

CHAPTER-IV

REVENUE RECEIPTS

4.1 GENERAL

4.1.1 The tax and non-tax revenue raised by the Government of Uttarakhand during the year 2009-10, the State's share of net proceeds of divisible Union taxes and duties assigned to State and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

Table-4.1.1

(₹ in crore)

Sl.No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Revenue raised by the State Government					
	• Tax Revenue	1,784.69	2,513.78	2,738.75	3,044.91	3,559.04
	• Non-tax revenue	650.09	646.82	668.38	699.44	631.86
	Total	2,434.78	3,160.60	3,407.13	3,744.35	4,190.90
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	1,009.82	1,131.83	1,427.70	1,506.59	1,550.01 ¹
	• Grants-in-aid	2,092.42	3,080.79	3,056.26	3,384.03	3,745.22
	Total	3,102.24	4,212.62	4,483.96	4,890.62	5,295.23
3.	Total revenue receipts of the state Government (1 and 2)	5,537.02	7,373.22	7,891.09	8,634.97	9,486.13
4.	Percentage of 1 to 3	43	42	43	43	44

Source: Finance Accounts 2009-10

The above table indicates that during the year 2009-10, the revenue raised by the State Government (₹ 4,190.90 crore) was 44 *per cent* of the total revenue receipts against 43 *per cent* in the preceding year. The balance 56 *per cent* of receipts during 2009-10 was from the Government of India.

¹ For details see statement No. 11-detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Uttarakhand for the year 2009-10. Figures under the major heads 0020-Corporation Tax, 0021-Taxes on Income other than Corporation Tax, 0032-Taxes on Wealth,0037-Customs,0038- Union Excise Duties and 0044-Service Tax. Share of net proceeds assigned to States booked in Finance Accounts under A-Tax Revenue have been excluded from the revenue raised by the State and included in the States share of divisible Union taxes in this statement.

4.1.2 Tax revenue

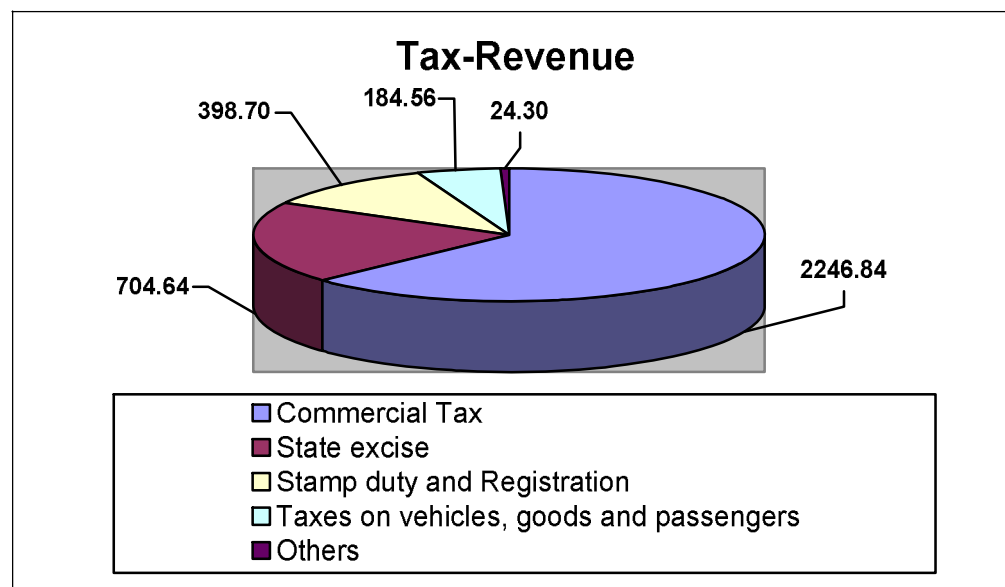
The following table presents the details of tax revenue raised during the period 2005-06 to 2009-10:

Table-4.1.2

							(₹ in crore)
Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of Increase (+)/ decrease (-) in 2009-10 over 2008-09
1.	Tax on sales, trade etc	1,014.33	1,361.42	1,627.41	1,910.64	2,246.84	(+)17.60
2.	State excise	292.75	372.91	441.56	528.35	704.64	(+)33.37
3.	Stamp duty and registration fees	333.39	546.32	424.27	357.46	398.70	(+)11.54
4.	Taxes on vehicles, goods and passengers	114.85	141.46	155.26	166.98	184.56	(+)10.53
5.	Taxes and duties on electricity	12.24	66.19	55.22	51.61	2.11	(-)95.91
6.	Land revenue	9.18	15.42	23.40	17.90	8.80	(-)50.84
7.	Other taxes and duties on commodities and services	4.39	5.44	6.45	5.87	6.27	(+)6.81
8.	Others	3.56	4.62	5.18	6.10	7.12	(+)16.72
Total		1,784.69	2,513.78	2,738.75	3,044.91	3,559.04	(+)16.88

Source: Finance Accounts 2009-10.

Chart-4.1



The following trends were observed in collection of tax revenue by the state:

- Revenue from Commercial Tax contributed to 63.13 *per cent* of total tax collections in 2009-10. State excise, Stamp duty and registration fees and taxes on vehicles together accounted for 36.19 *per cent* of the total tax in 2009-10. Commercial tax collection after witnessing 34.22 *per cent* increase after introduction of VAT in 2005, slowed down to an increase of 17.60 *per cent* in 2009-10 over the previous year, due to increase in the ITC claims with stabilization of VAT regime.
- Excise Department attributed the increase in the Excise duty for the year 2009-10 that the license fee and maximum portion of first installment of security money for 2010-11 was deposited in March 2010.
- Taxes and duties on electricity registered a decrease of 95.91 *per cent* despite increase in billing and collection by Uttarakhand Power Corporation Ltd² (UPCL) during the year. The department stated that against the total assessment of ₹ 97.64 crore no payment could be made to the government during the year 2009-10 as the corporation was continuously running under loss.

The other departments did not furnish (October 2010) the reasons for variation, though called for (September 2010).

4.1.3 Non-tax revenue

The following table presents the details of the non-tax revenue raised during the period from 2005-06 to 2009-10:

Table-4.1.3

(₹ in crore)

Sl. No	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage increase (+)/decrease (-) in 2009-10 over 2008-09
1.	Interest receipts	34.60	40.94	41.56	68.49	53.71	(-)21.58
2.	Forestry and wildlife	159.47	188.09	209.75	207.16	235.70	(+)13.78
3.	Power	230.81	172.22	144.37	171.37	56.13	(-)67.25
4.	Non-ferrous mining/metallurgical industries	52.97	62.58	73.06	63.73	74.08	(+)16.24
5.	Education, sports, art and culture	24.84	23.34	30.69	28.66	34.18	(+)19.26
6.	Public works	8.62	11.52	13.96	15.53	19.50	(+)25.56
7.	Major and medium irrigation	6.21	5.69	5.76	5.91	5.18	(-)12.35
8.	Police	5.23	5.24	5.96	7.01	9.62	(+)37.23

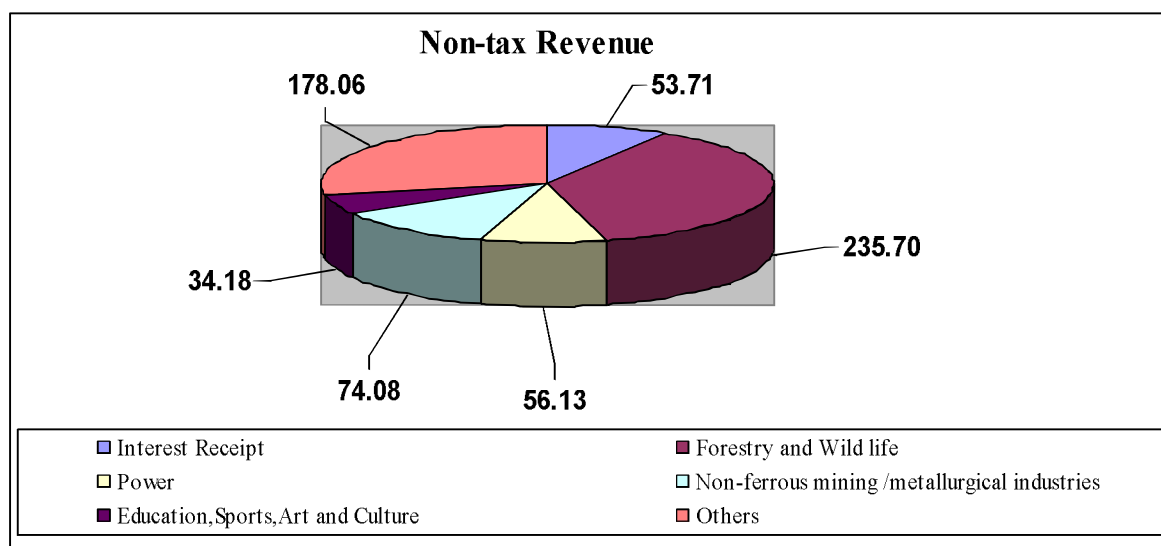
² The duties are collected by UPCL in bills raised against consumers for consumption of energy, with the billing cycles varying for different categories of consumers.

Audit Report for the year ended 31 March 2010

9.	Other administrative services	35.71	11.83	35.53	28.09	21.18	(-)24.60
10.	Medical & public health	6.04	4.29	5.29	6.84	11.73	(+)71.49
11.	Co-operation	1.19	3.99	5.58	3.19	1.78	(-)44.20
12.	Crop husbandry	2.80	2.73	3.94	3.62	4.55	(+)25.69
13.	Others	81.60	114.36	92.93	89.84	104.52	(+)16.34
Total		650.09	646.82	668.38	699.44	631.86	(-)9.66

Source: Finance Accounts 2009-10

Chart-4.2



The following trends were observed in collection of non-tax revenue by the State.

- Non-tax revenue has remained more or less stagnant from 2005-06 onwards. At ₹ 632 crore, non-tax revenue constituted 6.66 *per cent* of the total receipts. The non-tax revenue has decreased over the previous year by 9.66 *per cent*.
- Forest and Wild life: ₹ 236 crore (37 *per cent*) and Non- Ferrous mining/metallurgical industries³: ₹ 74 crore (12 *per cent*) have been the principal contributors to non-tax revenue. However the growth in revenue in 2009-10 (as compared to the previous year) in Forest was only 14 *per cent* while revenue from Power decreased 67 *per cent* over the previous year. The contribution of interest receipt to non-tax revenue was 8.5 *per cent* during the current year.

³ Royalty charges levied on non-ferrous mining/metallurgical industries.

The department did not furnish (October 2010) the reasons for variation, though called for (August 2010).

4.1.4 Variation between the budget estimates and actuals

The variation between the budget estimates and actuals of revenue receipts under the principal heads of tax and non-tax revenue for the year 2009-10 is mentioned below:

Table-4.1.4

(₹ in crore)					
Sl. No.	Revenue head	Budget estimates	Actuals	Variation increase (+) decrease (-)	Percentage
Tax revenue					
1.	Taxes/VAT on sales trade etc.	2,220.80	2,246.84	(+)26.04	(+)1.17
2.	State excise	598.22	704.64	(+)106.42	(+)17.79
3.	Stamp duty and registration fees	422.69	398.70	(-)23.99	(-)5.68
4.	Taxes on Vehicles	193.09	184.56	(-)08.53	(-)4.42
5.	Taxes and duties on electricity	72.00	2.11	(-)69.89	(-)97.07
Non-tax revenue					
6.	Interest receipts	54.28	53.71	(-)0.57	(-)1.05
7.	Other administrative services	24.86	21.18	(-)3.68	(-)14.80
8.	Crop husbandry	4.99	4.55	(-)0.44	(-)8.82
9.	Police	6.92	9.62	(+)2.70	(+)39.02
10.	Medical and public health	7.57	11.73	(+)4.16	(+)54.95
11.	Roads and bridges	3.78	1.24	(-)2.54	(-)67.20
12.	Public works	10.46	19.50	(+)9.04	(+)86.42
13.	Forestry and wildlife	219.27	235.70	(+)16.43	(+)7.49
14.	Non-ferrous mining and metallurgical industries	90.00	74.08	(-)15.92	(-)17.69
15.	Education, sports, art and culture	34.30	34.18	(-)0.12	(-)0.35
16.	Power	220.74	56.13	(-)164.61	(-)74.57

Source: Receipt Budget and Finance Account for the year 2009-10

The reasons for the variations, Stamp and Registration Department stated (August 2010) that the decrease was due to reduction in the development charges from two *per cent* to one *per cent* and also 25 *per cent* concession on stamp duty on the transfer of land and property in favour of female which was increased from ten to twenty lakh.

The other departments did not inform (October 2010) about the variations, despite being requested (July 2010).

4.1.5 Cost of Collection

The gross collection of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the year 2007-08, 2008-09 & 2009-10 alongwith the relevant all India average percentage of expenditure on collection to gross collections for 2008-09 are mentioned below:

Table-4.1.5

(₹ in crore)

Sl. No.	Head of revenue	Year	Gross Collection ⁴	Expenditure on collection	Percentage of expenditure to gross on collection	All India average percentage for the year 2008-09
1.	Sales/Commercial tax/ VAT	2007-08	1,620.84	34.53	2.13	0.88
		2008-09	1,902.38	34.16	1.79	
		2009-10	2,240.84	39.31	1.75	
2.	State excise	2007-08	441.71	4.05	0.91	3.66
		2008-09	528.32	5.95	1.13	
		2009-10	703.71	7.33	1.04	
3.	Taxes on vehicles	2007-08	152.04	7.81	5.14	2.93
		2008-09	163.84	10.03	6.12	
		2009-10	182.16	10.64	5.84	
4.	Stamp duty and registration fees	2007-08	424.16	5.81	1.36	2.77
		2008-09	357.44	5.45	1.52	
		2009-10	398.75	5.72	1.43	

Source: Concerned State Department

Thus, the cost of collection in respect of state excise and stamp and registration fees were lower than the all India average percentage for the year 2008-09, while in the case of taxes on vehicles was higher. Transport department stated (September 2010) that higher cost of collection in comparison with all India average was due to disbursement of arrear pay of the sixth pay commission to its employees/retired officials and some recruitment during the year. Establishment of two driving training institutes and disbursement of compensation for laying the railway line.

4.1.6 Analysis of collection

The break-up of the total collection at the pre-assessment stage and after regular assessment of taxes on sales, trade etc., and entry tax during the year 2009-10 as furnished by the Commercial Taxes department is mentioned below.

⁴ The figure for collection of all four taxes in the year 2007-08 to 2009-10, provided by the State departments and reflected in the table are at variance with the figures reflected in the Finance Account.

Table-4.1.6

(₹ in crore)

Head of revenue	Year	Amount collected at pre-assessment stage	Amount collected after regular assessment (additional demand)	Penalty for delay in payment of taxes and duties	Amount refunded	Net collection as per department	Percentage of column 3 to 7
1	2	3	4	5	6	7	8
Taxes/VAT on sales, trade etc.	2009-10	1,843.75	407.57	1.08	19.83	2,232.57	82.6
Entry Tax	2009-10	8.26	Nil	Nil	Nil	8.26	100

Almost the entire collection made under commercial tax and entry tax was at the pre-assessment stage. Only ₹ 388.82 crore representing 17.42 per cent of the net collection was collected after regular assessment.

4.1.7 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2010 in respect of the principal heads of revenue as reported by the departments was ₹ 730.04 crore of which ₹ 416.53 (57.06 per cent) were outstanding for more than five years as mentioned below:

Table-4.1.7

(₹ in crore)

Sl. No.	Head of revenue	Amount outstanding as on 31 March 2010	Amount outstanding for more than five years	Remarks
1.	Taxes/VAT on Sales, trades etc.	501.43	391.79	Department stated that ₹ 29.54 crore was pending in court and rest of amount was being pursued as per rules.
2.	Taxes on vehicles	2.39	1.02	Department stated that four cases were subjudice and in rest of the cases demand for recovery had been processed through D.M.
3.	Land revenue	0.34	0.0054	For the recovery concerned officials are directed from time to time.
4.	State Excise	0.48	-	-
5.	Taxes and duties on electricity	205.13	11.79	The arrears were recoverable from Uttarakhand power corporation Ltd.
6.	Public Works Department	2.16	0.81	The department stated that recovery of arrears was under process. Some of the records pertaining to material purchase amounting to ₹ 53.90 lakh were under the custody of court and necessary adjustment could not be taken up. Three cases amounting to ₹ 3.36 lakh are subjudice.
7.	Entertainment Tax	0.62	0.45	Department stated that cases amounting to ₹ 50.42 lakh are pending in the court of law.

Audit Report for the year ended 31 March 2010

8.	Stamp duty and Registration fees	4.53	4.27	Department stated that cases amounting to ₹ 3.39 crore were pending in court. Action is being taken for recovery of arrears.
9	Registrar co-operative society	8.37	6.39	-
10	Taxes on purchase of Sugarcane	4.59	Nil	Due to discount to Kashipur Sugar mills, under BIFR, for four years ₹ 80.06 lakh were in arrear. The matter is subjudiced.
TOTAL		730.04	416.53	

Source: State Department.

4.1.8 Evasion of Tax

The details of cases of evasion of tax detected by the Commercial Tax departments, cases finalised and demands for additional tax raised in 2009-10, as reported by the department concerned are mentioned below:

Table-4.1.8

Name of tax/duty	Cases pending as on 31 March 2009	Cases detected during 2009-10	Total	Number of cases in which assessments/ investigation completed and additional demand including penalty etc., raised during the year 2009-10		Number of pending cases as on 31 March 2010
				No. of cases	(₹ in lakh)	
Commercial Tax/VAT	457	5,394	5,851	3,543	1,574.38	2,308

Source: State Department

4.1.9 Refunds

Commercial tax department settled 90.58 per cent of the refund claims in 2009-10 while in the case of stamp duty and registration, all the cases were settled during the year as mentioned below:

Table-4.1.9

(₹ in lakh)

Sl. No.	Particulars	Commercial Tax		Stamp duty and registration	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	375	957.87	Nil	Nil
2.	Claims received during the year	4,955	2,344.66	11	202.84
3.	Refunds made during the year	4,828	1,982.88	11	202.84
4.	Balance outstanding at the end of the year	502	1,319.65	Nil	Nil

4.1.10 Failure of senior officials to enforce accountability and protect the interest of the State Government.

The Principal Accountant General (Audit), Uttarakhand (PAG) conducts periodical inspection of the Government departments concerned to test check the transactions and verify the maintenance of the important accounts and other records as prescribed in the rules and procedure. These inspections are followed up with the inspection reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The heads of the offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the PAG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the departments and the Government.

Inspection reports issued up to December 2009 disclosed that paragraphs involving ₹ 245.26 crore relating to 1,159 IRs remained outstanding at the end of June 2010 as mentioned below alongwith the corresponding figures for the preceding two years:

Table-4.1.10

	June 2008	June 2009	June 2010
Number of IRs pending for settlement	1,046	1,098	1,159
Number of outstanding audit observations	2,093	2,211	2,323
Amount involved (Rupees in crore)	231.37	228.11	245.26

The department-wise details of the IRs and audit observations outstanding as on 30 June 2010 and the amounts involved are mentioned below.

Table-4.1.11

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1.	Finance	Taxes/VAT on sales, trade etc	306	803	57.82
		Electricity duty	56	66	68.05
		Entertainments tax, luxury tax, etc.	52	86	01.48
2.	Excise	State Excise	76	116	33.75
3.	Revenue	Land revenue	146	237	5.18
4.	Transport	Taxes on motor vehicles	88	266	34.50
5.	Stamps and registration	Stamps and registration fees	278	429	11.67
6.	Others	Department	157	320	32.81
Total			1,159	2,323	245.26

4.1.11 Departmental audit committee meetings

In order to expedite the settlement of the outstanding audit observations contained in IRs on revenue receipts of the Government of Uttarakhand, the departmental audit committees were to be constituted by the Government. However, no audit committee meeting was held during the year 2009-10 which indicates that the Government had not taken desired initiative for early settlement of the outstanding audit observations.

4.1.12 Response of the department to the draft audit paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller & Auditor General of India are forwarded to the Secretaries of the department concerned, drawing their attention and requesting for their response within six weeks. The fact that in case of non receipt of replies from the departments/Government within stipulated time will tantamount to acceptance of facts and figures of draft para by the Department/Government is invariably indicated at the end of such paragraphs included in the Audit Report.

Four draft paragraphs and one review proposed to be included in the Report for the year ending 31 March 2010 were sent to the Department/Government during the year. Replies of the draft paras have been included in the paragraphs (November 2010).

In respect of VAT review exit conference with the Department/Government was held and replies recorded in the minutes of exit conference meeting have been incorporated in the review.

4.1.13 Follow up on Audit Reports-summarised position

After creation of the state, the Public Accounts Committee had been notified in the year May 2001. The Report of the Comptroller & Auditor General of India is laid in the Legislative Assembly and the departments shall initiate action on the audit paragraphs. The action taken/ explanatory notes thereon should be submitted by Government for the consideration of the committee. The explanatory notes on audit paragraphs of the Reports were being delayed inordinately by Department/Government. The reports of the Comptroller & Auditor General of the India on revenue receipts of the Government of Uttarakhand for the years 2000-01 to 2005-06 were discussed in the Public Accounts committee in the years 2005-06 to 2009-10 and explanatory notes/action taken in ten cases were still awaited as on 31 March 2010.

4.1.14 Audit Planning

The unit offices under various departments are categorised into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which inter-alia include critical issues in government revenues

and tax administration i.e. budget speech, white paper on state finances, reports of the finance commission (state and central), recommendations of the taxation reforms committee, statistical analysis of the revenue earnings during the past five years, factors of the tax administration, audit coverage and its impact during past 5 years etc.

During the year 2009-10, the audit universe comprised of 514 auditable units, of which 127 units were planned and 89 units were audited during the year 2009-10 which is 70 per cent total planned units.

Besides the compliance audit mentioned above, one performance review titled “Transition from sales tax to VAT” was also taken up to examine the efficacy of the tax administration of their receipts.

4.1.15 Analysis of the mechanism for dealing with the issues raised by Audit

In order to analyse the system of addressing the issues highlighted in the Inspection Reports/Audit Report by the departments/Government, the action taken on the paragraphs of the last 5 years in respect of the Commercial Tax Department has been evaluated.

The summarised position of the inspection reports relating to Commercial Tax Department, issued during the last 5 years, paragraphs included in these reports and their status as on 31 March 2010 is tabulated below:

Table-4.1.12

(₹ in crore)

Sl. No.	Year	Opening balance			Addition during the year			Clearance during the year			Closing balance during the year		
		IRs	Para-graphs	Money Value	IRs	Para-graphs	Money Value	IRs	Para-graphs	Money Value	IRs	Para-graphs	Money Value
1.	2005-06	147	314	15.93	33	76	0.69	Nil	6	0.05	180	384	16.57
2.	2006-07	180	384	16.57	34	137	3.69	Nil	Nil	Nil	214	521	20.26
3.	2007-08	214	521	20.26	22	93	1.55	3	57	2.51	233	557	19.30
4.	2008-09	233	557	19.30	49	206	21.63	8	69	2.32	274	694	38.61
5.	2009-10	274	694	38.61	44	105	12.04	6	48	0.64	312	751	50.01

No Audit Committee meetings were arranged by the Government/Department for settlement of IRs and paragraphs. As is evident from the above table, against 147 IRs with 314 outstanding paragraphs as on 2004-05, the number of outstanding IRs rose to 312 with 751 paragraphs at the end of 2009-10.

This is indicative of the fact that adequate efforts were not made by the department in this regard resulting in piling up of the outstanding IRs and paragraphs.

4.1.16 Recovery of revenue of accepted cases

In respect of Paragraphs featured in the Audit Reports 2004-05 to 2008-09, the department/Government accepted audit observations involving ₹ 4.89 crores of which only ₹ 3 lakh i.e. 0.61 *per cent*, was recovered till 31 March 2010 as mentioned below:

Table-4.1.13

(₹ in crore)

Year of Audit Report	Total Money value	Accepted money value	Recovered Amount
2004-05	5.44	0.72	0.01
2005-06	7.58	3.19	0.01
2006-07	1.03	0.02	0.01
2007-08	60.48	0.05	Nil
2008-09	7.00	0.91	Nil
Total	81.53	4.89	0.03

4.1.17 Results of audit

Test check of the records of 93 units of commercial tax, State excise, motor vehicles, forest and other departmental offices conducted during the year 2009-10 revealed underassessment/short levy/loss of revenue aggregating to ₹ 21.66 crore in 217 cases.

This Report contains four paragraphs and one performance review on "Transition from Sales tax to VAT" relating to short/non-levy of tax, interest and penalty etc., involving financial effect of ₹ 6.73 crore. The department/Government accepted money value of ₹ 4.68 crore. These are discussed in succeeding paragraphs.

COMMERCIAL TAX DEPARTMENT

4.2 Review on 'Transition from Sales Tax to VAT'

Highlights

- The growth rate of revenue over the previous year after implementation of VAT touched a high of 34.78 *per cent* in 2006-07. Although the rate had fallen in the subsequent years, it still recorded a healthy 17.37 *per cent* growth in 2008-09.

[Paragraph 4.2.6.1]

- Even after four years of implementation of VAT in the State, the VAT manual has not been finalized. There was more than fifty *per cent* of man Power shortage.

[Paragraph 4.2.6.2.2]

- Though the computerization has been initiated, all the modules of the software were yet to be implemented and unit offices/checkgates were not interlinked.

[Paragraph 4.2.6.3]

- The department failed to detect and register the eligible dealers resulting in evasion of tax.

[Paragraph 4.2.6.4.2]

- In the absence of mechanism the department failed to impose penalty for non/late filing of returns/audit reports.

[Paragraph 4.2.6.5.1 & 4.2.6.5.2]

- Irregular allowance of input tax credit of ₹ 2.62 crore.

[Paragraph 4.2.6.6]

4.2.1 Introduction

The Government of India decided to implement State Level Value Added Tax (VAT) in all the states on the basis of a decision taken on 23 January 2002 by the empowered committee of the States' Finance Ministers. A white paper released by the empowered committee on 17 January 2005 outlines the basic structure of State VAT.

The main features of the VAT are:

- elimination of cascading tax burden, by providing a set off for input tax as well as tax paid on previous purchases;
- rationalization of the overall tax burden;
- built in self assessment by the dealers; and
- simple and transparent tax structure.

The Government of Uttarakhand repealed the Uttarakhand (The Uttar Pradesh Trade Tax Act, 1948) Adaptation and Modification order, 2002 and enacted an Act called 'The Uttarakhand Value Added Tax (UVAT) Act, 2005' to provide for and consolidate the laws relating to levy of value added tax on sales or purchases of goods in the state of Uttarakhand. The Act, as passed by the Uttarakhand legislative assembly and assented to by the Governor on 9th November 2005 is deemed to have come into force from the 01 October 2005.

The main differences between the existing VAT Act and the repealed Act are as under:

- VAT is a multipoint tax system while sales tax was a single point tax system.

- VAT system provides for dealers to pay tax willfully (Self assessment) and submit returns while supporting documents were required along with returns in sales tax. Thus VAT reduces the control of the executive on the dealers.
- There is a percentage check provided in VAT while there was cent *per cent* assessment in repealed Sales tax Act.

The salient features of the Uttarakhand VAT Act, 2005 are mentioned below:

1. It comprises of XI chapters and V schedules relating to registration of dealers, filing of returns, recovery and refund of tax, rates of tax, appeal and revision, penalties etc.
2. As per Section 3(7) of the Act, no dealer shall be liable to pay tax if during the Assessment Year, the aggregate of his turnover of sales is less than ₹ 5 lakh.
3. Section 15(6) /80(22) provides that a dealer registered under the repealed Act, shall be deemed to be registered under the Uttarakhand VAT Act, 2005 from the date of commencement of this Act. If a dealer who is not liable to tax and not desirous of continuing to be registered dealer under the Act, shall submit an application to the Assessing Authority to this effect within 30 days from the commencement of this Act.

The transitional process from Uttarakhand (The Uttar Pradesh Trade Tax Act, 1948) Adaptation and Modification order, 2002 to UVAT Act, 2005 was reviewed by audit which revealed a number of deficiencies as discussed in succeeding paragraphs.

4.2.2 Organisational Set-up

The Commercial Tax Department in the state of Uttarakhand is divided into two zones viz. Kumaon and Garhwal with headquarters at Rudrapur and Dehradun respectively. There are four regions in these two zones. Under these four regions there are 21 Deputy Commissioners and 43 Assistant Commissioners as of March 2010. Besides, there are check posts and Trade Tax Offices as well. Overall control of the Department vests with the Commissioner, Commercial Tax with headquarters at Dehradun.

4.2.3 Audit Objectives

The review aimed to ascertain whether:

- The planning for implementation and the transition from the sales tax Act to VAT Act was effected timely and efficiently;
- The organisational structure was adequate and effective;
- The provisions in the UVAT Act and Rules made thereunder were adequate and enforced properly to safeguard the revenue of the state;

- Internal control mechanism existed in the department and was adequate and effective to prevent leakage of revenue; and
- Checking the status of system after being in place for four years.

4.2.4 Scope of Audit and Audit Methodology

This performance review has been attempted to ascertain the timely implementation and the extent of compliance with the provisions of the state VAT Act, related rules and departmental circulars/instructions. For this purpose, a test check of the assessment records of 7 DCs (A)⁵ and 8 ACs (A)⁶ was taken up. The selection of the units was made on the basis of Probability Proportional to Size with Replacement (PPSWR) method.

The assessments for the FY 2005-06 had been completed by the department and the assessments for the FY 2006-07 were in progress at the time of audit. As such, scrutiny of the cases assessed upto FY 2006-07 and returns filed by the dealers upto 2008-09 has been taken up in the performance review.

4.2.5 Acknowledgement

Indian Audit and Accounts Department acknowledges the cooperation of the Commercial Tax Department in providing necessary records and information for audit. An entry conference was held on 21 January 2010 with the Additional Commissioner, Commercial Tax Department wherein the audit objectives and scope of audit was discussed. The draft review was sent to Government/Department in July, 2010 for their response. An exit conference was held on 9 August 2010 with Additional Commissioner (Admn), Jt. Commissioner (Legal) Headquarter, Commercial Tax in which the results of the audit and the recommendations were discussed. The department has accepted most of the audit findings /recommendations and assured to take action. The comments/reply of the department has been appropriately included in this report under the respective paragraphs.

4.2.6 Audit Findings

System defecencies

4.2.6.1 Trend of Revenues

The tax collection position of Pre VAT and Post VAT regimes (2003-04 to 2008-09) and the growth rate have been tabulated below:

⁵ DC IV Dehradun, DC V Dehradun, DC VI Dehradun, DC I Hardwar, DC II Haldwani, DC I Rudrapur and DC II Kashipur.

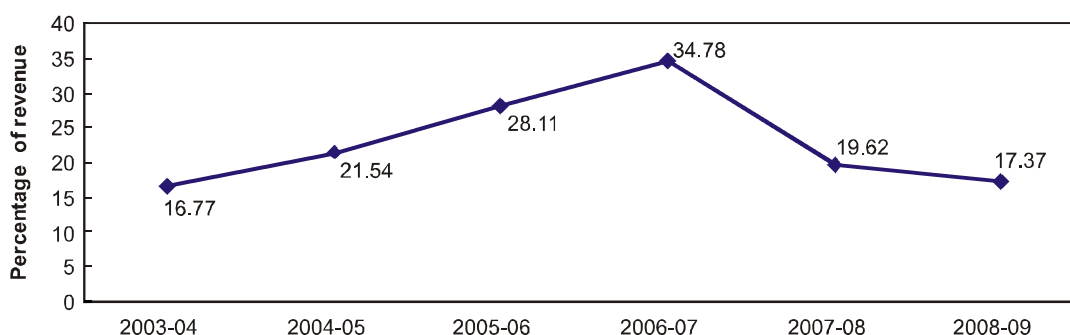
⁶ AC IV Dehradun, AC I Rishikesh, AC II Roorkee, AC I Haridwar, AC Nainital, AC Tanakpur, AC II Kashipur and AC I Haldwani.

Table-4.2.1

(₹ in crore)

Year	Collection of Revenue	Growth Rate (%)
2003-04	645.58	16.77*
2004-05	784.68	21.54
2005-06	450.36 up to Sep 2005 554.92 from Oct 2005 to March 2006	28.11
2006-07	1,354.98	34.78
2007-08	1,620.84	19.62
2008-09	1,902.38	17.37

*The revenue collections for year 2002-03: ₹552.86 crore



Thus, the average growth rate during 2003-05 was 19.15 per cent while the average growth rate for 2006-09 was 23.92 per cent. The growth rate of revenue over the previous year after implementation of VAT touched a high of 34.78 per cent in 2006-07. Although the rate had fallen in the subsequent years, it still maintained a healthy growth rate in succeeding years.

After this was pointed out, the department stated (August 2010) that increase in the ITC claims with the stabilization of VAT regime resulted in fall of revenue growth rate.

4.2.6.2 Preparedness and transitional process

4.2.6.2.1 Delayed implementation of VAT

VAT came into effect from 1 October 2005 in the State, after a delay of six months from the planned date. Implementation of VAT from mid of financial year resulted in double assessments for the FY 2005-06 i.e. April 2005 to September 2005 (Sales Tax) and October 2005 to March 2006 (VAT), resulting in non completion of assessments for the financial year 2005-06 within stipulated time i.e. upto March 2009, which had to be extended till September 2009.

4.2.6.2.2 Manpower management

With the VAT regime coming into force, need for reorganizing the organizational structure of the department was realized. This reorganization was considered necessary in view of the growing requirements of the Department viz. (i) increase in number of assessments from 62,945 to 85,141 during 2006-09, (ii) for effective check on inter state sales through establishing new check posts, and (iii) to strengthen the enforcement, speedy disposal of appeal related matters, and to prevent tax evasion etc., In pursuance, additional posts were created under various cadres (December 2006) commensurate to the aforesaid requirement.

However, manpower shortage ranging from 62.8 *per cent* to 58.2 *per cent* during post VAT period, handicapped the department in performing its regular functions. As such, only the assessments pertaining to 2005-06 were complete and the assessments for the subsequent years were in progress as of March 2010.

Table-4.2.2

Cadre	Sanctioned Strength			Men in Position			Shortage					
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09	2006-07		2007-08		2008-09	
Gr A	56	56	56	29	24	26	27		32		30	
Gr B	294	294	294	108	155	148	186		139		146	
Gr C	987	987	989	360	339	385	627		648		604	
Total	1,337	1,337	1,339	497	518	559	840	62.8%	819	61.2%	780	52.2%

The Government may consider fulfilling the vacant post in post computerization scenario for better tax administration.

4.2.6.2.3 Creation of manual

Although the UVAT Act came into force in November 2005 and VAT has been in place for more than four years, the department is yet to prepare a VAT manual. As a result, shortcomings were noticed in effective follow-up of the Act/rules/circulars, as enumerated below:

1. Records/registers to monitor various departmental activities and modifications in dealers' database like register of receipt of periodical returns, register of casual dealers, register of defaulters, register to watch submission of annual returns and audited report by the dealers were not being maintained.

After this was pointed out, the department stated (August 2010) that committee has been constituted and old manuals are being updated for VAT regime which is expected to be completed by October 2010.

The Government may expedite the preparation of the VAT manual and record/registers to streamline the working of the department.

2. Due to absence of any reference point for effective practices, instances of non-compliance to the Act provisions and departmental circulars were also revealed during the test check.

- As per departmental circular dated 4 January 2008, the dealers whose turnover exceeds Rupees one crore are required to be assessed by Deputy Commissioners (Assessment) while Asstt. Commissioners (Assessments) are authorized to assess the cases of the dealers whose gross turnover ranges from 25 lakh to one crore.

In contravention of the above, 17 cases pertaining to three AC(A)s⁷, having turnover of more than one crore for FY 2005-06 were not transferred for assessment to DC(A).

The matter was referred to the department (July 2010); reply is awaited (November 2010).

- Section 29 (3) (4) of the Act Provide that the assessment or reassessment in respect of turnover escaped from assessment may be passed at any time within three years and nine months ending 31 December after expiry of assessment year for which assessment is to be made, provided that the notice under this section has been served within a period of three years and six months ending 30 September after expiry of the assessment year for which assessment is to be made. Further if the commissioner on his own or on the basis of reason recorded by the assessing authority is satisfied, he may authorize the assessing authority but the assessment or reassessment may be made after the expiration of the period aforesaid but not after expiration of six years from the end of such assessment year.

It was noticed in case of two dealers⁸ falling under DC II, Haldwani that permission from the Commissioner regarding re-assessments for time barred cases pertaining to the period 2005-06 (VAT period) was not obtained.

The matter was referred to the department (July 2010); reply is awaited (November 2010).

4.2.6.3 Computerisation of the commercial tax department

With an objective to computerize the departmental operations, application software was developed by the National Informatics Centre (NIC) – Uttarakhand State Unit. It aimed to enable better tax administration through improved tax compliance, reduced tax evasion and bringing new commercial establishments into the tax net.

⁷ AC-I Haridwar(2 cases), AC-I Haldwani (5 cases), AC Tanakpur (10 cases).

⁸ Hindustan stone Company Haldwani , Himalaya stone Industries, Haldwani.

4.2.6.3.1 Partial operationalisation of the modules

Under the web enabled VAT software, four modules have been developed - Dealer database, Registration, Returns and Forms. Audit observations in this regard are as follows:

- The department had effectively implemented the system to register dealers as of March 2006.
- Though the database module has been operationalised, vital information in fields relating to PAN number, Bank Account number, initial capital investment, e-mail address etc is yet to be fed in a large number of cases.
- The module provided for filing of returns could be made operational only in 2009-10, which resulted in non feeding of returns prior to this period.
- Even in the cases where returns are being fed into the system, the documents attached with the returns i.e purchase and sales list of the dealers are not being fed in the computers, which narrows down the scope for checking the authenticity of the claims through cross-verification.
- The module provided for issuance of forms is yet to be fully operationalized as only issuance of 'form 16'⁹ is being carried out.
- The website of the Department offers electronic services like e-registration, e-filing, e-payment and e-forms. However, on being accessed, it revealed that only two services pertaining to registration and filing were functional with user manuals to guide the prospective users. Further, the number of dealers actually using the services was miniscule¹⁰, indicating a need for active awareness campaigns to popularize the use of e-services.

During exit conference the department while accepting the objections stated that the software shall be revamped and the modules rectified and simplified.

The Government may consider taking steps for implementation of all the modules and to provide necessary training to its staff. It may also campaign actively to popularize the e-governance initiatives of the department for better response.

4.2.6.3.2 Inadequacies of the software

- There was no in-built mechanism in the software for detection of late payment of tax and calculation of interest thereon.
- Test check of the feeding of returns in DC II Kashipur and DC-I Rudrapur revealed that the software was not capable of accepting the periodical returns having a turnover of more than nine digits. Thus the monthly returns

⁹ Form 16 is declaration for import of goods in the state.

¹⁰ 350 dealers have been provided with password for e-filing.

of India Glycols Ltd (IGL), Kashipur and Bajaj Auto Limited, Pant Nagar could not be fed into the computer.

- The software was not supported by a fully documented user's guide. In all, only six NIC representatives were deployed to cater to the need of 64 DC and AC offices for providing technical assistance.
- Information collected from the offices of DC (A) II Haldwani and DC (A) I Rudrapur revealed that the UPS was not able to provide power back ups.
- No standardized restoration policy was found in vogue to cope with any probable data mishap. Since database is being maintained at a single server, high risk of data loss was involved. Disaster recovery system has not been installed so far.
- No licensed version of Anti-virus software was found installed in the field offices, making the system susceptible to virus attacks and corruption of data.

After this was pointed out, the department while accepting the observations stated (August 2010) that these shall be taken care of while revamping of the software.

Government may consider smooth operationalisation of the software and other equipments. A guide to use the software is also required to be documented. An IT wing equipped with trained personal may be established to reduce dependence on NIC.

4.2.6.3.3 Checkgates and their interlinking

The computerization of the check posts and their linking is an essential tool to cross-verify the credit claims and ensure the authenticity of correct payment of tax by the dealers involved in interstate trade.

Despite availability of funds, the interlinking of the offices and check posts could not be taken up. Year-wise allocation and utilization of budget for computerization during 2005-06 to 2008-09 is indicated below:

Table-4.2.3

(₹ in lakh)

Year	Budget Allocations	Utilization	Surrendered	Diverted
2005-06	98.14	98.14	-	-
2006-07	100.00	74.38	25.62	-
2007-08	400.00	13.42	249.76	136.81
2008-09	400.00	81.67	188.33	130.00

It is evident from the table that out of ₹ 8 crore allocated during the period 2007- 09, only ₹ 95.09 lakh, a mere 11.89 *per cent* of budget allotted was utilized for computerisation. The remaining amount was either surrendered or diverted.

Also, where the computers have been purchased, they were lying idle as noticed during the audit. The information collected from AC, in charge, check post Sutaia revealed that the computers had been purchased (February 2009), but were not installed as of June 2010.

After this was pointed out, the department accepted and stated (August 2010) that the connectivity is expected to be complete by September 2010.

The Government may consider interlinking of the check post with the commissioner and other unit offices immediately.

4.2.6.3.4 Uploading data on TINXSYS

TINXSYS (Taxation Information Exchange System), a database on inter-state dealers, is intended to serve as a centralised repository of all inter-state transactions. The information available in TINXSYS can be used for verification of the central statutory forms issued by other State Taxation Departments and submitted by the dealers in support of the claim for concessions/exemptions.

However, due to partial operationalisation of software modules, the forms relevant to inter-state transactions were not being uploaded at the central server, thereby hampering the cross verification process.

After this was pointed out, the department replied that the TINXSYS programme was initially started with the aim of verification of interstate transactions covered with declaration forms. The programme did not respond as per the expectations. As such, the progress of uploading of information was not upto the mark.

4.2.6.4 Registration and database of the dealers

4.2.6.4.1 Carrying forward of database

As per the UVAT Act, registered dealers under the repealed Act¹¹ are deemed to be registered dealers under the UVAT as well. Prior to implementation of VAT, separate registration numbers viz. UPTT number and CST number were being issued to registered dealers for carrying out sales within the state and outside the state respectively.

Post VAT, unique taxpayers' identification number (TIN) of 11 digits is being issued to the registered dealers for carrying out sale transactions. Since May 2008, the same TIN numbers have been effective for inter state transactions also.

As on 31 March 2006, there were 62,945 registered dealers. This number had gone up to 85,141 at the end of 2008-09 as seen from the table below:

¹¹ Uttarakhand (The Uttar Pradesh Trade Tax Act, 1948) – Adaptation and Modification Order, 2002.

Table-4.2.4

Period	No. of dealers	Increase of dealers with reference to previous year	Percentage increase of dealers with reference to previous year
2005-06	62,945	7,730*	14 %
2006-07	68,176	5,231	8 %
2007-08	76,469	8,293	12 %
2008-09	85,141	8,672	11 %

* Number of registered dealers in 2004-05 was 55,215

4.2.6.4.2 Registration of new dealers

Under the UVAT Act, no dealer liable to pay tax shall carry on his business as a dealer unless he has been registered and possesses a certificate of registration (RC) within 30 days from the date of liability. Audit scrutiny revealed that the department has not issued any instructions for conducting survey for detection of unregistered dealers to bring them into tax net.

The Government may consider it mandatory to conduct periodic survey to unearth unregistered dealers in the interest of revenue.

Deficiencies noticed in this regard are discussed below.

- Audit found through scrutiny of purchase lists¹², attached with the returns of dealers falling under two DC (A) offices that though five unregistered dealers sold taxable goods, exceeding the limit of ₹ 5 lakh, the concerned officer-in-charge of the units could not detect the dealers and register them. This resulted in non realisation of tax of ₹ 3.89 lakh along with interest of ₹ 2.53 lakh as mentioned in the following table:

Table-4.2.5

<i>(₹ in lakh)</i>					
Name of unit	Name of Purchasing dealer/Year of Purchase	Name of unregistered Selling dealer	Total amount of purchase	Non realization of tax	Interest amount
D.C.(A) CT-I, Rudrapur	Shah Industries, Rudrapur 2005-06	(i) Bishta Metal, Rudrapur	25.55	1.02	0.67
		(ii) Panjab Traders, Rudrapur	26.66	1.07	0.69
		(iii) Durga Trading Co., Rudrapur	23.07	0.92	0.60
D.C.(A) CT-II Haldwani	Keshav Mineral Industries, Haldwani 2005-06	(i) Laxman Singh Chauhan Bageshwar	7.06	0.35	0.23
		(ii) Pradeep Chandra Joshi Pithoragarh	10.56	0.53	0.34
Total				3.89	2.53

¹² Purchase list is a statement of purchases of goods with names and registration numbers of selling dealers, based on which, input tax credit is admitted.

After this was pointed out, the concerned units replied that the matter has been brought to the notice of the Asstt. Commissioners for registration of the dealers.

The matter was referred to the department (July 2010); reply is awaited (November 2010).

- Under UVAT Act, every dealer in liquor including beer is liable for registration irrespective of the turnover.

Information/ data collected from Excise Commissioner, Uttarakhand revealed that a substantial number of dealers operate in liquor trade as tabulated below:

Table-4.2.6

Area	No of dealers operating in liquor trade			
	2005-06	2006-07	2007-08	2008-09
AC (A), I & II, Rudrapur	87	87	85	85
AC (A), Nainital	27	27	27	27

A cross verification with the records of AC (A) responsible for registration of these dealers revealed that neither the dealers got themselves registered nor any departmental initiative was taken to cover them under the tax net.

- The issuance of registration certificates was not found to be uniform. As such, the RCs pertaining to sales within state were being issued in a computerized format through centralised registration mechanism while RCs pertaining to inter state sales were being issued manually.
- No periodic analysis of RCs to detect TINs that remained unused for a considerable time has been conducted to safeguard against misuse.

After this was pointed out, the department while accepting the audit observation in respect of registration of dealers in the trade of liquor replied (August 2010) that the matter shall be looked into and results intimated to audit.

The Government may consider making appropriate provision in the UVAT Act/Rules to cross verify the records with other dealers/other Government departments/TINXSYS while scrutinizing returns/audit assessments.

4.2.6.4.3 Dealers below the threshold

Under the UVAT Act, every dealer whose turnover exceeds ₹ 5 lakh is required to be registered and pay the tax at the prescribed rate.

Scrutiny of the records, however, revealed that the eligibility for tax liability was ascertained on the basis of the returns submitted by the dealers only. There was no system instituted for periodic scrutiny of the books of accounts to verify whether a dealer/contractor has crossed the above threshold.

It is pertinent to mention that in the pre-vat regime, the limit for getting registration was ₹ 1 lakh for dealers and ₹ 1.5 lakh for manufacturers. As such,

carrying forward of the database maintained in the earlier regime and ascertaining the actual sales turnover is crucial for keeping an eye on the dealers nearing threshold.

The government may consider prescribing a system for periodic verification of the books of accounts of the dealers to detect the cases of crossing the threshold.

4.2.6.4.4 Database of dubious/risky dealers

Audit scrutiny revealed that a database of dubious/risky dealers was not prepared by the department. To prevent evasion of tax, a database of dubious dealers needs to be prepared based on their past history on fraud/concealment/usage of fake forms and updated at regular intervals. The database should be made online in the Department's website/TINXSYS, which will facilitate a watch on the dealers.

After this was pointed out, the department stated (August 2010) that after revamping the software the database shall be maintained in the computer system.

Compliance deficiencies

4.2.6.5 Scrutiny of returns

Scrutiny of the returns, a vital part of VAT administration, was not done as there are no mandatory provisions in the Act/rules for compulsory scrutiny of returns. Even the software did not contain any mechanism for system based scrutiny of the returns through cross linking of the information furnished through returns. Due to which, discrepancies in tax payment and instances of tax evasion were noticed, as discussed below:

4.2.6.5.1 Mechanism to monitor filing of the returns

Under the UVAT Act, all the registered dealers shall file returns showing the details of the total turnover, exemption claimed, taxable turnover, output tax due, tax collected, input tax credit availed of, tax due including reverse tax credit, if any, and the tax paid separately for that return period. The return period is monthly in majority of the cases and in some cases quarterly to be filed before the end of the ensuing month.

Further, the registered dealers are also required to submit an annual return of turnover of purchase and sales, in addition to the monthly/quarterly returns. Any deviation attracts penalty up to ₹ 5,000.

Deficiencies noticed in the mechanism for monitoring the filing of the returns are mentioned below:

- Registers for receiving the returns have neither been prescribed nor maintained in any of the units test checked. As such, it was not possible to ascertain the timely receipt of the returns/filing of the revised returns.

- There was no system of monitoring and taking action for belated submission of the returns.
- There was no mechanism to ascertain whether notices were issued to the dealers who had not submitted the returns.

After this was pointed out, the department stated (August 2010) that the deficiencies noticed shall be considered while revamping of the software.

The Government may take appropriate steps for regular monitoring of timely receipt of the returns and prompt action against the defaulters.

Scrutiny of records of all sampled 7 DC (A) and 8 AC (A) revealed that 41 *per cent* to 52 *per cent* of dealers submitted monthly/quarterly returns either late or did not submit at all and 45 *per cent* to 76 *per cent* of the dealers did not submit the annual returns. No penalty, as stipulated in the Act was levied in a single case. Details have been tabulated below:

Table-4.2.7

Year	Total no. of registered dealers in selected units	Total number of dealers who submitted their periodical returns late/ did not submit at all	Total number of dealers who didn't submit their annual returns
2005-06	10,869	5,652	8,337
2006-07	11,532	5,190	8,935
2007-08	13,617	5,730	9,253
2008-09	15,057	6,183	10,578
Total		22,755	37,103

4.2.6.5.2 Non submission of annual audit report

UVAT Act provides that wherein any particular year gross turnover of a dealer exceeds forty lakh rupees, the dealer shall get his accounts in respect of that year, audited by an accountant and a copy of such report shall be furnished to the assessing authority within two months after the expiry of the period during which the audit is required to be completed. Non submission of audit report attracts penalty of ₹ 5,000.

Audit scrutiny revealed that 52.1 *per cent* to 63.8 *per cent* of dealers during the period 2005-09 did not submit the audit report, as mandated by the Act provisions.

Table-4.2.8

Year	Dealers having gross turnover of more than ₹ 40 lakh	Dealers who did not submit the audit report	
		In numbers	In percentage
2005-06	15,24	973	63.8
2006-07	18,82	1,102	58.5
2007-08	23,04	1,201	52.1
2008-09	22,41	1,368	61.0
Total		4,644	

No penal action as provided in the Act was initiated against 64,502 (22,755+37,103+4,644) dealers despite default being on the increase, resulting in non imposition of penalty amounting to ₹ 32.25 crore.

The matter was referred to the department (July 2010); reply is awaited (November 2010).

4.2.6.5.3 Suppression of production/ turnover

Section 15 of the repealed Act and section 58 of UVAT Act provides that any dealer committing an offence shall pay, by way of penalty in addition to the tax, such amount as may be specified for that offence.

- Test check of the assessment records in DC-I Haridwar disclosed that a dealer¹³ declared taxable sale turnover of ₹ 27.62 lakh for the year 2005-06 and the assessing authority accepted the figure. However, scrutiny of financial statements revealed a sale of ₹ 27.80 lakh. Thus the dealer concealed sales worth ₹ 1.88 lakh with tax effect of ₹ 0.24 lakh and interest thereon worth ₹ 0.15 lakh. Besides, penalty of ₹ 0.12 lakh is also leviable.
- On being pointed out, the concerned Assessing Authority replied that the matter shall be investigated. The matter was referred to the department (July 2010); reply is awaited (November 2010).
- Test check of assessment records of 163 dealers maintained in 3 DC offices¹⁴ revealed that three dealers registered purchase turnover of ₹ 23.37 crore; however, cross verification of purchase lists with balance sheet, sales list of selling dealers and utilisation statement of form 'C'¹⁵ revealed the actual purchase turnover of ₹ 25.08 crore. The dealers concealed the purchase turnover to the tune of ₹ 1.70 crore. The Assessing Authority had also failed to detect the suppression of purchase turnover. This resulted in evasion of tax of ₹ 15 lakh including interest. Besides, penalty of ₹ 11.59 lakh is also leviable.
- On being pointed out, the concerned Assessing Authority replied that the matter shall be investigated. The matter was referred to the department (July, 2010); reply is awaited. (November 2010)
- Test check of the assessment records in DC II Kashipur revealed that a dealer¹⁶ engaged in production of liquor used 8.11 lakh litre of raw material (alcohol) in the year 2005-06. As per the norms contained in FL2 Rules the total liquor produced from the raw material should be 18.96 lakh litres; but, production of only 17.93 lakh litres of liquor was shown. The assessing

¹³ Ashoka Enterprises, Haridwar.

¹⁴ DC-II Kashipur (2006-07), DC-VI Dehradun (2005-06) & DC-I Rudrapur (2005-06).

¹⁵ Form 'C' is issued for purchase of goods from outside the state at concessional rate of taxation.

¹⁶ Redico Khetan Kashipur.

authority failed to detect the suppression of production worth 1.03 lakh litres, resulting in evasion of tax of ₹ 21.38 lakh and interest of 13.90 lakh. Besides, penalty of ₹ 10.69 lakh is also leviable.

After this was pointed out, the unit replied that the matter shall be investigated and necessary action taken.

During exit conference, the department replied (August 2010) that the comments shall be sent to audit after investigation.

4.2.6.5.4 Irregular allowance of concessions based on recognition certificates¹⁷

- UVAT Act provides that, where any goods liable to tax are sold by a dealer to another dealer and such another dealer holds a recognition certificate¹⁸, the selling dealer shall be levied a tax at the rate of 4 *per cent* in respect of those goods, provided that no single form shall cover the transactions of purchase or sale of more than one assessment year and of value more than ₹ 5 lakh.

During scrutiny of the records of four DCs (A)¹⁹ and one AC (A)²⁰, it was noticed that the assessing authority allowed irregular concessional rate of tax on 53 forms involving sales transactions of ₹ 9.87 crore, though the forms enclosed exceeded the limit of ₹ 5 lakh. The irregular grant of concession resulted in short levy of tax of ₹ 67.58 lakh. Besides, interest of ₹ 40.55 lakh is also leviable.

After this was pointed out, DC-IV & DC-VI, Dehradun, DC-I, Rudrapur and AC-I Kashipur replied that the matter shall be investigated and necessary action taken. However DC-I, Haridwar replied that as per notification dated 20.04.2008 limit of rupees five lakh on issuance of form 3B does not apply to the units having a turnover of more than rupees ten crore. The reply of the assessing authority is not tenable as the said notification is conditional and applies only when the assessing authority of the dealer issuing form 3B record a certificate on form 3B certifying the amount for which the form has been issued. No such certificate was recorded on the forms and concession allowed.

The matter has been referred to the department (July 2010); reply is awaited. (November 2010)

- Section 4 B (1) (b) of the repealed Act and Section 7(a) of UVAT Act provide that where any goods liable to tax are sold by a dealer to another dealer and such other dealer furnishes to the selling dealer in the prescribed

¹⁷ A certificate issued by the department to manufacturer stating the names of goods to be manufactured (as notified goods) and names of goods required for manufacture of notified goods. Concessional rate of tax is applicable on the goods mentioned in the certificate.

¹⁸ Form 3B (pre vat)/ Form 11 (post vat) is issued to the selling dealer by the recognition certificate holder.

¹⁹ DC IV Dehradun, DC VI Dehradun, DC I Hardwar and DC I Rudrapur.

²⁰ AC II Kashipur.

form and manner a certificate to the effect that he holds a recognition certificate, the selling dealer shall be liable in respect of those goods to tax at such concessional rate or be wholly or partly exempt from tax. Further Rule 25 (A) (5) of the repealed Rules and Rule 22 (5) of UVAT Rules, provide that the recognition certificate shall take effect from the date of presentation of application.

Section 3B of the repealed Act provide that a person who issues a false or wrong certificate shall be liable to pay on such transaction an amount which would have been payable as tax on such transaction had such certificate not been issued. Further penalty under section 58(XXIX) is also leviable for such offence.

Audit scrutiny of the records of DC II Kashipur revealed that a dealer²¹ holding a recognition certificate purchased HSD for an amount of ₹ 47.32 lakh during April 2005 to June 2005 (pre VAT). The dealer availed concessional rate of 1 per cent by issuing a form 3B to the selling dealer.

Scrutiny of the recognition certificate revealed that the addition of HSD took place in July 2005, which is after the purchase was made. Thus, the dealer was not authorized to issue form 3B and avail concessional rate. Failure of the assessing authority to detect the irregular claim resulted in short levy of tax of ₹ 9.46 lakh, besides interest of ₹ 6.15 lakh. A penalty of ₹ 29.81 lakh is also leviable.

After this was pointed out the unit replied that the matter shall be investigated and necessary action taken.

- Scrutiny of the records of DC I Haridwar revealed that a dealer²² sold 'hair oil' worth ₹ 4.30 crore during 2005-06 against form 3B to another dealer²³ falling under the jurisdiction of DC II Haridwar.

On being cross verified, it was noticed that the dealer who purchased the product, was not authorised to issue form 3B as per the recognition certificate possessed by him.

This resulted in non realization of revenue of ₹ 50.34 lakh and interest thereon of ₹ 30.40 lakh. Besides, penalty of ₹ 62.65 lakh was also leviable.

The matter was referred to the department (July 2010); reply is awaited (November 2010).

- It is provided in the Act, that where a dealer in whose favour a recognition certificate has been granted, purchases goods after payment of tax at concessional rates, and the goods manufactured out of such goods are sold or disposed of otherwise than by way of sale in the state or in the course of interstate trade or commerce, such dealer shall be liable to pay an amount equal to the difference between the amount of tax on the sale or purchase of

²¹ Shyam Pulp and Board Mill Ltd, Kashipur.

²² Herbal Concept Health Care (P) Ltd, Haridwar.

²³ Lotus Beauty Care (P) Ltd, Haridwar.

such goods payable under this section and the amount of tax payable under any other provision of the Act.

During scrutiny of the records of DC II Kashipur, it was noticed that a dealer²⁴ purchased raw material (molasses) for production of liquor during September 2008 to March 2009 and showed sale of produced liquor worth ₹ 58.85 crore during the same period. However, as the sale included stock transfer of ₹ 3.64 crore (6.18 percent) the dealer was not entitled for concessional taxation on the raw material used for producing the liquor, which was transferred.

As per the Act provisions, he was supposed to deposit ₹ 29.89 lakh based on differential rate of taxation on purchase of molasses, which was used to produce liquor otherwise for sale.

After this was pointed out the unit replied that the matter shall be investigated and necessary action taken.

During exit conference, the department stated (August 2010) that the matter shall be looked into and results intimated to audit.

4.2.6.5.5 Short/non levy of tax

According to Section 4 of UVAT Act, the tax payable by a dealer shall be levied on his taxable turnover at such rates as may be prescribed in schedules of the Act.

- During test check of records of 365 dealers falling under three DCs (A)²⁵ and three ACs (A)²⁶, it was noticed that in case of eleven dealers tax was levied at a lower rate (details provided in *Appendix-4.1*) on a total sale quantum of ₹ 5.14 crore, resulting in short levy of tax of ₹ 43.56 lakh and interest of ₹ 20.31 lakh.
- Test check of the records of 268 dealers falling under three DCs(A)²⁷ and one AC(A)²⁸ revealed that tax was not levied at all on six dealers for sales transactions amounting to ₹ 2.49 crore (details provided in *Appendix-4.2*), resulting in non levy of tax of ₹ 21.47 lakh and interest of ₹ 12.98 lakh.

During exit conference, the department while accepting the audit objection replied (August 2010) that the cases shall be examined and results intimated to audit.

4.2.6.5.6 Excess allowance of relief

- As per section 4A of UPTT Act, 1948 read with departmental notification (February 1997), industrial units holding eligibility certificate u/s 4A are liable to pay the tax on sales upto the base production only.

²⁴ IGL Kashipur (2008-09).

²⁵ DC IV Dehradun, DC VI Dehradun and DC II Kashipur.

²⁶ AC I Hardwar, AC II Kashipur and AC I Rishikesh.

²⁷ DC IV Dehradun, DC II Kashipur and DC I Hardwar.

²⁸ AC Nainital.

Scrutiny of records of DC II Haldwani revealed that a dealer²⁹ engaged in manufacture of pulp and paper holding eligibility certificate u/s 4A had total production of 1,58,670 metric tonnes and base production of 60,075 metric tones during 2005-06. During the same period, the total sale of the dealer was ₹ 566.74 crore and he was required to pay tax upto sale of ₹ 215.04 crore, in the ratio of actual *vis-à-vis* base production. But the dealer paid tax on sale of ₹ 213.14 crore only, evading tax liability on sales worth ₹ 1.90 crore. This resulted in short levy of tax of ₹ 7.58 lakh besides interest of ₹ 4.93 lakh.

During exit conference, the department stated (August 2010) that necessary action shall be taken under an intimation to audit.

4.2.6.5.7 Late deposit of TDS

As per UVAT Act, every person responsible for making payment in pursuance of a work contract shall at the time of making such payment deduct the amount of tax deduction at source and deposit the same in the Govt. Treasury before the expiry of the month following that in which deduction is made. Any deviation attracts a penalty of a sum not exceeding twice the amount deductible but not deducted or deducted but not deposited besides payment of simple interest at the rate of 15 per cent.

During scrutiny of records of 313 dealers falling under four ACs (A)³⁰, it was noticed that five dealers³¹ deducted TDS amounting to ₹ 56.95 lakh but did not deposit the same into Government treasury within the prescribed period. The delay ranged from one to ninety one days. The assessing authority neither imposed the penalty amounting to ₹ 1.14 crore nor levied the interest thereon amounting to ₹ 0.74 lakh.

After this was pointed out, the unit replied that the matter shall be looked into and necessary action taken.

The matter was referred to the department (July 2010); reply is awaited (November 2010).

4.2.6.5.8 Non /Short deposit of interest

As per UVAT Act and departmental circular (May 2009), where a dealer is at default or deemed to be at default in making the payment of any amount of tax assessed in excess of tax admitted and the amount remains unpaid for three months after expiry of the period specified in the order of assessment and notice

²⁹ M/s Century Pulp & Paper, Lalkuan, Haldwani.

³⁰ AC I Haridwar, AC IV Dehradun, AC II Kashipur and AC II Roorkee.

³¹ Ex. Eng. Khara Pariyojna Nirman Khand I Haridwar (2005-06/2006-07), Ex. Eng. Nirman Khand 24th circle Dehradun (2005-06), Ex. Eng. Vidyut Pareshan Khand Kashipur (2005-06), Garrison Eng. MES Roorkee (2005-06), Asai Glass India Ltd. Roorkee (2005-06).

of demand, he shall be liable to pay simple interest @15 per cent per annum from the date of such default till payment of said tax.

Audit scrutiny of the records of 187 dealers coming under 3 DCs (A)³² revealed that the assessing authority while raising the demand in case of five dealers has mentioned in the assessment order for deposit of interest @15 per cent per annum in addition to tax, but two dealers have deposited less interest while three dealers have not deposited interest at all on the demand raised, which amounted to ₹ 1.53 lakh.

After this was pointed out, the department while accepting the audit objections stated (August 2010) that necessary action shall be taken and results intimated to audit.

4.2.6.6 Input tax credit

Under the UVAT Act, input tax credit (ITC) shall be allowed to a registered dealer on the purchase of the taxable goods (other than the goods specified in Schedule I and III of the Act) within the State from another registered dealer for the purpose specified therein. For this, a dealer has to submit a statement of the purchase in which the invoice number, date, TIN of the dealer effecting sale, description and the value of the goods, VAT charged etc., are required to be entered.

Discrepancies noticed in this regard are as follows:

- The benefit of ITC was being given to the dealers on the basis of purchase list furnished with the periodical returns. No institutional mechanism to confirm the genuineness of input tax credit claims through cross verification of sales quantum mentioned in purchase list *vis-à-vis* sales list³³ of other dealers was found in place.
- It was only in May 2008, that the department amended the rules and issued instructions to furnish the sales list alongwith the periodical returns to facilitate the cross verification. However, as of March 2010, no system was found in place to upload the sales lists, which could be accessed at the time of assessments.
- As per departmental circular (December 2008), every assessing authority is required to maintain a register of top 20 dealers claiming maximum ITC and cross verify the purchases for the purpose of allowing ITC. However it was noticed that though the registers have been maintained, cross verification is not being carried in all cases before allowing ITC.

Cases of irregular allowance of input tax credit detected during the review are mentioned below:

³² DC I Rudrapur, DC II Kashipur and DC IV Dehradun.

³³ Sales list is a statement of sale of goods with names and registration numbers of purchasing dealers.

- During test check of records of 502 dealers falling under two DCs (A)³⁴ and six ACs (A)³⁵, it was noticed that thirteen dealers applied incorrect tax rate on the inputs for claiming higher tax credit (details provided in *Appendix-4.3*), involving financial implication of ₹ 3.03 lakh.
- Under UVAT, a dealer who makes sale of goods by way of transfer of property in goods involved in works contract is not allowed for input tax credit on his purchases.

Scrutiny of records of a dealer³⁶ under the jurisdiction of DC I Hardwar revealed that ITC for ₹ 2.20 crore was claimed for the period from 2005-06 to 2007-08 in the monthly returns filed. This was not detected and disallowed by the assessing authority. Besides, interest of ₹ 1.14 crore is also leviable.

- UVAT Act provides that in respect of goods held in the opening stock on the date of commencement of this Act, input tax credit shall be claimed in six equal monthly installments in returns for the tax periods covering period of six months starting after expiry of three months from the month of the date of commencement of the Act. This was however amended vide notification dated 31 March 2008 and the expiry of six months in place of three months was substituted.

Scrutiny of records of 6 DCs (A) and 8 ACs (A), revealed that 68 dealers claimed the ITC on opening balance of the stock after the expiry of three months from the date of commencement of the Act and the assessing authority allowed the claim resulting in irregular allowance of ITC on opening balance in the FY 2005-06 to the tune of ₹ 39.09 lakh.

On being pointed out, the units replied that the benefit of ITC on opening balance has been allowed as per provision of the original UVAT Act. The reply is not tenable as the provision in the original Act was amended from April 2008 and the assessments for the period 2005-06 to which ITC on opening balance pertain were made after April 2008 by the department.

During exit conference, the department stated (August 2010) that the ITC claim in respect of Works contract will be looked into and comments thereon sent to audit.

The Government may consider prescribing a system of cross verification of the records/information on random basis for allowing ITC.

4.2.6.7 Tax Audit

As per the UVAT Act, tax audit of records, stock in trade and related documents of the dealers may be conducted by officers posted in tax audit wing or by other

³⁴ DC IV Dehradun & DC II Kashipur.

³⁵ AC Nainital, AC II Roorkee, AC I Haldwani, AC Tanakpur, AC IV Dehradun and AC II Kashipur.

³⁶ Larson & Toubro Pvt. Ltd. entered into a works contract with Asai Glass Ltd. Roorkee for construction of factory building.

officer of the department including assessing officer so authorized by the commissioner or by an officer of the tax audit wing not below the rank of Additional Commissioner for the purpose to ensure the correctness, admissibility of claims/ITC and compliance by the dealer with the requirement of the Act.

Audit scrutiny revealed that there is no manual for tax audit which would be a reference point for effective audit. No application software has been developed for tax audit. Department issued circular regarding tax audit as late as September 2008 according to which the selection of dealers for tax audit is to be made by the Additional Commissioner (Audit). No scientific method based on risk analysis has been devised for such selection. Further tax audit in case of only four dealers has been conducted during the period 2006-07 to 2009-10.

During exit conference, the Additional Commissioner accepted and stated (August 2010) that the man power shortage affects the smooth functioning of the tax audit wing. However he stressed upon the need to strengthen the wing. Regarding preparation of a manual it was stated that the same is under consideration. It was also accepted by the department that no software has been prepared for tax audit.

4.2.6.8 Deficiencies in deterrent measures

Though penal measures have been provided in UVAT Act and Rules made thereunder for offences like non/late submission of returns, audited accounts in case of dealers with gross turnover of ₹ 40 lakh and above, delayed payment of admitted tax, concealment of turnover, no provision for levy of additional penalties have been provided for repeated/willful default.

4.2.6.9 Internal audit

Internal audit is one of the most vital tools of the internal control mechanism and evaluates the efficiency and effectiveness of the mechanism. It also independently appraises whether the activities of the organisation are being conducted efficiently and effectively.

It was observed that the Commercial Tax Department has no independent internal audit wing.

After this was pointed out, the department accepted non existence of an internal audit wing.

Since only a few returns would be taken up for detailed scrutiny in tax audit, the Government may consider setting up of a separate internal audit wing fully dedicated to scrutiny and other aspects of functioning of VAT administration.

4.2.7 Conclusion

Analysis of the transitional process from sales tax to VAT revealed various deficiencies in the process. Even after four years of implementation of VAT in the State, the VAT manual has not been finalised, due to which various departmental initiatives/directions could not be institutionalised.

The department was functioning at more than 50 *per cent* of man power shortage; the matter needs to be given adequate attention by the Government.

Though computerisation has been initiated, all the modules of the software were yet to be implemented and the unit offices/check posts were not inter-linked with the Commissionerate.

There was no system of survey to detect unregistered dealers crossing the threshold and to bring them into tax net. Periodic verification of the books of accounts to check tax evasion was not found in place. Coupled with this, delayed and inadequate scrutiny of returns left ample scope for leakage of revenue.

The department has not instituted a system of cross verification with the records of other dealers/other Government departments/TINXSYS while scrutinising returns/audit assessments. There was no internal audit mechanism to ensure the correctness of the departmental processes.

4.2.8 Recommendations

The Government may consider the following steps for effective implementation of the VAT system:

- *Preparing VAT manual, record/registers to streamline the working of the department.*
- *Steps may be initiated for operationalising the remaining modules of the software at the earliest; a guide to use the software is also required to be documented. Also, interlinking of the check posts with the commissioner and other unit offices may be expedited.*
- *Active campaigns to popularize the e-governance initiatives of the department for better response may be organized.*
- *The department may consider to establish an IT wing equipped with trained personnel to reduce dependence on NIC, smooth operationalisation of the software and imparting training to the personnel.*
- *Mechanism for detection of unregistered dealers through regular surveys and gathering of information from different sources needs to be in place.*
- *The department may consider prescribing a system for periodic verification of the books of accounts of the dealers to detect cases of crossing the threshold.*

- *Appropriate steps for regular monitoring of timely receipt of the returns and prompt action against the defaulters are required.*
- *A system of cross verification of the records/information on a random basis may be prescribed before allowing the ITC.*

Audit of Transactions

Scrutiny of the records of the Commercial Tax and State Excise Departments revealed several cases of non-compliance of the provisions and other cases as mentioned in the succeeding paragraphs. These cases are illustrative and are based on test check carried out in audit. Such omissions on the part of the departmental officers are pointed out in audit each year 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 including strengthening of internal audit.

COMMERCIAL TAX DEPARTMENT

4.3 Short levy of tax

Short levy of tax of ₹10.38 lakh due to application of incorrect rate of tax.

As per section 4 (2) (b) (i) (d) of Uttarakhand Value Added Tax Act, 2005 goods not included in any schedule would be taxable at 12.5 *per cent* on its sale. Further, Schedule-II (B) of the Act includes 'River sand, grit & boulders' excluding boulders, sand and grit manufactured by stone crushers, where the applicable tax rate is @ 4 *per cent*. Besides, interest under section 34 (4) of the Act is also leviable for default in making payment of tax.

Scrutiny of the records of Assistant Commissioner (Assessment) Commercial Tax-I, Rudrapur (May 2009) revealed that a dealer³⁷ deposited tax on the sale of sand, grit and boulders worth ₹ 74.12 lakh, purchased from a stone crusher @ 4 *per cent* during the assessment year 2005-06. This resulted in short levy³⁸ of tax of ₹ 10.38 lakh (tax : ₹ 6.29 lakh and interest³⁹ : ₹ 4.09 lakh).

After this was pointed out, the Assistant Commissioner, Commercial Tax, Rudrapur informed (April 2010) that the demand for difference of tax beyond the prescribed rate and interest thereon as pointed out by audit had been raised (February 2010). However, a report on recovery has not been received (April 2010).

³⁷ M/s. K & D Suppliers, Rudrapur (K-257).

³⁸ The applicable rate on sand, grit and boulders produced by stone crusher would be 12.5 *per cent* as it is not included in any schedule; hence, short levy of tax by 8.5 *per cent* will amount to ₹ 6.29 lakh.

³⁹ Interest @ 15 *per cent* for the period from 01.01.2006 to 30.04.2010.

The matter was reported to the Government (May 2010); reply has not been received (November 2010).

4.4 Incorrect exemption

Short levy of tax of ₹ 20.58 lakh due to grant of trade tax exemption based on a false certificate.

Under Section 4 of Uttar Pradesh Trade Tax Act, (UPTT Act) 1948 read with Government notification dated 27 February 1997, sale or purchase of goods manufactured by village industries, certified by All India Khadi & Village Industries Commission or the State Khadi and Village Industries Board (Board), are exempted from trade tax; the exemption is applicable upto a turnover of rupees fifty lakh only, in an assessment year.

Further, Section 3B of the UPTT Act provides that if a person issues a false or wrong declaration, by reason of which tax on sales or purchase ceases to be leviable, the dealer shall be liable to pay a sum equal to the amount of relief in tax secured by him. Sections 15A (1) and (r) (ii) of the same Act provide for a penalty of a sum not less than 50 *per cent*, but not exceeding 200 *per cent* of the tax amount under the aforesaid condition.

Scrutiny of the records (March 2010) of Assistant Commissioner (Assessment), Division I, Commercial Tax, Haldwani revealed that exemption from trade tax on sale of wooden furniture was granted to a dealer⁴⁰ during the period 2002-06, based on a certificate produced by him, purportedly issued by Uttarakhand Khadi & Village Industries Board, indicating a validity period of five years from 1 October 2002 to 21 December 2007. However, on cross verification with the records of the issuing authority i.e. the Khadi & Village Industries Board, it came to notice that the dealer had submitted a false certificate as the original certificate issued by the Board to the dealer had a validity period of only three years from 22 December 2004 to 21 December 2007.

Acceptance of a false certificate submitted by a dealer to avail exemption on sale of wooden furniture (worth ₹ 1.08 crore) manufactured by him, resulted in short levy of tax of ₹ 8.67 lakh, equal to the relief in tax secured by him against the sale and interest of ₹ 7.58 lakh there on. Besides, a minimum penalty of ₹ 4.33 lakh at the rate of 50 *per cent* of tax was also leviable on account of claiming exemption on a false certificate.

On being pointed out, the department assured (March 2010) to take action after investigation.

The matter was reported to the Government (July 2010); the reply has not been received (November 2010).

⁴⁰ M/s Naina Gramodyog Sansthan, Bareilly Road, Haldwani.

4.5 Non-levy of penalty

For delay in payment of tax, penalty of ₹ 1.34 crore was not levied.

Sub-sections (1) and (4) of Section 35 of the Uttarakhand VAT Act, 2005 stipulate that every person responsible for making payment to any contractor for discharge of any liability on account of valuable consideration payable for the transfer of property in goods in pursuance of works contract, shall, at the time of making such payment to the contractor, deduct an amount equal to four *per cent* and deposit the same in Government Treasury before the expiry of the month following that in which deduction is made.

Further, sub-section (8) of the same section, provides that in the event of default, the Assessing Authority may direct that such dealer shall pay, by way of penalty, a sum not exceeding twice the amount deductible but not so deducted and if deducted, not so deposited into Government Treasury.

Scrutiny of the records (February 2009, May 2009 and January 2010) of three⁴¹ assessing authorities revealed that the tax valued at ₹ 67.06 lakh deducted at source by four⁴² departmental executives from contractors for the period from 2004-05 to 2005-06 was deposited in the Government Treasury after the prescribed time, with delay ranging between seven days to 291 days, for which the departmental executives were liable to pay a maximum penalty of ₹ 1.34 crore⁴³, which was not levied.

After this was pointed out, the Departments replied (November 2009 and September 2010) that the demand of penalty has been raised. However, the report of recovery has not been received.

The matter was reported to the Government (May and August 2010); reply has not been received (November 2010).

⁴¹ (i) Assistant Commissioner, Khatima, (ii) Assistant Commissioner, Commercial Tax - V, Dehradun, (iii) Assistant Commissioner, Vikas Nagar.

⁴² (i) Executive Officer, Nagar Palika Parishad, Khatima, US Nagar (₹ 0.80 lakh), (ii) Central Public Works Department, Circle -I, Dehradun (₹ 51.90 lakh), (iii) Executive Engineer, National Highway Division, PWD, Badkot, Uttarkashi (₹ 9.93 lakh) and (iv) Executive Engineer, Tunnel and Power House Division-I, Dak Pathar, Dehradun (₹ 4.43 lakh).

⁴³ (i) Executive Officer, Nagar Palika Parishad, Khatima, US Nagar (₹ 1.60 lakh), (ii) Central Public Works Department, Circle -I, Dehradun (₹ 1.04 crore), (iii) Executive Engineer, National Highway Division, PWD, Badkot, Uttarkashi (₹ 19.87 lakh) and (iv) Executive Engineer, Tunnel and Power House Division-I, Dak Pathar, Dehradun (₹ 8.86 lakh).

STATE EXCISE DEPARTMENT

4.6 Loss of revenue

Low production of alcohol from fermentable sugar content of molasses against the prescribed minimum norms resulted in loss of revenue of ₹ 8.67 lakh.

The Uttaranchal Excise Manual (Vol. I) provides that every quintal of fermentable sugar content present in molasses shall yield minimum 52.5 alcoholic litre (AL) of alcohol. For this purpose, composite samples of molasses are required to be drawn by the office-in-charge of the distillery and sent for examination to the alcohol technologist. Failure to maintain the minimum yield of alcohol from molasses entails, in addition to imposition of penalty, cancellation of licence of the distillery and forfeiture of security deposit.

Scrutiny of the records of the Officers-in-charge Excise, India Glycol Limited Distillery, Kashipur and Bajpur Sahkari Aswani, Bajpur, Udham Singh Nagar, in January 2009 and March 2010 respectively revealed that in six cases⁴⁴ of composite samples drawn, only 6,01,009.5 AL was extracted from 11,742.76 quintal of fermentable sugar against a minimum of 6,16,494.48 AL as per the norms. Thus, the production of alcohol was lower than the norm by 15,484.98 AL which resulted in loss of revenue of ₹ 8.67 lakh⁴⁵ to the Government.

However, the department neither imposed penalty nor took action for forfeiture of security deposit and cancellation of licence as of March 2010.

On being pointed out, the Department replied that the matter has been referred to Commissioner, State Excise for taking penal action.

The matter was reported to the Government (August 2010); reply has not been received (November 2010).

⁴⁴ Three cases each of Kashipur and Bajpur distilleries, pertaining to 2007-08 and 2008-09 respectively.

⁴⁵ Calculated at average rate of excise duty ₹ 56 per AL.