CHAPTER-II: Sales Tax

2.1 Results of audit

The test check of records of the offices of Commercial Taxes Department conducted in audit during the year 2004-05 revealed under assessments etc. of tax amounting to Rs.185.47 crore in 2,285 cases which broadly fall under the following categories:

Sl. No.	Category	Number of cases	Amount (Rs. in crore)
1.	Non-assessment of taxable turnover	309	3.24
2.	Under-assessment due to irregular or incorrect allowances of deductions	127	6.53
3.	Short-levy of tax due to application of incorrect rate of tax	268	8.16
4.	Irregular grant of exemption	224	30.14
5.	Non-levy of purchase tax	83	0.65
6.	Non-levy of penalty/interest	332	6.41
7.	Other irregularities	941	32.97
8.	**Review on "Assessment and Collection of Sales Tax"**	1	97.37
	Total	**2,285**	**185.47**

During the year 2004-05 the Department accepted under assessments etc. of Rs.6.27 crore involved in 455 cases of which 227 cases involving Rs.75.19 lakh had been pointed out in audit during 2004-05 and rest in earlier years. Further the Department recovered Rs.4.76 lakh in 27 cases during the year 2004-05 of which nine cases involving Rs.0.99 lakh related to the year 2004-05 and rest to the earlier years.

A few illustrative cases and findings of the review on **Assessment and Collection of Sales Tax** involving Rs.98.44 crore are given in the succeeding paragraphs:

2.2 Review on Assessment and Collection of Sales Tax

Highlights

In 19 circles, 323 industrial units engaged in cutting of marbles were irregularly allowed tax exemption of Rs.129.69 crore.

(Paragraph 2.2.8)

Ten industrial units engaged in preparation of mineral water were irregularly sanctioned exemption benefit of Rs.8.93 crore.

(Paragraph 2.2.9)

Seventy six industrial units which were already availing benefit under other Sales Tax Incentive Scheme of 1987/1989 were irregularly granted exemption of Rs.149.67 crore under the Sales Tax Exemption Scheme for Industries 1998.

(Paragraph 2.2.11)

Exemption was not withdrawn on breach of condition by 54 units and resulted in non-recovery of tax and interest of Rs.39.09 crore.

(Paragraph 2.2.12)

2.2.1 Introduction

Assessment, levy and collection of sales tax in Rajasthan is governed under the Rajasthan Sales Tax Act, 1994 (RST Act) and Central Sales Tax Act, 1956 (CST Act) and Rules made thereunder. Assessment of cases is done by the assessing authority to determine and levy tax alongwith penalties, if any under the provisions of Act ibid. Assessments are also made by virtue of Deemed Assessment Scheme and Self Assessment Scheme.

Further, the Act ibid provides that where any tax, interest and penalty etc. is payable in consequence of any order passed thereunder, a notice of demand shall be served upon the assessee. The amount specified as payable in the notice of demand shall be paid within 30 days. The Act further provides that where an appeal is filed against the order of the assessing authority, the tax shall be paid in accordance with the notice of demand even though an appeal has been preferred.

2.2.2 Organisational set up

The Commissioner Commercial Taxes is the administrative head of the Department. He is assisted by six Additional Commissioner, 23 Deputy Commissioner (DCs), 44 Assistant Commissioner (ACs), 91 Commercial Taxes Officer (CTOs) and 274 Assistant Commercial Taxes Officer (ACTOs) for the purposes of administering the laws relating to the RST Act and CST Act. ACs, CTOs and ACTOs are the assessing officers in respect of areas assigned to them by the Commissioner, to scrutinise the accounts of the dealers, complete the assessments, raise demand of tax and ensure realisation. There are 108 circles where the assessments are made.

2.2.3 Audit objectives

The review was conducted to ascertain as to whether :

- adequate system and procedure exist for timely and correct assessment and collection of tax in the Commercial Taxes Department.
- exemptions under various schemes were allowed correctly and action was taken against defaulter units for breach of conditions of the schemes and
- any other irregularities which caused revenue loss.

2.2.4 Scope of Audit

A test check of the assessment records in 35 out of 108 circles covering the period of five years from 1999-2000 to 2003-04 was undertaken between May 2004 and March 2005.

The audit findings were reported to the Government/Department in May 2005 Meeting of Audit Review Committee to discuss findings in the review was held on 20 July 2005 so that the viewpoint of the Government/Department could be taken into account before finalising the review. Government was represented by the Deputy Secretary (Tax) and the Commercial Taxes Department represented by the Financial Advisor. The viewpoint of Government/ Department in the meeting has been considered while finalising the review. The salient points of the review are discussed in the succeeding paragraphs.

2.2.5 Budget estimates and trend of revenue

The variation between revised budget estimate and actual receipts in respect of sales tax from 1999-2000 to 2003-04 are given below:

(Rupees in crore)

Year	**Revised budget estimate**	**Actual**	**Short fall in percentage**
1999-2000	2,550	2,424.52	(-) 5
2000-2001	2,920	2,821.21	(-) 3
2001-2002	3,150	3,069.03	(-) 3
2002-2003	3,500	3,437. 90	(-) 2
2003-2004	4,200	3985.43	(-) 5

2.2.6 Internal control

The Commercial Taxes Department is administering 11 different taxes including sales tax. The Department is a major contributor of the tax revenue collected by the Government, as 60 *per cent* of the tax revenue received by the State is derived from levy of commercial taxes.

The Department has an internal audit wing which comprises of 11 parties, supervised by two accounts officers and headed by Financial Advisor. All circles and wards are audited annually. The important findings are reported to the Commissioner Commercial Taxes. There is also one post of Assistant Commissioner (Audit).

Deputy Commissioner of a zone conducts administrative inspections of CTOs and submits his report on their working to the Commissioner.

Although there exists an internal control system but sensitivity to error signals generated through internal audit as well as external audit were not satisfactory as is evident from huge number of outstanding audit findings as well as continuous repetition of objections of similar nature pointed out by central audit in subsequent inspection reports. This indicates that despite the fact that there is no pendency in internal audit and the system is in place, no remedial action was initiated to avoid repetition of mistakes pointed out at the instance of audit.

2.2.7 Computerisation in Sales Tax Department

The Department introduced computerisation to improve quality of information for effective monitoring and policy making. Computerisation work started in 1999-2000 for automation of business processes of the Department.

Eleven zones are connected with computer network. Dealer's registration and tax recovery modules are fully operative. Another important programme is Border Check Post Document Management System (BCPDMS) which governs the movement of goods between two states passing through Rajasthan. This programme is to ensure that the vehicle going to other State has actually crossed Rajasthan. So only seven border check posts are working on line for information of transit passes, while 17 other check posts are not yet fully computerised.

The Department has not developed any database for detection of tax evasion and levy of correct tax. Despite the fact that the Department commenced computerisation five years back, Information and Communication Technology (ICT) has not been used in the state for effective monitoring of inter state movement of goods and dealers profile.

Exemption to ineligible units under Sales Tax Exemption Schemes

With a view to attract entrepreneurs for new industrial investment and to promote growth of industries in the State, the Government of Rajasthan notified Sales Tax Incentive, Exemption and Deferment Schemes from time to time. For the first time a scheme was notified in 1987, followed by another scheme during 1989 which were in operation upto 31 March 1997 and 31 March 1999 respectively. Another scheme notified in April 1998 was operative till 30 March 2000. Benefits under these schemes were admissible only to the manufacturers of goods subject to the conditions prescribed in these schemes on recommendation of screening committee. The Government may *suo motu* or otherwise revise an order passed by any screening committee wherever it is found to be erroneous and prejudicial to the interest of the State revenue after affording an opportunity of being heard to the beneficiary industrial unit.

The irregularities in grant of exemption under these schemes as noticed in audit were as under:

2.2.8 Incorrect grant of exemption to marble cutting units

Under sales tax incentive schemes of 1987, 1989 and 1998 only manufacturing units are eligible for tax exemption. It was judicially held[1] that cutting of marble blocks into slabs or tiles does not amount to manufacture. In the light of these decisions, marble units are not manufacturers and are thus not entitled to exemption of tax under any of these exemption schemes.

Test check of the assessment records in 19 circles revealed that 323 units engaged in cutting of marbles were irregularly allowed tax exemption of Rs.129.69 crore out of which the units had availed between 1999-2000 to 2001-02 the benefit of Rs.54.79 crore. A few examples by way of illustrations are shown below:

(Rs. in lakh)

Sl. No.	Name of Circles	No. of units	Exemption granted	Exemption availed	Balance E.C benefit as on 1 April 2002
1.	2.	3.	4.	5.	6.
1	CTO Special. Circle, Ajmer	112	4,738	2,701	2,037
2	CTO Special Circle, Alwar	11	210	184	26
3	CTO Circle 'B', Alwar	05	230	28	202
4	CTO Circle, Banswara	27	397	215	182
5	CTO Special Circle, Bhilwara	58	2,107	1,160	947
1.	2.	3.	4.	5.	6.
6	CTO Special Circle-II, Jaipur	05	497	146	351

[1]CIT V/s Lucky Minerals (Pvt.) Ltd. I.T.R. 226 (1996) 245.
Rajasthan State Electricity Board Vs. Associated Stone Industries & Anr.JT 2000 (6) SC 522
M/s Aman Marble Industries V/s C.C.E. Jaipur 2003 (58) RLT 595 (S.C.).

7	CTO Special Circle-III, Jaipur	02	108	78	30
8	CTO Special Circle-IV, Jaipur	02	212	100	112
9	CTO Circle 'A', Jaipur	03	438	69	369
10	CTO Circle, Kishangarh	59	1,333	271	1,062
11	CTO Special Circle, Udaipur	03	358	84	274
12	CTO Circle 'B', Udaipur	27	1,932	265	1,667

No action to revoke the exemption has been initiated by the Department (July 2005).

2.2.9 Incorrect grant of exemption on preparation of mineral water

Under the RST Act and CST Act the State Government notified (April 1998) the "Sales Tax Exemption Scheme for Industries 1998" whereunder industrial units were exempted from payment of tax on the sale of goods manufactured by them within the State or in the course of inter state trade or commerce in the manner and to the extent and for the period as covered under the scheme. "Manufacture" shall mean the use of raw materials and production of goods commercially different from raw materials used. When no new product as such comes into existence there is no process of manufacture. Preparation of mineral water does not amount to manufacture. This view is further confirmed[2] by Hon. Kerala High Court.

During test check of records relating to the year 2002-03 in eight circles[3] it was noticed that 10 units engaged in preparation of mineral water were irregularly sanctioned during the period June 1999 to March 2001 exemption benefit of Rs.8.93 crore for 11 years. The dealers have availed the benefit of Rs.57.30 lakh during 2002-03 after the judgement. The Government should have *suo motu* revoked the orders of the screening committee regarding grant of exemption which was not done. The omission resulted in grant of exemption of Rs.8.93 crore to ineligible units.

2.2.10 Irregular tax exemption to stone crushing units

It was judicially held[4] that stone crushing i.e. preparation of stone *gitti* is not a manufacturing activity because stone continues to remain stone even after crushing. Since this activity is not a manufacturing activity, the units engaged in stone crushing were not eligible for the benefit of tax exemption under any

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[2] (2002) 128 STC 216 (Kerala)-M/s Teejan Breweries Ltd.
[3] CTO Circle, Ajmer, CTO Circle 'A', Bikaner, CTO Circle, Bhiwadi, CTO Circle, Bikaner, CTO Circle 'C', Jaipur, CTO Circle 'G', Jaipur, CTO, Sirohi and CTO, Barmer.
[4] Commissioner Sales Tax Vs Lal Kuan Stone Crusher Pvt. Ltd (SC) (2000) 118 STC 287 .

of the three schemes (1987, 1989 and 1998).

Test check of assessment records in two[5] Commercial Taxes Offices revealed that two dealers engaged in stone crushing were granted exemptions for Rs.58.52 lakh during the period from 1999-2000 to 2000-01. These units had availed tax exemption benefit of Rs.18.26 lakh upto 2001-02 and the remaining exemption benefit of Rs.40.26 lakh for future availment was required to be withdrawn.

2.2.11 Irregular grant of exemption under 1998 scheme to the units already availing exemption benefit

Under the RST Act and CST Act, the State Government notified (April 1998) the 'Sales Tax Exemption Scheme for Industries 1998' whereunder industrial units were exempted from payment of tax on the sales of goods manufactured by them within the State or in the course of inter-state trade or commerce in the manner and to the extent and period as covered by the scheme. Further, the scheme provided that no industrial unit shall be permitted to claim benefits under this scheme, if it was already availing benefits under any other specific or general tax exemption or tax deferment scheme.

Test check of records of 23[6] Commercial Taxes Offices revealed that in disregard of the above provisions 76 industrial units, which were already availing benefit of tax exemption under other Sales Tax Incentive Schemes of 1987/1989, were further sanctioned between August 1998 and March 2002 benefit of exemption of tax of Rs.149.67 crore under the scheme 1998. This resulted in irregular grant of exemption aggregating to Rs.149.67 crore.

This is indicative of fact that the Department while according approval for grant of tax exemption did not take cognizance of the existing provisions governing the grant of such benefits.

2.2.12 Non withdrawal of benefits on breach of condition

Under the RST Act and CST Act the Government notified (May 1987) the 'Sales Tax Incentive Scheme for Industries 1987' whereunder industrial units were entitled to exemption of 100 *per cent* of their tax liability subject to the maximum quantum and period of benefit prescribed in the scheme. Further, the scheme provided that the beneficiary industrial unit shall, after having availed benefit of the scheme, continue its production for at least the next five years not below the level of the average production generated during preceding five years. In case of breach of any condition, the dealer was liable to charge tax at normal rates together with the interest due thereon at the prescribed rates on the sale of goods previously exempted under the scheme.

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[5] CTO Circle, 'A' Jaipur, and 'E' Jaipur

[6] CTO Special Circle Ajmer and Alwar, CTO Circle 'A' and 'B' Alwar, CTO Special Circle Bhilwara, CTO Circle, Bhiwadi, CTO Circle 'A' Bikaner, CTO Circle Churu, CTO Circle 'C' and 'E' Jaipur, CTO Special Circle II, IV, and V Jaipur, CTO Circle Jalore, CTO Circle 'C' Jodhpur CTO Special Circle-I & II Jodhpur, CTO Circle 'B' Kota, CTO A/E-I Kota, CTO Circle and Special Circle Pali, CTO Circle Sirohi and CTO Circle 'B' Sriganganagar.

Test check of assessment records in 19 circles revealed that 54 industrial units, which were granted eligibility certificates between 1992-93 to 1997-98 and availed the tax benefits, had stopped their production between 1999-2000 and 2002-03 after having availed benefit of tax exemption of Rs.15.64 crore. These units were required to continue their production even after full availment of the benefit, for the next five years.

There is no system in place to check whether these units are continuing their production as prescribed after availing the benefits. The omission resulted in non-recovery of tax and interest of Rs.39.09 crore as detailed below:

(Rs. in lakh)

S. No.	Name of CTO office	No. of units	Amount of exemption availed	Interest	Total
1.	2.	3.	4.	5.	6.
1.	CTO Special circle, Alwar	3	330.24	473.85	804.09
2.	CTO Circle 'A', Alwar	2	20.07	25.28	45.35
3.	CTO Circle, Barmer	5	15.65	25.14	40.79
4.	CTO A Circle, Bhilwara	1	24.69	39.39	64.08
5.	CTO Circle, Bhiwadi	7	443.46	491.25	934.71
6.	CTO Circle 'A', Bikaner	1	7.27	7.17	14.44
7.	CTO B Circle, Bikaner	1	6.84	4.52	11.36
8.	CTO Circle, Churu	6	76.76	137.58	214.34
9.	CTO Circle, Dausa	4	34.34	45.02	79.36
10.	CTO Circle, Hanumangarh	1	5.27	4.64	9.91
11.	CTO Circle 'C', Jaipur	2	40.49	70.36	110.85
12.	CTO Circle 'F', Jaipur	1	31.57	52.98	84.55
13.	CTO Circle, Jhunjhunu	7	12.32	16.79	29.11
14.	CTO C Circle, Jodhpur	3	17.80	30.60	48.40
15.	CTO Circle, Kishangarh	1	19.33	27.66	46.99
16.	CTO A Circle, Kota	1	12.17	15.84	28.01
17.	CTO Special Circle, Pali	1	61.24	116.52	177.76
18	CTO Circle, Sirohi	6	26.87	35.87	62.74
19.	CTO (Special Circle), Sriganganagar	1	377.95	724.47	1102.42
	Total	**54**	**1,564.33**	**2,344.93**	**3,909.26**

The omission resulted due to non-existence of proper system of monitoring to ensure that the units availing tax exemption benefits fulfills conditions of the scheme.

2.2.13 Excess grant of exemption on switch over from 1987 to 1989 exemption scheme

Government notified two Sales Tax Incentive Schemes for Industries (May 1987 and July 1989 schemes) under the RST Act and the CST Act whereunder tax exemption benefit was linked with fixed capital investment subject to the maximum quantum and period of the benefit prescribed in the schemes. The scheme further provided that an industrial unit, which has already been granted exemption under the 1987 Scheme, may also opt for the new incentive scheme by making a simple application on plain paper to the assessing authority. The assessing authority, after due verification of the facts mentioned in the application, shall issue exemption certificate under the new incentive scheme for the remaining eligible amount of the old scheme and for the remaining period thereunder after obtaining the prior approval of the commissioner.

In Commercial Taxes Office, Bhiwadi, it was noticed that an industrial unit was allowed on 9 September 2000 to switch over to tax exemption scheme 1989 from the scheme of 1987. Instead of allowing the tax exemption of balance amount of Rs.3.23 crore of 1987 scheme, the eligible amount was recalculated as Rs.4.31 crore under scheme of 1989. This resulted in grant of excess exemption of Rs.1.08 crore out of which the unit had availed exemption of Rs.72.05 lakh.

2.2.14 Non levy of difference tax on raw material

Under the RST Act, the State Government prescribed in September 1980 tax rate of four *per cent* on the purchase of raw material required for manufacture of exempted goods. Indian Made Foreign Liquor (IMFL) is exempted from sales tax. Further, if any dealer has not paid the tax within prescribed period, he is liable to pay interest at the prescribed rates from the date by which he is required to pay the tax until the date of payment.

In two CTOs, (Alwar Special and Bhiwadi) it was noticed that seven manufacturers of IMFL and beer purchased between 1999-2000 and 2001-02 spirit as raw material valued at Rs.69.56 crore on the strength of declaration form S.T 17. On cross verification of purchases from selling dealers it was observed that the assessees incorrectly paid tax at the rate of three *per cent* instead of the prescribed rate of four *per cent*. While finalising the assessments of these manufacturers (between August 2003 to March 2004), the assessing authorities also failed to levy difference of tax and surcharge thereon. The omission resulted in non-levy of tax and interest amounting to Rs.1.38 crore.

This indicates that the records relating to purchases of raw material are not properly scrutnised while framing the assessment

2.2.15 Non levy of interest

Under the RST Act, if any dealer has not paid the tax within prescribed period, he is liable to pay interest at the prescribed rates from the date by which he was required to pay the tax until the date of payment.

Test check of records revealed that in three circles[7] demands of interest of Rs.43.84 lakh in three cases were not raised on belated payment of tax relating to the period from 1997-98 to 2001-02 which was paid by the dealers during

[7] AE-III, Jaipur, AE Zone II Jaipur and Special Circle Jaipur

the period from 1999-2000 to 2003-04. The delay ranged between one day to 32 months.

After this was pointed out, one assessing authority (Special Rajasthan, Jaipur) raised in March 2005 demand of interest of Rs.23.65 lakh. Report on recovery and action taken in remaining amount have not been received.

2.2.16 Short recovery of tax due to computation error

Under the RST Act, the tax leviable at the prescribed rate is determined by the assessing authority on the turnover of different commodities. The net recoverable amount is worked out after deducting advance tax deposited by the dealer from total amount of tax so determined. In case of beneficiaries of sales tax incentive schemes, the leviable tax is recovered by way of adjustment against the exemption limit provided to the dealer.

During the audit of records of three offices[8], it was noticed that the assessing authorities while finalising between February 2004 and April 2004 the assessments of three dealers (beneficiaries of exemption scheme) for the year 2001-02 made less adjustment of Rs.19.97 lakh against available tax exemptions as a result of computation error.

2.2.17 Conclusion

- Large number of ineligible units were sanctioned sales tax exemption under various schemes.
- On breach of conditions under these schemes, tax benefit granted was not withdrawn.
- Also impact of judicial pronouncements on exemptions was not properly monitored.

2.2.18 Recommendations

The Government may consider that

- the Department while according approval to grant benefit of exemptions should closely monitor provisions governing grant of such benefits.
- impact of judicial pronouncement should be circulated to all assessing authorities for implementation thereto.
- effective steps for recovery of tax in all cases of breach of conditions prescribed under various exemptions schemes should be taken. System should be streamlined to effect recovery of tax.
- ICT should be used for correct levy of tax and for detection of tax evasion.

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[8] CTO Circle, Bhiwadi, 'B', Makrana and Sirohi.

The above audit findings were pointed out to the Department and reported to Government (May 2005); their replies have not been received (July 2005).

2.3 Excess grant of exemption to edible oil industries

Under the CST Act, the State Government notified on 6 July 1989 the "Sales Tax New Incentive Scheme for Industries 1989" (scheme) whereunder industrial units were exempted from payment of tax on the sale of goods manufactured by them in the course of inter state trade or commerce subject to the conditions as prescribed in the scheme. Further, with effect from 26 July 1991, the oil manufacturing and extracting units were entitled to claim exemption from tax to the extent of 75 *per cent* of their tax liability in case of new industries and for expansion/diversification the limit was 60 *per cent*. Further if any dealer has not paid the tax within prescribed period, he is liable to pay interest at the prescribed rates from the date by which he was required to pay the tax until the date of payment.

In three Commercial Taxes Offices[9], it was noticed between September 2003 and December 2004 that three oil manufacturing and extracting units were eligible for exemption for their expansion/diversification under the scheme. However, test check of the assessment records of these units for the years 2000-01 and 2001-02 revealed that the assessing authorities while finalising the assessments of the dealers for the relevant years between July 2002 and December 2003, incorrectly allowed exemption of Rs.87.17 lakh to the extent of 75 *per cent* of tax liability of Rs.1.16 crore instead of the admissible exemption of Rs.69.74 lakh comprising 60 *per cent* of tax liability. This resulted in excess grant of exemption of tax of Rs.17.43 lakh and interest of Rs.13.86 lakh.

After this was pointed out (between October 2003 and January 2005), the Department intimated (November 2004) that in the case of Jaipur a demand of Rs.9.49 lakh including interest has been raised. Report on recovery and reply in respect of remaining two cases has not been received (July 2005).

The matter was reported to Government in January 2005; their reply has not been received (July 2005)

2.4 Excess grant of exemption from tax

Under the RST Act and the CST Act, the State Government notified on 7 April 1998 the "Sales Tax Exemption Scheme for Industries 1998" (scheme) whereunder industrial units were exempted from payment of tax on the sale of goods manufactured by them in the course of inter state trade or commerce in

[9] Special-III Jaipur, Raisinghnagar and Sriganganagar.

the manner and to the extent for the period as covered by the scheme. Further the benefit of exemption of sales tax for expansion of units under this scheme shall be available only on production which is in excess of 80 *per cent* of the installed capacity.

In Tonk, it was noticed in May 2004 that an industrial unit manufacturing edible oil with an installed capacity of 4,800 MT was eligible for benefit of tax exemption of Rs.7,276 on sale of 12.23 MT oil comprising production in excess of 80 *per cent* production of the original installed capacity. However, the assessing authority while finalising in November 2003 the assessment of the dealer for the year 2001-02 incorrectly allowed exemption of Rs.7.34 lakh on the total sale of edible oil valuing Rs.3.86 crore in the course of inter-state sale instead of Rs.7,276 on the sale of production beyond 80 *per cent* of installed capacity. This resulted in excess grant of exemption of tax of Rs.7.27 lakh besides interest of Rs.3.82 lakh.

After this was pointed out in July 2004, the Department intimated that a demand of Rs.11.74 lakh including interest had been raised in April 2005. Report on recovery has not been received (July 2005).

The matter was reported to Government in January 2005; their reply has not been received (July 2005).

2.5 Excess grant of exemption to small scale units

Under the RST Act and the CST Act, the Government notified on 6 July 1989 the "Sales Tax New Incentive Scheme for Industries 1989" (scheme) whereunder industrial units were exempted from payment of tax on the sale of goods manufactured by them within the state or in the course of inter state trade or commerce in the manner and to the extent and for the period as covered by the scheme. Further, the new small scale industrial units were eligible for a maximum quantum of sales tax exemption to the extent of 125 *per cent* of their fixed capital investment (FCI) and for their expansion/ diversification, the limit was 100 *per cent* of their FCI, as determined by the District Level Screening Committee (DLSC).

In Jaipur, it was noticed in October 2004 that an existing small scale industrial unit and going in for expansion/diversification with FCI of Rs.40.83 lakh was found eligible by the DLSC for exemption under the scheme. However, test check of the assessment records of the unit for the year 2001-02 finalised in December 2003, revealed that the assessing authority incorrectly issued eligibility certificate for 125 *per cent* of the FCI instead of the admissible exemption of 100 *per cent* of the FCI for its expansion. This resulted in excess grant of exemption of Rs.10.21 lakh.

The omission was pointed out to the Department (October 2004) and reported to the Government (November 2004); their replies have not been received (July 2005).

2.6 Excess grant of exemption due to computation error

Under the RST Act and the CST Act, the State Government notified (7 April 1998) the "Sales Tax Exemption Scheme for Industries 1998" (scheme) whereunder industrial units were exempted from payment of tax on the sale of goods manufactured by them within the state or in the course of inter-state trade or commerce in the manner, to the extent and for the period as covered by the scheme. Further, the industrial units with FCI upto Rs.1.50 crore were eligible for a maximum quantum of sales tax exemption to the extent of 125 *per cent* of their FCI as determined by the DLSC.

In Beawar, it was noticed (October 2004) that an industrial unit having FCI of Rs.56.43 lakh was found eligible by the DLSC for exemption under the scheme to the extent of 125 *per cent* of its FCI. However, test-check of the assessment records of the unit for the year 2001-02 finalised in November 2003 revealed that the assessing authority incorrectly computed the amount of exemption of 125 *per cent* of FCI as Rs.77.33 lakh instead of Rs.70.54 lakh. This resulted in excess grant of exemption of Rs.6.79 lakh.

After this was pointed out in October 2004, the Department intimated (October 2004) that the eligibility certificate of the unit has been revised and the amount of exemption has been restricted to the prescribed limit.

The matter was reported to the Government (December 2004); their reply has not been received (July 2005).

2.7 Irregular sanction of exemption

Under the RST Act and the CST Act, Government notified (7 April 1998) the "Rajasthan Sales Tax Exemption Scheme for Industries 1998" (effective from 1 April 1998). The Scheme provides that an industrial unit, of which, the application under the Incentive Scheme, 1989 is pending on the date of commencement of this scheme before any screening committee, may opt for this scheme by making a fresh application in accordance with this scheme before the screening committee, not later than 90 days from the date of commencement of this scheme.

In Sriganganagar, it was noticed in February 2005 that an industrial unit whose application was pending on 1 April 1998 for grant of incentive under 1989 scheme was sanctioned incentive under the said scheme for Rs.43.43 lakh for seven years from 3 April 1998. The unit applied on 4 September 1998 for benefit under the 1998 scheme which was allowed for Rs.47.81 lakh from the same date. As the application under 1998 scheme was made on 4 September 1998 at the expiry of 156 days as against prescribed 90 days from the commencement of the scheme, the sanction of exemption benefit aggregating Rs.47.81 lakh was irregular.

The irregularity was pointed out to the Department in March 2005 and reported to Government in April 2005; their reply has not been received (July 2005).