CHAPTER-III
STATE EXCISE

3.1 Results of audit

Test check of the records of the offices of State excise, conducted during the year 2007-08, revealed cases of low recovery of alcohol, non-lifting of minimum guaranteed quota (MGQ) of country liquor, non-realisation of licence fee, non-levy of interest and other irregularities, amounting to Rs. 18.80 crore in 93 cases, which fall under the following categories:

(Rupees in crore)

Sl.No.	Categories	Number of cases	Amount
1.	Low recovery of alcohol from molasses	22	9.59
2.	Non-lifting of MGQ of country liquor	19	4.05
3.	Non-realisation of licence fee	6	1.69
4.	Non-levy of interest	15	0.21
5.	Other irregularities	31	3.26
Total		**93**	**18.80**

During the year 2007-08, the department recovered Rs. 6.39 lakh, involved in 12 cases of low recovery of alcohol, non-lifting of MGQ and other irregularities, pointed out in earlier years.

A few illustrative cases, involving Rs. 1.26 crore, are mentioned in the succeeding paragraphs.

3.2 Loss of excise duty due to short lifting of minimum guaranteed quota of country liquor

Under the provisions of the Uttar Pradesh Excise (Settlement of licences for the retail sale of country liquor) Rules 2002, a licensee is liable to lift the entire minimum guaranteed monthly quota (MGQ) fixed for each licensee, during the year. In case of failure, the licensing authority has to adjust the outstanding balance amount of licence fee from the security deposit of the licensee and also issue a notice to the licensee by the third day of the next month to replenish the deficit in the security amount either by lifting such quantity of country liquor involving duty equivalent to the adjusted amount or by depositing cash or a combination of both. In case the licensee fails to replenish the deficit in security amount by the 10th day of the next month, his licence shall stand cancelled.

During test check of the records of 11 district excise offices[1] (DEO), it was noticed between September 2005 and February 2008 that 127 licensees lifted 19,42,698.169 bulk litre (BL) of country liquor against MGQ of 20,75,770.75 BL during the period from 2004-05 to 2006-07. As the full quantity of MGQ of country liquor was not lifted during the year, differential amount of license fee i.e. Rs.1.09 crore on short lifted quantity of 1,33,072.581 BL of liquor, was to be recovered from the licensees. The department, however, did not initiate any action either to adjust the amount from security or to cancel the licence. This resulted in loss of excise duty of Rs. 1.09 crore.

The matter was reported to the department and the Government between September 2007 and March 2008; their replies have not been received (November 2008).

3.3 Loss of excise duty due to irregular conversion of Indian made foreign liquor (IMFL)

Under the provision of the UP Excise Act, 1910, and the rules made thereunder, blending and reduction of plain spirit is permitted in store vats under the supervision and presence of the officer-in-charge. IMFL does not fall under the category of plain spirit. Excise duty at the rate of Rs. 130 per BL and Rs. 85 per BL was leviable on IMFL and country liquor respectively during 2006-07. However, the rules did not provide for conversion of IMFL into country liquor.

During test check of the records for the period 2006-07 of Majhola Distillery, Majhola, Pilibhit, it was noticed (February 2007) that 57,162.2 BL of IMFL was converted into 67,550.6 BL of country liquor with the permission of the Deputy Excise Commissioner (Distribution). The department was not empowered to give the permission of such conversion under any Rules. The conversion reduced the strength of liquor from 42.8 *per cent* to 36 *per cent*. Excise duty of Rs. 74.31 lakh was chargeable on the total quantity of IMFL.

[1]DEOs Ballia, Barabanki, Deoria, Hardoi, Kausambi, Mau, Orai, Rae Bareilly, Saharanpur , Sitapur and Unnao.

The IMFL converted into country liquor could fetch only Rs. 57.42 lakh as excise duty. Thus, irregular conversion of liquor (IMFL) resulted in loss of excise duty of Rs. 16.89 lakh.

The matter was reported to the department and the Government (September 2007); their replies have not been received (November 2008).