PROFITABILITY OF SERVICE TAX TO THE SERVICE PROVIDERS

Introduction

Service Sector plays a dominant role in the Indian Economy. Constrained by the revenue pressures, the Union Government has introduced Service Tax in 1994 and to begin with it was restricted to insurance, telephone and stock-broking services. The list of services under service tax net expanded steadily and by the year 2011, 119 services have included in this list. Effective from 01.07.2012, service tax regime has shifted from selective taxation to comprehensive taxation. All the services are taxable as “service” without reference to the specific service. The Budget 2012 has made a paradigm shift for taxation of services and announced that service tax shall be levied on the basis of a negative list of services and accordingly, the Finance Act, 2012 has amended the Finance Act, 1994, which came in to force with effect from 01.07.2012 as notified by the Central Government. It means that if an activity meets the characteristics of a “service” it is taxable unless specified in the Negative list or otherwise exempted by an Exemption Notification. Service Tax is a tax on service but collected at the time of providing taxable service. At present, Service Tax is levied at a uniform rate of 12 per cent advalorem. Apart from Service Tax of 12 per cent, Education Cess of two per cent and Higher Education Cess of one per cent on the Service Tax is also levied. Thus the effective rate of Service Tax for all services is 12.36 per cent. Any tax is
viewed as a liability because, the service provider feels that it is bound to eat into his profit and so is the Service Tax also. But in reality, in India, the Service Tax proves to be a boon and a viable source of profit for the service providers. In other words, Service Tax compliance is no longer painful or worrisome to a firm but highly profitable and yielding.

Any tax is painful. The tax payer feels an unpleasantness while discharging a tax liability. In other words, a tax payer always feels that but for requirement to pay the tax, his profit would have been higher and more sizeable one. It is this discouraging feeling that drives an ordinary tax payer to tax avoidance, tax evasion, suppression and other tax offences. It is going to be established hereunder that tax compliance is not only painless and burden less but also profit-fetching. The basic objective of this study is to show how the compliance of the Service Tax Laws and payment of Service Tax benefits a service provider and helps him financially and how evasion of Service Tax is unwise.

**SERVICE TAX IS PROFITABLE**

**Advantage in the ‘Time of Payment’ of Service Tax**

There is a big time lag between the collection of service tax and payment of service tax. The service tax collected from the customers is not required to be paid immediately then and there. The service tax law generously allows the tax payer to collect the service tax from his customers in advance and utilise the same for his working capital requirement even for months. For
example, a tax collected on 1\textsuperscript{st} July can be conveniently paid to the Government as late as on 06\textsuperscript{th} of October i.e. after 96 days. During these 96 days, the taxpayer is at liberty to utilise this amount for his business purposes and the same is lawfully allowed. The time of payment stipulated under the Indian Service Tax Law provides a favourable climate for working capital management as explained here. The Service Tax liability arises when a service is rendered by a service provider. In case of individuals, proprietary firm or partnership firm, the tax is to be paid to the Government on a quarterly basis by the 5\textsuperscript{th} of the month following the quarter. If Service Tax is paid electronically through Internet Banking (e-payment), the due date is 6\textsuperscript{th} of the following month of the relevant period i.e. month or quarter, as the case may be. For example, a service provider renders a service for a value worth Rs.50 lakhs on 01.07.2012. The Service Tax involved on this at 12.36 per cent advalorem works out to Rs. 6.18 lakhs. The service provider (other than individuals, proprietary firm or partnership firm) can invoice it and collect the same from his customer and keep it for himself until 05.08.2012. In case of individuals, proprietary firm or partnership firm, it can be kept with them up to 05.10.2012. In other words, whatever tax amount collected by him from his service receivers throughout the month of July 2012 is payable by him only on the 6\textsuperscript{th} of October 2012.\textsuperscript{1}

Rule 6 of the Service Tax Rules 1994 states that:

(1) the service tax shall be paid to the credit of the Central Government,
i. by the 6th day of the month, if the duty is deposited electronically through internet banking; and

ii. by the 5th day of the month, in any other case,

It the assessee is an individual or proprietary firm or partnership firm, the service tax shall be paid to the credit of the Central Government by the 6th day of the month if the duty is deposited electronically through internet banking, or, in any other case, the 5th day of the month, as the case may be, immediately following the quarter in which the service deemed to be provided as per rules framed in this regard.2

It there was no service tax in India, such working capital facilitation would not have been available to the service tax assessees. It is because of the existence of the service tax liability and because of the substantially extended time gap between the point of collection and the point of payment of the service tax, that the service tax assessees are blessed to enjoy the working capital facilitation.

The rule 6 of the service tax makes it clear that a service provider rendering taxable services, can retain the Service Tax collected from his customers for a period up to 96 days and enjoy financial accommodation (working capital) to that extent, depending upon the date of providing service. Where the assessee is an individual or proprietary firm or partnership firm, the service provider rendering taxable services, can retain the Service Tax
collected from his customers for a period ranging from 66 days to 96 days. If the date of providing service by a service provider other than individuals, proprietary firm or partnership firm is the 1st of a calendar month, the Service Tax collected on that service is mandated to be paid by him only on the 6th of the next calendar month. In this case, the Service Tax collected by him will lie with him as surplus working capital for 36 days. Similarly, the Service Tax collected by him on the service provided on the last day of the month will be available for his utilization for 6 days. Further, it is interesting to note that in case where the assessee is an individual or proprietary firm or partnership firm, the service tax collected by him will lie with him as surplus working capital for 66 days to 96 days. This is a legally permitted financial accommodation. This is only a tip of the iceberg of profitability caused by the service tax. The major and the most lucrative aspect of the Service Tax which gives the service provider a solid and guaranteed fortune is explained in the paragraphs to come.

**The Cenvat Credit System**

Whenever a service provider utilizes input services he pays service tax on them. A Custom House Agent utilizes many input services like Terminal Handling Services, Port Services, Security Agency Service, Telephone Service; and so on. Besides, he also pays Cenvat duty on the capital goods such as machineries, spares, equipment, cranes, forklifts, etc. to be used for providing the taxable services. With effect from 10.09.2004, the excise duty paid on capital goods which are used for providing the taxable services are also
available to the service providers. As per the Cenvat Credit system prevailing in India, the producer can take credit of and accumulate all such duties in his account called ‘Cenvat Credit account’. To sum up, a service provider is entitled to take credit of duty / service tax paid on capital goods and input services. It is mandatory to analyze the law relating to inputs, capital goods and input services.

**Scheme of Cenvat Credit**

Under the scheme of Cenvat credit, the person who is liable to pay service tax on the service provided by him (output service) can set off this liability by claiming credit for the amount of duties and cess he pays on the goods he uses and also the amount of service tax and cess he pays on the services he uses (input service) to provide such taxable services. To understand the scheme of Cenvat credit, it is required to understand the meaning of the terms output service, inputs, capital goods and input services.³

**Output Service**

Under Rule 2(p) of Cenvat Credit Rules, 2004, ‘output service’ means any taxable service rendered by a provider of service located in the taxable territory but shall not include a service specified in Section 66D of the Finance Act, 1994 (negative list) or where the whole of service tax is liable to be paid by the recipient of service (reverse charge method) under Rule 2(1) (d) of the Service Tax Rules, 1994.
Input Service

Under Rule 2(l) of Cenvat Credit Rules, 2004, ‘input service’ means any service used by the supplier of output service for providing an output service or used by a manufacturer, whether directly or indirectly, in or in relation to the manufacture of final products and clearance of final products up to the place of removal. Apart from the main definition input services specifically includes the following services used in relation to-

i. modernization, renovation or repairs of a factory, premises of provider of output service or an office relating to such factory or premises,

ii. advertisement or sales promotion,

iii. market research,

iv. storage up to the place of removal, procurement of inputs,

v. accounting, auditing, financing, recruitment and quality control, coaching and training, computer networking, security, legal services, and

vi. inward transportation of inputs or capital goods and outward transportation up to the place of removal.

Inputs

Under Clause (iv) of Rule 2(k) of Cenvat Credit Rules, 2004, ‘inputs’ means all goods used for providing any output service but excludes the items are-

i. light diesel oil, high speed diesel oil or motor spirit (petrol)

ii. any goods used for-
a. construction or execution of works contract of a building or a civil structure or a part thereof; or

b. laying of foundation or making of structures for support of capital goods, except for the service portion in the execution of a works contract or construction service listed under Clause (b) of Section 66E of the Finance Act, 1994,

c. motor vehicles,

d. any goods, such as foods items, goods used in a guesthouse, residential colony, club or a recreation facility and clinical establishment, when such goods are used primarily for personal use or consumption of any employee.

**Capital Goods**

An output service provider, in order to avail Cenvat credit is required to use eligible capital goods for rendering the output service. As in the case of inputs, the credit is available only for those capital goods which are received on or after 10.09.2004 and used directly in providing output service. Rule 2(a) of Cenvat Credit Rules, 2004, defines the term ‘capital goods’. The definition has two segments. In the first segment, it has mentioned certain specific goods which may be considered as capital goods, and in the second segment it has considered motor vehicle as capital goods in the context of certain categories of services.

The following goods if used in providing taxable services are considered as capital goods irrespective of the type of service they are used for.

i. tools, cutlery, implements, spoons, forks and parts of these goods,
ii. machinery, mechanical appliances and parts thereof,
iii. electrical or electronics machinery and equipments,
iv. photographic, measuring, checking, precision instruments and apparatus etc,
v. grinding wheels and the like goods and parts thereof,
vi. pollution control equipments,
vii. moulds and dies, jigs and fixtures,
viii. tubes and pipes and fittings thereof and
ix. storage tank.

Motor vehicles designed for transportation of goods including their accessories registered in the name of the service provider, when used for-
i. providing an output service of renting of such motor vehicle; or
ii. transportation of inputs and capital goods used for providing an output service; or
iii. providing an output service of courier agency

Motor vehicles designed to carry passengers including their accessories, registered in the name of the provider of service, when used for providing output service of
i. transportation of passengers; or
ii. renting of such motor vehicle; or
iii. imparting motor driving skills.

These definitions encompasses almost all services and hence the service provider can go on taking credits of the Cenvat duty / service tax paid by him
on all his capital goods and input services. Like a bank passbook, this Cenvat Credit account will go on accumulating with Cenvat credits and Service tax credits taken by the service providers based on their purchase/payment invoices. All these credit accumulations are cashable by the service providers while discharging the service tax on his service. This is the most favourable gesture to a service provider extended by the Indian Excise Laws.

**How is Cenvat Credit Cashable?**

The service provider can use all the credit accumulations as “cash” for payment of service tax on his service and bill and collect the same from his customers as “Service Tax” discharged by him and pocket it for himself. Let an illustration explain this in a better way.

Let X be a service provider of Custom House Agents service. His basic input services are Terminal Handling Service, Security Service, Port Service, Advertisement Service and Telephone Service, etc. Now, as per the books of accounts of X, this will be the typical abstract of costs incurred and Cenvat credits taken in a particular year.

The scholar had discussions with the officials of the Commissionerate of Central Excise, Tirunelveli to have a bird’s eye view of the profitability, due the levy of service tax to the service providers. The officials have explained that the levy of service tax is proved to be profitable to the service providers
with imaginary figures and how cenvat credit can be enjoyed by the service provider is furnished in Table No. 6.1.

### Table 6.1
**Abstract of costs incurred and Cenvat Credit taken by X in a year**

<table>
<thead>
<tr>
<th>Items of costs</th>
<th>Basic Value (Rs)</th>
<th>ST paid @ 12.36% (Rs)</th>
<th>Total Cost (Rs)</th>
<th>Cenvat credit taken (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terminal Handling Service</td>
<td>1,00,00,000</td>
<td>12,36,000</td>
<td>1,12,36,000</td>
<td>12,36,000</td>
</tr>
<tr>
<td>Security Service, Telephone Service etc.</td>
<td>10,00,000</td>
<td>1,23,600</td>
<td>11,23,600</td>
<td>1,23,600</td>
</tr>
<tr>
<td>Port service</td>
<td>20,00,000</td>
<td>2,47,200</td>
<td>22,47,200</td>
<td>2,47,200</td>
</tr>
<tr>
<td>Other Costs (non taxable)</td>
<td>5,00,000</td>
<td>---</td>
<td>5,00,000</td>
<td>---</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,35,00,000</td>
<td>16,06,800</td>
<td>1,51,06,800</td>
<td>16,06,800</td>
</tr>
</tbody>
</table>

**Source:** Imaginary Figures

Perusal of Table No. 6.1 indicates the fact that the total cost incurred by the firm is Rs.1,51,06,800 and the Service Tax component involved therein is Rs. 16,06,800/-. Assuming that the value addition made by him to the above input cost (including his profit cap) is 20 per cent, the further picture of his costs is depicted as :-

\[
\begin{align*}
\text{Total cost of service} &= \text{Rs. 1,51,06,800/-} \\
\text{Add value addition 20 per cent} &= \text{Rs. 30,21,360/-} \\
\text{Total cost including value addition and profit} &= \text{Rs. 1,81,28,160/-}
\end{align*}
\]
The above amount of Rs.1.81 Crores (approximately) represents his total value of his output service (excluding the Service Tax to be billed at the rate of 12.36 per cent). Now, the Service Tax to be billed and collected by him will work out as follows:-

Total service proceeds (excluding service tax billed and collected)  
= Rs 1.81 Crores 

Service Tax at the rate of 12.36 per cent billed and collected  
= Rs.0.22 Crores 

Thus, his total liability of Service Tax for the year is Rs.0.22 Crores which has been billed and collected by him from his customers. But, this is not the amount he pays as Service Tax to the Government. What he actually pays is far less an amount. Already, it was shown that he has a Cenvat credit accumulation of Rs. 16, 06,800 to his Cenvat credit account. This credit accumulation is as good as ‘cash’ for the purpose of discharging his Service Tax liability. Though he has collected an amount of Rs.0.22 Crores in cash as Service Tax from his service receivers, he will pay to the Government only a net amount of Rs. 6, 00,000/- as shown here:

Total service tax liability to be discharged for the year  = Rs.0.22 Crores 
Service tax liability that can be discharged by utilising the Cenvat credit accumulation  = Rs.0.16 Crores 
Cash to be parted with for discharging ST liability  = Rs. 6 Lakhs
The Cenvat credits constitute a great source of profit. Though he collected an amount of Rs.0.22 Crores as Service Tax, he has to pay only an amount of Rs.6 lakhs to the Government, retaining with him the balance amount of Rs.16 lakhs as super-normal profit.

It is further interesting to note that the actual amount of Service Tax paid by him for his service value of Rs.1.81Crores is only Rs.6 lakhs which works out to about 3.3 per cent only. In other words, though the actual rate of service tax is 12.36 per cent, the effective rate of service tax on the total turnover works out to 3.3 per cent only. To put it in another way, though the producer is collecting 12.36 per cent as service tax from his customers, he actually pays only 3.3 per cent to the Government legally and rightfully pockets the remaining 9.06 per cent for himself, thanks to the Cenvat credit system. Thus there is a wonderful source of profit for the service providers. Had the Cenvat credit system not been there, the effective rate of duty would have been the same as the actual rate of duty of 12.36 per cent only. Because of the cenvat credit system the service provider has been enabled to earn a windfall profit of Rs. 16 lakhs in this example. If he had not enrolled himself in to the service tax licensing system, he would not have paid the service tax to the Government nor would he have earned the windfall profit of Rs. 16 lakhs. This hypothetical example clearly establishes that the service tax system benefits both the Government and the service provider substantially and
copiously. By taking the actual performance of Port Trust, Tuticorin, Sterlite Industries (India) Ltd, Tuticorin, St. John Freight System Ltd, Tuticorin, the scholar attempts to show how the assesses are practically reaping the benefits for themselves by enrolling themselves in the service tax system in Tirunelveli Commissionerate.

**Port Trust, Tuticorin**

The Tuticorin Port Trust\(^4\) has registered with the Central Excise Department for rendering Port Services vide Registration Certificate No. AAALT 0206D ST001. The input services received by them are dredging service, security service, cleaning service, maintenance service, telecommunication service etc. While receiving these services, the providers of the same are also billing the service tax on these services and the same is paid by the port trust. During the financial year 2012-13, the port trust received these services to the tune of Rs.125.57 Crores and incurred a service tax of Rs.15.52 Crores on the same. They availed the said Rs.15.52 Crores as Cenvat credit and preserved the same as equivalent of cash in their account. During the same period, they provided port service to the trade to a tune of Rs.353.24 Crores. The service tax collected by them on this turnover at the rate of 12.36 per cent is Rs.43.66 Crores. Though they collected Rs.43.66 Crores as service tax from their clients they paid to the Government only an amount of Rs.28.14 Crores in cash and the balance Service Tax liability of Rs.15.52 Crores was paid by them from the cenvat account where they were already having an input
service tax credit of Rs.15.52 Crores. Thus they pocketed for themselves an amount Rs.15.52 Crores collected as service tax from their clients. This Rs.15.52 Crores is a windfall profit to the port trust earned during the financial year 2012-13. This can be explained arithmetically in the format:

Value of input service received during 2012-13 = Rs.125.57 Crores

Service tax billed by the input service providers during 2012-13 (125.57 × 12.36 per cent) = Rs.15.52 Crores

Amount taken as credit by port trust (cash equivalent to) during 2012-13 = Rs.15.52 Crores

Value of service of provided by port trust to the clients during 2012-13 = Rs.353.24 Crores

Service tax billed & collected from the clients during 2012-13 = Rs.43.66 Crores

Service tax liability discharged by port trust from out of the collection (Rs.43.66 Crores) = Rs.28.14 Crores

Service tax liability discharged from the credit available in the Cenvat Credit = Rs.15.52 Crores

Total Service tax liability discharged = Rs.43.66 Crores

Amount of service tax collections pocketed by port trust as profit = Rs.15.52 Crores

Effective rate of service tax incurred by port trust on its turnover (28.14 ÷ 353.24 × 100) = 7.97 per cent

**St. John Freight Systems Ltd., Tuticorin**

St. John Freight Systems Ltd. Tuticorin has registered with the Central Excise Department for rendering Custom House Agents service vide
Registration Certificate No. AAACS 4697N ST012. The input services received by them are Terminal Handling Services, Port Services, Security Agency Service, Telephone Service, Cleaning Service, Fumigation Service etc. While receiving these services, the providers of the same are also billing the service tax on these services and the same is paid by St. John Freight Systems Ltd., Tuticorin. During the financial year 2012-13, St. John Freight Systems Ltd., Tuticorin received these services to the tune of Rs.29.85 Crores and incurred a service tax of Rs.3.69 Crores on the same. They availed the said Rs.3.69 Crores as Cenvat credit and preserved it in their account. During the same period, they provided Custom House Agents service to the trade to a tune of Rs.71.36 Crores. The service tax collected by them on this turnover at the rate of 12.36 per cent is Rs.8.82 Crores. Though they collected Rs.8.82 Crores as service tax from their clients they paid Rs.5.13 Crores only to the Government and the balance Service Tax liability of Rs.3.69 Crores was the cenvat credit as they were already having an input service tax credit of Rs.3.69 Crores. Thus they enjoy Rs.3.69 Crores collected as service tax from their clients. This Rs.3.69 Crores is a windfall profit due to the cenvat credit facility to St. John Freight Systems Ltd., Tuticorin earned during the financial year 2012-13. This can be explained arithmetically as:

Value of input service received during 2012-13 = Rs.29.85 Crores

Service tax billed by the input service providers during 2012-13(29.85 ×12.36 per cent) = Rs.3.69 Crores

Amount taken as credit by St. John Freight Systems = Rs.3.69 Crores
LTD (cash equivalent to) during 2012-13

Value of service of provided by St. John Freight Systems Ltd to the clients during 2012-13 = Rs.71.36 Crores

Service tax billed & collected from the clients during 2012-13 = Rs.8.82 Crores

Service tax liability discharged by St. John Freight Systems Ltd (Rs.8.82 Crores) = Rs.5.13 Crores

Service tax liability discharged from the credit available in the Cenvat credit = Rs.3.69 Crores

Total service tax liability discharged = Rs.8.82 Crores

Amount of service tax collections pocketed by port trust as profit = Rs.3.69 Crores

Effective rate of service tax incurred by port trust on its turnover \((5.13 \div 71.36 \times 100)\) = 7.19 per cent

M/s Sterlite Industries (India) Ltd., Tuticorin

M/s Sterlite Industries\(^6\) (India) Ltd., Tuticorin is a manufacturer of Copper Cathode, Sulphuric Acid and Copper Anode having their manufacturing plant at Tuticorin. Apart from manufacturing the final products, they also render Manpower Recruitment and Supply Service. M/s Sterlite Industries (India) Ltd., Tuticorin has registered with the Central Excise Department for rendering Manpower Recruitment and Supply Service vide Registration Certificate No. AABCS 4955Q ST005. The assessee is having multiple number of sister concerns all over India and the staff to these concerns are recruited and supplied by M/s Sterlite Industries (India) Ltd., Tuticorin. To render this service, the assessee collects service charges from their sister
concerns and pays service tax to the Government under Manpower Recruitment and Supply Service. They have also appointed many manpower recruitment agencies to recruit manpower under the guidelines given by M/s Sterlite Industries (India) Ltd., Tuticorin. Such manpower recruitment agencies collect service charges from the assessees which is an input service to M/s Sterlite Industries (India) Ltd., Tuticorin. While receiving these services, the providers of the same are also billing the service tax on these services and the same is paid by M/s Sterlite Industries (India) Ltd., Tuticorin. During the financial year 2012-13, M/s Sterlite Industries (India) Ltd., Tuticorin received these services to the tune of Rs.153.96 Crores and incurred a service tax of Rs.19.03 Crores on the same. They availed the said Rs.19.03 Crores as Cenvat credit. During the same period, they provided Manpower Recruitment and Supply Service to their sister concerns to a tune of Rs.269.26 Crores. The service tax collected by them on this turnover at the rate of 12.36 per cent is Rs.33.28 Crores. Though they collected Rs.33.28 Crores as service tax from their sister concerns they paid Rs.14.25 Crores only to the government as service tax in cash and the balance Service Tax liability of Rs.19.03 Crores was paid by them from the cenvat account where they were already having an input service tax credit of Rs.19.03 Crores. Thus they get Rs.19.03 Crores collected as service tax from their sister concerns for themselves. This amount of Rs.19.03 Crores is a windfall profit to M/s Sterlite Industries (India) Ltd., Tuticorin earned during the financial year 2012-13. This can be explained arithmetically in this format:

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Value of input service received during 2012-13 = Rs.153.96 Crores

Service tax billed by the input service providers during 2012-13 (153.96 × 12.36 per cent) = Rs.19.03 Crores

Amount taken as credit by M/s Sterlite Industries (India) Ltd., Tuticorin (cash equivalent to) during 2012-13 = Rs.19.03 Crores

Value of service of provided by M/s Sterlite Industries (India) Ltd., Tuticorin to their sister concerns during 2012-13 = Rs.269.26 Crores

Service tax billed & collected from their sister concerns during 2012-13 = Rs.33.28 Crores

Service tax liability discharged by M/s Sterlite Industries (India) Ltd., Tuticorin from out of the collection (Rs.33.28 Crores) = Rs.14.25 Crores

Service tax liability discharged from the credit available in the Cenvat Credit = Rs.19.03 Crores

Total service tax liability discharged = Rs.33.28 Crores

Amount of service tax collections pocketed by M/s Sterlite industries (India) Ltd., Tuticorin as profit = Rs.19.03 Crores

Effective rate of service tax incurred by M/s Sterlite industries (India) Ltd., Tuticorin on its turnover (14.25 ÷ 269.26 × 100) = 5.29 per cent

Service tax collected by these three service providers and the actual amount paid to the Government along with the profit retained by these concerns have been presented in Table No. 6.2.
Table 6.2
Service Tax Collected, Paid and Retained
(Rs. in Crores)

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Assessee</th>
<th>Taxable turn over</th>
<th>Tax collected</th>
<th>Tax paid in cash</th>
<th>Tax Retained</th>
<th>Cash Payment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Port Trust, Tuticorin</td>
<td>353.24</td>
<td>43.66</td>
<td>28.14</td>
<td>15.52</td>
<td>7.97</td>
</tr>
<tr>
<td>2</td>
<td>St. John Freight Systems Ltd., Tuticorin</td>
<td>71.36</td>
<td>8.82</td>
<td>5.13</td>
<td>3.69</td>
<td>7.19</td>
</tr>
<tr>
<td>3</td>
<td>M/s Sterlite Industries, Tuticorin</td>
<td>269.26</td>
<td>33.28</td>
<td>14.25</td>
<td>19.03</td>
<td>5.29</td>
</tr>
</tbody>
</table>

Source: Data from the Statistics Section of Tirunelveli Commissionerate

From Table No 6.2, it is seen that the sizeable portion of the service tax collection is retained by the tax payers as a windfall profit for themselves. Another point to be noted from this table is that though the service providers are collecting service tax at the rate of 12.36 per cent, they effectively pay 5.29 per cent to 7.97 per cent only as service tax to the Government and comfortably save the balance amount of the service tax collected from their clients for themselves, ranging from Rs.3.69 Crores to Rs.19.3 Crores. The quantum of profit may vary from assessee to assessee depending upon the nature of business.

Economy’s Efficiency

Because of the Cenvat credit system, not only are the service providers blessed with more profits but also the service system of the economy becomes more efficient as shown in the Figure No.6.1 (assuming perfect competition).
Figure 6.1
Economic Efficiency Due to Service Tax
In this diagram, the price line shows the price inclusive of the service tax at the rate of 12 per cent. When there was no Service Tax, the MC curve cut the MR curve at $E_1$ and the service provided was $OQ_1$. Equilibrium is reached at point $E_1$. When the Government introduced 12 per cent service tax, the MC curve is shifted upwards (MC + 12 per cent) and the service provider had his equilibrium at $E_2$ (where the MC+12 per cent curve cut the MR line) with output reduced to $OQ_2$. Thereafter, when the Cenvat system was introduced, the effective service tax came down from 12 per cent to 2.5 per cent and the ‘MC+12 per cent’ curve shifted downwards to MC+2.5 per cent and the equilibrium was achieved at $E_3$ with $OQ_3$ as output. $Q_2Q_3$ is the quantity that was caused as increase in the output due to the Cenvat credit system.

Because of the levy of Service Tax and the prevalence of the Cenvat credit system, the profit got boosted. Due to the Cenvat credit system, the profit was more than doubled. The country’s production system also became more efficient, because of the levy of Service Tax coupled with the Cenvat credit system. Thus, given the Cenvat credit system, Service Tax compliance is no longer painful in India; it is rather profitable and enjoyable.
REFERENCES

1 http://www.servicetax.gov.in/st-circular 12/st-circ-165 Annexure to CBEC Circular No. 165/16/2012-ST


4 Data from the Statistics Section of Tirunelveli Commissionerate.

5 Ibid.

6 Ibid.