

CHAPTER-VI: OTHER TAX RECEIPTS

6.1 Results of audit

Test check of records of concerned departmental offices, conducted during the year 2005-06, disclosed short realisation or loss of revenue amounting to Rs.100.82 crore in 251 cases, under the following broad categories:

(Rupees in crore)			
Sl. No.	Category	Number of cases	Amount
Taxes on Agricultural Income			
1	Short levy of tax due to incorrect carry forward and set off of losses	13	4.56
2	Excess/incorrect allowance of depreciation	5	0.55
3	Excess/incorrect allowance of expenses	3	0.72
4	Other irregularities	6	0.08
	Total	27	5.91
Taxes on Motor Vehicles			
1	Non/short levy of tax	24	9.44
2	Non levy/non collection of tax, fees/penalty	20	3.44
3	Other irregularities	24	0.35
	Total	68	13.23
Entry Tax			
1	Non/short levy of tax	106	4.68
2	Non/short levy of tax due to incorrect grant of exemption	5	0.22

(Rupees in crore)			
Sl. No.	Category	Number of cases	Amount
3	Non levy of interest/penalty	30	1.70
	Total	141	6.60
Taxes and Duties on Electricity			
1	Non/short payment of electricity tax	1	0.05
2	Non levy of interest on belated payment of tax	1	74.71
	Total	2	74.76
Other Taxes and Duties on Commodities and Services			
	Other tax receipts (entertainment tax, betting tax and luxury tax)		
1	Non/short levy of tax, interest, etc.	13	0.32
	Total	13	0.32
	Grand Total	251	100.82

During the course of the year 2005-06, the departments accepted underassessments of tax amounting to Rs.2.30 crore involved in 179 cases and recovered Rs.1.56 crore involved in 129 of them which were pointed out in audit in earlier years

In one case, the department recovered the entire amount of Rs.0.45 lakh after the case was reported to the department/Government in May 2006.

A few illustrative cases (including certain cases noticed in earlier years which could not be included in previous Reports) involving Rs.8.65 crore are given in the following paragraphs. Of this, Rs.40.04 lakh had been recovered.

A. Taxes on Motor Vehicles

6.2 Short levy of tax due to incorrect classification

Under the Karnataka Motor Vehicles Taxation Act, 1957, tax shall be levied at prescribed rates for different classes of vehicles.

During audit of records of four²⁵ regional transport offices (RTOs), it was noticed between February and September 2005 that 54 tempo trax/traveller mini buses were registered as maxicab with seating capacity of 12 +1 as per dealers' certificate and tax of Rs.8.49 lakh was levied. Of these, it was noticed that, the seating capacity as per the manufacturer's certificate was 13 + 1 in 47 vehicles and 14 +1 in seven vehicles. It should have been assessed as such and tax of Rs.13.76 lakh levied. Incorrect classification at the time of registration resulted in short levy of tax of Rs.5.27 lakh.

After this was pointed out, Government endorsed in November 2006 the Department's contention that these vehicles had been registered as maxicab after inspection by Inspector of Motor Vehicles in accordance with the circulars dated 26 March 1992, 3 May 1995 and 27 May 2002 as per decision of the owner having due regard to his business. The reply is not tenable as the said circulars only accorded permission for registration of the vehicle in Karnataka and exempt this class of vehicle from application of Rule 151(2) of the Karnataka Motor Vehicles (KMV) Rules which prescribed minimum seating capacity based on wheel base. Classification of vehicles having more than 12 seats as maxicab is in contravention of the Act.

²⁵ Davanagere, Raichur, Shimoga, Tumkur

B. Entry Tax

6.3 Non/short levy of entry tax

Under the Karnataka Tax on Entry of Goods Act (KTEG Act), 1979, on entry of specified goods into a local area, tax is leviable at the rates notified from time to time.

It was noticed in audit between August and December 2005 that in five districts, tax on entry of goods into local areas was either not levied or was levied short by 12 assessing authorities (AAs) while finalising 30 assessments of 26 dealers between March 2003 and March 2005 for the years 1999-2000 to 2003-04. This resulted in non/short levy of tax of Rs.58.73 lakh as detailed below:

(Rupees in lakh)

Sl. No.	District (number of cases)	Assessment year (date of assessment)	Turnover involved	Tax leviable/levied	Tax not/short levied
1	Bangalore (Rural) (1)	2001-02 (May 2004)	109.60	1.41/ Nil	1.41
2	Bangalore (Urban) (25)	1999-2000 to 2003-04 (between March 2003 and March 2005)	3,687.82	52.98/ 2.69	50.29
3	Belgaum (1)	1999-2000 (October 2004)	106.13	5.31/ 4.25	1.06
4	Davanagere (2)	2000-01 and 2001-02 (July and August 2004)	47.33	1.38/ Nil	1.38
5	Dakshina Kannada (1)	2003-04 (September 2004)	459.41	4.59/ Nil	4.59
	Total (30)		4,410.29	65.67/ 6.94	58.73

After these cases were pointed out between August and December 2005, the department accepted audit observations in 21 cases involving Rs.21.95 lakh. Of these, in seven cases additional demand of Rs.5.95 lakh was raised and Rs.3.27 lakh recovered. Notice for revision of assessment issued in 14 cases involving Rs.16 lakh. In respect of the remaining nine cases, replies have not been received (November 2006).

Government endorsed the reply of the department in September 2006.

6.4 Non/short levy of interest on belated payment of entry tax

6.4.1 Under the KTEG Act, every dealer is required to pay full amount of tax payable on the basis of turnover computed by him for the preceding month within 20 days of close of that month. In case of default beyond 10 days after that period, an assessee is liable to pay interest at the rate of two *per cent* of the tax payable for every month or part thereof during which such default is continued.

In six districts, audit scrutiny between August and December 2005 revealed that 17 dealers delayed the payment of monthly taxes amounting to Rs.2.55 crore ranging between 3 to 42 months for the years 2000-01 to 2003-04. However, concerned AAs failed to levy interest of Rs.1.22 crore as detailed below:

(Rupees in lakh)					
Sl. No.	District (number of assessees)	Period of assessment/ date of assessment	Amount of tax involved	Delay in payment of tax (in months)	Interest due
1	Bangalore (Urban) (9)	2000-01 to 2003-04 (April 2004 and January 2005)	38.40	3 to 42	14.07
2	Bijapur (1)	2002-03 (February 2005)	3.53	22	1.58
3	Dakshina Kannada (2)	2001-02 and 2003-04 (July 2004 and December 2005)	15.61	13 to 28	5.20
4	Dharwad (3)	2000-01 to 2003-04 (between May 2004 and March 2005)	63.69	11 to 37	34.19
5	Gulburga (1)	2001-02 (December 2004)	63.14	32	40.41
6	Karwar (1)	2001-02 and 2002-03 (February 2004)	70.32	11 and 23	26.91
Total (17)			254.69		122.36

After these cases were pointed out between August and December 2005, department accepted audit observation in 10 cases involving Rs.42.11 lakh and recovered Rs.35.13 lakh. Replies in remaining cases are yet to be received (November 2006).

Government endorsed the reply of the department in September 2006.

6.4.2 Under the KTEG Act, tax or any other amount due is to be paid within the prescribed time which, in the case of final assessments, is 21 days from the date of service of demand notice. In case of default in making payments, the assessee is liable to pay interest at the rate of two *per cent* per month.

In Bangalore (Rural) and Bangalore (Urban) districts, four AAs issued between September 2001 and January 2005, demand notices for entry tax of Rs.2.27 crore to six dealers. It was noticed between July and December 2005 that the dealers paid tax between March 2004 and March 2005, after delay ranging from one to 40 months. However, AAs had not levied interest of Rs.12.08 lakh as detailed below:

(Rupees in lakh)

Sl. No.	District (number of dealers)	Period (date of service of demand notice)	Amount of tax involved	Date of payment/delay in payment of tax (months)	Interest due
1	Bangalore (Rural) (2)	1998-99 and 2000-01 (November 2001 and June 2002)	2.97	July and September 2004/ (27 to 32)	1.64
2	Bangalore (Urban) (4)	1998-99 to 2000-01 (between September 2001 and January 2005)	224.02	Between March 2004 and March 2005/ (1 to 40)	10.44
	Total (6)		226.99		12.08

After these cases were pointed out between July and December 2005, department accepted audit observation in four cases involving Rs.5.63 lakh and recovered Rs.1.64 lakh. In respect of other cases, final reply is yet to be received (November 2006).

Government endorsed the reply of the department in September 2006.

C. Forest Development Tax

6.5 Loss of revenue due to non levy of forest development tax

Under the Karnataka Forest Act, 1963, forest produce includes minerals (including limestone), mineral oils and all products of quarries when found or brought from forest. The Act stipulates levy of forest development tax (FDT) on all forest produce disposed of, among others, by a corporation owned by the State Government at eight *per cent* on the consideration paid therefor.

It was noticed in March 2006 during audit of records of Deputy Conservator of Forests, Bellary that Mysore Minerals Limited, a State Government undertaking, extracted and sold mineral ores for a consideration of Rs.51.53 crore during 2002-03 to 2004-05 from its mine in forest area without collecting FDT due to Government. The department had not raised demand for payment of tax of Rs.4.12 crore due. Thus, Rs.4.12 crore remained unrealised.

The matter was reported to the department in March 2006 and referred to Government in May 2006; replies have not been received (November 2006).

6.6 Short levy of forest development tax

Under the Karnataka Forest Act, 1963, FDT is leviable on all forest produce disposed of by sale or otherwise by Government or corporation owned by Government at the rate of eight *per cent* on the amount of consideration. Further, on the disposal of specified forest produces like timber, rubber, bamboo to industries, FDT is to be levied at 12 *per cent* on the amount of consideration.

Karnataka Forest Development Corporation (KFDC) disposed of various forest produces like eucalyptus, rubber, rubber trees, bamboo, teak seedlings, eucalyptus poles and other minor forest produce for a consideration of Rs.75.06 crore during 2000-01 to 2003-04. Audit scrutiny in March 2006 revealed that KFDC sold eucalyptus, rubber, rubber trees and bamboo only to industries. Hence FDT realisable was Rs.8.94 crore against which KFDC levied and collected FDT of Rs.6.56 crore. This resulted in short levy of FDT of Rs.2.38 crore.

The matter was reported to the department in March 2006 and referred to Government in May 2006; replies have not been received (November 2006).

D. Betting Tax

6.7 Non levy of penalty on belated payment of betting tax

Under the Mysore Betting Tax Act, 1932, and the Rules made thereunder, every licensee conducting horse races on a race course who had opted for payment of prescribed amount by way of composition, was required to pay such amount in 12 equal monthly instalments, each instalment on or before 20th of every month. With effect from 1 August 2004, composition tax was to be calculated at the rate of four *per cent* of total amount of money paid into the totalisator in any month and to be paid within 20 days of the succeeding month. In case of default beyond 10 days after that period, the assessee was liable to pay penalty at the rate of two *per cent* per month.

It was noticed in audit in May/July 2005 that in two²⁶ districts, two licensees²⁷ conducting horse racing who had opted for composition delayed payment of monthly composition tax of Rs.5.72 crore by 1 to 81 days during the year 2004-05. Penalty of Rs.15.97 lakh was leviable but was not levied by two AAs.

After these cases were pointed out in May/July 2005, the department accepted the audit observations in May 2006. Report on levy and collection of penalty has not been received (November 2006).

The matter was referred to Government in May 2006; reply has not been received (November 2006).

²⁶ Bangalore, Mysore

²⁷ Bangalore Turf Club, Mysore Race Club