



SUPREME AUDIT INSTITUTION OF INDIA
लोकहितार्थं सत्यनिष्ठा
Dedicated to Truth in Public Interest

**Report of the
Comptroller and Auditor General of India
on State Revenues
for the period ended March 2023**



**Government of Tamil Nadu
Report No. 7 of 2025
(Compliance Audit – Revenue)**

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P R E F A C E

This Report of the Comptroller and Auditor General of India for the period ended March 2023 has been prepared for submission to the Governor of the State of Tamil Nadu under Article 151 (2) of the Constitution of India.

This report contains significant findings of audit of Receipts and Expenditure of Commercial Taxes and Registration Department.

The instances mentioned in this Report are those which came to notice in the course of test audit during the period 2022-23 as well as those which came to notice in earlier years but could not be reported in the previous Audit Reports. The instances relating to the period subsequent to 2022-23 have also been included, wherever necessary.

This audit was conducted under the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

The audit was conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

OVERVIEW

OVERVIEW

The Report contains 10 Audit Paragraphs, including Subject Specific Compliance Audits on “GST Registration” and “Department’s oversight on GST payments and Return filing” and individual Audit Paragraphs on Stamp Duty and Registration Fees, involving ₹1,721.12 crore. Some of the major findings are mentioned below:

I General

The total revenue receipts of the State during 2022-23 were ₹2,43,749.34 crore, comprising tax revenue of ₹1,50,222.75 crore and non-tax revenue of ₹17,060.95 crore. ₹38,731.24 crore was received from the Government of India as State’s share of divisible Union taxes and ₹37,734.40 crore as grants-in-aid. The revenue raised by the State Government in 2022-23 was 69 *per cent* of the total revenue receipts as compared to 65 *per cent* in 2021-22. Taxes on sales and trade and Goods and Services Tax (₹1,12,966.24 crore) formed a major portion (75 *per cent*) of the tax revenue of the State.

(Paragraph 1.1)

Test check of records relating to Stamp Duty and Registration Fee, State Excise, Motor Vehicles Tax and Land Revenue during the year 2022-23 revealed observations amounting to ₹166.19 crore and were issued as Inspection Reports.

(Paragraph 1.9)

II Goods and Services Tax

The Subject Specific Compliance Audit on “GST Registration” revealed the following:

- Rule 9(1)(a) prescribes mandatory physical verification if the applicant fails to undergo Aadhaar authentication. As per Rule 9(1)(b), the Proper Officer (PO) is empowered to conduct physical verification if he deems fit. Audit analysis of data furnished by the Department showed that Registration was granted without completing physical verification in cases where Aadhaar authentication was not done and also in cases where the POs deemed fit for such verification.

(Paragraph 2.4.7 (I) (B))

- There has been delay in granting registration beyond the prescribed time limit of seven working days from the date of application / date of reply to notice issued in 1,18,271 cases. The delay ranged from three to 174 days (average five days).

(Paragraph 2.4.7 (I) (D) (a))

- As per Section 10(1), 10(2) and 10(2)(e) of TNGST Act, 2017, a registered person, whose aggregate turnover in the preceding financial year did not exceed one crore and fifty lakh rupees or is not engaged in making any supply through an electronic commerce operator or not a manufacturer of notified goods is eligible for registering as a composite taxpayer. Audit identified 952 taxpayers who were granted composite status contrary to the above provisions. As a result, the 952 taxpayers had paid tax at a lower rate.

(Paragraph 2.4.7 (II) (A) (a))

- As per Section 22(1) of TNGST Act, 2017, every supplier making taxable supplies exceeding an aggregate turnover of ₹40 lakh in a financial year is required to be registered. As per Section 24 of the TNGST Act, 2017, casual taxable persons making taxable supply shall be required to be registered. Out of 5,628 companies having a turnover exceeding ₹40 lakh and registered with Registrar of Companies, Chennai and Coimbatore, 184 companies did not have GST registration. 60 GST registrants of other states had not obtained GST registration in Tamil Nadu. Those who obtained licence for selling crackers or participated in exhibitions did not apply for registration. As a result, 244 taxpayers remained outside the ambit of GST.

(Paragraph 2.4.7 (II) (B))

- As per Section 45 of TNGST Act, 2017, every registered person whose registration has been cancelled shall furnish a final return (GSTR 10) within three months of the date of cancellation or date of order of cancellation, whichever is later. Out of 2,98,223 taxpayers whose registrations were cancelled, 2,64,736 taxpayers did not file GSTR 10. Out of 21,865 applicants 16,530 were granted fresh registration even though they did not file GSTR 10. As a result, the Assessing Authority could not ascertain the potential tax due to the 2,81,266 non-filers of GSTR 10.

(Paragraph 2.4.7 (II) (C)(ii))

The Subject Specific Compliance Audit on “Department’s oversight of GST payments and return filing” revealed the following:

- Audit was conducted and reported in three parts viz. Audit of circles, Centralised Audit and Detailed Audit. In the Audit of circles, the oversight functions were evaluated in 10 circles; in the Centralised Audit, 431 taxpayers were test checked for deviations from rules and inconsistencies. In the detailed Audit, the returns and allied granular records 70 taxpayers were test checked in detail to identify incorrect claims of ITC and non/short payment of taxes.

(Paragraph 2.5.3)

- As per Section 61 of TNGST Act, 2017, the Proper Officer (PO) may initiate appropriate action to determine the tax and other dues under Section 73 within three years. The POs did not complete assessments in 98 cases for more than three years. The notices issued to the taxpayers and the replies received were not followed up. Also 59 taxpayers whose registrations were cancelled did not pay a tax of ₹2.58 crore.

(Paragraph 2.5.5)

- The Centralised Audit was performed based on 16 pre-set parameters derived from data. Audit pointed out irregularities in 337 cases amounting to ₹1,538.18 crore. Department accepted and issued notices in all cases and recovered ₹8.64 crore.

(Paragraph 2.5.6)

- The scope of detailed Audit was restricted due to non-production of records of 7 taxpayers and partial production of records of 45 taxpayers out of the sampled 70 taxpayers. Yet Audit could identify deficiencies relating to incorrect claim of ITC and non/short payment of tax amounting to ₹101.86 crore.

(Paragraph 2.5.7)

Audit of Works Contract Services revealed the following:

- Two taxpayers assessed in NSC Bose Road and Perambalur circles did not report the turnover relating to Joint Development Rights which resulted in short payment of tax of ₹2.98 crore.

(Paragraph 2.5.8.7 (A) (I) (a))

- From the data relating to 14,494 works contract transactions from 12 departments, Audit ascertained that a turnover of ₹260.95 crore was not reported by 625 taxpayers assessed in 221 circles. This resulted in non/short payment of tax amounting to ₹31.31 crore.

(Paragraph 2.5.8.7 (A) (I) (d))

III Stamp Duty and Registration Fee

The test check of records in the Registration Department revealed the following:

- Check of records at Sub-Registries Thiruporur and Joint-IV Kancheepuram revealed that members of a Co-operative Society did not reveal true consideration of lands they purchased from third parties with an intention to sell them to the Co-operative Society. Recitals of the instruments showed that the Societies had entered into an agreement to purchase the lands from these members at a much higher price. The loss of revenue in these cases was ₹9.53 crore.

(Paragraphs 3.4.1 (a) and 3.4.1(b))

- In six Sub-Registrar offices, vacant lands leased out were surrendered back to the owner with buildings. The Registering Officers collected only the registration fees on buildings. Since there was a transfer of immovable property in these cases, stamp duty also should have been collected. Escapement of stamp duty was ₹7.04 crore.

(Paragraph 3.4.2)

- Transfer of properties during restructuring of companies have been judicially held as conveyance. The Government of Tamil Nadu notified reduction of stamp duty to two *per cent* on the market value of properties for such transactions. In six Sub-Registrar offices, 10 properties were transferred during amalgamation / demerger of companies as revealed by recitals of instruments relating to subsequent transactions. However, these transactions were not registered. The loss of revenue due to non-registration of the transactions was ₹5.86 crore.

(Paragraph 3.4.3)

- Windmills were judicially held as immovable properties and hence transfer of windmills are compulsorily registrable under the Indian Stamp Act. In Sub-Registrar office, Mylapore, the value of windmills was not included in the value of property transferred. Although the CCRA remitted back the instrument with an instruction to follow the principles of due assessment of properties, windmills were not assessed by the RO. This resulted in a short collection of stamp duty and registration fee of ₹1.62 crore.

(Paragraph 3.4.4)

- In the Sub-Registrar office, Sunguvarchatram, a property of 5.55 acres in Mambakkam village was sold for ₹3.20 lakh, far below the guideline rate. The RO adopted guideline value and stamped the instrument. However, the same property was sold for ₹9.89 crore the very next day. Since the value of a property cannot vary so widely in a single day, the RO should have adopted the higher value for the first transaction also. Non-adoption of higher value resulted in a loss of revenue of ₹83.21 lakh.

(Paragraph 3.4.6)

CHAPTER I

GENERAL

CHAPTER I

GENERAL

1.1 Trend of revenue receipts

1.1.1 Tax and non-tax revenue raised by the Government of Tamil Nadu, the State's share of net proceeds of divisible Union taxes and duties assigned to States and grants-in-aid received from the Government of India during the year 2022-23 and the corresponding figures for the preceding four years are mentioned in **Table 1.1**.

Table 1.1: Trend of Revenue Receipts

(₹in crore)

| Sl. No. | Particulars | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---------|---|--------------------|--------------------|--------------------|--------------------|------------------------|
| 1 | Revenue raised by the State Government | | | | | |
| | • Tax revenue | 1,05,549.90 | 1,07,462.28 | 1,06,152.96 | 1,22,866.29 | 1,50,222.75 |
| | • Non-tax revenue | 14,200.02 | 12,887.84 | 10,421.85 | 12,116.52 | 17,060.95 |
| | Total | 1,19,749.92 | 1,20,350.12 | 1,16,574.81 | 1,34,982.81 | 1,67,283.70 |
| 2 | Receipts from the Government of India | | | | | |
| | • State's share of divisible Union taxes | 30,623.03 | 26,392.41 | 24,924.51 | 37,458.62 | 38,731.24 ¹ |
| | • Grants-in-aid | 23,368.21 | 27,783.37 | 32,576.98 | 35,050.97 | 37,734.40 |
| | Total | 53,991.24 | 54,175.78 | 57,501.49 | 72,509.59 | 76,465.64 |
| 3 | Total revenue receipts of the State Government (1 + 2) | 1,73,741.16 | 1,74,525.90 | 1,74,076.30 | 2,07,492.40 | 2,43,749.34 |
| 4 | Percentage of 1 to 3 | 69 | 69 | 67 | 65 | 69 |

(Source: Finance Accounts of Government of Tamil Nadu)

During the year 2022-23, the revenue raised by the State Government (₹1,67,283.70 crore) was 69 per cent of the total revenue receipts. The remaining 31 per cent (₹76,465.64 crore) of the receipts during 2022-23 was from the Government of India.

Abbreviations used in this report are listed in the Glossary at Page 97.

¹ For details, please see Statement No. 14 – Detailed statements of revenue by minor heads of the Finance Accounts of the Government of Tamil Nadu for the year 2022-23. Figures under various heads relating to '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.

1.1.2 Table 1.2 presents the details of tax revenue raised during the period from 2018-19 to 2022-23.

Table 1.2: Details of Tax revenue raised

(₹ in crore)

| Sl. No. | Head of revenue | 2018-19 | | 2019-20 | | 2020-21 | | 2021-22 | | 2022-23 | | Percentage of increase (+) or decrease (-) in 2022-23 over 2021-22 |
|--------------|---|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--|
| | | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual | |
| 1 | State Goods and Services Tax | 29,748.45 | 38,533.09 | 48,157.40 | 38,376.19 | 46,195.55 | 37,942.10 | 45,395.50 | 45,276.49 | 49,565.13 | 53,822.69 | 18.88 |
| 2 | Taxes on Sales, Trade etc., | 44,427.04 | 42,701.07 | 48,033.65 | 44,515.44 | 56,046.29 | 43,489.31 | 57,070.17 | 48,668.21 | 57,203.37 | 59,143.55 | 21.52 |
| 3 | State Excise | 6,997.83 | 6,863.12 | 7,262.32 | 7,205.97 | 8,133.80 | 7,821.66 | 9,613.90 | 8,236.63 | 10,589.12 | 10,422.71 | 26.54 |
| 4 | Stamps and Registration Fees | 10,935.67 | 11,066.18 | 13,122.81 | 10,855.65 | 14,435.09 | 11,675.04 | 14,879.37 | 14,330.98 | 16,322.73 | 17,559.89 | 22.53 |
| 5 | Taxes on Vehicles | 6,211.75 | 5,572.80 | 6,510.70 | 5,674.64 | 6,897.73 | 4,561.17 | 6,581.75 | 5,627.40 | 7,149.25 | 7,513.43 | 33.52 |
| 6 | Land Revenue | 282.39 | 177.99 | 357.29 | 258.30 | 328.39 | 211.19 | 559.74 | 205.18 | 325.98 | 247.73 | 20.74 |
| 7 | Taxes on immovable property other than agricultural land (Urban Land Tax) | 13.00 | 10.34 | 13.65 | 8.83 | 13.65 | 8.16 | 13.65 | 14.31 | 13.65 | 10.46 | (-)26.90 |
| 8 | Other Receipts ² | 1,378.38 | 625.31 | 1,355.24 | 567.26 | 1,479.80 | 444.33 | 1,527.70 | 507.09 | 1,630.70 | 1,502.29 | 196.26 |
| Total | | 99,994.51 | 1,05,549.90 | 1,24,813.06 | 1,07,462.28 | 1,33,530.30 | 1,06,152.96 | 1,35,641.78 | 1,22,866.29 | 1,42,799.93 | 1,50,222.75 | |

(Source: Finance Accounts of Government of Tamil Nadu)

Tax revenue accounted for 61.63 per cent (₹1,50,222.75 crore) of the total revenue (₹2,43,749.34 crore) of the State for the year 2022-23. There was an increase of ₹27,356.46 crore (22.27 per cent) in tax revenue raised by State Government in 2022-23 over the previous year (₹1,22,866.29 crore).

The increase in revenue under Taxes on Sales and Trade was mainly due to increase in receipts under Central Sales Tax Act by ₹422.63 crore and receipt under State Sales Tax by ₹9,573.42 crore. The increase in revenue under Goods and Services Tax was mainly due to increase in receipts under State Goods and Services Tax. The overall increase in revenue under Stamp Duty and Registration Fee is due to huge increase in “Stamps and Registration” under (i) Duty on impressing documents by ₹1,142.62 crore (ii) Fees for registering documents by ₹2,219.32 crore. The increase in revenue under State Excise was mainly due to increase in receipts under Foreign Liquors and spirits by ₹1,984.93 crore, Malt Liquor and Other Receipts. The increase in revenue under Taxes on vehicles was mainly due to increase in receipts under (i) “Tamil Nadu Motor Vehicles Taxation Act 1974” by ₹1,620.27 crore and (ii) Other Receipts by ₹117.94 crore.

² ‘Other Receipts’ represent tax receipts pertaining to heads (i) Agricultural Income, (ii) Goods and Passengers, (iii) Electricity and (iv) Commodities and Service.

1.1.3 Table 1.3 presents the details of non-tax revenue raised during the period from 2018-19 to 2022-23.

Table 1.3: Details of Non-tax revenue raised

(₹ in crore)

| Sl. No. | Head of revenue | 2018-19 | | 2019-20 | | 2020-21 | | 2021-22 | | 2022-23 | | Percentage of increase (+) or decrease (-) in 2022-23 over 2021-22 |
|---------|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|--|
| | | Budget | Actual | |
| 1. | Interest receipts, dividends and profits | 4,086.26 | 7,031.19 | 4,631.01 | 4,547.74 | 5,596.49 | 3,729.44 | 6,544.22 | 4,189.78 | 6,728.81 | 5,047.97 | 20.48 |
| 2. | Crop Husbandry | 59.82 | 185.06 | 62.16 | 53.12 | 76.27 | 75.42 | 238.62 | 92.81 | 121.44 | 104.99 | 13.12 |
| 3. | Forestry and Wildlife | 103.07 | 145.46 | 48.63 | 83.38 | 83.69 | 94.70 | 24.30 | 83.37 | 58.35 | 112.71 | 35.19 |
| 4. | Non-Ferrous Mining and Metallurgical industries | 1,452.27 | 1,057.45 | 1,987.50 | 1,150.12 | 2,222.35 | 765.24 | 2,023.93 | 1,004.83 | 2,118.76 | 1,200.47 | 19.47 |
| 5. | Education, Sports, Art and culture | 1,448.99 | 1,592.36 | 1,264.59 | 1,792.96 | 1,919.96 | 1,649.63 | 1,179.58 | 1,064.66 | 1,144.93 | 2,206.06 | 107.21 |
| 6. | Other receipts ³ | 4,150.70 | 4,188.50 | 5,333.01 | 5,260.52 | 6,000.05 | 4,107.42 | 5,637.77 | 5,681.07 | 5,364.95 | 8,388.75 | 47.66 |
| | Total | 11,301.11 | 14,200.02 | 13,326.90 | 12,887.84 | 15,898.81 | 10,421.85 | 15,648.42 | 12,116.52 | 15,537.24 | 17,060.95 | |

(Source: Finance Accounts of Government of Tamil Nadu)

The non-tax revenue accounted for was seven *per cent* (₹17,060.95 crore) of the total revenue (₹2,43,749.34 crore) of the State for the year 2022-23. There was an increase of ₹4,944.43 crore in non-tax revenue raised by State Government (40.81 *per cent*) in 2022-23 over the previous year (₹12,116.52 crore).

Government did not furnish reasons for the increase in collection under Interest Receipts. However, Dividends and Profits increased mainly due to increase in receipts under Dividends from Public Sector Undertakings by ₹28.06 crore. The increase in collection under Crop Husbandry was due to increase in receipts under sale of manure and fertilizer. The increase in receipts under Forestry and Wildlife was mainly due to increase in Receipt under other receipts by ₹19.87 crore. The increase in revenue under Non-ferrous Mining and Metallurgical Industries was mainly due to increase in receipts under Mineral Concession fees, rents and royalties. The overall increase in collection under Education, Sports, Arts and Culture was mainly due to (i) increase in receipts under Elementary Education by ₹674.43 crore and (ii) increase in receipts under Secondary Education by ₹510.64 crore.

³ 'Other receipts' represent non-tax receipts pertaining to heads (i) Police; (ii) Miscellaneous General Services; (iii) Medical and Public Health; and (iv) Urban Development etc.

1.2 Analysis of arrears of revenue

The arrears of revenue, as on 31 March 2023, on some principal heads of revenue amounted to ₹44,289.54 crore, of which ₹22,595.13 crore was outstanding for more than five years, as detailed in **Table 1.4**.

Table 1.4: Arrears of revenue

(₹ in crore)

| Sl. No. | Head of revenue | Total amount outstanding as on 31 March 2023 | Amount outstanding for more than five years as on 31 March 2023 | Replies of Department |
|---------|---|--|---|---|
| 1 | State Goods and Services Tax | 7,972.89 | Nil | Recovery of ₹3,275.01 crore was covered by Recovery Certificates. Recovery of ₹663.54 crore was stayed by High Court, other judicial authorities and the Government. Recovery of ₹180.12 crore was held up due to rectification/ review application and persons becoming insolvent. Remaining arrears of ₹3,854.22 crore was at various stages of recovery. |
| 2 | Taxes on Sales, Trade etc. | 26,932.00 | 17,162.77 | Recovery of ₹7,059.55 crore was covered by Recovery Certificates. Recovery of ₹6,377.79 crore was stayed by High Court and other judicial authorities. Government had stayed recovery of ₹62.07 crore. Recovery of ₹235.83 crore was held up due to rectification/ review application. Recovery of ₹3,598.16 crore held up due to persons becoming insolvent. Eliminated arrears was ₹13.18 crore. ₹448.68 crore was likely to be written off. ₹1,861.26 crore was since collected. Remaining arrears of ₹7,275.48 crore was at various stages of recovery. |
| 3 | Stamp Duty and Registration Fee | 438.29 | 395.09 | A demand of ₹438.24 crore was covered by recovery certificates. An amount of ₹0.05 crore was stayed by High Court and other judicial authorities. |
| 4 | State Excise | 31.47 | 31.47 | Recovery of ₹15.33 crore was covered by Recovery Certificates. Recovery of ₹1.09 crore was stayed by High Court and other judicial authorities. Recovery of ₹0.43 crore was covered by rectification/ review application. Recovery of ₹0.30 crore held up due to persons becoming insolvent. ₹2.61 crore is likely to be written off. Remaining arrears of ₹11.71 crore was at various stages of recovery. |
| 5 | Taxes on vehicles | 14.21 | Nil | The amount of ₹0.61 crore was demand covered by recovery certificates. An amount of ₹0.44 crore was stayed by High Court and other judicial authorities. Arrears of ₹12.55 crore were at various stages of collection. An amount of ₹0.61 crore has since been collected. |
| 6 | Electricity Taxes | 668.91 | 444.62 | Recovery of ₹112.62 crore was covered by Recovery Certificates. Recovery of ₹276.95 crore was stayed by High Court and other judicial authorities. Government stayed the collection of ₹182.93 crore. Recovery of ₹73.05 crore was covered by rectification/ review application. Remaining arrears of ₹23.36 crore was at various stages of recovery. |
| 7 | Urban Land Tax | 191.87 | 161.70 | ₹3.71 crore was since collected. Other details were not furnished. |
| 8 | Non-Ferrous Mining and Metallurgical industries | 8,039.90 | 4,399.48 | Recovery of ₹993.72 crore was covered by Recovery Certificates. Recovery of ₹1,878.70 crore was stayed by High Court and other judicial authorities. Government stayed the collection of ₹534.42 crore. Recovery of ₹5.59 crore was covered by rectification/ review application. An amount of ₹0.02 crore is likely to be written off. Remaining arrears of ₹4,627.45 crore were at various stages of recovery. |

The total uncollected revenue of ₹44,289.54 crore for the year 2022-23 is 12.55 *per cent* higher than ₹39,350.96 crore for the year 2021-22. The Government may order expeditious collection of arrears of revenue besides taking necessary measures to boost collection efficiency in the current period.

1.3 Arrears in assessments

The details of assessments relating to Central Sales Tax and Other Taxes pending in the Commercial Taxes Department are given in **Table 1.5**.

Table 1.5: Arrears in assessments

| Description | CST and Other assessments | State Goods and Services tax |
|---|---------------------------|------------------------------|
| Opening balance of pending assessment of the previous year as on 01/04/2022 | 1,291 | 22,026 |
| Assessment due for the current assessment year 2022-23 | Nil | 1,15,956 |
| Total | 1,291 | 1,37,982 |
| Assessment completed during the year 2022-23 | 1,244 | 83,569 |
| Closing balance of assessments pending at the end of the year as on 31/03/2023. | 47 | 54,413 |

(Source: Details furnished by the Department)

Government may instruct the Department to complete the pending Goods and Service Tax assessments expeditiously as the pendency has more than doubled during the year.

1.4 Evasion of tax detected by the Department

The details of cases of evasion of tax detected by the Commercial Taxes Department in respect of State Goods and Services Tax and other Taxes and Home (Transport) Department in respect of Taxes on Vehicles, cases finalised and the demands for additional tax raised are given in **Table 1.6**.

Table 1.6: Evasion of Tax

| Sl. No. | Head of revenue | Cases pending as on 31 March 2022 | Cases detected during 2022-23 | Total | Number of cases in which assessment / investigation completed and additional demand with penalty etc. raised | | Number of cases pending for finalisation as on 31 March 2023 |
|---------|---|-----------------------------------|-------------------------------|--------|--|-------------------------------|--|
| | | | | | Number of cases | Amount of demand (₹ in crore) | |
| 1 | State Goods and Services Tax | 1,501 | 31,205 | 32,706 | 30,868 | 12,290.93 | 1,838 |
| 2 | Taxes on Sales, Trade etc., (Other than State Goods and Services Tax) | 787 | 0 | 787 | 494 | 558.81 | 293 |

(Source: Details furnished by the Department)

The pendency of cases in SGST has increased by 22 *per cent* when compared to previous year. Further, Value Added Tax has almost been subsumed into Goods and Services Tax in 2017. The Government may, therefore, instruct the

Commercial Taxes Department to complete the assessment/ investigation of pending cases expeditiously.

1.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2022-23, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2022-23 relating to the Commercial Taxes Department (Value Added Tax and State Goods and Services Tax), Home (State Excise) and Home (Transport) Department are given in **Table 1.7**.

Table 1.7: Details of pendency of refund cases

(₹ in crore)

| Sl. No. | Particulars | Value Added Tax | | State Goods and Services Tax | | State Excise | | Motor Vehicles Tax | |
|---------|---|-----------------|--------|------------------------------|----------|--------------|--------|--------------------|--------|
| | | No. of cases | Amount | No. of cases | Amount | No. of cases | Amount | No. of cases | Amount |
| 1 | Claims outstanding at the beginning of the year | 13,997 | 79.56 | 3,026 | 120.49 | 2 | 0.03 | 0 | 0.00 |
| 2 | Claims received during the year | 776 | 122.73 | 33,763 | 2,452.88 | 0 | 0 | 181 | 1.06 |
| 3 | Total (1+2) | 14,773 | 202.29 | 36,789 | 2,573.37 | 2 | 0.03 | 181 | 1.06 |
| 4 | Refunds made during the year (including rejected cases) | 1,528 | 79.16 | 35,858 | 2,191.96 | 0 | 0 | 159 | 0.99 |
| 5 | Balance outstanding at the end of the year | 13,245 | 123.13 | 931 | 381.41 | 2 | 0.03 | 22 | 0.07 |

(Source: Replies of Departments concerned)

Since the Tamil Nadu Value Added Tax and Tamil Nadu Goods and Services Tax Acts provide for interest on belated refunds, the Commercial Taxes Department may finalise the refund claims expeditiously.

1.6 Response of the Departments / Government towards audit

The Principal Accountant General (Audit-I), Tamil Nadu (AG) conducts periodical inspection of the Government Departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with Inspection Reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The heads of the offices / Government are required to comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial replies to the AG within one month from the date of issue of the IRs. Serious financial irregularities are referred to the heads of the Departments and the Government.

IRs issued up to 31 December 2022 disclosed that 26,606 paragraphs, involving ₹3,795.08 crore relating to 5,217 IRs, remained outstanding at the end of June 2023 as mentioned below along with the corresponding figures for the preceding two years in **Table 1.8**.

Table 1.8: Details of pending IRs

| Particulars | June 2021 | June 2022 | June 2023 |
|--|-----------|-----------|-----------|
| Number of IRs pending for settlement | 5,543 | 5,274 | 5,217 |
| Number of outstanding audit observations | 31,264 | 27,547 | 26,606 |
| Amount of revenue involved (₹ in crore) | 5,485.67 | 5,242.45 | 3,795.08 |

(Source: As per data maintained in office of the Principal AG (Audit-I) and Principal AG (Audit-II), Tamil Nadu)

1.6.1 Department-wise details of the Inspection Reports and Audit observations

The Department-wise details of the IRs and Audit observations issued up to 31 December 2022 and outstanding as on 30 June 2023 and the amounts involved are mentioned in **Table 1.9**.

Table 1.9: Department-wise details of IRs

(₹ in crore)

| Sl. No. | Name of the Department | Nature of receipts | Number of outstanding IRs | Number of outstanding audit observations | Money value involved (₹ in crore) |
|--------------|-----------------------------------|---------------------------------|---------------------------|--|-----------------------------------|
| 1 | Commercial Taxes and Registration | Value Added Tax and other taxes | 1,651 | 14,460 | 1,050.69 |
| | | Stamp Duty and Registration Fee | 1,759 | 6,636 | 1,853.25 |
| 2 | Revenue | Land revenue | 865 | 3,102 | 2.80 |
| | | Urban land tax | 52 | 89 | 0 |
| 3 | Home (Transport) | Taxes on vehicles | 218 | 559 | 55.31 |
| 4 | Home (Prohibition and Excise) | State excise | 262 | 645 | 658.08 |
| 5 | Natural Resources | Mines and minerals | 373 | 1,016 | 102.73 |
| 6 | Energy | Electricity tax | 37 | 99 | 72.22 |
| Total | | | 5,217 | 26,606 | 3,795.08 |

(Source: As per data maintained in office of the Principal AG (Audit-I) and Principal AG (Audit-II), Tamil Nadu)

The large pendency of the IRs, due to non-receipt of the replies, is indicative of failure by heads of offices and departments to initiate action to rectify defects, omissions and irregularities pointed out by the AG through the IRs. The Government may instruct the Departments to furnish replies to the audit observations in time and to take remedial action to clear the outstanding paragraphs.

1.6.2 Departmental Audit Committee Meetings

As per Regulation 145 of the Regulations on Audit and Accounts (Amendments), 2020, Government shall establish audit committees for the purpose of monitoring and ensuring compliance and settlement of pending audit observations. The Government has set up Audit Committees (during various periods) and during the meeting, the Secretaries of the Departments discuss the pendency and direct the Head of the Departments to take immediate action to clear the outstanding audit observations. Only the Commercial Taxes Department held Audit Committee meeting in March 2023 for discussion of paras relating to Value Added Tax. Other departments such as Registration Department, State Excise, Geology and Mining, etc. did not hold Audit Committee meetings during 2022-23. It is recommended that the Government instructs all the Departments to conduct Audit Committee meetings periodically so that the outstanding audit observations are settled.

1.6.3 Response of the Departments to draft Audit Paragraphs

The draft Audit paragraphs proposed for inclusion in the Report of the CAG are forwarded by the PAG to the Secretaries of the Departments concerned, drawing their attention to audit findings and requesting them to send their response within six weeks. The fact of non-receipt of replies from the Departments is indicated at the end of each such paragraph included in the Audit Report.

Ten draft paragraphs proposed for inclusion in the Report of the CAG for the year ended March 2023 were forwarded to the Secretary to Government, Commercial Taxes and Registration Department between September 2023 and October 2024. The Government has furnished replies to all the ten cases.

1.6.4 Follow-up of Audit Reports

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) laid down in 1997 that after the presentation of the Report of the CAG in the Legislative Assembly, the Departments shall initiate action on the Audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within two months of tabling the Report, for consideration of the PAC. In spite of these instructions, the explanatory notes on Audit paragraphs of the Reports were being delayed inordinately. We observed that 144 paragraphs included in the Reports of the CAG on the Revenue Receipts of the Government of Tamil Nadu up to the year ended March 2023 were pending discussion by PAC. Out of the above, the Departments had not furnished explanatory notes in respect of 89 paragraphs. Review of the outstanding action taken notes (ATNs) as on 31 March 2023 on paragraphs included in the Report of the CAG, Revenue Receipts, Government of Tamil Nadu indicated that the Departments had not submitted ATNs for 1,097 recommendations pertaining to 219 audit paragraphs discussed by PAC, the earliest of which related to the Audit Report for the year 1986-87.

1.7 Analysis of the mechanism for dealing with the issues raised by Audit in Registration Department

To analyse the system of addressing the issues highlighted in the IRs / Audit Reports by the Departments / Government, the action taken on the paragraphs and Performance Audits included in the Audit Reports of the last 10 years for one Department is evaluated and included in this Audit Report.

1.7.1 Position of Inspection Reports

The summarised position of the IRs issued to Commercial Taxes and Registration Department relating to Stamp Duty and Registration Fee during the last 10 years, paragraphs included in these reports and their status as on 31 March 2023 are tabulated in **Table 1.10**.

Table 1.10: Position of Inspection Reports

(₹ in crore)

| Year | Opening balance | | | Additions during the year | | | Clearance during the year | | | Closing balance | | |
|---------|-----------------|-------|-------------|---------------------------|-------|-------------|---------------------------|-------|-------------|-----------------|-------|-------------|
| | IRs | Paras | Money value | IRs | Paras | Money value | IRs | Paras | Money value | IRs | Paras | Money value |
| 2013-14 | 1,593 | 4,461 | 1,624.18 | 179 | 667 | 154.18 | 94 | 405 | 9.33 | 1,678 | 4,723 | 1,769.03 |
| 2014-15 | 1,678 | 4,723 | 1,769.03 | 165 | 746 | 115.74 | 51 | 258 | 14.33 | 1,792 | 5,211 | 1,870.44 |
| 2015-16 | 1,792 | 5,211 | 1,870.44 | 134 | 749 | 109.08 | 139 | 437 | 159.41 | 1,787 | 5,523 | 1,820.11 |
| 2016-17 | 1,787 | 5,523 | 1,820.11 | 116 | 759 | 51.40 | 89 | 343 | 34.62 | 1,814 | 5,939 | 1,836.89 |
| 2017-18 | 1,814 | 5,939 | 1,836.89 | 20 | 94 | 11.41 | 30 | 235 | 4.61 | 1,804 | 5,798 | 1,843.69 |
| 2018-19 | 1,804 | 5,798 | 1,843.69 | 9 | 78 | 64.42 | 10 | 77 | 1.17 | 1,803 | 5,799 | 1,906.94 |
| 2019-20 | 1,803 | 5,799 | 1,906.94 | 69 | 695 | 16.44 | 5 | 47 | 0.42 | 1,867 | 6,447 | 1,922.96 |
| 2020-21 | 1,867 | 6,447 | 1,922.96 | 41 | 367 | 93.32 | 170 | 845 | 1,177.75 | 1,738 | 5,969 | 838.53 |
| 2021-22 | 1,738 | 5,969 | 838.53 | 82 | 929 | 131.60 | 193 | 1,467 | 121.47 | 1,627 | 5,431 | 848.66 |
| 2022-23 | 1,627 | 5,431 | 848.66 | 108 | 1,026 | 162.42 | 4 | 52 | 1.24 | 1,731 | 6,405 | 1,009.84 |

(Source: As per data maintained in office of the Principal AG (Audit-I), Tamil Nadu)

As against 4,461 paragraphs involving money value of ₹1,624.18 crore which were pending at the beginning of 2013-14, the number at the end of 2022-23 had increased to 6,405 paragraphs involving money value of ₹1,009.84 crore. This indicates that the response to the local audit reports was inadequate. Therefore, the Department should furnish replies expeditiously to clear the outstanding paragraphs.

1.7.2 Recovery of accepted cases

During the last 10 years, 54 draft paragraphs including one Performance Audit involving ₹1,042.68 crore were included in the Report of the CAG, Revenue Sector, Government of Tamil Nadu. The Department accepted audit observations in 44 cases involving ₹57.26 crore and recovered ₹20.93 crore.

All these 54 paragraphs are yet to be discussed by the PAC. Government had not submitted explanatory notes to 18 paragraphs out of these 54 paragraphs.

1.8 Audit planning

The offices under various Departments are categorised into high, medium, and low risk units according to their revenue position, past trends of audit observations, nature / volume of transactions, etc. The annual audit plan is prepared on the basis of risk analysis which, *inter alia*, includes statistical analysis of the revenue earnings during the past five years, features of the tax administration, audit coverage and its impact during the past five years, etc.

During the year 2022-23, the audit universe comprised 1,819 auditable offices, of which 164 offices were planned and 165 offices were audited i.e., nine per cent of the total auditable offices as mentioned in **Table 1.11**.

Table 1.11: Audits planned and conducted during the year 2022-23

| Sl. No. | Name of the Department | Nature of Receipts / Expenditure | Auditable Offices | Offices planned | Offices audited |
|--------------|-----------------------------------|---|-------------------|-----------------|-----------------|
| 1 | Commercial Taxes and Registration | State Goods and Services Tax, Value Added Tax, Sales Tax and other receipts | 397 | 0 | 0 |
| | | Stamp Duty and Registration Fee | 647 | 107 | 110 |
| 2 | Revenue | Urban Land Tax | 50 | 0 | 0 |
| | | Land Revenue | 447 | 18 | 18 |
| 3 | Home (Transport) | Taxes on vehicles | 124 | 12 | 12 |
| 4 | Transport | Motor Vehicle Maintenance Department | 21 | 0 | 0 |
| 5 | Home (Prohibition and Excise) | State Excise | 75 | 27 | 25 |
| 6 | Natural Resources | Mines and minerals | 33 | 0 | 0 |
| 7 | Energy | Electricity duty | 25 | 0 | 0 |
| Total | | | 1,819 | 164 | 165 |

(Source: As per data maintained in offices of the Principal AG (Audit-I) and Principal AG (Audit-II), Tamil Nadu)

1.9 Results of audit

Position of local audit conducted during the year

During the year 2022-23, records maintained in the 165 offices were test checked and observations amounting to ₹166.19 crore were noticed in 1,618 cases. During the year, the Departments accepted 44 observations and recovered / adjusted a sum of ₹0.67 crore. All these cases pertained to observations raised in earlier years.

1.10 Scope of this Report

This Report contains 10 paragraphs involving financial effect of ₹1,721.12 crore. The Department / Government accepted audit observations involving ₹1,682.79 crore and collected ₹11.55 crore. The audit observations discussed in the subsequent paragraphs were identified from the test check of records in the selected offices only. Most of the observations are of a nature that may reflect similar deficiencies/under assessments in other offices, not test-checked by Audit. Department may, therefore, carry out internal audit in these offices to ensure that such irregularities and deficiencies, if any, stand rectified.

CHAPTER II
GOODS AND
SERVICES TAX

CHAPTER II

GOODS AND SERVICES TAX

2.1 Tax administration

In Tamil Nadu, State Goods and Services Tax (SGST) is administered by the Commercial Taxes Department (CTD) in respect of taxpayers allotted to the State. The head of CTD is the Commissioner of State Tax (Commissioner) and he is assisted by Additional Commissioners and Joint Commissioners (JCs). There are twelve⁴ Territorial Divisions headed by JCs and the assessing units under the control of the Assistant Commissioners (AC), State Tax Officers (STO) and Deputy State Tax Officers (DSTO), collectively termed as 'Proper Officers' (POs), function under these Territorial Divisions. There are nine⁵ Intelligence divisions headed by JC (Intelligence) having Roving squads for intercepting and checking vehicles and Adjudication cells for adjudicating issues arising out of detention of goods and vehicles by Roving squads. The Secretary, Commercial Taxes and Registration Department controls and monitors the CTD.

2.2 Internal audit

Internal audit is a vital component to enable an organisation to assure itself that the prescribed systems are functioning reasonably well. There is no separate internal audit wing in the Goods and Services Tax (GST) regime. The subject relating to internal audit is dealt in Review, Appeal and Legacy Section from 01 June 2019. This Section consists of Assistant Commissioners, State Tax Officers and Deputy State Tax Officers and number of audit parties operated during the year 2022-23 was 45.

Audit noted that out of the 272 offices to be audited, 269 offices were planned but only 125 offices were audited during the year 2022-23. The Department attributed the reasons for arrear in internal audit due to vacancy of Assistant Commissioners and supporting staff. The Department may consider strengthening internal audit so that all the units due for audit are completed in a time bound manner.

Audit noted that 12,649 paragraphs with money value of ₹782.52 crore were outstanding as at the end of 31 March 2023 as detailed in **Table 2.1**.

⁴ Chennai Central, Chennai East, Chennai North, Chennai South, Coimbatore, Erode, Large Taxpayers Unit, Madurai, Salem, Tirunelveli, Trichy and Vellore.

⁵ Chennai I, Chennai II, Coimbatore, Erode, Madurai, Salem, Tirunelveli, Trichy and Vellore.

Table 2.1: Outstanding internal audit paras

| Year | Opening Balance | | Additions | | Clearance | | Closing Balance | |
|---------|-----------------|--------------------|-----------|--------------------|-----------|--------------------|-----------------|--------------------|
| | Paras | Value (₹ in crore) | Paras | Value (₹ in crore) | Paras | Value (₹ in crore) | Paras | Value (₹ in crore) |
| 2019-20 | 29,790 | 1,102.43 | 16,399 | 787.58 | 19,073 | 615.60 | 27,116 | 1,274.41 |
| 2020-21 | 27,116 | 1,274.41 | 8,741 | 226.82 | 13,767 | 608.24 | 22,090 | 893.00 |
| 2021-22 | 22,090 | 893.00 | 6,520 | 381.29 | 17,579 | 585.86 | 11,031 | 688.43 |
| 2022-23 | 11,031 | 688.43 | 7,607 | 294.95 | 5,989 | 200.86 | 12,649 | 782.52 |

(Source: Details furnished by the Department)

Since the earliest paras pending relate to the prior to 2012-13 and there is time restriction for issue of notices and re-opening of assessments, it is recommended that expeditious action may be taken to clear the outstanding paras.

2.3 Results of audit

During the year, Subject Specific Compliance Audits on “GST Registration” and “Department’s oversight on GST payments and Return filing” were taken up and the findings are discussed in the following paragraphs.

2.4 Subject Specific Compliance Audit Report on “GST Registration”

2.4.1. Introduction - Registration of taxpayers

The Goods and Services Tax (GST) was rolled out from 1st July 2017. The registration of taxpayers in GST regime was done in two stages. In the first, all existing eligible VAT, Excise and Service Tax assesseees were mandatorily migrated into GST. In the second, new applicants were registered after exercising necessary checks and verifications and they were allotted GSTIN (Goods and Services Tax Identification Number). Cancelled dealers too can apply for fresh registration and they are allotted GSTIN afresh after fulfilment of certain criteria.

In GST, the registration is based on Permanent Account Number (PAN) and allotment of 15-digit GSTIN⁶ is State-specific with a unique State Code prefixed to the number allotted. Once a taxpayer meets certain criteria, it becomes mandatory for him to register under the GST Act. The taxpayers can opt for two types of registration *viz.*, regular and composition, essentially based on the turnover⁷ during the present and previous financial years. The Proper

⁶ First two digits represents the state code, next ten digits represents the PAN, thirteenth digit represents the number of registrations with the same PAN within the State, fourteenth digit represents the status, and last digit represents the check sum.

⁷ Threshold limit for composite turnover increased to ₹1.5 crore per annum vide G.O.(Ms.) NO.35 dated 07-03-2019 with effect from 01st April 2019.

Officer (PO) has powers to mandatorily register taxpayers who had failed to apply for proper registration despite meeting the criteria laid down in the Act.

The registered persons shall inform the PO of any changes in the information furnished at the time of registration or subsequent thereto, through an amendment application.

The taxpayers can cancel the registration on their own after making an application to the PO of the relevant jurisdiction. The PO can also *suo-motu* cancel the registration of taxpayers if they identify violation of conditions laid down in the Act and Rules.

The applicants are allotted GSTIN under Central or State jurisdiction as per the arrangement for division of taxpayers by the GST Council. All registration activities are carried out by the taxpayers and the Department online through the Common portal.

During the period covered by Audit, Tamil Nadu was a Model I State. Commercial Taxes Department, Tamil Nadu (CTD) had rolled out a software application, namely Total Solutions Project (TSP), which was developed by Tata Consultancy Services (TCS). As a Model I State, the various statutory processes relating to registration, amendment, cancellation and revocation were done by the State Department through the backend developed by TCS. The State CTD department migrated from Model I to Model II back-office system from September 2022.

2.4.2 Audit Objectives

The SSCA was conducted to ascertain

- (i) Whether the procedure for Registration, Amendment, Cancellation and Revocation of cancellation was carried out as per the provisions of the Act.
- (ii) Whether there was system in place to reasonably assess that the taxable persons liable to be registered under the Act have been registered.

2.4.3 Audit criteria

The source of audit criteria comprised the provisions contained in the TNGST Act, IGST Act, 2017 and Rules made thereunder. In addition, the notifications and circulars issued by State Tax Department relating to Registration, Amendment, Cancellation and Revocation of cancellation.

2.4.4 Scope, Methodology and Sample

The Audit was conducted from November 2022 to January 2024 covering the period from 1 July 2017 to 31 March 2022. Audit obtained the pan State GST data of State taxpayers from the Department and analysed for compliance by the taxpayers/Proper Officer with reference to various statutory provisions through queries. Results of queries from the data formed the essential source of audit observations. Audit had also collected data from third parties such as

Registrar of Companies, Chennai Trade Centre, Police Department and Registration department to identify escapement of mandatory registration under the GST Act.

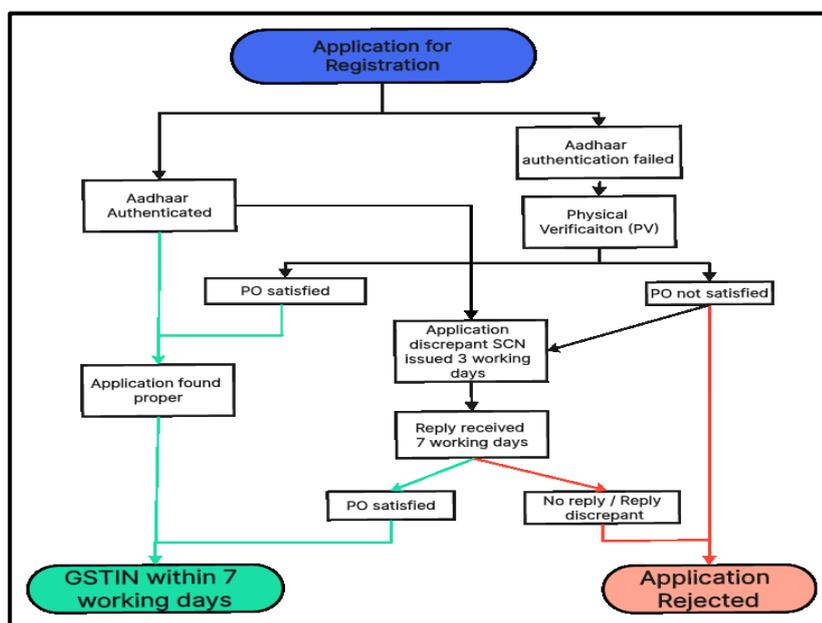
2.4.5 Acknowledgement

An entry meeting with the Head of the Department (Principal Secretary/Commissioner of Commercial Taxes) along with the Secretary to Government of Tamil Nadu was held on 07 November 2022 in which audit objectives, criteria, scope, and methodology were explained. Exit Conference was conducted on 11 September 2024 and the minutes of the meeting have been incorporated in this report suitably.

2.4.6 The Process of Registration

The registration involves Aadhaar authentication, physical verification by PO in cases where Aadhaar authentication was not done, scrutiny of application, issue of show cause notice (SCN) in cases of deficient application and final decision on allotment. The various stages contained in the process of registration are represented in the following chart.

Process of Registration



2.4.7 Audit Findings

Audit findings have been reported in two categories viz., (i) Systemic issues and (ii) Compliance Issues. The results of analysis of data have been presented as systemic issues. Compliance deviations from Act and Rules have been projected under Compliance issues.

(I) Systemic issues

(A) Delay in processing of submission of application for registration

(a) As per Section 25(1) of TNGST Act, 2017, every person who is liable to be registered under Section 22 (normal taxpayers) and Section 24 (Compulsorily registerable persons such as persons liable to deduct TDS/collect TCS) shall apply for registration in every such State or Union territory in which he is so liable within thirty days from the date on which he becomes liable to registration.

Audit analysis of the data furnished by the Department revealed that

- (i) Out of 1,74,497 applications where date of liability was filled, 8,538 applications were submitted after the expiry of 30 days from the date of becoming liable to registration. The delay ranged from 1 to 1,645 days.
- (ii) Out of 9,348 applications made by those who are liable to deduct TDS/TCS, 71 applications were submitted after the prescribed time limit of 30 days from the date of their becoming liable to deduct TDS/TCS. The delay ranged from 2 to 1,432 days.

(b) As per proviso to Section 25(1), Casual taxable persons and NRIs shall apply for registration at least five days prior to the commencement of business.

Audit analysis of the data furnished by the Department revealed that out of 523 approved applications of casual taxable persons and NRIs, 294 applications were submitted after the prescribed time limit. The delay ranged from 1 to 673 days.

On this being pointed out (January 2024), the Government stated (March 2024) that allowing submission of applications after date is controlled in front office by GSTN.

The reply is not tenable since if delayed applications are blocked at the front-end, registrations will come to a stand-still. The Government should have taken suitable action in these cases.

(B) Non-completion of Physical Verification for Taxpayers who failed to undergo Aadhaar Authentication

As per Rule 9(1)(a) of TNGST Rules, 2017, if a person fails to undergo Aadhaar authentication, then the registration shall be granted only after physical verification of principal place of business. As per Rule 9(1)(b) of TNGST Rules, 2017 the PO is empowered to conduct physical verification in cases he deems fit.

Audit analysis of the data furnished by the Department revealed that

- (i) Out of 3,861 cases, where Aadhaar authentication has not been done by the applicant, approval had been granted without completion of physical verification in 527 cases.

- (ii) Out of 37,082 cases, where Aadhaar authentication was opted by applicant, the department had initiated physical verification, but approval was granted without completion of the same in 203 cases.
- (iii) Out of 12,023 cases recommended for rejection after physical verification, 1,323 cases were granted registration.

On this being pointed out (January 2024), the Government stated (March 2024) that Aadhaar authentication was introduced from 1 January 2022 only. Therefore, there was no system available in the back office. For issue of registration for rejected cases, Government stated that there is no restriction in Application Programming Interface (API) initially. Government further stated (September 2024) that under the Act, there is no mandatory provision for taking up physical verification in all the cases except wherever essentially required.

The reply is not acceptable since Aadhaar authentication was introduced in the Act with effect from 20 August 2020 and physical verification has to be done for cases wherein Aadhaar authentication was not done by the taxpayer. In respect of rejected cases, the reply is not relevant as there is no role of API in the process. In respect of physical verification not completed cases, the reply furnished is not relevant, since Audit had pointed out only cases where Physical verification was initiated by the department and not completed.

During Exit Conference (September 2024), the Government stated that field verification is taken up for Aadhaar not authenticated applications as well as in some Aadhaar authenticated applications, with high-risk parameter. Based on field verification reports, scrutiny of application is made and decisions are made either to approve or reject the applications.

The reply is general in nature and does not address the issues pointed out in audit.

(C) Delay in issuance of SCN by the proper officer in registration applications

As per Rule 9(2) of the TNGST Rules, 2017, where the application is found to be deficient, either in terms of any information or any document required to be furnished or where the Proper Officer requires any clarification with regard to any information provided in the application or documents furnished therewith, he may issue a notice to the applicant within a period of seven⁸ working days from the date of submission of the application and the applicant shall furnish such clarification, information or documents electronically, within a period of seven working days from the date of the receipt of such notice. Provided, if an applicant fails to undergo authentication of Aadhaar number or does not opt for it, the notice may be issued not later than thirty days⁹ from the date of

⁸ Substituted for “three” by G.O.(Ms.) NO. 191 dated: 23.12.2020 with effect from 22.12.2020.

⁹ Substituted for twenty-one by G.O.(Ms.) NO. 191 dated: 23.12.2020 with effect from 22.12.2020.

submission of the application. The applicant shall furnish reply within seven working days.

Audit analysis of the data furnished by the Department revealed that out of 93,648 approved applications wherein SCN was issued, in 3,521 cases SCNs were issued belatedly after the time limit prescribed. The delay ranged from 1 to 80 days.

On this being pointed out (January 2024), the Government stated (March 2024) that in API there was no restriction for time period.

The reply is not relevant to the audit objection since there is no role of API in these cases. Audit opines that the Government should have taken suitable measures to avoid the delays.

(D) Delays in approval of registration application

(a) As per Rule 9 (1) of the TNGST Rules, 2017, the application shall be forwarded to the Proper Officer who shall examine the application and the accompanying documents and if the same are found to be in order, approve the grant of registration to the applicant within a period of seven¹⁰ working days from the date of submission of the application. As per Rule 9 (2) of the TNGST Rules, 2017, where the application submitted under Rule 8 is found to be deficient, the PO may issue a notice to the applicant within a period of seven¹¹ working days from the date of submission of the application and the applicant shall furnish such clarification, information or documents electronically, within a period of seven working days from the date of the receipt of such notice. As per Rule 9 (3) of the TNGST Rules, 2017, where the proper officer is satisfied with the clarification, information or documents furnished by the applicant, he may approve the grant of registration to the applicant within a period of seven working days from the date of the receipt of such clarification or information or documents.

From the data furnished by the Department, Audit noticed that out of 4,95,579 applications, 4,01,931 were approved without SCN and 93,648 were approved after issue of SCN. Further analysis of the data revealed that

(i) Out of 4,01,931 applications above, approval had been granted beyond the prescribed time limit in 1,13,389 cases. The delay ranged from 3 to 113 days from the date of application.

(ii) Out of 93,648 cases where SCN was issued, approval was granted beyond the prescribed time limit in 4,882 cases. The delay ranged from 5 to 174 days from the date of reply to SCN.

(b) As per Rule 12(2) of the TNGST Rules, 2017, the Proper Officer may grant registration, in the case of TDS/TCS applicants, after due verification,

¹⁰ Substituted for “three” by G.O.(Ms.) NO. 191 dated: 23.12.2020 with effect from 22.12.2020.

¹¹ Substituted for “three” by G.O.(Ms.) NO. 191 dated: 23.12.2020 with effect from 22.12.2020.

and issue a certificate of registration within a period of three working days from the date of submission of the application.

Audit analysis of the data furnished by the Department revealed that, out of 9,348 approved applications for TDS/TCS, in 1,374 cases registrations were granted belatedly after the prescribed time limit. The delay ranged from 4 to 539 days from the date of application.

On this being pointed out (January 2024), the Government stated (March 2024) that in the API there is no restriction for time period. After mandated period, registration gets approved automatically. It is also stated that in Model-1 back-office system, there is no provision for deemed approval of registration. Government further stated (September 2024) that instructions had been issued to the Proper Officers to follow timelines prescribed and to ensure that auto approval of Registration is avoided.

During Exit Conference, the Government stated (September 2024) that these issues pertain to Model-I period and any changes has to be taken up with GSTN.

(E) Delay in following procedures for Amendments

As per Section 28 of TNGST Act, 2017, every registered person and a person to whom a Unique Identity Number has been assigned, shall inform the proper officer of any changes in the information furnished at the time of registration or subsequent thereto, in such form and manner and within such period as may be prescribed. As per Rule 19 (1) of the TNGST Rules, 2017, amendment application shall be made within a period of fifteen days of such change. The proper officer shall, after due verification, approve the amendment within a period of fifteen working days from the date of the receipt of the application. As per Rule 19 (2), where the proper officer is of the opinion that the amendment sought under sub-rule (1) is either not warranted or the documents furnished therewith are incomplete or incorrect, he may, within a period of fifteen working days from the date of the receipt of the application, serve a notice. As per Rule 19 (3), the registered person shall furnish a reply to the notice to show cause, within a period of seven working days from the date of the service of the said notice. As per Rule 19(5), if the PO fails to take action within 15 days of submission of application or within 7 days of receipt of reply to notice, the certificate of Registration shall stand amended.

Audit analysis of the data furnished by the Department revealed that

- (i) Out of 2,10,986 applications for amendment by taxpayers which were approved by the Department, 41,543 applications were submitted by the taxpayers after the prescribed time limit. The delay ranged from 1 to 1,719 days.
- (ii) Out of 1,65,115 applications approved for amendment, 72,877 applications were approved beyond the prescribed time limit by the department. The delay ranged from 7 to 762 days.

- (iii) Out of 45,871 applications, in 696 cases SCN was issued belatedly. The delay ranged from 7 to 66 days.
- (iv) Out of 45,871 applications, in 2,938 applications wherein replies were received following the issue of SCN, approval was granted belatedly beyond the time limit prescribed. The delay ranged from 5 to 198 days.

On this being pointed out (January 2024), the Government stated (March 2024) that there is no restriction for time period for approval in API.

The reply is not relevant as there is no role of API in these cases. Audit opines that the Government should have initiated suitable measures to check delays in amendment processes.

(F) Delay in following procedures for cancellation of registration

As per Section 29 (1) of TNGST Act, 2017, the proper officer may, on his own motion or on an application filed by the registered person or by his legal heirs, in case of death of such person, cancel the registration. As per Rule 20 of TNGST Rules, 2017, a registered person, other than a person registered under Rule 12 or Rule 17, seeking cancellation of his registration under sub-section (1) of section 29 shall electronically submit an application, within a period of thirty days of the occurrence of the event warranting the cancellation. As per Rule 22(3) of TNGST Rules, 2017, where a person is no longer liable to be registered or his registration is liable to be cancelled, the proper officer shall issue an order within a period of thirty days from the date of the application or reply to the show cause issued.

Audit analysis of the data furnished by the Department revealed that

- (i) Out of 1,13,036 applications for cancellation by taxpayers, 26,133 applications were filed by taxpayers after the prescribed timeline. The delay ranged from 1 to 1,478 days.
- (ii) Out of 1,07,216 applications approved by the department, the approval for cancellation was granted in 25,342 cases after the prescribed time limit. The delay ranged from 1 to 1,532 days. Out of the remaining 5,820 applications, SCN was issued belatedly in 1,064 cases. The delay ranged from 1 to 457 days. Further, it is also observed that in 1,027 cases, approval for cancellation was granted belatedly. The delay ranged from 1 to 1,221 days.
- (iii) Out of 2,670 cases cancelled *suo-motu*, wherein replies were received for SCN, cancellation orders were issued in 821 cases after the prescribed time limit. The delay ranged from 1 to 887 days.

On this being pointed out (January 2024), the Government stated (March 2024) that validation given in API does not restrict the cancellation beyond the time limit. However, alarm for delay was available in the Back Office System. The Government further stated (September 2024) that the POs wait until the due

date of return filing i.e. 20th of the succeeding month to verify whether the returns are filed.

The reply is not tenable since alarm for delay was already available at the back-end, the delayed actions on the part of the Department indicated failure of internal control. There is no provision in the Act for POs to wait till filing of returns to cancel registrations.

(G) Revocation of Cancellation

As per Section 30 of the TNGST Act, 2017, any registered person, whose registration is cancelled by the proper officer on his own motion, may apply to such officer for revocation of cancellation of the registration within thirty days from the date of service of the cancellation order. Further, provided¹² that such period may be extended (a) by the Additional Commissioner or the Joint Commissioner for a period not exceeding thirty days; (b) by the Commissioner, for a further period not exceeding thirty days. As per Rule 23(2)(a) of TNGST Rules, 2017, the proper officer shall revoke the cancellation of registration within a period of thirty days from the date of the receipt of the application. As per Rule 23(4), *ibid*, upon receipt of the information or clarification, the proper officer shall proceed to dispose of the application in the manner specified in sub-rule (2) within a period of thirty days from the date of the receipt of such information or clarification from the applicant.

Audit noticed from the data furnished by the Department that 79,691 applications for revocation were approved. Audit analysis revealed that

- (i) Out of 79,691 applications where the department restored the registration, 16,735 taxpayers submitted the application for revocation after the prescribed time limit. The delay ranged from 1 to 650 days.
- (ii) Out of 70,192 applications, registration was restored by the Department belatedly in 8,394 cases by the department. The delay ranged from 1 to 1,071 days. In the remaining 9,499 cases, where SCN was issued, there was delay in restoration of registration in 339 cases. The delay ranged from 1 to 621 days. In 1,728 cases, registration was restored by the department without receipt of reply.

On this being pointed out (January 2024), the Government stated (March 2024) that there was no provision in the system as no API was available initially and was done manually. Subsequently, the JC and ADC were authorised to

¹² Substituted for “Provided that the registered person who was served notice under sub-section (2) of section 29 in the manner as provided in clause (c) or clause (d) of sub-section (1) of section 169 and who could not reply to the said notice, thereby resulting in cancellation of his registration certificate and is hence unable to file application for revocation of cancellation of registration under sub-section (1) of section 30 of the Act, against such order passed up to 31.03.2019, shall be allowed to file application for revocation of cancellation of the registration not later than 22.07.2019.” (Which was Inserted by G.O.(Ms.) NO. 51 dated: 23.04.2019) by The Finance Act, 2020 (No. 29 of 2020) - Brought into force with effect from 01st January 2021.

condone the delay up to 90 days. It also stated that in cases where SCN was issued, in respect of returns not filed, revocation was made by the proper officer without obtaining the reply.

The reply is not specific to the audit objection since the extension period was already considered by the Audit.

(II) Compliance issues

(A) Registration granted in respect of Composite taxpayers

(a) As per Section 10(1) of TNGST Act, 2017, notwithstanding anything to the contrary contained in this Act but subject to the provisions of sub-sections (3) and (4) of section 9, a registered person, whose aggregate turnover in the preceding financial year did not exceed one crore and fifty lakh rupees¹³ may opt to pay, in lieu of the tax payable by him, under sub-section (1) of section 9, an amount calculated at such rate as may be prescribed. As per Section 10(2) of the TNGST Act, 2017, the registered person shall be eligible to opt under sub-section (1) Composition Levy, if he is not engaged in making any supply of goods or services through an electronic commerce operator who is required to collect tax at source under section 52. As per Section 10(2)(e) of TNGST Act 2017, the registered person shall be eligible to opt under Composition Levy Scheme under sub-section 10(1), if he is not a manufacturer of such goods as may be notified by the Government on the recommendations of the Council.

Audit analysis of the data furnished by the Department revealed that out of 1,22,165 taxpayers whose applications for composition scheme were approved.

- (i) 25 taxable persons had crossed threshold limits in the previous financial year.
- (ii) 523 applicants were found engaged in making supply of goods through an electronic commerce operator.
- (iii) 404 taxpayers were ineligible for grant of composite scheme since they had been manufacturing goods such as ice cream and pan masala.¹⁴

On this being pointed out (January 2024), the Government stated (March 2024) that these issues relate to GSTN front-end. It further stated that there was no mechanism initially to check supply through e-commerce operators, and subsequently validation has been given by GSTN.

The reply is not relevant because this issue does not relates to GST front-end. The reply is also not tenable since the cases of supply through e-commerce were found during the entire period of Audit.

¹³ Substituted for one crore vide G.O.(Ms.) NO.35 dated:07.03.2019 with effect from 01st April 2019.

¹⁴ G.O. Ms. No. 59, Commercial Taxes and Registration (B1), dated 29th June 2017.

During the Exit Conference (September 2024), the Government stated that the issue arises due to incorrect entry of HSN codes which were later found during verification.

Recommendation 2.1:

The Government shall evolve a mechanism to ensure grant and withdrawal of composite status automatically based on variation in turnover and other criteria.

(b) As per Section 10(3) of the TNGST Act, 2017, the option availed of by a registered person under sub-section (1) shall lapse with effect from the day on which his aggregate turnover during a financial year exceeds the limit specified under sub-section (1).

Audit analysis of the data revealed that out of 1,22,165 taxpayers who were granted composition status, 310 taxpayers exceeded the threshold turnover subsequently after registration but did not opt out of composition levy scheme.

On this being pointed out (January 2024), the Government stated (September 2024) that initially there was no mechanism for checking this by GSTN. Subsequently, validation has been given by GSTN so that whenever threshold limit exceeds, alert was given and converted to regular taxpayer.

(B) Absence of mechanism to identify non-registration by taxable persons

(a) Non-registration by taxable persons

As per Section 22(1) of TNGST Act, 2017, every supplier shall be liable to be registered under this Act in the State from where he makes a taxable supply of goods or services or both, if his aggregate turnover in a financial year exceeds the limit as amended from time to time.

(i) Audit analysis of the data furnished by the Department and data obtained from Registrar of Companies (ROC), Chennai and Coimbatore revealed that out of 5,628 active and amalgamated companies registered with these ROCs, and whose aggregate turnover exceeded ₹40 lakhs, 184 companies did not obtain GST registration. All these companies had an aggregate turnover of more than ₹40 lakh for at least one year during the period covered by Audit. Of the remaining 5,444 cases, 60 were not registered in the state of Tamil Nadu. Further, 26 out of 5,384 taxpayers, who were registered in Tamil Nadu, had obtained the registration belatedly, even though they had crossed the threshold limits much early. The delay ranged from two years to six years.

(ii) Audit analysis of the data furnished by the Registration Department revealed that in four lease documents out of 1,748, wherein the annual rent involved was more than ₹20 lakhs, neither the lessee nor the lessor had obtained GST Registration.

On this being pointed out (January 2024), the Government stated (March and September 2024) that there was no link between GST system and Registration Data base and ROC portal. Headquarters Intelligence Wing had started collecting data from third party resources, analysed the same and had taken up in all potential cases.

The reply is not acceptable since the Government policy notes states that the Investigation Wing analyses the data obtained from external sources and compiled by Data Cell to identify evasions.

During Exit Conference (September 2024), Government stated that the department was also pursuing with the ROC to obtain the complete data.

(b) Non-registration by Casual taxpayers

As per Section 24 of the TNGST Act, 2017, notwithstanding anything contained in sub-section (1) of section 22, casual taxable persons making taxable supply shall be required to be registered under the Act, *ibid*.

- (i) From the information obtained from the Chennai Trade Centre, Audit noticed that 458 exhibitions were conducted during 2017-18 to 2021-22 and 27 other State exhibitors participated in the exhibitions. Comparison of the data collected from Chennai Trade Centre with the data furnished by the Department revealed that 11 out of these 27 other State exhibitors did not obtain registration in Tamil Nadu.
- (ii) Audit analysis of the data furnished by the Department showed that only a total of 506 persons were registered as casual taxpayers during the period from 2017-18 to 2021-22. However, data obtained from the Police Department revealed that 2,419 persons had been issued cracker license during this period. This shows that the Department did not take action to obtain information on casual taxpayer persons from various sources and bring them into registration net.

On this being pointed out (January 2024), the Government stated (March 2024) that system check cannot be done in the back office system as no alert is available in the system for the proper officer and there is no link between GST system and Registration database.

The reply is not relevant and not acceptable since the Government policy notes states that the Investigation Wing analyses the data obtained from external sources and compiled by Data Cell to identify evasions.

The Government, further stated (September 2024) that the Headquarters Intelligence Wing had started collecting data from third party resources, analysed the same and had taken up in all potential cases.

Recommendation 2.2:

The Intelligence Wing shall effectively monitor non-registration of taxable persons by obtaining and perusing the data obtained from various departments.

(C) Follow-up Action not monitored

(i) Non-commencement of business by registered taxpayers

As per Section 29(2)(d) of TNGST Act, 2017, the proper officer may cancel the registration of a person from such date, including any retrospective date, where any person who has taken voluntary registration under sub-section (3) of Section 25 has not commenced business within six months from the date of registration.

Audit analysis of the data furnished by the Department revealed that 33,808 taxpayers filed Nil returns for a continuous period of six months from the effective date of registration. This indicates that these registrants did not commence business within the time stipulated. Out of these 33,808 taxpayers, 6,166 taxpayers were found active as on 31 March 2022. A sample check of 20 taxpayers revealed that they were filing nil returns without using the Nil return option in the portal. The POs had failed to detect the irregularity and hence the status of these taxpayers are being maintained as “active”. This proves that the Department has not taken any action as per the Act in these cases.

On this being pointed out (January 2024), the Government stated (March 2024) that the facility to identify, whether such registration taken is voluntary or not, is not available in the system.

Audit is of the opinion that Department could have identified these cases by perusing MIS reports.

(ii) Non-filing of final returns by cancelled dealers

As per Section 45 of TNGST Act, 2017, every registered person who is required to furnish a return under sub-section (1) of section 39 and whose registration has been cancelled shall furnish a final return within three months of the date of cancellation or date of order of cancellation, whichever is later, in such form and manner as may be prescribed. As per Rule 81 of TNGST Rules, 2017, every registered person required to furnish a final return under section 45, shall furnish the final return electronically (GSTR-10) through the common portal.

Audit analysis of the data provided by the Department revealed that

- (a) Out of 1,01,958 taxpayers who initiated cancellations who are liable to file GSTR-10, 74,969 taxpayers did not file GSTR 10.
- (b) Out of the 26,989 who had filed GSTR-10, 4,782 filed the return belatedly. The delay ranged from 1 to 1,573 days.
- (c) Out of 1,96,265 cases on which department effected *suo-motu* cancellations, 1,89,767 taxpayers did not file GSTR-10.
- (d) Out of 6,498 taxpayers who had filed GSTR-10, 4,402 filed GSTR-10 belatedly, the delay ranged from 1 to 1,502 days
- (e) Out of 21,865 applicants who applied for fresh registration with the same PAN after their registration was cancelled previously,

16,530 were granted new registration although they did not file final return (GSTR-10). Out of these 16,530 taxpayers, 9,514 got new registration in same circle in which they were previously assessed.

On this being pointed out (January 2024), the Government stated (March 2024) that the issues are front office related which is maintained by GSTN. Further, in the case of registration granted, the Government stated that there is no back-office system available for restriction of new registration based on filing of GSTR 10 and application for new registration with same PAN can be restricted only in front office.

Audit opines that the Government should ensure that cancelled taxpayers file the final return.

Recommendation 2.3:

Government should represent the GSTN to flag non-filing of GSTR-10 when cancelled taxpayers apply for fresh registration. Government should also instruct the Department to identify non-filers of GSTR-10 before processing the application for new registration and initiate appropriate action.

(D) Non-obtaining of fresh registration for business units located outside SEZ

As per first proviso¹⁵ of Rule 8 of TNGST Rules, 2017, a person having a unit(s) in a Special Economic Zone or being a Special Economic Zone developer shall make a separate application for registration as a business vertical distinct from his other units located outside the Special Economic Zone.

Audit analysis of the data furnished by the Department with Madras Export Processing Zone (MEPZ) data revealed a total of 599 cases were granted SEZ registration. Out of these 599 SEZ registrants, nine taxable persons did not obtain separate registration although they had declared additional place of business outside SEZ.

On this being pointed out (January 2024), Government stated (March 2024) that the provision for separate registration was introduced from 1 February 2019. The cases pointed out by Audit relate to 2017-18 and therefore this proviso could not be made applicable at that time.

The reply is not acceptable since Rule 8 of TNGST Rules, 2017, already prescribed additional registration for separate business places but the units mentioned here had not obtained a separate registration for additional place of business outside SEZ.

It was further stated (September 2024) that the taxpayers having a separate unit outside SEZ would already have obtained a separate registration and therefore,

¹⁵ Omitted the 1st proviso by TNGST (Amendment) Rules 2019/Notification No. SRO A-2(b)/2019, dated 29.01.2019, with effect from 01.02.2019 and it was brought into the Act vide Section 25 (1) second provision.

the POs would not be in a position to grant another registration for unit inside SEZ.

The reply is not relevant since audit pointed out only cases where no separate registration was obtained for additional place outside SEZ.

2.4.8 Conclusion

Analysis of data revealed that there had been considerable delay in granting of registration and issue of SCN and physical verification. Instances were noticed wherein applicants declared as ineligible for grant of registration after physical verification, were granted registration. Audit also noticed similar delays in effecting cancellations, revocations and amendments.

Applicants were granted composition status without verification of turnover of previous and current years. The Department did not have a mechanism to ensure that casual taxpayers and other taxable persons are duly registered. Despite a data cell having been constituted to collect data from external sources and the Intelligence Wing supposed to peruse the data to identify tax escapements, casual and regular taxpayers were found unregistered. POs did not watch filing of regular returns reporting zero turnover by registered taxpayers. Registration was granted to cancelled taxpayers without ascertaining if they had filed GSTR-10.

2.5 Subject Specific Compliance Audit Report on “Department’s oversight on GST payments and Return filing”

2.5.1 Audit objectives

This audit was taken up with the following objectives to seek an assurance on:

- (i) Whether the rules and procedures were designed to secure an effective check on tax compliance and were being duly observed by taxpayers; and
- (ii) Whether the scrutiny procedures, internal audit and other compliance functions of the Circles were adequate and effective.

An audit of records of taxpayers registered under works contract services was also conducted and reported as a sub-theme of this SSCA.

2.5.2 Audit methodology and scope

This SSCA was predominantly conducted based on data analysis, which highlighted risk areas and red flags pertaining to the period April 2018 to March 2021. Through data analysis a set of 16 deviations were identified across the domains of Input Tax Credit (ITC), mismatch in annual return and financial statements (FS), shortfall in Tax paid and other deviations. Such deviations were followed up through a centralised audit¹⁶, whereby these

¹⁶ Centralised Audit also did not involve seeking taxpayer’s granular records such as financial statements related ledger accounts, invoices, agreements etc.

deviations were communicated to the relevant jurisdictional circles and action taken by the jurisdictional circles on the identified deviations was ascertained without involving field visits. The centralised audit was supplemented by a detailed audit involving field visits for verification of records available with the jurisdictional circles. Returns and related attachments and information were accessed through the back-office portal of the Commercial Taxes Department as much as feasible to examine data/documents relating to taxpayers (*viz.* registration, tax payment, returns and other departmental functions). The detailed audit also involved accessing relevant granular records from the taxpayers such as books of accounts, sales ledger, ITC ledger, invoices, etc. through the respective assessment circle. This apart, compliance functions of the assessment circle such as scrutiny of returns, action taken on non-filers, late filers and cancellation of registrations were also reviewed in selected 10 assessment circles.

The review of the scrutiny of returns by the Department and verification of taxpayers records covered the period from April 2018 to March 2021, while the audit of the functions of selected Circles covered the period 2020-21¹⁷. The field audit was conducted from July 2023 to March 2024.

2.5.3 Audit sample

A data driven approach was adopted for planning, as also to determine the nature and extent of substantive audit. The sample for this SSCA comprised a set of deviations identified through data analysis for centralised audit that did not involve field visits, a sample of taxpayers for detailed audit that involved field visits and scrutiny of taxpayer's records at departmental premises, and a sample of Circles for evaluating the compliance functions of the circles. This SSCA has three distinct parts as under:

(i) Part I-Audit of Circles

For the purpose of evaluation of oversight functions, 10¹⁸ assessment circles with jurisdiction over highest number of selected samples for Detailed Audit were considered as the sample for audit of assessment circles.

(ii) Part II – Centralised audit

Audit analysed GST returns data pertaining to 2018-19 to 2020-21 at GSTN premises and identified a set of deviations and logical inconsistencies between GST returns filed by taxpayers. A set of 16¹⁹ parameters was identified such as mismatch of ITC availed between Annual Returns and Books of accounts, short payment of interest, ITC mismatches etc. Audit selected a sample of 894²⁰ high-risk cases for evaluation of the adequacy and effectiveness of the

¹⁷ Audit of scrutiny of returns by the assessment circles covered the period from 2018- 19 to 2020-21.

¹⁸ Guindy, Kelambakkam, Kodambakkam, LTU-DC2, LTU-DC3, Manali, Ponneri, T. Nagar, Vadapalani and Valluvarkottam.

¹⁹ 16 parameters are indicated in Tables 1 (a) and (b).

²⁰ 894 tax deviations of 431 taxpayers were selected for centralised audit under this SSCA because multiple deviations were noticed for a few taxpayers.

scrutiny procedure of the Department. The audit review was limited only to the queries issued to the respective assessment circles between July 2023 and October 2023. There was no further scrutiny of taxpayer's records.

(iii) Part III - Detailed audit

Audit selected 70 cases for detailed audit which involved field visits for verification of records available with the assessment circles. Taxpayers' records like returns and related attachments and information were accessed through Circles for evaluation of the extent of tax compliance by taxpayers. Audit utilised the SSOIDs²¹ provided to the maximum extent feasible to examine data/documents relating to taxpayers in the back-end system (*viz.* registration, tax payment, returns and other departmental functions). The relevant granular records of the taxpayers such as invoices etc., were called through the respective assessment circles.

An Entry Conference was held on 13 June 2023 with the Secretary to Government and the Principal Secretary/Commissioner of Commercial Taxes during which the audit objectives, sample selection, audit scope and methodology were shared with the Department. Exit Conference was conducted on 11 September 2024 with the Principal Secretary to Government and the Commissioner of Commercial Taxes. The views expressed by the Government during the Exit Conference have been suitably incorporated in the relevant paragraphs.

2.5.4 Audit criteria

The source of audit criteria comprised the provisions contained in the TNGST Act, IGST Act, 2017 and Rules made thereunder. In addition, the notifications and circulars issued by State Tax Department relating to filing of returns, notifying the effective dates of filing of various returns, extending due dates for filing returns, rates of tax on goods and services, payment of tax, availing and utilising ITC, scrutiny of returns and oversight of tax compliance by Departmental officers also formed part of the audit criteria.

2.5.5 Audit of circles (Part-1)

Two systemic areas were identified for examination in audit *viz.*, (i) Non-completion of assessments in scrutiny cases and (ii) cancellation of registrations.

2.5.5.1 Non-completion of assessments in scrutiny cases

Scrutiny of returns is an important oversight function of the department to ensure compliance to GST provisions.

As per Section 61(1) of TNGST Act, 2017, the Proper Officer (PO) shall ensure the correctness of information furnished in returns and in case of incomplete and defective information, he shall call for explanation by issue of notices. Section 61(2) prescribes that, if the explanation for the above notice is acceptable, registered person shall be informed accordingly. Section 61(3)

²¹ Single Sign On Identification Document.

states that, in case no satisfactory explanation is furnished within a period of thirty days of being informed by the proper officer or such further period as may be permitted by him or where the registered person, after accepting the discrepancies, fails to take the corrective measure in his return for the month in which the discrepancy is accepted, the proper officer may initiate appropriate action including those under Section 65 or Section 66 or Section 67, or proceed to determine the tax and other dues under Section 73 or Section 74.

Audit noticed from the MIS Asmt 3.2 reports “cases scrutinised but pending for taking action” that 98 cases in six²² assessment circles, were pending for final action from the POs for a period ranging from 1,155 to 1,294 days. Of these, 70 cases, the taxpayers did not furnish the reply within a period of thirty days from the receipt of ASMT-10²³. However, the Department did not initiate any further action in these 70 cases. Though replies were received in the remaining 28 cases the Department did not initiate further action such as issue of ASMT-12²⁴ nor raised demand.

On this being pointed out (April 2024), the Government stated (October 2024) that DRC-07²⁵ was issued in 53 cases, dropping order (DRC-05²⁶) was issued in 26 cases, DRC-01²⁷ has been issued to 17 cases and in remaining two cases ticket has been raised as the task was not able to be viewed.

Recommendation 2.4:

The Department should instruct the POs to finalise assessments in scrutiny cases within the timelines.

2.5.5.2 Cancellation of Registrations

As per Rule 22(3) of the TNGST Rules, 2017, the taxpayer whose registration is cancelled shall be notified about the date of cancellation directing him to pay arrears of tax along with interest and penalty, if any.

From the data furnished by the Department, it was noticed that the registration of 1,345 taxpayers were cancelled in eight²⁸ assessment circles during the year 2020-21. Audit verification revealed the following:

- (i) In all 1,345 cases, the cancellation orders were issued quantifying the tax payable as “zero”. However, Audit found that in 59 cases, there was an unpaid tax liability of ₹2.58 crore which shall be collected along with interest and penalty. On this being pointed out (April 2024), the Government stated (October 2024) that in 31 cases

²² Guindy, Kodambakkam, Ponneri, T Nagar, Vadapalani and Valluvarkottam.

²³ ASMT-10: Notice for intimating discrepancies in the return.

²⁴ ASMT-12: Order of acceptance of reply against the notice issued under Section 61.

²⁵ DRC-07: Summary of the order.

²⁶ DRC-05: Intimation of conclusion of proceeding.

²⁷ DRC-01: Summary of show cause notice.

²⁸ Guindy, Kelambakkam, Kodambakkam, Manali, Ponneri, T Nagar, Vadapalani and Valluvarkottam.

DRC-07 had been issued, in 27 cases DRC-01 had been issued and in one case DRC-01A²⁹ issued.

- (ii) Further in 76 cases, taxpayers continued to receive inward supplies. The tax on these supplies amounted to ₹0.76 crore. On this being pointed out (April 2024), the Government stated (October 2024) in 16 cases DRC-07 had been issued and in 60 cases DRC-01 had been issued.

Recommendation 2.5:

The Department should instruct the POs to issue cancellation orders with demands quantified, and also ensure that a follow-up mechanism is in place to watch compliance by cancelled taxpayers.

2.5.6 Centralised Audit (Part II)

Audit analysed GST returns data pertaining to the period from April 2018 to March 2021 and based on a pre-determined set of 16 parameters, identified Rule-based deviations and logical inconsistencies between GST returns filed by taxpayers.

Out of the 14 prescribed GST returns³⁰, seven basic returns that apply to normal taxpayers were considered for the purpose of identifying deviations, inconsistencies and mismatches between GST returns/data as detailed below:

- GSTR-1: Monthly return furnished by all normal and casual registered taxpayers making outward supplies of goods and services or both and contains details of outward supplies of goods and services.
- GSTR-3B: Monthly summary return of outward supplies and input tax credit claimed, along with payment of tax by the taxpayer to be filed by all taxpayers except those specified under Section 39(1) of the Act. This is the return that populates the credit and debits in the Electronic Credit Ledger and debits in Electronic Cash Ledger.
- GSTR-6: monthly return for Input Service Distributors providing the details of their distributed input tax credit and inward supplies.
- GSTR-8: monthly return to be filed by the e-commerce operators who are required to deduct TCS (Tax collected at source) under GST, introduced in October 2018.

²⁹ DRC-01A: Intimation of tax ascertained as being payable.

³⁰ GSTR-1, GSTR 3B, GSTR-4 (taxpayers under the Composition scheme), GSTR-5 (non-resident taxable persons), GSTR-5A (Non-resident OIDAR service providers), GSTR-6 (Input service distributor), GSTR-7 (taxpayers deducting TDS), GSTR-8 (E-commerce operator), GSTR-9 (Annual Return), GSTR 9C (Reconciliation Statement), GSTR-10 (Final return), GSTR 11 (person having UIN and claiming a refund), CMP-08, and ITC-04 (Statement to be filed by a principal/ Job worker about details of goods sent to/received from a job-worker).

- **GSTR-9:** annual return to be filed by all registered persons other than an Input Service Distributor (ISD), Tax Deductor at Source/ Tax Collector at Source, Casual Taxable Person, and Non-Resident taxpayer. This document contains the details of all supplies made and received under various tax heads (CGST, SGST and IGST) during the entire year along with turnover and audit details for the same.
- **GSTR-9C:** annual audit form for all taxpayers having a turnover above ₹5 crore in a particular financial year. It is basically a reconciliation statement between the annual returns filed in GSTR-9 and the taxpayer's audited annual financial statements.
- **GSTR-2A:** a system-generated statement of inward supplies for a recipient. It contains the details of all B2B transactions of suppliers declared in their Form GSTR-1/5, ISD details from GSTR-6, details from GSTR-7 and GSTR-8 respectively by the counterparty and import of goods from overseas on bill of entry, as received from ICEGATE Portal of Indian Customs.

The details of data analysis pertaining to the Tamil Nadu state on the 16 identified parameters and impact thereon is given in **Tables 2.2 (a)** and **2.2 (b)**.

Table 2.2 (a): Data analysis summary of sampled cases

| Sl. No. | Algorithm used | Impact |
|---|--|--|
| Mismatch in availing of ITC/Tax payments | | |
| 1 | ITC available as per GSTR-2A with all its amendments was compared with the ITC availed in GSTR-3B in Table 4A (5) (accrued on domestic supplies) excluding the reversals in Table 4B(2) but including the ITC availed in the subsequent year from Table 8C of GSTR-9 and blocked credits. | ITC mismatch between GSTR-2A and GSTR-3B |
| 2 | ITC available from GSTR-2A was compared with Table 8A of GSTR-9 which captures ITC available from GSTR-2A (as an auto-populated non-editable field) but excludes those entries in GSTR-2A where the supplier has not filed GSTR-1 by due date of its filing and also excludes the ITC for the period during which the recipient taxpayer was under composition scheme. | ITC passed on without supplier remitting tax |
| 3 | ITC availed through Table 4 of GSTR 3Bs pertaining to 2018-19 to 2020-21 filed after October of the following year | ITC availed on GSTR 3B filed after the cut-off period |
| 4 | RCM payments in GSTR-9 Table 4G (tax payable) were compared with ITC availed in GSTR-9 Table 6C, 6D and 6F (ITC availed). In cases where GSTR-9 was not available, RCM payment in GSTR-3B Table 3.1(d) was compared with GSTR-3B 4(A)(2) and 4A(3). Greater of difference in GSTR-9 and GSTR-3B considered where both were available. | Short payment of tax under RCM versus ITC availed in GSTR-3B/ GSTR-9 |
| 5 | Negative figure in GSTR-9C Table 9R and examination of reasons provided in Table 10 for mismatch | Mismatch in tax paid between books of accounts and returns |

| Sl. No. | Algorithm used | Impact |
|---|--|--|
| Mismatch in availing of ITC/Tax payments | | |
| 6 | Positive figure in GSTR-9C Table 12F and examination of reasons provided in Table 13 for mismatch | Mismatch of ITC availed between Annual returns and Books of accounts |
| 7 | Positive figure in GSTR-9C Table 14T and examination of reasons provided in Table 15 for mismatch | Reconciliation between ITC availed in Annual returns with expenses in financial statements |
| 8 | Taxpayers who have not filed GSTR-3B but have filed GSTR-1 or where GSTR-2A available, indicating taxpayers carrying on the business without discharging tax. | GSTR-3B was not filed but GSTR-1 is available |
| 9 | The greater of tax liability between GSTR-1 (Tables 4 to 11), considering advances and amendments, and GSTR-9 (Tables 4N, 10 and 11) was compared with tax paid details in GSTR-3B Tables 3.1(a) and 3.1(b). In cases where GSTR-9 was not available, GSTR-3B tax paid was compared with GSTR-1 liability. | Unsettled liabilities |
| 10 | Interest calculated at the rate of 18 <i>per cent</i> on cash portion of tax payment on delayed filing of GSTR-3B vis-a-vis interest declared in GSTR 3B Table 6.1 | Short payment of interest |
| 11 | GSTR 3B Table 3.1 (a) + (b) is compared with tax liability declared in the E-way bills and cases where GSTR 3B are less than e-way bills are identified. | Suppression of tax liability based on E-Way bill verification |
| 12 | E-commerce GSTR-8 became effective from 01 October 2018 when TCS provisions became effective. GSTINs declared in GSTR-8 who are filing GSTR-4 under composition scheme | Composition Taxpayers also availing E-Commerce facility |
| 13 | ISD ITC availed in GSTR-9 Table 6G or GSTR-3B Table 4(A)(4) of recipient was compared with the sum of Table 5A, Table 8A, and Table 9A of GSTR-6 of distributor GSTINs | Incorrect availing of ISD credit |

Table 2.2 (b): Data analysis summary of sampled cases (Turnover mismatch)

| Sl. No. | Algorithm used | Impact |
|--|---|---|
| Turnover mismatch in Annual Return and Financial Statements | | |
| 1 | Negative figure in GSTR-9C Table 7G and examination of reasons provided in Table 8 for mismatch | Mismatch in taxable turnover declared in GSTR-9C Table 7G |
| 2 | Table 3.1(a) of GSTR-3B was compared with Column 6 of Table 9 of GSTR-2A. Cases where GSTR-3B values are less than that of GSTR-2A are identified. | Under-declaration of taxable supplies by comparing TDS returns |
| 3 | Unbilled revenue at the beginning of the year in GSTR-9C Table 5B should tally with the unbilled revenue of the previous GSTR-9C shown in Table 5H. Any mismatch indicates suppression of taxable turnover. | Suppression of taxable value based on unbilled revenue declared in GSTR-9C. |

The Pan-state data analysis depicted extremely large number of deviations with extreme money values which point out lack of basic validation control that should have been built into the application software. For example, for

suppression of tax liability based on E-way bill, the number of deviations were 95 with money value of ₹70,383.61 crore and under the tax liability mismatch across the returns GSTR1, 3B and 9 the number of deviations were 95 and money value of ₹1,840.02 crore. These un-realistic money value figures indicated that controls to input and validate data in GST system and EWB system are either not working properly or are entirely absent.

2.5.6.1 Audit sample selection

In view of above, Audit selected a sample of 894 cases from amongst the top deviations /inconsistencies in each of the 16 parameters for the years from 2018-19 to 2020-21. The audit queries were issued to the respective circles between July 2023 to October 2023 without further scrutiny of taxpayer's records by Audit. The audit check in these cases was limited to verifying the Department's action on the identified deviations/mismatches communicated to them.

2.5.6.2 Results of centralised audit

Based on responses received from the Department to the Audit Queries, the extent to which each of the 16 parameters translated into compliance deviations is summarised in **Appendix 2.1(a)** and **2.1(b)**.

Summary of Centralised Audit

Audit noticed that out of 814 deviations from the provisions of the TNGST Act, 2017, in 337 cases (Column Nos. 4, 6, 8 of Appendix 2.1 (a)) involving an amount of ₹1,538.18 crore (Column Nos. 5,7,9) constituting 41 *per cent* of the 814 inconsistencies/mismatches in data/short or non-levy of tax/interest, for which the Department provided responses, includes a recovery of ₹8.64 crore in 17 cases. Relatively higher rates of deviations were noticed in risk parameters such as mismatch of ITC, availing ITC in cases where the supplier has not paid tax or issued invoices after cancellation and incorrect discharge of tax liability.

For the remaining 477 cases (Column Nos. 12, 14 and 16), constituting 59 *per cent*, where the Department's reply was acceptable to Audit, data entry errors by taxpayers comprised 48 cases (Column No.12), the Dealer/Department had proactively taken action in 199 cases (Column No.14) and 230 cases (Column No.16) had valid explanations.

Audit also noticed that in turnover related mismatches (Appendix 2.1 (b)), the department provided responses in 80 cases (Column No.2). Of these, in 28 cases (Column Nos. 4, 6, 8) constituting 35 *per cent*, the department had initiated action on the audit observations. In 52 (65 *per cent*) cases (Column Nos. 12, 14 and 16), replies were acceptable to audit.

2.5.6.3 Deviations from GST law and rules

Out of the 894 responses furnished, the Department has accepted the audit observations or initiated examination in 365 cases. Out of these, the Department has recovered/ demand orders issued in 173 cases, issued show cause notices in 125 cases, issued notice conveying discrepancies to the taxpayer in form ASMT-10 in 67 cases.

A few illustrative cases are given below:

(i) Mismatch in availing of ITC between GSTR 2A and GSTR 3B

GSTR 2A is a purchase related dynamic tax return that is automatically generated for each business by the GST portal whereas GSTR 3B is a monthly return in which summary of outward supplies along with ITC declared and payment of tax are self-declared by the taxpayer.

To analyse the veracity of ITC utilisation, relevant data was extracted from GSTR 3B and GSTR 2A for the years 2018-19 to 2020-21 and the ITC paid as per suppliers' details was matched with the ITC credit availed by the taxpayer. The methodology adopted was to compare the ITC available as per GSTR 2A with all its amendments and the ITC availed in GSTR 3B in Table 4A (5)³¹ including the 4(D)³² and ITC availed in the subsequent years from Table 8C of GSTR 9.

Audit observed that in case of a taxpayer, under Ambattur Industrial Estate circle, for the year 2018-19 and 2019-20, ITC available as per GSTR 2A was ₹0.74 crore and ITC availed as per GSTR 3B including ITC availed in subsequent year was ₹79.13 crore, resulting in mismatch of ₹78.39 crore. On this being pointed out (July 2023), the Government stated (October 2024) that DRC-01 was issued for 2018-19 and DRC-07 was issued for 2019-20.

(ii) ITC passed on without supplier remitting tax

GSTR 2A is a purchase related dynamic tax return that is automatically generated for each business by the GST portal. To analyse the extent of compliance in respect of availing of ITC under Section 16(4) of the TNGST Act, 2017, an attempt has been made to identify likely cases where the ITC would have been passed on by the taxpayer without remitting the tax. For this purpose, the relevant data from GSTR 9 particularly pertaining to table 8A of GSTR 9 was compared with the ITC data reflected in GSTR 2A.

While GSTR 2A is generated based on the disclosures made by the suppliers in their GSTR 1, the Table 8A of the GSTR 9 is auto-populated (non-editable) from Tables 3, 4, 5 and 6 of the GSTR 2A (Tables 3 and 5 of the old GSTR 2A format) and considers GSTR 2A as available on 31 October of the following financial year.

Audit observed that in case of a taxpayer under Mettur circle, the ITC available in table 8A of GSTR 9 for the year 2019-20 was zero and the ITC available in

³¹ All other eligible ITC.

³² Ineligible ITC.

GSTR 2A was ₹21.61 crore. The mismatch between the ITC in Table 8A of GSTR 9 and GSTR 2A was ₹21.61 crore. On this being pointed out (July 2023), the Government stated (October 2024) that DRC-01 was issued.

(iii) ITC Availed on GSTR 3B filed after limitation period

As per Section 16(4) of TNGST Act, 2017, a taxable person shall not be entitled to take input tax credit in respect of any invoice or debit note for supply of goods after the due date of furnishing of the return under Section 39 for the month of September or filing of the relevant annual return, whichever is earlier. Accordingly, if any GSTR 3B is furnished after such time, ITC availed therein becomes inadmissible.

To review this ITC availed on this account, the ITC availed through Table 4 of GSTR 3B pertaining to 2018-19, 2019-20 and 2020-21 filed by the taxpayer beyond the due dates of September GSTR 3B return of the following year were identified at data level.

Audit observed that in case of a taxpayer under Nethaji Road-Salem circle, the ITC was availed on 3B filed after limitation period i.e. May and June 2022 amounting to ₹2.32 crore for the year 2019-20 and 2020-21. On this being pointed out (July 2023), the Government stated (October 2024) that DRC-07 was issued.

(iv) Mismatch of ITC under Reverse Charge Mechanism

In Reverse Charge Mechanism, the liability to pay tax is fixed on the recipient of supply of goods or services instead of the supplier or provider in respect of certain categories of goods or services or both under Section 9(3) or Section 9(4) of the TNGST Act, 2017, and under sub section (3) or sub-section (4) of Section 5 of the IGST Act, 2017.

To check the correctness of ITC availed on tax paid under Reverse Charge Mechanism (RCM), the datasets pertaining to GSTR 3B and annual return GSTR 9 were compared to check whether the ITC availed on RCM was restricted to the extent of tax paid. The methodology adopted was to compare the RCM payments in GSTR 3B Table 3.1(d)³³ with ITC availed in GSTR 9 Table 6C³⁴, 6D³⁵ and 6F³⁶. In cases where GSTR 9 was not available, the check was restricted within GSTR 3B where the tax discharged part in R3B Table 3.1(d) was compared with the ITC availing part of R3B 4A (2)³⁷ and 4A (3)³⁸.

Audit observed that in case of a taxpayer under Sriperumbudur circle, during 2020-21, ITC availed on RCM as per GSTR 9 was ₹51.47 crore whereas tax paid under RCM in GSTR 3B was zero resulting in mismatch of ITC availed amounting to ₹51.47 crore. On this being pointed out (August 2023), the

³³ Inward supplies (liable to reverse charge).

³⁴ Inward supplies receive from unregistered persons liable to reverse charge.

³⁵ Inward supplies received from registered persons liable to reverse charge.

³⁶ Import of services.

³⁷ Import of services.

³⁸ Inward supplies (liable to reverse charge).

Government while accepting the observation stated (October 2024) that DRC-01A was issued.

(v) Negative figure in GSTR-9C Table 9R (Unreconciled payment)

Table 9 of the GSTR 9C attempts to reconcile the tax paid by segregating the turnover, rate-wise and comparing it with the tax discharged as per annual return GSTR 9. The unreconciled amounts indicate the risk of tax having been paid at incorrect rates or incorrect depiction of taxable turnover as exempt and vice versa or incorrect levy of CGST/SGST/IGST. There can also be situations wherein supplies/tax declared are reduced through amendments (net of debit notes/credit notes) in respect of the transactions carried out in the subsequent year.

Audit observed in case of a taxpayer under Anna Salai circle, the tax liability determined as per books of accounts in Table 9P of GSTR 9C filed for the period 2018-19 was ₹63.38 crore. The total tax discharged as per annual return GSTR 9 was ₹42.27 crore resulting in short discharge of tax of ₹21.11 crore. On this being pointed out (July 2023), the Government stated (October 2024) that DRC-07 was issued.

(vi) Positive figure in GSTR-9C Table 12F (Unreconciled ITC)

Table 12 of GSTR 9C reconciles ITC declared in annual return (GSTR9) with ITC availed as per audited annual financial statement or books of accounts. Column 12F of this table deals with unreconciled ITC. The GSTR 9C was analysed at data level to review the extent of identified mismatch in ITC declared in the Annual Return with the Financial Statements.

As per GSTR 9C filed for the year 2019-20 and 2020-21 by a taxpayer under Chengalpattu circle, unreconciled ITC of ₹17.28 crore was declared in Table 12F of GSTR 9C. The difference indicates ITC availed in GST returns in excess of eligible ITC based on financial statements. On this being pointed out (August 2023), the Government stated (October 2024) that DRC-01A had been issued.

(vii) Positive figure in GSTR-9C Table 14T (Unreconciled ITC)

Table 14 of GSTR 9C reconciles ITC declared in annual return (GSTR 9) with ITC availed on expenses as per audited annual financial statements or books of accounts. Column 14T of this table deals with unreconciled ITC. The GSTR 9C was analysed at data level to review the extent of identified mismatch in ITC declared in the Annual Return with the expenses reported in the Financial Statements.

As per GSTR 9C filed for the year 2019-20 and 2020-21 by a taxpayer under LTU DC-3 circle, unreconciled ITC of ₹55.70 crore was declared in Table 14T of GSTR 9C. The difference indicates being ITC availed in GST returns in excess of eligible ITC based on expenses reported in financial statements. On this being pointed out (August 2023), the Government stated (October 2024) that DRC-01A was issued for 2019-20 and DRC-01 was issued for 2020-21.

(viii) Tax not remitted due to GSTR-3B not filed

GSTR 3B return under Rule 61 (5) of TNGST Rule, 2017, is the instrument through which the tax liability can be offset, and ITC is availed. The very availability of GSTR 1 and non-filing of GSTR 3B indicates that the taxpayers had undertaken/carried on the business during the period but have not discharged their tax liability.

Audit observed that a taxpayer assessed in Attur (Rural) circle had filed GSTR 1 for July 2019 with tax liability of ₹21.66 crore but had not filed GSTR 3B. On this being pointed out (August 2023), the Government stated (October 2024) that DRC-07 was issued.

(ix) Tax short paid

To analyse the undischarged tax liability, relevant data was extracted from GSTR 1, and GSTR9, and the higher of the tax payable in these returns was compared with the tax paid declared in GSTR 9. Wherever GSTR 9 was not available, a comparison of tax payable between GSTR 1 and GSTR 3B was resorted to. The amendments and advance adjustments declared in GSTR 1 and 9 were also considered for this purpose. For the algorithm, tables 4 to 11 of GSTR 1 and tables 4N, 10, and 11 of GSTR 9 were considered. The greater of tax liability between GSTR 1 and GSTR 9 was compared with the tax paid declared in tables 9 and 14 of GSTR 9 to identify the short payment of tax. In the case of GSTR 3B, tables 6.1 minus table 3.1(d) were taken into account.

Audit observed that in case of a taxpayer assessed in Alwarpet circle, had declared liability of ₹21.68 crore for 2018-19 to 2020-21 in GSTR 1 but tax paid in GSTR 3B was only ₹2.34 crore resulting in undischarged tax liability of ₹19.34 crore. On this being pointed out (August 2023), the Government stated (October 2024) that DRC-01 was issued for 2018-19 and 2020-21 and DRC-07 was issued for 2019-20.

(x) Short payment of interest on delayed payments

Section 50 of the TNGST Act, 2017 stipulates that every person liable to pay tax in accordance with the provisions of this Act or the rules made there under but fails to pay the tax or any part thereof to the Government within the period prescribed, shall for the period for which the tax or any part thereof remains unpaid, pay interest at the rate notified. The extent of short payment of interest on account of delayed remittance of tax during 2018-19 to 2020-21 was identified using the tax paid details in GSTR 3B and the date of filing of the GSTR 3B. Only the net tax liability (cash component) has been considered to work out the interest payable.

Audit observed that in case of a taxpayer assessed in Vadapalani circle had a short payment of interest of ₹1.54 crore due to belated filing of GSTR 3B during 2018-19. On this being pointed out (August 2023), the Government stated (October 2024) that DRC-07 was issued.

(xi) Suppression of tax liability based on E-Way bill verification

As per Section 68 of the TNGST Act, 2017 read with Rule 138 of the TNGST Rules, every registered person who causes movement of goods of consignment value exceeding fifty thousand rupees, shall, before commencement of such movement, furnish information relating to the said goods in Part A of GST EWB-01. In order to analyse the mismatch in tax liability, relevant data related to tax liability declared in GSTR 3B for the years 2018-19 to 2020-21 were compared with disclosures made in E-way bills.

Audit observed that in case of a taxpayer assessed in Ambattur circle, during 2018-19 and 2020-21 had declared liability of ₹2,018.24 crore in their E-way bills wherein the liability declared in their GSTR 3B was only ₹1,846.71 crore resulting in mismatch in tax liability of ₹171.53 crore. On this being pointed out (August 2023), the Government stated (October 2024) that ASMT-10 was issued for 2018-19 and 2020-21 and DRC-01 was issued for 2019-20.

(xii) ISD credit incorrectly availed by the recipients

To analyse whether the ITC availed by the taxpayer is in excess of that transferred by the Input Service Distributor (ISD), ITC availed as declared in the returns of the taxpayer is compared with the ITC transferred by the ISD in their GSTR 6. To ascertain the excess availment Table 6G³⁹ of GSTR-9 or Table 4(A)(4)⁴⁰ of GSTR-3B of the recipient taxpayers was compared with the sum of Table 5A⁴¹, Table 8A⁴², and Table 9A⁴³ of GSTR 6 of the respective ISD.

Audit observed that in case of a taxpayer under Alandur circle, the ITC availed in Table 6G of GSTR 9 net of other ITC reversal was ₹3.23 crore and ITC transferred by ISD in table (5A+8A+9A) GSTR 6 was ₹1.45 crore. This resulted in mismatch of ITC between ISD claimed and that transferred by the ISD by ₹1.78 crore. On this being pointed out (August 2023), the Government stated (October 2024) that DRC-01 was issued.

(xiii) Negative figure in GSTR-9C Table 7G (Unreconciled taxable turnover)

Table 7 of GSTR 9C is the reconciliation of taxable turnover. Column 7G of this table captures the unreconciled taxable turnover between the annual return GSTR 9 and that declared in the financial statement for the year after the requisite adjustments.

Audit observed that in case of a taxpayer assessed in T. Nagar circle, had declared unreconciled taxable turnover of ₹1,143.42 crore in Table 7G of GSTR 9C for the year 2018-19 and 2020-21. On this being pointed out (August 2023), the Government stated (October 2024) that DRC-01 was issued.

³⁹ ITC received from ISD.

⁴⁰ Inward supplies from ISD.

⁴¹ Distribution of the amounts of eligible ITC for the tax period.

⁴² Mismatch of ITC reclaimed and distributed.

⁴³ Redistribution of ITC distributed to a wrong recipient.

(xiv) Under-declaration of taxable supplies as per GSTR 3B vis-à-vis net amount on which TDS/TCS is recovered

TDS and TCS details declared in GSTR 7 and GSTR 8 respectively are reflected in Table 9 of GSTR-2A of the registered taxpayer. The cases where the taxable value declared on account of outward taxable supplies (other than zero rated, nil rated and exempted) in GSTR 3B of the registered person were less than the net amount liable for TCS and TDS credit as per Table 9 of GSTR-2A have been identified.

Audit observed that in case of a taxpayer under Cholavaram circle, the taxable value on which TDS was recovered during 2019-20 and 2020-21 was ₹1,216.49 crore wherein the taxable value as per GSTR-3B was ₹1,038 crore resulting in mismatch of ₹178.49 crore. On this being pointed out (August 2023), the Government stated (October 2024) that DRC-01A was issued.

(xv) Mismatch in unbilled revenue declared in Table 5 of GSTR 9C

Unbilled revenue refers to that part of transactions that are recorded in the books of accounts on an accrual basis, against which no invoices have been issued till the close of the financial year. The unbilled revenue at the beginning of the current year in Table 5B of GSTR 9C should tally with the unbilled revenue at the end of the previous year shown in Table 5H of GSTR 9C.

Audit observed that in case of a taxpayer assessed in Cholavaram circle, had declared ₹340.34 crore in Table 5H of GSTR 9C as unbilled revenue at the end of 2017-18 and (-) ₹363.87 crore in Table 5B of GSTR 9C as unbilled revenue at the beginning of 2018-19 resulting in mismatch of unbilled revenue of ₹704.21 crore. On this being pointed out (August 2023), the Government stated (July 2024) that DRC-01A was issued.

2.5.7 Detailed Audit (Part – III)

In a self-assessment regime, the onus of compliance with law is on the taxpayer. The role of the Department is to establish and maintain an efficient tax administration mechanism to provide oversight. With finite level of resources, for an effective tax administration, to ensure compliance with law and collection of revenue, an efficient governance mechanism is essential. An IT driven compliance model enables maintaining a non-discretionary regime of governance on scale and facilitates a targeted approach to enforce compliance.

From an external audit perspective, Audit also focused on a data-driven risk-based approach. Thus, apart from identifying inconsistencies/deviations in GST returns through pan-India data analysis, a detailed audit of GST returns was also conducted as a part of this review. A risk-based sample of 70 taxpayers under the jurisdiction of 48 circles⁴⁴ was selected for this part of the review.

⁴⁴ Ambattur Industrial Estate, Anna Salai, Anupparpalayam, Arumbakkam, Chengalpattu, Chepauk, Choolai, Egmore, Gandhipuram, Guindy, Karur - 3, Karur-2, Kelambakkam, Kilpauk, Kodambakkam, Koyambedu, Kumarapalayam, LTU-DC1, LTU-DC2, LTU-DC3, LTU-DC4, Madhavaram, Manali, Mandaveli, Mylapore, Nandanam, Nanguneri, Nolambur, Oragadam, Pallavaram, Pattaravakkam, Ponneri, Poonamallee, Ramapuram, Royapuram, Sholinganallur, T. Nagar, Thirukazhukundram, Thirumazhisai, Thiruvanmiyur, Tiruppur (North)-2, Tiruppur (Rural)-2, Tuticorin - III, Vadapalani, Valluvarkottam, Vellore (rural), Vepery and Villupuram – I.

The methodology adopted was to initially conduct a desk review of GST returns and financial statements filed by the taxpayers as part of the GSTR 9C and other records available in the back-end system to identify potential risk areas, inconsistencies/deviations and red flags. Desk review was carried out in the office of Principal Accountant General, Tamil Nadu. Based on desk review results, detailed audit was conducted in circles by requisitioning corresponding granular records of taxpayers such as financial statements, sales/purchase ledgers, invoices etc. to identify causative factors of the identified risks and to evaluate compliance by taxpayers.

2.5.7.1 Scope limitation (non/partial production of records)

Audit requisitioned records of 70 selected taxpayers assessed in 48 circles through Proper Officers. Out of this, even the basic records such as financial statements, sales, purchase and ITC registers were not produced in respect of seven taxpayers assessed in seven circles and only partial records were produced in respect of 45 taxpayers assessed in 32 circles. Hence, audit scope in respect of these taxpayers was limited to the scrutiny of returns filed and records produced to audit. During Exit Conference, Government stated (September 2024) that the Department would provide granular records only in the cases of assessments completed under Section 65. The Principal Secretary also stated that the GST Act, in its present form, does not have provision to seek records for the purpose of audit by CAG and hence suggested an amendment to the Act by bringing to the notice of the GST Council.

As per Section 16 of CAG's DPC Act, 1971, it shall be the duty of the Comptroller and Auditor General to audit all receipts which are payable into the Consolidated Fund of India and of each State and of each Union territory having a Legislative Assembly and to satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed and to make for this purpose such examination of the accounts as he thinks fit and report thereon. Further, Rule 56(18) of the TNGST Rules, 2017, stipulates that 'every registered person shall, on demand, produce the books of accounts which he is required to maintain under any law for the time being in force', which enables the POs to seek granular records for the identified risk. Hence it is incumbent of POs to obtain the granular records from the taxpayers, where demanded by audit to enable fulfilment of its statutory duty.

2.5.7.2 Results of Audit

Non-compliance by the taxpayer at the various stages ultimately impact the veracity of availing/utilisation of ITC and discharge of tax payments. The audit findings are, therefore, categorised under a) availing/utilisation of ITC and b) Discharge of tax liability. The cases have been illustrated below:

(A) Incorrect claims of Input Tax Credit (ITC)

Input Tax Credit (ITC) means the Goods and Services Tax (GST) paid by a taxable person on purchase of goods and/or services that are used in the course or furtherance of business. To avoid cascading effect of taxes, credit of taxes

paid on inward supplies can be used to set-off the payment of taxes on outward supplies.

Audit observed compliance deficiencies where records were fully or partially produced. The taxpayers had availed irregular/excess ITC of ₹71.53 crore. The deficiencies were mainly on account of incorrect availing of ITC on blocked credit, incorrect availing of CGST and SGST credit for inter-state supplies, non-payment of interest on excess ITC utilised, non-reversal of ITC in case of non-payment of consideration within 180 days and non-reversal of ITC for exempt supplies.

(i) Incorrect availing of ITC on blocked credit

As per Section 17(5) of TNGST Act, 2017, ITC is not available on certain inward supplies such as purchase of motor vehicles, food and beverages, rent a cab, works contract services, insurance services, etc.

Audit scrutinised the purchase details of selected taxpayers, and it was noticed that 21 taxpayers in 42 cases assessed in 17 circles⁴⁵, had availed ITC on blocked credits. The total ineligible ITC to be reversed amounts to ₹56.75 crore along with applicable interest.

On this being pointed out (between September 2023 and February 2024), the Government intimated (October 2024) recovery of ₹3.34 Lakh in six cases in four⁴⁶ circles. It was also stated that in 12 cases assessed in eight⁴⁷ circles DRC-07 had been issued, in 16 cases assessed in 11⁴⁸ circles DRC-01 had been issued and in four cases assessed in three⁴⁹ circles notices had been issued. It was further stated that in four cases assessed in four⁵⁰ circles dropping orders had been issued, but no documentary evidence was provided to Audit.

During Exit Conference, Government stated (September 2024) that only introduction of e-invoices would prevent such illegal availing of ITC.

An illustrative case is given below:

A taxpayer assessed in Vadapalani circle had claimed ITC of ₹29.51 crore for the years from 2018-19 to 2020-21 on purchase of cars. On scrutiny of granular records, Audit found that the taxpayer was engaged in leasing services and had leased out the cars. Since ITC is not allowable on purchase of cars in this case, the claim of ₹29.51 crore needs to be reversed. On this being pointed out

⁴⁵ Ambattur Industrial Estate, Anna Salai, Anupparpalayam, Chengalpattu, Guindy, Karur-3, Kelambakkam, Kilpauk, Kodambakkam, LTU-DC3, LTU-DC4, Royapuram, Sholinganallur, Thirukazhukundram, Thiruvanmiyur, Tiruppur North–II and Vadapalani.

⁴⁶ Anupparpalayam, Guindy, Karur-3 and Kilpauk.

⁴⁷ Anna salai, Kilpauk, Kodambakkam, LTU-DC4, Royapuram, Sholinganallur, Thiruvanmiyur and Vadapalani.

⁴⁸ Ambattur Industrial Estate, Anna salai, Guindy, Kodambakkam, LTU-DC3, LTU-DC4, Royapuram, Sholinganallur, Thiruvanmiyur, Tiruppur North – II and Vadapalani.

⁴⁹ Chengalpattu, Kelambakkam and LTU-DC4.

⁵⁰ Kodambakkam, LTU-DC3, LTU-DC4 and Thirukazhukundram.

(January 2024), the Government stated (October 2024) that DRC-07 was issued for 2018-19 and 2019-20 and DRC-01 was issued for 2020-21.

(ii) Incorrect availing of CGST and SGST credit for Inter-state supplies

As per Section 5 of IGST Act, 2017, if the State of supply is different from the State in which the invoice for supply of goods or services is raised, then IGST shall be paid. It is also clarified in the Input Tax Credit FAQ nos. 60 and 62 issued by CBIC (<https://cbic-gst.gov.in/faq.html>) that the CGST and SGST paid in one state cannot be utilised to discharge liabilities in another state.

Audit noticed that in respect of 29 taxpayers in 68 cases assessed in 23 circles⁵¹, the other state suppliers have raised invoices for supplies in other States and collected CGST and SGST. However, ITC was availed by the recipients in the State of Tamil Nadu.

In the above cases, supplies have been made in other States, while location of recipient is Tamil Nadu. However, in these cases, the place of supply of goods had been mentioned as situated in other states and hence SGST and CGST were paid. For instance, a supplier, with manufacturing as core nature of business had raised invoice no.75205153, indicating the place of supply as Maharashtra and charged SGST and CGST. As the invoice was not produced to Audit, the reasons for declaring place of receipt of supply as Maharashtra could not be ascertained. Further analysis by Audit showed that there were 166 invoices of trade raised between the above taxpayer (33AAXXXXXXXXXX1ZJ) and the supplier from Maharashtra (27AAXXXXXXXXXX1ZM) during 2020-21 and only in 26 invoices, the place of supply was mentioned as Maharashtra and SGST and CGST were paid in Maharashtra.

Since tax was paid in other states, ITC on these inward supplies cannot be availed in Tamil Nadu. This resulted in incorrect availing of ITC of ₹11.40 crore.

On this being pointed out (between December 2023 and January 2024), the Government intimated (October 2024) recovery of ₹1.96 lakh in three cases assessed in Guindy and LTU-DC2 circles. It was further stated that in 20 cases assessed in 11⁵² circles DRC-07 had been issued, in 30 cases assessed in 13⁵³ circles DRC-01 had been issued and in 10 cases assessed in seven⁵⁴ circles notice had been issued. It was further stated that in three cases assessed in LTU-DC3 and Ponneri circles dropping orders had been issued, but no

⁵¹ Ambattur Industrial Estate, Anna Salai, Chengalpattu, Chepauk, Egmore, Gandhipuram, Guindy, Koyambedu, LTU-DC1, LTU-DC2, LTU-DC3, LTU-DC4, Madhavaram, Manali, Mylapore, Nandanam, Pallavaram, Ponneri, Royapuram, Sholinganallur, T. Nagar, Thirumazhisai and Valluvarkottam.

⁵² Anna Salai, Chepauk, Koyambedu, LTU-DC1, LTU-DC2, LTU-DC4, Madhavaram, Manali, Pallavaram, Royapuram and Sholinganallur.

⁵³ Ambattur Industrial Estate, Anna Salai, Chepauk, Egmore, Gandhipuram, Guindy, LTU-DC1, LTU-DC2, LTU-DC4, Nandanam, Ponneri, T. Nagar and Valluvarkottam.

⁵⁴ Chengalpattu, LTU-DC3, LTU-DC4, Madhavaram, Mylapore, Pallavaram and Thirumazhisai.

documentary evidence was provided to Audit. For two cases assessed in Ponneri circle reply is awaited (October 2024).

An illustrative case is given below:

A taxpayer assessed in LTU-DC4, had received supplies from other State taxpayers paying CGST and SGST during 2018-19 and 2020-21 but availed ITC in Tamil Nadu. This resulted in incorrect claim of ITC of ₹4.50 crore. On this being pointed out (December 2023), the Government, while accepting the observation, stated (October 2024) that DRC-07 and ASMT 10 were issued for 2018-19 and 2020-21 respectively.

(iii) Non-payment of interest on excess ITC utilised

As per Section 50 (1) of the TNGST Act, read with GO Ms. No. 61 dated 29 June 2017, an interest of eighteen *per cent* per annum shall be paid on belated payment of dues. If excess ITC is claimed and reversed belatedly or not reversed, interest will be attracted on the amount of ITC that was utilised to pay for liability.

Audit noticed that three taxpayers in three cases assessed in three⁵⁵ circles had incorrectly utilised ITC of ₹8.83 Crore. Although, they had reversed the ITC, they did not pay ₹1.68 crore being interest on excess ITC utilised.

On this being pointed out (between September and December 2023), Government intimated (October 2024) recovery of ₹1.63 crore in two cases in LTU-DC2 and Tuticorin-I circles. It further stated that in one case assessed in Pattaravakkam circle DRC-07 had been issued.

An illustrative case is given below:

Scrutiny of GSTR-9C filed by a taxpayer assessed in LTU-DC2 circle, for the year 2018-19 revealed that the taxpayer had availed excess ITC during the year. However, the reversal of this excess ITC was done only during November 2020. Further scrutiny revealed that taxpayer had utilised this ITC before reversal, for which interest of ₹1.63 crore was not paid. On this being pointed out (December 2023), the Government, while accepting the audit observation, intimated (October 2024) recovery of ₹1.63 crore from the taxpayer.

(iv) Non reversal of ITC in case of non-payment of consideration within 180 days

As per 2nd proviso to Section 16 (2) of TNGST Act 2017, where a recipient fails to pay to the supplier of goods or services or both, the amount towards the value of supply along with tax payable within a period of 180 days from the date of issue of invoice by the supplier, an amount equal to the input tax credit availed by the recipient shall be added to his output tax liability, along with interest.

⁵⁵ LTU-DC2, Pattaravakkam and Tuticorin – I.

Audit noticed that four taxpayers in six cases assessed in four⁵⁶ circles did not pay the consideration within 180 days of raising of invoices but availed ITC on these invoices. The total ITC to be reversed on account of non-payment of consideration within 180 days on such invoices amounted to ₹15.79 lakh which shall be collected with applicable interest. Further, Audit noticed that four taxpayers in seven cases assessed in four⁵⁷ circles, had made payments after 180 days but did not pay interest on the belated payment of tax. The interest payable works out to ₹1.20 crore.

On this being pointed out (between November 2023 and January 2024), the Government intimated (October 2024) recovery of ₹6.92 Lakh in three cases in Karur-3 and Choolai circle. It was also stated that in two cases in Royapuram circle DRC-07 had been issued, in one case in LTU DC-4 circle DRC-01A had been issued, in one case in Chengalpattu circle dropping orders had been issued, but no documentary evidence was produced to Audit. It was further intimated a partial recovery of ₹2.80 lakh in six cases in three⁵⁸ circles stating that interest arose only after 180 days from the date of purchase in three cases and interest is leviable only if wrongly availed ITC was utilised in three cases. The reply is not acceptable since as per Rule 37(3) interest is payable from the date of availing credit and amended Rule 37 came into effect only from 01 October 2022.

An illustrative case is given below:

A taxpayer assessed in two cases in LTU-DC4 circle had reversed the ITC of ₹36.17 crore relating to 2018-19 in 2019-20 and 2020-21 as consideration was not paid by the taxpayer within 180 days. However, interest on this reversal amounting to ₹1.11 crore was not paid. On this being pointed out (January 2024), the Government stated (October 2024) that in one case DRC-01A had been issued and further intimated a partial recovery of ₹0.78 lakh in one case stating that interest arose only after 180 days from the date of purchase and interest is leviable only if wrongly availed ITC was utilised. The reply is not acceptable since as per Rule 37(3) interest is payable from the date of availing credit and amended Rule 37 came into effect only from 01 October 2022.

(v) Non reversal of ITC for exempt supplies

As per Section 17(2) of TNGST Act, 2017 where the goods or services or both are used by the registered person partly for effecting taxable supplies including zero-rated supplies under this Act or under the Integrated Goods and Services Tax Act and partly for effecting exempt supplies under the said Acts, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies.

Audit noticed that two taxpayers assessed in Tiruppur North-II and Tuticorin-I circles, had made exempt supplies of ₹3.34 crore but did not reverse the ITC

⁵⁶ Karur - 3, Royapuram, Thirukazhukundram and Tiruppur (Rural)-2.

⁵⁷ Choolai, Karur-2, LTU-DC4 and Tiruppur (Rural)-2.

⁵⁸ Karur - 3, LTU DC-4 and Tiruppur (Rural)-2.

proportionate to the exempt supplies. The ITC to be reversed worked out to ₹33.90 Lakh.

On this being pointed out (September and December 2023), the Government intimated (October 2024) recovery of ₹33.90 lakh.

(vi) Mismatch in claim of ITC as noticed from Returns

Audit analysed the GSTR-2A data of selected taxpayers along with GSTR 3B, GSTR 9 and GSTR 9C filed by the taxpayers. It was observed that there were cases of mismatches of ITC among various returns. Audit could not derive assurance on these mismatches since relevant records were not produced/partially produced by Department. The mismatches noticed in these returns are tabulated in **Table 2.3**.

Table 2.3 Mismatch in claim of ITC

| Sl. No. | Parameter | No. of tax payers | No. of cases | No. of circles | Amount involved (₹ in crore) | Remarks |
|---------|---|-------------------|--------------|----------------|------------------------------|--|
| 1 | <u>Negative figure in GSTR-9 Table 8D</u> Table 8D of GSTR 9 captures the difference between ITC available as per GSTR 2A and availed as per GSTR 3Bs after considering subsequent period's adjustment. | 41 | 76 | 30 | 1,131.82 | On this being pointed out (between September 2023 and February 2024), the Government intimated (October 2024) recovery of ₹0.26 crore in two cases in Kelambakkam and Mylapore circles. It was further stated that in 34 cases in 20 ⁵⁹ circles, DRC-07 had been issued, in 31 cases in 15 ⁶⁰ circles DRC-01 had been issued and in four cases in three ⁶¹ circles notice had been issued. Reply is awaited for five cases. |
| 2 | <u>GSTR-2A vs GSTR 3B</u> ITC available as per GSTR-2A with all its amendments was compared with the ITC availed in GSTR-3B in Table 4A(5) including 4(D) blocked credits and subsequent years ITC from Table 8C of GSTR-9 | 40 | 67 | 30 | 896.56 | On this being pointed out (between September 2023 and February 2024), the Government intimated (October 2024) recovery of ₹7.81 crore in three cases in Anna Salai circle. It was further stated that in 24 cases in 16 ⁶² circles, DRC-07 had been issued, in 28 cases in 15 ⁶³ circles DRC-01 had been issued and in seven cases in five ⁶⁴ circles notices had been issued. Reply is awaited in five cases. |

⁵⁹ Anna salai, Choolai, Karur - 3, Karur-2, Kodambakkam, Koyambedu, Kumarapalayam, LTU-DC1, LTU-DC2, LTU-DC3, Madhavaram, Manali, Mylapore, Pallavaram, Ponneri, Royapuram, Sholinganallur, Thiruvanmiyur, Vellore (Rural) and Vepery.

⁶⁰ Ambattur Industrial Estate, Anna Salai, Guindy, Kodambakkam, LTU-DC2, LTU-DC3, LTU-DC4, Mandaveli, Ponneri, Sholinganallur, T. Nagar, Thirumazhisai, Thiruvanmiyur, Valluvarkottam and Vepery.

⁶¹ Chengalpattu, LTU-DC4 and Pallavaram.

⁶² Anna Salai, Karur - 3, Karur-2, Kelambakkam, Kodambakkam, Koyambedu, Kumarapalayam, Madhavaram, Manali, Mylapore, Oragadam, Pallavaram, Ponneri, Sholinganallur, Thiruvanmiyur and Vellore (Rural).

⁶³ Anna Salai, Chengalpattu, Choolai, Egmore, Guindy, Kodambakkam, LTU-DC3, LTU-DC4, Mandaveli, Sholinganallur, T. Nagar, Thiruvanmiyur, Vadapalani, Valluvarkottam and Vepery.

⁶⁴ Ambattur Industrial Estate, LTU-DC3, LTU-DC4, Pallavaram and Thirumazhisai.

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| Sl. No. | Parameter | No. of tax payers | No. of cases | No. of circles | Amount involved (₹ in crore) | Remarks |
|--|---|-------------------|--------------|----------------|------------------------------|---|
| 3 | <u>Non reversal of ITC availed for Exempt and Non-GST supplies.</u> ITC shall be availed only in proportion to the taxable supply if the total supply consists of taxable, exempted and non-GST supply. | 10 | 23 | 9 | 382.84 | On this being pointed out (between November 2023 and January 2024), the Government stated (October 2024) that In 13 cases in eight ⁶⁵ circles DRC-07 had been issued and in six cases in three ⁶⁶ circles DRC-01 had been issued. Reply is awaited in four cases (October 2024). |
| 4 | <u>Non reversal of ITC for credit notes received enlisted in Table 8A of GSTR-9.</u> | 21 | 44 | 13 | 170.22 | On this being pointed out (between November and December 2023), the Government intimated (October 2024) recovery of ₹3.91 lakh in two cases in Kumarapalayam and Tiruppur North-II circles. It further stated that in 15 cases in six ⁶⁷ circles DRC-07 had been issued, in 22 cases in ten ⁶⁸ circles DRC-01 had been issued and in three cases in Thirumazhisai circle notices had been issued. Reply is awaited for two cases. (October 2024). |
| 5 | <u>Negative figure in GSTR-9 Table 6J</u> Table 6J captures the differences between 6A and 6I. Table 6A of GSTR 9 contains the details of ITC availed in GSTR 3B during the financial year. | 15 | 20 | 14 | 161.78 | On this being pointed out (between October 2023 and February 2024), the Government stated (October 2024) in seven cases in five ⁶⁹ circles DRC-07 had been issued, in ten cases in nine ⁷⁰ circles DRC-01 had been issued and in one cases in Pallavaram circle notice had been issued. Reply is awaited for two cases. (October 2024). |
| 6 | <u>Under Reverse Charge Mechanism</u> RCM in GSTR 3B Table 3.1 (d) is compared with ITC availed due to RCM in GSTR-9 Table (6C+6D+6F); or if GSTR-9 is not available, RCM liability in GSTR-3B Table 3.1 (d) is compared with ITC availed in GSTR 3B Table (4(A)(2) + 4(A)(3)) | 8 | 11 | 8 | 1.89 | On this being pointed out (between October 2023 and February 2024), the Government intimated (October 2024) recovery of ₹19.02 lakh in two cases in Anna Salai and Kelambakkam circles. It further stated that in five cases in four ⁷¹ circles DRC-07 had been issued, in one case in Valluvarkottam circle DRC-01 had been issued and in three cases in Chengalpattu and Manali circles notices had been issued. |
| Mismatch in Annual Return and financial statements (FS) | | | | | | |
| 7 | <u>Positive figure in GSTR-9C Table 14T</u> Higher amount of ITC claimed after reconciliation between ITC declared in annual return and expensed in financial statements | 4 | 6 | 4 | 414.83 | On this being pointed out (between January and February 2024), the Government stated (October 2024) that in three cases in Koyambedu circle DRC-07 had been issued, in two cases in LTU-DC3 and Valluvarkottam circles DRC-01 had been issued and in one case in Chengalpattu circle notice had been issued. |

⁶⁵ Karur - 3, Karur-2, Kilpauk, Kodambakkam, Koyambedu, LTU-DC1, LTU-DC2 and Ponneri.

⁶⁶ Kodambakkam, LTU-DC2 and T. Nagar.

⁶⁷ Guindy, Kodambakkam, LTU-DC1, LTU-DC2, Ponneri and Thiruvanniyur.

⁶⁸ Guindy, Kodambakkam, LTU-DC1, LTU-DC2, Mandaveli, Nandanam, Oragadam, Ponneri, T. Nagar and Thiruvanniyur.

⁶⁹ Kodambakkam, Manali, Mylapore, Sholinganallur and Thirumazhisai.

⁷⁰ Ambattur Industrial Estate, Anna Salai, Chengalpattu, Choolai, LTU-DC3, Sholinganallur, T. Nagar, Vadapalani and Valluvarkottam.

⁷¹ Egmore, LTU-DC1, Manali and Thirumazhisai.

| Sl. No. | Parameter | No. of tax payers | No. of cases | No. of circles | Amount involved (₹ in crore) | Remarks |
|-------------------------|--|-------------------|--------------|----------------|------------------------------|--|
| 8 | Positive figure in GSTR-9C Table 12F Higher amount of ITC claimed than credit that is due on comparison between annual return and financial statements | 3 | 5 | 3 | 1.92 | On this being pointed out (between January and February 2024), the Government stated (October 2024) that in four cases in Koyambedu and LTU-DC3 circles and in one case in Valluvarkottam circle DRC-01 had been issued. |
| Other deviations | | | | | | |
| 9 | <u>ISD credit incorrectly availed by the recipients</u> ISD received in GSTR 9 Table 6G or GSTR 3B Table 4(A)(4) of the recipients was compared with ITC transferred in GSTR-6 of the distributor | 14 | 25 | 10 | 67.24 | On this being pointed out (between November 2023 and February 2024), the Government intimated (October 2024) recovery of ₹0.12 lakh in one case in Oragadam circle. It further stated that in four cases in three ⁷² circles DRC-07 had been issued, in 18 cases in eight ⁷³ circles DRC-01 had been issued and in one case in Thirumazhisai circle notice had been issued. It was also stated that in one case in LTUDC4 excess ITC had been collected. The reply is not acceptable as on verification of DRC-03 ⁷⁴ audit noticed that DRC-03 is not relevant to the objection raised. |

(B) Undischarged tax liability

Audit observed compliance deficiencies where records were fully or partially produced wherein taxpayers did not discharge their tax liability amounting to ₹30.29 crore. The deficiencies were mainly on account of incorrect rate of tax and cess adopted, short-payment of tax under RCM, incorrect adoption of value of supply, belated reporting of credit notes, non-reporting of taxable turnover and non-payment of interest on belated payment of tax.

(i) Incorrect rate of tax and cess adopted

As per Section 9(1) of TNGST Act, 2017, read with Section 5(1) of IGST Act, there shall be levied a tax called the SGST and CGST on all intra-State supplies and IGST on all inter-state supplies of goods or services or both, on the value determined under Section 15 and at such rates, as may be notified by the Government from time to time. Under Section 8 of the Goods and Services Tax (Compensation to States) Act, 2017, a cess is levied on all inter-state and intra-state supply of such goods or services or both which are listed in the Schedule of the said Act.

Audit noticed that four taxpayers in seven cases assessed in four⁷⁵ assessment circles, the taxpayers adopted incorrect rates of tax and cess. The rates of tax and cess adopted were different from the rates of tax and cess liable to be paid.

⁷² Anna Salai, LTU-DC2 and Mylapore.

⁷³ Anna Salai, Egmore, Kelambakkam, LTU-DC2, LTU-DC4, Oragadam, T. Nagar and Valluvarkottam.

⁷⁴ DRC-03: Intimation of payment made voluntarily or made against the show cause notice (SCN) or statement.

⁷⁵ Ambattur Industrial Estate, Gandhipuram, LTU-DC2 and Mylapore.

Due to incorrect rates of tax and cess adopted, the taxpayers paid only ₹144.59 crore against ₹162.24 crore due to be paid. This resulted in short payment of tax and cess amounting to ₹17.65 crore.

On this being pointed out (between December 2023 and February 2024), the Government intimated (October 2024) recovery of ₹7.51 lakh in one case in Mylapore circle. It was further stated that in two cases in Ambattur Industrial Estate and LTU-DC2, DRC07 had been issued and in four cases in Gandhipuram and LTU-DC2 DRC-01 had been issued.

An illustrative case is given below:

As per entry 52B of revised notification⁷⁶ dated 11 September 2017, Motor vehicles of engine capacity exceeding 1500 cc and of length exceeding 4000 mm with ground clearance of 170 mm and above, attract a cess rate of 22 per cent. Audit scrutiny of sales register relating to a taxpayer assessed in Gandhipuram circle revealed that the taxpayer had sold two variants of Innova for ₹721.82 crore during 2018-21. Since these vehicles fit into the category described in entry 52B, they attract a cess of 22 per cent. However, the taxpayer had paid cess at the rate of 20 per cent. This resulted in a short payment of ₹14.44 crore. On this being pointed out (December 2023), the Government stated (October 2024) that DRC-01 has been issued.

(ii) Short payment of tax under RCM

Reverse Charge means the liability to pay tax is on the recipient of supply of goods or services or both instead of the supplier of such goods or services or both. The Government notified⁷⁷ the supplies on which tax is to be paid under RCM. Further import of service was also notified⁷⁸ for RCM payment under IGST Act, 2017.

Audit noticed from the books of accounts/GSTR 9C of 10 taxpayers in 15 cases assessed in 10⁷⁹ circles that they had incurred expenses on services such as Import of services, Director remuneration, GTA services, Security services and Legal services which are notified as tax payable under RCM. The total tax under RCM in these cases was ₹9.94 crore, whereas only ₹4.98 core was paid. This resulted in short payment of tax under RCM of ₹4.96 crore.

On this being pointed out (between October 2023 and January 2024), the Government intimated (October 2024) recovery of ₹1.19 lakh in three cases in Anupparpalayam and Tiruppur (Rural)-2 circles. It was further stated that in one case in Thirumazhisai DRC07 had been issued, in eight cases in six⁸⁰ circles DRC-01 had been issued and in one case in Chengalpattu notice

⁷⁶ Notification No. 5/2017-Compensation Cess (Rate) dated 11th September 2017.

⁷⁷ G.O. Ms. No. 65 dated 29 June 2017 and G.O. Ms. No. 74 dated 29 June 2017 and Notification No-10/2017-Integrated Tax (Rate) all dated 28-06-2017.

⁷⁸ G.O. Ms. No. 65 dated 29 June 2017 and G.O. Ms. No. 74 dated 29 June 2017 and Notification No-10/2017-Integrated Tax (Rate) all dated 28-06-2017.

⁷⁹ Anna Salai, Anupparpalayam, Chengalpattu, Kelambakkam, LTU-DC2, Pallavaram, Ponneri, Poonamallee, Thirumazhisai and Tiruppur (Rural)-2.

⁸⁰ Anna Salai, Kelambakkam, LTU-DC2, Pallavaram, Poonamallee and Thirumazhisai.

had been issued. It was further stated that in one case in Poonamallee circle dropping orders had been issued, but no documentary evidence was produced to Audit. Reply is awaited in one case.

An illustrative case is given below:

A taxpayer assessed in Thirumazhisai circle had made payments towards import of services such as technical service fees, insurance, etc. of ₹21.04 crores to the foreign companies (Holding company) during 2018-19 to 2020-21. However, tax amounting to ₹3.79 crore was not paid. On this being pointed out (October 2023), the Government stated (October 2024) that DRC-07 was issued for 2018-19 and DRC-01 was issued for 2019-20 and 2020-21.

(iii) Incorrect adoption of Value of supply

As per Notifications⁸¹ and circular⁸² issued by Government, in case of solar power project contracts, the value of supply of goods shall be deemed as seventy *per cent* of the gross consideration charged for all such supplies, and the remaining thirty *per cent* shall be deemed as value of the said taxable service.

A taxpayer assessed in Guindy circle, who had undertaken a contract for establishing solar project, had paid the tax at rates applicable for the goods and services involved in the supply separately instead of 70:30 as instructed in the above-mentioned Notifications and Circulars. The total tax to be paid as per the above ratio works out to ₹7.70 crore. However, the taxpayer had paid only ₹3.87 crore resulting in short payment of tax amounting to ₹3.83 crore.

On this being pointed out (September 2023), the Government replied that case was dropped accepting the reply of the taxpayer that “Circular No. 163/19/2021-GST dated 6 October 2021, was only prospective and not retrospective. Further, it was optional for the taxpayer to pay tax in 70:30 ratio and deemed valuation is applicable only when the actual value cannot be determined”. The reply is not tenable since individual rates for goods and services are not applicable in the case of a works contract and hence the taxpayer has to pay tax at 18 *per cent* on the whole taxable value.

(iv) Belated reporting of credit notes

As per Section 34(2) of TNGST Act, 2017, any registered person who issues a credit note in relation to a supply of goods or services or both shall declare the details of such credit note in the return for the month during which such credit note has been issued but not later than September following the end of the financial year in which such supply was made, or the date of furnishing of the relevant annual return, whichever is earlier.

⁸¹ G.O. Ms. No. 62 dated 29 June 2017, G.O. Ms. No. 72 dated 29 June 2017 and G.O. Ms. No. 167 dated 31 December 2018.

⁸² Circular No. 163/19/2021-GST dated 6 October 2021, Circular No. 03/2022(2021)-TNGST dated 25 April 2022.

Audit noticed 11 taxpayers in 15 cases assessed in nine⁸³ circles reported credit notes of previous years in GSTR 1 returns filed beyond the month of September of subsequent year. Since the time limit for reporting credit notes had expired, the taxpayers were not eligible to reduce the tax liability on these credit notes as per the provisions mentioned above. The total tax liability reduced incorrectly on account of this amounted to ₹2.39 crore.

On this being pointed out (between November 2023 and January 2024), the Government stated (October 2024) that in seven cases in four⁸⁴ circles DRC-07 had been issued, in five cases in three⁸⁵ circles DRC-01 had been issued and in two cases in Chengalpattu and Madhavaram circles notices had been issued. Reply is awaited for one case.

An illustrative case is given below:

A taxpayer assessed in LTU-DC3, had uploaded credit notes valuing ₹6.78 crore relating to 2017-18, in March 2019. Credit notes have to be reported before the September of the succeeding financial year for reducing tax liability. However, the taxpayer reported credit notes belatedly and reduced the liability which is not in order. This resulted in short payment of tax of ₹1.22 crore. On this being pointed out (January 2024), the Government stated (October 2024) that DRC-07 was issued.

(v) Non reporting of taxable turnover

A Comparison of details in books of accounts of eight taxpayers in 12 cases assessed in eight⁸⁶ assessment circles revealed that they did not report income from outward supplies such as sale of vehicles, sale of assets like plant and machinery, furniture and fittings, rental income, and Consulting fee amounting to ₹3.61 crore in their GST returns. This resulted in non-payment of tax ₹0.65 crore, which shall be paid along with interest.

On this being pointed out (between August 2023 and January 2024), the Government intimated (October 2024) recovery of ₹4.67 lakh in five cases in three⁸⁷ circles. It also stated that in two cases in Guindy and Karur-2 circles DRC-07 had been issued, in three cases in three⁸⁸ circles DRC-01 had been issued and in one case in Chengalpattu notice had been issued. Reply is awaited for one case

An illustrative case is given below:

A taxpayer assessed in Pattaravakkam had reported an income of ₹2.90 crore as “Claims received from ITC” in his financial statements but had not reported this in returns. This resulted in non-payment of tax of ₹52.13 Lakh. On this

⁸³ Ambattur Industrial Estate, Chengalpattu, Kelambakkam, LTU-DC3, LTU-DC4, Madhavaram, Manali, T. Nagar and Thiruvanmiyur.

⁸⁴ LTU-DC3, LTU-DC4, Manali and Thiruvanmiyur.

⁸⁵ Ambattur Industrial Estate, Kelambakkam and T. Nagar.

⁸⁶ Chengalpattu, Gandhipuram, Guindy, Karur-2, Pattaravakkam, Ponneri, Vepery and Villupuram – I.

⁸⁷ Pattaravakkam, Vepery and Villupuram-I.

⁸⁸ Gandhipuram, Guindy and Pattaravakkam.

being pointed out (September 2023), the Government stated (October 2024) that DRC-01 was issued.

(vi) Non/Short payment of interest on belated payment of tax

As per Section 50 (1) of the TNGST Act, read with GO Ms No 61 dated 29 June 2017, an interest of eighteen *per cent* per annum shall be paid on belated payment of dues.

a) Five taxpayers in nine cases assessed in five⁸⁹ assessment circles reported invoices belatedly and hence paid tax of ₹5.50 crore belatedly. The delay ranged from 29 to 584 days. The interest on this belated payment worked out to ₹14.18 lakh which was not paid.

On this being pointed out (between November 2023 and January 2024), Government intimated (October 2024) recovery of ₹0.14 lakh in one case in Tiruppur (Rural)-2. It further stated that in three cases in three circles DRC07 had been issued and in four cases in Gandhipuram and Thiruvanmiyur circles DRC-01 had been issued. It was also stated that in one case in Vadapalani the interest had been collected. The reply is not tenable as on audit verification of the DRC-03 it was found the interest paid pertains to belated filing of GSTR 3B and not for belated reporting of invoices.

An illustrative case is given below:

A taxpayer assessed in Nandanam Circle, had reported invoices amounting to a turnover of ₹25.88 crore relating to March 2019 and paid tax belatedly after 25 days. However, the taxpayer did not pay interest on the belated tax payment. The interest works out to ₹5.74 lakh. On this being pointed out (January 2024), the Government, while accepting the observation, stated (October 2024) that DRC-07 was issued.

b) Audit noticed that 10 taxpayers in 21 cases assessed in 10⁹⁰ circles had filed GSTR 3B belatedly and hence paid the tax due belatedly. The delay ranged from 1 to 246 days. However, as against the interest due of ₹66.93 lakh, they paid only ₹0.32 lakh which resulted in non/short payment of interest of ₹66.61 lakh.

On this being pointed out (between September 2023 and February 2024), the Government intimated (October 2024) recovery of ₹0.99 lakh in seven cases in four⁹¹ circles. It also stated that in seven cases in four⁹² circles DRC-07 had been issued, in four cases in three⁹³ circles DRC-01 had been issued and in three cases in Chengalpattu circle DRC-01A had been issued.

⁸⁹ Gandhipuram, Nandanam, Thiruvanmiyur, Tiruppur (Rural)-2 and Vadapalani.

⁹⁰ Anna salai, Chengalpattu, Guindy, Kelambakkam, Kilpauk, Kodambakkam, Manali, Pattaravakkam, Sholinganallur and Thiruvanmiyur.

⁹¹ Guindy, Kilpauk, Kodambakkam and Pattaravakkam.

⁹² Kodambakkam, Manali, Sholinganallur and Thiruvanmiyur.

⁹³ Anna salai, Kelambakkam and Kodambakkam.

(vii) Mismatch in tax liabilities and turnover as per Returns filed

Audit scrutinised the GSTR-1, GSTR-3B and GSTR-9 returns filed by the selected taxpayers and compared the tax liabilities along with tax payments furnished in these returns. The mismatches noticed in these returns are discussed below. Audit could not derive assurance on these mismatches since relevant records were not produced/partially produced by the Department. The details are tabulated in **Tables 2.4(a) and 2.4(b)**.

Table 2.4(a): Mismatch in tax due and tax paid

| Sl. No. | Parameter | No. of taxpayers | No. of cases | No. of circles | Amount (₹ in crore) | Remarks |
|------------------------------|--|------------------|--------------|----------------|---------------------|---|
| Shortfall in Tax paid | | | | | | |
| 1 | <p><u>Tax short paid</u> Compare GSTR 1 (Tables 4 to 11) or GSTR 9 (Tables 4N, 10 and 11) was compared with tax paid details declared in Tables 9 and 14 of GSTR-9. In cases where GSTR 9 is not available, tax paid details declared in Table 3.1(a) and 3.1(b) of GSTR 3B tax paid was compared with GSTR 1 liability. The amendments and advance adjustments declared in GSTR 1 and GSTR 9 are duly considered.</p> | 33 | 47 | 28 | 235.67 | On this being pointed out (between September 2023 and February 2024), the Government intimated (October 2024) recovery of ₹4.08 lakh in three cases in three ⁹⁴ circles. It further stated that in 15 cases in 13 ⁹⁵ circles DRC-07 had been issued, in 22 cases in 16 ⁹⁶ circles DRC-01 had been issued and in six cases in six ⁹⁷ circles notices had been issued. Reply is awaited in one case. (October 2024). |
| 2 | <p><u>Mismatch in RCM</u> Mismatch in RCM liability between GSTR-2A and tax paid under RCM in GSTR-3B.</p> | 10 | 17 | 9 | 2.05 | On this being pointed out (between December 2023 and January 2024), the Government intimated (October 2024) recovery of ₹4.01 lakh in one case in Mandaveli circle. It also stated that in eight cases in four ⁹⁸ circles DRC-07 had been issued and in seven cases in four ⁹⁹ circles DRC-01 had been issued. It was further stated that in one case in Mandaveli circle was dropped since the taxpayer had not availed ITC. The reply is not tenable as the tax under RCM is payable irrespective of whether ITC is availed or not. |

⁹⁴ Karur-3, Kelambakkam and Tiruppur North-II.

⁹⁵ Anna Salai, Kilpauk, Koyambedu, LTU-DC1, LTU-DC2, Madhavaram, Manali, Nandanam, Pallavaram, Ponneri, Thiruvanniyur, Vellore (Rural) and Veperiy.

⁹⁶ Ambattur Industrial Estate, Anna Salai, Egmore, Gandhipuram, Kilpauk, LTU-DC1, LTU-DC3, LTU-DC4, Pattaravakkam, Ponneri, Sholinganallur, T. Nagar, Thiruvanniyur, Vadapalani, Valluvarkottam and Veperiy.

⁹⁷ Chengalpattu, LTU-DC2, LTU-DC3, LTU-DC4, Manali and Oragadam.

⁹⁸ Kodambakkam, Manali, Nanguneri and Royapuram.

⁹⁹ Kodambakkam, LTU-DC1, LTU-DC2 and Veperiy.

| Sl. No. | Parameter | No. of taxpayers | No. of cases | No. of circles | Amount (₹ in crore) | Remarks |
|--|---|------------------|--------------|----------------|---------------------|---|
| Mismatch in Annual Return and financial statements (FS) | | | | | | |
| 3 | <u>Negative figure in GSTR 9C Table 9R</u> Lower figure of tax paid between books of accounts and annual return. | 3 | 3 | 3 | 53.26 | On this being pointed out (between January and February 2024), Government stated (October 2024) that in one case in Madhavaram circle DRC-07 had been issued and in two cases in Anna Salai and Valluvarkottam SCN had been issued. |

Table 2.4(b): Mismatch in Turnover

| Sl. No. | Parameter | No. of taxpayers | No. of cases | No. of circles | Amount (₹ in crore) | Remarks |
|---------|--|------------------|--------------|----------------|---------------------|---|
| 1 | <u>Negative figure in GSTR 9C Table 7G</u> Taxable turnover that is unreconciled after adjustments made from turnover in the financial statements and turnover under GSTR 9 is lower i.e. negative. | 2 | 2 | 2 | 9.66 | On this being pointed out (December 2023), Government stated (October 2024) that in one case in LTU-DC3 circle DRC-07 had been issued and in one case in Valluvarkottam circle SCN had been issued. |
| 2 | <u>Mismatch in unbilled revenue in Table 5 of GSTR 9C</u> Mismatch between closing balance of unbilled revenue of previous year (GSTR 9C Table 5H) with opening balance of current year (GSTR 9C Table 5B). | 2 | 3 | 2 | 60.27 | On this being pointed out (December 2023), Government stated (October 2024) that in three cases in LTU-DC4 and Poonamallee circles SCN had been issued. |

(C) Non filing and late filing of returns

As per Section 47(1) read with Section 38 of TNGST Act, 2017 and Notifications¹⁰⁰, any registered person who fails to furnish GSTR 3B by the due date shall pay a late fee of ₹25 per day subject to conditional waivers allowed from time to time for certain tax periods. As per Section 47 (2) read with Section 44 of TNGST Act, 2017, any registered person who fails to furnish GSTR 9 by the due date shall be liable to pay a late fee of one hundred rupees for every day subject to a maximum of a quarter *per cent* of his turnover. As per Section 125, any violation of the Act provisions will attract ₹25,000 each under TNGST Act as well as CGST Act where no penalty was prescribed.

Audit noticed that nine taxpayers in 14 cases assessed in nine¹⁰¹ assessment circles had filed their GSTR 3B and GSTR 9 belatedly. The delay ranged from 15 days to 358 days. The total late fee on account of late filing amounted to ₹2.94 lakh. Audit further noticed that a taxpayer in two cases assessed in

¹⁰⁰ G.O (Ms.) No. 165 of TN dated 31 December 2018, G.O (Ms.) No. 105 of TN dated 2 July 2020 and G.O.(Ms.) No.83 dated 02 June 2021.

¹⁰¹ Gandhipuram, Karur-3, Karur-2, Kilpauk, Kodambakkam, Pattaravakkam, Thiruvanmiyur, Tiruppur (Rural)-2 and Tuticorin-I.

Anna Salai circle had not filed GSTR 9C for the years 2019-20 and 2020-21. The penalty payable under Section 125 for non-filing of GSTR 9C worked out to ₹1 lakh.

On this being pointed out (between September and December 2023), the Government intimated (October 2024) recovery of ₹0.97 Lakh in four cases in three¹⁰² circles. It further stated that in one case in Kodambakkam DRC-07 had been issued, in six cases four¹⁰³ circles DRC-01 had been issued and in three cases in Karur-2 and Thiruvanmiyur circles DRC -01A had been issued. Reply is awaited from the Pattaravakkam circle for two cases.

2.5.8 Works Contract Services

An audit of records of taxpayers registered under works contract services was conducted as a sub-theme of this SSCA, and the findings thereon are illustrated in the following paragraphs.

2.5.8.1 Introduction

Service Accounting Code for construction Services is 9954 under GST. Services covered under this heading are construction of Buildings (99541), general construction of civil engineering works (99542), Site preparation services (99543), assembly and erection of pre-fabricated construction (99544) Special trade construction services (99545), Installation service (99546) and Building completion and finishing services (99547). Though Service Account Code is 9954, practically, these services come under umbrella of Works contract services.

‘Works Contract’ is defined under Section 2(119) of the CGST Act, as ‘works contract’ means “a contract for building, construction, fabrication, completion, erection, installation, fitting out, improvement, modification, repair, maintenance, renovation, alteration or commissioning of any immovable property wherein transfer of property in goods (whether as goods or in some other form) is involved in the execution of such contract;” Other mandatory condition for Works Contract under GST is that transfer of property in goods must be there.

2.5.8.2 Audit objectives

The objective of Audit is to verify and satisfy whether (i) the rules and procedures are designed to secure an effective check on tax compliance and (ii) are being duly observed by taxpayers dealing with “Works Contract Services”.

2.5.8.3 Audit Methodology and Scope

The Audit was conducted from September 2023 to April 2024 covering the period from April 2018 to March 2021. Records relating to the previous and subsequent periods were perused for relevance and reference. Audit methodology essentially involved analysis of data provided and conclude

¹⁰² Kilpauk, Tiruppur Rural-II and Tuticorin-I.

¹⁰³ Anna salai, Gandhipuram, Karur – 3 and Thiruvanmiyur.

whether the provisions of Acts and Rules were complied with regard to filing of returns, claim of input tax credit and payment of tax. Audit also collected data in respect of third parties such as Greater Chennai Corporation, Southern Railways, etc. to obtain data and correlated the same with tax compliance by the taxpayers.

2.5.8.4 Audit Sample

Audit selected records relating to 30 taxpayers assessed in 27¹⁰⁴ circles dealing with Construction Services out of a total of 2,021 taxpayers who had reported more than 50 *per cent* of turnover under Service Accounting Codes (SAC) 99541, 99542, 99543, 99544, 99545, 99546 and 99547 related to Construction Services.

2.5.8.5 Audit criteria

The source of audit criteria comprised the provisions contained in the TNGST Act, IGST Act, 2017 and Rules made thereunder. In addition, the notifications and circulars issued by State Tax Department relating to filing of returns, notifying the effective dates of filing of various returns, extending due dates for filing returns, rates of tax on goods and services, payment of tax, availing and utilising ITC, scrutiny of returns, oversight of tax compliance by Departmental officers and provisions specific to the works contract also formed part of the audit criteria.

2.5.8.6 Scope Limitation (non/partial production of records)

Audit requisitioned records of 30 selected taxpayers assessed in 27 circles through Proper Officers. Out of this, even the basic records such as financial statements, sales, purchase and ITC registers were not produced in respect of three taxpayers assessed in three circles and only partial records were produced in respect of 25 taxpayers assessed in 22 circles. Hence, audit scope in respect of these taxpayers was limited to the scrutiny of returns filed and records produced to audit.

2.5.8.7 Results of Audit

Non-compliance by the taxpayer at the various stages ultimately impact the veracity of availing/utilisation of ITC and discharge of tax payments. The audit findings are, therefore, categorised under a) Discharge of tax liability and b) availing/utilisation of ITC. The cases have been illustrated below:

(A) Undischarged Tax Liability

Audit observed compliance deficiencies where records were fully or partially produced wherein taxpayers did not discharge their tax liability amounting to ₹41.25 crore. The deficiencies were mainly on account of escapement of

¹⁰⁴ Adyar, Alandur, Alwarpet, Ambattur, Chengalpattu, Choolai, Egmore, Ekkattuthangal, Guindy, Hasthampatty, Karur–Iv, Kelambakkam, Kk Nagar (Madurai), Kotturpuram, Krishnagiri – I, N.S.C. Bose Road, Nandambakkam, Nanganallur, Padi, Perambalur, Royapettah, South Avani Moola Street, Sriperumbudur, Thirumangalam, Thiruvanmiyur, Tiruchengodu Rural and Valluvarkottam.

turnover, incorrect adoption of rate of tax, classification of nature of supplies, payment made under the wrong head and non-payment of interest on belated payment of tax.

(I) Escapement of Turnover

(a) Non-reporting of turnover relating to Joint Development rights

As per G.O. Ms No. 15, Commercial Taxes and Registration Department (B1) dated 25 January 2018, liability to pay tax by registered persons who supply construction service of complex, building or civil structure to supplier of development rights arises when the developer transfers possession or the right in the constructed complex.

Audit noticed that two taxpayers assessed in NSC Bose Road and Perambalur circles, had entered into Joint Development Agreements with landowners in 2014. As per the agreement, the developers (taxpayers) would develop the lands jointly with the landowners. The landowners would get constructed buildings on their land in lieu of which they transferred some portions of the land to the builder. No invoice was raised for the value of lands so transferred, to meet the cost of the construction. The project was certified as completed in 2018. Since there were no invoices raised at the time of joint venture, the works contract should be subject to GST as on the date of completion of the work. Therefore, the developer is liable to report the turnover during 2018-19 and pay tax. Since as per the Joint Venture Agreement undivided share of land was transferred by the landowners to the developers in lieu of cost of construction of flats allotted to the landowner, the value of land so transferred shall form the invoice value. However, verification of GST records showed that the turnover of ₹16.54 crore (the value of land as on the date of transfer based on Government guideline value) was not reported by the taxpayer. Tax on this turnover worked out to ₹2.98 crore.

On this being pointed out (between November 2023 and March 2024), Government stated (October 2024) that DRC-01 had been issued Perambalur circle. Reply is awaited from the NSC Bose Road circle (October 2024).

(b) Non-reporting of turnover included in P&L Account

A Comparison of details in profit and loss account with GST returns of a taxpayer in three cases assessed in Karur-IV circle revealed that the taxpayer did not report price escalation and bonus received for the period from 2018-19 to 2020-21 amounting to ₹0.87 crore in the GST returns. This resulted in non-payment of tax ₹10.50 Lakh.

On this being pointed out (December 2023), Government stated (October 2024) that in all three cases DRC-01 had been issued and the taxpayer had filed appeal against the notices.

(c) Non-inclusion of taxable value declared in e-way bills

E-way bills are generated when goods move from one place to another. The e-way bills contain details of quantity of supply, the gross value and the tax payable thereon.

Audit noticed that four taxpayers in five cases assessed in three¹⁰⁵ circles did not include the taxable value of ₹0.47 crore declared in 11 e-way bills. This resulted in non-payment of tax of ₹8.01 lakh.

On this being pointed out (February 2024), the Government stated (October 2024), that in one case in Kelambakkam DRC-07 had been issued and in four cases in Adyar and Thiruvanmiyur DRC-01 had been issued.

(d) Non/Short reporting of turnover related to outward supplies resulted in non-collection of tax

Audit perused data relating to 14,494 works contract transactions from 12¹⁰⁶ Departments to ascertain whether the turnover was correctly reported by the taxpayers in GST returns. When Audit compared the details of TDS deducted by departments with turnover reported by taxpayers, it was noticed that 625 taxpayers in 719 cases assessed in 221 circles did not report or short reported turnover relating to supplies of Works Contract Services amounting to ₹260.95 crore for the period from 2018-19 to 2020-21. This resulted in non/short payment of tax amounting to ₹31.31 crore.

On this being pointed out (February 2024), the Government intimated (October 2024) recovery of ₹57.31 lakh in 29 cases in 24 circles, in 402 cases in 163 circles DRC-07 had been issued, in 152 cases in 74 circles DRC-01 had been issued and in 34 cases in 16 circles notices had been issued. In five cases in four circles, dropping orders were issued accepting taxpayers' reply that that they did not provide services to departments. The reply is not acceptable because the data obtained by audit from the departments revealed that TDS has been deducted on payments made to taxpayers. In one case in Washermanpet circle, the registration of taxpayer has been cancelled. In 76 cases in 47 circles dropping orders had been issued, but no documentary evidence was provided to Audit. Reply is awaited in respect of 20 cases (November 2024).

An illustrative case is given below:

A taxpayer assessed in Dharmapuri Circle had reported a turnover of ₹1.93 crore in GSTR-3B. However, as per Public Works Department records, the TDS was paid on a contract value of ₹14.14 crore for 2018-19. The turnover short-reported amounted to ₹12.21 crore and the corresponding short payment

¹⁰⁵ Adyar, Kelambakkam and Thiruvanmiyur.

¹⁰⁶ Chennai Metro Rail Limited, Corporation of Madurai, Director of Town Panchayats, Greater Chennai Corporation, Highways Department, Public Works Department, Public Works Department (Water Resource Department), Smart City Project, Southern Railways, Tamil Nadu Generation and Distribution Corporation Limited, Tamil Nadu Infrastructure Development Corporation and Tamil Nadu Water Supply and Drainage Board.

of tax was ₹1.46 crore. This was pointed out in February 2024. Reply is awaited.

(II) Incorrect adoption of rate of tax resulted in short payment of tax

(a) G.O. Ms No. 12, Commercial Taxes and Registration (B1), 25 January 2018, stipulates that tax shall be levied at 6 *per cent* in respect of composite supply of Works Contract Services provided by a sub-contractor to the main contractor providing services to the Central Government, State Government, Union Territory, Government Authority, Government Entity, etc.

Audit noticed that two taxpayers in three cases assessed in Ekkatuthangal and Nandambakkam circles, had made supplies in the capacity of a sub-contractor to another sub-contractor and not to main contractor. Therefore, the concessional rate notified above will not apply to this contract. However, the taxpayers paid tax at the reduced rate at 12 *per cent* instead of 18 *per cent*. The incorrect adoption of rate of tax resulted in short discharge of tax liability of ₹1.94 Crore. It was further noticed that one taxpayer had also been granted a refund of ₹1.31 crore based on inverted tax mechanism. Since the taxpayer's claim of lower tax rate is inadmissible, the refund is also inadmissible and has to be collected back with interest.

On this being pointed out (between October 2023 and February 2024), Government, while accepting the observation, stated (October 2024) that in all cases DRC-07 had been issued.

(b) Circular No. 10/2021-TNGST dated 21 September 2021 clarified that concessional rate of 12 *per cent* is applicable on composite supply of works contract to Government Authority or a Government entity by way of construction of civil structure or any other original works meant predominantly for use other than for commerce, industry or any other business or profession.

Audit noticed that three taxpayers in four cases assessed in three¹⁰⁷ circles had reported a turnover of ₹27.87 crore in their monthly returns towards outward supplies made to the Tamil Nadu Housing Board (TNHB) and Tamil Nadu Tourism Development Corporation (TTDC) and paid tax at the rate of 12 *per cent*. Since the activities of TNHB and TTDC are predominantly commercial the concessional rate of 12 *per cent* is not applicable for these entities as per the circular cited and hence tax at the rate of 18 *per cent* shall be paid. The incorrect rate of tax adopted resulted in short payment of tax of ₹1.67 crore.

On this being pointed out (between January and February 2024), the Government stated (October 2024) that in three cases in Nandambakkam and South Avani Moola Street DRC-07 had been issued and in one case in KK Nagar (Madurai) DRC-01 had been issued.

An illustrative case is given below:

A taxpayer assessed in K.K. Nagar (Madurai) Circle, had made supplies to TNHB/ TTDC and paid taxes at 12 *per cent*. However, as per the circular cited

¹⁰⁷ KK Nagar (Madurai), Nandambakkam and South Avani Moola Street.

above, the services attract at tax 18 *per cent*. Due to incorrect adoption of rates, the taxpayer paid a tax of only ₹1.65 crore instead of ₹2.47 crore actually due. This resulted in a short payment of ₹0.82 crore. On this being pointed out (February 2024), the Government stated (October 2024) that DRC-01 had been issued.

(III) Classification of nature of supplies

As per Section 2(119) of TNGST Act, 2017, "works contract" means a contract for building, construction, fabrication, completion, erection, installation, fitting out, improvement, modification, repair, maintenance, renovation, alteration or commissioning of any immovable property wherein transfer of property in goods (whether as goods or in some other form) is involved in the execution of such contract.

Audit noticed from the granular records that a taxpayer assessed in Adyar Circle had entered into eight purchase orders for supply of gravel for ₹3.55 crore. A further scrutiny of the purchase orders revealed that clauses 7, 8 and 9 of the terms and conditions of the order stipulated ensuring of quality construction and supervision till the completion of the project. Hence, the above supply falls under the category of works contract and tax at 18 *per cent* shall be paid on the value of purchase order of ₹0.64 crore. However, the taxpayer had paid ₹0.18 crore at the rate of five *per cent* on the value of supply. This resulted in short payment of tax of ₹0.46 crore.

On this being pointed out (December 2023), the Government stated (October 2024) that the proceedings were dropped based on taxpayer's reply that the taxpayer was involved in pure trading and no labour was involved in the supplies. The reply is not tenable since the clauses 7, 8 and 9 of the terms and conditions of the purchase orders stipulated ensuring of quality construction and supervision till the completion of the project and HSN code mentioned in all the invoices was 9954 and tax shall be paid at the rate of 18 *per cent*.

(IV) Payment made under the Wrong Head

As per Section 5(1) of IGST Act, 2017, IGST shall be levied on all inter-State supplies of goods or services or both. As per Section 9(1) of CGST and SGST Act, 2017, CGST and SGST shall be levied on all intra-State supplies of goods or services or both.

During scrutiny of records, Audit found that three taxpayers in four cases assessed in three circles¹⁰⁸ had paid tax of ₹1.54 crore under IGST, instead of SGST and CGST, although their books of accounts revealed no inter-State transactions. This resulted in payment of tax under incorrect head.

On this being pointed out (between October and November 2023), the Government intimated (October 2024) recovery of ₹0.51 lakh in two cases assessed in Hasthampatty. It was further stated that in one case in Ekkatuthangal DRC-07 had been issued. Reply is awaited in one case.

¹⁰⁸ Ekkatuthangal, Hasthampatty and Valluvarkottam.

(V) Non-Payment of Interest on belated payment of Tax

As per Section 50 (1) of the TNGST Act, read with GO Ms No 61 dated 29 June 2017, an interest of eighteen *per cent* per annum shall be paid on belated payment of dues.

Scrutiny of returns filed and voluntary payments made by the taxpayers revealed that 14 taxpayers in 35 cases assessed in 13¹⁰⁹ Circles had paid taxes belatedly on voluntary basis and due to belated filing of GSTR-3B. The delay ranged from 1 to 555 days. Since tax was paid belatedly, an interest of ₹1.16 crore is attracted, which was not paid.

On this being pointed out (between November 2023 and February 2024), the Government intimated (October 2024) recovery of ₹8.60 lakh in eight cases in four¹¹⁰ circles, in 15 cases in seven¹¹¹ circles DRC-07 had been issued and in 9 cases in NSC Bose Road and Thiruvanmiyur circle DRC-01 had been issued. It was further stated that in one case in Egmore circle dropping orders had been issued, but no documentary evidence was provided to Audit. Reply is awaited in two cases.

(VI) Mismatch in tax liabilities as per Returns filed

Audit scrutinised the GSTR-1, GSTR-3B and GSTR-9 returns filed by the selected taxpayers and compared the tax liabilities along with tax payments furnished in these returns. The mismatches noticed in these returns are discussed below. Audit could not derive assurance on these mismatches since relevant records were not produced/partially produced by the Department. The details are tabulated in **Table 2.5**.

Table 2.5: Mismatch in tax due and tax paid

| Sl. No | Parameter | No. of tax-payers | No. of cases | No. of circles | Amount (₹ in crore) | Remarks |
|--------|---|-------------------|--------------|----------------|---------------------|--|
| 1 | <p><u>Tax short paid</u></p> <p>Compare GSTR 1 (Tables 4 to 11) or GSTR 9 (Tables 4N, 10 and 11) was compared with tax paid details declared in Tables 9 and 14 of GSTR-9. In cases where GSTR 9 is not available, tax paid details declared in Table 3.1(a) and 3.1(b) of GSTR 3B tax paid was compared with GSTR 1 liability. The amendments and advance adjustments declared in GSTR 1 and GSTR 9 are duly considered.</p> | 8 | 11 | 7 | 4.58 | On this being pointed out (between September and November 2023), Government stated (July 2024) that in two cases in Egmore and Perambalur circles DRC-07 had been issued, in five cases in three ¹¹² circles DRC-01 had been issued and in one case in Sriperumbudur circle notice had been issued. Reply is awaited in three cases (October 2024). |

¹⁰⁹ Adyar, Egmore, Ekkatuthangal, Karur-IV, KK Nagar (Madurai), Krishnagiri-I, Nandambakkam, NSC Bose Road, Royapettah, South Avani Moola Street, Tiruchengodu (Rural), Thiruvanmiyur and Valluvarkottam.

¹¹⁰ Adyar, Ekkatuthangal, Nandambakkam and Tiruchengodu (Rural).

¹¹¹ Egmore, Karur-IV, KK Nagar (Madurai), Krishnagiri-I, Nandambakkam, Royapettah and South Avani Moola Street.

¹¹² Chengalpattu, Guindy and Thiruvanmiyur.

| Sl. No | Parameter | No. of tax-payers | No. of cases | No. of circles | Amount (₹ in crore) | Remarks |
|--------|---|-------------------|--------------|----------------|---------------------|--|
| 2 | <u>Tax short paid due to mismatch in turnover as per GST Returns and Form 26AS</u> | 2 | 6 | 2 | 2.73 | On this being pointed out (December 2023), Government stated (October 2024) that in five cases in KK Nagar (Madurai) and Hasthampatty circles DRC-07 had been issued and in one case in KK Nagar (Madurai) DRC-01 had been issued. |
| 3 | <u>Mismatch in RCM</u> Mismatch in RCM liability between GSTR-2A and tax paid under RCM in GSTR-3B | 3 | 4 | 3 | 0.12 | On this being pointed out (between November 2023 and February 2024), Government intimated (October 2024) recovery of ₹4,602 in two cases. It further stated that in one case in Krishnagiri-I circle DRC-07 had been issued and in one case in Krishnagiri-I circle DRC-01A had been issued. |

(B) Short / Non reversal of Input Tax Credit (ITC)

Input Tax Credit (ITC) means the Goods and Services Tax (GST) paid by a taxable person on purchase of goods and/or services that are used in the course or furtherance of business. To avoid cascading effect of taxes, credit of taxes paid on inward supplies can be used to set-off the payment of taxes on outward supplies.

Audit observed compliance deficiencies where records were fully or partially produced. The taxpayers had availed irregular/excess ITC of ₹13.21 crore. The deficiencies were mainly on account of non-reversal of ITC for exempt outward supplies, non-reversal of ITC for non-payment of consideration within 180 days and incorrect claim of ITC.

(I) Non-reversal of ITC for exempt outward supplies

Section 17(2) of the TNGST Act 2017, read with Rule 42 of the TNGST Rules, 2017 stipulates that Input Tax Credit (ITC) shall be restricted to the amount of ITC that is attributable to the taxable supplies.

a) During the scrutiny of ITC reversal statements relating to 2019-20 and 2020-21 of a taxpayer assessed in NSC Bose Road circle, Audit noticed that the taxpayer did not calculate the reversal as stipulated in Rule 42 of TNGST Rules, 2017. Instead of adopting the total ITC of ₹45.83 crore the taxpayer adopted ₹0.67 crore declared as common ITC. This resulted in short reversal of ₹8.07 crore. On this being pointed out (January 2024), the Government, accepting the audit observation stated (October 2024) that orders had been passed for 2019-20 and DRC-01 had been issued for the year 2020-21.

b) Audit noticed that in ten cases in four taxpayers assessed in four¹¹³ circles had made exempt supplies of ₹45.95 crore but did not reverse the ITC proportionate to the exempt supplies. The short reversal of ITC worked out to ₹4.62 crore.

On this being pointed out (between November 2023 and February 2024), the Government stated (October 2024) that in one case in NSC Bose road while accepting the audit observation DRC-07 had been issued, in two cases in Thiruvanniyur DRC-01 had been issued and in five cases in Chengalpattu and NSC Bose road DRC-01A had been issued. It was also stated that in two cases in Valluvarkottam dropping orders had been issued, but no documentary evidence was provided to Audit.

An illustrative case is given below:

A taxpayer assessed in NSC Bose Road Circle, had claimed exemption towards sale of land amounting to ₹19.19 crore but the actual value of land was only ₹7.79 crore. However, the taxpayer did not reverse the ITC proportionate to the differential exemption amount of ₹11.60 crore claimed. This resulted in non-reversal of ITC amounting to ₹2.56 crore. On this being pointed out (February 2024), the Government while accepting the audit observation, stated (October 2024) that DRC-07 had been issued for 2019-20 and DRC-01 had been issued for 2018-19 and 2020-21.

(II) Non-reversal of ITC for non-payment of consideration within 180 days

As per the 2nd proviso to Sec.16(2) of TNGST Act, 2017, where a recipient fails to pay the supplier of goods or services or both, the amount towards the value of supply along with tax payable within a period of 180 days from the date of issue of invoice by the supplier and amount equal to the input tax credit availed by the recipient shall be added to his output tax liability along with interest.

On scrutiny of sundry creditors age-wise analysis statement of Taxpayers, Audit noticed that a taxpayer assessed in Padi circle, had failed to honour the payment for supply within the 180 day limit but had claimed an ITC of ₹0.37 crore. This incorrect claim of ITC of ₹0.37 crore requires to be reversed along with interest.

On this being pointed out (October 2023), the Government, while accepting the audit observation, stated (October 2024) that DRC-07 had been issued.

(III) Incorrect claim of ITC

As per Section 16(2)(c) of the TNGST Act, 2017 no registered person shall be entitled to the credit of any input tax in respect of any supply of goods or services or both to him unless the tax charged in respect of such supply has been actually paid to the Government. It was clarified in FAQ No. 60 and 62 issued by CBIC that the SGST and CGST paid in one state cannot be used to discharge liabilities in any other state.

¹¹³ Chengalpattu, NSC Bose Road, Thiruvanniyur and Valluvarkottam.

Audit noticed that five taxpayers assessed in five circles¹¹⁴ had availed ITC of ₹14.72 lakh on invoices dated after cancellation of suppliers’ registration and on payment of SGST and CGST to other states. Since claim of ITC is not permissible in these cases, the claims need to be reversed.

On this being pointed out (February 2024), the Government stated (October 2024) that for three taxpayers in three¹¹⁵ circles DRC-07 had been issued and for one taxpayer in Thiruvanmiyur DRC-01 had been issued. It further stated that for one taxpayer in Kelambakkam proceedings were dropped based on taxpayer’s reply. However, the copy of order was not enclosed.

An illustrative case is given below:

A taxpayer assessed in Egmore circle had availed ITC of ₹0.97 lakh on inward supplies for which SGST and CGST were paid in other States. Therefore, claim of ITC against the State of Tamil Nadu is inadmissible. Further, the taxpayer had availed ₹4.44 lakh towards supplies from cancelled taxpayers. Hence, the total ITC of ₹5.41 lakh shall be reversed. On this being pointed out (February 2024), the Government stated (October 2024) that DRC-07 had been issued.

(IV) Mismatch in claim of ITC as noticed from Returns

While comparing the information contained in GSTR-2A with the data in GSTR 3B filed by the taxpayers, Audit noticed cases of mismatches of ITC among these returns. Audit could not derive assurance on these mismatches since relevant records were not produced/partially produced by Department. The mismatches noticed in these returns are tabulated in **Table 2.6**.

Table 2.6: Mismatch in claim of ITC

| Sl. No | Parameter | No. of taxpayers | No. of cases | No. of circles | Amount (₹ in crore) | Remarks |
|--------|--|------------------|--------------|----------------|---------------------|---|
| 1 | <u>GSTR-2A vs GSTR 3B</u> ITC available as per GSTR-2A with all its amendments was compared with the ITC availed in GSTR-3B in Table 4A (5) including 4(D) blocked credits and subsequent years ITC from Table 8C of GSTR-9 | 19 | 37 | 18 | 56.90 | On this being pointed out (between September and December 2023), the Government intimated (October 2024) recovery of ₹37.10 lakh in two cases in Royapettah circle. It further stated that in 19 cases in 10 ¹¹⁶ circles DRC-07 had been issued, in thirteen cases in eight circles ¹¹⁷ DRC-01 had been issued and in two cases in Ambattur and Sriperumbudur circles notices had been issued. Reply is awaited in one case in Valluvarkottam circle. |

¹¹⁴ Egmore, Kelambakkam, Krishnagiri-I, NSC Bose Road and Thiruvanmiyur.

¹¹⁵ Egmore, Krishnagiri-I and NSC Bose Road.

¹¹⁶ Egmore, Ekkatuthangal, Kelambakkam, KK Nagar (Madurai), Krishnagiri-I, Nandambakkam, Padi, Perambalur, Thiruvanmiyur and Valluvarkottam.

¹¹⁷ Alandur, Alwarpet, Chengalpattu, Ekkatuthangal, Guindy, NSC Bose Road, Sriperumbudur and Thiruvanmiyur.

| Sl. No | Parameter | No. of taxpayers | No. of cases | No. of circles | Amount (₹ in crore) | Remarks |
|--------|---|------------------|--------------|----------------|---------------------|--|
| 2 | <u>Under Reverse Charge Mechanism</u> RCM in GSTR 3B Table 3.1 (d) is compared with ITC availed due to RCM in GSTR-9 Table (6C+6D+6F); or if GSTR-9 is not available, RCM liability in GSTR-3B Table 3.1 (d) is compared with ITC availed in GSTR 3B Table (4(A)(2) + 4(A)(3)) | 3 | 3 | 3 | 1.28 | On this being pointed out (between September and November 2024), the Government replied (October 2024) that in one case in Alwarpet circle DRC-07 had been issued, in one case in Ambattur circle DRC-01 had been issued and in one case in Chengalpattu circle DRC-01A had been issued. |

2.5.9 Conclusion

The Subject Specific Compliance Audit (SSCA) on Department's Oversight on GST Payments and Return Filing was undertaken in the context of varying trends of return filing and continued data inconsistencies with an objective of assessing the adequacy of the system in monitoring return filing and tax payments, extent of compliance and other departmental oversight functions.

This SSCA was predominantly driven by data analysis, which highlighted risk areas, red flags and in some cases, rule-based deviations and logical inconsistencies in GST returns filed for 2018-19 to 2020-21. The SSCA entailed assessing the oversight functions of assessment circles at two levels - at the data level through pan-State data queries and at the functional level with a deeper detailed audit both of the assessment circles and of the GST returns, which involved accessing taxpayer records.

Audit noticed deviations in 41 *per cent* cases which turned out to be clear compliance deficiencies with a revenue implication of ₹1,538.18 crore. A relatively higher rate of deficiencies was noticed in mismatch of ITC, availing ITC in cases where the supplier has not paid tax and incorrect discharge of tax liability risk parameters. Further, Audit also noticed that in turnover related mismatches, the department provided responses in 80 cases. Of these in 28 cases constituting 35 *per cent*, the department had initiated action on the audit observations.

Detailed audit of GST returns also suggested significant non-compliance. Out of audit sample of 100 cases (70 cases in Department's Oversight on GST Payments and Return Filing (DORF) and 30 cases in works contract), the granular taxpayer records were not forthcoming in 10 cases (seven cases in DORF and three cases in works contract) and there was partial production of records in 70 cases (45 cases in DORF and 25 cases in works contract), which constituted a significant scope limitation. These cases represent a potential risk exposure of ₹3,585.69 crore towards identified mismatches in ITC availing and tax payments. Out of the cases that could be audited either fully or partially, Audit observed compliance deficiencies with a revenue implication of

₹156.32 crore. The main causative factors were incorrect availing of ITC on blocked credit, incorrect availing of CGST and SGST credit for inter-state purchases, non-payment of interest on excess ITC utilised, non-reversal of ITC in case of non-payment of consideration within 180 days, short payment of tax under RCM, incorrect adoption of value of supply and belated reporting of credit notes.

Apart from this, during the audit of works contracts, deviations were identified in respect of escapement of turnover relating to joint development rights, misclassification of nature of supply, incorrect adoption of tax rate, payment made under wrong head and non-reversal of ITC for exempt outward supplies.

Considering the significant rate of compliance deficiencies, the Department must initiate remedial measures before the assessments get time barred. From a systemic perspective, the Department needs to reinforce the institutional mechanism in the assessment circles to establish and maintain effective oversight on return filing, timely follow-up of notices issued, taxpayer compliance, availing of ITC, cancellation of registrations and recovery of dues from defaulters.

CHAPTER III
STAMP DUTY AND
REGISTRATION FEE

CHAPTER III

STAMP DUTY AND REGISTRATION FEE

3.1 Tax administration

The Registration Department administers the Indian Stamp Act, 1899 (IS Act), the Registration Act, 1908 and the Rules made thereunder. The Inspector General of Registration (IGR) is the head of the Department. There are 54 registration districts, comprising 579 Registration Offices including three Camp Offices in the State. The registration of instruments¹¹⁸, levy and collection of Stamp Duty and Registration Fee are done by the Registering Officers (ROs), namely District Registrars / Sub-Registrars. The monitoring and control at the Government level is done by the Secretary, Commercial Taxes and Registration Department.

3.2 Internal audit

Internal audit is a vital component to enable an organisation to assure itself that the prescribed systems are functioning reasonably well. The Department has a system of internal audit to ensure one hundred *per cent* audit of all the instruments registered. There are 49 audit units, each headed by a District Registrar. The periodicity of audit of all offices is on monthly basis. The Registration Manual (Part II) provides the required framework for planning and taking up internal audit in the Department. A Handbook of Internal Audit has been prepared by the Department for guidance on this issue. The details of internal audits due and conducted are placed in **Table 3.1**.

Table 3.1: Details of Internal Audit

| Year | Number of audits due | Number of audits completed | Audit in arrears | Percentage of arrears |
|---------------|----------------------|----------------------------|------------------|-----------------------|
| (1) | (2) | (3) | (4) | (5) |
| Up to 2018-19 | 13,234 | 10,219 | 3,015 | 23 |
| 2019-20 | 6,624 | 5,767 | 857 | 13 |
| 2020-21 | 6,594 | 6,141 | 453 | 7 |
| 2021-22 | 7,073 | 6,753 | 320 | 5 |
| 2022-23 | 7,176 | 6,836 | 338 | 5 |
| Total | 40,701 | 35,718 | 4,983 | |

(Source: Reply of the Department)

The Department attributed the reasons for arrear in internal audit to vacancy of Audit Registrars and stated that a special team had been formed to complete arrear audit. As a result, audit was being conducted in most of the offices now. While it is appreciated that arrears of Audit have been reduced during the last three years, the pendency relating to the period up to 2018-19 is quite substantial. The Department may take effective measures to clear the backlog expeditiously.

¹¹⁸ “Instrument” includes every document by which any right or liability is, or purports to be created, transferred, limited, extended, extinguished or recorded.

Audit noted that 53,045 paragraphs with a money value of ₹256.81 crore were outstanding as at the end of 31 March 2023 as detailed in **Table 3.2**.

Table 3.2: Details of Internal Audit Objections

| Year | Opening Balance | | Observations raised | | Observations settled | | Observations pending | |
|---------------|-----------------|---------------------|---------------------|---------------------|----------------------|---------------------|----------------------|---------------------|
| | No. of cases | Amount (₹ in crore) | No. of cases | Amount (₹ in crore) | No. of cases | Amount (₹ in crore) | No. of cases | Amount (₹ in crore) |
| Up to 2020-21 | 38,681 | 157.18 | 15,467 | 84.67 | 10,788 | 48.21 | 43,360 | 193.64 |
| 2021-22 | 43,360 | 193.64 | 13,706 | 49.74 | 9,453 | 23.75 | 47,613 | 219.63 |
| 2022-23 | 47,613 | 219.63 | 17,639 | 58.13 | 12,207 | 20.95 | 53,045 | 256.81 |

(Source: Reply of the Department)

Since the time limit to complete remedial action is only three years as per Section 33A of IS Act, 1899, effective measures may be taken to settle the older cases.

3.3 Audit Methodology and Results of Audit

During the year 2022-23, there were 647 auditable units¹¹⁹ in the Registration Department. The unit offices were categorised into High, Medium and Low Risk units according to their revenue collection, number of deeds/documents and revenue per deed/document registered in the year 2021-22. The test-check by Audit (April 2022 to March 2023) was conducted in 110 out of the 647 auditable units (17 per cent). The revenue receipt in the test-checked units was ₹8,267.38 crore, representing 47.08 per cent of total revenue receipts of ₹17,559.89 crore during 2022-23.

During the test-check of assessment and other records, Audit raised 1,159 observations involving ₹160.12 crore. The category-wise audit observations are summarised in **Table 3.3**.

Table 3.3: Category-wise Audit observations for 2022-23

| Sl. No. | Category | No. of cases | Amount (₹ in crore) |
|---------|--|--------------|---------------------|
| 1 | Undervaluation of deeds / documents | 76 | 2.34 |
| 2 | Misclassification | 678 | 120.57 |
| 3 | Excess / Incorrect allocation of Transfer Duty Surcharge | 40 | 3.17 |
| 4 | Others | 365 | 34.04 |
| | Total | 1,159 | 160.12 |

During 2022-23, the Department accepted under-assessment and other deficiencies amounting to ₹0.61 crore in 37 cases pointed out between 2003-04 and 2020-21.

¹¹⁹ Offices of the Inspector General of Registration (1), Deputy Inspector General of Registration (9), District Revenue Officer (Stamps) (2), Special Deputy Collector (Stamps) (9), District Registrar (50) and Sub-Registrar (576).

A few illustrative cases involving ₹26.62 crore are discussed in the following paragraphs.

3.4 Audit Observations

While scrutinising the records of the Registration Department, relating to the period from April 2022 to March 2023, Audit noticed short realisation of revenue due to undervaluation of properties, misclassification of deeds and escapement of stamp duty due to non-registration of restructuring of companies. Since the results are from only a test-check of selected units, the Government/Department may undertake a detailed review of all units to identify similar errors/omissions in the units that were not subjected to Audit and to rectify them.

3.4.1 Short collection of Stamp Duty and Registration Fee due to undervaluation of property

(a) In the case of transfer of immovable property, Stamp Duty at the rate of seven *per cent* including Transfer Duty Surcharge, is chargeable on the market value as per Article 23 of Schedule I to the IS Act, 1899, and Registration Fee at the rate of four¹²⁰ *per cent* is chargeable on the market value as per Article 1(a) of Table of Fees prepared under Section 78 of the Registration Act, 1908. According to Section 27 of the IS Act, 1899, the consideration and the market value affecting the chargeability of any instrument with duty shall be fully and truly set forth. As per Government Order¹²¹, instruments executed by members in favour of co-operative societies registered in the State are exempted from payment of Stamp Duty.

During test-check of records (February 2023) in the Office of the Sub-Registrar, Thiruporur, it was noticed that through seven¹²² instruments of sale, registered between June 2021 and February 2022, an extent of 2330.8 cents (23.308 acres) of land, across various survey numbers situated in Venpedu village, were conveyed by the members of a Co-operative Society to the Co-operative Society for a total consideration of ₹83.34 crore.

The recitals of the instruments revealed that the Society had, in February 2021, obtained the approval of the Registrar of Housing Co-operative Societies to buy 77.03 acres at ₹3.56 crore per acre in various survey numbers in Venpedu village for laying house sites and the above purchases were a part of the proposals. The Society had also entered into a Memorandum of Understanding (MOU) with the sellers in March 2021 for the purchasing of these lands at ₹3.56 crore per acre.

On further verification, Audit found that the lands were originally purchased by the members only between January and June 2022. Further checking of parent documents revealed that the lands were purchased for a total consideration of ₹12.86 crore i.e. at an average cost of ₹55,170 per acre. Since

¹²⁰ From 09 June 2017.

¹²¹ GO Ms.No.2179, Agriculture (Co-operation), dated 29 June 1966.

¹²² 12709/2022, 3920/2022, 2840/2022, 614/2022, 701/2022, 613/2022 and 2839/2022.

the MOU was entered into in March 2021 for a sale at ₹3.56 crore per acre, the market value of the lands should have been assessed at ₹3.56 crore per acre for the transactions that took place between January and June 2022. Since value of lands cannot rise six-fold within six months, it is quite evident that a lower value was declared in the instrument executed for the purchase of lands where stamp duty was leviable, and the true market value was revealed in the instrument where stamp duty was exempt. The failure of the Registering Officer (RO) in correlating the information provided in the instruments to arrive at the true market value resulted in substantial undervaluation of ₹70.48 crore of the properties and consequent short collection of stamp duty and registration fees of ₹7.75 crore (**Appendix 3.1 (a)**).

In reply, the Government accepted (April 2024) to refer one document under Section 47A(3) since the time period between the execution of current and the previous documents were 4 or 5 days. The reply is not tenable since reference under Section 47A (3) is warranted only if the market value is not determinable. In the present case, the market value is available. Further, since the market value of the property was available through the MOU even before the first sale was executed, the question of differential period between first and subsequent sales is not relevant.

(b) During test-check of records (February 2023) in the Office of the Sub-Registrar, Joint-IV, Kancheepuram, it was noticed that through three¹²³ instruments of sale, registered in February 2022, an extent of 916 cents (9.16 acres) of land, across various survey numbers situated in Vedal village, were conveyed by the members of a Co-operative Society to the Co-operative Society for a total consideration of ₹21.10 crore.

Verification of the recitals of the instruments revealed that the Society had in February 2021 obtained the approval of the Registrar of Housing Co-operative Societies to buy the above lands at ₹2.30 crore per acre in various survey numbers in Vedal village for laying house sites and the above purchases were a part of the proposals. The Society had also entered into a Memorandum of Understanding (MOU) with the sellers in April 2021 for purchasing of these lands at ₹2.30 crore per acre.

Further check of the documents revealed that the lands were originally purchased by the members between May and September 2021 for a total consideration of ₹4.90 crore i.e. at an average cost of ₹0.54 crore per acre. Since the MOU was entered into in April 2021 for a sale at ₹2.30 crore per acre, the market value of the lands should have been assessed at ₹2.30 crore per acre for the transactions that took place between May and September 2021. However, the RO failed to issue notices to the executants of these parent instruments based on this information and to demand differential stamp duty and registration fees based on the revelation of actual market value. Moreover, since value of lands cannot rise four-fold within six months, it is quite evident that a lower value was declared in the instrument executed for the purchase of lands where stamp duty was leviable, and the true market value was revealed

¹²³ 969/2022, 970/2022 and 971/2022.

in the instrument where stamp duty was exempt. The failure of the Registering Officer (RO) in not correlating the information available and provided in the instruments to arrive at the true market value resulted in substantial undervaluation of ₹16.20 crore of the properties and consequent short collection of stamp duty and registration fees of ₹1.78 crore (**Appendix 3.1 (b)**).

In reply, the Government stated (August 2024) that as per the judgment in AIR 2004 Mad 362, market value is the value the willing buyer pay to a willing vendor at the price agreed to. It was also stated that there were several other documents which are related to the above transactions that also attract the same higher valuation as per Audit opinion but they were omitted to be considered. Further, the District Registrar, on field inspection found that the lands in the first transaction were barren lands and not agricultural lands as mentioned in Audit.

The definition of market value as per the Court judgment cited is absolutely relevant in this case. But whether the true market value as per agreed terms was set forth in the instrument is to be ascertained by the RO. No seller would agree to sell a property at one-fifth of the market value nor a buyer would agree to buy one at five times the actual market value. Such trades should be considered as suspicious and the RO shall initiate action under Section 27. The related transactions that were mentioned in the reply as omitted in Audit were executed prior to the date of MOU i.e. April 2021. Since the market value was discovered in April 2021, Audit did not consider the documents executed before April 2021. However, there is no bar on the government ordering investigations on these transactions too. As for the verification report by the District Registrar, it is to be stated that Audit mentioned what is revealed in the Schedules of the documents. The important thing that the Government failed to notice is that in both the first and the subsequent transactions, the nature of land conveyed was the same and phenomenal increase in values in a short time of the same property needed detailed scrutiny. The Audit opinion is reiterated.

Recommendation 3.1:

The Government shall ensure that the ROs identify wide fluctuations in market valuations in a short period of time and apply Section 27 to probe if there is any suppression of market value in instruments to evade stamp duty.

3.4.2 Incorrect classification of instruments

As per Section 5 of Indian Stamp Act, 1899 (IS Act), any instrument comprising or relating to several distinct matters shall be chargeable with the aggregate amount of the duties with which separate instruments, each comprising or relating to one of such matters, would be chargeable under this Act. According to Article 61 of Schedule I to the IS Act, maximum Stamp Duty of ₹40 is leviable in the case of surrender of lease. As per Article 58(a)(ii) of Schedule I to the IS Act, in the case of settlement of immovable property, Stamp Duty at the rate of seven *per cent* is leviable on the market value of the property. According to Article 1(p) of the Table of Fees under Section 78 of

the Registration Act, value of the improvements during surrender of lease shall be assessed to Registration Fee.

During the scrutiny of records in six Sub-Registrar offices¹²⁴ (September 2022 to March 2023), Audit noted that leases of vacant lands were surrendered/cancelled through 16 instruments registered between October 2016 and March 2022. The ROs had referred these instruments to the Assistant Executive Engineer (AEE) to ascertain if any improvements were made to the originally leased out properties. The AEE found, during the field inspection, improvements such as buildings and plant and machinery and determined the value of these improvements at ₹100.24 crore. Based on these reports, the ROs collected a Registration Fee of ₹ one crore, being one *per cent* of the value of the buildings and machinery.

Since only vacant land was leased out, and while on surrender, buildings were also transferred to the lessor, there had been a transfer of immovable properties in these transactions. The transactions involved surrender of leases along with transfer of immovable properties. Therefore, that shall be classified as instruments of Surrender of lease-cum-Settlement and stamped as per Section 5 of the IS Act. However, the RO, had collected only ₹761 as stamp duty as against ₹7.04 crore applicable for these instruments. The misclassification of instruments thus resulted in a short collection of stamp duty of ₹7.04 crore (**Appendix 3.2**).

On this being pointed out, the RO, Joint I, Coimbatore stated (November 2022) that there was no conveyance of title of the property for any consideration and there are no two distinct transactions to be classified under Section 5.

The reply is not tenable. While the RO had contended that there was no conveyance in the absence of expressed consideration, he had not refused that there was indeed transfer of immovable property. Since there was no consideration declared, the transfer had to be classified as settlement under Article 58(a)(ii). Further, the executants themselves had accepted the existence and transfer of improvements and paid the Registration Fee on the value of improvements. Therefore, the transactions clearly fall under Section 5 and shall be stamped accordingly.

Further, the Government replied, in respect of observation raised in Joint-II, Tiruppur, cited (October 2024) two court decisions to convince Audit that the buildings that exist after surrender of lease do not belong to the lessor. In the first decision, the Supreme Court held that constructions put up on the leased land with the permission of the lessor do not belong to the lessor. In the second verdict, it was held that the title of shed on the leased land would not be lost after the term of lease.

Reply is not tenable as both the cases are not relevant to the observation under consideration. There is no evidence to the effect that the building on the leased land was constructed with the permission of the lessor in the present case.

¹²⁴ Avinashi, Joint-1 Coimbatore, Joint-II Tiruppur, Madhukkarai, Pallavaram and Perunthurai.

As for the second case, shed is not an immovable property and therefore cannot be said to be attached to the land. Government should also note that the lessor and the lessee did not declare that there were improvements in the land surrendered and it is the department that unearthed the existence of improvements.

Reply in respect of observations in SRO Avinashi, Madhukkarai, Pallavaram and Perunthurai are awaited.

Recommendation 3.2:

Since improvements transferred along with surrender of lease land provides ownership to the lessor on such improvements, Government should instruct the Department to levy stamp duty on the improvements transferred to the lessor.

3.4.3 Non levy of stamp duty on properties transferred during the amalgamation/demerger of companies

The restructuring of companies such as merger, amalgamation and demerger were previously accorded approval by the High Courts under the provisions contained in the Companies Act, 1956. After the inception of the Companies Act, 2013, these schemes are being filed with the competent authorities for necessary approvals. The transactions often involve transfer of immovable properties from the parent entity to the resulting entity. The Honourable Supreme Court held, in the case of Hindustan Lever & ANR Vs State of Maharashtra & ANR ((2004) 9 SCC 438), that the Court decrees issued in respect of merger/demergers relating to two or more companies under the provisions of the Companies Act would very well fall within the inclusive definition of Conveyance and, consequently, such decrees attracted Stamp Duty. The Government of Tamil Nadu vide its order¹²⁵ in 2019, reduced Stamp Duty to two *per cent* of the market value of the immovable property situated in Tamil Nadu or 0.6 *per cent* of the aggregate of the market value of the shares, whichever is higher, for Court decrees involving amalgamation/merger/demerger of the companies. This amendment was issued with retrospective effect from 1 April 1956.

Scrutiny of the instruments revealed that 10 properties were sold through 26 sale instruments registered in six¹²⁶ Sub-Registrar offices. From the recitals of these instruments, it was found that the owners of these properties had acquired them during amalgamation/demerger of companies. The ROs, however, went ahead with registering these documents without insisting on payment of stamp duty on the previous transactions of amalgamation/demerger, although it is mandatory to levy stamp duty on transfer of property through amalgamation/demerger vide the Government Order cited. Failure of the ROs to levy stamp duty on properties transferred during amalgamation/demerger resulted in non-realisation of ₹5.86 crore to the Government (**Appendix 3.3**).

¹²⁵ G O Ms. No 29, Commercial Taxes and Registration (J1) dated 01.03.2019.

¹²⁶ Gandhipuram, Redhills, Tambaram, Thirukazhukundram, Thiruporur and Villivakkam.

The Government replied (February 2025) that the scheme of amalgamation shall be stamped and the District Registrars concerned have been requested to initiate action for collecting stamp duty for the scheme of amalgamations as contemplated in the deeds subjected to audit.

Recommendation 3.3:

The Department shall ensure that judgments that have a bearing on the revenue of the Government are communicated to the ROs effectively and monitor the follow-up action initiated by the ROs.

3.4.4 Short collection of Stamp Duty and Registration Fee due to non-inclusion of cost of the Windmills

According to Section 17(1)(b) of Registration Act, 1905, any instrument which purports or operate to create, declare, assign, limit or extinguish any right, title or interest of immovable properties of value one hundred rupees and upwards are mandatorily registrable. According to Article 23 of Schedule-I to Indian Stamp Act, 1988 (IS Act), sale or conveyance of immovable property attracts seven *per cent* stamp duty on the market value of the property. The Honourable Madras High Court in the case of IGR Vs Sri Velayuthaswamy Spinning Mills Pvt Ltd. vide on 24.4.2018, held that windmills are immovable in nature and the cost of the same should be included for the purpose of arriving Stamp Duty and Registration Fees.

During verification of records in Sub-Registrar office, Mylapore (April 2022), Audit noticed that there was a slump sale of Hotel property, involving land and buildings for a total consideration of ₹393.15 crore (Land valued at ₹252.36 crore and Building at ₹140.79 crore) and paid a stamp duty and a registration fee of ₹27.52 crore and ₹15.73 crore respectively. The registration of the instrument was, however, kept in abeyance, pending clarification from the Chief Controlling Revenue Authority (CCRA) regarding valuation. In the meantime, the executant M/s. Hotel Leela Venture Ltd., appealed to the CCRA that the total consideration involved was ₹674.99 crore out of which ₹393.14 crore related to immovable property on which stamp duty and registration fee were paid and ₹282.00 crore, including the value of 16 windmills, pertained to movable properties that were not brought into the ambit of the instrument. The CCRA remitted back the instrument to the RO instructing to follow the principles of due assessment of properties and obtain a deposition from the parties in respect of the consideration involved in the slump sale of movable properties. It was also ordered that in case of undervaluation, the instrument may be referred under Section 47A(1).

Following this order, the RO registered the instrument and referred the valuation of building to the Assistant Executive Engineer (AEE). The AEE, in his order dated 9 November 2020 valued the building at ₹155.76 crore. The RO collected deficit stamp duty and registration fee of ₹1.65 crore on the differential building value of ₹14.97 crore and released the instrument.

While the CCRA had remitted back the assessment with a direction to ensure adherence of prescribed procedures and ascertain whether there is any undervaluation, the RO did not value the windmills amounting to ₹14.72 crore,

which were immovable properties as held by Honourable Madras High Court, that formed part of the slump sale of assets. Failure to assess the value of the windmills resulted in a short collection of Stamp Duty and Registration Fee of ₹1.62 crore (**Appendix 3.4**).

In reply, the Government stated (May 2024) that from the recitals, it is evident that there was no intention to sell the windmills and therefore that cannot be stamped. It was further stated that the land was not within the jurisdiction of the RO, on which the windmills were situated.

The reply is not tenable since it was a slump sale, windmills were also sold and the consideration paid was also mentioned in the document. The executant during appeal submitted that windmills were movable properties and hence should not be assessed for stamp duty. The RO has power under Section 19A of the IS Act to assess properties that are not situated within its jurisdictions.

Recommendation 3.4:

The ROs may be advised to update Court decisions that have impact on the revenue of the Department.

3.4.5 Escapement of extents and Consequent short collection of Stamp Duty and Registration Fees

The Honourable High Court of Madras, in the case of G Martin and Karungal Town Panchayat, held that “When the property is transferred by parties *inter vivos*, then the registered document evidencing the transfer of title will be the main document of title and, the patta issued, based upon the transfer of title, will become the supporting document to the title of the party. When basic document is available, patta cannot be relied on....”. According to Article 23 of the Indian Stamp Act, 1899, a stamp duty at the rate of seven *per cent* has to be levied on the market value of the property conveyed. A Registration Fee at the rate of four¹²⁷ *per cent* is chargeable on the market value as per Article 1(a) of Table of Fees prepared under Section 78 of the Registration Act, 1908.

Audit scrutiny of the records in four¹²⁸ Sub-Registrar offices (from March 2022 to March 2023), Audit noticed that in five instruments of conveyance, the extents subjected to conveyance were different from the extent revealed in the parent instruments. In all these cases, a lesser extent was adopted in the conveyance, recited to be based on the actual measurement/ as per patta, when compared to the extent in the parent instruments. However, as per the Honourable High Court judgment cited, the RO should have ignored the extent as per patta and should have relied on the parent instruments for levy of stamp duty. Thus, due to adoption of shorter extents declared as per patta, the RO levied and collected Stamp Duty and Registration Fee of ₹15.19 crore instead of ₹16.73 crore which resulted in short collection of Stamp Duty and Registration Fee of ₹1.54 crore (**Appendix 3.5**).

In reply, the Government replied (February 2024) that in respect of Sub-Registries Joint-II Coimbatore, Poonamallee and Tiruporur the ROs have

¹²⁷ From 09 June 2017.

¹²⁸ Joint-II Chengalput, Joint-II Coimbatore, Poonamallee and Tiruporur.

valued the extent that has been subject to conveyance and the Court decision cited is not relevant in this context. However, the observation in respect of Joint-II Chengalput has been accepted.

The reply is not acceptable since in all these cases, the sellers had sold the entire extents without retaining any portion of the properties. This was ascertained from the fact that the boundaries of the properties as per the previous instruments were exactly the same as those conveyed through the present instruments. As there is no retention of extent by the sellers, the extent that was subjected to conveyance during the last transaction shall be stamped in the present instrument also.

Recommendation 3.5:

The Government should advise the ROs to check the boundaries of properties in the parent document to ensure that there is no escapement of extent being assessed to stamp duty.

3.4.6 Short collection of Stamp Duty and Registration Fee due to non-adoption of true market value

As per the provisions of Section 27 of the Indian Stamp Act, the consideration (if any) and the market value and all other facts and circumstances affecting the chargeability of any instrument with duty, or the amount of the duty with which it is chargeable, shall be fully and truly set forth therein. As per Rule 3(3) of the Tamil Nadu Stamp (Prevention of Undervaluation of instruments) Rules, 1968, the registering officer may, for the purpose of finding out whether the market value has been correctly furnished in the instrument, make such enquiries as he may deem fit. As per Article 23 of Schedule 1 to the Indian Stamp Act, 1899, conveyance of immovable property attracts stamp duty at the rate of five *per cent*. Besides, Surcharge at two *per cent* and Registration Fee of four *per cent* are also leviable on the market value of the property.

During the verification of records at Sub-Registry, Sunguvarchatram, Audit noticed that 5.55 acres of land situated in various sub-divisions under Survey numbers 103,104,105 and 106 in Mambakkam village was conveyed for a consideration of ₹3.20 lakh. However, the market value of the land as per guideline was ₹2.32 crore. Therefore, the RO collected ₹16.26 lakh as stamp duty and ₹9.33 lakh as registration fee and registered the instrument as Document No.3599 of 2021 on 21 September 2021 (**Table 3.4**).

Table 3.4: Extract of sequence of transaction

| Doc no. | Date | Property conveyed | Transaction between | Consideration (₹) | Stamp duty & fee paid (₹) |
|------------|-----------|--|---------------------|-------------------|---------------------------|
| 3599/ 2021 | 21-9-2021 | 5.55 acres of land situated in Mambakkam village | Party A to Party B | 3,20,000 | 25.59 lakh |
| 3608/2021 | 22-9-2021 | Same as above | Party B to Party C | 9,89,13,210 | 1.09 crore |

Since the actual consideration declared by the executants was far below the Government's guideline values, Audit checked the related transactions and noticed that the property purchased through the above instrument was sold on the next day itself (22 September 2021) through document no. 3608 of 2021 for a consideration of ₹9.89 crore, way above the guideline values. Audit also found that the consideration of ₹9.89 crore was paid on 21 September 2021, the day on which the previous instrument was registered declaring a consideration of ₹3.20 lakh.

Since the value of land cannot vary widely from ₹3.20 lakh to ₹9.89 crore on a single day, it is quite evident that the true market value of the land was ₹9.89 crore and the possibility of understatement of consideration for the previous transaction cannot be ruled out. Therefore, the previous transaction registered as document no.3599 of 2021 would also attract the same stamp duty and registration fee levied for document no. 3608 of 2021. However, the RO failed to notice the wide variation in consideration in the two instruments registered on successive days. The failure on the part of RO to assess the true market value resulted in short collection of ₹83.21 lakh (**Appendix 3.6**).

The Government replied (October 2024) that the document has been referred to the District Revenue Office (Stamps) for fixation of value.

Recommendation 3.6:

The Government shall ensure that the ROs identify wide fluctuations in market valuations in a short period of time and apply Section 27 to probe if there is any suppression of market value in instruments to evade stamp duty.

3.4.7 Incorrect classification of instruments of sale agreement

As per Clause 1(1) under the Table of Fees prepared under Section 78 of the Registration Act, 1908, the registration fee shall be leviable on an agreement to sell or resell shall be on the advance or earnest money paid. As per proviso, in the case of an agreement to sell where possession is handed over or is to be handed over, the fee leviable shall be on the intended sale consideration.

During the Audit of Sub Registrar office, Thiruvallur (December 2022), it was noticed that through two instruments of sale agreement (Nos. 10178/2021 and 10182/2021), the vendors agreed to sell 11.16 cents and 10.83 cents of agricultural land comprised in various survey numbers for a total sale consideration of ₹2.62 crore and ₹2.54 crore respectively. An advance of ₹1 crore was paid in both cases. The RO collected a Registration Fee of ₹1 lakh (one *per cent* on the advance amount of ₹1 crore) in each of the documents. However, from the recitals of these instruments, Audit noticed that there was an agreement to the effect that the possession of the property shall be handed over on the date of registration of the sale agreements as the purchaser was urged to develop the land as residential plots within timelines of the validity of the agreement. Therefore, the RO should have treated the instrument as a sale agreement with possession and collected a Registration Fee of ₹2.62 lakh and ₹2.54 lakh respectively i.e. one *per cent* on the intended sale consideration as against the Registration Fee collected at one *per cent* only on the advance paid in both instruments.

During the scrutiny of records in Sub Registrar office, Joint I Chennai South (March 2023), it was noticed that through instrument No.10751/2021, the vendor agreed to sell 1.27 acres of land for a consideration of ₹10.50 crore and paid an advance of ₹2 crore. Since it was stated that possession was not handed over, the RO collected a Registration Fee of ₹2 lakh being one *per cent* on the advance amount of ₹2 crore and registered the instrument. The above sale agreement was cancelled through instrument No. 5809/2022 wherein it was recited that the possession taken was being handed back. This clearly reveals that the possession was handed over during the registration of sale agreement but was concealed for the purpose of registration. The RO failed to notice the recitals and therefore did not proceed to classify the previous instrument as sale agreement with possession, and initiate action to collection the differential Registration fee. Thus, there was short collection of Registration Fee in three instruments mentioned above, which worked out to ₹11.66 lakh (**Appendix 3.7**).

In reply, the Government stated (February 2025) that recovery action has been initiated in respect of instruments Nos. 10178/2021, 10182/2021 and 5809/2022. The reply is partially not acceptable since the Registration Act imposes fees on intended consideration both in the case of Agreement as well as cancellation of agreements with possession. Therefore, the Government should instruct to collect deficit stamp duty in respect of instrument no. 10751/2021 also.

Recommendation 3.7:

The Government may instruct that the ROs should peruse the recitals of an instrument to identify suppression of information in the previous document and act accordingly.

3.4.8 Non-adoption of appropriate guideline value resulted in undervaluation of property

As per Article 23 of Schedule 1 to the Indian Stamp Act, 1899, for conveyance of immovable property, stamp duty is to be levied at the rate of seven *per cent* including surcharge on the market value of the property. According to Section 47A (1) of the Act, if the Registering Officer (RO) believes that the market value of the property conveyed has not been truly set forth in the instrument, he may after registering such instrument, refer the same to the Collector for determination of the market value.

During the audit of Joint-I Sub-Registrar office, Thanjavur (July 2022), Audit noticed that 12,928 sq.ft. of land along with an industrial shed belonging to M/s. Samdan Industries situated inside the Small Industries Development Corporation (SIDCO) Industrial Estate was conveyed for ₹1.63 crore by its four partners. The land was valued by the executants at ₹1.42 crore and the shed at ₹21 lakh. The RO registered the property levying stamp duty and registration fee of ₹17.97 lakh and registered the document on 29 March 2022.

The executant had obtained permission from SIDCO for selling the property. From the letter communicating the permission to convey the land, it is identified that the SIDCO Industrial Estate is situated in Nanjikottai Road.

Further, even the resolution passed by the company to sell the property reveals that the industrial estate is situated in Nanjikottai Road. As there is no separate guideline value for SIDCO, value assigned to Nanjikottai Road i.e. ₹1,675 per sq.ft should be adopted for the property conveyed. However, the RO failed to assess the property appropriately and, also did not send the document to Collector under Section 47A for the SDC (Stamps) to fix the market value. Based on the prescribed rate of ₹1,675 per sq.ft., the value of the property would be ₹2.38 crore, for which stamp duty and registration fee was to be levied ₹26.13 lakh. However, the RO collected only ₹17.97 lakh. Thus, there was undervaluation of property which resulted in short levy of stamp duty and registration fee to the tune of ₹8.16 lakh (**Appendix 3.8**).

The Government accepted the observation and stated (December 2024) that the District Registrar has been instructed to refer the document under Section 47A(3).

Recommendation 3.8:

Government may instruct ROs to carefully assess properties, which do not have specific guideline value, based on their proximity to roads or streets that have assigned values, by reckoning the boundaries of such properties or their addresses.

Chennai
The 03 November 2025



(FREDERICK SYIEMLIEH)
Principal Accountant General (Audit-I),
Tamil Nadu

Countersigned



New Delhi
The 10 November 2025

(K. SANJAY MURTHY)
Comptroller and Auditor General of India

APPENDICES

Appendix 2.1 (a) Refer Para 2.5.6.2

Dimension-wise summary of deficiencies

| Sl. No. | Audit Dimension | Cases where reply received | | Accepted by Department and status of the case | | | | | | | | Department reply accepted by Audit | | | | | |
|--|--|----------------------------|---------------------|---|---------------------|------------|---------------------|-----------------------|---------------------|------------|---------------------|------------------------------------|---------------------|---------------------------|---------------------|-------------------------|---------------------|
| | | | | Recovery made/Demand Order issued | | SCN issued | | ASMT-10/Notice issued | | Total | | Data Entry errors | | Action taken before query | | Other valid explanation | |
| | | No. | Amount (₹ in crore) | No. | Amount (₹ in crore) | No. | Amount (₹ in crore) | No. | Amount (₹ in crore) | No. | Amount (₹ in crore) | No. | Amount (₹ in crore) | No. | Amount (₹ in crore) | No. | Amount (₹ in crore) |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | |
| Mismatch in availing of ITC | | | | | | | | | | | | | | | | | |
| 1 | GSTR-2A vs GSTR-3B | 95 | 1,840.02 | 20 | 249.52 | 18 | 279.04 | 8 | 99.1 | 46 | 627.66 | 2 | 66.85 | 20 | 594.99 | 27 | 550.53 |
| 2 | ITC passed on without supplier remitting tax | 64 | 407.76 | 9 | 50.67 | 10 | 18.47 | 11 | 76.8 | 30 | 145.94 | 0 | 0 | 10 | 81.19 | 24 | 180.64 |
| 3 | Availing ITC in GSTR-3B filed after the limitation period for availing ITC | 55 | 137.08 | 4 | 2.67 | 0 | 0 | 0 | 0 | 4 | 2.67 | 0 | 0 | 3 | 0.82 | 48 | 133.58 |
| 4 | Under Reverse Charge Mechanism (RCM) | 52 | 545.59 | 7 | 18.72 | 10 | 25.46 | 5 | 98.69 | 22 | 142.87 | 24 | 295.71 | 3 | 83.87 | 3 | 23.13 |
| Mismatch in Annual Return and financial statements (FS) | | | | | | | | | | | | | | | | | |
| 5 | Negative figure in GSTR-9C Table 9R | 18 | 187.46 | 4 | 44.82 | 2 | 17.86 | 0 | 0 | 6 | 62.68 | 2 | 12.83 | 4 | 36.18 | 6 | 75.76 |
| 6 | Positive figure in GSTR-9C Table 12F | 23 | 435.38 | 4 | 13.95 | 1 | 4.75 | 3 | 17.96 | 8 | 36.66 | 1 | 2.77 | 0 | 0 | 14 | 395.95 |
| 7 | Positive figure in GSTR-9C Table 14T | 23 | 221.65 | 1 | 4.88 | 7 | 100.92 | 1 | 25.93 | 9 | 131.73 | 2 | 8.57 | 3 | 30.9 | 9 | 50.45 |
| Shortfall in Tax paid or Interest and Other deviations | | | | | | | | | | | | | | | | | |
| 8 | Tax not remitted due to GSTR-3B not filed | 54 | 112.55 | 28 | 67.3 | 5 | 9.39 | 3 | 5.18 | 36 | 81.87 | 0 | 0 | 18 | 30.68 | 0 | 0 |
| 9 | Tax short paid | 128 | 1,548.76 | 40 | 139.47 | 13 | 83.27 | 6 | 56.53 | 59 | 279.27 | 6 | 156.08 | 25 | 136.02 | 38 | 977.39 |
| 10 | Short payment of interest on delayed payments | 160 | 50.71 | 48 | 12.61 | 16 | 4.36 | 2 | 0.18 | 66 | 17.15 | 0 | 0 | 94 | 33.55 | 0 | 0 |
| 11 | Suppression of tax liability based on E-Way bill verification | 95 | 70,383.61 | 3 | 122.36 | 18 | 772.3 | 9 | 583.53 | 30 | 1,478.19 | 9 | 53,511.18 | 16 | 13,028.21 | 40 | 2,366.02 |
| 12 | Composition Taxpayers also availing E-Commerce facility | 5 | - | 0 | 0 | 1 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 2 | 0 | 2 | 0 |
| 13 | ISD credit incorrectly availed by the recipients | 42 | 22.27 | 1 | 0.22 | 12 | 7.23 | 7 | 2.23 | 20 | 9.68 | 2 | 1.66 | 1 | 0.4 | 19 | 10.53 |
| | Total¹²⁹ | 814 | 5,509.23 | 169 | 604.83 | 113 | 550.75 | 55 | 382.6 | 337 | 1,538.18 | 48 | 544.47 | 199 | 1,028.60 | 230 | 2,397.96 |

¹²⁹ Money value of suppression of tax liability based on E-Way bill verification is not quantified in any of the amount totals since it is not assessable.

Appendix 2.1 (b) Refer Para 2.5.6.2

Summary of deficiencies (Turnover mismatch)

| Sl. No. | Audit Dimension | Cases where reply received | | Accepted by Department and status of the case | | | | | | | | Department reply accepted by Audit | | | | | |
|---------|--|----------------------------|---------------------|---|---------------------|------------|---------------------|-----------------------|---------------------|-----------|---------------------|------------------------------------|---------------------|---------------------------|---------------------|-------------------------|---------------------|
| | | | | Recovery made/Demand Order issued | | SCN issued | | ASMT-10/Notice issued | | Total | | Data Entry errors | | Action taken before query | | Other valid explanation | |
| | | No. | Amount (₹ in crore) | No. | Amount (₹ in crore) | No. | Amount (₹ in crore) | No. | Amount (₹ in crore) | No. | Amount (₹ in crore) | No. | Amount (₹ in crore) | No. | Amount (₹ in crore) | No. | Amount (₹ in crore) |
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 1 | Negative figure in GSTR-9C Table 7G | 26 | 34,945.13 | 0 | 0.00 | 5 | 1,751.11 | 4 | 183.47 | 9 | 1,934.58 | 0 | 0.00 | 3 | 130.06 | 14 | 32,880.49 |
| 2 | Under-declaration of taxable supplies as per GSTR-3B vis-à-vis net Amount (₹ in crore) on which TDS/TCS is recovered | 33 | 484.54 | 3 | 22.96 | 3 | 121.20 | 5 | 192.36 | 11 | 336.52 | 0 | 0.00 | 18 | 118.96 | 4 | 29.06 |
| 3 | Mismatch in unbilled revenue in Table 5 of GSTR-9C | 21 | 1,900.73 | 1 | 0.07 | 4 | 871.27 | 3 | 119.59 | 8 | 990.93 | 5 | 194.76 | 0 | 0.00 | 8 | 715.04 |
| | Total | 80 | 37,330.40 | 4 | 23.03 | 12 | 2,743.58 | 12 | 495.42 | 28 | 3,262.03 | 5 | 194.76 | 21 | 249.02 | 26 | 33,624.59 |

Appendix- 3.1 (a) (Para 3.4.1 (a))

Short collection of Stamp Duty and Registration Fee due to undervaluation of property

| Current Document No. | Previous Document No. | Survey No. | Area conveyed to society vide Current Document (in cents) | Value adopted for conveyance in Current Document (₹) | Value adopted in Previous Document (₹) | Difference in Value in previous document (₹) | Difference of SD and RF to be collected @ 11per cent (₹) |
|----------------------|-----------------------|------------|---|--|--|--|--|
| 12709/2022 | 2343/2022 | 1/5A | 4 | 14,24,160 | 2,20,000 | 12,04,160 | 1,32,458 |
| | | 1/6 | 3 | 10,68,120 | 1,65,000 | 9,03,120 | 99,343 |
| | 3668/2022 | 1/4A7 | 2 | 7,12,080 | 1,20,000 | 5,92,080 | 65,129 |
| | 3669/2022 | 1/4B2 | 2 | 7,12,080 | 1,20,000 | 5,92,080 | 65,129 |
| | | 1/5B4 | 1.5 | 5,34,060 | 90,000 | 4,44,060 | 48,847 |
| 3920/2022 | 3668/2022 | 1/5B1B | 11 | 39,16,440 | 6,60,000 | 32,56,440 | 3,58,208 |
| | | 1/5B2A | 8.5 | 30,26,340 | 5,10,000 | 25,16,340 | 2,76,797 |
| | | 1/5B3A | 15 | 53,40,600 | 9,00,000 | 44,40,600 | 4,88,466 |
| | | 1/4A2 | 7.5 | 26,70,300 | 4,50,000 | 22,20,300 | 2,44,233 |
| | | 1/4A4 | 27 | 96,13,080 | 16,20,000 | 79,93,080 | 8,79,239 |
| | | 1/4A7 | 18 | 64,08,720 | 10,80,000 | 53,28,720 | 5,86,159 |
| | | 1/4B1 | 11 | 39,16,440 | 6,60,000 | 32,56,440 | 3,58,208 |
| | 3669/2022 | 1/5B1A | 11 | 39,16,440 | 6,60,000 | 32,56,440 | 3,58,208 |
| | | 1/5B2B | 7.5 | 26,70,300 | 4,50,000 | 22,20,300 | 2,44,233 |
| | | 1/5B3B | 2.5 | 8,90,100 | 1,50,000 | 7,40,100 | 81,411 |
| | | 1/5B4 | 13.5 | 48,06,540 | 8,10,000 | 39,96,540 | 4,39,619 |
| | | 1/4A1 | 5 | 17,80,200 | 3,00,000 | 14,80,200 | 1,62,822 |
| | | 1/4A3 | 15 | 53,40,600 | 9,00,000 | 44,40,600 | 4,88,466 |
| | | 1/4A6 | 21 | 74,76,840 | 12,60,000 | 62,16,840 | 6,83,852 |
| | | 1/4B2 | 25 | 89,01,000 | 15,00,000 | 74,01,000 | 8,14,110 |
| | 3690/2022 | 24/3A | 35 | 1,24,61,400 | 23,10,000 | 1,01,51,400 | 11,16,654 |
| | | 24/3B | 33 | 1,17,49,320 | 21,78,000 | 95,71,320 | 10,52,845 |
| | | 24/3C | 35 | 1,24,61,400 | 23,10,000 | 1,01,51,400 | 11,16,654 |
| | | 24/3D1 | 30 | 1,06,81,200 | 19,80,000 | 87,01,200 | 9,57,132 |
| | | 24/3D2 | 7.5 | 26,70,300 | 4,95,000 | 21,75,300 | 2,39,283 |
| | | 24/3D3 | 29 | 1,03,25,160 | 19,14,000 | 84,11,160 | 9,25,228 |
| | | 24/3E | 33 | 1,17,49,320 | 21,78,000 | 95,71,320 | 10,52,845 |
| | 2840/2022 | 2342/2022 | 38/12A2 | 23.5 | 83,66,940 | 12,92,500 | 70,74,440 |
| 2343/2022 | | 1/5A | 66 | 2,34,98,640 | 36,30,000 | 1,98,68,640 | 21,85,550 |
| | | 1/6 | 127 | 4,52,17,080 | 69,85,000 | 3,82,32,080 | 42,05,529 |

Compliance Audit (Revenue) Report for the period ended March 2023

| Current Document No. | Previous Document No. | Survey No. | Area conveyed to society vide Current Document (in cents) | Value adopted for conveyance in Current Document (₹) | Value adopted in Previous Document (₹) | Difference in Value in previous document (₹) | Difference of SD and RF to be collected @ 11per cent (₹) |
|----------------------|-----------------------|------------|---|--|--|--|--|
| 614/2022 | 9188/2021 | 31/2B | 34 | 1,21,05,360 | 15,00,000 | 1,06,05,360 | 11,66,590 |
| | | 38/6 | 10 | 35,60,400 | 4,40,000 | 31,20,400 | 3,43,244 |
| | | 38/9 | 11 | 39,16,440 | 4,84,000 | 34,32,440 | 3,77,568 |
| | 9193/2021 | 31/2A | 34 | 1,21,05,360 | 15,30,000 | 1,05,75,360 | 11,63,290 |
| | 9194/2021 | 41/1 | 32 | 1,13,93,280 | 14,72,000 | 99,21,280 | 10,91,341 |
| | | 41/2 | 30 | 1,06,81,200 | 13,80,000 | 93,01,200 | 10,23,132 |
| | | 41/3A | 17 | 60,52,680 | 7,82,000 | 52,70,680 | 5,79,775 |
| | | 41/4A | 17 | 60,52,680 | 7,82,000 | 52,70,680 | 5,79,775 |
| | 9190/2021 | 27/5F | 6 | 21,36,240 | 3,12,000 | 18,24,240 | 2,00,666 |
| | | 27/5H | 7 | 24,92,280 | 3,64,000 | 21,28,280 | 2,34,111 |
| | | 27/5J | 4 | 14,24,160 | 2,08,000 | 12,16,160 | 1,33,778 |
| | | 41/11 | 10 | 35,60,400 | 5,20,000 | 30,40,400 | 3,34,444 |
| | 9305/2021 | 41/7 | 26 | 92,57,040 | 13,00,000 | 79,57,040 | 8,75,274 |
| | 9309/2021 | 41/8 | 26 | 92,57,040 | 13,00,000 | 79,57,040 | 8,75,274 |
| | 9307/2021 | 32 | 148 | 5,26,93,920 | 65,12,000 | 4,61,81,920 | 50,80,011 |
| | 701/2022 | 19840/2021 | 1/9C | 37 | 1,31,73,480 | 22,20,000 | 1,09,53,480 |
| 22/1A | | | 70 | 2,49,22,800 | 42,00,000 | 2,07,22,800 | 22,79,508 |
| 22/1B | | | 36 | 1,28,17,440 | 21,60,000 | 1,06,57,440 | 11,72,318 |
| 22/1E | | | 56 | 1,99,38,240 | 33,60,000 | 1,65,78,240 | 18,23,606 |
| 22/2B | | | 56 | 1,99,38,240 | 33,60,000 | 1,65,78,240 | 18,23,606 |
| 19841/2021 | | 38/7A | 14.58 | 51,91,063 | 7,70,000 | 44,21,063 | 4,86,317 |
| 19847/2021 | | 38/7B | 2.72 | 9,68,429 | 1,80,000 | 7,88,429 | 86,727 |
| 19849/2021 | | 22/1D | 3 | 10,68,120 | 1,80,000 | 8,88,120 | 97,693 |
| 19851/2021 | | 1/9A | 26 | 92,57,040 | 15,60,000 | 76,97,040 | 8,46,674 |
| 19852/2021 | | 1/1B3 | 40 | 1,42,41,600 | 24,00,000 | 1,18,41,600 | 13,02,576 |
| 19853/2021 | | 1/1A1 | 34.5 | 1,22,83,380 | 20,70,000 | 1,02,13,380 | 11,23,472 |
| | | 1/1A2 | 41 | 1,45,97,640 | 24,60,000 | 1,21,37,640 | 13,35,140 |
| | | 1/1A3 | 7.5 | 26,70,300 | 4,50,000 | 22,20,300 | 2,44,233 |
| | | 1/1A4 | 10 | 35,60,400 | 6,00,000 | 29,60,400 | 3,25,644 |
| | | 1/1A5 | 9 | 32,04,360 | 5,40,000 | 26,64,360 | 2,93,080 |
| 19854/2021 | | 1/9B | 55 | 1,95,82,200 | 33,00,000 | 1,62,82,200 | 17,91,042 |
| | | 22/1C | 20 | 71,20,800 | 12,00,000 | 59,20,800 | 6,51,288 |
| | | 22/1D | 3 | 10,68,120 | 1,80,000 | 8,88,120 | 97,693 |
| 613/2022 | | 9189/2021 | 27/4A1 | 19 | 67,64,760 | 9,50,000 | 58,14,760 |
| | 27/4B | | 7 | 24,92,280 | 3,50,000 | 21,42,280 | 2,35,651 |
| | 27/4C | | 10 | 35,60,400 | 5,00,000 | 30,60,400 | 3,36,644 |
| | 27/4D | | 35 | 1,24,61,400 | 17,50,000 | 1,07,11,400 | 11,78,254 |
| | 27/4E | | 48 | 1,70,89,920 | 24,00,000 | 1,46,89,920 | 16,15,891 |

| | | | | | | | | |
|--------------|-----------|------------|----------------|---------------------|---------------------|---------------------|--------------------|-----------|
| 613/2022 | 9191/2021 | 24/5A | 16 | 56,96,640 | 8,29,360 | 48,67,280 | 5,35,401 | |
| | | 24/5C | 19 | 67,64,760 | 9,84,865 | 57,79,895 | 6,35,788 | |
| | | 24/5E | 16 | 56,96,640 | 8,29,360 | 48,67,280 | 5,35,401 | |
| | | 24/5B | 15 | 53,40,600 | 7,77,525 | 45,63,075 | 5,01,938 | |
| | | 24/5D | 19 | 67,64,760 | 9,84,865 | 57,79,895 | 6,35,788 | |
| | | 24/5G | 17 | 60,52,680 | 8,81,195 | 51,71,485 | 5,68,863 | |
| | | 24/5F | 7 | 24,92,280 | 3,62,830 | 21,29,450 | 2,34,240 | |
| | | 10915/2021 | 27/4A2 | 6 | 56,96,640 | 8,16,000 | 48,80,640 | 5,36,870 |
| | | 11544/2021 | 1/8C | 35 | 1,24,61,400 | 18,20,000 | 1,06,41,400 | 11,70,554 |
| | | | 1/8D | 35 | 1,24,61,400 | 18,20,000 | 1,06,41,400 | 11,70,554 |
| | | 11545/2021 | 1/3 | 105 | 3,73,84,200 | 52,50,000 | 3,21,34,200 | 35,34,762 |
| | | 15406/2021 | 30/1A | 11 | 39,16,440 | 6,05,000 | 33,11,440 | 3,64,258 |
| | | | 30/1B | 11 | 39,16,440 | 6,05,000 | 33,11,440 | 3,64,258 |
| | | | 31/1B3 | 10 | 35,60,400 | 5,50,000 | 30,10,400 | 3,31,144 |
| | | | 38/12B3 | 41 | 1,45,97,640 | 23,05,000 | 1,22,92,640 | 13,52,190 |
| | | 15412/2021 | 38/3 | 4 | 14,24,160 | 2,20,000 | 12,04,160 | 1,32,458 |
| | | | 38/6 | 3 | 10,68,120 | 1,65,000 | 9,03,120 | 99,343 |
| | | | 38/9 | 8 | 28,48,320 | 4,40,000 | 24,08,320 | 2,64,915 |
| | | | 30/1C | 11 | 39,16,440 | 6,05,000 | 33,11,440 | 3,64,258 |
| | | | 31/1B2 | 10 | 35,60,400 | 5,50,000 | 30,10,400 | 3,31,144 |
| | | 15416/2021 | 41/3B | 11 | 39,16,440 | 6,05,000 | 33,11,440 | 3,64,258 |
| | | | 41/4B | 11 | 39,16,440 | 6,05,000 | 33,11,440 | 3,64,258 |
| | | | 41/5 | 56 | 1,99,38,240 | 30,80,000 | 1,68,58,240 | 18,54,406 |
| | | | 38/12B1 | 36 | 1,28,17,440 | 19,80,000 | 1,08,37,440 | 11,92,118 |
| | | 15414/2021 | 28/3 | 23 | 81,88,920 | 12,65,000 | 69,23,920 | 7,61,631 |
| | | 15513/2021 | 31/1B1 | 12 | 42,72,480 | 6,60,000 | 36,12,480 | 3,97,373 |
| | | | 38/12B2 | 7 | 24,92,280 | 3,85,000 | 21,07,280 | 2,31,801 |
| | | 15405/2021 | 38/11 | 18.5 | 65,86,740 | 10,17,500 | 55,69,240 | 6,12,616 |
| | | 15407/2021 | 41/6A | 26 | 92,57,040 | 14,30,000 | 78,27,040 | 8,60,974 |
| | 2839/2022 | 10918/2021 | 354/3B | 17 | 60,52,680 | 7,58,370 | 52,94,310 | 5,82,374 |
| | | | 354/3C | 22 | 78,32,880 | 9,81,420 | 68,51,460 | 7,53,661 |
| | | | 354/3D | 5 | 17,80,200 | 2,23,080 | 15,57,120 | 1,71,283 |
| 19869/2021 | | 354/3D | 5 | 17,80,200 | 2,75,000 | 15,05,200 | 1,65,572 | |
| Total | | | 2,330.8 | 83,34,18,432 | 12,85,89,870 | 70,48,28,562 | 7,75,31,134 | |

Appendix- 3.1 (b) (Para 3.4.1 (b))

Short collection of Stamp Duty and Registration Fee due to undervaluation of property

| Current Document No. | Previous Document No. | Survey No. | Area conveyed to society vide Current Document (Acres) | Value adopted for conveyance in Current Document (₹) | Value adopted in Previous Document (₹) | Difference in Value in previous document (₹) | Difference of SD and RF to be collected @ 11 per cent (₹) |
|----------------------|-----------------------|------------|--|--|--|--|---|
| 969/ 2022 | 2571/ 2021 | 62/3A | 1.40 | 3,22,56,000 | 77,00,000 | 2,45,56,000 | 27,01,160 |
| | | 62/3B | 1.40 | 3,22,56,000 | 77,00,000 | 2,45,56,000 | 27,01,160 |
| | 3730 /2021 | 62/2 | 2.17 | 4,99,96,800 | 1,09,04,250 | 3,90,92,550 | 43,00,181 |
| 970/ 2022 | 2572/ 2021 | 6/2B | 1.05 | 2,41,92,000 | 57,75,000 | 1,84,17,000 | 20,25,870 |
| | | 6/6D2 | 0.48 | 1,10,59,200 | 26,40,000 | 84,19,200 | 9,26,112 |
| | | 6/7A | 0.52 | 1,19,80,800 | 28,60,000 | 91,20,800 | 10,03,288 |
| | 3048/ 2021 | 12/3 | 0.28 | 64,51,200 | 15,40,000 | 49,11,200 | 5,40,232 |
| | | 12/4 | 0.21 | 48,38,400 | 11,55,000 | 36,83,400 | 4,05,174 |
| | | 12/7 | 0.48 | 1,10,59,200 | 26,40,000 | 84,19,200 | 9,26,112 |
| | | 12/9 | 0.28 | 64,51,200 | 15,40,000 | 49,11,200 | 5,40,232 |
| | 13/4 | 0.17 | 39,16,800 | 9,35,000 | 29,81,800 | 3,27,998 | |
| 971/ 2022 | 4863/ 2021 | 6/5A | 0.72 | 1,65,88,800 | 36,18,000 | 1,29,70,800 | 14,26,788 |
| Total | | | 9.16 | 21,10,46,400 | 4,90,07,250 | 16,20,39,150 | 1,78,24,307 |

Appendix- 3.2 (Para 3.4.2)

Incorrect classification of instrument

| Sl. No. | Name of the Sub-Registry | Document No. | Value of building determined by AEE (₹) | Stamp Duty to be collected @7 per cent (₹) | Stamp Duty collected (₹) | Short collection (₹) |
|---------|--------------------------|--------------|---|--|--------------------------|----------------------|
| 1 | Perundurai | 5916/ 2021 | 11,89,64,261 | 83,27,498 | 60 | 83,27,438 |
| 2 | | 5917/2021 | 9,11,33,914 | 63,79,374 | 60 | 63,79,314 |
| 3 | Joint I Coimbatore | 2227/2022 | 2,68,74,870 | 18,81,241 | 61 | 18,81,181 |
| 4 | Madhukkarai | 877/2022 | 5,35,66,058 | 37,49,624 | 10 | 37,49,614 |
| 5 | | 878/2022 | 5,72,45,523 | 40,07,187 | 10 | 40,07,177 |
| 6 | | 879/2022 | 2,77,39,577 | 19,41,770 | 10 | 19,41,760 |
| 7 | Pallavaram | 6146/2021 | 57,18,137 | 4,00,270 | 60 | 4,00,210 |
| 8 | Avinashi | 3409/2019 | 6,11,03,757 | 42,77,263 | 60 | 42,77,203 |
| 9 | | 8881/2021 | 4,70,64,876 | 32,94,541 | 60 | 32,94,481 |
| 10 | | 13528/2021 | 3,74,96,815 | 23,88,561 | 60 | 23,88,501 |
| 11 | | 357/2019 | 3,41,22,305 | 1,48,11,930 | 60 | 1,48,11,870 |
| 12 | Joint II Tiruppur | 5962/2019 | 21,15,99,000 | 1,07,58,981 | 60 | 1,07,58,921 |
| 13 | | 5966/2019 | 15,36,99,731 | 28,85,708 | 60 | 28,85,648 |
| 14 | | 1559/2019 | 4,12,24,396 | 11,95,019 | 60 | 11,94,959 |
| 15 | | 5499/2016 | 1,70,71,702 | 12,44,804 | 10 | 12,44,744 |
| 16 | | 1802/2016 | 1,77,82,909 | 28,79,100 | 60 | 28,79,040 |
| | | Total | 1,00,24,07,831 | 7,04,22,871 | 761 | 7,04,22,061 |

Appendix- 3.3 (Para 3.4.3)

Non levy of stamp duty on properties transferred during the amalgamation/demerger of companies

| Sl. No. | Name of the office | Transferor company | Transferee company (Vendor) | Doc No. | Total value (₹) | Stamp duty @2 per cent (₹) |
|---------|--------------------|---|------------------------------------|------------------------|-----------------|----------------------------|
| 1 | Redhills | KVT Realtors | M/S KVT Realtors Private Limited | 6909/2020 | 8,17,18,560 | 16,34,371 |
| 2 | Redhills | M/S KVT Realtors Private Limited | M/s K.V.T Homes & Estates Pvt. Ltd | 6636/2020 8901/2020 | 12,89,37,600 | 25,78,752 |
| 3 | Redhills | KVT Properties Private Limited | M/s K.V.T Homes & Estates Pvt. Ltd | 10985/2020 | 3,03,00,000 | 6,06,000 |
| 4 | Redhills | KVT Properties Private Limited | M/s K.V.T Homes & Estates Pvt. Ltd | 8209/2020 | 3,56,42,080 | 7,12,842 |
| 5 | Redhills | KVT Builders and Developers private Limited | M/s K.V.T Homes & Estates Pvt. Ltd | 6320/2020 | 38,75,000 | 77,500 |
| 6 | Redhills | KVT Builders and Developers private Limited | M/s K.V.T Homes & Estates Pvt. Ltd | 814/2021 | 32,00,000 | 64,000 |
| 7 | Redhills | KVT Builders and Developers private Limited | M/s K.V.T Homes & Estates Pvt. Ltd | 1215/2021 | 82,50,000 | 1,65,000 |
| 8 | Redhills | KVT Builders and Developers private Limited | M/s K.V.T Homes & Estates Pvt. Ltd | 2995/2021 | 51,50,000 | 1,03,000 |
| 9 | Redhills | KVT Builders and Developers private Limited | M/s K.V.T Homes & Estates Pvt. Ltd | 3366/2021 | 19,50,000 | 39,000 |
| 10 | Redhills | KVT Builders and Developers private Limited | M/s K.V.T Homes & Estates Pvt. Ltd | 3367/2021 | 1,74,24,000 | 3,48,480 |
| 11 | Redhills | KVT Builders and Developers private Limited | M/s K.V.T Homes & Estates Pvt. Ltd | 3924/2021 | 18,00,000 | 36,000 |
| 12 | Redhills | KVT Builders and Developers private Limited | M/s K.V.T Homes & Estates Pvt. Ltd | 9156/2020 | 10,00,000 | 20,000 |
| 13 | Redhills | KVT Builders and Developers private Limited | M/s K.V.T Homes & Estates Pvt. Ltd | 3964/2021 | 10,00,000 | 20,000 |
| 14 | Redhills | KVT Builders and Developers private Limited | M/s K.V.T Homes & Estates Pvt. Ltd | 1225/2021 | 1,28,50,200 | 2,57,004 |
| 15 | Redhills | KVT Builders and Developers private Limited | M/s K.V.T Homes & Estates Pvt. Ltd | 10181/2020 | 41,38,200 | 82,764 |

| Sl. No. | Name of the office | Transferor company | Transferee company (Vendor) | Doc No. | Total value (₹) | Stamp duty @2 per cent (₹) |
|--------------|--------------------|---|--|-----------|-----------------------|----------------------------|
| 16 | Redhills | KVT Builders and Developers private Limited | M/s K.V.T Homes & Estates Pvt. Ltd | 264/2021 | 89,29,800 | 1,78,596 |
| 17 | Thirukazhukundram | M/s ETA Star Bashyam Properties Private Limited | M/s ArunExcello Realty Pvt Ltd. | 1101/2021 | 21,00,71,750 | 42,01,435 |
| | | | | 2288/2017 | | |
| 18 | Thirukazhukundram | M/s Siva Ventures limited | M/s Siva Industries and Holdings Ltd | 935/2019 | 17,72,89,200 | 35,45,784 |
| 19 | Gandhipuram | M/s Mahee Engineering P Ltd | M/s Mahendera Pumps Pvt. Ltd. | 4567/2020 | 3,18,67,200 | 6,37,344 |
| | | | | 4568/2020 | | |
| 20 | Gandhipuram | M/s Mahee Engineering P Ltd | M/s Mahendera Pumps Pvt. Ltd. | 4569/2020 | | |
| 21 | Gandhipuram | M/s Mahee Engineering P Ltd | M/s Mahendera Pumps Pvt. Ltd. | 4570/2020 | | |
| 22 | Villivakkam | M/s. Egberts India P. Ltd | M/s Shreekeerthi Properties P Ltd | 140/2021 | 9,62,13,150 | 19,24,263 |
| 23 | Thiruporur | M/s. ABN Infratech Private Ltd | Khivraj Tech Park Private Limited | 4374/2021 | 22,99,96,800 | 45,99,936 |
| 24 | Thiruporur | Navigator Estates Private Limited | Acestar Properties Private Limited | 3684/2021 | 11,83,03,200 | 23,66,064 |
| 25 | Thiruporur | Ebisu Township Private Limited | Hiranandani Realtors Private Limited | 7432/2020 | 1,08,00,000 | 2,16,000 |
| 26 | Tambaram | M/s AZTEC Properties Private Limited | M/s. VGN Projects Estate Private Limited | 3163/2020 | 1,70,75,52,000 | 3,41,51,040 |
| Total | | | | | 2,92,82,58,740 | 5,85,65,175 |

Appendix- 3.4 (Para 3.4.4)

Short collection of Stamp Duty and Registration Fee due to non-inclusion of cost of the Windmills

| Particulars | Amount |
|--|---|
| Value of the land (A) | ₹2,52,35,60,094 |
| Value of the building as assessed by the AEE (B) | ₹1,55,75,75,203 |
| Total value of the property assessed by RO | ₹4,08,11,35,297 |
| ADD: Escaped value of windmills and the land beneath | ₹14,72,12,451 |
| Total value assessable | ₹4,22,83,47,748 |
| Stamp duty (SD) and Registration Fee (RF) payable | ₹46,51,18,252 |
| SD and RF originally collected | ₹27,52,04,561+ ₹15,72,60,712= ₹43,24,65,273 |
| Differential SD and RF collected on building | ₹1,64,72,660 |
| Total collection | ₹44,89,37,933 |
| Short collection | ₹1,61,80,319 |

Appendix- 3.5 (Para 3.4.5)

Escapement of extents and Consequent short collection of Stamp Duty and Registration Fees

| Sl. No. | Name of the Office | Doc. No. | Extent as per parent document in sq.ft/acre/cent | Extent conveyed in sq.ft / acre/ cent | Extent declared short sq.ft /acre /cent | Rate per sq.ft/acre/cent (₹) | Stamp Duty and Registration Fee to be paid (@ 11 per cent) (₹) | Stamp Duty and Registration Fee actually paid (@ 11 per cent) (₹) | Short payment in Stamp Duty and Registration Fee (@ 11 per cent) (₹) |
|--------------|---------------------|-----------|--|---------------------------------------|---|------------------------------|--|---|--|
| 1 | Joint II Coimbatore | 5648/2020 | 4.45 | 4.12 | 0.33 | 2,61,60,000 | 1,28,05,320 | 1,18,55,712 | 9,49,608 |
| 2 | Joint II Coimbatore | 4256/2020 | 69,260 | 62,726 | 6,534 | 335 | 25,52,231 | 23,11,453 | 2,40,778 |
| 3 | Poonamallee | 1488/2020 | 16.32 | 14.97 | 1.35 | 7,71,72,000 | 13,85,39,174 | 12,70,79,132 | 1,14,60,042 |
| 4 | Tiruporur | 3830/2021 | 5 | 4 | 1 | 2,27,50,000 | 1,25,12,500 | 1,00,10,000 | 25,02,500 |
| 5 | Joint II Chengalput | 8758/2020 | 3,168 | 2,432 | 736 | 2,500 | 8,71,200 | 6,68,800 | 2,02,400 |
| Total | | | | | | | 16,72,80,425 | 15,19,25,098 | 1,53,55,328 |

Appendix- 3.6 (Para 3.4.6)

Short collection of Stamp Duty and Registration Fee due to non-adoption of Market value

| | |
|--|---------------------------------------|
| Document No. | : 3599/2021 |
| Value of the instrument | : ₹9,89,13,210 |
| Stamp duty at seven <i>per cent</i> | : ₹69,23,825 |
| Registration fee at four <i>per cent</i> | : ₹39,56,528 |
| Total levy applicable | : ₹1,08,80,353 |
| Stamp duty and Registration levied | : ₹16,25,660 + ₹9,33,240 = ₹25,58,900 |
| Short levy | : ₹83,21,453 |

Appendix- 3.7 (Para 3.4.7)

Incorrect classification of instruments of sale agreement

| | 10178/2021 SR, Tiruvallur | 10182/2021 SR, Tiruvallur | 10751/2021 SR, Joint-I, Chennai South |
|--|-----------------------------------|-----------------------------------|---|
| Date of Execution | 16-8-2021 | 16-8-2021 | 21-9-2021 |
| Date of Registration | 16-8-2021 | 16-8-2021 | 21-9-2021 |
| Nature | Agreement of Sale with possession | Agreement of Sale with possession | Agreement of Sale with possession |
| Intended consideration | ₹2,61,70,200 | ₹2,53,96,350 | ₹10,50,00,000 |
| Registration fee to be collected (one <i>per cent</i> on intended consideration) | ₹2,61,702 | ₹2,53,964 | ₹10,50,000 |
| Amount actually collected | ₹1,00,000 | ₹1,00,000 | ₹2,00,000 |
| Short collection | ₹1,61,702 | ₹1,53,964 | ₹8,50,000 |
| Total short collection | ₹11,65,666 | | |

Appendix- 3.8 (Para 3.4.8)

Non-adoption of appropriate guideline value resulted in undervaluation of property

| | |
|---|---------------------|
| Total extent subjected to conveyance | : 12,928 sq.ft |
| Market value guidelines prescribed | : ₹1,675 per sq.ft. |
| Value of the land conveyed | : ₹2,16,54,400 |
| Value of shed (as stated by the executant) | : ₹21,00,200 |
| Total value of the property | : ₹2,37,54,600 |
| Stamp duty and surcharge at seven <i>per cent</i> | : ₹16,62,822 |
| Registration fee at four <i>per cent</i> | : ₹9,50,184 |
| Total amount to be collected | : ₹26,13,006 |
| Amount actually collected | : ₹17,96,550 |
| Short collection | : ₹8,16,456 |

Glossary of abbreviations

| Abbreviations | Full Form |
|---------------|--|
| AC | Assistant Commissioner |
| AEE | Assistant Executive Engineer |
| API | Application Programming Interface |
| ATN | Action Taken Note |
| CAG | Comptroller and Auditor General of India |
| CBIC | Central Board of Indirect Taxes and Customs |
| CCRA | Chief Controlling Revenue Authority |
| CCT | Commissioner of Commercial Taxes |
| CGST Act | Central Goods and Services Tax Act |
| CGST Rules | Central Goods and Services Tax Rules |
| Commissioner | Commissioner of State Tax |
| CTD | Commercial Taxes Department |
| DC | Deputy Commissioner |
| DIG | Deputy Inspector General of Registration |
| FAQ | Frequently Asked Questions |
| GST | Goods and Services Tax |
| GSTIN | Goods and Services Tax Identification Number |
| GSTN | Goods and Services Tax Network |
| HSN | Harmonized System of Nomenclature |
| IGR | Inspector General of Registration |
| IGST Act | Integrated Goods and Services Tax Act |
| IGST Rules | Integrated Goods and Services Tax Rules |
| IR | Inspection Report |
| IS Act | Indian Stamp Act |
| ISD | Input Service Distributor |
| ITC | Input Tax Credit |
| JC | Joint Commissioner |
| PAC | Public Accounts Committee |
| PAN | Permanent Accountant Number |
| PO | Proper Officer |
| RCM | Reverse Charge Mechanism |
| RO | Registering Officer |
| ROC | Registrar of Companies |

| Abbreviations | Full Form |
|----------------------|--|
| SCN | Show Cause Notice |
| SEZ | Special Economic Zone |
| SGST | State Goods and Services Tax |
| SR | Sub-Registrar |
| TCS | Tax Collected at Source |
| TDS | Tax Deducted at Source |
| TNGST Act | Tamil Nadu Goods and Services Tax Act |
| TNGST Rules | Tamil Nadu Goods and Services Tax Rules |
| TNHB | Tamil Nadu Housing Board |
| TNVAT Act | Tamil Nadu Value Added Tax Act |
| TTDC | Tamil Nadu Tourism Development Corporation |
| UIN | Unique Identity Number |

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