

## CHAPTER - I

### GENERAL

#### 1.1 Trend of revenue receipts

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

(Rupees in crore)

		2002-03	2003-04	2004-05	2005-06	2006-07
<b>I</b>	<b>Revenue raised by the State Government</b>					
	• Tax revenue	9,520.66	11,173.43	12,957.70	15,698.11	18,464.63
	• Non-tax revenue	3,995.58	3,271.96	3,090.50	3,353.37	4,948.78
	<b>Total</b>	<b>13,516.24</b>	<b>14,445.39</b>	<b>16,048.20</b>	<b>19,051.48</b>	<b>23,413.41</b>
<b>II</b>	<b>Receipts from the Government of India</b>					
	• State's share of divisible Union taxes	1,363.22	1,965.48	2,219.30	3,372.43	4,425.95
	• Grants-in-aid	2,995.88	1,836.65	1,997.45	2,642.96	3,162.86
	<b>Total</b>	<b>4,359.10</b>	<b>3,802.13</b>	<b>4,216.75</b>	<b>6,015.39</b>	<b>7,588.81</b>
<b>III</b>	<b>Total receipts of the State (I+II)</b>	<b>17,875.34</b>	<b>18,247.52</b>	<b>20,264.95<sup>1</sup></b>	<b>25,066.87</b>	<b>31,002.22</b>
<b>IV</b>	<b>Percentage of I to III</b>	<b>76</b>	<b>79</b>	<b>79</b>	<b>76</b>	<b>76</b>

The above table indicates that during 2006-07, the revenue raised by the State Government was 76 per cent of the total revenue receipts (Rs. 31,002.22 crore). The balance 24 per cent of receipts during 2006-07 was from the Government of India.

<sup>1</sup> For details, please see statement No. 11: Detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Gujarat for 2006-07. 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 the revenue raised by the State and included in the State's share of divisible Union taxes in this statement.

1.1.2 The following table presents the details of tax revenue raised by the State during the period from 2002-03 to 2006-07:

(Rupees in crore)

Sl. No.	Heads of revenue	2002-03	2003-04	2004-05	2005-06	2006-07	Percentage of increase (+) or decrease (-) in 2006-07 over 2005-06
1.	Sales tax	5,095.00	5,772.58	6,702.03	8,646.13	10,886.21	(+) 25.91
	Central sales tax	1,157.13	1,397.00	1,606.59	1,915.21	1,931.25	(+) 0.84
2.	State excise	47.11	46.25	47.09	48.06	41.94	(-) 12.73
3.	Stamp duty and registration fees	649.88	824.67	962.80	1,153.16	1,425.03	(+) 23.58
4.	Taxes and duties on electricity	1,383.84	1,592.19	1,829.07	1,899.68	2,087.77	(+) 9.90
5.	Taxes on vehicles	808.11	936.39	1,060.93	1,153.97	1,191.15	(+) 3.22
6.	Taxes on goods and passengers	11.09	171.79	160.11	156.30	5.96	(-) 96.19
7.	Other taxes on income and expenditure	95.64	99.41	132.91	119.32	131.07	(+) 9.85
8.	Other taxes and duties on commodities and services	177.67	206.36	221.29	226.05	265.54	(+) 17.47
9.	Land revenue	95.19	126.79	234.88	380.23	498.71	(+) 31.16
<b>Total</b>		<b>9,520.66</b>	<b>11,173.43</b>	<b>12,957.70</b>	<b>15,698.11</b>	<b>18,464.63</b>	<b>(+) 17.62</b>

The reasons for variations in receipts during 2006-07 from those of 2005-06 as reported by the departments are mentioned below:

**Sales tax:** The increase was due to the introduction of VAT from 1 April 2006. The prices of petroleum were raised on four occasions. This coupled with lower sale of private companies enjoying exemption resulted in significant growth of 48 *per cent* in revenue from the petroleum sector.

**Stamp duty and registration fees:** The increase (24 *per cent*) was due to increase in the number of documents registered during the year..

**Land revenue:** The increase was mainly due to more receipts under land revenue/tax receipts from management of ex-zamindari estates and receipts on account of survey and settlement operations.

**Taxes on goods and passengers:** The decrease was mainly due to non-receipt of passenger tax from the fleet owner i.e. Gujarat State Road Transport Corporation.

The other departments did not inform (November 2007) the reasons for variation despite being requested (July 2007).

**1.1.3** The following table presents the details of non-tax revenue raised by the State during the period from 2002-03 to 2006-07:

**(Rupees in crore)**

Sl. No.	Heads of revenue	2002-03	2003-04	2004-05	2005-06	2006-07	Percentage of increase (+) or decrease (-) in 2006-07 over 2005-06
1.	Interest receipts	1,684.88	897.12	469.72	130.91	283.07	(+) 116.23
2.	Dairy development	0.20	0.34	0.45	0.45	0.48	(+) 6.66
3.	Other non-tax receipts	358.16	390.79	474.58	607.86	914.20	(+) 50.40
4.	Forestry and wild life	32.49	49.85	42.39	42.76	36.91	(-) 13.68
5.	Non-ferrous mining and metallurgical industries	1,072.83	1,342.34	1422.42	1,880.18	2,173.76	(+) 15.61
6.	Miscellaneous general services (including lottery receipts)	453.76	159.92	174.26	217.57	968.96	(+) 345.33
7.	Power	5.10	77.08	52.13	21.26	0.06	(-) 99.72
8.	Major and medium irrigation	267.23	202.78	207.09	248.62	330.61	(+) 32.98
9.	Medical and public health	39.02	41.60	48.87	53.83	66.68	(+) 23.87
10.	Co-operation	14.68	14.28	14.94	16.55	16.18	(-) 2.24
11.	Public works	11.72	18.53	30.92	26.99	30.64	(+) 13.52
12.	Police	36.03	41.43	48.85	71.28	90.66	(+) 27.19
13.	Other administrative services	19.48	35.90	103.88	35.11	36.57	(+) 4.16
<b>Total</b>		<b>3,995.58</b>	<b>3,271.96</b>	<b>3,090.50</b>	<b>3,353.37</b>	<b>4,948.78</b>	<b>(+) 47.58</b>

The reasons for variations in receipts during 2006-07 from those of 2005-06 as reported by the departments are mentioned below:

**Interest receipts:** The increase in the collection of interest was from the interest income on investments of cash balances that had been classified under debts and deposit account head earlier and was taken as interest income in this year.

**Non-ferrous mining and metallurgical industries:** The increase was due to receipt of more royalty on account of petroleum and gas.

**Miscellaneous general services:** The increase was due to receipt of Rs. 846 crore, debt relief given by the Department of Expenditure, Ministry of Finance, Government of India.

**Major and medium irrigation:** The increase was due to more receipts from Machhundari Irrigation, Hathmati Reservoir Project and Ukai Project on account of water charges.

**Forestry and wild life:** There was decrease in revenue from 'sale of timber and other forest produce'.

The other concerned departments did not inform (November 2007) the reasons for variation despite being requested (July 2007).

## 1.2 Variations between budget estimates and actuals

The variations between the budget estimates and actuals of revenue receipts for the year 2006-07 in respect of the principal heads of tax and non-tax revenue are as mentioned below:

(Rupees in crore)					
Sl. No.	Head of revenue	Budget estimates	Actuals	Variations excess (+) or short fall (-)	Percentage of variation
<b>Tax revenue</b>					
1.	Sales tax	10,900.00	12,817.46	(+) 1,917.46	(+) 17.59
2.	Taxes and duties on electricity	2,000.00	2,087.77	(+) 87.77	(+) 4.39
3.	Stamp duty and registration fees	1,200.00	1,425.03	(+) 225.03	(+) 18.75
4.	Taxes on vehicles	1,200.00	1,191.15	(-) 8.85	(-) 0.74
5.	Taxes on goods and passengers	208.43	5.96	(-) 202.47	(-) 97.14
6.	Land revenue	250.00	498.71	(+) 248.71	(+) 99.48
7.	State excise	58.52	41.94	(-) 16.58	(-) 28.33
8.	Other taxes on income and expenditure	160.50	131.07	(-) 29.43	(-) 18.34
<b>Non-tax revenue</b>					
9.	Non-ferrous mining and metallurgical industries	1,745.00	2,173.76	(+) 428.76	(+) 24.57
10.	Interest receipts	169.95	283.07	(+) 113.12	(+) 66.56
11.	Major and medium irrigation	300.00	330.61	(+) 30.61	(+) 10.20

12.	Medical and public health	55.00	66.68	(+)11.68	(+) 21.24
13.	Forestry and wild life	60.00	36.91	(-) 23.09	(-) 38.48
14.	Education, sports, arts and culture	68.50	66.39	(-) 2.11	(-) 3.08
15.	Police	98.50	90.66	(-) 7.84	(-) 7.96
16.	Public works	45.00	30.64	(-) 14.36	(-) 31.91
17.	Miscellaneous general services	155.00	968.96	(+) 813.96	(+) 525.14

The reasons for the variations between budget estimates and actual receipts as reported by the concerned departments are mentioned below:

**Sales tax:** Introduction of VAT from 1 April 2006 coupled with the increase in the prices of petroleum products resulted in increase in collection over the estimates.

**Stamp duty and registration fees:** The increase was due to the increase in the numbers of documents registered.

**Land revenue:** The increase was mainly due to more receipts under land revenue/tax receipts from management of ex-zamindari estates and receipts on account of survey and settlement operation.

**Taxes on goods and passengers:** The decrease was mainly due to non-receipt of payment of passenger tax from the fleet owner i.e. Gujarat State Road Transport Corporation.

**Interest receipts:** The income on investments of cash balances that had been classified under debts and deposit account head earlier, was taken in the interest income this year.

**Non-ferrous mining and metallurgical industries:** The increase was due to receipt of more royalty on account of petroleum and gas.

**Miscellaneous general services:** The increase was due to receipt of Rs. 846 crore, debt relief given by Department of Expenditure, Ministry of Finance, Government of India.

**Major and medium irrigation:** The increase was due to more receipts from Machhundari Irrigation, Hathmati Reservoir Project and Ukai Project on account of water charges.

**Forestry and wild life:** There was decrease in revenue from 'sale of timber and other forest produce'.

The other concerned departments did not inform (November 2007) the reasons for variation, despite being requested (July 2007).

### 1.3 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 2004-05, 2005-06 and 2006-07 along with the relevant all India average percentage of expenditure on collection to gross collection for 2005-06 are mentioned below:

(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 2006-07
Sales tax	2004-05	8,308.62	65.11	0.78	0.91
	2005-06	10,561.34	74.83	0.71	
	2006-07	12,817.46	83.03	0.65	
Taxes on vehicles and taxes on goods and passengers	2004-05	1,221.04	24.49	2.0	2.67
	2005-06	1,310.27	31.90	2.44	
	2006-07	1,197.11	26.15	2.18	
Stamp duty and registration fees	2004-05	962.80	21.35	2.22	2.87
	2005-06	1,153.16	22.67	1.97	
	2006-07	1,425.03	25.02	1.76	
State excise	2004-05	47.09	4.53	9.62	3.40
	2005-06	48.06	5.09	10.59	
	2006-07	41.94	5.06	12.06	

Thus, the percentage of expenditure on collection under state excise was considerably higher than the all India average and the Government needs to look into this aspect.

#### 1.4 Analysis of collection

The break-up of the total collection at the pre-assessment stage and after regular assessment of sales tax, motor spirit tax, profession tax, entry tax and luxury tax for the year 2006-07 and the corresponding figures for the preceding two years as furnished by the departments are mentioned below:

(Rupees in crore)

Heads of revenue	Year	Amount collected at pre-assessment stage	Amount collected after regular assessment (additional demand)	Amount refunded	Net collection	Percentage of column 3 to 7
(1)	(2)	(3)	(4)	(6)	(7)	(8)
Sales tax	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
	2006-07	12463.47	397.57	630.76	12,230.28	102
Motor spirit tax	2004-05	1,475.64	-	-	1,475.64	100
	2005-06	2,282.67	-	-	2,282.67	100
	2006-07	587.18	-	-	587.18	100
Profession tax	2004-05	132.91	-	-	132.91	100
	2005-06	119.32	-	-	119.32	100
	2006-07	131.07	-	-	131.07	100

Entry tax	2004-05	52.61	-	-	52.61	100
	2005-06	2.67	-	-	2.67	100
	2006-07	112.06	-	-	112.06	100
Luxury tax	2004-05	32.99	-	-	32.99	100
	2005-06	-	-	-	-	100
	2006-07	-	-	-	-	-

Thus, the percentage of collection of revenue at pre-assessment stage ranged between 96 and 102 *per cent* under sales tax during the years 2004-05 to 2006-07 and was 100 *per cent* under the remaining heads of revenue.

### 1.5 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2007 in respect of some major principal heads of revenue amounted to Rs. 8,877.81 crore of which Rs. 2,544.63 crore was outstanding for more than five years as mentioned below:

(Rupees in crore)				
Sl. No.	Head of revenue	Amount outstanding as on 31 March 2007	Amount outstanding for more than 5 years as on 31 March 2007	Remarks
1.	Sales tax	8,352.53	2,025.82	Out of Rs. 8,352 crore, demand of Rs. 616.75 crore was covered by recovery certificate cases. Recovery of Rs. 3,662.42 crore was stayed by High Court and other judicial authorities. Recovery of Rs. 151.48 crore was held up due to dealers being insolvent. Rs. 708.97 crore was unlikely to be recovered and hence proposed to be written off and Rs. 3,212.91 crore was under various stages of recovery.
2.	Electricity duty	517.81	517.81	Out of Rs. 517.81 crore, recovery of Rs. 13.92 crore from Baroda Municipal Corporation are pending with Government. Rs. 3.11 crore could not be recovered as the cases are pending in BIFR, Delhi. Rs. 79 lakh are to be recovered under land revenue code. Recovery of Rs. 3.49 crore is pending with High Court of Gujarat. Rs. 445.52 crore is pending at various stages with the Government. Rs. 50.98 crore is to be recovered from GIPCL.
3.	Entertainments tax	7.44	0.97	Recovery of Rs. 1.4 crore was stayed by the High Court and other judicial authorities. Stage at which Rs. 6.04 crore was outstanding was not intimated.
4.	State excise	0.03	0.03	Pending in the High Court.
<b>Total</b>		<b>8,877.81</b>	<b>2,544.63</b>	

## 1.6 Arrears in assessments

The details of assessment cases pending at the beginning of the year 2006-07, cases becoming due for assessment during the year, cases disposed during the year and number of cases pending at the end of the year 2006-07 alongwith the figures for the preceding four years as furnished by the Sales Tax Department<sup>2</sup> are mentioned below :

(Rupees in crore)

Year	Opening balance as on 1 April	Additions during the year	Total (2+3)	Clearance during the year	Closing balance at the end of the year(4-5)	Percentage of column 6 to 4
1	2	3	4	5	6	7
2002-03	20,39,024	4,97,241	25,36,265	11,61,028	13,75,237	54
2003-04	13,75,237	1,77,285	15,52,522	7,16,847	8,35,675	54
2004-05	8,35,675	3,86,757	12,22,432	2,91,089	9,31,343	76
2005-06	9,31,343	4,58,817	13,90,160	7,07,451	6,82,709	49
2006-07	6,82,709	4,24,113	11,06,822	3,78,420	7,28,402	66

Thus, the percentage of closing balance at the end of each year during 2002-03 to 2006-07 to total cases becoming due for assessment ranged between 49 and 66 per cent.

## 1.7 Evasion of tax

The details of cases of evasion of tax detected by the Sales Tax, Motor Vehicle and Stamp Duty and Registration Fees departments, cases finalised and the demands for additional tax raised as reported by the departments are mentioned below:

Sl. No.	Heads of revenue	Cases pending as on 1 April 2006	Cases detected during 2006-07	Total	No. of cases in which assessments/ investigations completed and additional demand including penalty etc., raised		No. of cases pending on 31 March 2007
					No. of cases	Amount (Rupees in crore)	
1.	Sales tax	1,029	343	1,372	511	160.68	861
2.	Motor vehicle tax	70,131	27,524	97,655	25,334	2,215.15	72,321
3.	Stamp duty and registration fees	1,43,670	28,010	1,71,680	44,561	4,995	1,27,119

## 1.8 Refunds

The number of refund cases pending at the beginning of the year 2006-07, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2006-07, as reported by the Sales Tax Department are mentioned below:

<sup>2</sup> In respect of sales tax, profession tax, purchase tax on sugarcane, entry tax, lease tax, luxury tax and tax on works contracts

Sl. No.	Particulars	(Rupees in crore)	
		Sales tax	
		No. of cases	Amount
1.	Claims outstanding at the beginning of the year 2006-07	3,747	36.44
2.	Claims received during the year	1,593	874.81
3.	Refunds made during the year	1,299	713.00
4.	Balance outstanding at the end of the year	4,041	198.25

### 1.9 Results of audit

Test check of the 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 2006-07 revealed underassessment/short levy/loss of revenue amounting to Rs. 589.36 crore in 1,248 cases. During the year, the departments accepted underassessment of Rs. 6.91 crore in 152 cases and recovered Rs. 2.32 crore in 81 cases pointed out in 2006-07 and earlier years.

This report contains 29 paragraphs relating to non/ short/levy of taxes, duties, interest and penalties and other audit observations involving Rs. 94.53 crore. The departments/Governments accepted audit observations involving Rs. 23.84 crore of which Rs. 1.74 crore had been recovered. No replies have been received in respect of the remaining cases.

### 1.10 Failure to enforce accountability and protect interest of the Government

Principal Accountant General (Commercial and Receipt Audit) PAG (C&RA), Gujarat, arranges to conduct periodical inspection of the Government departments to test check the transactions and verify the maintenance of important accounting and other records as per the prescribed rules and procedures. These inspections are followed up with inspection reports (IRs). When important irregularities 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 inspection reports 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 2006 and pending settlement by the departments as on 30 June 2007 along with the corresponding figures for the preceding two years is mentioned below:

Particulars	As at the end of		
	June 2005	June 2006	June 2007
Number of outstanding IRs	3,152	3,769	3,548
Number of outstanding audit observations	8,139	9,145	9,493
Amount of revenue involved (Rupees in crore)	2,375.52	3,127.96	3,447.39

IRs issued upto December 2006 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 9,493 observations relating to 3,548 IRs remained outstanding at the end of June 2007. Of these, 1,340 IRs containing 3,732 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 217 IRs issued during the year 2006-07. As a result, serious irregularities commented upon in these IRs had not been settled as of June 2007.

The department wise break up of IRs and audit observations pending as on 30 June 2007 is detailed in the Annexure-I.

### 1.11 Departmental audit committee meetings

In order to expedite the settlement of the outstanding audit observations contained in the IRs, the departmental audit committees are constituted in all the departments of Government. These committees are chaired by the 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 the 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 paragraphs settled during the year 2006-07 is mentioned below:

(Rupees in lakh)

Sl. No.	Name of the department	No. of audit committee meetings held	No. of IRs/paragraphs settled		Money value of paragraphs settled
			IRs	Paragraphs	
1.	Sales tax	3	2	54	27.23
2.	Entertainments tax	1	12	27	131.44
3.	Land revenue	1	6	10	0.92
4.	Stamp duty and registration fees	1	1	6	3.15
5.	Motor vehicle tax	-	-	-	-
6.	Geology and mining	-	-	-	-
7.	Luxury tax	1	3	31	27.01

### 1.12 Response of the departments to draft audit paragraphs

According to the hand book 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.

46 draft paragraphs proposed (clubbed into 29 paragraphs) for inclusion in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2007 (Revenue Receipts) were forwarded to the secretaries of the respective departments between February and April 2007 through demi-official letters. The secretaries of the respective departments sent replies to 14 draft paragraphs. These paragraphs have been included in this report after incorporating the response of the secretaries of the departments.

### 1.13 Follow-up on Audit Reports - summarised position

As per the instructions issued by the Finance Department on 12 March 1992, the administrative departments are required to submit explanatory notes on the 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 2003-04 and 2004-05 were presented to the State Legislature on 13 September 2005 and 6 March 2006 respectively and the AR for the year 2005-06 has not been presented. Stamp duty and registration department submitted nine explanatory notes for the year 2003-04 and six for 2004-05 .

### 1.14 Recovery of revenue relating to accepted cases

During the years between 2000-01 and 2005-06 the department/Government accepted audit observations involving Rs. 4,784.45 crore of which Rs. 52.54 crore had been recovered till 31 March 2007 as mentioned below:

(Rupees in crore)

Year of Audit Report	Total money value	Accepted money value	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
2005-06	441.53	427.76	21.94
<b>Total</b>	<b>4,784.45</b>	<b>1,012.30</b>	<b>52.54</b>