



**GURU
& JANA**
CHARTERED ACCOUNTANTS

NEWSLETTER

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EDITORIAL NOTE

Services constitute a larger proportion of the consumption of the rich rather than of the poor as the demand for services is income-elastic. The greater the disposable income in the economy, the greater is the demand for Service Tax. India is not just a developing country but one of the fastest growing, touted to reach the top within the next decade. This is an ideal economy that fosters rapid growth in the service industry and consequently in the income from service tax.

Considering the fact that there are lots of areas that still require fine tuning, the Government has realized the promise shown and is actively cashing in on it by steadily increasing the number of services under its scope and fine tuning the Service Tax laws

The next break-through in indirect taxes is expected to be the most-awaited GST, which will combine services and goods tax in a dual sense - Central and State - eliminating the legislative, administrative and procedural hassle of a number of smaller and subsidiary taxes, making it more efficient, effective and well-organized.



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W's of Service Tax

WHEN & WHERE

Exactly two decades back where we stand today, in the year 1991, India opened its economy, expanding the scope and leverage of the service industry as well as inviting various new services into the country. Recognizing the immense potential in the service sector for growth as well as development, "Service Tax" was introduced in India for the first time in 1994 on the basis of recommendations made by the Tax Reforms Committee headed by Dr. Raja Chelliah.

Dr Manmohan Singh, the then Union Finance Minister, in his Budget speech for the year 1994-95 while introducing the new concept of Service Tax stated that, *"There is no sound reason for exempting services from taxation, therefore, I propose to make a modest effort in this direction by imposing a tax on services of telephones, non-life insurance and stock brokers."*

Service tax was imposed first in India in July 1994.

In past few years service tax is being applied on various new services. Unlike value added tax, that is applicable on goods and commodities, service tax has stretched its arms to impose tax on various services ranging from a beauty parlor service to a professional service, from mandap keeper service to information technology software service, and also includes services rendered by the financial institutions such as banks, stock exchange, colleges, transaction providers, telecom providers etc. Banks are the first that charges service tax to its customer since inception often they termed service charges as processing fees. The responsibility of collecting the tax lies with the Central Board of Excise and Customs (CBEC), a body under the Ministry of Finance. This body formulates the tax structure in the country.



TRIVIA

Highest tax to GDP Ratio from 1950-51 to 2009-10, was in the year of 2007-08, where the Direct Tax to GDP Ratio was 6.44% and Indirect Tax to GDP Ratio was 11.15%, together they contributed 17.59% of the GDP.

WHY:

Though up until 1994, there was no separate tax on services in the country; if we look back tax on services is not a new concept as we have been paying taxes on services in the past also in the form of Luxury TAX, Entertainment TAX, Expenditure TAX, Amusement TAX, Gambling TAX, Commercial TAX, Interest TAX etc.

The purpose of the tax is to provide the government an easy option that is transparent in nature to generate revenue for the nation in an easy way.

It also aims

- To introduce value added tax in Indirect taxation as a whole
- To widen the taxation base
- To generate tax revenue from service sector as service sector's contribution to India's Gross Domestic Product (GDP) is substantial.



WICTORY & ACHIEVEMENTS

Less than two decades old, service tax is fast proving to be a major contributor to revenue in India and is definitely proving to be the tax of the future it was envisaged to be at its introduction. The contribution from service tax to GDP has constantly been on the rise. In a growing economy like ours, where the service industry contributes to greater than 50% of the GDP, the government is fast realizing the vast capacity of service tax and it's as yet untapped potential. Continued growth in GDP accompanied by higher rate of growth in service sector promises new & wider avenues of taxation to the Government. If the tax on services reduces the degree of intensity of taxation on manufacturing and trade without forcing the Government to compromise on the revenue needs, then one of the basic objectives of taxing the service sector would be achieved

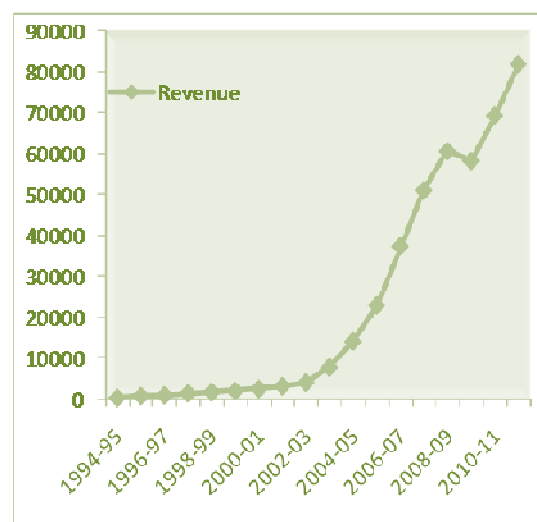
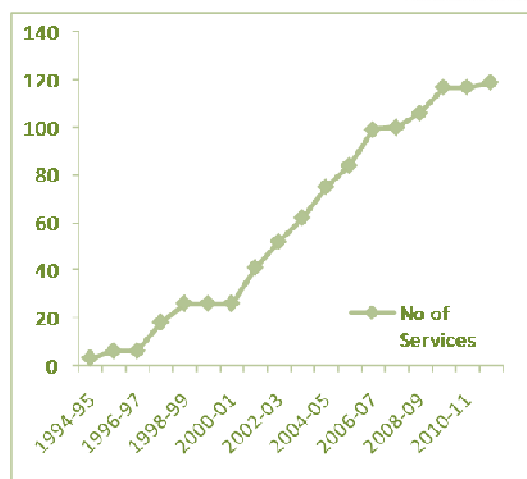
TRIVIA

Total Tax Revenue has increased from Rs. 43,042 Crores in 1990-91 to Rs. 4,74,218 Crores during 2009-10.

ILLUSTRATION 1: Table for increase in Revenue as well as the number of services covered

Financial Year	Revenue (In Rs. Crores)	% Growth over previous year	No. of Services under tax net
1994-95	410	Base Year	3
1995-96	846	106	6
1996-97	1022	21	6
1997-98	1515	48	18
1998-99	1787	18	26
1999-00	2072	16	26
2000-01	2612	23	26
2001-02	3305	26	41
2002-03	4125	25	52
2003-04	7890	91	62
2004-05	14196	80	75
2005-06	23053	62	84
2006-07	37482	63	99
2007-08	51133	36	100
2008-09	60702	19	106
2009-10	58336	-3.89	117
2010-11	69400	15.94	117
2011-12	82000	15.37	119

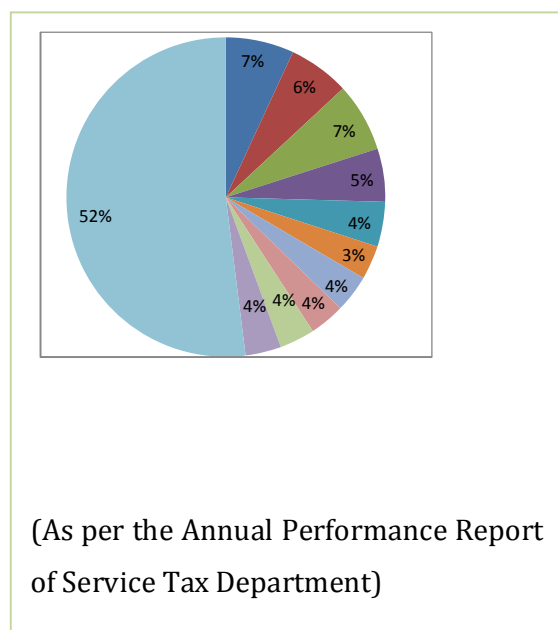
(Budgeted)



Top 10 Services Based On Revenue Collection For The Year 2009-10

(%ge shown is the share of the service category in All-India Revenue Collection)

NAME OF THE SERVICE	(Crores)	(%)
Telecommunication Services	4031.04	7
Business Aux. Service	3642.56	6
Banking	4063.58	7
Insurance	3125.49	5
GTO / GTA	2628.62	4
Renting of Immovable properties	2015.05	3
Maintenance & Repairs	2217.2	4
Construction	2015.05	3
Manpower Recruitment Agency	2077.4	4
Insurance Auxiliary Services	2126.22	4
Other Services	30331.44	52



(As per the Annual Performance Report of Service Tax Department)

WHAT IS IN STORE

The future sees a lot of changes in service tax laws. The Goods and Service Tax (GST), a landmark in the history of tax reforms, after the implementation of VAT, has started its journey by the Finance Minister's public endorsement of the dual GST model in the Union Budget for the year 2006-07. If the Value Added Tax (VAT) is considered to be a major improvement over the pre-existing central excise duty at the national level and the sales tax system at the state level, the Goods and Services Tax (GST) will be a further significant breakthrough and the next logical step towards a comprehensive indirect tax reform in the country.

The Goods and Service Tax (GST) is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at a national level. Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end the long standing distortions of differential treatments of manufacturing and service sector. The introduction of goods and services tax will lead to the abolition of taxes such as octroi, Central Sales Tax, State level sales tax, entry tax, stamp duty, telecom license fees, turnover tax, and eliminate the cascading effects of multiple layers of taxation. GST will facilitate seamless credit across the entire supply chain and across all States under a common tax base.

Through a tax credit mechanism, GST would be collected on value-addition to goods and services at each stage of sale or purchase in the supply chain.

GST paid on the procurement of goods and services can be set off against that payable on the supply of goods or services. But being the last person in the supply chain, the end consumer has to bear this tax and so, in many respects, *GST would be a last-point retail tax*. The model proposed will be a dual GST comprising of a Central GST and State GST. The Centre and the State will each legislate, levy and administer the Centre and State GST separately. Presently, there are parallel systems of indirect taxation at the Central and State levels. The first step towards introducing GST is to progressively merge the service tax rate & the CENVAT rate.



TRIVIA

Among the various taxes collected by the Government, Corporate Tax was the highest contributor (Rs. 3,63,956 Crores) and Tax on Land Revenue was least contributor (Rs. 4.50 Crores) for the FY 2009-10, both being direct taxes collected by Government.

In more recent news bulletin, a 'negative list' of service tax or a list of services not attracting the tax is being considered and mulled over. Currently, we have a positive list which specifies which service is taxable. There is a belief that a large part of service sector is outside the levy and one may not be aware of what is left out. Though Pranab Mukherjee in his budget speech said he wants to put the same to public debate in a public domain, it is still in the idea stage. To a question on whether the rollout of Goods and Services Tax (GST) will be synchronized with the negative list, both options are possible. There can be a GST with negative list or GST without negative list. The two models can go together.



WAIT WAITING & STILL WAITING.....

An announcement was made by Shri P. Chidambaram, the then Union Finance Minister in the Central Budget (2007-2008) to the effect that GST would be introduced from April 1, 2010 and that the Empowered Committee of State Finance Ministers, on his request, would work with the Central Government to prepare a road map for introduction of GST in India.

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TRIVIA

Tax Revenue (Rs. 5,35,481 during 2009-10) generated by the Government is 9 times to that of Non tax Revenue (Rs. 49,242 Crores during 2009-10)

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Service Tax alone contributes 3.75% to the total tax revenue collection as per the latest reports for the Financial Year 2009-10.

DATE	EVENT
May 10, 07	The Empowered Committee of State Finance Ministers decided to set up a "Joint Working Group" , with the then Adviser to the Union Finance Minister and the Member-Secretary of Empowered Committee as Co-Convenors and the concerned Joint Secretaries of the Department of Revenue of Union Finance Ministry and all Finance Secretaries of the states as its members
Nov 19, 07	The Joint Working Group, after internal discussions as well as interaction with experts and representatives of Chambers of Commerce and Industry, submitted its report to the Empowered Committee.
Nov 28, 07	This report was then discussed in detail in the meeting of Empowered Committee
Apr 30, 08	On the basis of this discussion and written observations of the states, certain modifications were made and a final version of the views of Empowered Committee at that stage was prepared and was sent to the Government of India
Dec 12, 08	The comments of the Government of India were received on December
Dec 16, 08	The comments of the Government of India were duly considered by the Empowered Committee
Jan 21, 09	It was decided that a committee of Principal Secretaries of the states would be set up to consider these comments and submit their views. These views were submitted and were accepted in principle by the Empowered Committee
Oct 19, 09	After the acceptance, a working group, consisting of the concerned officials of the State Governments was formed and, in close association with senior representatives of the Government of India, submitted their recommendations in detail on the structure of GST. An important interaction between Shri Pranab Mukherjee, the Union Finance Minister, and the Empowered Committee on the related issue of compensation for loss of the States on account of phasing out of CST was also factored in.

The Empowered Committee has now taken a detailed view on the recommendations of the Working Group of officials and other related matters. This detailed view of the Empowered Committee on the structure of GST is now presented in terms of the First Discussion Paper, along with an Annexure on Frequently Asked Questions and Answers on GST, for discussions with industry, trade, agriculture and people at large.

We are today in the FY 2011-12, with only a promise of illustrious GST in the imminent future. Prompt you say - that's our middle name.



TRIVIA

World Trade Organization had been pressurizing India to reduce its Customs and Central Excise duty, forcing the government to look to other avenues to make up for the loss of revenue, which became a major contributing factor to the introduction of Service Tax.



LIGHT HOUSE – FREE WORK

Service tax in the country is raking up the counters of the government treasury. What is the contribution done by the service tax ministry for the tax payers – nothing much, may be that is why it is “service tax” (pun intended). If the citizens are doing free work for the government, or would the country get something back needs to be seen from the planned and non planned expenditure which would get tabled – hope for the best guys – you have done a lot of free work for the country.

Many organizations find it difficult to mobilize human resources. There is a perennial gap between demand and supply of human resources. This leads to a disgruntled employee, an over-worked helper at home, overtime, stress at work and the list is long.

The discussion about manpower resources ranges from resource planning in an office to the resource of a helper at home. Manpower was a question in all angles. As we discussed, we were driving down the rice belt of Tamil Nadu to meet a client. The car zoomed amidst the best of green, and most cheerful of sparrows. I was at the wheel and had to slow down to navigate amidst the heap of paddy crops strewn on the roads by the farmers. My aching legs pleaded to stop to take a dip in the flowing stream.

My colleague started a conversation with a farmer. He enquired as to why the farmer had dumped the husk in the middle of the road. The farmer replied, *“To remove the grains from the paddy crop manually is a tough job and we do*

not have capital to buy machines for these. You guys zoom past in cars & truck and your wheels help us separate the grains from the crop. Does it harm you by any chance?”

“No, we enjoyed it too”, came the instant reply from my colleague. The farmer waited for the sunset. The extraordinary picture frame of the Lord seemed to be a monotonous painting in the farmer’s home. We saw the farmer collect the rewards of the free labor of the car - in separating the paddy from the crop.

We resumed our discussion about human resources. The curious farmer squatted in front of us. His sermon was in a lovely dialect of the local language. He said, “You need to see around you, there are a lot of resources unused. We work on the farmland, earn a decent living. We get your wheels to crush our paddy, the sun helps us in drying, the ups & downs in land help us water the farm. If we had to invest human effort to do all this, we would need another 10 farm workers.”

We were talking about human resources, and the farmer had a method to substitute them through free and very effective work force. We did the crushing of his barn, and yet we did not feel we did any work. We enjoyed doing it, and we did not even realize we were helping him in his work. That was a clever management philosophy.

Just imagine, if a person has to work for 8 hours, we need an employment contract, induction program, salary break up, emoluments, leave policies, payroll management, retention policy, labor turnover, and what not. In lieu of a single person, can we get 480 people to work for us a single minute each. Definitely, all jobs don’t qualify to be

done by 480 people, but certainly some jobs can be done. We need to identify these jobs, like the farmer. The farmer had indirectly employed every four-wheeler in the road to do his work.

The discussion became more interesting and each one of us started to ponder on several thoughts. We realized that there were innovative methods already, but we had not recognized them as a work force. Our office coffee vending machine had replaced the time of an office help to serve coffee to everyone. Paper cups had replaced the resource in cleaning.

As we commented on these methods, my colleagues started looking around their lives to see if this “free work” was being used effectively elsewhere.

A happy customer of pizza hut rings the bell as feedback, this helps in give instant feedback, the time and effort of a feedback form is done away with. A simple process in the office canteen to segregate left over in the waste bins, the cutlery in a different bin, helps in reducing the labor of cleaning. There are innumerable such instances, where, work is performed even without a work force.

One of the colleagues got excited about this idea and started browsing the net amidst the fields. He googled his way to “Captcha”. How many of us have realized that when we access our mails, sometimes we type the password wrongly. The software immediately pops up a garbled world for us to decipher. We are expected to identify this word and type the same. When you decipher the distorted word that the computers cannot read, the test

confirms that you’re human and shuts out automated spammers. All these years, I just thought it was a simple method of authentication, little did I realize that this was a huge industry by itself.

Just by typing those distorted words, you and I are doing the work of 37,500 full time workers per year. Each of these words helps to digitized old books. There are millions of old books, which required to be digitized, and here is a thought process, which helps to transcribe billions of words in a year. This is called free labour. All of us across the world just spend a few seconds per day, and 37,500 people’s work is done.

We need to look into our everyday lives, can we simplify the work. Can we divide work at home, at office, at clubs, and such other places? Everybody should contribute a little and it might turn out that we may not even need a department. If every employee spends a little more time on quality, and if quality becomes an organizational phenomenon, an industry can do away with quality control departments. Cashiers and long questions can be dispensed with ATM’s. Per Diem allowances can save the time of an accountant checking hundreds of bills.

Can we identify the routine works, can some innovative method be used to reduce the dependence on human resource. Alternatively, the spare human resource can be used for value addition activities. Human resources are not scarce, they are not used properly.

By
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