

CHAPTER-V

REVENUE SECTOR

5.1 General

5.1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the GoN during the financial years 2020-21 and 2021-22, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grants-in-aid received from the GoI during the year and the corresponding figures for the preceding four years are shown in **Table 5.1.1**.

Table 5.1.1: Trends of revenue receipts

(₹ in crore)						
Sl. No.	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
1.	Revenue raised by the State Government					
	• Tax Revenue	638.28	846.43	958.23	1,022.74	1,300.89
	• Non-Tax Revenue	388.53	255.24	339.29	242.60	303.58
	Total	1,026.81	1,101.67	1,297.52	1,265.34	1,604.47
2.	Receipts from the GoI					
	• Share of net proceeds of divisible Union Taxes and Duties	3,353.13	3,792.41	3,267.08	3,409.25	4,875.46
	• Grants-in-Aid	6,639.27	6,543.33	6,858.69	6,752.84	6,971.21
	Total	9,992.40	10,335.74	10,125.77	10,162.09	11,846.67
3.	Total revenue receipts of the State Government (Sl. No. 1 and 2)	11,019.21	11,437.41	11,423.29	11,427.43	13,451.14
4.	Percentage of 1 to 3	9	10	11	11	12

Source: Finance Accounts of the respective years

The above table indicates that during the year 2021-22, the revenue raised by the State Government (₹1,604.47 crore) was 12 per cent of its total revenue receipts. The balance 88 per cent of the receipts during 2021-22 was from the GoI.

The details of tax revenue raised against the Budget Estimates (BEs) during the period 2017-22 are shown in **Table 5.1.2**.

Table 5.1.2: Details of the Tax Revenue against the Budget Estimates (BEs)

(₹ in crore)												
Sl. No.	Head of revenue	2017-18		2018-19		2019-20		2020-21		2021-22		Percentage of 2021-22 over 2020-21
		BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	
1.	SGST	0	187.57	250.00	469.64	340.37	613.22	541.25	663.81	726.72	830.34	25
2.	Sales Tax/VAT	410.00	287.55	225.00	186.69	252.89	175.15	265.50	205.50	325.00	261.87	27
3.	Taxes on vehicle	58.00	101.52	105.00	126.22	121.04	113.93	131.72	93.29	145.00	141.04	51
4.	Stamps and Registration Fees	2.31	2.62	2.40	2.53	2.64	2.79	3.10	2.25	3.10	3.39	51
5.	State Excise	5.60	4.20	5.10	4.65	5.10	3.24	5.50	4.54	5.50	3.32	(-)27

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Sl. No.	Head of revenue	2017-18		2018-19		2019-20		2020-21		2021-22		Percentage of 2021-22 over 2020-21
		BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	
6.	Taxes on Goods and Passengers	7.00	17.59	14.60	20.16	18.91	18.09	25.00	15.62	25.00	21.43	37
7.	Land Revenue	1.08	0.90	0.65	1.13	0.81	1.04	1.20	1.09	1.25	1.23	13
8.	Others ¹³³	32.16	36.33	37.81	35.41	38.38	30.77	37.86	36.64	40.05	38.27	4
Total (Own Tax Revenue)		516.15	638.28	640.56	846.43	780.14	958.23	1011.13	1022.74	1271.62	1300.89	27

Source: Budget documents and Finance Accounts of the respective years

During 2021-22, GST collection of the State had increased by 25 per cent from ₹663.81 crore in 2020-21 to ₹830.34 crore in 2021-22. Tax revenue under Sales Tax, vehicle, Stamps and registration fees, taxes on goods and passengers and land revenue increased by 27, 51, 51, 37 and 13 per cent respectively whereas tax revenue under State Excise decreased by 27 per cent over the previous year.

Details of the Non-tax revenue against the BEs raised during the period 2017-22 are shown in **Table 5.1.3**.

Table 5.1.3: Details of Non-Tax Revenue against the BEs raised during 2017-22

(₹ in crore)

Sl. No.	Head of revenue	2017-18		2018-19		2019-20		2020-21		2021-22		Percentage of 2021-22 over 2020-21
		BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	
1.	Police	2.00	2.70	2.50	1.86	3.00	36.56	2.50	1.30	2.50	1.86	43
2.	Miscellaneous General Services	12.10	16.10	14.50	24.15	23.50	22.18	21.00	21.45	24.50	19.34	(-10)
3.	Education, Sports, Art and Culture	48.65	132.84	100.00	4.33	80.00	62.04	5.00	2.02	5.00	3.20	58
4.	Power	156.25	127.89	158.00	147.97	160.00	159.31	175.00	171.42	185.00	211.92	24
5.	Civil Aviation	11.71	2.09	20.00	6.70	10.00	8.79	10.50	1.41	10.00	6.12	334
6.	Road Transport	9.03	7.35	11.00	8.74	8.50	8.43	8.90	3.24	9.00	5.45	68
7.	Other Non-tax receipts	40.07	99.56	41.45	61.49	44.02	41.98	49.33	41.76	47.41	55.69	33
Total (Non-Tax Revenue)		279.81	388.53	347.45	255.24	329.02	339.29	272.23	242.60	283.41	303.58	25

Source: Budget documents and Finance Accounts of the respective years

The revenue receipts under the head 'Power' increased by ₹40.50 crore from ₹171.42 crore during 2020-21 to ₹211.92 crore during 2021-22 due to increase in 'Minor Head: 800-Other Receipts' and increase by ₹4.71 crore from ₹1.41 crore to ₹6.12 crore under the Head 'Civil Aviation' due to increase in 'Minor Head: 800-Other Receipts'.

¹³³ Other taxes on income and expenditure, taxes on duties and electricity, other taxes and duties on commodities and services

5.1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2022 on some principal heads of revenue amounted to ₹7.29 crore out of which ₹2.93 crore was outstanding for more than five years, as shown in **Table 5.1.4**.

Table 5.1.4: Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Total Amount outstanding as on 31 March 2022	Amount outstanding for more than five years as on 31 March 2022	Replies of Department
1.	Nagaland Value Added Tax	2.32	1.08	Reply not furnished
2.	Petroleum Tax	4.26	1.18	
3.	Central Sales Tax	0.42	0.41	
4.	Purchase Tax	0.00	0.00	
5.	Professional Tax	0.06	0.03	
6.	Nagaland Sales Tax	0.23	0.23	
7.	GST	0.00	0.00	
Total		7.29	2.93	--

Source: Departmental figures

As on 31 March 2022, arrears of ₹7.29 crore were pending with the departmental authorities of which recovery of ₹2.93 crore was pending for more than five years.

Recommendation: *The Departments may review the arrears and take action for recovery under the law.*

5.1.3 Arrears in assessments

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalisation at the end of the year as furnished by the Sales Tax Department in respect of Sales Tax/ VAT on Sales, Trades *etc.* are shown in **Table 5.1.5**.

Table 5.1.5: Arrears in assessments

Head of Revenue	Opening Balance of arrears in assessment as on 1 April 2021	New cases due for assessment during 2021-22	Total assessment due	Cases disposed-off during 2021-22	Balance at the end of the 31 March 2022	Percentage of cases disposed to the total assessment due
1	2	3	4	5	6	7 (5 to 4)
Taxes/ VAT on Sales, Trades, <i>etc.</i>	909	238	1,147	364	783	32%

Source: Departmental figures

The arrears in assessment decreased from 909 to 783 cases with the addition of 238 cases, which became due for assessment during 2020-21 and 364 cases were disposed of during the year.

5.1.4 Cases of evasion of tax detected by the Department

The details of cases of evasion of tax detected by the Department, cases finalised and the demands for additional tax raised were requisitioned (January 2022) from the

Commissioner of Taxes, Dimapur. The Commissioner of Taxes, Dimapur replied (February 2022) that there was no evasion of tax detected.

5.1.5 Response of the Government/ Departments towards Audit

The Principal Accountant General (Audit), conducts periodical inspection of the Government departments to test check the transactions and 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 irregularities detected during the inspection and which are not settled on the spot, are issued to the Heads of the Offices inspected with copies to the next higher authorities for taking prompt corrective action. The Heads of the Offices/ Departments are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the Principal Accountant General (Audit) within one month from the date of issue of the IRs. Serious financial irregularities are reported to the Heads of the Department and the Government for response. If replies to such serious and important audit observations are not found acceptable/convincing, these are included in the Report of the C&AG of India.

IRs issued upto March 2022 revealed that 392 paragraphs involving ₹408.83 crore relating to 91 IRs remained outstanding. Such details along with the corresponding figures for the preceding two years are shown in **Table 5.1.6**.

Table 5.1.6: Details of outstanding audit observations

Particulars	March 2020	March 2021	March 2022
Number of outstanding IRs	84	84	91
Number of outstanding audit observations	362	353	392
Amount involved (₹in crore)	405.06	396.90	408.93

Source: IRs of Revenue Sector

5.1.5.1 Outstanding Inspection Reports and Audit Observations

The Department-wise details of the IRs and audit observations outstanding as on 31 March 2022 and the amount involved are shown in **Table 5.1.7**.

Table 5.1.7: Department-wise details of IRs and audit observations outstanding

Sl. No.	Name of Department	Name of Receipts	No. of outstanding IRs	No. of Outstanding Audit Observations	Money Value involved (₹in crore)
1.	Finance	Taxes/VAT on Sales, Trade, etc.	35	248	171.74
2.	Finance	Miscellaneous General Services/ Lottery	6	22	216.03
3.	Transport	Taxes on Vehicles/ Taxes on Goods & Passengers	42	103	17.39
4.	Forest & Environment	Forest & Wildlife	8	19	3.77
Total			91	392	408.93

Source: IRs of Revenue Sector

The pendency of IR due to non-receipt of replies was indicative of the fact that the Heads of Offices/ Departments had not initiated action to rectify the defects, omissions and irregularities pointed out by the Principal Accountant General (Audit) in the IRs.

Recommendation: *The Government may consider putting in place an effective system for prompt and appropriate response to audit observations.*

5.1.5.2 Departmental Audit Committee meetings

In order to expedite settlement of the outstanding audit observations contained in the IRs, Departmental Audit Committees are constituted by the Government. These Committees are chaired by the Secretaries of the Administrative Departments concerned and attended by the officers concerned of the State Government and officers of the Principal Accountant General (Audit). The Audit Committees need to meet regularly in order to expedite clearance of the outstanding audit observations.

During 2020-22, the Department did not convene any Audit Committee meeting to clear the outstanding audit observations.

Recommendation: *The State Government may ensure holding of regular meetings of the Audit Committees for ensuring effective remedial action on the audit observations.*

5.1.5.3 Response of the departments to the draft audit paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the C&AG are forwarded by the Principal Accountant General (Audit) to the Principal Secretaries/Secretaries of the departments concerned, drawing their attention to audit findings and requesting them to send their response within six weeks.

The fact of non-receipt of the replies from the Departments/ Government is invariably indicated at the end of such paragraphs included in the Audit Report of the C&AG.

Three revenue draft paragraphs were sent to the Additional Chief Secretary and Finance Commissioner during September 2022. Government reply in respect of all the three draft paragraphs are awaited.

5.1.5.4 Follow up on the Audit Reports-summarised position

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 C&AG 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 Committee. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports were being delayed inordinately.

Twenty paragraphs¹³⁴ and two Performance Audits¹³⁵ included in the Reports of the C&AG on the Revenue Sector of the GoN for the years 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, 2017-18 and 2018-19 were placed before the State

¹³⁴ During 2011-12 = one paragraph, 2012-13 = three paragraphs, 2013-14 = two paragraphs, 2014-15 = three paragraphs, 2015-16 = three paragraphs, 2016-17 = three paragraphs, 2017-18 = three paragraphs and during 2018-19 = two paragraphs

¹³⁵ During 2015-16 = two Performance Audits viz. Nagaland State Lotteries (Finance Department) and Computerisation of Motor Vehicle Department (Transport and Communication Department)

Legislative Assembly on 18 July 2013, 25 July 2014, 17 March 2015, 19 March 2016, 28 March 2017, 20 September 2018, 15 February 2020 and 05 August 2021 respectively.

PAC discussed (during 2011-12 to 2021-22) 15 paragraphs¹³⁶ pertaining to the Reports of the years 2011-12 to 2016-17. The Departments did not furnish *suo-moto* explanatory notes to the Principal Accountant General (Audit) through the Nagaland Legislative Assembly Secretariat in respect of paragraphs/ reviews which appeared in the Audit Reports.

During 2020-22, one PAC meeting was held (May 2020) and no Action Taken Note was received.

5.1.6 Analysis of the mechanism for dealing with the issues raised by Audit

To analyse the system of addressing the issues highlighted in the IRs/ Audit Reports by the Departments/ Government, the action taken on the paragraphs and performance audits included in the Audit Reports of the last 10 years for Taxation Department was evaluated.

The succeeding **Paragraphs 5.1.6.1 and 5.1.7** discuss the performance of Taxation Department in dealing with the cases detected in the course of local audit conducted and also the cases included in the Audit Reports for the years 2015-16 to 2020-22.

5.1.6.1 Position of Inspection Reports

The summarised position of IRs issued during the last five years, paragraphs included in these reports and their status as on 31 March 2022 are shown in **Table 5.1.8**.

Table 5.1.8: Position of Inspection Reports

(₹ in crore)

Year	Opening Balance			Addition during the year			Clearance during the year			Closing Balance		
	IR	Paras	Money Value	IR	Paras	Money Value	IR	Paras	Money Value	IR	Paras	Money Value
2017-18	70	309	344.73	3	30	70.93	2	15	11.03	71	324	404.63
2018-19	71	324	404.63	9	49	23.10	2	55	50.77	78	318	376.96
2019-20	78	318	376.96	12	65	40.83	6	21	12.73	84	362	405.06
2020-21	84	362	405.06	2	11	3.03	2	20	11.17	84	353	396.92
2021-22	84	353	396.92	7	46	17.78	0	7	5.77	91	392	408.93

Source: IRs of Revenue Sector

It is evident from the above table that against 70 outstanding IRs with 309 paragraphs as on 01 April 2017, the number of outstanding IRs increased to 91 with 392 paragraphs at the end of March 2022. The Department needs to take adequate steps to settle the outstanding IRs to avoid accumulation of the IRs and paragraphs.

5.1.7 Recovery in cases accepted by the Departments

The position of paragraphs included in the C&AG's Audit Reports of the last five years,

¹³⁶ During 2011-12 = one paragraph, 2012-13 = three paragraphs, 2013-14 = two paragraphs, 2014-15 = three paragraphs, 2015-16 = three paragraphs and 2016-17 = three paragraphs

those accepted by the Departments and the amounts recovered are shown in **Table 5.1.9**.

Table 5.1.9: Position of recovery of accepted cases

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases as of 31/03/2022
2015-16	3	16.10	2	5.64	0.00	0.00
2016-17	3	25.59	1	11.47	0.12	0.12
2017-18	3	19.86	1	3.34	0.05	0.17
2018-19	2	21.02	0	0.00	0.00	0.17
2019-20	5	31.42	0	0.00	0.00	0.00
Total	16	113.99	4	20.45	0.17	--

Source: Previous C&AG Reports

From the above table, it may be seen that during the last five years, the Department accepted paras with an amount of ₹20.45 crore as against which, they recovered only ₹0.17 crore. Thus, it is evident that the progress of recovery even in accepted cases was very slow during the last five years.

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

5.1.7.1 Action taken on recommendations accepted by Government

The draft Reports of the Performance Audits conducted by the Principal Accountant General (Audit) are forwarded to the departments concerned/Government to furnish their replies. These PAs are also discussed during the exit conference and views of departments/ Government are taken into account while finalising PAs for inclusion in C&AG Audit Reports.

During 2015-16 to 2020-22, two PAs relating to Finance Department and Transport Department were highlighted in the C&AG's Audit Report. Nine recommendations were made in C&AG's Report for consideration by the Government. Status of acceptance of these recommendations along with the recommendations made in audit regularly is shown in **Table 5.1.10**.

Table 5.1.10: Status of acceptance of audit recommendations made in PAs/ Audit Paragraphs

Year of Audit Report	Name of the Performance Audit* (Administrative Department)	No. of recommendations in PAs	No. of recommendations in Audit paragraphs	Status of acceptance of recommendations
2015-16	Nagaland State Lotteries (Finance Department)	5	Nil	Not communicated
	Computerisation of Motor Vehicle Department (Transport and Communication Department)	4		Not communicated
2016-17	Nil	Nil	Nil	--
2017-18	Nil	Nil	3	Not communicated
2018-19	Nil	Nil	2	Not communicated
2019-20	Nil	Nil	13	Not communicated
2020-21	Nil	Nil		
2021-22	Nil	Nil		

Source: C&AG's Audit Reports

* No Performance Audit on Revenue Sector conducted during 2016-17 to 2021-22

5.1.8 Audit Planning

The offices under various departments are, for the purpose of audit, categorised into high, medium and low risk units according to their revenue position, past trends of 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 *i.e.*, budget speech, white paper on State finances, Reports of the Finance Commission (State & Central), recommendations of the Taxation Reforms Committee, statistical analysis of revenue earnings during the past five years, factors of tax administration, audit coverage and its impact during past five years, *etc.*

Out of 23 auditable units, 15 auditee units¹³⁷ were planned for audit during 2020-22 and 12 units¹³⁸ were covered in audit.

5.1.9 Results of Audit

5.1.9.1 Position of local audit conducted during the year

Test check of the records of 12 units during 2020-22 revealed under assessment/ short levy/ loss of revenue/ non-realisation of outstanding revenue/ evasion of tax, *etc.*, in 12 offices aggregating ₹25.28 crore in 64 cases¹³⁹.

5.1.10 Coverage of this chapter

This chapter contains three compliance audit paragraphs (selected from the audit observations made during the local audit referred to above and previous years) involving financial effect of ₹25.61 crore¹⁴⁰.

Compliance Audit Paragraphs

FINANCE (TAXATION) DEPARTMENT

5.2 Loss of revenue due to non-assessment of returns

Non-assessment of returns of 11 dealers within the stipulated time limit by the Assessing Authority led to loss of revenue of ₹15.60 crore as the assessment had now become time barred.

Rule 25 of Nagaland Value Added Tax (NVAT) Rules, 2005, provides that every registered dealer shall furnish quarterly returns for the quarter ending 30th June, 30th September, 31st December and 31st March by the end of the following months. Rule 28 (1) also states that every registered dealer shall submit Annual Returns providing detailed information of gross purchases, sales including export sales, inter-state sales, consignment transfers, total tax due, tax paid showing treasury voucher numbers, interest and penalty payable within two months from the close of the year to which it relates.

¹³⁷ During 2020-21 = four units and during 2021-22 = 11 units

¹³⁸ During 2020-21 = four units and during 2021-22 = eight units

¹³⁹ During 2020-21: ₹14.59 crore in 32 cases and during 2021-22: ₹10.69 crore in 32 cases

¹⁴⁰ ₹15.60 crore + ₹1.14 crore + ₹1.40 crore + ₹1.36 crore + ₹3.85 crore + ₹2.26 crore

Section 24 (8) of NVAT Act, 2005 provides that when any registered dealer fails to furnish returns, the certificate of registration of such dealer may be suspended by the appropriate Assessing Authority (AA) in the manner prescribed.

Section 36(6) of the Act provides that if any dealer has not furnished returns in respect of any period by the prescribed date, the Commissioner shall assess to the best of his judgment the amount of tax due from such dealer. Section 38(1) of the Act further states that no assessment shall be made after the expiry of five years from the end of the tax period to which the assessment relates.

Examination of records (November 2021) of the Assistant Commissioner of State Taxes (ACST), Mon for the period from July 2016 to March 2021 revealed that 11 dealers utilised¹⁴¹ 172 C forms for purchase of goods worth ₹251.92 crore and 44 F forms for stock transfer of ₹24.03 crore during the tax period 2015-16 as detailed in **Appendix-5.2.1**. It was, however, observed that none of these 11 dealers submitted Annual Returns despite the fact that 172 C forms and 44 F forms were obtained from the Taxes Department and transactions involving ₹275.95 crore were carried out on those statutory forms. The AA did not suspend the dealers' certificate of registration in terms of Section 24 (8) of NVAT Act.

It was further observed that six out of these 11 dealers had submitted their online quarterly returns¹⁴² and declared purchases and sales as shown in **Table 5.2.1**.

Table 5.2.1: Details of sales and purchases as per online quarterly returns

(₹ in lakh)

Name of dealer	Purchase/ Stock transfer			Sales/ Stock transfer			Tax payable			Tax paid
	4.75% ¹⁴³	13.25% ¹⁴⁴	UC*	4.75%	13.25%	UC*	4.75%	13.25%	UC*	
Subh Laxmi Dealer, Naginimora	1,519.86	303.60	55.92	4,708.28	221.71	139.82	223.64	29.38	6.64	Nil
Madan Mohan Suppliers, Naginimora	3,946.74	906.71	8,687.90	3,943.49	911.51	8,711.79	187.32	120.78	413.81	Nil
Creative Sale India, Naginimora	464.67	--	643.74	464.67	--	464.76	22.07	--	30.72	Nil
Jupex India, Naginimora	6.96	--	88.89	6.96	--	88.89	0.33	--	4.22	Nil
Opel Trade, Naginimora	6.48	--	227.92	6.48	--	228.06	0.31	--	10.83	Nil

¹⁴¹ Data obtained from the TAX soft- VAT e-Filing System

¹⁴² M/s Vaishnavi Udyog (October-December 2015), M/s Creative Sale India (July-September 2015 and October-December 2015), M/s Jupex India (July-September 2015 and October-December 2015), M/s Opel Trade Corporation (July-September 2015 and October-December 2015), M/s Subh Laxmi Dealer Private Limited (April-June 2015, July-September 2015 and October-December 2015), M/s Madan Mohan Suppliers Private Ltd. (April-June 2015, July-September 2015 and October-December 2015)

¹⁴³ Readymade Garments, Clinker, Betel nuts, Spices, PET Preform, Edible oil, Multimedia Speakers, Hardware goods, Crockery goods, etc.

¹⁴⁴ Tiles, Pan Masala, Cement, Cosmetic items, Electrical items, Timber, Television, Nihar Hair Oil, Helmet, etc.

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Name of dealer	Purchase/ Stock transfer			Sales/ Stock transfer			Tax payable			Tax paid
	4.75% ¹⁴³	13.25% ¹⁴⁴	UC*	4.75%	13.25%	UC*	4.75%	13.25%	UC*	
Vaishnavi Udyog, Naginimora	0	0	68.28	0	0	68.50	0	0	3.25	Nil
Total	5,944.71	1,210.31	9,772.65	9,129.88	1,133.22	9,701.82	433.67	150.16	469.47	
Grand Total	16,927.67			19,964.92			1,053.30			

Source: Departmental records

* UC-Unclassified. The tax has been calculated at a conservative rate of 4.75 per cent

As can be seen from the above table, six dealers declared a total purchase turnover of ₹169.28 crore and sales of ₹199.65 crore at the taxable rate of 4.75 and 13.25 per cent respectively. The taxable amount on sales of goods at applicable rates (tax for unclassified sales has been calculated at a conservative rate of 4.75 per cent) was ₹10.53 crore. The remaining five (out of 11) dealers did not submit any quarterly/ annual returns for the assessment year for amount involving inter-state purchase of ₹106.67 crore. Further, due to non-availability of records relating to intra-state purchases, Audit could not ascertain the gross purchases made by the dealers concerned. The tax payable calculated @ 4.75 per cent on undisclosed purchase by five dealers was ₹5.07 crore.

Further, Audit examined the details of branches/ subsidiary offices declared by these 11 dealers in their Certificate of Registration and noticed that none of the dealers have any branch offices/ subsidiaries, within or outside the State, which proves that the transfers made by these dealers against Form 'F' were actually sales and was taxable at the prescribed rates.

In view of the facts mentioned above, it was clear that these 11 dealers evaded minimum tax of ₹15.60 crore on sales of goods purchased from outside the State as detailed in **Appendix-5.2.1**.

Due to inaction on the part of the AAs in terms of NVAT Act and Rules, the Department lost an opportunity to levy and collect tax of ₹15.60 crore. In addition to the taxes, amount of leviable interest and penalty was also forgone.

Further examination of records and way bills (November 2021) revealed that six dealers under observation imported goods valued at ₹15.62 crore by using C form during 2016-17 and 2017-18 as shown in **Table 5.2.2**.

Table 5.2.2: Goods imported by six dealers

(Amount in ₹)

Sl. No.	Name of Dealer	Year (Tax period)	Way bill
1.	M/s Creative Sale India, Naginimora, Mon	2016-17	1,28,98,070
2.	M/s Konyak Enterprises, Ward No. 2, Mon		6,36,30,070
		2017-18	3,05,06,229
3.	M/s Shohid Enterprises, Mon Town	2016-17	2,01,87,544
4.	M/s Subh Laxmi Dealer Private Ltd, Naginimora, Mon		34,56,870
5.	M/s Vaishnavi Udyog, Naginimora, Mon		2,29,50,000
6.	M/s Mamto Trading, Naginimora, Mon		26,18,000
Total			15,62,46,783

Source: Departmental records

Even during the years 2016-17 and 2017-18, none of the dealers had submitted any returns and the AAs have not taken any action against the dealers. Although cases relating to 2016-17 and 2017-18 have not become time-barred as yet, the Department needs to take necessary steps to recover the tax due along with interest and penalty.

On this being pointed out, the Department stated (August 2022) that field officers were deputed to serve notices but the notices could not be delivered as the assesseees were not found in the addresses mentioned in the respective registration certificates. It was evident that the assesseees had obtained the registration number to avail the statutory forms and avoid payment of tax in other States by misusing it. The jurisdictional authority is in the process of cancellation of all the statutory forms issued to them so as to prevent any misuse of the same and notify all concerned. The Department further stated that detailed inquiry will be conducted and the final outcome shall be intimated.

The reply of the Department is indicative of its failure to serve demand notices on time and also suspend the certificate of registration. The Department was also silent on remedial measures to prevent loss of Government revenue in future and action taken against the dealers for default in filing of tax returns/ evasion of tax.

The matter was reported to the State Government in September 2022, and reply is awaited (December 2022).

Recommendations:

The State Government may-

- (i) *take necessary steps to fix responsibility on the officers concerned for causing loss of revenue to Government. Immediate action may be taken to assess the six dealers before the cases become time barred.*
- (ii) *take appropriate action against the dealers as per the Act/ Rules for wilful pilferage of Government revenue.*
- (iii) *put in place effective monitoring mechanism and controls to prevent such occurrences in future.*

5.3 Irregular claims of concessional rate of tax on statutory ‘C’ forms

Allowance of concessional rate of tax on inter-State sales turnover not supported by statutory ‘C’ forms and acceptance of fake ‘C’ form by the Superintendent of Taxes resulted in evasion of tax of ₹1.14 crore on which interest of ₹1.40 crore was also leviable.

Section 8 (1) of the Central Sales Tax (CST) Act, 1956 provides that every dealer, in the course of inter-State trade or commerce, shall be liable to pay tax at two *per cent*¹⁴⁵ of his turnover or at the rate applicable to the sale or purchase of such goods inside the appropriate State under the sales tax law of that State.

Section 8 (4) of the CST Act, 1956 further states that the provisions of Section 8 (1) shall not apply to any sale in the course of inter-State trade or commerce unless the

¹⁴⁵ from 01 June 2008

dealer selling the goods furnishes to the prescribed authority “a declaration duly filled and signed by the registered dealer to whom the goods are sold containing the prescribed particulars in a prescribed form obtained from the prescribed authority” within the prescribed time or within such further time as that authority may, for sufficient cause, permit.

Section 12 (7) of the CST (Registration and Turnover) Rules, 1957 states that the declaration in Form C or Form F or the certificate in Form E-I or Form E-II shall be furnished to the prescribed authority within three months after the end of the period to which the declaration or the certificate relates.

Examination of records (November-December 2021) of the Superintendent of State Taxes (ST), Ward F, Dimapur revealed that the Assessing Authority assessed the annual CST return of a dealer M/s India Automobile, Dimapur (CST TIN - 13040487111) for the period 2015-16 to 2017-18 with a tax liability of ₹22.91 lakh, at a concessional rate of 2 *per cent* on Gross Turn Over (GTO) of ₹11.45 crore.

(A) Scrutiny of assessment records¹⁴⁶ of the dealer revealed that the Assessing Officer (AO) allowed concessional rate of 2 *per cent* on inter-State sales of ₹10.02 crore during the period 2015-16 and 2016-17, for which the dealer has not submitted the statutory ‘C’ forms required under Section 12 (7) of the CST (Registration and Turnover) Rules, 1957. This led to less levy and collection of ₹1.00 crore¹⁴⁷ from the dealer and resultant loss to the State exchequer.

(B) Scrutiny of records of the dealer pertaining to the period 2017-18 showed that the dealer had declared inter-state sale of ₹1.43 crore to M/s Mayur International, Jaipur against Form ‘C’¹⁴⁸ and claimed concessional rate of tax of 2 *per cent*. The assessing authority, while assessing (April 2019) the dealer accepted the Form ‘C’ submitted by the dealer without any verification and levied tax of ₹2.86 lakh.

Audit obtained the details of the buyer (M/s Mayur International, Jaipur, Rajasthan; TIN-08854702839) from TINXSYS (Tax Information Exchange System), which showed that the CST registration of the buyer was cancelled w.e.f 16 January 2014. Further, Audit also cross verified (August 2022) the ‘C’ form submitted by the buyer with the Commercial Tax Department (CTD), Rajasthan, which revealed that the ‘C’ form had not been issued by the CTD, Rajasthan and that the office¹⁴⁹ which allegedly issued the ‘C’ form in question does not legally exist.

After the issue was pointed out (May 2022) by Audit, the cases were reassessed (June 2022) and a net tax liability of ₹1.14 crore¹⁵⁰ was ascertained and a demand notice of ₹2.60 crore (including Interest and Surcharge of ₹1.40 crore and ₹5.73 lakh respectively) was served (June 2022) to the dealer.

¹⁴⁶ Assessed during October 2016 (2015-16), June 2017 (2016-17) and April 2019 (2017-18)

¹⁴⁷ Payable ₹1.20 crore; actually paid ₹20.04 lakh

¹⁴⁸ No. R/C/ 2009-5802246 dated 22/07/2010

¹⁴⁹ Office of the Commercial Tax Officer, Circle ‘B’, Nohar, Rajasthan

¹⁵⁰ Gross Tax Payable ₹1.37 crore minus Tax already paid ₹0.23 crore

Against the re-assessment order, the dealer filed (July 2022) an appeal with the appellate authority and submitted counterfoils of ‘C’ forms for the year 2015-16 and 2016-17 and submitted fresh ‘C’ form for the year 2017-18. The appellate authority, in its order dated 22 September 2022, accepted all the ‘C’ forms submitted by the dealer, quashed the re-assessment order of the AO and levied penalty of ₹one lakh for submitting wrong ‘C’ form for the year 2017-18.

Audit further cross-verified (December 2022) all the fresh ‘C’ forms submitted by the buyer with the Commercial Tax Department, Rajasthan and Uttar Pradesh, which revealed that no purchases were made from M/s India Automobile, Dimapur as shown in **Table 5.3.1**.

Table 5.3.1: Details of C forms verification

(Amount in ₹)

Sl. No.	Year	C form details of the purchasing dealer			Audit findings
		C form number & date of issue	Value	Name & address of Buyer	
1.	2015-16	No. 0580351 dated 02/02/2015	2,52,37,083	M/s Rites & Jones Petrochemicals Private Limited, G 65 Patel Nagar III, Ghaziabad, Uttar Pradesh. TIN: 09988830715	The Department issued the two “C” forms to the dealer on 02/02/2015. No C form was utilised by the dealer M/s Rites & Jones Petrochemicals Private Limited during the period from 01/04/2015 to 31/03/2016 and purchase/value of goods received from outside the State against forms of declaration/ certificates during 2015-16 was nil.
2.		No. 0580352 dated 02/02/2015	2,63,98,162		
3.	2016-17	No. R/C/ 2009/ 4794372 dated 12/09/2011	1,71,18,782	M/s M.K Packaging, J-1299 (D), Rampur Mundana, Bhiwadi Alwar, Rajasthan TIN: 08340855663	The Department issued all the four “C” forms to the dealer on 12/09/2011. The dealer did not submit Quarterly and Annual returns for the year 2016-17. The registration of the dealer was accordingly cancelled <i>w.e.f.</i> 31/03/2017. The dealer gave a statement along with an affidavit that no purchases were made from M/s India Automobile, Dimapur in the year 2016-17 or 2017-18. The dealer registered a First Information Report (FIR) on the case and submitted application for cancellation of these “C” forms.
4.		No. R/C/ 2009/ 4794373 dated 12/09/2011	1,79,62,415		
5.		No. R/C/ 2009/ 4794374 dated 12/09/2011	1,35,19,150		
6.	2017-18	No. R/C/ 2009/ 4794375 dated 12/09/2011	1,43,04,718		

Source: Departmental records and “C” forms verification reports submitted by Commercial Tax Department, Rajasthan and Uttar Pradesh

Audit observed that submission of ‘C’ form for the years 2015-16 and 2016-17 was an afterthought as no details were submitted with the returns as well as at the time of reassessment. Further, the dealer, who had claimed to have sold the goods to M/s Mayur

International, Jaipur, Rajasthan during 2017-18, submitted fresh 'C' forms obtained from M/s M K Packaging, Bhiwadi, Rajasthan which points towards connivance of the dealer and the buyer with the intention to evade tax. The change of buyer and submission of fresh 'C' forms were also not rejected by the appellate authority.

Thus, the Assessing and Appellate Authorities failed to exercise due diligence leading to a loss of ₹1.14 crore to the State Exchequer. Further, due to failure on the part of the Assessing Authority to ensure availability of statutory forms before allowing concessions, the State lost the opportunity to levy interest and penalty for non-payment of taxes.

The matter was referred to the State Government in September 2022 and their reply is awaited.

Recommendations:

The State Government may-

- (i) *fix responsibility on the officials for wilful negligence, failure to exercise due diligence and non-compliance of acts and rules leading to loss of revenue besides recovery of the pending dues from the assessee.*
- (ii) *take appropriate action against the dealer for wilful pilferage of Government revenue.*
- (iii) *introduce internal controls to check the leakage of Government revenue.*

5.4 Evasion of tax

Failure to undertake reconciliation of challans submitted by two dealers with Treasury receipts in Government Account resulted in loss of Government revenue of ₹1.36 crore due to forged challans. Besides, the same dealers also defaulted in payment of tax of ₹3.85 crore and were also liable to pay interest of ₹2.26 crore.

(A) Non-verification of Treasury Challans

Rule 32 of the Nagaland (Sales of Petroleum and Petroleum Products including Motor Spirit and Lubricants) Taxation Rules, 1970 states that before any registered dealer furnishes the returns in the prescribed manner, he shall pay into a Government Treasury the full amount of tax due from him under the Act¹⁵¹ on the basis of such return and shall furnish along with the return a receipt from such Treasury Challan in token of payment of such tax. Rule 35 also provides that the dues referred to in the Act shall be paid directly into the Government Treasury by challans.

Rules 38 and 39 of the Rules further state that one of the challan copies retained by the Treasury shall be transmitted to the Superintendent on the following day of payment. Every Treasury Officer shall send an advice list to the Superintendent of the area on the

¹⁵¹ The Nagaland (Sales of Petroleum and Petroleum Products including Motor Spirit and Lubricants) Taxation Act, 1967

fifth of every month showing the amounts received in the previous month. The advice list shall contain the challan number and date, the name of the dealer and the amount paid.

Examination of records (November-December 2021) of the Deputy Commissioner of State Taxes (DCT), Dimapur Zone showed that ₹1.36 crore was recorded as revenue realised by the Department from two dealers during March-September 2021 *vide* six challans for the tax period 2013-14, 2014-15, 2016-17 and 2017-18 as shown in **Table 5.4.1**.

Table 5.4.1: Details of challans submitted by two dealers

Sl. No.	Name of dealer	Tax period	Challan No. and Date	Amount (in ₹)
1.	M/s Shebah Enterprises, Dimapur (TIN 13000071251)	2013-14	23 of 21/09/2021	22,60,000
		2014-15	24 of 21/09/2021	13,00,500
		2016-17	121 of 20/04/2021	25,00,000
		2017-18	151 of 23/03/2021	25,00,000
2.	M/s CAL Filling Station, Dimapur (TIN 13000072261)	2016-17	120 of 20/04/2021	25,00,000
		2017-18	150 of 23/03/2021	25,00,000
Total				1,35,60,500

Source: Departmental records

It was observed that the amounts were recorded in the assessment proceedings files of the dealer/assessee as receipts/challans submitted by the dealers and were taken into account in the tax assessment by the Assessing Authority (AA).

Audit examination of the receipts/challans with the Treasury advice list (Senior Treasury Officer, Dimapur) revealed that all the six receipts/challans amounting to ₹1.36 crore, submitted by the two dealers to the AA and entered in the assessment proceedings files as revenue realised, were not found in the Treasury records.

This indicated that there was no institutional mechanism to check/reconciliation of challans submitted by dealers with Treasury advice list/Treasury records to ascertain that the entries for amounts received from these dealers were deposited in the Treasury and actually credited into the Government Account.

Had the Department undertaken reconciliation of receipts/challans submitted by dealers with Treasury records as stipulated in the rules, such irregularities would have been detected at the initial stage.

(B) Default in Payment of Taxes

Section 3 of the Nagaland (Sales of Petroleum and Petroleum Products including Motor Spirit and Lubricants) Taxation Act, 1967 (as amended in August 2013) states that every dealer who imports goods into Nagaland shall be liable to pay tax on his turnover of sales at the rates specified in Schedule-II with effect from the day on which he effects his first sales of such goods. The Act also provides for payment of interest at the rate of two *per cent* per month on the amount of tax due from the date of tax becoming due till the date of discharge.

Further examination of records (November-December 2021) of the DCT, Dimapur zone showed that these two dealers had defaulted on payment of tax of ₹3.85 crore for the tax period 2013-14 to 2019-20 as shown in **Table 5.4.2**.

Table 5.4.2: Details of tax defaulted by the two registered dealers

(Amount in ₹)

Sl. No.	Name of the dealer	Year	Date of issue of DN (Money value)	Due date for payment	Recovery after issue of DN		Tax due for payment	Interest at 2 per cent on tax due	No of months (up to July 2022)	Total interest due	Total amount due
					Date of payment	Amount					
1.	M/s Shebah Enterprises, Dimapur (TIN 13000071251)	2016-17	08/01/2018 (41,01,076)	20/03/2018			41,01,076	82,022	3	2,46,065	2,46,065
					08/06/2018	4,00,000	37,01,076	74,022	39	28,86,839	28,86,839
					29/09/2021	1,21,076	35,80,000	71,600	11	7,87,600	43,67,600
		2017-18	01/08/2018 (31,70,348)	31/08/2018	15/09/2018	2,00,000	29,70,348	59,407	3	1,78,221	1,78,221
					13/12/2018	2,00,000	27,70,348	55,407	2	1,10,814	1,10,814
					14/02/2019	1,50,000	26,20,348	52,407	20	10,48,139	10,48,139
					08/10/2020	2,00,000	24,20,348	48,407	1	48,407	48,407
					27/11/2020	2,00,000	22,20,348	44,407	21	9,32,546	31,52,894
		2018-19	19/08/2021 (62,42,314)	30/10/2021	Nil	0	62,42,314	1,24,846	10	12,48,463	74,90,777
		2019-20	19/08/2021 (59,69,187)	30/11/2021	Nil	0	59,69,187	1,19,384	9	10,74,454	70,43,641
2.	M/s CAL Filling Station, Dimapur (TIN 13000072261)	2013-14	06/03/2018 (25,30,000)	21/03/2018	Nil	0	25,30,000	50,600	53	26,81,800	52,11,800
		2014-15	06/03/2018 (9,10,587)	21/03/2018	Nil	0	9,10,587	18,212	53	9,65,222	18,75,809
		2015-16	06/03/2018 (6,08,010)	21/03/2018			6,08,010	12,160	42	5,10,728	5,10,728
					20/09/2021	6,08,010	0	0	0	0	
		2016-17	25/05/2018 (42,40,068)	05/06/2018	08/06/2018	4,50,000	37,90,068	75,801	50	37,90,068	75,80,136
		2017-18	01/08/2018 (46,60,718)	31/08/2018			46,60,718	93,214	26	24,23,573	24,23,573
					08/10/2020	2,00,000	44,60,718	89,214	1	89,214	89,214
					27/11/2020	2,00,000	42,60,718	85,214	21	17,89,502	60,50,220
2018-19	31/08/2021 (44,69,898)	30/10/2021	Nil	0	44,69,898	89,398	10	8,93,980	53,63,878		
2019-20	31/08/2021 (44,83,548)	30/10/2021	Nil	0	44,83,548	89,671	10	8,96,710	53,80,258		
Total							3,84,56,668			2,26,02,345	6,10,59,013

Source: Departmental records

As seen from above table, tax amount of ₹3.85 crore due for payment remained outstanding for long periods leading to less revenue collection. The two dealers were also liable to pay interest of ₹2.26 crore (July 2022) on the outstanding tax due for payment.

From the foregoing paragraphs, it is concluded that failure to undertake reconciliation of challans submitted by dealers with Treasury receipts in Government Account resulted in loss of Government revenue of ₹1.36 crore due to submission of forged challans by the dealers. The two dealers further defaulted in payment of tax of ₹3.85 crore and were also liable to pay interest of ₹2.26 crore.

On this being pointed out (August 2022), the Department stated (August 2022) that the amount of ₹1.36 crore has been recovered. On default in payment of taxes, the Jurisdictional Authority has given sufficient opportunities to the assesseees but the assesseees failed to pay the demand dues. Therefore, both the cases were forwarded to the Certificate Officer (CO) for recovery from his end.

The Department further stated (October 2022) that in the case of M/s Shebah Enterprises, Dimapur, out of the total tax dues of ₹58.00 lakh under the CO for the tax period 2016-17 and 2017-18, an amount of ₹47.20 lakh has been recovered, while in the case of M/s Cal Filling Station, Dimapur, out of the total tax dues of ₹86.61 lakh under CO for the tax period 2015-16, 2016-17 and 2017-18, an amount of ₹64.60 lakh has been recovered. Recovery of the remaining dues from both assesseees shall be intimated in due course of time.

The reply is indicative of the fact that the Department allowed the dealers to continue their operations in the State despite defaulting on payment of taxes. Moreover, the reply is silent on recovery of interest of ₹2.26 crore (July 2022) payable by the dealers.

The matter was reported to the State Government in September 2022 and reply is awaited (October 2022).

Recommendations:

The State Government may-

- (i) establish an institutional mechanism for verification of challans submitted by dealers with Treasury advice list/Treasury records and ensure that only verified payment of taxes is taken into consideration while making assessment.***
- (ii) fix responsibility on the officials concerned for their negligence to exercise due diligence while making assessments and ensure that the amount of tax due from the dealers is recovered with penal interest.***
- (iii) take appropriate legal action against the dealers as per the Act/ Rules for wilful pilferage of Government revenue.***