Chapter 2

State Excise/
Taxes/VAT on sales, trade

CHAPTER-2

STATE EXCISE /TAXES/VAT ON SALES, TRADE

State Excise

2.1 (a) Tax administration

The Additional Chief Secretary to the Government of Haryana, Excise and Taxation Department, is the administrative head at Government level and the Excise and Taxation Commissioner (ETC) is the head of the Department. The ETC is assisted by the Collector (Excise) at headquarters and Deputy Excise and Taxation Commissioners (Excise) {DETCs (Excise)}, Assistant Excise and Taxation Officers (AETOs), Inspectors and other allied staff for proper administration of State Excise Acts/Rules in the field.

2.1 (b) Results of audit

In 2023-24, test check of the records of 19 out of 105 units State Excise Department during 2023-24 revealed non/short realisation of excise duty/ license fee/interest/penalty and other irregularities involving ₹ 203.17 crore in 1,761 cases which fall under the following categories as depicted in **Table 2.1**.

Table 2.1: Results of Audit

Revenue			
Sr. No.	**Category**	**Number of Cases**	**Amount (₹ in crore)**
1.	Loss due to issue of passes less than permit's quantity	25	81.19
2.	Non recovery of dues owing to short lifting/ Interest/ license fee/ penalty etc.	279	54.37
3.	Loss due to non-updation of stock at the end of policy year	62	47.96
4.	Miscellaneous/Other Irregularities	1,395	19.65
	Total	**1,761**	**203.17**

The Department acknowledged under assessment and other deficiencies amounting to ₹ 44.70 crore involved in 490 cases which were pointed out during the year. The Department recovered ₹ 1.00 lakh in one case during the year 2023-24 pertaining to earlier years.

Taxes/VAT on sales, trade

2.2 (a) Tax administration

The Haryana Value Added Tax Act, 2003 (HVAT Act)[1] and rules framed thereunder are administered by the Additional Chief Secretary (Excise and Taxation). The Excise and Taxation Commissioner (ETC) is the head of the Excise and Taxation Department who is assisted by Additional ETCs, Joint ETCs (JETCs), Deputy Excise and Taxation Commissioner (DETCs) and Excise and Taxation Officers (ETOs). They are assisted by Excise and Taxation Inspectors and other allied staff for administering the relevant tax laws and rules.

2.2 (b) Results of audit

In 2023-24, test check of the records of 16 (14 Revenue and two expenditure) out of 46 units relating to VAT/Sales tax assessments revealed under assessment/evasion of tax and other irregularities involving ₹ 466.99 crore in 194 cases which fall under the following categories as depicted in **Table 2.2**.

Table 2.2: Results of Audit

Revenue			
Sr. No.	**Category**	**Number of Cases**	**Amount (₹ in crore)**
1.	SSCA on "Works contract/construction services under GST"	1	393.90
2.	Irregular/Incorrect/Excess allowance of ITC	77	29.30
3.	Under assessment of Tax	43	14.80
4.	Evasion of taxes due to suppression of sales/purchases	16	13.87
5.	Acceptance of defective statutory 'Forms'	19	1.82
6.	Other irregularities	36	13.30
	Total (I)	**192**	**466.99**
Expenditure			
1.	Other irregularities	2	0.00
	Total (II)	**2**	**0.00**
	Grand Total (I+II)	**194**	**466.99**

The Department acknowledged under assessment and other deficiencies of ₹ 442.31 crore in 125 cases which were pointed out during the year of which an amount of ₹ 0.04 crore has been recovered.

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[1] Though Goods and Services Tax (GST) was implemented from 1 July 2017, there were huge number of assessment cases of Value Added Tax (VAT) which were pending at the end of the year 2017-18. In September 2015, through the amendment under Section 17 of the HVAT Act, the assessing authority (AA) at any time before the expiry of eight years following the close of that year or before the expiry of three years following the date when the assessment for that year becomes final, whichever is later, can reassess the tax liability of the dealer for the year for which the reassessment is proposed to be made. Thus, the cases ending in 2017-18 can be reopened upto 2024-25. The VAT cases audited during the year are considered in the Report.

Significant cases involving ₹ 415.68 crore are discussed in the following paragraphs.

2.3 Subject Specific Compliance Audit on Works Contract/Construction services under Goods and Services Tax

2.3.1 Introduction

'Works Contract' is defined under Section 2 (119) of the Haryana Goods and Services Act, 2017 (HGST Act) means "a contract for building, construction, fabrication, completion, erection, installation, fitting out, improvement, modification, repair, maintenance, renovation, alteration or commissioning of any immovable property wherein transfer of property in goods (whether as goods or in some other form) is involved in the execution of such contract." Works contract under GST involves mandatory transfer of property in goods".

Service Accounting Code (SAC) for construction Services is 9954 under GST. Services covered under this heading are construction of Buildings (99541), general construction of civil engineering works (99542), site preparation services (99543), assembly and erection of pre-fabricated construction (99544), special trade construction services (99545), installation service (99546) and building completion and finishing services (99547).

2.3.2 Organisational Setup

The Commissioner of State Tax is the overall in charge of the Excise and Taxation Department in Haryana. The Department administers GST as well as Haryana Value Added Tax Act, 2003 (HVAT Act)/Central Sales Tax Act, 1956 (CST Act) in the State. For tax administration, the state is divided into five Ranges and 27 taxation districts. Deputy Commissioners of State Tax (DCST) heads the field formations of the Department at the district level assisted by Excise & Taxation Officer (ETO) of State Tax, Assistant Excise & Taxation Officer (AETO) of State tax and Taxation Inspector (TI).

2.3.3 Audit objectives

The SSCA was conducted to assess the following:-

i) Whether tax administration was effective in ensuring compliance by taxpayers with the provisions of CGST/HGST/IGST Act, rules, notifications, and prescribed procedures relating to levy and collection of Tax and ITC availment and exemptions claimed by the taxpayers involved in works contracts/construction services; and

ii) To evaluate the functions of departmental field formations (DCSTs) to assess the effectiveness of scrutiny and assessments of taxpayers relating to works contract/construction services.

2.3.4 Scope and methodology of audit

The Subject Specific Compliance Audit (SSCA) involved examination of returns and records of taxpayers engaged in works contract/construction services with special attention to construction services, for compliance related to:

- filing of returns,
- payment of self-assessment tax,
- Input Tax Credit (ITC),
- tax paid under Reverse Charge Mechanism (RCM),
- ITC availed/utilised, and
- provisions related with place of supply/time of supply and other provisions of the HGST Act.

The field audit was conducted from December 2024 to March 2025. Review of the scrutiny of returns by the Department and verification of taxpayer's records covered the period from April 2020 to March 2022 while the audit of the functions of selected Departmental field formations (DETCs) covered the period for the years 2020-21 to 2023-24.

Before the start of field audit, an entry conference was held on 8 August 2024 with Commissioner of State Tax, Excise and Taxation Department, Government of Haryana in which the audit objectives, sample selection, audit scope and methodology were discussed. The matter was brought to the notice of the Department in April 2025 and to the Government in May 2025. An exit conference was conducted with Commissioner and Secretary to Government of Haryana, Excise and Taxation Department on 30 June 2025. The replies submitted by the Department to the draft report have been suitably incorporated in the relevant paragraphs.

2.3.5 Audit sample

The SSCA comprises two distinct parts:

(i) Part I- Detailed audit of taxpayers returns and associated financials

(a) Financial Materiality:

The taxpayers were stratified based on financial materiality into four categories covering the top 10 *per cent* of taxpayers on the basis of their turnover. The fifth category comprised the remaining taxpayers.

(b) Scoring mechanism- Risk Parameters

A set of 12 risk parameters were considered for sample selection as detailed in **Table 2.3**:

Table 2.3 : Risk Parameters

Sl. No.	Risk parameter
1.	Non declaration of new construction project in case of SAC 99541 and non-removal of completed projects i.e. where Occupation Certificate is received in REG 06
2.	Ratio of tax paid at concessional rates (i.e. 1-1.5 *per cent*/5-7.5 *per cent*/ 12 *per cent*) to the normal rates i.e. 18 *per cent*
3.	Ratio of taxable value on which tax paid at concessional rates (i.e. 1-1.5 *per cent*/ 5-7.5 *per cent*) to the total taxable value a vis-a-vis ITC reversed/availed under Rule 42 and 43 CGST Rules 2017
4.	Mismatch in TDS credit in table 9 of GSTR 2A vis a vis the taxable value declared in GSTR 3B
5.	a) Exemption/concessional rates availed under HSN 995433 (Excavating and earthmoving Services)
	b) Exemptions/concessional rates availed under HSN 99546 (Installation services)
6.	ITC availed after the limitation period
7.	Ratio of Nil rated/ Exempted/ Non-GST supply/ Total Outward supply
8.	Ratio of credit notes (tax) to tax paid
9.	Tax paid under Reverse Charge Mechanism (RCM) in GSTR 3B is nil or ratio of total taxable value (GSTR 1) to taxable value on inward supplies liable to tax under RCM (GSTR 3B) is very high
10.	Ratio of tax paid against unregistered suppliers under RCM is less than 20 *per cent* as compared to ITC availed
11.	Registration date and value of ITC taken is more than ₹ 20 lakh within 3 months of registration
12.	To check whether the Input Service Distributor credit has been correctly availed?

Based on risk scores assigned to each parameter, 30 taxpayers from eight DCSTs[2] were selected for detailed audit (Appendix 2.1).

[2] Ambala, Bhiwani, Faridabad (East), Gurugram (East), Gurugram (South), Hisar, Rewari and Sonipat.

(ii) Audit of DCSTs/Departmental field formations

The departmental field formations that have jurisdiction over the selected sample of cases for detailed audit were considered as samples of field formations for evaluation of their functions. Not more than one departmental field formation was selected from Range. As such, five DCSTs[3] (departmental field formation) were selected for audit of adequacy and effectiveness of the system prevailing in the department.

2.3.6 Audit criteria

The sources of audit criteria comprised the provisions contained in the HGST Act, IGST Act, and Rules made thereunder. The significant provisions are given in **Table 2.4**.

Table 2.4: Source of criteria

General Audit criteria		
Sr. No.	**Audit Area**	**Provisions of the Act/ Rules/ Notification**
1	Filing of returns	Section 37,38, 39 of HGST Act
		Rule 59, 60, 61, 80 of HGST Rules
2	Undischarged liability	Section 9 and 49 of HGST Act, Rule 85 to 88 of HGST Rules
3	Registration	Section 22 to 25 of HGST Act
		Rules 8 to 26 of HGST Rules
4	Classification and Rate of Tax	Notification 11/2017-CT-R dated 28 June 2017 as amended from time to time
5	Nature of supply	Section 7 of the HGST Act
6	Time of supply	Section 12 and 13 of the HGST Act
7	Value of supply	Section 15 of the HGST Act
8	Place of supply	Section 12(3) and 13(4) of the IGST Act
9	Payment of tax	Section 11(2), 32(1), 49 to 52 and Section 76 of the HGST Act
10	Reverse Charge Mechanism	Section 9(3) of the HGST Act and Section 5(3) of the IGST Act 2017 read with Notification No. 13/2017 (CTR) and 8/2017 (CTR) both dated 28 June 2017
11	Input Tax Credit (ITC)	Section 16 and 17 of the HGST Act
12	Effectiveness of Internal Audit	Section 65 and 66 of the HGST Act and Rule 101 of the CGST/HGST Rules

[3] Ambala, Bhiwani, Faridabad (East), Gurugram (South) and Sonipat.

2.3.7 Audit findings

Audit reviewed the aspects of discharge of tax and availment of ITC by the taxpayers involved in works contract/construct supplies as well as the functions of the circles with respect to the taxpayers registered under SAC code 9954 and the findings have been grouped into following two categories:

1. Compliance issues specific to work contract/construction services.
2. Functional audit of DCSTs.

Compliance issues specific to work contract/construction services

In a self-assessment regime, the onus of compliance with law is on the taxpayer. The role of the department is to establish and maintain an efficient tax administration mechanism to provide oversight. An IT driven compliance model enables maintaining a non-discretionary regime of governance on scale and facilitates a targeted approach to enforce compliance.

Audit focused on a data-driven risk-based approach. Thus, based on identification of inconsistencies/deviations in GST returns through pan-State data analysis detailed audit of GST returns of 30 taxpayers was conducted as a part of this SSCA. The methodology adopted involved conducting a desk review of GST returns and financial statements filed by the taxpayers, as part of the GSTR 9C and other records, available in the back-end system to identify the mismatch/inconsistencies/deviations and red flags. Based on desk review results, Detailed Audit was conducted in field formations of the Excise and Taxation Department, Haryana by requisitioning corresponding granular records of taxpayers such as financial ledgers, invoices of selected months etc. to identify causative factor of the identified risks and to evaluate compliance by taxpayers.

Non-compliance by taxpayers at various stages ultimately impacts the veracity of returns filed, utilisation of ITC and discharge of tax payments. The audit findings are therefore categorised under a) Returns b) Utilisation of ITC and c) Discharge of tax liability.

2.3.7.1 Scope limitation (Non-production of records)

During the desk review of taxpayers' records available in the back-end system, Audit identified the risks related to mismatch in ITC and tax liability mismatches for detailed examination. On the ITC dimension, the mismatches were identified by comparing GSTR 3B with GSTR 2A and GSTR 9, and the declarations made in Table 12 and 14 of GSTR 9C. On the tax liability dimension, the mismatches were identified by comparing GSTR 3B with GSTR 1 and GSTR 9. Audit requisitioned granular records such as invoices of selected months, financial statements along with notes and schedules, debit/credit notes, list of creditors, supplementary financial ledgers, agreement copies etc. required for examining the causative factor for mismatches of ITC and tax liability of the taxpayers through the DCSTs concerned.

a) Granular records related to 30 taxpayers were requisitioned, of which records of 18 cases were not produced, due to which identified risks relating to irregular/mismatch of ₹ 37.69 crore in ITC availment and UDL could not be examined in detail by Audit. The jurisdiction-wise non-production of records is summarised in **Table 2.5**.

Table 2.5: Non-production of records reported by Field Audit Offices

Jurisdictional formation	**Sample**	**Non-production**
	Number of taxpayers	**Number of taxpayers**
Ambala	3	3
Bhiwani	4	4
Faridabad (East)	5	5
Gurugram (East)	3	2
Gurugram (South)	5	4
Hisar	4	0
Rewari	3	0
Sonipat	3	0
Total	**30**	**18**

The taxpayer wise and year wise listing of non-production of records are given in Appendix 2.2.

During exit conference held in June 2025, the Department admitted the facts for 15 taxpayers and stated that notices had been issued to four taxpayers to produce the records and for 11 taxpayers, the department stated that it was not the custodian of the third party information.

In respect of three taxpayers, the department stated that information of two taxpayers had been provided to Audit and for remaining one taxpayer, data available on GST common portal was produced to Audit. The reply was not tenable as all the requisitioned granular records were not made available to Audit and further requisitioned records were not available on GST common portal.

2.3.7.2 Undischarged tax liability

The introduction of the GST in 2017 has simplified the taxation of works contract services by subsuming both the Service Tax and the VAT into a single tax regime. Under GST, composite supply of works contract is classified as "supply of services" at entry 6 (a) in Schedule II of HGST Act, 2017.

As per entry 5 (b) in Schedule II, construction of a complex, building, civil structure or a part thereof, including a complex or building intended for sale to a buyer, wholly or partly, except where the entire consideration has been received after issuance of completion certificate, where required by the competent authority or after its first occupation, whichever is earlier is a supply of service and liable to GST.

In case of works contract services provided to Government authorities, concessional rates are applicable subject to fulfilment of conditions as specified in various notifications issued by the CBIC/Excise and Taxation Department (ETD), Haryana.

Audit observations with regard to Undischarged Tax liability are detailed below:

2.3.7.2 (a) Incorrect availment of exemptions/concessional rates on works contract/construction services

CBIC Notification 11/2017 dated 28 June 2017 and Haryana State Government Notification No.46/ST-2, dated 30 June 2017, as amended from time to time, notifying the rate of the state tax is a key notification issued under the GST framework for GST rates. It primarily deals with the tax rates applicable to services under the GST regime especially those related to works contract/construction services. The notification provides for concessional rates of tax or exemptions relating to works contract/construction services subject to the fulfilment of conditions specified therein. Haryana State Tax Department had issued.

The notification provides for concessional rates of tax for construction of affordable housing[4] subject to specific conditions i.e. credit of input tax charged on goods and services used in supplying the service has not been taken, tax at the rate specified shall be paid in cash by debiting the electronic cash ledger

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[4] Affordable housing comprises homes with a carpet area of up to 60 square meters (approx. 645 square feet) in metro cities and 90 square meters (approx. 960 square feet) in non-metro cities. Homes with a value up to INR ₹ 45,00,000 in both, metro and non-metro cities) are considered affordable housing. Metro cities are Bengaluru, Chennai, Delhi NCR (limited to Delhi, Noida, Greater Noida, Ghaziabad, Gurugram, Faridabad), Hyderabad, Kolkata and Mumbai {(whole of Mumbai Metropolitan Region (MMR)}.

only etc. It also provides for payment of tax at different rates on gross rate[5] or effective rates[6] as per the specified conditions. In case of works contract services provided by contractors/subcontractors to government projects, this notification provides for exemptions/concessional rates of tax.

Scrutiny of records of three DCSTs[7] revealed compliance deficiencies amounting to ₹ 23.39 crore in seven cases of four taxpayers due to taxpayers wrongly availing exemptions/concessional rates of tax, thereby not discharging the tax liability (Appendix-2.3).

During exit conference held in June 2025, the Department admitted the facts in six cases related to three taxpayers and stated that DRC-01 had been issued in three cases and the remaining three cases had been taken up for scrutiny assessment under section 61 of the HGST Act.

An illustrative case is detailed below:-

- A taxpayer[8] in Gurugram (East) dealing in SAC code 995411[9] and 995414[10] discharged the tax liability for the years 2019-20 and 2021-22 (Table 9 of GSTR 9C) at the rate of 18 *per cent*. However, during the year 2020-21, the taxpayer discharged tax liability at the rate of 7.5 *per cent* on taxable value of ₹ 191.72 crore resulting in short realisation of tax of ₹ 20.13 crore.

The Department stated that taxpayer was supplying both residential and commercial construction services and as per notification No. 03/2019, taxpayer had correctly discharged liability at the rate of 7.50 *per cent* and 18 *per cent* respectively for residential and commercial REP works construction supply. The reply was not tenable as no supporting documents were furnished to Audit which established that the taxpayer dealt in other than affordable housing project.

In any case, the taxpayer was liable to reverse proportionate ITC amounting to ₹ 23.70 crore on the taxable supply of other than affordable houses. As per GSTR 3B table 4B (1), taxpayer reversed ITC of only ₹ 4.61 crore. Thus, there

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5 Gross rate is the rate specified in the respective entry.
6 Effective rate is after one third deduction from the total value towards the value of land.
7 Faridabad (East), Gurugram (East) and Sonipat.
8 As per profile available on boweb portal (GST portal) the taxpayer had only one GSTIN on PAN within or outside State and there was one additional place of business declared.
9 995411: Construction services of single dwelling or multi dwelling or multi storied residential buildings.
10 995414: Construction services of commercial buildings such as office buildings, exhibition & marriage halls, malls, hotels, restaurants, airports, rail or road terminals, parking garages, petrol and service stations, theatres and other similar buildings.

was short reversal of ITC of ₹ 19.09 crore. Apart from this, there was exempted supply of ₹ 0.47 crore on which ITC of ₹ 0.06 crore was to be reversed. Overall, there was short reversal of ITC of ₹ 19.15 crore. Also, as per GSTR-9C, tax liability on taxable value of ₹ 191.72 crore was ₹ 14.38 crore whereas tax paid in cash as per GSTR-3B was ₹ 12.55 crore only. Therefore, short tax payment in cash of ₹ 1.83 crore was also noticed.

2.3.7.2 (b) Non/short payment of tax

Section 13 of the HGST Act provides that the liability to pay tax on services shall arise at the time of supply, which shall be treated earliest of the date of issue of invoice by the supplier, if the invoice is issued within the period prescribed or the date of receipt of payment, whichever is earlier.

GSTR-9C is a reconciliation of turnover declared in audited Annual Financial Statement with turnover declared in Annual Return as per section 44 of the HGST Act.

Table 11 of GSTR-1 captures the information about advance received and adjustment of advances along with amendments. Table 4 (Column 4F) of GSTR9 captures the details of advance received and tax liability discharged thereagainst during the financial year.

(I) Tax liability on advance received

Scrutiny of records of DCSTs Bhiwani, Faridabad (East) and Gurugram (East) revealed that in seven cases of four taxpayers, the taxpayers had undischarged tax liability amounting to ₹ 361.11 crore (Appendix 2.4) due to non-adherence to the time of supply provisions on advances received.

During exit conference held in June 2025, the Department admitted the facts relating to one taxpayer and stated that notice had been issued to the taxpayer.

An illustrative case is detailed below:-

- A taxpayer of Gurugram (East) had declared advance of ₹ 1,131.44 crore (advances received from customers ₹ 1,129.74 crore and from related parties ₹ 1.69 crore) during the year 2021-22 respectively, whereas advance received including amendments declared in GSTR 1 was only ₹ 118.10 crore in 2021-22. This resulted in short declaration of tax liability of ₹ 182.40 crore at the rate of 18 *per cent* on differential amount of ₹ 1,013.33 crore during the year 2021-22.

The Department replied that advances were from related parties as loan and did not attract GST. The reply was not supported by records to substantiate that these advances were loans from related parties as well as to explain the amount shown as advance received from Customers under the schedule for other current liabilities in the financial statements.

(II) Suppression of taxable turnover

Scrutiny of records in DCSTs, Faridabad (East) and Gurugram (East) revealed that there was short realisation of tax amounted to ₹ 1.90 crore in two cases related to two taxpayers (Appendix 2.5) due to suppression of taxable turnover (TTO). These cases are discussed below:

- A taxpayer in DCST, Faridabad (East) in 2021-22 had shown work done of ₹ 346.74 crore as per contractor ledger whereas the turnover in GSTR-9 (including credit notes and exempt supply) was ₹ 338.61 crore thereby suppressed the taxable turnover of ₹ 8.13 crore which resulted in short realisation of tax to the tune of ₹ 1.46 crore.

- A taxpayer in DCST, Gurugram (East) in 2020-21 had shown taxable supplies of ₹ 12.48 crore as per GSTR-3B. The taxpayer had shown credit note as 'nil' in GSTR-1 whereas the turnover in GSTR-9 (including credit notes and exempt supply) was ₹ 10.08 crore thereby suppressed the taxable turnover of ₹ 2.41 crore which resulted in short realisation of tax to the tune of ₹ 0.43 crore.

During exit conference held in June 2025, the Department admitted the facts in one case related to a single taxpayer and stated that notice had been issued to the taxpayer. In remaining case of another taxpayer, the Department stated that there is no inconsistency in tax liability as declared and discharged reported in GSTR 1 and GSTR 9 of F.Y. 2020-21. The reply was not tenable as the taxpayer had shown debit/credit notes in GSTR-1 as 'nil'.

(III) On sale of fixed assets

Scrutiny of records in DCST, Faridabad (East) revealed that in two cases of a taxpayer, the taxpayer had sold fixed assets worth ₹ 4.99 crore {as per Note 10 (schedule of fixed assets)} during the year 2020-21 and 2021-22 on which tax was not levied. This resulted in short levy of tax amounting to ₹ 0.90 crore (Appendix 2.6).

During exit conference held in June 2025, the Department admitted the facts for the year 2021-22 and stated that notice had been issued to the taxpayer. However, no reply had been received for the year 2020-21.

2.3.7.2 (c) Non/short payment of tax on legal & professional charge/ royalty/freight charges under RCM

Under section 9(3) of CGST/HGST Act and section 5(3) of IGST Act, the Government may, on the recommendations of the Council, by notification, specify categories of supply of goods or services or both, the tax on which shall be paid on reverse charge basis by the recipient of such goods or services or both and all the provisions of this Act shall apply to such recipient as if he was the person liable for paying the tax in relation to the supply of such goods or services or both.

Notification No.13/2017 dated 28 June 2017 provides various categories of services supplied by a person on which GST shall be paid on reverse charge basis by the recipient of such services.

Scrutiny of records in DCSTs Bhiwani and Faridabad (East) revealed that in four cases related to two taxpayers, both the taxpayers had booked expenses of ₹ 4.36 crore on account of legal and professional charges, royalty and freight charges in balance sheet. GST on these services should be paid by the recipient at the rate of 18 *per cent* on reverse charge basis. It was noticed that taxpayers had not discharged or short discharged tax on RCM basis amounting to ₹ 0.64 crore resulting short payment of tax (Appendix 2.7).

An illustrative case is detailed below:-

- A taxpayer of Faridabad (East) paid legal & professional charge of ₹ 1.05 crore & ₹ 0.22 crore and royalty fee of ₹ 1.51 crore & ₹ 0.99 crore during the year 2020-21 and 2021-22 respectively. GST on these services should be paid by the recipient at the rate of 18 *per* cent on reverse charge basis. It was noticed in table 9 of GSTR-9C of both years that taxpayer had discharged RCM tax liability at the rate of 18 *per* cent on ₹ 0.29 crore and ₹ 0.49 crore respectively. Thus, the taxpayer discharged short liability of RCM of tax of ₹ 0.54 crore (₹ 0.41 crore+ ₹ 0.13 crore) at the rate of 18 *per cent* on total fee in both years.

During exit conference held in June 2025, the Department admitted the facts in four cases related to two taxpayers and stated that all the cases have been taken up for scrutiny assessment.

2.3.7.3 Input tax credit

(i) Irregular availment of ITC

Section 16 (2) of the Act and Rule 36 prescribes the conditions for availing ITC. The pre-requisite for availing ITC is that the taxpayer should be in possession of tax invoice or any other specified tax paying document, must have received the goods or services, tax has actually been paid by the supplier and taxpayer has furnished the return to avail the ITC. The value of the goods or services along with the tax should have been paid to the supplier within 180 days from the date of issue of invoice. No ITC shall be availed beyond September of the following financial year to which invoice pertains or date of filing of annual return, whichever is earlier.

(a) Non-reversal/short reversal of ITC

Section 17 (2) of the HGST Act read with Rule 42 and 43 states that where the goods or services or both are used by the registered person partly for effecting taxable supplies including zero-rated supplies and partly for effecting exempt supplies, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies. Further, in case of services relating to construction of buildings, civil structures intended for sale to a buyer, the value of exempt supply has to be calculated project wise.

Scrutiny of records in DCST Bhiwani and Faridabad (East) revealed that in five cases of three taxpayers had shown exempt supply in returns (GSTR-9/9C) but ITC reversal was not done for exempt supply under rule 42/43 in GSTR-3B {Table 4B(i)} resulting in non-reversal/short reversal of ITC amounting to ₹ 0.66 crore (Appendix 2.8).

Two illustrative cases are detailed below:-

- In DCST, Bhiwani, one taxpayer declared ₹ 0.93 crore as exempted, 'nil' rated, non-GST supplies (As per GSTR 9) out of taxable turnover of ₹ 83.07 crore during the year 2020-21. This resulted in non/short reversal of ITC of GST of ₹ 0.15 crore on the basis of proportion of ITC claimed to taxable turnover.
- In DCST, Faridabad (East), one taxpayer declared ₹ 2.39 crore as non-GST and exempted supply (As per GSTR 9) out of taxable turnover of ₹ 214.60 crore during the year 2020-21. This resulted in non/short reversal of ITC of GST of ₹ 0.25 crore on the basis of proportion of ITC claimed to taxable turnover.

During exit conference held in June 2025, the Department admitted the facts and stated that notices had been issued in four cases related to two taxpayers and remaining one case of a single taxpayer had been taken up for scrutiny assessment under section 61 of the HGST Act.

2.3.8 Other compliance issues

2.3.8.1 Non declaration of new SAC code in Registration Certificate

As per Rule 24 (2) (a) of CGST Rules regarding migration of persons registered under the existing law, every person who has been granted a provisional registration under sub-rule (1) shall submit an application electronically in FORM GST REG–26, duly signed or verified through electronic verification code, along with the information and documents specified in the said application, on the common portal either directly or through a Facilitation Centre notified by the Commissioner. Under rule 2(b) of the rules, the information asked for clause (a) shall be furnished within a period of three months or within such further period as may be extended by the Commissioner in this behalf. Under rule 2(c), if the information and the particulars furnished in the application are found by the Proper Officer to be correct and complete, a certificate of registration in FORM GST REG-06 shall be made available to the registered person electronically on the common portal. Further, as per Rule 24 (3) where the particulars or information specified in sub-rule (2) have either not been furnished or not found to be correct or complete, the Proper Officer shall, after serving show cause notice in FORM GST REG-27 and after affording the person concerned a reasonable opportunity of being heard, cancel the provisional registration granted under sub-rule (1) and issue an order in FORM GST REG-28.

Scrutiny of records of seven DCSTs[11] revealed that 13 out of 30 taxpayers, the taxpayers had mentioned the old service tax code (00440XXX) instead of the new SAC relating to Works Contract/Construction services (9954XX) (Appendix 2.9).

During exit conference held in June 2025, the Department admitted the facts and stated that in case of one taxpayer, penalty of ₹ 50,000 was levied and recovered. In case of another taxpayer, penalty of ₹ 50,000 was levied, however, the recovery was pending. Notices had been issued for updation of new HSN/SAC code in three cases involving three taxpayers and the case of another taxpayer had been sent to Revisional Authority for necessary action. In remaining seven cases involving seven taxpayers, corrective action had been taken by replacing the old code with new SAC code under GST.

2.3.8.2 Non/short payment of interest

Section 50 of the Act stipulates that every person liable to pay tax in accordance with the provisions of this Act or the rules made thereunder but fails to pay the tax or any part thereof to the Government within the period prescribed, shall for the period for which the tax or any part thereof remains unpaid, pay interest at the rate notified.

The extent of short payment of interest on account of delayed remittance of tax during the years 2020-21 to 2021-22 was identified using the tax paid details in GSTR 3B and the date of filing of the GSTR 3B. Only the net tax liability (cash component) has been considered to work out the interest payable.

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[11] Ambala, Bhiwani, Faridabad (East), Gurugram (South), Hisar, Rewari and Sonipat.

Scrutiny of records of six DCSTs[12] revealed that in 65 instances i.e. monthly GSTR-3B returns, the 11 taxpayers had discharged their tax liabilities by late filing the GSTR-3B with delay ranging from one day to 78 days. This had resulted in short payment of interest amounting to ₹ 0.47 crore (Appendix 2.10). During exit conference held in June 2025, the Department admitted the facts and stated that one case of a single taxpayer would be examined u/s 65 of SGST, notices had been issued in three cases related to three taxpayers and in remaining seven cases of seven taxpayers, an amount of ₹ 0.04 crore had been recovered from the taxpayers.

An illustrative case is detailed below:-

- One taxpayer in DCST, Gurugram (East) had discharged its tax liability during the years 2020-21 and 2021-22 by late filing the monthly return (GSTR-3B) for five tax-periods and the delay was ranging from five days to 36 days respectively resulting in non/short payment of interest of ₹ 0.38 crore.

The Department replied (June 2025) that interest for the year 2020-21 had been deposited by the taxpayer. Further, the case would be examined by conducting audit under Section 65.

2.3.8.3 Availment and utilisation of ITC based on returns

Under section 61 of the Act, various returns filed by taxpayers have to be scrutinised by the Proper Officer (ETO of State Tax) to verify the correctness of the returns and suitable action has to be taken on any discrepancies or inconsistencies reflected in the returns as depicted in **Table 2.6**.

Table 2.6: Mismatches in availment of ITC and discharge of tax payments

Dimensions	Mismatches identified			Action taken by the department		Department reply awaited/Rebutted	
	Number of taxpayers	Number of cases	(₹ in crore)	Number of cases admitted (Number of taxpayers)	(₹ in crore)	No of cases (Number of taxpayers)	(₹ in crore)
Excess availing of ITC as mis-match in GSTR-2A[13] and GSTR-3B[14] (Appendix -2.11).	2	2	4.27	2 (2)	4.27	0	0
Excess availing of ITC as mis-match	4	5	1.40	4(3)	1.37	1(1)	0.03

[12] Bhiwani, Gurugram (East), Gurugram(South), Faridabad(East), Hisar and Sonipat.
[13] Auto-populated Statement of Input supplies and available ITC of the taxpayer.
[14] Table 4 of GSTR-3B indication ITC availed.

Dimensions	Mismatches identified			Action taken by the department		Department reply awaited/Rebutted	
	Number of taxpayers	Number of cases	(₹ in crore)	Number of cases admitted (Number of taxpayers)	(₹ in crore)	No of cases (Number of taxpayers)	(₹ in crore)
in GSTR 9 column-8D[15] (Appendix -2.12).							
Excess availing of ITC as mis-match in GSTR 9 column-6J[16] (Appendix-2.13)	8	14	30.44	10(6)	9.41	4(2)	21.03
Excess availing of ITC as mis-match in GSTR-2A and GSTR-9 (column-8A[17]) (Appendix-2.14)	6	8	0.68	5(4)	0.66	3(2[18])	0.02
Short declaration of tax liability as per returns (GSTR-1/3B/9) (Appendix-2.15)	6	7	0.61	3(2)	0.27	4(4)	0.34
Short discharge of tax under RCM (Appendix-2.16)	2	3	0.29	2 (1)	0.02	1(1)	0.27
Total	**28[19]**	**39**	**37.69**	**26 (18)**	**16.00**	**13 (10)**	**21.69**

Audit requisitioned additional records such as works contracts/agreement between parties, sale invoices and purchase invoices of selected months, trial balance, ITC reversal working sheet, details of supplies received under RCM etc. from the Department to ascertain the reasons for the mismatches in respect of these 39 cases related to 28 taxpayers. The Department did not produce the records in these cases. However, it admitted inconsistencies/mismatches in 26 cases with mismatches of ₹ 16.00 crore. Audit is of the view that a mechanism has to be instituted to obtain underlying records of taxpayers and provide them to Audit so as to enable analysis of the causative factors that contribute to the mismatches.

In 13 cases, the departmental replies were either not supported by documents to substantiate its contention or were untenable when checked with available records i.e. returns (GSTR-1/3B/9/9C), notifications issued by Department.

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15 Difference between ITC as per GSTR-2A/2B given in Table 8A of GSTR-9 and sum of Table 6B and 6C of GSTR-9 indicating details of ITC availed in annual return.

16 Difference between ITC availed in monthly return GSTR-3B as shown in table 6A of GSTR-9 and details of ITC availed as declared in table 6B to 6H of GSTR-9.

17 ITC as per GSTR-2A/2B.

18 In two cases of a single taxpayer, the reply was not as per audit observation.

19 12 Unique Taxpayers.

2.3.9 Functional audit of DCSTs

Section 59 of the Haryana GST Act (HGST), 2017 stipulates GST as a self-assessment-based tax, whereby the responsibility for calculating tax liability, discharging the computed tax liability and filing returns is vested on the taxpayer. The GST returns must be filed online regularly on the common GST portal, failing which penalties will be payable. Even if the business has had no tax liability during a particular tax period, it must file a nil return mandatorily. Further, section 61 of the Act read with Rule 99 of HGST Rules stipulate that the proper officer may scrutinise the return and related particulars furnished by taxpayers, communicate discrepancies to the taxpayers and seek an explanation.

Five DCSTs[20] were selected to evaluate the functions of departmental field formations (DCSTs) to assess the effectiveness of scrutiny and assessments and compliance on Director General of Analytics and Risk Management (DGARM)/Tax Research Unit (TRU) reports relating to works contract/ construction services. Audit findings of audit of DCSTs are as follows:

2.3.9.1 Scrutiny of returns

(i) Non-production of information related to scrutiny of return

Under Rule 99 of CGST Rules, where any return furnished by a registered person is selected for scrutiny, the Proper Officer shall scrutinise the same in accordance with the provisions of section 61 of HGST Act with reference to the information available with him, and in case of any discrepancy, he shall issue a notice to the said person in FORM GST ASMT-10, informing him of such discrepancy and seeking his explanation thereto within such time, not exceeding thirty days from the date of service of the notice or such further period as may be permitted by him and also, where possible, quantifying the amount of tax, interest and any other amount payable in relation to such discrepancy.

The registered person may accept the discrepancy mentioned in the notice issued under sub-rule (1), and pay the tax, interest and any other amount arising from such discrepancy and inform the same or furnish an explanation for the discrepancy in FORM GST ASMT-11 to the Proper Officer. Where the explanation furnished by the registered person or the information submitted under sub-rule (2) is found to be acceptable, the Proper Officer shall inform him accordingly in FORM GST ASMT-12. In case the explanation furnished is not found to be satisfactory or taxpayer fails to take corrective measures like fails to pay unpaid tax or fails to pay wrongly availed ITC, then Proper Officer shall initiate proceedings under section 73/74 of the HGST Act to determine tax and other dues.

[20] Ambala, Bhiwani, Faridabad(East), Gurugram(South) and Sonipat.

Audit received (July 2024) from the office of Excise and Taxation Commissioner, Panchkula (i.e. Head office), lists of cases selected centrally by the Excise and Taxation Department for scrutiny and audit during the years 2020-21 to 2023-24 (i.e. for FY 2017-18 and 2018-19) for five selected DCSTs covered in functional audit of DCSTs. A total of 2,206 cases for scrutiny and 149 cases for audit were selected by the department in five DCSTs (Appendix- 2.17).

During functional audit of DCSTs, Audit requisitioned from five DCSTs the details of scrutiny conducted by them and their final conclusion (i.e. date of ASMT-10 etc.), particularly for those cases where taxpayer was involved in works contract/construction services. However, the same was not provided by any of these DCSTs.

Due to non-production of required details, Audit was unable to comment on the overall mechanism adopted by the Department to take action in respect of works contract/construction services taxpayers to protect revenues of the State and whether revenue of the exchequer was protected by the GST department of the State (Appendix-2.18).

During exit conference held in June 2025, the Department admitted the facts and stated that GST is a web driven system wherein all the proceedings including registration, amendment, cancellation, revocation, scrutiny, audit, recovery etc. are conducted online on boweb portal and all the related data is maintained in digital mode on boweb portal. All the proceedings including issuance of SCN, filing of reply by taxpayer and final adjudication order are issued online. Further, the audit party had access to the common boweb portal and all the digital records were accessible to them. The reply is not tenable as, while the records of individual taxpayers can be accessed through boweb portal, the summary information sought for by Audit relating to number of cases selected for scrutiny and results of scrutiny of returns of taxpayers involved in works contract/constructions services are not accessible in boweb portal and when requisitioned, were not provided to Audit.

Notwithstanding the above, Audit selected 25 taxpayers/cases (five cases in each DCST) from the list of scrutiny and audit cases provided by head office on the basis of profile of taxpayer dealing in works contract (new SAC code 9954/old code 0044) and highest total turnover (Appendix-2.19).

(ii) Inadequacies in scrutiny of returns

Under section 61 of the HGST Act, various returns filed by taxpayers have to be scrutinised by the Proper Officer to verify the correctness of the returns and suitable action has to be taken on any discrepancies or inconsistencies reflected in the returns.

(a) Short levy of tax due to suppression of taxable turnover

Section 9 (2) of the HGST Act envisages levy of tax on all supplies of goods or services or both, except on the supply of alcoholic liquor for human consumption, on the value determined under section 15 and at the rates notified by the competent authority and amended from to time on the recommendations of the Council and shall be paid by the taxable person.

Scrutiny of records of DCST, Gurugram (South) for the period 2018-19 revealed that the taxpayer had declared his TTO of ₹ 52.49 crore in Table 12 of GSTR 1. While comparing the same with GSTR3B in Table 3 and GSTR-9 Table 4(A+B) the total TTO was found in audit to be ₹ 78.78 crore. Thus, the total taxable value was higher than the total declared value by ₹ 26.29 crore which resulted in short realisation of tax to the value of ₹ 3.15 crore (Appendix-2.20).

However, the short realisation of tax was not pointed out in the notice in form ASMT-10 (dated 02 January 2023) and in the Show Cause Notice in form DRC-01 (dated 23 December 2023) issued to the taxpayer.

During exit conference held in June 2025, the Department stated that the taxpayer is engaged in the development of affordable society related construction activities. Taxable value declared in GSTR 3B includes consideration attributable to the land component alongside the construction services. This results in effective GST rate of eight *per cent* on taxable consideration. The reply was not acceptable as the Department did not provide supporting documents to substantiate its contention. The Department further stated that detailed reply would be provided to Audit after examination.

(b) Non- levy of tax on advances received

Section 13 of the HGST Act provides that the liability to pay tax on services shall arise at the time of supply, which shall be treated earliest of the date of issue of invoice by the supplier, if the invoice is issued within the period prescribed or the date of receipt of payment, whichever is earlier. GSTR-9C is a reconciliation of turnover declared in audited annual financial statement with turnover declared in annual return as per section 44 of the HGST Act. Table 11 of GSTR-1 captures the information about advance received and adjustment of advances along with amendments. Column 4F of GSTR9 captures the details of advance received and tax liability discharged thereagainst for the financial year.

Scrutiny of records of DCSTs Faridabad (East) and Bhiwani revealed that in two cases related to two taxpayers, the taxpayers had undischarged tax liability on account of advances received amounting to ₹ 0.16 crore (Appendix-2.21). The Proper Officer failed to levy tax on advance received resulting into non-levy of tax during scrutiny assessment.

An illustrative case is detailed below:-

- In DCST Faridabad, Audit noticed that the taxpayer had reduced taxable turnover by ₹ 1.19 crore on account of 'Advances on which tax has been paid but invoice has not been issued' in GSTR 9(4F) during the year 2018-19. When cross checked with GSTR 1, it was noticed that in 2017-18, Table 11- advances received was ₹ 0.97 crore and adjustment of advances was made for ₹ 0.35 crore. Thus, unadjusted advances were ₹ 0.63 crore. However, in the year 2018-19, taxpayer had shown 'advances received' as nil (GSTR-1) and advances adjustment in Table 4F of GSTR 9 as ₹ 1.19 crore thereby availing excess adjustment of ₹ 0.56 crore in 2018-19. Thus, the taxpayer was liable to pay tax of ₹ 0.10 crore on differential taxable turnover at the rate of 18 *per cent*.

During exit conference held in June 2025, the Department admitted the facts and stated that in one case of a single taxpayer, DRC-01 has been issued and in remaining case of another taxpayer, notice had been issued.

(c) Unreconciled turnover/taxable turnover in Table 5R/7G of GSTR-9C

GSTR9C is a reconciliation statement to be filed by the taxpayer under section 44 of the HGST Act. Table 5 of GSTR 9C is the reconciliation of turnover declared in audited annual financial statement with turnover declared in annual turnover (GSTR 9). Column 5R of this Table captures the unreconciled turnover between the annual return GSTR 9, and that declared in the financial statement for the year after the requisite adjustments. Similarly, Table 7 of GSTR 9C is the reconciliation of taxable turnover. Column 7G of this Table captures the unreconciled taxable turnover between the annual return GSTR 9.

The certified reconciliation statement submitted by the taxpayer as required under Rule 80 (3) in form GSTR 9C for the year 2018-19 was analysed and Audit observed that in two cases related to two taxpayers of DCST Ambala, there was unreconciled turnover amounting to ₹ 30.89 crore in GSTR-9C (Table 5R/7G) (Appendix-2.22). During scrutiny of these cases, this issue was not raised by the proper officer in ASMT-10.

An illustrative case is detailed below:-

- In DCST Ambala, it was observed in audit that the taxpayer had declared un-reconciled turnover of ₹ 19.30 crore in Table 5R of GSTR 9C and in Table 6 of GSTR-9C the company depicted the value of supply as ₹ 15.44 crore, due to change in GST implementation stating the fact that it had entered into agreement with NHAI before the GST regime and therefore tax effect would not be applicable on it.

During exit conference held in June 2025, the Department admitted the facts and stated that both the cases had been sent to the Revisional Authority for initiating revision proceedings.

(d) Difference between DRC-01 and DRC-05

Haryana GST returns scrutiny manual provides for procedural aspect with regards to the scrutiny of returns of taxpayers as per the HGST Act, 2017 i.e. issuance of notice, communication of discrepancies to taxpayers, verification of records etc. by the proper officer. As per point 11(5) of the manual, adjudication proceeding against a taxpayer is envisaged by issuance of notice in DRC-01[21]. The notice shall contain detailed description of issues/discrepancies. As per point 11(9) read with point 13, if the proper officer is satisfied with submissions of taxpayer including payment of tax, interest and penalty, the proceedings is to be concluded by issuing speaking order in DRC-05[22].

Scrutiny of records of DCST, Gurugram (South) revealed that in three cases of a single taxpayer for the period 2018-19, the Proper Officer had issued DRC-01 in December 2023 to the taxpayer and later DRC-05 was issued by concluding proceedings against the taxpayer. However, it was noticed that there were several points viz. interest on liability difference in GSTR-3B and GSTR-9, interest and late fees on delayed filing of GSTR-3B and penalty for delayed filing of GSTR-9C raised in DRC-01 which were not addressed in DRC-05 before concluding proceedings resulting in tax implication of ₹ 0.07 crore (Appendix-2.23).

During exit conference (June 2025), the Department admitted the facts and stated that summons under section 70 of the HGST Act, 2017, had been issued.

(e) Short levy of interest

Section 50 of the HGST Act stipulates that every person liable to pay tax in accordance with the provisions of this Act or the rules made thereunder but fails to pay the tax or any part thereof to the Government within the period

[21] DRC-01 is summary of show cause notice to the taxpayer.

[22] DRC-05 is intimation of conclusion of proceedings to the taxpayer.

prescribed, shall for the period for which the tax or any part thereof remains unpaid, pay interest at the rate notified.

Scrutiny of records of DCSTs, Gurugram (South) and Sonipat revealed that in six cases pertaining to three taxpayers, there was short levy of interest amounting to ₹ 0.82 crore either due to short discharge of tax liability through GSTR-3B in a month or miscalculation of interest due by the Proper Officer (Appendix-2.24).

These cases are detailed below:-

- In DCST Sonipat, in respect of a taxpayer, Audit observed that the Proper Officer had levied interest for year 2017-18, on mismatch in tax liability between GSTR 1 and GSTR 3B, mismatch in ITC availed/claimed between GSTR 2A and GSTR 3B, mismatch in RCM tax liability declared and RCM ITC claimed in GSTR 3B calculated for the period 21 September 2022 up to 04 August 2023 i.e. date of DRC-01 notice. The interest was to be leviable w.e.f. due date of GSTR 9 filing for 2017-18 which was 05 February 2020 as per Notification No.06/2020–Central Tax New Delhi, the 3 February 2020. This resulted in short levy of interest of ₹ 0.63 crore.

- In DCST Sonipat, in respect of a taxpayer, Audit observed that the taxpayer had IGST ITC balance in Electronic Credit Ledger (ECL) of ₹ 0.15 crore at the end of November 2018 after discharging the tax liability for the period of May 2018. Tax liability for the month of June 2018 was ₹ 0.37 crore (IGST ₹ 45,872, CGST ₹ 18,47,800 and SGST ₹ 18,47,800) due for discharge on 20 July 2018 but discharged on 04 May 2019 with a delay of 288 days from ITC. Interest of ₹ 0.03 crore was liable on balance tax liability of ₹ 0.23 crore (45,872+18,47,800+18,47,800-14,77,146) @18% *per annum* for 288 days.

Further, the taxpayer claimed ITC of IGST- ₹ 10,45,60,288, CGST- ₹ 5,45,05,471 and SGST-₹ 5,45,05,471 for the month of September 2018 as per ECL and similar amount (CGST- ₹ 5,20,84,887, SGST- ₹ 5,20,84,887 & IGST- ₹ 10,47,95,665) had been reversed in GSTR 9/3B. It may be noticed that ECL had only IGST balance of ₹ 1,42,92,687 after discharging the tax liability for the month of August 2018 on 4 May 2019. As per tax liability declared in GSTR 3B for the month of September 2018 which was due for discharge on 25 October 2018 but discharged on 9 May 2019 with a delay of 196 days from ITC, ITC was not available sufficiently in Electronic Credit Ledger (ECL) to cover for the tax liability. The interest of ₹ 0.07 crore was liable on balance tax liability of ₹ 0.72 crore (50,460+1,06,98,112+1,06,98,112-1,42,92,687) @18% *per annum* for 196 days.

The taxpayer has not paid interest for the year 2018-19. However, this issue was not detected in scrutiny as the notice in form ASMT 10, SCN in form DRC-01 and the final order in form DRC-05, issued to the taxpayer did not address this issue.

Department admitted the audit observations (April 2025) and issued rectification order in DRC-08 in three cases and DRC-01 in two cases.

- In DCST, Gurugram (South), though, there was no overall tax liability difference between GSTR1 and GSTR3B noticed at the end of financial year as per comparison summary of 2018-19 related to the taxpayer, yet there was mismatch in tax liability declared between GSTR-1 (₹ 2,04,26,337) and GSTR-3B (₹ 1,30,01,513) of ₹ 0.74 crore in October 2018. While scrutinising the Electronic Credit/Cash Ledger (ECL) for 2018-19, it was found that ₹ 1.30 crore (Credit ₹ 63,11,306.00 + cash IGST ₹ 43,99,311.00+CGST ₹ 11,45,448+SGST ₹ 11,45,448) was paid as per GSTR3B liability. The due date for GSTR3B for the October 2018 was 20 November 2018. The tax liability was to be discharged for the greater of the liability between GSTR1 and GSTR3B in the absence of reconciliation. There was zero balance in ECL (Credit) at the end of October 2018.

It was further, noticed that the overall tax liability was reconciled ₹ 0.75 crore in the month of March 2019 by increasing the GSTR3B tax liability ₹ 3.00 crore compared to GSTR1 tax liability ₹ 2.25 crore. The proper officer while issuing ASMT-10, DRC 01 & DRC-07 in this case failed to raise this point. Thus, this resulted in short payment of tax liability during the months of October 2018-March 2019. The return/payment GSTR3B for March 2019 was made on 23 July 2019. As per 88B (2) of above notification, interest of ₹ 0.09 crore was leviable.

On being pointed out, the Department stated (June 2025) that SCN has been issued in this case.

(f) Excess Input Tax Credit availed

GSTR 2A is a purchase related dynamic tax return that is automatically generated for each business by the GST portal, whereas GSTR 3B is a monthly return in which summary of outward supplies along with ITC declared and payment of tax are self-declared by the taxpayer. To examine the veracity of the ITC availed, the relevant data from GSTR 2A along with the relevant amendments were compared with the ITC availed in GSTR 3B.

Scrutiny of records of DCST, Faridabad (East) revealed that a taxpayer, ITC availed as per GSTR 3B was more than ITC available as per GSTR 2A for the year 2018-19. During scrutiny of the assessment file of the dealer through web portal, Audit observed that as per comparison sheet, the taxpayer had availed ITC of ₹ 10.93 crore in GSTR 3B as compared to available ITC ₹ 10.32 crore in GSTR 2A which resulted in total mismatch of ₹ 0.61 crore. However, department issued notice (March 2022) for mismatch of ₹ 0.59 crore in GSTR 3B-2A. As per information available on boweb portal, GSTR-2A includes cess ITC of ₹ 0.01 crore which cannot be claimed by the taxpayer. Hence, the actual ITC of CGST, SGST and IGST available in GSTR 2A was ₹ 10.30 crore which resulted in actual mismatch (CGST, SGST and IGST) of ₹ 0.63 crore in GSTR 3B-2A. The Proper Officer failed to raise this point in ASMT-10 and issued ASMT-12 (case dropped). This resulted into excess availment of ITC amounted to ₹ 0.63 crore (Appendix-2.25).

During exit conference held in June 2025, the Department admitted the facts and stated that DRC-01 had been issued to the taxpayer.

2.3.9.2 Action not initiated against non-filers

Section 46 of the CGST Act read with Rule 68 of the CGST Rules stipulates issue of a notice in FORM GSTR-3A requiring filing of return within 15 days if the taxpayer had failed to file the return within the due date. In case the taxpayer fails to file the returns even after such notice, the Proper Officers may proceed to assess the tax liability of the said person to the best of their judgement, taking into account all the relevant material which is available or gathered and issue an assessment order in FORM ASMT-13. A summary of such order should be uploaded in the system in FORM DRC-07.

The ETD, Haryana has issued a Standard Operating Procedure (SOP) to be followed in case of non-filers of returns vide memo No. 45/GST-2 dated 9 January 2020. As per the SoP, if the said return remains unfurnished within the statutory period of 30 days from issuance of assessment order in FORM ASMT-13, the Proper Officer may initiate proceeding under Section 78 and recovery under section 79 of the Act. However, the Commissioner may resort to provisional attachment to protect revenue under Section 83 of the Act before issuance of FORM ASMT-13, in deserving cases, based on the facts of the case. Filing of returns (GSTR 3B) is related to payment of tax as the due date for both the actions are the same, which implies risk of non-payment of tax in the case of non-filers. Similarly, there is risk of late payment in the case of late-filers.

Audit examined the records of five DCSTs[23] for the years 2020-21 to 2023-24. The MIS Reports available on boweb portal relating to non-filers and best judgement assessment on return defaulters were reviewed and Audit observed that best judgment assessment in ASMT-13 were not issued to taxpayers in all five selected DCSTs (Appendix 2.26). It was further seen that MIS reports specific to taxpayers involved in works contract services were not available.

During exit conference held in June 2025, the Department stated that the return filing status of top tax payers & other large taxpayers was being monitored at ward level and at district level regularly. There is inbuilt mechanism of issuance of SCN for cancellation of registration who have not furnished returns continuously for six months {Rule (21 h & I)}. Further, Rule 56 (6) is in-force since 01 September 2021 which restricts filing of GSTR-1/IFF after two months of default. As per Rule 138 E (B), taxpayer not filing monthly returns up to last two tax periods will not be able to generate E-Way Bill. Additionally, action was taken against any red-flags noticed during this period. Thus, there was effective and adequate mechanism for monitoring non-filers and late filers of returns. The reply of the Department did not address the aspect of effective follow up action on defaulters after identification as non-filers and late filers of returns.

2.3.9.3 Internal control mechanism to ensure effectiveness in processing and payment of refund claims

GST refunds are governed by the CGST Rules, 89 to 97A. Under Rule 89 (1), any person, except the persons covered under notification issued under section 55 claiming refund of any balance in the Electronic Cash Ledger (ECL) in accordance with the provisions of sub section (6) of section 49 or any tax, interest, penalty, fees or any other amount paid by him, other than refund of integrated tax paid on goods exported out of India, may file ECL in accordance with the provisions of sub-section (6) of section 49 or subject to the provisions of Rule 10B, an application electronically in FORM GST RFD-01 through the common portal. Further, in GST regime Proper Officer-cum-assessing authority has sole power to sanction refund as per Rule 92 of the CGST Rules.

In all five DCSTs selected for evaluation of functions of departmental field formations, Audit requisitioned information and related records about GST refund mechanism and whether post-check were carried out on refund sanctioned (RFD-06) of amount more than ₹ one lakh by authority superior to Proper Officer (Appendix-2.27). Due to non-production of required details or files, Audit is unable to comment on the overall mechanism adopted by the

[23] Ambala, Bhiwani, Faridabad (East), Gurugram (South) and Sonipat.

Department and could not examine the efficacy of the GST refund mechanism in the department.

The department stated that instructions have been issued vide memo No. 610/ GST-II dated 22 November 2022 mandating prior approval from DETC before sanctioning any refund of amount more than ₹ two crore and the said monetary limit has been changed to ₹ 10 lakh vide letter No. 539/ GST-II, Panchkula dated 03 June 2024. Further, DETCs (ST) have been specified as inter-district link officers in GST to conduct post audit of refund orders issued by Proper Officers of other District vide instruction No. 03/2024/GST-I irrespective of any monetary limit.

Since the departmental field formations did not produce required details of refunds issued to taxpayers during the audit period, audit could not verify and comment on refunds cases.

2.3.9.4 Maintenance of records

Audit raised requisitions pertaining to all five DETCs selected for evaluation of functions of departmental field formations (Appendix-2.28). Audit found that the DCSTs did not maintain records either in physical mode or in digital mode that could readily be available for internal departmental review or audit.

During exit conference held in June 2025, the Department admitted the facts and stated that GST is a web based driven system wherein all the proceedings including registration, amendment, cancellation, revocation, scrutiny, audit, recovery etc. are conducted online on boweb Portal & all the related data is maintained in digital mode on boweb Portal. Further, all the proceeding including issuance of SCN, filing of reply by taxpayer and final adjudication order are issued online. The department stated during exit conference (June 2025) that instructions would be issued very shortly to DCSTs to avoid non production of records.

2.3.10 Conclusion

The Subject Specific Compliance Audit (SSCA) on Works Contract/ Construction Services under GST in Haryana was conducted to examine whether tax administration was effective in ensuring compliance by the taxpayers involved in works contracts/construction services and to assess the effectiveness of scrutiny and assessments of taxpayers relating to works contract/construction services by the Department.

Based on 12 risk parameters, 30 taxpayers from eight DCSTs were selected for detailed audit. However, granular records of taxpayers were not produced in 18 cases due to which identified risks relating to irregular/mismatch of

₹ 37.69 crore in ITC availment and undischarged tax liability could not be examined in detail by Audit.

Notwithstanding the scope limitation, Audit observed instances of incorrect availing of exemptions and concessional rates, and non-payment of tax on advances and fixed assets and short payment of interest cumulatively leading to compliance irregularities of ₹ 389.07 crore. Audit also observed instances of improper scrutiny, which had resulted in short payment of tax, suppression of turnover, mismatch of ITC and short levy of interest in functional audits, amounting to ₹ 4.83 crore.

Taxpayer non-compliance and weakness in departmental action collectively undermine the veracity of GST returns and effectiveness of tax administration in the risk prone works contract/construction sector. Unless addressed through stricter enforcement, robust internal controls, and consistent monitoring, such deficiencies pose a risk to the protection of state revenue.

2.3.11 Recommendations

The Government may consider:

1. *instituting a mechanism for obtaining and providing granular taxpayer records to Audit;*
2. *ensuring strict application of the provisions of Acts and Rules by all the concerned tax authorities in respect of works contract/construction services;*
3. *ensuring that the Department verify the correctness of the returns, ITC availed and initiating suitable action on discrepancies or inconsistencies reflected in the returns; and*
4. *ensuring that the Department takes proper action against non-filers of GSTR 3B returns, for which MIS reports are already available on boweb portal.*

2.4 Non levy of tax on Closing Stock

The Assessing Authority while finalising the assessment did not verify details of sales of five dealers with reference to closing stock resulting in non-levy of tax of ₹ 6.67 crore.

As of 30 June 2017, a dealer registered under the Haryana Value Added Tax (HVAT) Act 2003 who possessed closing stock but has not migrated to the Goods and Services Tax (GST) regime was to be treated as having discontinued their business under the VAT regime. Accordingly, the closing stock was to be taxed by removing all previous tax credits, so that the full VAT value on goods is recovered before the dealer exited the system.

Section 17 of the HVAT Act dealing with reassessment of tax was amended in September 2015, to increase the time limit within which assessing authority could reassess the tax. Thereby, the Commissioner was allowed to reassess at any time before the expiry of eight years following the close of that year or before the expiry of three years following the date when the assessment for that years becomes final, whichever is later.

Scrutiny of records (August 2023) of the office of Deputy Excise and Taxation Commissioner (Sales Tax), {DETC (ST)}, Gurugram (East) revealed that five dealers at the end of first quarter for the year 2017-18 had shown closing stock of ₹ 73.93 crore in their returns. The tax on these dealers were assessed (between July 2018 and March 2021) by the AA under section 15 (4)[24] of the HVAT Act. Audit found that while passing the assessment order, AA had not cross checked migration of these dealers to GST on the GST portal. As a result, the closing stock for the year 2017-18 was not taxed resulting in non-levy of tax of ₹ 6.67 crore.

On this being pointed out, the ETO-cum-AA, Gurugram (East) accepted (April 2025) the audit observation and stated that re-assessment proceedings have been initiated under section (u/s) 17 of the HVAT Act by creating additional demand and VAT N-2[25] has been issued to the dealer and final outcome would be intimated accordingly.

[24] The Section 15(4) of the HVAT Act 2003, states that if a dealer fails to furnish returns by the prescribed date, or if the Assessing Authority is not satisfied that the returns are correct and complete, they may assess the tax due to the best of their judgment.

[25] Form VAT-N2 is a statutory notice issued by the Assessing Authority to a dealer for the purpose of assessment or re-assessment of tax liability. It legally requires the dealer to appear in person or through an agent and produce the necessary records to support their final VAT return or declaration of stock.

The matter was referred to the Excise and Taxation Department in January 2025 and reported to the Government in April 2025; their replies were awaited (February 2026).

2.5 Under assessment of tax due to application of lower rate of tax/not levied tax

The Assessing Authority, while finalising the assessments applied lower rate of tax than the applicable rate of tax on sale of goods, resulting in under assessment of tax of ₹ 3.31 crore besides interest of ₹ 2.47 crore was also leviable.

Section 7 of the HVAT Act provides for levy of tax on turnover of sales of goods as specified in the schedules 'A' to 'G'. As per Section 7 (1) (a) (iv) of the HVAT Act, any commodity other than the commodities classified in any of the schedules is taxable at the rate of 12.5 *per cent* with effect from 1 July 2005. Surcharge at the rate of five *per cent* on the tax and interest was leviable under Section 7 (A) of HVAT Act (2 April 2010) and Section 14 (6) of the HVAT Act, respectively.

Scrutiny of records (between July 2023 and March 2024) of four DETCs[26] (ST) revealed that AAs while finalising the assessments (between November 2019 and March 2021) in respect of 11 cases pertaining to 11 dealers for the years 2016-17 to 2017-18 applied lower tax rates[27] than the applicable rate of tax on sale of goods. This resulted in under assessment of tax of ₹ 3.31 crore. In addition, interest of ₹ 2.47 crore was also leviable.

On this being pointed out, AA Faridabad (North) and AA Gurugram (East) stated that reassessment had been done and additional demand of ₹ 3.72 crore had been created in six cases and notices for recovery had been served upon the dealers. In two cases, AA Gurugram (East) stated that notices for reassessment under section 17 had been issued. In two cases, AA Mewat and Fatehabad stated that the cases had been sent to Revisional Authority for initiating revisional action. In one case, AA Gurugram (East) stated that the de-novo assessment was under proceedings and final outcome of the case would be intimated to audit accordingly.

The matter was referred to the Excise and Taxation Department in January 2025 and reported to the Government in March 2025; their replies were awaited (February 2026).

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26 Faridabad (North), Fatehabad, Gurugram (East) and Mewat.

27 4.2 to 5.25 *per cent* in five and zero in six cases instead of 5.25 to 13.125 *per cent.*

2.6 Under assessment of tax due to allowing concessional rate of tax against invalid forms 'C' resulting in undue benefit to the dealers

The Assessing Authorities, while finalising the assessments, allowed concessional rate of tax without verification of statutory forms, resulting in under assessment of tax of ₹ 0.98 crore. In addition, penalty of ₹ 2.93 crore was also leviable.

Section 8 (4) of the Central Sales Tax Act, 1956 (CST Act) provided that concession under sub section (1) shall not apply to any sale in the course of inter-State trade or commerce unless the dealer selling the goods furnishes to the Assessing Authority (AA), 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. Further, Section 38 of the HVAT Act provides for penal action (three times of tax avoided/benefit claimed) for claims on the basis of false information and incorrect accounts or tax. Further, as per Standard Operating Procedure (SoP) (January 2018) issued by Government of Haryana, in the cases where verification report is not received within six months from the date of assessment order or from the dispatch of verification letter whichever is later, AA should levy tax and penalty as provided in the HVAT Act or Rules.

Scrutiny of records (between June 2023 and March 2024) revealed that four dealers in seven cases in the office of DETCs (ST) Hansi, Jhajjar (Bahadurgarh) and Narnaul for the years 2016-17 to 2017-18 claimed concessional rate of tax on their inter-State sales amounting to ₹ 8.77 crore. In support of the claims, the dealers submitted seven 'C' forms[28]. The concerned AAs finalised the assessments between June 2019 and March 2021 and allowed the concessional rate of tax against the declaration forms filed without verification as per instructions ibid.

On verification of forms on website of the issuing authority (Delhi Value Added Tax), it was noticed that in two cases related to Hansi and Narnaul, the registration of the purchasing dealers had been cancelled prior to the date of transactions. In five cases related to DETC (ST) Jhajjar (Bahadurgarh), 'C' forms found cancelled/not genuine. Thus, allowing concessional rate of tax without due verification resulted in under assessment of tax of ₹ 0.98 crore. In addition, penalty of ₹ 2.93 crore was also leviable.

On this being pointed out, ETO Hisar, ETO Jhajjar at Bahadurgarh and ETO Narnaul admitted the facts (June 2025) and stated that five cases of Jhajjar

[28] Bahadurgarh-1, Hansi-1, Jhajjar (Bahadurgarh)-4 and Narnaul-1.

(Bahadurgarh) and Hansi had been re-assessed by creating demand of tax of ₹ 4.09 crore including penalty ₹ 3.06 crore. Notice for recovery had been issued to the dealers and efforts would be made to recover the outstanding amount. In the remaining two cases of Bahadurgarh and Narnaul, dealer had opted OTS Scheme and deposited ₹ 5.18 lakh. However, documents in support of the claim were not available on record.

The matter was referred to the Excise and Taxation Department in November 2024 and reported to the Government in February 2025; their replies were awaited (February 2026).

2.7 Inadmissible/excess benefit of Input Tax Credit

The Assessing Authorities, allowed benefit of input tax credit without verification which resulted in incorrect grant of ITC of ₹ 2.32 crore, including penalty.

Section 8 of the HVAT Act (amended in 2015) provides that input tax in respect of any goods purchased by a VAT dealer shall be the amount of tax paid to the State on sale of such goods to him. Further, as per notification issued by Government of Haryana in September 2015, input tax means the tax actually paid to the State in respect of goods sold to a VAT dealer, which such dealer is allowed to take credit of as actual payment of tax by him, in accordance with the provision of Section 8 of HVAT Act. Excise and Taxation Commissioner, Haryana issued instructions in March 2006 and July 2013 that cent *per cent* verification of ITC up to the stage of actual payment of tax shall be done. Further, Section 38 of HVAT Act provides for penal action (three times of tax avoided as penalty) for claims on the basis of false information and incorrect accounts or documents etc.

Scrutiny of records (between August 2023 and February 2024) of three DETCs (ST) Gurugram (East), Gurugram (North) and Mewat revealed that Assessing Authorities (AAs) while finalising the assessments (between April 2019 and March 2021) in respect of five cases pertaining to four dealers for the years 2016-17 to 2017-18 allowed benefit of ITC of ₹ 65.86 lakh without verification of purchases and actual payments of tax from the selling dealers.

On cross verification of sale/purchase lists of concerned dealers by audit, it was noticed that in three cases the selling dealers had not shown any sale to the purchasing dealers and in two cases dealers had claimed inadmissible ITC due to opting for Rebate of State Levies on Export of Garments (ROSL) scheme and against tax free sales. This resulted in incorrect grant of ITC of ₹ 65.86 lakh, besides penalty of ₹ 1.67 crore was also leviable as per HVAT Act.

On this being pointed out, the DETCs in five cases[29] admitted the facts and stated (February 2026) that additional demand of ₹ 1.28 crore had been raised in these cases. Recovery proceedings had been initiated and notices for recovery had been issued to the dealers between March 2025 and January 2026.

The matter was referred to the Excise and Taxation Department in April 2025 and reported to the Government in December 2025; their replies were awaited (February 2026).

2.8 Under assessment of tax due to allowing sale against form VAT-D1 issued to ineligible dealer

The Assessing Authorities allowed concessional sale to three dealers against VAT-D1 issued to ineligible dealers, resulting in under assessment of tax amounting to ₹ 2.16 crore.

Under Section 7 (2) (b) and 7 (3) (a) read with Rule 17 of the HVAT Act, the tax payable by a dealer on his taxable turnover in so far as such turnover relates to goods of the description referred to in sub-section (4) sold to a VAT dealer shall be calculated at four *per cent* if the purchasing dealer furnishes a declaration duly filled in and signed by him containing the prescribed particulars in form VAT-D1 obtained from the prescribed authority. If any registered dealer closes down his business or his certificate of registration is cancelled for any other reason, he shall forthwith furnish part B of the used declaration forms and surrender the unused forms with him to the appropriate Assessing Authority and where he fails to furnish or surrender the forms, these shall be deemed to have been declared invalid from the date of closure of his business or from the date his certificate of registration is cancelled, as the case may be.

Scrutiny of records (between August 2023 and March 2024) of the office of DETC (ST), Charkhi Dadri, Gurugram (East) and Gurugram (North) for the year 2016-17 revealed that the AAs, while finalising the assessment (between August 2019 and January 2020) of three dealers, allowed concessional sale against VAT-D1 of ₹ 52.21 crore. On verification at the departmental portal, it was found that the purchasing dealers were retail traders and were not entitled for use of VAT-D1 form for purchasing goods at concessional rate of tax for trading of goods. The goods purchased against form VAT-D1 may not be used as per the provisions of the Act. Allowing concessional sale against VAT-D1 issued to ineligible dealers resulted in under assessment of tax amounting to ₹ 2.16 crore.

[29] Gurugram (East)-2, Gurugram (North)-2 and Mewat-1.

On this being pointed out, ETO Gurugram (North) stated (April 2025) that the notice for re-assessment has been issued to the dealer. ETO Gurugram (East) admitted the facts and stated (April 2025) that the original order had been reassessed under section 17 of the HVAT Act, by creating demand of ₹ 3.60 crore including penalty of ₹ 2.24 crore and the recovery proceedings had been initiated. ETO Charkhi Dadri stated (October 2024) that the case had been sent to the Revisional Authority for *suo motu* action.

The matter was referred to the Excise and Taxation Department in December 2024 and reported to the Government in April 2025; their replies were awaited (February 2026).

2.9 Non-levy/short levy of interest

The Assessing Authorities had either not levied or short levied interest on non-payment of tax, resulting in under assessment of tax of ₹ 0.94 crore.

Section 14 (6) of the HVAT Act, 2003, stipulates that if any dealer fails to make payment of tax, he would be liable to pay, in addition to the tax payable by him, simple interest at one *per cent* per month if the payment is made within ninety days, and at two *per cent* per month if the default continues beyond ninety days for the whole period, from the last date specified for the payment of tax till the date he makes the payment. However, the interest leviable under this Act shall not exceed the amount of tax or penalty on the non-payment or late payment of tax on which such interest is charged.

Scrutiny of records (between June 2023 and March 2024) of DETCs (ST), Bhiwani, Gurugram (North) and Jhajjar revealed that five dealers[30] had not paid tax in accordance with the provisions of the Act and Rules. While finalising the assessments (between June 2019 and January 2020) for the years 2016-17 and 2017-18, the AAs had either not levied or short levied interest in five cases. This resulted in non/short levy of interest of ₹ 0.94 crore.

On this being pointed out, AA Gurugram (North) admitted the facts and stated that reassessment had been made and dealer had opted OTS scheme and ₹ 5.82 lakh had been deposited in one case and in another case notice had been issued to the dealer. In one case AA Bhiwani admitted and stated that case had been sent to Revisional authority for *suo motu* action. Reply in respect of two cases of Jhajjar have not been received (February 2026).

[30] Bhiwani-1, Gurugram (North)-2 and Jhajjar-2.

The matter was referred to Excise and Taxation Department in May 2025 and reported to the Government in December 2025; their replies were awaited (February 2026).