

CHAPTER II SALES TAX

2.1 Results of audit

Test check of the assessment files, refund records and other connected documents of the Commercial Taxes Department conducted during 2007-08 revealed underassessments and other deficiencies of sales tax amounting to Rs. 196.63 crore in 980 cases, which fall under the following categories.

(Rupees in crore)

Sl. No.	Nature of irregularity	No. of cases	Amount
1	Non/short levy of tax	335	26.03
2	Incorrect grant of exemption	163	10.94
3	Application of incorrect rate of tax	136	14.46
4	Short payment of tax due to under declaration of VAT	62	22.36
5	Non-levy of penalty	22	3.86
6	Other irregularities	262	118.98
	Total	980	196.63

During the year 2007-08, the department accepted underassessments and other deficiencies of Rs. 80.26 crore in 141 cases, of which 55 cases involving Rs. 76.23 crore were pointed out in audit during the year 2007-08 and the rest in the earlier years. Out of this, Rs. 1.02 crore in 43 cases was realised.

A few illustrative cases involving Rs. 128.36 crore are mentioned in the following paragraphs.

2.2 Short payment of tax due to under declaration of VAT

2.2.1 Under the Andhra Pradesh Value Added Tax (VAT) Act, 2005, liquor is taxable at the point of first sale in the State. Under the provisions of the Act, every registered dealer shall submit monthly returns along with the proof of payment of tax. If any mistake is detected in the return submitted by the dealer, the assessing authority (AA) shall issue a notice of demand for short payment of tax, if any. There is no provision in the Act to grant exemption of any taxable turnover. However, the Act provides for making of rules to carry out the purpose of the Act.

The Government issued orders in February 2007¹, amending the VAT Rule with retrospective effect from April 2005 and exempting turnover relating to additional trade margin of 10 *per cent* charged by the assessee though the Act did not provide for it. After this was pointed in December 2007, the Government stated in April 2008 that action was being initiated to make necessary amendment to the Act to validate the exemption of turnover relating to additional trade margin. However, final action taken has not been received and the department continued to grant exemption on account of additional trade margin.

Test check of the records of the Agapura circle in July 2007 revealed that the gross turnover of a dealer for the year 2006-07 as per the annual accounts was Rs. 6,751.19 crore. After allowing exemption of additional trade margin of Rs. 298.12 crore, the dealer was liable to pay tax of Rs. 2,657.15 crore on the taxable turnover of Rs. 6,453.07 crore. However, as per the monthly returns furnished, the dealer paid VAT of Rs. 2,585.15 crore only. Thus, there was a short payment of VAT of Rs. 72 crore.

After the case was pointed out, the department raised a demand of Rs. 70.74 crore. A report on recovery and reasons for raising the demand less by Rs. 1.26 crore was not furnished (November 2008).

2.2.2 Under the AP VAT Act, “Maize Gluten” is liable to tax at the rate of 12.5 *per cent*.

Test check of the records of the AC (LTU)², Nizamabad in June 2007 revealed that during the period from April 2005 to March 2007, a dealer did not include the sales turnover of “Maize Gluten” amounting to Rs. 4.66 crore in the taxable turnover. This resulted in short realisation of VAT of Rs. 58.19 lakh.

The matter was referred to the department in November 2007 and to the Government in June 2008; their reply has not been received (November 2008).

¹ G.O.Ms.No.174 Rev (CT-II) dt.13 February 2007

² Assistant Commissioner (Large Tax Payers Unit)

2.3 Excess claim of transitional relief/input tax credit

The VAT Act and Rules 2005, provide relief on sales tax at the commencement of the Act. According to the VAT Rules, on the first day of the commencement of the Act, if a dealer has in stock any goods on which sales tax has been paid under the APGST Act, that dealer shall be entitled to claim credit of sales tax for such goods which were purchased from 1 April 2004 to 31 March 2005. The Act also provides for input tax credit for the tax charged in respect of all purchases of taxable goods made by the dealer during the tax period if such goods are for use in the business of the VAT dealer. Further, under the VAT Rules, no transitional relief/input tax credit is eligible on coal, vehicles, earth moving equipment and cement unless the dealer is in the business of dealing in these goods.

Test check of the records of two LTUs³ and one circle⁴ between October 2006 and March 2007 revealed that in the case of 10 dealers, transitional relief/input tax credit claimed on coal, motor vehicles, earth moving equipment and cement was allowed by the AAs. However, none of these dealers was dealing in the business for which transitional relief/input tax credit was claimed and allowed by the AAs. This resulted in short levy of tax of Rs. 69.68 lakh.

After the cases were pointed out, the AAs accepted the audit observations in seven cases involving Rs. 31.12 lakh out of which an amount of Rs. 13.69 lakh was collected in six cases. Of these, four assesses preferred appeals in High Court. The replies in respect of the remaining cases have not been received.

The matter was referred to the department between February and November 2007 and the Government in June 2008; their reply has not been received (November 2008).

2.4 Short payment of tax due to non-conversion of TOT dealer as VAT dealer

Under the provisions of the VAT Act, every dealer whose taxable turnover in the preceding three months exceeds Rs. 10 lakh or in the 12 preceding months exceeds Rs. 40 lakh shall be liable to be registered as VAT dealer. Any dealer who fails to apply for registration shall be liable to pay penalty of 25 *per cent* of the amount of tax due prior to the date of registration. Further, there shall be no eligibility for input tax credit for sales made prior to the date from which the registration is effective.

Test check of the records of the Rajendranagar circle in October 2007 revealed that though the turnover of three dealers exceeded Rs. 10 lakh in preceding three months, the AA did not convert these dealers into VAT dealers. The dealers were liable to pay VAT of Rs. 4.83 lakh and after affording credit of Rs. 38,000 deposited by the dealers, they were liable to pay VAT of

³ Nalgonda and Warangal

⁴ Lord Bazaar

Rs. 4.45 lakh. But neither the dealers applied for registration nor were they registered by the AA. This resulted in short realisation of revenue of Rs. 4.45 lakh towards VAT and penalty of Rs. 1.11 lakh thereon.

After the cases were pointed out, the AA stated that the dealers did not exceed the turnover of Rs. 40 lakh during the year and hence the TOT dealers are not converted into VAT dealers. The reply is wrong as the dealers having exceeded the turnover limit of Rs. 10 lakh in the preceding three months were liable to be converted into VAT dealers.

The matter was referred to the department in March 2008 and the Government in May 2008; their reply has not been received (November 2008).

2.5 Short levy of tax on works contracts

Under Section 5F of the APGST Act, every dealer has to pay tax at the prescribed rate on his turnover of transfer of property either as goods or in some other form involved in the execution of works contract subject to exemptions and deductions provided for, under sub clauses (a) to (l) of Rule 6(2) of the APGST Rules.

2.5.1 Incorrect computation of turnover

In determining the turnover of a dealer, deductions specified under the APGST Rules, shall be allowed from the turnover of the dealer if the accounts are maintained as required under Rule 45(1-C) of the APGST Rules. If detailed accounts are not maintained and the amounts specified under Rule 6(2) are not ascertainable from the accounts of a dealer, his turnover shall be determined after deducting the amount calculated at the percentages prescribed under Rule 6(3) (ii). Where the execution of a works contract extends over a period of more than one year, value of material at the time of incorporation in works contract during that year shall be taxable turnover under Rule 6(3)(i). Deductions on account of cost of establishment, bank charges, metal and gravel labour charges, office expenditure, sales tax etc., are not exempted from levy of tax under the APGST Rules.

Test check of the records of two⁵ large tax payers units (LTUs⁶) and 42 circles⁷ between April 2005 and October 2007 revealed that the AAs while finalising the assessments in 70 cases between May 2004 and March 2007 for the years 2002-03 to 2004-05, incorrectly arrived at taxable turnover of Rs. 183.32 crore instead of Rs. 365.83 crore. The short determination of taxable turnover of Rs. 182.51 crore with a tax effect of Rs. 14.60 crore was

⁵ AC (LTU) Abids (Hyderabad) and Vijayawada

⁶ Headed by the Assistant Commissioners

⁷ Anakapalle, Chittoor, Hyderabad (Agapura, Ashoknagar, Basheerbagh, Begumpet, Hydernagar, Jeedimetla, Jubilee Hills, Khairatabad, Madhapur, Malakpet, Mehidipatnam, Nampally, Rajendranagar, Saroonagar, Somajiguda, Vengalaraonagar), Jangaon, Karimnagar-I, Karimnagar-II, Khammam-II, Kodad, Mahaboobabad, Mahaboobnagar, Mancherial, Medak, Medak (Sangareddy), Nellore-I, Nellore-II, Nizamabad-II, Nizamabad-III, Ongole, Peddapalli, Rajahmundry (Aryapuram), Siddipet, Tadepalligudem, Visakhapatnam (China Waltair, Steel plant, Suryabagh), Secunderabad (S.D. Road) and Warangal

due to allowance of inadmissible deductions on account of cost of establishment, bank charges, metal and gravel labour charges, office expenditure, sales tax etc.

After the cases were pointed out, the department/Government accepted the audit observations in 19 cases involving Rs. 89.38 lakh between August 2005 and July 2008 and stated that the assessments were revised in eight cases against which an amount Rs. 3.72 lakh was collected in three cases; notices for revision were issued in eight cases; notice for revision would be issued in one case and assessments would be revised in two cases. The replies in respect of the remaining cases have not been received (November 2008).

2.5.2 Incorrect grant of exemption on inter state purchases

Under the proviso to Section 5F of the APGST Act, tax shall be leviable on the turnover of goods either obtained or purchased from outside the State by the contractor and used in the execution of a works contract.

Test check of the records of five circles⁸ between November 2006 and October 2007 revealed that the AAs while finalising the assessments in five cases between June 2005 and February 2007 for the years 2002-03 to 2004-05, incorrectly exempted turnover of Rs. 5.68 crore relating to purchase of material from out side the State by the contractors and used in the execution of works contracts. This resulted in short levy of tax of Rs. 45.47 lakh.

After the cases were pointed out, the department accepted the audit observations in two cases involving Rs. 23.54 lakh and stated between January 2007 and May 2008 that the assessment was revised in one case and would be revised in another case. The replies in respect of the remaining cases have not been received.

The matter was referred to the department between September 2007 and January 2008 and to the Government between April and June 2008; their reply has not been received (November 2008).

2.5.3 Short levy of tax under composition

2.5.3.1 The tax payable on works contracts can be compounded under Section 5G of the APGST Act at four *per cent* with effect from 1 January 2000. However, when an assessee opts for composition of tax, no deduction is admissible and tax is payable on the total amount paid or payable to the assessee towards the execution of works contract excluding registered sub-contractors' payment.

Test check of the records of four circles⁹ between May 2006 and June 2007 revealed that four works contractors opted for composition of tax. Hence, they were not entitled to any deduction from their taxable turnover. However, the AAs while finalising the assessments between July 2002 and February 2007

⁸ Hyderabad (Rajendranagar), Karimnagar-I, Mahaboobnagar, Medak (Siddipet) and Visakhapatnam (Kurupam Market)

⁹ Hyderabad (Barkatpura, Begumpet), Secunderabad (S.D.Road) and Vijayawada (Seetharampuram)

relating to the years 2000-01 to 2003-04, incorrectly allowed deductions of Rs. 7.29 crore from their gross turnover. This resulted in short levy of tax of Rs. 29.16 lakh.

The matter was referred to the department between September 2007 and February 2008 and the Government in June 2008; their reply has not been received (November 2008).

2.5.3.2 Under Section 5G(1) of APGST Act, a dealer engaged in works contract may opt for payment of tax on turnover of works executed at concessional rate of four *per cent* in lieu of eight *per cent* payable under Section 5F. However, the dealer shall not be eligible for any deduction from his turnover if he opts for composition under Section 5G (1).

Test check of the records of the Hydernagar circle in April 2007 revealed that a dealer opted for composition of tax under 5G (1). The dealer was liable to pay tax of Rs. 24.51 lakh on the taxable turnover of Rs. 6.13 crore. However, the AA while finalising the assessment in December 2006 for the year 2003-04, levied tax of Rs. 14.38 lakh on a turnover of Rs. 1.80 crore under Section 5F after allowing deductions of Rs. 3.29 crore. This resulted in short levy of tax of Rs. 10.13 lakh.

After the case was pointed out, the AA stated in December 2007 that the assessment was submitted to DC (CT) concerned for revision.

The matter was referred to the department in November 2007 and to the Government in June 2008; their reply has not been received (November 2008).

2.5.4 Incorrect exemption of expenditure

It was judicially held¹⁰ by the High Court of Andhra Pradesh that seigniorage fee and charges for metal breaking, loading and unloading and transport charges incurred on conversion of material used in the execution of works contract is taxable.

Test check of the records of the Jubilee Hills circle between November 2006 and July 2007 revealed that the AA while finalising the assessments in three cases between January 2006 and March 2007 for the years 2002-03 and 2003-04, incorrectly exempted expenditure of Rs. 1.60 crore incurred on material used in execution of works contracts, prior to their incorporation, from taxable turnover. This resulted in short levy of tax of Rs. 12.80 lakh.

After the cases were pointed out, the AA accepted the audit observation in one case involving Rs. 2.61 lakh and stated in July 2007 that the assessment would be revised. In another case involving Rs. 2.29 lakh, the AA contended in July 2007 that the dealer paid drilling and blasting charges. However, the fact remains that drilling and blasting charges paid for the metal transferred for use in the execution of works contract would form a part of taxable turnover. The reply in respect of the remaining case has not been received.

¹⁰ B. Seenaiyah and Co Vs Commercial Tax Officer, Khairatabad circle, Hyderabad and Others
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The matter was referred to the department between September and December 2007 and to the Government in June 2008; their reply has not been received (November 2008).

2.6 Implementation of taxation proposals formulated by inspecting agencies

The APGST Act and the VAT Act provide for the inspection of the business premises of the dealers by Commercial Taxes (CT) Department for detection of suppression of taxable turnover and consequential evasion of tax to prevent leakage of revenue. In addition, the Vigilance and Enforcement Department (VED) under the control of General Administration Department (GAD) also carries out surprise inspections. However, VED has not been delegated with assessment powers and the taxation proposals initiated consequent on surprise inspections are required to be sent to the concerned AAs of the CT Department for further necessary action.

Test check of the records of CT Department relating to the implementation of taxation proposals formulated by the inspecting agencies between December 2007 and March 2008 revealed non-levy of penalty and interest of Rs. 12 crore in 23 cases mentioned below.

2.6.1 Concealment of turnover under the APGST Act

Under the APGST Act, if the AA is satisfied that the failure of the dealer to disclose whole or part of the turnover correctly was wilful, he shall direct the dealer to pay a penalty not less than three times and not exceeding five times the amount of tax on the escaped turnover.

2.6.1.1 Test check of the records in 12 circles¹¹ revealed that in 15 cases VED had detected suppression of turnover of Rs. 79.87 crore involving tax effect of Rs. 3.40 crore during inspection conducted between August 2001 and February 2006. The taxation proposals were forwarded to the concerned AAs who levied the tax between January 2004 and January 2008 but omitted to levy minimum penalty of Rs. 10.20 crore.

The matter was referred to the department between September and November 2007 and to the Government in June 2008; their reply has not been received (November 2008).

2.6.1.2 Test check of the records of two circles¹² between July and September 2006 revealed that the AAs while finalising the assessments in two cases in March 2006 for the assessment year 2002-03, did not levy penalty of Rs. 23.91 lakh though the dealers did not disclose the correct turnovers in their returns.

¹¹ CTOs, Agapura, Barkatpura, Basheerbagh, Gudur, Hydernagar, Jubilee Hills, Khairatabad, Kurnool-I, Malkajgiri, SD Road, Srinagar Colony and Vidyanagar

¹² Guntur (Lalapet) and Peddapalli

The matter was referred to the department between September and November 2007 and to the Government in June 2008; their reply has not been received (November 2008).

2.6.2 Concealment of turnover under VAT Act

As per section 53(3) of the VAT Act, any dealer who has under declared tax and where it is established that fraud or wilful neglect has been committed, he shall be liable to pay penalty equal to the tax under declared.

As per Section 49(2) of the VAT Act, any dealer who fails to apply for registration as required under Section 17 before the end of the month subsequent to the month in which the obligation arose, shall be liable to pay penalty of 25 per cent of the amount of tax due prior to the date of the registration by the registering authority. For any delayed remittance of tax after the prescribed due date, interest at the rate of one per cent per month is leviable under Section 22(2) of the VAT Act.

Test check of the records in 4 circles¹³ revealed that in six cases, VED detected evasion of Value Added Tax of Rs. 1.73 crore during the inspection conducted between December 2005 and March 2007. Of these, four were registered dealers who had filed incorrect returns while the other two were unregistered dealers. The taxation proposals were sent to the concerned AAs who levied tax of Rs. 1.73 crore but omitted levy of penalty of Rs. 1.31 crore¹⁴. Besides, interest of Rs. 24.22 lakh though leviable was not levied by the AAs. This resulted in short realisation of revenue of Rs. 1.55 crore.

The matter was referred to the Government in June 2008 their reply has not been received (November 2008).

2.7 Excess claim of VAT compensation

The Central Government had consented to compensate the State Government for loss of revenue consequent to the implementation of VAT. For this purpose, the actual VAT revenue was to be compared with the projected revenue for the year 2005-06. As per the instructions issued by Government of India in July 2005, the tax revenues to be taken into account for the purpose of claiming compensation should include the net of refunds of revenue of general sales tax as well as other state taxes like purchase tax, entry tax, turnover tax which are to be subsumed in VAT. Further, Para-2(c) of the instructions stipulates that the revenue figures as certified by the Accountant General (A&E), Andhra Pradesh, Hyderabad are to be adopted by the Government in the compensation claim.

For the purpose of computing projected revenue for the year 2005-06, the tax revenues for the period from 1999-2000 to 2004-05 should be taken into

¹³ Basheerbagh, Gudur, Madhapur and Nandigama

¹⁴ 100% penalty – Rs. 1.17 crore and 25% penalty – Rs. 14 lakh

account and annual growth rate worked out for each year duly adopting 2004-05 as base year. On the basis of net revenues of base year and the average annual growth rate, the projected revenues for the year 2005-06 were to be arrived. The difference between such projected revenues and the actual revenues would be the loss on account of introduction of VAT for which compensation would be paid to States at 100 *per cent* of such loss during 2005-06. The average annual growth rate of revenue pertaining to the previous five years was 12.73 *per cent*.

Test check of the records of Commissioner of Commercial Taxes Department between September and November 2007 revealed that the State Government claimed compensation of Rs. 406.64 crore during the period from September 2005 to April 2007 from the Central Government on account of loss incurred by it due to introduction of VAT during the year 2005-06. Scrutiny revealed that the State Government did not take turnover tax of Rs. 17.04 crore as revenue of the state during 2005-06 for claiming compensation. Instead, it took other receipts involving Rs. 6.17 crore which were not a part of revenue for the purpose of compensation. Besides, the projected revenue for the year 2005-06 was worked out incorrectly. It did not contain the turnover tax of Rs. 14 lakh earned by the state during 2004-05 resulting in less projection of revenue of Rs. 16¹⁵ lakh. Hence, there was an overall excess claim of Rs. 10.71¹⁶ crore.

The matter was referred to the Government in December 2007; their reply has not been received (November 2008).

2.8 Sales tax incentives for industrial units

With a view to encouraging the growth of industries in the State, the Industries Department has been notifying various incentive schemes from time to time providing sales tax incentives in the form of sales tax deferment and sales tax holiday (exemption) to industrial units.

For according sanctions under various incentive schemes, the Government constituted State level committee (SLC) and district level committee (DLC). On the basis of sanctions, the Commissioner of Industries issues final eligibility certificate indicating the extent and duration of incentives for implementation by the Commercial Taxes Department.

2.8.1 Non-remittance of tax collected during the period of sales tax holiday (exemption)

According to the Target 2000 scheme guidelines, industrial units availing sales tax holiday (exemption) are not allowed to collect tax from consumers during the period of availment of sales tax exemption. In case tax is collected, it has to be remitted to the Government.

¹⁵ Includes average annual growth rate of Rs. 1.78 lakh at 12.73 *per cent* of Rs. 14 lakh = Rs. 15.78 lakh rounded to Rs.16 lakh

¹⁶ (Rs. 17.04 crore – Rs. 6.17 crore – Rs. 0.16 crore) = Rs. 10.71 crore

Test check of the records of six circles¹⁷ between October 2006 and July 2007 revealed that in six cases, the tax collected while availing sales tax exemption was not remitted to the Government during the assessment years 2001-02 to 2004-05 finalised between December 2005 and February 2007. This resulted in non-remittance of tax of Rs. 1.61 crore.

The matter was referred to the department between September 2007 and June 2008 and to the Government in June 2008; their reply has not been received (November 2008).

2.8.2 Incorrect grant of sales tax exemption/deferment

According to the various sales tax incentive schemes promulgated by the Government from time to time, sales tax incentives are available for the products, which are specified in the final eligibility certificate and manufactured by the industrial units.

Test check of the records of the AC (LTU) Kakinada and six circles¹⁸ between May 2006 and August 2007 revealed that the AAs while finalising the assessments in 12 cases between June 2005 and March 2007 for the years 2002-03 to 2004-05, incorrectly allowed sales tax exemption/deferment though the items were not covered by the final eligibility certificates. This resulted in incorrect allowance of tax exemption/deferment of Rs. 1.59 crore.

After the cases were pointed out, the department/Government accepted the audit observations in seven cases involving Rs. 1.39 crore and stated between July 2006 and July 2008 that the assessments were revised and an amount of Rs. 20.79 lakh was collected/adjusted in two cases and revision would be taken up in two cases. The assessment file was under examination by DC (CT) in one case; notice for revision would be issued in one case and in another case, action would be taken to withdraw the exemption. In one case, it was contended that the incentive granted was in order. The reply is not tenable as in this case sanction granting the incentives was cancelled on 31 March 2000 and as such availment of incentive for the period from 2000-01 to 2004-05 was not in order. The replies in respect of the remaining cases have not been received (November 2008).

2.8.3 Irregular sanction of sales tax deferment without fixing base turnover

According to Target 2000 scheme guidelines, the quantum of incentives to different units for manufacture of the same end product or for manufacturing of intermediate product of the same end product setup by the same group of management, from time to time, in the same district or within 150 km radius,

¹⁷ Akiveedu, Hyderabad (Khairatabad, Malakpet, Musheerabad and Srinagar colony and Secunderabad (Marredpally)

¹⁸ Hyderabad (Jeedimetla), Ongole-I, Rajam, Bhongir, Secunderabad (SD Road) and Visakhapatnam (Gajuwaka)

will be limited to the maximum allowed to the new industrial unit. Such cases are to be treated as expansion to the existing units and incentives are to be allowed on the turnover over and above the base turnover¹⁹.

Test check of the records of the Jeedimetla circle in August 2007 revealed that an assessee set up a new unit within 150 km radius of a unit established by him for the same activity i.e., for the production of corrugated boxes. The unit was to be treated as an expansion of the existing unit. However, it was incorrectly treated as a new unit by the Industries Department and its exemption limit was fixed afresh. This escaped the notice of AA while finalising the assessments in two cases between November 2006 and January 2007 for the years 2003-04 and 2004-05. This resulted in incorrect availment of sales tax deferment of Rs. 59.59 lakh.

The matter was referred to the department in January 2008 and the Government in June 2008; their reply has not been received (November 2008).

2.8.4 Incorrect adjustment of deferred tax

According to the various sales tax incentive schemes promulgated by the Government from time to time, the deferment on expansion is eligible over and above the base turnover fixed. The benefit of deferment is not admissible upto the base turnover.

Test check of the records of the AC (LTU) Vijayawada and CTO-I Karimnagar between January and April 2007 revealed that the AAs in two cases adjusted tax due on entire turnover to tax deferment instead of collecting the tax upto base turnover. This resulted in non-collection of tax of Rs. 58.61 lakh due to incorrect adjustment of tax.

After the cases were pointed out, in one case, the AA accepted the audit observation involving Rs. 5.38 lakh and stated in January 2007 that the assessment would be revised. The reply in respect of the remaining case has not been received.

The matter was referred to the department between August and November 2007 and the Government between May and June 2008; their reply has not been received (November 2008).

2.8.5 Non-recovery of deferred sales tax

Under the incentive schemes, the incentives granted to a unit were liable to be recovered if it went out of production for a period exceeding one year during the period of availment of such incentives.

Test check of the records of the IDA Gandhinagar circle in November 2006 revealed that a unit was allowed deferment from payment of sales tax for a period of 14 years from 1997-98 but the unit failed to submit the prescribed

¹⁹ Base turnover means best production achieved during the three years preceding the year of expansion or the maximum capacity expected to be achieved by the industry, whichever is higher

returns to the department from December 2002 onwards and it was recorded in the assessment file of 2002-03 that the unit had closed the business after availing sales tax incentives amounting to Rs. 53.85 lakh. The AA did not recover the deferred sales tax availed by the unit from 1997-98 to 2002-03 amounting to Rs. 53.85 lakh.

The matter was referred to the department in January 2008 and the Government in June 2008; their reply has not been received (November 2008).

2.8.6 Availment of excess sales tax incentive

Under the incentive schemes, the exemption availed by a unit is to be limited to eligibility limit mentioned in final eligibility certificate.

Test check of the records of two circles²⁰ between April and September 2007 revealed that the AAs while finalising the assessments in two cases between August and December 2006 for the year 2003-04, allowed sales tax exemption of Rs. 2.04 crore upto 2003-04 against the sanctioned exemption limit of Rs. 1.66 crore. This resulted in excess availment of sales tax exemption of Rs. 38.42 lakh.

The cases were referred to the Government in April 2008. The Government accepted the audit observations in two cases involving Rs. 38.42 lakh and stated in July 2008 that in one case, notice for recovery of excess availment was issued to the assessee and in another case, the collection was not enforced due to pendency of case in 'Sales Tax Appellate Tribunal'.

2.8.7 Non-recovery of interest on belated payment of deferred sales tax

The Government order²¹ dated October 1989 stipulates that the total amount of sales tax deferred would become payable without interest in as many annual instalments as the number of years for which the tax deferment is allowed and would commence immediately after the expiry of the deferment period. Delayed payments attract interest at 21.5 *per cent* per annum.

Test check of the records of the AC (LTU) Saroornagar in February 2007 revealed that a dealer paid deferred sales tax of Rs. 2.79 crore with a delay ranging between 103 and 574 days. Interest of Rs. 37.86 lakh though leviable under the Act, was not levied by the AA.

The case was referred to the Government in April 2008. The Government accepted the audit observation and stated in July 2008 that action for recovery of the amount under Revenue Recovery Act was initiated in June 2007.

2.9 Non/short levy of tax on inter state sales

2.9.1 The Central Sales Tax (CST) Act, 1956 provides that inter state sales not supported by declaration in form 'C' are taxable at twice the rate applicable to sale or purchase of these goods inside the State in respect of

²⁰ Bhongir and Hyderabad (Hydernagar)

²¹ G.O.Ms.No.498 Industries and Commerce (I A) Department dated 16 October 1989

declared goods and in respect of other goods at 10 *per cent* or at the rate of tax applicable to sale or purchase of such goods within the State whichever is higher.

2.9.1.1 Incorrect exemption on invalid/fake declarations

Under Section 6-A of the CST Act read with Rule 9A(2) of CST (AP) Rules, each declaration in form 'F' shall cover transactions effected during a period of one calendar month. Therefore, a single declaration issued to cover transfer of goods for more than one month is to be treated as invalid and the turnover has to be brought to tax treating it as inter state sales not covered by proper declarations.

Test check of the records of AC (LTU) Adilabad and eight circles²² between October 2006 and October 2007 revealed that in 17 cases consignment sales²³/branch transfers of goods valued at Rs. 13.83 crore were supported by 'F' forms covering transactions of more than one calendar month and the same were liable to be treated as invalid. But the AAs while finalising the assessments between May 2005 and March 2007 for the years 2002-03 to 2004-05, incorrectly exempted the turnover from levy of tax. This resulted in non-levy of tax of Rs. 1.63 crore.

After the cases were pointed out, the department/Government accepted the audit observations in 14 cases involving Rs. 1.42 crore and stated between September 2007 and July 2008 that the assessments were revised in five cases; notices for revision were issued in two cases and notices for revision would be issued in seven cases. The replies in respect of the remaining cases have not been received.

2.9.1.2 As per Section 9(2A) of the CST Act read with Section 7-A (2) of the APGST Act, if any dealer produces false/fake declarations and claims exemption/reduced rate of tax in support of these declarations, the dealer is liable to pay the penalty of three to five times of the tax due of such transaction.

Test check of the records of the Gandhi chowk circle in February 2007 revealed that three cases of consignment sales/branch transfers of goods valued at Rs. 130 crore were supported by fake 'F' forms. The fact was confirmed by the Sales Tax Officer, Inter-State Verification Cell, West Bengal. The AA while finalising the assessments in March 2006 for the year 2002-03, failed to detect the same and allowed exemption from payment of tax. This resulted in non-levy of tax of Rs. 13.01 lakh and penalty of Rs. 39.02 lakh.

The matter was referred to the department in January 2008 and the Government in June 2008; their reply has not been received (November 2008).

²² Adilabad, Adoni, Hissamgunj, Hyderabad (Jeedimetla and Khairatabad), Hindupur, Nellore-III and Secunderabad (Marredpally)

²³ Sales through agents

2.9.2 Test check of the records of three LTUs²⁴ and nine circles²⁵, between January 2006 and October 2007 revealed that in 16 cases inter state sales valued at Rs. 18.70 crore were not supported by declaration in the prescribed forms. The AAs while finalising the assessments for the years 2002-03 to 2004-05 between May 2004 and March 2007 either omitted to levy tax or levied tax at lower rate. This resulted in non/short levy of tax of Rs. 1.13 crore.

After the cases were pointed out, the department/Government accepted the audit observations in nine cases involving Rs. 85.20 lakh and stated between May 2007 and July 2008 that the assessments were revised in six cases against which Rs. 25.41 lakh was collected/adjusted to tax holiday accounts in three cases; in one case, the assessment file was submitted to DC (CT) concerned for revision and assessments would be revised in two cases. In one case, the Government contended that there was no legality for levy of tax as the transaction is outside the state. The reply is not tenable as the transfer of goods from the state was in pursuance of a contract, which the assessee had entered into with Larsen and Toubro Limited, Chennai during 2002-03 (prior to the supply of goods) for supply and fixing of doors. As such, the transfer of goods fulfils the conditions of sale and are exigible to tax under the CST Act. The replies in respect of the remaining cases have not been received.

2.9.3 The CST Act provides that inter state sales supported by declaration in form 'C' are taxable at the rate of four *per cent* or at the rate applicable to sale or purchase of these goods inside the State whichever is lower.

Test check of the records of two circles²⁶ between August 2006 and June 2007 revealed that the AAs while finalising the assessments in two cases between November 2005 and March 2007 for the years 2002-03 and 2003-04, levied tax at two *per cent* instead of four *per cent* on inter state sales of call manager systems and joining kits covered by 'C' forms. This resulted in short levy of tax of Rs. 15.18 lakh on a turnover of Rs. 7.59 crore.

After the cases were pointed out, the department/Government accepted the audit observations and stated between December 2007 and July 2008 that the assessments were revised.

2.9.4 In determining the turnover of a dealer under the APGST Act, as also applicable to the CST Act, the tax collected by the dealer shall be excluded from the gross turnover of the dealer.

Test check of the records of the Bhongir circle in October 2006 revealed that the AA while finalising the assessment in one case in March 2006 for the year 2002-03, allowed deductions towards sales tax collections at Rs. 1.09 crore instead of actual collections of Rs. 42.60 lakh. The incorrect allowance of

²⁴ AC (LTU) Punjagutta, Nalgonda and Visakhapatnam

²⁵ Hyderabad (Fathenagar, Hydernagar, Jubilee Hills and Keesara) Nizamabad (Bodhan), Vijayawada-II (Krishna Lanka), Kothagudem, Naidupet at Gudur and Secunderabad (Market Street)

²⁶ Hyderabad (Basheerbagh and Keesara)

exemption amounting to Rs. 65.87 lakh resulted in short levy of tax of Rs. 6.59 lakh.

The matter was referred to the department in August 2007 and the Government in June 2008; their reply has not been received (November 2008).

2.10 Short levy of tax due to application of incorrect rate

Tax at the rates specified in schedules I to VI to the APGST Act, is leviable on the commodities included in these schedules. Commodities not specified in any of the schedules fall under VII schedule and are taxable at 12 *per cent* from 1 January 2000.

Test check of the records of three LTUs²⁷ and 39 circles²⁸ between December 2005 and November 2007 revealed that the AAs while finalising the assessments in 71 cases between May 2004 and August 2007 for the years 1999-2000 and 2001-02 to 2004-05, levied tax on copier machines, cookers and non-stick ware and digital cameras, security system and water purifiers etc., at rates lower than those specified in the Act, resulting in short levy of tax of Rs. 2.80 crore.

After the cases were pointed out, the department/Government accepted the audit observations in 24 cases involving Rs. 1.25 crore and stated between February 2007 and July 2008 that the assessments were revised in 10 cases against which an amount of Rs. 2.70 lakh was adjusted to tax holiday accounts in two cases; notices for revision were issued in seven cases; notice for revision would be issued in one case; assessments would be revised in five cases and in one case, the assessment file was submitted to DC (CT) concerned for revision. The replies in respect of the remaining cases have not been received.

2.11 Misclassification of sales as works contracts

2.11.1 “Wide Format Digital Printing” falls under VII schedule and tax is leviable at the rate of 12 *per cent* at the point of first sale in the State.

Test check of the records of the Khairatabad circle in July 2007 revealed that an assessee made inter state sales of “wide format digital printings” valued at Rs. 13.94 crore. The dealer was liable to pay a tax of Rs. 1.67 crore. However, the AA while finalising the assessments in February 2007 for the assessment years 2003-04 and 2004-05 incorrectly treated the inter state sales as works contracts and levied a tax of Rs. 96.17 lakh. This resulted in short realisation of tax of Rs. 71.08 lakh.

²⁷ Hyderabad (Rural), Kakinada and Punjagutta

²⁸ Bodhan, Guntur (Kothapet), Hyderabad (Agapura, Ashoknagar, Begumpet, Barkatpura, Basheerbagh, Begum bazaar, Fathenagar, Gandhinagar, Hyderguda, Hydernagar, Jeedimetla, Jubilee Hills, Keesara, Khairatabad, M.J. Market, Mehidipatnam, Nacharam, Nampally, Punjagutta, Rajendranagar, Saroornagar and Vidyanagar), Kadapa, Khammam, Mahaboobnagar, Medak (Sangareddy), Miryalaguda, Piduguralla, Secunderabad (General Bazaar, Lord Bazaar, Marredpally, M.G. Road, Ramagopalpet and S.D. Road), Tadepalligudem, Tuni and Visakhapatnam (China Waltair)

After the case was pointed out, the AA accepted the audit observation and stated in December 2007 that the assessments were submitted to DC (CT) concerned for revision.

2.11.2 AC pipes, fire fighting/fire suppression system, sales of fire security and alarm systems, modular furniture and wooden furniture are taxable as per the provisions of the APGST Act.

Test check of the records of four circles²⁹ between June 2006 and July 2007 revealed that the AAs while finalising the assessments in five cases between July 2005 and January 2007 for the years 2001-02 to 2003-04, incorrectly treated turnover of Rs. 5.50 crore relating to sales of AC pipes, fire fighting/fire suppression system, fire security and alarm systems, modular furniture and wooden furniture as works contracts and levied tax of Rs. 25.69 lakh instead of Rs. 64.79 lakh. This resulted in short levy of tax of Rs. 39.10 lakh.

After the cases were pointed out, in one case, the AA contended in June 2006 that the amounts realised were through execution of works contract and are taxable at the rate of eight *per cent*. The reply is not tenable since the assessee supplied the goods. In another case, the AA contended that the works were done as per specifications of the consumer and it was treated as works contract. The reply is not tenable since the assessee supplied the furniture. The replies in respect of the remaining cases have not been received.

The matter was referred to the department between November 2006 and December 2007 and the Government in June 2008; their reply has not been received (November 2008).

2.12 Non-levy of penalty

Under Section 5-B of the APGST Act, purchases of a dealer for use in manufacture attract a concessional rate of tax at four *per cent* on the production of form 'G'. Under sub-section 2, misuse of form 'G' attracts penalty of not less than three times which may extend upto five times the tax leviable on the sale of such goods so purchased.

Test check of the records of three circles³⁰ between August 2006 and October 2007 in five cases revealed that the assesses purchased copper blocks, chicory roots and coffee seeds against 'G' forms and sold these goods instead of using them in manufacturing activity. Thus, minimum penalty amounting to Rs. 87.39 lakh though leviable on tax of Rs. 29.13 lakh for misuse of 'G' form was not levied.

The cases were referred to the Government between April and June 2008. The Government accepted the audit observations in two cases involving Rs. 7.97 lakh out of which penalty of Rs. 5.44 lakh was levied in one case and notice for revision was issued in another case. The replies in respect of the remaining cases have not been received (November 2008).

²⁹ Hyderabad (Ashoknagar, Gandhinagar, Khairatabad) and Secunderabad (Marredpally)

³⁰ Guntakal, Kodad and Secunderabad (Vidyanagar)

2.13 Non/short levy of tax due to incorrect exemption

2.13.1 The APGST Act provides for levy of tax on DEPB³¹ licenses, warranty claims, drip irrigation system, steel furniture, medicines, steel, royalties and grey cloth etc.

Test check of the records of AC (LTU), Kakinada and 12 circles³² between January 2006 and October 2007 revealed that the AAs while finalising the assessments between May 2004 and March 2007 for the year 2002-03 to 2004-05, incorrectly exempted turnover of Rs. 5.44 crore in 13 cases relating to franchise fees, DEPB licenses, warranty claims, drip irrigation system, steel furniture, medicines, steel, royalties and grey cloth etc. This resulted in non/short levy of tax of Rs. 37.49 lakh.

The cases were referred to the Government between April and June 2008. The Government accepted the audit observations in eight cases involving Rs. 27.32 lakh and stated in July 2008 that the assessments were revised in four cases involving Rs. 13.60 lakh out of which an amount of Rs. 7.79 lakh was collected in two cases; show cause notices were issued/to be issued in three cases and revision was under process in one case. The replies in respect of the remaining cases have not been received (November 2008).

2.13.2 According to Section 6C of the APGST Act, the rate of tax on packing material sold with goods shall be the same as that of the goods packed or filled. Further, under entry 19 of first schedule to the Act, packing material is taxable at the rate of four *per cent* when sold without content and the rate at which the content is liable to tax when sold containing contents. It was judicially³³ held that gunnies, which have suffered tax, could again be subjected to tax when sold along with content.

Test check of the records of three LTUs³⁴ and seven circles³⁵ between July 2006 and October 2007 revealed that the AAs while finalising the assessments in 23 cases between February 2005 and March 2007 for the years 2002-03 to 2004-05, incorrectly exempted turnover of Rs. 5.72 crore relating to gunnies sold along with content. This resulted in non-levy of tax of Rs. 22.91 lakh.

After the cases were pointed out, the department/Government accepted the audit observations in six cases involving Rs. 9.08 lakh and stated between October 2007 and July 2008 that the assessments were revised in five cases against which an amount of Rs. 6.47 lakh was collected/adjusted in three cases and assessment would be revised in one case. The replies in respect of the remaining cases have not been received (November 2008).

³¹ Duty Entitlement Pass Book

³² Guntur (Kothapet), Hyderabad (Agapura, Charminar, Jubilee Hills, Khairatabad, Lord Bazaar, Maharajgunj and Rajendranagar), Mandapeta, Vijayawada (Seethampuram), Visakhapatnam (Gajuwaka) and Warangal (Ramannapet)

³³ M/s Gowri Sankar Modern Rice Mill Vs State of A.P. [2006] 147 STC 370 (AP)

³⁴ Karimnagar, Nalgonda and Vizianagaram

³⁵ Bodhan, Hyderabad (Somajiguda), Kamareddy, Machilipatnam, Nizamabad-II, Palakol and Tadepalligudem

2.14 Excess allowing of set-off of tax

Under the provisions of the APGST Act and the notifications issued there under, set-off can be allowed against tax due on the sale of finished goods in which tax paid raw material was used in the manufacture of such finished goods, provided transactions at both the ends take place within the State.

Test check of the records of the AC (LTU) Nizamabad and 10 circles³⁶ between June 2006 and October 2007 revealed that set-off of Rs. 3.47 crore was allowed between February 2006 and March 2007 against the admissible set-off of Rs. 2.92 crore during the assessment years 1998-99 and 2002-03 to 2004-05 finalised between August 2005 and March 2007 in 15 cases relating to aluminium, copper, jute, purchase of raw material, paddy, iron and steel, plastic and zinc. Set-off of Rs. 9.12 lakh was not admissible in three cases as the goods were either not finished goods or were sold within the state, while in the remaining 12 cases set-off of Rs. 301.88 lakh was admissible against which Rs. 337.42 lakh was allowed. This resulted in short levy of tax of Rs. 44.66 lakh.

After the cases were pointed out, the department/Government accepted the audit observations in four cases involving Rs. 11.36 lakh and stated between May 2007 and August 2008 that the assessments were revised in three cases and notice for revision was issued in one case. The replies in respect of the remaining cases have not been received (November 2008).

2.15 Non-levy of tax on trade marked goods

Under Section 5AA of APGST Act, whenever a dealer sells goods under a trade mark at any point of sale other than first point of sale, he shall be deemed to be the first seller in the State and shall be liable to pay tax of four *per cent*. In the absence of a trademark, the sales are treated as second sales and are exempted from payment of tax.

Test check of the records of the Basheerbagh circle in June 2007 revealed that the AA while finalising the assessment in March 2007 for the year 2004-05, exempted turnover of branded vegetable oil (Vijaya) valued at Rs. 10.77 crore. This resulted in non- levy of tax of Rs. 43.09 lakh.

The matter was referred to the department in December 2007 and to the Government in June 2008; their reply has not been received (November 2008).

2.16 Non-levy of turnover tax

2.16.1 According to Section 5A of APGST Act, when total turnover of a dealer in a year exceeds Rs. 10 lakh, turnover tax at one *per cent* is leviable with effect from 1 August 1996 on second and subsequent sales of goods specified in first, second, fifth and seventh schedules to the Act.

³⁶ Bodhan, Eluru, Hyderabad (Jeedimetla, Khairatabad, Punjagutta and Rajendranagar), Jangaon, Nellore-II, Rajam and Secunderabad (Marredpally)

Test check of the records of 12 circles³⁷ between February 2006 and September 2007 revealed that the AAs while finalising the assessments in 20 cases between December 2004 and March 2007 for the years 2002-03 to 2004-05, failed to levy turnover tax on a turnover of Rs. 29.24 crore relating to mosquito repellants, coconut oil, wolf tools, prickly heat powder, soaps, non-PDS kerosene, iron, tin sheets, public address system etc., though turnover in these cases exceeded Rs. 10 lakh. This resulted in non-levy of turnover tax of Rs. 26.70 lakh.

After the cases were pointed out, the department accepted the audit observations in three cases involving Rs. 2.53 lakh and stated between July 2006 and April 2007 that the assessments would be revised in two cases and notice for revision was issued in one case. The replies in respect of the remaining cases have not been received.

The matter was referred to the department between November 2006 and January 2008 and the Government between April and June 2008; their reply has not been received (November 2008).

2.16.2 According to Section 5A(1-A) of APGST Act, every dealer shall in addition to tax payable shall pay each year a turnover tax on his turnover liable to tax at the rate of two *per cent* on the first sale turnover of lubricant oils and one *per cent* on motor vehicles.

Test check of the records of two circles³⁸ between June and October 2007 revealed that the AAs while finalising the assessments in two cases in February/March 2007 for the year 2003-04, failed to levy turnover tax on the first sale turnover of Rs. 12.20 crore relating to motor vehicles and lubricant oils. This resulted in non-levy of tax of Rs. 13.28 lakh.

After the cases were pointed out, the AA accepted the audit observation in one case involving Rs.11.13 lakh and stated in December 2007 that the assessment file was submitted to DC (CT) Secunderabad for revision in September 2007. In other case, the AA contended in October 2007 that turnover tax on all kinds of vehicles and lubricant oils was withdrawn by Government order³⁹ dated 31 December 2001. The reply is not tenable as the said order relates to Section 5A(1) and not to 5A (1-A) under which tax is leviable on the first sale turnover of lubricant oils and motor vehicles.

The matter was referred to the department between November 2007 and January 2008 and the Government in April 2008; their reply has not been received (November 2008).

2.17 Non/short levy of tax on lease rentals

According to Section 5E of the APGST Act, every dealer who transfers the right to use any goods for any purpose to any lessee/licencee for cash, deferred

³⁷ Guntur-I (Lalpet), Hyderabad (Basheerbagh, Begumpet, Malakpet, Rajendranagar), Macherla, Nalgonda, Nizamabad (Siddipet), Vijayawada (Governorpet), Warangal (Beat Bazaar), Secunderabad (M.G. Road) and Tanuku

³⁸ Hyderabad (Rajendranagar) and Secunderabad (Ashoknagar)

³⁹ G.O.Ms.No.775/dated 31 December 2001

payment or other valuable consideration, in the course of his business shall, pay tax at the rate of eight *per cent* on the total amount realised or realisable on such transfer by him.

Test check of the records of four circles⁴⁰ between September 2005 and August 2007 revealed that the AAs while finalising the assessments in seven cases between November 2004 and March 2006 for the years 2002-03 to 2004-05, had incorrectly exempted Rs. 553.83 lakh received towards lease rentals. This resulted in non/short levy of tax of Rs. 37.69 lakh on lease rentals.

The cases were referred to the Government between April and May 2008. The Government accepted the audit observations in two cases involving Rs. 23.14 lakh and stated in July 2008 that notice for revision was issued in one case and in another case, the assessment file was submitted to DC (CT) for revision. In one case, it was stated that the assessee shifted the business premises to Kakinada and the file was being sent to CTO, Kakinada by the DCTO, Padmaranagar (Secunderabad). The replies in respect of the remaining cases have not been received (November 2008).

2.18 Non/short levy of tax at every point of sale

Goods enumerated in the VI Schedule to the APGST Act, are taxable at every point of sale at the rates mentioned in the schedule. Under the proviso to VI Schedule, tax to be paid at any point of sale other than first point of sale shall be determined after deducting the tax levied on the turnover of such goods at the immediately preceding point of sale by a registered dealer from the tax leviable on the turnover of the same goods at the point of sale by selling dealer.

Under entries 21, 19, 6, 6A and 3 of VI Schedule to the Act, paperboard, cut sheets, electrical goods, soft drinks and watches and parts there of are taxable at the rates of 8/12/16 *per cent* at every point of sale.

Test check of the records of four circles⁴¹ between May 2006 and October 2007 revealed that the AAs while finalising the assessments in four cases between July 2005 and July 2006 for the years 2002-03 to 2004-05, incorrectly exempted the turnover relating to second point sales of paper board, cut sheets, electrical goods, soft drinks, watches and parts thereof. This resulted in non/short levy of tax of Rs. 18.23 lakh.

After the cases were pointed out, the AAs accepted the audit observations in two cases involving Rs. 16.53 lakh and stated between May 2006 and August 2007 that the assessment would be revised in one case and in another case, the assessment files were submitted to DC (CT) concerned for revision. The replies in respect of the remaining cases have not been received.

⁴⁰ Hyderabad (Vengalraonagar, Musheerabad), Jangaon and Secunderabad (General Bazaar)

⁴¹ Hyderabad (Malkajgiri, Somajiguda), Nellore and Ongole-I

The matter was referred to the department between November 2006 and February 2008 and the Government in June 2008; their reply has not been received (November 2008).

2.19 Non-forfeiture of excess tax collection

Under the APGST Act, no dealer shall collect any amount by way of tax in excess of the amount of tax already paid by him, if any, at the time of purchase and payable by him on the sale under provisions of the Act. Any sum so collected shall be forfeited to the State Government within three years from the date of collection.

Test check of the records of two AC (LTUs)⁴² and three circles⁴³ between January 2006 and July 2007 revealed that in seven cases, excess tax amounting to Rs. 17.03 lakh collected during the years 2001-02, 2002-03 and 2004-05 was not forfeited to the Government within three years from the date of collection. This resulted in non-realisation of revenue of Rs. 17.03 lakh.

After the cases were pointed out, in one case, the Additional Commissioner (CT) revised the assessment in May 2007 and forfeited the excess collected tax. In the case of AC (LTU) Vizianagaram, the AA replied in January 2006 that action would be taken proposing forfeiture of tax duly verifying the sales invoices issued by the dealer. The replies in respect of the remaining cases have not been received.

The matter was referred to the department between November 2006 and January 2008 and the Government in June 2008; their reply has not been received (November 2008).

2.20 Non-levy of purchase tax on material purchased from unregistered dealer

According to the APGST Act, any dealer who purchases any goods from unregistered dealers and consumes such goods in the manufacture of other goods for sale or consumes them otherwise or despatches them to a place outside the State except as a direct sale or purchase shall pay tax at the rate at which the tax would have been leviable under the provisions of the Act.

Test check of the records of the Bhongir circle in October 2006 revealed that the AA while finalising the assessment of a dealer in March 2006 for the year 2002-03, did not levy purchase tax on bran valued at Rs. 2.33 crore purchased from unregistered dealers. This resulted in non-levy of tax of Rs. 9.34 lakh.

The matter was referred to the department between April 2006 and January 2008 and the Government between April and June 2008; their reply has not been received (November 2008).

⁴² Nalgonda and Vizianagaram

⁴³ Hyderabad (Basheerbagh) Jadcherla and Visakhapatnam (Gajuwaka)

2.21 Short levy of compounding fees

Under the APGST Act, the offence of evasion of tax can be compounded by payment of Rs. 3,000 or double the amount of tax recoverable, whichever is greater.

Test check of the records of the Lord Bazar circle in January 2006 revealed that the AA while finalising the assessment in one case in July 2004 for the year 2003-04, levied and collected compounding fee of Rs. 50,000 instead of Rs. 9.02 lakh that is double the tax payable of Rs. 4.51 lakh. This resulted in short levy of compounding fees of Rs. 8.52 lakh.

The matter was referred to the department in February 2008 and the Government in June 2008; their reply has not been received (November 2008).