Service tax at 14% and TDS on RDs effective from 1 June

The Finance Bill, 2015, received consent from the President on 14 May 2015. The changes proposed in the bill have been accepted and the effective date for some of these is 1 June 2015. The new rate of service tax, and tax deducted at source (TDS) on recurring deposit interest are two of these. Let's see what effect these changes will have on your investments.

Service tax

This is applicable on almost all services that you avail in your daily life, except for the few mentioned in the negative list under section 66D of the Finance Act, 1994.

From payments made towards restaurant bill, gym, and movie tickets to making payment of insurance premium and other services, all will be charged a higher service tax rate. As of now, the service tax is 12% plus education cess and, secondary and higher education cess of 3%, which makes it effectively 12.36%. From 1 June 2015, the new rate will be 14%. Education cess and secondary and higher education cess have been subsumed in the revised rate and, thus, no cess will we applicable over and above the 14%.

Tax at source

To curb evasion of income tax, it was proposed to apply TDS on various investment avenues, and for the purpose, an amendment was proposed in the section 194A of the Income-tax Act. Till now, recurring deposit (RD) was not included in the definition of "time deposits" provided in section 194A. So, no TDS was applicable on payment of interest on RDs. However, as per the new amendment, RDs will also be a part of "time deposits" as defined in the section, and interest earned on RDs will attract TDS.

Besides that, till now if someone was investing in fixed deposits (FDs), TDS was applicable only if the total of all the interest earned on FDs in that particular bank branch exceeded Rs.10,000 in a year. But from 1 June, TDS will be applicable if the total of interest earned on all RDs or FDs, irrespective of branch but of one bank, exceeds Rs.10,000.

What should you do?

Section 197A of the Act provides that if estimated total income of an individual for a financial year is less than the minimum liable for income tax, she may receive income earned by way of interest on time deposit without deduction of TDS. At present, the minimum income liable for taxation for individuals below 60 years is Rs.2.5 lakh, for individuals between 60 years and 80 years, it is Rs.3 lakh, and for individuals above 80 years, it is Rs.5 lakh.

Any individual with estimated income less than these limits can avoid TDS on FD and RD with banks and financial institutions by filing Form 15G/15H as applicable. This is to avoid the trouble of obtaining a refund on tax deducted. Form 15G is a self-declaration submitted by individuals below 60 years of age to state that her income is below the exemption limit. Form 15H is for senior citizens—above 60 years of age—for the same purpose.

(Live Mint)