

CHAPTER– V

REVENUE SECTOR

CHAPTER - V: REVENUE SECTOR

5.1 Introduction

5.1.1 Trend of Revenue Receipts

Tax and non-tax revenue raised by the Government of Arunachal Pradesh during 2018-19, the State share of net proceeds of divisible Union taxes and duties assigned to the State, Grants-in-aid received from the Government of India during the year and corresponding figures for the preceding four years are shown in table below:

Table 5.1.1: Trend of Revenue Receipts

(₹ in crore)

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue raised by the State Government						
1.	Tax revenue	462.16	535.07	708.75	815.57	1068.04
	Non-tax revenue	457.64	392.12	544.82	366.18	608.87
Total		919.80	927.19	1253.57	1181.75	1676.91
Revenue Receipts from the Government of India						
2.	Share of net proceeds of divisible Union taxes and duties	1109.98	7075.58	8388.30	9238.79	10436.14
	Grants-in-aid	7106.27	2550.33	2137.70	3354.06	4082.91
Total		8216.25	9625.91	10526.00	12592.85	14519.05
3.	Total revenue receipts of the State Government (1 +2)	9136.05	10553.10	11779.57	13774.60	16195.96
4.	Percentage (1 w.r.t 3)	10.06	8.79	10.64	8.58	10.35

(Source: Finance Accounts of respective years)

The above Table shows that during 2018-19, revenue raised by the State Government (₹ 1676.91 crore) was 10 per cent of the total revenue receipts. The balance 90 per cent of receipts during 2018-19 was from the Government of India.

Revenue receipts grew by ₹ 2421.36 crore (18 per cent) over the previous year. The increase was contributed by Tax revenue by ₹ 252.47 crore (31 per cent), non-tax revenue by ₹ 242.69 crore (66 per cent), share of net proceeds of divisible Union taxes and duties by ₹ 1197.35 crore (13 per cent) and Grant-in-aid by ₹ 728.85 crore (22 per cent).

Details of Tax Revenue raised against Budget Estimate (BE) during 2014-15 to 2018-19 are given in the following table:

Table 5.1.2: Details of Tax Revenue

(₹ in crore)

Head of Revenue	2014-15		2015-16		2016-17		2017-18		2018-19			Percentage Increase (+)/ Decrease (-) in 2018-19 over 2017-18
	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	
Goods and Services Tax	-	-	-	-	-	-	0	223.73	382.08	601		(+)169
Land Revenue	6.21	5.99	5.64	8.89	8.92	6.44	10.75	13.32	7.79	14.58	(-)27.53	(+)9
Stamp Duty	4.03	3.83	5.28	5.63	8.04	5.08	8.84	10.42	6.14	9.16	(-)30.54	(-)12
State Excise	68.74	59.87	66.7	86.33	130.63	109.05	150	122.61	130.96	136.73	(-)12.69	(+)12
Taxes on Sales, Trade, etc	338.03	195.24	178.1	190.22	236.92	282.54	250	285.13	374.73	268.74	(+)49.89	(-)6
Motor vehicle Tax	17.99	17.78	18.14	19.3	22.82	24.47	23.35	31.4	29.59	32.43	(+)26.72	(+)3
Taxes on goods and passengers	111.94	179.45	233.78	224.7	263.31	281.17	300	128.96	0	5.4	(-)100	(-)96
Total	546.94	462.16	507.64	535.07	670.64	708.95	734.94	815.57	931.29	1068.04	26.72	(+)30.96

(Source: Finance Accounts, Budget, Government of Arunachal Pradesh)

The increase of Tax revenue by ₹ 252.47 crore (31 per cent) in 2018-19 as compared to previous year was mainly on account of increase in collection of State Goods and Services Tax (SGST) by ₹ 377.27 crore (169 per cent increase over 2017-18), increase in Land Revenue by ₹ 1.26 crore and in State Excise by ₹ 14.12 crore which was, however, offset by decrease in Taxes on Goods and Passengers by ₹ 123.56 crore. Details of Non-Tax Revenue raised from 2014-15 to 2018-19 is shown in the following table:

Table 5.1.3: Details of Non-Tax Revenue

(₹ in crore)

Head of Revenue	2014-15		2015-16		2016-17		2017-18		2018-19		Percentage Increase (+)/ Decrease (-) in 2018-19 over 2017-18	
	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
Power	289.48	182.63	184.17	117.04	226.66	259.61	250.00	133.41	340.50	287.08	(+)36.20	(+)115
Interest Receipts	67.77	13.12	31.61	39.11	36.98	56.39	47.32	46.98	92.26	88.01	(+)94.97	(+)87
Forestry & Wild Life	55.90	9.28	8.29	13.76	10.97	13.86	16.65	13.44	33.15	14.72	(+)99.10	(+)9
Public works	21.39	19.98	23.52	7.35	10.21	8.95	9.50	4.95	13.50	11.02	(+)42.11	(+)123
Miscellaneous General Services	0.03	0.01	0.04	54.39	30.48	21.67	65.81	12.75	94.63	12.49	(+)43.79	(-)2

Other Administrative Service	10.02	8.29	10.65	9.52	11.09	11.24	12.19	15.63	18.75	25.48	(+)53.81	(+)63
Police	3.06	1.29	1.30	9.34	18.32	64.36	10.00	5.12	16.10	3.62	(+)61.00	(-)29
Medical & Public Health	0.67	0.71	0.81	0.61	0.77	0.80	0.84	0.78	1.02	25.42	(+)21.43	(+)3164
Co-operation	0.31	0.57	0.67	0.58	1.12	0.40	1.23	1.21	1.49	0.83	(+)21.14	(-)32
Other Non-Tax Receipts	200.3	221.76	231.3	140.42	182.3	107.54	122.75	131.91	188.60	140.20	(+)53.65	(+)6
Total	648.93	457.64	492.36	392.12	528.90	544.82	536.29	366.18	800.00	608.87	(+)49.17	(+)66

(Source: Budget Document and Finance Accounts of respective years)

During 2018-19, there was increase in collection of Non-tax revenue by ₹ 242.69 crore (66 per cent) over the previous year. The increase was mainly on account of increase in receipts under Power by ₹ 153.68 crore; Interest Receipts by ₹ 41.03 crore and Medical & Public Health by ₹ 24.64 crore.

5.1.2 Administration of Goods and Service Tax

Goods and Services Tax (GST) in the State was implemented with effect from 1st July 2017 on supply of goods or services or both. GST is concurrently administered by the Union (CGST) and the States (SGST) on supply within the State while Integrated Goods and Services Tax (IGST) is levied on inter-state supply of goods or services or both.

The Central Goods and Services Tax Act, 2017, the Arunachal Pradesh Goods and Services Tax Act, 2017 and the Integrated Goods and Services Tax Act, 2017 and allied Rules of all the three Acts are applicable in the State of Arunachal Pradesh.

Goods and Services Tax Network (GSTN), a Non-Government Company set up by the Government of India provides for both front-end and back-end services to Arunachal Pradesh being a Model-II State. Front-end services provided to taxpayers for registration, return filing, payment of tax and back-end services include approval of registration, taxpayer detail viewer, refund processing, MIS report, etc.

Implementation of GST necessitated smooth transitional provisions which enables migration of all existing businesses to the new regime. The transitional provisions have been specifically incorporated in all the three GST Acts/Rules.

5.1.2.1 Registration under GST

As per GST Act, every taxpayer with turnover of above ₹ 20 lakh (enhanced to ₹ 40 lakh with effect from 1st April 2019 in respect of dealer dealing with sale of goods only) has to be registered under GST. During transition period, the Department had to deal with migration of existing dealers as well as approval of new registration. The due date for migration of existing dealers was February 2019.

The category wise registrations under GST have been given in table below (as on March 2019):

Table 5.1.4: Registered Taxpayers under GST

Types of Taxpayers	Number of dealers		Total	Percentage of Total
	State	Central		
Normal Taxpayers (including Casual)	2692	6740	9432	49.10
Corporation Taxpayers	0	1285	1285	6.69
Tax Deductors at Source (TDS)	594	7832	8426	43.85
Tax Collectors at Source (TCS)	35	30	65	0.34
Input Service Distributors (ISD)	1	2	3	0.02
Total Registrants	3322	15889	19211	100

(Source: As furnished by the Department)

The total registrations under GST in Arunachal Pradesh were 19211 dealers as of March 2019, of which normal taxpayers including casual taxpayers accounted for 49.10 per cent, tax deductors at source 43.85 per cent and others (TCS, ISD and corporation taxpayers) 7.05 per cent.

5.1.2.2 Division of dealers between Centre and State Government

As per recommendation of GST Council¹, administrative control of over 90 per cent of the dealers with turnover less than ₹ 1.50 crore shall vest with the state tax administration and 10 per cent with the Central Tax administration. In respect of dealers with turnover ₹ 1.50 crore and above, the administrative control shall be divided in the ratio 50 per cent each for the Central and State tax administration. The division of taxpayers as notified in Arunachal Pradesh upto March 2019 are shown below.

Table 5.1.5: Division of dealers between Centre and State Government

Jurisdiction	Number of dealers		Total
	Turnover above ₹ 1.5 crore	Turnover below ₹ 1.5 crore	
Centre	363	5437	5800
State	2642	7935	10577
Total	3005	13372	16377

(Source: As furnished by the Department)

5.1.2.3 Filing of Returns under GST

As per Arunachal Pradesh Goods and Service Tax Rules² 2017, regular taxpayers were required to file monthly returns in GSTR-1, GSTR-2 and GSTR-3 whereas composition taxpayers were required to file quarterly returns in GSTR-4. However, the provisions of the rules could not be implemented due to issues relating to information technology infrastructure. Accordingly, filing of GSTR-2 and GSTR-3 were postponed and regular taxpayers are required to file GSTR-1 and GSTR-3B and composition dealers were to file GSTR-4 quarterly.

The trends of filing of GSTR-1 and GSTR-3B for the period from April 2018 to March 2019 in Arunachal Pradesh have been depicted in Table:

¹ As on March 2019, there was no registration under Non-Resident Taxable Person (NRTP) and Online Information Database Access and Retrieval services (OIDAR).

² Notification dated: 19th July 2017

Table 5.1.6: Filing pattern of GSTR-1 and GSTR-3B (Upto 31.03.2019)

Month	GSTR-1	GSTR-3B
April,2018	2185	6247
May,2018	2211	6354
June,2018	4819	6413
July,2018	2201	6489
Aug,2018	2168	6503
Sept,2018	4645	6517
Oct,2018	2091	6445
Nov,2018	1993	6164
Dec,2018	4005	6053
Jan,2019	1714	5741
Feb,2019	1420	5209
March,2019	1654	3685

(Source: As furnished by the Department)

5.1.3 Analysis of arrears of revenue

The information on total amount of arrears of revenue as well as amount outstanding for more than five years as on 31 March 2019 was not furnished by the Department/State Government (April 2020) though called for (November 2020).

5.1.4 Arrears in Assessments

Details of cases pending at the beginning of the year, cases due for assessment, cases disposed of during the year and number of cases pending finalization at the end of the year were not furnished by Tax and Excise Department though called for (November 2020).

5.1.5 Evasion of tax detected by the Department

No information in respect of evasion of tax detected was furnished by the Tax and Excise Department (November 2020) through Collector.

5.1.6 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year (2018-19), claims received during the year, refunds allowed during the year and cases pending at the close of the year (2018-19) have not been furnished by the Taxation Department (November 2020).

5.1.7 Response of the Government/Departments towards Audit

The Principal Accountant General, Arunachal Pradesh, conducts periodical inspection of Government Departments to test-check transactions and verify maintenance of important accounts and other records, as prescribed in the rules and procedures. These inspections are followed up with Inspection Reports (IRs) incorporating irregularities detected during inspections and not settled on the spot, which are issued to Heads of Offices inspected, with copies to the next higher authorities for taking prompt corrective action. Heads of Offices are required to promptly comply with observations contained in the IRs, rectify commissions/omissions and report compliance through initial replies to the Accountant General, Arunachal Pradesh within one month from the date of issue of IRs. Serious

financial irregularities are reported to the Heads of Departments and the Government.

Inspection reports issued upto December 2019 disclosed that for Revenue Receipts 1445 paragraphs involving ₹ 7234.86 crore relating to 397 IRs remained outstanding at the end of December 2019 alongwith corresponding figures for the preceding two years. The details are shown in the table below:

Table 5.1.7: Details of pending Inspection Reports

	December 2017	December 2018	December 2019
Number of IR pending	360	382	397
Number of outstanding Audit Observations	1284	1371	1445
Total amount involved (₹ in crore)	6320.63	7194.30	7234.86

Department-wise details of the IRs and audit observations outstanding as on 31 December 2019 and amounts involved are shown in the table below:

Table 5.1.8: Department-wise details of IRs and Audit Observations

(₹ in crore)

Sl. No.	Department	Nature of receipts	No of outstanding		Money value involved
			IRs	Audit Observations	
1.	Tax & Excise	Taxes on Sales, Trade etc.	175	707	1038.42
		State Excise			
2.	Land Management	Land Revenue	36	163	5655.63
3.	Transport	Taxes on Motor Vehicle	56	207	25.77
4.	State Lottery	Lottery	5	18	189.64
5.	Geology & Mining	Non-ferrous Mining & Metallurgical Industries	22	57	160.35
6.	Environment & Forest & Wild Life	Forestry & Wild Life	103	293	165.05
Total			397	1445	7234.86

Audit did not even receive first replies within one month from the date of issue of IRs from 15 Heads of Offices for 18 IRs issued during 2018-19. The large pendency of IRs due to non-receipt of replies indicated that Heads of Offices and Departments did not initiate action to rectify defects, omissions and irregularities pointed out in the IRs.

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

5.1.8 Departmental Audit Committee Meetings

The Government set up Audit Committees to monitor and expedite the progress of settlement of the IRs and Paragraphs in the IRs. However, no Departmental Audit Committee meeting for Revenue Sector was held during 2018-19. As can be seen from Para 5.1.7 there is large pendency of IRs. In view of this, the Government may ensure

holding of regular Audit Committee meetings to expedite clearance and settlement of outstanding audit observations.

5.1.9 Response of Departments to Draft Audit Paragraphs

The Draft Audit Paragraphs proposed for inclusion in the Report of the Comptroller & Auditor General of India are forwarded by the Principal Accountant General, Arunachal Pradesh to the Principal Secretaries/Secretaries of concerned Departments, drawing their attention to audit findings and requesting them to send responses within six weeks. The fact of non-receipt of replies from Departments/ Government is invariably indicated at the end of such Paragraphs included in the Audit Report.

5.1.10 Follow-up on Audit Reports

The internal working system of the Public Accounts Committee (PAC), notified in December 2002, laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for consideration of the PAC. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports were being delayed inordinately. Ninety four paragraphs (including two performance audit) included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Arunachal Pradesh for the years 2008-2009 to 2017-18 were placed before the State Legislative Assembly between 21 July 2015 and 23 January 2020. The action taken explanatory notes from the concerned departments on these paragraphs were not furnished within the specified time. As of March 2019, action taken explanatory notes in respect of four paragraphs from various departments had not been received for the Audit Report year ended 31 March 2018 (November 2020).

The PAC discussed 56 selected paragraphs under Revenue sector (January 2020) from three departments pertaining to the Audit Reports for the years from 2008-2009 to 2017-18. Out of 56 paragraphs, 19 paragraphs were settled by the PAC and the remaining 37 paragraphs were recommended for further examination.

5.1.11 Analysis of mechanism for dealing with issues raised by Audit

To analyse the system of addressing issues highlighted in Inspection Reports/Audit Reports by the Department/ Government, action taken on Paragraphs and Performance Audits included in the Audit Reports of the last 10 years for one department is evaluated and included in this Audit Report.

The succeeding paragraphs 5.1.11.1 and 5.1.11.2 discuss the performance of the State Excise Department and Sales Tax under revenue head 0039 (State Excise) and 0040 (Sales Tax) respectively and cases detected during the course of local audit during the year 2008-09 to 2018-19.

5.1.11.1 Position of Inspection Reports

The summarized position of the Inspection Reports issued during the last 10 years (2009-10 to 2018-19) to various offices under the administration control of the Tax & Excise Department as on 31 March 2019 is shown in **the table** below:

Table 5.1.9: Position of Inspection Reports

(₹ in lakh)

Year	Opening Balance			Addition during the year			Clearance during the year			Closing balance during the year		
	IRs	Para	Money value	IRs	Para	Money value	IRs	Paras	Money value	IRs	Para	Money value
2009-10	41	108	768.21	-	-	-	-	6	84.91	41	102	683.30
2010-11	41	102	683.30	2	8	71.89	1	3	3.63	42	107	751.56
2011-12	42	107	751.56	1	5	15.56	4	2	1.31	39	110	765.81
2012-13	39	110	765.81	-	-	-	-	5	15.58	39	105	750.23
2013-14	39	105	750.23	-	-	-	-	-	-	39	105	750.23
2014-15	39	105	750.23	-	-	-	1	5	15.56	38	100	734.67
2015-16	38	100	734.67	3	16	164.88	-	-	-	41	116	899.55
2016-17	41	116	899.55	8	58	264.33	-	9	178.65	49	165	820.35
2017-18	49	165	820.35	1	11	3.60	-	-	-	50	176	823.95
2018-19	50	176	823.95	-	-	-	-	11	105.24	50	165	718.71

The Government did not arrange *Audit* Committee Meetings between the Department and the Accountant General's office to settle the old paragraphs. It is evident from the above table, against 41 outstanding IRs with 108 paragraphs at the beginning of 2009-10, the number of outstanding IRs remained at 50 IRs with 165 paragraphs at the end of 2018-19.

5.1.11.2 Recovery of Accepted Cases

The position of Compliance Audit Paragraphs included in Audit Reports of the last 10 years, those accepted by the department and amounts recovered are mentioned in the following table:

Table: 5.1.10- Status of recovery from accepted Paragraphs in Audit Reports during the period from 2008-09 to 2017-18

Sl. No.	Year	No. of Paragraphs included	Money value of the Paragraphs (₹ in crore)	Amount recovered during the year	Cumulative position of recovery of accepted cases of 31 March 2018
1	2008-09	12	2.69	Nil	Nil
2	2009-10	15	3.42	Nil	Nil
3	2010-11	15	7.56	Nil	Nil
4	2011-12	22	5.71	Nil	Nil
5	2012-13	07	2.31	Nil	Nil
6	2013-14	12	6.94	Nil	Nil
7	2014-15	06	1.43	Nil	Nil
8	2015-16	07	12.78	Nil	Nil
9	2016-17	05	2.25	Nil	Nil
10	2017-18	05	5.69	Nil	Nil
Total		106	50.78	Nil	Nil

From the above table it can be seen that the progress of recoveries, even in accepted cases, was very slow throughout during the last 10 years. Recoveries of accepted cases were to be pursued as arrears recoverable from concerned parties. No mechanism for pursuance of accepted cases was put in place by the Department/Government. Further, arrear cases, including accepted audit observations, were not available with the office of the Commissioner, Excise & Taxation Department. In the absence of a suitable mechanism, the department could not monitor recoveries of accepted cases.

The Department may take immediate action to pursue and monitor prompt recovery of dues involved in accepted cases.

5.2 Audit Planning and Result of Audit

The Unit offices under various Department are categorized into high, medium and low risk units, according to their revenue position, past trends of audit observations and other parameters. An Annual Audit Plan is prepared on the basis of risk analysis, which includes critical issues in Government Revenues and Tax Administration, i.e. Budget Speech, White paper on State Finance, Reports of the Finance Commission (State and Central), recommendation of the Taxation Reforms Committee, Statistical analysis of the revenue earnings, factors of the tax administration, audit coverage etc.

During 2018-19, out of 137 auditable units, 22 units³ (16 per cent) of Tax & Excise and Forest Receipts Offices were audited. Out of these, nine units were Tax offices, with 4218 VAT assesses, of which 1055 (25 per cent) VAT assesses were test checked in audit during the period. Audit scrutiny revealed under assessment/short levy/loss of revenue aggregating ₹ 71.86 crore in 54 cases, which were accepted by the Department concerned. However, only ₹ 39.00 lakh was recovered during 2018-19.

5.3 Coverage of this Report

This Chapter contains seven audit paragraphs involving financial effect of ₹ 72.61 crore. Out of seven paragraphs, only two departments have furnished reply and replies for the remaining five paragraphs were yet to be received from the concerned departments as of November 2020. Further, out of total audit objections of ₹ 25.50 crore (₹ 13.66 crore of tax revenue and penalty of ₹ 11.84) included in the Audit Report during the year 2018-19, Department/Government made recovery of tax revenue of ₹ 83.21 lakh and penalty of ₹ 8.11 lakh in respect of objections included in the Audit Report. Thus, the total recoveries made at the instance of audit in respect of paras included in this report during the year aggregated to ₹ 91.32 lakh.

³ 22 units under annual audit plan 2018-19 and 2 units were under annual audit plan 2019-20.

Compliance Audit Paragraphs

Tax and Excise Department

5.4 Non realisation of Tax

5.4.1 Failure of the Superintendent of Tax (ST), Namsai to detect tax liability from two registered dealers led to non-realization of VAT of ₹ 6.45 crore for which interest and penalty are also leviable.

As per Section 4 (d) of the Arunachal Pradesh Goods Tax (APGT) Act, 2005, Tea is taxable at the rate of 12.5 *per cent*. Section 6 of the Act states that certain sales are exempt from VAT namely: (1) the sale or import of goods listed in the first schedule, (2) the dealers or class of dealers as may be notified and specified from time to time in the Fifth Schedule and (3) where a dealer sells goods that it has used since the time of purchase exclusively for purposes other than making sales of goods, and has not claimed tax credit in respect of those goods. Further, under Section 7(1)(a) of the Act *ibid* no VAT will be imposed on sale of goods in the course of inter-State trade or commerce under the purview of CST Act, 1956 on utilizing 'C' Form by a purchasing dealer. Otherwise, the sale will be treated as local sale and the applicable rate of VAT will be levied under the APGT Act.

Under Section 34(1)(b), and Section 87 (10) of the Arunachal Pradesh Goods Tax Act, 2005 (APGT), if any dealer has furnished incomplete or incorrect returns, the Commissioner may assess or re-assess the amount of tax due for a tax period and he will be liable, in addition to tax evaded, to pay penalty of a sum of ₹ one lakh or the amount of tax evaded whichever is greater. Also, Section 44 (2) of the Act stipulates payment of simple interest ranging between 12 to 24 *per cent per annum* calculated on daily basis for the period of default in payment of due tax.

Scrutiny (February 2019) of records of the Superintendent of Tax (ST), Namsai revealed that two dealers (i) M/s Guna Tea Industries, VAT TIN: 12110058158 and (ii) M/s Kungfra Tea Industries, VAT TIN: 12110143135) registered under both VAT and CST engaged in sale of tea which is taxable @ 12.50 *per cent* under the Act. The dealers disclosed a total turnover of ₹ 28.13 crore and ₹ 23.44 crore respectively in 27 nos each of monthly self-assessed VAT returns (FF-01) for the period from April 2015 to June 2017 (last tax period before GST) indicating nil tax liability. Audit observed that neither the two dealers declared any exempt sale U/s 6 of APGT Act nor produced any proof of Declaration in 'C Form' required for the Inter-State Trade U/s 7(1)(a) of the CST Act for claiming exemption. The columns in the form (FF01) under exempt sales (u/s 6) was mentioned as zero while the columns under Central Sales Turnover and zero rated sales (export, interstate sales against Declaration forms) was left blank. As such they were required to pay tax of ₹ 6.45 crore (₹ 3.52 crore + ₹ 2.93 crore) on their turnover under the Act. The Assessing Officer (AO) assessed the returns of Kungfra Tea Industries for the year 2016-17 and 2017-18 (upto June 2017) together on 11/9/2017, wherein the amount of tax, interest and penalty payable was assessed as Nil. Similarly, in case of Guna Tea

Industries, the AO assessed the returns for three years (2015-16, 2016-17 and 2017-18 till June 2018) together, on 28 August 2017 wherein the amount of tax, interest and penalty payable was also assessed as NIL. It is evident that the AO did not exercise due diligence during assessment and overlooked the obvious discrepancies furnished in the returns by the two dealers and allowed incorrect exemption, in infraction of the Act. This led to non realisation of VAT of ₹ 6.45 crore.

Thus, failure of the ST to assess the self-assessed returns submitted by the dealers led to evasion of tax of ₹ 6.45 crore. The dealer was also liable to pay a minimum interest of ₹ 2.02 crore (₹ 1.09 crore + ₹ 0.93 crore) (@ 12 per cent per annum calculated up to January 2019) for non-payment of tax as detailed in **Appendix -5.1**. Further, penalty of ₹ 6.45 crore is also leviable U/s 87(10) of the Act for evasion of the tax.

The case was reported to the Department/Government in July 2018 and reminders were issued in January 2019 and August 2020; reply is still awaited (December 2020).

Recommendation: Due diligence may be exercised by the Superintendent of Tax while assessing the self-assessed returns submitted by the dealers to avoid evasion of tax.

5.4.2 Failure of the Superintendent of Tax (ST), Roing to detect irregular claim of exemption under Section 6 of APGT Act by a registered tea merchant led to non-realization of tax of ₹ 37.71 lakh.

‘C’ Form is issued by VAT department to the registered dealer who makes interstate purchases of goods mentioned in his registration certificate. The purchasing dealer furnishes this form to selling dealer in course of interstate purchase to get exemption/reduction in sales tax rate. It is defined under section 8(1) of CST Act 1956. ‘F’ Form is used to transfer/deliver goods from one State to another without recognizing it as a sale. As per section 6(A) of CST Act, F Form is mandatory to prove transaction as stock transfer.

As per Section 6 of Arunachal Pradesh Goods Tax (APGT) Act 2005, sale or import of goods shall be exempt from tax subject to the conditions and exceptions set out therein. Further, under Section 7(1)(a) of the Act *ibid* no VAT will be imposed on sale of goods in the course of inter-State trade or commerce on utilizing ‘C’ Form by a purchasing dealer. Otherwise, the sale will be treated as local sale and the applicable rate of VAT will be levied under the APGT Act. As per Section 4 (d) of the Arunachal Pradesh Goods Tax (APGT) Act, 2005, Tea is taxable at the rate of 12.5 per cent.

Scrutiny (October 2018) of records of the Superintendent of Tax (ST), Roing revealed that a dealer, M/s Dibang Valley Tea Co. Pvt. Ltd. a manufacturer of Tea (TIN: 12140071170), declared total turnover of ₹ 3.43 crore in seven (07) quarterly self-assessed VAT returns for the period October 2015 to June 2017 (last tax period before GST). Out of the total turnover of ₹ 3.43 crore, the dealer declared ₹ 3.02 crore as exempt sales U/s 6 and ₹ 0.41 crore to be inter-State Sale against declaration form ‘C’ U/s 7(1)(a) of APGT Act and his tax liability for the entire period was shown as Nil. However, Audit observed that exemption claimed of ₹ 3.02 crore (₹ 3.43 crore - ₹ 0.41 crore) was irregular since tea is not under First schedule and not an exempted good and is taxable at 12.5 per cent. The dealer

therefore was liable to pay tax of ₹ 37.71 lakh (@ 12.5 per cent on his turnover of ₹ 3.02 crore).

Thus, failure of the Assessing Officer to assess and detect the incorrect self-assessed returns furnished by the dealer led to evasion of tax of ₹ 37.71 lakh. The dealer was also liable to pay a minimum interest of 8.44 lakh (@ 12 per cent per annum calculated up to April 2018) for non-payment of due tax and penalty of ₹ 37.71 lakh under Section 87(10) of the Act (detailed in **Appendix-5.2**).

In reply (May 2020), the Department stated that movement of goods from one state to another state by reason of transfer of goods to Agent/Broker for sale in the Tea Auction Centre does not constitute turnover to the consignor. However, we have erroneously included the goods sent to the Brokers of Tea Auction Centre in the turnover and claimed the same as exempt, leading to the confusion.

The reply of the Department is not acceptable because the dealer did not fulfill any of the criteria specified for seeking exemption under Section 6 of APGT Act. The dealer also did not submit the related documents like Form F in respect of stock/branch transfer and invoice to prove the transfer of goods to the Agent/Broker for sale in Tea Auction Centre under the CST Act 1956. Neither were 'C' forms furnished for the claim of exemption. Moreover, as per the APGT Act, total turnover/gross sales means Gross Turnover, which is inclusive of branch transfers etc and hence the sales claimed exempted were taxable @ 12.5 percent.

Recommendation: The Department may review all such cases and realise the due revenue.

5.5 Non levy of revenue from Wholesale Vends

Failure of the Excise Officer of the Bonded Warehouse, Changlang to detect unauthorized lifting of IMFL by two Wholesale Vends resulted in non-realisation of excise duty of ₹ 63.84 lakh.

As per Section 12 of the Arunachal Pradesh Excise Act, 1993 no intoxicant shall be removed from any distillery, brewery, warehouse or other place of storage licensed, established, authorized or continued under this Act, unless the excise duty payable has been paid or a bond has been executed for the payment thereof. Further, Section 34 (h) also states that if any person, in contravention of this Act, or of any rule, notification or order made, issued or given, or license, permit or pass granted under this Act removes any intoxicant from any distillery, brewery, warehouse or other place of storage licensed, established, authorized or continued under this Act, he shall be liable to imprisonment for a term which may extend to two years or to fine which may extend to five thousand rupees, or to both. The Government of Arunachal Pradesh, Taxation and Excise Department fixed the rates of Excise Duty of IMFL at ₹ 302.40, ₹ 600, ₹ 135 and ₹ 180 per case for Premium Brand, Classic Premium Brand, General Brand and wine respectively w.e.f. 20th November 2015 vide Notification No. EX-433/2013-14.

Cross-verification (June 2019) of Excise permit issue files of the Superintendent of Excise, Changlang District with the records of two Wholesale Vends namely M/s Elite Beverages, Miao and M/s Changlang Beverages, Changlang and a Bonded Warehouse M/s

Superior Distributors, Bordumsa revealed that 11 No. of permits⁴ were issued to the wholesalers M/s Elite Beverages, Miao and M/s Changlang Beverages, Changlang during 2017-18 and 2018-19 respectively against deposit of excise duty of ₹ 52.99 lakh (17,522 cases X ₹ 302.40/-) for lifting 17,522 cases of premium brands from the Bonded Warehouse. It was however, noticed that the Wholesalers utilized these 11 permits to lift 38,734 cases of IMFL which was 21,212 cases in excess of the permitted limit for which excise duty of ₹ 63.84 lakh was to be paid. The Excise Officer in charge of the Bonded Warehouse authorized the lifting by issuing 74 Excise Transit Pass (Form – X). Thus, the Wholesale Vends avoided the excise duty of ₹ 63.84 lakh on the 21,212 cases of excess IMFL as detailed in **Appendix-5.3**.

Failure of the Excise Officer in charge of the Bonded warehouse to detect the unauthorized excess lifting resulted in non levy of revenue to the tune of ₹ 63.84 lakh, from the two Wholesale Vends. Further, penalty of ₹ 3.70 lakh⁵ is also leviable from the Wholesalers for unauthorized lifting of IMFL under Section 34 (h) of the Act.

The Commissioner (Tax &Excise) replied (12 August 2020) that consequent to audit observation, the entire amount (₹ 67.54 lakh, excise duty of ₹ 63.84 lakh and penalty of ₹ 3.70 lakh) pointed out was recovered.

Recommendation: The Department may further strengthen the internal controls by ensuring that the Excise Officers in Bonded Warehouses cross verify the permits issued by the respective Superintendents and authorize lifting strictly in accordance with those permits. It may also consider appropriate MIS Reports to be submitted by the Excise Officers of Bonded Warehouse to the Superintendent on the lifting of liquor cases against the permits issued. The department may conduct an enquiry for excess lifting and fix the responsibility of the officials for the lapse.

5.6 Non-levy of penalty

Failure of the Superintendents of Tax (ST), Zone-II, Itanagar and Roing to levy and realise penalty from 74 registered dealers for non-submission of returns resulted in non-realization of revenue of ₹ 19.00 lakh

Rule 36 (1) & (2) of the Arunachal Pradesh Goods Tax (APGT) Rules, 2005, stipulates that every dealer liable to pay tax shall furnish a return in form FF-01 for each tax period within 28 days from the end of the tax period. Further, Rule 34 of the APGT Rules stipulates that tax period of a dealer whose turnover in a particular year is over rupees one crore shall be one month, and shall, at the option of the dealer, be either one month or a quarter if the turnover is or below rupees one crore. Also, under Section 87(9)(a) of the Act if a dealer fails to furnish any return by the due date, he is liable to pay penalty of ₹ 100 per day of default subject to a maximum of ₹ 10,000.

⁴ M/s Elite Beverages, Miao= Six no. of permits; and
M/s Changlang Beverages, Changlang=Five no. of permits.

⁵ ₹ 5,000/- X 74 times.

Scrutiny of records of two Superintendents of Tax (ST), i) Zone-II, Itanagar and ii) Lower Dibang Valley District, Roing in May 2018 and October 2018 respectively revealed that 74⁶ registered dealers whose annual turnover was below rupees one crore, did not submit their returns for quarterly tax periods between April 2014 and June 2017. For non-submission of returns, the dealers were liable to pay penalty of ₹ 19.00 lakh (₹ 10.50 lakh + ₹ 8.50 lakh). However, no action was initiated by the Assessing Officer to issue notice to the dealers for non-submission of returns and realisation of the penalty till March 2019, even after being pointed out by Audit.

Thus, failure of the Assessing Officer to issue Demand Notice to the defaulters and lack of enforcement to ensure compliance resulted in non-levy and realization of the penalty of ₹ 19.00 lakh as detailed in **Appendix -5.4**.

The case was reported to the Department/Government in July 2018, January 2019 and August 2020. However, reply has not been received (November 2020).

Recommendation: The Department may introduce monthly MIS reports on submission of returns by the dealers and review the status of filing by dealers on a periodic basis.

5.7 Non-realisation of Renewal Fee and Penalty

Failure of the Superintendents of Excise to take action against 44 retail licensees led to non-realisation of Renewal Fees of ₹ 21.20 lakh.

Under Section 29 (1) (b) of the Arunachal Pradesh Excise Act, 1993 and Rules 56 framed there under, a license holder of IMFL retail shop is required to submit his retail shop license along with the prescribed annual license fee to the Superintendent of Excise of the concerned District before the date of expiry of the license for getting it renewed in time by the Competent Authority. In the event of non-payment of license fee the Competent Authority may cancel or suspend the license. The Government vide notification No. Ex-229/94 dated 13-12-94 fixed the renewal fee of retail license at ₹ 40,000 *per annum* which was revised to ₹ 50,000 *per annum w.e.f.* 01-05-2018. Further, if a retail vendor fails to get the license renewed within the stipulated validity of license, he shall be liable to pay, in addition to the renewal fee, a penalty of ₹ 50 per day for the period of default.

Scrutiny (May 2018) of the Superintendents of Excise (SsE): i) Zone-I, Itanagar and ii) Zone-II, Naharlagun revealed that validity of license of 44 retail licensees⁷ had expired for periods ranging from one to two years during the period from November 2015 to May 2018. The licensees, however, did not get their licenses renewed, but continued with their business.

Audit also observed that the SsE did not take any action to review the license renewal registers and related documents to detect the defaulters and issue notices to the retailers to renew their licenses nor were the licenses suspended or cancelled resulting in non-realisation of renewal fees of ₹ 21.30 lakh and penalty of ₹ 4.81 lakh.

⁶ ST, Zone-II, Itanagar=42; ST, Roing=32.

⁷ i) SE, Zone-I, Naharlagun: 11 licenses.

ii) SE, Zone-II, Itanagar: 33 licenses.

The office of the Commissioner Tax and Excise replied (May 2020) that as pointed out in audit, the amount of annual renewal fees of ₹ 19.37 lakh and penalty of ₹ 4.41 lakh from 41 retail licensees has been recovered. However, the Department is yet to recover the annual renewal fees of ₹ 1.93 lakh and penalty of ₹ 0.40 lakh three licences⁸.

Recommendation: *The Superintendents of Excise may take timely action to review the license renewal registers and related documents to detect the defaulters and issue notices to the retailers to renew their licenses. They should suspend or cancel the licenses of defaulting retail license holders.*

Transport Department

5.8 Non-realisation of Road Tax /Motor Vehicle Tax and penalty

Road tax of ₹ 2.62 crore due from 676 owners of commercial vehicles and penalty of ₹ 65.62 lakh for default in payment of tax remained unrealized

Under Section 4 and Section 15 of the Arunachal Pradesh Motor Vehicle Taxation Act, 1984, road tax at the prescribed rate shall be paid by all motor vehicles owners used or kept for use in the State unless an owner of such vehicle is exempted from tax on the basis of his application to the effect that the vehicle would not be used in any public place and the Registration Certificate is surrendered. Section 13 *ibid* further provides that in the event of failure to pay the tax due, the Taxation Officer shall, in addition to the tax due, recover a sum not exceeding one fourth of the annual tax by way of penalty. The rate of annual road tax for Excavator (commercial) was fixed at the rate of one *per cent* of the cost of the chassis/vehicle according to Schedule-IX of the Arunachal Pradesh Motor Vehicles Taxation (Amendment) Act, 2006. Further, as per Schedule – II of the Arunachal Pradesh Motor Vehicles Taxation (Amendment) Act, 2006, the rate of annual road tax for vehicles with passenger carrying capacity of 7 to 12 persons used for commercial purpose was fixed at ₹ 5000.00 annually or ₹ 1500.00 quarterly and for vehicles with passenger carrying capacity of 13 to 30 persons was fixed at ₹ 7000.00 annually or ₹ 2000.00 quarterly as the case may be.

Scrutiny (June 2019) of the VAHAN 4.0 vehicle registration database of the District Transport Officer (DTO), Capital Complex, Naharlagun revealed that:

- (i) Owners of 340 commercial excavators did not pay any road tax amounting to ₹ 2.14 crore between 2010-11 to 2019-20 for periods ranging from one year to nine years. Further, the vehicle owners neither surrendered registration certificates nor obtain tax exemption from the Taxation Officer /DTO, as required under the Act.

However, the DTO, Capital Complex, Naharlagun did not issue any show cause notice to any of the vehicle owners in the last nine years to levy and collect road tax of ₹ 2.14 crore along with a penalty of ₹ 53.62 lakh, for the default in payment of the tax, resulting in non-realization of revenue of ₹ 267.62 lakh.

⁸ 1. M/s Sango Wine Shop; 2.M/s Doimukh Wine Shop; and 3. M/s Aku Wine Shop.

- (ii) Owners of 336 light commercial passenger vehicles (with passenger carrying capacity of 7 to 12 persons and 13 to 30 persons) had not paid road tax amounting to ₹ 48.01 lakh but were plying for different periods ranging between one year to six years from June 2014 to June 2019. Audit observed that none of the 336 vehicle owners had obtained any tax exemption from the concerned DTO nor surrendered their registration certificates. Therefore, penalty of ₹ 12.00 lakh was also leviable for default in payment of the aforesaid tax from the vehicle owners. However, the DTO neither issued any demand notice nor initiated any action against the defaulters to realize the road tax of ₹ 48.01 lakh and penalty of ₹ 12.00 lakh, resulting in non-realisation of revenue of ₹ 60.01 lakh.

Thus, failure of the DTO, Capital Complex, Naharlagun to collect the road tax due from 676⁹ owners of commercial vehicles as prescribed under the Rules, resulted in non-realisation of revenue of ₹ 2.62 crore¹⁰ and penalty of ₹ 65.62¹¹ lakh.

The case was reported to the Department/Government in August 2019; reply is still awaited (November 2020).

Recommendation: The Department needs to issue show cause notices to the vehicle owners and collect road tax along with penalty from these defaulting vehicle owners.

5.9 Non-renewal of Fitness Certificates

Failure of District Transport Officers (DTOs) to ensure renewal of fitness certificate of 21,366 commercial vehicles resulted in non-realisation of fitness test fee of ₹ 1.95 crore, renewal fee of ₹ 1.09 crore.

As per Section 56 (1) of the Motor Vehicles Act, 1988 and Rule 62 of Central Motor Vehicle (CMV) Rules, 1989 made there under, a transport vehicle shall not be deemed to be validly registered unless it carries a certificate of fitness. A fitness certificate granted in respect of a newly registered transport vehicle is valid for two years and thereafter is required to be renewed every year. Payment of the prescribed testing fee of ₹ 200.00, ₹ 300.00 and ₹ 400.00 for light, medium and heavy vehicle respectively is required to be made under Rule 81 of the CMV Rule, 1989. Further, as per Ministry of Road Transport and Highway's notification No. G.S.R. 1183(E) dated 29 December 2016 the prescribed fitness test fee is ₹200.00 for Motorcycle, ₹ 400.00 for Light Motor Vehicle and ₹ 600.00 for Medium and Heavy Motor Vehicle and renewal fee was ₹ 200.00 for all categories of Motor vehicles. Further, plying a vehicle without valid registration is punishable under Section 192 of MVT Act, 1988 with a fine not less than ₹ 2,000.00 for the first offence.

Scrutiny (January 2020) of the VAHAN vehicle registration database of the State of Arunachal Pradesh revealed that out of 1,64,029 nos. of vehicles in the database, 21,366 commercial vehicles of various classes were plying without valid fitness certificates after they expired during the period 01 January 2010 to 31 December 2019. Audit observed that

⁹ 336 owners of commercial passenger vehicles and 340 owners of commercial vehicles.

¹⁰ ₹ 48.01 lakh + ₹ 214.00 lakh.

¹¹ ₹ 12.00 lakh + ₹ 53.62 lakh.

owners of these vehicles failed to renew their certificates of fitness before expiry of the validity period ranging from one year to 11 years. However, despite non-renewal of the fitness certificates for prolonged periods, the registering authorities (DTOs) of the State failed to ensure that these 21,366 commercial vehicles get their fitness test done and renew their fitness certificate by issuing notices to the vehicle owners for renewal of the same. As such, the DTOs failed to realise inspection fee of ₹ 1.95 crore and renewal fee ₹ 1.09 crore from these defaulting vehicles. Audit further observed that these 21,366 commercial vehicles continued to ply without valid fitness certificates though their certificates of registration become invalid automatically when the effective certificate of fitness issued by the prescribed authorities expired, for which a penalty of ₹ 4.27 crore was also leviable on the defaulters U/s 192 of the CMV Act as details below:

Table 5.1.11: Details of non-realisation of fitness test fee and renewal fee and penalty thereof

(₹ in lakh)

Sl. No.	Period during which fitness certificate validity expired	No of defaulting vehicles	Unrealized Testing Fee	Unrealized Renewal Fee	Penalty U/s 192
1	01 January 2010 to 28 December 2016	9363	114.68	63.85	187.26
2	29 December 2016 to 31 December 2019	12003	80.11	44.98	240.06
Total		21366	194.79	108.83	427.32

Further, audit observed that though Section 56 (4) of the Act empowers the issuing authorities to cancel any such certificate if the vehicle fails to comply with the requirements of this Act, no such action was found to be taken by the issuing authorities against the defaulters till date. The Department should ensure that those license holders of the unfit commercial vehicles must be cancelled/suspended with immediate effect without further delay. These vehicles without valid fitness certificates pose a grave risk of road accidents in the difficult terrain of the state, besides running the risk of air and noise pollution.

Failure of the DTOs in Transport Department of the State to renew fitness certificates and non-levy of the consequent penalty, resulted in non-realisation of revenue of ₹ 7.31 crore¹².

The case was reported to the Department/Government in January 2020; reply is still awaited (November 2020).

Recommendation: *Since vehicles without valid fitness certificates pose a grave risk of road accidents in the difficult terrain of the State, besides running the risk of air and noise pollution, the Department should ensure that licenses of unfit commercial vehicles are cancelled/suspended with immediate effect.*

¹² ₹ 194.79 lakh (Inspection fee) + ₹ 108.83 lakh (Renewal fee) and: ₹ 427.32 lakh (penalty).

5.10 Short recovery of Composite Tax

Irregular issue of temporary road permits to owners of 146 commercial trucks resulted in short recovery of ₹ 13.71 lakh

Under the provisions of Rule 87 of the Motor Vehicles Act, 1988, the State Transport Authority (STA) may grant Temporary Permits, to be effective for a limited period, which shall not, in any case, exceed four months, to authorize the use of a transport vehicle *temporarily for specific purposes*. It further provides that the STA may, in the case of goods carriages, under the circumstances of a *special nature and for reasons to be recorded in writing*, grant a permit for a period exceeding four months, but not exceeding one year. As per provision of Section 96(2)(vii) of the Act *ibid*, the Transport Department, Government of Arunachal Pradesh (GoAP) in its Notification dated 13 July 2000 fixed the rate of Composite tax for truck at ₹ 5,000 and ₹ 2,000 per annum for Regular road permits and Temporary road permits respectively. Further, permit fee of ₹ 300 is also leviable in both type of permits.

Scrutiny (June 2019) of records of the State Transport Authority (STA), Naharlagun, revealed that Temporary road permits were granted to owners of 146 commercial vehicles for a period of one year each at a time, on different dates between January 2015 and April 2019 without any recorded reason for exceeding the prescribed validity period of four months. The vehicle owners paid a Composite tax of ₹ 2,000 and a permit fee of ₹ 300 per vehicle per annum amounting to ₹ 10.51 lakh during the period, for temporary road permit. Audit also observed that the STA issued the Temporary road permits to the vehicle owners repeatedly for a period of one year at a time, up to five consecutive years instead of issuing regular road permits by charging a Composite tax of ₹ 5,000. If regular road permits had been issued to the owners of the 146 trucks, the STA could have realised revenue of ₹ 24.22 lakh instead of the actual collection of ₹ 10.51 lakh.

The Department accepted the audit observation in its reply (September 2019) and stated that the rate of Composite tax for trucks at the rate of ₹ 5,000 and permit fee of ₹ 300/- is applicable for National Truck Permit. However, the government Notification dated 13 July 2000 did not include the composite tax and permit fees of trucks plying within home State. Hence, the State Transport Authority is charging ₹ 2000 as Composite tax under Temporary Road Permit and ₹ 300 (as permit fees) while issuing permit for trucks plying within the State. It further stated that it will initiate action for setting up of STA review meeting for rectification.

The absence of clear category in the notification *ibid* for imposition of Composite tax on trucks plying within the State, led to short recovery of ₹ 13.71 lakh (**Appendix -5.5**).

Recommendation: *The Department/Government may amend the extant notification by incorporating Composite tax and Permit fee chargeable for five years on trucks plying in the State, in the interest of revenue.*