

CBEC issues show-cause notices to Citibank and Kingfisher Airlines on service tax payments

The Central Board of Excise and Customs (CBEC) has issued show-cause notices to Citibank NA and Kingfisher Airlines Ltd for not paying service tax related to their sponsorship of the Indian Premier League (IPL), according to two officials familiar with the development. The Central Board of Excise and Customs is also likely to issue notices to some cricketers and IPL franchisees.

The notices have been issued by CBEC's service tax department in Mumbai for fiscals 2008-09 and 2009-10. The officials cited above did not want to be named as they are not authorized to speak to the media.

CBEC is the apex body that regulates and administers collection of indirect taxes. The officials didn't give details of the amount in question.

Sponsorship hassle: A match between Royal Challengers Bangalore and Delhi Daredevils. Apart from being the official umpire sponsor for all matches and the IPL's airline partner, Kingfisher owns the Royal Challengers Bangalore and is also a co-sponsor of the Delhi Daredevils. AFP

The department is also likely to issue notices to some cricketers and IPL franchisees for not paying service tax, said one of the officials cited above.

A show-cause notice is not an indictment, but seeks an explanation from a company, typically within a month.

Citibank's official spokesperson declined to comment on the issue.

"The company has filed an appeal against this and it would, therefore, be inappropriate to comment," said Prakash Mirpuri, spokesperson for UB Group, the parent of Kingfisher Airlines, India's second largest airline by passengers carried.

A senior UB Group executive said his firm was reasonably confident about a favourable judgement on the service tax claim. "We have already filed an appeal (over) the first

edition of IPL and we are writing to the authorities for the second edition,” he said. The official declined to be named.

Two experts who specialize in sports media purchases put the five-year sponsorship deals that Citibank and Kingfisher signed at Rs100-120 crore, exclusive of TV advertising. Citibank is estimated to have spent approximately Rs20 crore around IPL on TV advertising each year and Kingfisher, Rs5 crore, they said.

The advertising revenue went to Multi Screen Media Pvt. Ltd (MSMPL), which holds the satellite rights for IPL. Rohit Gupta, president (network sales) at MSMPL, declined comment.

Service tax is an indirect tax imposed on certain services such as broadcasting, banking, advertising, sponsorship and intellectual property services, among others.

Introduced in July 1994, it covers all service providers in India, except those in Jammu and Kashmir.

The current rate of service tax is 10.3% of the cost of services rendered and is usually paid by the provider. But in the case of services such as those related to goods and transport, insurance agents and sponsorship, the reverse-charge mechanism applies, according to the first CBEC official cited above. In these cases, the recipient of the services pays the tax.

Earlier this year, the department had issued a similar show-cause notice to real estate developer DLF Ltd, the IPL title sponsor, which is being contested by the firm. DLF bid Rs200 crore to win exclusive IPL title sponsorship rights for five years.

Once a notice is served, the assessee has to explain its stand, said the second of the CBEC officials cited above, explaining how the process works. The department issues an order on the basis of the reply. The assessee pays up if it agrees with the order or appeals against it before the commissioner. The entire process typically takes at least six months, added this person.

Claims will vary based on the terms of the deals signed between IPL and the firms.

“The contracts of companies need to be examined on a case-to-case basis strictly in terms of franchisee agreements entered as defined under service tax laws,” said Rohit Jain, partner at law firm Economic Laws Practice.

Other sponsors associated with IPL include Hero Honda Motors Ltd and PepsiCo India Holdings Pvt. Ltd, besides DLF, Citibank and Kingfisher.

Apart from being the official umpire sponsor for all matches and the IPL’s airline partner, Kingfisher owns the Royal Challengers Bangalore team. It’s also a co-sponsor of another team, the Delhi Daredevils.

Hero Honda is an official team sponsor of the Delhi Daredevils, in addition to being one of the ground sponsors for IPL.