



SECTION 1 - SERVICE TAX

This section contains a performance audit of Service Tax on 'Banking and other Financial Services'.

We conducted a performance audit to evaluate the adequacy of provisions of the Finance Act, 1994, Service Tax Rules and related instructions in ensuring proper levy, assessment and collection of service tax on Banking and other Financial Services.

We found procedural deficiencies in registration of assessees, receipt of returns, scrutiny of returns, ambiguities/inadequacy in rule provisions and non-compliance. While the total financial implication of this audit intervention was ₹ 1923.30 crore, the direct additional revenue which could come to the Government was ₹ 264.50 crore. Observations with money value of ₹ 90.55 crore had been accepted by the department and ₹ 21.52 crore recovered.

The key findings and related recommendations were: -

- We identified 1142 service providers who had provided Banking and other financial services and were liable to pay service tax but were not on the departmental registration lists. We found that 65 of these potential assessees were liable to pay service tax of ₹ 92.12 crore.
- We recommended that the department may liaise with statutory authorities such as the RBI to obtain information regarding non banking financial companies to bring them under the service tax net.

(Paragraph 1.2.1)

- The information furnished by the department showed that 6 per cent of service tax returns were received late and 14 per cent of the returns were not received at all. We found, through cross verification of service tax returns with income tax returns and other records, instances of evasion of service tax totalling ₹ 28.93 crore. We recommended that the monitoring mechanism for receipt and scrutiny of returns may be streamlined.

(Paragraphs 1.2.2.1, 1.2.3.2, 1.2.3.3 and 1.2.4)

- We found that the relevant exemption notification did not indicate the treatment of interest charged for late realisation on discounted bills and recommended that the issue may be clarified.

(Paragraph 1.2.5)

- We found that the provisions for service tax on foreign exchange broking services provided two very unequal options and recommended that the government may consider prescribing a fixed percentage of the gain from currency exchange as representing the service charges on foreign exchange

transactions on which service tax would be payable. The Board intimated that the relevant rules have been amended in the Budget 2011.

(Paragraph 1.2.6)

- We found that different institutions were following different practices for availing cenvat credit on interest income earned by the banks resulting in excess availing of cenvat credit and recommended that suitable clarifications may be issued to remove any anomalies. The Board intimated that an amendment has been made in the rules in Budget 2011 which takes care of the issue.

(Paragraph 1.2.7)

- We found instances of non compliance to rules and provisions on incorrect valuation, incorrect/excess availing and utilisation of cenvat credit, non-remittance of service tax, etc. resulting in revenue impact of ₹ 251.38 crore.

(Chapters 1.3 to 1.6)

SECTION 2 - CUSTOMS

This section contains a performance audit of 'Duty Drawback Scheme'.

We conducted a performance audit of the Duty Drawback Scheme to evaluate the adequacy of provisions of the relevant Acts, Rules and instructions in ensuring proper assessment and disbursement of drawback. We found instances of procedural deficiencies and absence of clear provisions. The total financial implication of this audit intervention was ₹ 120.25 crore.

- We observed that no supplementary rules have been framed under Section 74(3) of the Customs Act, 1962 laying down the parameters for identification of goods in case of re-exports.

(Paragraph 2.2.2)

- We observed that the board has not issued instructions specifying how to determine whether goods were "used" or not and recommended that such instructions should be issued.

(Paragraph 2.2.3)

- We observed delays in claim processing and absence of floor value in the Customs Valuation rules for freight charges on exported goods.

(Paragraph 2.3.3)

- We observed that market verification of the declared price had not been initiated in cases where there was material difference between the declared price and declared market value.

(Paragraph 2.3.5)

- Fixation of All Industries Rate of drawback had not been fully documented.

(Paragraph 2.3.6)

- We found instances of non compliance to rules and provisions on processing of time barred claims, delay in fixation of brand rates, sanction

of drawback on products not specified in brand rate letters and excess payment of drawback due to mis-classification.

(Paragraphs 2.3.7.1, 2.3.13 and 2.3.14)