

**GOVERNMENT OF INDIA
POWER
LOK SABHA**

UNSTARRED QUESTION NO:5197
ANSWERED ON:27.08.2010
EXEMPTION FROM SERVICE TAX
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Will the Minister of POWER be pleased to state:

- (a) whether the Power Grid and other transmission utilities had sought exemption from payment of Service Tax;
- (b) if so, the details and justification thereof;
- (c) whether the Government has provided 2200 crore relief to the Power Grid Corporation of India Limited (PGCIL) recently; and
- (d) if so, the details thereof along with the reasons therefor?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF POWER(SHRI BHARATSINH SOLANKI)

(a) & (b) : Power Grid Corporation of India Limited (PGCIL) had sought exemption from payment of Service Tax with the following justification:

(i) Transmission is an independent core activity in power sector and more than 30% of the total investment in power sector is invested in transmission. It is the backbone of the growing economy and any artificial increase in Central and State tax will directly impact the consumer at large.

(ii) Power Transmission is a statutory function.

(iii) Power Tariff is fixed by Central Electricity Regulatory Commission (CERC). Neither service tax is allowed to be levied nor it is permitted to bill any amount including taxes by PGCIL except through tariff order issued by CERC.

(iv) Service tax is service specific and the same is applicable only if it is included as taxable service under Section 65 of the Finance Act 1994. Till date, Transmission of power is not specifically included as a taxable service in the Finance Act 1994. The service tax authorities are interpreting the transmission as a taxable activity under 'Business Support Service' stating that Transmission companies are doing 'Managing Distribution'. However, Transmission companies are neither distributing nor managing any of the activities related to power distribution and they themselves run the system.

(v) Transmission companies are transmitting the power allocated by Central/ State Govt. and Global accounting of energy consumed is also being done by Central Electricity Authority (CEA). As such they have no role in any of these activities.

(vi) Service tax or levy of any additional tax will directly affect the consumers at large.

Imposition of the Service Tax would adversely affect the States Power Utilities which have been unbundled.

(c) & (d) : The Service Tax, an indirect tax, is a pass through in transmission tariff. The actual relief through PGCIL is to consumers at large all over India.