

## Will service tax on 'paying cards' and ATM services dent our purse?

**By Raj Kumar Sahu, Sr Correspondent**

**NEW DELHI, March 2, 2006 :** THIS is not one of those highly technical analyses of the tax issues that you often find in these columns. TIOL reporters tried to find out what the people concerned understood about the Service Tax on ATMs and credit/debit cards.

Have you ever thought of a world without any Automated Teller Machines (ATMs)? Well, in a smaller ground have you thought about a world without Debit Cards (or the more sophisticated and elite Credit cards and Charge Cards)? Today from a small and deserted town in Jammu and Kashmir or Bihar to the big metropolitans like Delhi, and Mumbai are well connected with the network of ATM machines and shopping outlets where one can use his/her bank account simply by swiping the ATM-cum-Debit. And the best part of the deal was that all this was without any additional cost. But may be (not necessarily) the free lunch will be a matter of the past.

Wondering why? Ask the Finance Minister who has added 15 new services under the purview of Service tax. And out of those 15 services the services of ATM operations, maintenance or management along with services of credit card, debit card, charge card or any other payment cards are the two services, which are going to affect the banking services in a big way. As far as effect of these extra charges on common man is concerned, highly placed officials in North Block told TIOL that **it will be on the banks whether they absorb the charges or they pass it on to the consumers.**

After talking to top mandarins and bank officials (who are involved in ATM services and Credit card business) TIOL zeroed down on the possible areas where the user of plastic money may be affected if the Banks decide to pass on the cost incurred because of service tax.

To start with, there is a prevailing confusion among the banks themselves that how the charges will be levied. When TIOL contacted some of the banks, they said that though there is no confusion about the services under ATM operations, maintenance or management but when it comes to the other section, which directly concerns to the bank consumer, there is a lot of confusion as it has brought the services of any type of "payment card" under the ambit of service tax.

So when we talk about the ATM cards, those largely become a "payment cards" because almost all the ATM cards are also "debit cards." So here the question arises whether the cost incurred by banks will be passed on to the customers, especially after the additional charges of service tax. Officials said that in a week's time or so government may clarify the issue. On assurance of not being quoted a top-notch official of India's leading bank told TIOL that **nothing is clear as far as the "payment cards" are concerned and government has yet again left some of the services under service tax very ambiguous.**

Now when we see the issues of the tie-up between the Banks and the service providers like VISA and Master Card (or Amex) then that is under definition of service tax under the heading of "ATM operations, maintenance or management". So now here too there will be extra cost being incurred by the banks. Yet another official in one of the public sector banks told TIOL that till now the banks were enduring this cost for giving services to its customers, without passing on the cost to the customers. But now because of the additional cost of service tax, the banks may consider of passing on the extra cost to customers also. Moreover, here too the officials said that the explanation in the budget dose not clearly mention about the scenario.

Further, when it comes to other payment cards – credit card, charge card, many privilege and shopping card – including debit cards the "payments" made by those cards are also under service tax. And the payments range from paying telephone bills to petrol bills and shopping bills to hospital and restaurant bills. So from now on would the monthly statements of these payments include an extra column of service tax too? Here too, neither the shopping outlets, where the cards would be swiped, nor the service providers are clear about how the billing will be done. However, **bank officials say that the bank may absorb partial cost and partially it will be passed on to the customers.**

Whatever the case may be it seems that confusion is prevailing among the stakeholders and there is a need that the government should come out with a clarification. Especially the common man who doesn't understand the fine-prints of the budget documents will not believe if TIOL team says that there is no need of worry and there will be no additional cost on the services they are availing from the banks.

Here these complications remind us of those good old days when we use to visit the bank and after waiting in a queue the teller (or the cashier) use to give us the money which we use to quote in the withdrawal form or the cheque. At least then these complications were not there and fear of losing even a single penny from our hard earned money was not there.

Finally there is a proposal to add considerations other than money to the value of taxable services and the draft rules have already been published. Will this have any effect on tax on these cards?

### **Parting shot:**

An excise officer told us: "These services are already under the tax net and what is all the noise about?" Try to withdraw Rs.10,000/- from an ATM belonging

to a bank other than the one which gave you the ATM card. You will find that Rs.56/- has been debited from your account. Rs. 50/- is the bank charge and Rs.6/- is the Service Tax.

So what's new? But people and bankers are worried. The Government should clarify the position soon.