

PART 'A'
REVENUE SECTOR

Chapter-1
General
(Revenue Sector)

CHAPTER-I

A. GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Jammu and Kashmir during the year 2013-14, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grant-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned in **Table-1.1**.

Table – 1.1
Trend of revenue receipts

(₹ in crore)						
Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
1.	Revenue raised by the State Government					
	• Tax revenue	3027.32	3482.58	4745.49	5832.43	6272.74
	• Non-tax revenue	955.03	1093.11	2001.64	2160.19	2869.69
	Total	3982.35	4575.69	6747.13	7992.62	9142.43
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	1914.76	3066.98	3495.11	3870.37	4142.10
	• Grants-in-aid	11690.71	14590.98	14540.72	14353.87	13843.45
	Total	13605.47	17657.96	18035.83	18224.24	17985.55
3.	Total revenue receipts of the State Government (1 and 2)	17587.82	22233.65	24782.96	26216.86	27127.98
4.	Percentage of 1 to 3	23	21	27	30	34

The above table indicates that during the year 2013-14, the revenue raised by the State Government (₹9142.43 crore) was 34 *per cent* of the total revenue receipts. The balance 66 *per cent* of the receipts during 2013-14 was from the Government of India.

1.1.2 The details of the tax revenue raised during the period 2009-10 to 2013-14 are given in **Table-1.2**.

Table 1.2
Details of Tax Revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2009-10		2010-11		2011-12		2012-13		2013-14		Percentage of increase (+) or decrease (-) in	
		Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual	Actual over Budget Estimate during 2013-14	Actual in 2013-14 over 2012-13
1	Taxes on sales, trade etc.	2065.7	2145.72	2572.69	2424.52	3419.32	3414.01	4218.57	4174.39	4799	4578.81	(-)4.59	9.68
2	Taxes on Goods & Passengers	315.64	299.43	358.1	337.16	439	457.93	474.4	504.91	559	565.53	1.16	12
3	State excise	260	293.78	307	337.24	383	385.47	413	421.28	442	440.06	0.43	4.45
4	Taxes and duties on electricity	195.38	120.35	214	147.5	262	179.12	423.36	277.86	504	276.94	(-)45.05	-0.33
5	Stamps Duty	82.61	69.51	72.73	78.58	133.27	170.97	270.55	240.14	321.93	260.68	(-)19.02	8.55
6	Motor Vehicles Tax	83.5	83.1	113.1	115.33	128.5	104.52	139	117.89	153	134.23	(-)12.26	13.86
7	Land revenue	8.52	15.41	5.22	42.03	25	33	35.6	95.45	40.8	15.97	(-)60.85	-83.26
8	Others*	-	0.02	0.2	0.22	0.51	0.47	0.54	0.51	0.54	0.52	(-)3.70	1.96
	Total	3011.35	3027.30	3643.04	3482.58	4790.60	4745.49	5975.02	5832.43	6820.27	6272.74		

There was huge variation between the budget estimates and actuals ranging between (-)3.70 to (-) 60.85 per cent. This shows that the budget estimates were unrealistic. The reasons for decrease in actuals as compared to budget estimates though called for were not provided. Further there was a decrease of about 83 per cent under the head "Land Revenue" during the year 2013-14 as compared to previous year. The reasons for the large decrease were not intimated by the Department (August 2014).

1.1.3 The details of the non-tax revenue raised during the period 2009-10 to 2013-14 are indicated in **Table-1.3**.

Table-1.3
Details of Non-tax revenue raised

Sl. No	Head of revenue	2009-10		2010-11		2011-12		2012-13		2013-14		Percentage of increase (+) or decrease (-) in	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	Actual over Budget Estimate during 2013-14	Actual in 2013-14 over 2012-13
1	Power	1002.53	723.64	1208.61	822.09	1486.22	1006.93	2387.29	1588.62	2840.60	1533.09	(-)46.02	-3.5
2	Forestry and wild life	39.49	37.46	52.63	47.47	55.57	55.2	68.07	59.31	67.53	67.90	0.54	14.48
3	Police	7.81	12.84	15.05	10.99	17.6	24.91	24.5	28.34	65	56.75	(-)12.69	100.24
4	Non-ferrous, Mining & metallurgical Ind.	18.15	25.34	28.15	34.51	43	41.18	50.35	54.02	60.18	53.35	(-)11.35	-1.24
5	Water supply & Sanitation	23.3	13.16	26.2	15.97	34.5	20.56	37	31.92	43.57	38.03	(-)12.71	19.14
5	Public works	16.17	23.87	20.68	23.58	22.29	25.94	24.97	27.19	26.49	23.57	(-)11.02	-13.31
7	Medical and Public Health	11.96	9.49	14.61	9.4	17.38	14.55	20.25	18.08	22.63	15.70	(-)30.62	-13.16
8	Interest receipts	21.24	10.63	21.32	10.33	22.3	33.06	21.94	16.38	21.50	12.80	(-)40.46	-21.85
9	Other Non-tax receipts*	78.16	98.6	87.48	118.76	152.58	779.31	184.4	336.33	252.36	1068.5	323.40	217.69
	Total	1218.81	955.03	1474.73	1093.10	1851.44	2001.64	2818.77	2160.19	3399.86	2869.69		33

-0056-Jails, 0058-Stationery and Printing, 0071-Pension and Other retirement benefits 0216-Housing, 0217-Urban Development, 0220-Information and Publicity 0230-Labour & Employment, 0235-Social Security and Welfare, 0405-Fisheries, 0435-Other Agriculture Programmes, 0515-Other Rural Development Programmes, 0575-Other Special Area Programmes, 0702-Minor Irrigation, 0851-Village and Small Industries, 1054-Roads and Bridges, 1452-Tourism, 1475-Other General Economic Service, 0051-Public Service Commission, 0211-Family Welfare, 0250-Other Social Service, 0506-Land Reforms, 0852-Industries, 0050-Dividends and Profits, 0075-Miscellaneous general services, 0070-Other Administrative services, 0425-Cooperation, 0701-Major and Medium Irrigation, 0401-Crop Husbandry, 0403-Animal Husbandry, 0202-Sports Art and Culture

There was an increase ranging between 14.48 per cent and 100.24 per cent in actual collections from Forestry/Wild life, Water Supply/Sanitation and Police over the previous year whereas the receipt under the Head 'Public Works, Medical and Public Health and Interest Receipts were decreased by 13.31,13.16 and 21.85 per cent.

Further the variations between budget estimates and actual realisation of non-tax under various heads was between 11.02 and 46.02 per cent. There was collection of ₹1533.09 crore against the Budgeted Estimates of ₹ 2840.60 crore in respect of Power, which was a cause of concern as huge budgetary support is being provided for purchase of electricity by the State. Reasons for less collection, though called for, were not intimated by the Departments (August 2014).

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2014 on some principal heads of revenue amounted to ₹1343.02 crore of which ₹805.54 crore was outstanding for more than five years, as detailed in the **Table-1.4**.

Table 1.4
Arrears of revenue

(₹ in crore)				
Sl. No.	Head of revenue	Total Amount outstanding as on 31 March 2014	Amount outstanding for more than 5 years as on 31 March 2014	Replies of Department
1.	Taxes on Sales/ VAT Trade etc	1260.93	746.76	The process of recovery is initiated through Collector (Dy. Commissioner Commercial Taxes, Recovery) who initiates recovery proceedings under the J&K VAT Act, 2005. The J&K GST Act, 1962 read with the J&K Land revenue Act Samvat, 1966.
2.	Passenger tax	34.07	26.87	
3.	Entertainment tax	0.21	0.21	Demand notices have been issued from time to time to the defaulters. Amount also includes interest equivalent to 2 per cent.
4.	Toll Tax	28.69	27.05	
5.	State Excise	19.02	4.65	
Total		1343.02	805.54	

1.3 Arrears in assessments

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalisation at the end of the year as furnished by the Sales Tax Department in respect of sales tax and tax on works contracts was as below in **Table-1.5**.

Table-1.5
Arrears in assessments

Head of revenue	Opening balance	New cases due for assessment during 2013-14	Total assessments due	Cases disposed of during 2013-14	Balance at the end of the year	Percentage of disposal (col. 5 to 4)
1	2	3	4	5	6	7
Sales Tax/ VAT	2629	13713	16342	10240	6102	63
Tax on Works contract	30953	21511	52464	15967	36497	30

The assessments completed to the total cases due for assessment was 63 per cent in respect of Sales Tax/ VAT and 30 per cent in the case of Taxes on works Contract. Moreover, the cases disposed off by the Commercial Tax Department were lower than new cases which had become due for assessment.

1.4 Evasion of tax detected by the Department

The details of cases of evasion of tax detected by the Commercial Tax Department, cases finalised and the demands for additional tax raised as reported by the Department are given in **Table-1.6**.

Table 1.6
Evasion of Tax

(₹ in crore)							
Sl. No.	Head of revenue	Cases pending as on 31 March 2013	Cases detected during 2013-14	Total	Number of cases in which assessment/ investigation completed and additional demand with penalty etc. raised		Number of cases pending for finalization as on 31 March 2014
					Number of cases	Amount of demand	
1.	Sales Tax/ VAT	1740	3519	5259	4802	68.97	457
2.	Passenger Tax	-	2131	2131	2131	0.04	-
Total		1740	5650	7390	6933	69.01	457

(Source: Data furnished by the Department)

The progress of recovery against the demand raised had not been intimated by the Department (August 2014).

1.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2013-14, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2013-14 as reported by the Department is given in **Table-1.7**.

Table 1.7
Details of pendency of refund cases

(₹ in crore)			
Sl. No.	Particulars	Sales tax / VAT	
		No. of cases	Amount
1.	Claims outstanding at the beginning of the year	13	0.14
2.	Claims received during the year	3	0.11
3.	Refunds made during the year	9	0.12
4.	Balance outstanding at the end of year	7	0.13

(Source: Data furnished by the Department)

1.6 Response of the Government/Departments towards audit

The Principal Accountant General (Audit), Jammu and Kashmir, conducts periodical inspection of the Government Departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. 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 receipt of the IRs. Serious financial irregularities are reported to the heads of the Department and the Government.

Inspection reports issued upto December, 2013 in respect of Commercial Tax, State Excise and Motor Vehicle Department disclosed that 2725 paragraphs involving ₹1172.99 crore relating to 609 IRs remained outstanding at the end of June 2014 as

mentioned below alongwith the corresponding figures for the preceding two years in **Table-1.8**.

Table 1.8
Details of pending Inspection Reports

	June 2012	June 2013	June 2014
Number of IRs pending for settlement	502	550	609
Number of outstanding audit observations	2216	2392	2725
Amount of revenue involved (₹ in crore)	978.71	1011.30	1172.99

1.6.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2014 and the amounts involved in respect of Finance, State Excise and Transport Department (Revenue Sector) are mentioned in the **Table-1.9**.

Table 1.9
Department-wise details of IRs

(₹ in crore)					
Sl. No	Name of the Department	Nature of receipts	Numbers of outstanding IRs	Numbers of outstanding audit observations	Money value involved
1.	Finance	Taxes on Sales, Trade etc.	378	2053	1024.11
		Passenger & Goods Tax (PGT)	15	61	31.92
2.	Excise	State Excise	124	278	91.86
3	Transport	Taxes on motor vehicles	92	333	25.10
Total			609	2725	1172.99

Audit did not receive even the first replies from the heads of offices within one month from the date of issue of the IRs, for 43 IRs issued during 2013-14. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the PAG in the IRs. Further no Audit committee was constituted by the State Government for discussion of pending objections relating to tax revenue (Commercial Tax, State Excise and Motor Vehicle).

The Government may consider to have an effective system for prompt and appropriate response to audit observations.

1.7 Position of Inspection Reports

The summarized position of the inspection reports of Commercial Taxes Department, State Excise and Motor Vehicle Department (Revenue Sector) issued during the last two years, paragraphs included in these reports and their status as on 31 March 2014 are tabulated below in **Table-1.10**.

Table 1.10
Position of Inspection Reports

(₹ in crore)													
Sl. No.	Year	Opening Balance			Addition during the year			Clearance during the quarter			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.	2012-13	515 ¹	2296	972.26	67	389	277.20	7	213	225.70	575	2472	1023.77
2.	2013-14	575	2472	1023.77	56	515	180.29	14	157	15.77	617	2830	1188.29

Since the Government of J&K did not hold Audit Committee meeting with the Principal Accountant General (Audit) Office during the year 2013-14 for settlement of old paragraphs with the result the position of outstanding IRs, Paras with corresponding money value (Commercial Tax, State Excise and Transport) got increased as is evident from the above table. This indicates that no adequate steps were taken by the department resulting in increase of the outstanding IR's and Paragraphs.

1.8 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 five years etc.

During the year 2013-14, there were 130 auditable units, of revenue receipts (Commercial Tax, State Excise & Motor Vehicle) out of which 40 units were planned and 36 units had been audited, which is 28 *per cent* of the total auditable units.

1.9 Results of audit

Position of local audit conducted during the year

Test-check of the records of 36 units of sales tax/ Value Added Tax, State Excise, Motor Vehicles, conducted during the year 2013-14 showed under assessment/ short levy/ loss of revenue aggregating ₹84.60 crore in 517 cases. During the course of the year, the Departments concerned accepted under assessment and other deficiencies of ₹27.08 crore involved in 66 cases which were pointed out in audit during 2013-14. The Departments collected ₹37.98 lakh in 64 cases pertaining to audit finding of previous years during 2013-14.

¹ Figures worked out after restructuring of the organization of sectoral basis

1.10 Follow up on Audit Reports

1.10.1 Non-submission of *Suo-motu* Action Taken Notes

To ensure accountability of the executives to the issues dealt with in various Audit Reports, the State Government (Finance Department) issued instructions in June 1997 to the administrative departments to furnish to Public Accounts Committee (PAC)/ Committee on Public Undertakings (COPU), *suo-motu* Action Taken Notes (ATNs) on all the audit paragraphs featuring in the Audit Reports irrespective of the fact that these are taken up for discussion by these Committees or not. These ATNs are to be submitted to these Committees duly vetted by the Principal Accountant General (Audit) within a period of three months from the date of presentation of Audit Reports in the State Legislature.

It was, however, noticed that out of 93 audit paragraphs featuring in the Revenue Sector of Audit Reports from 2000-01 to 2012-13, *suo-motu* ATNs in respect of 70 audit paragraphs had not been received upto 31 March 2014.

1.10.2 Action taken on recommendations of the PAC

Action Taken Notes, duly vetted by the Principal Accountant General (Audit) on the observations/ recommendations made by the PAC/ COPU in respect of the audit paragraphs discussed by them are to be furnished to these Committees within six months from the date of such observations/ recommendations. Out of 86 audit paragraphs featuring in the Revenue Sector of Audit Reports for the years from 2000-01 to 2011-12, only 14 audit paragraphs have been discussed by the PAC up to 31 March 2014. Recommendations in respect of 14 audit paragraphs including nine discussed partly have been made by the PAC, however, ATNs on the recommendations of the Committees is pending from the State Government in respect of 11 paragraphs.

1.10.3 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last 5 years, those accepted by the Department and the amount recovered are mentioned in **Table-1.11**:

Table-1.11

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted including money value	Money value of accepted paragraphs	Amount recovered during the year	Cummulative position of recovery of accepted cases as of 31 March 2014
2007-08	7	5.11	7	4.26	--	0.42
2008-09	7	28.58	7	6.50	--	0.01
2009-10	6	1.80	6	1.80	--	-
2010-11	10	39.90	10	31.41	--	0.01
2011-12	7	80.10	7	80.10	--	0.65
2012-13	6	244.53	6	244.53	--	-
Total		400.02		368.60		1.09

It would be seen from the above that in respect of paragraphs featured in the Audit Reports 2007-08 to 2012-13, the Department/Government accepted audit observations involving ₹368.60 crore, of which only ₹1.09 crore was recovered till March 2014. This shows that the Department/ Government did not recover the dues fully even in the cases where the audit observations had been accepted.

The Department may ensure prompt recovery of dues involved in the accepted cases.

1.11 Contents of the Part A (Revenue Chapter)

The Revenue Chapter contains six paragraphs involving revenue implication of ₹9.28 crore relating to short levy of tax, interest/penalty, irregular grant of remission, excess payment and non-deduction of income tax at source etc. The Departments/ Government have accepted audit observations involving ₹111.70 lakh in five cases, out of which ₹26.88 lakh have been recovered in two cases. The reply in one case has not been received (August 2014).