

## REVIEW OF SERVICE TAX AND ITS REVENUE LEADING TO GST

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### INTRODUCTION:

India has a well-developed tax structure with clearly demarcated authority between Central and State Governments and local bodies. Central Government levies taxes on income (except tax on agricultural income, which the State Governments can levy), customs duties, central excise and service tax.

Value Added Tax (VAT), stamp duty, State Excise, land revenue and tax on professions are levied by the State Governments. Local bodies are empowered to levy tax on properties, octroi and for utilities like water supply, drainage.

In last 10-15 years, Indian taxation system has undergone tremendous reforms. The tax rates have been rationalized and tax laws have been simplified resulting in better compliance, ease of tax payment and better enforcement. The process of rationalization of tax administration is ongoing in India.

The system of levy and collection of Excise Duties on goods is in existence since 1944 under Central Excise Act 1944. However, the concept of levy and collection of Service Tax on paid services was introduced in India for the first time in 1994 by the then Finance Minister Dr. Manmohan Singh.

Initially, the levy of service tax was introduced only in respect of three services in the organized sector i.e. Telephone, General Insurance and Stock Broking. Subsequently in the year 1996, the levy was extended to three more sectors i.e. Advertising, Pager and Courier. The Scope of the levy was considerably enlarged by the Finance Act 1997 for 12 more services. In this way year after year the levy was extended to number of services.

Service Tax in India is regulated and administered by the Central Excise commissionerates who works directly under the Department of Revenue, Ministry of Finance, Central Board of Excise and Customs, and the Government of India. The interesting thing about Service Tax in India is that the government depends heavily on the voluntary compliance of the Service Providers for collecting service tax in India. This is expected to foster and sustain faith in Indian citizens regarding the government's tax initiatives.

The service sector is the fastest growing among all the sectors in today's world. The traditional sectors such as agriculture and industry have taken a back seat even in developing countries such as India, Pakistan, China and many Latin American nations.

### NO. OF SERVICES:

As per the Finance Act 1994, all service providers in India, except those in the state of Jammu and Kashmir, are required to pay a service tax in India. The provisions related to service tax come into effect on 1<sup>st</sup> July 1994.

When the concept of Service Tax was introduced in India in 1994-95, only three services came under the purview of the tax. Since then, in several phases and installments, the government has brought nearly 117 categories under the ambit of service tax.

There is a sustained growth in the number of services taxed during 1994-95 to 2009-10. In the year 1994-95 services taxed were only three in number. Then every year number of services taxed shows increasing trend. Every year Financial Act adds certain number of services in the service tax manifold. In the year 2009-10 taxable services are 117 in numbers.

#### ASSEESSEES:

As against 1204570 assesseees till 31.03.2009, the total assessee base was 1307286 as on 31st March, 2010, thus marking an increase of 102716 (8.53%). There is a sustained growth in the assessee base from 3943 numbers in 1994-95 to 1307286 in the year 2009-10. In the year 2005-06, the small service providers, providing services of value not exceeding Rs. 4 lakhs, were exempted from payment of service tax by notification No.6/2005 dated 1.3.2005. As a result, some of the existing registrants went out of the tax net and surrendered their registration with the Department. However, large number of registrants continued with the registration, even if their turnover was below Rs. 4 lakhs.

#### SERVICE TAX RATE:

Notification No. 8/2009-ST dated 24-2-2009. Thus, total service tax payable is 10.3% in respect of taxable services provided on or after 24-2-2009.

This tax was first time introduced with effect from 1-7-1994 on three services. The rate was 5%. It was subsequently increased to 8% w.e.f. 14-5-2003. It was enhanced to 10% w.e.f. 10-9-2004. Service tax rate was 12% plus education cess of 2% (total 12.24%) w.e.f. 18-4-2006 till 10-5-2007. It was 12.36% during 11-5-2007 to 23-2-2009.

#### SERVICE TAX REVENUE:ded on or after 24-2-2009.

Service Tax is the major source of revenue for the government. It is an Indirect tax, which is to be imposed when any kind of service is to be provided. Service tax is levied under Entry No.97 of List I of the seventh schedule to constitution of India.

Service tax revenue target (SBE) for the year 2009-10 was fixed at Rs.65000 crores i.e. 0.84% higher over the last year's SBE of Rs. 64460 crores. This SBE was later revised to Rs.58000 crores and the actual revenue collection during 2009-10 was Rs.58336.36 crores, which exceeded the target by Rs. 336.36 crores (0.58%). However, the revenue realized in 2009-10 i.e. Rs.58336.36 crores was less by 3.90% over the collection of Rs. 60701.89 Crores in the last fiscal year 2008-09, the main reasons for this being the reduction in the rate of Service Tax from 12% to 10% and the overall economic recession. The service tax collections have shown a steady rise since its inception in 1994. They have grown almost 142 folds since 1994-95 i.e. from Rs.410 cores (1994-95) to Rs.58336.36 crores (2009-10).

GOODS AND SERVICE TAX:arget by Rs. 336.36 crores (0.58%). However, the revenue realized in 2009-10 i.e. Rs.58336.36 crores was less by 3.90% over the collection of Rs. 60701.89 Crores in the last fiscal year 2008-09, the main reasons for this being the reduction in the rate of Service Tax from 12% to 10% and the overall economic recession. The service tax collections have shown a steady rise since its inception in 1994. They have grown almost 142 folds since 1994-95 i.e. from Rs.410 cores (1994-95) to Rs.58336.36 crores (2009-10).

#### GOODS AND SERVICE TAX:

The Goods and Service Tax first proposed in the budget speech of 2006-07 and thereafter in every successive budget speech. There are active discussions of Empowered Committee of State Finance Ministers about practicalities of Goods and Service Tax. The current scheme of taxation of services in India is likely to be substantially revised under the much awaited dual goods and service tax. It may require amendment in the constitutional division of taxation

powers between the Centre and the States. It is required to decide about the administrative infrastructure for the collection and enforcement of the tax and number of other things.

The number of services under GST and rate of GST will determine GST revenue. The country will soon know GST rate and GST revenue.

CONCLUSIONS:undamental changes. It may require amendment in the constitutional division of taxation powers between the Centre and the States. It is required to decide about the administrative infrastructure for the collection and enforcement of the tax and number of other things.

The number of services under GST and rate of GST will determine GST revenue. The country will soon know GST rate and GST revenue.

CONCLUSIONS:

1. There has been phenomenal rise in the revenue significance of Service Tax mainly because of increasing number of services subject to the tax and simultaneous & significant rise on the rate of Service tax.
2. Service tax introduced with 3 services in the organized sector. Since then, in several phases and installments, the government has brought more than 100 categories under the ambit of service tax. It shows Increasing number of services subject to the tax.
3. The rate of service tax was increased from 5% in 1994 to 12.36% in 2009 and then it reduced to 10.30%.There was simultaneous and significant rise on the rate of Service tax during 1994 to 2009.
4. Threshold exemptions are given to small service provider's maximum of Rs.400000 in 2005-07, Rs, 800000 in 2007-08 and Rs.1000000 since 2008-09. With these exemptions number of small service providers was out of service tax net. In spite of these exemptions number of assesses and revenue collection shows increasing trend.
5. The service tax revenue in the year 1994-95 was Rs. 410 crores increased to Rs. 60702 crores in the year 2008-09 and decreased to Rs.58336 crores in the year 2009-10. The main reasons for this being the reduction in the rate of Service Tax from 12% to 10% and the overall economic recession. Overall it shows significant rise over the 16 years period.
6. The number of assesses in the year 1994-95 were 3943 increased to 1307286 in the year 2009-10 It shows increase in number of assesses 332 times over the 16 years period.
7. The proposed GST requires fundamental changes in the form of constitutional amendment, tax base, tax rate, inter-state transactions and international transactions.
8. The number of services under GST and rate of GST will determine GST revenue. The country will soon know GST rate and GST revenue.

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