

CHAPTER-I

GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non tax revenue raised by the Government of Gujarat during the year 2005-06, the State's share of divisible Union Taxes and grants in aid received from Government of India during the year and the corresponding figures for the preceding four years are given below:

(Rupees in crore)

		2001-02	2002-03	2003-04	2004-05	2005-06
I	Revenue raised by the State Government					
	• Tax revenue	10,134.18	9,520.66	11,173.43	12,957.70	15,698.11
	• Non tax revenue	3,760.94	3,995.58	3,271.96	3,090.50	3,353.37
	Total	13,895.12	13,516.24	14,445.39	16,048.20	19,051.48
II	Receipts from Government of India					
	• State's share of divisible Union taxes	600.68	1,363.22	1,965.48	2,219.30	3,372.43
	• Grants in aid	1,490.26	2,995.88	1,836.65	1,997.45	2,642.96
	Total	2,090.94	4,359.10	3,802.13	4,216.75	6,015.39
III	Total receipts of the State	15,986.06	17,875.34	18,247.52	20,264.95[#]	25,066.87
IV	Percentage of I to III	87	76	79	79	76

[#] For details, please see statement No.11 Detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Gujarat. Figures under the Heads "0020-Corporation tax, 0021-Taxes on income other than corporation tax, 0028-Other taxes on income and expenditure, 0032-Taxes on wealth, 0037-Customs, 0038-Union excise duties, 0044-Service tax, 0045-Other taxes and duties on Commodities and services", share of net proceeds assigned to States booked in the Finance Accounts under A-'Tax revenue', have been excluded from revenue raised by the State and included in State's share of divisible union taxes in this statement.

1.1.2 The details of tax revenue raised during the year 2005-06 along with the figures for the preceding four years are given below:

(Rupees in crore)

Sl. No.	Heads of revenue	2001-02	2002-03	2003-04	2004-05	2005-06	Percentage of increase (+) or decrease (-) in 2005-06 over 2004-05
1	Sales tax	4,841.69	5,095.00	5,772.58	6,702.03	8,646.13	29
	Central sales tax	1,015.71	1,157.13	1,397.00	1,606.59	1,915.21	19.21
2	State excise	47.31	47.11	46.25	47.09	48.06	2.06
3	Stamp duty and registration fees	539.41	649.88	824.67	962.80	1,153.16	19.77
4	Taxes and duties on electricity	1,656.52	1,383.84	1,592.19	1,829.07	1,899.68	3.86
5	Taxes on vehicles	676.63	808.11	936.39	1,060.93	1,153.97	8.77
6	Taxes on goods and passengers	99.11	11.09	171.79	160.11	156.30	(-) 2.38
7	Other taxes on income and expenditure – tax on professions, trades, calling and employment	93.31	95.64	99.41	132.91	119.32	(-) 10.22
8	Other taxes and duties on commodities and services	1,077.54	177.67	206.36	221.29	226.05	2.15
9	Land revenue	86.95	95.19	126.79	234.88	380.23	61.88
	Total	10,134.18	9,520.66	11,173.43	12,957.70	15,698.11	21.15

- Reasons for increase in receipts during 2005-06 as compared to those of 2004-05, as intimated by the Land revenue department was as under:-

The increase in revenue was due to increase in the rate of non agriculture assessments, increase in the area for non agricultural purpose, adoption of special mode of recovery to collect the arrears.

- The reasons for variation in respect of other tax receipts, though called for in (October 2006), have not been received (February 2007).

1.1.3 The details of major non tax revenue raised during the year 2005-06 alongwith the figures for the preceding four years are given below:

(Rupees in crore)

Sl. No.	Heads of revenue	2001-02	2002-03	2003-04	2004-05	2005-06	Percentage of increase (+) or decrease (-) in 2005-06 over 2004-05
1	Interest receipts	1,594.30	1,684.88	897.12	469.72	130.91	(-) 72.13
2	Dairy development	0.35	0.20	0.34	0.45	0.45	-
3	Other non tax receipts	453.52	358.16	390.79	474.58	607.86	28.08
4	Forestry and wild life	28.34	32.49	49.85	42.39	42.76	0.87
5	Non ferrous mining and metallurgical industries	734.58	1,072.83	1,342.34	1422.42	1,880.18	32.18
6	Miscellaneous general services (including lottery receipts)	666.90	453.76	159.92	174.26	217.57	24.85
7	Power	0.01	5.10	77.08	52.13	21.26	(-) 59.22
8	Major and medium irrigation	132.09	267.23	202.78	207.09	248.62	20.05
9	Medical and public health	47.26	39.02	41.60	48.87	53.83	10.15
10	Co operation	12.84	14.68	14.28	14.94	16.55	10.78
11	Public works	13.49	11.72	18.53	30.92	26.99	(-) 12.71
12	Police	38.91	36.03	41.43	48.85	71.28	45.92
13	Other administrative services	38.35	19.48	35.90	103.88	35.11	(-) 66.20
	Total	3,760.94	3,995.58	3,271.96	3,090.50	3,353.37	8.51

- Reasons for increase in receipts during 2005-06 as compared to those of 2004-05, as intimated by Police department was as under:-

The increase in revenue was due to concerted action initiated against the defaulters in payments towards cost of police guards including railways pertaining to previous years and more recovery on account of levying penalty on implementation of wearing helmets.

- The reasons for variation in respect of other non tax receipts, though called for in (October 2006), have not been received (February 2007).

1.2 Variations between budget estimates and actuals

The variations between budget estimates and actuals of revenue receipts for the year 2005-06 in respect of the principal heads of tax and non tax revenue are given below:

(Rupees in crore)

Sl. No.	Head of revenue	Budget estimates	Actuals	Variations excess (+) or short fall (-)	Percentage of variation
Tax revenue					
1	Sales tax	9,000.00	10,561.34	1,561.34	17.35
2	Taxes and duties on electricity	1,800.00	1,899.68	99.68	5.54
3	Stamp duty and registration fees	1,100.00	1,153.16	53.16	4.83
4	Taxes on vehicles	1,300.00	1,153.97	(-) 146.03	(-) 11.23
5	Taxes on goods and passengers	189.49	156.30	(-) 33.19	(-) 17.52
6	Land revenue	134.42	380.23	245.81	182.87
7	State excise	54.69	48.06	(-) 6.63	(-) 12.12
8	Other taxes on income and expenditure	150.00	119.32	(-) 30.68	(-) 20.45
Non tax revenue					
9	Non ferrous mining and metallurgical industries	1,500.00	1,880.18	380.18	25.35
10	Interest receipts	552.50	130.91	(-) 421.59	(-) 76.31
11	Major & medium irrigation	400.00	248.62	(-) 151.38	(-) 37.85
12	Medical & public health	45.00	53.83	8.83	19.62
13	Forestry and wild life	60.00	42.76	(-) 17.24	(-) 28.73
14	Education, sports, arts & culture	64.20	64.81	0.61	0.95
15	Police	97.20	71.28	(-) 25.92	(-) 26.67
16	Public works	35.00	26.99	(-) 8.01	(-) 22.89
17	Miscellaneous general services	150.00	217.57	67.57	45.05

Reasons for variation as reported by Police department are as under:

The decrease was due to shortfall in recovery of police cost from other State Governments which was expected while preparing budget estimates.

The reasons for variation in respect of other receipts, though called for in October 2006, have not been received (February 2007).

1.3 Analysis of collection

Break-up of total collection at pre-assessment stage and after regular assessment of sales tax, motor spirit tax, profession tax, entry tax and luxury tax for the year 2005-06 and the corresponding figures for the preceding two years as furnished by the department is as follows:

(Rupees in crore)

Head of revenue	Year	Amount collected at pre-assessment stage	Amount collected after regular assessment (additional demand)	Amount refunded	Net collection	Percent -age of column 3 to 7
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Sales tax	2003-04	5,707.84	235.98	69.89	5,873.93	97
	2004-05	6,612.92	270.47	50.41	6,832.98	97
	2005-06	7,969.63	418.77	110.21	8,278.19	96
Motor spirit tax	2003-04	1,295.65	-	-	1,295.65	100
	2004-05	1,475.64	-	-	1,475.64	100
	2005-06	2,283.15	-	-	2,283.15	100
Profession tax	2003-04	99.41	-	-	99.41	100
	2004-05	132.91	-	-	132.91	100
	2005-06	119.32	-	-	119.32	100
Entry tax	2003-04	2.74	-	-	2.74	100
	2004-05	52.61	-	-	52.61	100
	2005-06	2.67	-	-	2.67	100
Luxury tax	2003-04	34.33	-	-	34.33	100
	2004-05	32.99	-	-	32.99	100
	2005-06	0	-	-	0	100

The table above shows that percentage of collection of revenue at pre-assessment stage ranged between 96 and 97 *per cent* under sales tax during the years 2003-04 to 2005-06.

1.4 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2003-04, 2004-05 and 2005-06 along with the relevant all India average percentage of expenditure on collection to gross collection for 2004-05 was as follows:-

(Rupees in crore)

Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage of cost of collection for the year 2004-05
Sales tax	2003-04	7,169.58	65.89	0.92	0.95
	2004-05	8,308.62	65.18	0.78	
	2005-06	10,561.34	75.15	0.70	
Taxes on vehicles and taxes on goods and passengers	2003-04	1,108.18	25.70	2.32	2.74
	2004-05	1,221.04	24.53	2.00	
	2005-06	1,310.27	24.81	1.87	
Stamp duty and registration fees	2003-04	824.67	31.51	3.82	3.44
	2004-05	962.80	24.96	2.59	
	2005-06	1,153.16	24.40	2.11	
State excise	2003-04	46.25	4.64	10.03	3.34
	2004-05	47.09	4.59	9.75	
	2005-06	48.06	5.17	10.75	

1.5 Collection of sales tax per assessee

(Rupees in crore)

Year	No. of assessees	Sales tax revenue	Revenue/assessee
2001-02	3,77,977	5,857.40	0.0155
2002-03	2,99,881	6,252.12	0.0208
2003-04	3,19,774	7,169.58	0.0224
2004-05	2,42,753	8,308.62	0.0342
2005-06	3,55,818	10,561.34	0.0297

1.6 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2006 in respect of some principal heads of revenue amounted to Rs.10,584.30 crore of which Rs.1,825.94 crore was outstanding for more than 5 years as detailed in the following table:

(Rupees in crore)

Sl. No.	Head of revenue	Amount outstanding as on 31 March 2006	Amount outstanding for more than 5 years as on 31 March 2006	Remarks
1	Sales tax	10,129.68	1,409.01	<ul style="list-style-type: none"> • Demand covered by recovery certificate Rs.305.03 crore. • Recovery of Rs.1,749.82 crore was stayed by High Court and other judicial authorities.

				<ul style="list-style-type: none"> • Recovery of Rs.123.16 crore has been held up due to dealers being insolvent. • An amount of Rs.740.84 crore unlikely to be recovered and hence proposed to be written off. • Rs.7,210.83 crore are at different stages of recovery.
2	Electricity duty	447.15	415.93	<ul style="list-style-type: none"> • Arrears of Rs.13.92 crore to be recovered from Baroda Municipal Corporation are pending with Government. • Cases are pending in BIFR, Delhi. Hence outstanding amount of Rs.3.07 crore could not be recovered. • An amount of Rs.0.92 crore to be recovered under land revenue code. Accordingly Collector has initiated action to recover the said amount. • An amount of Rs.367.50 crore is pending with High Court of Gujarat. • An amount of Rs.61.74 crore is to be recovered from GIPCL who has been ordered to make payment of the outstanding amount by 29 March 2006. Position of recovery has not been informed (October 2006).
3	Entertainments tax	7.44	0.97	Recovery of Rs.1.40 crore was stayed by High Court and other judicial authorities. Stage at which Rs.6.04 crore was outstanding was not known.
4	State excise	0.03	0.03	It is pending in the High Court.
	Total	10,584.30	1,825.94	

1.7 Arrears in assessments

The details of cases pending assessment at the beginning of the year 2005-06, cases becoming due for assessment during the year, cases disposed of during the year and number of cases pending finalisation at the end of the year 2005-06 as furnished by the Sales Tax Department in respect of sales tax, profession tax, purchase tax on sugarcane, entry tax, lease tax, luxury tax and tax on works contracts are as follows:

Name of tax	Opening balance as on 1 April 2005	New cases due for assessment during 2005-06	Total assessments due during 2005-06	Cases disposed of during 2005-06	Balance as on 31 March 2006	Percentage of column 6 to 4
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Sales tax	5,87,599	3,74,406	9,62,005	6,37,188	3,24,817	34
Motor spirit tax	2,663	1,161	3,824	719	3,105	81
Profession tax	3,40,480	82,983	4,23,463	69,187	3,54,276	84
Purchase tax on sugarcane	41	12	53	12	41	77
Entry tax	9	2	11	7	4	36
Lease tax	25	0	25	0	25	100
Luxury tax	22	10	32	16	16	50
Tax on works contracts	504	243	747	322	425	57
Total	9,31,343	4,58,817	13,90,160	7,07,451	6,82,709	49

It would be seen from the above that percentage of cases pending finalisation in Sales Tax Department under various heads ranged between 34 and 100 per cent as on 31 March 2006.

1.8 Evasion of tax

Details of evasion of tax detected by the Sales Tax and Energy and Petro Chemicals Departments, cases finalised and the demands for additional tax raised as reported by the departments is given below:

Sl. No.	Name of tax/duty	Cases pending as on 31 March 2005	Cases detected during 2005-06	Total	No. of cases in which assessments/ investigations completed and additional demand including penalty etc., raised		No. of cases pending finalisation as on 31 March 2006
					No. of cases	Amount of demand (Rupees in crore)	
1	Sales tax	1,000	331	1,331	302	660.69	1,029
2	Electricity duty	6	-	6	6	-	-

1.9 Write off and waiver of revenue

During the year 2005-06, no demands relating to sales tax, state excise and electricity duty were written off by the departments as irrecoverable.

1.10 Refunds

Number of refund cases pending at the beginning of the year 2005-06, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2005-06, as reported by the departments are given below:

Sl. No.	Category	Sales tax		(Rupees in crore) State excise	
		No. of cases	Amount	No. of cases	Amount
1	Claims outstanding at the beginning of the year 2005-06	3,740	88.41	Nil	Nil
2	Claims received during the year	4,724	58.24	1	1.44
3	Refunds made during the year	4,717	110.21	1	1.44
4	Balance outstanding at the end of the year	3,747	36.44	Nil	Nil

1.11 Results of audit

Test check of records of sales tax, land revenue, state excise, motor vehicles tax, stamp duty and registration fees, electricity duty, other tax receipts, forest receipts and other non tax receipts conducted during the year 2005-06 revealed under-assessment/short levy/loss of revenue amounting to Rs.351.73 crore in 1,062 cases. During the course of the year, the departments accepted under-assessment of Rs.10.16 crore in 686 cases and recovered Rs.3.11 crore in 487 cases pointed out in 2005-06 and earlier years. No replies have been received in respect of the remaining cases.

This report contains 39 paragraphs including three reviews relating to non/short levy of taxes, duties, interest and penalties etc., involving Rs.441.53 crore. The departments/Government accepted audit observations involving Rs.427.76 crore of which Rs.21.94 crore had been recovered.

1.12 Failure of senior officials to enforce accountability and protect interest of Government

Principal Accountant General (Commercial and Receipt Audit) PAG(C&RA), Gujarat, arranges to conduct periodical inspection of the Government departments concerned with tax revenue of the State to test check transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed up with inspection reports (IRs). When important irregularities etc., detected during inspection are not settled on the spot, these IRs are issued to the heads of offices inspected with a copy to the next higher authority. The heads of offices and respective next higher authorities are required to ensure compliance with the observations contained in the IRs and rectify the defects and omissions promptly and report their compliance to the PAG. Serious irregularities are also brought to the notice of the heads of the departments by the office of the PAG(C&RA) through draft paragraphs. A half yearly report of the pending IRs and audit observations is sent to the Secretary of the concerned Department to facilitate monitoring of the audit observations in the pending IRs.

The number of IRs and audit observations relating to revenue receipts issued upto 31 December 2005 and pending settlement by the departments as on 30 June 2006 along with corresponding figures for the preceding two years is given below:

Particulars	As at the end of		
	June 2004	June 2005	June 2006
Number of outstanding inspection reports	3,908	3,152	3,769
Number of outstanding audit observations	9,988	8,139	9,145
Amount of revenue involved (Rupees in crore)	2,351.17	2,375.52	3,127.96

IRs issued upto December 2005 pertaining to the offices of sales tax, profession tax, forest, land revenue, motor vehicles tax, stamp duty and registration fees, entertainment tax and luxury tax disclosed that 9,145 observations relating to 3,769 IRs remained outstanding at the end of June 2006. Of these, 1,256 IRs containing 3,385 observations had not been settled for more than seven years. Even the initial replies which were required to be received from the heads of offices within one month from the date of issue were not received in respect of 202 IRs issued during the year 2005-06. As a result, serious irregularities commented upon in these IRs had not been settled as of June 2006.

Departmentwise break up of IRs and audit observations pending as on 30 June 2006 is detailed in the Annexure-I.

1.13 Departmental audit committee meetings

In order to expedite the settlement of outstanding audit observations contained in the IRs, departmental audit committees are constituted in all the departments of Government. These committees are chaired by secretaries of the concerned administrative departments and attended by the concerned officers of the State Government and officers of the PAG(C&RA), Ahmedabad/ Accountant General (Civil Audit), Rajkot.

In order to expedite clearance of the outstanding audit observations, it is necessary that the audit committees meet regularly and ensure that final action is taken on all audit observations outstanding for more than a year, leading to their settlement. The information regarding number of audit committee meetings held, IRs and paras settled during the year 2005-06 is as follows:

Sl. No.	Name of the Department	No. of audit committee meetings held	No. of IRs/Paras settled		Money Value of paras settled
			IRs	Paras	
			(Rupees in lakh)		
1	Sales tax	8	87	500	337.71
2	Entertainments tax	-	-	-	-
3	Land revenue	2	1	42	10.84
4	Stamp duty and registration fees	1	2	6	0.79
5	Motor vehicle tax	1	1	27	339.66
6	Geology and Mining	1	1	33	1,209.96

No meetings were convened by the departments of Energy and Petro Chemicals, Information and Broadcasting, State Excise and Forest. This indicates that the above departments have not taken initiative in using the machinery created for settling the outstanding audit observations.

1.14 Response of the departments to draft audit paragraphs

According to the handbook of instructions for speedy settlement of draft paragraphs issued by the Finance Department on 12 March 1992, results of verification of facts contained in the draft paragraphs are required to be communicated to the Accountant General (AG) within six weeks from the date of their receipt. In exceptional cases where it is not possible to furnish final reply to the draft paragraph within the above time limit, an interim reply should be given to the AG.

59 draft paragraphs (clubbed into 39 paragraphs) proposed for inclusion in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2006 (Revenue Receipts) were forwarded to the Secretaries of the respective departments between February and April 2006 through demi official letters. The secretaries of the respective departments sent replies to 58 draft paragraphs. These paragraphs have been included in this report after incorporating the response of the secretaries of the departments.

1.15 Follow up on Audit Reports-summarised position

As per instructions issued by the Finance Department on 12 March 1992, administrative departments are required to submit explanatory notes on paragraphs and reviews included in the Audit Reports (ARs) within three months of presentation of the ARs to the legislature, without waiting for any notice or call from the Public Accounts Committee, duly indicating the action taken or proposed to be taken.

The ARs for the years 2002-03, 2003-04 and 2004-05 were presented to the State legislature on 21 February 2005, 13 September 2005 and 6th March 2006 respectively. Certain departments as detailed below had not submitted explanatory notes for the number of paragraphs shown as of August 2006.

Name of the Department	2002-03	2003-04	2004-05	Total
Finance (Sales tax)	17	14	18	49
Revenue (Stamp duty)	07	09	06	22
(Land revenue)	06	06	06	18
Home (Transport)	07	03	05	15
Information, Broadcasting and Tourism (Entertainments tax & Luxury tax)	09	04	03	16
Industries, Mines & Energy and Petrochemicals (Electricity duty & Mining receipts)	01	01	01	03
Total	47	37	39	123

1.16 Recovery of revenue of accepted cases

During the years between 2000-01 and 2004-05 the department/Government accepted audit observations involving Rs.4,342.92 crore of which an amount of Rs.30.60 crore was recovered till 31 March 2006 as detailed below:

Year of Audit Report	Total money value	Accepted money value	(Rupees in crore)
			Recovery made
2000-01	1,665.06	130.52	5.75
2001-02	676.23	29.51	0.52
2002-03	677.60	141.24	3.66
2003-04	1,076.89	151.93	13.71
2004-05	247.14	131.34	6.96
Total	4,342.92	584.54	30.60