

**GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
DEPARTMENT OF REVENUE  
CENTRAL BOARD OF EXCISE AND CUSTOMS  
SERVICE TAX WING  
NEW DELHI**

**F.No.137/314/2012-Service Tax  
CIRCULAR NO. 185/4/2015-ST  
Dated: July 07, 2015**

**Subject: Detailed Manual Scrutiny of Service Tax Returns**

1.1 In the era of self-assessment, the need for a strong compliance verification mechanism cannot be over emphasized. Such a mechanism has three important prongs – audit, anti-evasion and return scrutiny. In order to put in place a strong ‘return scrutiny’ system, a two-part system of return scrutiny was envisaged- a preliminary scrutiny which would be online covering all the returns; and a detailed manual scrutiny of select returns, identified on the basis of risk parameters, to be done by the Division/Range offices.

1.2 The Board vide Circular No. 113/07/2009-ST dated 23-4-2009 had laid down the procedure for carrying out detailed scrutiny of returns and had circulated a Return Scrutiny Manual for Service Tax. However, with the introduction of the Point of Taxation Rules, 2011, which shifted the liability of payment of service tax from receipt basis to accrual basis, and the advent of negative list-based comprehensive taxation of services in 2012, it was felt that the guidelines for detailed scrutiny of returns needed a revision. In this background, it has been decided that detailed scrutiny of ST-3 returns, with effect from 01.08.2015, should be carried out in the manner outlined below:-

**2.0 PRELIMINARY ONLINE SCRUTINY**

2.1 The purpose of preliminary scrutiny of returns includes ensuring the completeness of the information furnished in the return, arithmetic correctness of the amount computed as tax and its timely payment, timely submission of the return and identification of non-filers and stop-filers. On the basis of the validation checks incorporated in ACES by the Directorate General of Systems & Data Management (DGS&DM), preliminary scrutiny of all returns is done online in ACES and the returns having certain errors are marked for Review and Correction (RnC). These have to be processed accordingly by the Range Officers.

**3.0 SCOPE OF DETAILED MANUAL SCRUTINY**

3.1 The purpose of detailed manual scrutiny of returns is to ensure the correctness of the assessment made by the assessee. This includes checking the taxability of the service, the correctness of the value of taxable services in terms of Section 67 of the Finance Act, 1994, read with the Service Tax (Determination of Value) Rules, 2006 and the effective rate of tax after taking into account the admissibility of an exemption notification, abatement, or exports, if any; ensuring the correct

availment/utilization of CENVAT Credit on inputs, capital goods, and input services in terms of the CENVAT Credit Rules, 2004, etc. In doing this, the proper officer must rely mainly on assessment-related documents like agreements/contracts and invoices. Detailed financial records should not be called for in a routine manner.

3.2 A detailed scrutiny programme typically supplements the audit programme. The scope of audit, on the other hand, is to inspect the financial records of a company for a complete financial year in order to identify non-compliance issues and to evaluate the assessee's internal control system. The two processes of audit and scrutiny are, in fact, complementary to each other.

#### 4.0 SELECTION OF RETURNS FOR DETAILED SCRUTINY

4.1 The detailed manual scrutiny programme must replicate some of the best practices in audit. A Return Scrutiny Cell should be created in the Commissionerate's Headquarters. The Return Scrutiny Cell shall maintain the records of the assessees and the returns which are selected for detailed scrutiny and also the results thereof.

4.2 The focus of detailed manual scrutiny of the returns would be on the returns of those assessees which are not being audited. The detailed return scrutiny would be conducted in respect of such assessees whose total tax paid (Cash + CENVAT) for the FY 2014-15 is below Rs 50 lakhs. Each Commissionerate has to select equal number of assessees for carrying out returns' scrutiny from each of the these three total tax paid bands (Cash+CENVAT) viz., Rs 0 to Rs 10 lakhs, Rs 10-25 lakhs and Rs 25-50 lakhs for the financial year 2014-15.

4.3 The risk parameters and the risk tools which would govern the selection of the returns for detailed manual scrutiny have been developed. The risk scores for the Service Tax returns for the financial year 2014-15 have been calculated. The data has been segregated on the basis of Zone/Commissionerate/Division/Range. The data resides with DGS&DM which will be shared with the Service Tax & Central Excise field formations through secure data exchange in the following manner:-

4.3.1 The risk score files will be placed on a server. Chief Commissioners of Service Tax & Central Excise Zones are required to nominate a 'Zonal Nodal Officer' who shall access these data and distribute the same to the Zonal Commissionerates dealing with Service Tax. The said officer should preferably be of the rank of Additional/Joint Commissioner and should necessarily have an official email id (ICEGATE or NIC email).

4.3.2 The nomination of Zonal Nodal Officers should be informed to the Service Tax Wing, CBEC by email addressed to commr.s1-cbec@nic.in alongwith attaching a scanned copy of the nomination letter. The said communication should contain the nomination by the Chief Commissioner along with the designation, email id, telephone numbers (mobile & land line numbers) of the nominated Nodal Officer.

4.3.3 An email will be sent by DGS&DM to the Zonal Nodal Officer. These Zonal Nodal Officers would need to copy and paste on the internet browser the 'weblink' of the page hosting the folders. They would need to login using the username and password which would be shared with them through a

separate email sent on their official email id. They would then need to click on the folder bearing the respective Zone name (available on the left panel) to access the files placed there.

4.3.4 The Return Scrutiny Cell, through an officer authorized by the Commissioner, shall collect the Risk Score data for the Commissionerate from the Zonal Nodal Officer.

4.3.5 The list of returns to be taken up for detailed scrutiny would be finalized by the Additional/Joint Commissioner in-charge of Division (or in his absence by the Commissioner) as per the risk score in conjunction with the total tax paid by the assessee, local risk parameters (including sensitive and evasion prone sectors), past compliance record of the assessee and manpower availability. The list of the assessees selected will be sent to the respective Divisions.

4.3.6 The assessees who have been selected for audit or have been audited recently (in the past three years) should not be taken up for detailed scrutiny. However, the Chief Commissioner, may direct detailed manual scrutiny of an assessee's return who has paid service tax (Cash + CENVAT) more than Rs 50 lakhs in certain specific cases. In no event should an assessee be subjected to both audit and detailed manual scrutiny.

**4.3.7 All the officers should maintain strict confidentiality regarding the Risk Score data including the original score, further selection by the Commissionerate, etc. Under no circumstances it is to be shared with the assessee or any other authority since this is information available in a fiduciary relationship, pertaining to a third party, and which may entail further investigation.**

## **5.0 METHODOLOGY**

5.1 Detailed scrutiny of returns must be conducted by the Service Tax Range headed by the Superintendent and assisted by a complement of Inspectors. However, the Divisional DC/AC shall be responsible for the overall supervision of this business process in respect of his/her division. Before return scrutiny is initiated, the assessee must be given prior intimation of at least fifteen days and the purpose of the exercise must be spelt out in an **Intimation Letter** in a format given as **Annexure I**. Once an assessee's returns are taken up for detailed scrutiny, the Range should compile the **Assessee Master Information** to facilitate trend analysis in a format given as **Annexure II**. Since this information is based on the returns, it can be obtained from the returns filed in ACES without making any reference to the assessee. Returns scrutiny must be done for a complete financial year by looking at two half-yearly returns in conjunction. Before scrutinizing the return for evaluating the correctness of assessment, the information available in the assessee master should be carefully studied by the Divisional DC/AC and discussed with his officers, much like Desk Review in Audit. To begin with, the returns for the **financial year 2013-2014** should be taken up for detailed scrutiny.

5.2 One of the important objectives of return scrutiny is to ensure validation of the information furnished in the self-assessed ST-3 return. The validation exercise would require reconciling information furnished in the ST-3 return with ITR Form Nos. 4, 5, 6 and 26AS and any third party information made available. In addition to this, the scrutiny exercise must also look at the correctness of self-assessment

with respect to taxability, admissibility of abatement and eligibility for exemption, valuation and CENVAT credit availed/utilized.

5.3 A **Checklist** has been prepared for carrying out detailed manual scrutiny of selected ST-3 returns (**Annexure III**). For achieving the stated objectives, the checks have been categorized as follows:

- Reconciliation for validation of the information furnished in the ST-3 return;
- Taxability in respect of services which may have escaped assessment;
- Classification (for the purposes of due availment of abatement/exemption benefit);
- Valuation; and
- CENVAT credit availment/utilization.

5.4 In case any additional details are required, the same may be obtained from the assessee through requisition rather than through a visit. Calling of such additional documents must be done with the approval of the jurisdictional DC/AC so as to obviate the complaint of administrative intrusion.

5.5 Based on the experience of some Zones/Commissionerates, it is seen that in a month an Inspector will be able to perform detailed manual scrutiny of a minimum of three assessees. While some cases may take time, the scrutiny process of an assessee should be completed in a period not exceeding three months.

## **6.0 DOCUMENTATION OF FINDINGS**

6.1 In order to ensure transparency of the scrutiny process, it is important to document the findings flowing from the scrutiny effort. For this purpose, an Observation Sheet should be prepared. The format of the **observation sheet**, enclosed as **Annexure IV**, bears a one-to-one co-relation with the checklist. The scrutiny officer must record his findings under each of the subject of the checklist namely, reconciliation, taxability, classification, valuation and CENVAT credit. Under each of these heads, the officer should record any action that needs to be taken by the Range. The findings should clearly outline the process of scrutiny that led to the outcome. It is also possible that the officer may come across some issues which may have to be referred to audit or anti-evasion. These should also be noted in the relevant column given in the observation sheet. In cases where detailed scrutiny of returns results in detection of defaults in service tax payment and it appears that the proviso to section 73(1) of the Finance Act, 1994 is invocable, the ST-3 returns of the past periods should also be verified and the results of such verification should be recorded.

6.2 All scrutiny findings in a month must be discussed in a **Monthly Scrutiny Monitoring Committee Meeting** headed by the Additional/Joint Commissioner in-charge of the Division (or in his absence by the Commissioner) where each Range should present their scrutiny findings in the form of a '**Scrutiny Report**' given as **Annexure V**. The meeting should be attended by all the Range Inspectors, Superintendents and DC/ACs of the Divisions whose supervisory control is with the said ADC/JC. This

would provide an opportunity to the officers from other Ranges to respond to the findings and also share best practices. The views of the committee on the return scrutiny findings must be documented and follow up action taken. Important issues may be put up to the Commissioner for information. The minutes of the meeting and the decisions including detection and recovery of service tax dues should be properly recorded and maintained by the Scrutiny Cell of the Commissionerate.

6.3 Zonal Chief Commissioners are requested to submit monthly reports in the format given in **Annexure VI** to the Directorate General of Service Tax till facilities are developed to enable the Commissionerates to upload the data in the MIS of CBEC.

6.4 Based on the past experiences in performing detailed manual scrutiny, a few Templates/Case studies have been prepared and are enclosed as **Annexures VII and VIII**. These Case Studies will help and guide the officers who are not conversant with the process of Detailed Scrutiny.

6.5 The timelines to be followed for starting detailed manual scrutiny as per the above detailed process are as below:

6.5.1 Forwarding of official mail ids of the Zonal Nodal Officers by **06.07.2015**

6.5.2 Forwarding of data by DGS&DM by **08.07.2015**

6.5.3 Finalization of the list of the returns of the assesseees selected for detailed manual scrutiny and dispatch of the Intimation Letter by 15.07.2015

6.5.4 Commencement of detailed manual scrutiny of selected returns by **01.08.2015**.

6.6 Even after the introduction of GST, it may be appreciated that the basic principles of scrutiny of returns and reconciliation of records would remain the same.

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