

## CHAPTER- V REVENUE RECEIPTS

### 5.1 Trend of Revenue Receipts

The tax and non-tax revenue raised by the State Government, State's share of divisible Union taxes and grants-in-aid from Government of India during the year 2004-05 alongwith the corresponding figures for the preceding four years are given below:

**Table-5.1**

(Rupees in crore)

		2000-01	2001-02	2002-03	2003-04	2004-05
<b>I</b>	<b>Revenue raised by the State Government</b>					
(a)	Tax Revenue	65.39	80.39	105.53	108.00	116.95
(b)	Non-Tax Revenue	289.02 (65.63)	1,128.21 (71.12)	1,315.84 (143.36)	537.29 (95.04)	992.47 (111.36)
	<b>Total</b>	<b>354.41</b> <b>(131.02)</b>	<b>1,208.60</b> <b>(151.51)</b>	<b>1,421.37</b> <b>(248.89)</b>	<b>645.29</b> <b>(203.04)</b>	<b>1,109.42</b> <b>(228.31)</b>
<b>II</b>	<b>Receipts from the Government of India</b>					
(a)	State's share of divisible Union taxes	72.20	84.83	77.20	112.33	107.35*
(b)	Grants-in-aid	435.99	513.75	581.95	583.56	675.63
	<b>Total</b>	<b>508.19</b>	<b>598.58</b>	<b>659.15</b>	<b>695.89</b>	<b>782.98</b>
<b>III</b>	<b>Total receipts of the State Government (I &amp; II)</b>	<b>862.60</b> <b>(639.21)</b>	<b>1,807.18</b> <b>(750.09)</b>	<b>2,080.52</b> <b>(908.04)</b>	<b>1,341.18</b> <b>(898.93)</b>	<b>1,892.40</b> <b>(1,011.29)</b>
<b>IV</b>	<b>Percentage of I to III</b>	<b>41</b>	<b>67</b>	<b>68</b>	<b>48</b>	<b>59</b>

- The figures shown in brackets are net of expenditure of lotteries conducted by the Government.
- For details, please see 'Statement No. 11-Detailed Accounts of Revenue by Minor Heads' in the Finance Accounts of the Government of Sikkim.

5.1.1 Receipts from tax revenue constituted 10.54 per cent of the total revenue raised by the State during 2004-05. An analysis of the tax revenue for the year 2004-05 and the preceding four years is given below:

**Table- 5.2**

(Rupees in crore)

Sl. No.	Tax Revenue	2000-01	2001-02	2002-03	2003-04	2004-05	Increase (+)/ Decrease (-) (in 2004-05 over 2003-04)	Percentage of variation
1	Sales Tax	24.50	34.97	41.42	48.87	48.18	-0.69	-1.41
2	Taxes on Income other than Corporation Tax	19.29	22.03	32.67	26.76	29.09	2.33	8.71
3	State Excise	17.61	17.59	22.45	25.25	32.69	7.44	29.47
4	Taxes on Vehicles	1.54	1.97	2.35	2.74	3.24	0.50	18.25
5	Stamps & Registration Fees	0.50	1.30	3.45	1.14	1.43	0.29	25.44
6	Land Revenue	0.22	0.51	0.40	0.18	0.44	0.26	144.44
7	Other Taxes and Duties on Commodities and Services	1.73	2.02	2.79	3.06	1.88	-1.18	-38.56
	<b>Total</b>	<b>65.39</b>	<b>80.39</b>	<b>105.53</b>	<b>108.00</b>	<b>116.95</b>	<b>8.95</b>	

\* State share of Union taxes and duties have declined owing to decline in share of net proceeds mainly from Customs and Union Excise duties during 2004-05.

- **State Excise:** The increase of tax revenue during 2004-05 over 2003-04 was mainly due to increased production and sale of Indian made Foreign Liquors and spirits.
- **Taxes on Income other than Corporation Taxes:** Increase in tax deduction at source on business and salaries resulted in increased revenue under the head.
- **Sales Tax:** The decrease of revenue under Sales Tax was due to reduction of rate of cardamom and refund/adjustment of excess tax paid.
- **Other Taxes and Duties on Commodities and Services:** Decrease under this head was due to less realisation of entertainment tax.

The reasons for variations in respect of the remaining heads though called for in June 2005 have not been received (September 2005).

5.1.2 Lotteries, road transport service, power, interest, forest and police were the principal sources of non-tax revenue of the State. Receipts from non-tax revenue during the year 2004-05 constituted 89.46 *per cent* of the revenue raised by the State. An analysis of non-tax revenue under the principal heads for the years 2000-01 to 2004-05 is given below:

Table-5.3

*(Rupees in crore)*

Sl. No	Non-Tax Revenue	2000-01	2001-02	2002-03	2003-04	2004-05	Increase (+) Decrease (-) in 2004-2005 with reference to 2003-2004	Percentage of variation
1	Road Transport	11.90	15.56	17.26	17.33	21.52	4.19	24.18
2	Power	10.04	11.84	12.97	13.67	21.41	7.74	56.62
3	Forestry and Wild Life	6.39	6.65	7.15	7.24	7.92	0.68	9.39
4	Interest Receipts	4.48	6.02	7.17	2.73	8.03	5.30	194.14
5	Plantations	2.39	2.01	1.78	1.92	1.63	(-)0.29	(-)15.10
6	Dividends and Profits	0.01	0.01	1.76	0.74	0.92	0.18	24.32
7	Police	5.84	3.86	1.40	10.20	4.38	(-)5.82	(-)57.06
8	Public Works	1.25	0.99	2.41	1.64	2.46	0.82	50.00
9	Tourism	0.39	0.67	0.54	0.79	0.78	(-)0.01	(-)1.27
10	Crop Husbandry	0.47	0.43	0.50	0.31	0.31	0	0.00
11	Stationery and Printing	0.86	0.98	1.12	1.04	1.07	0.03	2.88
12	Village & Small Industries	0.66	0.64	0.63	0.58	0.08	(-)0.50	(-)86.21
13	Animal Husbandry	0.16	0.24	0.24	0.23	0.31	0.08	34.78
14	Industries	-	0.01	0.01	0.02	0.01	(-)0.01	(-)50.00
15	Medical and Public Health	0.37	0.35	0.36	0.44	0.98	0.54	122.73
16	State Lotteries*	240.60 (17.21)	1,074.40 (17.31)	1,256.72 (84.24)	473.72 (31.47)	912.27 (31.16)	438.55 (-)0.31)	92.57 (-)0.98
17	Others	3.21	3.55	3.82	4.69	8.39	3.70	78.89
	<b>Total</b>	<b>289.02</b> <b>(65.63)</b>	<b>1,128.21</b> <b>(71.12)</b>	<b>1,315.84</b> <b>(143.36)</b>	<b>537.29</b> <b>(95.04)</b>	<b>992.47</b> <b>(111.36)</b>	<b>455.18</b> <b>(16.32)</b>	<b>84.72</b> <b>(17.17)</b>

\*Figures in brackets represent net receipts.

- **Power:** The increase of revenue under this head was due to sale of more power.
- **Interest Receipt:** The increase of revenue under this head was due to more realisations on investment of cash balance.
- **Road Transport:** The increase in revenue under this head is attributed to upward revision in supervision charges, realisation of outstanding dues and improved management.
- **Public Works:** The increase under this head was due to more realisation from hire charges of machinery and equipments.
- **Forestry and Wildlife:** The increase was due to more realisation under the head 'Other Receipts'.
- **Police:** The reason for decrease of revenue was less reimbursement of cost from Government of India towards deployment of police force.
- **Village and Small Industries:** The reason for decrease was due to less realisation under the small scale Industries.
- **Plantation:** The reason for decrease was due to lesser revenue realisation from Temi Tea Estate owing to fall in prices.

The reasons for variations in respect of the remaining heads of revenue though called for in June 2005 have not been received (September 2005).

## 5.2 Variation between the budget estimates and actuals

In respect of the following principal heads of revenue, the variation between budget estimates and actual receipts for the year 2004-05 was more than 10 per cent.

**Table-5.4**

(Rupees in crore)

Sl. No.	Head of Revenue	Budget estimates	Actuals	Variations: Increase(+) / Decrease(-)	Percentage
<b>A. Tax Revenue</b>					
1	Land Revenue	0.66	0.44	(-)0.22	(-)33.33
2	Stamps & Registration Fees	1.09	1.43	0.34	31.19
3	State Excise	29.47	32.69	3.22	10.92
4	Sales Tax	35.00	48.18	13.18	37.66
5	Taxes on Vehicles	1.80	3.24	1.44	80.00
6	Service Tax	7.68	6.52	(-)1.16	(-)15.10
7	Other Taxes and Duties on Commodities and Services	2.80	1.88	(-)0.92	(-)32.85

Sl. No.	Head of Revenue	Budget estimates	Actuals	Variation Increase(+) / Decrease(-)	Percentage
<b>B. Non-Tax Revenue</b>					
9	Interest Receipts	4.00	8.03	4.03	100.75
10	Dividends and Profits	0.70	0.92	0.22	31.42
11	Police	10.82	4.38	(-)6.44	(-)59.52
12	Stationery and Printing	1.20	1.07	(-)0.13	(-)10.83
13	Public Works	1.77	2.46	0.69	38.98
14	Other Administrative Services	2.21	3.77	1.56	70.59
15	Education, Sports, Art and Culture	0.53	0.83	0.30	56.60
16	Medical and Public Health	0.40	0.98	0.58	145.00
17	Water Supply and Sanitation	0.80	1.09	0.29	36.25
18	Urban Development	0.61	0.89	0.28	45.90
19	Social Security and Welfare	0.37	0.19	(-)0.18	(-)48.65
20	Crop Husbandry	0.37	0.31	(-)0.06	(-)16.22
21	Animal Husbandry	0.50	0.31	(-)0.19	(-)38.00
22	Forestry and Wild Life	7.00	7.92	0.92	13.14
23	Village and Small Industries	0.60	0.08	(-)0.52	(-)86.66

- **Medical and Public Health:** The increase was due to increased realisation under Urban Health Services and fees, fines, etc.
- **Interest Receipts:** More realisation on investment of cash balance was the reason for increase in revenue.
- **Taxes on Vehicle:** The reason for increase was increased receipts under State Motor Vehicle Taxation Act.
- **Village and Small Industries:** The reason for decrease in revenue was less realisation from sale proceeds of Govt. Institute of Cottage Industries.
- **Social Security and Welfare:** The reason for decrease was due to less realisation under 'Other Receipts'.
- **Land Revenue:** The reason for decrease was due to less realisation under Other Receipts.

The reasons for variation in respect of the remaining heads of revenue have not been received (September 2005).

### 5.3 Cost of collection

The gross collection of major revenue receipts, expenditure incurred on their collection and the percentage of such expenditure to gross collection during the years 2002-03 to 2004-05 alongwith the all India average percentage of expenditure on collection to gross collection for 2003-04 are given below:

Table-5.5

(Rupees in crore)

Sl. No.	Head of Revenue	Year	Gross collection	Expenditure on gross collection	Percentage of expenditure to gross collection	All India average percentage for the year 2003-2004
1	State Excise	2002-03	22.45	1.09	4.85	3.81
		2003-04	25.25	1.37	5.43	
		2004-05	32.69	1.49	4.56	
2	Sales Tax	2002-03	41.42	0.97	2.34	1.15
		2003-04	48.87	1.09	2.23	
		2004-05	48.18	1.10	2.28	
3	Taxes on Vehicles	2002-03	2.35	0.37	15.74	2.57
		2003-04	2.74	0.43	15.69	
		2004-05	3.24	0.43	13.27	

It would be seen from the table that the percentage of expenditure to gross collection during 2004-05 as compared to the corresponding all India average in percentage for 2003-04 was high in the case of State Excise, Sales Tax and Taxes on vehicles due to lower rate of tax coupled with high establishment expenditure.

#### 5.4 Failure of senior officials to enforce accountability and protect interest of Government

##### Replies to Inspection Reports

Audit observations on irregularities and defects in assessment, demand and collection of State receipts noticed during local Audit, are intimated through Inspection Reports (IRs) to departmental officers, heads of departments and also to the Government where necessary. The points mentioned in the IRs are to be settled as expeditiously as possible and first replies should be sent within four weeks from the date of receipt of the IRs by the Departments.

The position of IRs in respect of revenue receipts issued to the end of December 2004 but remaining outstanding as at the end of June 2005 was as under:

Table-5.6

(Rupees in crore)

Sl. No.	Particulars	At the end of				
		June 2001	June 2002	June 2003	June 2004	June 2005
1	Number of outstanding IRs	110	134	123	107	68
2	Number of outstanding Audit objections	281	296	268	243	136
3	Money value of the objections	49.20	28.84	77.47	69.85	33.76

Receipt-wise break up of the IRs and objections (with money value) are given below:

Table-5.7

(Rupees in crore)

Sl. No.	Head of Revenue	No. of Inspection Reports	No. of Audit Objection	Amount
1	Sales Tax	9	29	15.27
2	Income Tax	10	25	10.00
3	Forestry and Wild Life	8	12	0.44
4	Land Revenue	11	14	0.56
5	Taxes on Vehicles	5	13	0.95
6	State Excise	2	4	1.20
7	Urban Development	4	7	1.27
8	Power	14	25	3.48
9	State Lotteries	4	6	0.57
10	Non-ferrous Mining and Metallurgical Industries	1	1	0.02
<b>Total</b>		<b>68</b>	<b>136</b>	<b>33.76</b>

Out of 68 IRs pending settlement, first replies had not been received (June 2005) in respect of 18 reports containing 31 Audit objections.

## 5.5 Results of Audit

Test check of records of Income and Commercial Tax, Transport, Excise, Energy and Power, Forest and Environment Management, State Lotteries, Rural Management and Development, Mines and Geology, Land Revenue and Urban Development and Housing Departments conducted during the year 2004-05 revealed loss of revenue/non realisation/Undue benefit of concession/short payment etc. aggregating to Rs. 114.41 crore in 65 cases. A few illustrative cases involving Rs. 91.04 crore highlighting important Audit observations are mentioned in the following paragraphs.

## 5.6 Loss of Revenue

### ENERGY AND POWER DEPARTMENT

#### 5.6.1 Loss of revenue

**Lack of time bound action on the part of the Departmental authority resulted in non realisation of energy charge of Rs.87 lakh.**

Based on the request received from a firm located at Setipool, Power Department decided to provide electrical connection of high tension (HT) line for consumption of energy in their industrial units set up for manufacture of calcium carbide and ferro-alloys. Accordingly, an agreement was entered into on 16 August 1997 between Power Department and the firm. The agreement provided for payment of energy charges on monthly basis.

The Department initially provided in April 1998 low tension (LT) heavy duty power line to the unit at a cost of Rs.48.95 lakh for taking up the construction work and trial production. Subsequently, HT power line was provided to the unit on 19 September 2000 at a cost of Rs. 4.06 crore. However, the unit after operating for some time, closed down its operations without drawing power from the HT power line (exact date of closure not available on record). It was noticed that the unit had not paid energy charges since the date of drawal of LT power and the arrears accumulated to Rs.87 lakh (as on March 2001). The Department raised an arrear bill in March 2001 for the above amount, but the unit had not paid the arrears till date. The Department did not explore the possibility of recovering the Government dues by invoking the provisions of Sikkim Public Demand Recovery Act, 1988 and stated in August 2005 that whereabouts of the owners were not known.

This resulted in non realisation of energy charges of Rs. 87 lakh.

## 5.7 Non-realisation of revenue

### FINANCE, REVENUE AND EXPENDITURE DEPARTMENT (DIRECTORATE OF STATE LOTTERIES)

#### 5.7.1 Non-realisation of revenue from marketing agent

**Non realisation of minimum assured revenue of Rs. 80.33 crore and increase in quantum of prize money resulted in undue benefit of Rs. 5.15 crore to marketing agent.**

The Government of Sikkim (GOS) entered into an agreement in August 2001 with a marketing agent (MA) for a period of seven years for operation, maintenance and marketing of the State's online lottery. The agreement, *inter alia*, stipulated that MA was liable to pay the GOS 20 *per cent* of the gross revenue earned through sale of tickets every year for seven years. This was, however, not to be less than the minimum assured revenue (MAR) as detailed under:

**Table-5.8**

Year	State Government share (in percentage)	Prize Pool (in percentage)	Minimum assured Revenue (Rs. In crore)
Year-1	20	45	35
Year-2	20	45	45
Year-3	20	46	65
Year-4	20	46	85
Year-5	20	46	135
Year-6	20	47	195
Year-7	20	47	220

The MA was required to execute a bank guarantee (BG) for every year equivalent to MAR for the year. The BG would be invoked by GOS in event of failure of the

MA to pay MAR. Further, as per Clause 12 of the agreement, MA was required to deposit the sale proceeds with the Government on a monthly basis.

The Government introduced two lottery schemes, the Sikkim Super Lotto and Sikkim Thunder ball during March 2002 and July 2002 respectively. Due to stiff competition from online lottery business of other States and imposition of ban on sale of lottery ticket by the Government of Tamil Nadu causing fall in sale of tickets, the MA requested the State Government in June 2003 to lower the State share from 20 per cent to five per cent in both the games so that the prize pool could be increased from 45 per cent to 60 per cent with a view to make the games more attractive and increase the ticket sales. In a meeting with the MA, the Chief Secretary in October 2003 tentatively agreed to reduce the State share from 20 per cent to five per cent for both the games and increase the prize pool from 45 per cent to 60 per cent while retaining the MAR for the financial year 2003-04 at Rs.45 crore. The Cabinet approved the proposal in November 2003 with the condition that arrears of revenue should be cleared within 15 days. The matter was to be reviewed after a period of three months for inserting enabling clauses in the agreement.

Test check of records of the Director, Sikkim State Lotteries revealed in July 2004 that the conditions laid down by the Cabinet were not adopted. Although reduction in the State's share from 20 per cent to five per cent was immediately effected from the sale of the online lottery draws with effect from 25 November 2003, corresponding increase in the prize pool from the existing 45 per cent to 60 per cent was not made by the MA. This resulted in undue financial benefit of Rs 5.15 crore in 71 Super Lotto draws and 5 Thunderball draws as shown under:

**Table-5.9**

*(Rupees in crore)*

Name of the scheme	No of draws	From	To	Total Sales	Prize pool as per agreement (@ 60 per cent)	Prize pool as per actual	Difference
Sikkim Super Lotto	29	27.11.03 (88 <sup>th</sup> draw)	10.06.04 (116 <sup>th</sup> draw)	37.68	22.61	19.96	2.65
-do-	42	17.06.04 (117 <sup>th</sup> draw)	31.03.05 (158 <sup>th</sup> draw)	42.72	25.63	23.49	2.14
Thunder Ball	05	25.11.03 (71 <sup>st</sup> draw)	23.12.03 (75 <sup>th</sup> draw)	3.59	2.15	1.79	0.36
<b>Total</b>				<b>83.99</b>	<b>50.39</b>	<b>45.24</b>	<b>5.15</b>

Besides, MA did not sell out anything from their originally agreed share at the rate of 35 per cent of sale proceeds and did not deposit the arrears and the same amounted to Rs 80.33 crore at the end of 2004-05 as detailed below:



**Table-5.10***(Rupees in crore)*

Year	Sales	Govt. Share	MA's Share	MAR	Actual receipt of Government	Arrear*
2002-03	365.10	73.02	127.79	35	64.78	8.24
2003-04	189.44	28.51	66.30	45	24.15	20.85
2004-05	332.82	16.64	116.49	65	13.76	51.24
<b>Total</b>	<b>887.36</b>	<b>118.17</b>	<b>310.58</b>	<b>145</b>	<b>102.69</b>	<b>80.33</b>

\* *w.r.t. MAR or Government share at applicable rate whichever is higher.*

As the Government had not agreed for reduction in MAR for 2003-04 and the sales during 2004-05 increased to Rs. 332.82 crore, the MA should have paid the minimum assured revenue of Rs 45 crore for 2003-04 and Rs 65 crore for 2004-05. In spite of this, the Government did not invoke the enabling penal provision for issue of notice for termination of contract and encashment of BG. Further, against the required BG equivalent to MAR, the MA paid only Rs. 5 crore. In addition, there was clear violation by MA of Clause 12 of the agreement, which stipulated that the MA should deposit the sale proceeds with the Government on a monthly basis.

In reply (February 2005), the Department stated that the MA requested the Department to scale down the MAR and also invoked the arbitration clause. The Department also placed in December 2003 a demand notice on them and stated in February 2005 that the matter would be referred to the arbitration to resolve the issue. The reply only addresses the MAR and is silent about the MA's liability of clearing the arrears of revenue within 15 days as per supplementary agreement (9 December 2003) and the undue benefit of Rs 5.15 crore enjoyed by the MA without increasing the prize pool.

### **ANIMAL HUSBANDRY, LIVESTOCK, FISHERIES & VETERINARY SERVICES DEPARTMENT**

#### **5.7.2 Non-recovery of entry tax and service charges**

**Department's reluctance to enforce the provisions of the Act led to a loss of Rs. 30.67 lakh.**

Section 4(2) of the Sikkim (Livestock and Livestock Products Control) Act, 1985 prescribes that no livestock or livestock products shall be allowed to be brought into the State unless the specified entry tax and service charges, for poultry/birds/eggs/fish are paid. No instalment facility for recovery of dues is envisaged in the Act. Sikkim Public Demand Recovery Act, 1988 provides for recovery of dues as arrears in case these are not paid by the assessee. However, no time limit has been fixed for initiation of certificate proceedings.

Scrutiny of records in June 2003 and information furnished by the Department in April 2005 revealed that though the Department continued to raise monthly bills against a cooperative society (DACSL), the society did not pay entry tax and service charges aggregating Rs.30.67 lakh for the period from October 2001 to

March 2005. Principal Secretary to the Government, Department of Animal Husbandry, Livestock, Fisheries & Veterinary Services allowed instalment facility of Rs. 5 lakh per half year from June 2004 to the assessee for payment of arrears of revenue though no such facility was available in the Act. The society did not clear outstanding dues, however, Department did not enforce the provisions of Sikkim Public Demand recovery Act. This resulted in non recovery of revenue of Rs. 30.67 lakh.

**TRANSPORT DEPARTMENT  
(MOTOR VEHICLE DIVISION)**

**5.7.3 Non-realisation of token tax and fitness fees**

**Lackadaisical approach of the Department in realisation of token tax and fitness fees resulted in non realisation of Government revenue of Rs.10.21 lakh.**

*Non-realisation of token tax*

An owner of a motor vehicle is liable to pay specified tax, in advance, in accordance with Section 4(2) read with Section 14 of Sikkim Motor Vehicles Taxation Act, 1982. In the event of non payment of tax, the registration of the vehicle is liable to be suspended. The Transport Department further notified (May 1987) that 50 *per cent* and 100 *per cent* late fees would be charged in case the tax is paid within two months and after two months of the period of validity respectively.

Scrutiny of records relating to payment of token tax in respect of 1,770 vehicles out of 8,844 (03 and 04 series) vehicles registered with the two Regional Transport Offices (North East at Gangtok and South West at Jorethang) revealed in August 2004 that in 494 cases, the owners of vehicles defaulted in payment of taxes over a period ranging from one month to 11 years. The amount of tax due alongwith late fee worked out to Rs.31.18 lakh out of which 433 cases amounting to Rs. 21.12 lakh are within the last five years.

*Non-levy of fitness fee*

In accordance with the Notification dated 28 March 2001 issued by the Ministry of Road Transport and Highways, Government of India, the rate of fitness fee was revised *w.e.f.* 25 March 2001 and accordingly, the Department fixed Rs.300 for jeep, car, van etc., Rs. 300 for light vehicles, Rs. 400 for medium vehicles and Rs.500 for heavy vehicles as fitness fee. In terms of notification, vide dated 22 June 1995, the registered owner of a heavy or medium vehicle which ordinarily ply for hire or reward including maxi cab and motor cab for the conveyance of passengers and carriage of goods in the State of Sikkim, shall cause such vehicles to be produced before the Regional Transport Officer of the respective region at an interval set out below for periodical fitness inspection:

New vehicle	for two years
After two years and till four years	every one year
After four years and till eight years	every six months
After eight years	every three months

Test check of records of 1,770 vehicles out of 8,844 (03 and 04 series) registered with two Regional Transport Offices at Gangtok (North East) and Jorethang (South West) revealed in August 2004 that in 437 cases, fitness inspection was not conducted and fees also not realised for a period ranging from one month to five years. This resulted in non realisation of fitness fee to the tune of Rs 6.21 lakh. By not conducting fitness inspections at the prescribed intervals the Department also failed to ensure the safety/fitness of the vehicles engaged in carriage of passengers and goods in the State.

In reply, the Principal Secretary to the Government of Sikkim, Department of Transport stated (August 2005) that the list of defaulters had been circulated through a local daily and individual notices were also served to the owners to clear dues and so far the Department could recover Rs. 17.12 lakh from 343 vehicle owners. The Department was making all out effort to realise the outstanding dues of Rs. 10.21 lakh and would put up proposal to the Government to waive the dues and cancel the registration of the vehicles of the defaulters. Thus, failure of the Department to realise the dues led to blockage of Government revenue.

**FINANCE, REVENUE & EXPENDITURE DEPARTMENT  
(INCOME AND SALES TAX DIVISION)**

**5.7.4 Undue delay in realisation of Income Tax**

**Non assessment of income tax of three business houses resulted in non realisation of Government revenue of Rs. 25.85 lakh.**

Under the provisions of the Sikkim Income Tax Manual, 1948, income tax on the gross sale proceeds at prescribed rate is required to be charged from all persons engaged in business. Rule 4 (ii) of the Manual prescribed that ‘Every person doing business is expected to keep proper accounts and produce them on demand before the Income Tax Officer, who in default or in case of unsatisfactory account will assess tax according to his discretion’.

Audit scrutiny in September 2004 revealed that three registered dealers did not file their returns during the assessment years 1984-85 to 2002-03. However, the assessment authorities did not call for the same, though a register called “Assessment, Demand and Collection Register” was being maintained by the Department. Cross verification of records with the sales tax records revealed that the dealers made sales valued at Rs.9.64 crore during this period but had not paid any income tax nor was it assessed by the assessing authorities.

After this was pointed out, the Department assessed the dealers between November 2004 and August 2005 and raised a demand of Rs.27.37 lakh out of which Rs.1.52 lakh was recovered.

**Table-5.11***(Rupees in lakh)*

Sl. No	Name of assessee	Period of assessment	Gross turnover	Tax not paid	Month of Assessment
1	M/s Kwality Stores, Gangtok	1994-95 to 2002-03	434.82	12.44	August 2005
2	M/s Rajeev Electronic, Gangtok	1996-97 to 2000-01*	187.83	5.30	November 2004
3	Hotel Tibet, Gangtok	1984-85 to 1987-88 and 1997-98 to 2001-02**	341.35	9.63	January 2005
	<b>Total</b>		<b>964.00</b>	<b>27.37</b>	

Note: Gross turnover for units is based on records of sales tax paid to the Sales Tax Department.

\* The assessee has not submitted the Gross turnover for the year 2001-02 onwards to the Department.

\*\* The assessee had not submitted gross turnover for the period 1988-89 to 1996-97, hence no tax was assessed by the Department for that period.

Thus, the Department's failure to promptly assess and realise income tax resulted in non realisation of revenue to the tune of Rs.25.85 lakh.

## 5.8 Undue benefit of concession

### COMMERCE & INDUSTRIES DEPARTMENT

#### 5.8.1 Undue benefit of concession of Excise duty

#### Excise duty of Rs. 3.84 crore was refunded to an ineligible industry.

The Government vide Commerce and Industries Department notification dated 18 December 1996, formulated a scheme of incentives for industries with effect from 1 April 1996 in supersession of the earlier notification dated 13 March 1991. According to the guidelines contained in Para 2(iv) of annexure to the said notification "all units which came into commercial production on or before 31 March 1990 will be eligible for incentives and concessions as per notification dated 13 March 1991", which is contrary to the above provision. The scheme envisaged concession of deferment of excise duty to the eligible units as contemplated in clause 19 of Annexure *ibid*. Government withdrew the concession with effect from 3 December 1999 in respect of liquor industries as they were treated as negative industries.

M/s Sikkim Distilleries Ltd. which started commercial production in 1954 was not coming under the purview of the scheme under notification dated 18 December 1996. Scrutiny of records revealed (January 2005) that the company was granted incentive of deferment of excise duty with effect from 1 April 1999 on the strength of Commerce and Industries Department's communication dated 5 June

2000 and excise duty of Rs. 3.84 crore already paid by the company during the period 1 April 1999 to 2 December 1999 was refunded (March 2002) by Excise Department. The refund of excise duty to the unit was irregular as the unit was not eligible for this concession.

After this was pointed out by audit, the Excise Department accepted the objection and stated in August 2005 that the irregular refund was made at the instance of Industries Department owing to improper drafting of the notification.