

“Service, Services classification and Service Tax in present and future GST Era”

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Presentation Plan

1. **Services in India's growth process**
2. **Share of services in GDP**
3. **Brief introduction of Service Sector and Service Tax in India.**
4. **Contribution of Services and Service Tax in Economy and its scope.**
5. **Services Classification in India and International scenario.**
6. **Positive list and Negative List regime for service tax.**
7. **Grouping of Services in GST era**

Services in India's growth process

Sectoral Growth Rates

	Average Growth (In per cent per annum)		
	1951-1980	1981-1990	1991-2000
Agriculture	2.1	4.4	3.1
Industry	5.3	6.8	5.8
Services	4.5	6.6	7.5
GDP	3.5	5.8	5.8

Services classification in general

- Services sector incorporates hotels and restaurants; transport, storage and communication; financing; insurance; real-estate and business services; and community, social, personal services.
- Some of the activities in the services sectors are multi dimensional, being part of **industry as well as services**, such as information technology and construction.

For an empirical analysis,

- sub sectors includes transport and communication, financing, insurance, real estate and business services can be categorized as **producer services**
- with hotels and restaurants and other services as **consumer services**.
- **Government services**-public administration and defense services.
- **producer services accounted 70%** of total services followed by **consumer services (17%)** and **government services (13%)**.
- The high share of producer services reflects the strong inter linkages between services and goods producing sectors of the economy.

SHARE OF SERVICES IN GDP

**Sectoral Shares in GDP in 2001, Global Averages
(Per cent of GDP)**

	Agriculture	Industry	Services	
Low income	24	32	45	Stage I
Lower middle income	12	40	48	
Upper middle income	7	33	60	Stage II
High income	2	29	70	Stage III

- two stages of development.
- In the first both industry and services shares increase as country moves from low income to lower middle income status
- while in second, the share of industry declines and that of services increases as the economy moves to upper middle and higher income levels

SERVICES GDP: INTERNATIONAL COMPARISON

- With an overall share of 67.5% in world GDP.
- The top 15 countries in terms of services GDP India ranked 9th in overall GDP and 10th in services GDP

SERVICES GDP: INTERNATIONAL COMPARISON

Performance in Services: International Comparison

Country	Rank	Overall GDP (US\$ billion)		Share of Services (% of GDP)			Change in Share 2011 over 2001	Services Growth Rate (%)			CAGR 2001-11		
		Overall Services		At Current Prices 2011	At Constant Prices 2011	2001		2010	1011	2001		2010	2011
		GDP	GDP										
1 US	1	1	14991.3	13225.9	77.0	78.3	78.4	1.4	2.9	2.5	5.1	2.1	
2 China	2	3	7203.8	4237.0	40.6	41.9	41.7	1.1	10.4	9.9	8.9	11.1	
3 Japan	3	2	5870.4	4604.1	70.6	69.9	70.5	-0.1	1.8	1.1	0.6	0.4	
4 Germany	4	4	3604.1	3048.7	70.0	70.8	70.0	0.0	2.5	1.0	1.9	1.3	
5 France	5	5	2775.5	2240.5	76.8	79.0	79.2	2.4	1.8	1.9	2.1	1.4	
6 Brazil	6	8	2476.7	1126.4	65.4	66.2	66.5	1.1	1.8	5.0	3.1	3.8	
7 UK	7	6	2429.2	2381.1	74.0	76.4	76.0	2.0	3.8	1.1	1.2	2.3	
8 Italy	8	7	2195.9	1773.1	70.9	73.1	73.1	2.2	2.6	1.4	0.7	0.6	
9 India	9	10	1897.6	1322.7	50.1	56.8	58.2	8.1	7.5	9.4	7.4	9.2	
10 Russia	10	13	1857.8	947.2	56.3	62.4	62.1	5.8	3.3	3.9	3.6	5.5	
11 Canada	11	9	1736.9	1233.5	65.0	69.9	69.7	4.7	3.5	2.6	2.2	2.7	
12 Australia	12	11	1515.5	894.5	67.9	69.0	69.2	1.3	3.9	2.3	3.6	3.3	
13 Spain	13	12	1478.2	1183.8	63.7	69.8	70.0	6.3	3.6	1.2	1.2	2.8	
14 Mexico	14	14	1155.2	956.8	61.4	63.8	64.2	2.8	1.2	5.4	5.0	2.9	
15 South Korea	15	15	1116.2	1056.1	60.5	57.0	56.6	-3.9	4.4	3.9	2.7	3.5	
World			70201.9	52667.7	68.2	67.6	67.5	-0.7	2.8	2.9	3.6	2.6	

Note: Rank is based on current prices, Share is based on constant prices (US\$), Growth rates are based on constant prices (US\$). CAGR is estimated for 2001-2010, Construction sector is excluded in services GDP.

Source: Computed from UN National Accounts Statistics accessed on 4 January 2013.
Economic Survey 2012-13.

INTERNATIONAL TRADE IN SERVICES

- India is the most dynamic exporter of services and ranked 7th in the world in both export and import of services
- The share of services in India's GDP at factor cost (at current prices) increased from 33.3% in 1950-51 to 56.5% at present after including construction the share would increase to 64.8%.
- With an 18% share, trade, hotel and restaurants as a group is the biggest and largest contributor to GDP.

Classification of services



Consumer services

- Pure services : Activities performed that do not include a tangible product.
- Non-good services - Personal/professional service for a fee.
 - Example: tax preparer.
- Owned-good services - Activities that alter, improve, or repair products already owned.
 - Example: dry cleaning, appliance repair service.
- Rented good services - Provide a product to use for a brief period for a fee.
 - Example: carpet cleaners, movie rental.

Classification on the basis of involvement of customer

- People processing
- Managers must think about processes / outputs in terms of what happens to customers or what benefits are created.
- Example : healthcare, beauty saloon, dentist, spa, tourism, transportation, restaurant, lodging





Possession processing

- Example : post office /currier, laundry, ATM, warehousing, landscaping, gardening, office cleaning, repair and maintenance, freight transportation



Mental stimulus processing

- Services that interact with people's mind.
- Anything touching people's mind has power to shape attitudes and influence behaviour.
- Information based content can be converted to digital bits, recorded or transformed into manufactured products viz. CD's, Video's, which can be packed and sold like any physical product.
- Eg education , news , entertainment , Advertising/ PR , video games, music concerts, broadcasting



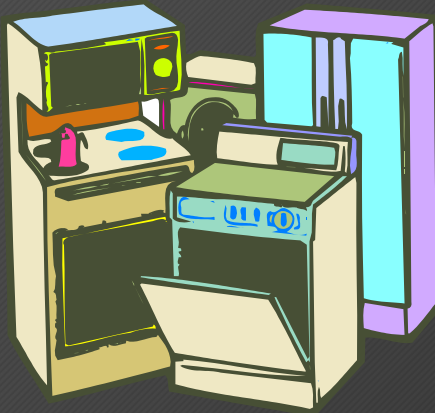
Information processing

- Most intangible form of service output.
- Customer involvement determined more by tradition or personal desire to meet face to face and not by the needs of the operational process.
- Customer / Supplier , this relationship can also be build / sustained on trust or telephonic contact.
- financial services, accounting , banking, Insurance, legal services, software consulting



Classification based on service tangibility

- Services linked to tangible goods.
- In order to experience the service customers should first purchase the product.
- Eg alterations, warranties



ONE YEAR
WARRANTY



Tangible goods linked to services

- Service provider offer tangible goods for use along with the services.
- Eg. Theaters offer 3D glasses along with movie



Classification on the business orientation

- Non profit organisation: govt schools a social service.
- Commercial organization.

Classification on the basis of requirement of skill and expertise

- Professional services
 - Requires a set of qualification skills adequate training etc.eg lawyer,pilot
- Non professional services
 - Do not require any set of skills training.
 - Eg house keeping, babysitting etc



Classification on the basis of end user

- Consumer services: beauty case hair case
- Business to business services: market research and consultancy
- Industrial services: machine installations



Services Classification in India

National Industrial Classification (NIC)

- Standard Industrial Classification (SIC) in 1962 and later on named as National Industrial Classification (NIC) is an essential Statistical Standard for developing and maintaining comparable data base according to economic activities.
- The Central Statistical Organisation (CSO), which is responsible for setting up of statistical standards,

Standard Industrial Classification (SIC),

- **The SIC was 4-digit classification and consisted of 9 divisions, 55 major groups, 284 groups and 753 sub-groups. It followed the ISIC Rev.1**
- **SIC retains all the groups of the International Standard Industrial Classification (ISIC) and provides some more groups to give due recognition to the special features of the Indian economy.**

- While the International Standard Industrial Classification (ISIC) stops at the group level, the SIC attempts a lower level of classification in terms of sub-groups (4-digit) level so as to meet the national requirements adequately.

National Industrial Classification – 2008

- National Industrial Classification – 2008
- National Industrial Classification 2008 (NIC-2008) is a revised version of NIC-2004.
- **BROAD STRUCTURE**
- **(Sections, Divisions and Groups)**
- **Section D to U**

Service Classification in International Scenario

- The issue of standardization of industrial classification at the international level was deliberated in the First International Conference of Labour Statisticians (ICLS) as early as 1923,
- classification of economic activity under three broad categories viz.,
 - i. primary production (agriculture and mining);
 - ii. secondary production (manufacturing and construction) ;
and
 - iii. services (transport, commerce, administration, etc.)

International Classification of Services (NICE)

- Class 36 to 46
- For eg. Services that provide advice, information or consultation are in principle classified in the same classes as the services that correspond to the subject matter of the advice, information or consultation, e.g., transportation consultancy (Cl. 39), business management consultancy (Cl. 35), financial consultancy (Cl. 36), beauty consultancy (Cl. 44).

Service Tax Classification in India

- In Customs and Central Excise HSN (Harmonized System of Classification) is used for classification at international level. It's up to 8 digit classification. India has adopted HSN code up to 8 digit classification. In similar way Services has International Standard Industrial Classification at International level and Industrial Classification (NIC) 2008 for Services in India. However, in Service Tax in Indian scenario there is no standardized system for Service Tax purposes per se. For accounting of Service Tax, Service Tax accounting Code (SAC) is followed at present. In GST era also Service Tax Accounting Code (SAC) has been proposed.

History of Service Tax in India

- The services, brought under the tax net in the financial year 1994-95 were:
 - (1) Telephone
 - (2) Stockbroker
 - (3) General Insurance

Positive list and Negative List regime for Service Tax

- After first July 2012, Negative List
- This means that if a service meets the characteristics of a “service” as defined in Section 65B (44) of Finance Act 1994 will be taxable unless specified in the Negative List.

Service Tax Accounting code

- Accounting code for the purpose of payment of service tax under the Negative List approach [“All Taxable Services” – 00441089] was prescribed vide Circular 161/12/2012 dated 6th July, 2012.
- Subsequent to the issuance of the Circular, Service specific old accounting codes is again restored, for the purpose of **statistical analysis**;
- also it was suggested that list of descriptions of services should be provided to the taxpayers for **obtaining service tax registration.**

CBEC circular no.165/16/2012-ST descriptions of taxable services and accounting codes for payment of service tax

- accounting codes for payment of service tax has been given. In that list, 119 descriptions of services (sl.no.1 to 119)
- At serial number 120, the description reads as ‘other taxable services’ [services which are not covered by any of the **119 descriptions** derived from positive list approach].

Year wise Service tax collection

Financia l Year	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Service tax (Rs in Crores)	65,500	69,400	82,000	1,32,697	1,64,927	2,15,478	2,09,774

Grouping of Services in GST era:

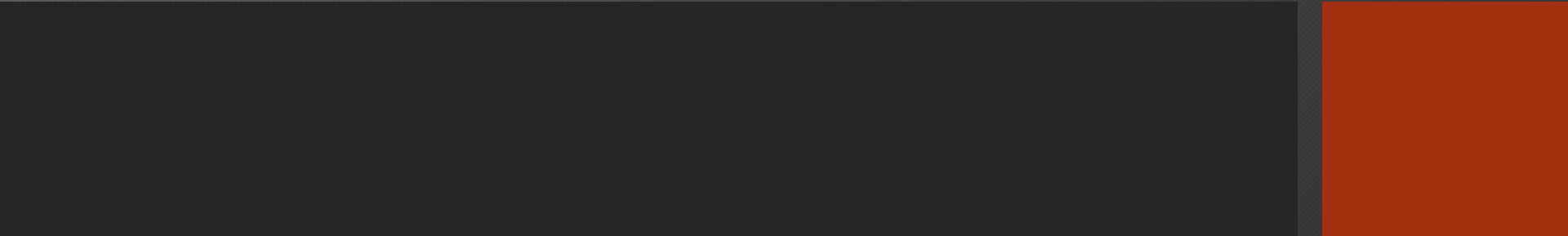
- **Economic activity wise** services may be grouped in GST era.
- In proposed GST, Service accounting code has been used for the Service classification.
- However, in GST for tax collection and classification does not matter by distinguishing goods and services.
- But for statistical and registration purposes assesses and department must understand trade activity.
- To avoid litigation at various litigation forums, classification is key factors.

Grouping of Services in GST era:

- To promote Ease of doing business it should be easiest and under stable also.
- So, grouping of economic activity in GST era, business activity wise and service activity wise, Geographical area wise among trade and industries certainly promote ease of doing business, make in India, export of services and least litigant society.

Grouping of Services in GST era:

- Geographical Area Wise Services Analysis
- Based on GSTIN number.



Indicative groupings as example with General or Abatement Services

Immovable property (land related services)

- in relation to an immovable property, including services provided by architects, interior decorators, surveyors, engineers and other related experts etc
- grant of rights to use immovable property .
- lodging accommodation by a hotel, inn, guest house.
- Function Halls etc.
- any services ancillary to the services referred

Performance based services

- Restaurant and catering services,
- Personal grooming, fitness, beauty treatment,
- Health service including cosmetic and plastic surgery

Organization of an event

- **Services provided by way of—**
 - (a) organization of a cultural, artistic, sporting, scientific, educational or entertainment event including supply of service in relation to a conference, fair, exhibition, celebration or similar events, or**
 - (b) services ancillary to organization of any of the above events or services, or assigning of sponsorship of any of the above events,**

Banking & Financial services

- **Banking and other financial services, Debit card and Credit card agency including stock broking services, Banking and Other Financial Services**
- ATM Operation, Maintenance & Management
- Recovery Agent
- Credit Card, Debit Card & other payment Cards
- etc

Mining Related Service

- Mining Service
- Cargo handling Services
- Site formation, Clearance, Excavation, Earthmoving & Demolition Service
- Dredging Service
- Survey and Map making
-

Industry Related or specific Services

- Business Auxiliary Service
- Technical Testing and Analysis Service
- Business Support Service, etc

THANKS

