## What impact will the service tax hike have on your budget?

The Budget has hiked the service tax rate from 12% plus cess to 14%. We calculated the impact of the hike on an average urban middle-class family spending roughly Rs 1.5 lakh on various services in a year. The figure may seem low but it could go up if the Swachh Bharat cess is also levied on service tax.

The silver lining is that electricity is not defined as a service but as goods. So there is no service tax on the power bill.



Though most services will become costlier, essentials like medical care and education are not liable to service tax.

SERVICE	BILL AMOUNT (PER YEAR)	EXISTING SERVICE TAX	NEW SERVICE TAX	DIFFERENCE		TOTAL YEARLY IM
Car servicing	5,000	618	700	82		
Dry cleaning	4,000	494	560	66	⇒	-101
Online shopping delivery	2.000	247	280	33		₹TA.
Railway travel.	2,500	93	105	12		
TOTAL	13,500	1,452	1,645	193		

Financial services account for a major chunk of our service tax bill. These will now cost more.

SERVICE	BILL AMOUNT (PER YEAR)	EXISTING SERVICE TAX	NEW SERVICE TAX	DIFFERENCE
Rooks brokerage	3,000	371	420	49
Demat account	500	82	70	8
Financial advisory	8,000	989	1,120	131
Credit card (interest)	1,000	124	140	16
Interest on loan	6,000	742	840	98
TOTAL	18,500	2,287	2,590	303



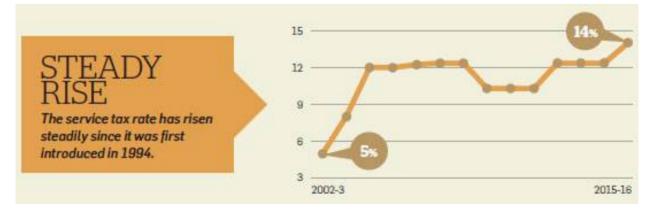
In traditional plans, service tax is 3.5% of premium in first year and 1.75% thereafter. In term plans and general insurance, the tax rate is 14%.

INSURANCE		BASE PREMIUM (PER YEAR)	EXISTING SERVICE TAX	NEW SERVICE TAX	DIFFERENCE		TOTAL TEARLY IMPAC
Medical inst	irance	18.000	2,225	2,520	295		
Home Insun	nce .	2.500	309	350	41	1	
Car insuran	æ	8,000	989	1,120	131		<b>7673</b>
Life Insuran	e premium	30,000	450	525	75		1010
Term plan p	remium	8,000	989	1,120	131		
TOTAL		66,500	4,962	5,635	673	8	

Only 40% of the food bills is liable to service tax. But given that urban Indians are eating out very often, this could add up to a neat sum.

Eating out	5.000	247	200	33		
Air travel Movie	6,000	38	42	6	4 -	
Spa and beau		272	252	25	7 22.	010
Hotel accorn		371	420	40	A many	
Hired taxi	1.500	385	210	25		
TOTAL	17,300	1,246	1,434	168		

The real impact of the hike could be higher because it is likely to have a cascading effect on the cost of products and services.



(Economic Times)

