

CHAPTER II FINANCIAL ANALYSIS

Trend of revenue

2.1 Pre-VAT and post-VAT tax collection

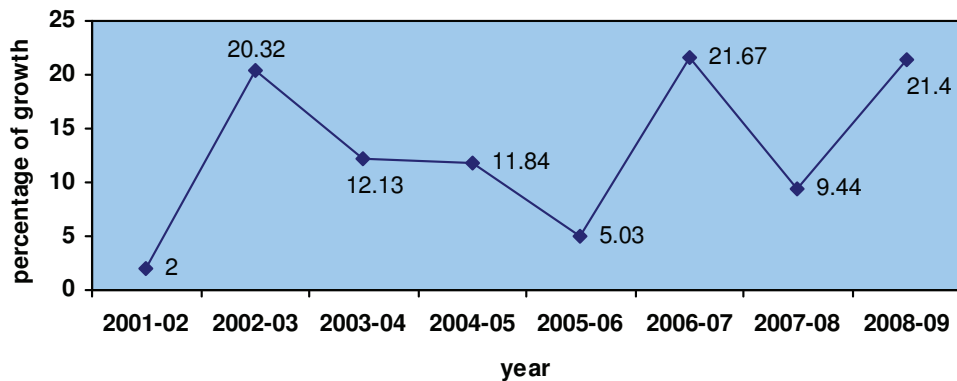
Our evaluation of the tax collection during the pre-VAT (2001-02 to 2004-05) and post-VAT periods (2005-06 to 2008-09) and the percentage of growth of receipts in each of these years indicated

(Rupees in crore)

Pre-VAT			Post-VAT		
Year	Actual collection	Percentage of growth	Year	Actual collection	Percentage of growth
2001-02	4440.85	2.00	2005-06	7,037.97	5.03
2002-03	5,343.15	20.32	2006-07	8,563.31	21.67
2003-04	5,991.43	12.13	2007-08	9,371.76	9.44
2004-05	6,701.05	11.84	2008-09	11,377.13	21.40
Average growth		11.57			14.39

that there has been an increase of 2.82 *per cent* in average growth during the post-VAT period over the pre-VAT period. The percentage growth during the years 2001-02 to 2008-09 are shown in the charts below.

Chart showing percentage of growth



We noticed that though the revenue has been increasing in absolute terms during the pre-VAT as well as post-VAT periods, the percentage of growth of revenue during the pre-VAT and post-VAT period has been showing an inconsistent trend.

2.2 Variation between the budget estimates and actuals

Our analysis of the performance of the department during the post VAT period (2005-06 to 2008-09) indicated that though the department could

not achieve the targets fixed during 2005-06, 2007-08¹ and 2008-09, however, overall the department has done fairly well in achieving the targets as the variations were confined to about six *per cent*.

(Rupees in crore)

Year	Budget estimates (revised)	Actuals	Variation of actuals over budget estimates	Percentage of Variation
2005-06	3,134.00	2,955.81	(-) 178.19	(-) 5.69
2006-07	4,135.00	4,189.58	(+) 54.58	(+) 1.32
2007-08	5,129.67	5,014.80	(-) 114.87	(-) 2.24
2008-09	6,218.35	5,881.96	(-) 336.39	(-) 5.41

After we pointed out the variation, the Government stated that the decrease in VAT collection during 2007-08 was due to reduction of tax on certain commodities from 20 *per cent* to 12.5 *per cent*.

2.3 Comparison between the VAT/sales tax receipts vis-à-vis the total (tax and non-tax) receipts of the State

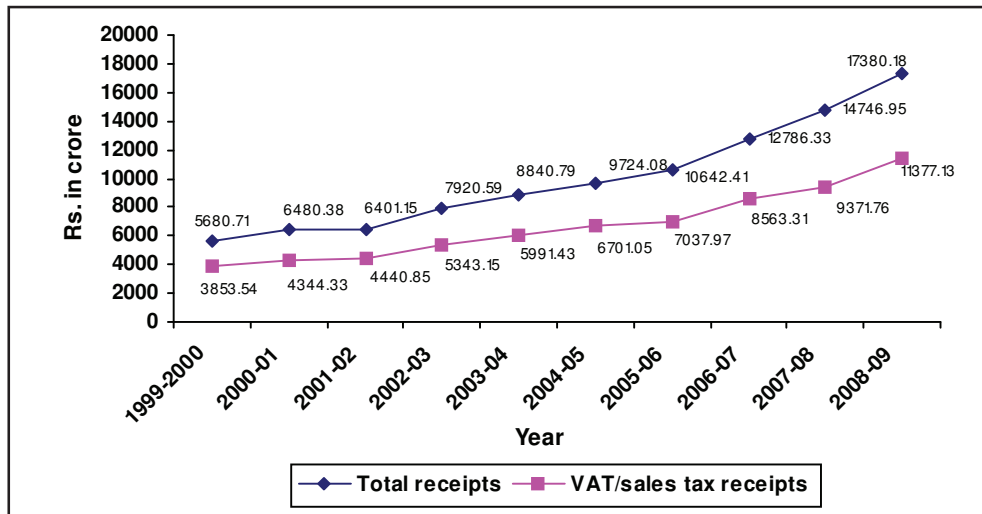
The comparison between the VAT/sales tax receipts *vis-à-vis* the total (tax and non-tax) receipts of the State during 1999-2000 to 2008-09 is shown in the table and chart below.

(Rupees in crore)

Year	Total receipts	VAT/sales tax receipts	Percentage of VAT/Sales tax receipts over the total receipts
1999-00	5,680.71	3,853.54	67.84
2000-01	6,480.38	4,344.33	67.04
2001-02	6,401.15	4,440.85	69.38
2002-03	7,920.59	5,343.15	67.46
2003-04	8,840.79	5,991.43	67.77
2004-05	9,724.08	6,701.05	68.91
2005-06	10,642.41	7,037.97	66.13
2006-07	12,786.33	8,563.31	66.97
2007-08	14,746.95	9,371.76	63.55
2008-09	17,380.18	11,377.13	65.46

¹ If misclassification pointed out in paragraph 2.5 were also reckoned, decrease of actuals over budget estimate during 2007-08 would be Rs. 327.46 crore (6.35 *per cent*).

ST/VAT receipts vis-a-vis total receipts



The table and the chart above shows that VAT/sales tax receipts remained in the range of 63.55 to 69.38 *per cent* of total state receipts during ten year period upto 2008-09. However, the percentage share of VAT/sales tax in total receipts which was 67.84 *per cent* during 1999-2000 went up to 69.38 *per cent* in 2001-02 but fell to around 65 *per cent* in 2008-09.

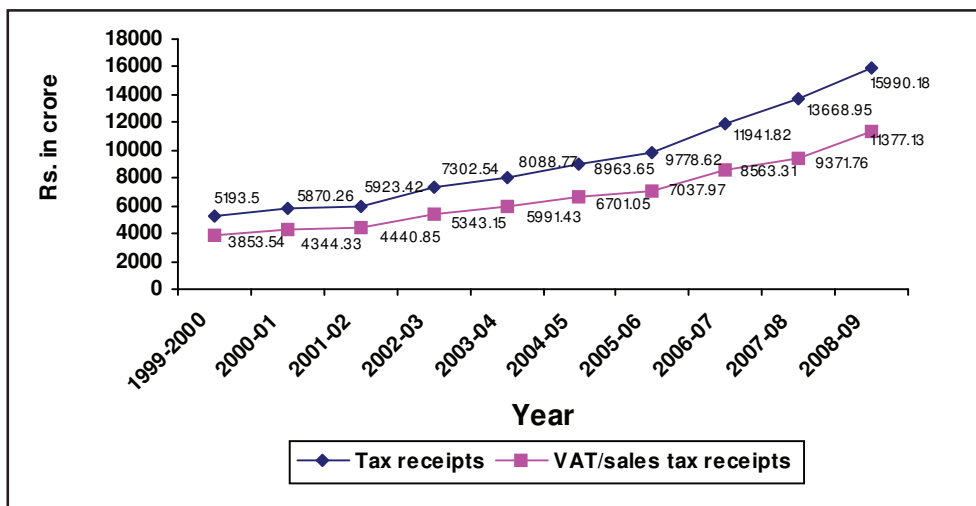
2.4 Comparison between the VAT/sales tax receipts vis-à-vis the tax receipts of the State

The comparison between the VAT/sales tax receipts vis-à-vis the tax receipts of the State during 1999-2000 to 2008-09 is shown in the table and chart below.

(Rs in crore)

Year	Tax receipts	VAT/sales tax receipts	Percentage of VAT/Sales tax receipts over the total tax receipts
1999-00	5193.50	3,853.54	74.20
2000-01	5,870.26	4,344.33	74.01
2001-02	5,923.42	4,440.85	74.97
2002-03	7,302.54	5,343.15	73.17
2003-04	8,088.77	5,991.43	74.07
2004-05	8,963.65	6,701.05	74.76
2005-06	9,778.62	7,037.97	71.97
2006-07	11,941.82	8,563.31	71.71
2007-08	13,668.95	9,371.76	68.56
2008-09	15,990.18	11,377.13	71.15

ST/VAT receipts vis-a-vis total tax receipts



The table and the chart above shows that during ten year period upto 2008-09 VAT/sales tax receipts constituted 68.56 to 74.97 per cent of total tax receipts of the State. However, the share of VAT/sales tax in tax receipts of the State which was 74.20 per cent in 1999-2000 came down to 71.15 per cent in 2008-09.

2.5 Post-VAT collection of ST, CST and VAT

The total tax on sales, trade etc., raised by the State, split up of receipts under KGST, CST and KVAT, percentage of increase in VAT collection from previous year and percentage of VAT revenue to the total tax revenue during the years 2005-06 to 2008-09 are shown in the table below.

(Rupees in crore)

Year	Total tax on Sales, trade etc.	Receipts under minor head for ²			Percentage of increase in VAT Collection	Percentage of VAT on tax on sales, trade etc
		KGST Act	CST Act	KVAT Act		
2005-06	7,037.97	3,297.26	486.36	2,955.81	----	42.00
2006-07	8,563.31	3,882.04	339.66	4,189.58	41.74	48.92
2007-08	9,371.76	3,334.96	1,016.21	5,014.80	19.70	53.51
2008-09	11,377.13	5,035.19	425.38	5,881.96	17.29	51.70

Analysis of the figures in the table above brought out the following.

The KVAT figure for 2005-06 is the net collection after setting off ITC on opening stock of the dealers as on 1 April 2005 which may be the reason

² Revenue of other miscellaneous minor heads not shown separately.

for recording higher percentage of increase during 2006-07 than 2005-06.

The growth of VAT collection as seen in the column 6 shows that though the receipts increased in absolute terms, the percentage of growth registered a decreasing trend over the years 2005-06 to 2008-09.

During 2007-08, revenue under KGST had decreased by Rs. 547.08 crore (14.09 per cent) and that under CST had increased by Rs. 676.55 crore (199.18 per cent) in comparison to the figures of 2006-07. Considering the price rise in the non-VAT goods and the reduction in the floor rate of CST from four per cent to three per cent during 2007-08, such huge variation could not be possible. However, the department did not take any action to reconcile the figures as required under the Kerala Financial Code and locate the misclassification. This was despite the fact that the Central Government used to grant VAT compensation on the basis of the reconciled figures.

On scrutiny of the major remittances for 2007-08, we detected misclassification that ultimately resulted in excess accounting of Rs. 753.27 crore and Rs. 187.39 crore under CST and KVAT respectively and short accounting of Rs. 932.31 crore under KGST head. Consequent short claim of VAT compensation of Rs. 93.69 crore for the year 2007-08 is enumerated in paragraph 6.8.

Government stated that though misclassification occurred during the initial period of introduction of VAT, the department reconciled, identified them and effected changes in the treasury records. The fact remains that we have referred to the final figures booked by the Accountant General (A&E), Kerala. Once the accounts are completed, no further change is possible in the treasury accounts. Though a note of error can be effected in the accounts of AG (A&E), the department did not make any such effort.

2.6 Cost of collection

The gross collection under 'Taxes on sales, trade etc.,' and expenditure incurred on its collection during the years 2004-05 to 2008-09 are shown in the table below.

Year	Total tax on Sales, trade etc. (ST+VAT)	Expenditure on collection of revenue	Percentage of expenditure to gross Collection	All India average of the relevant year
	(Rupees in crore)			
2004-05	6,701.05	52.10	0.78	0.95
2005-06	7,037.97	60.96	0.87	0.91
2006-07	8,563.31	78.21	0.91	0.82
2007-08	9,371.76	89.75	0.96	0.83
2008-09	11,377.13	102.59	0.90	Not available

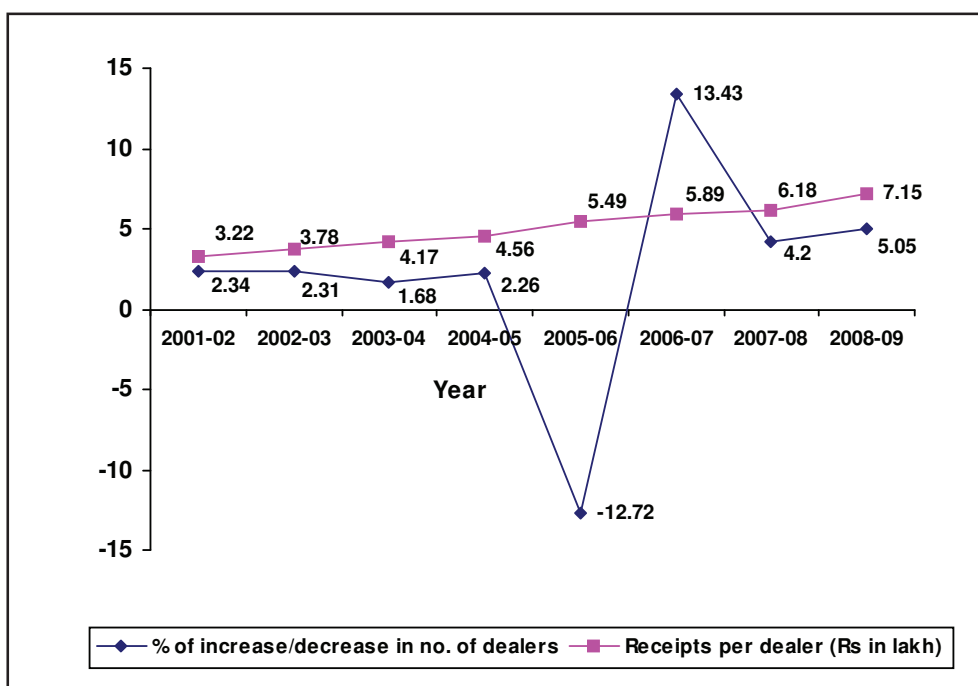
The cost of collection, which was 0.78 per cent of the gross collection during 2004-05, had increased up to 0.96 per cent during 2007-08 while it decreased to 0.90 per cent during 2008-09. However, the cost of collection, when compared to the all India average for the relevant year, was lower during the years 2004-05 and 2005-06 while during the next two years it was marginally higher.

2.7 Receipt per dealer

The number of registered dealers during the period from 2001-02 to 2008 09 vis-à-vis receipt per dealer is shown in the table and chart below.

Period	Number of dealers	Percentage increase (+)/decrease (-) of dealers with reference to previous year	Actual receipts (Rupees in crore)	Receipts per dealers (Rupees in lakh)
2001-02	1,38,100	- -	4,440.85	3.22
2002-03	1,41,290	2.31	5,343.15	3.78
2003-04	1,43,669	1.68	5,991.43	4.17
2004-05	1,46,909	2.26	6,701.05	4.56
2005-06	1,28,220	-12.72	7,037.97	5.49
2006-07	1,45,439	13.43	8,563.31	5.89
2007-08	1,51,550	4.20	9,371.76	6.18
2008-09	1,59,207	5.05	11,377.13	7.15

Number of dealers vis-a-vis receipts per dealer



Thus, during the period of 10 years, the receipts per dealer has grown steadily and during 2008-09 it registered a healthy trend of Rs. 7.15 lakh per dealer. However, the number of registered dealers recorded a decrease of 12.72 *per cent* in the year of implementation of VAT which is apparently due to raising of threshold limit for registration from annual turnover of Rs. 1 lakh to Rs. 5 lakh.