bring under its ambit "goods and services where control and possession are not transferred to the end user would now come under service tax net," says S Madhavan, Executive Director, PriceWaterhouseCoopers.

Tax consultants say the new categorisation will result in an increased outgo for companies in the construction, airlines, radio cabs and oil industries. A senior ONGC executive reckons that the oil exploration giant might have to shell out nearly Rs 10-15 crore annually.

The hardest hit would be construction firms and companies which supply infrastructure equipment. Says Sunil Kanoria, Managing Director, Quipo Infrastructure Equipment: "Infrastructure projects will have to bear the brunt of any additional taxes," he added. These would eventually be passed on to end users, jacking up project costs.

Airline and shipping companies will also be affected. Currently, there are eight to 10 aircraft on wet lease in operation within the country. "This move may make wet-lease of aircraft unviable," says S Venkat, Air India's director financial.

Currently radio cabs do not pay service tax, unlike tourist-taxis. "Any service tax will have to be passed on to passengers. This will give competitive advantage to ordinary taxis," said a senior executive in Mega Cab, which operates a fleet of 250-odd GPS-controlled vehicles on Capital's streets.

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4.Mithya	7,84,91,032
5.Bhool Bhulaiya	65,85,70,767

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