



CHAPTER I INTRODUCTION

1.1 Construction Services-a brief description

The construction industry is one of the biggest in the world and contributes around ten per cent to the global GDP. It also provides work to almost seven per cent of the total persons employed worldwide. This industry is the cornerstone of industrial and infrastructural development and constructs real estate properties (both residential and commercial), roads, railways, bridges, tunnels, airports, dams, canals etc.

In India, construction has accounted for around 40 per cent of the development investment in the past 50 years. The Indian construction industry employs over three crore people (16 per cent of the nation's working population) and creates assets worth over ₹ 20,000 crore. It contributes more than 5 per cent to the nation's GDP and 78 per cent to the gross capital formation.

Service Tax has been imposed on a total of 108 services through Finance Act, 1994 as amended from time to time upto Finance Act, 2008. Out of these 108 services, three pertain to construction related activities and all of them have been covered in this review. The service tax on construction services had been levied by the Finance Act, 2004, with effect from 10 September 2004. The Finance Act, 2005, enlarged the scope and renamed it as 'commercial or industrial construction services' and introduced another service called construction of complex (residential) services. The service tax on works contract services was introduced by the Finance Act, 2007. The services of commercial or industrial construction services, construction of complex (residential) services and execution of works contract services have been referred to hereafter by the acronyms of 'CCS', 'CON' and 'WCS'. The scope of these services has been expanded from time to time through changes/amendments in the Finance Acts.

1.2 Why we chose the topic

There has been a spurt in construction of commercial, industrial and residential buildings due to a resurgent Indian economy in the last decade. Large constructions are being taken up in urban areas and a large numbers of building firms have mushroomed in the last few years. Therefore, this sector has a rapidly widening tax base with large potential for increasing service tax revenue. We decided to take up a system appraisal of the administration of service tax in this sector in view of the substantial revenue implications.

1.3 Audit objectives

The audit review was conducted to seek assurance that: -

- the mechanism to identify and bring in potential assesseees in tax net for levy of service tax was effective;

- tax administration was efficient and effective in ensuring compliance with the applicable legislations and rules; and
- the internal controls were in place and effective.

1.4 Organisational structure

The Central Board of Excise and Customs is the Chief Executive Authority for administering the service tax. It administers service tax through six commissionerates which exclusively deal with service tax and another 66 commissionerates which administer both central excise and service tax.

The Directorate General (Service Tax) is a body constituted by Government of India in 1997 to centralize the work of service tax which was expanding speedily by coverage of more and more services under the service tax net. This body was constituted to ensure that proper establishment and infrastructure could be created under different central excise and service tax commissionerates to monitor the assessment and collection of service tax.

1.5 Scope of audit and methodology

We test checked the records relating to these selected services in all six exclusive service tax commissionerates and in 55 out of the total of 66 commissionerates dealing with both service tax and central excise. The period covered under audit was from the year 2005-06 to 2007-08. We had also collected some statistical data from the remaining 11 commissionerates where we had not conducted any test check.

1.6 Response of the department

We acknowledge the cooperation extended by the Ministry of Finance and most of the field formations in providing the necessary information and records during the conduct of this audit. However, 12 commissionerates did not provide some items of information to us. The reasons for not being able to furnish the information were also not communicated. These were noticeable aberrations as other commissionerates were able to provide the same information. Details of these commissionerates are given in paragraphs 2.5 and 2.8. The draft report containing the audit findings and recommendations was issued to the Ministry in October 2010. The audit recommendations and some of the audit findings were discussed in an exit conference held on 2 December 2010 with the officers of the Ministry. The responses have been incorporated appropriately in the report. The written reply to the draft report was awaited (December 2010).