

## Chapter I

### Department of Revenue – Service Tax

#### 1.1 Resources of the Union Government

The Government of India's resources include all revenues received by the Union Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans. Tax revenue resources of the Union Government consist of revenue receipts from direct and Indirect Taxes. Table 1.1 depicts a summary of receipts of the Union Government, which amounted to ₹ 55,83,092 crore<sup>1</sup> for FY 14. Out of this, its own receipts were ₹ 15,36,024 crore including Gross Tax receipts of ₹ 11,38,996 crore.

**Table 1.1: Resources of the Union Government**

	(₹ in crore)
A. Total Revenue Receipts	15,36,024
<i>i. Direct Tax Receipts</i>	6,38,596
<i>ii. Indirect Tax Receipts including other taxes</i>	5,00,400
<i>iii. Non-Tax Receipts including Grants-in-aid &amp; contributions</i>	3,97,028
B. Miscellaneous Capital Receipts	27,553
C. Recovery of Loans and Advances	24,549
D. Public Debt Receipts	39,94,966
<b>Receipts of Government of India (A+B+C+D)</b>	<b>55,83,092</b>
Note: Total Revenue Receipts include ₹ 3,18,230.00 crore, share of net proceeds of Direct and Indirect Taxes directly assigned to states.	

#### 1.2 Nature of Indirect Taxes

Indirect Taxes attach themselves to the cost of the supply of goods/services and are, in this sense, transaction-specific rather than person-specific. The major Indirect Taxes/duties levied under Acts of Parliament are:

- a) **Customs duty:** Customs duty is levied on import of goods into India and on export of certain goods out of India (Entry 83 of List 1 of the Seventh Schedule of the Constitution).
- b) **Central Excise duty:** Central Excise duty is levied on manufacture or production of goods in India. Parliament has powers to levy excise duties on tobacco and other goods manufactured or produced in India except alcoholic liquors for human consumption, opium, Indian hemp and other narcotic drugs and narcotics but including medicinal and

<sup>1</sup> Source: Union Finance Accounts of FY 14. The figures are provisional. Direct Tax Receipts and Indirect Tax Receipts including other taxes have been worked out from the Union Finance Accounts of FY 14.

toilet preparations containing alcohol, opium etc (Entry 84 of List 1 of the Seventh Schedule of the Constitution).

- c) **Service Tax:** Service Tax is levied on services provided within the taxable territory (Entry 97 of List 1 of the Seventh Schedule of the Constitution). Service Tax is a tax on services rendered by one person to another. Section 66B of the Finance Act, 1994 envisages that there shall be a tax levied at the rate of 12 per cent on the value of all services, other than those specified in the negative list, provided or agreed to be provided in the taxable territory by one person to another and collected in such manner as may be prescribed.<sup>2</sup> 'Service' has been defined in section 65B (44) of the Finance Act, 1994 to mean any activity for consideration (other than the items excluded therein) carried out by a person for another and to include a declared service.<sup>3</sup>

This chapter discusses trends, composition and systemic issues in Service Tax using data from finance accounts, departmental accounts and relevant data available in public domain.

### 1.3 Organisational structure

The Department of Revenue (DoR) of Ministry of Finance (MOF) functions under the overall direction and control of the Secretary (Revenue) and coordinates matters relating to all the Direct and Indirect Union Taxes through two statutory Boards namely, the Central Board of Excise and Customs (CBEC) and the Central Board of Direct Taxes (CBDT) constituted under the Central Board of Revenue Act, 1963. Matters relating to the levy and collection of Service Tax are looked after by the CBEC.

One hundred and four field Commissionerates function under the respective Chief Commissioners of 23 Central Excise and Service Tax zones. Seventy seven among these Commissionerates (7 exclusive Service Tax Commissionerates, 66 integrated Central Excise and Service Tax Commissionerates and 4 Large Taxpayer Unit (LTU) Commissionerates) are involved in assessment and collection of Service Tax across the country. Besides, the Government has constituted the office of the Director General of Service Tax (DGST) as a subordinate office in 1997 to coordinate Service Tax related work.<sup>4</sup>

The overall sanctioned staff strength of the CBEC is 68,793 as on 31 March 2014. The organisational structure of CBEC is shown in **Appendix I**.

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<sup>2</sup> Section 66B was inserted by the Finance Act, 2012 with effect from 1 July 2012; section 66D lists the items the negative list comprises of.

<sup>3</sup> Section 66E of the Finance Act, 1994 lists the declared services.

<sup>4</sup> DGST operates from Mumbai currently.

## 1.4 Growth of Indirect Taxes - trends and composition

Table 1.2 depicts the relative growth of Indirect Taxes during FY 10 to FY 14.

Table 1.2: Growth of Indirect Taxes

(₹ in crore)					
Year	Indirect Taxes	GDP	Indirect Taxes as % of GDP	Gross Tax revenue	Indirect Taxes as % of Gross Tax revenue
FY 10	2,45,373	64,77,827	3.79	6,24,527	39.29
FY 11	3,45,371	77,95,314	4.43	7,93,307	43.54
FY 12	3,92,674	90,09,722	4.36	8,89,118	44.16
FY 13	4,74,728	1,01,13,281	4.69	10,36,460	45.80
FY 14	5,00,400	1,13,55,073	4.41	11,38,996	43.93

Source: Finance Accounts.

Figures for FY 14 are provisional.

It is seen that Indirect Taxes collection as a ratio of GDP and Gross Tax revenue have fallen in FY 14 vis-à-vis FY 13 though it has increased in absolute terms.

## 1.5 Indirect Taxes – relative contribution

Table 1.3 depicts the trajectory of the various Indirect Tax components in GDP terms for the period FY 10 to FY 14. The relative revenue contribution of the major Indirect Taxes is depicted in **Chart 1.1**.

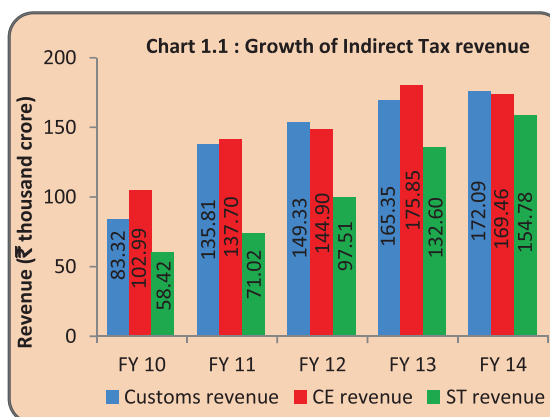


Table 1.3: Indirect Taxes - percentage of GDP

(₹ in crore)							
Year	GDP	Customs revenue	Customs revenue as % of GDP	CE revenue	CE revenue as % of GDP	ST revenue	ST revenue as % of GDP
FY 10	64,77,827	83,324	1.29	1,02,991	1.59	58,422	0.90
FY 11	77,95,314	1,35,813	1.74	1,37,701	1.77	71,016	0.91
FY 12	90,09,722	1,49,328	1.66	1,44,901	1.61	97,509	1.08
FY 13	101,13,281	1,65,346	1.63	1,75,845	1.74	1,32,601	1.31
FY 14	113,55,073	1,72,085	1.52	1,69,455	1.49	1,54,780	1.36

Source: Figures of tax receipts are as per Union Finance Accounts of respective years.

Figures for FY 14 are provisional.

The share in respect of Central Excise and Customs revenue as a percentage of GDP has suffered decline whereas share of Service Tax as a percentage of GDP has increased during FY 14.

### 1.6 Growth of Service Tax - trends and composition

Table 1.4 depicts the growth trends of Service Tax in absolute and GDP terms during FY 10 to FY 14.

Table 1.4: Growth of Service Tax

(₹ in crore)

Year	GDP	Gross Tax revenue	Gross Indirect Taxes	Service Tax	Service Tax as % of GDP	Service Tax as % of Gross Tax revenue	Service Tax as % of Indirect Taxes
FY 10	64,77,827	6,24,527	2,45,373	58,422	0.90	9.35	23.81
FY 11	77,95,314	7,93,307	3,45,371	71,016	0.91	8.95	20.56
FY 12	90,09,722	8,89,118	3,92,674	97,509	1.08	10.97	24.83
FY 13	1,01,13,281	10,36,460	4,74,728	1,32,601	1.31	12.79	27.93
FY 14	1,13,55,073	11,38,996	5,00,400	1,54,780	1.36	13.59	30.93

Source: Finance Accounts.

FY 14 figures are provisional.

The Service Tax Revenue as a percentage of GDP has shown an increasing trend during the period. Service tax as a ratio of GDP has gone from 0.90 per cent to 1.36 per cent during last five years. Overall Service Tax has contributed 13.59 per cent of Gross Tax revenue during FY 14.

### 1.7 Service Tax from major service categories

Table 1.5 depicts Service Tax collected from top five category of services.

Table 1.5: Service Tax from major service categories

(₹ in crore)

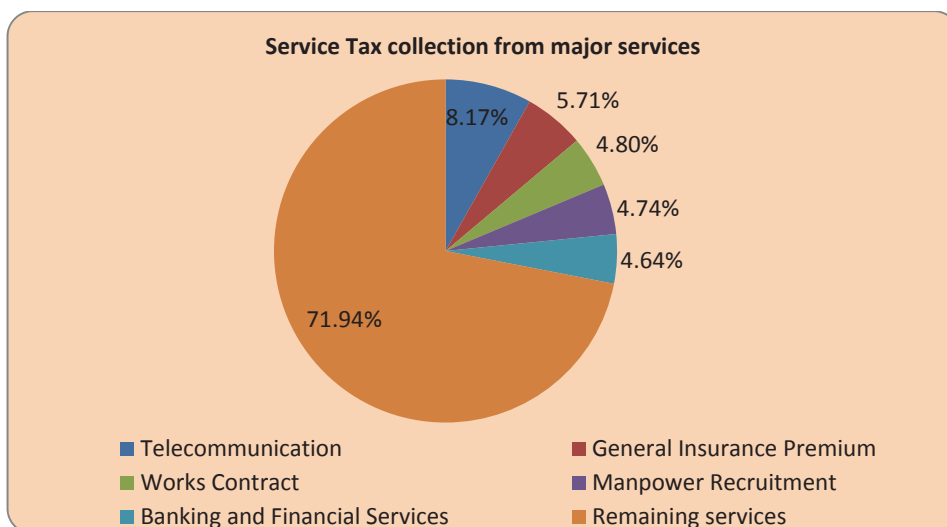
Year	FY10	FY11	FY12	FY13	FY14
Telecommunication	2,885	3,902	5,402	7,538	12,643
General Insurance Premium	3,126	3,877	5,234	6,321	8,834
Works Contract	1,849	3,092	4,179	4,455	7,434
Manpower Recruitment	2,077	2,870	3,847	4,432	7,335
Banking and Financial Services	4,066	4,345	5,876	4,964	7,185

Source: Union Finance Accounts of respective years.

Figures of FY 14 are as per provisional Finance Accounts.

It is observed that Telecommunication and General Insurance Premium services continues to be on top for Service Tax collection.

The pie chart 1.2 depicts the overall contribution of the major services during the year FY 14.



It is observed that top five category of services contributed 28 per cent of the gross Service Tax collection.

### 1.8 Tax base

"Assessee" means any person who is liable to pay Service Tax and includes his agent as per definition in Section 65(7) of the Finance Act, 1994 (as amended). Table 1.6 depicts the data (pertaining to FY 10 to FY 14) of the number of persons registered with the Service Tax department under Section 69 of the Finance Act, 1994.

**Table 1.6: Tax base in Service Tax**

Year	No of taxable services	No. of ST registrations	% growth over previous year	No. of assessees who filed returns
FY10	109	13,39,812	9.27	55,405
FY11	117	14,94,449	11.54	1,79,344
FY12	119	16,76,105	12.16	7,06,535
FY13	All*	18,71,939	11.68	6,08,013
FY14	All*	12,76,861	(-)31.79	10,04,812

Source: Figures furnished by the Ministry.

\*Other than negative list.

It is observed that though number of registered persons had decreased by about 32 per cent during FY 14, there is an increase in the number of assessees who filed returns compared to FY 13.

The Ministry needs to be commended for improvement in number of assessees who have filed return during FY 14 both in absolute terms over FY 13 as well as a percentage of number of Service Tax registration.

On one hand the number of assessees who have filed return during FY 14 have increased by 66 per cent compared to FY 13, however, on the other hand the Service Tax revenue has grown only by 17 per cent during the year which is even less than the growth of 36 per cent during FY 13 and FY 12 over respective previous years.

### 1.9 Budgeting issues in Service Tax

Table 1.7 depicts a comparison of the Budget Estimates and the corresponding actuals for service tax receipts.

**Table 1.7: Budget, Revised estimates and Actual receipts**

Year	Budget estimates	Revised budget estimates	Actual receipts	Diff. between actuals and BE	₹ in crore)	
					%age variation between actuals and BE	%age variation between actuals and RE
FY 10	65,000	58,000	58,422	(-)6,578	(-)10.12	0.73
FY 11	68,000	69,400	71,016	3,016	4.44	2.33
FY 12	82,000	95,000	97,509	15,509	18.91	2.64
FY 13	1,24,000	1,32,697	1,32,601	8,601	6.94	(-)0.07
FY 14	1,80,141	1,64,927	1,54,780	(-)25,361	(-)14.08	(-)6.15

Source: Union Finance Accounts and receipt budget documents of respective years.

Figures of FY14 are as per provisional Finance Accounts.

It is observed that actual collection of Service Tax fell short by budget estimates by 14.08 per cent during FY 14.

### 1.10 Service Tax forgone under Finance Act, 1994

A perusal of the budget documents revealed that details of revenue foregone for Direct Taxes and other Indirect Taxes such as central excise and customs have been laid before Parliament each year during the respective budget commencing with the budget of 2006-07. However, the revenue foregone in respect of Service Tax is not available in the budget documents. In reply to the similar issue pointed out in paragraph No. 1.12 of Audit Report No. 6 of 2014 the Ministry replied that the data is not being maintained due to absence of adequate data.

The same issue was examined by the Tax Administration Reform Commission, in its third report and in the report it was mentioned that: -

“In respect of Service Tax, it has been observed, from the CAG Report No. 6 of 2014, that revenue foregone figures are not available mainly due to absence of adequate data. This, as observed by the CAG, would imply that the department would not be in a position to do a gap analysis. In respect of central

excise, the approach of the department has been to extrapolate data from ACES (duty forgone due to area-based exemptions scheme has been obtained separately from the concerned Central Excise zones). Similarly, for Service Tax, the department should consider ways to estimate revenue foregone figures and do a gap analysis.”

Consequent upon mandatory e-filing of Service Tax return with effect from October 2011, the department may consider preparation of revenue foregone statement in respect of Service Tax.

## **1.11 Trade facilitation**

### ***1.11.1 Creation of Large Taxpayer Units (LTUs)***

For the trade facility LTUs have been set up by the Department. An LTU is self-contained tax office under the Department of Revenue acting as a single window clearance point for all matters relating to Central Excise, Service Tax, Income Tax and Corporate Tax. Eligible Tax Payers who opt for assessment in LTU shall be able to file their excise return, direct taxes returns and service tax return at such LTUs and for all practical purposes will be assessed to all these taxes there under. These units are being equipped with modern facilities and trained manpower to assist the tax payers in all matters relating direct and indirect tax/ duty payments, filing of documents and returns, claim of rebates/ refunds, settlement of disputes etc. For trade facilitation four LTUs have been established in Delhi, Mumbai, Bengaluru and Chennai.

### ***1.11.2 Automation of Central Excise and Service Tax***

Automation of Central Excise and Service Tax (ACES) is the e-governance initiative by Central Board of Excise and Customs (CBEC), Department of Revenue, Ministry of Finance. It is one of the Mission Mode Projects (MMP) of the Govt. of India under National e-Governance Plan (NeGP). It is a software application which aims at improving tax-payer services, transparency, accountability and efficiency in the Indirect Tax administration in India. This application is a web-based and workflow-based system that has automated all major procedures in Central Excise and Service Tax.

## **1.12 Arrears of Service Tax**

The law provides for various methods of recovery of revenues raised but not realised. These include adjusting against amounts, if any, payable to the person from whom revenue is recoverable, recovery by attachment and sale of excisable goods and recovery through the district revenue authority.

Table 1.8 depicts the performance of the department in respect of recovery of revenue arrears.

**Table 1.8: Arrears realisation – Service Tax**

(₹ in crore)

Year	Amount in arrears at the commencement of the year	Collection during the year	Collection as % of arrears at the commencement of the year
FY12	14,340	1,669	11.40
FY13	20,361	2,322	11.40
FY14	39,537	1,232	3.12

Source: Figures furnished by the Ministry.

It is matter of concern that the collection as ratio of arrears during FY 14 has fallen drastically to 3.12 per cent compared to 11.40 per cent in FY 13. There is a need to strengthen the recovery mechanism of the department.

### 1.13 Additional revenue realised because of Anti evasion measures

Both DGCEI as well as the Central Excise and Service Tax Commissionerates have well-defined roles in the task of detection of cases of evasion of Service Tax. While the Commissionerates, with their extensive database about units in their jurisdiction and presence in the field are the first line of defense against duty evasion, DGCEI specialises in collecting specific intelligence about evasion of substantial revenue. The intelligence so collected is shared with the Commissionerates. Investigations are also undertaken by DGCEI in cases having all India ramifications.

Tables 1.9(a) depict the performance of DGCEI during last three years.

**Table 1.9(a): Anti-evasion performance of DGCEI during last three years**

(₹ in crore)

Year	Detections		Voluntary Payments during Investigation
	No. of cases	Amount	
FY12	452	4,919	434
FY13	835	5,131	880
FY14	1,191	8,032	1,489

Source: Figures furnished by the Ministry.

It is observed that the number of Service Tax cases and the amounts detected by DGCEI grew significantly during FY 14 compared FY 13 and FY 12.



Tables 1.9(b) depict the performance of Commissionerates during last three years.

**Table 1.9(b): Anti-evasion performance of Commissionerates during last three years**

(₹ in crore)

Year	Detections		Voluntary Payments during Investigation
	No. of cases	Amount	
FY12	3,403	6,748	823
FY13	5,875	7,827	2,819
FY14	8,024	6,810	3,614

Source: Figures furnished by the Ministry.

It is observed that number of cases and amount detected by Commissionerates have grown steadily during last three years.

## **Tax administration in Service Tax**

### **1.14 Scrutiny of returns**

CBEC introduced the concept of self-assessment in respect of Service Tax in 2001. With the introduction of self-assessment, the department also envisaged the provision of a strong compliance verification mechanism, inter alia, through scrutiny of returns. Even in the self-assessment era, the primary function of departmental officers continues to be assessment or confirmation of assessment as it is they who have a statutory liability to ensure correctness of tax payment.<sup>5</sup> This is undertaken through scrutiny of Service Tax returns, which in turn are to be selected on the basis of risk parameters. The Manual for Scrutiny of Service Tax Returns, 2009 envisages that scrutiny is to be carried out in two stages i.e. preliminary scrutiny of the return which is to be carried out by ACES application and detailed scrutiny of assessment which is to be carried out manually on the returns marked by ACES or otherwise.

#### **1.14.1 Preliminary scrutiny of returns**

The purpose of preliminary scrutiny is to ensure completeness of information, timely submission of the return, timely payment of duty, arithmetical accuracy of the amount computed as duty and identification of non-filers and stop-filers.<sup>6</sup>

<sup>5</sup> Manual for Scrutiny of Service Tax Returns, 2009, Para 1.2.1A.

<sup>6</sup> Manual for Scrutiny of Service Tax Returns, 2009, Para 1.2.1.

Table 1.10 depicts the performance of the department in carrying out preliminary scrutiny of returns.

**Table 1.10: Preliminary scrutiny of Service Tax returns**

Year	No of returns filed in ACES	No. of returns marked for R&C	% of returns marked for R&C	No. of returns cleared after R&C	No. of returns pending for R&C	% of marked returns pending correction
FY12	9,09,718	7,00,066	76.95	83,664	6,16,397	88.05
FY13	22,42,332	18,42,137	82.15	3,67,256	14,74,874	80.06
FY14	22,97,335	7,95,581	34.63	84,944	7,10,637	89.32

Source: Figures furnished by the Ministry.

It is observed that a very high percentage of cases, scrutinised by ACES each year is marked for review and correction (R&C). The percentage of returns marked for R&C by ACES have come down drastically to 34.63 per cent in FY 14 which is a healthy sign and indicate stabilisation of ACES and it needs to be taken further.

It is also observed that 89.32 per cent of returns marked for R&C were pending as on 31 March 2014. One of the main intentions behind introducing preliminary scrutiny online was to release manpower for detailed manual scrutiny, which could then become the core function of the Range/Group;<sup>7</sup> the high figures of pendency for correction after R & C identification indicates that the same is far from being achieved.

The very high percentage of scrutinised returns being thrown up for R&C and resultant high number of returns pending corrective action are indicative of deficiencies in the ACES application which the department needs to address urgently. Completion of R&C of returns in ACES is the prerequisite for scrutiny of subsequent returns submitted by the assesseees. Large number of returns were pending for scrutiny risking the correctness of Service Tax collection.

#### **1.14.2 Detailed scrutiny of returns**

The purpose of detailed scrutiny is to establish the validity of information furnished in the tax return and to ensure correctness of valuation, availing of Cenvat credit, classification and effective rate of tax applied after taking into consideration the admissibility of exemption notification availed etc.<sup>8</sup> Unlike preliminary scrutiny, detailed scrutiny is to cover only certain selected

<sup>7</sup> Manual for Scrutiny of Service Tax Returns, 2009, Para 1.2B.

<sup>8</sup> Manual for Scrutiny of Service Tax Returns, 2009, Para 1.2.1.

returns, identified on the basis of risk parameters, developed from the information furnished in the returns submitted by the taxpayers.<sup>9</sup>

Table 1.11 depicts the performance of the department in carrying out detailed scrutiny of returns.

**Table 1.11: Detailed Scrutiny of Service Tax returns**

Year	No. of returns marked for detailed scrutiny	No. of returns where detailed scrutiny was carried out	No. of returns where detailed scrutiny was pending	Age-wise analysis of pendency		
				Between six month to one year	between one and two years	Over 2 years
FY12	11,425	3,380	8,045	5,667	1,959	419
FY13	23,838	2,743	21,095	19,791	934	370
FY14	44,045	16,201	27,844	12,974	5,174	17,636

Source: Figures furnished by the Ministry.

As per prescribed norms, only two per cent of returns need to be examined in detailed scrutiny.<sup>10</sup> Hence, the total number of returns to be scrutinised in a whole year would be very low in respect of any range as total number of pending cases were only 44,045 across all ranges (2,272) as on 31 March 2014.

It is cause of concern the large number (27,844) of returns marked for detailed scrutiny were pending as on 31 March 2014 as other than cases of fraud, there is no scope for issue of a demand notice to an assessee beyond 18 months from the date of filing of returns by assessee.<sup>11</sup> It is essential that the department takes steps to analyse the reasons for long pendency so as to ensure revenue due to the Government is adequately safeguarded. It was further observed that a huge number of returns were pending for more than two years for detailed scrutiny.

It also appears that the data of age wise analysis of pendency furnished by Ministry is not correct for FY 14.

### 1.15 Adjudication

Adjudication is the process through which departmental officers determine issues relating to tax liability of assessees. Such process may involve consideration of aspects relating to, inter alia, Cenvat credit, valuation, refund claims, provisional assessment etc. A decision of the adjudicatory

<sup>9</sup> CBEC Circular 113/7/2009-ST dated 23 April 2009.

<sup>10</sup> Manual for Scrutiny of Service Tax Returns 2009, Para 4.2A.

<sup>11</sup> '18 months' in section 73(1) of the Finance Act substituted for '1 year' by Finance Act, 2012 with effect from 28 May 2012.

authority may be challenged in an appellate forum as per the prescribed procedures.

Table 1.12 depicts age-wise analysis of Service Tax adjudication.

**Table 1.12: Cases pending for adjudication with departmental authorities**

(₹ in crore)

Year	Cases pending as on 31 March		Age-wise breakup of cases					
			< 1 year		1-2 years		>2 years	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
FY12	17,182	68,509	12,735	51,193	3,054	15,770	1,393	1,546
FY13	22,690	64,599	18,212	48,157	3,382	14,724	1,096	1,718
FY14	19,925	31,790	15,512	21,868	3,625	8,856	758	1,062

Source: Figures furnished by Ministry.

It is observed that adjudications involving revenue implication of over ₹ 31,000 crore were pending finalisation as on 31 March 2014. It is also revealed that 758 cases were pending for more than two years.

### 1.16 Disposal of refund claims

Table 1.13(a) depicts the status of disposal of refund claims by the department. The delay depicted is in terms of time taken from the date of receipt of refund application along with all details required for processing the claims.

**Table 1.13(a): Disposal of refund claims in Service Tax**

(₹ in crore)

Year	OB plus claims received during the year	No of claims disposed during the year				Interest payments	
		Total number of disposals	Within 3 months and % of disposals	Claims disposed of with delay		No of cases	Interest paid
				< 1 year	> 1 year		
FY12	27,120	18,306	13,209 (72%)	1,705 (20 %)	3,392 (8%)	2	0.02
FY13	26,672	15,897	12,328 (77%)	1,880 (12%)	1,689 (11%)	1	0.12
FY14	23,145	13,979	11,445 (81.87%)	1,494 (10.69%)	1,040 (7.44%)	0	0

Source: Figures furnished by the Ministry.

It is observed that approximately 80 per cent of the Service Tax related refund claim disposals are carried out within the prescribed period of three months.<sup>12</sup> Despite the fact that there is a liability on department to pay interest on delayed refunds, department is not paying interest to the

<sup>12</sup> Section 11BB of the Central Excise Act made applicable to Service Tax by section 83 of the Finance Act 1994 (as amended).

assesseees in most of the cases. Board may consider to issue instructions to its field formations to pay interest on delayed refunds suo-moto, similar to Direct Taxes.

Table 1.13(b) depicts an age-wise analysis of refund cases pending disposal during last three years.

**Table 1.13(b): Age-wise pendency of Service Tax refund cases as on 31 March**

(₹ in crore)

Year	OB plus claims received in the year	Total number of refund claims pending as on 31 March		Refund claims pending for			
				Less than one year		Over 1 year	
		Number	Amount	Number	Amount	Number	Amount
FY12	24,412	6,104	60,757	4,276	46,191	1,828	14,566
FY13	23,803	7,906	41,874	5,824	30,018	2,082	11,856
FY14	23,145	8,154	4,487	6,391	3,582	1,763	905

Source: Figures furnished by the Ministry.

It is observed that though total number of refund claims pending have been increased by 248 in FY 14 over FY 13 but the amount involved have reduced drastically by ₹ 37,387 crore which needs to be examined.

### 1.17 Cost of collection

Table 1.14 depicts the cost of collection vis-a-vis the revenue collection.

**Table 1.14: Central Excise and Service Tax receipts and cost of collection**

(₹ in crore)

Year	Receipts from Central Excise	Receipts from Service Tax	Total Receipts	Cost of collection	Cost of collection as % of total Receipts
FY10	1,02,991	58,422	1,61,413	2,127	1.32
FY11	1,37,901	71,016	2,08,917	2,072	0.99
FY12	1,44,540	97,356	2,41,896	2,227	0.92
FY13	1,75,845	1,32,601	3,08,446	2,439	0.79
FY14	1,69,455	1,54,780	3,24,235	2,635	0.81

Source: Union Finance Accounts of respective years.

Figures for FY 14 are provisional

It is observed that despite automation and extensive use of ICT, cost of collection continues to show a rising trend.

### 1.18 Internal Audit

Modernisation of Indirect Tax administration in India is based on the Canadian model. The new audit system EA 2000 has four distinct features: scientific selection after risk analysis, emphasis on pre-preparation, scrutinising of business records against statutory records and monitoring of audit points.

Audit processes include preliminary review, gathering and documenting systems' information, evaluating internal controls, analysing risks to revenue and trends, developing audit plan, actual audit, preparation of audit findings, reviewing the results with the assessee/Range Officer/Divisional Assistant Commissioner and finalisation of the report.

The Audit framework consists of three parts. Directorate General of Audit and the field Commissionerates share the responsibility of administration of Audit. While the Directorate is responsible for collection, compilation and analysis of audit results and its feedback to CBEC to improve tax compliance and to gauge levels of client satisfaction, audit parties from Commissionerates undertake audit in terms of EA 2000 audit protocol. In order to improve audit quality, CBEC took the assistance of Asian Development Bank in developing audit manuals, risk management manuals and manuals to train auditors in EA 2000 and CAATs, which prescribe detailed processes for conduct of audit. Table 1.15 (a) depicts details of Service Tax units due for audit during FY 14 by audit parties of the Commissionerates vis-à-vis units audited.

**Table 1.15(a): Audits of assessees conducted during FY 14**

Slab of annual duty (PLA+Cenvat)	Periodicity	Number of units due	Number of units planned	Number of units audited	Shortfall in audit (%)
Units paying ST > ₹ 3 crore (Category A)	Annual	4,417	2,649	2,354	46.71
Units paying ST between ₹ 1 and 3 crore (Category B)	Biennial	3,726	2,779	1,823	51.07
Units paying ST between ₹ 25 lakh and ₹ 1 crore (Category C)	Once in five years	5,322	4,389	2,704	49.19
Units paying ST < ₹ 25 lakh (Category D)	2 % every year	15,808	10,776	8,031	49.20

Source: Figures furnished by the Ministry.

It is observed that during FY 14, there was a huge shortfall in the Service Tax audits conducted, as compared with audits due, across all categories of units.

The results of the audit conducted by the department is tabulated in table 1.15 (b).

**Table 1.15(b): Number of Nil inspection reports issued during the year**

Year	Number of Audit Paragraphs issued during the year					
	Mandatory Units (Category A)			Non-Mandatory Units (Category B, C, D)		
	Total IRs Issued	Nil IRs issued	% of Nil IRs	Total IRs Issued	Nil IRs issued	% of Nil IRs
2011-12	1,411	179	12.69	9,419	1,478	15.69
2012-13	1,552	108	6.96	11,226	1,344	11.97
2013-14	1,871	110	5.88	11,171	1,341	12.00

Source: Figures furnished by the Ministry.

It is observed that number of nil inspection reports in Category A units are significantly lower than the non-mandatory units. The Ministry needs to ensure internal audit of all category A (mandatory) units.

### **1.19 Audit effort and Service Tax audit products - Compliance Audit Report**

Compliance audit was managed as per the Comptroller and Auditor General's (CAG) Audit Quality Management Framework, 2009 employing professional auditing standards of the Auditing Standards, 2<sup>nd</sup> Edition, 2002.

### **1.20 Sources of information and the process of consultation**

Data from the Union Finance Account, along with examination of basic Records/ documents in DoR, CBEC, and their field formations. MIS, MTRs of CBEC along with other stake holder reports were used. We have nine field offices headed by Director Generals (DGs)/Principal Directors (PDs) of Audit, who managed audit of 1,086 units (CX&ST) in FY 14.

### **1.21 Report overview**

The current report has 178 paragraphs having financial implication of ₹ 772.08 crore. There were generally three kinds of observations: non-payment of Service Tax, short payment of Service Tax, irregular availing and utilisation of Cenvat credit etc. The department/Ministry has already taken rectificatory action involving money value of ₹ 477.22 crore in case of 171 paragraphs in the form of issue of show cause notices, adjudication of show cause notices and reported recovery of ₹ 130.29 crore.

### **1.22 Public Accounts Committee (PAC)**

PAC has taken up performance audit report on Service Tax on Banking and other Financial Services (Report No. 15 of 2012-13) for detailed examination.

### 1.23 Performance Audit Report

Performance audit with the aim to seek an assurance that the systems and procedures were adequate and adhered to by the CBEC was conducted. This year we have covered Performance Audit on Administration of Prosecution and Penalties in Central Excise and Service Tax. This report was laid in the Parliament on 28 November 2014.

### 1.24 Response to CAG's audit, revenue impact/follow-up of Audit Reports

In the last five audit reports (including current year's report) we had included 874 audit paragraphs (Table 1.16) having financial implication of ₹ 1904.98 crore.

**Table 1.16: Follow up of Audit Reports**

Year		FY 10	FY 11	FY 12	FY13	FY 14	Total	
Paragraphs included	Number	194	199	152	151	178	<b>874</b>	
	Amount	162.18	204.74	500.23	265.75	772.08	<b>1,904.98</b>	
Paragraphs accepted	Pre printing	Number	175	184	150	147	171	<b>827</b>
		Amount	121.31	185.69	498.65	262.29	477.22	<b>1,545.16</b>
	Post printing	Number	9	11	1	6	--	<b>27</b>
		Amount	2.6	17.79	0.52	1.81	--	<b>22.72</b>
	Total	Number	184	195	151	153	171	<b>854</b>
		Amount	123.91	203.48	499.17	264.10	477.22	<b>1,567.88</b>
Recoveries effected	Pre printing	Number	112	122	88	95	92	<b>509</b>
		Amount	33.05	78.76	84.58	65.28	130.29	<b>391.96</b>
	Post printing	Number	9	9	4	6	--	<b>28</b>
		Amount	2.6	2.24	0.85	1.81	--	<b>7.5</b>
	Total	Number	121	131	92	101	92	<b>537</b>
		Amount	35.65	81.00	85.43	67.09	130.29	<b>399.46</b>

Source: CAG Audit Reports

It is observed that the Ministry had accepted audit observations in 854 audit paragraphs having financial implication of ₹ 1567.88 crore and had recovered ₹ 399.46 crore.