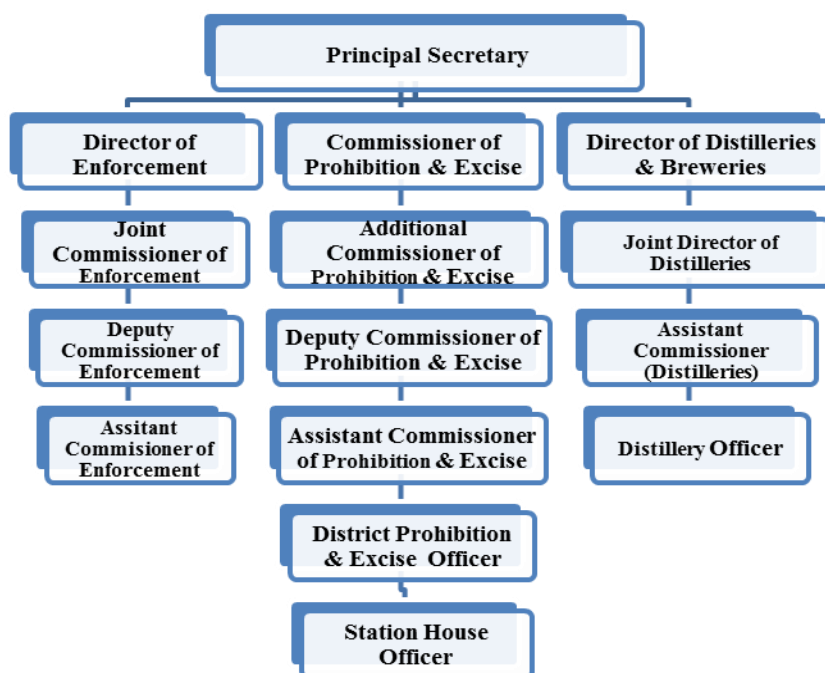


CHAPTER III STATE EXCISE DUTIES

3.1 Tax Administration

The Prohibition and Excise (P&E) Department is governed by the Telangana Excise (Amendment) Act, 2017, Telangana Prohibition Act, 1995⁷⁶ and Narcotic Drugs and Psychotropic Substances Act, 1985 (Central Act).

The Principal Secretary to Government, Revenue Department is the controlling authority at Government level. The important functionaries of the Department for Administration of tax is depicted in the below organogram. The total revenue from Excise Department during 2017-18 was ₹9,421.33 crore⁷⁷.



3.2 Internal Audit

Internal audit is an important mechanism for ensuring proper and effective functioning of a system for detection and prevention of control weaknesses.

Government issued orders⁷⁸ in November 2003, for constituting Internal Audit committee, headed by Principal Secretary (Finance), at State level and by District collector at district level.

No internal audits were, however conducted so far in the Department.

⁷⁶ Government of Telangana through G.O.Ms. No.45, Law (F) Department, dated 1st June 2016 adopted the said Acts of combined State of Andhra Pradesh.

⁷⁷ Source: Finance Accounts 2017-18.

⁷⁸ G.O. Ms. No. 479, Finance (Internal Audit) Department dated 10 November 2003.

3.3 Results of Audit

Audit conducted in nine out of 79 Excise units (11.39 per cent) in the State during 2017-18 showed non-levy/short realisation of fees and other deficiencies involving monetary impact of ₹ 5.91 crore in 19 cases. The nature of audit observations are broadly categorized in **Table 3.1**:

Table 3.1
Category of Audit observations on revenue receipts

(₹ in crore)			
Sl. No	Category	No. of observations	Amount
1.	Short levy of licence fee	8	5.81
2.	Non-levy of interest	6	0.04
3.	Loss of revenue due to Non-Registration of lease deeds	3	0.02
4.	Other irregularities	2	0.04
	Total	19	5.91

There are three broad categories of audit observations. There may be similar irregularities, errors/omissions in other units under the department but not covered in the test audit. Department may, therefore, examine all the units with a view to ensure that the taxes are levied as per provisions of the Act and rules.

Provisions of Acts/Rules and instructions of Government not observed

The Telangana Excise (Grant of Licence of Selling by Shop and Conditions of Licence) Rules 2012 and Rules made there under provide levy of licence fee and permit room fee for retail liquor outlets at the prescribed rates based on the population and their location viz., Municipal Corporation/Municipality limits

The Telangana Excise Act, 1968 read with Rule 10 of Telangana Excise (Grant of licence of selling by bar and conditions of licence) Rules, 2005, the annual licence fee for 2-B Bars shall be levied on the basis of population and at the rates notified by Government from time to time.

The District Prohibition & Excise Officers while levying the licence fee of liquor shops and Bars did not observe the above provisions in some cases as mentioned in the subsequent paragraphs which resulted in non-levy and non-realisation of licence fee/permit room licence fee/penal interest of ₹ 5.51 crore.

3.4 Short levy and collection of annual licence fee for A-4 shops

Merger of villages into nearby Greater Municipal Corporation/ Municipal Corporation necessitated levy of higher licence fee. Failure to do so resulted in short levy of licence fee of ₹ 5.32 crore.

As per Section 28 of the Telangana Excise (Amendment) Act, 2017, read with Rule 16 of Telangana Excise (Grant of Licence of Selling by Shop and Conditions of Licence) Rules 2012, the annual licence fee for liquor shop (A-4 shops)⁷⁹ shall be levied on the basis of population and at the rates notified by Government from time to time.

⁷⁹ The licence to establish liquor shop is issued in Form A-4.

Government in their order⁸⁰ notified various rates of annual licence fee applicable for liquor shops for the years 2015-16 & 2016-17 on population basis. It was also provided therein that the fixation of licence fee for the shops situated in a village/ town which are within a belt of five kilometers from the periphery of a Municipal Corporation/ Greater Municipal Corporation measured in a straight line on the horizontal plane shall also be at the rates applicable to the shops situated within the limits of such Municipal Corporations/ Greater Municipal Corporation.

Scrutiny (between November 2017 and January 2018) of A-4 shop licence files in two⁸¹ out of 79 Excise units disclosed that the respective DP&EOs in five cases⁸² fixed licence fee for liquor shops for the period 2015-16 & 2016-17 at a lesser rate than applicable in the places of their location as detailed in the **Table 3.2:**

Table 3.2
Short collection of licence fee

(₹ in lakh)

Sl. No	Jurisdiction	Location of the shops	Distance from Municipal Corporation periphery	Licence Fee collection Details		
				Due (based on population & periphery)	Actual	Short collection
1.	DP&EO, Shamshabad	Gandipet shop No. 1	3.3 Kilometers	216.00	78.00	138.00
2.		Gandipet shop No. 2	3.3 Kilometers	216.00	78.00	138.00
3.	DP&EO, Warangal	Elkathurthi shop No. 1	Within five kilometers *	163.20	78.00	85.20
4.		Elkathurthi shop No. 2	Within five kilometers	163.20	78.00	85.20
5.		Elkathurthi shop No. 3	Within five kilometers	163.20	78.00	85.20
Total				921.60	390.00	531.60

*Source DP&EO Records.

As evident from the above Table, these shops are located within five kilometers from the periphery of Greater Municipal Corporations, licence fee of ₹ 9.22 crore should have been fixed and collected for the years 2015-16 & 2016-17. In all the above cases, the Department however had fixed and collected licence fee of ₹ 3.90 crore. This resulted in short collection of licence fee of ₹ 5.32 crore.

On this being pointed out (between November 2017 and January 2018), the DP&EOs replied that the matter would be examined and detailed reply would be submitted.

⁸⁰ G.O.Ms.No.164, Revenue (Excise-II) Department dated 11 September 2015.

⁸¹ DP&EOs Shamshabad and Warangal.

⁸² Two shops at Gandipet (within five KM from Greater Hyderabad Municipal Corporation periphery) and three shops at Elkathurthy (within five KM from Greater Warangal Municipal Corporation periphery).

These issues were referred to the Department in July 2018 and to the Government in August 2018; their replies have not been received (February 2020).

3.5 Short collection of Permit Room licence fee and Non-levy of Penal Interest

Penalty was not levied for delayed payment of permit room licence fee, besides short collection of permit room licence fee.

As per Section 28 of the Telangana Excise Act, 1968 read with Rule 25 and 26 of Telangana Excise (Grant of licence of Selling by Shop and conditions of Licence) Rules 2012, the holder of licence (in Form A-4) in places whose population is 5,000 and above shall be licenced in Form A-4(B) to have a permit room⁸³ on payment of ₹ two lakh per annum (in addition to annual licence fee) or part thereof.

As per the Government Order⁸⁴ dated 26 February 2016, all liquor shops are required to establish⁸⁵ a permit room attached to such liquor shops irrespective of the population. As per Rule 3 of Telangana Excise (Levy of Interest on Government dues) Rules 1982, the arrears of money recoverable shall bear interest of 18 *per cent* per annum.

Further, as per Rule 56 of Telangana Excise Rules, 2012, every holder of the licence under these rules shall comply promptly with all orders for directions issued from time to time under the Act, and the rules and orders made there under and shall abide by all the conditions of licence/ permit.

Scrutiny (between December 2017 and January 2018) of records in three⁸⁶ out of 79 Excise units disclosed that in 42 cases the licensees had paid permit room licence fee with delays ranging from 17 days to 281 days for the years 2014-17. In these cases, no penal interest was levied by the Department which amounted to ₹ 2.86 lakh. Further, as per the Government Orders mentioned *ibid* establishment of permit room is mandatory for every A-4 shop irrespective of the population. In 18 cases pertaining to DP&EOs Medak and Sangareddy, proportionate permit room licence fee amounting to ₹ three lakh had not collected from the effective date.

After audit pointed out (December 2017 and January 2018) DP&EOs Jagitial and Medak replied that the matter would be examined and action would be taken. DP&EO Sangareddy replied that matter would be examined and reply would be submitted in due course.

These issues were referred to the Department in June 2018 and to the Government in August 2018; their replies have not been received (February 2020).

⁸³ Permit Room is a room attached to A-4 shop to facilitate the consumption of liquor therein.

⁸⁴ G.O.Ms. No. 39 Revenue (Excise-II) Department.

⁸⁵ As per G.O effective date for establishing permit room was 29 February 2016.

⁸⁶ District Prohibition & Excise Offices Jagitial, Medak and Sangareddy.

3.6 Short levy of Bar Licence Fee

Non-levy of Licence Fee at applicable rates for Bar located within five kilometer periphery of municipal corporations resulted in loss of revenue of ₹ 14 lakh.

As per Section 28 of Telangana Excise Act, 1968⁸⁷ read with Rule 10 of Telangana Excise (Grant of licence of selling by bar and conditions of licence) Rules 2005, the annual licence fee for 2-B Bars⁸⁸ shall be levied on the basis of population and at the rates notified by Government from time to time.

Further, the licence fee in respect of a Bar situated within five kilometers from the periphery of a Municipal Corporation shall also be at the same rate of the licence fee as applicable for a Bar situated within the limits of Municipal Corporation.

As per the Government Order⁸⁹, fee for the bars having plinth area of the premises in excess of 5,001 sq.meters shall be payable at 40 *per cent* of the original licence fee.

Scrutiny (January 2018) of Bar licence files in the Office of DP&EO Shamshabad revealed that the licence fee in one case⁹⁰ had been fixed and collected at the rate of ₹ 30 lakh for the licence period 2016-17⁹¹. As Gandipet village is situated within five kilometers of the periphery of the Municipal Corporation⁹², the licence fee should have been fixed and collected at the rate of ₹ 40 lakh per annum⁹³. Further, an amount of ₹16.00 lakh per annum being 40 *per cent* of the licence fee should also have been collected as the plinth area of the bar was more than 5,001 sq.meters (20,084.10 sq.meters). The Department collected licence fee of ₹ 30 lakh instead of ₹ 40 lakh and ₹ 12 lakh instead of ₹ 16 lakh being 40 *per cent* of licence fee. This resulted in short levy of licence fee and additional licence fee amounting to ₹ 14 lakh⁹⁴.

After audit pointed out (January 2018) the DP&EO, Shamshabad replied that the matter would be examined and reply would be submitted.

This issue was referred to the Department in June 2018 and to the Government in August 2018; their replies have not been received (February 2020).

⁸⁷ As per G.O.Ms No.9 Revenue (Excise-II) Department, dated 27 January 2015 issued by Government of Telangana Provisions of Andhra Pradesh Excise (Grant of licence of selling by bar and conditions of licence) Rules, 2005 as applicable to Andhra Pradesh State as on 1 June 2014 were adapted to State of Telangana.

⁸⁸ Licence to run a bar is issued in Form 2-B.

⁸⁹ G.O.Ms No.213 Revenue (Excise-II) Department dated 1 October 2016.

⁹⁰ M/s Golkonda Restaurant & Bar Situated at Gandipet village.

⁹¹ 1 October 2016 to 30 September 2017.

⁹² Gandipet village is situated within five KM from periphery of GHMC. The nearest village is Khanapur (3.3 KM) which is part of GHMC.

⁹³ G.O.Ms No.212 Revenue (Excise-II) Department dated 1 October 2016.

⁹⁴ Short levy of ₹ 10 lakh in respect of original licence fee and additional licence fee of ₹ 4 lakh (40 *per cent* of differential licence fee).