

ROLE OF SERVICE SECTOR IN INDIAN ECONOMY AND ITS CONTRIBUTION IN TAXATION

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ABSTRACT:

The services sector has emerged as the fastest growing sector of the economy. Services sector is called the tertiary sector. It has become wider. Services sector includes - Trade, hotels, restaurants, Transport, storage, communication, Financing, Insurance, Real Estate and Business Services, Community, Social and Personal services etc. The new economic policy of 1991 was the turning point of Indian Economy. A lot of changes in the economy have been occurring due to the adoption of The New Economic Policy especially in the services sector. The current situation in India is that the growth rate of services has overtaken both agriculture and industry and is now more than 50 per cent of GDP. The present study to analysis the relationship between growth rate of service sector and growth rate of service tax in total revenue tax. To achieve the objectives of the study secondary data has been collected from the various published sources like: Economic Surveys, RBI Bulletins, websites of Government of India and Central Board of Excise and Customs, Online Data, Journals, Articles, Newspapers etc. This paper indicates that the growth rate of most of the services has remained positive Yet, Service tax has not contributed enough to the total tax basket of India.

Keywords: Services sector, Growth, Service Tax, India, New Economic Policy

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Introduction

The economy is divided into three sectors: primary, secondary and tertiary sector. Primary sector includes agriculture, forestry, fishing, mining, and extraction of oil and gas. All of manufacturing, processing, and construction lies within the secondary sector. The services sector has become wider. In the other sense we can say all other economic activities which are not covered by the agricultural or industrial sectors are broadly defined as services. The trend of these sectors has been changed from time to time. The new economic policy of 1991 was the turning point of Indian Economy. A lot of changes in the economy have been occurring due to the adoption of The New Economic Policy especially in the services sector. Reforms in the services sector were a part of the overall reform process, which led to privatization, removal of FDI restrictions and streamlining of the approval procedures, among others. Now, this sector is playing a leading role in the economy of India. The current situation in India is that the growth rate of services has overtaken both agriculture and industry and is now more than 50% of GDP. The Economic Survey 2011-12 identifies the service sector as the 'potential growth engine' (Ministry of Finance, 2011). This is because the growth of the service sector has been continuously above the overall GDP growth (annual report employment 2011).

In India, the National Industrial Classification (NIC) provides classifications for services and it includes the following items:

1. Trade, hotels and restaurants (THR)
2. Transport, storage and communication
3. Financing, Insurance, Real Estate and Business Services
4. Community, Social and Personal services.

Service tax is a form of indirect taxation. It is levied on every states of India , except the State of Jammu and Kashmir. The responsibility of collecting the tax lies with the Central Board of Excise and Customs(CBEC). It was imposed in 1994 for the first time on telephone services, services relating to non-life insurance and services provided by Stock Brokers. The government has increased the list of taxable services. Now the services tax is payable on all the services, except the Negative list of services. The services sector has witnessed

massive and continued growth, but its contribution in total tax revenue is not as proportionate to its growth. So, the present study to analysis the relationship between growth rate of service sector and growth rate of service tax in total revenue tax.

Methodology

The study has descriptive and analytical. In order to achieve the objective of the study secondary data has been collected from the different published sources like: Economic Surveys, Statistical Abstract of India, RBI Bulletins, websites of Government of India and Central Board of Excise and Customs, Online Data, Journals, Articles, Newspapers etc. The data for the service tax revenue has been chosen from 1994 because service tax was introduced for the first time in 1994. To analysis the data, the study has been used simple percentage method.

Results and Discussion

India has the second fastest growing services sector. The services sector contributes the most to the Indian GDP. Services contribute a major portion of India's GDP with a 57 per cent share of GDP at factor cost (at current prices) in 2013-14. It has outgrown both the industry and agriculture sectors.

Share and Growth of Service Sector

Table 1: Share and Growth of India's Services Sector

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Trade, Hotels & Restaurants	16.7(12.2)	17.1(11.1)	17.1(10.1)	16.9(5.7)	16.5(7.9)	17.2(11.5)	17.4 (1.2)	17.2(4.5)
Trade	15.1 (11.6)	15.4(10.8)	15.4(9.8)	15.3(6.7)	15.1(8.5)	15.7(11.5)	15.9(1.0)	15.8(4.8)
Hotels & Restaurants	1.6 (17.4)	1.7(14.4)	1.7(13.0)	1.5(3.3)	1.4(1.9)	1.5(10.8)	1.5(3.8)	1.4(0.5)
Transport, Storage, & communication	8.2 (11.8)	8.2(12.6)	8.0(12.5)	7.8(10.8)	7.7(14.8)	7.3(13.8)	7.3(9.4)	7.5(6.0)
Railways	0.9 (7.5)	0.9 (11.1)	1.0(9.8)	0.9(7.7)	0.9(8.8)	0.8(5.9)	0.7(7.5)	0.8(0.3)
Transport by other	5.7 (9.3)	5.7 (9.0)	5.5(8.7)	5.5(5.3)	5.3(7.3)	5.3(8.2)	5.4(8.6)	5.6(6.6)

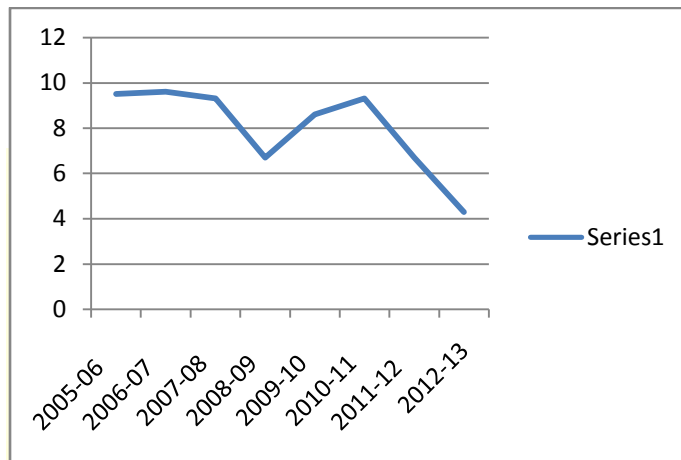
means								
Storage	0.1 (4.7)	0.1 (10.9)	0.1(3.4)	0.1(14.1)	0.1(19.3)	0.1(2.1)	0.4(2.9)	0.1(8.6)
Communication	1.6 (23.5)	1.5(24.3)	1.4(24.1)	1.4(25.1)	1.4(31.5)	1.1(25.4)	1.1 (11.2)	1.1(6.5)
Financing, Insurance, real estate, & business services	14.5(12.6)	14.8(14.0)	15.1(12.0)	15.9(12.0)	15.8(9.7)	16.0(10.1)	16.5 (11.3)	17.2(10.9)
Banking & Insurance	5.4(15.8)	5.5(20.6)	5.5(16.7)	5.6(14.0)	5.4(11.4)	5.6(14.9)	5.7(12.9)	5.9(11.8)
Real estate, Ownership, of dwelling, & business services	9.1(10.6)	9.3 (9.5)	9.6(8.4)	0.3(10.4)	10.4(8.3)	10.4(6.0)	10.7(9.9)	11.4(10.0)
Community, Social, & personal services	13.5(7.1)	12.8(12.8)	12.5(6.9)	13.3(12.5)	14.5(11.7)	14.0(4.3)	13.8(4.9)	14.3(3.3)
Public Administration & defence	5.6(4.3)	5.2 (1.9)	5.1(7.6)	5.8(19.8)	6.6(17.6)	6.1(0.0)	5.9(4.2)	6.0(3.4)
Other services	7.9 (9.1)	7.6 (3.5)	7.4(6.3)	7.5(7.4)	7.8(7.2)	7.9(8.0)	7.8(5.4)	8.2(6.8)
Construction	7.9 (12.8)	8.2(10.3)	8.5(10.8)	8.5(5.3)	8.2(6.7)	8.2(10.2)	8.2(10.8)	8.1(1.1)
Total services	52.9 (10.9)	52.9(10.1)	52.7(10.3)	53.9(10.0)	54.5(10.5)	54.4(9.8)	54.9 (6.6)	56.3(7.0)
Total services (including Construction)	61.1(11.1)	61.2 (10.1)	61.2(10.3)	62.4(9.4)	62.7(10.0)	62.6(9.8)	63.1 (7.1)	64.4(6.2)
Total GDP	100(9.5)	100(9.6)	100(9.3)	100.0(6.7)	100.0(8.6)	100.0(9.3)	100.0(6.7)	100.0(4.5)

Source: Central Statistical office (CSO) 2011-12 @ second revised estimate

Table-1 shows that variations in share and growth of different sub-sectors of services. Financing, Insurance, Real Estate and Business Services have grown faster than the other services sector growth in India. In 2012-13, the growth rate of the services sector at 4.5 per cent is marginally lower than 6.7 per cent in 2011-12. This the result of high declining growth rate in Transport, Storage & communication 6 per cent to 9.4 per cent in 2011-12. Slowdown in service growth is the result of global recession in 2009-10. Despite this, the growth rate of most of the services has remained positive. One of important main reason for improve in growth in the

service sector is growing domestic demand. Now the service sector has recovered rapidly. There is robust growth in Financing, Insurance, real estate, & business services.

(Figure 1: Percentage Growth Rate of Service Sector in India for the Period 2005-2013)



The figure(1) show that the services sector of India has shown a consistent rise in since 2006-07. The slowdown in growth of services is more clearly visible from 2007-08. The global economic crisis led to a fall this growth rate. This decline was cushioned by increase in the contribution of government consumption to aggregate growth. Thus in period 2009-10 increase in growth has been shown.

The contribution of service tax in total tax revenue:

Service sector in India has been the sunrise area of taxation. Service sector has emerged as the largest and fastest-growing sector in India. This sector is a good source of government revenue. Service tax is envisaged as the tax of the future. Table-2, shows that Service Tax collections have shown a steady rise since its inception in 1994. It is highlighted that in 1994-95 service tax was 407 crore, which is 0.44 of total tax revenue. After long years, 2003-04 has recorded highest growth of service tax 91.44 per cent. The tax revenue from taxable services has grown manifolds since 1994-95 i.e. From Rs. 407 crore into Rs. 124000 crore in 2012-13. However, its growth rate has steadily declined over the period and has recorded negative at 4.13 percent in 2009-10. It was due to reduction in the rate of tax by 2 per cent at the time of global

recession. The less growth of service tax is due to the defective taxation system. In order to reform in taxation system, the Government announced in the central budget in 2006 that GST (Goods and Services Tax) would be introduced from April 1, 2010. GST implementation has been delayed. Various types of reforms relating to service tax would be done with the implementation of GST.s

Table-2: Share and Growth Rate of Service Tax

Year	Service Tax (Rs crore)	Gross Tax revenue (Rs crore)	Share of Service Tax of Gross Tax revenue (%)	Growth of Service Tax (% per annum)
1994-95	407	92294	0.44	-
1995-96	862	111224	0.78	111.79
1996-97	1059	128762	0.82	22.85
1997-98	1586	139221	1.14	49.76
1998-99	1957	143797	1.36	23.39
1999-2000	2128	171752	1.24	8.74
2000-01	2613	188603	1.39	22.79
2001-02	3302	187060	1.77	26.37
2002-03	4122	216266	1.91	24.83
2003-04	7891	254348	3.10	91.44
2004-05	14200	304958	4.66	79.95
2005-06	23055	367474	6.27	62.36
2006-07	37598	473512	7.94	63.08
2007-08	51301	593147	8.65	36.45
2008-09	60941	605299	10.07	18.79
2009-10	58422	624528	9.35	-4.13
2010-11	71016	793072	8.95	21.56
2011-12	95000	901664	10.54	33.77
2012-13	124000	1077612	11.51	30.53

(Source : Receipt budget document/CGA)

Conclusion:

In the present paper we have tried to show conflict between growth and tax revenue from the service sector. No doubt, there is the outstanding performance of the service sector in GDP. The services sector with an around 57 per cent contribution to the gross domestic product (GDP), and emerge as fastest-growing and dominant sector of the economy. Among the sub - sector of services, Financing, Insurance, Real estate and Business services have the highest growth rate of 12.9 per cent in 2013-14. One of the reasons for the sudden growth in the services sector in India was the New Economic Policy that gave rise to innovation and higher exports from the services sector. Yet, Service tax has not contributed enough to the total tax basket of India. However, it is hoped that to make reforms in service tax revenue the government would implement the proposed broad based GST in the coming financial year.

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