

# Chapter III

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## State Excise Duties

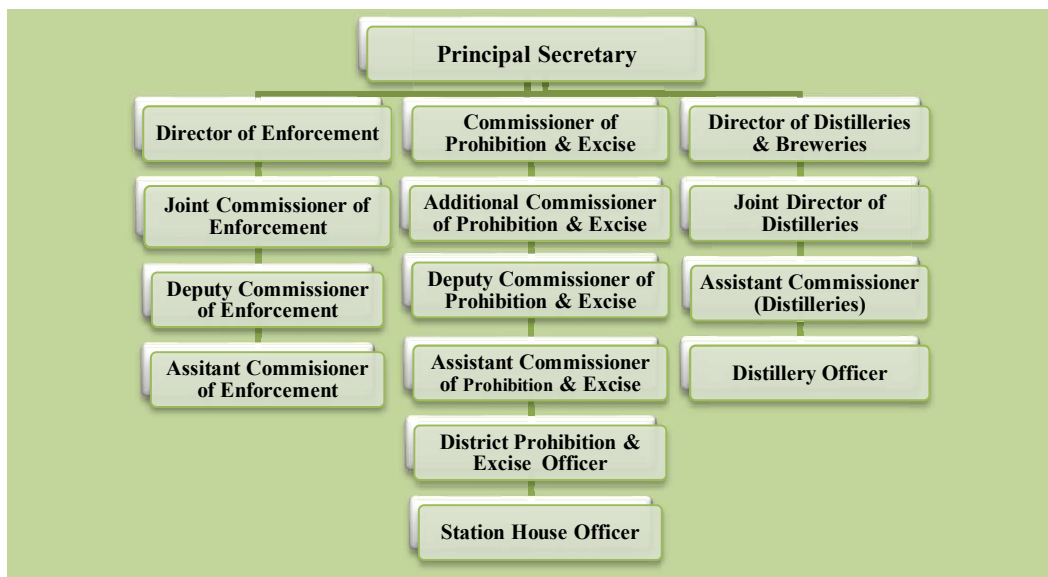
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### 3.1 Tax Administration

The Prohibition and Excise Department is governed by ‘The Telangana Excise Act, 1968’, ‘The Telangana Prohibition Act, 1995’ and ‘The Narcotic Drugs and Psychotropic Substances Act, 1985’ (Central Act). The Department makes policies pertaining to Prohibition and Excise in the State of Telangana. It ensures that Excise Revenue is protected and collected according to the relevant Acts and Rules. It also creates awareness among the people of Telangana on ill effects of consumption of alcoholic products, illicit distillation of liquor and also encourages establishment of Drug De-Addiction Centers. The Principal Secretary to Government, Revenue Department is the administrative head of the Department at the Government level. The organizational set up of the Department for administration of tax is depicted in the organogram given below:

**Figure 3.1: Organogram**



### 3.2 Trend of receipts

Actual receipts from State Excise Duty during the years 2017-18 to 2021-22 along with the total tax receipts during the same period is exhibited below.

**Table 3.1: Receipts from State Excise Duty**

(₹ in crore)

Year	Budget Estimates	Actual Receipts	Variation Excess (+) / Shortfall (-)	Percentage of variation	Total Tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2017-18	9,000.00	9,421.33	(+)421.33	4.68	56,519.82	16.67
2018-19	10,600.00	10,637.56	(+)37.56	0.35	64,674.07	16.45
2019-20	10,901.00	11,991.58	(+)1,090.58	10.00	67,597.49	17.74
2020-21	16,000.00	14,369.84	(-)1,630.16	(-)10.19	66,650.37	21.56
2021-22	17,000.00	17,482.19	(+)482.19	2.84	91,271.38	19.15

Source: Finance Accounts

As seen from the above table, while the total tax receipts of the State have increased by 61.49 per cent during the last five years, increase in the receipts from State Excise Duty has been recorded as 85.56 per cent. The contribution of the State Excise Duty to the total tax receipts has also increased from 16.67 per cent to 19.15 per cent during this period.

### 3.3 Cost of collection

The figures of gross collection in respect of State Excise Duty, expenditure incurred in collection and the percentage of such expenditure to gross collection during the years 2017-18 to 2021-22 are mentioned below:

**Table 3.2: Cost of collection of State Excise Duty**

(₹ in crore)

Head of Revenue	Year	Gross collection	Expenditure on collection of Revenue	Percentage of cost of collection to gross collection
State Excise	2017-18	9,421.33	226.40	2.40
	2018-19	10,637.56	232.82	2.19
	2019-20	11,991.58	223.58	1.86
	2020-21	14,369.84	224.67	1.56
	2021-22	17,482.19	295.56	1.69

Source: Finance Accounts

Although there were fluctuations in the cost of collection during the five years period, there was decrease in cost of collection in percentage terms for the five years period, except for the year 2021-22.

### 3.4 Impact of Audit

During the last five years, audit through its audit reports had pointed out non / short levy, non / short realisation of excise tax, non / short levy of interest on belated payment of taxes with total revenue implication of ₹77 crore in 179 cases. Of these, Department accepted audit observations in 11 cases involving ₹0.11 crore and had recovered the entire accepted amount.

**Table 3.3: Impact of Local Audit on State Excise Duty**

(₹ in crore)

Year	Units Audited	Amount objected		Amount accepted		Amount recovered	
		Cases	Amount	Cases	Amount	Cases	Amount
2017-18	9	19	5.91	-	-	-	-
2018-19	39	87	23.38	-	-	-	-
2019-20	14	13	6.06	4	0.02	4	0.02
2020-21	16	27	39.34	3	0.01	3	0.01
2021-22	39	33	2.31	4	0.08	4	0.08
<b>Total</b>	<b>117</b>	<b>179</b>	<b>77.00</b>	<b>11</b>	<b>0.11</b>	<b>11</b>	<b>0.11</b>

Recovery of ₹0.11 crore against the money value of ₹77 crore relating to the objected cases during the period 2017-18 to 2021-22 indicated that the response of the Department is not encouraging.

### 3.5 Results of Audit

During the year 2021-22, audit of State Excise receipts was conducted through a test check of the relevant records in 39 out of 96 Excise units (41 *per cent*) in the State, to gain assurance that the fees are levied, collected and accounted for in accordance with the relevant Acts, Codes and Manuals, and that the interests of the Government are safeguarded. Audit noticed instances of deviations / non-compliance with the provisions of the Acts and Rules due to various reasons in 33 observations involving an amount of ₹2.31 crore as detailed below in **Table 3.4:**

**Table 3.4: Category of Audit Observations on Revenue Receipts**

(₹ in crore)

Sl. No	Category of Audit Observations	No. of deviations	Amount
1	Non-levy or short levy of Excise Tax and interest thereon	7	0.47
2	Non-levy of interest	8	0.20
3	Loss of revenue due to non-registration of lease deeds	2	0.06
4	Non-levy or short levy of compounding fee	4	0.03
5	Non-levy of penal interest on belated payments of license fee	3	0.08
6	Other irregularities	9	1.47
	<b>Total</b>	<b>33</b>	<b>2.31</b>

There are six broad categories of audit observations under State Excise as indicated above. During the year 2021-22, the Department accepted under-assessments and other deficiencies of ₹ 7.85 lakh in four cases. Out of this, three cases pertained to previous years while one case pertained to the present year. This amount of ₹7.85 lakh was realised during the year. The Department may, therefore, examine all the units to ensure that the taxes are levied as per provisions of the Act and Rules<sup>1</sup>.

A few cases involving non-compliance with the provisions of the Acts and Rules by the District Prohibition and Excise Officers (DPEOs) / Distillery Officer that resulted in short levy or non-levy of Excise Tax, interest and penalty to the extent of ₹2.04 crore in 64 cases. These are discussed in the subsequent paragraphs.

<sup>1</sup> The Telangana Excise Act, 1968 read with (1) The Telangana Excise (Grant of Licence of Selling by Shop and Conditions of Licence) Rules, 2012, (2) The Telangana Excise (Grant of Licence of Selling by Bar and Conditions of Licence) Rules, 2005, (3) The Telangana Excise (Grant of Licence of Selling by In-House and Conditions of Licence) Rules, 2005 read with Government Orders and (4) The Telangana Excise (Levy of Interest on Government Dues) Rules, 1982.

### **3.6 Non / short levy of penalty on delayed payment of Distillery Excise Tax**

Every Licensee of Distilleries has to get his license renewed before the commencement of the license year, by paying the Distillery Excise Tax as prescribed<sup>2</sup>. If the Licensee fails to apply for renewal by paying the prescribed tax before commencement of license year, he shall pay the Excise Tax with late fee<sup>3</sup>. The annual Excise Tax of the Distilleries is fixed on their production capacities as per the rates prescribed under the Rules<sup>4</sup>.

Audit test checked (January 2022) the records of R K Distilleries, Medchal and found that the Department either did not levy or short levied the penalty for the delayed payment of Annual Distillery Excise Tax for the licence years 2017-18 and 2018-19 amounting to ₹86.99 lakh. Distillery Officer assured a detailed reply.

The matter was referred to the Government in October 2022. Reply has not been received.

### **3.7 Non / short levy of penalty for belated payment of Bar Renewal Fee and Bar Excise Tax**

An application for renewal of Bar licence shall be submitted by every licence holder with a Challan in original for ₹one lakh<sup>5</sup> towards renewal fee<sup>6</sup>. Further, the annual Bar Excise Tax shall be paid before commencement of the licence period<sup>7</sup> in one lump sum or in two equal installments<sup>8</sup> or in a manner as notified from time to time.

The Commissioner of Prohibition and Excise issued instructions<sup>9</sup> to levy a penalty of ₹two lakh for belated payment<sup>10</sup> of Bar licence renewal fee. Further, a penalty of ₹one lakh is to be levied for belated payment<sup>11</sup> of Bar Excise Tax for every 30 days.

Audit test checked (between December 2018 and March 2022) the records of the Offices of six District Prohibition and Excise Offices (DPEOs)<sup>12</sup> for the licence years 2017-18 to 2019-20 and observed that Licence holders of 46 Bar and restaurants paid the Bar licence

<sup>2</sup> Rule 9(3) & (4) of Telangana Distillery (Manufacture of Indian Made Foreign Liquor other than Beer and Wine) Rules, 2006.

<sup>3</sup> Within six months from the date of commencement 5 per cent of Annual Distillery Excise Tax of licence year.  
After six months from the date of commencement of 10 per cent of the Distillery Excise Tax licence year.

<sup>4</sup> Rule 8 of the Telangana Distillery (Manufacture of Indian Made Foreign Liquor other than Beer and Wine) Rules, 2006.

Upto 20 lakh Proof Litres (PLs).	₹40,00,000
For every additional one lakh PL or part thereof.	₹2,00,000

<sup>5</sup> The Bar licence renewal fee has been enhanced from ₹10,000 to ₹one lakh vide G.O.Ms.No.38, Revenue (Excise-II) Department, dated 26 February 2016.

<sup>6</sup> Rule 9A (2) of The Telangana Excise (Grant of Licence of Selling by Bar and Conditions of Licence) Rules, 2005.

<sup>7</sup> License period means a period of 12 months beginning from the 01 October of the year and ending with 30<sup>th</sup> of September of the succeeding year.

<sup>8</sup> Rule 10(3)(a) of The Telangana Excise (Grant of Licence of Selling by Bar and Conditions of Licence) Rules, 2005.

<sup>9</sup> Commissioner's Letter No. 9/2017/CPE dated 18 December 2017.

<sup>10</sup> Bar licence renewal fee is to be paid on or before the due date i.e., 30 September of licence year.

<sup>11</sup> Bar Excise Tax is to be paid on or before the due date i.e., 30 September of licence year.

<sup>12</sup> Hyderabad, Mahbubnagar, Nagar Kurnool, Rajanna-Sircilla, Shamshabad and Yadadri-Bhuvanagiri.

renewal fee or Annual Bar Excise Tax or both, belatedly. However, the DPEOs concerned did not levy or short-levied penalties amounting to ₹71 lakh.

District Prohibition and Excise Officers, Hyderabad, Shamshabad and Yadadri Bhuvanagiri replied that action would be taken to collect the penalty from the Licensees. Remaining DPEOs assured detailed reply.

The matter was referred to the Government in February 2021, October 2021 and October 2022. Reply has not been received.

### **3.8 Short levy of Annual Bar Excise Tax**

As per Section 28 of the Telangana Excise Tax Act, 1968 read with Rule 10<sup>13</sup> of Telangana Excise Rules, 2005 and Government Orders<sup>14</sup>, Excise Tax is leviable on Bars at the rate of ₹40 lakh for the period 2020-21. Subsequently, the Director of Prohibition and Excise reduced<sup>15</sup> the tax rates for the year 2020-21 and issued instructions for collection of Excise Tax only at 50 *per cent* of the Annual Excise Tax. Further, as per Government Order<sup>16</sup>, an ‘additional Excise Tax’ has to be levied at the rate of 10 *per cent* of Annual Excise Tax based on the plinth area of the premises available for consumption of liquor in bars.

Audit test checked (February 2022) the records of the District Prohibition and Excise Office (DPEO), Secunderabad and noticed in two cases (two Bars) that Annual Bar Excise Tax amounting to ₹24 lakh was short levied for the year 2020-21.

District Prohibition and Excise Officer, Secunderabad replied that action would be taken to collect the balance Bar Excise Tax.

The matter was referred to the Government in November 2022. Reply has not been received.

### **3.9 Short levy of Annual Excise Tax and additional Excise Tax on Elite Bars**

As per Section 28 of the Telangana Excise Tax Act, 1968 read with Rule 10<sup>17</sup> of Telangana Excise Rules, 2005, Excise Tax is leviable on bars (Elite bars<sup>18</sup>) at the rates<sup>19</sup> prescribed by Government from time to time. Subsequently, the Director of Prohibition and Excise reduced<sup>20</sup> the tax rates for the year 2020-21 and issued instructions for collection of Excise Tax only at 50 *per cent* of the Annual Excise Tax. Further, as per Government Order<sup>21</sup>, an ‘additional Excise Tax’ has to be levied at the rate of 10 *per cent* of Annual Excise Tax based on the plinth area of the premises available for consumption of liquor in bars.

<sup>13</sup> Grant of Licence of Selling by Bar and Conditions of Licence Rules, 2005.

<sup>14</sup> G.O.Ms.No.222 Revenue (Excise-II) Department, dated 27 September 2017.

<sup>15</sup> Circular No. 3168/2017/CPE/TS/F1, dated 18 March 2021.

<sup>16</sup> G.O. Ms No. 213, Revenue (Excise-II) Department, dated 01 October 2016.

<sup>17</sup> Grant of Licence of Selling by Bar and Conditions of Licence Rules, 2005.

<sup>18</sup> The bars equipped with nice decors, interior with private dining rooms etc., and charged with additional excise tax at 25 *per cent* of annual excise tax.

<sup>19</sup> G.O.Ms.No.222 Revenue (Excise-II) Department, dated 27 September 2017 for Annual Bar Excise Tax and Additional Excise fee of 25 *per cent* for elite bars vide G.O.Ms.No.211, dated 01 October 2016.

<sup>20</sup> Circular No. 3168/2017/CPE/TS/F1, dated 18 March 2021.

<sup>21</sup> G.O. Ms No. 213, Revenue (Excise-II) Department, dated 01 October 2016.

Audit test checked (March 2022) the records of two District Prohibition and Excise Offices<sup>22</sup> and found in three cases that Excise Tax and 'additional Excise Tax' amounting to ₹12 lakh was short levied.

District Prohibition and Excise Officer (DPEO), Khammam replied that action would be taken to collect the amount. DPEO, Mahabubabad assured a detailed reply.

The matter was referred to the Government in October 2022. Reply has not been received.

### **3.10 Non-levy of interest on belated payment of Excise Tax for Bars**

The licence holders of Bars are required to pay Excise Tax on or before the dates prescribed in the Telangana Excise Rules<sup>23</sup>. Payment of Excise Tax after the due dates is treated as 'arrears of revenue' and interest at the rate of 18 *per cent* per annum is leviable on such arrears of revenue<sup>24</sup>.

Audit test checked (between January 2019 and November 2020) the records of the District Prohibition and Excise Office (DPEO), Shamshabad and observed that 12 licensees paid the Excise Tax belatedly with delay ranging from 5 to 123 days. The District Prohibition and Excise Officer (DPEO) did not levy interest on belated payments to an extent of ₹10.44 lakh.

DPEO, Shamshabad replied that action would be taken to collect the interest.

The matter was referred to the Government in October 2021. Reply has not been received.

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<sup>22</sup> Khammam and Mahabubabad.

<sup>23</sup> Rule 10 of The Telangana Excise (Grant of Licence of Selling by Bar and Conditions of Licence) Rules, 2005.

<sup>24</sup> Section 65 of The Telangana Excise Act, 1968 read with Rule 3 of The Telangana Excise (Levy of Interest on Government Dues) Rules, 1982.