

PRESS RELEASE

Text of the D.O.Letter dated 10.2.2014 addressed by **Selvi J Jayalalithaa**, Hon'ble Chief Minister of Tamil Nadu to **Dr. Manmohan Singh**, Hon'ble Prime Minister of India is reproduced below:-

"I write to bring to your attention an invidious, discriminatory and completely unjust situation that has arisen as a result of an extremely insensitive and regressive interpretation of certain provisions of the Service Tax legislation, which has made the services like storage and handling associated with Rice liable to levy of Service Tax. This will be an additional burden on the State Government towards the expense incurred for the Public Distribution System and weaken our efforts to provide food security to all.

When Service Tax was levied on storage of goods, rice had been exempt since it was defined as "agricultural produce" vide order No.1/2002-Service Tax dated 1.8.2002 which was reiterated in Notification No 8/2004 dated 9.7.2004 and Notification No.13/2003 Service Tax dated 20.6.2003. In 2012, when the switch over was made to the levy of service tax on all services except those in the negative list, the definition of "agricultural produce" was changed. The new definition in Section 65B (5) of the Finance Act, 2012, removed the more inclusive definition which specifically mentioned Rice. The Central Warehousing Corporation had indicated in October, 2012, that, in their interpretation, although the new definition in Section 65B(5) of the Finance Act, 2012, had excluded certain commodities including Rice from the earlier definition of agricultural produce, in their understanding Rice as an agricultural product continued to be exempt from the levy of Service Tax. However, they also indicated that they had sought a clarification from their Administrative Ministry and the Ministry of Finance on the correctness of their interpretation. Unfortunately, the Union Finance Minister in a D.O. letter No 354/114/2013-TRU dated 8th November, 2013, to the Minister of State (Independent charge) for Consumer Affairs, and Public Distribution System clarified that "Rice" and "ginned and baled cotton" do not fall within the definition of "agricultural produce" under Section 65B(5). The Union Finance Minister has further stated that the negative list based on comprehensive approach to the taxation of services was introduced as a preparation for introduction of GST and it was not feasible at this stage to further extend the scope of existing exemptions. Accordingly, from December, 2013, service tax is being collected on storage of rice, with effect from 1st July, 2012.

This very strange stance taken by the Union Finance Minister, that rice is not an agricultural product, while other cereals including wheat, are agricultural produce and hence exempt from levy of service tax on storage and other services is discriminatory, regressive and indefensible. It smacks of

unfairness against people residing in certain regions of the country, especially in the South and the East where rice is the staple food grain consumed. It will raise the price of rice in the open market, particularly at a time when food inflation is already weighing down heavily on the common people. The levy of the tax with effect from July, 2012, will place a huge burden on all those engaged in the storage and marketing of rice. Moreover, it will also distort markets completely since, if the storage of rice is in owned premises or in the premises of an Agricultural Produce Marketing Committee or Board or with a commission agent, then there is no Service Tax leviable on the storage costs. However, if the storage is in the godowns of the Central or State Warehousing Corporations, then service tax is leviable on the storage, warehousing and handling charges. This also adds to the costs incurred on the supply of rice in the Public Distribution System and will add substantially to costs when the National Food Security Act, 2013, is implemented.

The interpretation given by the Ministry of Finance defies logic and common sense. From time immemorial, rice has been regarded as an "agricultural commodity". Tamil Nadu has already taken a clear stand in several fora that rice should be exempted from the levy of the Goods and Services Tax. Hence, using the GST argument to refuse to include rice within the definition of "agricultural produce" is thus not an appropriate stance.

In a thoughtless, insensitive and discriminatory manner, the Ministry of Finance has proceeded to levy service tax on the storage of Rice alone amongst all food grains. It is yet another instance of how distanced and divorced the UPA Government has become from the concerns of the common people. You will agree with me that this calls for your urgent personal intervention to clarify the position and unambiguously declare rice to be agricultural produce and hence not subject to the levy of service tax for all services related with it. The service tax already levied and collected with effect from 1st July, 2012, should also be remitted and returned to the assesseees. I request you to kindly take urgent action in the matter."

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