

CHAPTER I

GENERAL

1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Tamil Nadu and the state's share of divisible Union taxes and grants-in-aid received from the Government of India during the year 2007-08 and the corresponding figures for the preceding four years are mentioned below:

(Rupees in crore)

Sl. No.	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
I	Revenue raised by the Government of Tamil Nadu					
	• Tax revenue	15,944.97	19,357.04	23,326.03	27,771.15	29,619.10
	• Non-tax revenue ¹	2,093.79 (2,058.53)	2,208.35	2,600.75	3,422.57	3,304.37
	Total	18,038.76 (18,003.50)	21,565.39	25,926.78	31,193.72	32,923.47
II	Receipts from the Government of India					
	• State's share of divisible Union taxes	3,544.20	4,236.39	5,012.74	6,393.86	8,065.27 ²
	• Grants-in-aid	2,122.75	2,649.75	3,020.47	3,325.65	6,531.77
	Total	5,666.95	6,886.14	8,033.21	9,719.51	14,597.04
III	Total receipts of the State [(I) + (II)]	23,705.71 (23,670.45)	28,451.53	33,959.99	40,913.23	47,520.51
IV	Percentage of I to III	76	76	76	76	69

The above table indicates that during the year 2007-08, the revenue raised by the State Government was 69 per cent of the total revenue receipts (Rs. 47,520.51 crore) as compared to 76 per cent of the total revenue receipts (Rs.40,913.23 crore) in 2006-07. The balance 31 per cent of the receipts during 2007-08 was obtained from the Government of India.

¹ Figures in bracket represent non-tax revenue including receipts from lotteries net of expenditure on prize winning tickets.

² For details please see Statement No.11 – Detailed accounts of revenue by minor heads of the Finance Accounts of the Government of Tamil Nadu for the year 2007-08. Figures under the head '0021 – Taxes on income other than corporation tax – Share of net proceeds assigned to States' booked in the Finance Accounts under 'A – Tax revenue' have been excluded from the revenue raised by the State and included in 'State's share of divisible Union taxes' in this statement.

1.1.1 The following table presents the details of tax revenue raised during the period 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.	Sales tax	11,004.63	12,996.18	15,554.69	17,727.16	18,156.36	2
2.	State excise	1,657.10	2,549.00	3,176.65	3,986.42	4,764.06	20
3.	Stamp duty and registration fees	1,316.40	1,604.36	2,084.86	2,997.46	3,804.74	27
4.	Taxes on vehicles	934.29	1,014.75	1,124.93	1,260.88	1,483.21	18
5.	Land revenue	17.50	71.95	179.48	120.68	78.03	(-) 35
6.	Taxes on agricultural income	1.25	0.59	0.13	0.07	0.11	57
7.	Taxes on immovable property other than agricultural land (urban land tax)	12.03	11.81	11.86	14.45	15.75	9
8.	Others	1,001.77	1,108.40	1,193.43	1,664.03	1,316.84	(-) 21
Total		15,944.97	19,357.04	23,326.03	27,771.15	29,619.10	

The reasons for increase/decrease in 2007-08 over 2006-07 as furnished by the departments are mentioned below:

State excise: The increase was attributed to considerable increase in volume of sale of Indian made foreign liquor and spirits and malt liquor.

Stamp duty and registration fees: The increase was mainly due to more receipts under 'Stamps-Non judicial', 'Registration Fees' and 'Stamps-judicial'.

Taxes on vehicles: The increase was mainly due to more receipts under the Indian Motor Vehicles Act and the State Motor Vehicles Taxation Act.

The other departments did not inform (November 2008) the reasons for variations, despite being requested (April 2008).

1.1.2 The following table presents the details of major non-tax revenue raised during the period 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, dividends and profits	559.74	590.05	819.91	1,134.00	1,282.20	13
2.	Crop husbandry	61.61	57.27	66.43	74.45	82.41	11
3.	Forestry and wild life	90.21	155.07	138.59	82.31	46.42	(-) 44
4.	Non-ferrous mining and metallurgical industries	377.54	409.58	465.68	566.64	581.76	3
5.	Education, sports, art and culture	122.58	143.43	209.98	215.83	301.40	40
6.	Other receipts						
	• State lotteries	22.18	---	---	---	---	---
	• Others	859.93	852.95	900.16	1,349.34	1,010.18	(-) 25
	Total	2,093.79	2,208.35	2,600.75	3,422.57	3,304.37	

The reason for increase in 2007-08 over 2006-07 as furnished by the Education Department is mentioned below:

Education, sports, art and culture: The increase was mainly due to more receipts under 'Technical Education', 'General Education' and 'Art and culture'.

The other departments did not inform (November 2008) the reasons for variations, despite being requested (April 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 mentioned below:

(Rupees in crore)

Sl. No.	Heads of revenue	Budget estimates	Actuals	Variations excess (+) or short fall (-)	Percentage of variation
1.	Sales tax	20,030.84	18,156.36	(-) 1,874.48	(-) 9
2.	State excise	4,370.12	4,764.06	393.94	9
3.	Stamp duty and registration fees	3,258.88	3,804.74	545.86	17
4.	Taxes on vehicles	1,410.22	1,483.21	72.99	5
5.	Land revenue	70.77	78.03	7.26	10
6.	Taxes on immovable property other than agricultural land (urban land tax)	17.09	15.75	(-) 1.34	(-) 8
7.	Taxes and duties on electricity	250.00	37.22	(-) 212.78	(-) 85
8.	Interest receipts, dividends & profits	857.16	1,282.20	425.04	50
9.	Non-ferrous mining and metallurgical industries	667.30	581.76	(-) 85.54	(-) 13
10.	Crop husbandry	72.30	82.41	10.11	14
11.	Roads and bridges	24.32	39.92	15.60	64
12.	Major and medium irrigation	20.97	19.14	(-) 1.83	(-) 9

The following reason for variation was reported by the Energy Department:

Taxes and duties on electricity: The decrease was due to the reason that the tax on electricity collected by Tamil Nadu Electricity Board has not been paid into the Government account.

The other departments did not inform (November 2008) the reasons for variations, despite being requested (April 2008).

1.3 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and 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 as follows:

(Rupees in crore)

Sl. No.	Heads of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage for the year 2006-07
1.	Sales tax	2005-06	15,554.69	106.64	0.69	0.82
		2006-07	17,727.16	120.96	0.68	
		2007-08	18,156.36	139.24	0.77	
2.	Taxes on vehicles	2005-06	1,124.93	49.50	4.40	2.47
		2006-07	1,260.88	30.43	2.41	
		2007-08	1,483.21	40.44	2.73	
3.	State excise	2005-06	3,176.65	27.76	0.87	3.30
		2006-07	3,986.42	33.11	0.83	
		2007-08	4,764.06	38.64	0.81	
4.	Stamp duty and registration fees	2005-06	2,084.86	86.83	4.16	2.33
		2006-07	2,997.46	106.89	3.57	
		2007-08	3,804.74	133.84	3.52	

The percentage of expenditure on collection in respect of stamp duty and registration fees and taxes on vehicles in the state was higher than the all India average.

1.4 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. 8,560.51 crore, of which Rs. 3,250.91 crore were outstanding for more than five years as mentioned below:

(Rupees in crore)

Sl. No.	Heads of revenue	Amount outstanding as on 31 March 2008	Amount outstanding for more than 5 years as on 31 March 2008	Remarks
1	2	3	4	5
1.	Sales Tax	8,221.59	3,091.03	Out of Rs. 8,221.59 crore, demands amounting to Rs. 1,901.04 crore were covered under the Revenue Recovery Act. Demands amounting to Rs. 1,202.13 crore were stayed by the Government/High Court and other judicial/appellate forums. Rs. 57.15 crore could not be recovered on account of assessee becoming insolvent. A sum of Rs. 691.13 crore is likely to be written off/waived. An amount of Rs. 2,106.02 crore was covered under the deferral scheme and a sum of Rs. 2,264.12 crore was under various stages of recovery.
2.	Stamp duty and registration fees	148.81	63.56	Out of Rs. 148.81 crore, demands amounting to Rs. 142.91 crore were covered under the Revenue Recovery Act. Demands amounting to Rs. 5.90 crore were stayed by the High court and other judicial authorities.
3.	Urban land tax	113.61	37.32	Demands amounting to Rs. 14.27 crore were stayed by the Government/High Court and other judicial authorities. Recovery of Rs. 4.50 crore was stayed by the Principal Commissioner of Land Reforms. Rs. 88.26 crore was under various stages of collection. Rs. 6.58 crore has since been collected.

4.	State excise	39.87	39.87	Out of Rs. 39.87 crore, demands amounting to Rs. 15.74 crore were covered under the Revenue Recovery Act; demands amounting to Rs. 1.90 crore were stayed by the High Court and other judicial authorities; Rs. 4.12 crore was held up due to rectification/review application. Rs. 28.10 lakh was held up on account of persons becoming insolvent. Rs. 11.89 crore was under various stages of collection. Rs. 5.94 crore has since been collected.
5.	Land revenue	33.53	16.24	Out of Rs. 33.53 crore, demands amounting to Rs. 4.06 crore were covered under the Revenue Recovery Act. Demands amounting to Rs. 3.79 crore were stayed by the High Court and other judicial authorities and Rs. 3.38 crore was stayed by the Government. Rs. 19.36 lakh is likely to be written off. Rs. 17.57 crore was under various stages of collection. Rs. 4.54 crore has since been collected.
6.	Taxes on vehicles	3.10	2.89	Out of Rs. 3.10 crore, demands amounting to Rs. 11.98 lakh were covered under the Revenue Recovery Act. Demands amounting to Rs. 32.91 lakh were stayed by the High Court and other judicial authorities. Rs. 2.26 crore is likely to be written off. Rs. 15.08 lakh was under various stages of collection. Rs. 23.63 lakh has since been collected.
Total		8,560.51	3,250.91	

The position of arrears of revenue at the end of 2007-08 in respect of other departments was not furnished (November 2008) despite being requested (April 2008).

1.5 Arrears in assessment

The number of cases pending for assessment at the beginning of the year 2007-08, becoming due during the year, disposed during the year and pending for finalisation at the end of the year 2007-08 alongwith the figures for the preceding four years as furnished by the Commercial Taxes Department in respect of sales tax and Revenue Department in respect of urban land tax are mentioned below:

Heads of revenue	Opening balance	Cases which became due for assessment	Total	Cases disposed during the year	Cases pending at the end of the year	Percentage of disposal (Col.5 to 4)
1	2	3	4	5	6	7
2003-04						
Sales tax	48,499	1,64,397	2,12,896	1,59,363	53,533	75
Urban land tax	4,421	1,583	6,004	911	5,093	15
2004-05						
Sales tax	53,533	1,71,052	2,24,585	1,70,293	54,292	76
Urban land tax	5,093	2,227	7,320	1,383	5,937	19
2005-06						
Sales tax	54,292	1,77,496	2,31,788	1,62,872	68,916	70
Urban land tax	5,937	3,812	9,749	2,101	7,648	22
2006-07						
Sales tax	68,916	1,82,457	2,51,373	1,51,825	99,548	60
Urban land tax	7,648	2,076	9,724	2,974	6,750	31
2007-08						
Sales tax	99,548	1,78,414	2,77,962	76,814	2,01,148	28
Urban land tax	6,750	1,583	8,333	2,253	6,080	27

1.6 Evasion of tax

The details of cases of evasion of sales tax detected, sales tax cases finalised and demands for additional tax raised as reported by the Commercial Taxes Department are mentioned below:

Head of revenue	Cases pending as on 31 March 2007	Cases detected during 2007-08	Total cases	Cases in which assessments/ investigations completed and additional demand including penalty etc., raised		Cases pending for finalisation as on 31 March 2008
				No.	Amount (Rupees in crore)	
Sales tax						
Enforcement wing	281	30	311	243	NF	68
Administrative wing	6,434	1,534	7,968	3,888	23.04	4,080
NF – Not furnished.						

It is necessary to finalise these cases at the earliest to minimise the risk of loss of revenue.

1.7 Write off and waiver of revenue

During the year 2007-08, Rs. 2.02 lakh (in 19 cases) relating to sales tax was written off by the Commercial Taxes Department as irrecoverable. Reasons for the write off as reported are mentioned below:

(Rupees in lakh)			
Sl. No.	Reasons	No. of cases	Amount
1.	Defaulters' whereabouts not known	15	1.97
2.	Defaulters not having any property	4	0.05
Total		19	2.02

In addition to the above, sales tax amounting to Rs. 86.44 lakh in 46 cases was waived by the department during the year.

1.8 Refunds

The number of refund cases pending at the beginning of the year (1 April 2007), claims received during the year, refunds allowed during the year and cases pending at the close of the year (31 March 2008) as reported by the departments are mentioned below:

(Rupees in crore)

Sl. No	Particulars	Sales tax		Taxes on vehicles	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	83,155	185.70	41	0.13
2.	Claims received during the year	13,844	84.55	1,237	199.26
3.	Refunds made during the year	9,937	57.40	1,007	131.81
4.	Balance outstanding at the end of the year	87,062	212.85	271	67.58

Tamil Nadu General Sales Tax Act (TNGST Act) provides for payment of interest calculated at the rate of one *per cent* or part thereof, if the excess amount is not refunded to the dealer within 90 days from the date of order of assessment or revision of assessment or within 90 days from the date of receipt of order passed in appeal, revision or review. The pending refund cases need attention to avoid mandatory payment of interest.

1.9 Results of audit

Test check of the records of sales tax, land revenue, state excise, motor vehicles tax, stamp duty and registration fees, electricity duty, other tax and non-tax receipts conducted during 2007-08 revealed underassessment, short levy, loss of revenue and other observations amounting to Rs. 760.93 crore in 2,167 cases. During the year, the departments accepted underassessment of Rs. 12.54 crore in 1,506 cases pointed out in 2007-08 and earlier years and recovered/adjusted Rs. 8.76 crore.

This Report contains 33 paragraphs including three reviews relating to non/short levy of taxes, duties, interest and penalties and other audit observations involving revenue of Rs. 408.47 crore. The departments/Government accepted audit observations involving revenue of Rs. 96.20 crore, of which Rs. 2.47 crore had been recovered/adjusted by the departments upto September 2008. Final reply has not been received in respect of the remaining cases (November 2008).

1.10 Failure to enforce accountability and protect interest of the Government

Audit observations on incorrect assessments, short levy of taxes, duties and fees, etc., as also defects in the maintenance of initial records noticed during audit and not settled on the spot are communicated to the heads of offices and other departmental authorities through inspection reports. Serious financial irregularities are reported to the heads of the departments concerned and the

Government. The heads of offices are required to furnish replies to the inspection reports through their respective heads of departments within a period of two months.

1.10.1 The number of inspection reports and audit observations relating to revenue receipts issued upto 31 December 2007, which were pending for settlement by the departments as on 30 June 2008, along with the corresponding figures for the preceding two years are mentioned below:

	Position as on 30 June		
	2006	2007	2008
Number of inspection reports pending for settlement	6,708	6,638	7,271
Number of outstanding audit observations	22,549	23,047	23,624
Amount of revenue involved (Rs.in crore)	2,556.70	2,772.37	2,951.86

The increase in the outstanding audit observations is indicative of non-compliance with the Government's instruction to furnish replies to the initial audit observations and report on further action taken thereon within the stipulated time. Though State level audit committees and departmental audit committees were constituted in March 1993 with the objective of expeditious settlement of the outstanding observations, the number of observations were still on the increase.

1.10.2 Revenue headwise breakup of the inspection reports and audit observations outstanding as on 30 June 2008 is mentioned below:

Sl. No.	Revenue heads	Number of outstanding		Amount (Rupees in crore)	Earliest year to which the inspection report relates
		Inspection reports	Audit observations		
1.	Sales tax	3,169	15,646	908.41	1987-88
2.	Stamp duty and registration fees	988	1,532	146.69	1984-85
3.	Land revenue	807	2,020	1,193.29	1988-89
4.	Taxes on vehicles	476	927	86.36	1983-84
5.	State excise	299	569	129.54	1987-88
6.	Taxes on agricultural income	86	227	81.49	1986-87

7.	Mines and minerals	278	627	302.61	1989-90
8.	Urban land tax	247	667	36.62	1983-84
9.	Electricity duty	71	132	44.20	1986-87
10.	Entertainment tax	103	123	8.07	1992-93
11.	Luxury tax	238	259	0.57	1997-98
12.	Betting tax	12	24	0.09	2003-04
13.	Entry tax	497	871	13.92	2003-04
Total		7,271	23,624	2,951.86	

1.11 Departmental audit committee meeting

During the course of the year 2007-08, 14 meetings were held in respect of paras pertaining to sales tax, land revenue, transport and prohibition and excise. 310 paras involving a revenue of Rs. 6.39 crore were settled during these meetings.

1.12 Response of the department/Government to the draft audit paragraphs

The Government (Finance Department) had issued directions (April 1952) to all the departments to send their response to the draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India within six weeks. The draft paragraphs are forwarded to the secretaries of the concerned departments through demi official letters, drawing their attention to the audit findings and requesting them to send their response within six weeks from the date of receipt of the draft paragraphs. The fact of non-receipt of replies from the departments/Government is invariably indicated at the end of such paragraphs included in the Audit Report.

68 draft paragraphs (combined into 33 paragraphs including three reviews of this report) proposed to be included in this Report were forwarded to the secretaries of the respective departments during the period from April to June 2008, through demi official letters followed by reminders in September 2008.

The secretaries of the departments did not send replies to 62 draft paragraphs including one review. These paragraphs have been included in this report without the response of the secretaries of the departments.

1.13 Follow-up on Audit Reports – summarised position

With a view to ensure accountability of the executive in respect of the issues dealt with in the Audit Reports, the Public Accounts Committee (PAC) directed that the concerned departments should furnish remedial/corrective action taken notes (ATN) on its recommendations within the prescribed time frame.

A review of the outstanding ATNs as of 31 March 2008 on paragraphs included in the Report of the Comptroller and Auditor General of India, Revenue Receipts, Government of Tamil Nadu and discussed by the PAC revealed that the departments had not submitted the ATNs in respect of 1,076 recommendations pertaining to 491 audit paragraphs.

Further, the PAC has also laid down that necessary explanatory notes for the issues mentioned in the Audit Reports should be furnished to the committee within a maximum period of two months from the date of placing the Reports before the legislature. Though the Audit Reports for the years from 1998-99 to 2006-07 were placed before the Legislative Assembly between May 2000 and May 2008, the departments are yet to submit explanatory notes for 94 paragraphs (including 15 reviews) included in these reports.

1.14 Recovery of revenue of accepted cases

In respect of paragraphs featured in the Audit Reports 2002-03 to 2006-07, the department/Government accepted audit observations involving Rs. 201.72 crore of which only Rs. 74.83 crore had been recovered till 31 August 2008 as mentioned below:

(Rupees in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2002-03	1,032.59	91.18	5.66
2003-04	815.05	26.00	0.58
2004-05	576.20	5.07	2.68
2005-06	228.71	3.79	1.92
2006-07	151.38	75.68	63.99
Total	2,803.93	201.72	74.83

1.15 Amendment to Acts/Rules

- Exemption was granted to wheat bran under entry 57(v) of the Third Schedule to the TNGST Act. Audit pointed out that this exemption was conditional and therefore, suggested that inter state sales should be assessed to tax (Para 2.2.5 of the Audit Report for the year 2002-03). The Government accepted the audit observation and amended the entry 57(v) of the third schedule by issue of notification in December 2006 granting unconditional exemption to wheat bran with retrospective effect.
- Transfer of properties between parent company and its wholly owned subsidiary company was exempted from levy of stamp duty. Audit pointed out that as the exemption was unconditional, it was used as a tool to avoid stamp duty (Para 3.2.7 of the Audit Report for the year 2005-06). After this was pointed out, the Government withdrew the exemption.