

## Executive Summary

The Service Tax collection was ₹ 1, 67,969 crore during financial year 2014-15 (FY15) and accounted for 30.75 percent of Indirect Tax revenue in FY15. Indirect tax collection as a ratio of GDP has decreased in FY15 vis-à-vis FY14, while as a ratio of Gross Tax revenue, it has increased. Service Tax revenue as a percentage of GDP has been increasing every year during last four years, though it declined marginally during FY15.

This Report has 166 audit observations on Service Tax, having financial implication of ₹ 386.35 crore. The Ministry/department had accepted (up to January 2016) audit observations involving revenue of ₹ 373.58 crore and reported recovery of ₹ 53.77 crore. Significant audit findings are as follows:

### Chapter I: Service Tax Administration

- Measures initiated by the department to improve recovery of arrears have not made significant impact. Arrear collection in FY15 has fallen drastically to 1.17 percent compared to 10.46 percent in FY14.

(Paragraph 1.12)

- Over 86 percent returns marked by ACES for review and correction were pending corrective action.

(Paragraph 1.14.1)

- Adjudication cases involving Service Tax implication of over ₹ 77,463 crore were pending finalisation as on 31 March 2015.

(Paragraph 1.15)

- Success ratio of department's appeal against adjudication order has decreased to 26.44 percent in FY15 from 33.47 percent in FY13.

(Paragraph 1.16)

- More than 46 percent of category 'A' Service Tax assessees who were due for mandatory audit by the Central Excise and Service Tax department remained unaudited during FY15.

(Paragraph 1.19)

### Chapter II: Issue of Show Cause Notices and Adjudication process

- Eight demands, involving revenue of ₹ 3.34 crore, were concluded in adjudication as time barred due to late issue of Show Cause Notice (SCN).

(Paragraph 2.5.1)

- In 36 cases, SCN was not issued within the stipulated time period and out of these, 23 cases for which details were available involved a revenue implication of ₹ 22.17 crore.

(Paragraph 2.5.2)

- 46 cases involving revenue of ₹ 21.08 crore were pending for adjudication for more than two years.

(Paragraph 2.6.1)

### **Chapter III: Non-compliance with rules and regulations**

- Audit observed instances of non-payment/short-payment of Service Tax, incorrect availing/utilisation of CENVAT credit and non-payment of interest on delayed payments having financial implication of ₹ 216.34 crore.

(Paragraph 3.1)

### **Chapter IV: Effectiveness of internal controls**

- Audit observed deficiencies in scrutiny and internal audit carried out by departmental officers, delayed issue of show cause notice etc., having financial implication of ₹ 170.01 crore.

(Paragraph 4.2)