

Small service providers on tax radar

Those Who Paid Service Tax Of Up To Rs.50L In FY15 To Face Manual Scrutiny

Small service taxpayers will soon find themselves subjected to detailed manual scrutiny by the taxman. The Central Board of Excise and Customs (CBEC) recently issued detailed scrutiny guidelines for service-tax returns of small taxpayers. These guidelines are to be followed from August 1.

Typically, only large service taxpayers come within the ambit of service-tax audit. Small service providers, whose tax liability was not significant, didn't come under the radar of this audit and there were possibilities of tax leakages. The scrutiny procedure aims at plugging such leakages.

The scrutiny will be conducted for those service providers whose total service tax paid (through cash and as a service tax credit) for the financial year (FY) 2014-15 is below Rs 50 lakh.

While a preliminary online scrutiny will take an overall view such as examination of the timely payment of service tax or arithmetical accuracy of the tax computed, the detailed scrutiny, which will be carried out manually, will be a deep-dive exercise. It will involve checking the taxability of the service rendered, the effective rate of tax applicable, and also ensure that the service taxpayer has correctly availed any CENVAT credit. While conducting such scrutiny, the range officer will rely on documents like agreements, contracts and invoices.

“Service taxpayers will be divided into three bands based on the tax paid for the FY 2014-15 - up to Rs 10 lakh, between Rs 10 lakh and Rs 25 lakh and between Rs 25 lakh and Rs 50 lakh. An equal number of service taxpayers will be picked up for the detailed manual scrutiny from each of the three bands. If a service taxpayer has been audited in the previous three years, his case will not be picked up for the detailed manual survey,” explains an EY communique.

“A host of service providers will now fall within the scrutiny ambit; professionals like chartered accountants, company secretaries, consultants, small restaurant and hotel owners, small businesses like courier agencies, commission agents and share-brokers will all be covered,” says Bipin Sapra, indirect tax partner at EY.

“To an extent, there is an apprehension that the manual scrutiny, which involves interaction by the service tax authorities with small service taxpayers, could lead to harassment,” admits a committee member of a business association.

While the focus is on the small service taxpayers, on the direction of the chief commissioner, service-tax returns of larger service taxpayers can also be scrutinized. But in no case can a service taxpayer be subjected to both audit and the detailed manual scrutiny. The detailed manual scrutiny will be done on a yearly basis, by combining two half-yearly service tax returns so that reconciliation with the income-tax (I-T) returns is also possible.

The CBEC, in its circular, has also clarified that “even after the introduction of Goods and Service Tax (GST) it may be appreciated that the basic principles of scrutiny of returns and reconciliation of records would remain the same“.

During the current fiscal commencing April 1, 2015, indirect tax collections for the first two months were Rs 96,128 crore with service-tax collections standing at Rs 27,607 crore.

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