

CHAPTER V

REVENUE RECEIPTS

5.1 Trend of Revenue Receipts

5.1.1 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 2003-04 alongwith the corresponding figures for the preceding four years are given below:

Table-5.1

(Rupees in crore)

		1999-2000	2000-01	2001-02	2002-03	2003-04
I	Revenue raised by the State Government					
(a)	Tax Revenue	49.07	65.39	80.39	105.53	108.00
(b)	Non-Tax Revenue	1,042.74 (64.78)	289.02 (65.63)	1,128.21 (71.12)	1,315.84 (143.36)	537.29 (95.04)
	Total	1,091.82 (113.85)	354.41 (131.02)	1,208.60 (151.51)	1,421.37 (248.89)	645.29 (203.04)
II	Receipts from the Government of India					
(a)	State's share of divisible Union taxes	99.54	72.20	84.83	77.20	112.33
(b)	Grants-in-aid	320.47	435.99	513.75	581.95	583.56
	Total	420.01	508.19	598.58	659.15	695.89
III	Total receipts of the State Government (I & II)	1,511.82 (533.86)	862.60 (639.21)	1,807.18 (750.09)	2,080.52 (908.04)	1,341.18 (898.93)
IV	Percentage of I to III	72	41	67	68	48

- 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.

Tax revenue raised by the State

5.1.2 Receipts from tax revenue constituted 16.73 per cent of the total revenue raised by the State during 2003-04. An analysis of the tax revenue for the year 2003-04 and the preceding four years is given below:

Table- 5.2

(Rupees in crore)

Sl. No.	Tax Revenue	1999-2000	2000-01	2001-02	2002-03	2003-04	Increase (+)/ Decrease (-) (in 2003-04 over 2002-03)	Percentage of variation
1	Sales Tax	13.64	24.50	34.97	41.42	48.87	7.45	18.00
2	Taxes on Income other than Corporation Taxes	17.84	19.29	22.03	32.67	26.76	(-)5.91	(-) 18.09
3	State Excise	13.39	17.61	17.59	22.45	25.25	2.8	12.47
4	Taxes on vehicles	1.69	1.54	1.97	2.35	2.74	0.39	16.60
5	Stamps & Registration Fees	0.62	0.50	1.30	3.45	1.14	(-)2.31	(-) 66.96
6	Land Revenue	0.54	0.22	0.51	0.40	0.18	(-)0.22	(-) 55.00
7	Other Taxes and Duties on Commodities and Services	1.35	1.73	2.02	2.79	3.06	0.27	9.68
	Total	49.07	65.39	80.39	105.53	108.00	2.47	

The decrease of revenue under Taxes on Income other than Corporation Tax was mainly due to sharp decline in State lottery sales and consequent less realisation of income tax and arrears in realisation of income tax. Similarly, decrease under Stamps & Registration Fees was due to less realisation under judicial stamp and Registration Fees.

The reasons for variation in respect of the remaining heads though called for in August 2004 have not been received (September 2004).

Non-tax revenue raised by the State

5.1.3 Lotteries, road transport service, power, forest, interest, police and plantations were the principal sources of non-tax revenue of the State. Receipts from non-tax revenue during the year 2003-04 constituted 83.27 per cent of the revenue raised by the State. An analysis of non-tax revenue under the principal heads for the years 1999-2000 to 2003-04 is given below:

Table-5.3

(Rupees in crore)

Sl. No	Non-Tax Revenue	1999-2000	2000-01	2001-02	2002-03	2003-04	Increase (+) Decrease (-) in 2003-2004 with reference to 2002-2003	Percentage of variation
1	Road Transport	11.89	11.90	15.56	17.26	17.33	0.07	0.41
2	Power	8.33	10.04	11.84	12.97	13.67	0.70	5.40
3	Forestry and Wild Life	4.90	6.39	6.65	7.15	7.24	0.09	01.26
4	Interest Receipts	0.51	4.48	6.02	7.17	2.73	(-) 4.44	(-) 61.92
5	Plantations	2.35	2.39	2.01	1.78	1.92	0.14	7.87
6	Dividends and Profits	0.72	0.01	0.01	1.76	0.74	(-)1.02	(-) 57.95
7	Police	2.84	5.84	3.86	1.40	10.20	8.80	628.57
8	Public Works	0.45	1.25	0.99	2.41	1.64	(-) 0.77	(-)31.95

Sl. No	Non-Tax Revenue	1999-2000	2000-01	2001-02	2002-03	2003-04	Increase (+) Decrease (-) in 2003-2004 with reference to 2002-2003	Percentage of variation
9	Tourism	0.40	0.39	0.67	0.54	0.79	0.25	46.30
10	Crop Husbandry	0.20	0.47	0.43	0.50	0.31	(-)0.19	(-) 38.00
11	Stationery and Printing	0.96	0.86	0.98	1.12	1.05	(-) 0.07	(-) 6.25
12	Village & Small Industries	0.49	0.66	0.64	0.63	0.58	(-)0.05	(-) 7.94
13	Animal Husbandry	0.16	0.16	0.24	0.24	0.23	(-) 0.01	(-) 4.17
14	Industries	-	-	0.01	0.01	0.02	0.01	100
15	Medical and Public Health	0.14	0.37	0.35	0.36	0.44	0.08	22.22
16	State Lotteries*	1,005.86 (27.90)	240.60 (17.21)	1,074.40 (17.31)	1,256.72 (84.24)	473.72 (31.47)	(-) 783.00 (-) (52.77)	(-) 62.30
17	Others	2.54	3.21	3.55	3.82	4.69	0.87	22.77
	Total	1,042.74 (64.78)	289.02 (65.63)	1,128.21 (71.12)	1,315.84 (143.36)	537.30 (95.05)	(-) 778.54 (-) (48.31)	(-) 59.17 (-) (33.70)

*Figures in brackets represent net receipts.

The increase of revenue under police is due to reimbursement of police cost from Government of India towards check posts. The decrease of revenue under State Lottery was due to introduction of on-line lotteries by other State Governments and ban on lotteries in some other States. The decrease of revenue under interest receipt was owing to reduction in investment and lowering of interest rates for such investments.

The reasons for variation in respect of the remaining heads of revenue though called for in August 2004 have not been received (September 2004).

5.2 Variation between the budget estimates and actuals

5.2.1 In respect of the following principal heads of revenue, the variation between budget estimates and actual receipts for the year 2003-04 was more than 10 per cent.

Table-5.4

(Rupees in crore)

Sl. No.	Head of Revenue	Budget estimates	Actuals	Variation Increase(+) / Decrease(-)	Percentage
A. Tax Revenue					
1	Land Revenue	0.25	0.18	(-)0.07	(-) 28.00
2	Taxes on income other than corporation tax	24.00	26.76	2.76	11.50
3	Stamp & registration fees	0.67	1.14	0.47	70.15
4	Sales Tax	27.00	48.87	21.87	81.00
5	Taxes on vehicles	1.45	2.74	1.29	88.97
6	State Excise	22.81	25.25	2.44	10.70

Sl. No.	Head of Revenue	Budget estimates	Actuals	Variation Increase(+) / Decrease(-)	Percentage
B. Non-Tax Revenue					
7	Tourism	0.60	0.79	0.19	31.67
8	Medical and Public Health	0.40	0.44	0.04	10.00
9	Information and Publicity	0.07	0.13	0.06	85.71
10	Education, Sports, Arts & Culture	0.53	0.88	0.35	66.04
11	Crop Husbandry	0.37	0.31	(-) 0.06	(-) 16.22
12	Animal Husbandry	0.35	0.23	(-) 0.12	(-) 34.29
13	Forestry and Wild Life	5.39	7.24	1.85	34.32
14	Food Storage and Warehousing	0.06	0.13	0.07	116.67
15	Other Rural Development Programme	0.04	0.51	0.47	1,175.00
16	Police	11.84	10.20	(-)1.64	(-) 13.85
17	Water Supply and Sanitation	0.52	0.74	0.22	42.31
18	Minor Irrigation	0.04	0.06	0.02	50.00
19	Social Security and Welfare	0.37	0.19	(-)0.18	(-) 48.65
20	Plantations	2.75	1.92	(-)0.83	(-) 30.18
21	Power	18.00	13.67	(-)4.33	(-) 24.06
22	State Lottery	332.01	473.72	141.71	42.68

While the increase of revenue under Forest & Wild life is due to more realisation on sale of timber & other forest produce, increase of revenue under Police was due to reimbursement of Police cost by Government of India towards checkpoints. Similarly, increase in other Rural Development Programme was due to sale of tender forms towards execution of works under Prime Minister Gram Sadak Yojna (PMGSY).

The reasons for variation in respect of the remaining heads of revenue have not been received (September 2004).

5.3 Cost of collection

5.3.1 Expenditure incurred on collection of revenue under the principal heads during the years 2000-01 to 2002-03 is 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 2002-2003
1	State Excise	2001-02	17.59	1.13	6.42	2.92
		2002-03	22.45	1.09	4.85	
		2003-04	25.25	1.37	5.43	
2	Sales Tax	2001-02	34.97	0.72	2.06	1.18
		2002-03	41.42	0.97	2.34	
		2003-04	48.87	1.09	2.23	
3	Taxes on vehicles	2001-02	1.97	0.37	18.78	2.86
		2002-03	2.35	0.37	15.74	
		2003-04	2.74	0.43	15.69	

It would be seen from the table that the percentage of expenditure to gross collection during 2003-04 as compared to the corresponding all India average percentage for 2002-03 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 Outstanding Inspection Reports

5.4.1 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 2003 but remaining outstanding as at the end of June 2004 was as under:

Table-5.6

(Rupees in crore)

Sl. No.		At the end of				
		June 2000	June 2001	June 2002	June 2003	June 2004
1	Number of outstanding IRs	161	110	134	123	107
2	Number of outstanding Audit objections	377	281	296	268	243
3	Money value of the objections	32.51	49.20	28.84	77.47	69.85

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 Receipts	No. of Inspection Reports	No. of Audit Objection	Amount
1	Sales Tax	08	36	15.88
2	Income Tax	09	29	6.63
3	Forests	40	86	0.06
4	Land Revenue	22	30	0.21
5	Motor Vehicle	04	11	5.82
6	State Excise	02	06	10.11
7	Urban Development & Housing Department	09	17	2.58
8	Power	07	21	17.00
9	Lotteries	03	04	8.56
10	Mines & Geology	03	03	3.00
	Total	107	243	69.85

Out of 107 IRs pending settlement, first replies had not been received (June 2004) in respect of 71 reports containing 149 Audit objections.

5.5 Results of Audit

5.5.1 Test check of records of Sales Tax, Excise, Mines & Geology and Urban Development & Housing departments conducted during the year 2003-04 revealed under-assessment/ short levy/loss of revenue amounting to Rs. 14.44 crore in 12 cases. A few illustrative cases involving Rs. 9.75 crore highlighting important Audit observations are mentioned in the following paragraphs.

5.6 Loss of revenue

SALES TAX, EXCISE AND INDUSTRIES DEPARTMENTS

5.6.1 Irregular concession on sales tax and excise duty

Incorrectly drafted notification led to the conceding of Rs. 7.38 crore of Government revenue.

The Sikkim Industrial Promotion and Incentive Act, 2000 applicable from 7 July 2000, provided incentives to existing industrial units and industrial units to be set up after the commencement of the Act. Under the Act, the industries set up prior to July 2000 and had enjoyed benefits, concessions, incentives or some other package of subsidies etc. for a period of five years under any notification or Rules or Orders were not eligible for any benefits.

Industries Department issued a notification effective from 1 October 2000 extending concessions on State excise duty (from 100 to 65 *per cent* on beer) and sales tax (from 20 to 15 *per cent* on liquor products) for a period of three and five years respectively to new and existing industrial units set up before 18 December 1996. This provision in the notification extended the benefits to the existing units which had already enjoyed the benefits for more than five years also. The erroneous provision was totally incompatible with the Act. This resulted in irregular allowance of concession to the extent of Rs. 7.38 crore to two existing units which were not eligible for the concession in terms of the Act as per details below:

Table 5.8

(Rupees in crore)

Name of unit	Excise duty concession allowed (period of concession)	Sales tax concession allowed (period of concession)	Total concession allowed
Yuksom Breweries	4.83 (August 2000 – October 2004)	0.97 (2000-2001)	5.80
Sikkim Distilleries	-	1.58 (2000-2003)	1.58
Total			7.38

The matter was referred to all three departments¹ in (July 2004). While no replies were received from Industries Department, Excise Department requested for some more time to reply back. Income and Sales Tax Department, while accepting the

¹Income and Sales Tax Department, Excise Department and Industries Department

observation stated (August 2004) that concessions were given to the industries on the strength of the notification issued by the Industries Department and accordingly matter was referred to them for clarification. However, matter was forwarded to the Government; the reply has not been received yet.

MINES AND GEOLOGY DEPARTMENT

5.6.2 Loss of revenue due to non-realisation of consultancy charges

Consultancy fee totalling Rs. 8.66 lakh was not realised by the Department despite a provision in the Mines and Geology Regulations 2001, for levying of the fee.

The Mines and Geology Regulations 2001, effective from 2 April 2002, require the Mines and Geology Department to charge a consultancy fee from users at the prescribed rate for geo-technical studies carried out by the Department involving a period not exceeding three days.

Between 3 April 2002 to 24 March 2003, the Department carried out 156 geo-technical studies in East, West, North and South districts involving less than three days in each case. However, the Department failed to charge consultancy fees at the prescribed rates in these cases amounting to Rs. 8.66 lakh resulting in a loss of Government revenue.

In reply, the Department stated (June 2004) that the fees prescribed were later found to be on the higher side and accordingly, reduced rates were submitted to the Government for approval. Though the matter was forwarded to the Government; the reply has not been received yet.

The reply of the Department is not tenable as the Mines and Geology Department regulation *ibid* clearly stipulated realisation of appropriate fees with effect from April 2002.

5.7 Short Deposit of Tax

INCOME AND SALES TAX DEPARTMENT

5.7.1 Short deposit of Sales Tax -Rs. 2.22 crore

The Department not only failed to notice short deposit of sales tax of Rs. 2.22 crore but was slack in taking effective steps to recover the same.

As per notification dated 3 October 2000 of the Industries Department a concessional rate of 10 *per cent* sales tax with effect from 1 October 2000 (instead of the earlier rate of 20 *per cent*) on liquor products manufactured by new units is applicable.

It was noticed in Audit of the records of the Income & Sales Tax Department in August 2003 that an assessee, M/s Mount Distilleries Ltd. (MDL), a unit eligible

for the above concession, wrongly interpreted the notification *ibid* and deposited sales tax at the rate of 10 *per cent* of the existing rate of 20 *per cent* i.e. two *per cent* only and Central sales tax at the rate of 10 *per cent* of the existing rate of four *per cent* i.e. 0.4 *per cent*, for the period 15 November 2000 to 30 June 2003. While the concession was clearly not applicable to Central sales tax on which full sales tax at the rate of four *per cent* should have been deposited by MDL, there was short deposit of Rs. 2.22 crore of sales tax and Central sales tax by the unit. After this was pointed out, the Department accepted the fact and issued a demand notice in September 2003 to the assessee to deposit the sales tax of Rs. 2.22 crore. The Department also informed in April 2004 that sales tax evaluation procedures against the company were initiated to rectify the wrong calculation of sales tax and Central sales tax.

As of November 2004, the unit had neither paid the amount nor had the Department taken any effective steps to recover the Government revenue. However, matter was forwarded to the Government; the reply has not been received yet.

5.7.2 Short assessment of Income Tax -Rs. 6.40 lakh

Cross verification of income tax and sales tax assessment records in respect of a Melli based company, engaged in brewery business, revealed short assessment of income tax by Rs. 6.40 lakh.

The Sikkim State Income Tax Manual provides that income tax is to be charged on the gross sale proceeds of previous year of all persons engaged in business at the prescribed rates.

It was noticed in October 2003 that the Income Tax Authority, South District had assessed a company engaged in brewery business for the period 1997-98 to 2000-01 to Rs. 1.01 crore on its turnover of Rs. 101.39 crore as per its books of accounts submitted to Income Tax (IT) Department. Cross check of assessment records of IT Department with that of Sales Tax (ST) Department revealed that taxable turnover disclosed by the company in respect of income tax assessments were understated, resulting in short assessment of income tax amounting to Rs. 6.40 lakh as detailed below.

Table 5.9

(Rupees in lakh)

Year	GTO* as per ST records	GTO **	GTO as per IT records	IT leviable#	IT assessed and paid	Short assessment
1	2	3	4	5	6	7
1997-1998	2,171.37	1,878.25	1,739.14	18.78	17.39	1.39
1998-1999	2,827.64	2,532.44	2,411.47	25.32	24.11	1.21
1999-2000	3,547.11	3,087.42	2,893.30	30.87	28.93	1.94
2000-2001	3,714.79	3,281.22	3,095.40	32.81	30.95	1.86
Total	12,260.91	10,779.33	10,139.31	107.78	101.38	6.40

* Gross Turnover

** GTO after excluding sales tax, transit insurance, and delivery charges etc., but inclusive of excise duty

IT leviable has been calculated at the flat rate of one *per cent* of the GTO for turnover in excess of Rs.1 crore, as worked out by the Department on the basis of slab rate taxation scheme approved by the Finance Minister of the State in May 1998, an objection already featured in the Audit Report of 2002-03.

In reply, the Department stated in February 2004 that turnover for the purpose of income tax was calculated excluding excise duty, sales tax, transit insurance, freight and delivery charges paid to the transporters on behalf of the purchasing dealers, which did not form part of turnover for assessment of income tax, thus explaining the difference between the two sets of figures. The reply of the Department is not tenable in view of the relevant provisions of the Manual *ibid* that income tax be charged on the gross sale proceeds accrued from the turnover of a business. Further, the fact that excise duty forms part of the gross turnover of a business, stands adequately clarified in terms of general clarification on the matter issued by the Accounting Standards Board of India (ASBI) in March 2002. Therefore, even after excluding sales tax, transit insurance, freight and delivery charges from the purview of gross turnover, turnover disclosed by the assessee and accepted by the Department is short by Rs. 6.40 crore for the period 1997-98 to 2000-01 due to which there was short assessment of income tax to the tune of Rs. 6.40 lakh.

The Department reiterated in April 2004 its earlier contention that the excise duty, not being a real income of the firm, was not computed in determination of gross sale proceeds for the purpose of income tax which is not acceptable in view of clarification given by ASBI. Though the matter was forwarded to the Government; the reply has not been received yet.