

Chapter 1: Introduction

1.1. About the sector

Entertainment sector consists of different segments such as television and film industry with its sub segments like film production, copyrights, services of professionals ranging from actors to supporting services like choreographers and hair stylists, talent casting agencies, news agency, live shows and event coverage, celebrity management and brand endorsement, radio, sound recording, animation, gaming and visual effects. Brand Promotion and sponsorship services are intricately linked with this sector.

Entertainment industry has registered an explosive growth in last two decades making it one of the fastest growing industries in India. Globally, India is the fifth largest media and entertainment market. India is also the second largest television market in the world and has the world's largest film industry in terms of tickets sold and number of films made.

1.2. Services relating to Entertainment Sector

The following nine services relating to entertainment sector (ES), having been assigned separate Account Codes under Service Tax and are specifically identifiable:

- (i) Broadcasting services,
- (ii) Copyright service – transfer temporarily / permit use or enjoyment,
- (iii) Event Management,
- (iv) Sound recording studio or agency services,
- (v) Services by a programme producer,
- (vi) Service of promotion or marketing of brand of goods / services / events,
- (vii) Sponsorship services provided to body corporate or firm including sports sponsorship,
- (viii) Video production agency / video tape production service and
- (ix) Cable operators.

In addition to the above nine services, there are many services not covered under negative list and hence taxable with effect from 1 July 2012 like those of professionals, artists etc., that are included in the omnibus head 'other taxable services' and not distinctly identifiable.

1.2.1. Significance of these Services¹

The broadcast industry in India has around 800 satellite television channels, 242 FM channels and 100 operational community radios and grew at a rate of 12 per cent during 2010-14. There was a spurt in number of television channels and apparent increase in demand for programme production services to cater to the needs of the expanding televisions channels. In 2015, India produced 1,827 digital feature films, according to the report by the Central Board for Film Certification (CBFC). India maintained its position as a top film producer. Animation, Visual Effects (VFX) and Production segment is the newly emerging area in India which offers opportunities in both domestic and foreign markets. The organized event management industry in India was poised to grow at least by 25 per cent annually and estimated to reach ₹ 5,500 crore by 2014-15.

1.2.2. Trends of revenue from the entertainment sector

The total service tax collection through Personal Ledger Account (PLA) and Cenvat from the entertainment sector has been increasing over last three years at an average growth rate of 9.9 per cent, with copyrights growing at a rate of 94 per cent, followed by promotion of 'brand' of goods, services, events, business entity etc. (32 per cent) and sponsorship service (18 per cent).

The total service tax collection from Personal Ledger Account (PLA) from the entertainment sector during the last four year has increased by 43 per cent whereas during the same period Cenvat utilisation has increased by 88 per cent.

The trends of revenue (PLA and Cenvat) and tax base from this sector during the period from 2012-13 to 2014-15 is depicted in following tables: -

¹ Data taken from <http://www.makeinindia.com/article/-/v/sector-survey-media-and-entertainment>

Table No.1 : Service Tax Revenue from Entertainment Sector

(Amount in crore of ₹)

Service	Year	2012-13		2013-14		2014-15		Average annual growth rate	
		PLA	Cenvat	PLA	Cenvat	PLA	Cenvat	Of total ST revenue	Of Cenvat as a percentage of Cenvat and PLA
Broadcasting service		1,770.77	3,061.68	1,680.01	3,169.60	2,012.63	3,240.80	1.85	4.34
		4,832.45		4,849.61		5,253.43			
Copyright on cinematographic films and sound recording service		113.06	115.87	280.13	318.91	314.50	443.73	54.76	94.12
		228.93		599.04		758.23			
Event management service		351.00	181.85	374.71	219.43	432.84	268.76	7.68	14.79
		532.85		594.14		701.59			
Promotion of 'brand' of goods, services, events, business entity etc.		67.69	13.87	80.73	25.96	107.64	34.48	11.41	32.02
		81.56		106.69		142.13			
Sound recording service		19.92	3.09	20.18	3.55	20.78	3.17	0.20	2.02
		23.01		23.73		23.95			
Sponsorship service		150.36	52.97	159.62	54.19	203.79	77.47	5.74	18.35
		203.33		213.81		281.26			
TV or radio programme production		223.74	109.06	208.66	138.47	222.61	147.82	5.76	5.51
		332.80		347.13		370.43			
Video tape production		97.44	40.56	102.66	68.63	108.19	49.21	4.50	8.01
		137.99		171.29		157.40			
Cable Operator Services		143.57	500.17	119.65	597.14	172.06	613.46	8.67	10.47
		643.74		716.78		785.53			
Total		2,937.55	4,079.12	3,026.35	4,595.88	3,595.04	4,878.90	5.54	9.90
		7,016.67		7,622.23		8,473.94			

Source: ACES data provided by DG (Systems)

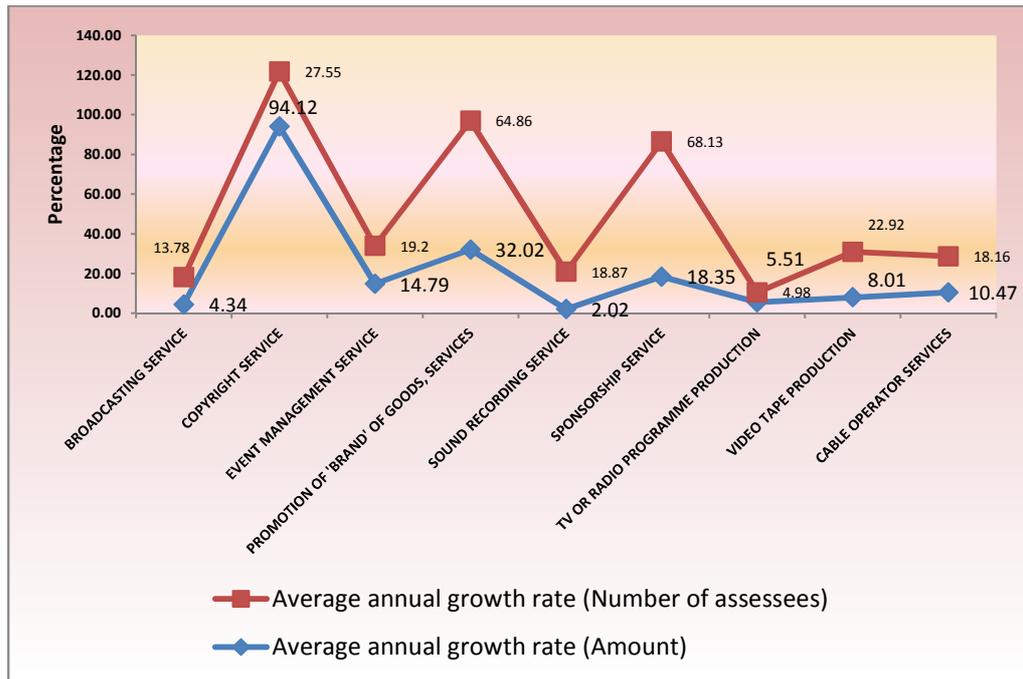
1.2.3. Tax base in entertainment sector

Table No.2

Year Service	Number of assesseees			Average annual growth rate
	2012-13	2013-14	2014-15	
Broadcasting service	1,145	1,377	1,554	13.78
Copyright on cinematographic films and sound recording service	555	742	885	27.55
Event management service	7,849	10,024	11,752	19.20
Promotion of 'brand' of goods, services, events, business entity etc.	1,172	2,175	3,224	64.86
Sound recording service	737	954	1,127	18.87
Sponsorship service	4,011	5,205	5,951	68.13
TV or radio programme production	2,160	2,216	2,398	4.98
Video tape production	1,942	2,630	3,179	22.92
Cable operator services	3,959	4,954	6,243	18.16
Grand Total	23,530	30,277	36,313	24.08

Source: ACES data provided by DG (Systems)

Chart No.1



- The number of assessees have increased by 24 per cent during the last three years. However, corresponding revenue increase is only 9.90 per cent (PLA and Cenvat).

1.3. Why we chose this topic

- Revenue from services like Broadcasting services, Event management, TV and Radio programme production, Sponsorship services, Video tape production, Promotion of Brand and Sponsorship services has been registering steep growth over three year period ending 2014-15.
- There are inter-linkages amongst these services with impact on tax calculation.
- Growth of service tax revenue from services like TV and Radio Programme production, Event Management were not commensurate with industry growth rate witnessed/projected for these sectors.
- There were certain key judicial pronouncements and changes in law impacting taxability of this sector in recent times.
- No comprehensive audit was conducted for this sector so far.

1.4. Audit Objectives

The audit was conducted to assess:

- (i) the adequacy of rules, regulations, notifications, circulars/ instructions/trade notices etc., issued from time to time in relation to

- levy, collection and assessment of service tax relating to entertainment sector and whether provisions of law are being complied with adequately;
- (ii) the efficiency and effectiveness of departmental administration in implementing and ensuring compliance with the Rules and regulation as laid down in the Finance Act, Service Tax Rules and other related Rules; and
 - (iii) the extent to which the service providers liable to pay service tax, relating to the subject under study, are included/excluded from tax net.

1.5. Scope of Audit and coverage

During the audit, we selected and covered 17 Commissionerates² (exclusive ST as well as integrated Central Excise and Service Tax), which represented 33 per cent of all India revenue for the year 2015-16 pertaining to the nine services identified for coverage in this audit. We also audited one Division and one Range in each selected commissionerate and undertook detailed examination of the records of 307 assesseees in the jurisdiction of the selected Commissionerates. The period of examination for this audit was 2013-14 to 2015-16.

1.6. Acknowledgement

We acknowledge the co-operation extended by Central Board of Excise and Customs (CBEC) and its subordinate formations, in providing the necessary records for the conduct of this audit.

We discussed the audit objectives and scope of the audit in an entry conference with CBEC officers on 22 August 2016 and the audit findings and recommendations were discussed in the exit conference held on 31 May 2017. The Ministry furnished the reply in May 2017 which was included in the report.

² Ahmedabad ST, Bengaluru ST-I, Bhubaneswar-I, Chandigarh-I, Chennai ST-II, Cochin, Delhi ST-I, Delhi ST-II, Delhi ST-III, Hyderabad ST, Jaipur, Kolkatta ST-II, Mumbai ST-III, Mumbai ST-IV, Mumbai ST-VI, Mumbai ST-VII and Noida ST.

