

Firms to challenge input tax credit notices, revenue department's stand

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Some of the companies that have received notices to reverse input tax credit in service tax are planning to challenge the revenue department's stand at the commissioner level. According to them, they should not be served the notices as they have not given any services by investing in securities and mutual funds.

The notice, if upheld, could have repercussions for the Goods and Services Tax (GST) regime as well as similar provisions exist in the new indirect tax regime as well. The companies have not been trading in stocks but investing in stocks and as such not providing any services, said Abhishek Rastogi, partner with Khaitan & Co. Experts said, services are provided by mutual funds, or brokers or investment advisers and not these firms. They are, in fact, recipient of services.

According to Cenvat rules, companies have to reverse input tax credit on exempted turnover arising out of non-core businesses. In this case, the tax department has asked companies to reverse their credit since they have not paid service tax in securities markets directly or through mutual funds.

MS Mani, partner with Deloitte, said, "It would be unfortunate that new litigation, which is expected to be lengthy, is being triggered after service tax has been replaced by GST. "Shubham Mittal, indirect tax expert at Taxmann, said the issue of reversal of credit would arise in GST as well.

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