

CHAPTER IV TAXES ON VEHICLES

EXECUTIVE SUMMARY

Appreciable increase in tax collection	<p>As indicated at para 1.1.2 of Chapter-I, in 2010-11, the collection of taxes on motor vehicles increased by 31.65 <i>per cent</i> over the previous year, which was attributed by the Department to growth in the auto sector, bringing the construction equipment vehicles into lifetime tax fold, increase in life tax for four wheelers and the results of a drive for collection of quarterly tax.</p>
Very low recovery by the Department in respect of observations pointed out by us in earlier years	<p>During the period 2005-06 to 2009-10, we had pointed out non/short levy, non/short realisation of tax, fee etc., with revenue implication of ₹ 1,374.35 crore in 956 cases. Of these, the Department/Government had accepted audit observations in 385 cases involving ₹ 168.98 crore but recovered 10.80 crore in 291 cases. The recovery position as compared to acceptance of objections was very low at 6.39 <i>per cent</i> during the five year period.</p>
Results of audits conducted by us in 2010-11	<p>In 2010-11 we test checked the records of 44 offices of the Transport Department and found underassessment of tax and other irregularities involving ₹ 115.09 crore in 259 cases.</p> <p>The Department, accepted underassessments and other deficiencies of ₹ 9.39 crore in 139 cases of which 37 cases involving ₹ 3.69 crore were pointed out during the year 2010-11 and the rest in earlier years. An amount of ₹ 95.36 lakh was realised in 93 cases.</p>
What we have highlighted in this chapter?	<p>In this Chapter we present illustrative cases of ₹ 72.24 crore selected from observations noticed during our test check of records relating to levy and collection of motor vehicles tax in the offices of the Transport Commissioner, Joint Transport Commissioners, Regional Transport Officers, where we found that the provisions of the Acts/ Rules were not observed.</p> <p>It is a matter of concern that similar omissions were pointed out by us repeatedly in the Audit Reports for the past several years, but the Department had not taken corrective action. We are also concerned that though these omissions were apparent from the</p>

	records which were made available to us, the RTOs failed to detect them.
Our conclusion	<p>The Department needs to improve the internal control system so that weaknesses in the system are addressed and omissions of the nature detected by us are avoided in future.</p> <p>It also needs to initiate immediate action to recover the non-realisation of quarterly tax/penalty etc., pointed out by us, more so where it has accepted our contention.</p> <p>As regards audit observations on ‘non-renewal of fitness certificates’, the Government may consider modifying the CFST package system for issuing prompts soon after the expiry of fitness validity and issue notices to such vehicle owners.</p> <p>With regard to audit observation on ‘non-levy of green tax’ it is recommended that Government may consider putting in place proper monitoring mechanism to levy and collect green tax.</p>

4.1 Tax administration

The Transport Department of the Government of Andhra Pradesh is governed by the Motor Vehicle (MV) Act, 1988, the Central Motor Vehicle (CMV) Rules, 1989, the Andhra Pradesh Motor Vehicles Taxation (APMVT) Act, 1963 and the Andhra Pradesh Motor Vehicle (APMV) Rules, 1989. The Transport Department is primarily responsible for enforcement of the provisions of the Acts and the Rules framed thereunder which, *inter alia*, includes the collection of taxes and fees, issuance of the driving licenses, certificates of fitness to transport vehicles, registration of the motor vehicles and granting regular and temporary permits to the vehicles. At the Government level, the Principal Secretary (Transport, Roads and Buildings Department) heads the Transport Department. Transport Commissioner (TC) is in charge of the Department at apex level. At the district level, there are the Deputy Transport Commissioners (DTCs) and the Regional Transport Officers (RTOs) who are in turn assisted by the Motor Vehicles Inspectors (MVIs) and other staff.

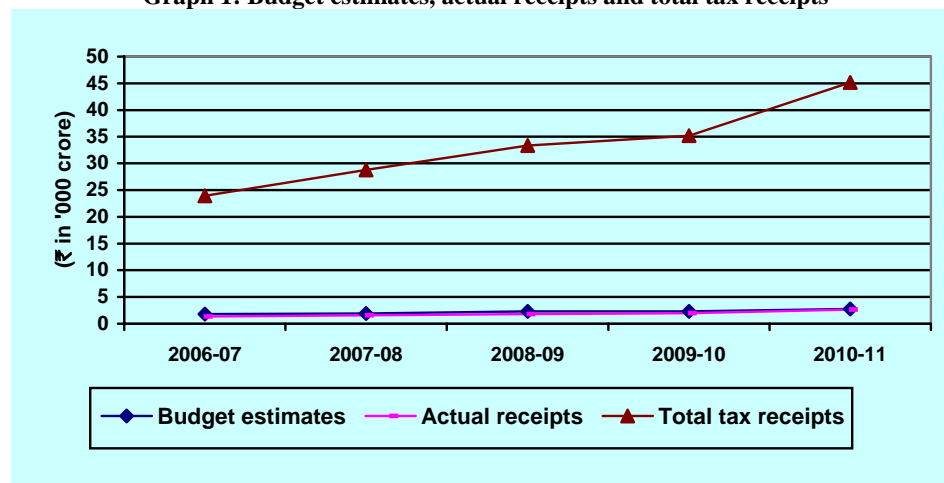
4.2 Trend of receipts

Actual receipts from taxes on vehicles during the years 2006-07 to 2010-11 along with the total tax receipts during the same period is exhibited in the following table and graphs:

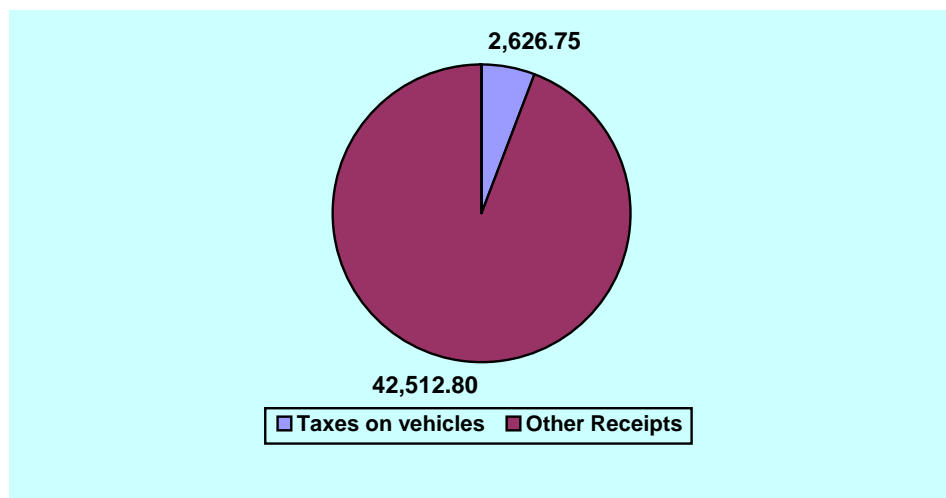
(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2006-07	1,777.00	1,364.74	(-) 412.26	(-) 23.20	23,926.20	5.70
2007-08	1,892.40	1,603.80	(-) 288.60	(-) 15.25	28,794.05	5.57
2008-09	2,289.80	1,800.62	(-) 489.18	(-) 21.36	33,358.29	5.40
2009-10	2,315.00	1,995.30	(-) 319.70	(-) 13.81	35,176.68	5.67
2010-11	2,778.00	2,626.75	(-) 151.25	(-) 5.44	45,139.55	5.82

Graph 1: Budget estimates, actual receipts and total tax receipts



**Graph 2: Actual receipts vis-à-vis Other tax receipts
(₹ in crore)**



The variation in the budget estimates and actual revenue persisted in all the years during 2006-07 to 2010-11 failing to give an assurance that the budget estimates prepared are realistic. The Department attributed (September 2011) the reason for variation to high budget estimates. It was further stated that reason for increase in revenue during 2010-11 was on account of growth in auto sector, bringing of construction equipment vehicles into life time tax fold, increase in life tax for four wheelers and drive for collection of quarterly tax.

4.3 Cost of collection

The figures of gross collection in respect of the Taxes on vehicles, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2008-09, 2009-10 and 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection for 2009-10 are mentioned below:

(₹ in crore)					
Head of revenue	Year	Gross collection	Expenditure on collection of revenue	Percentage of cost of collection to gross collection	All India average percentage for the previous year
Taxes on vehicles	2008-09	1,800.62	57.89	3.22	2.58
	2009-10	1,995.30	64.99	3.26	2.93
	2010-11	2,626.75	85.17	3.24	3.07

The expenditure on collection of taxes on vehicles was higher than the All India Average consecutively and the Government needs to look into this aspect.

4.4 Revenue impact

During the last five years, audit through its audit reports had pointed out non/short levy, non/short realisation, loss of revenue with revenue implication of ₹ 1,374.35 crore in 956 cases. Of these, the Government/ Department had accepted audit observations in 385 cases involving ₹ 168.98 crore and had since recovered ₹ 10.80 crore. The details are shown in the following table:

(₹ in crore)

Year	No. of units audited	Amount objected		Amount accepted		Amount recovered	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2005-06	39	164	452.67	111	2.65	102	0.60
2006-07	39	43	697.53	28	135.48	22	2.66
2007-08	39	230	74.16	128	13.92	90	3.43
2008-09	44	242	80.81	68	14.62	27	1.80
2009-10	44	277	69.18	50	2.31	50	2.31
Total	205	956	1,374.35	385	168.98	291	10.80

Recovery of only ₹ 10.80 crore (6.39 per cent) against the money value of ₹ 168.98 crore relating to accepted cases during the period 2005-06 to 2009-10 highlights the failure of the Government/Department machinery to act promptly to recover the Government dues even in respect of the cases accepted by them.

4.5 Working of Internal Audit Wing

Internal audit provides a reasonable assurance of proper enforcement of laws, rules and departmental instructions, and this is a vital component of internal control framework. There was no system of internal audit in the Department to ascertain the compliance with Rules/Government orders by the Department. In the absence of this, proper and effective functioning of the transport offices could not be ensured. Though most of the functioning of the Department has been computerised, internal audit was not conducted to get an assurance on the working of the computerised system. When this was pointed out in Audit Report 2008-09, the Department assured that the internal audits would be conducted in future. Regarding implementation of internal audit, the Department did not furnish (October 2011) any reply despite being requested in April/June 2011.

4.6 Results of audit

Test check of the records of 44 offices of the Transport Department revealed under assessment of tax and other irregularities involving ₹ 115.09 crore in 259 cases which fall under the following categories:

Sl. No.	Category	No. of cases	(₹ in crore)
			Amount
1.	Non-realisation of fee due to non-renewal of fitness certificate	42	51.11
2.	Non-levy of stamp duty on vehicles registered with hypothecation	2	36.48
3.	Non-realisation of quarterly tax and penalty	43	17.25
4.	Short levy of card fee	1	4.07
5.	Non-collection of minimum bid amounts for special numbers	6	0.28
6.	Short levy of life tax	52	0.84
7.	Non-finalisation of action on vehicle check reports under Section 200	22	0.65
8.	Non-levy and collection of green tax	45	2.25
9.	Non-levy/collection of compounding fee	19	0.42
10.	Loss of revenue due to lack of co-ordination with APSRTC	2	0.75
11.	Other irregularities	25	0.99
Total		259	115.09

During the course of the year 2010-11, the Department accepted under assessments and other deficiencies of ₹ 9.39 crore in 139 cases of which, 37 cases involving ₹ 3.69 crore were pointed out during the year 2010-11 and the rest in the earlier years. An amount of ₹ 91.51 lakh was realised in 88 cases.

After issue of four draft paragraphs, the Department reported (August 2011) recovery of ₹ 3.85 lakh in respect of five cases.

Few illustrative cases involving ₹ 72.24 crore are mentioned in the succeeding paragraphs.

4.7 Audit observations

During scrutiny of the records in the offices of the Transport Department relating to revenue received from quarterly tax, green tax, life tax etc., on the vehicles, we observed several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of tax/penalty 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 by us. We pointed out such omissions in audit each year, but not only do the irregularities persist; these remain undetected till an audit is conducted. There is a need for the Government to improve the internal control system including strengthening the internal audit so that such omissions are detected and rectified.

4.8 Non-renewal of fitness certificates

As per Section 56 of the Motor Vehicle (MV) Act, 1988, a transport vehicle shall not be deemed to be validly registered, unless it carries a certificate of fitness issued by the prescribed authority. As per Rule 62 of the Central Motor Vehicle (CMV) Rules, 1989, the certificate of fitness in respect of the transport vehicles shall be renewed every year. Rule 81 of CMV Rules, prescribes the fee for conducting test of a vehicle for grant and renewal of the Certificate of fitness. Plying of a vehicle without the Fitness Certificate (FC) is an offence and attracts a minimum compounding fee of ₹ 1,000.

We noticed (between January 2009 and October 2010) during test check of the records of offices of the Joint Transport Commissioner (JTC), Hyderabad, 17 DTCs¹ and 22 RTOs² that fitness certificates in respect of 4,49,567 transport vehicles whose status was 'active' as per the Citizen's Friendly Services in Transport Department (CFST) system database and that had completed two years

of life during 2008-09 and 2009-10 had not been renewed. This jeopardised public safety besides non-realisation of fitness certificate fee of ₹ 14.60 crore and a minimum compounding fee of ₹ 44.96 crore.

After we pointed out the above cases, the Department stated (August 2011) that non renewal of fitness resulting in non-realisation of fee was hypothetical and incorrect. The fee had to be collected for the service rendered only. It was added that assessment made by audit team was based on the total number of vehicles on rolls irrespective of their existence. It was also stated that compounding fee would be collected only when the vehicles ply on the roads without FC by the checking officer and arises on the agreement between the

¹ Adilabad, Anantapur, Chittoor, East Godavari, Eluru, Guntur, Kadapa, Kakinada, Karimnagar, Kurnool, Medak, Nellore, Nizamabad, Ranga Reddy, Srikakulam, Visakhapatnam and Warangal.

² Amalapuram, Bhimavaram, Gudivada, Hindupur, Hyderabad (East, South and West), Ibrahimpatnam, Khammam, Mahabubnagar, Mancherial, Medchal, Nalgonda, Nandyal, Narasaraopet, Ongole, Rajahmundry, Ranga Reddy East, Secunderabad, Siddipet, Tirupati and Vizianagaram.

checking officer and the registered owner of the vehicles. It was further stated that fitness fee could not be collected unless the owner approaches the office for renewal of FC in respect of his vehicle.

The Department's contentions are not tenable since Rule 62 of the CMV Rules prescribes that FC in respect of transport vehicles shall be renewed every year, as it is mandatory to renew fitness of the vehicle every year and failure of the Department to ensure checking of fitness of the vehicle led to non-realisation of fitness fee. Further, audit observed that the status of these vehicles was 'active' on the CFST system and the owners were paying tax regularly. This indicates that vehicles were plying without FCs. Absence of an inbuilt mechanism in CFST package for voluntary compliance led to non-renewal of fitness of the vehicle resulting in loss of fitness fee besides compounding fee.

There is no inbuilt mechanism in the Department to ensure automatic renewal of fitness of transport vehicles. Also there is no prompting mechanism in the system whenever the vehicle owner approaches the Department for any transaction. At present, renewal of fitness could only be detected by Enforcement Wing. Further, there is no provision under CMV Rules to issue show cause notice for non-renewal of FC. Absence of automated internal control mechanism to monitor renewal of fitness of vehicle is prone to risk and violative of safety measure.

Government may consider modifying the CFST package system for issuing prompts soon after the expiry of fitness validity, and the Department should issue notices to such vehicle owners.

We referred the matter to the Government in June 2011; their reply has not been received (October 2011).

4.9 Non-realisation of quarterly tax and penalty

Section 3 of the Andhra Pradesh Motor Vehicles Taxation (APMVT) Act, 1963, stipulates that every owner of a motor vehicle is liable to pay the tax at the rates specified by the Government from time to time. Section 4 of the Act specifies that the tax shall be paid in advance either quarterly, half yearly or annually within one month from the commencement of the quarter.

In terms of Section 53 of the MV Act read with Rule 102 of AP Motor Vehicle (APMV) Rules, 1989, any registering authority or other prescribed authority may suspend the registration of motor vehicle by sending notice if the provisions of the Act were not complied with. Further, as per Section 6 of the APMVT Act, in case of failure to pay the tax within the stipulated time, penalty shall be imposed.

We noticed (between August 2009 and August 2010) during test check of the records of the offices of the JTC, Hyderabad, seven DTCs³ and 10 RTOs⁴ that the quarterly tax of ₹ 2.31 crore for the years 2008-09 and 2009-10 was neither paid by the owners of 2,631 transport vehicles nor demanded by the Department. Besides, penalty of ₹ 4.62 crore leviable at twice the rate of quarterly tax for delay over two months in respect of all the cases was not levied. This

resulted in non-realisation of tax and penalty amounting to ₹ 6.93 crore.

After we pointed out the cases, the Department stated (August 2011) that quarterly tax and penalty of ₹ 56.34 lakh in respect of 576 vehicles was collected and instructions were issued to collect the balance amount.

We referred the matter to the Government in June 2011; their reply has not been received (October 2011).

4.10 Short levy of card fee

As per Rule 32 of CMV Rules, driving licenses are issued in Form-6 (license issued in the book form of the size six cm, eight cm and attracts fee of ₹ 40) and Form-7 (license issued in the form of smart card/laminated card and attracts fee of ₹ 200). According to Rule 16(2) of CMV Rules where the licensing authority has the necessary apparatus, for the issue of a laminated card or smart card type driving licenses, such card type or smart card type driving license shall be in Form-7 with effect from 31 May 2002.

³ Adilabad, Chittoor, Kadapa, Kurnool, Karimnagar, Nizamabad and Ranga Reddy.

⁴ Gudivada, Hyderabad (East, South and West), Khammam, Nalgonda, Nandyal, Secunderabad, Siddipet and Tirupati.

We noticed (November 2009) during test check of the records of the office of the Transport Commissioner that the Department issued driving licenses during 2008-09 in Form-7 in form of laminated cards at some places and smart cards having a computerised chip at some other places where necessary apparatus was available for issue of such smart cards. Though Rules provide for collection of uniform rate of fee at ₹ 200 per card i.e., laminated card or smart card, the Department did not follow a uniform procedure and collected fee at different rates i.e., at ₹ 200 per smart card and ₹ 150 per laminated card, thus failing to maintain uniformity between the collection of fee for laminated cards and smart cards. It was observed that fee towards 8,16,868 driving licenses issued in Form-7 in laminated cards during 2008-09 was levied at pre-revised rate of ₹ 150 instead of ₹ 200. This resulted in short levy of fee by ₹ 4.08 crore.

After we pointed out the cases, the Department contended (August 2011) that the driving licenses issued in majority of the cases during 2008-09 were not in Form-7; they were without computerised readable chip and hence the fee of ₹ 200 prescribed for issue of driving license in Form-7 was not applicable to those offices. However, a fee of ₹ 200 was being collected in those offices where the facility to issue smart cards with readable chip was available during the year 2008-09. The reply is not acceptable as licenses were issued in laminated card i.e., Form-7 during 2008-09, for which license fee applicable was ₹ 200 per card irrespective of the fact whether the card contained computerised chip or not. Further, though the system of issuing smart card type license was introduced in 2002, the Department had not been able to maintain uniformity through equipping the licensing authorities with necessary apparatus. This adhocism led to charging of ₹ 150 per license in many cases though the licenses were issued in Form-7 which were chargeable at ₹ 200.

We referred the matter to the Government in June 2011; their reply has not been received (October 2011).

4.11 Short levy of life tax

The Government of Andhra Pradesh amended Section 3 (2) of APMVT Act vide Ordinance No. 1/2008 dated 2 January 2008 enhancing life tax from nine *per cent* to 12 *per cent* and the same was enhanced to 14 *per cent* as per Ordinance No.2/2010, dated 2 February 2010 at the time of registration of second or more non-transport vehicles owned by individuals and non-transport vehicles owned by institutions, organisations, companies or societies. The enhanced tax was to be collected from the new vehicles sold and registered on or after 2 January 2008. Further, the TC issued a Circular memo No.1/7831/S/2005 dated 4 January 2008 instructing all the registering authorities to collect the enhanced life tax.

4.11.1 We noticed (between August 2009 and August 2010) during test check of the records of offices of 11 DTCs⁵ and 15 RTOs⁶ that life tax in respect of 802 second or more non-transport⁷ vehicles owned by individuals was collected during 2008-09 and 2009-10 at pre-revised rate, instead of enhanced rate resulting in short levy of life tax amounting to ₹ 70.95 lakh.

After we pointed out the cases, the Department stated (August 2011) that

an amount of ₹ 6.06 lakh was collected in respect of 68 vehicles and show cause notices had been issued in respect of the remaining vehicles.

The matter was referred to the Government in June 2011; their reply has not been received (October 2011).

4.11.2 We noticed (between August 2009 and June 2010) during test check of the records of offices of six DTCs⁸ and nine RTOs⁹ that life tax on 251 non-transport vehicles owned by companies, institutions, societies and organisations was collected at pre-revised rate instead of enhanced rate. This resulted in short levy of life tax of ₹ 31.73 lakh.

After we pointed out the cases, the Department stated (August 2011) that an amount of ₹ 1.48 lakh was collected in respect of 17 vehicles and show cause notices had been issued in respect of the remaining vehicles.

We referred the matter to the Government in June 2011; their reply has not been received (October 2011).

⁵ Adilabad, Ananthapur, Chittoor, Kakinada, Kadapa, Karimnagar, Kurnool, Nellore, Nizamabad, Srikakulam and Warangal.

⁶ Amalapuram, Gudivada, Hyderabad (East, South and West), Khammam, Mancherial, Nalgonda, Nandyal, Ongole, Proddattur, Rajahmundry, Ranga Reddy (East), Secunderabad and Tirupati.

⁷ Non-transport vehicles are those used by the owner of the vehicles for their own purposes and not for hire or reward.

⁸ Eluru, Kadapa, Karimnagar, Kurnool, Medak and Nizamabad.

⁹ Hyderabad (East and South), Mancherial, Medchal, Nalgonda, Nandyal, Secunderabad, Siddipet and Vizianagaram.

4.12 Non-realisation of revenue due to non-cancellation and re-notification of special numbers

As per Rule 81(3) of APMV Rules, the registering authority may reserve special numbers on payment of the prescribed fee by the owner of the vehicle. Further, as per Rule 81(6) of the APMV Rules, the reservation shall be cancelled if the vehicle is not produced within 15 days from the date of reserving and the number reserved shall be re-notified immediately.

We noticed (between August 2009 and March 2010) during test check of the records of offices of four DTCs¹⁰ and three RTOs¹¹ that in 645 cases, the reservation of the special numbers was not cancelled and the numbers were not re-notified though the registration of the vehicle was not done within 15 days from the date of reserving the number. This resulted in

non-realisation of revenue of ₹ 36.94 lakh.

After we pointed out the cases, the Department stated (August 2011) that show cause notices had been issued and collection is under process.

We referred the matter to the Government in June 2011; their reply has not been received (October 2011).

4.13 Non-levy of green tax

The Government ordered vide G.O.Ms.No. 238, Transport, Roads and Buildings (TR.I) dated 23 November 2006, levy of a tax called the 'green tax' on the transport vehicles and non-transport vehicles that have completed seven years and 15 years of age respectively from the date of registration. The rate of tax is ₹ 200 per annum for the transport vehicles. In respect of the non-transport vehicles, it is ₹ 250 for every five years in the case of motorcycles and other than motorcycles, it is ₹ 500 for every five years.

We noticed (between September 2009 and August 2010) during test check of the records of offices of JTC, Hyderabad, eight DTCs¹² and 13 RTOs¹³ that green tax aggregating ₹ 27.74 lakh in respect of 7,534 transport vehicles and 4,348 non-transport vehicles that had completed seven years and 15 years of age respectively was not levied and collected for the period from April 2008 to March 2010.

After we pointed out the cases, the Department contended (August 2011) that since the Government levies green tax by way of notification, audit contention that green tax was not

¹⁰ Eluru, Kadapa, Kakinada and Nizamabad.

¹¹ Hyderabad East, Nandigama and Secunderabad.

¹² Eluru, Guntur, Karimnagar, Kurnool, Medak, Nellore, Srikakulam and Visakhapatnam.

¹³ Amalapuram, Bhimavaram, Hindupur, Hyderabad (East, South and West), Ibrahimpatnam, Khammam, Medchal, Nandyal, Ongole, Ranga Reddy (East) and Vizianagaram.

levied by the Department was not correct. It was however stated that green tax of ₹ 2.08 lakh in respect of 1,005 vehicles was collected. It was added that in respect of 7,123 vehicles green tax was being collected whenever the vehicle owners approach their office for any transactions. The reply is not acceptable as the green tax was not collected for the period between April 2008 and March 2010 even though the owners had approached the office for transactions. Final reply in respect of remaining vehicles has not been received (October 2011).

Government may consider putting in place proper monitoring mechanism to levy and collect green tax.

We referred the matter to the Government in May 2011; their reply has not been received (October 2011).