

**CHAIRMAN
FISCAL LAWS COMMITTEE**



**THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF INDIA**
[Set up under an Act of Parliament]
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Mr. M. Jayaraman
Chairman
Central Board of Excise & Customs
Ministry of Finance, Govt. of India
North Block
NEW DELHI - 110 001

Sir,

**Sub: Distortion of level playing field for Chartered Accountants
by withdrawal of service-tax exemption Notification
No.59/98 dated 16th October, 1998**

As you are kindly aware, the ICAI is a premier accounting body, set-up under the Chartered Accountants Act, 1949 for regulation and development of the profession of accountancy in India. As an adjunct of the Government it has been giving its valuable suggestions for the Budget, in the form of Pre-Budget Memorandum and after the presentation of the Budget in the form of Post-Budget Memorandum after thorough deliberations and discussion among the members throughout the country. The Institute is in the process of examining the Budget proposals in greater detail and would submit the Post-Budget Memorandum shortly, after consideration of these at a 'closed' Workshop on Budget – 2006-07 to be held on 7th March, 2006 for which a separate invitation has been sent to your goodself. While going through the Budget proposals we have come across a major concern affecting the entire profession comprising of 1,30,000 chartered accountants and felt it necessary to bring the same to your immediate notice.

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2. Our concern is in regard to the withdrawal of Notification No.59/98-Service-tax dated 16th October, 1998 which has adversely affected the practising chartered accountants, more particularly, in relation to the taxation and legal services provided by them.

3. You will kindly recall that at the time of introduction of levy of service-tax on practising chartered accountants it was thought fit that the taxation and legal services provided by the chartered accountants should be kept outside the levy of service-tax. This was thought because the taxation and legal services are also provided by other professionals such as advocates, income-tax and sales-tax practitioners on whom there is no service-tax levy. In order to ensure that there is no discrimination between two categories of service providers rendering the same types of services, the Government had issued the exemption Notification No.59/98 dated 16th October, 1998. Consequently, it is only the accounting, auditing and statutory certification services rendered by practising chartered accountants which are subject to levy of service-tax. The management consultancy services rendered by practising chartered accountants have also been, later on, brought under the ambit of service tax.

4. We are unable to understand the decision of the Government to suddenly withdraw the exemption Notification No.59/98 dated 16th October, 1998 with effect from 1st March, 2006. The implication of this withdrawal is that the legal and taxation services rendered by the chartered accountants will attract service-tax at the rate of 10% plus the applicable surcharge and

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education cess thereon and at 12 percent upon the enactment of Finance Act, 2006. This has distorted the level playing field as the advocates, income-tax and sales-tax practitioners are not required to pay any service-tax on the legal and taxation services rendered by them. This would render the cost of such services provided by the chartered accountants 12 percent higher than similar services rendered by other categories of professionals as aforesaid. The above-mentioned exemption notification was issued after much deliberation and following the principles of equity. In the era of opening up of the economy, this will weaken the accounting profession in India, which in recent times has been able to make inroads in the global markets.

5. We are confident that you being the champion of the best practices, you will kindly ensure that there is no discrimination caused to any one profession qua-other professionals rendering the same services. We shall request you for an opportunity for meeting you in person to explain the issues, as per a date and time convenient to you.

Thanking you,

Yours sincerely,

MANOJ FADNIS