

Service tax on mutual fund distribution to be paid by AMCs

An advertisement issued by the Central Board of Excise and Customs states that mutual fund agents and distributors do not have the liability to pay service tax

The confusion about service tax on mutual fund distribution has been laid to rest. An advertisement in newspapers on Thursday has finally clarified the position of who should pay service tax on services provided by mutual fund distributors.

The advertisement issued by the Central Board of Excise and Customs states that mutual fund agents and distributors do not have the liability to pay service tax, rather the liability to pay is on mutual fund and asset management companies.

Mint spoke to an official at the service tax commissioner's office in Delhi, who clarified that the advertisement has been issued as a public awareness initiative and added that the position on this matter was clarified sometime ago through a notification. The official requested that he not be named.

This year's Union budget saw the service tax exemption being removed for mutual fund distribution. Subsequently, a circular was issued which clarified that the levy would be on the basis of reverse charge—which means that the investor doesn't have to bear this cost.

Since then, there has been a debate within the mutual fund industry on whether the asset manager will bear the cost or the distributor will absorb it in the commission itself. This means that at the time of paying the commission to the distributor, the asset management company could deduct the service tax and pay the net amount. The increased service tax levy at 14% from the earlier 12.36% made matters worse.

Distributors were upset with this provision as it meant a direct blow to their margins.

The advertisement has taken asset management companies by surprise, as they haven't received any direct communication from tax authorities. A senior official from a large asset management company said, "AMFI (Association of Mutual Funds of India) is trying to connect with CBDT (Central Board of Direct Taxes) on this matter."

It remains to be seen who will finally bear the additional cost of the service tax.

(Live Mint)