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## **Contours of Service Tax Collection in Developed Countries—An Analysis**

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**Abstract:** *Despite a charming start after independence, Indian taxation system, being important revenue generation sector, witnessed a comparatively slow and fragile recovery from Central Excise, Customs etc. The year 1994 started a promising new era in the global taxation system and it is also the turning point of economic development of all countries through introduction of service tax. This compares to a worldwide taxation system that remained gradual during the earlier days. After that the revenue comes from service sector plays a vital role. Today in India service tax contributes more than 50percent of Indian GDP. As there is no separate act for maintain service tax it follows the guidelines of Central Excise Act. The CBEC (Central Board of Excise & Customs) act as an important nodal agency for the development and amendments regarding service tax. This study examines the extent and impact of policy decisions of regulatory authority on the growth of the service industry. Te financial and quantitative data have been collected from World Bank data base for the year 1980 to 2013. Primary statistical analysis has been made. How service tax has a significant impact on the development of different country is discussed here.*

### **1. Introduction**

There is no separate act for service tax. The provision of service tax is contained in chapter V of the Finance Act'1994. It is applicable from 01.07.1994 on the recommendation made by Tax Reforms Committee headed by Dr. Raja Chelliah in early 1990's. Previously it is applicable on only 3 services. Since 2012 budget service tax is expanded its area. Every Govt. is in need of money for payment of public expenditure .In the last decades it is found that the revenue receipt from excise and customs that is the major source of indirect tax, that have been declining due to certain world trade commitments. But on the other side of the coin service sector is grown all over the world. Experts have been seen that the exclusion of service sector from indirect tax regime leads to loss of potential revenue .From understanding the phenomenal theme service tax included in the indirect taxation in 1994 by the proposal of Finance Minister Dr. Monmohan Singh .The year 1994 is opened a new era in the Indian history of indirect tax. In the budget of this year the rate of service tax is increased from 12.36% to 14%. Service tax not only charged on input goods and services, it is applicable to capital goods als. Service tax credit can be availed on capital goods at the rate of 50% in the year of purchase. The collection from the service tax shows a steady growth from the beginning primarily it is collected from only metro cities but after that it is expanded its arms Central Board of Direct Taxes (CBDT), Finance Ministry and Central Board of Excise and Customs (CBEC) administers the all aspects of service tax .Each personnel under this has a separate responsibility to handle the service tax .Service Tax imposed by Govt. of India on services provided in India. Article 265 of the constitution lays down that no tax shall be levied or collected except by the authority of the law. The Finance Bill specifically stated that under the union list of the seventh schedule the centre will collect tax and the list of services that the states shall be entitled to collect tax

#### *1.1. Significance of Service Tax*

In present tax system in India the revenue collected from indirect tax are mostly from service tax. Though service tax is new field in this taxation scenario but it has enormous impact on our society.

##### 1.1.1. Revenue Generation

In the globalization era we are witnessed that the area of service sector is increasing day by day. Gradually service sectors were increasing from three to 119 over the twenty one years. So, we can say that, amount collected from service tax also increased day by day.

##### 1.1.2. Impact with GDP

If we seen the GDP growth rate of India from 1980 (Pre- reform period) to 2013 we can easily found that the GDP is increased by (50.30-40.30) =10 percent throughout thirty three years. As GDP is the indicator of growth of any economy so we can predict that India is developed its growth with the implementation of service tax.

### 1.1.3. Mission

Over the period service tax rate is increased through various amendments and laws. Presently the rate of service tax is increased from 12.36 percent to 14 percent. If the growth is increased with the same proportion mission 2020 will be easily succeed.

### 1.1.4. Implication

When the service tax payers pay the requisite amount of tax to the Govt. by which the Govt. establishes school, college. Bridge, metro connection etc various infrastructural projects. So, the amount which we shall pay in return it benefits us.

### 1.1.5. GST Introduction

In Finance budget it is decided that there is a combination of indirect tax called Goods and Service Tax (GST). Through introduction of service tax in Indian tax Regime the Govt. takes some steps for introduction of GST.

### 1.1.6. Recent upliftment

The service Tax amendments is likely to take place in the finance budget. The finance ministry proposes to levy the cess of Swachh Bharat seeking Rs 1 lakhs crore for Swachh Bharat mission. Thus we can understand that it is widely levied forms of tax in India. The Swachh Bharat cess may range between 0.02% to 0.05%. The cess is used for cleanliness and infrastructure.

### 1.1.7. Maintenance

Generally, assesses are want to evade tax or avoid it because of its complex nature of calculation and the cumbersome system. So, nowadays Govt. administration is eager to simplify it for payment purpose. In order to maintain clarity and fair collection of service tax Govt. liberalize and maintain a defined administration from the very beginning .So, assesses are willing to pay this tax for simplification

## *1.2. Importance*

The importances of service tax are enormous. Those are stated as below:

### 1.2.1. Reduction in Cataract Effect

In Indian taxation system we commonly found that, there is an unforeseen effect of tax on tax. It may be one person pays tax on specified goods. The values of goods have increased. Later people again pay tax on the total value along with the tax of the former tax payer. Service tax helps to overcome this difficulty.

### 1.2.2. Utilisation of the CENVAT Scheme

As per Service Tax Rule's 3(1), If the manufacturer use the capital goods for the purpose of manufacturing the final goods he can enjoy the benefit of CENVAT CREDIT Rules and get a deduction of 50 percent on the value of the capital goods in the year of purchase. Since there is no specific act for service tax so the tax payer enjoys the benefit of both.

### 1.2.3. Reluctant

Since service tax is a tax which is implemented for the prosperity of the society, so it is beneficial for making social audit. The negative list provisions are also there to remove some of the services which are not in the ambit of the taxable services.

### 1.2.4. Low Rigidity

There is segregation between the large scale service providers and small scale service providers. There is a relaxation of Rs. 1000000 in case of Small scale service providers. But they are bound to make registration when their taxable services beyond Rs 900000 in the financial year.

### 1.2.5. Yardstick of Unemployment

India is one of the South-East Asian country where unemployment is the main barrier of social well being. When Govt. implemented service tax in the year 1994 it has to opened a separate department which maintain all matters regarding service tax. So the problem of employment can be reduced a little bit.

### 1.2.6. Convenience

E-Payment facilitates online payment of excise duty and service tax by an assessee. From April 2007 onwards assesses should pay tax by using the single copy challan, named GAR-7. By adopting this tax payers can pay service tax through any corner of the globe. It also helps the service provider and in some cases service receiver for payment of tax through E- Challan. It is convenient for them also.

2. Graphical Representation of Service Tax Collection of Three Developed Countries

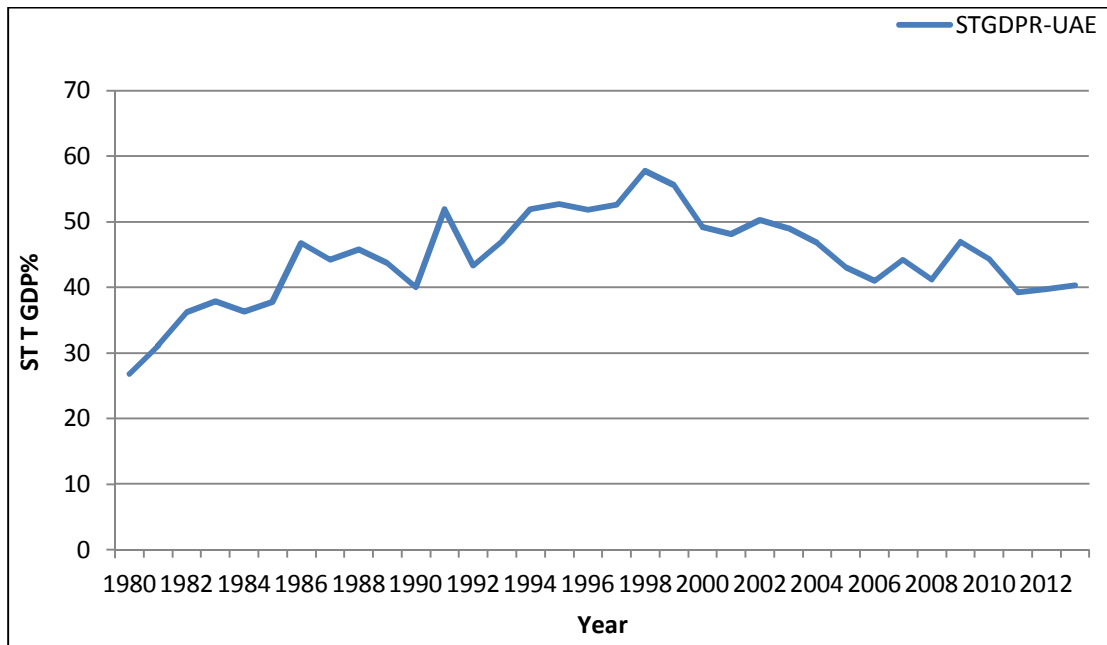


Figure 1: Service tax to GDP Ratio-UAE

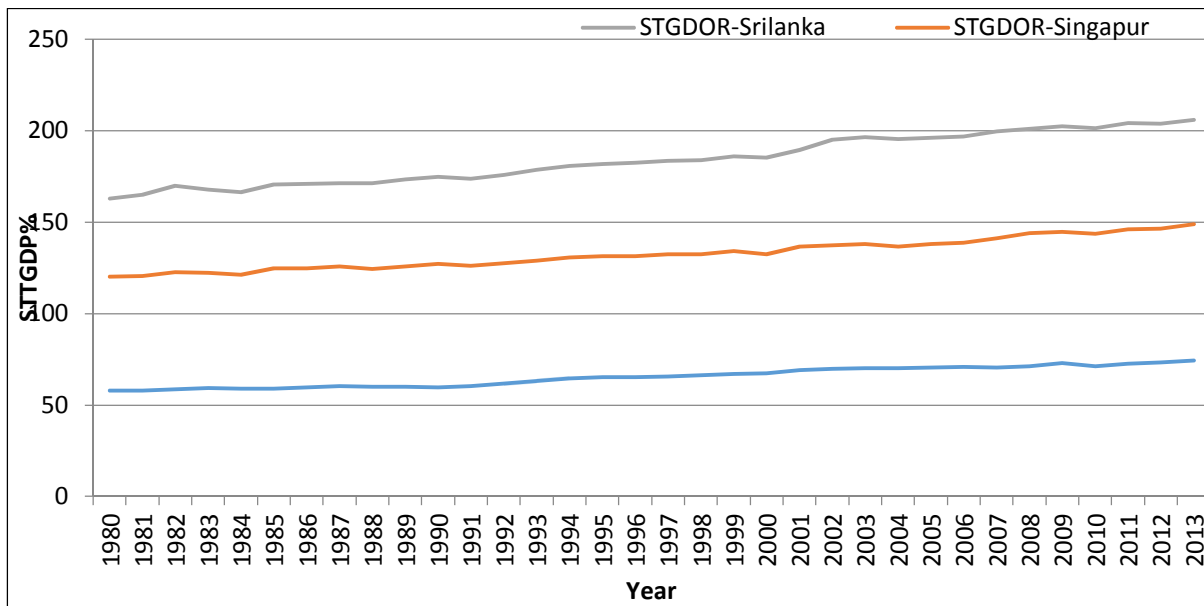


Figure 2: Service Tax of Developed Countries

Statistic	STTGDPR-UAE	STTGDPR-Japan	STTGDPR-Singapore	STTGDPR-Srilanka
Average(AM)	44.5	65.4	67.2	51.7
Median	44.3	65.5	66.3	51.2
Stand Dev	6.836128727	5.372830574	3.310843471	5.177406181
COV%(Mean)	15.34991261	8.212382643	4.928360318	10.01717465
COV%(Median)	15.44887848	8.20279477	4.997499579	10.12200622
CAGR%	1.012065931	1.00731923	1.005477434	1.008354856

SOURCE: World Bank Data Base

Own Computation through Excel Sheet

Table 1: Descriptive Statistics of Service Tax to GDP Ratio

### 3. Analysis and Interpretation

#### 3.1. Central Values Concentration

The arithmetic average of service tax to GDP ratio (STTGDP) of UAE during the study period 1980 to 2013 is 44.5 percent. Similarly the arithmetic average of service tax to GDP ratio (STTGDP) of Japan during the study period 1980 to 2013 is 65.4 percent. Again, simple average of service tax to GDP ratio (STTGDP) of Singapore during the study period 1980 to 2013 is 67.2 percent. Similarly, the central value of service tax to GDP ratio of Srilanka during the study period 1980 to 2013 is 51.7 percent.

#### 3.2. Median Values Concentration

The median values of service tax to GDP ratio (STTGDP) of UAE during the study period 1980 to 2013 is 44.3 percent. Similarly, the median values of service tax to GDP ratio (STTGDP) of Japan during the study period 1980 to 2013 is 65.5 percent. Again, the median values of service tax to GDP ratio (STTGDP) of Singapore during the study period 1980 to 2013 is 66.30 percent. Similarly, the median values of service tax to GDP ratio (STTGDP) of Srilanka during the study period 1980 to 2013 is 51.20 percent.

#### 3.3. Risk Factor of Service Tax Collection

The standard deviation of service tax to GDP ratio (STTGDP) of UAE during the study period 1980 to 2013 is 6.83 percent. Similarly, the risk factor of service tax to GDP ratio (STTGDP) of Japan during the study period 1980 to 2013 is 5.37 percent. Again, the standard deviation of service tax to GDP ratio (STTGDP) of Singapore during the study period 1980 to 2013 is 3.31 percent. Similarly, the risk factor values of service tax to GDP ratio (STTGDP) of Srilanka during the study period 1980 to 2013 is 5.17 percent.

#### 3.4. Coefficient of Variation (Mean Cantered)

The mean cantered coefficient of variation of service tax to GDP ratio (STTGDP) of UAE during the study period 1980 to 2013 is 15.34 percent. Similarly, the mean cantered coefficient of variation of service tax to GDP ratio (STTGDP) of Japan during the study period 1980 to 2013 is 8.21 percent. Again, the mean cantered coefficient of variation of service tax to GDP ratio (STTGDP) of Singapore during the study period 1980 to 2013 is 4.92 percent. Similarly, the mean cantered coefficient of variation of service tax to GDP ratio (STTGDP) of Srilanka during the study period 1980 to 2013 is 10.01 percent

#### 3.5. Coefficient of Variation (Median Cantered)

The median cantered coefficient of variation of service tax to GDP ratio (STTGDP) of UAE during the study period 1980 to 2013 is 15.44 percent. Similarly, the mean cantered coefficient of variation of service tax to GDP ratio (STTGDP) of Japan during the study period 1980 to 2013 is 8.21 percent. Again, the mean cantered coefficient of variation of service tax to GDP ratio (STTGDP) of Singapore during the study period 1980 to 2013 is 4.99 percent. Similarly, the mean cantered coefficient of variation of service tax to GDP ratio (STTGDP) of Srilanka during the study period 1980 to 2013 is 10.12 percent

#### 3.6. Compounded annual growth rate (CAGR)

The compounded annual growth rate of service tax to GDP ratio (STTGDP) of UAE during the study period 1980 to 2013 is 1.01 percent. Similarly, the compounded annual growth rate of service tax to GDP ratio (STTGDP) of Japan during the study period 1980 to 2013 is 1.00 percent. Again, the mean cantered coefficient of variation of service tax to GDP ratio (STTGDP) of Singapore during the study period 1980 to 2013 is 1.00 percent. Similarly, the mean cantered coefficient of variation of service tax to GDP ratio (STTGDP) of Srilanka during the study period 1980 to 2013 is 1.00 percent.

### 4. Conclusion

This paper examines the comparative report on service tax to GDP Ratio among three south East Asian developing countries. In respect of data we have seen that India has a consistent growth than other country in respect of this area and now where it is also evidenced that throughout the decades it is increasing by rate as well as in terms of % to GDP. So it is the indicator of development in the economy. It may be due to the fact that tax administration of the Govt. is stronger than earlier years. Our findings are supported by statistical methodology as well as pictorial representation of the main theme. Finally we can conclude that service tax has an enormous implication in the economy of a country and very much helpful for its well being.

### 5. Suggestions

As a representative of India, we can suggest that the awareness for paying proper service tax revenue is important. If we can take the benefit of simplification for paying service tax, we can easily expand the growth of our country because it is one of the greater sources of Govt. revenue. Another thing is that, as a respectable citizen we have some duty to grow our country and change its status from developing to develop. It can be achieved by avoiding the word tax evasion and avoidance. If we can control our bitter ground realities we can go further. Nobody can interrupt our growth.

### 6. References

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