

Chapter I

Service Tax Administration

1.1 Resources of the Union Government

The resources of Government of India 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 below shows the summary of resources for the financial year 2016-17 (FY17) and FY16.

Table 1.1: Resources of the Union Government

		(₹ in crore)	
		FY17	FY16
A.	Total Revenue Receipts	22,23,988	19,42,353
	i. Direct Tax Receipts	8,49,801	7,42,012
	ii. Indirect Tax Receipts including other taxes	8,66,167	7,13,879
	iii. Non-Tax Receipts	5,06,721	4,84,581
	iv. Grants-in-aid & contributions	1,299	1,881
B.	Miscellaneous Capital Receipts ¹	47,743	42,132
C.	Recovery of Loans and Advances ²	40,971	41,878
D.	Public Debt Receipts ³	61,34,137	43,16,950
Receipts of Government of India (A+B+C+D)		84,46,839	63,43,313

Source: Union Finance Accounts of respective years. Figures of FY17 are provisional.

Note: Direct Tax receipts and Indirect Tax receipts including other taxes have been worked out from the Union Finance Accounts. Total Revenue Receipts include ₹ 6,08,000 crore in FY17 and ₹ 5,06,193 crore in FY16, share of net proceeds of Direct and Indirect Taxes directly assigned to states.

The total receipts of the Union Government increased to ₹ 84,46,839 crore in FY17 from ₹ 63,43,313 crore in FY16. In FY17, its own receipts were ₹ 22,23,988 crore an increase of ₹ 2,81,635 crore, which is an increase of 14.50 per cent over the previous year. This included Gross Tax receipts of ₹ 17,15,968 crore of which Indirect Tax receipts including other taxes accounted for ₹ 8,66,167 crore.

1.2 Nature of Indirect Taxes

The Audit Report is based on the audit conducted up to the FY17 and covers transactions involving levy and collection of Service Tax up to FY16. The major Indirect taxes in vogue as on that date are discussed below:

- a) **Service Tax:** Service Tax is levied on services provided within the taxable territory (Entry 97 of List 1 of the Seventh Schedule of the

¹ This comprises of value of bonus share, disinvestment of public sector and other undertakings and other receipts;

² Recovery of loans and advances made by the Union Government;

³ Borrowing by the Government of India internally as well as externally.

Constitution). Service Tax is a tax on services rendered by one person to another. Section 66B of the Finance Act, 1994 envisaged that there shall be a tax levied at the rate of 14 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.⁴ '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.⁵

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

It may be noted that from 1 July 2017, Central Excise (except petroleum and some tobacco products), Service Tax and most of the state indirect taxes besides Countervailing Duty (CVD) and Special Additional Duty (SAD) components of Customs have been subsumed into Goods and Services Tax (GST).

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 (Ministry) 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.

⁴ 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.

⁵ Section 66E of the Finance Act, 1994 lists the declared services.

Indirect Tax laws are administered by the CBEC through its field offices, called the commissionerates. For this purpose, prior to restructuring in view of implementation of GST, the country was divided into 27 zones of Central Excise and Service Tax headed by the Chief Commissioner. Under these 27 zones, there were 83 composite executive commissionerates that deal with Central Excise and Service Tax, 36 exclusive Central Excise executive Commissionerates and 22 exclusive Service Tax executive Commissionerates headed by the Commissioner. Divisions and ranges are the subsequent formations, headed by Deputy/Assistant Commissioner and Superintendents respectively. Apart from these executive commissionerates, there were eight Large Tax Payer Units (LTU) commissionerates, 60 Appeal commissionerates, 45 Audit commissionerates and 20 Directorates dealing with specific functions such as intelligence, inspection, legal affairs etc.

The overall sanctioned staff strength of the CBEC was 84,875 as on 1 January 2017. The organisational structure of CBEC is shown in **Appendix I**.

1.4 Growth of Indirect Taxes - trends and composition

Table 1.2 depicts the relative growth of Indirect Taxes during FY13 to FY17.

Table 1.2: Growth of Indirect Taxes

Year	Indirect Taxes	GDP	Indirect Taxes as % of GDP	Gross Tax revenue	(₹ in crore)
					Indirect Taxes as % of Gross Tax revenue
FY13	4,74,728	99,88,540	4.75	10,36,460	45.80
FY14	4,97,349	1,13,45,056	4.38	11,38,996	43.67
FY15	5,46,214	1,25,41,208	4.36	12,45,135	43.87
FY16	7,10,101	1,35,76,086	5.23	14,55,891	48.77
FY17	8,62,151	1,51,83,709	5.68	17,15,968	50.24

Source: Tax revenue - Union Finance Accounts (FY17 Provisional), GDP – Press note of CSO⁶

It is observed that Indirect tax collection as a per cent of GDP registered a slight increase in FY17 vis-à-vis FY16 and its share in Gross Tax revenue also raised by 1.47 per cent in FY17 as compared to FY16.

1.5 Indirect Taxes – relative contribution

Table 1.3 depicts the trajectory of the various Indirect Tax components in GDP terms for the period FY13 to FY17.

⁶ Press note on GDP released on 31 May 2017 by Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation. This indicates that the figures for GDP for FY14 and FY15 are based on New Series Estimates; and figure for FY17 are based on provisional estimates at current prices. The figures of GDP for FY13 are based on current market price with base year 2004-05. Figures are being continually revised by CSO and this data is meant for an indicative comparison of fiscal performance with macro economic performance

Table 1.3: Indirect Taxes – percentage of GDP

Year	GDP	ST revenue	(₹ in crore)				
			ST revenue as % of GDP	CE revenue	CE revenue as % of GDP	Custom revenue	Custom revenue as % of GDP
FY13	99,88,540	1,32,601	1.33	1,75,845	1.76	1,65,346	1.66
FY14	1,13,45,056	1,54,780	1.36	1,69,455	1.49	1,72,085	1.52
FY15	1,25,41,208	1,67,969	1.34	1,89,038	1.51	1,88,016	1.50
FY16	1,35,76,086	2,11,415	1.56	2,87,149	2.12	2,10,338	1.55
FY17	1,51,83,709	2,54,499	1.68	3,80,495	2.51	2,25,370	1.48

Source: Figures of tax receipts are as per Union Finance Accounts of respective years. Figures of FY17 are provisional.

Among the indirect taxes, the Service Tax and Central Excise revenue as a percentage of GDP continued their increasing trend during last three years, while Customs revenue as a percentage of GDP decreased during FY17, though in monetary terms all the three taxes have shown positive growth.

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 FY13 to FY17.

Table 1.4: Growth of Service Tax

Year	GDP	Gross Tax revenue	Indirect Taxes	ST revenue	(₹ in crore)		
					ST revenue as % of GDP	ST revenue as % of Gross Tax revenue	ST revenue as % of Indirect Taxes
FY13	99,88,540	10,36,460	4,74,728	1,32,601	1.33	12.79	27.93
FY14	1,13,45,056	11,38,996	4,97,349	1,54,780	1.36	13.59	31.12
FY15	1,25,41,208	12,45,135	5,46,214	1,67,969	1.34	13.49	30.75
FY16	1,35,76,086	14,55,891	7,10,101	2,11,415	1.56	14.52	29.77
FY17	1,51,83,709	17,15,968	8,62,151	2,54,499	1.68	14.83	29.52

Source: Figures of tax receipts are as per Union Finance Accounts of respective years. Figures of FY17 are provisional.

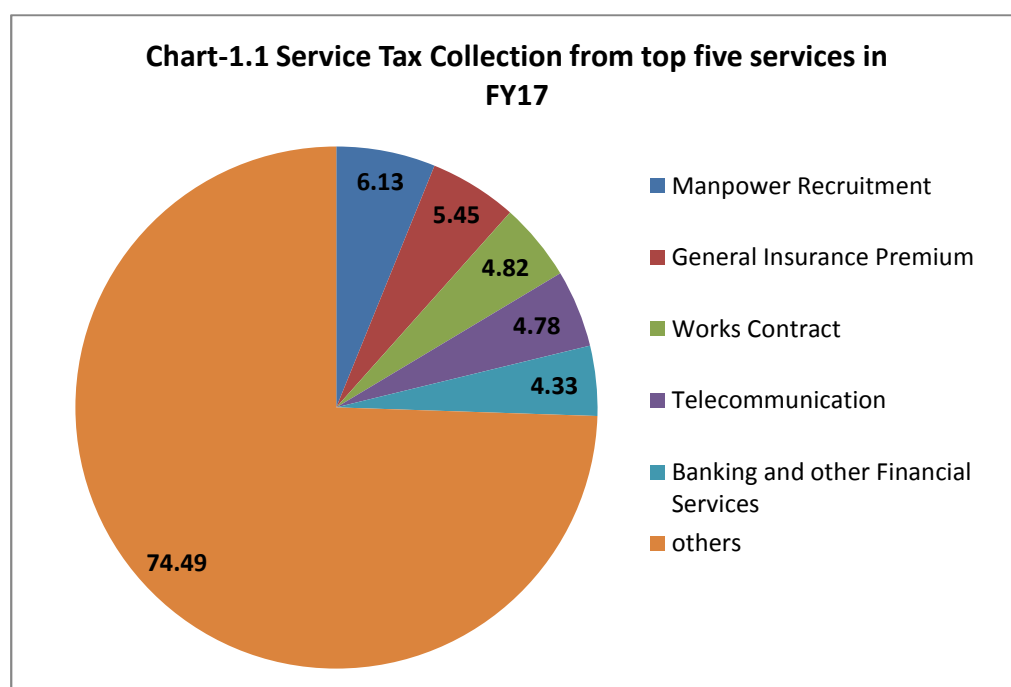
Service Tax accounted for 14.83 per cent of Gross Tax revenue during FY17. Share of Service Tax in gross tax revenue has been steadily increasing whereas its share in total indirect taxes declined in two successive financial years i.e. FY16 and FY17. As per the provisional estimates (PE) of real gross value added (GVA) released by the Central Statistics Office (CSO) for FY17⁷, services sector growth (i.e. GVA at constant (FY12) basic prices), decelerated to 7.7 per cent from 9.7 per cent in the previous two years mainly due to deceleration in growth in two services categories (i) trade, hotels, transport, communication & services related to broadcasting, and (ii) financial, real estate & professional services.

⁷ Para No. 9.9 of Economic Survey 2016-17 (Volume II)

1.7 Service Tax from major service categories

As per Finance Act, 1994, the Service Tax was leviable on 119 services upto 30 June 2012. With the introduction of negative list with effect from 1 July 2012, all services were taxable other than those entries specified under Section 66D like services by the Reserve Bank of India (RBI), services by a foreign diplomatic mission located in India, trading of goods, services by way of access to a road or a bridge on payment of toll charges, services by way of pre-school education and education up to higher secondary school or equivalent etc.

The top five categories of services contributed 26 per cent of the total Service Tax collection during FY17 which is depicted in pie chart 1.1, while the remaining categories of services contributed 74 per cent.



The Service Tax collections from these top five category of services during FY13 to FY17 are shown in Table 1.5.

Table 1.5: Service Tax from top five service categories

Year	(₹ in crore)				
	FY13	FY14	FY15	FY16	FY17
Manpower Recruitment	4,432	7,335	9,045	13,129	15,597
General Insurance Premium	6,321	8,834	9,263	11,436	13,866
Works Contract	4,455	7,434	8,139	11,434	12,277
Telecommunication	7,538	12,643	13,531	12,690	12,171
Banking and other Financial Services	4,964	7,185	8,099	11,005	11,032

Source: Union Finance Accounts of respective years. Figures of FY17 are provisional.

Payment of Service Tax under reverse charge⁸ was introduced for manpower recruitment and works contract service besides other services vide notification dated 30 June 2012. After this, Service Tax from manpower recruitment service had consistently increased from ₹ 4,432 crore in FY13 to ₹ 15,597 crore in FY17, becoming top revenue paying service in FY16 and FY17. Similarly, in works contract service, which was the third highest revenue contributing service in FY17, the revenue had increased from ₹ 4,455 crore in FY13 to ₹ 12,277 crore in FY17. General Insurance Premium moved to second position with Telecommunication slipping to fourth position from second top contributor in FY16. Banking and other financial services had been the fifth among the top Service Tax contributors during last three years.

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 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 ST registrations	% growth over previous year	No. of Registrants who filed returns	% of Registrants who filed returns
FY13	19,97,422	13.00 ⁹	8,67,182	43.42
FY14	22,73,722	13.83	10,08,137	44.34
FY15	25,26,932	11.14	11,12,120	44.01
FY16	28,28,361	11.93	12,18,594	43.08
FY17	31,60,281	11.74	13,06,280	41.33

Source: Figures furnished by the Ministry.

It is observed that number of registered persons as also the number of assesses filing returns is increasing steadily. However the per cent of the registered assessee's filing returns has declined by 2 per cent in FY17. The department needs to examine reasons for non-filing of returns and take appropriate action to ensure filing of due returns.

The data furnished by the Ministry this year on returns filed pertaining to FY13 to FY16 did not tally with the corresponding data furnished last year which was reported in CAG's Report No. 41 of 2016.

⁸ Normally, the service provider pays the Service Tax but in certain cases, the recipient is made liable to pay the tax, which is termed Reverse Charge.

⁹ ST registrations during FY12 were 17,67,604

1.9 Budget Estimates Vs. Actual Receipts

Table 1.7 depicts a comparison of the Budget Estimates (BE), Revised Estimates (RE) and the corresponding actuals for Service Tax receipts.

Table 1.7: BE, RE and Actual receipts

Year	BE	RE	Actual receipts	Diff. between Actuals and BE	₹ in crore)	
					%age variation between Actuals and BE	%age variation between Actuals and RE
FY13	1,24,000	1,32,697	1,32,601	8,601	6.94	(-)0.07
FY14	1,80,141	1,64,927	1,54,780	(-)25,361	(-)14.08	(-)6.15
FY15	2,15,973	1,68,132	1,67,969	(-)48,004	(-)22.23	(-)0.10
FY16	2,09,774	2,10,000	2,11,415	1,641	0.78	0.67
FY17	2,31,000	2,47,500	2,54,499	23,499	10.17	2.83

Source: Union Finance Accounts and receipt budget documents of respective years. Figures of actual receipts of FY17 are provisional.

It is observed that actual collection of Service Tax was 10 per cent above the BE and about three per cent above the RE during FY17, reversing the negative trend of earlier years.

1.10 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)	
	FY17	
	Gross Arrears ¹⁰	Recoverable Arrears ¹¹
Opening Balance	90,170.04	2,658.31
Addition during the year	68,663.89	6,176.31
Total Arrear	1,58,833.93	8,834.62
Disposal of Demands ¹²	39,006.39	4,285.29
Arrear Realised	1,892.89	783.33
Arrear Realised as % of Total Arrears	1.19	8.87
Closing Balance	1,17,934.65	3,766.00

Source: Figures furnished by the Ministry.

¹⁰ Gross arrears include stayed, restrained (BIFR cases, pending stay applications etc.) and recoverable arrears.

¹¹ Arrears relating to cases in which demand is confirmed but no appeal is filed within prescribed time, units closed/defaulters not traceable, cases decided by Settlement Commission, etc.

¹² Disposal of demands includes confirmation of demand in favour of the department/against the department, order for denovo adjudication, etc.

It can be seen that only 8.87 per cent of recoverable arrears could be recovered by the department during FY17. Given the significant amounts of arrears to be recovered, it is essential that the tax department specifically focuses on legacy issues even after the transition to GST.

1.11 Additional revenue realised because of Anti-evasion measures

Directorate General of Central Excise Intelligence (DGCEI) as well as the Central Excise and Service Tax Commissionerates have well-defined roles in the task of detection 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 defence 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. Table 1.9 depicts the performance of DGCEI during last three years.

Table 1.9: Anti-evasion performance of DGCEI during last three years

Year	Detections		Voluntary Payments during Investigation
	No. of cases	Amount	
FY15	6,719	10,544	4,448
FY16	7,534	18,971	4,658
FY17	8,085	17,846	5,313

Source: Figures furnished by the Ministry.

It is observed that the number of Service Tax cases detected by DGCEI had increased during FY17 as compared to in FY16 while the amount detected had decreased slightly.

Tax administration in Service Tax

1.12 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.

The department had not furnished information on scrutiny of returns for FY17 despite our repeated reminders. The department had stated that due to reorganization of the department for GST, it was not feasible to collect the data from various new field formations. This increases the concern that legacy issues may be ignored. The department should, in fact, focus on assigning legacy records to new offices systematically and keep track of movement of legacy records from previous offices to new offices.

1.13 Adjudication

Adjudication is the process through which departmental officers determine issues relating to tax liability of the assesseees. Such process may involve consideration of aspects relating to, inter alia, CENVAT credit, valuation, refund claims, provisional assessment etc. A decision of the adjudicatory authority may be challenged in an appellate forum as per the prescribed procedures.

Table 1.10 depicts age-wise analysis of Service Tax cases pending for adjudication.

Table 1.10: Cases pending for adjudication with departmental authorities

(₹ in crore)

Year	Cases pending as on 31 March		No. of Cases Pending for more than 1 year
	No.	Amount	
FY15	33,122	77,463	12,668
FY16	30,453	76,124	8,587
FY17	19,053	68,941	6,919

Source: Figures furnished by the Ministry.

The total cases pending for adjudication decreased by 37.43 per cent in FY17 as compared to FY16 with cases pending for more than one year also decreasing by 19.42 per cent. However, the amount involved in these cases decreased only by 9.44 per cent.

1.14 Disposal of refund claims

The Central Excise Act Provisions regarding refund claims apply to Service Tax also. Section 11B of the Central Excise Act, 1944 provides the legal authority for claim and grant of refund. Further, section 11BB of the Act stipulates that interest is to be paid on refund amount if it is not refunded within three months of the date of application of refund. The Central Excise Manual prescribed that the department should accept refund claims only when accompanied with all supporting documents as refund claims without requisite documents may lead to delay in sanction of refunds.

Table 1.11 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 till the final processing of the claims.

Table 1.11: Disposal of refund claims in Service Tax

(₹ in crore)

Year	Opening Balance		Receipt (during the year)		Disposal (during the year)				Cases where interest has been paid		No. of Cases Disposed within 3 Months
	No.	Amount	No.	Amount	Sanctioned		Rejected		No.	Interest paid	
					No.	Amount	No.	Amount			
FY16	20,740	12,370	26,230	10,633	23,860	6,598	7,973	6,302	0	0	1,131
FY17	12,243	8,319	33,343	14,792	28,154	9,953	7,165	5,954	4	6	1,632

Source: Figures furnished by the Ministry.

It is observed that both number of refund cases disposed of as well as amount sanctioned had increased substantially in FY17 as compared to FY16. Out of a total of 28,154 cases disposed in FY17, **only 1,632 cases (5.80 per cent) were processed within the stipulated three months period.** This is a steep decline as compared to disposal of 82 per cent cases¹³ within three months in FY14. Further, the department had paid interest only in four cases for delay in sanctioning the refund. Thus there was a delay in around 94 per cent of disposals and also non-payment of interest in almost all the cases of delayed refunds, both of which were in violation of provisions of the Act.

Table 1.12 depicts an age-wise analysis of pendency of refund claims during last three years.

Table 1.12: 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 ¹⁴		Refund claims pending for			
		Number	Amount	Less than one year		Over 1 year	
				Number	Amount	Number	Amount
FY15	*	13,913	8,390	10,848	5,642	3,065	2,747
FY16	46,970	12,243	8,319	9,403	5,146	2,840	3,173
FY17	45,586	10,089	6,994	9,063	6,035	1,026	959

Source: Figures furnished by the Ministry.

*The Ministry did not provide the complete data for FY15

It is observed that the number of refund claims pending, including those pending for over one year, as well as amount involved has decreased substantially in FY17 as compared to FY16.

1.15 Appeal cases

Besides the adjudicating authorities, there are several other authorities including departmental appellate authorities, courts of law etc., where issues of law, interpretations etc., are considered. Huge amounts of revenue remain unrealised for substantial periods of time due to pendency of appeals. Based

¹³ As reported in Table 1.11 of Report No. 41 of 2016

¹⁴ Closing balance figures provided by the Ministry do not tally with closing balance worked out from details provided for Table 1.11.

on data furnished by CBEC, we have tabulated the pendency of cases at various forums in Table 1.13.

The Ministry has provided the data regarding pendency of appeal for Service Tax for FY15 to FY17. The data is tabulated below:

Table 1.13: Pendency of Appeal (ST)

(₹ in crore)

Year	Forum	Appeals pending at the end of the year					
		Details of assessee's appeals		Details of departmental appeals		Total	
		No. of Appeals	Amount Involved	No. of Appeals	Amount Involved	No. of Appeals	Amount Involved
FY15	Supreme Court	179	450	359	1,762	538	2,211
	High Court	1,837	4,663	877	1,717	2,714	6,380
	CESTAT	16,245	54,654	5,585	6,762	21,830	61,416
	Settlement Commission	73	214	0	0	73	214
	Commissioner (Appeals)	15,112	3,373	1,925	357	17,037	3,730
	Total	33,446	63,354	8,746	10,597	42,192	73,951
FY16	Supreme Court	196	959	423	3,077	619	4,036
	High Court	2,115	6,300	859	2,218	2,974	8,518
	CESTAT	18,628	63,654	5,546	15,824	24,174	79,478
	Settlement Commission	52	94	0	0	52	94
	Commissioner (Appeals)	14,986	4,320	2,619	377	17,605	4,697
	Total	35,977	75,327	9,447	21,496	45,424	96,823
FY17	Supreme Court	220	2,031	508	6,116	728	8,147
	High Court	2,549	9,383	917	3,067	3,466	12,450
	CESTAT	21,737	78,821	5,610	15,506	27,347	94,327
	Settlement Commission	75	189	0	0	75	189
	Commissioner (Appeals)	16,720	6,398	2,513	497	19,233	6,895
	Total	41,301	96,822	9,548	25,186	50,849	1,22,008

Source: Figures furnished by the Ministry

The Table indicates that cases involving revenue of ₹ 1,22,008 crore were pending in appeals at the end of FY17 registering a 26 per cent increase over the amount pending at the end of FY16. As no action can be initiated for recovery of revenue till the appeal is pending, early disposal by the various authorities to bring in possible revenue of ₹ 1,22,008 crore to the Government coffers, is important.

The Ministry has provided the details of disposal of appeal cases of Service Tax for FY16 to FY17. The data is tabulated below:

Table No. 1.14: Breakup of cases decided during the year (ST)

Year	Forum	Department's Appeal				Assessee's Appeal			
		Decided In Favour of Deptt.	Decided Against the Deptt.	Remanded	% of Successful appeal	Decided in favour of assessee	Decided against assessee	Remanded	% of Successful appeal
FY16	Supreme Court	7	81	6	7.45	11	3	3	64.71
	High Court	51	211	25	17.77	118	361	172	18.13
	CESTAT	114	589	72	14.71	1,020	544	582	47.53
	Comm. (Appeals)	275	294	26	46.22	2,897	2,673	1,341	41.92
	Total	447	1,175	129	25.53	4,046	3,581	2,098	41.60
FY17	Supreme Court	9	14	4	33.33	2	6	9	11.76
	High Court	29	204	10	11.93	139	346	79	24.65
	CESTAT	198	1,508	135	10.76	1,560	644	635	54.95
	Settlement Comm.	0	0	0	0	17	53	4	22.97
	Comm. (Appeals)	485	781	122	34.94	4,026	3,803	2,098	40.56
	Total	721	2,507	271	20.61	5,744	4,852	2,825	42.80

Source: Figures furnished by the Ministry

The table indicates that success ratio of the department's appeal against adjudication order has decreased from 25.53 per cent in FY16 to 20.61 per cent in FY17. The success ratio ranges between 10 per cent to 12 per cent when the department went in appeal in CESTAT and High Court.

1.16 Cost of collection

Table 1.15 depicts the cost of collection vis-a-vis the revenue collection.

Table 1.15: Central Excise and Service Tax receipts and cost of collection

Year	Receipts from Service Tax	Receipts from Central Excise	Total Receipts	(₹ in crore)	
				Cost of collection	Cost of collection as % of total Receipts
FY13	1,32,601	1,75,845	3,08,446	2,439	0.79
FY14	1,54,780	1,69,455	3,24,235	2,635	0.81
FY15	1,67,969	1,89,038	3,57,007	2,950	0.83
FY16	2,11,415	2,87,149	4,98,564	3,162	0.63
FY17	2,54,499	3,80,495	6,34,994	4,056	0.64

Source: Union Finance Accounts of respective years. Figures of FY17 are provisional.

The cost of collection increased in monetary terms in FY17 in comparison to previous years but as a per cent of total receipts of Central Excise and Service Tax, it increased marginally in comparison with a 20 per cent increase in the total Service Tax receipts.

1.17 Internal Audit

The department has been categorizing assessee units into A, B, C and D categories based on annual revenue for the purpose of conducting Internal Audit, with all 'A' category units considered as annual units for audit purpose while 'B' category represented biennial units. Audit cell located within each Commissionerate was responsible for internal audit. After the restructuring of the department in October 2014, new Audit Commissionerates came into existence, following which the department has reorganized the auditable units into three categories i.e. Large, Medium and Small Units based on centralized risk assessment carried out by DG (Audit). The manpower available with the Audit Commissionerate is allocated in 40:25:15 among large, medium and small units and remaining 20 per cent manpower is to be utilised for planning, coordination and follow up.

Table 1.16 depicts details of Service Tax units due for audit by audit parties of the Commissionerates during FY17 vis-à-vis units audited.

Table 1.16: Audits of assessees conducted during FY16 & FY 17

Year	Category	Number of units due	Number of units audited	Shortfall in Audit (No.)	Shortfall in audit (%)
FY17	Large Units	7,442	3,254	4,188	56.28
	Medium Units	10,450	4,789	5,661	54.17
	Small Units	20,640	12,096	8,544	41.40

Source: Figures furnished by the Ministry

The department had shifted from revenue based selection of units due for audit to risk based selection by factoring in the manpower available in the Audit Commissionerates. Despite the change of methodology in selection of assessees for audit, the shortfall in audit is still more than 50 per cent in the large and medium units. Thus the shortfall in number of units audited, which was around 50 per cent in pre-restructuring era (as commented in Audit Report No. 4 of 2015), continued despite formation of separate audit commissionerates and revised method of selection.

The result of the audit conducted by the department is tabulated in table 1.17.

Table 1.17: Amount objected and recovered during the year by Internal Audit

(₹ in crore)

Year	Category	Amount of short levy detected	Amount of total recovery
FY17	Large Units	4,276	823
	Medium Units	1,204	379
	Small Units	852	332
	Total	6,332	1,534

Source: Figures furnished by the Ministry.

It is observed that amount of short levy detected and recovered in Large units is significantly higher than other units indicating the need to allocate more resources for carrying out internal audit of Large units.

1.18 Revenue collection due to departmental efforts

There are various methods by which the department collects the revenue due but not paid by the taxpayers. These methods include Scrutiny of Returns, Internal Audit, Anti-evasion, Adjudication etc.

The result of the department efforts is tabulated in Table 1.18.

Table 1.18 : Revenue recovered by Departmental Efforts

(₹ in crore)			
Sl. No.	Departmental Action	Recovery during FY16	Recovery during FY17
1	Anti-evasion	3,017.85	2,979.64
2	Recovery from Defaulters	1,044.26	1,312.31
3	Pre Deposit	753.37	781.68
4	Demands confirmed in Adjudication	1,015.36	666.53
5	Internal audit	688.76	628.41
6	Scrutiny of Returns	263.23	300.90
7	Income Tax Return/Tax Deducted at Source ¹⁵	235.68	184.19
8	Voluntary Compliance Encouragement Scheme	163.89	38.02
9	Others	579.85	475.63
Total		7,762.25	7,367.31

Source: Figures furnished by the Ministry

Total Service Tax collection during FY17 is ₹ 2,54,499 crore, out of which only ₹ 7,367.31 crore, representing 2.89 per cent, is collected due to departmental efforts. Further, it is noticed that revenue collection shown under Internal Audit and Anti-evasion in Table 1.18 does not tally with the amount relating to same category shown in Table 1.17 and 1.9 respectively. In fact, the recoveries reflected in table 1.18 (₹ 2,980 crore) are far less than voluntary payments made during investigation of Anti-evasion reported in Table 1.9 (₹ 5,313 crore). Even though similar data discrepancy regarding data provided by the Ministry during FY15 and FY16 was brought to the notice of the Ministry through Audit Report on Service Tax last year (Report No. 1 of 2016 and Report No.41 of 2016), the Ministry sent similar data without proper verification again in 2017.

The data furnished by the Ministry this year relating to revenue recovered by departmental efforts for FY16 does not tally with the data furnished last year by the Ministry and reported in CAG's Report No. 41 of 2016.

1.19 Audit effort and Audit Products - Compliance Audit Report

Compliance audit was conducted by nine field offices headed by Director Generals (DGs)/Principal Directors (PDs) of Audit, who audited 1,055 units (Central Excise and Service Tax) in FY17 as per Regulations on Audit and Accounts, 2007 (as amended) and in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

¹⁵ On the basis of information shared by the Income Tax department

Data from the Union Finance Account, along with examination of basic Records/documents in DoR, CBEC, and their field formations, Management Information System (MIS) and Monthly Technical Report (MTRs) of CBEC along with other stake holder reports were used.

1.20 Report overview

The current report has 196 paragraphs having financial implication of ₹ 352.86 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 ₹ 205.26 crore in case of 176 paragraphs in the form of issue of show cause notices (SCN), adjudication of SCNs and reported recovery of ₹ 100.70 crore.

1.21 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 854 audit paragraphs (Table 1.19) having financial implication of ₹ 2,034.07 crore.

Table 1.19: Follow up of Audit Reports

(₹ in crore)

Year		FY13	FY14	FY15	FY16	FY17	Total	
Paragraphs included	Number	151	178	167	162	196	854	
	Amount	265.75	772.08	386.50	256.88	352.86	2,034.07	
Paragraphs accepted	Pre printing	Number	147	171	163	158	176	815
		Amount	262.29	477.22	372.80	252.65	205.26	1,570.22
	Post printing	Number	4	--	1	--	--	5
		Amount	1.81	--	0.32	--	--	2.13
	Total	Number	151	171	164	158	176	820
		Amount	264.10	477.22	373.12	252.65	205.26	1,572.35
Recoveries effected	Pre printing	Number	95	92	104	122	116	529
		Amount	65.28	130.29	53.02	78.47	100.70	427.76
	Post printing	Number	9	11	3	--	--	23
		Amount	2.07	33.93	1.10	--	--	37.10
	Total	Number	104	103	107	122	116	552
		Amount	67.35	164.22	54.12	78.47	100.70	464.86

Source: CAG Audit Reports

It is observed that the Ministry had accepted audit observations in 820 audit paragraphs having financial implication of ₹ 1,572.35 crore and had recovered ₹ 464.86 crore.