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Film artists working abroad shown as exports to evade tax: CAG

New Delhi, Aug 4 - Highlighting the practices adopted by Indian entertainment industry players to evade service tax obligations, the national auditor on Friday cited instances of how payment to artists for work on parts of films shot abroad were shown as service exports with no tax liability.

"There were instances of artists/producers entering into agreements with foreign entities for services provided abroad, thereby consideration for the portion of service provided outside India was treated as exports," the Comptroller and Auditor General (CAG) said in its report on service tax on the entertainment sector tabled in the Lok Sabha.

Among other methods adopted, the CAG said that while drafting agreements, other activities were clubbed with theatrical rights, resulting in taxable commercial activities escaping service tax.

"Only rights on theatrical exhibition of films are exempted from service tax," the CAG said, clarifying the rules in this regard.

concerned tax authorities to examine the "complete loop" of transactions between different entities related to the film "Ae Dil Hai Mushkil" starring Ranbir Kapoor to verify if due service tax had been levied.

Produced by Dharma Productions, "Ae Dil Hai Mushkil" was shot in India and in the US.

"There is a need to examine the complete loop of transactions between all the parties (Dharma Productions, ADHM Films (UK) and Ranbir Kapoor to verify if due service tax has been levied in this case or not," the report said.

It said Kapoor received a consideration of Rs 6.75 crore from London-based ADHM Films for the movie shot overseas and did not pay service tax of Rs 83.43 lakh, treating the same as export of services.

The CAG in a report tabled in Parliament on Friday observed that in two instances, films were shot in India and abroad, the payment to artists for the portion shot abroad was arranged from foreign companies and the service was made to look as export of services with no tax liability.

The other such instance cited in the CAG report concerns the Telugu movie titled "Nannaku Prematho".

The report also noted that distributors realised distribution income relating to publicity and expenses of Rs 50.56 crore during 2012-13 to 2014-15. It named Arbaaz Khan Production, Red Chillies Entertainment and Eros International Media in this connection.

"But service tax amounting to Rs 6.21 crore on the distribution income was not paid as the parties claimed exemption of the consideration or revenue treating the same as assignment of theatrical rights," the CAG said.

The official auditor disputed the Finance Ministry's clarification in the matter that distribution and publicity expenses are integral part of a film's theatrical rights.

The reply of the ministry is not acceptable since these services are independent services and cannot be considered as theatrical rights," the report said.

It also recommended that "since the assessees are exploiting the ambiguity" in the terms theatrical and non-theatrical while drafting of agreements for transfer of rights, "there is a need to bring legislative clarity for these terms".

"Copyrights transferred with limitations were treated as transferred in perpetuity, resulting the escapement of revenue," the report observed.

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