

**GOVERNMENT OF INDIA
LABOUR AND EMPLOYMENT
LOK SABHA**

UNSTARRED QUESTION NO:1709
ANSWERED ON:07.03.2011
EPF OUT OF SERVICE TAX
Kanubhai Patel Jayshreeben

Will the Minister of LABOUR AND EMPLOYMENT be pleased to state:

- (a) whether the Government has any proposal to keep the Employee`s State Insurance (ESI) and Employee`s Provident Fund (EPF) schemes out of the purview of service tax;
- (b) if so, the reasons therefor; and
- (c) the reaction of the Ministry of Finance thereto and the action taken by it thereon so far?

Answer

MINISTER OF LABOUR AND EMPLOYMENT(SHRI MALLIKARJUN KHARGE)

(a) & (b): Service Tax has been imposed on Employees' State Insurance Corporation (ESIC) treating it as insurance provider and on Employees' Provident Fund Organisation (EPFO) treating it as a Banking/Financial Institution. The matter regarding keeping the ESIC and EPFO out of the purview of Service Tax Act was taken up with Ministry of Finance explaining the reasons as under:-

ESIC and EPFO are an autonomous social security organizations under the administrative control of the Ministry of Labour & Employment and they are established under the Act of Parliament.

Both organization are exempted from Income Tax under section 10(25)A of the Income Tax Act.

Both are discharging social security obligations of the Government under Articles 41 and 42 of the Constitution of India.

Social Security is a comprehensive approach designed to prevent deprivation, assure the individual of a basic minimum income for himself and his dependents and to protect the individual from any uncertainties. The State bears the primary responsibility for developing appropriate system for providing protection and assistance to its workforce. Social security is increasingly viewed as a human right and an integral part of the development process. Providing social security by the Government through ESIC and EPFO is not to be considered as a taxable service.

(c): The Ministry of Finance has stated that as per the current provisions of law, service tax is leviable on the services provided by ESIC and EPFO. Exemption to ESIC and EPFO would be in the nature of first point end-use exemptions and a policy decision has been taken to minimize them. It is an accepted principle of tax reform and administration that first point end-use exemption is a poor practice which results in leakage and is difficult to monitor.

As a preparation for introduction of the forthcoming Goods and Service Tax (GST), efforts are being made to widen the tax base with minimal exemptions. It should be prudent to keep, to the extent possible, all the economic activities involving goods and services within the GST regime, so that organizations providing taxable services can benefit from reduced incidence of tax through a seamless flow of input credit.

In view of this the request for service tax exemption in respect of ESIC and EPFO has not been acceded to by the Ministry of Finance.