

## New norms/guidelines to be followed on Service Tax Audits - CBEC

4 March 2015



### Background

The Central Board of Excise and Customs ('CBEC' or 'the Board') has recently prescribed (vide Circular dated 27 February 2015), the revised norms to be followed by the Service Tax Commissionerate in conducting the Service Tax audits.

The guidelines have been revised on account of difficulties being faced in the existing norms for selection of units for audit based on single criterion, namely threshold limits of taxes paid in the previous financial year. The audit coverage in Service Tax has been below the satisfactory levels on account of huge tax payer base and limited availability of manpower.

The revised norms provides for consideration of various parameters such as risk evaluation criteria, coverage of audit period, deployment of officers, theme-based coordinated audits, audit of multi-location units, etc.

The guidelines prescribed in this regard are highlighted below:

#### 1. Annual Plan for Audit Coverage

- The Audit Commissionerate to release the Annual plan by 31<sup>st</sup> May indicating the names of assesses that are proposed to be audited during the course of the year (i.e. 1<sup>st</sup> July to 30<sup>th</sup> June of the next year).

- The Audit Commissionerate shall consult the zonal units of Directorate General of Audit while finalising the Annual plan of audit coverage.
- In order to ensure adequate coverage, the assessee/taxpayers shall be grouped into three categories, namely, large, medium and small. The criteria for said categorisation would be annual value of clearances/service provided and total duty/taxes paid.
- Depending upon the size of the assessee, the deployment, composition, frequency of audit, etc. would be by the audit team.

#### 2. Selection methodology

- The selection of assessee would be done based on the risk evaluation method prescribed by the Directorate General of Audit. The risk evaluation method would be separately communicated to the Audit Commissionerates during the month of March/April every year.

- The Audit Commissionerates could also select few units at random or based on local risk perception in each category of large, medium and small tax payers.
- The above norms would become operative from 1 July 2015. Directorate General of Audit will review the efficacy of the above parameters as well as frequency of audits in consultation with Audit Commissionerates.



### 3. Other key aspects

- With respect to the assesseees granted with 'accredited' status, similar to one given in Customs, based on their proven track record of tax compliance, the frequency of audit would not be less than three years.
- In case of LTU, 80 per cent of the manpower can be used for conducting audit and 20 per cent for headquarters' functions. Further, audit of the LTU should be conducted in a coordinated manner i.e., the audit of Head Office and group units should be conducted simultaneously. For this purpose, the audit dates should be decided in consultation with the LTU.

### Our comments

The revised guidelines issued by the Board are a welcome move for conducting the audit in a well-designed manner. A clear cut intimation to assessee before the conduct of the audit with sufficient advance notice, would enable them to make necessary arrangements for submission of the necessary documents for the period in audit, more so as audit is expected to be completed in a time bound manner.

[www.kpmg.com/in](http://www.kpmg.com/in)

**Ahmedabad**

Commerce House V, 9th Floor,  
902 & 903, Near Vodafone House,  
Corporate Road,  
Prahlad Nagar,  
Ahmedabad – 380 051  
Tel: +91 79 4040 2200  
Fax: +91 79 4040 2244

**Bengaluru**

Maruthi Info-Tech Centre  
11-12/1, Inner Ring Road  
Koramangala, Bangalore 560 071  
Tel: +91 80 3980 6000  
Fax: +91 80 3980 6999

**Chandigarh**

SCO 22-23 (1st Floor)  
Sector 8C, Madhya Marg  
Chandigarh 160 009  
Tel: +91 172 393 5777/781  
Fax: +91 172 393 5780

**Chennai**

No.10, Mahatma Gandhi Road  
Nungambakkam  
Chennai 600 034  
Tel: +91 44 3914 5000  
Fax: +91 44 3914 5999

**Delhi**

Building No.10, 8th Floor  
DLF Cyber City, Phase II  
Gurgaon, Haryana 122 002  
Tel: +91 124 307 4000  
Fax: +91 124 254 9101

**Hyderabad**

8-2-618/2  
Reliance Humsafar, 4th Floor  
Road No.11, Banjara Hills  
Hyderabad 500 034  
Tel: +91 40 3046 5000  
Fax: +91 40 3046 5299

**Kochi**

Syama Business Center  
3rd Floor, NH By Pass Road,  
Vytilla, Kochi – 682019  
Tel: +91 484 302 7000  
Fax: +91 484 302 7001

**Kolkata**

Unit No. 603 – 604,  
6th Floor, Tower – 1,  
Godrej Waterside,  
Sector – V, Salt Lake,  
Kolkata 700 091  
Tel: +91 33 44034000  
Fax: +91 33 44034199

**Mumbai**

Lodha Excelus, Apollo Mills  
N. M. Joshi Marg  
Mahalaxmi, Mumbai 400 011  
Tel: +91 22 3989 6000  
Fax: +91 22 3983 6000

**Pune**

703, Godrej Castlemaine  
Bund Garden  
Pune 411 001  
Tel: +91 20 3050 4000  
Fax: +91 20 3050 4010

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