

Part 'A'
Revenue Sector

Chapter I
General (Revenue Sector)

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1.1 Position of revenue receipts

1.1.1 The tax and non-tax revenues raised by the erstwhile State/ Union Territory (UT) Government of Jammu and Kashmir during the year 2019-20, the State/ UT's share of net proceeds of divisible Union taxes and duties assigned to the erstwhile State/ UT and Grant-in-aid received from the Government of India during the year are depicted in Table 1.1.

Table 1.1: Position of revenue receipts

(₹ in crore)

Sl. No.	Particulars	From 01.04.2019 to 30.10.2019 (erstwhile State of Jammu and Kashmir) (a)	From 31.10.2019 to 31.03.2020 (UT of Jammu and Kashmir) (b)	Total a+b (2019-20)
1.	• Tax revenue	5,410.51	4,056.49	9,467.00
	• Non-tax revenue	2,196.83	2,062.77	4,259.60
	Total	7,607.34	6,119.26	13,726.60
2.	• Share of net proceeds of divisible Union taxes and duties	6,801.81	-	6,801.81
	• Grants-in-aid	15,642.83	16,438.08	32,080.91 ¹
	Total	22,444.64	16,438.08	38,882.72
3.	Total revenue receipts of the Government (Total of 1 and 2)	30,051.98	22,557.34	52,609.32
4.	Percentage of 1 to 3	25	27	26

(Source: Finance Accounts 2019-20)

During the year 2019-20, the revenue raised by the erstwhile State/ UT Government (₹ 13,726.60 crore) was 26 per cent of the total revenue receipts. The balance 74 per cent of the receipts during 2019-20 came from the Government of India (GoI) of which, 82.50 per cent was received in the form of Grants-in-aid. The Grants-in-aid from GoI constituted 60.97 per cent of the total receipts of the erstwhile State/ UT.

1.1.2 The details of the tax revenue raised during 2019-20 are given in Table 1.2.

¹ This includes Revenue deficit grant of ₹ 14,142 crore (₹ 8,249.50 crore received by the State Government under Finance commission grant from 01 April 2019 to 30 October 2019 and ₹ 5,892.50 crore received by UT Government under Special Assistance from the GoI from 31 October 2019 to 31 March 2020). This also includes ₹ 2,279.28 crore received from the GoI as compensation of loss due to implementation of Goods and Service Tax, against the receivable amount of ₹ 3,149.01 crore.

Table1.2: Details of Tax Revenue raised

(₹ in crore)

Sl. No.	Head of Revenue	From 01.04.2019 to 30.10.2019 (Jammu and Kashmir State)	From 31.10.2019 to 31.03.2020 (UT of Jammu and Kashmir)	Total (2019-20)
	(a)	(b)	(c)	(d=b+c)
1	Taxes on Sales, Trade etc. including GST	3,483.23	2,898.18	6,381.41
2	Taxes on Goods and Passengers	574.06	158.47	732.53
3	State Excise	766.05	587.67	1,353.72
4	Taxes and Duties on Electricity	97.74	0.23	97.97
5	Stamps Duty and Registration Fees	240.78	117.54	358.32
6	Taxes on Vehicles	162.59	246.08	408.67
7	Land Revenue	86.06	48.32	134.38
8	Others	0.0003	-	0.0003
	Total	5,410.51	4,056.49	9,467.00

(Source: Finance Accounts 2019-20)

1.1.3 The details of the non-tax revenue raised during 2019-20 are given in Table1.3.

Table 1.3: Details of Non-tax revenue raised

(₹ in crore)

Sl. No	Head of Revenue	From 01.04.2019 to 30.10.2019 (State of Jammu and Kashmir)	From 31.10.2019 to 31.03.2020 (UT of Jammu and Kashmir)	Total (2019-20)
	(a)	(b)	(c)	(d=b+c)
1.	Power	1,692.97	1,196.66	2,889.63
2.	Forestry and Wildlife	14.25	8.94	23.19
3.	Police	39.44	35.85	75.29
4.	Non-ferrous, Mining and Metallurgical Industries	28.37	14.61	42.98
5.	Water Supply and Sanitation	15.54	59.54	75.08
6	Public Works	14.31	7.96	22.27
7.	Medical and Public Health	16.91	11.32	28.23
8.	Interest Receipts	9.58	9.24	18.82
9.	Other Non-tax Receipts	365.46	718.65	1,084.11
	Total	2,196.83	2,062.77	4,259.60

(Source: Finance Accounts 2019-20)

1.2 Analysis of arrears of revenue²

The arrears of revenue as on 31 March 2020 in respect of certain major heads of revenue amounted to ₹ 1,021.66 crore, of which ₹ 651.88 crore was outstanding for more than five years, is depicted in Table 1.4.

Table 1.4: Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Total Amount outstanding as on 31 March 2020	Amount outstanding for more than five years as on 31 March 2020	Replies of Department
1.	Taxes on Sales/ VAT Trade etc.	974.08	619.02	An amount of ₹ 86.04 crore had been stayed by the courts/ appellate authorities and proposed for recovery as arrears of land revenue. Commissioner State Taxes, J&K stated (December 2020) that the Department takes various measures like issue of notice of demand (Dastak), issue of memo, seizure of bank accounts and thereafter attachment of immovable property in addition to this, arrest warrants are issued to ensure recovery of the arrears.
2.	Motor spirit tax	0.09	0.09	
3.	Entertainment tax	0.21	0.21	
4.	Toll Tax	28.24	28.00	
5.	State Excise	19.04	4.56	Out of total arrears of ₹ 47.49 crore, stay on ₹ 44.47 crore was granted by the court/ appellate authorities. However, balance arrears of ₹ 3.02 crore were recoverable as arrears under the Land Revenue Act. Excise Commissioner, J&K stated (November 2020) that action has been taken under Revenue Act for recoverable arrears and most of the cases were pending in the Hon'ble High Court.
Total		1,021.66	651.88	

(Source: Data provided by the Departments)

1.3 Arrears in assessments³

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed during the year and number of cases pending for finalisation at the end of the year as furnished by the State Taxes Department in respect of Sales Tax/ VAT and Taxes on Works contracts are given in Table 1.5.

Table 1.5: Arrears in assessments

Head of Revenue	Opening balance as on 1 April 2019	New cases due for assessment during 2019-20	Total assessments due	Cases disposed of during 2019-20	Balance at the end of the year	Percentage of disposal (col. 5 to 4)
1	2	3	4	5	6	7
Sales Tax/ VAT	8,752 ⁴	10,095	18,847	15,582	3,265	82.67
Tax on Works Contract	37,295	1,634	38,929	15,324	23,605	39.36

(Source: Data provided by the Department)

² The figures in this paragraph are only pertaining to UT of Jammu and Kashmir.

³ The figures in this paragraph are only pertaining to UT of Jammu and Kashmir.

⁴ Opening balance of arrears in assessment, cases of evasion, cases of refund also includes cases of Ladakh.

The assessments completed (out of the total cases due for assessment) was 83 *per cent* in respect of Sales Tax/ VAT and 39 *per cent* in the case of Taxes on Works Contract. The latter was attributed (December 2020) to the fact that the backlogs could not be cleared due to connectivity and other issues post August 2019. Moreover, the Government had issued Amnesty Scheme⁵ which covered unassessed cases also. The scheme was further extended upto October 2020. A number of unassessed cases could not be assessed till time for payment of admitted taxes under the scheme expired.

In order to avoid the risk of time barring of assessments (five years), the Government may consider fixing a time limit for finalisation of the pending assessments and ensure that the time limit so fixed is adhered to by the Departmental Authorities.

1.4 Evasion of tax detected by the Department⁶

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

Table 1.6: Evasion of Tax

Sl. No.	Head of revenue	Cases pending as on 31 March 2019	Cases detected during 2019-20	Total	Number of cases in which assessment/ investigation completed and additional demand with penalty etc. raised		Amount of demand recovered (₹ in crore)	Number of cases pending for finalisation as on 31 March 2020
					Number of cases	Amount of demand (₹ in crore)		
1.	Sales Tax/ VAT	285	1,401	1,686	1,630	25.25	0.88	56
2.	GST	23	2,758	2,781	2,761	10.76	9.52	20
3.	Toll Tax	-	238	238	238	0.56	0.56	-
	Total	308	4,397	4,705	4,629	36.57	10.96	76

(Source: Data furnished by the Department)

Against the total demand of ₹ 36.57 crore raised in 4,629 cases during 2019-20, an amount of ₹ 10.96 crore had been recovered which is 30 *per cent* of the total recoverable amount. In reply, Assistant Commissioner (Technical) State Taxes, UT of J&K stated (December 2020) that the recovery of arrears is less because the Government of J&K had extended the last date of Amnesty scheme upto 31st October 2020, wherein, there was 100 *per cent* waiving of interest and penalty if the dealers had deposited 100 *per cent* of Principal tax.

1.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2019-20, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2019-20 as reported by the Department is given in Table 1.7.

⁵ Vide order no. 39 of FD dated 05.02.2018

⁶ The figures in this paragraph are only pertaining to UT of Jammu and Kashmir.

Table 1.7: Details of pendency of refund cases

Sl. No.	Particulars	GST		Sales tax/ VAT	
		No. of cases	Amount (₹ in crore)	No. of cases	Amount (₹ in crore)
1.	Claims outstanding at the beginning of the year	517	13.21	11	2.49
2.	Claims received during the year	612	89.16	8	1.56
3.	Refunds made during the year	386	54.26	13	2.80
4.	Deficiency memos issued	21	2.13	-	-
5.	Balance outstanding at the end of the year	722	45.98	6	1.25

(Source: Data furnished by the Department)

The number of outstanding refund cases both under Sales Tax/ VAT and GST has increased by 37.87 per cent from 528 cases to 728 cases during 2019-20

On this being pointed out, Assistant Commissioner (Technical) State Taxes, UT of J&K stated (December 2020) that the pendency in processing of refunds under GST was mainly in all such cases where the show-cause notices were issued by the officers but the replies were pending from the applicants. It was also stated that the necessary instructions had already been issued to the officers processing the refunds, to minimize the pendency.

The Government may take effective steps for immediate disposal of the refund cases.

1.6 Response of the Government/ Departments to Audit

The Principal Accountant General (Audit), Jammu and Kashmir (PAG), conducts periodical inspection of the Government Departments to test-check the transactions, verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the Inspection Reports (IRs) incorporating findings, which are issued to the Heads of the Offices inspected with copies to the next higher authorities for taking prompt corrective action. The Head of the Office is required to take necessary corrective action on the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the PAG (Audit) within four weeks from the date of receipt of the IRs. Serious financial irregularities are reported to the Head of the Department and the Government.

Inspection Reports issued up to December 2019 in respect of State Taxes, State Excise, Motor Vehicle and Law Department disclosed that 5,006 paragraphs relating to 927 IRs, involving ₹ 2,266.10 crore remained outstanding at the end of June 2020 as mentioned along with the corresponding figures for the preceding two years in Table 1.8.

Table 1.8: Details of pending Inspection Reports

	June 2018	June 2019	June 2020
Number of IRs pending for settlement	811	859	927
Number of outstanding audit observations	4,111	4,539	5,006
Amount of revenue involved (₹ in crore)	1,216.35	2,095.52	2,266.10

1.6.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2019 and the amounts involved in respect of State Taxes, Excise, Transport and Law Department (Revenue Sector) are mentioned in Table 1.9.

Table 1.9: Department-wise details of Inspection Reports/ Audit observations

Sl. No.	Name of the Department	Nature of receipts	Numbers of outstanding IRs	Numbers of outstanding audit observations	Money value involved (₹ in crore)
1.	State Taxes	Taxes on Sales, Trade etc.	571	3,689	1,966.99
2.	Excise	Excise	170	472	134.55
3.	Motor Vehicle	Taxes on Motor Vehicles	108	496	151.54
4.	Law	Stamps Duty and Registration fee	78	349	13.02
Total			927	5,006	2,266.10

Audit did not receive any replies from the heads of offices within four weeks from the date of issue of all the 82 IRs issued during 2019-20. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the Heads of Offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the PAG (Audit) through the IRs. The Government constituted (January 2021) Audit Committee for the HoDs falling under the administrative control of Finance Department, J&K for the purpose of monitoring and ensuring compliance and settlement of outstanding Audit Observations/ Paras in terms of Regulation 145 of the Regulations on Audit and Accounts 2020 issued by the CAG of India.

It is recommended that the Government should advise the concerned Departments to hold Audit Committee Meetings frequently at least three meetings in a quarter to monitor the progress of settlement of paragraphs and also ensure that demands/ recoveries are addressed in time.

1.7 Status of Inspection Reports

The summarised position of the Inspection Reports of Departments of State Taxes, Excise, Law and Transport (Revenue Sector) issued during the last five years, paragraphs included in these Reports and their status as on 31 March 2020 are given in Table 1.10.

Table 1.10: Position of Inspection Reports

Sl No.	Year	Opening Balance			Addition during the year			Clearance during the year			Closing balance during the year		
		IRs	Para-graphs	Money value (₹ in crore)	IRs	Para-graphs	Money value (₹ in crore)	IRs	Para-graph	Money value (₹ in crore)	IRs	Para-graphs	Money value (₹ in crore)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
1.	2015-16	668	3,189	1,230.36	70	494	76.86	07	140	25.90	731	3,543	1,281.32
2.	2016-17	731	3,543	1,281.32	51	403	329.16	28	237	424.04	754	3,709	1,186.44
3.	2017-18	754	3,709	1,186.44	89	767	173.79	09	110	41.24	834	4,366	1,318.99
4.	2018-19	834	4,366	1,318.99	54	632	960.10	07	160	52.77	881	4,838	2,226.32
5.	2019-20	881	4,838	2,226.32	82	493	123.57	17	212	44.93	945	5,119	2,304.96

5,119 paragraphs relating to 945 IRs involving ₹ 2,304.96 crore remaining outstanding at the end of the year 2019-20 indicated that adequate steps were not taken by the Departments resulting in increase of the outstanding IRs and Paragraphs.

1.8 Follow-up on Audit Reports

1.8.1 Non-submission of Action Taken Notes

The Government (Finance Department) had issued instructions in June 1997 to all the administrative departments to furnish *suo-moto* Action Taken Notes (ATNs) on all the audit paragraphs featuring in the Audit Reports to the Public Accounts Committee (PAC) irrespective of whether they were taken up for discussion by the Committee or not. These ATNs are to be submitted to the Committee duly vetted by the Principal Accountant General (Audit) within a period of three months from the date of presentation of Audit Reports in the Legislature.

It was, however, noticed that out of 110 audit paragraphs featuring in the Chapters of Revenue Sector of Audit Reports from 2000-01 to 2015-16⁷, *suo-moto* ATNs in respect of 88 audit paragraphs had not been received up to 31 March 2020.

1.8.2 Action taken on recommendations of the PAC

Action Taken Notes, duly vetted by the Principal Accountant General (Audit) on the observations/ recommendations made by the PAC in respect of the audit paragraphs discussed by them are to be furnished to the Committees within six months from the date of such observations/ recommendations.

Out of 110 audit paragraphs featuring in the Revenue Sector of Audit Reports for the years from 2000-01 to 2015-16, only 17 audit paragraphs have been discussed by the PAC up to 31 March 2020. Recommendations in respect of 17 audit paragraphs including 12 partly discussed were made by the PAC, however, ATNs on the

⁷ Audit Reports 2016-17 and 2017-18 presented in Parliament on 23 September 2020 and Audit Report 2018-19 presented in Parliament on 24 March 2021.

recommendations of the Committee is pending from the Government in respect of 13 paragraphs.

1.8.3 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last five years, those accepted by the Department and the amount recovered are given in Table 1.11.

Table 1.11: Paragraphs included in the Audit Reports of the last five years

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs (₹ in crore)	Number of paragraphs accepted	Money value of accepted paragraphs (₹ in crore)	Amount recovered during the year 2019-20 (₹ in crore)	Cumulative position of recovery of accepted cases as of 31 March 2020 (₹ in crore)
2014-15	4	0.76	4	0.76	Nil	0.10
2015-16	7	124.10	6	88.76	0.09	0.16
2016-17	8	2.14	8	2.14	Nil	0.20
2017-18	9	1.43	9	1.43	0.01	0.16 ⁸
2018-19	5	2.03	5	2.03	Nil	0.13
Total	33	130.46	32	95.12	0.10	0.75

It would be seen from the above that in respect of paragraphs featured in the Audit Reports 2014-15 to 2018-19, the Department/ Government accepted audit observations involving ₹ 95.12 crore, of which only ₹ 0.75 crore was recovered as of March 2020, which is only 0.79 *per cent* of the accepted amount. This indicates that the Government could not recover the dues fully even for the cases wherein the audit observations had been accepted by the Departments.

1.9 Audit Planning

The auditable entities under various Departments are categorised into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which *inter-alia* include critical issues in Government Revenues and Tax administration.

During the year 2019-20, there were 398 auditable units (State Taxes, Excise, Transport and Law) out of which 129 (32 *per cent*) units were planned for audit and 82 units (64 *per cent*) were audited.

1.10 Results of audit

Position of local audit conducted during the year

Test-check of the records of 82 units⁹ out of 398 auditable units¹⁰ of State Taxes, State Excise, Transport and Law Department conducted during the year 2019-20 showed under assessment/ short levy/ loss of revenue aggregating ₹ 127.72 crore in 14,572

⁸ Includes recovery of ₹ 15.80 lakh reflected in Audit Report for the year ended 31 March 2018.

⁹ State Taxes Department: 37 units; Transport Department: 12 units; Excise Department: 11 units and Stamps Duty and Registration (Law Department): 22 units.

¹⁰ State Taxes Department: 66 units; Motor Vehicle Department: 22 units; Excise Department: 44 units and Stamps Duty and Registration (Law Department): 266 units.

cases. During the year, departments concerned accepted under assessment and other deficiencies of ₹ 3.36 crore identified in 72 cases pointed out by audit during 2019-20 and previous years. The Departments recovered ₹ six lakh during 2019-20 in seven cases pertained to audit findings of the period prior to 2019-20. Unit-wise details of recoveries accepted are detailed in *Appendix 1.1.1*.

1.11 Coverage of the Revenue Chapter

This Chapter of the Report contains three Compliance Audit paragraphs involving revenue implication of ₹ 2.14 crore.

