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Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

The Appellate Authority for Advance Ruling (AAAR) has said that health therapy services offered by wellness centres that are part of a hotel or resort cannot be classified as 'health-care service' and are therefore taxable.

The order means that health therapies offered by resort or hotel owners under a separate operation would still be treated as room or unit accommodation services provided by hotels, inn, guest houses, clubs etc. and therefore would have to pay GST at 5%, 12% or 18%, depending on the number of rooms.

The AAAR upheld the order of Uttarakhand AAR that had earlier ruled that these centres are akin to hotels and resorts and their main function is to provide accommodation and food similar to hotels and resorts.

The order came in the matter of Corbett Nature Reserve, Ramnagar Nainital. The resort also runs an independent unit namely "Aahana Naturopathy Centre" which is registered under Clinical Establishments Act, 2010, for providing Nature cure (drugless cure) and Health care services (i.e. yoga therapies). The appellant claimed that they are providing 'health-care services' which is tax exempt so the unit should not be liable to pay any tax.

While the AAAR order is specific to the appellant, the precedent set by it could be used in other similar cases clarifying the tax treatment of wellness centres running as part of hotel or club facilities.

"...Appellant advertised and marketed their accommodation service as their main service and Naturapathy as additional service and hence, the former becomes 'principal supply' while the latter in addition to other services, forms part of that 'composite supply'," AAAR said in its order given earlier but the details of which were released on Wednesday.

"Wellness centers where healthcare therapy is offered on a residential basis would be classified as "accommodation services" and not "healthcare services". This ruling on the classification of services would mean that all wellness centers, including residential yoga centres, residential Naturopathy Centre, residential acupuncture centre or residential Ayurveda centres are required to pay a tax of 12%, 18% or 28% from July, 2017 instead of zero tax applicable on healthcare services," said Rajat Mohan, senior partner, AMRG & Associates.

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