CHAPTER II
VALUE ADDED TAX
AND
CENTRAL SALES TAX

2.1 Tax Administration

The Commercial Taxes Department is under the purview of Special Chief Secretary to Revenue Department. The Department is mainly responsible for collection of taxes and administration of AP Value Added Tax Act, 2005 (VAT Act), Central Sales Tax Act, 1956 (CST Act) and Rules framed thereunder. Commissioner of Commercial Taxes (CCT) is the Head of the Department entrusted with overall supervision and is assisted by Additional Commissioners, Joint Commissioners (JC), Deputy Commissioners (DC), Appellate Deputy Commissioners (ADC) and Assistant Commissioners (AC). AC, Large Tax Payer Unit (LTU) in the Division Offices and Commercial Tax Officers (CTO) at Circle level are primarily responsible for tax administration and collection. The CTOs also look after the registration of dealers. The DCs are controlling authorities with overall supervision of the circles and LTUs under their jurisdiction. There are 13 LTUs and 104 circles in the State functioning under the administrative control of DCs. Further, there is an Inter State Wing (IST) headed by a Joint Commissioner within the Enforcement Wing, which assists the CCT in cross-verification of interstate transactions with different States.

2.2 Internal Audit

The Department did not have a dedicated Internal Audit Wing that would plan and conduct audit in accordance with a scheduled audit plan. Internal audit is organised at Divisional level under the supervision of AC. Each LTU/circle is audited by audit teams consisting of five members headed by either CTOs or Deputy CTOs. Internal audit report is submitted within 15 days from the date of audit to the DCs concerned, who would supervise rectification work giving effect to findings in such report of internal audit. It was intimated (December 2016) by the Department that the number of offices programmed for internal audit for the year 2015-16 was 101, out of which 33 were completed. It was also intimated that 162 audit observations were included during 2015-16 and 683 audit observations were outstanding at the end of March 2016.

2.3 Results of Audit

In 2015-16, test-check of the assessment files, refund records and other connected documents in 96 offices of the Commercial Taxes Department showed under-assessment of VAT, CST and other irregularities involving ₹ 170.60 crore in 923 cases which fell under the following categories as given in Table 2.1.

Table 2.1: Results of Audit

(₹ in crore)

Sl. No.	Categories	No. of cases	Amount
1.	Excess claim of Input Tax Credit	131	8.59
2.	Non-levy/Short levy of Interest and Penalty	136	12.80
3.	Short levy of tax on works contracts	39	3.52
4.	Non-levy/Short levy of tax under CST Act	184	39.41
5.	Non-levy/short levy of VAT	134	37.11
6.	Other irregularities	299	69.17
	Total	**923**	**170.60**

During the year, the Department accepted under-assessments and other deficiencies in 407 cases involving ₹ 20.45 crore. Of these, ₹ 12.26 crore involving 158 cases were pointed out by Audit during the year 2015-16. An amount of ₹ 1.11 crore in 74 cases was realised during the year 2015-16.

A few illustrative cases involving ₹ 34.93 crore are discussed in the succeeding paragraphs.

Audit Observations

During scrutiny of records of the offices of the Commercial Taxes Department relating to assessment and collection of VAT and CST, Audit observed several cases of non-observance of provisions of Acts/Rules, resulting in non-levy / short levy of tax / penalty and other cases, as discussed in the succeeding paragraphs in this Chapter. These cases are illustrative and are based on test- checks carried out by Audit. Such omissions are pointed out in audit every year, but not only do the irregularities persist; these also remain undetected until an audit is conducted again. There is a need for improvement of internal controls so that repetitions of such omissions can be avoided or detected and rectified.

2.4 Input Tax Credit

2.4.1 Incorrect allowance of Input Tax Credit

As per Sections 13(1) and 13(3)(a) of the VAT Act, Input Tax Credit (ITC) shall be allowed to the VAT dealer for the tax charged in respect of all purchases of taxable goods, used in the business, if he is in possession of tax invoices. Further, as per Rule 27(1)(d) of the AP VAT Rules, 2005 (VAT Rules), the tax invoice should consist of printed or computer generated serial numbers. As per the provisions of Rule 20(2)(a), no ITC is allowed on purchase of automobiles unless the dealer is in the business of dealing in these

goods. However, Rule 20(3)(a) allows the dealer to claim notional ITC on the purchase price actually paid at the time of sale of those used vehicles, if such claim is supported by documentary evidence for payment of tax at the time of purchase.

Audit observed (between April and December 2015) during the test check of VAT records of seven circles[4] and two divisions[5] for the assessment period from 2009-10 to 2014-15 that in four cases, ITC was allowed to dealers dealing in pulses and used vehicles without proper tax invoices. In three cases, ITC was not restricted to the goods lost in accidents and on purchase returns. In two cases, ITC was allowed more than what was admissible on purchases reported by the dealers. In another case, the dealer incorrectly carried forward the ITC, though it had been disallowed by the Assessing Authority (AA) during assessment. Total incorrect allowance of ITC in all the 10 cases amounted to ₹ 10.25 crore.

After Audit pointed out the cases, in one case, CTO, Nandyal-II stated (April 2015) that assessment would be revised. In one case, CTO, Kurnool-III stated (May 2015) that notice would be issued for collection of tax. In seven cases, AAs[6] stated (between June and December 2015) that the matter would be examined and reply submitted. In the remaining case, DC, Vijayawada-II stated (October 2015) that notional ITC was allowed on used cars as per Rule 20(3)(a) of the VAT Rules. The reply was not acceptable as ITC was allowed without tax invoices, which was mandatory as per Section 13(3) of the Act.

The matter was referred to the Department in May 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.4.2 Excess allowance of Input Tax Credit on ineligible items

As per Section 13(4) of the VAT Act read with Rules 20(2) (c) and 20(2) (i) of VAT Rules, a VAT dealer is not entitled to ITC on the purchases of air conditioners and goods used in construction or maintenance of any building. Further, under Section 13(5)(h) read with Section 4(9)(d), the dealers running any restaurants or eating establishments etc. having annual turnover between ₹ 7.5 lakh and ₹ 1.50 crore are not entitled to claim ITC. As per Section 13(7) of the Act, ITC shall be limited to 75 *per cent* in case of works contractors who pay tax under non-composition method.

[4] CTOs - Chittoor-I, Gudivada, Hindupur, Kurnool-III, Nandyal-II, Narasaraopet and Puttur.
[5] DC - Vijayawada-II and Visakhapatnam.
[6] DC - Visakhapatnam, CTOs - Chittoor-I, Gudivada, Hindupur, Narasaraopet and Puttur.

Audit observed (between May and October 2015) during the test check of VAT records of Vijayawada-II Division and four circles[7] for the assessment period from 2010-11 to 2014-15 that, in two cases, ITC was claimed by hotel dealers whose annual turnover was between ₹ 7.5 lakh and ₹ 1.50 crore. In three cases, ITC of more than 75 *per cent* was allowed to works contractors paying tax under non-composition method. In one case, ITC was allowed on the purchases of air conditioners and on items used in construction of building. Total excess allowance of ITC in all the six cases was ₹ 30.07 lakh.

After Audit pointed this out, in four cases, AAs[8] stated (May to October 2015) that the matter would be examined. In one case, CTO, Tirupati-II stated (August 2015) that notice would be issued for restriction of ITC. In another case, reply was yet to be received from CTO, Chinawaltair.

The matter was referred to the Department in May/June 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.4.3 Excess claim of Input Tax Credit due to incorrect method of restriction

As per Section 13(5) of the VAT Act, no ITC shall be allowed to any VAT dealer on sale of exempted goods (except in the course of export) and exempt sales. As per Section 13(6), ITC for transfer of taxable goods outside the State otherwise than by way of sale shall be allowed for the amount of tax in excess of four/five percent. Further, as per sub rules (7) and (8) of Rule 20 of VAT Rules, a VAT dealer making taxable sales, exempt sales and exempt transactions of taxable goods shall restrict his ITC as per the prescribed formula Ax B/C, where A is the ITC for common inputs for each tax rate, B is the taxable turnover and C is the total turnover.

Audit observed (between October 2015 and February 2016) during the test check of VAT records of Nellore Division and three circles[9] for the assessment period from 2010-11 to 2014-15 that ITC was not correctly restricted in respect of five dealers who effected exempt sales and branch transfer of taxable goods. Total excess claim of ITC was ₹ 21.19 lakh.

After Audit pointed this out, in four cases, AAs[10] stated (October 2015 to February 2016) that the matter would be examined and reply submitted in due course. In one case, DC, Nellore stated (December 2015) that ADC, Guntur had remanded the case and the aspect of excess claim of ITC would be examined while passing effectual order.

The matter was referred to the Department in May 2016 and to the Government in October 2016; replies have not been received (December 2016).

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7 CTOs - Benz Circle, Chinawaltair, Dabagardens and Tirupati-II.
8 CTOs - Benz Circle, Dabagardens and DC - Vijayawada-II.
9 CTOs - Gudivada, Nandigama and Steel Plant.
10 CTOs - Gudivada, Nandigama and Steel Plant.

2.4.4 Excess allowance of Input Tax Credit due to incorrect determination of purchase turnover

As per Section 13(1) of the VAT Act, ITC shall be allowed to the VAT dealer for the tax charged in respect of all purchases of taxable goods made by the dealer during the tax period, if such goods are for use in his business. Para 5.12 of AP VAT Audit Manual prescribes mandatory basic checks for conducting VAT audit, which include cross checking of figures reported by VAT dealers in their monthly VAT returns filed with those recorded in certified annual accounts, so as to detect under-declaration of tax, if any.

Audit observed (between May and December 2015) during the test check of VAT assessment records of seven circles[11] for the assessment period from 2007-08 to 2012-13 that in nine cases the AAs had adopted purchase turnover for allowing input tax credit in excess of the purchases reported in the Profit and Loss accounts. This resulted in excess allowance of ITC of ₹ 15.46 lakh.

After Audit pointed this out, in seven cases, AAs[12] stated (June to December 2015) that the matter would be examined and reply submitted in due course. In one case, CTO, Madanapalle stated (December 2015) that the assessment file was submitted to DC, Chittoor for revision. In another case CTO, Dwarakanagar stated (November 2015) that notice would be issued to the dealer.

The matter was referred to the Department in May/June 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.5 Levy of Penalty

2.5.1 Non-levy/Short Levy of Penalty for under-declaration of tax

As per Section 53(1) of VAT Act, where any dealer has under-declared the tax, and where it has not been established that fraud or wilful neglect has been committed and where the under-declared tax is less than 10 *per cent* of the tax, a penalty shall be imposed at 10 *per cent* of such under-declared tax and at 25 *per cent*, if the under-declared tax is more than 10 *per cent* of the tax due. Further, as per Rule 25(8) (a) and (b) of VAT Rules, for the purpose of Section 53, the tax under-declared means the excess of input tax credit claimed over and above the amount entitled or the difference between output tax actually chargeable and the output tax declared in the returns.

During the test-check of records of two divisions[13] and six circles[14], Audit observed (between May and December 2015) from the VAT assessment files of 14 dealers for the period from 2007-08 to 2014-15 that there were cases of

[11] CTOs - Anantapur-II, Dwarakanagar, Kavali, Krishnalanka, Madanapalle, Nellore-III and Parchur.
[12] CTOs - Anantapur-II, Dwarakanagar, Kavali, Krishnalanka, Nellore-III and Parchur.
[13] Kurnool and Visakhapatnam.
[14] Dwarakanagar, Gudivada, Kakinada, Mandapeta, Nellore-II and Puttur.

under-declaration of output tax and excess claim of ITC as per the assessment orders, for reasons other than fraud or wilful neglect. However, the AAs either short levied the penalty or did not levy any penalty. The non-levy/short levy of penalty on the under-declared tax of ₹ 26.31 crore was ₹ 6.24 crore.

After Audit pointed this out, in three cases, the AAs[15] stated (July 2016) that dealers' appeals were remanded back and final orders were yet to be issued. In one case, CTO, Nellore stated (July 2016) that penalty was levied. However, no documentary evidence in proof of demands raised/collections made was furnished. In one case, CTO, Mandapeta stated (June 2016) that the dealer's appeal was pending before Sales Tax Appellate Tribunal, Visakhapatnam. In one case, CTO, Puttur stated (June 2016) that the assessment file was submitted to DC, Chittoor for revision. In another case, CTO, Dwarakanagar stated (November 2015) that notice would be issued to the dealer. In three cases, DC, Visakhapatnam contested (July 2016) that there was no short levy of penalty after adjusting ITC with output tax due. The replies were not acceptable since as per Rule 25(8) (a) and (b), excess claimed ITC and under-declared output tax were to be reckoned separately for the purpose of levy of penalty. In the remaining four cases, AAs[16] stated (between May and October 2015) that the matter would be examined.

The matter was referred to the Department in May/June 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.5.2 Non-levy/Short levy of penalty due to wilful under-declaration of tax

Under Section 53 (3) of VAT Act, any dealer who has under-declared tax and where it is established that fraud or wilful neglect has been committed, he shall be liable to pay penalty equal to the tax under-declared.

During the test-check of the VAT audit files relating to the period from 2008-09 to 2013-14 of four circles[17], Audit observed (between August 2015 and February 2016) in five cases that there was wilful under-declaration of tax of ₹ 2.21 crore for which an equal amount of penalty was leviable. However, in two cases, the AAs did not levy any penalty and in three cases penalty of ₹ 0.71 lakh only was levied against the leviable penalty of ₹ 2.86 lakh. This resulted in non-levy/short levy of penalty of ₹ 2.20 crore.

After Audit pointed this out, CTO, Convent Street stated (May 2016) in respect of two cases that penalty had since been levied. However, no documentary evidence of demands raised/collections made were furnished. In another case, CTO, Dwarakanagar stated (November 2015) that notice would be issued for levy of penalty. In one case, CTO, Madanapalle stated (May 2016) that assessment file was submitted to DC, Chittoor for revision and in

[15] DC - Visakhapatnam and CTO - Gudivada.
[16] DCs - Kurnool and Visakhapatnam, CTO - Kakinada.
[17] Convent Street, Dwarakanagar, Madanapalle and Seetharamapuram.

the other case, CTO, Seetharamapuram stated (August 2015) that the matter would be examined.

The matter was referred to the Department in May 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.5.3 Non-levy of penalty for failure to register as VAT dealer

As per Section 49(2) of the VAT Act any dealer, who fails to apply for registration before the end of the month subsequent to the month in which he was obligated to be registered as a VAT dealer, shall be liable to pay penalty of 25 *per cent* of the amount of tax due.

During the test-check of VAT records of CTO, Lalapet, Audit observed (August 2015) in one case that a dealer had been carrying out business without taking VAT registration (June 2010) and as per the report of the Vigilance and Enforcement Department, the AA completed assessment of the dealer and levied tax of ₹ 31.77 lakh. However, the AA did not levy penalty of 25 *per cent* of the tax due, for failure to register as a VAT dealer. This resulted in non-levy of penalty of ₹ 7.94 lakh.

After Audit pointed this out, the AA replied (August 2015) that whereabouts of the dealer were not known. The reply was not acceptable as penalty was leviable under the provisions of the VAT Act at the time of levying the tax.

The matter was referred to the Department in May 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.6 Non-levy of interest and penalty for belated payment of tax

As per Section 22(2) of the VAT Act, if any dealer fails to pay the tax due on the basis of the return submitted by him under the Act within the time prescribed, he shall pay interest in addition to such tax or penalty or any other amount, calculated at the rate of 1.25 *per cent* (1 *per cent* up to 14 September 2011) per month for the period of delay from such prescribed or specified date for its payment. Further, under Section 51(1) of the Act, if a dealer fails to pay tax due on the basis of the return submitted by him by the last day of the month in which it is due, he shall be liable to pay a penalty of 10 *per cent* of the amount of tax due in addition to such tax.

Audit observed (between April 2015 and March 2016) during the test-check of the VAT returns and assessment files of 6 divisions[18] and 26 circles[19] for the period from 2010-11 to 2014-15 that in 140 cases, the dealers paid tax after the due dates with delays ranging from 1 to 1,315 days. In CTO, Parchur,

[18] DCs - Anantapur, Eluru, Guntur-I, Kadapa, Nellore and Visakhapatnam.

[19] CTOs - Alcot Gardens, Anantapur-I and II, Autonagar, Brodipet, Chittoor-II, Convent Street, Gajuwaka, Gudivada, Guntakal, Hindupur, Kasibugga, Macherla, Nandigama, Narasaraopet, Nellore-I, Nidadavolu, Parchur, Parvathipuram, Patnam Bazar, Podili, Seetharamapuram, Steel Plant, Tirupati-I & II and Vuyyuru.

interest was not paid on the additional tax declared by the dealer in the revised return. In CTO, Alcot Gardens, interest was not levied by the AA on the differential turnover brought to tax. This resulted in non-levy of interest of ₹ 1.40 crore and penalty of ₹ 3.54 crore.

After Audit pointed out these cases, DC, Visakhapatnam intimated (July 2016) that interest was levied in one case. CTO, Parchur stated (July 2016) that assessment file was submitted to DC for revision in one case. In 71 cases, the AAs[20] replied (between August 2015 and February 2016) that action would be taken to collect the interest and penalties. In the remaining cases, the AAs[21] stated (between April and December 2015) that the matter would be examined and report submitted in due course.

The matter was referred to the Department in May/June 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.7 VAT on Works Contracts

2.7.1 Short levy of tax due to incorrect determination of taxable turnover under Works Contract

Under Section 4(7)(a) of the VAT Act, tax on works contract receipts is to be paid on the value of goods at the time of their incorporation in the work, at the rates applicable to them. To arrive at the value of goods at the time of incorporation, the deductions prescribed under Rule 17(1)(e) of VAT Rules, such as expenditure towards labour charges, hire charges etc., incurred by the contractor are to be allowed from the total consideration and on the balance of turnover, tax is levied at the same rates at which purchase of goods were made and in the same proportions. As per Rule 17(1)(d) of VAT Rules, the value of the goods at the time of incorporation, as arrived at, shall not be less than their purchase value and shall include seigniorage charges, transportation charges etc.

Audit observed (between June 2015 and February 2016) during test-check of the VAT assessment files of seven dealers in Nellore Division and three circles[22] that in six cases the AAs, while finalising the assessments (between January 2012 and September 2014) for the period from 2008-09 to 2013-14, had incorrectly determined the taxable turnover due to allowing certain inadmissible deductions from the gross turnover and incorrect calculation of expenditure and profit relatable to labour. In one case, tax was not levied on the purchase turnover under Rule 17(1)(d) of VAT Rules even though the taxable turnover determined was less than the purchase value of goods. This resulted in short levy of tax of ₹ 1.81 crore.

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[20] CTOs - Anantapur-I & II, Convent Street, Guntakal, Podili, Steel Plant and Tirupati-II.

[21] DCs - Anantapur, Eluru, Guntur-I, Kadapa, Nellore and Visakhapatnam; CTOs - Alcot Gardens, Autonagar, Brodipet, Chittoor-II, Gajuwaka, Gudivada, Hindupur, Kasibugga, Macherla, Nandigama, Narasaraopet, Nellore-I, Nidadavolu, Parvathipuram, Patnam Bazar, Seetharamapuram and Vuyyuru.

[22] Dwarakanagar, Gudur and Steel Plant.

After Audit pointed this out, in one case, CTO, Dwarakanagar stated (November 2015) that notice would be issued to the dealer. In one case, DC, Nellore stated (December 2015) that the assessment file was submitted for revision. In the remaining five cases, AAs[23] stated (between June 2015 and February 2016) that the matter would be examined

The matter was referred to the Department in June 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.7.2 Short levy of tax on Works Contractors paying tax under Composition

Under Section 4(7)(a) of the VAT Act, works contract receipts are taxable on the value of goods at the time of incorporation of goods at the rates applicable to them. However, Section 4(7)(b) of the Act permits the dealers to opt to pay tax at the rate of four *per cent*[24] on the gross receipts by way of composition on filing form VAT-250 before commencing the work. Further, as per Rule 17(1)(g) of the VAT Rules, where a VAT dealer who has not opted for composition and has not maintained detailed accounts to determine the correct incorporation of the value of the goods, shall be liable to pay tax at the rate of 14.5 *per cent* (12.5 *per cent* up to 14 January 2010) on the total consideration, subject to the specified deductions on percentage basis based on the category of work executed. Such a dealer shall not be eligible to claim ITC. Under Section 4(7)(e)[25] of the Act any works contractor who, having opted to pay tax under composition, purchases or receives any goods for the works from outside the State or from a non-VAT dealer, shall pay tax on such purchases at the rates applicable to them.

During the test-check of VAT assessment records of five circles[26] for the period from 2009-10 to 2013-14, in four cases, Audit observed (between June and December 2015) that the works contractors did not file form VAT-250 before commencement of works. In view of this, the options for composition were not valid and tax was leviable as per Rule 17(1)(g) at the rate of 12.5/14.5 *per cent,* without allowing any ITC, as these contractors had not submitted detailed accounts of the works. However, the AAs levied tax at the concessional rate of 4/5 *per cent,* considering them as compositions opted for. In another case the dealer, who had opted for composition under Section 4(7)(b), purchased 'ESS Boards' (unclassified goods and taxable at the rate of 12.5/14.5 *per cent*), from outside the State during the years 2009-10 and 2010-11 and incorporated the same in works; but the AA did not levy the differential tax on these goods as per the provisions of Section 4(7)(e). This resulted in short levy of tax of ₹ 69.33 lakh, in all the five cases.

After Audit pointed out the cases, CTO, Dwarakanagar stated (July 2016) in respect of one case, that the assessment file was submitted to

[23] Dwarakanagar, Gudur and Steel Plant.
[24] Five *per cent* from 14 September 2011.
[25] Clause 'e' of Section 4(7) of the Act was in force up to 14 September 2011.
[26] Dwarakanagar, Gudur, Kavali, Puttur and Tadepalligudem.

DC, Visakhapatnam for revision. In the remaining four cases, AAs[27] stated (between June and December 2015) that the matter would be examined.

The matter was referred to the Department in May 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.7.3 Non-levy of tax on Works Contractors who did not maintain detailed accounts

As per Section 4(7)(a) of the VAT Act, works contract receipts are taxable at the rates applicable to the goods on the value of goods at the time of incorporation. However, as per Rule 17(1)(g) of VAT Rules, if any works contractor has not maintained detailed accounts to determine the correct value of the goods at the time of their incorporation, tax shall be levied at the rate of 14.5 *per cent* on the total consideration received after allowing permissible deductions on percentage basis on the category of work executed. Civil works and works which do not fall under any category are entitled to 30 *per cent* deductions. In such cases, the works contractor / VAT dealer shall not be eligible to claim ITC.

During the test-check of records of two circles[28], Audit observed (May and June 2015) from the VAT assessment files that in two cases, for the period from 2011-12 to 2014-15, the considerations received by dealers towards execution of works contracts were not assessed by the AAs. As the dealers had not submitted detailed accounts of the works executed, tax was leviable at the rate of 14.5 *per cent* on 70 *per cent* of the turnover without allowing any ITC on purchases, as per the provisions of Rule 17(1)(g). The AAs had assessed the turnover incorrectly which resulted in non-levy of tax of ₹ 50.70 lakh on the works contract receipts of ₹ 4.99 crore.

After Audit pointed out the cases, CTO, Vuyyuru stated (August 2016) in respect of one case that the assessment file was submitted to the DC for revision. In the other case, CTO, Kakinada stated (May 2015) that the matter would be examined and reply furnished in due course.

The matter was referred to the Department in May 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.7.4 Short levy of tax due to incorrect allowance of TDS credit

As per Section 4(7)(b) of the VAT Act, every dealer executing works contracts may opt to pay tax by way of composition at the rate of five *per cent*[29] of the total amount received or receivable towards execution of works contract. Under Rule 18 (c) and (d) of VAT Rules, if the 'Tax Deduction at Source' (TDS) made by the contractee is less than the tax

[27] Gudur, Kavali, Puttur and Tadepalligudem.
[28] Kakinada and Vuyyuru.
[29] Four *per cent* up to 14 September 2011.

liability of the works contractor, the balance shall be paid by the dealer along with VAT-200 returns.

Audit observed (October and December 2015) during the test-check of the records of two circles[30] that, in one case, though the TDS made was less than the tax liability of the dealer who opted for composition, he did not pay the balance of tax along with the returns. In another case, the dealer claimed tax credit based on TDS certificates without tax remittance details. The AA, however, allowed the total credit claimed by the dealer without verification of tax payments. This resulted in short levy of tax of ₹ 9.87 lakh in these two cases**.**

After Audit pointed out the cases, in one case, the CTO, Gandhichowk stated (October 2015) that the matter would be examined and report submitted in due course. In the other case, CTO, Chittoor-I stated (December 2015) that the remittance particulars would be obtained and report submitted.

The matter was referred to the Department in May 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.8 Tax on interstate sales

2.8.1 Short levy/Non-levy of tax on interstate sales due to acceptance of invalid Statutory Forms

As per Section 8(4) of CST Act, read with Rule 12(1) of CST (Registration and Turnover) Rules, 1957 (R&T Rules), every dealer shall file a single 'C' form covering all sale transactions effected during a quarter of a financial year between the same two dealers, to claim concessional rate of tax allowed as per Section 8(1) of the Act. As per Section 6A of CST Act read with Rule 12(5) of R&T Rules, every dealer shall file a single 'F' form, to cover all interstate transfer of goods other than sales every month to claim exemption. 'F' forms, which were issued before commencement of the CST (R&T) (Second Amendment) Rules, 1973, may be used up to 31 December 1980 with suitable modifications. As per Section 8(2) of the CST Act, interstate sales turnover, not covered by proper declaration forms, shall be taxed at the rates applicable to the goods inside the appropriate State.

During the test-check of the CST assessments of two divisions[31] and two circles[32], Audit observed (between April and November 2015) that in two cases AAs, while finalising the assessments (between April 2013 and March 2015) for the years 2009-10 to 2011-12, had incorrectly allowed concessional rate of tax on the sale turnover of 'Granites' and 'Gunnies' supported by invalid 'C' forms. These 'C' forms were issued locally and they did not pertain to the relevant assessment years. In three other cases, sales turnover of 'PVC Pipes and fittings' and 'compressors' supported by invalid 'F' and 'E1'

[30] Chittoor-I and Gandhichowk.
[31] Guntur-I and Kurnool.
[32] CTOs - Chittoor-II and Nellore-III.

forms was incorrectly exempted. The 'F' forms did not pertain to the issuing State and 'E1' form was not relevant to the assessment year. However, the AAs had accepted these invalid statutory forms for levy / exemption of tax. This resulted in short levy / non-levy of tax of ₹ 1.42 crore.

After Audit pointed out, the AAs in all the cases stated (between April and November 2015) that the matter would be examined.

The matter was referred to the Department in May/June 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.8.2 Short levy of tax due to incorrect determination of taxable turnover under CST Act

As per Section 9 (2) of CST Act, the authorities empowered to assess tax under the general sales tax law of the State, shall also assess tax under the CST Act. As per Sections 5, 6, 6A and 8 of the CST Act read with Rule 12 of R&T Rules, if the dealer fails to submit necessary statutory forms in support of exports, branch transfers, transit sales etc., the relevant transactions are to be treated as interstate sales not covered by 'C' forms and tax levied under Section 8(2) of the Act at the rates applicable to the goods inside the appropriate State.

The commodities listed under Schedules-III and IV to the VAT Act are liable to tax at the rates of one *per cent* and five *per cent,*[33] respectively and those which are not specified in any of the Schedules to the VAT Act fall under Schedule-V and are taxable at the rate of 14.5 *per cent.*

During the test-check of CST assessment files and VAT records of Anantapur Division and eight circles[34] for the period from 2010-11 to 2014-15, Audit observed (between May and December 2015) that in eleven cases, the taxable turnover under the CST Act was not determined correctly due to non-reconciliation with the VAT and CST returns, VAT assessment orders, CST way bill utilisation reports etc. This resulted in short levy of tax of ₹ 92.18 lakh on the turnover of ₹ 19.22 crore, under-assessed**.**

After Audit pointed out the cases, in one case, CTO, Eluru Bazar stated (September 2015) that the assessment would be revised and final report submitted to Audit. In one case, CTO, Ongole-I replied (June 2016) that the assessment file was submitted to DC, Nellore for revision. In the remaining nine cases, the AAs stated (between May and December 2015) that the matter would be examined and report submitted in due course.

The matter was referred to the Department in May 2016 and to the Government in October 2016; replies have not been received (December 2016).

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[33] Four *per cent* up to 13 September 2011.

[34] CTOs - Anantapur-I, Eluru Bazar, Gajuwaka, Hindupur, Jagannaikpur, Nellore-II, Ongole-I and Patnam Bazar.

2.8.3 Short levy of tax and Non-levy of penalty for using Counterfeit 'C' Forms

As per Section 8(2) of CST Act, tax on sales in the course of interstate trade or commerce not supported by 'C' form shall be calculated at the rate applicable to the sale of such goods inside the appropriate State. Further, as per Section 9(2A) of CST Act read with Section 55(4)(b) of VAT Act, if any dealer, who claims reduced rate of tax on any sale is found to be in possession of any false or fabricated declaration, he shall be liable for a penalty of 200 *per cent* of the tax leviable in the absence of such declaration on the value of the goods so sold. 'Paper' falls under Schedule-IV to VAT Act and is liable to tax at the rate of five *per cent* from 14 September 2011 (four *per cent* up to 13 September 2011).

During the test-check of CST assessment files of CTO, Aryapuram, Audit observed (May 2015) that in one case for the year 2011-12, the AA had allowed concessional rate of tax on the turnover of ₹ 3.15 crore covered by six counterfeit 'C' forms and levied tax of ₹ 6.17 lakh against the leviable tax of ₹ 12.94 lakh. This resulted in short levy of tax of ₹ 6.77 lakh and non-levy of penalty of ₹ 25.88 lakh.

After Audit pointed this out, the AA stated (May 2015) that the matter would be examined.

The matter was referred to the Department in June 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.8.4 Excess adjustment of Tax Credit

As per Rule 35(7) of VAT Rules, a VAT dealer making interstate sale of goods may adjust any excess credit available under the VAT Act against any tax payable under the CST Act, for the same tax period.

During the test-check of CST records of CTO, Hindupur, Audit observed (November 2015) that in two cases, while finalising the assessments for the years 2010-11 and 2011-12, the AA had adjusted tax credit of ₹ 290.99 lakh against the actual available credit of ₹ 275.08 lakh. This resulted in excess adjustment of credit of ₹ 15.91 lakh.

After Audit pointed this out, the AA stated (November 2015) that the matter would be examined and Audit would be intimated.

The matter was referred to the Department in May 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.8.5 Short levy of tax due to application of incorrect rate of tax under CST

As per Section 8(2) of the CST Act, interstate sales not supported by 'C' forms are liable to tax at the rate applicable to sale of such goods inside the appropriate State. Under Section 4(3) of the VAT Act, every VAT dealer shall pay tax on sale of taxable goods at the rates specified in the Schedules to the Act.

'Cashew nut husk' is not classified in any of the Schedules to the VAT Act and therefore taxable at the rate of 14.5 *per cent.* 'Liquor' falls under Schedule-VI to the Act and attracts special rate of tax at 70 *per cent*.

Audit observed (April and November 2015) during the test-check of CST records of two circles[35] for the year 2010-11 that in case of two dealers dealing in 'cashew nut husk' and 'liquor', the AAs levied tax at the incorrect rate of four *per cent* on the interstate sales turnover of ₹ 17.59 lakh not supported by 'C' forms. The application of incorrect rate of tax resulted in short levy of tax of ₹ 7.23 lakh.

After Audit pointed this out, the AAs in both the cases stated (June and July 2016) that show-cause notices were issued to the dealers by the DCs concerned and further action is awaited.

The matter was referred to the Department in May 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.8.6 Short levy of tax on interstate sales not covered by Documentary Evidence

As per Sections 8 (1) and8 (4) of the CST Act, read with Rule 12(1) of the R&T Rules every dealer, who in the course of interstate trade or commerce sells goods to a registered dealer in another State, shall be liable to pay tax at a concessional rate of two *per cent* (with effect from 1 June 2008), on production of valid 'C' form. As per Section 5(3), read with Section 5(4) of the CST Act, goods sold for export are exempt from tax, on production of 'H' form obtained from the exporter and other evidences supporting the export. However, if the dealer fails to produce the statutory forms, the transactions are required to be treated as interstate sale not supported by 'C' form and tax levied at the rate applicable to sale of such goods inside the appropriate State as per Section 8(2) of the Act.

'Turmeric fingers', 'laterite' and 'kraft paper' fall under Schedule-IV to the VAT Act and are liable to tax at the rate of five *per cent*[36].

During the test-check of CST assessment files of three circles[37], in three cases, Audit observed (between April and December 2015) that the AAs, while

[35] Kasibugga and Proddatur-II.
[36] Four *per cent* up to 13 September 2011.
[37] CTOs - Alcot Gardens, Kadapa-II and Krishnalanka.

finalising the assessments for the years 2010-11 and 2011-12 did not levy tax at the full rates applicable to the goods though the dealers had not produced statutory forms and other evidences for the interstate sales of laterite for a turnover of ₹ 53.83 lakh and for the indirect export sales of kraft paper and turmeric fingers for a turnover of ₹ 113 lakh. This resulted in short levy of tax of ₹ 5.73 lakh.

After Audit pointed this out, the AAs in all the cases stated (between April and December 2015) that the matter would be examined and reply furnished in due course.

The matter was referred to the Department in May 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.9 Non-levy of tax due to incorrect exemption of turnover

Under Section 4(3) of the VAT Act, every VAT dealer shall pay tax on sale of taxable goods at the rates specified in the Schedules to the Act. As per the Government order[38] dated 8 July 2011, the commodity 'textiles and fabrics' was added to Schedule-IV and made taxable at five *per cent*[39]. However, as per Ordinance No. 9 of 2012 dated 5 November 2012, the dealers of 'textiles and fabrics' may opt to pay tax at the rate of one *per cent* under composition. Later, the Government by another order[40] included the said commodity in Schedule-I from 7 June 2013 and made sales thereof exempted. Hence, the commodity was liable to tax at the rate of five *per cent* between 8 July 2011 and 6 June 2013 if the dealers had not opted for composition.

During the test check of records of five circles[41], Audit observed (between May and December 2015) from VAT audit files of nine cases for the period from April 2012 to May 2013 that the AAs had incorrectly exempted the total turnover of ₹ 37.11 crore being the sales of 'textiles and fabrics', instead of levying tax at the rate of five *per cent*, as none of the dealers had opted for composition. This resulted in non-levy of tax of ₹ 1.86 crore.

After Audit pointed out the cases, the AAs[42] in two cases, stated (July 2016) that assessment files were submitted to the DCs concerned for revision. In all the other cases, the AAs[43] stated (between May and December 2015) that the matter would be examined.

The matter was referred to the Department in May 2016 and to the Government in October 2016; replies have not been received (December 2016).

[38] G.O.Ms.No.932, Revenue (CT-II) Department, dated 08 July 2011.
[39] Four *per cent* up to 13 September 2011.
[40] G.O.Ms.No.308, Revenue (CT-II) Department, dated 07 June 2013.
[41] Bhimavaram, Chittoor-I, Jagannaikpur, Kadapa-II and Madanapalle.
[42] Bhimavaram and Madanapalle.
[43] Chittoor-I, Jagannaikpur and Kadapa-II.

2.10 Short levy of VAT due to incorrect determination of taxable turnover

As per Section 21(3) of the VAT Act, read with Rule 25(5) of the VAT Rules, if the AA considers the return filed by a VAT dealer as incorrect or incomplete or not satisfactory, the AA shall assess the tax payable to the best of his judgement on form VAT-305 within four years of the due date or date of filing of the return, whichever is earlier. As per Section 21(4) of the Act, the authority prescribed may, based on available information, conduct a detailed scrutiny of the accounts of any VAT dealer and where any assessment, as a result of such scrutiny, becomes necessary, such assessment shall be made within a period of four years from the end of the period for which the assessment is to be made. As per Rule 25(10) of the VAT Rules, all the VAT dealers, for every financial year, have to furnish the statements of manufacturing / trading, profit and loss accounts, balance sheet and annual report duly certified by a Chartered Accountant, on or before 31 December. As per Para 5.12 of VAT Audit Manual 2012, the audit officer is required to verify the details given by the dealer in VAT returns and to reconcile with those reported in certified annual accounts for that period.

During test-check of the VAT audit records of 27 dealers for the period from 2007-08 to 2013-14 in Chittoor Division and 15 circles[44], Audit observed (between May 2015 and March 2016) that in 19 cases, the sales made by the dealers were more than those reported in VAT returns. In two cases, warranty claims on replacement of spares received by the dealers were not subjected to tax. In three cases, the dealers did not declare tax on sale of old machinery and in two cases, no tax was levied on the stock variations observed during VAT audit. In one case, the closing stock of goods as per the balance sheet for the year 2007-08 was not correctly taken as opening stock for the next year accounts. In one case, though the dealer was dealing in both trading and works contracts, only works contract turnover was assessed to tax. This resulted in short levy of tax of ₹ 73.84 lakh due to incorrect determination of taxable turnover.

After Audit pointed out the cases, in one case, CTO, Aryapuram stated (July 2016) that tax had been levied. However, no documents in proof of demands raised/collections made were furnished. In four cases, the AAs[45] stated (June and July 2016) that notices had been issued to dealers. In five cases, the AAs[46] stated (between January and July 2016) that assessment files had been sent to the DCs concerned, for revision. In 17 cases, the AAs[47] stated (between May 2015 and March 2016) that the matter would be examined.

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[44] DC - Chittoor, CTOs - Anantapur-II, Aryapuram, Benz Circle, Chinawaltair, Chirala, Dwarakanagar, Kadapa-II, Kakinada, Kavali, Nidadavolu, Ongole-I, Puttur, Seetharamapuram, Tadepalligudem and Tirupati-I.

[45] CTOs - Dwarakanagar and Puttur.

[46] CTOs - Anantapur-II, Benz Circle, Dwarakanagar and Tirupati-I.

[47] DC - Chittoor, CTOs - Aryapuram, Chinawaltair, Chirala, Kadapa-II, Kakinada, Kavali, Nidadavolu, Ongole-I, Puttur, Seetharamapuram and Tadepalligudem.

The matter was referred to the Department in May / June 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.11 Under-declaration of tax due to application of incorrect rate of tax

Under Section 4(3) of the VAT Act, every VAT dealer shall pay tax on sale of taxable goods at the rates specified in the Schedules to the Act. As per Section 4(9)(c) of the VAT Act, every dealer, whose annual total turnover is ₹ 1.5 crore and above, shall pay tax at the rate of 14.5 *per cent* on the taxable turnover representing sale or supply of food or any other article for human consumption or drink served in restaurants, sweet-stalls, clubs or any other eating houses. Further, under Section 20(3)(a) of the VAT Act, every monthly return submitted by a dealer shall be subjected to scrutiny to verify the correctness of calculation, application of correct rate of tax, ITC claimed therein and full payment of tax payable for such tax period.

As per Section 4(7)(a) of the VAT Act, every dealer executing works contract shall pay tax on the value of goods at the time of incorporation of such goods in the works executed at the rates applicable to the goods under the Act. Government enhanced[48] the rate of tax for goods falling under Schedule-IV to the Act from four *per cent* to five *per cent* from 14 September 2011. Under Section 4(7)(b) of the VAT Act, works contractors may opt to pay tax under composition at the rate of five *per cent*[49]. 'Packing material' falls under Schedule-IV to the Act. The commodities 'cement, electronic weighing machines, empty gas cylinders, water purifiers' are not specified in any of the Schedules to the Act and are, therefore, taxable at the rate of 14.5 *per cent*. 'Liquor' falls under Schedule-VI to the Act and attracts special rate of tax at 70 *per cent*.

Audit observed (between May and December 2015) during the test-check of VAT records of 10 circles[50] and Kurnool Division for the assessment period from 2010-11 to 2014-15 that 13 dealers (seven of them were audited by the Department), dealing in works contracts and commodities (cement, electronic weighing scales, empty gas cylinders, food, packing material and water purifiers), had paid tax at incorrect rates. Two of them were works contractors, of whom one had opted to pay tax under composition. The taxable turnover of the other works contractor was to be determined by the AA under Section 4(7)(a) of the Act warranting levy of tax on the value of goods incorporated, at the applicable rate of five *per cent*. However, the AAs levied tax at incorrect rate of four *per cent* in both the cases. The application of incorrect rates of tax resulted in under-declaration / short levy of tax of ₹ 66.02 lakh on the turnover of ₹ 33.26 crore.

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[48] Vide Act No. 12 of 2012.
[49] From 14 September 2011. The rate of tax was four *per cent* prior to the given date.
[50] Brodipet, Chinawaltair, Chittoor-I, Eluru, Gajuwaka, Kadapa-I, Kothapeta, Ongole-I, Tirupati-I and II.

After Audit pointed out the cases, in four cases, AAs[51] stated (June to August 2015) that show-cause notices were issued to the dealers. In one case, CTO, Gajuwaka stated (August 2016) that the file was submitted to the DC, Visakhapatnam for revision. In six cases, AAs[52] stated (between May and December 2015) that the matter would be examined and reply submitted. In one case, DC, Kurnool contested (November 2015) that four *per cent* rate of tax, as provided in the work estimate, was levied based on the Judgement of the Hon'ble High Court of A.P[53]. The reply was not acceptable as the judgement related to the deduction of tax at source by the executing authorities and not to the levy of tax by the AA at five *per cent*, as per the provisions of the VAT Act. In another case, reply was yet to be received from CTO, Chinawaltair.

The matter was referred to the Department in May / June 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.12 Non-levy of interest on belated payment of deferred tax

As per Section 69 of the VAT Act read with Rule 67 of the VAT Rules, all sales tax exemption cases sanctioned prior to the enactment of VAT Act were converted as sales tax deferment cases by doubling the period left over without change in monetary limit of the amount sanctioned. Further, as per Government order[54] dated 8 May 2009, repayment of deferred sales tax was to commence after the end of the period of deferment. In case of non-payment of deferred tax on the due dates, interest at the rate of 21.5 *per cent* per annum was to be charged as per the guidelines of the sales tax incentive scheme.

Audit observed (between June and November 2015) during test-check of records of two divisions and three circles[55] that in six cases, the dealers had availed of sales tax deferment but repaid the deferred tax of ₹ 3 crore belatedly with delays ranging from 57 to 1,089 days for which they were liable to pay interest at the rate of 21.5 *per cent* per annum. However, the AAs did not levy any interest. This resulted in non-levy of interest of ₹ 64.46 lakh.

After Audit pointed this out, DC, Visakhapatnam stated (July 2016) that the demand was taken to Demand, Collection and Balance (DCB) register. However, no documentary evidence in support of demands raised/collections made was furnished. CTO, Ongole-I stated (June 2016) that action to collect the interest under Revenue Recovery Act was under progress. In three cases, the AAs[56] stated (June and November 2015) that notices would be issued and report submitted. CTO, Seetharamapuram stated (August 2015) that the matter would be examined and reply submitted.

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[51] CTOs - Tirupati-I and II.
[52] CTOs - Brodipet, Chittoor-I, Eluru, Kadapa-I, Kothapet and Ongole-I.
[53] Judgement of Hon'ble High Court of A.P. in the case of M/s. Nithin Sai Constructions, Anantapur in WP No.27295/2012 dated 31 August 2012 regarding the petition filed over the excess deduction of VAT in the work bills by the executing department.
[54] G.O.Ms.No.503, Revenue (CT-II) Department, dated 8 May 2009.
[55] DCs - Kurnool and Visakhapatnam, CTOs - Ongole-I, Seetharamapuram and Vuyyuru.
[56] DC - Kurnool and CTO - Vuyyuru.

The matter was referred to the Department in May 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.13 Short payment of tax and non-levy of penalty due to non-conversion as VAT dealer

Under Section 17(3) of the VAT Act, every dealer, whose taxable turnover in the twelve preceding months exceeds ₹ 50 lakh, shall be registered as a VAT dealer. As per Section 17(5)(h) of the Act, every dealer engaged in sale of food items including sweets etc. whose total annual turnover is more than ₹ 7.50 lakh is liable for VAT registration and has to pay tax at the rate of five *per cent* under the provisions of Section 4(9)(d) of the Act. As per Rule 11(1) of the VAT Rules, the prescribed authority may suo motu register a dealer, who is liable to apply for registration as VAT dealer but has failed to do so. As per Section 49(2) of the VAT Act, any dealer who fails to apply for registration, as required under Section 17, shall be liable to pay a penalty of 25 *per cent* of the tax due prior to the date of registration.

During the test-check of Turnover Tax (TOT) records of six circles[57], Audit observed (between June and December 2015) in eight cases that the taxable turnover of the dealers during the period from April 2011 to December 2014 had crossed the threshold limit, making them liable for VAT registration. The total turnover (between April 2012 and September 2015), liable for levy of VAT after the dealers had crossed the threshold limit, amounted to ₹ 2.47 crore, on which VAT of ₹ 24.86 lakh was to be levied had they been registered as VAT dealers but they had paid tax of only ₹ 2.47 lakh. These TOT dealers had neither applied for VAT registration nor were they registered by the respective AAs. This resulted in short payment of tax of ₹ 22.39 lakh and non-levy of penalty of ₹ 5.60 lakh.

After Audit pointed this out, in three cases the AAs[58] stated (between August and October 2015) that the matter would be examined and report submitted in due course. In one case, CTO, Bhimavaram stated (July 2016) that notice proposing levy of differential tax was issued to the dealer and final report would be furnished in due course. In three other cases, CTO, Dwarakanagar stated (July 2016) that notices would be issued to the dealers and reply furnished after verification of books. In another case, CTO, Gudur stated (July 2016) that orders were passed levying tax and penalty but the dealer preferred appeal before the ADC, Guntur and the appeal was pending for disposal.

The matter was referred to the Department in May 2016 and to the Government in October 2016; replies have not been received (December 2016).

[57] Bhimavaram, Daba Gardens, Dwarakanagar, Gudur, Nellore-I and Nellore-III.
[58] CTOs - Dabagardens, Nellore-I and III.

2.14 Non-levy / Short levy of tax on transfer of right to use goods

As per Section 4(8) of the VAT Act, every VAT dealer, who transfers the right to use any taxable goods to any lessee or licensee for any valuable consideration in the course of his business, shall pay tax on the total amount received by him at the rates applicable to such goods. 'Automobile vehicles' are not classified in any of the Schedules to the VAT Act and are, therefore, liable to tax at the rate of 14.5 *per cent*.

During the test-check of records of Kadapa Division and five circles[59], Audit observed (between May and September 2015) in seven cases that the AAs, while finalising (from January 2013 to June 2014) the VAT assessments for the period from 2007-08 to 2013-14 , had either not levied or short levied tax on a total turnover of ₹ 1.51 crore received towards transfer of right to use vehicles, liable for tax at the rate of 14.5 *per cent* (12.5 *per cent* up to 14 January 2010). This resulted in non-levy/short levy of tax of ₹ 18.77 lakh.

After Audit pointed this out, in one case, CTO, Ongole-I stated (June 2016) that notice had been issued to the dealer. In five cases, AAs[60] stated (between May and September 2015) that the matter would be examined. In another case, CTO, Mangalagiri contested (June 2016) that tax on hire charges had been waived by the Government of AP and there was no tax liability. The reply was not acceptable as the waiver was applicable on production of proof of payment of service tax, whereas, the Department had waived the tax without verifying the proof of payment of service tax.

The matter was referred to the Department in May 2016 and to the Government in October 2016; replies have not been received (December 2016).

2.15 Non-levy of purchase tax

Under Section 4(4) of the VAT Act, purchase tax is to be levied on purchase value of taxable goods if purchased without paying tax (either purchased from unregistered dealers or if the selling dealer is not liable to pay tax) and if the goods so purchased are used as inputs either for exempt products or for goods which are disposed of by any means other than by sale. Purchase tax is to be levied proportionately if the originally purchased goods are used as common inputs for exempt products and taxable products which separately necessitate levy of tax.

During the test-check of records of four circles[61], Audit observed (May and October 2015) in six cases for the period from 2008-09 to 2012-13, that the dealers had purchased taxable goods, such as, paddy from unregistered dealers and effected sale of exempt products such as husk and taxable products such as rice. Out of the total purchase of taxable goods worth ₹ 93.95 crore from unregistered dealers, the purchase turnover of paddy for ₹ 2.84 crore relatable

[59] Jagannaikpur, Kavali, Mangalagiri, Ongole-I and Suryaraopet.
[60] DC - Kadapa, CTOs - Jagannaikpur, Kavali and Suryaraopet.
[61] Benz circle, Gudivada, Machilipatnam and Parvathipuram.

to the exempt sales of husk, attracted purchase tax at four / five *per cent*. However, neither had the dealers paid the purchase tax nor was the same levied by the AAs during VAT audit of the cases conducted between May 2012 and February 2014. This resulted in non-levy of purchase tax of ₹ 12.67 lakh**.**

After Audit pointed this out, in three cases, CTO, Parvathipuram stated (June 2016) that assessments were revised and tax levied. However, no documentary evidence of demands raised/collections made was furnished. In one case, CTO, Benz Circle stated (July 2016) that assessment was revised with 'Nil' demand. The reply was not acceptable as the copy of revision order was not furnished to identify the circumstances under which 'Nil' demand was raised. In one case, CTO, Gudivada stated (July 2016) that the assessment file was submitted to DC, Vijayawada-I for revision and further orders were awaited. In the other case, CTO, Machilipatnam stated (October 2015) that the matter would be examined and reply submitted.

The matter was referred to the Department in May 2016 and to the Government in October 2016; replies have not been received (December 2016).