

Stay on service tax on rental income

Namrata Singh | TNN

Mumbai: Opposing the government's decision to levy service tax on rentals, several retailers and multiplexes have obtained stay orders against the move from the respective high courts over the last one month.

The Union Budget for 2010-11 had brought the rental income from immovable property under the purview of service tax with retrospective effect from June 1, 2007 by treating the renting of immovable property as a service. With the best of retailers in the country making a net profit of about 2%, a service tax at 10.30% would have adversely impacted their operational viability. This forced the Retailers Association of India (RAI), the Multiplex Association of India and other retailers to go to court against the government's move to levy service tax.

According to Thomas



BREATHER FOR RETAILERS

Varghese, CEO, Aditya Birla Retail, all major retailers like Aditya Birla Retail, Shoppers Stop, Croma, Trent, Home Solutions, Major Brands, SP Life Style, Inox and PVR Cinema filed petitions before Delhi, Mumbai and Hyderabad HCs and obtained interim stay against the service tax levy.

Retailers have two main grievances. One, that this was a state subject and the central government was trying to intervene by levying service tax, that too with retrospective effect. Two, the goods and services tax (GST) was yet to

be introduced. Moreover, retailers feel that the sector is at a disadvantage due to significant VAT credits.

According to Govind Shrikhande, CEO, Shoppers Stop, "Unlike other sectors, modern retailers cannot pass on service tax to consumers. Logically, if GST had come into effect this year, we would have been able to set off the service tax against other items. We hope that GST would come into effect next year."

Varghese said, "Due to the high cost of occupation in India (as high as 12% of the turnover), the retail business has already become much more difficult. This is in sharp contrast to the average cost between 3% and 5% across the world."

He said that the impact of service tax on rentals will be to the tune of 0.8% to 1.3% of the turnover, which will be a huge burden for retailers, rendering the business completely unviable.