

CIRCULAR NO.113/07/2009-ST, DT: 23-04-2009

Sub : *Return Scrutiny Manual for scrutiny of ST-3 returns – Reg.*

The Working Group on Central Excise and Service Tax re-engineering, constituted by the Board has prepared a Return Scrutiny Manual for Service Tax (RSMST). The said manual has been approved by the Board and a copy of the same is enclosed herewith (not printed).

2. The self-assessment facility requires a strong compliance verification system which in turn necessitates an effective return scrutiny mechanism. The RSMST proposes to bifurcate the scrutiny into two parts, preliminary scrutiny and detailed scrutiny. While the preliminary scrutiny would cover all the returns and could be done even online, detailed scrutiny would cover selected returns, identified on the basis of risk parameters, developed from the information furnished in the returns submitted by the taxpayers.

3. The preliminary scrutiny has been designed to check completeness of the information provided, timeliness, arithmetic accuracy etc. The detailed scrutiny will ensure correctness of classification, exemption availed, valuation, availment of CENVAT credit etc.

4. At the outset it is important for the field formation to understand the difference between audit and scrutiny of return. The role of the officer carrying out scrutiny of return would be limited to validating the correctness of the assessment made in the return filed by the taxpayer. The result of such validation should be communicated to audit or anti-evasion section as required for taking further action. The salient features of the manual are that it prescribes guidelines for,-

- Conducting preliminary scrutiny of returns including details of checks to be conducted and action to be taken and a format to record the findings.
- Selection of returns for detailed scrutiny. It contains details of risk parameters alongwith check list for analysis of the same.
- Seeking information from the taxpayers after the returns are selected for detailed scrutiny.
- Conducting detailed scrutiny of returns and an observation sheet for recording the findings of such scrutiny.
- Action to be taken after on the findings of detailed scrutiny of returns.

4.1 The manual also contains a chapter on automated scrutiny of return under the ACES project. However, till the time automated scrutiny module is made operational, field formations should resort to manual scrutiny as per the instructions contained in the RSMST. Since manually it would not be possible to carry out the scrutiny of all the returns filed, the existing instructions (as mentioned below) regarding the number of returns to be scrutinized during the financial year would continue; for the time being, till ACES module becomes operational, -

(a) The first half yearly returns filed in the financial year by all taxpayers making tax-payment (cash+credit) over Rs. 50 lakh (either during the previous financial year or during the current year must be scrutinized.

(b) 50% of the first half yearly returns filed in the financial year by all taxpayers making tax-payment (cash+credit) between Rs. 25 lakh to Rs. 50 lakh (either during the previous financial year or during the current year must be scrutinized.

(c) After completing the scrutiny of the first two categories, 5% of the balance returns should be scrutinized, depending upon the time and manpower availment.

5. All existing instructions regarding scrutiny of returns that are contrary to those mentioned in this circular stand withdrawn.

6. The contents of this circular may be suitably brought to the notice of the field formation. In case any difficulty is faced in implementing these instructions, the same may be brought to the notice of the undersigned.

7. Receipt of this Circular may please be acknowledged.