



## CHAPTER II - BROADENING OF TAX BASE

### 2.1 Introduction

Broadening of tax base is necessary to ensure growth of revenue. With increasing reliance on voluntary compliance, it becomes important for the department to put in place an effective mechanism for collecting information from various sources to identify persons who were liable to pay tax but had avoided to pay so as to bring them into the tax net thereby broadening the tax base. This is especially applicable for service tax, where new services are regularly being brought under the tax net.

An action plan was drawn by the Director General of Service Tax<sup>2</sup> and circulated to Chief Commissioners on 26 May 2003, under which the field formations were required to obtain information: -

- (a) on unregistered service tax providers from yellow pages, service providers' associations, newspaper advertisements, regional registration authorities and websites like Indiamart.com.
- (b) from Banks about property which may be covered under architectural/consulting engineer services.
- (c) from Municipal corporations and major assesseees including PSUs and private sector organisations regarding various services being availed by them and to obtain details of such services providers including their addresses.
- (d) from major hotels, auditorium, banquet halls, conference hall about convention services and event management service providers.
- (e) by making discrete market enquiries.
- (f) by collecting intelligence and conducting field surveys.

As these instructions clearly outlined the various items of work required to be performed by field formations, we used them as criteria while examining the efforts for broadening the tax base.

### 2.2 Efforts for broadening the tax base

We enquired as to what measures had been taken by the commissionerates towards broadening of tax base of service tax assesseees in pursuance of the specific items of DGST action plan. It was informed by 17 commissionerates<sup>3</sup> out of 35 test checked commissionerates that they had not carried out these procedures for broadening the tax base.

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<sup>2</sup> The Directorate General of Service Tax was constituted in 1997 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.

<sup>3</sup> Ahmedabad ST, Patna, Ahmedabad III, Panchkula, Bangalore ST, Kolkata ST, Nagpur, Bhopal, Mumbai ST, Delhi ST, Bhubaneshwar I, Bhubaneshwar II, Jaipur II, Jaipur I, Guwahati, Goa and Jamshedpur

Six commissionerates<sup>4</sup> intimated that the items of work prescribed by DGST were carried out. However, they intimated that the results of such efforts were not available with them. Visakhapatnam I Commissionerate stated that items of works prescribed by DGST for broadening the tax base were being carried out but it was difficult to co-relate number of registrations made with any particular measure. However, the total number of registrations achieved, from a combined application of these measures, was also not furnished.

The remaining eleven commissionerates<sup>5</sup> stated that items of work prescribed by DGST were carried out, as a result of which 1412 new assesseees were registered.

The reply given by some commissionerates for not doing items of works prescribed by DGST were as follows: -

Mysore Commissionerate stated that the work of survey and intelligence to broaden the tax base were conducted mainly by the Preventive Wing of the Division. Delhi ST and Pondicherry Commissionerates intimated that department organised *Melas* to spread awareness among the new assesseees.

The replies did not appear to be correct as the measures prescribed by DGST were different from anti-evasion and spreading awareness.

Delhi ST Commissionerate and ST division, Jaipur, under Jaipur I commissionerate stated that the DGST instructions were no longer applicable. The Cochin Commissionerate intimated that the functions and duties of service tax officers were standardised vide CBEC instructions of July 2007 and broadening of tax base was not a part of the work assigned to the Ranges and it was the Divisions' responsibility to carry out surveys and identify third party sources etc. Kolkata ST commissionerate intimated (June 2011) that action had been initiated by them in this direction from February 2011.

The replies indicate lack of clarity about measures to be taken by the Commissionerates. The measures prescribed by DGST had not been rescinded till date. Moreover, in the exit conference for a previous performance audit<sup>6</sup>, the Board intimated (June 2011) about a set of measures that are being taken by Commissioners to identify unregistered service providers. They coincided closely with the measures that had been prescribed by DGST in 2003. Therefore, there appeared to be varying interpretations of the exact role of the commissionerates in identifying unregistered assesseees. The matter was required to be clarified by the Board.

While conducting audits in the past, we had used similar procedures as prescribed by the DGST in its action plan and additionally gathered information from the income tax returns. We could identify 4503 service providers, who were not registered. These findings had been incorporated in

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<sup>4</sup> Hyderabad II, Hyderabad III, Raipur, Pune III, Chennai ST and Noida

<sup>5</sup> Dibrugarh, Vadodara II, Mysore, Cochin, Indore, Chandigarh I, Coimbatore, Pondicherry, Lucknow, Meerut I and Ludhiana

<sup>6</sup> Performance Audit on Service tax on Banking and other Financial Services (March 2010)

earlier performance audit<sup>7</sup> reports. We had reported that prima facie, they appear to be unregistered assesseees and had recommended that the department verify these cases.

A total of 1959 out of 4503 unregistered service providers identified in the earlier PA reports were in the jurisdiction of some of the selected divisions and ranges of 35 commissionerates, where we conducted this review. We asked the commissionerates to indicate the action taken to verify these 1959 cases. Compilation of the information furnished by the commissionerates showed that only 337 cases (17 per cent) were verified and 151 assesseees of the verified ones (45 per cent) were registered. The action taken on the remaining 1622 cases (83 per cent) was not indicated. Cochin, Delhi ST, Chandigarh-I and Mumbai ST Commissionerates did not provide requisite information regarding verifications carried out.

The success rate of 45 per cent showed that these measures had a good potential to identify more assesseees but were being largely neglected.

### **2.3 Fixation of targets by commissionerates and monitoring through submission of reports**

The DGST instructions provided for submission of a fortnightly report by the divisional offices to the Commissioners and by the Commissioners to the Chief Commissioners regarding efforts made for increasing the tax base. The report had to specially cover areas such as surveys conducted and outcome thereof, data base maintenance, meetings with the service provider associations etc.

The selected commissionerates reported that no fortnightly reports were being submitted regarding efforts to broaden the tax base. The selected commissionerates also reported that no targets were fixed for the measures required to be taken for broadening the assessee base.

### **2.4 Response to earlier audit recommendations**

In our earlier Performance Report on Service tax on Business Auxiliary Services (March 2008), we had recommended that inter-governmental and inter-departmental co-ordination was required to be strengthened to ensure that the registered assesseees providing services pay the applicable service tax. Agreeing in principle to these recommendations, the Board had stated (November 2008) that a number of steps had been taken to streamline and strengthen the procedure for conducting surveys including constitution of a

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<sup>7</sup> (i) Manpower Recruitment Agency's Services and Security Agency's Services (March 2005)  
(ii) Management Consultant's Services, Scientific or Technical Consultancy Services, Technical Testing and Analysis Services and Technical Inspection and Certification Services (March 2006)  
(iii) Rent-a-cab Scheme Operators' Services, Photography Services and Health Club and Fitness Centre Services (March 2007)  
(iv) Business Auxiliary Services (March 2008) and  
(v) Construction Services (March 2009).

committee to identify third party sources, directions to its field formations to identify and locate the unregistered service providers from internet sites, setting up of help centres and issue of modus-operandi circulars to disseminate relevant knowledge to the field formations. It had also stated that inter-governmental and inter-departmental co-ordination was achieved through regular interactions with Income Tax and State Sales Tax departments through Regional Economic Intelligence Committee meetings. We examined the implementation of these measures in the test checked commissionerates.

#### **2.4.1 Setting up of help centres**

While the Board had intimated that help centres would be set up, as explained in the previous paragraph, we observed that they were set up only in thirteen<sup>8</sup> out of 35 commissionerates. We sought this information from Mumbai ST Commissionerate in February 2011 and again reminded in April 2011 but it did not intimate the action taken.

#### **2.4.2 Intergovernmental and interdepartmental co-ordination through regional economic intelligence committee meetings**

We observed that Regional Economic Intelligence Committee meetings were not held in eight commissionerates<sup>9</sup>. The committee was not even set up in four<sup>10</sup> of these eight commissionerates. Mumbai ST commissionerate did not provide the requisite information. Such meetings were held in the 26 remaining selected commissionerates. Out of these 26, seven commissionerates<sup>11</sup> stated that REIC meetings did not have broadening of tax base on their agenda. Another 11 commissionerates<sup>12</sup> did not indicate whether this issue had featured in the discussions of the REIC. Only eight commissionerates<sup>13</sup> indicated that following measures relating to broadening of tax base were taken up because of these meetings: -

- Five service providers were identified by Income Tax department for having unaccounted income. Based on this information, the central excise department (preventive wing) wrote to field formations, to verify whether they fell in the category of service tax assessee or not.
- Details were sought from the Income Tax Department, of persons who had received brokerage and commission in land deals.
- Cross linking of details of service tax returns in respect of commercial coaching & education institutions for the year 2007-08 & 2008-09 with details in Income Tax department.
- Cases of service tax on coaching and training institutes reviewed.

These efforts were in line with the instruction issued by the Board and were required to be replicated in other commissionerates.

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<sup>8</sup> Jaipur-I, Jaipur II, Kolkata ST, Cochin, Bhubaneswar I, Chandigarh I, Ludhiana, Chennai, Coimbatore, Pondicherry, Panchkula, Meerut I and Ahmedabad-III

<sup>9</sup> Dibrugarh, Guwahati, Nagpur, Jamshedpur, Mysore, Goa, Pune III and Coimbatore

<sup>10</sup> Dibrugarh, Guwahati, Goa and Cochin

<sup>11</sup> Chennai ST, Kolkata ST, Lucknow, Noida, Meerut I, Jaipur I and Bhopal

<sup>12</sup> Ludhiana, Hyderabad III, Visakhapatnam I, Bhubaneswar I, Bhubaneswar II, Ahmedabad III, Vadodara II, Ahmedabad ST, Panchkula, Patna and Hyderabad II

<sup>13</sup> Raipur, Indore, Jaipur II, Cochin, Bangalore ST, Pondicherry, Delhi ST and Chandigarh-I

## 2.5 Conclusions

We found that there was lack of clarity about who had the primary responsibility for doing this work, the ranges, the divisions or the preventive wings in the commissionerates. We had pointed out in our five earlier performance audit reports that identification of potential assessees required a more focused approach. The Board had indicated in exit conferences for earlier performance audits that staff shortages in service tax wing was one of the primary causes for not taking up this work in a more intensive manner. However, even with shortages, the available manpower could be utilised to work on smaller samples. But this initiative was virtually not being taken up at all. The commissionerates had not even verified the cases where we had pointed out entities who, prima facie, appeared to be potential assessees as there was a high percentage of confirmation in the few cases that were checked.

### ***Recommendation No. 1***

- *The Board may prescribe a deadline for commissionerates to verify cases already pointed out by us in the earlier Performance Audit Reports. It may also fix targets for doing such verifications and issue comprehensive guidelines for this work to remove ambiguities and contradictions.*

The Board stated in the exit conference that it had directed the field formations to ensure that the verifications are done expeditiously. To monitor this, each Chief Commissioner would give a status report on extent of compliance in their Zone by first week of March 2012 to DG (Service Tax) who would submit a report to the Board by end March 2012. It was also stated that the Board was directing the field formations that similar verifications in future may be completed by Commissioners within eight weeks of receipt of intimation/DRs/PARs.

### ***Recommendation No. 2***

- *As a long term measure, the Board may identify sources from where information can be imported electronically into ACES, to form an intelligence gathering system on potential taxpayers.*

The Board stated in the exit conference that as of now, there was no mechanism in ACES whereby information/data could be imported electronically, from external databases, into ACES. Therefore, other mechanisms would continue to be used by field formations as intelligence gathering tools on potential tax payers. We reiterate that this may be considered as a long term goal and examined again, as and when the ACES system becomes fully operational.

### ***Recommendation No. 3***

- *The Board may prescribe an effective monitoring mechanism to identify potential assessees and get them registered.*

The Board stated in the exit conference that it had issued comprehensive instructions for broadening of tax base, including creation of a special cell in each commissionerate to identify potential assessees.