

**CHAPTER-IV
TAXES ON VEHICLES, GOODS AND PASSENGERS**

4.1 Results of audit

Test check of the records of various offices of the Transport Department conducted during the year 2007-08, revealed non/short levy of taxes, under assessment of road tax, goods tax and other irregularities amounting to Rs. 94.45 crore in 213 cases, which fall under the following categories:

(Rupees in crore)

Sl. No.	Category	Number of cases	Amount
1.	Levy and collection of taxes, fees and penalties etc. in inter State vehicular traffic (A review)	1	81.15
2.	Non/short levy of passenger tax /additional tax	98	8.00
3.	Short levy of goods tax	7	0.34
4.	Under assessment of road tax	43	4.37
5.	Other irregularities	64	0.59
Total		213	94.45

During the year 2007-08, the department recovered Rs. 24.59 lakh, in four cases of non/short levy of passenger tax/additional tax, short levy of goods tax and other irregularities, pointed out in earlier years.

A review of “Levy and collection of taxes, fees and penalties etc. in inter State vehicular traffic” involving Rs. 81.15 crore and few illustrative cases, involving Rs. 87 lakh are mentioned in the succeeding paragraphs.

4.2 Levy and collection of taxes, fees and penalties etc. in inter state vehicular traffic

Highlights

- Due to non-revalidation of time barred bank drafts, revenue of Rs. 1.64 crore remained out of Government account.
(Paragraph 4.2.6.1)
- Short levy of tax, additional tax and non-imposition of penalty on vehicles plying without countersigned permit resulted in short realisation of Rs. 57.12 crore.
(Paragraph 4.2.8)
- Non-realisation of tax and additional tax from goods carriage resulted in loss of Rs. 5.16 crore.
(Paragraph 4.2.10.1)
- Non-levy of tax on laden weight of the vehicles resulted in short realisation of Rs. 7.34 crore.
(Paragraph 4.2.11)
- Delay in circulation of orders resulted in non-realisation of Rs. 6 crore.
(Paragraph 4.2.12)
- Short assessment of additional tax from stage carriage on inter state routes under bilateral agreement resulted in short realisation of Rs. 2.51 crore.
(Paragraph 4.2.14)

4.2.1 Introduction

Inter state vehicular traffic of goods between one state and other states is regulated by national permit scheme and bilateral agreements under the provisions of the Motor Vehicles Act, 1988 (MV Act) and the rules made thereunder. With a view to expedite the economic development of the country, by encouraging long distance inter state travel and transport of goods by road, the States are allowed to enter into bilateral agreements for vehicular traffic with other States, on a reciprocal basis. The assessment and levy of taxes, additional taxes, fees and imposition of penalty on motor vehicles, plying on inter state routes in Uttar Pradesh, is regulated by the provisions of the Uttar Pradesh Motor Vehicles Taxation Act 1997 (UPMVT Act) and the rules made thereunder. Additional tax for the State, under national permit schemes, is to be transmitted by means of bank drafts by the collecting states. The drafts so received are to be deposited into the Government account. Realisation of revenue under zonal/national permit schemes is watched by the State Transport Authority (STA) of the state concerned, under the overall supervision and control of the Transport Department of the State Government.

The types of vehicles, normally covered under the scheme/agreements, are stage carriages¹, contract carriages / tourist taxis² and goods carriages³.

A review of the system of levy and collection of taxes, fees and imposition of penalties in inter state vehicular traffic was conducted. It revealed a number of system and compliance deficiencies which have been mentioned in the succeeding paragraphs.

4.2.2 Organisational setup

The overall responsibility for enforcement of Act, rules and regulations on inter state vehicular traffic rests with the Principal Secretary, Transport Department and he is the administrative head at the Government level. Transport Commissioner (TC) is the head of the Transport Department who is assisted by four Additional Transport Commissioners (ATCs), six Deputy Transport Commissioners (DTCs) and five Asstt. Transport Commissioners at headquarter. Under the charge of Finance Controller, there is an internal audit cell in the office of TC.

The Transport Commissioner is further assisted by seven DTCs, 19 Regional Transport Officers (RTOs) and nine RTOs (Enforcement), 70 Asstt. Regional Transport Officers (ARTOs) (Admn.) and 62 Asstt. Regional Transport Officers (Enforcement) in field offices and 34 tax collection centers are working round the clock on various borders of the states, under the charge of RTO. Besides, statutory bodies known as STA and Regional Transport Authority (RTA) have been constituted by the State Government. The STA issues permanent permit to stage carriage/contract carriage/tourist vehicles on inter state routes, executes bilateral agreements with other states and countersigns the permits issued by other states. The RTA issues inter regional permanent permit, temporary permit, special temporary permits and national permits for vehicles registered in the State.

4.2.3 Scope and methodology of audit

Test check of the records for the period April 2002 to March 2007, was carried out between May 2007 and March 2008 in the offices of 24 RTOs / ARTOs, 32 tax collection centers and office of the TC. The units were selected on the basis of risk analysis. Ten districts⁴ situated at the border of the State, where frequencies of incoming and outgoing vehicles were high, were categorised as high risk area. All the units of that area were test checked under the review. Selection of nine districts⁵ under medium risk area was based on revenue realised by the concerned nine ARTOs of the State. Five RTOs⁶ under the low

¹ Stage carriages refers to vehicles carrying passengers on fare basis.

² Contract carriages / tourist taxis refers to vehicles carrying passengers on contract basis.

³ Goods carriages refers to vehicles holding national permit.

⁴ High risk areas: Agra, Allahabad, Aligarh, Banda, Bareilly, Ghaziabad, Jhansi, Mirzapur, Moradabad and Shaharanpur.

⁵ Medium risk areas: Bijnore, Chandauli, Etawah, GB Nagar, Kushinagar, Lalitpur, Mathura, Mahoba and Muzaffarnagar.

⁶ Low risk areas: Devipatan, Gorakhpur, Kanpur nagar, Lucknow and Varanasi.

risk areas were selected on the basis of number of goods vehicle, covered under national permit scheme. In this way, 24 districts out of 70 (one third of the total districts) were covered under the review.

4.2.4 Audit objectives

The review was conducted with a view to ascertain, whether;

- the taxes, additional tax, fees and penalties assessed and collected were in conformity with the provisions of the Act/Rules;
- an adequate and effective system exists for fixing responsibility and accountability of authorities in case of slackness in realisation of Government revenue; and
- an internal control system exists and is working efficiently to ensure timely assessment and realisation of tax, additional tax, fees and penalties by the officers engaged in the work of tax realisation.

4.2.5 Acknowledgement

The Indian Audit & Accounts Department acknowledges the co-operation of the Transport Department in providing necessary information and records for audit. An entry conference was held with the TC and other departmental officers who were apprised of the objectives of the review being taken up by the audit. The draft review report was forwarded to the Government and the department in May 2008. Meeting of audit review committee was held in September 2008. The department was represented by the additional TC. The view point of the department has been incorporated in the relevant paragraphs.

Audit Findings

System deficiencies

4.2.6 Deficiencies in collection of revenue

In order to keep a close watch over the demand, recovery and computation of arrears and for taking of follow up action for realisation of composite fee due from other States, the department is required to maintain the details of all permits issued from time to time by other states. However, it was noticed in audit that necessary intimation regarding national permit issued by other states for operating vehicles in UP was neither given by those States nor was it ever called for by the STA. In the absence of this basic information, the composite fee due from other States could not be determined. Copies of permanent permits/temporary permits had neither been received from other states nor called for by the department to verify the correctness of taxes paid. No action was taken by the STA in this regard.

The Government may consider prescribing a periodic return from STA on national permit issued by other states for operating the vehicles in UP to plug the loopholes and to safeguard the leakages of revenue.

4.2.6.1 Non-revalidation of time barred bank drafts

The provisions of the Uttar Pradesh Treasury Rules read with Financial Hand Book Vol. V provide that all transactions must be brought to account without delay and money received should forthwith be credited to the Government account. Tax collected by the authorities outside the State is required to be remitted through the bank drafts by the concerned State. The bank drafts are received in the central pool section in the office of TC. A control register is required to be maintained in the section to watch the receipt and encashment of the bank drafts. The Government did not prescribe any return to keep a watch on proper and timely realisation of revenue.

It was noticed that during 2002-03 to 2006-07 out of 8, 67,591 bank drafts sent for encashment and credit to the Government account to the Bank of Baroda (the nodal bank for collection of the bank drafts), 3,537 bank drafts were returned without encashment as these had become time barred. Thus, revenue of Rs. 1.64 crore could not be credited to the Government account as shown in Appendix I. It was further noticed that the control register required to be maintained was incomplete as the particulars like date of issue, receipt and remittance were not entered in the register. In absence of the complete record, it could not be ascertained as to at what stage the bank drafts had become time barred. Besides there was nothing on record to indicate that the bank drafts sent for revalidation were received back after being revalidated or were still pending revalidation. The department also did not pursue the matter with the concerned States for return of these bank drafts after revalidation. Due to improper maintenance of records, the department could not watch the receipt and disposal of the bank drafts.

After the cases were pointed out, the department stated in August 2008 that time barred bank drafts pointed out in audit have been got revalidated and sent to the nodal bank for credit to the Government account. Further test verification of 419 bank drafts, however, revealed that 157 bank drafts were not sent for revalidation and remaining 262 bank drafts, though sent for revalidation, have not been received back.

The Government may consider prescribing a monthly return to watch the collection of taxes through the bank drafts.

4.2.6.2 Short realisation of additional tax through bank drafts

Under the provisions of the UPMVT Act, additional tax on a goods carriage, operating under national permit granted under sub section (12) of section 88 of the MV Act by a state other than the State of Uttar Pradesh or a union territory, shall be Rs. 5,000 for each year or part thereof. It is received through bank drafts and soon after its receipt in central pool section of the office of the TC, it is checked and after ensuring its correctness, sent to the bank for collection.

Test check of the records of the office of TC, revealed that 434 bank drafts valued as Rs. 9.76 lakh were received between April 2002 and March 2007

from other States⁷ in respect of 434 vehicles against additional tax of Rs. 21.70 lakh payable at the rate Rs. 5,000 per vehicle prescribed under the Act. Though the amount of each bank draft was less than Rs. 5,000 yet these were accepted and no action was initiated to recover the differential amount of additional tax of Rs. 11.94 lakh.

After the cases were pointed out, the department accepted the observation in the Audit Review Committee meeting and assured that necessary action would be taken.

4.2.6.3 Non-levy of late payment fee from national permit holder

Under the provisions of the MV Act, read with the notification of 29 July 1994, issued by the Government of Uttar Pradesh (UP), in case of non-payment of additional tax on due date, a sum of Rs. 100 shall be charged from the national permit holder as late fee for delay of one month or part thereof.

Test check of the records of the office of TC, revealed that during the year 2004-05 to 2006-07, 52,939 vehicle owners deposited the additional tax of Rs. 26.47 crore through bank drafts after the prescribed period i.e. 15 days prior to the date of expiry of authorisation of permit under the national permit scheme. However, the department did not initiate any action to recover the late payment fee of Rs. 52.94 lakh. This resulted in non-realisation of late payment fee upto that extent.

The Government may consider prescribing return for timely and correct realisation of composite fees from the vehicle owners of other States authorised to ply vehicles in the State of UP and taking up the matter with the concerned States for collection and remittance of late payment fee.

4.2.7 Internal audit

Internal audit, which provides reasonable assurance of proper enforcement of laws, rules and departmental instructions, is a vital component of internal control. It is generally defined as the control of all controls to enable an organisation to assure itself that the prescribed systems are functioning reasonably well.

The Transport Department has an internal audit wing (IAW) for the purpose. Posts of one Asstt. Accounts Officer, four Auditors, two Junior Auditors (Accounts), one Sr. Clerk and two Junior Clerks have been sanctioned. The IAW conducts audit of 48 units in a year. Audit noticed that the department has not introduced any manual for conducting internal audit. The details regarding compliance with internal audit observations etc. were also not available with the department. This indicates that the department did not have any effective internal audit and was unable to ascertain whether its various units were functioning reasonably well to ensure optimum realisation of revenue.

⁷ Andhra Pradesh, Delhi, Haryana, Madhya Pradesh, Punjab and Rajasthan.

The department needs to take immediate measures for effective functioning of its internal audit wing.

Compliance deficiencies

4.2.8 Short levy of tax and additional tax and non-imposition of penalty

Under the provision of the MV Act, read with the UP MVT Act, and conditions of bilateral agreement, tax and additional tax in respect of public service vehicles, owned or controlled by a State Transport Undertaking other than the Uttar Pradesh State Road Transport Corporation (UPSRTC) shall be levied and paid in accordance with the agreement entered into with the concerned states under sub-section (6) of Section 88 of the MV Act and where there is no such agreement, it shall be levied and paid at the rate, given at Serial No. 8 of the table of rates of additional tax under Clause (a) of Article 1 of the Fourth Schedule. It was observed that permits of five states were not countersigned under bilateral agreement with other states and the vehicles of other states were plying in UP without renewal of permits. Further, if the tax or additional tax is not paid within the specified period a penalty not exceeding 25 per cent of the due amount, shall be payable.

Test check of the records of the offices of nine RTOs and five ARTOs⁸ revealed that bilateral agreement between the State of UP and Madhya Pradesh, Himanchal Pradesh, Rajasthan and Haryana were executed but the same between State of UP and Delhi, Uttarakhand, Jammu and Kashmir, Bihar and Chandigarh Union territory were not executed for the last seven years. 1,526 stage carriages of the above states continued to ply in UP in A class routes without having countersigned permits from April 2002 to March 2007. The owner of the vehicles paid amount of tax and additional tax of Rs. 39.24 crore instead of due amount of Rs.96.36 crore. This resulted in short levy of tax and additional tax of Rs. 57.12 crore. Besides, maximum penalty of Rs. 14.28 crore was also leviable.

After this was pointed out, the department stated in August 2008 that tax and additional tax of Rs. 8.62 crore have been recovered and for the recovery of balance amount efforts were being made. A report on recovery of balance amount has not been received (November 2008).

⁸ Allahabad, Agra, Banda, Bareilly, Chandauli, Etawah, Ghaziabad, G.B. Nagar, Jhansi, Mirzapur, Moradabad, Mathura, Muzaffernagar and Saharanpur.

4.2.9 Non-realisation of countersignature fees

Under the provisions of the MV Act, a permit granted for stage carriage for plying in any State shall not be valid in any other State unless countersigned by the STA of that state. As per UPMVT rules, the countersignature fee of Rs. 4,800 per vehicle, is chargeable for five years at a time.

Test check of the records of STA and records of the office of the nine RTOs and five ARTOs⁹ revealed that out of 1,733 stage carriages of other states, plying in UP, only 207 stage carriages have got their permit countersigned by the STA UP and remaining 1,526 vehicles were plying during the period from April 2002 to March 2007 without getting their permit countersigned. This resulted in non-realisation of countersignature fees of Rs. 73.25 lakh.

After this was pointed out, the department accepted the observation and replied that the action would be taken after thorough scrutiny.

4.2.10 Non-realisation of tax and additional tax from goods carriage

4.2.10.1 Under the provisions of the UPMVT Act, tax and additional tax is leviable on all goods carriages registered in UP, plying on inter state routes as per the specified rates. In case, tax and additional tax is not deposited in specified time, penalty at such rate not exceeding 25 *per cent* of the due amount, as may be prescribed, shall be payable.

Test check of the records of four¹⁰ RTOs revealed that 1,146 goods carriages, registered in UP and covered under national permit scheme, have not paid tax and additional tax of Rs. 3.51 crore during the period from April 2002 to March 2007. The maximum penalty of Rs. 87.83 lakh leviable was not imposed.

4.2.10.2 Under the provisions of the UPMVT Act, if vehicles having all UP permit and registered in other states are found plying in UP without payment of tax and additional tax, a penalty at such rate, not exceeding 25 *per cent* of the due amount, as may be prescribed, shall be payable.

Test check of the records of the offices of three RTOs and one ARTO¹¹ revealed that 781 vehicles of other states, covered under UP permit were plying in UP without paying additional tax of Rs. 61.95 lakh during the period between 2003-04 and 2006-07. The maximum penalty of Rs. 15.49 lakh leviable on such vehicles were not imposed.

After this was pointed out, the department stated in August 2008 that demand notices/ recovery certificates for unpaid amount of tax and additional tax would be issued against the defaulters. Further report has not been received (November 2008).

⁹ Allahabad, Agra, Banda, Bareilly, Chandauli, Etawah, Ghaziabad, G.B. Nagar, Jhansi, Mirzapur, Moradabad, Mathura, Muzaffernagar, and Saharanpur.

¹⁰ Allahabad, Jhansi, Lucknow and Varanasi.

¹¹ Bareilly, Lalitpur, Mirzapur and Saharanpur.

4.2.11 Non-levy of tax on laden weight of the vehicle

Under the provisions of the UPMVT Act, tax at the rate of Rs. 45 per metric ton or part thereof on registered gross laden weight (GLW) of the vehicle per quarter is leviable on public service vehicle, plying for the conveyance of limited number of passengers and the transport of limited quantity of passengers' goods. In case, tax is not deposited in specified time, penalty at such rate not exceeding 25 per cent of the due amount, shall be payable.

Test check of the records of the offices of nine¹² RTOs and eighteen¹³ ARTOs between April 2002 and March 2007 revealed that 8,962 public service vehicles were plying for carrying passengers and limited quantity of passengers' goods. Though regular tax and additional tax was being charged from those vehicles but the department failed to levy tax of Rs. 6.06 crore on gross laden weight of the vehicles. Besides, maximum penalty of Rs. 1.28 crore was also not levied.

After this was pointed out, the department stated in August 2008 that the tax of Rs. 18 lakh has been recovered. Reply in the remaining cases has not been received (November 2008).

4.2.12 Delay in circulation of orders

The rate of additional tax was revised from time to time by the Government of UP during the period 2002-03 to 2005-06. These rates of additional tax were revised with effect from 2 November 2002 and after that with effect from 17 March 2006. The revised rates of additional tax were applicable from the date of issue of the notification.

During test check of the records of the office of RTO Agra and 32 tax collection centers situated at borders of the State, it was noticed between November 2002 and March 2007 that in 22,956 cases, authorities concerned, realised additional tax of Rs. 3.51 crore at pre-revised rates whereas as per revised rates additional tax of Rs. 9.51 crore should have been recovered. Scrutiny of the records revealed that revised schedule of rates were not circulated in time to field offices. Delay in circulation of orders ranged from one to 14 months. Thus, late circulation of orders resulted in non-realisation of additional tax of Rs. 6 crore as shown in Appendix-II.

After this was pointed out, the department stated in ARC meeting that in future timely circulation of orders would be ensured.

4.2.13 Non-imposition of penalty on vehicles of other states

Under the provision of the UPMVT Act, no transport vehicle of other States shall ply in UP, without having a temporary permit of the state intending to enter the territory of UP unless tax and additional tax specified in the Act has

¹² Agra, Allahabad, Bareilly, Gorakhpur, Jhansi, Lucknow, Moradabad, Saharanpur and Varanasi.

¹³ Bagpat, Bijnor, Bulandshahar, Deoria, Etawah, Farukhabad, Hardoi, Jalaun, Kanpur Dehat, Kaushambi, Kushinagar, Manपुरi, Mau, Mathura, Muzaffarnagar, Raebareilly, Sitapur and Unnao.

been paid. In case of violation of the provisions of the Act, tax and additional tax, along with penalty equivalent to 10 times of the due amount is leviable.

Test check of the records of the offices of eight¹⁴ RTOs and five ARTOs¹⁵ revealed that 891 vehicles of other states were found plying in UP without valid permits, during the period 2004-05 to 2005-06. Tax and additional tax of Rs. 37.54 lakh was also not deposited. The enforcement wing of the department intercepted and challaned these vehicles. Though tax and additional tax of Rs. 37.54 lakh were realised but penalty of Rs. 3.75 crore was not imposed.

After this was pointed out, the department stated in August 2008 that penalty is leviable only on challaned vehicles. The reply of the department is not tenable as further verification of the records of Tax collection centre, Chaukhata under the charge of RTO Allahabad revealed that penalty had not been imposed in any case pointed out in audit i.e. 117 cases of challaned vehicles.

4.2.14 Short assessment of additional tax from stage carriage on inter state routes under bilateral agreement

Under the provisions of the UPMVT Act, (as amended on August 2004)¹⁶ the stage carriages owned by private operators and State transport undertaking of other states, plying in UP on inter state routes under bilateral agreement are liable to pay additional tax, as per the rates specified.

Test check of the records of the offices of four RTO¹⁷s and one ARTO, revealed that 207 stage carriages of four States¹⁸ were plying in UP on inter State routes, during the period from April 2002 to March 2007. The department has levied and realised additional tax of Rs. 3.99 crore instead of due amount of Rs. 6.50 crore. This resulted in short realisation of additional tax of Rs. 2.51 crore.

After the case was pointed out, the department stated in August 2008 that differential amount of additional tax would be recovered. A report on recovery has not been received (November 2008).

4.2.15 Non-cancellation of national permit

Under the provisions of the MV Act, read with CMV Rules, the authorisation fee of Rs. 500 per vehicle per year in home States is leviable on vehicles, having national permits. This fee is received through bank drafts. If the owner of the vehicle fails to apply for renewal of the permit before 15 days of the expiry of it, his permit is liable to be cancelled as per provision of section 86 of the MV Act.

¹⁴ Allahabad, Agra, Bareilly, Jhansi, Lucknow, Mirzapur, Moradabad and Saharanpur.

¹⁵ Chandauli, Etawah, Gautam Budh Nagar, Mathura and Muzaffarnagar.

¹⁶ Notification No. 1227/ sat-V-1-1 (ka) 28-2004 Lucknow 13 August 2004.

¹⁷ RTO Agra, Ghaziabad, Jhansi, Saharanpur and ARTO Muzaffarnagar.

¹⁸ Haryana, Himanchal Pradesh, Rajasthan and Madhya Pradesh.

Test check of the records of the offices of 10 RTOs¹⁹, revealed that during the period April 2002 to March 2007 in 949 cases, national permits, issued by the concerned RTOs, were not renewed within the prescribed time. The department also did not cancel their permits.

After the case was pointed out, the department stated in August 2008 that action regarding cancellation of permit would be taken. Further report has not been received (November 2008).

4.2.16 Conclusion

It was noticed that the manual specifying the working procedure, control records, specific duties and responsibilities of authorities does not exist in the department. Consequently amount received from other states are not being accounted for properly and correctly. For timely realisation of tax, additional tax, fee and penalty control records are not being maintained in the department. Effective and efficient mechanism to fix the responsibility and accountability of authorities for their defaults is lacking.

After this was pointed out, the department stated in August 2008 that points raised in audit and deficiencies brought to notice will be taken into the consideration while framing the transport manual. Necessary measures will be taken to remove the deficiencies.

4.2.17 Summary of recommendations

The Government may consider:

- prescribing a periodic return from STA on national permit issued by other states for operating the vehicles in UP to plug the loopholes and to safeguard the leakages of revenue;
- prescribing a monthly return to watch the collection of taxes through the bank drafts;
- prescribing return for timely and correct realisation of composite fees from the vehicle owners of other States authorised to ply vehicles in the State of UP; and
- taking immediate measures for effective functioning of its internal audit wing.

4.3 Short levy of additional tax on passenger vehicles

Under the provision of the UPMVT Act, additional tax on stage carriage upto a distance of 9,000 kms. on 'A' class routes was applicable in four slabs upto 1 November 2002. From 2 November 2002, these slabs were merged into one slab and additional tax upto 9,000 kms on A class routes was payable at the rate of Rs. 376 per seat per quarter. Further, it was revised on 17 March 2006 and according to the revised rates, additional tax exceeding 18,000 kms on 'A'

¹⁹ Allahabad, Agra, Aligarh, Bareilly, Gorakhpur, Jhansi, Lucknow, Moradabad, Mirzapur and Varanasi.

class routes was payable at the rate of Rs. 705 plus Rs. 256 for every 5,700 kms. or part thereof per seat per quarter.

Test check of the records of RTO Aligarh, ARTO Lakhimpur Kheri and Kushinagar between November 2006 and December 2007 revealed that during April 2005 to September 2007, in case of 42 vehicles plying on 'A' class routes, additional tax of Rs. 40 lakh was levied at pre revised rates instead of Rs. 55 lakh at revised rates. Further, it was also observed that in case of 46 vehicles, additional tax of Rs. 1.09 crore was leviable whereas due to underassessment only Rs. 37 lakh was levied. Application of pre revised rates and underassessment of additional tax resulted in short realisation of additional tax of Rs. 87 lakh.

The matter was reported to department and Government (January 2008); their reply has not been received (November 2008).