

Coaching classes to pay 18% GST, students bear brunt

A coaching class that helps students prepare for engineering and medical entrance exams is not exempt from the ambit of Goods and Service Tax (GST), according to a ruling given by the Maharashtra Authority for Advance Rulings (AAR). The ruling points out that a GST levy of 18% would apply on its fees.

Simple Rajendra Shukla, owner of Borivili-based Simple Shukla Tutorials, sought a ruling to determine whether providing coaching to students of classes XI and XII to prepare them for entrance exams such as medical or engineering would be subject to GST. An advance ruling mechanism has been built into the GST Act, it enables a taxpayer to determine whether a transaction is subject to GST.

As the ruling given is binding on the taxpayer who has sought the ruling (the applicant) and the government authorities, it brings certainty and helps avoid future litigation. In his application, Shukla stated that a government notification (Notification 12, dated June 28, 2017) provided that services rendered by an educational institution to students would be taxed at 'nil' rate. He added that the terms 'education' and 'institution' had not been provided in the GST Act.

In layman's language it would mean any organisation formed to impart educational services. Thus, his coaching class should not be subject to GST. However, the AAR bench noted that this notification specifically defined those educational institutions which would be exempt from GST. It covered educational institutions engaged in providing pre-school education and education up to higher secondary school or its equivalent and also those that provided approved vocational educational courses.

The exemption notification also covered educational institutions whose curriculum resulted in students obtaining a qualification recognised by law. The AAR bench pointed out that the coaching class did not have any specific curriculum and did not conduct any examination or award any qualification recognised by law.

"The activity of the applicant is not covered by the specific definition provided for interpretation of the exemption notification," concluded the AAR.

According to tax experts, all coaching classes having a turnover of Rs 20 lakh or more have to register under GST and have to add 18% to their fees (comprising both Central and State GST). In other words, the GST burden is borne by the students. Explaining the impact of the tax, Vinay Kumar, MD, Rao IIT Academy, said the 18% GST is not only a burden on parents, but also for them.

"GST was applicable from July last year and it increased the total fees to some extent," he said. Narendra Bhamwani of the Maharashtra Class Owners' Association said that a parent, whose child is studying in a coaching class for only five years starting from school, will end up paying a tax of Rs 1 lakh, if the fees is moderately charged.

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