

CHAPTER-V

EXECUTIVE SUMMARY

Tax collection	In 2012-13, the collection of duties, fees, etc. under state excise, which stood at ₹ 11,069.73 crore, increased by 13.24 <i>per cent</i> over the previous year.
Insignificant recovery by the Department of observations pointed out by us in earlier years	During the last five years, through our Audit Reports, we had pointed out non/short levy, non/short realisation, and loss of revenue, etc., with revenue implication of ₹ 186.58 crore in four paragraphs. Of these, the Government/Department had accepted audit observation in two paragraphs involving ₹ 10.38 crore and had since recovered ₹ 32.02 lakh.
Results of audit conducted by us in 2012-13	We conducted a test check of records of 25 offices of the State Excise Department. We found non/short levy of penalty, non/short levy of licence fee, non/short levy of excise duty, non/short levy of interest, amounting to ₹ 4.34 crore in 3,766 cases.
What we have highlighted in this Chapter	In this Chapter we present a few illustrative cases from the observations made by us during the course of local audit involving tax effect of ₹ 3.10 crore.

CHAPTER-V: STATE EXCISE

5.1 Tax administration

The State Excise duty is levied on any liquor, any intoxicating drug, opium or other narcotics and non-narcotic drugs which the State Government may, by notification declares to be an excisable article. The Karnataka Excise (KE) Act, 1965 and Rules made thereunder govern the law relating to the production, manufacture, possession, import, export, transport, purchase and sale of liquor and intoxicating drugs and levy of duties of excise thereon. The State Excise Department is under the administrative control of the Finance Department and is headed by the Excise Commissioner, who is assisted by Joint Commissioners of Excise. The excise duty is administered by the Deputy Commissioners of Excise (DCOE) at the district level and the Superintendents of Excise, Deputy Superintendents of Excise, Inspectors of Excise and other sub-ordinate officers at the distilleries and range offices.

5.2 Trend of receipts

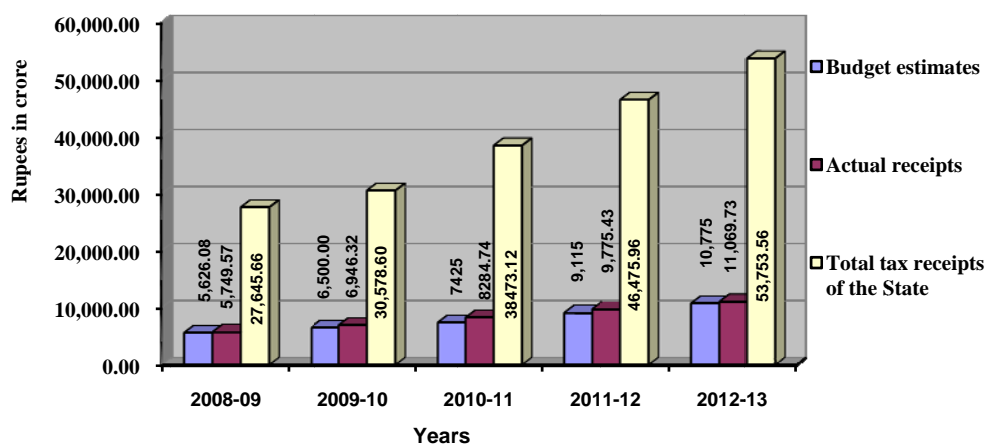
Budget Estimates (BEs) and actual receipts from State Excise along with the total tax receipts during the years 2008-09 to 2011-12 are exhibited in the following table and graphs:

Table 5.1: Trend of receipts

(₹ 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
2008-09	5,626.08	5,749.57	(+) 123.49	(+) 2.19	27,645.66	20.80
2009-10	6,500.00	6,946.32	(+) 446.32	(+) 6.87	30,578.60	22.72
2010-11	7,425.00	8,284.74	(+) 859.74	(+) 11.58	38,473.12	21.53
2011-12	9,115.00	9,775.43	(+) 660.43	(+) 7.25	46,475.96	21.03
2012-13	10,775.00	11,069.73	(+) 294.73	(+) 2.74	53,753.56	20.59

The percentage of actual receipts of State Excise to the total tax receipts ranged between 20.59 and 22.72 *per cent* during five year period from 2008-09 to 2012-13.

Graph 5.1 : Budget estimates, Actual receipts and Total tax receipts



5.3 Cost of collection

The gross collection in respect of state excise, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2010-11, 2011-12 and 2012-13 along with the relevant all India average percentage of expenditure on collection to gross collection for the respective preceding years were as follows:

Table 5.2: Cost of collection

Year	Gross collection	Expenditure on collection	Percentage of cost of collection to gross collection	All India average percentage for the preceding year
	(₹ in crore)			
2010-11	8,286.83	68.35	0.82	3.64
2011-12	9,778.38	79.77	0.82	3.05
2012-13	11,074.38	106.29	0.96	1.89

5.4 Impact of Audit Reports

During the last five years, through our Audit Reports, we had pointed out non/short levy, non/short realisation, and loss of revenue, etc., with revenue implication of ₹ 186.58 crore in four paragraphs. Of these, the Government/ Department had accepted audit observation in two paragraphs involving ₹ 10.38 crore and had since recovered ₹ 32 lakh. The details are given in the following table:

Table 5.3: Compliance with earlier Audit Reports

Year of Audit Report	(₹ in crore)					
	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount	Number	Amount ¹	Number	Amount ¹
2008-09	--	0	--	0	--	--
2009-10	01	1.02	01	1.02	--	--

¹ Indicates the amount of acceptance and recovery in respect of individual cases included in the respective paragraphs.

(₹ in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount	Number	Amount ¹	Number	Amount ¹
2010-11	01	182.29	0	9.19	0	0.15
2011-12	0	0	0	0	0	0
2012-13	02	3.27	01	0.17	1	0.17
Total	4	186.58	02	10.38	01	0.32

As seen from the above table, the recovery made by the Department is only 3.08 per cent of the amount involved in the total accepted cases.

The State Government may take effective concerted action on the Audit Reports in interest of revenue and better tax compliance.

5.5 Results of Audit

We conducted a test check of records of 25 offices of the State Excise Department during the year 2012-13 and found non/short levy of penalty, non/short levy of licence fee, non/short levy of excise duty, non/short levy of interest, amounting to ₹ 4.34 crore in 3,766 cases. The observations broadly fall under the following categories:

Table 5.4: Results of audit

(₹ in lakh)

Sl. No.	Category	No. of paragraphs	No. of cases	Amount
1	Non-levy for short lifting of IML	1	2	0.46
2	Short levy of Transfer fee	6	14	3.66
3	Non-realisation of dues to Government	2	4	0.44
4	Non-realisation of stamp duty in respect of licences	10	3,682	301.07
5	Short collection of Value Added Tax	2	29	2.48
6	Non-levy of penalty/duty on excess wastage	3	3	36.72
7	Unilateral acceptance of shortage as wastages resulted in forgoing of duty	1	1	42.74
8	Non-levy of duty on liquor exported to co-packers/sub-packers/ branch	1	5	3.65
9	Short levy of Excise Duty in respect of defence sales of IML	1	1	12.15
10	Incorrect classification of licence resulting in short levy of licence fee and additional licence fee	1	2	27.38
11	Difference of production in Stock Register	1	1	0.10
12	Recovery of interest on delayed remittances	1	21	1.16
13	Non-levy of excise duty on Beer held in ware house	1	1	1.97
Total		31	3,766	433.98

During the course of the year 2012-13 the Department accepted under assessment of ₹ 4.06 crore in 3,253 cases and recovered ₹ 40 lakh involved in 10 cases pointed out in earlier years.

A few illustrative cases involving ₹ 3.10 crore are mentioned in the following paragraphs.

5.6 Non-observance of provisions of the Acts/Rules

The KE Act 1965 and the Rules made there under provide as under:

- *Sections 26 read with Karnataka Excise (Sale of Indian and Foreign Liquor) Rules, 1968 for levy of licence fee and additional licence fee at the rates specified therein.*

We conducted audit of all cases of issue and renewal of licenses in the offices selected for audit in our Annual Audit Plan. We noticed in respect of six offices of the Department that the above provisions were not fully followed by the concerned authorities. This resulted in short realisation of Government revenue amounting to ₹ 3.10 crore. Of these, the Department accepted audit observation and recovered ₹ 12.75 lakh in one case.

5.6.1 Short levy of licence fee due to incorrect classification of licence

According to rule 3(6-A) of the Karnataka Excise (Sale of Indian and Foreign Liquors) Rules, 1968, a licence in the Form CL-6A shall be issued by the Deputy Commissioner of Excise to Star Hotels for possession and sale of liquor where as license in respect of Hotels and Boarding houses is issued in CL-7. The license fee and additional license fee leviable annually in respect of CL-6A was ₹ 9.20 lakh where as for CL-7 it was ₹ 4.95 lakh.

We obtained information from Ministry of Tourism, Government of India regarding grant of star status to M/s Hotel Malligi, J.N. Road, Hospet and M/s Krishna Palace, Station Road, Hospet and found that these hotels were classified as Three Star Hotels with effect from 27 January 2009 and 17 November 2009 respectively. This information was cross verified with the records relating to licences in the office of the DCOE, Bellary during August 2012. We found that the Department issued licence in Form

CL-7 applicable to Hotels and Boarding houses instead of Form CL 6-A applicable for star hotels. The total short levy for the period from 2009-10 to 2011-12 works out to ₹ 25.50 lakh.

After this was pointed out in September 2012, the Department reported recovery of ₹ 12.75 lakh in one case. In respect of the other case it was reported that the licensee had preferred an appeal before the Excise Commissioner.

These cases were reported to Government in July 2013 and their reply is awaited (December 2013).

5.6.2 Non-realisation of stamp duty on Excise licences

As per Article 32-A(ii) of the Karnataka Stamp Act, 1957, licence granted for rent or fee attracts stamp duty. The Inspector General of Registration and Commissioner of Stamps had requested the Commissioner of Excise in July 2007 to instruct all his filed offices to collect stamp duty at 0.5 *per cent* on all Excise licences

We noticed in five ² DCOE offices between August 2012 to December 2012 that during the years 2008-09 to 2012-13, licence fee of ₹ 218.40 crore was collected. The licences were issued by the Department for manufacture and sale of liquor for the year 2008-09 to 2012-13. While issuing these licences, the Department neither collected the proper stamp duty nor referred the cases

to the Department of Stamps and Registration for levy and collection of stamp duty. Thus, the Department issued these licences without ensuring payment of proper stamp duty. The stamp duty leviable worked out to ₹ 2.84 crore.

These cases were pointed out to the Excise Department between September 2012 and January 2013 and referred to the Inspector General for Registration and Commissioner of Stamps in March 2013; their replies have not been received (December 2013).

These cases were reported to the Government in July 2013. Their replies are awaited (December 2013).

² DCOE Mangalore, DCOE Udupi, DCOE Karwar, DCOE Davanagere and DCOE Bangalore (Rural).