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Service Sector has been growing phenomenally all over the world. The growing importance of this sector can be gauged from the ever-increasing contribution made by the services sector to GDP, thereby pushing back the contribution of traditional contributors like agriculture and manufacturing sectors. India is not an exception to this changed phenomenon. In today's context, the stage of development of an economy is evaluated in terms of the growth and spread of the service sector.

In India, the contribution of service sector to the GDP has surpassed the contribution of agricultural and industrial sectors. The contribution of service sector to India's GDP is estimated at 46%. The share in some of the developed and developing countries is estimated at 71% in U.S.A, 60% in Japan, 67% in U.K., 33% in China, 41% in Indonesia, 50% in Pakistan and 56% in Brazil.

Continued growth in GDP accompanied by higher rate of growth in service sector promises new and wider avenues of taxation to the Government. Tax on

services reduces the degree of intensity of taxation on manufacturing and trade without forcing the Government to compromise on the revenue needs. This enables better pricing of its products by the manufacturing sector in the global market. Service tax is envisaged as the tax of the future.

Voluntary tax compliance on part of taxpayers demands prudent accounting practices and transparency in the conduct of their business. Marginal rates of taxation would be conducive in this process. Many new services may be brought under the tax net in future. The inclusion of all value added services in the tax net would yield larger amount of revenue and make the existing tax structure more elastic.

In order to facilitate voluntary tax compliance, there is a need to reduce cost of compliance, eliminate taxpayer inconvenience, and improve administration. Service Tax should be implemented as the first electronic tax (E-tax) with on-line web-based connectivity between the department and the taxpayers. In this regard it is seen that a number of recommendations have been made regarding the need to increase automation and use of information technology in indirect tax system and procedures. These would apply equally to Service Tax Administration and Procedures.

The administration of Service Tax requires a separate compre-

hensive legislation along with distinct administrative machinery exclusively devoted to the collection of Service Tax. That alone would bring in greater clarity, streamlined procedures, greater taxpayer assistance and a new tax culture of voluntary compliance. The twin goal of revenue maximisation along with bringing in the culture of voluntary tax compliance throws a major challenge before the Service Tax administration in the country.

The State-Level VAT has been introduced in a majority of the States replacing the age-old Sales Tax. Efforts have been put in by Central and State Governments to dispense with other taxes like CST, Entry Tax, Luxury Tax, etc.

The next step in this direction would be an integrated tax on goods by merging Excise Duty. This could be achieved by having a revenue sharing model by Central & State Governments. The ultimate journey of this tax would be a unified Goods and Service Tax (GST), which would encompass in its sweep all forms of indirect tax on goods and services. The unified GST would help both citizens and the Government in a transparent, efficient and progressive way of collection of indirect tax for nation-building.

Editorial Board
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