

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 grant-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)

		2003-04	2004-05	2005-06	2006-07	2007-08
I	Revenue raised by the State Government					
	• Tax revenue	11,173.43	12,957.70	15,698.11	18,464.63	21,885.57
	• Non tax revenue	3,271.96	3,090.50	3,353.37	4,948.78	4609.31
	Total	14,445.39	16,048.20	19,051.48	23,413.41	26,494.88
II	Receipts from the Government of India					
	• State's share of divisible Union taxes	1,965.48	2,219.30	3,372.43	4,425.95	5,426.09
	• Grants-in-aid	1,836.65	1,997.45	2,642.96	3,162.86	3,768.88
	Total	3,802.13	4,216.75	6,015.39	7,588.81	9,194.97
III	Total receipts of the State	18,247.52	20,264.95	25,066.87	31,002.22	35,689.85¹
IV	Percentage of I to III	79	79	76	76	74

The above table indicates that during the year 2007-08 revenue raised by State Government was 74 per cent of the total revenue receipts (Rs. 35,689.85 crore). The balance 26 per cent of receipts was from the Government of India.

1.1.2 The following table presents the details of tax revenue raised by the State during the period from 2003-04 to 2007-08:

¹ 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.

Audit Report (Revenue Receipts) for the year ended 31 March 2008

(Rupees in crore)

Sl. No.	Heads of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Percentage of increase (+) or decrease (-) in 2007-08 over 2006-07
1.	Sales tax/ VAT	5,772.58	6,702.03	8,646.13	10,886.21	13,199.04	(+) 21.25
	Central sales tax	1,397.00	1,606.59	1,915.21	1,931.25	1,905.50	(-) 1.33
2.	State excise	46.25	47.09	48.06	41.94	47.20	(+) 12.54
3.	Stamp duty and registration fees	824.67	962.80	1,153.16	1,425.03	2,018.43	(+) 41.64
4.	Taxes and duties on electricity	1,592.19	1,829.07	1,899.68	2,087.77	2,046.52	(-) 1.98
5.	Taxes on vehicles	936.39	1,060.93	1,153.97	1,191.15	1,310.09	(+) 9.99
6.	Taxes on goods and passengers	171.79	160.11	156.30	5.96	151.62	(+) 2,443.96
7.	Other taxes on income and expenditure	99.41	132.91	119.32	131.07	149.67	(+) 14.19
8.	Other taxes and duties on commodities and services	206.36	221.29	226.05	265.54	374.41	(+) 41.00
9.	Land revenue	126.79	234.88	380.23	498.71	683.09	(+) 36.97
	Total	11,173.43	12,957.70	15,698.11	18,464.63	21,885.57	(+) 18.53

The reasons for variations in receipts during the year 2007-08 from those of 2006-07 as reported by the departments are mentioned below:

Sales tax: The State Government launched a special scheme-*Vechanvera Samadhan Yojana-2007* by which an amount of Rs. 122.24 crore was recovered. Moreover, the prices of petroleum had upward revision on two occasions.

Stamp duty and registration fees: More documents were registered in the month of March 2008 as the Government increased the specified rate of land i.e. *Jantri* for registration in the month of February 2008 effective from 1 April 2008. The executants of instruments availed the benefit of old rate in the month of March 2008 which resulted in increase of receipt.

Taxes on goods and passengers: The Gujarat State Road Transport Corporation paid passenger tax, which was not paid during the year 2006-07.

The other departments did not inform (November 2008) the reasons for variation despite being requested (May 2008).

1.1.3 The following table presents the details of non-tax revenue raised by the State during the period from 2003-04 to 2007-08:

(Rupees in crore)							
Sl. No.	Heads of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Percentage of increase (+) or decrease (-) in 2007-08 over 2006-07
1.	Interest receipts	897.12	469.72	130.91	283.07	329.88	(+) 16.54
2.	Dairy development	0.34	0.45	0.45	0.48	0.45	(-) 6.25
3.	Other non tax receipts	390.79	474.58	607.86	914.20	870.55	(-) 4.77
4.	Forestry and wild life	49.85	42.39	42.76	36.91	35.08	(-) 4.96
5.	Non ferrous mining and metallurgical industries	1,342.34	1422.42	1,880.18	2,173.76	2,082.14	(-) 4.21
6.	Miscellaneous general services (including lottery receipts)	159.92	174.26	217.57	968.96	588.53	(-) 39.26
7.	Power	77.08	52.13	21.26	0.06	6.57	(+) 10850
8.	Major and medium irrigation	202.78	207.09	248.62	330.61	452.82	(+) 36.97
9.	Medical and public health	41.60	48.87	53.83	66.68	66.25	(-) 0.64
10.	Co-operation	14.28	14.94	16.55	16.18	15.68	(-) 3.09
11.	Public works	18.53	30.92	26.99	30.64	27.19	(-) 11.26
12.	Police	41.43	48.85	71.28	90.66	86.24	(-) 4.88
13.	Other administrative services	35.90	103.88	35.11	36.57	47.93	(+) 31.06
	Total	3,271.96	3,090.50	3,353.37	4,948.78	4,609.31	(-) 6.86

The reasons for variations in receipts during the year 2007-08 from those of 2006-07, were not furnished by the departments (November 2008) despite being requested (May 2008).

1.2 Variations between the budget estimates and actuals

The variations between the budget estimates and actuals of revenue receipts for the year 2007-08 in respect of the principal heads of tax and non-tax revenue are as mentioned below:

(Rupees in crore)

Sl. No.	Heads of revenue	Budget estimates	Actuals	Variation excess (+) or short fall (-)	Percentage of variation
Tax revenue					
1.	Sales tax	15,080.00	15,104.54	(+) 24.54	(+) 0.16
2.	Taxes and duties on electricity	2,140.00	2,046.52	(-) 93.48	(-) 4.37
3.	Stamp duty and registration fees	1,450.00	2,018.44	(+) 568.44	(+) 39.20
4.	Taxes on vehicles	1,284.00	1,310.09	(+) 26.09	(+) 2.03
5.	Taxes on goods and passengers	223.02	151.62	(-) 71.40	(-) 32.02
6.	Land revenue	267.50	683.09	(+) 415.59	(+) 155.36
7.	State excise	50.00	47.20	(-) 2.80	(-) 5.60
8.	Other taxes on income and expenditure	123.00	149.58	(+) 26.58	(+) 21.61
Non-Tax revenue					
9.	Non-ferrous mining and metallurgical industries	2,150.00	2,082.14	(-) 67.86	(-) 3.16
10.	Interest receipts	186.95	329.88	(+) 142.93	(+) 76.45
11.	Major and medium irrigation	317.00	452.82	(+) 135.82	(+) 42.85
12.	Medical and public health	58.00	66.25	(+) 8.25	(+) 14.22
13.	Forestry and wild life	49.86	35.08	(-) 14.78	(-) 29.64
14.	Education, sports, arts and culture	73.30	67.13	(-) 6.17	(-) 8.42
15.	Police	112.05	86.24	(-) 25.81	(-) 23.03
16.	Public works	45.00	27.19	(-) 17.81	(-) 39.58
17.	Miscellaneous general services	148.00	588.53	(+) 440.53	(+) 297.66

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

Stamp duty and registration fees: The Government increased the specified rate of land for registration in the month of February 2008 effective from 1 April 2008. The executants of instruments availed the benefit of old rate in the month of March 2008 which resulted in increase of receipt.

The other departments did not inform (November 2008) the reasons for variation despite being requested (May 2008).

1.3 Analysis of collection

The break-up of the total collection at the pre-assessment stage and after regular assessment of sales tax and motor spirit tax for the year 2007-08 and the corresponding figures for the preceding two years as furnished by the department is 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	2005-06	7,969.63	418.77	110.21	8,278.19	96
	2006-07	12,463.47	397.57	630.76	12,230.28	102
	2007-08	14,918.87	447.05	712.85	14,659.07	102
Motor spirit tax	2005-06	2,282.67	-	-	2,282.67	100
	2006-07	587.18	-	-	587.18	100
	2007-08	451.47			451.47	100

The percentage of collection of revenue at pre-assessment stage ranged between 96 and 102 *per cent* under sales tax during the years 2005-06 to 2007-08 and was 100 *per cent* under motor spirit tax.

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 2005-06, 2006-07 and 2007-08 along with the relevant all India average percentage of expenditure on collection to gross collection for 2006-07 are mentioned below:

(Rupees in crore)

Heads 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	2005-06	10,561.34	74.83	0.71	0.82
	2006-07	12,817.46	83.03	0.65	
	2007-08	15,104.54	98.43	0.65	
Taxes on vehicles and taxes on goods and passengers	2005-06	1,310.27	31.90	2.44	2.47
	2006-07	1,197.11	26.15	2.18	
	2007-08	1,461.71	38.57	2.64	
Stamp duty and registration fees	2005-06	1,153.16	22.67	1.97	2.33
	2006-07	1,425.03	25.02	1.76	
	2007-08	2,018.44	26.23	1.30	
State excise	2005-06	48.06	5.09	10.59	3.30
	2006-07	41.94	5.06	12.06	
	2007-08	47.20	7.65	16.21	

The percentage of expenditure on collection under taxes on vehicles and taxes on goods and passengers and state excise was higher than the all India average and Government needs to look into this aspect.

1.5 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2008 in respect of some principal heads of revenue amounted to Rs. 8,673.54 crore of which Rs. 2,147.88 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 2008	Amount outstanding for more than 5 years as on 31 March 2008	Remarks
1.	Sales tax	7,939.50	1,839.01	Out of Rs. 7,939.50 crore, demand of Rs. 943.81 crore was covered by recovery certificate. Recovery of Rs. 2,805.59 crore was stayed by High Court of Gujarat and other judicial authorities. Recovery of Rs. 145.36 crore was held up due to dealers being insolvent. Rs. 159.59 crore was unlikely to be recovered and hence proposed to be written off and Rs. 3,885.15 crore was under various stages of recovery.
2.	Electricity duty	651.43	258.81	Out of Rs. 651.43 crore, case for recovery of Rs. 13.92 crore from Vadodara Municipal Corporation is

				pending with Government. Rs. 40.15 crore could not be recovered as the cases are pending in BIFR. Rs. 2.74 crore to be recovered under land revenue code. Recovery of Rs. 594.62 crore was stayed by High Court of Gujarat.
3.	Entertainments tax	6.88	0.34	Out of Rs. 6.88 crore, recovery of Rs. 64 lakh was stayed by High Court and other judicial authorities. Stage of recovery of Rs. 6.24 crore was not intimated.
4.	Taxes on vehicles	75.73	49.72	Out of Rs. 75.73 crore, demand of Rs. 15.97 crore was covered by recovery certificates.
Total		8673.54	2147.88	

1.6 Arrears in assessments

The details of assessment cases pending at the beginning of the year 2007-08, cases becoming due for assessment during the year, cases disposed during the year and number of cases pending at the end of the year 2007-08 along with the figures for the preceding four years as furnished by the Commercial Tax Department² are mentioned below:

(No. of cases)						
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
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
2007-08	7,28,402	3,84,961	11,13,363	4,00,588	7,12,775	64

Thus, the percentage of closing balance at the end of each year during 2003-04 to 2007-08 to total cases becoming due for assessment ranged between 49 and 76 per cent.

1.7 Evasion of tax

The details of cases of evasion of tax detected by the Commercial Tax, Motor Vehicle and Stamp Duty and Registration Fees departments, cases finalised

² In respect of sales tax/VAT, profession tax, purchase tax on sugarcane, lease tax, luxury tax and tax on works contracts

and the demands for additional tax raised as reported by the departments are mentioned below:

Sl. No.	Name of tax/duty	Cases pending as on 31 March 2007	Cases detected during 2007-08	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 2008
					No. of cases	Amount of additional demand (Rupees in crore)	
1.	Sales tax/VAT	861	402	1263	483	207.95	780
2.	Motor vehicle tax	72,321	24,932	97,253	28,092	59.73	69,161
3.	Stamp duty and registration fees	1,27,119	14,728	1,41,847	30,074	34.66	1,11,773

1.8 Refunds

The number of refund cases pending at the beginning of the year 2007-08, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2007-08, as reported by the Commercial Tax Department are mentioned below:

(Rupees in crore)

Sl. No.	Category	Sales tax/VAT	
		No. of cases	Amount
1.	Claims outstanding at the beginning of the year 2007-08	4,041	198.25
2.	Claims received during the year	6,714	1,521.93
3.	Refunds made during the year	8,095	1,520.15
4.	Balance outstanding at the end of the year	2,660	200.03

1.9 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 2007-08 revealed under assessment/short levy/loss of revenue amounting to Rs. 967.05 crore in 1,480 cases. During the year, the departments accepted under assessment of Rs. 17.30 crore in 923 cases and recovered Rs. 2.10 crore in 283 cases pointed out in 2007-08 and earlier years.

This report contains 37 paragraphs including three reviews relating to non/short levy of taxes, duties, interest and penalties involving Rs. 304.96 crore. The departments/Government accepted audit observations involving Rs. 86.28 crore of which Rs. 1.40 crore had been recovered. No reply has been received in respect of remaining cases.

1.10 Failure to enforce accountability and protect interest of Government

Principal Accountant General (Commercial and Receipt Audit) (PAG), 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 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 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 up to 31 December 2007 and pending settlement by the departments as on 30 June 2008 along with corresponding figures for the preceding two years is mentioned below:

Particulars	As at the end of		
	June 2006	June 2007	June 2008
Number of outstanding IRs	3,769	3,548	3,794
Number of outstanding audit observations	9,145	9,493	10,607
Amount of revenue involved (Rupees in crore)	3,127.96	3,447.39	4,120.44

IRs issued upto December 2007 pertaining to the offices of sales tax/commercial tax, profession tax, forest, land revenue, motor vehicles tax, stamp duty and registration fees, entertainments tax and luxury tax disclosed that 10,607 observations relating to 3,794 IRs remained outstanding at the end of June 2008. Of these, 1,600 IRs containing 4,396 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 229 IRs issued during the year 2007-08. As a result, serious irregularities commented upon in these IRs had not been settled as of June 2008.

The department wise break up of IRs and audit observations pending as on 30 June 2008 is detailed in the Annexure-I.

1.11 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 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 2007-08 is mentioned below:

(Rupees in lakh)

Sl. No.	Name of the Department	No. of audit committee meetings held	No. of IRs/Paras settled		Money Value of paras settled
			IRs	Paras	
1.	Sales tax	2	10	201	153.09
2.	Land revenue	There was no response from other departments to hold audit committee meeting during 2007-08.			
3.	Stamp duty and registration fees				
4.	Motor vehicle tax				
5.	Geology and Mining				
6.	Luxury tax				

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.

66 draft paragraphs proposed (clubbed into 37 paragraphs) for inclusion in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2008 (Revenue Receipts) were forwarded to the Secretaries of the respective departments between April and September 2008 through demi-official letters. The Secretaries of the respective departments sent replies to 12 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 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 2005-06 and 2006-07 were presented to the State Legislature on 26th March 2008 and 29th September 2008 respectively. Explanatory notes in respect of paragraphs included in AR 2005-06 were not furnished by the concerned departments (November 2008).

1.14 Compliance with the earlier Audit Reports

During the years between 2002-03 and 2006-07 the department/Government accepted audit observations involving Rs. 876.11 crore of which an amount of Rs. 48.01 crore had been recovered till 31 March 2008 as mentioned below:

(Rupees in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
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
2006-07	94.53	23.84	1.74
Total	2,537.69	876.11	48.01

The recovery in respect of the accepted cases was very low (five per cent of accepted money value). The Government may advise the concerned departments to take necessary steps for speedy recovery.

1.15 Amendment to Acts/Rules

During the years February 2006 to April 2008, the Government amended Acts/Rules addressing the concerns raised by audit through ARs. These changes are mentioned below:-

Reference of audit report(AR) paragraph	Issue raised in audit	Amendment to Acts/Rules
Paragraph 2.14.2 of AR 2004-05	Bombay Motor Spirit Taxation (BMST) Act does not contain provision for levy of interest on delay in payment of tax. In the absence of enabling provision, interest could not be levied in the assessments under the Central Sales Tax Act also in respect of goods covered under BMST Act.	Amendment in the Act was made in February 2006.
Paragraph 2.17.1 of AR 2004-05	Deferment of tax and grant of moratorium period granted through Government resolutions was not covered under the Gujarat purchase tax on sugarcane Act.	Amendment in the Act was made in March 2006 to validate the grant of deferment of payment of tax and to waive the interest.
Paragraph 5.6 of AR 2005-06	Non-revision of rates of <i>Jantri</i> for over seven years and consequent potential loss of revenue by way of stamp duty and registration fees.	The Government revised the rate of <i>Jantri</i> with effect from 1 st April 2008.