

**CUSTOMS, EXCISE & SERVICE TAX APPELLATE TRIBUNAL
BANGALORE**

REGIONAL BENCH - COURT NO. 2

Service Tax Appeal No. 20928 of 2018

[Arising out of Order-in-Original No. COC-EXCUS-000-COM-019-17-18 dated
22.03.2018 passed by the Commissioner of Central GST and Central Excise,
Kozhikode]

**M/s. Kerala Institute of Local
Administration**

Mulamkunnathukavu P.O
Thrissur – 680 581

..... **Appellant(s)**

VERSUS

**Commissioner of Central Tax and
Central Excise, Kozhikode
Commissionerate**

C.R. Building, Mananchira
Kozhikode – 673 001

..... **Respondent(s)**

APPEARANCE:

Mr. D.S. Sreeganesh, Chartered Accountant with Mr. B. Somasekaran,
Advocate for the Appellant
Mr. M.A. Jithendra, Assistant Commissioner (AR) for the Respondent

CORAM:

**HON'BLE MR. P.A. AUGUSTIAN, MEMBER (JUDICIAL)
HON'BLE MRS. R. BHAGYA DEVI, MEMBER (TECHNICAL)**

FINAL ORDER NO. 20608 / 2026

Date of Hearing: 27.11.2025

Date of Decision: 08.05.2026

PER: P.A. AUGUSTIAN

The issue in the present appeal is whether the Appellant being a Government of Kerala entity is liable to pay service tax and whether demand confirmed by Adjudication authority by invoking the extended period of limitation is sustainable.

2. Alleging that the appellant short paid service tax for the services provided by them, proceedings were initiated and show cause notice was issued on 29.09.2016 demanding service tax for the period from 2011-12 to 2014-15. Thereafter, adjudication authority as per the impugned order dated 22.03.2018 confirmed the demand with interest and imposed penalty also. Aggrieved by said order, present appeal is filed.

3. When the appeal came up for hearing, learned Counsel submits that Appellant being an entity established by Government of Kerala for training in the field of local governance and there is no service tax liability for the education service provided by the appellant which is a function to be discharged by Municipalities under article 243 W of the Indian Constitution. The issue regarding service tax liability on the grants-in-aid received by the appellant from Central/State Government is covered as per the CBEC Circular F. No. 354/35/2010 TRU dated 30/7/2010, it is clarified as follows.

"Implicit in this service tax demand is an assumption that the relationship between Central Government and the State Government is an equivalent of a relationship between principal and the agent. This assumption is questionable as under administrative arrangement, State Governments are bound to implement the centrally sponsored schemes on receipt of a grant. The fact that State Governments are implementing agencies for the Central Government within the framework of CSS does not make them service providers. Consequently, Central Government cannot be taken as service receiver. Grant released by the Central Government under a centrally sponsored scheme cannot be presumed as consideration for providing a taxable service."

b) In the state sponsored scheme here, the state government is giving grant to the appellant and the appellant is the implementing agency of government of Kerala. The appellant is bound to implement the state sponsored scheme on receipt of grant. It is clarified by CBEC in the said circular that central

government is not service recipient and state government is not service provider. Exactly same logic is applicable to state sponsored scheme. The state government shall not be treated as service recipient and the appellant shall not be treated as service provider. As clarified by CBEC, there is no consideration in such a situation. Hence it is not a service at all and the question of service tax does not arise.”

4. Learned Counsel further draws our attention to the impugned order and submits that though the Adjudication Authority accepted that no service tax liability in respect of activities under centrally sponsored schemes and it is covered by Circular No. 354/35/2010-TRU dated 30.07.2010 for the period from 01.07.2012, denied the same on the ground that the Circular is not applicable to State sponsored schemers. In this regard , learned Counsel for the appellant submits that the issue regarding service tax liability on the grants-in-aid received from Central/State Government is settled as per the decision of this Tribunal in Final Order No. 20645-20646/2021 dated 26/07/2021 in Appeal No. ST/26639/2013 filed by M/s. Electronics Technology Parks-Kerala and Appeal No. ST/27143/2013 filed by Department where it is held that services provided by using the grant-in-aid is not subject to service tax. Learned Counsel further submits that as per the impugned order, it is admitted that the demand is made based on the receipts and payments accounts maintained by the appellant and also admitted that total amount of income are received as grant-in-aid.

5. Learned Counsel further submits that the demand confirmed by invoking the extended period of limitation and penalty imposed under Section 78 and 77(2) of the Act are also unsustainable since the impugned order confirmed the demand without any allegation regarding suppression of facts for evasion of Service tax.

6. Learned Counsel further submits that similar demand was made for the financial year 2014-2015 and demand of Rs.75,00,000/- was dropped by the Adjudication Authority as per the Order dated

29.01.2021 admitting the ground that it is exempted from service tax for the service rendered to World Bank under Entry 1 of Mega Exemption Notification No. 25/2012-ST dated 20.06.2012. Learned Counsel further draws our attention to the Mega Exemption Notification No. 25/2012-ST dated 20.06.2012 which reads as follows:

39. Services by a governmental authority by way of an activity in relation to any function entrusted to municipality under Article 243W of the Constitution.

The phrase used is in relation to any function entrusted to municipality under Article 243W of the Constitution in serial No. 39 of the said notification. On a reading of the provisions of article 243 W given above and entry No. 13 of Twelfth Schedule of the Constitution and serial No. 39 of mega exemption notification No. 25/2012 ST dated 20.6.2012, it is clear that the training services rendered by the appellant are definitely education services covered in the said article 243W and 12th Schedule to the Constitution. Hence the benefit of exemption from service tax is squarely applicable to the appellant under the said serial No. 39 of mega exemption notification No. 25/2012 ST dated 20.6.2012 from 30.1.2014 as the benefit is extended to a governmental authority from 30.1.2014.

7. As regards claim of exemption provided in sl. no. 39 of Notification No. 25/2012-ST dated 20.06.2012, learned Counsel submits that the definition of 'governmental authority' in clause 2(s) of the said exemption as enlarged vide notification of 2/2014-ST dated 30.01.2014 would entitle them of the exemption covered under clause 39. The said entry envisages exemption to:

39. Services by a governmental authority by way of any activity in relation to any function entrusted to a municipality under article 243 W of the Constitution."

"The expression 'governmental authority' was originally defined in clause 2(s) of the said exemption as:

(s) "governmental authority" means a board, or an authority or any other body established with 90% or more participation by way of equity or control by Government and set up by an Act of the Parliament or a State Legislature to carry out any function entrusted to a municipality under article 243W of the Constitution;" (emphasis added)

The definition to 'governmental authority' was amended vide Notification No. 2/2014-S.T., dated 30.01.2014 as:

"(s) "governmental authority" means an authority or a board or any other body;

(i) set up by an Act of Parliament or a State Legislature; or

(ii) established by Government,

with 90% or more participation by way of equity or control, to carry out any function entrusted to a municipality under article 243W of the Constitution;" (emphasis added)

Article 243W of the Constitution of India reads as under:-

"243W - Subject to the provisions of this Constitution, the Legislature of a State may, by law, endow-

(a) the Municipalities with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Municipalities, subject to such conditions as may be specified therein, with respect to -

(i) the preparation of plans for economic development and social justice;

(ii) the performance of functions and the implementation of schemes as may be entrusted to them including those in relation to the matters listed in the Twelfth Schedule;

(b) the Committees with such powers and authority as may be necessary to enable them to carry out the responsibilities conferred upon them including those in relation to the matters listed in the Twelfth Schedule."

8. Learned Counsel also draws our attention to the memorandum of association and Rules of the Appellant where it is specifically mentioned that the objectives for which the Society is formed are to provide for and promote the study of Panchayati Raj Development/local administration in Kerala with reference to other States in the country and for the purpose:

(1) to undertake and assist in the organization of training and study courses, conferences, workshops, seminars etc. for the functionaries of the Panchayat Department and the local bodies, (Local Government Institutions and Departments) non-officials such as Members of Legislative Assembly, Members of Parliament, Panchayat Presidents and other non-officials concerned with Administration of local bodies.

(2) to undertake, aid, promote and co-ordinate research through its own or through other agencies:

(3) to establish centres for study and orientating (a) training and instruction (b) research and evaluation and such other activities as may be necessary;

Thus, the objective of the institute is to promote study centers for other purpose also, it was for the Appellant to prove that the demand is not covered under said category to confirm demand.

9. Learned Counsel also draws our attention to the certificate dated 15.11.2025 issued by Principal Secretary, Local Self Government where it is stated that the Appellant is established by the State of Kerala for training in the field of Local Governance. Further it is certified that more than 90% control and substantial interest in KILA rest with Government of Kerala, both in terms of financial support and administrative supervision. As regarding demand for the period up to 30.09.2013 is barred by limitation and for the period from 01.10.2013 to 30.01.2014 the substantial receipts are during the period from 01.02.2014 to 31.03.2014 where the activities are exempted under Mega Exemption certificate. Learned Counsel also draws our attention to the details of the receipt on which service tax demand has been raised for 2013-2014.

The details of receipts on which service tax demand has been raised for FY 2013-14 is given below:

Year	2013-14			Total
	01.04.2013 to 30.09.2013	01.10.2013 to 31.01.2014	01-02-2014 to 31-03-2014	
Grant from State Government	-	-	5,75,00,000.00	5,75,00,000.00
Department of Urban Affairs	-	-	12,00,000.00	12,00,000.00
HUDCO	-	-	10,00,000.00	10,00,000.00
KLGSDP- Gramayatra	14,02,278.00	6,784.00	-	14,09,062.00
KLGSDP World Bank	-	25,00,000.00	50,00,000.00	75,00,000.00
Performance Audit training	-	-	2,59,000.00	2,59,000.00
Training to Town Planning	30,616.00	-	-	30,616.00
Total	14,32,894.00	25,06,784.00	6,49,59,000.00	6,88,98,678.00

Particulars	Amount	Date of Receipt
Grant from State Government	5,00,00,000	21-02-2014
	75,00,000	31-03-2014
Department of Urban Affairs	12,00,000	25-02-2014
HUDCO	10,00,000	18-02-2014
KLGSDP World Bank	25,00,000	29-11-2013
	50,00,000	11-02-2014
Performance Audit training	2,59,000	31-03-2014

10. Learned AR submits that though part of the service tax demanded is eligible under the category of Government, the taxability of their activity per se is not contested by the Appellant in as much as they have obtained registration and had paid service tax for similar services provided to private organizations.

11. Heard both sides. It is an admitted fact that the Appellant is an entity promoted by Government of Kerala and as per the certificate dated 15.11.2025 issued by Principal Secretary, Local Self Government where it is stated that the Appellant is established by the State of Kerala for training in the field of Local Governance. Further it is certified that more than 90% control and substantial interest in KILA rest with Government of Kerala, both in terms of financial support and administrative supervision. Further as per the definition of 'governmental authority' in clause 2(s) of the said exemption as enlarged vide Notification of 2/2014-ST dated 30.01.2014, established by Government, with 90% or more participation by way of equity or control, to carry out any function entrusted to a municipality under article 243W of the Constitution. Accordingly, Appellant is eligible for the benefit of Notification No. 25/2012-ST dated 20.06.2012 and demand confirmed by the impugned order is unsustainable.

12. Accordingly, impugned order is set aside and the appeal is allowed with consequential relief, if any, as per law.

(Order pronounced in open court on 08.05.2026)

(P.A. AUGUSTIAN)
MEMBER (JUDICIAL)

(R. BHAGYA DEVI)
MEMBER (TECHNICAL)

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