

**CHAPTER-III**  
**STATE EXCISE**



## CHAPTER – III: STATE EXCISE

### 3.1 Tax administration

The levy and collection of excise duty is governed by the Bihar Excise Act, 1915 and the Rules made/ notifications issued thereunder, as adopted by the Government of Jharkhand. The Secretary of the Excise and Prohibition Department is responsible for administration of the State Excise laws at the Government level. The Commissioner of Excise (EC) is the head of the Department and is primarily responsible for the administration and execution of state excise policies and programmes of the Government. He is assisted by a Joint Commissioner of Excise, Deputy Commissioner of Excise and Assistant Commissioner of Excise at the Headquarters. Further, the State of Jharkhand is divided into three excise divisions<sup>1</sup>, each under the control of a Deputy Commissioner of Excise. The divisions are further divided into 19 excise districts<sup>2</sup> each under the charge of an Assistant Commissioner of Excise/ Superintendent of Excise (ACE/ SE).

### 3.2 Human resources

The position of sanctioned strength and men-in-position of officers and other supporting staff of the Department as on December 2017 is shown in the **Table – 3.1**.

**Table – 3.1**

Nature of the post	Sanctioned strength	Working strength	Shortage	Percentage of shortage
Officers	33	12	21	63.64
Officials	1,017	260	757	74.43
<b>Total</b>	<b>1,050</b>	<b>272</b>	<b>778</b>	

There was acute shortage of officers, primarily in the cadres of ACEs/ SEs and supporting staff, in the technical posts of chemical analyzer, technician, laboratory assistant etc., in the inspectional posts of sub-inspector/ assistant sub-inspector of excise, constables, and clerks.

### 3.3 Results of audit

During 2016-17, Audit test checked the records of 19<sup>3</sup> out of 23 auditable units (83 *per cent*) of the Department. The Department collected ₹ 912.47 crore revenue during 2015-16 of which the audited units collected ₹ 834.77 crore (91 *per cent*). Audit noticed irregularities amounting to ₹ 124.93 crore in 3,194 cases (of which ₹ 89.66 crore involving 362 cases relates to three excise districts<sup>4</sup>) as detailed in **Table – 3.2**.

<sup>1</sup> North Chotanagpur Division, Hazaribag, South Chotanagpur Division, Ranchi and Santhal Pargana Division, Dumka.

<sup>2</sup> Bokaro, Chaibasa, Dhanbad, Deoghar, Dumka, Garhwa, Giridih, Godda, Gumla-cum-Simdega, Hazaribag-cum-Ramgarh-cum-Chatra, Jamshedpur, Jamtara, Koderma, Lohardaga, Pakur, Palamu-cum-Latehar, Ranchi, Sahibganj and Saraikela-Kharsawan.

<sup>3</sup> Offices of ACEs, Bokaro, Dhanbad, Hazaribag-cum-Ramgarh-cum-Chatra, Jamshedpur and Ranchi, SEs, Chaibasa, Deoghar, Dumka, Garhwa, Giridih, Godda, Gumla, Jamtara, Koderma, Pakur, Palamu-cum-Latehar, Sahibganj, Saraikela-Kharsawan and Commissioner of Excise, Ranchi.

<sup>4</sup> Offices of ACEs, Bokaro, Dhanbad and Jamshedpur.

**Table-3.2**

Sl. No.	Categories	No. of cases	Amount (₹ in crore)	Share in per cent to the total objected amount
1	Retail excise shop not settled	111	79.72	63.82
2	Short lifting of liquor	695	23.20	18.57
3	Undue financial benefit to retail licencees	1,093	14.18	11.35
4	Licence fee not realised	10	0.18	0.14
5	Other cases	1,285	7.65	6.12
<b>Total</b>		<b>3,194</b>	<b>124.93</b>	

The Department accepted audit observations of ₹ 103.41 crore in 1,746 cases pointed out by Audit and recovered ₹ 8.46 crore including ₹ 15.26 lakh involved in six cases, pointed out in a draft paragraph.

Irregularities involving 819 cases worth ₹ 103.26 crore have been illustrated in this chapter. Some of these types of irregularities that have been repeatedly reported during the last five years are detailed in **Table – 3.3**.

**Table – 3.3**

Nature of observations	(₹ in crore)											
	2011-12		2012-13		2013-14		2014-15		2015-16		Total	
	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Amount
Non-settlement of retail liquor shops	407	80.29	128	-	82	24.88	51	22.27	79	47.00	747	174.44
Short lifting of liquor by retail vendors	148	0.16	-	-	263	2.00	542	4.67	447	5.57	1,400	12.40
Non/ short realisation of licence fee and interest on delayed deposit	-	-	-	-	140	3.81	-	-	-	-	140	3.81

**Recommendation:**

**The Department may initiate systemic measures to curb the persistent leakages of revenues pointed out by Audit.**

**3.4 Compliance to Acts/ Rules**

The notifications and resolutions issued between February 2009 and November 2015 provide for:

- i) *cent per cent* settlement of retail excise shops;
- ii) lifting of minimum guaranteed quota (MGQ) of liquor by excise retail shops;
- iii) realisation of additional license fee for excess lifting over MGQ; and
- iv) levy of excise duty on liquors.

Loss or non-realisation of revenue due to non-observation of the provisions of Act/ Rules are mentioned in the following paragraphs.

### 3.5 Non-settlement of retail liquor shops

**Lack of diligence by district excise authorities and failure of the Department to ensure 100 per cent settlement of retail excise shops deprived Government of revenue of ₹ 79.72 crore.**

The Department notified (February/ March 2009) a new excise policy along with guidelines to settle all retail shops annually through lottery system in place of bid for auction/ tender. The Excise Commissioner (EC) intimated (26 February 2014) that, all the ACEs/ SEs are responsible for 100 per cent settlement of retail excise shops, and where retail shops remained unsettled, the EC may, on the recommendation of the licensing authorities, approve the settlement proposal at reduced license fee.

Previous Audit Reports had highlighted persistent losses amounting to ₹ 174.44 crore due to non-settlement of 747 shops during 2011-12 to 2015-16. Following the assurances (August 2016) of the Department to ensure 100 per cent settlement of shops, Audit test checked the records of 19 units, and found (between July 2016 and February 2017) that in four excise districts<sup>5</sup>, 111 retail shops<sup>6</sup> out of 442 excise retail shops were not settled throughout the year. It was further observed that the ACEs/ SEs, responsible for 100 per cent settlement of shops, did not initiate any other action apart from issue of sale notification for settlement of these unsettled shops. The ACEs/ SEs did not contact the previous licensees of the shops or investigate the reasons for non-settlement. It was also noticed that none of the excise districts submitted proposals for settlement of these shops at the reduced rate of license fee. Thus, due to lack of diligence by excise authorities, Government was deprived of ₹ 79.72 crore of excise duty and license fee as detailed in **Table – 3.4**.

**Table-3.4**

Sl. No.	Names of excise districts	MGQ (LPL/BL)			License Fee (₹ in lakh)	Duty (₹ in lakh)	Total (LF+Duty) (₹ in lakh)
		CS/SpCS	IMFL	Beer			
1	Bokaro	8,48,260	3,36,545	4,73,827	1,084.16	632.63	1,716.79
2	Dhanbad	80,855	2,62,904	4,51,083	568.17	412.01	980.18
3	Jamshedpur	17,04,989	10,10,843	14,03,799	2,832.04	1,752.05	4,584.09
4	Ramgarh	3,85,717	1,26,852	1,76,221	441.29	249.22	690.51
<b>Total</b>		<b>30,19,821</b>	<b>17,37,144</b>	<b>25,04,930</b>	<b>4,925.66</b>	<b>3,045.91</b>	<b>7,971.57</b>

CS/SpCS = Country Spirit/Spiced country spirit, IMFL = India Made Foreign Liquor, LPL = London Proof Litre and BL = Bulk Litre

The Department replied (between November 2017 and March 2018) that shops could not be settled due to non-availability of interested applicants/ willing traders even though regular sale notification was published in local news papers. The reply is not acceptable. Except for publishing sale notifications from time to time, no other efforts were made *viz.*, proposals for settlement of shops at reduced rate of license fee and rational fixation of MGQ after considering the actual lifting of previous year. The MGQ of districts were fixed by enhancing it on a percentage basis of two, seven and ten per cent for

<sup>5</sup> ACEs, Bokaro, Dhanbad, East Singhbhum (Jamshedpur) and Hazaribag-cum-Chatra-cum-Ramgarh.

<sup>6</sup> Number of shops unsettled/sanctioned: Bokaro (30/91), Ramgarh (12/44), Jamshedpur (58/161) and Dhanbad (11/146).

country spirit/ spiced country spirit, IMFL and beer respectively over the MGQ for 2014-15, instead of on the basis of actual potential of shops. The irregularity has repeatedly occurred in these four districts; out of the 747 unsettled shops reported by Audit during the last five years, 419 shops pertain to these districts.

### **3.6 Short lifting of liquor by retail vendors**

**Absence of system for periodical monitoring of lifting of liquor against MGQ resulted in short lifting of liquor and consequential non-levy of penalty equivalent to loss of excise duty of ₹ 23.20 crore.**

The Act, Rules etc., stipulate that each licensed vendor of a retail excise shop is bound to lift Minimum Guarantee Quota (MGQ) of liquor of each kind fixed by the Department for the shop, failing which, penalty equivalent to loss of excise duty suffered by the Government shall be recoverable.

Previous Audit Reports had highlighted persistent loss amounting to ₹ 12.40 crore due to short lifting of liquor by 1,400 retail vendors during 2011-12 to 2015-16. To evaluate the corrective measures adopted by the Department to stop short lifting of liquor, Audit test checked the records of 19 units between July 2016 and March 2017. It was noticed in 12 excise districts<sup>7</sup> that 695 shops (out of 1,126) short lifted 69.61 lakh LPL/ BL of liquor (against requirement to lift 268.97 lakh LPL/ BL) during 2015-16. It was observed that the MGQ of retail excise shops were fixed on annual basis which was divided into twelve parts and the vendors of retail shops lifted liquor monthly. It was further observed that the Department had no mechanism to ensure that the vendors lifted the monthly quota of MGQ. This resulted in short lifting and consequential non-levy of penalty equivalent to loss of excise duty of ₹ 23.20 crore.

The Department's reply (March 2018) to the audit observation merely focused on steps taken to effect recoveries in the cases pointed out by Audit, without addressing the fundamental issue underlying the chronic shortfall in lifted quantity, resulting in revenue loss.

#### **Recommendation:**

**The Department may introduce a mechanism to ensure that revenue loss arising out of short lifting of MGQ is minimized.**

<sup>7</sup> ACEs/ SEs, Bokaro, Dhanbad, Deoghar, East Singhbhum (Jamshedpur), Garhwa, Giridih, Hazaribag-cum-Chatra-cum-Ramgarh, Jamtara, Koderma, Palamu-cum-Latehar, Ranchi and Sahibganj.

### 3.7 Non/ short realisation of licence fee and interest on delayed deposits

**Absence of system for periodical assessment of payment against license fee of each licensee resulted in non/ short realization of license fee and interest.**

The Act, Rules etc., stipulates that licensees of retail shops are bound to deposit license fees by the 20<sup>th</sup> of each month, failing which, interest at the rate of five *per cent* per day is chargeable on the amount due.

The Audit Report for the year 2013-14 highlighted loss of Government revenue amounting to ₹ 3.81 crore due to non/ short realisation of license fee and interest on delayed deposit by 140 licensees. To evaluate the corrective measures adopted by the Department to ensure timely realisation of license fee, the records of 19 units were test checked, in ACEs of Dhanbad and East Singhbhum, Jamshedpur (between January and February 2017), where it was noticed that seven licensees deposited monthly license fee after delays ranging up to 35 days, and one licensee did not deposit monthly license fee of ₹ 7.95 lakh for two months. It was further observed that payment of license fee was maintained manually and updated in Form 66A on production of bank challans by the licensees. Though the payments were updated in the register, non/ delayed payment of license fee was not identified in these cases due to absence of a system for periodical assessment of payment against license fee of each licensee. As such, the excise authorities were unaware of non/ short realisation of license fee and interest amounting to ₹ 18.81 lakh including interest of ₹ 10.86 lakh.

The Department merely intimated (March 2018) that process of recovery of non/ short realisation of license fees and interest in cases pointed out by Audit had been initiated, and did not inform of any system changes made to ensure non-recurrence of similar irregularities.

#### **Recommendation:**

**The Department may introduce a mechanism to identify all instances of non/ delayed payment of license fees to enable the excise authorities to take immediate corrective action.**

### 3.8 Short realisation of excise duty

**Absence of system for periodic assessment of payment of excise duty and verifying it with the stock of each licensee resulted in short realisation of excise duty.**

The Act stipulates that excise duty is leviable on excisable articles manufactured under license granted by the Government. The rate of duty leviable on liquors (IMFL and Beer) and country spirit/ spiced country spirit (CS/ Sp CS) was revised with effect from 2 November 2015 and 8 September 2015 respectively.

During test check of records of 19 units in three excise offices<sup>8</sup> (between August 2016 and March 2017), it was noticed that three out of six licensees deposited excise duty at pre-revised rates on 0.41 lakh LPL/ BL of IMFL and beer, which was accepted by the excise authorities without initiating action for recovery of the differential amount. In the case of the remaining three licensees, Audit cross-verified their deposit of excise duty with their stock registers and found that the licensees had deposited excise duty at the old rate for 2 November and 8 September 2015 for liquor and country spirit respectively and at the revised rates on subsequent dates, resulting in undue benefit of old rates for 0.35 lakh LPL on 2 November and 8 September 2015. Audit observed that the other shortcomings were not noticed by the excise authorities since they maintained a manual register which was updated only on production of bank challans by the licensees. There was therefore no method for the excise authorities to *suo motu* ensure that the licensee paid excise duty at the correct rates. The excise authorities also did not have a mechanism to cross-verify the stock register of the licensees at the time of accepting payment. Consequently, the excise authorities failed to realize that there was short realisation of excise duty amounting to ₹ 15.74 lakh in respect of these six licensees.

The reply (March 2018) of the Department merely addressed the issue of recovery of short realisation in respect of the six licensees test checked in audit, and did not touch upon the larger system issue that led to such short realisations.

**Recommendation:**

**The Department is required to introduce a mechanism to ensure that all licensees remit the correct amount of duty on liquor and country spirits including cross-verification of the stock registers of the licensees.**

**Impact of Audit**

- The Department has reported (March 2018) recovery of ₹ 8.19 crore out of ₹ 103.26 crore illustrated in this chapter.

<sup>8</sup> ACEs/SEs, Dumka, Bokaro and Ranchi.