

EY Tax Alert

Government clarifies that supply of food or drink provided by a mess or canteen is taxable at 5% without ITC

Tax Alerts cover significant tax news, developments and changes in legislation that affect Indian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your Ernst & Young advisor.

Executive summary

The Government has issued a circular (Circular No. 28/02/2018 dated 8 January 2018) regarding the taxability and rate of GST on services provided by a college hostel mess or canteen.

While canteen services are taxable at 5% without input tax credit (ITC) eligibility, outdoor catering services are taxable at 18% with ITC eligibility. Thus, a clarification was sought on the applicable tax rate.

The circular clarifies that the supply of food or drink to students and staff by a mess or canteen is taxable at 5% without ITC under Serial No. 7(i) of Notification No. 11/2017-Central Tax Rate (as amended from time to time).

The circular further clarifies that it is immaterial whether the service is provided by the educational institution itself or the institution outsources the activity to an outside contractor. Therefore, mess or canteen services provided by an outside contractor are also taxable at 5% without ITC eligibility in the hands of the recipient. Services by an educational institution to the students and staff are exempt vide Notification No. 12/2017-Central Tax Rate.

A parallel may be drawn (with discretion) from this circular regarding the applicable rate of tax on similar types of arrangements made by corporates and other institutions.

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