

## Chapter II: Taxes on Sales, Trade etc.

### 2.1 Results of audit

Test check of the records of sales tax/value added tax during the year 2008-09 revealed underassessments of tax and other deficiencies amounting to Rs. 35.02 crore in 295 cases, which fall under the following categories:

(In crore of rupees)

Sr. no.	Category	Number of cases	Amount
1.	Loss of revenue due to excess VAT refund	23	3.65
2.	Non/short levy of sales tax/VAT	165	26.83
3.	Incorrect grant of exemption from tax	7	0.35
4.	Non/short levy of penalty	43	1.88
5.	Other irregularities	57	2.31
<b>Total</b>		<b>295</b>	<b>35.02</b>

During the year 2008-09, the department accepted audit observations involving Rs 2.07 crore in 18 cases and recovered Rs. 38.22 lakh in 29 cases pertaining to the audit findings of previous years.

A few illustrative audit observations involving Rs. 3.75 crore are discussed in the succeeding paragraphs.

## **2.2 Audit observations**

*Scrutiny of assessment records of sales tax/value added tax (VAT) revealed several cases of non-observance of provisions of Acts/Rules, non/short levy of tax/penalty/interest, incorrect allowance of exemption/incorrect determination/ classification/turnover and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions on the part of Assessing Authorities (AAs)/Designated Officers (DOs) are pointed out in audit repeatedly, but not only the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system so that such omissions can be detected and corrective measure taken.*

## **2.3 Non-observance of the provisions of Acts/Rules**

*The Punjab General Sales Tax Act, 1948 (PGST Act) /the Punjab Value Added Tax Act, 2005 (PVAT Act) /the Central Sales Tax Act, 1948 (CST Act) and Rules provide for:-*

- (i) levy of tax at the prescribed rates;*
- (ii) exemption under the Punjab General Sales Tax (Deferment & Exemption), Rules (PGST (D&E) Rules) saved under PVAT Act; and*
- (iii) correct determination of tax/turnover.*

*The AAs while finalising the assessment did not observe some of the above provisions of Acts/rules in the cases as mentioned in paragraphs 2.3.1 to 2.3.13. This resulted in non/short levy/ non-realisation of tax/interest/ penalties of Rs. 1.93 crore.*

### **2.3.1 Incorrect levy of concessional rate of tax**

Under the CST Act, on inter state sales (ISS) of goods made to the registered dealers and supported by declarations in form C, central sales tax (CST) is leviable at the concessional rate of four *per cent* or at such lower rate as applicable to the sale or purchase of such goods within the State. Tax on goods not covered by such declarations, in the case of declared goods, shall be calculated at twice the rate applicable in the State and in respect of other goods at 10 *per cent* or at the rate applicable to the sale of such goods inside the State whichever is higher.

During test check of assessment records of the Assistant Excise and Taxation Commissioner (AETC) Fatehgarh Sahib, it was noticed between February and May 2008 that while finalising the assessments for the years 2002-03 to 2004-05 of five dealers engaged in the business of electric resistance welded pipes and iron & steel, the AA erroneously assessed tax at the concessional rate of two *per cent* on the ISS of Rs. 27.15 crore as against the sales of Rs. 20.32 crore supported by the prescribed declarations. This resulted in short levy of CST of Rs. 40.96 lakh.

The matter was reported to the department and the Government between September 2008 and January 2009; their replies have not been received (September 2009).

### **2.3.2 Application of incorrect rates of tax**

Under the provisions of the PGST Act and the Rules made thereunder, tax on the sale of transformers, tomato ketchup, *sharbat* and preserved food articles is leviable at the rate of 13.20 *per cent* including additional tax.

During test check of assessment records of three AETCs<sup>1</sup>, it was noticed between May and November 2008 that while finalising the assessment for the years 2002-03 to 2004-05 of three dealers engaged in the business of manufacturing and sale of transformers, tomato ketchup, *sharbat* and preserved food articles and enjoying the benefit of exemption (except the dealer of Ludhiana-II) from payment of sales tax under the PGST (D&E) Rules, the AAs levied tax at incorrect rate of four to 10 *per cent* instead of 13.20 *per cent* on the sale value of Rs. 2.84 crore. This resulted in short levy of tax of Rs. 20.32 lakh.

After the cases were pointed out between May and November 2008, the department intimated in January 2009 that AETC Amritsar-I had reopened the case for assessment and finalisation of the proceedings was awaited. The reply in respect of other cases was awaited (September 2009).

The matter was reported to the Government between December 2008 and February 2009; their replies have not been received (September 2009).

### **2.3.3 Non-levy of purchase tax**

Under the provisions of the PGST Act, if a dealer purchases taxable goods from any source without the payment of tax and uses them in the manufacture of tax free goods, he is liable to pay tax on the purchase of such goods. Tax at the rate of four *per cent* was leviable on poly pack films and chemicals used in the packing of milk.

During test check of the assessment records of AETC (Ward 3 and 4) Amritsar-I, it was noticed in February 2008 that while finalising in February 2007 the assessment for the year 2003-04 of a dealer engaged in the business of sale of milk (tax free items), the AA did not levy tax on the purchase of raw material such as poly pack films and chemicals valued Rs. 46.66 lakh used in the packing of milk. This resulted in non-levy of purchase tax of Rs. 2.14 lakh.

After the case was pointed out in February 2008, the department intimated in April 2009 that the case had been reopened for assessment.

The matter was reported to the Government in September 2008; their replies have not been received (September 2009).

### **2.3.4 Short levy of VAT due to application of incorrect rate of tax**

Under the provisions of the PVAT Act, on filing of returns by the dealer, if any tax or interest is found due on the basis of such returns, a notice of demand specifying the sum payable shall be sent to the dealer. However, no intimation under the PVAT Act shall be sent after the expiry of one year from the end of the financial year in which the return is filed.

<sup>1</sup> Amritsar-I, Ludhiana-II and Mansa.

During test check of records of AETC Bathinda, it was noticed in October 2008 that a dealer in his self assessment return/annual return for the year 2005-06 calculated the tax on taxable turnover of desert water cooler and its parts valued Rs. 72.88 lakh at the rate of four *per cent* instead of the correct rate of 12.50 *per cent*. The self assessment return filed by the dealer was accepted by the department and no notice of demand for the differential amount as required under the Act was issued. This resulted in short levy of tax of Rs. 6.20 lakh.

The matter was reported to the department and the Government in February 2009; their replies have not been received (September 2009).

#### **2.3.5 Excess allowance of refund**

Under the PVAT Act, tax on capital goods is leviable at the rate of four *per cent*.

During test check of records relating to refund in two AETCs (Fatehgarh Sahib and Ludhiana-I) for the year 2005-06, it was noticed in November and December 2008 that, while allowing the refund to two dealers between October 2005 and November 2006, the DOs calculated the input tax credit at rate of 12.50 *per cent* instead of the correct rate of four *per cent* leviable on capital goods. This mistake resulted in excess refund of Rs. 5.09 lakh.

The matter was reported to the department and the Government in February 2009; their replies have not been received (September 2009).

#### **2.3.6 Incorrect computation of quantum of exemption**

Under the PGST (D&E) Rules as saved under the PVAT Act, a taxable person shall be entitled to the input tax credit (ITC) in respect of materials used in the manufacture on taxable goods, purchased by him from a taxable person within the State during the tax period. The quantum of exemption from payment of the tax by an exempted unit shall be computed by adding the amount of refund allowed to the output tax calculated at VAT rates.

During test check of records of AETC, Fatehgarh Sahib for the assessment year 2005-06, it was noticed in November 2008 that a dealer was issued eligibility certificate for the grant of sales tax exemption of Rs. 1.73 crore for seven years with effect from 14 March 2001 and he availed tax exemption of Rs. 1.20 crore between March 2001 and March 2005. The dealer was allowed refund of Rs. 32.17 lakh during the second and fourth quarter of the year 2005-06. The AA while computing the quantum of exemption for the year 2005-06 had taken the output tax liability as Rs. 50.44 lakh instead of Rs. 82.61 lakh without including the refund of Rs. 32.17 lakh. This resulted in excess availment of exemption of Rs. 29.51 lakh.

After the case was pointed out in November 2008, the department intimated in April 2009 that the case had been reopened for assessment.

The matter was reported to the Government in February 2009; their replies have not been received (September 2009).

### **2.3.7 Irregular utilisation of input tax credit**

Under the PGST (D&E) Rules as saved under the PVAT Act, an industrial unit availing the benefit of deferment or exemption from payment of tax, shall be entitled to refund of tax, paid or payable by it on the purchases made from a taxable person within the State, for use in manufacturing, processing or packing of taxable goods. No ITC shall be admissible in respect of such purchases. The Excise and Taxation Commissioner (ETC), Patiala had clarified in March 2007 that the exempted units are not allowed to use ITC towards output tax liability of non-exempted goods sold by them.

During test check of records of refunds of DO Ludhiana-II for the years 2006-07 and 2007-08, it was noticed in August 2008 that a dealer engaged in the business of manufacture and sale of cycle parts and enjoying the benefit of exemption from payment of tax under the PGST (D&E) Rules, was allowed to utilise ITC of Rs. 22.84 lakh towards his output tax liability relating to the sale of non-exempted goods. Failure on the part of the DO resulted in irregular utilisation of ITC to the extent of Rs. 22.84 lakh and short levy of output tax of equal amount.

After the case was pointed out in August 2008, the department intimated in April 2009 that the case had been reopened for assessment. Finalisation of the proceedings was still awaited (September 2009)

The matter was reported to the Government in January 2009; their replies have not been received (September 2009).

### **2.3.8 Short levy of purchase tax**

The goods mentioned in schedule 'C' to the PGST Act are liable to purchase tax in the hands of the last dealer. Cotton of all kinds is included in schedule 'C' and purchase tax is leviable at the rate of four *per cent*.

During test check of the assessment records of AETC Amritsar-II, it was noticed in November 2007 that while finalising between September and November 2006, the assessment for the years 2003-04 to 2004-05 of a dealer engaged in the business of manufacture and sale of surgical cotton and availing the benefit of exemption from payment of tax under the PGST (D&E) Rules, the AA did not levy tax on the purchase of cotton valued at Rs. 2.92 crore used in the manufacture of surgical cotton (general goods) without recording any reasons. This resulted in non-levy of purchase tax of Rs. 11.70 lakh.

After the case was pointed out in November 2007, the department intimated in April 2009 that AETC Amritsar-II had created the additional demand and debited to the available exemption of the unit.

The matter was reported to the Government in February 2009; their replies have not been received (September 2009).

### **2.3.9 Excess allowance of refund**

Under the PVAT Act, no tax paid on purchase of goods shall be refunded, if the goods so purchased are used in the manufacturing, processing or packing of tax-free goods. Further, under the Punjab Value Added Tax Rules, 2005

(PVAT Rules), where a taxable person has used the goods purchased partly for manufacture and sale of tax-free goods and partly taxable goods, ITC shall be apportioned to the goods purchased and consumed in the manufacture of tax-free goods.

During test check of refund cases of AETC, Ludhiana-III, it was noticed in July 2008 that a dealer was engaged in the business of manufacture<sup>2</sup> and sale of taxable as well as tax-free goods and enjoying the benefit of exemption from payment of tax under the PGST (D&E) Rules as saved under PVAT Act. The AA allowed refund of Rs. 18.44 lakh in May 2007 against admissible of Rs. 8.52 lakh on material consumed by the dealer in manufacturing of tax free goods. This resulted in excess allowance of refund of Rs. 9.92 lakh.

The matter was reported to the department and the Government in December 2008; their replies have not been received (September 2009).

### **2.3.10 Inadmissible availment of exemption from payment of tax**

Under the PGST (D&E) Rules as saved under the PVAT Act, exemption from payment of tax is admissible to a unit for manufacturing and sale of products mentioned in the eligibility certificate.

During test check of records of the AETC Ludhiana-II, it was noticed in September 2008 that while finalising the refund in July 2007 for the year 2005-06 of a dealer engaged in the manufacture and sale of hosiery and enjoying exemption from payment of tax under the PVAT (D&E) Rules, the AA allowed exemption from payment of tax for the sale of yarn, wastage and job work valued Rs. 1.87 crore. As yarn, wastage and job work were not included in the eligibility certificate, exemption from payment of tax under the PVAT (D&E) Rules was not admissible and the dealer was liable to pay tax of Rs. 5.53 lakh.

After the case was pointed out in September 2008, the department intimated in January 2009 that the case had been reopened for assessment.

The matter was brought to the notice of the Government in January 2009; their replies have not been received (September 2009).

### **2.3.11 Short levy of additional tax**

Under the PGST Act and the Rules made thereunder, additional tax at the rate of 10 *per cent* of the tax assessed is leviable, in addition to the tax.

During test check of the assessment records of the AETC (Inspection), Ludhiana-I, it was noticed in December 2007 that while finalising the assessment for the years 2001-02 to 2004-05 of a dealer engaged in the business of manufacture and sale of SW pipes and enjoying the benefit of exemption from payment of tax under the PGST (D&E) Rules, the AA assessed tax of Rs. 54.12 lakh on the turnover of Rs. 7.22 crore but omitted to levy the additional tax of Rs. 5.41 lakh.

After the cases were pointed out in December 2007, the department intimated in April 2009 that additional demand of Rs. 3.39 lakh for the years 2002-03 to

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<sup>2</sup> mosquito coil, toilet cleaner, corrugated carton and duplex inner.

2004-05 had been raised and adjusted against exemption limit of the unit. The reply in respect of the assessment years 2001-02 and 2002-03 was awaited (September 2009).

The matter was reported to the Government in February 2009; their replies have not been received (September 2009).

### **2.3.12 Incorrect determination of gross turnover**

Under the PVAT Act, gross turnover includes the aggregate of the amount of sales and/or purchases made by any person during the given period, including any sum, charged on account of freight, storage, demurrage, insurance and for any thing done by the person in respect of the goods at the time of or before the delivery thereof. Further, return as defined in the PVAT Act means a true and correct account of business pertaining to the return period in the prescribed form.

During test check of records of DO Ludhiana-II, it was noticed in September 2008 that gross turnover of Rs. 63.99 crore shown in the returns filed by two dealers for the year 2005-06 did not include the sale of assets valued Rs. 4.76 crore shown in their accounts. The self assessment returns filed by the dealers were accepted by the department and no notice of demand against non-inclusion of the sale value of assets in the taxable turnover as required under the Act was issued. This resulted in non-levy of tax of Rs. 19.03 lakh.

After the cases were pointed out in September 2008, the department intimated in April 2009 that the cases had been reopened for assessment. Finalisation of the proceedings was still awaited (September 2009).

The matter was reported to the Government in January 2009; their replies have not been received (September 2009).

### **2.3.13 Short computation of turnover**

Turnover as defined in the PGST Act includes the aggregate of sales and purchases actually made by any dealer during a given period.

During test check of records of AETC Jalandhar-II (ward 11), it was noticed in March 2008 that while finalising the assessment for the year 2004-05 of a dealer engaged in the business of building contracts, the AA computed the gross turnover as Rs. 3.27 crore on the basis of returns filed by the dealer instead of Rs. 4.90 crore shown in the trading account. This resulted in short levy of tax of Rs. 14.35 lakh.

The matter was reported to the department and the Government in October 2008; their replies have not been received (September 2009).

## **2.4 Evasion of tax due to misuse of prescribed declarations**

*The PGST/PVAT/CST Acts and Rules provide for:-*

- (i) *concessional rate of tax on Inter State Sales/sale to Government Departments and Canteen Stores Department on production of prescribed declarations/certificates; and*
- (ii) *allowing deductions against declarations.*

*The AAs while finalising the assessment did not observe the requirement of production of prescribed declarations/certificates in some cases as mentioned in paragraphs 2.4.1 to 2.4.6. This resulted in non/short levy/non-realisation of tax Rs. 61.16 lakh.*

#### **2.4.1 Short levy of tax**

Under the provisions of the CST Act, a dealer who in the course of inter state trade or commerce sells any goods to the Government departments, is liable to pay tax at the concessional rate of four *per cent* if the sales are supported by certificates in form D.

During test check of records of AETC, Ludhiana-III, it was noticed in August 2008 that a dealer made ISS of paper valuing Rs. 6.27 crore to Government departments against declarations during the year 2005-06. The dealer in his self assessment assessed the tax at the rate of one *per cent* instead of four *per cent* considering the sales made to Government departments as ISS. This resulted in short levy of CST of Rs.18.81 lakh. The department did not issue notice of demand within the prescribed period of one year as required under the PVAT Act.

The matter was reported to the department and the Government in October 2008; their replies have not been received (September 2009).

#### **2.4.2 Non-levy of purchase tax**

Under the PGST Act, if a dealer purchases taxable goods from any source without payment of tax and sends them outside the State otherwise than by way of sale or uses them in the manufacture of tax-free goods, he is liable to pay tax on the purchase of such goods.

During test check of assessment records of the AETC Amritsar-II, it was noticed in August 2008 that while finalising the assessment of a dealer for the year 2004-05 in July 2007, a deduction of Rs. 2.42 crore was allowed to the dealer on account of consignment sale of paddy outside the State of Punjab against F-forms. As the dealer had purchased the goods from commission agents without payment of tax and transferred the goods outside the State, he was liable to pay tax on consignment sale under the provisions of the Act *ibid*. This was not ensured and it resulted in non-levy of purchase tax of Rs. 9.67 lakh.

After the case was pointed out in August 2008, department stated that suitable reply would follow after perusal of records. Final reply was still awaited (September 2009).

The matter was reported to the department and the Government in December 2008; their replies have not been received (September 2009).

#### **2.4.3 Allowance of incorrect deduction**

Under the PGST Act and Rules made thereunder, a registered dealer may deduct from his gross turnover the sale of goods made to the canteen stores department subject to furnishing of the prescribed certificates duly signed by the authorised officers.



During test check of records of AETC Jalandhar-I, it was noticed in August 2006 that while finalising in February 2006 the assessment for the year 2004-05 of a dealer engaged in the business of resale of two wheelers, the AA incorrectly allowed deduction of Rs. 7.64 crore from the gross turnover, though the certificates were produced for Rs. 7.47 crore only. The incorrect allowance of deduction resulted in under assessment of tax amounting to Rs. 2.21 lakh.

The matter was reported to the department and the Government in February 2009; their replies have not been received (September 2009).

#### **2.4.4 Non-levy of tax at first stage of sale**

Under the provisions of the PGST Act and the Rules framed thereunder, tax is leviable at the first stage of sale of paper, packing material, thermo mechanically treated (TMT) bars and auto parts.

During test check of the assessment records of three AETCs<sup>3</sup> between November 2007 and September 2008, it was noticed that while finalising between August 2006 and September 2007, the assessments of four dealers for the years 2001-02 to 2004-05, the AAs erroneously allowed deduction of Rs. 2.27 crore towards sale of paper, packing material, TMT bars and auto parts sold to the registered dealers in the state against declarations. Since these goods were taxable at the first stage of sale, the deductions allowed against the declarations were not correct. This resulted in non-levy of tax of Rs. 14.51 lakh.

After the cases were pointed out between November 2007 and September 2008, the department intimated in April 2009 that AETC Ludhiana-II had reopened the assessment of one dealer. Reply in respect of the other dealers was awaited (September 2009).

The matter was reported to the department and the Government between January 2008 and February 2009; their replies have not been received (September 2009).

#### **2.4.5 Deduction without declaration**

Under the PGST Act and Rules framed thereunder, the dealer may deduct from the gross turnover the sale value of goods which are taxable at the first stage of sale under sub-section (I-A) and sub-section (3) of section 5 of the Act and which have been purchased by a dealer for sale in the course of inter-State trade or commerce. Rules further require that the dealer have to append to his return in respect of such sale, "C" part of the declaration prescribed in the form ST-XXII-C, duly authenticated and numbered by the appropriate AA and signed by the purchasing dealer.

During test check of assessment records of the AETC, Fatehgarh Sahib, it was noticed in May 2008 that while finalising in April 2007 the assessment for the year 2003-04 of a dealer engaged in the business of Iron & Steel, the AA allowed deduction of Rs. 2.57 crore without ensuring production of the

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<sup>3</sup> Fatehgarh Sahib, Jalandhar-I and Ludhiana-II.

prescribed declarations. This resulted in irregular allowance of deduction and under assessment of tax of Rs. 10.28 lakh.

The matter was reported to the department and the Government in January 2009; their replies have not been received (September 2009).

#### **2.4.6 Incorrect allowance of deductions to other registered dealers**

As per Government notification issued in July 1990, the goods manufactured by the unit availing the benefit of deferment or exemption from payment of sales tax are taxable at the first stage of sale in the State and the units are not entitled to claim deductions from their turnover on account of sale to other registered dealers against prescribed declarations.

During test check of assessment records of the AETC Sangrur (Pendancy), it was noticed in March 2008 that the AA, while finalising in December 2006, the assessments for the year 2001-02 and 2002-03 of a dealer engaged in the manufacture and sale of copper/aluminum wire, allowed deductions of Rs. 64.54 lakh from the gross turnover on account of sale of goods to other registered dealers in the State against the prescribed declarations. As the dealer was a manufacturer and enjoying the benefit of exemption from payment of sales tax and had sold the goods for the first time in the State, he was liable to be taxed for such sales. The incorrect allowance of deductions resulted in under assessment of tax of Rs. 5.68 lakh.

The matter was reported to the department and the Government in August 2008; their replies have not been received (September 2009).

#### **2.5 Incorrect determination of turnover**

*The PVAT Act/Rules provide for:-*

- (i) disclosure of actual turnover by the dealer in the returns;*
- (ii) correct determination of tax payable in the self assessment returns; and*
- (iii) correct adjustment of input tax credit.*

*The dealers did not disclose the actual turnover/made correct adjustment of input tax credit and the Designated Officers also did not observe some of the above provisions in cases as mentioned in the paragraphs 2.5.1 to 2.5.4 which resulted in short levy/underassessment of tax of Rs. 1.20 crore.*

##### **2.5.1 Incorrect disclosure of sales turnover**

As per the PVAT Act, the amount of duties levied or leviable on the goods under the Central Excise and Salt Act, 1944, shall be deemed to be part of the sale price of goods, whether such duties are paid or payable by or on behalf of the seller or the purchaser or any other person. The PVAT Act further provides that on filing of returns by the dealer, if any tax or interest is found due on the basis of such returns, a notice of demand specifying the sum payable shall be sent to the dealer. However, no intimation under the PVAT Act shall be sent after the expiry of one year from the end of the financial year in which the return is filed.

During test check of records of AETC Ludhiana-I, it was noticed in November 2008 that a dealer engaged in the manufacturing of iron and steel products, in his self assessment return/annual return for the year 2005-06 did not include the central excise duty of Rs. 15.18 crore as part of sales turnover, though the same was shown in the profit and loss account filed with the annual return. The self assessment return filed by the dealer was accepted by the department and no notice of demand against non-inclusion of the excise duties in the sales turnover as required under the Act was issued to the dealer. This resulted in under assessment of tax of Rs. 60.72 lakh.

The matter was reported to the department and the Government in February 2009; their replies have not been received (September 2009).

### **2.5.2 Excess availment of input tax credit on consignment sale**

Under the PVAT Act, ITC shall be allowed only to the extent by which the amount of tax paid in the state exceeds four *per cent* on purchase of goods used in the manufacturing or in packing of taxable goods sent outside the state other than by way of sale in the course of inter state trade or commerce or in the course of export out of the territory of India.

**2.5.2.1** During test check of VAT refund records of two AETCs<sup>4</sup>, it was noticed in November 2008 that the DOs had accepted the self assessment returns filed by three dealers for the years 2005-06 and 2006-07 who had retained ITC of Rs. 1.13 crore instead of Rs. 1.43 crore on branch transfer of goods (Rs. 85.96 crore) which resulted in short retention of ITC of Rs. 30 lakh and non-levy of tax of equal amount.

**2.5.2.2** During test check of the records of two AETCs<sup>5</sup>, it was noticed between October and December 2008 that two dealers in their self assessment returns filed during the year 2005-06, retained ITC of Rs. 4 lakh against the due amount of Rs. 18 lakh on account of branch transfer of goods (Rs. 22.60 crore) which resulted in short retention of ITC of Rs. 14 lakh.

The matter was reported to the department and the Government in March 2009; their replies have not been received (September 2009).

### **2.5.3 Incorrect disclosure of gross turnover**

Under the provisions of the PVAT Act, sale price means the amount of consideration received or receivable by a person for any sale made including any sum charged on account of freight, storage, demurrage, insurance and any sum charged for any thing done by the person in respect of the goods at the time of or before the delivery thereof.

During test check of records of a dealer in AETC, Ropar for the year 2005-06, it was noticed in December 2008 that while filing the self assessment return/annual return, the dealer had not included receipts of Rs. 60.47 lakh being the differential price of sale of molasses as taxable turnover, though the same was shown in the balance sheet filed with the annual return. This short computation of taxable turnover led to short levy of tax of Rs. 12.12 lakh.

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<sup>4</sup> Ludhiana-I (two dealers) and Fatehgarh Sahib (one dealer).

<sup>5</sup> Bathinda (one dealer) and Moga (one dealer).

After the case was pointed out in December 2008, the department intimated in June 2009 that AETC Ropar had reassessed the case and demand of Rs. 12.12 lakh had been raised.

The matter was reported to the Government in February 2009; their replies have not been received (September 2009).

#### **2.5.4 Incorrect adjustment of input tax credit**

Under the PGST (D&E) Rules as saved under the PVAT Act, a person purchasing goods from an exempted unit, shall be entitled to avail ITC at the rate of four *per cent* of the value of taxable goods, provided such goods are used in manufacturing, processing or packing of the taxable goods or sold to a taxable person or sold in the course of inter-State trade or commerce.

During test check of records of DO Faridkot for the year 2005-06, it was noticed in October 2008 that a dealer engaged in the business of sale of liquor, while filing his annual VAT return for the year 2005-06 adjusted the ITC of Rs. 3.93 lakh calculated at the rate of 22 *per cent* instead of four *per cent* on the goods valued at Rs. 17.88 lakh purchased from an exempted unit. This resulted in short deposit of output tax of Rs. 3.22 lakh.

The matter was reported to the department and the Government in January 2009; their replies have not been received (September 2009).