

**Press Release**

**CAG's report on Service Tax Revenue tabled in Parliament.**

**Report has 196 audit observations on Service Tax, having financial implication of ₹ 352.86 crore**

Compliance Audit Report of the Comptroller and Auditor General of India containing audit observations on the Service Tax Revenue (Report No. 43 of 2017) for the year ended March, 2017 was tabled in Parliament today.

Report has 196 audit observations on Service Tax, having financial implication of ₹ 352.86 crore. The Ministry/department had accepted (up to September, 2017) 176 audit observations involving revenue of ₹ 205.26 crore and reported recovery of ₹ 100.70 crore. Significant audit observations and findings are as follows:

**Chapter I: Service Tax Administration**

- The Service Tax collection was ₹ 2,54,499 crore during financial year 2016-17 (FY17) and accounted for around 30 per cent of Indirect Tax revenue in FY17.  
(Paragraph 1.6)
- The department was able to recover a miniscule amount of ₹ 1,893 crore, leaving a balance of ₹ 1.18 lakh crore arrears of Service Tax yet to be recovered.  
(Paragraph 1.10)
- Cases involving revenue of ₹1,22,008 crore were pending in appeals in FY17 registering a 26 per cent increase over the amount pending at the end of FY16. Early disposal by the various authorities is important to bring in possible revenue of ₹1,22,008 crore to the Government coffers.  
(Paragraph 1.15)
- 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 assesseees for audit, the shortfall in audit is still more than 50 per cent in the large and medium units.  
(Paragraph 1.17)

**Chapter II: Service Tax on Commercial Training or Coaching Service**

The Service Tax revenue generated from Commercial Training or Coaching service has increased from ₹880 crore in FY13 to ₹ 1,950 crore in FY16 proving that the business of coaching centres is expanding day by day. The average annual growth rate of Service Tax from this service over last three years was not commensurate with the growth rate projected for this sector. We conducted a SSCA on this sector in

18 selected Commissionerates out of 117 Commissionerates dealing with Service Tax. Significant observations are:

- Efforts by the department to widen the tax net were inadequate as compared to the pace of growth of this sector and this had implication of revenue loss as evidenced by independent verification conducted by Audit.
  - The special cells, mandated with the task of identifying potential assesseees were non-existent/non-functional in all the selected Commissionerates.  
(Paragraph 2.5.2)
  - Audit detected 1,005 number of unregistered assesseees out of which in 250 cases, we were able to quantify Service Tax liability of ₹ 6.11 crore.  
(Paragraph 2.4)
- The department's performance in respect of scrutiny of returns was also found to be deficient.
  - In 10 selected Commissionerates, 46 per cent returns out of total returns due were not filed by the assesseees relating to this sector but action was initiated on non-filers only in five Commissionerates.  
(Paragraph 2.6.1)
  - The department failed to carry out Review and Correction (R&C) in 98 per cent of the returns marked for R&C.  
(Paragraph 2.6.3)
- A sample verification records of the assesseees by the Audit revealed 179 cases of non/short payment of Service Tax, irregular availing of CENVAT credit, non/short payment of interest etc. by registered assesseees involving revenue of ₹ 88.26 crore.  
(Paragraph 2.4)

### Chapter III: Non-compliance with Rules and Regulations

- During the course of our test checks, we observed 92 significant cases 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 ₹ 92.61 crore, which are detailed in the Report. The irregularities persist year after year as the department only takes rectificatory action in cases pointed out by Audit, without taking action to strengthen the system.  
(Paragraph 3.1)

### Chapter IV: Effectiveness of Internal Control

- Audit noticed failure of the department in carrying out the scrutiny of returns, internal audit and other functions during course of our test checks and 103 cases which are considered significant, having financial implication of ₹ 165.88 crore, were included in the Report.  
(Paragraph 4.2)

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