REPORT

OF THE

COMPTROLLER

AND

AUDITOR GENERAL OF INDIA

For the year 1986-87

(REVENUE RECEIPTS)

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PREFATORY REMARKS

The Audit Report on Revenue Receipts of the Government of Karnataka, for the year 1986-87, is presented in this separate volume. The Report has been arranged in the following order.

(i) Chapter 1 gives an over-view of the Report highlighting some of the important irregularities.

(ii) Chapter 2 refers to trend of revenue receipts classifying them broadly under tax revenue and non-tax revenue, the variations between the Budget estimates and the actual receipts under principal heads of revenue, the revenue in arrears for collection and the audit objections and inspection reports outstanding for settlement.

(iii) In Chapters 3 to 10 are set out some of the important irregularities, which came to the notice of audit during test check of records relating to Sales Tax, State Excise Duties, Taxes on Motor Vehicles, Taxes on Agricultural Income, Land Revenue, Stamp Duty and Registration Fees, Forest Receipts and Other Tax and Non-Tax Receipts.

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CHAPTER 1

OVERVIEW

1.1. General (Chapter 2)

1.1.1 The Audit Report of the Comptroller and Auditor General of India on Revenue Receipts of the Government of Karnataka for the year 1986-87 indicates that the revenue raised by the State Government during the year amounted to Rs.1621.34 crores, of which Rs.1205.98 crores represented tax revenue and Rs.415.36 crores non-tax revenue. The State Government also received from Central Government Rs.403.73 crores as State's share of divisible Union Taxes and Rs.259.05 crores as grants-in-aid.(para 2.1)

1.1.2 As at the end of March 1987, uncollected revenue in respect of Sales Tax, State Excise Duties, Taxes on Vehicles, Taxes on Agricultural Income and Forest Receipts amounted to Rs.257.83 crores. (para 2.4)

1.1.3 1,213 local audit reports containing 4,936 objections with money value of Rs.92.80 crores were still to be settled as at the end of September 1987. Out of these, even first reply has not been received in respect of 202 local audit reports containing 950 objections.(para2.7)

1.2. Sales Tax (Chapter 3)

1.2.1 Test check of records in Sales Tax Offices during 1986-87 revealed under-assessments of tax amounting to Rs.459.16 lakhs in 956 cases both under the Karnataka Sales Tax Act, 1957 and Central Sales Tax Act,1956. Some important cases included in the Report

are as under.(Para 3.1)

1.2.2 Incorrect classificiation of goods resulted in short levy of tax amounting to Rs.6.81 lakhs.
(para 3.2)

1.2.3 Application of incorrect rates of tax resulted in under-assessment of tax of Rs.6.17 lakhs.
(para 3.3)

1.2.4 Incorrect grant of exemptions involved short assessment of Rs.12.41 lakhs.(Para 3.4)

1.2.5 Incorrect grant of concessions resulted in under-assessment of Rs.7.33 lakhs.(Para 3.5)

1.2.6 Incorrect determination or escapement of taxable turnover resulted in non-levy of tax of Rs.12.01 lakhs.
(Paras 3.6 and 3.7)

1.2.7 Incorrect allowance of set off resulted in under-assessment of Rs.1.46 lakhs. (Para 3.8)

1.2.8 Credits afforded in excess of the amounts deposited by assessees led to under-assessment of Rs.1.44 lakhs. (Para 3.10)

1.2.9 Turnover tax, additional tax, surcharge and penalty not levied amounted to Rs.71.81 lakhs.
(paras 3.12, 3.13, 3.14 and 3.15)

1.3. State Excise Duties (Chapter 4)

1.3.1. Test check of records in departmental offices during the year 1986-87 disclosed non-levy or short levy of excise duty, licence fee, interest etc., amount-

ing to Rs.3968.61 lakhs in 121 cases. A few important cases brought out in the Report are mentioned under.

(Para 4.1)

1.3.2 Loss of duty amounting to Rs.128.59 lakhs due to drawal of medium grade alcohol in excess of norms by two distilleries. (Para 4.2)

1.3.3 Non-levy of duty amounting to Rs.59.62 lakhs on spirit wasted in excess of norms by a distillery and two industrial chemical units. (Para 4.3)

1.3.4 Loss of revenue amounting to Rs.56.58 lakhs due to low yield of spirit from molasses in a distillery. (Para 4.4)

1.3.5 Non-recovery of duty amounting to Rs.213.00 lakhs from 7 distilleries/breweries in respect of liquor exported outside the State but for which reports of verification/warehousing had not been received from the importing States even after a lapse of two to three years. (Para 4.5(i))

1.3.6 Short recovery/non-recovery of licence fee from breweries, retail shops and bars amounting to Rs.28.49 lakhs.(Para 4.6)

1.3.7 Non-recovery of interest as prescribed under the rules, on belated payments of shop rentals by arrack and toddy contractors, amounting to Rs.197.00 lakhs. (Para 4.10)

1.3.8 Review on 'Use of alcohol by chemical industrial units' brings out a loss of revenue of Rs.394.99 lakhs due to the defective/excessive allotment of

spirit to these industries. (Para 4.12)

1.3.9 Review on 'Fixation of purchase and sale prices of arrack' **inter alia** brings out a loss of revenue of Rs.328.39 lakhs due to the failure on the part of the department to exercise sufficient scrutiny over the fixation of the sale price of arrack and its revision from time to time.(Para 4.13)

1.3.10 Review on 'Uncollected excise revenue' points out the inadequacy of the departmental action for recovery in specific cases, resulting in accumulation of huge arrears(Rs.67.10 crores as on 31st March 1987).(Para 4.14)

1.4 Taxes on Motor Vehicles (Chapter 5)

1.4.1 Test check of records in the Motor Vehicles department during 1986-87 revealed non-levy or short levy of tax, penalty, etc., amounting to Rs.1627.42 lakhs in 164 cases. Some important cases included in the Report are as under.(Para 5.1)

1.4.2 Short recovery of Rs.2.53 lakhs due to application of incorrect rates of tax. (Para 5.2)

1.4.3 Non-recovery/short recovery of tax amounting to Rs.9.64 lakhs.(Paras 5.3, 5.4 and 5.5)

1.4.4 Review on "Working of the National permit Scheme and agreements regulating inter-State vehicular traffic" has brought out loss and non-recoveries of revenue amounting to Rs.37.70 lakhs.(Para 5.9)

1.5. Taxes on Agricultural Income (Chapter 6)

1.5.1 Test check of records in Agricultural Income Tax Offices during 1986-87 revealed non-levy or short levy of tax, penalty, interest etc., amounting to Rs.48.13 lakhs in 58 cases. Some important cases included in the Report are as under.

(Para 6.1)

1.5.2 Omission to assess the income returned by the assessees and income escaping assessment resulted in short levy of tax amounting to Rs.3.67 lakhs.

(Paras 6.2 and 6.3)

1.5.3 Incorrect determination of taxable income and mistakes in computation of taxable income resulted in short levy of tax amounting to Rs.11.75 lakhs.

(Paras 6.4 and 6.5)

1.5.4 Allowance of excess deduction towards interest on amounts borrowed by assessees for earning agricultural income resulted in short levy of tax amounting to Rs.1.95 lakhs.

(Para 6.6)

1.5.5 For delayed payment of tax and in cases in which the advance tax paid was less than the actual tax assessed by more than 25 per cent, interest and penalty amounting to Rs.2.29 lakhs were leviable, but not levied.

(Para 6.11)

1.6. Land Revenue (Chapter 7)

1.6.1 Test check of records in taluk offices during 1986-87 revealed non-levy/short levy of land revenue, cesses and water rates amounting to Rs.565.42 lakhs in 75 cases. Important cases included in the Report are mentioned below.

(Para 7.1)

1.6.2 Omission to raise demands for water rates amounting to Rs.448.27 lakhs.(Para 7.2)

1.6.3 Penal water rate not levied amounted to Rs. 230.02 lakhs.(Para 7.3)

1.6.4 For water made available from Government irrigation works, non-levy or short levy of maintenance cess amounted to Rs.47.38 lakhs.(Para 7.4)

1.6.5 Conversion fine in respect of agricultural lands permitted to be used for non-agricultural purposes was levied short by Rs.3.49 lakhs.(Para 7.5)

1.7. Stamp duty and Registration Fees(Chapter 8)

1.7.1 Test check of documents in the offices of the Registrars and Sub-Registrars during 1986-87 disclosed under-assessments of stamp duty and registration fees amounting to Rs.32.33 lakhs in 63 cases. Important cases included in the Report are mentioned below. (Para 8.1)

1.7.2 In 20 sub-registries due to irregular grant of exemption/concession, though not specifically covered by notifications issued by Government from time to time under the Act, duty short levied amounted to Rs.11.95 lakhs. (Para 8.2)

1.7.3 Due to misclassification of 64 documents in 7 sub-registries, the duty short levied amounted to Rs.1.46 lakhs. (Para 8.4)

1.8 Forest Receipts (Chapter 9)

1.8.1 Test check of records in the divisions of the Forest Department during 1986-87 disclosed non-recovery or short recovery of forest receipts amounting to Rs.140.97 lakhs in 93 cases. Important cases included in the Report are mentioned below.(Para 9.1)

1.8.2 The recovery of value of forest produce at rates lower than the seigniorage rates resulted in short recovery of Rs.22.67 lakhs in 4 forest divisions. (Para 9.2)

1.8.3 In respect of granite quarriesin 2 forest divisions leased out to contractors, lease rent not recovered amounted to Rs.3.92 lakhs.(Para 9.5(i))

1.8.4 Non-revision of lease rents and categorisation in respect of forest lands, leases in respect of which were being extended year after year for nominal rents varying from Rs.1.50 to Rs.10 per acre per year, involved annual recurring loss of Rs.10.91 lakhs for the period from 1976-77 to 1985-86.(Para 9.5(ii))

1.8.5 Non-recovcery or short recovery of value of firewood, supplied to a Corporation and individuals by two forest divisions ,amounted to Rs.8.14 lakhs. (Para 9.6)

1.8.6 Review on 'Pricing of forest produce with special reference to wood-based industries' has brought out loss of revenue amounting to Rs.17.72 lakhs due to non-adoption of the correct rates prevalent from time to time, non-recovery of supervision charges, short recovery of taxes etc.(Para 9.9)

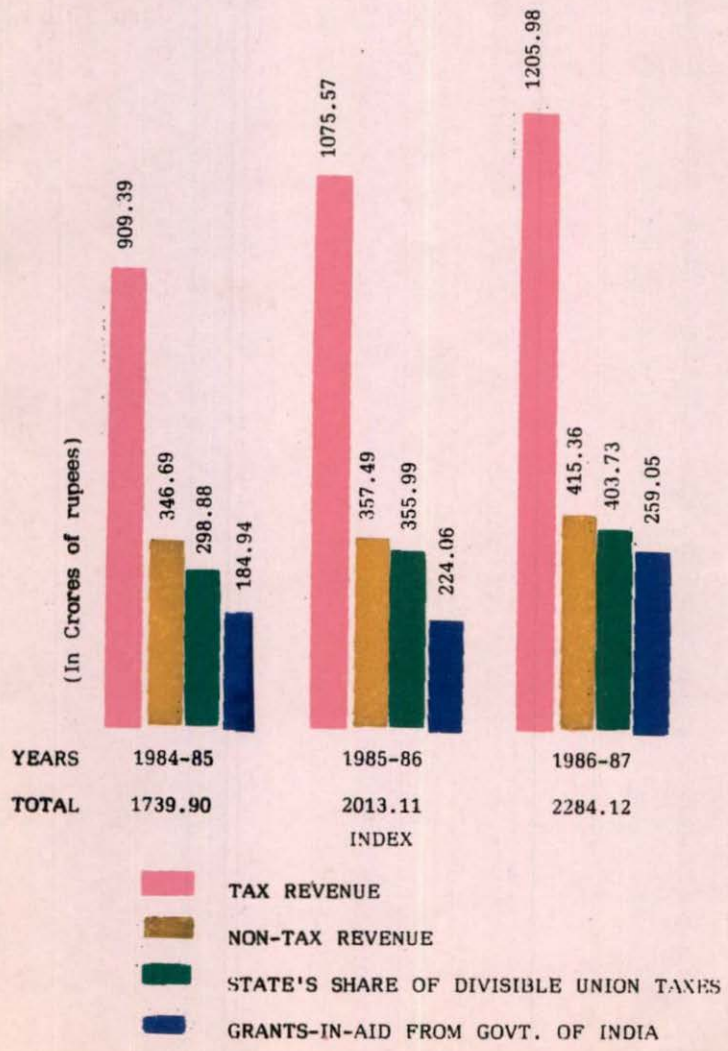
1.9 Other Tax and Non-tax Receipts (Chapter 10)

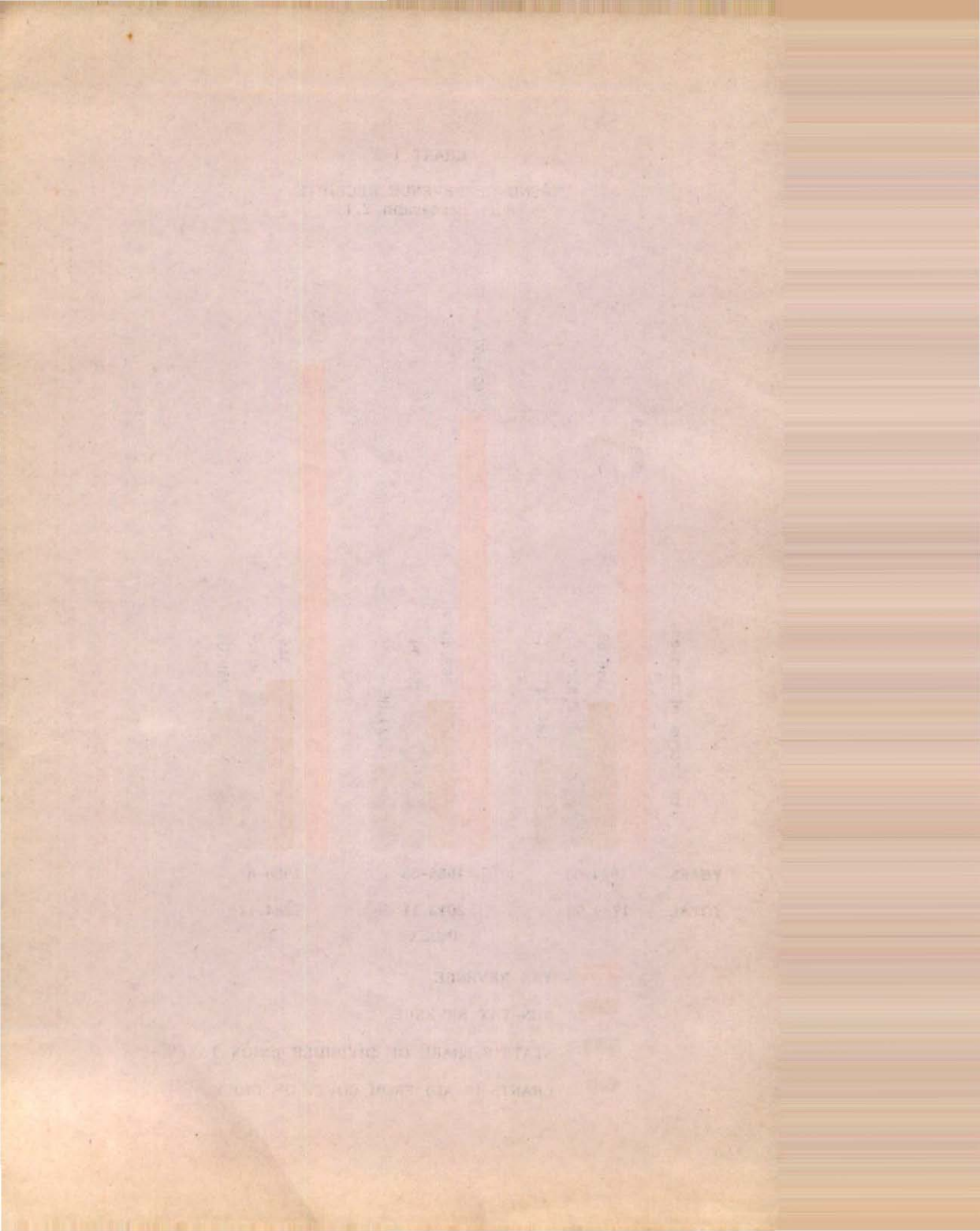
1.9.1 Test check of records in the Entertainments Tax Offices during 1986-87 revealed under-assessments of tax amounting to Rs.6.83 lakhs in 38 cases.

(Para 10.1)

CHART 1

TREND OF REVENUE RECEIPTS
(Ref: Paragraph 2.1)





CHAPTER 2

G E N E R A L

2.1. Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Karanataka during the year 1986-87, the share of taxes and grants-in-aid received from the Government of India during the year, the percentage of revenue/ receipts to total receipts during the year and the corresponding figures for the preceding two years are given below. The trend of revenue receipts during the last three years is also exhibited in Chart 1.

	1984-85 (1)	1985-86 (2)	1986-87 (3)	Percentage of revenue/receipts to total receipts 1986-87
	(In crores of rupees)			
I. Revenue raised by the State Government				
a) Tax Revenue	909.39	1075.57	1205.98	52.80
b) Non-tax Revenue	346.69	357.49	415.36	18.18
Total	1256.08	1433.06	1621.34	70.98
II. Receipts from Government of India				
a) State's share of divisible Union Taxes	298.88	355.99	403.73	17.68
b) Grants-in-aid	184.94	224.06	259.05*	11.34
Total	483.82	580.05	662.78	29.02
III. Total receipts of the State Government (I + II)	1739.90	2013.11	2284.12	-

*For details, see Statement No.11 - Detailed account of revenue by minor heads in the Finance Accounts of the Government of Karnataka 1986-87.

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(i) The details of tax revenue raised during the year 1986-87, alongside the figures for the preceding two years, are given below:

	1984-85	1985-86	1986-87	Percentage of increase (+) in 1986-87 over 1985-86
	(In crores of rupees)			
	(1)	(2)	(3)	(4)
i) Sales Tax	484.59	596.05	646.99	(+) 8.55
ii) State Excise Duties	180.62	188.56	206.75	(+) 9.65
iii) Taxes on Vehicles	79.91	97.15	134.82	(+) 38.78
iv) Stamps and Registration Fees	46.80	51.33	61.32	(+) 19.46
v) Taxes on Agricultural Income	7.12	6.90	8.71	(+) 26.23
vi) Other taxes on Income and Expenditure	5.55	6.92	8.76	(+) 26.58
vii) Taxes on Goods and Passengers	17.24	25.68	32.02	(+) 24.69
viii) Land Revenue	7.30	7.85	10.66	(+) 35.80
ix) Taxes and Duties on Electricity	39.13	47.85	47.97	(+) 0.25

(1)	(2)	(3)	(4)
x) Other Taxes and Duties on Commodities and Services	41.13	47.28	47.98	(+) 1.48
Total	909.39	1075.57	1205.98	(+) 12.12

(a) The increase of 38.78 per cent under 'Taxes on Vehicles' is due to introduction of lumpsum payment of tax in respect of two wheelers, enhancement of tax in respect of various categories of vehicles and collection of tax at 15 per cent of revenue collections in respect of public service vehicles owned by Karnataka State Road Transport Corporation.

(b) The increase of 26.23 per cent under 'Taxes on Agricultural Income' is mainly due to increased revenue in respect of the bumper coffee crop during 1984-85 realised in 1986-87.

(c) The increase of 24.69 per cent under 'Taxes on Goods and Passengers' is mainly due to increase in the rates of tax on certain commodities introduced during the middle of 1985-86 and also due to finalisation of pending assessments.

(ii) The details of non-tax revenue received during the year 1986-87, alongside figures for the

preceding two years, are given below:

		1984-85 (1)	1985-86 (2)	1986-87 (3)	Percentage of increase (+) or decrease(-) in 1986-87 over 1985-86 (4)
		(In crores of rupees)			
i)	Interest	141.82	145.39	172.37	(+) 18.56
ii)	Forest	55.74	56.36	53.01	(-) 5.94
iii)	Industries	2.40	2.72	3.12	(+) 14.71
iv)	Irrigation, Navigation, Drainage and Flood Control Projects	5.92	6.65	8.47	(+) 27.37
v)	Education	6.83	9.42	9,38	(-) 0.42
vi)	Medical	4.14	6.40	8.18	(+) 27.81
vii)	Miscellaneous General Services	27.34	29.95	46.12	(+) 53.99
viii)	Power Projects	29.43	27.21	25.15	(-) 7.57
ix)	Agriculture	2.15	2.03	2.87	(+) 41.38
x)	Stationery& Printing	2.56	1.39	1.37	(-) 1.44
xi)	Co-operation	2.46	5.27	3.77	(-) 28.46
xii)	Others	65.90	64.70	81.55	(+) 26.04
	Total	346.69	357.49	415.36	(+) 16.19

(a) The increase of 27.37 per cent under 'Irrigation, Navigation, Drainage and Flood Control Projects' is mainly due to increased revenue under water rate from more areas coming under cultivation.

(b) .The increase of 53.99 per cent under 'Miscellaneous General Services' is mainly due to increase in other receipts (18.69 crores), partly offset by decrease in revenue from State Lotteries (Rs.1.66 crores) and unclaimed deposits (Rs.0.43 crore).

2.2. Variations between Budget estimates and actuals

2.2.1 The variations between the Budget estimates and the actual receipts for the year 1986-87 are given below.

	Budget estimates (Revised) 1986-87	Acutals for 1986-87	Variation Increase (+) Decrease (-)	Percentage of variations
	(In crores of rupees)			
1. Tax Revenue	1299.20	1205.98	(-) 93.22	(-) 7.18
2. Non-tax Revenue	443.88	415.36	(-) 28.52	(-) 6.43
3. Share of Union taxes	412.86	403.73	(-) 9.13	(-) 2.21
4.Grants-in-aid from Government of India	248.46	259.05	(+) 10.59	(+) 4.26
Total	2404.40	2284.12	(-)120.28	(-) 5.00

2.2.2. The variations between Budget estimates of principal heads of revenue for the year 1986-87 and the actual receipts are indicated below:

Head of Revenue (1)	Budget Estimates (Revised) (2)	Actuals (3)	Variation Increase (+) Decrease (-) (4)	Percentage of Variation (5)
	(In crores of rupees)			
Sales Tax	693.00	646.99	(-) 46.01	(-) 6.64
State Excise Duties	238.00	206.75	(-) 31.25	(-) 13.13
Taxes on Vehicles	150.00	134.82	(-) 15.18	(-) 10.12
Stamps and Registration Fees	63.00	61.32	(-) 1.68	(-) 2.67
Taxes on Goods and Passengers	30.00	32.02	(+) 2.02	(+) 6.73
Interest Receipts	192.50	172.37	(-) 20.13	(-) 10.45
Education	9.83	9.38	(-) 0.45	(-) 4.58
Co-operation	2.83	3.77	(+) 0.94	(+) 33.21
Industries	2.90	3.12	(+) 0.22	(+) 7.59
Power Projects	25.46	25.15	(-) 0.31	(-) 1.22

2.3: Cost of collection

Expenditure incurred in collecting the major receipts during the year 1986-87, alongside figures for the preceding two years, is indicated below:

Head of Revenue	Year	Gross collections*	Expenditure on collection	Percentage of expenditure to gross collection
(1)	(2)	(3)	(4)	(5)
		(In crores of rupees)		
Sales Tax	1984-85	485.36	7.01	1.44
	1985-86	596.87	8.09	1.36
	1986-87	652.18	7.52	1.15
State Excise Duties	1984-85	180.77	5.39	2.98
	1985-86	189.07	5.76	3.05
	1986-87	207.67	6.41	3.09
Taxes on Vehicles	1984-85	79.99	2.74	3.43
	1985-86	97.42	3.08	3.16
	1986-87	135.06	2.79	2.07
Taxes on Agricultural Income	1984-85	7.15	0.40	5.59
	1985-86	6.91	0.40	5.79
	1986-87	8.79	0.46	5.23
Forest	1984-85	55.80	10.26	18.39
	1985-86	56.47	11.51	20.38
	1986-87	53.06	11.79	22.22
Stamps & Registration Fees	1984-85	47.68	3.29	6.90
	1985-86	54.06	3.49	6.46
	1986-87	70.89	4.02	5.67

*The figures represent gross collections before deduction of refunds

2.4. Uncollected revenue

The arrears of revenue pending collection as on 31st March 1987 in respect of certain important sources of revenue, as reported by the department concerned, and corresponding figures for the preceding two yeares are indicated below. The arrears of revenue are also exhibited in Chart-2.

Source of Revenue	Amount pending collection as on 31st March 1985	31st March 1986	31st March 1987
(1)	(2)	(3)	(4)
	(In crores of rupees)		
Sales Tax	128.39	144.77	154.52
State Excise Duties	36.70	59.05	67.10
Taxes on Vehicles	11.74	19.51	9.14
Taxes on Agricultural Income	3.58	3.65	3.65
Forest	28.19	32.34	23.42

(a) The arrears (Rs.154.52 crores) under 'Sales Tax' at the end of March 1987 had registered an increase of 6.7 per cent over those (Rs.144.77 crores) at the end of March 1986.

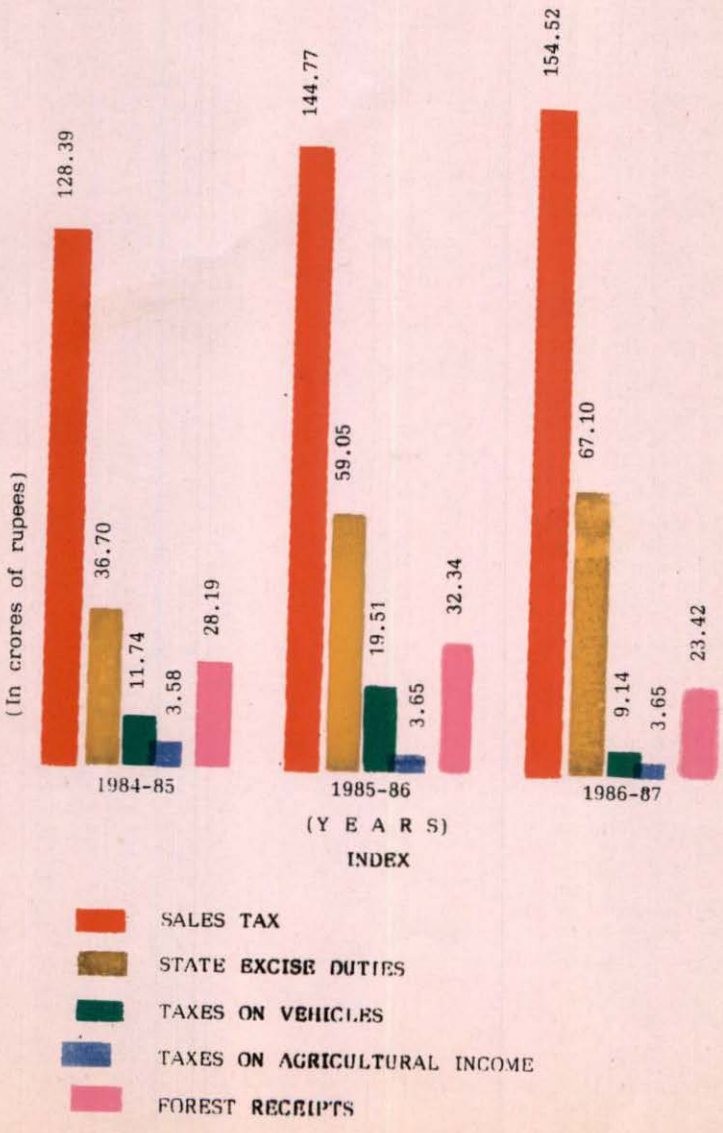
(b) The arrears (Rs.67.10 crores) under 'State Excise Duties' at the end of March 1987 had registered an increase of 13.6 per cent over those (Rs.59.05 crores) at the end of March 1986. Out of Rs.67.10 crores, Rs.1.64 crores related to periods prior to 1981-82 and Rs.30.20 crores were covered by stay orders of Court.

(c) Out of the arrears of Rs.23.42 crores under 'Forest', show cause notices have been issued in respect of cases involving Rs.12.97 crores and coersive measures initiated in respect of cases involving Rs.7.90 crores.

CHART 2

UN-COLLECTED REVENUE

(Reference: Paragraph 2.4)



2.5. Write-off and remission of revenue

In Motor vehicles department, an amount of Rs.14.46 lakhs was written off in 181 cases during the year 1986-87. In addition, a sum of Rs.6.21 lakhs was remitted in 149 cases by way of abatement of demands, which had been raised erroneously during the earlier years.

2.6. Assessments in arrears

The number of assessments pending finalisation at the beginning of the year 1986-87, number of fresh assessments due for finalisation during the year, number of assessments finalised and the number of assessments pending finalisation at the close of the year in respect of Sales Tax and Agricultural Income Tax, as reported by the departments concerned, are given below:

	Karnataka Sales Tax (1)	Central Sales Tax (2)	Agricultural Income Tax (3)
1. Number of assessments pending finalisation as on 1st April 1986	1,89,182	92,568	1,36,452
2. Number of fresh assessments due for finalisation during 1986-87	1,57,302	67,098	35,320
3. Number of assessments finalised during 1986-87	1,48,884	58,874	31,233

	(1)	(2)	(3)
4. Number of assessments pending finalisation as on 31st March 1987	1,97,600	1,00,792	1,40,539

The year-wise breakup of assessments in arrears is given below:

Year	Karnataka Sales Tax	Central Sales Tax	Agricultural income Tax
1982-83 and earlier years	28,957	12,868	1,26,826
1983-84	24,219	11,821	2,014
1984-85	44,980	24,049	2,235
1985-86	94,295	48,987	3,721
1986-87	5,149	3,067	5,743
Total	1,97,600	1,00,792	1,40,539

The information in respect of Karnataka Entertainments Tax has not been received from the department(February 1988).

2.7. Internal Audit

No internal audit system has been established in the State Excise and Registration Departments even

though the Public Accounts Committee had, in their fourteenth report (Sixth Assembly) and third report (Eighth Assembly), recommended in September 1982 and August 1985 respectively that a system of internal audit should be introduced in these departments.

In motor vehicles department, as at the end of October 1987, 10 offices and 25 offices had not been internally audited for the year 1984-85 and 1985-86 respectively. 4014 objections valuing Rs.136.30 lakhs raised during internal audit were pending settlement as at the end of March 1987.

Similar information in respect of other departments had not been received (December 1987).

2.8. Outstanding local audit reports and audit objections

Irregularities in assessments of revenue and defects in the accounting of revenue receipts noticed in audit and not settled on the spot are communicated to Heads of Office and to the departmental authorities through local audit reports. The most important and serious irregularities are reported to the Heads of Departments and to the Government. In addition, statements indicating the number of objections outstanding for over six months are also sent to Government for expediting their settlement. Government have prescribed a time limit of one month for furnishing replies to audit objection. In respect of cases requiring action at higher levels, a period of three months has been fixed.

At the end of September 1987, in respect of local audit reports issued upto March 1987, 4,936 audit objections involving amount of Rs.92.80 crores were still to be settled as per details given below. The correspond-

ing position in the earlier two years has also been indicated alongside

	As at the end of September 1985	September 1986	September 1987
Number of outstanding local audit reports	963	986	1,213
Number of outstanding audit obections	7,468	4,942	4,936
Amount of receipts involved (in crores of rupees)	52.38	62.35	92.80

Year-wise break-up of the outstanding local audit reports, audit objections and amount involved therein, as at the end of September 1987, is given below:

Year	Number of outstanding local audit reports	Number of outstanding audit objections	Amount of receipts involved (In crores of rupees)
Upto 1984-85	470	1,955	13.62
1985-86	306	1,098	18.26
1986-87	437	1,883	60.92
Total	1,213	4,936	92.80

Out of 1,213 local audit reports which were pending settlement, even first replies had not been received (November 1987) in respect of 202 local audit reports containing 950 objections.

The receipt-wise break-up of outstanding local audit reports, audit objections and amount involved therein, as on 30th September 1987 is indicated below:

Name of receipt	Number of outstanding local audit reports	Number of outstanding audit objections	Amount of receipts involved (In lakhs of rupees)
1. Sales Tax	521	2,067	1,000.08
2. State Excise Duties	159	539	4,903.02
3. Taxes on Vehicles	35	326	1,503.32
4. Taxes on Agricultural Income	24	272	89.48
5. Land Revenue	188	363	851.78
6. Stamps and Registration Fees	168	904	149.49
7. Forest Receipts	71	373	624.24
8. Electricity Duty	6	20	126.64
9. Entertainments Tax	37	63	10.41
10. Profession Tax	2	7	5.88
11. Betting tax	1	1	14.00
12. Entry Tax	1	1	1.39
Total	1,213	4,936	9,279.73

CHAPTER 3

SALES TAX

3.1. Results of Audit

Test check of records in Sales Tax offices, conducted in audit during 1986-87, disclosed under - assessments of tax amounting to Rs.459.16 lakhs in 956 cases, which broadly fall under the following categories.

	Number of cases	Under-assessment (In lakhs of rupees)
1. Short levy of tax/ surcharge	228	61.57
2. Incorrect computation of taxable turnover	59	14.84
3. Irregular grant of exemption from tax	65	31.22
4. Non-levy of penalty	86	13.10
5. Other irregularities	518	338.43
Total	956	459.16

Some of the important cases are mentioned in the following paragraphs.

3.2. Short levy due to misclassification of goods -

(i) Under the Karnataka Sales Tax Act, 1957, on sales of 'tractors and accessories and parts thereof', tax

is leviable at the rate of 10 per cent with effect from 17th April 1980 under entry number 20 of Second Schedule to the Act and with effect from 4th April 1981 under entry No.124-A of the Schedule ibid. Tractor-trailers and parts and accessories thereof are, however, taxable at the rate of 8 per cent.

In Dharwar district, on sale of tractors and parts thereof amounting to Rs.73,99,708 made by a dealer during the period from 17th April 1980 to 31st March 1981, tax was incorrectly levied at the rate of 8 percent applicable to tractor-trailers, instead of at the correct rate of 10 percent. The mistake resulted in tax being levied short by Rs.1,81,293 (including surcharge and additional tax).

On the mistake being pointed out in audit (November 1986), the assessing authority agreed to examine the case. Report on the result of examination has not been received(October 1987).

(ii) Under the Karnataka Sales Tax Act, 1957, on sale of chemicals of all kinds, tax is leviable at the rate of 10 per cent, with effect from 1st April 1982, at the point of first or earliest of successive sales within the State.

(a) In Bangalore City, on sales of aromtic and fine chemicals amounting to Rs.11,34,492, made by a manufacturer during the year 1984-85, tax was incorrectly levied at the rate of 5 per cent, treating them as unclassified goods, instead of at 10 per cent as aforesaid. The incorrect classification of goods resulted in tax being levied short by Rs.68,069 (including surcharge and rural development cess).

On the mistake being pointed out in audit (November 1986), the assessing officer initiated (November 1986) rectificatory action. Report on final action taken

has not been received (October 1987)

(b) In Bangalore City, on first point sale of foundry chemicals valuing Rs.3,35,848 made by a dealer during the years 1983-84 and 1984-85, tax was incorrect -ly levied at the general rate of 5 per cent, instead of at 10 per cent as aforesaid. The mistake resulted in tax being levied short by Rs.19,013 (including surcharge and rural development cess).

On the mistake being pointed out in audit (November1986), the assessing officer agreed (November 1986) to examine the case. Report on result of examination has not been received (October 1987)

(iii) Under the Karnataka Sales Tax Act, 1957, on sale of duplex boards, tax is leviable at the rate of 7 per cent on the first or earliest of successive sales within the State.

In Bangalore City, on sales of duplex boards amounting to Rs.20,96,043, made by a manufacturer during the year 1982-83, tax was incorrectly levied (May 1985) at the rate of 5 per cent, treating it as unclassified goods, instead of at 7 per cent as aforesaid. The incorrect classification of goods resulted in tax being levied short by Rs.46,113 (including surcharge).

The mistake was reported to the department in September 1986); their reply has not been received (October 1987).

(iv) Under the Karnataka Sales Tax Act, 1957, on sale of hides and skins (declared goods) whether in a raw or dressed state, tax is leviable at the rate of 4 per cent at the point of last purchase in the State. On inter-State sales of declared goods not covered by prescribed declarations, tax is leviable at twice

the rate applicable to sale or purchase of such goods within the State and in the case of goods other than declared goods, tax is leviable at the rate of 10 per cent or at the rate applicable to sale or purchase of such goods within the State, whichever is higher. 'Shoe upper' is not a declared goods as it cannot be taken as hides and skins in raw or dressed state, but is a manufactured item out of raw materials such as leather, leather thread and cloth.

In Bangalore district, on inter State sales of 'shoe upper' amounting to Rs.18,23,896 (not covered by prescribed declarations) made by a dealer during the calendar year 1982, tax was incorrectly levied at the rate of 8 per cent, treating it as declared goods, instead of at 10 per cent. The incorrect classification of goods resulted in tax being levied short by Rs.36,468.

On the mistake being pointed out in audit (November 1986), the assessing authority stated that shoe upper is not a finished product but a raw material for manufacture of shoes. The reply is not acceptable as 'shoe upper' is a manufactured item which does not fit into the entry hides and skins, whether in a raw or dressed state, included in the Schedule of declared goods.

(v) Under the Karnataka Sales Tax Act, 1957, on sale of industrial gases such as oxygen, acetelyne, nitrogen and the like, tax was leviable at the rate of 10 per cent upto 31st March 1986 (13 per cent from 1st April 1986). It has been clarified by the Commissioner of Commercial taxes that 'freon gas' is an industrial gas, falling under the above entry.

In Bangalore City, on sales of 'freon gas' amounting to Rs.6 lakhs made by a dealer during the calendar

year 1980, tax was incorrectly levied (January 1986) at the general rate of 4 per cent applicable to unclassified goods, instead of at 10 per cent as aforesaid. The incorrect classification resulted in tax being levied short by Rs.43,200 (including surcharge and additional tax).

The mistake was reported to the department in July 1986; their reply has not been received (October 1987).

(vi) Under entry 73 of the Second Schedule to the Karnataka Sales Tax Act, 1957, on sales of articles used generally as parts and accessories of motor vehicles, tax was leviable at the rate of 13 per cent upto 3rd April 1981(12 per cent from 4th April 1981) on the first or earliest of successive sales within the State. Fan-belts are taxable under the above entry.

In Dharwar district, on sales of fan-belts valuing Rs.8,98,302 made by a dealer during the years 1980-81 to 1982-83, tax was incorrectly levied (September 1984) at the rate of 8 per cent, treating it as transmission belts of vulcanised rubber, instead of at 13 and 12 per cent as aforesaid. The incorrect classification of goods resulted in tax being levied short by Rs.41,362 (including surcharge).

The mistake was reported to the department in May 1986. They stated (August 1987) that the audit objection had been accepted and rectificatory orders passed, but the assessee had gone in appeal.

The case was reported to Government in June 1986; they confirmed the facts (September 1987).

(vii) Under the Karnataka Sales Tax Act, 1957, on sale of 'all kinds of mill yarn excluding cotton yarn and filature silk', tax was leviable at the rate

of 3 per cent upto 31st March 1983 (raised to 4 per cent from 1st April 1983). However, with effect from 1st April 1982, a new entry 'all kinds of man-made or synthetic staple fibres or filament yarn' was inserted and tax on items falling under this entry was leviable at the rate of 6 per cent at the point of first or earliest of successive sales within the State. Rayon yarn, bembery yarn, polyester yarn, etc., are classifiable under the new entry from 1st April 1982 and on their inter-State sale, without prescribed declarations, tax is leviable at 10 per cent.

(a) In Bangalore City, on inter-State and intra-State sales of rayon yarn amounting to Rs.1,12,674 (1982-83) and Rs.3,36,000 (1983-84) respectively made by a dealer, tax was levied at the rates of 3 and 4 per cent, treating them as goods falling under the former entry , instead of at 10 percent (inter-State sales not supported by 'C' forms) and 6 per cent (intra-State sales) the rates applicable to items falling under new entry. The mistake resulted in tax being levied short by Rs.14,941 (including surcharge).

On the mistake being pointed out in audit (December 1986), the department stated (June 1987) that the rectificatory orders had been passed (February 1987), but the assessee obtained stay orders from the High Court of Karnataka in March 1987.

The case was reported to Government in March 1987; they confirmed the facts (July 1987).

(b) In Bangalore City, on the first point sales within the State of bembery yarn and polyester yarn amounting to Rs.10,30,952, made by two dealers during

the deepavali years 1983-84 and 1984-85, tax was incorrectly levied at the rate of 4 per cent, treating them as falling under the former entry, instead of at 6 per cent applicable to items falling under the new entry. The mistake resulted in tax being levied short by Rs.24,797 (including surcharge, rural development cess and development cess).

On the mistake being pointed out in audit (July 1986), the department stated (July 1987) that action for suo motu revision had been initiated in the case. Report on result of action taken has not been received (October 1987).

(viii) As per notification dated 31st October 1981 issued under the Karnataka Sales Tax Act, 1957, tax on sale of graphite electrodes and anodes is leviable at the rate of 6 per cent with effect from 1st November 1981. Silver anodes fall under the above entry.

In Bangalore City, on sales of silver anodes amounting to Rs.3,77,222 made by a manufacturer during the years 1981-82 to 1983-84 (from 1st November 1981 to 30th June 1984), tax was incorrectly levied at the rate of 2 per cent, treating it as articles of silver, instead of at 6 per cent as aforesaid. The incorect classification of goods resulted in tax being levied short by Rs.16,598 (including surcharge).

On the mistake being pointed out in audit (January 1986), the department rectified (October 1986 and February 1987) the assessments and collected (October 1986) Rs.14,253.

(ix) Under entry 118 of Second Schedule to the Karnataka Sales Tax Act, 1957, on sale of containers, tax is leviable at the rate of 4 per cent at the point of first sale. Plastic, polyvinyl chloride and poly thene

bottles, jars, boxes and bags were specified as containers under the above entry (upto 31st July 1985). 'Sintex' storage tanks could not be classified as containers falling under the above entry. These would merit classification under entry 110 ibid covering articles made of plastic, polythene or polyvinyl chloride and the like materials, on sale of which tax is leviable at the rate of 10 per cent.

In Bangalore City, on first point sales of sintex storage tanks amounting to Rs.23,57,165, made by a dealer during the year 1984-85, tax was incorrectly levied at the rate of 4 per cent treating it as containers, instead of at 10 per cent as aforesaid. The incorrect classification of goods resulted in tax being levied short by Rs.1,69,716 (including surcharge and rural development cess).

The mistake was reported to the department in March 1987; their reply has not been received (October 1987).

(x) Under the Karnataka Sales tax Act, 1957, on sale of all machinery and spare parts and accessories thereof, tax was leviable at the rate of 8 per cent upto 14th March 1980; cast iron valves which control the flow of air, gas or liquids in machinery are classifiable as parts thereof.

In Bangalore City, on sales of cast iron valves amounting to Rs.4,43,880 made by a dealer during the year 1978-79, tax was incorrectly levied (September 1985) at the rate of 4 per cent applicable to unclassified goods, instead of at 8 per cent as aforesaid. The incorrect classification of goods resulted in tax being levied short by Rs.19,531 (including additional tax).

On the mistake being pointed out in audit(August 1986), the assessing officer agreed (August 1986) to examine the case. Report on the result of examination

has not been received (October 1987).

The above cases were reported to Government between May 1986 and July 1987; their reply has not been received (October 1987), except in respect of sub-paragraphs(vi) and (vii)(a) above.

3.3. Application of incorrect rates of tax

(i) Under the Karnataka Sales Tax Act, 1957, tax leviable on toddy at the point of first sale within the State was enhanced from 4 per cent to 5 per cent with effect from 1st April 1982. Sale of toddy was exempted from tax from 1st July 1983.

In Bangalore City, on first point sales of toddy amounting to Rs.88,60,200, made by five dealers during various periods falling between 1st April 1982 and 30th June 1983, tax was incorrectly levied at 4 per cent, instead of at 5 per cent. The mistake resulted in tax being levied short by Rs.97,462 (including surcharge).

On the mistakes being pointed out in audit (July 1986), the assessing authority issued (July 1986) notices to the assessees. Report on final action taken has not been received (October 1987).

(ii) Under the Karnataka Sales Tax Act, 1957, on sale of timber, rose wood and sandal wood in log form, tax was leviable at the rate of 8 per cent during the period from 1st April 1982 to 31st March 1986 and at the rate of 13 per cent from 1st April 1986, at the point of first sale within the State.

(a) In Bangalore City and Gulburga district, on sales of timber amounting to Rs.12,49,364, made by five dealers during the period from 1st April 1982 to 31st March 1983, tax was incorrectly levied at the general rate of 5 percent of applicable to unclassified

goods), instead of at 8 per cent as aforesaid. The mistake resulted in tax being levied short by Rs.41,229 (including surcharge).

On the mistakes being pointed out in audit in July and September 1986, the assessing authorities issued (September 1986) notices to the assessees and recovered (October 1986 and January 1987) an amount of Rs.39,381 in 4 cases.

(b) In two forest divisions in Kodagu and Chickmagalur districts, on sale of timber valuing Rs.69,06,384 made to wood-based industries during the period falling between 1st April 1986 and 24th December 1986, tax was incorrectly levied (January 1987) at the rate of 8 per cent (and development cess thereon at 30 per cent) instead of at 13 per cent. The mistake resulted in tax being levied short by Rs.1,88,450.

On the mistake being pointed out in audit (January and February 1987), one forest division adjusted Rs.63,614 out of the advance royalty available with the department. Report on recovery of the balance amount of Rs.1,24,836 has not been received (October 1987).

(c) By a Government notification issued on 27th December 1979, in respect of sales, to the departments or public sector undertakings of Government of India or Government of Karnataka or Government of any other State or Government companies situated in the State, made by a dealer in respect of goods produced in his manufacturing unit located in Karnataka, the rate of tax was reduced to 4 per cent with effect from 1st January 1980.

In Bangalore City, on sales of logs of timber and cut sizes valuing Rs.5,28,000 made to Government depart-

ment by a dealer during the year 1983-84, out of his purchases from outside the State (and not produced in his manufacturing unit located in the State), tax was incorrectly levied at the concessional rate of 4 per cent, instead of at 8 per cent. The mistake resulted in tax being levied short by Rs.23,232 (including surcharge).

On the mistake being pointed out in audit (November 1986), the department agreed to examine the case. Report on the result of examination has not been received (October 1987).

(iii) By a Government notification issued on 27th December 1979, in respect of sales made by a dealer to the departments or Public Sector Undertakings of Government of India or Government of Karnataka or Government companies situated in the State, relating to the goods produced in a manufacturing unit located in Karnataka, the rate of tax was reduced to 4 per cent with effect from 1st January 1980. This concession is not admissible on sales made to autonomous bodies and tax on such sale is payable at the normal rate.

In Bangalore City, on sales of wooden furniture amounting to Rs.3,04,715, made by a dealer during the year 1983-84 to a Municipal corporation and Employees State Insurance Corporation, tax was incorrectly levied at the rate of 4 per cent, instead of at 10 per cent. The mistake resulted in tax being levied short by Rs.20,111 (including surcharge).

On the mistake being pointed out in audit (September 1986), the department stated (March 1987) that the assessment had been rectified and the entire amount recovered in September and November 1986.

(iv) As per provisions of the Central Sales Tax Act, 1956, on inter-State sales of declared goods which are not supported by prescribed declarations, tax is leviable at twice the rate applicable to the sale or purchase of such goods inside the State under the State Act. On sales of goods (other than the declared goods and not supported by prescribed declarations), tax is leviable at the rate of 10 per cent or at the rate applicable to the sale or purchase of such goods inside the State under the State Act, whichever is higher. Under the State Act, on sale of copra, rice and unclassified goods, tax is leviable at 3, 2 and 4 per cent respectively.

(a) In Tumkur district, on inter-State sales of copra (declared goods) amounting to Rs.1,74,600 and brooms and charcoal (unclassified goods), amounting to Rs.2,32,729 made by a dealer during the period from 1st July 1983 to 30th June 1984 and not covered by prescribed declarations, tax was incorrectly levied at the rates of 3 and 4 per cent, instead of at 6 and 10 per cent respectively. The mistake resulted in tax being levied short by Rs.19,202.

On the mistake being pointed out in audit (December 1986), the assessing authority agreed (December 1986) to examine the case. Report on the result of examination has not been received (October 1987).

(b) In Shimoga district, on inter-State sales of rice (declared goods), amounting to Rs.10,33,000, made by a dealer during the year 1984-85 and not covered by prescribed declarations, tax was incorrectly levied at 2 per cent, instead of at 4 per cent. The mistake resulted in tax being levied short by Rs.20,660.

On the mistake being pointed out in audit (May 1986) the assessing authority agreed (May 1986) to examine the case. Report on result of examination has not been

received (October 1987).

(v) Under the Karnataka Sales tax Act, 1957, tax leviable on groundnut seeds at the point of first purchase within the State, was enhanced from 3 per cent to 4 per cent with effect from 1st April 1983.

(a) In Bellary district, on the first purchases of groundnut seeds amounting to Rs.16,57,582, made by a dealer during the period from 1st April 1983 to 3rd November 1983, tax was incorrectly levied at 3 per cent, instead of at 4 per cent. The mistake resulted in tax being levied short by Rs.16,576.

On the mistake being pointed out in audit (October 1986), the department stated (June 1987) that the objection had been accepted and an additional amount of Rs.16,576 demanded from the assessee.

(b) In Belgaum district, while completing (March 1986) the assessment of an oilmiller for the deepavali year 1982-83 (16th November 1982 to 4th November 1983), tax was incorrectly levied at the rate of 3 per cent on the entire purchases (Rs.19,86,741) of groundnut made during the year, instead of at 3 per cent on the purchases made upto 31st March 1983(Rs.4,27,089) and at 4 per cent on the purchases made from 1st April 1983 to 4th November 1983 (Rs.15,59,652), as shown in the monthly returns and summary of accounts furnished by the dealer. The mistake resulted in tax being levied short by Rs.15,597.

On the mistake being pointed out in audit (December 1986), the department stated (July 1987) that **suo motu** orders had been passed by the assessing officer in December 1986, but the assessee had gone in appeal to the Karnataka Appellate Tribunal, which stayed the collection of tax.

(vi) Under the Karnataka Sales Tax Act, 1957, on sale of pipes, tubes and fittings of iron, cement and asbestos, tax was leviable at the rate of 6 per cent during the period from 1st April 1984 to 31st March 1986 (8 per cent from 1st April 1986) at the point of first sale within the State.

In Bangalore City, on sales of R.C.C. pipes amounting to Rs.51,46,675, made by a manufacturer during the year 1984-85, tax was incorrectly levied (October 1985) at the rate of 5 per cent, instead of at correct rate of 6 per cent. The mistake resulted in tax being levied short by Rs.61,760 (including surcharge and rural developmment cess).

On the mistake being pointed out in audit (November 1986), the department stated (August 1987) that the audit objection had been accepted, assessment revised and additional demand raised, but the assessee had gone in appeal to the appellate authority who has granted stay order subject to the payment of 50 per cent of tax demanded and balance in the form of bank guarantee. The assessee paid (December 1986)an amount of Rs.30,998 and furnished bank guarantee for Rs.30,760.

(vii) Under the Karnataka Sales Tax Act, 1957, on sale of cinematographic, photographic and other cameras, projectors and enlargers, lenses and other parts and accessories of such cameras, projectors and enlargers and films, plates, paper and cloth required for use therein, tax is leviable at the higher rate of 15 per cent at the point of first sale within the State. In respect of inter-State sales of the commodities not covered by 'C' forms, tax is leviable under Central Sales Tax Act, 1956 at the rate of 10 per cent or the State rate, whichever is higher.

In Bangalore City, on intra-State sales(Rs.2,32,407) and inter-State sales (Rs.1,15,849) of photographic materials amounting to Rs.3,48,256 made by a dealer during the years 1981-82, 1982-83 and 1984-85(assessment records for 1983-84 not produced to audit), tax was incorrectly levied (October 1984 and January 1986) at various rates applicable to paper, chemicals, etc., and exemption was granted in sale of flannel cloth, instead of levying tax at the correct rate of 15 per cent as aforesaid. The mistake resulted in tax being levied short by Rs.40,337(including surcharge and rural development cess).

On the mistakes being pointed out in audit (June 1985 and December 1986), the department stated (April 1987) that the assessments for the years 1981-82 and 1982-83 had since been revised (November 1986) and an amount of Rs.20,864 collected in February 1987. Report on action taken in respect of assessment for the year 1984-85 has not been received (October 1987).

(viii)Under the Karnataka Sales Tax Act, 1957, on sales of fibre glass sheets and articles made of fibre glass excluding helmets, tax is leviable at the rate of 10 per cent with effect from 1st April 1984 at the point of first or earliest of successive sales within the State.

In Bangalore City, on sales of fibre glass articles amounting to Rs.2,60,411, made by a manufacturer during the period from 1st April 1984 to 31st December 1984, tax was incorrectly levied (December 1986) at the general rate of 5 per cent, instead of at correct rate of 10 per cent. The mistake resulted in tax being levied short by Rs.15,625 (including surcharge and rural development cess).

On the mistake being pointed out in audit(December 1986), the department stated (July 1987) that the audit objection had been accepted and additional demand raised, but the assessee had gone in appeal to the appellate authority.

(ix) As per the provisions of the Karnataka Sales Tax Act, 1957, the State Government may, by notification, exempt or reduce the rate of tax leviable on sale or purchase of any specified goods or class of goods. As per an amendment to the Act made in 1981, with retrospective effect from 1st January 1968, where the rate of tax payable under the Act in respect of any goods or class of goods is modified by an amendment to the Act, any earlier notification by Government, exempting or reducing the tax payable on sale or purchase of such goods, is deemed to have been cancelled with effect from the date the amendment comes into force.

By a notification issued in November 1975, the rate of tax leviable on sale of cakes was reduced from 6 per cent to 3 per cent and that of bread from the general rate of 4 per cent to 1½ per cent. The Act was, however, amended with effect from 17th April 1980, increasing the rate of tax on sale of confectionery, biscuits and cakes to 8 per cent. Therefore, the earlier notification of November 1975 ceased to have effect from 17th April 1980. Similarly, the general rate of tax was increased from 4 to 5 per cent with effect from 1st April 1982 and hence the notification of November 1975 ceased to have effect from 1st April 1982 in respect of sales of bread. Consequently, the rate of tax on sale of bread was reduced to 2 per cent by a notification dated 13th August 1982.

(a) In Dharwar district, on sales of bread amounting to Rs.2,80,470, made by a manufacturer during

the period 1st April 1982 to 12th August 1982 and on sales of cakes amounting to Rs.86,000, effected by him during the period 1st April 1982 to 4th November 1983, tax was incorrectly levied (January 1986) at the rate of 1½ and 3 per cent respectively, instead of at the correct rates of 5 and 8 per cent. The mistakes resulted in tax being levied short by Rs.15,682 (including surcharge).

On the mistakes being pointed out in audit (October 1986), the department stated (June 1987) that the audit objection had been accepted and differential tax levied (December 1986), but the assessee had gone in appeal to the appellate authority.

(b) In asssessing a dealer in Bangalore City, on sales of cakes, puffs, etc., amounting to Rs.2,20,000 made during the year 1980-81, tax was incorrectly levied at the rate of 3 per cent, instead of at 8 per cent, resulting in short levy of tax by Rs.12,925.

On the mistake being pointed out in audit (April 1986), the department revised the assessment, raised an additonal demand for Rs.12,925 and recovered (January 1987) Rs.6,000.

The case was reported to Government in September 1986; they confirmed the facts (September 1987).

(x) Under the Karnataka Sales Tax act, 1957, on sales of goods not specified in any of the Schedules to the Act, tax is leviable at the rate of 5 per cent at all points of sale, with effect from 1st April 1982.

In Bangalore City, on sales of unclassified goods amounting to Rs.25,61,000 made by a dealer during the year 1982-83, tax was incorrectly levied (September 1985) at the rate of 4 per cent, instead of at 5 per

cent. The mistake resulted in tax being levied short by Rs.28,171 (including surcharge).

The mistake was reported to the department in September 1986; their reply has not been received (October 1987).

The above cases were reported to Government between December 1985 and July 1987; their reply has not been received (October 1987), except in respect of sub-paragraph(x) (b) above.

3.4. Irregular grant of exemptions.

(i) Under the Central Sales Tax Act, 1956, the last sale or purchase of any goods preceding the sale or purchase occasioning the export of those goods out of the territory of India shall also be deemed to be in the course of such export, if such last sale or purchase took place after, and was for the purpose of complying with, the agreement or order for or in relation to such export, and is exempt from payment of tax.

(a) In Bangalore City, a dealer's sales of printed cartons amounting to Rs.8,04,209, made during the period from 1st October 1981 to 31st October 1982 to an exporter of tea stationed outside Karnataka, were exempted. The sale of packing material cannot be deemed to have been made in the course of export under the aforesaid provisions of the Central Sales Tax Act, 1956, and, the exemption granted was incorrect. The incorrect grant of exemption resulted in tax being levied short by Rs.80,421 at the rate of 10 per cent.

On the mistake being pointed out in audit (July 1986), the assessing officer initiated (July 1986) rectificatory action by issue of a notice to the assessee. Report on final action taken has not been received (October 1987).

(b) In Bangalore City, sales of corrugated boxes amounting to Rs.7,89,616, made by a manufacturer during the period from 1st July 1983 to 30th June 1984 to an exporter of fruit products in the State, were exempted on the ground that these were used for packing goods intended for export. Since the sale of 'corrugated boxes' was not the subject matter of the contract for export and was not for the purpose of complying with the agreement for export, its sale cannot be deemed to have been made in the course of export under the provisions of Central Sales Tax Act, 1956. Therefore, the exemption granted was incorrect. The incorrect grant of exemption resulted in tax being levied short by Rs.39,435 (including surcharge, turnover tax and rural development cess).

On the mistake being pointed out in audit (September 1986), the assessing officer agreed (September 1986) to examine the case. Report on result of examination has not been received(October 1987).

(c) In Bangalore City and Chitradurga district, three dealers purchased raw hides and skins valuing Rs.2,06,83,528 during the years 1981-82 to 1983-84 and transferred to their factories in the State of Tamil Nadu for tanning. The tanned hides and skins were subsequently exported out of India. The purchases of raw hides and skins by the three dealers were exempted from levy of tax, treating them as last purchases preceding the sale of goods in the course of export out of the territory of India. It has been

judicially held* that raw hides and skins and dressed (tanned) hides and skins are commercially different commodities. The exemption allowed on purchase of raw hides and skins was irregular as the goods exported were tanned leather and skins. The irregular grant of exemption resulted in tax amounting to Rs.8,27,341 not being realised.

On the mistake being pointed out in audit (May and August 1986), one assessing authority agreed to examine the case, but the other stated that the assessees were exempted from levy of tax under section 5(3) of the Central Sales Tax Act, 1956. The reply is not tenable as the commodities exported and those purchased were commercially different as per the aforesaid judicial decision.

(d) In Bangalore City, sales of silk fabrics amounting to Rs.12,37,640 made by five dealers during the periods falling between 16th November 1982 and 30th June 1985, were exempted from levy of tax on the ground that the sales were last sales preceding the sale occasioning the export of the goods out of India. The exemption allowed was incorrect because the exporters had placed purchase orders (between February 1983 and March 1985) with the dealers much earlier than the dates (between February 1983 and March 1985) on which they had entered into the export agreement with the foreign buyers. The sales made by the dealers were, therefore, not for the purpose of complying with the agreements or orders for or in relation to such exports. The incorrect grant of exemption resulted in tax being levied short by Rs.24,752.

The mistake was reported to the department in June 1986; their reply has not been received

*Haji Abdul Shukoor & Co. Vs. State of Tamil Nadu Madras (1964) 15 STC 719 (SC).

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(October 1987).

(e) In Bangalore City, sale of silk fabrics amounting to Rs.12,97,805, made by seven assessees during the years 1982-83 to 1984-85, to exporters in other States, were treated as last sales preceding the sale occasioning the export out of the country, although the certificates in Form 'H' did not indicate the number and date of agreement between the exporter and foreign buyers covering the said exports and reference to the purchase orders placed by the exporter on the aforesaid seven assessees. No other evidence was also on record to show that the last sales preceding the exports took place after and for the purpose of complying with the agreement or order for or in relation to the above exports. In the absence of such evidence, the transactions should have been treated as inter-State sales and assessed to tax at 2 per cent. The incorrect grant of exemption resulted in tax amounting to Rs.29,083 (including surcharge and rural development cess) not being realised.

The mistake was reported to the department in November 1986; their reply has not been received (October 1987).

(ii) By a Government notification dated 31st March 1983 issued under Section 8 of the Central Sales Tax Act, 1956, effective from 1st April 1983, inter-State sales of goods, manufactured in Karnataka by all tiny sector industrial units, were exempted from tax for a period of 5 years from the date of commencement of their commercial production, subject to certain conditions specified therein.

In Hassan district, on inter-State sales of coconut shell powder (prepared out of coconut shell by mechanical process) amounting to Rs.2,23,347 (Rs.95,680 with 'C' forms and Rs.1,27,667 without 'C' forms), made by an assessee during the year 1984-85, tax was exempted in terms of the aforesaid notification. However, the activity of conversion of coconut shell into coconut shell powder does not amount to manufacture on the analogy of a decision of the High Court of West Bengal* in case of conversion of black pepper and turmeric into powdered form. Therefore, the grant of exemption was irregular and resulted in tax being levied short by Rs.16,594.

On the mistake being pointed out in audit (July 1986), the assessing authority agreed (July 1986) to examine the case. Report on the result of examination has not been received (October 1987).

(iii) Under the Karnataka Sales Tax Act, 1957, on sale of coal including coke in all its forms but excluding charcoal, tax is leviable at the rate of 4 per cent at the point of first or earliest of successive sales within the State, while on sale of firewood or charcoal for domestic use, levy of tax was exempted. It has been judicially held* that 'Leco' has to be treated as coal falling under the relevant entry under Section 14 of the Central Sales Tax Act, 1956 and, therefore, it is liable to tax at the first point of sale. Hence, on sale of 'Leco' for domestic use exemption, as aforesaid, is not available.

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* Mahabirprasad Birhiwala Vs. State of West Bengal 31 STC(628).

* Deputy Commissioner of Commercial Taxes Vs. B.R. Kuppuswamy Chetty(1980) 45 STC 308.

In Bangalore City, on first point sale of 'leco' amounting to Rs.6,48,332 made by a dealer during the calendar years 1981 to 1984, tax was leviable at the rate of 4 per cent but it was incorrectly exempted, treating it as 'charcoal'. The incorrect grant of exemption resulted in tax being levied short by Rs.25,933.

The mistake was reported to the department in February 1987; their reply has not been received (October 1987).

(iv) Under the Karnataka Sales Tax Act, 1957, on sales of pressure cookers, their parts and accessories, tax is leviable at the rate of 8 per cent at the point of first sale within the State. Aluminium utensils, excluding the aforesaid articles, are exempted from levy of tax.

In Bangalore City, on first sale of 'rice cookers' amounting to Rs.6,70,270, made by a dealer during the year 1983-84, tax was exempted treating them as aluminium utensils. 'Rice Cookers' being variant of pressure cookers only, tax was leviable at 8 per cent. The incorrect grant of exemption resulted in tax being levied short by Rs.62,335 (including surcharge and turnover tax).

On the mistake being pointed out in audit (November 1986), the assessing officer agreed (November 1986) to initiate action. Report on final action taken has not been received (October 1987).

(v) Under the Karnataka Sales Tax Act, 1957, on sale of unclassified goods, tax is leviable at all points of sale at the rate of 5 per cent. Further, poultry feed being covered by a specific entry in II Schedule to the Act, tax on sale thereof is leviable at the point

of first sale. It has been judicially held* that 'fish-meal' is a fertiliser, and it cannot be held otherwise only because someone used it as poultry feed.

In Shimoga district, sales of 'fishmeal' amounting to Rs.4,91,960, made by a dealer during the years 1983-84 and 1984-85, were incorrectly exempted, treating it as second sales of 'processed poultry feed'.

As judicially held, the commodity cannot be treated as poultry feed but would be taxable as unclassified goods, at all points of sale. The incorrect exemption resulted in non-levy of tax amounting to Rs.28,972 (including surcharge and rural development cess).

On the mistake being pointed out in audit (July 1986), the assessing authority stated (July 1986) that the fishmeal purchased by the assessee was 'processed poultry feed' and its sale was exempted as second sales. The reply is not tenable as fishmeal by itself is not processed poultry feed, but only a fertiliser, as per the aforesaid judicial decision.

(vi) As per entry 31-B of 5th Schedule to the Karnataka Sales Tax Act, 1957, sale of sugar other than sugar candy, confectionery and the like is exempted from tax. 'lisa sugar' which is manufactured out of liquid glucose, essence, starch, sugar etc., and is generally used in the preparation of sweets and confectionery is not sugar simpliciter. It has been judicially held* that 'lisa sugar' is an entirely different commodity and is not ordinary sugar. Hence on sale of 'lisa sugar', tax is leviable at the general

*(1981) 48 STC 59 (Allahabad)Commissioner of Sales Tax Vs. Onkar Nath Jagadish Prasad.
*Dilip Kumar Pepperments Vs.State of Karnataka 63 STC.143

rate of 5 per cent from 1st April 1982.

In Belgaum district, sale of 'lisa sugar' amounting to Rs.10,01,686 made by two dealers during the deepavali year 1983-84 was incorrectly exempted from levy of tax. This resulted in non-levy of tax amounting to Rs.58,951 (including surcharge, turnover tax and rural development cess).

On the omission being pointed out in audit(December 1986), the assessing officer initiated (December 1986) rectificatory action. Report on rectification has not been received (October 1987).

(vii) Under the Karnataka Sales Tax Act, 1957, silk worm eggs sold by graineurs recognised by the State Government, silk worm cocoons, raw silk, thrown silk, twisted silk (or spun silk yarn) are exempted from tax. 'Silk waste jelly' does not fall under any of the above items and hence it is an unclassified item taxable at the rates of 5 per cent under local Act and at 10 per cent under Central Sales Tax Act when sales are not supported by prescribed declaration.

In Kolar district, intra-State and inter-State sales of silk waste jelly amounting to Rs.1,06,335 and 2,33,665 respectively, made by a dealer during the year 1984-85, were exempted from levy of tax. The incorrect grant of exemption resulted in tax being levied short by Rs.28,747 (including surcharge and turnover tax).

On the mistake being pointed out in audit (May 1986), the assessing authority agreed to examine the case. Report on the result of examination has not beeen received (October 1987).

(viii). Under the Karnataka Sales Tax Act, 1957, and the rules made thereunder, expenditure on 'freight' specifically and separately charged for by a dealer without including it in the price of goods sold, is allowed to be deducted from the gross turnover for the purpose of determining the taxable turnover.

In Bangalore City, while computing the taxable turnover of a dealer (having his head office in Tamil Nadu) in industrial gas for the year 1984-85, a sum of Rs.1,50,111 paid by him towards transportation of industrial gas from head office to Bangalore was allowed to be deducted from the gross turnover. As the expenditure was not incurred in the course of sale of goods but in the acquisition of the same, it was not deductible from sales turnover. The irregular deduction resulted in tax being levied short by Rs.18,763 (including surcharge, rural development cess and turnover tax).

On the mistake being pointed out in audit (June 1986), the department revised (January 1987) the assessment.

The above cases were reported to Government between September 1986 and July 1987; their reply has not been received (October 1987).

3.5. Incorrect grant of concession

(i) By a notification issued in October 1981, the rate of tax on sale of manufactured goods by all new industrial units was reduced by 50 per cent (with effect from 1st November 1981) for a period of five years from the respective dates of commencement of

their commercial production. This concession is subject to the restrictions and conditions that the concessions under the Karnataka Sales Tax Act, 1957 and the Central Sales Tax Act, 1956 available to a new industrial unit during each accounting year shall be restricted to 10 per cent of the unit's total investment in plant and machinery at the time of commencement of its commercial production and that the total concession during the entire five years' period shall not exceed 50 per cent of its total investment. The unit is also permitted to carry forward the unavailed portion of the concession, if any, from year to year within the said five years' period.

a) A new industrial unit in Bangalore district manufacturing paints, had invested Rs.10,99,223 on plant and machinery at the time of commencement of its commercial production (April 1981) and the concession in levy of sales tax allowable to this unit had to be limited to Rs.2,65,645 inlcuding Rs.1,55,723 representing the unavailed portion of concession relating to the period from 1st November 1981 to 31st March 1983. However, while finalising the assessment of this unit for the year 1983-84, tax concession was allowed twice, once by way of levy of tax on sales at 50 per cent of the prescribed rate (Rs.1,68,267) and again by reducing the tax amount payable by 50 per cent (Rs.2,12,559) at the time of working out the tax due. Thus, a total concession of Rs.3,80,826 was allowed for that year as against the maximum limit of Rs.2,65,645 admissible, resulting in excess grant of concession by Rs.1,15,181.

On the mistake being pointed out in audit (May 1986), the department stated (July 1987) that the audit objection had been accepted and revised assessment

orders issued for additional demand of Rs.1,15,181.

(b) In Dharwar district, a new small-scale industrial unit whose investment in plant and machinery at the time of commercial production (28th February 1982) amounted to Rs.27,390, was allowed a tax concession of Rs.18,295 during the year 1983-84 without restricting it to Rs.5,478 (including the unavailed tax concession for the year 1982-83). The mistake resulted in allowing excess concession of Rs.12,817.

On the mistake being pointed out in audit in August 1986, the department revised (November 1986) the assessment restricting the concession to Rs.5,478 and recovered (December 1986) the amount of Rs.12,817.

The case was reported to Government in October 1986; they confirmed the facts in March 1987.

(ii) By a Government notification issued on 27th December 1979, in respect of sales, to the departments or public sector undertakings of Government of India or Government of Karnataka or Government of any other State or Government companies situated in the State made by a dealer in respect of goods produced in his manufacturing unit located in Karnataka, the rate of tax was reduced to 4 per cent with effect from 1st January 1980.

(a) It has been judicially held* that timber and sized and dressed logs are one and the same commercial commodity. Planks, beams and rafters would also be timber. It has also been clarified (30th October 1985) by the Commissioner of Commercial Taxes, that mere cutting of timber into cut sizes or planks does not make the timber lose its character of being timber.

*(1985) 60 STC - 213(SC)

On sale of timber in cut or manufactured form of all sizes and shapes, tax is leviable at the rate of 8 per cent with effect from 1st April 1983, if obtained out of the material which had not already suffered tax in the State.

In Mysore district, on sales of cut sizes of timber amounting to Rs.57,66,517 (obtained out of logs purchased from outside the State and from un-registered dealers) made by 4 dealers to Government department during the years 1982-83 to 1985-86, tax was incorrectly levied (January 1986) at the concessional rate of 4 per cent. As no manufacturing process was involved in the preparation of cut sizes of a timber out of logs, tax should have been levied at the rate of 8 per cent on such sales. The incorrect grant of concession resulted in tax being levied short by Rs.2,77,042 (including surcharge and rural development cess).

On the mistake being pointed out in audit (January 1987), the assessing officer agreed (January 1987) to examine the case. Report on the result of examination has not been received (October 1987).

(b) Under the Karnataka Sales Tax Act, 1957, on sale of steel furniture, tax is leviable at the rate of 12 per cent with effect from 1st April 1983 (15 per cent upto 31st March 1983).

In Bangalore City, on sale of steel furniture amounting to Rs.1,92,795, made by two dealers during the years 1982-83 and 1983-84 to university, private colleges, Taluk Development Boards and autonomous bodies, tax was incorrectly levied (September and December 1985) at the concessional rate of 4 per cent, instead of at the normal rate of 12 or 15 per cent. The mistake resulted in tax being levied short by Rs.20,773 (including surcharge).

On the mistake being pointed out in audit (Novem-ber 1986), the assessing authority initiated (November 1986) rectificatory action.

(iii) Under Section 17(4)(i) of the Karnataka ales Tax Act, 1957, the assessing authority may, f a hotelier or a restaurateur so elects, accept n lieu of the amount of tax payable by him during ny year under the Act, by way of composition an mount at the prescribed rates. Prior to 18th November 983, the right of electing payment by composition as admissible to hotelier or restaurateur whose turn-ver did not exceed Rs.2.5 lakhs in a year. This urnover limit was increased to Rs.7.5 lakhs by the arnataka Sales Tax (Second Amendment) Act, 1983, hich came into force from 18th November 1983. How-ver, as per the Karnataka Sales Tax (Amendment) Act, 985, the revised turnover limit prescribed by the arnataka Sales Tax (Second Amendment) Act, 1983 as not to apply in cases of composition of tax in espect of any assessment year commencing prior to he commencement of the said Act viz., 18th November 983. In such cases, the provisions of the Act as t stood prior to that date (18th November 1983) were o apply to such composition.

(a) In Dharwar district, in case of two hoteliers, hose turnover exceeded Rs.2.5 lakhs in each case, ere allowed the benefit of composition of tax even-hough the period of assessment was from 1st April 983 to 31st March 1984 in one case and 1st January 983 to 31st December 1983 in another case. The grant f composition in these cases was incorrect as the ssessment period had commenced before the Karnataka ales Tax (Second Amendment) Act, 1983 came into orce on 18th November 1983 and the turnover of the ealers had exceeded the then prescribed limit of s.2.5 lakhs. The incorrect grant of benefit of compo-ition resulted in tax being levied short by Rs.24,826.

On the mistake being pointed out in audit (August 1986), the department rectified the assessments and collected (November 1986) Rs.9,742 in one case.

(b) In Gulbarga, Mangalore and Raichur districts, four hoteliers, whose turnover for the year 1st April 1983 to 31st March 1984 in 3 cases and for the year 1st July 1983 to 30th June 1984 in the fourth case exceeded Rs.2.5 lakhs each, had applied for and were allowed the benefit of composition for those years. As the assessment period in these cases had already commenced before the Karnataka Sales Tax (Second Amendment) Act, 1983 came into force on 18th November 1983, the benefit of composition was admissible only if their turnover had not exceeded Rs.2.5 lakhs in a year. The incorrect grant of benefit of composition resulted in tax (including surcharge, turnover tax and rural developoment cess) being levied short by Rs.36,220.

On the mistake being pointed out in audit between August and November 1986, the department stated (June 1987) that rectificatory orders had been passed in two cases and an additional tax of Rs.24,032 demanded. Out of this, an amount of Rs.9,335 was collected in February 1987. Reply in respect of other cases has not been received (October 1987).

(c) In Uttara Kannada district, two hoteliers, whose turnover for the year 1st April 1983 to 31st March 1984 exceeded Rs.2.5 lakhs each, had applied for and were allowed the benefit of composition. As the assessment period in the two cases had already commenced before the Karnataka Sales Tax (Second Amendment) Act, 1983 came into force on 18th November 1983, the benefit of composition was not admissible in these cases. The incorrect grant of benefit of composition resulted in tax being levied short by Rs.21,600 (including surcharge and turnover tax).

On the mistake being pointed out in audit (December 1986), the assessing officer agreed (December 1986) to examine the case. Report on the result of examination has not been received (October 1987).

(d) In Bangalore City and Mysore district, six hoteliers, whose turnover exceeded Rs.2.5 lakhs each, had applied for and were allowed the benefit of composition of tax for the year 1st April 1983 to 31st March 1984 in 5 cases and for the year 1st October 1983 to 30th September 1984 in one case. As the assessment period in these cases had already commenced before the Karnataka Sales Tax (Second Amendment) Act, 1983 came into force viz., 18th November 1983, the benefit of composition was not admissible in these cases. The incorrect grant of composition resulted in tax being levied short by Rs.66,183 (including surcharge, rural development cess and turnover tax) in these cases.

The mistake was reported to the department between September and December 1986; their reply has not been received (October 1987).

(iv) Under Section 5(3A) of the Karnataka Sales Tax Act, 1957, on sale of goods by one registered dealer to another, for use by the latter as component part of any other goods (mentioned in the Second Schedule to the Act) which he intends to manufacture inside the State for sale, tax is leviable at the concessional rate of 4 per cent (3 per cent upto 3rd April 1981), if the prescribed declaration is furnished by the purchasing dealer. For this purpose, component part means an article which forms an identifiable constituent of the finished product and which alongwith others goes to make up the finished product. It has been clarified (September 1975) by the Commissioner

of Commercial Taxes that purchase of molasses for use in the manufacture of alcohol is not eligible to concessional rate referred to in Section 5(3A) of the Act. On sale of molasses, tax is leviable at the rate of 20 per cent (14 per cent upto 31st March 1983) at the point of first sale within the State.

(a) In Chitradurga district, on sales of molasses valuing Rs.4,85,776, made by a sugar factory during the years 1978-79 (1st October 1978 to 30th September 1979) and 1979-80 (1st October 1979 to 30th September 1980) to other registered dealers, tax was incorrectly levied at the concessional rate of 3 or 4 per cent being supported by prescribed declarations. As the purchase of molasses for use in the manufacture is not entitled to concessional rate, tax was leviable at the rate of 14 per cent. The incorrect grant of concession resulted in tax being levied short by Rs.59,392.

On the mistake being pointed out in audit (October 1986), the assessing officer agreed (October 1986) to re-examine the case. Report on result of re-examination has not been received (October 1987).

(b) In Mysore district, on sales of molasses amounting to Rs.2,85,131, made by a sugar factory during the co-operative years* 1983-84 and 1984-85, tax was incorrectly levied at the concessional rate of 4 per cent, instead of at the correct rate of 20 per cent. The incorrect grant of concession resulted in tax being levied short by Rs.53,115 (including surcharge and rural development cess).

On the mistake being pointed out in audit (January 1987), the assessing authority agreed to examine the case. Report on the result of examination has not been received (October 1987).

*Co-operative year is from July to June

(v) As per provisions of the Central Sales Tax Act, 1956, on inter-State sale of any goods to any registered dealer or Government covered by prescribed declarations in Form 'C' or certificates in Form 'D' respectively, tax is leviable at the rate of 4 per cent. This concession is not available in respect of sales to autonomous bodies, universities and private colleges. In such cases, on inter-State sale of goods (other than declared goods), tax is leviable at the rate of 10 per cent or at the rate applicable to the sale or purchase of such goods inside the State, whichever is higher. On sale of electrical goods within the State, tax is leviable at the rate of 11 per cent.

(a) In Bangalore City, on inter-State sale of electrical goods valuing Rs.3,75,640 made by a dealer to autonomous bodies and a university, during the calendar year 1983, tax was incorrectly levied at the concessional rate of 4 per cent, instead of at 11 per cent. The mistake resulted in tax being levied short by Rs.26,294.

On the mistake being pointed out in audit (January 1986), the department raised (July 1986) an additional demand amounting to Rs.26,294.

(b) In Bangalore City, while finalising (November 1981) the assessment of a dealer for the year 1980-81, inter-State sale of machinery liable to tax at the concessional rate of 4 per cent was determined as Rs.11,33,386 and those liable to tax at 10 per cent was determined as Rs.1,40,430. However, the prescribed declarations were available only to the extent of Rs.8,69,581. The incorrect grant of concession in respect of sales not supported by prescribed declarations, and non-levy of surcharge in respect of sales taxable at 10 per cent resulted in tax being levied short by Rs.19,935.

On the mistake being pointed out in audit (March 1983), the department revised (April 1986) the assessment and raised additional demand for Rs.19,935.

The above cases were reported to Government between October 1986 and July 1987; their reply has not been received (October 1987) except in respect of sub-paragraph (i)(b) above.

3.6. Short levy due to incorrect determination of taxable turnover

As per provisions of the Karnataka Sales Tax Act, 1957 and the rules made thereunder, in determining the taxable turnover, all amounts collected by a dealer by way of tax under the 'Karnataka Sales Tax Act' are, inter-alia, allowable as deduction from his total turnover. Tax collected under any other Act is not an allowable deduction.

In Chitradurga district, while finalising the assessment (April 1985) of a dealer in commercial vehicles for the year 1982-83, entry tax of Rs.5,55,617 collected by him from purchasers under the Karnataka Tax on Entry of Goods into Local Areas for Consumption, Use or Sale therein Act, 1979, was incorrectly allowed as deduction. The incidence of 'entry tax' is on the purchase value of goods brought into local area for sale and hence would be part of cost of goods. The mistake resulted in tax being levied short by Rs.94,455 (including surcharge and turnover tax).

On the mistake being pointed out in audit (October 1986), the department stated (May 1987) that the assessment had ben revised and an amount of Rs.94,455 demanded from the assessee.

The case was reported to Government in February 1987; their reply has not been received (October 1987).

3.7. Escapement of taxable turnover

As per provisions of the Karnataka Sales Tax Act, 1957, on the last purchase of sugarcane within the State by anyone other than a manufacturer of jaggery or sugarcane syrup (processed), tax was leviable (upto 31st March 1986) at the rate of rupees sixteen per tonne.

(i) In Chitradurga district, while finalising the assessment (February 1986) on the basis of accepted returns, on the last purchases of sugarcane by a sugar factory during the period from 1st October 1981 to 30th September 1982, against the actual quantity of 1,61,844.570 tonnes purchased and indicated in the return by the assessee (sugar factory), tax was levied only on 1,13,311.785 tonnes. The mistake resulted in tax amounting to Rs.8,54,177 (including surcharge) not being levied on 48,532.785 tonnes of sugarcane.

On the mistake being pointed out in audit (October 1986), the department revised (October 1986) the assessment.

The case was reported to Government in February 1987; they confirmed the facts (August 1987).

(ii) Under the Karnataka Sales Tax Act, 1957, tax is leviable at the rate of 4 per cent from 1st April 1983 at the point of last purchase on all kinds of cotton in its manufactured state whether ginned, baled, pressed or otherwise. It has been judicially held* that where the assessee has purchased goods

*S.S.Yelamali Vs. State of Karnataka KLJ 4 (1969)

which are liable to tax at the last purchase point and such goods are destroyed by fire when the goods are in his possession, he will be liable to tax as last purchaser of such goods.

In Bellary district, in respect of 578 quintals of cotton lint destroyed by fire during the year 1984-85, though the assessee was treated as last purchaser, tax was initially levied on Rs.10,00,000 representing the amount of compensation claimed by the assessee from the insurer. On appeal, the appellate authority levied tax on Rs.4,25,174 representing the compensation amount actually received by the assessee less 10 per cent towards charges for converting into kapas. The tax was leviable on the actual purchase value of cotton. Based on the quantity and value of closing stock declared by the assessee, the approximate purchase value of cotton lint destroyed in fire, on which tax should have been levied, worked out to Rs.10,11,500. The mistake resulted in tax being levied short by Rs.23,453 on the escaped turnover of Rs.5,86,326.

On the mistake being pointed out in audit (July 1986), the assessing authority agreed (July 1986) to submit the case to higher authorities for revision. Report on final action taken has not been received (October 1987).

(iii) Under the Central Sales Tax Act, 1956, on inter-State sales of cotton (declared goods), which are covered by prescribed declarations, tax was leviable at the rate of 3 per cent upto 31st March 1983.

In Gulbarga district, while finalising the assessment (July 1983) of a dealer in cotton for the year 1977-78, as against the inter-State sales of cotton amounting to Rs.27,53,512 covered by prescribed declarations, tax was levied only on Rs.21,34,033, resulting

in escapement of taxable turnover of cotton amounting to Rs.6,19,479, relating to a branch office. The mistake resulted in tax being levied short by Rs.18,584.

On the mistake being pointed out in audit (January 1986), the assessing authority initiated action for **suo motu** revision of assessment. Report on the final action taken has not been received (October 1987).

(iv) As per Central Sales Tax Act, 1956, on inter-State sales of any goods to Government or to a registered dealer covered by prescribed certificate/declaration in Form D or C, as the case may be, tax is leviable at the rate of 4 per cent.

In Gulbarga district, an assessee declared a turnover of Rs.5,77,37,278 as covered by 'C' forms for the year 1979-80 (from 1st July 1979 to 30th June 1980) and paid tax of Rs.23,09,492. However, in the assessment order passed in January 1986, taxable turnover was determined as Rs.5,39,13,380 only and tax levied at the rate of 4 per cent. An amount of Rs.1,52,438 was also refunded to the assessee. The mistake resulted in escapement of taxable turnover of Rs.38,23,898 and consequent short levy of tax amounting to Rs.1,52,956.

On the mistake being pointed out in audit (December 1986), the assessing officer revised (December 1986) the assessment order.

(v) Under the Karnataka Sales Tax Act, 1957, on bones and horns, tax is leviable at the rate of 2 per cent at the point of purchase by the last dealer in the State liable to tax under the Act.

In Mysore district, a dealer purchased bones (from unregistered dealers) valuing Rs.13,45,775 during the years 1980-81 to 1982-83, for conversion into bone-

meal and for sale in the course of inter-State trade or commerce. In respect of these purchases, the dealer became the last purchaser in the State and was liable to pay tax, but no tax was levied while making assessment in April 1985. The omission resulted in non-realisation of tax amounting to Rs.36,043 (including surcharge and turnover tax).

On the omission being pointed out in audit (September 1986), the assessing authority issued (September 1986) notice to the assessee. Report on further action taken has not been received (October 1987).

(vi) Under the Karnataka Sales Tax Act, 1957, 'turnover' means the aggregate amount for which goods are bought or sold or supplied or distributed by a dealer, whether for cash or for deferred payment or other valuable consideration. The amount for which goods are sold includes any sum charged for anything done by the dealer in respect of the goods at the time of or before delivery thereof.

In Bangalore City, the intelligence wing of the department found that an assessee had excluded from his declared turnover presale expenditure like warehousing and freight charges for the years 1977-78 to 1982-83. The Deputy Commissioner (Administration) initiated revision proceedings and set aside the original orders for fresh assessments. While revising the assessment (24th August 1985) for the period from 1st July 1977 to 30th June 1978, the assessing officer included the suppressed turnover of Rs.43,365 for the period 1st April 1978 to 30th June 1978 pointed out by the intelligence wing, instead of turnover of Rs.1,73,460 for the entire period 1st July 1977 to 30th June 1978, estimated by the Deputy Commissioner in his **suo motu** revision (11th October 1984). There were no recorded

reasons for not adopting the aforesaid estimated taxable turnover of Rs.1,73,460. The mistake resulted in escapement of taxable turnover of Rs.1,30,095 and consequent short levy of tax of Rs.21,645 (including surcharge).

The matter was reported to the department in November 1986; their reply has not been received (October 1987).

The above cases were reported to Government between January and June 1987; their reply has not been received (October 1987), except in respect of sub-paragraph (i) above.

3.8. Incorrect allowance of set off

(i) As per Explanation-II below Fourth Schedule to the Karnataka Sales Tax Act, 1957, where tax has been levied in respect of any item of goods of iron and steel referred to in entry 2 of the Schedule, and out of the said goods any other item of goods of iron and steel mentioned in that entry, is manufactured in Karnataka and sold, the tax on sale of such manufactured goods is to be reduced by the amount of tax already paid under the Act on the relative items of goods of iron and steel used in its manufacture. The burden of proving that the tax under the Act has already been paid and of establishing the exact quantum of tax so paid on such items of goods of iron and steel shall be on the dealer claiming the deduction.

(a) In Bangalore City, while making assessment (April 1985) of a dealer, for the years 1979 and 1980 who had used items of iron and steel in the manufacture of re-rolled items, the amount of set off to be allowed to the dealer out of tax leviable on sale of manufactured

goods was worked out as Rs.2,91,458 and Rs.5,76,779 respectively on purchase turnover of Rs.72,86,442 and Rs.1,44,19,480. However, taking into account, the opening and closing balance and the tax-paid purchases of raw material, the set off admissible worked out to Rs.2,42,852 and Rs.5,18,699 respectively on the purchase turnover of Rs.60,71,303 and Rs.1,29,67,480. Further, the set off was allowed without requiring the dealer to furnish proof for the exact quantum of tax paid on the raw material. Excess allowance of set off resulted in short levy of tax amounting to Rs.48,606 and Rs.58,080 for the years 1979 and 1980 respectively.

On the mistake being pointed out in audit (June 1986), the assessing authority stated (June 1986) that the assessment records had been submitted to higher authorities. Report on further action taken has not been received (October 1987).

(b) In Dharwar district, an assessee purchased iron and steel amounting to Rs.22,90,640 during the deepavali years 1981-82 to 1983-84 and manufactured stainless steel valuing Rs.46,91,668, out of which stainless steel amounting to Rs.16,98,634 was sold within the State and the balance (Rs.29,93,034) sent on consignment sale outside the State. The set-off was allowed by the assessing officer on the purchase value of Rs.15,40,875, though it should have been restricted to the relative purchase value of iron and steel (Rs.8,29,333) used in the manufacture of stainless steel sold within the State. The mistake resulted in excess set-off of tax to the extent of Rs.28,462.

On the mistake being pointed out in audit (October 1986), the assessing officer agreed to examine the case. Report on the result of examination has not been received (October 1987).

(ii) As per Explanation-I below Fourth Schedule to the Karnataka Sales Tax Act, 1957, where tax has been levied in respect of sale or purchase of paddy, referred to in entry 9 of the Schedule, the tax leviable on sale of rice procured out of such paddy, shall be reduced by the amount of tax levied on such paddy.

In Tumkur district, during 1983-84 set off of tax paid was allowed to an assessee on the purchase turnover of paddy valuing Rs.28,62,367, instead of on the actual purchase turnover of Rs.25,88,561 admissible for set off. The incorrect allowance of set-off resulted in tax being levied short by Rs.10,952.

On the mistake being pointed out in audit (January 1987), the assessing authority issued (January 1987) a notice for rectification. Report on rectification has not been received (October 1987).

The above cases were reported to Government between April and June 1987; their reply has not been received (October 1987).

3.9. Mistakes in computation

(i) Under the Karnataka Sales Tax Act, 1957 and the rules made thereunder, the assessing authority shall, after making the final assessment, examine whether any and if so, what amount is due from the delaer towards tax after deducting any amount of tax paid in advance and along with the annual return by the assessee and then initiate action for the realisation of the difference of tax due.

While finalising the assessment (February 1986) of a co-operative sugar factory in Chitradurga district for the year 1982-83, the balance tax due after

taking into account the advance tax paid for the year was incorrectly worked out as Rs.30,65,523 instead of Rs.30,85,523. The mistake in computation resulted in tax being levied short by Rs.20,000.

On the mistake being pointed out in audit (October 1986), the assessing authority rectified (October 1986) the mistake and served a revised demand notice.

The case was reported to Government in March 1987; their reply has not been received (October 1987).

(ii) As per provisions of the Central Sales Tax Act, 1956, on inter-State sales of goods (other than declared goods), which are not supported by prescribed declarations, tax is leviable at the rate of 10 per cent or at the rate applicable to sale or purchase of such goods inside the State under the State Act, whichever is higher. On sale of machinery, tax was leviable at the rate of 10 per cent during the period from 17th April 1980 to 31st December 1982 under the State Act. With effect from 31st March 1979, the tax leviable under the State Act was increased by a surcharge at the rate of 10 per cent of tax payable.

In Bangalore City, though the inter-State sales of machinery amounting to Rs.1,80,727 (not covered by the prescribed declarations) made by a dealer during the period from 1st January 1982 to 31st December 1982 were shown in the assessment order to be taxed at the rate of 11 per cent,(including surcharge), tax due was incorrectly worked out as Rs.4,840, instead of Rs.19,880. The mistake in computation resulted in tax being levied short by Rs.15,040.

On the mistake being pointed out in audit (July 1986), the department stated (April 1987) that the mistake had been rectified and an amount of Rs.15,040 demanded from the assessee.

The case was reported to Government in August 1986; they confirmed the facts (June 1987).

3.10. Credits afforded in excess of the amounts deposited

Under the Karnataka Sales Tax Act, 1957, and the rules made thereunder, every dealer has to file monthly return of his turnover and also pay tax in advance on that turnover. These payments are credited to the dealer's account in the Commercial Tax Office concerned and finally adjusted against the tax demand on final assessment.

(i) 5 Commercial Tax Offices in Bangalore City, Bangalore,Gulbarga, Kolar and Mysore districts had, in thirteen cases afforded credits of tax amounting to Rs.65,391 deposited by the dealers during the years 1980-81 to 1984-85 twice in the respective accounts. This resulted in under collection of tax by Rs.65,391.

(ii) In three offices in Bangalore City, in twelve cases, due to error in totalling, credits were afforded in excess to the extent of Rs.78,219 during the years 1978-79 to 1984-85.

On the above irregularities being pointed out in audit between August 1986 and January 1987, an amount of Rs.18,004 was collected (August 1986) in four cases; additional demand for Rs.1,05,650 raised in twelve cases; in two cases, other offices to whom the files were transferred were intimated and in the remaining seven cases, the department agreed to initiate action. Report on the remedial action taken or proposed to be taken to prevent the recurrence of such irregularities has not been received (October 1987).

The cases were reported to Government between March and May 1987; their reply has not been received (October 1987).

Similar cases were also reported in paragraph 2.8 of the Audit Report for the year 1984-85.

3.11. Mistake in issuing a demand notice

Under the Central Sales Tax (Karnataka) Rules, 1957, on completion of every assessment, a notice of final assessment and demand shall be issued to the dealer, who shall pay the tax demanded in the notice in the manner and within the time specified therein.

In Gulbarga district, an assessee was finally assessed to a tax of Rs.49,238 for the deepavali year 1978-79. However, demand notice was issued only for Rs.39,238, resulting in short demand of Rs.10,000.

On the mistake being pointed out in audit (August 1986), the department stated in June 1987 that the audit objection had been accepted and the amount of Rs.10,000 collected in October 1986.

The case was reported to Government in April 1987; they confirmed the facts (August 1987).

3.12. Non-levy or short levy of turnover tax

As per Section 6(B) of the Karnataka Sales Tax Act, 1957, with effect from 29th March 1981, every dealer whose total turnover in a year exceeds rupees one lakh (rupees one and a half lakhs from 1st April 1982), whether or not the whole or any part of such turnover is liable to sales tax, is liable to pay turnover tax at the rate of one-half per cent of his total turnover less such deductions as are admissible under the Act. The Act defines a 'dealer' as including a commission agent, who carries on the business of buying, selling, supplying or distributing goods on behalf of any principal. 'Total turnover' means the aggregate turnover in

all goods of a dealer at all places of business in the State, whether or not, tax is leviable on the whole or any portion of such turnover.

(i) In Bangalore City, on sales turnover of silk fabrics amounting to Rs.29,93,622 made by two partnership firms during the years 1983-84 and 1984-85, turnover tax amounting to Rs.14,968 was omitted to be levied.

On the omission being pointed out in audit (November 1986), the department stated (August 1987) that the audit objection had been accepted and the entire amount recovered in November and December 1986.

(ii) In Belgaum district, in respect of an assessee, turnover tax for the deepavali year 1983-84 was levied only on the turnover of Rs.1,46,20,400 as against the actual turnover of Rs.2,16,92,205 (which included turnover of lisa sugar and wheat products amounting to Rs.70,71,805) on which turnover tax was leviable. In respect of another assessee, turnover tax on turnover of Rs.23,14,507 was omitted to be levied for the deepavali year 1980-81 on the ground that writ petition filed by the assessee, challenging the validity of section 6-B, had not been decided, though the validity of that section was upheld (3rd February 1982) in another case*. The turnover tax not levied in the two cases, amounted to Rs.46,932.

On the omission being pointed out in audit (December 1986), the assessing authority initiated (December 1986) rectificatory action.

(iii) In Bangalore City, on second sales of furniture and television sets amounting to Rs.56,83,099 made by a dealer during the period from 1st August 1983

*B.P.Automobiles & Others Vs. State of Karnataka (55 STC 93)

to 31st July 1984, turnover tax amounting to Rs.28,416 was omitted to be levied.

On the omission being pointed out in audit (May 1984), the department revised (June 1986) the assessment and collected the entire amount of Rs.28,416 in June 1986.

The case was reported to Government in September 1986; they confirmed the facts in February 1987.

(iv) In Mandya district, on sales of jaggery amounting to Rs.29,10,364 made by two dealers (in each case total turnover in a year exceeded rupees one and a half lakhs) through their commission agents during the period from 1st April 1983 to December 1984, turnover tax was omitted to be levied, even though the statements of sales furnished by their commission agents indicated that they had not paid the turnover tax. The omission resulted in non-realisation of turnover tax amounting to Rs.14,552.

Further, in respect of purchases of jaggery valuing Rs.10,50,149 made by the same dealer from unregistered dealers and sold outside the State on consignment basis, turnover tax amounting to Rs.5,251 was also not levied on the purchase turnover.

On the mistakes being pointed out in audit in May 1986, the assessing authority agreed (May 1986) to take action. Report on action taken has not been received (October 1987).

(v) By a notification issued on 27th September 1983, Government exempted the payment of turnover tax, with effect from 1st October 1983, by wholesalers in respect of whole-sale turnover of "drugs and pharmaceutical preparations".

In Bangalore City, on sales of medicines amounting to Rs.28,22,184, made by a wholesaler during the period from 1st April 1983 to 30th September 1983, turnover tax was omitted (November 1984) to be levied. The omission resulted in non-realisation of turnover tax amounting to Rs.14,110.

On the omission being pointed out in audit (April 1985), the department stated (August 1986) that the assessment had since been revised, raising additional demand for Rs.14,110.

The case was reported to Government in February 1986; they confirmed the facts (September 1986).

(vi) By a notification issued in June 1981, Government exempted with effect from 1st July 1981, the levy of turnover tax on the second and subsequent sales of chemical fertilisers, bonemeal, oil cake, insecticides and pesticides.

In Bellary district, on sales turnover of fertilisers amounting to Rs.26,96,277 made by a dealer during the period 1st April 1981 to 30th June 1981, turnover tax amounting to Rs.13,481 was omitted to be levied.

On the omission being pointed out in audit (September 1986), the department accepted the objection and revised (March 1987) the assessment order.

(vii) By a notification issued in March 1984, Government exempted with effect from 1st April 1984, the tax payable (under section 5 of the Act) on the sale of products of wheat, maize and bengal gram provided such products were obtained from tax-paid wheat, maize and bengal gram. However, turnover tax was payable in such cases not being permissible deductions under the Act.

In Bangalore City and Dharwar district, on sale of wheat products (obtained out of tax-paid wheat) amounting to Rs.55,77,032 made by 3 dealers during the period from 1st April 1984 to 31st March 1985, turnover tax was omitted to be levied. The omission resulted in non-realisation of turnover tax amounting to Rs.27,885.

On the omission being pointed out in audit (June and November 1986), the department recovered Rs.12,514 in one case.

(viii) By a notification issued in December 1979, in respect of sales of goods produced by a dealer in his manufacturing units located in the State of Karnataka to Government departments or Public Sector Undertakings of Government of India or Government of Karnataka or Government of any other State or Government Companies situated in the State, the rate of tax was reduced to 4 per cent with effect from 1st January 1980. It has been clarified (21st June 1985) by the Commissioner of Commercial Taxes that turnover tax was leviable in such cases, in addition to the concessional rate prescribed.

In Belgaum district, on sales of R.C.C. poles amounting to Rs.52,10,785 made by a dealer to Karnataka Electricity Board during the Deepavali year 1983-84, turnover tax was omitted to be levied, resulting in short realisation of turnover tax amounting to Rs.26,054.

On the omission being pointed out in audit (December 1986), the assessing officer initiated (December 1986) rectificatory action. Report on rectification has not been received (October 1987).

(ix) In two offices in Bangalore City, on sales of medicines, silk sarees and earth moving equipments amounting to Rs.58,64,246 made by five dealers during the period between November 1981 and June 1985, turnover tax was omitted to be levied resulting in non-realisation of turnover tax of Rs.29,321.

The omissions were pointed out to the department in June and August 1986; their reply has not been received (October 1987).

The above cases were reported to Government between February 1986 and July 1987; their reply has not been received (October 1987), except in respect of sub-paragraphs (iii) and (v) above.

3.13. Non-levy of additional tax

(i) Under the Karnataka Sales Tax Act, 1957, on sales or purchases made between 1st April 1975 and 28th March 1981 by any dealer, whose annual gross turnover exceeds Rs.10 lakhs but does not exceed 25 lakhs, additional tax was leviable at the rate of 10 per cent (12½ per cent when turnover exceeds Rs.25 lakhs) of the sales tax or purchase tax.

In Chitradurga district, additional tax amounting to Rs.65,086 was omitted to be assessed (February 1986) on tax of Rs.6,50,857 levied on the purchases of sugarcane effected by a sugar factory during the year 1980-81.

On the omission being pointed out in audit (October 1986), the assessing authority revised (October 1986) the assessment. The additional demand raised stands recovered.

The case was reported to Government in February 1987; they confirmed the facts in July 1987.

(ii) As per an amendment to the Karnataka Sales Tax Act, 1957, made in 1981, with retrospective effect from 1st January 1968, where the rate of tax payable under the Act in respect of any goods or class of goods is modified by an amendment to the Act, any earlier notification issued by Government exempting or reducing the tax leviable on sale or purchase of such goods, shall be deemed to be cancelled with effect from the date the amendment comes into force.

By an amendment to the Act, with effect from 15th March 1980, the rate of tax on sale of arecanut was revised from 3.5 per cent to 5 per cent. Earlier in May 1975, Government by a notification dated 23rd May 1975, had exempted levy of additional tax on sales of arecanut. This notification, therefore, ceased to have effect from 15th March 1980 i.e., the date of amendment of the Act. Subsequently, Government issued a fresh notification on 10th September 1980, exempting the sale of arecanut from levy of additional tax from 11th September 1980. Therefore, during the intervening period viz., 15th March 1980 to 10th September 1980, additional tax was leviable on sale of arecanut.

In Shimoga district, the assessing authority did not levy (August 1984 and March 1986) additional tax on sale of arecanut made by two dealers (each having annual turnover exceeding Rs.25 lakhs) during the period from 15th March 1980 to 10th September 1980 although additional tax amounting to Rs.65,471 was leviable.

On the omission being pointed out in audit (October 1986), the assessing authority issued (October 1986) notice in one case. Reply in the other case has not been received (October 1987).

The cases were reported to Government in April 1987; their reply has not been received (October 1987).

3.14. Non-levy of surcharge

Under Section 6-C of the Karnataka Sales Tax Act, 1957, a surcharge at the rate of ten per cent of the sales tax or purchase tax or both is leviable with effect from 31st March 1979.

In Bangalore City, while assessing (May 1986) a dealer for the year 1979-80, surcharge was omitted to be levied on tax of Rs.1,98,776. The omission resulted in surcharge amounting to Rs.19,878 not being realised.

On the omission being pointed out in audit (December 1986), the assessing officer initiated (December 1986) rectificatory action. Report on rectification has not been received (October 1987).

The case was reported to Government in April 1987; their reply has not been received (October 1987).

3.15. Non-levy of penalty

(i) Under the Karnataka Sales Tax Act, 1957, on sale of any industrial input, liable to tax under the Act, to another registered dealer for use by the latter as a component part or raw material of any other goods (taxable under the Act) which he intends to manufacture inside the State for sale, tax is leviable at the rate of 4 per cent or the rate specified in Section

5 of the Act, whichever is lower, provided the prescribed declaration is furnished in case the tax payable under Section 5 is higher than 4 per cent. If any person being liable to pay tax under the Act makes use of the inputs, purchased by him against the declaration aforesaid, in the manufacture of any goods which are exempted from tax, the assessing authority shall impose upon him by way of penalty a sum, which shall not be less than the amount of tax leviable under Sections 5 and 6-C on the sale of inputs so purchased, but shall not exceed double the amount of such tax. Under the Karnataka Sales Tax Act, on sale of chemicals and plastic sheets, tax is leviable at the rate of 10 per cent from 1st April 1982 and sale of foot wear costing not more than thirty rupees per pair is exempt from tax from this date.

In Bangalore City, a manufacturer of footwear purchased chemicals and plastic sheets (raw materials) amounting to Rs.2,89,552 during the years 1983-84 and 1984-85 at the concessional rate of 4 per cent against the prescribed declaration. However, his entire sales turnover of footwear was exempted on the ground that the sale price per pair did not exceed rupees thirty. As the inputs were used in the manufacture of goods exempted from tax, the assessee was liable to a minimum penalty of Rs.31,850 for non-compliance of the terms of declaration, but no penalty was levied.

On the mistake being pointed out in audit (July 1986), the assessing authority issued (July 1986) a notice to the assessee. Report on final action has not been received (October 1987).

(ii) As per provisions of the Central Sales Tax Act, 1956, a registered dealer is authorised to purchase from outside the State, goods specified in the certificate

of registration as being intended for resale by him or for use in the manufacture or processing of goods for sale or for use in the packing of goods for sale. If any person, after purchasing any goods for the specified purposes, fails without reasonable excuse, to make use of the goods for any such purpose, a penalty not exceeding one and a half times the tax which would have been levied under Section 8(2) of the Act, may be imposed upon him.

In Raichur district, three assessees purchased goods from outside the State after furnishing declarations that those goods were intended for resale or for use in the manufacture of goods for sale, but actually used them on job works during the period from 16th November 1982 to 24th October 1984. For failure to comply with the provisions of the Act, penalty amounting to Rs.60,125 could have been levied, but it was not levied.

On the omission being pointed out in audit (July 1985), the department stated (August 1986) that penalty of Rs.60,125 had since been levied and demand raised against the assessees concerned.

(iii) By a notification issued in October 1981, the rate of tax on sales made by all new industrial units was reduced by 50 per cent from 1st November 1981 for a period of 5 years from the date of commencement of commercial production subject to the condition that the concession in respect of the Karnataka Sales Tax and Central Sales Tax available to the unit during each accounting year shall be restricted to 10 per cent of the unit's total investment in plant and machinery at the start of commercial production and the total concession in the entire five years period shall not exceed 50 per cent of that investment.

Under the Karnataka Sales Tax Act, 1957, a registered dealer is forbidden to collect any amount by way of tax at rates exceeding the rates specified in the Act. If any person contravenes these provisions, the assessing authority may impose upon him, by way of penalty, a sum not exceeding one and a half times the amount of such collections.

In Belgaum district, while finalising the assessments of an oil miller for the deepavali years 1981-82 and 1982-83, concessional rate of tax was levied on sales turnover of groundnut oil and oil cake, restricting the concession to 10 per cent of value of plant and machinery as aforesaid and on the balance turnover, tax was levied at the full rate. However, the assessee had collected tax at full rate on the entire sales turnover of groundnut oil and oil cake during the years 1981-82 and 1982-83. This resulted in excess collection of tax of Rs.32,082, for which the assessing authority could levy penalty upto Rs.48,123, but no penalty was levied.

On the mistake being pointed out in audit (December 1986), the assessing authority initiated (December 1986) rectificatory action. Report on rectification has not been received (October 1987).

(iv) Under the Karnataka Sales Tax act, 1957, if a dealer fails to pay the tax demanded from him within twenty one days from the service of the demand notice, he is liable to pay penalty at the rate of one and a half per cent (one per cent upto 31st March 1984) per month of the amount of tax or any other amount due remaining unpaid for the first three months and at two and a half per cent per month of such amount for each subsequent month, so long as the default continues.

In 17 commercial tax offices in 10 districts, for belated payment (delay ranged from one month to 57 months) of tax in 254 cases during the years 1977-78 to 1985-86, no penalty was imposed by the department. Penalties upto Rs.8.53 lakhs could have been imposed in these cases. This indicates non-observance of laid down system.

On the omission being pointed out in audit between April 1986 and March 1987, the assessing officers agreed (April 1986 to March 1987) to take necessary action. Report on action taken has not been received (October 1987).

(v) Under the Karnataka Sales Tax Act, 1957, a registered dealer is forbidden to collect any amount by way of tax or purporting to be by way of tax at the rates exceeding the rates specified in the Act, or in respect of sales of any goods on which no tax is leviable under the Act. If any person contravenes these provisions, the assessing authority may impose upon him, by way of penalty, a sum not exceeding one and a half times the amount of such collections.

In fifteen commercial tax offices, 39 dealers collected tax amounting to Rs.5,12,307, during the years 1982-83 to 1985-86, in excess of the prescribed rates. However, neither any penalty was imposed by the assessing authorities nor were any reasons for non-imposition of penalty placed on record. Penalty upto Rs.7,68,461 could be levied in these cases. This indicates non-observance of laid down system.

The omissions were reported to the department between April 1986 and March 1987; their reply has not been received (October 1987).

(vi) Under the Karnataka Sales Tax Act, 1957, if at the end of the year it is found that the amount of tax paid in advance by any dealer for any month or the whole year in the aggregate was less than the tax payable for that month or for the whole year as finally assessed, as the case may be, by more than fifteen per cent, the assessing authority may direct such dealer to pay, in addition to tax, by way of penalty, a sum not exceeding one and a half times the amount of tax by which the amount of tax so paid falls short of the tax payable for the month or the whole year, as the case may be.

In 10 commercial tax offices, tax paid in advance by 87 dealers for the years 1983-84 to 1985-86 was less than the tax payable for the whole year as finally assessed, by more than fifteen per cent. However, neither any penalty was imposed by the assessing authorities nor any reasons for non-imposition of penalty placed on record. Penalty upto Rs.50,47,770 could be levied in these cases. This indicates non-observance of laid down system.

On the omissions being pointed out in audit between April 1986 to March 1987, the assessing authorities agreed (April 1986 to March 1987) to take necessary action. Report on final action taken has not been received (October 1987).

The above cases were reported to Government between January 1986 and May 1987; their reply has not been received (October 1987).

CHAPTER 4

STATE EXCISE DUTIES

4.1. Results of Audit

Test check of records in the departmental offices, conducted in audit during the year 1986-87, disclosed short levy of duty and licence fee amounting to Rs.3968.61 lakhs in 121 cases, which broadly fall under the following categories.

	No.of cases	Amount (in lakhs of rupees)
1. Errors in computation	60	3227.32
2. Short levy of licence fee	11	155.07
3. Production losses or wastages	16	352.04
4. Other irregularities	34	234.18
Total	121	3968.61

Some of the important cases are mentioned in the following paragraphs.

4.2. Loss of duty due to drawal of medium grade alcohol in excess of norms

(i) As per standards laid down in Government Order issued during February 1985, the quantity of medium grade alcohol (which is not dutiable) withdrawn during redistillation of rectified spirit to obtain neutral spirit should not exceed 20 per cent of the quantity of rectified spirit taken up for redistillation. Any drawal of medium grade alcohol in excess of the prescribed limit would result in lower output of neutral spirit and consequent loss of duty.

In a distillery in Bangalore district, during the years 1983-84, 1984-85 and 1985-86, out of 2,19,06,706 proof litres of rectified spirit taken up for redistillation, 55,29,924 proof litres of medium grade alcohol were withdrawn during the process of redistillation, as against the prescribed limit of 43,81,341 proof litres. The withdrawal of this excess quantity of 11,48,583 proof litres of medium grade alcohol resulted in corresponding shortfall in the output of neutral spirit and consequent loss of excise duty amounting to Rs.111.99 lakhs.

The loss of revenue due to excess drawal of medium grade alcohol was pointed out in audit in December 1985 and August 1986; reply of the department has not been received (October 1987).

The case was reported to Government in December 1986; their reply has also not been received (October 1987).

(ii) As per standards laid down in Government Order issued during August 1984, the quantity of medium

grade alcohol (which is not duitable) withdrawn during primary distillation of molasses to obtain rectified spirit should not exceed 7 per cent of the total yield.

In a distillery in Bangalore district, during the excise year 1985-86, out of a quantity of 13,95,385 bulk litres of spirit obtained during the primary distillation of molasses into rectified spirit, 1,99,635 bulk litres of medium grade alcohol were withdrawn, as against the prescribed limit of 97,677 bulk litres. The withdrawal of excess quantity of 1,01,958 bulk litres (1,70,270 proof litres) of medium grade alcohol resulted in corresponding shortfall in the output of rectified spirit and consequent loss of excise duty amounting to Rs.16.60 lakhs.

The loss of revenue was pointed out in audit in October 1986; reply of the department has not been received (October 1987).

The case was reported to Government in May 1987; their reply has also not been received (October 1987).

4.3. Non-recovery of duty on spirit wasted in excess of norms

(i) As per standards laid down in Government Order issued during May 1980, loss of spirit occuring during its maturation, when stored in wooden casks for the purpose of manufacture of Indian made foreign liquors, is permitted to be waived for the purpose of levy of duty. But this allowance is subject to certain limits varying from 2.5 per cent to 22 per cent, depending on the period of storage ranging from 6 months to 36 months.

In a distillery in Bangalore district, the loss of spirit stored for maturation in wooden casks during the years 1984-85 and 1985-86 exceeded the aforesaid limits by 1,06,026 proof litres. On this quantity of spirit wasted in excess of the prescribed limits, excise duty amounting to Rs.10.34 lakhs was leviable but was not levied.

The omission was pointed out in audit in April and October 1986; reply of the department has not been received (October 1987).

The case was reported to Government in February 1987; their reply has also not been received (October 1987).

(ii) As per the Karnataka Excise (Excise Duties) Rules, 1968, with effect from 24th June 1983, duty is leviable at Rs.9.75 per proof litre on rectified spirit and alcohol of the strength of London proof issued from the distillery. However, in exercise of the powers vested under the Karnataka Excise Act, 1965, Government reduced the rate of excise duty leviable on rectified spirit supplied to an industry for bonafide use in the manufacture of acetic acid and other chemicals to 7 paise per bulk litre and to another industry for manufacturing ethyl acetate to Rs.2 per bulk litre.

(a) Based on the project report of a chemical industrial unit in Mandya district, 795 bulk litres of rectified spirit were required for manufacturing 1 tonne of diethyl phthalate. However, during the excise years 1984-85 (February 1985 to June 1985) and 1985-86, the industry utilised 55,500 and 88,400 bulk litres of rectified spirit respectively for manufacturing 65.231 and 109.710 tonnes of diethyl phthalate, as against 51,859 and 87,219 bulk litres required as per the project report. As a result, 4,822 bulk litres of rectified spirit were consumed in excess,

on which duty of Rs.78,165 was leviable, but was not levied.

(b) As per project report of the chemical unit of another industry in the same district, 1000 bulk litres of rectified spirit were rquired for manufacturing 750 kilograms of acetic acid. However, during the excise years 1984-85 and 1985-86, the industry utilised 12,00,474 and 14,77,729 bulk litres of rectified spirit respectively for manufacturing 8,82,320 and 9,01,925 kilograms of acetic acid, as against 11,76,427 and 12,02,567 bulk litres required as per the project report. The duty leviable on the excess consumption of 2,99,209 (24,047 + 2,75,162) bulk litres of rectified spirit amounted to Rs.48,50,178, but it was not levied.

The non-levy of duty was pointed out in audit in February 1986 and February 1987; reply of the department has not been received (October 1987).

The above cases were reported to Government in January and August 1987; their reply has also not been received (October 1987).

4.4. Low yield of rectified spirit from molasses

As per the standards fixed by Government in their order issued in May 1980, 1 metric tonne of 'A' grade molasses should yield 220 to 240 bulk litres of rectified spirit.

In a distillery in Mandya district, 25,603.5 metric tonnes of 'A' grade molasses were distilled during the year 1984-85 and only 52,83,500 bulk litres of rectified spirit (including medium grade and absolute alcohol) were produced, as against the expected yield of 56,32,770 bulk litres, taking into account the minimum standard

of yield i.e., 220 bulk litres per metric tonne. The shortfall of 3,49,270 bulk litres of spirit resulted in loss of duty amounting to Rs.56.58 lakhs, at the rate of Rs.16.20 per bulk litre.

The shortfall in production and consequent loss of revenue were pointed out to the department in January 1986 and to Government in May 1986 and January 1987; their replies have not been received (October 1987).

4.5. Non-recovery of duty, cesses and litre fee

(i) Under the Karnataka Excise (Excise Duties) Rules, 1968, rebate in duty is allowed, in respect of liquor exported outside the State but within India, subject to certain conditions. According to the Karnataka Excise (Possession, Transport, Import and Export of Intoxicants) Rules, 1967, in cases where the reports of verification of the consignments or warehousing of the intoxicants are not received from the importing States, within 10 days after the expiry of the period of validity of the export permits issued, the differential duty shall be collected from the exporter and the sureties.

In respect of Indian made foreign liquor and beer exported to other States from 7 distilleries/breweries in the districts of Bangalore, Bellary, Bidar and Dharwar, which was covered by 168 permits issued during 1984-85 and 1985-86, verification reports had not been received from the importing States till March 1987. Though the verification reports were not received even long after the export of liquor, no action had been taken by the department to demand the differential excise duty amounting to Rs.2.13 crores involved therein from the distilleries/breweries concerned.

The non-recovery was pointed out to the department between April and December 1986 and to Government in April 1987; their replies have not been received (October 1987).

(ii) A distillery in Bidar district exported 5,400 bulk litres (600 cases) on Indian liquor outside the State on 2nd December 1985. When the consignments did not reach the destination till 18th of the month, a complaint was lodged by the distillery with the police. Subsequently, 4258.125 bulk litres (472 cases and 17 bottles) were traced within the State and exported on the basis of another export permit issued on 10th November 1986. However, no action was taken to recover the differential duty amounting to Rs.28,547 on 1141.875 bulk litres of liquor lost in transit.

The omission was pointed out to the department in May 1986, they stated (August 1987) that an amount of Rs.24,289 had since been recovered from the distillery during June 1987. Report on recovery of the balance amount is awaited (October 1987).

The case was reported to Government in June 1987; their reply has not been received (October 1987).

(iii) Under the Karnataka Excise (Excise Duties) Rules 1968, read with the Karnataka Excise (Sale of Indian and Foreign Liquors) Rules 1968, litre fee of Re.1 per bulk litre in respect of beer and Rs.6 per bulk litre in respect of Indian made foreign liquor is payable at the stage of movement of excisable goods from the licensed wholesale depot to a retail shop or a licensed bar.

In Hassan district, shortages of 8,252.370 bulk litres of beer and 669.245 bulk litres of Indian made

foreign liquor were noticed by the excise authorities during the year 1985-86 in the stock held by four wholesale licensees. Though the offences were compounded on payment of fine, litre fee at the above specified rates was not levied, treating the shortages as unathorised sale to retailers not covered by valid permits. The non-realisation of litre fee resulted in loss of revenue amounting Rs.12,268. This indicates non-observance of laid down system.

On the omission being pointed out in audit (August 1986), the department stated (December 1986) that the entire amount of Rs.12,268 had since been collected in September 1986.

The case was reported to Government in May 1987; their reply has not been received (October 1987).

4.6. Non-recovery/Short recovery of licence fee

(i) Under the Karnataka Excise Act, 1965 and the Karnataka Excise (Brewery) Rules, 1967, no person shall manufacture an intoxicant except under the authority of a licence granted in that behalf. The application for renewal of a brewery licence shall be presented atleast one month before its expiry, accompanied by a treasury challan for having paid the fee at the prescribed rates on the basis of the licensed capacity. The right to manufacture beer conferred by a licence is restricted to the quantity for which licence fee is paid and the licensee is prohibited from manufacturing any quantity in excess of the licensed capacity without payment of further licence fee in advance. The Excise Commissioner had issued instructions (October 1980) that the licensee should be asked to credit the licence fee, based on the total production of the previous twelve months on the date of application, and the licence should

stipulate that further production in excess of the licensed capacity would not be allowed, without payment of additional licence fee in advance.

(a) In a brewery at Bangalore, 1,43,59,000 bulk litres of beer were produced during the period from June 1984 to May 1985. Based on this, licence fee amounting to Rs.14,50,000 was payable by the brewery for getting the licence renewed for the excise year 1985-86. However, the licence of the brewery was renewed in June 1985, after collecting a licence fee of Rs.3,54,000 only during that month. Out of the balance amount of Rs.10,96,000 due, the licensee was allowed to pay Rs.6,46,000 in four instalments between December 1985 and June 1986, but remaining balance of Rs.4,50,000 was still to be paid by the licensee (June 1986).

(b) In respect of another brewery at Bangalore, though licence fee of Rs.8,60,000, Rs.9,00,000 and Rs.11,70,000 was payable in advance for renewal of their licence for the years 1983-84, 1984-85 and 1985-86 respectively, based on the production during the respective previous twelve months, the licensee had credited only sums of Rs.1,92,500, Rs.2,15,000 and Rs.3,00,000 at the time of issue of licence. The balance licence fee of Rs.22,22,500 was still to be paid by the licensee (March 1986).

The irregularities at (a) and (b) above were pointed out in audit in March and June 1986; reply of the department has not been received (October 1987).

The above cases were reported to Government in January 1987; their reply has also not been received (October 1987).

(ii) Under the Karnataka Excise (Sale of Indian and Foreign Liquors) Rules, 1968, the fees for retail shop licence for vend of Indian liquor and refreshment room (bar) licence in which the sale of Indian liquor is combined with supply of meals or eatables are Rs.15,000 and Rs.16,000 per annum respectively (Rs.20,000 and Rs.22,000 respectively with effect from 1st July 1986), if the shop or bar is situated in Municipal Corporation areas and Rs.9,500 and Rs.10,000 per annum (Rs.10,000 and Rs.15,000 with effect from 1st July 1986) respectively, if shop or bar is situated in other areas.

In Bangalore district, in respect of 12 retail shops/bars, located in areas under Municipal Corporation limits as per Government notification issued on 29th November 1984, the licence fees for the years 1985-86 and 1986-87 were recovered at the rates applicable to the shops and bars situated in other areas. The mistake resulted in short realisation of licence fee amounting to Rs.1.76 lakhs during these years.

The short recovery was reported to the department in January 1987 and to Government in July 1987; their replies have not been received (October 1987).

4.7. Non-recovery of value of released goods

Under the Karnataka Excise Act, 1965, any excisable articles seized may be released on payment of the value of the seized articles as estimated by the departmental authorities and on payment also of the basic duties, sales tax, surcharge and cess as may be leviable.

In Chitradurga district, in 5 cases 7413.980 bulk litres of Indian liquor and 218.400 bulk litres of beer were seized by the department during December 1985 and March 1986. The seized goods were released after recovering only the duty, sales tax and cess. The value of the seized goods was, however, not recovered. This resulted in loss of revenue amounting to Rs.71,759.

The mistake was pointed out to the department in July 1986 and to Government in June 1987; their replies have not been received (October 1987).

4.8. Short recovery of duty and cost of arrack

(i) By the Karnataka Excise (Excise Duties) (Amendment) Rules, 1983, with effect from 1st July 1983, the rate of excise duty leviable on arrack was raised from Rs.2.50 to Rs.4 per bulk litre.

In Dakshina Kannada district, on supplies of arrack made to contractors at 6 taluk bonded depots during July 1983, excise duty was levied at the pre-revised rate of Rs.2.50 per bulk litre and a sum of Rs.15,65,676 recovered from them, instead of Rs.16,70,040 due at the revised rate of Rs.4 per bulk litre. This resulted in short levy of duty anounting to Rs.1,04,364.

On the short levy being pointed out in audit in May 1986, the department stated (August 1987) that an amount of Rs.70,323 relating to 5 depots had been collected between July 1986 and May 1987 and an amount of Rs.441 was in the process of recovery. Report on the recovery of balance amount is awaited (October 1987).

The case was reported to Government in May 1987; they confirmed the facts in November 1987.

(ii) As per the Karnataka Excise (Arrack Vend Special Conditions of Licences) Rules, 1967, the licensee to vend arrack shall purchase all the quantity of arrack to be sold in his shop from such depot, distillery or warehouse as the Excise Commissioner may notify and he shall pay the issue price therefor at such rates as may be prescribed from time to time. The issue price of an arrack bottle of 180 ML was fixed by the

Excise Commissioner in his order dated 29th November 1984 as Rs.2.1666 per bottle.

In Belgaum district, in respect of 5,42,400 bottles (each with a capacity of 180 ML) of arrack supplied from a distillery to 9 licensees during the period from March to June 1985, an amount of Rs.11,17,163 was recovered from them, as against Rs.11,75,163 recoverable at the prescribed rate. This resulted in short recovery of cost of arrack by Rs.58,000.

On the short recovery being pointed out in audit (November 1986), the distillery officer stated (November 1986) that demand would be raised against the licensees concerned. Report on action taken is awaited (October 1987).

The case was reported to Government in April 1987; their reply has not been received (October 1987).

4.9. Irregular refund of licence fee

According to Karnataka Excise (Sales of Indian and Foreign Liquors) Rules, 1968, full licence fee for the excise year shall be leviable in respect of licences granted between 1st July and 31st December of the year and half the licence fee in respect of licences granted on or after 1st January of the following year. Further, the fees payable in advance along with the application shall be refunded only in case the licences are not granted.

In Chitradurga district, in respect of a retail shop licence granted for vend of Indian liquor, fee paid by the licensee for the second half of the year 1983-84 and fee paid for the first half of the year 1984-85 were refunded by the department on the ground that the licensee did not transact any business during these periods. The refund is irregular as the rules

do not contemplate any refund in such cases. This resulted in loss of revenue amounting to Rs.12,500.

The irregular refund was pointed out to the department in July 1986 and to Government in June 1987; their replies have not been received (October 1987).

4.10. Short recovery of interest on belated payments

As per Rule 15 of the Karnataka Excise Licences (General Conditions) Rules, 1967, on shop rentals, which are not paid within the tenth day of the month to which they relate, interest is chargeable at the rate of 18 per cent per annum from 1st July 1983 (6¼ per cent upto 30th June 1983) for the period of delay. However, on writ petititons filed by certain contractors against the levy of interest at the enhanced rate of 18 per cent with effect from 1st July 1983, the High Court passed interim orders that the recovery of interest from the contractors should be made at 6¼ per cent per annum in cash and the balance by way of securities to the satisfaction of the Deputy Commissioner concerned.

In 16 districts, interest on belated payments of shop rentals by arrack and toddy contractors, for various periods falling between July 1983 and June 1986, was charged short by Rs.1.97 crores (computed after taking into consideration the interim orders of the High Court), due to non-enforcement of the aforesaid provisions of the rules in cases of belated payment of rentals.

The short recoveries were reported to the department (between March 1986 and February 1987) and to Government in June 1987; their replies have not been received (October 1987).

4.11. Short recovery of supervision charges

The Karnataka Excise (Distillery and Warehouse) Rules, 1967, require that the cost of establishment in respect of the excise officers and staff working in the premises of the excise licensees for securing compliance with the provisions of the Excise Act and the Rules shall be recovered by Government from the licensees in advance in annual, half yearly or quarterly instalments.

In case of 11 licensees in 6 districts, the cost of establishment was not recovered in full during the years 1983-84 to 1986-87 due to the application of incorrect rates of pay and dearness allowance which were subjected to revision from time to time. The shortfall in recovery amounted to Rs.3,33,734.

On the short recovery being pointed out in audit (between September 1986 and January 1987), the department stated (July 1987) that a sum of Rs.1,13,237 had since been recovered (February 1987) from one licensee.

The case was reported to Government in July 1987; their reply has not been received (October 1987).

4. 12. Use of alcohol by chemical industrial units

4.12.1. Introductory

Under the provisions of the Karnataka Excise Act, 1965 and the rules framed thereunder, alcohol required by industrial units for their bonafide use in the manufacture of chemicals is allotted at concessional rate, by the Excise Commissioner, based on the recommendation of the Director of Industries and Commerce

or any other officer, as may be specified by Government for this purpose. In such cases, licences for the possession and use of alcohol are issued by the Excise Commissioner and the inudstries lift the allotted quantity of alcohol, as and when required for use.

4.12.2. Scope of audit

The accounts of certain chemical industrial units using rectified spirit were test checked for the year 1985-86 with reference to the allotment and use of alcohol in the manufacture of chemicals to ensure that there was no excess allotment giving scope of misuse of alcohol and that those units were actually alcohol-based justifying the grant of spirit on payment of duty at the concessional rate.

4.12.3. Organisational set up

The number of chemical industrial units in Karnataka and the consumption of alcohol by them have been increasing year after year as is evident from the following data collected from the department.

Year	Number of chemical units	Quantity of alcohol allotted(In lakhs of bulk litres)
1982-83	29	46.68
1983-84	36	78.08
1984-85	49	109.51
1985-86	66	118.65

For the purpose of application of the rules governing the issue of licences and levy of duty, the industrial

units have been divided into two categories viz., (i) Alcohol based industries and (ii) all other industries. Whereas, in respect of alcohol-based industries, the licence fee leviable is Rs.2,500 per year irrespective of the quantity of alcohol lifted by them, in the case of all other industries, it is Rs.25 upto 25 bulk litres and Re.1 for every additional bulk litre of alcohol lifted by them. Also, on alcohol manufactured within Karnataka and supplied to alcohol based industries in the State, duty is leviable at a concessional rate of Rs.2 per bulk litre (50 paise per bulk litre upto 31st July 1985) as against the prescribed duty of Rs.9.75 per proof litre (Rs.16.25 per bulk litre) leviable on alcohol lifted by others.

4.12 .4. Highlights

(a) The excess consumption of alcohol (3,23,236 bulk litres) by 12 chemical industrial units during the year 1985-86 involved differential duty amounting to Rs.51.52 lakhs.

(b) In respect of 12.58 lakh bulk litres of alcohol supplied to 12 industrial units, which were not alcohol-based, as confirmed by the Industries department, the incorrect levy of duty at concessional rate during 1985-86, resulted in loss of revenue of Rs.1.79 crores.

(c) In case of 9 non-alcohol-based industrial units, licence fee was recovered at the concessional rate applicable to alcohol-based industries, resulting in short collection of licence fee amounting to Rs.11.46 lakhs during 1985-86.

(d) Levy of concessional rate of duty on quantity of alcohol utilised during 1985-86 in excess of that contemplated in the project report of an industry resulted in loss of revenue of Rs.14.51 lakhs.

(e) Non-fulfilment of conditions specified in Government notification for the grant of additional concessions in duty by an industrial unit resulted in short recovery of duty by Rs.86.54 lakhs during 1985-86.

(f) Incorrect extension of concessional rate of duty to alcohol imported from outside the State by an industrial unit resulted in short levy of duty amounting to Rs.48.56 lakhs.

Irregularities noticed during test check, conducted between January and March 1987, are mentioned below.

4.12.5. Variations in requirement of alcohol in units manufacturing the same chemical

The requirement of rectified spirit as per the project reports of 13 chemical industrial units for manufacturing one tonne of Ethyl acetate ranged from 600 to 1050 bulk litres and allotments were made to each unit in accordance with its own assessment of the requirement. Since the process of manufacture of ethyl acetate is based on an accepted chemical formula and has to be common to all the industrial units manufacturing that chemical, wide variations in the requirement of rectified spirit would not appear justifiable. As the duty on such alcohol supplied is leviable at a concessional rate of Rs.2 per bulk litre, there is scope for misuse of the quantity allotted in excess of the actual requirement. No uniform norms have been

prescribed by Government to regulate issue of alcohol to these alcohol-based industrial units. Reckoning the requirement of rectified spirit at 600 bulk litres for manufacturing one tonne of ethyl acetate, the excess quantity allotted to 12 units cannot be treated as for bonafide use in the manufacture of the chemical ethyl acetate and levy of concessional rate of duty on those quantities is not justifiable. On the excess consumption of 3,23,236 bulk litres of alcohol by these 12 units during the year 1985-86, the differential duty involved amounted to Rs.51.52 lakhs.

4.12.6. Irregular grant of rebate on excise duty

Though the concessional rate of duty at Rs.2 per bulk litre was applicable only on alcohol supplied to alcohol-based industries, the department extended this concession to all chemical industrial units on the ground that the term 'alcohol-based industries' was not defined in the Karnataka Excise Act, 1965. They further stated (February 1987) that no licences were issued except on the recommendation of the Director of Industries and Commerce and the responsibility of deciding whether an industry was alcohol-based or not, was of that authority. However, in reply to an enquiry, the Director of Industries and Commerce stated (February 1987) that chemical industrial units could be classified as alcohol-based or otherwise and that where the department had recommended cases for issue of alcohol to the Excise Commissioner, no such distinction had been made as the Excise Department had not specifically asked for the same. The Director of Industries and Commerce has also furnished separate lists of industries which could be categorised as alcohol-based and other industrial units for the purpose of allotment of alcohol. In respect of 12.58

lakhs bulk litres of alcohol supplied during the year 1985-86 to 12 industrial units, since categorised by the Director of Industries and Commerce as not alcohol-based, the levy of duty at the concessional rate resulted in loss of revenue of Rs.1.79 crores.

4.12.7. Short collection of licence fee

In respect of industries, which are not alcohol-based the annual licence fee was incorrectly collected at a flat rate of Rs.2,500 per year (applicable only to alcohol-based industries), as against the prescribed rate of Rs.25 upto 25 bulk litres and Re.1 for every additional litre of alcohol consumed by them. This resulted in short collection of licence fee to the extent of Rs.11.46 lakhs during 1985-86 in respect of 9 industrial units.

4.12.8. Levy of duty at incorrect rates

Duty is leviable at the concessional rate only in respect of the quantity of alcohol required for bonafide use in the manufacture of the final product in the industry concerned. Thus, on excess consumption of alcohol, over and above the quantity required as per project reports and determined with reference to the final output of chemical, duty is leviable at the normal rate of Rs.9.75 per proof litre.

Based on the actual production of chemicals, 5 industrial units consumed alcohol in excess of their requirement as per their project reports by 90,972 bulk litres during 1985-86, but duty at concessional rate was levied on this quantity also. The differential duty leviable on this quantity amounted to Rs.14.51 lakhs.

4.12.9. Irregular grant of concession in payment of duty

Under the powers conferred by the Karnataka Excise Act, 1965, Government issued a notification during September 1979 reducing the rate of duty, leviable on alcohol supplied to chemical industrial units, to 7 paise per bulk litre, provided their investment on plant and machinery is not less than Rs.1 crore and they consume not less than 30 lakh bulk litres of alcohol per year.

Duty was levied at the concessional rate of 7 paise per bulk litre on 5,37,000 bulk litres of alcohol consumed during 1985-86 by a chemical industrial unit (in Mysore district) manufacturing acetic acid, though the annual consumption was less than the prescribed minimum of 30 lakh bulk litres. The irregular grant of concession resulted in duty being levied short by Rs.86,53,755.

4.12.10. Unauthorised aid to industries

(i) The Excise Commissioner permitted a chemical industrial unit at Bangalore to import 3,00,000 bulk litres of rectified spirit from Maharashtra State during October 1986 after obtaining an indemnity bond from the concern for the payment of duty at the concessional rate of Rs.2 per bulk litre at the time of import. Subsequent to the import, he permitted the concern, during November 1986, to denature the entire quantity of spirit imported. After denaturing, even concessional rate of duty was not collected on the imported spirit, as no duty was leviable on denatured spirit. Full duty at Rs.9.75 per proof litre had to be levied in this case, as the commodity imported (rectified spirit)

was excisable and also it had not been manufactured within the State. Non-levy of duty on this quantity of imported alcohol resulted in loss of revenue of Rs.48,55,500.

Further, under the Karnataka Excise Act, 1965 and the rules framed thereunder, denaturing of spirit can be done only in a distillery on payment of a licence fee of Rs.5,000. The permission given to the industrial unit for denaturing spirit without collection of a distillery licence fee of Rs.2,00,000, together with a licence fee of Rs.5,000 for denaturing, amounted to unauthorised aid to that unit.

(ii) Another chemical industrial unit at Bangalore imported 24,000 bulk litres of alcohol from Maharashtra State during October 1986, after obtaining a permit from the Excise Commissioner. Duty on the imported alcohol was incorrectly levied at the concessional rate of Rs.2 per bulk litre, though such concessional rate was admissible only in respect of alcohol manufactured within the State. The irregular grant of concession resulted in duty being levied short by Rs.3,40,440.

The above points were brought to the notice of department/Government in June 1987; their replies have not been received (October 1987).

4.13. Fixation of purchase and sale prices of arrack

4.13.1. Introductory

Arrack is a country liquor manufactured by adding water to rectified spirit to bring the alcohol strength to 65° proof to make it potable and by maturing it for a minimum period of 15 days. Prior to 1975,

manufacture of arrack was entrusted to some of the distilleries. Government purchased arrack from these distilleries through the arrack bonded depots located in all the taluks, after incurring transport charges for the transport of arrack from the distilleries to the arrack bonded depots. The arrack was then sold to licensed contractors.

4.13.2. Scope of audit

In Karnataka, Government being the monopoly dealer of arrack, the selling price in respect of arrack sold to contractors had to be determined on a rational basis and revised by them wherever there was increase in the purchase price of rectified spirit from which arrack is manufactured. The purchase and sale prices prevailing from time to time were reviewed (March 1987) in audit to verify if the sale price of arrack was regulated by Government in close correlation to the purchase price paid by them while procuring rectified spirit, as any incorrect fixation or failure to revise the rate of sale price would result in loss of revenue to Government.

4.13.3. Organisational set up

From the year 1975, the department entered into an agreement with a private firm, initially for supply of arrack for 9 districts only, according to which, Government purchased rectified spirit from the distilleries and supplied it at the distillery to the private firm for manufacture and supply of arrack, through the warehouses and feeding centres to be established by that firm. In consideration, the private firm was paid a service charge of 20 paise per bulk litre of arrack supplied (40 paise with effect from 1st November 1983). The arrack so supplied was trans-

ported by Government to the arrack bound depots after incurring transport charges. This scheme known as 'Package deal' was introduced to reduce the transport charges incurred by Government in the transport of arrack from the distillery itself and later extended to 14 districts with effect from 1st November 1983.

4.13.4. Highlights

(a) Failure to increase the sale price of arrack from June 1980 by atleast 48 paise per litre, due to corresponding increase in the purchase price of rectified spirit (from which arrack is manufactured), resulted in loss of revenue of Rs.185.36 lakhs during 1985-86.

(b) Due to delay in revision of selling price of bottled arrack simultaneously with the increase in bottling charges incurred by Government, the loss of revenue during the period from November 1975 to July 1978 in respect of one of the 4 distilleries supplying bottled arrack amounted to Rs.3.03 lakhs.

(c) Failure to collect sales tax on excise duty component of the sale price of arrack resulted in loss of revenue of Rs.140 lakhs on the total consumption of arrack during 1985-86.

Irregularities noticed in the course of review (March 1987) are mentioned below.

4.13.5. Purchase price of rectified spirit

Prior to 1975, as the Government was purchasing arrack from the distilleries, the need for fixing the purchase price of rectified spirit did not arise. Consequent

to the introduction of 'package deal' scheme in the year 1975, Government was committed to the purchase of rectified spirit from the distilleries for supply to the private firm in fulfilment of the terms of the agreement. Upto December 1979, the amount payable to the distilleries towards purchase of rectified spirit was determined with reference to Government of India Ethyl Alcohol (Price Control) Order, 1971, according to which the price of rectified spirit was Rs.589.10 per K.L. plus transport charges of Rs.150. As the price of rectified spirit fixed with reference to the Central Order was not acceptable to the distillers, Government appointed a committee at their instance and based on the recommendation of the committee fixed the purchase price of rectified spirit from time to time. The State vis-a-vis Central rates of rectified spirit were as follows:

Period	State rate per K.L.	Central Rate per K.L.
From 18.12.79	Rs.1,100+140(Transport charges)	Rs.589.10+150 (Transport charges)
From 19.06.80	Rs.1,250+140(Transport charges)	-do-
From 25.08.80	-do-	Rs.826.90+175 (Transport charges)
From 01.08.85	Rs.2,000 (including transport charges)	-do-

The rate fixed by the State Government from time to time was nearly double the Central rate. The authority under which the State Government is fixing the price of rectified spirit (a non-potable alcohol) differently from the Central order and reasons justifying the higher rates called for from the department have not been received.

4.13.6. Purchase and selling price of arrack

The purchase and selling price of arrack from time to time were as follows:

Period	Purchase price per B.L. Ex.distillery	Selling price Per B.L.
01.07.70 to 30.06.74	23 paise	Rs.2.28
01.07.74 to 31.10.75	28 paise	Rs.2.03
01.11.75 to 17.12.79	44 paise	Rs.2.03
18.12.79 to 18.06.80	67 paise	Rs.2.03
w.e.f. 19.6.1980	71 paise	Rs.2.03

It would be seen from the above details, that though there was increase in the purchase price of arrack from time to time, there was no corresponding increase in the selling price of arrack. On the contrary, a reduction was effected in the selling price from Rs.2.28 per B.L. in 1970 to Rs.2.03 per B.L. in 1974. It is evident that the department had not taken into account, the increase in the purchase price, cost of transportation, establishment and other charges incurred from time to time in the distribution of arrack after its purchase while fixing the selling price of arrack. The analysis for the selling price fixed is not availa-

ble with the department. The sale price could have been increased atleast by 5 to 48 paise consequent on the increase in the purchase price to that extent. Loss of revenue on account of non-revision of selling price amounted to Rs.185.36 lakhs (including sales tax of Rs.17.36 lakhs) for the year 1985-86 alone, computed on the consumption of 3.5 crore bulk litres of arrack during that year.

4.13.7. Reimbursement of cost of bottles and bottling charges by the contractors

Besides bulk arrack, Government was purchasing and selling arrack in bottles of 750ML 375 ML and 180 ML. The cost of bottles and bottling charges paid by Government to the distilleries from time to time were as follows:

Period	Amount paid		
	750 ML	375 ML	180ML
	(Amount in paise)		
1.07.70 to 31.10.75	127	86	56
1.11.75 to 14.12.84	181	122	82

From 15th December 1984, Government discontinued issue of bulk arrack and introduced the system of compulsory bottling of arrack. Bottling charges at Rs.3 for 750 ML, Rs.1.30 for 375 ML and Re.0.95 for 180 ML bottles were required to be paid by the arrack contractor to the bottling units direct. Prior to this, the bottling charges paid to the distilleries were got reimbursed from the arrack contractors at the time of releasing the bottled arrack for retail sale. Consequent to the revision of bottling charges payable to the distillers with effect from 1st November 1975, Government revised the selling rate of bottled

arrack incorporating the increased bottling charges (for reimbursement purposes) by an order dated 20th July 1978 by giving a retrospective effect to the order from 1st November 1975. This order dated 20th July 1978 was later amended by another order dated 31st July 1978 according to which the revised selling rate was applicable from the date of issue of the Government order i.e., 20th July 1978 on the ground that it would not be practically possible to collect the revised rate from 1st November 1975. Thus delay in revising the selling price simultaneously with the increase in bottling charges resulted in loss of revenue of 54 paise, 36 paise and 26 paise in respect of each 750 ML 375 ML and 180 ML bottles respectively sold during the period from 1st November 1975 to 19th July 1978. There were four distilleries which were manufacturing and supplying bottled arrack during that period and in respect of one distillery (in Belgaum district) alone the loss on this account amounted to Rs.3.03 lakhs. Information in respect of the other three distilleries has not been received.

4.13.8. Non-collection of sales tax on the component of excise duty

As per the judgement (dated 17th April 1985), of the Supreme Court in the case of M/s.Mcdowells Vs. C.T.O., Andhra Pradesh (59 STC 277), sales tax is leviable on sale price including excise duty paid irrespective of the fact, whether the excise duty is paid by the buyer or the seller. The State Excise department was not collecting sales tax on the excise duty component of sale price of arrack even after the above judgement of the Supreme Court. Failure to collect sales tax on excise duty component of the sale price of arrack resulted in loss of revenue of Rs.140 lakhs for the year 1985-86 alone.

The above points were communicated to Government during July 1987; their reply has not been received (October 1987).

4.14. Uncollected excise revenue

4.14.1. Introductory

Excise revenue comprises receipts recoverable, under the Karnataka Excise Act, 1965 and the rules framed thereunder, on account of excise duty, litre fee, licence fee, tree rent, lease of retail vend of toddy and arrack, fine levied for excise offences, interest on delayed payments of rentals, etc.. Duty on excisable articles is payable at the time of their removal from the distillery, brewery or warehouse, as the case may be. Similarly, permit fee or licence fee is payable in advance at the time of submitting the application for permit or licence. However, in respect of sale of right of retail vend of toddy and arrack effected through auctions for each excise year, the contractors are required to make a cash deposit equal to one month's rent soon after the provisional acceptance of the bid and to furnish security for an amount equal to two and one tenths of the monthly rent within fifteen days from the date of communication of final confirmation. They are required to pay the rentals monthly not later than the 10th of the month to which the rental relates. This time limit can be extended by 45 days with the specific permission of the Deputy Commissioner concerned/Excise Commissioner, subject to payment of interest for the extended period. In case of failure on the part of the contractor to credit the rentals even during the extended period, the lease is determined invoking the provisions contained in the excise rules and the right of retail vend is reauctioned. The arrears due upto the termination of lease and any loss sustained by Government on account

of the reauction are recoverable from the original lessee. Interest on delayed payment of rent is chargeable at 18 per cent per annum (6 per cent to end of 30th June 1983) on the outstanding amount as long as it remains undischarged, irrespective of the expiry of the lease period or the termination of lease.

4.14.2. Scope of Audit

In view of the heavy accumulation of arrears pending recovery since a long time, the various individual cases constituting the arrears were reviewed in certain selected district offices and the office of the Excise Commissioner to ascertain the genuineness of the demands and also to examine the adequacy of action taken for recovery.

4.14.3. Organisational set up

Arrears of excise revenue are recoverable

(a) From the person primarily liable to pay or from his surety as if they were arrears of land revenue; or

(b) By attachment of his distillery, brewery or warehouse or shop or premises fittings or apparatus or all stocks of intoxicants and materials held therein. Dues are realised as a first charge on the sale proceeds of such properties attached.

The Excise Act does not prescribe any time limit for realisation of arrears. As the payment of duty and fee is a pre-condition for the release of liquor or grant of licence, the arrears due for realisation under these categories are neglibile. The bulk

of the arrears relates to amounts due from contractors towards rentals payable for the retail vend of arrack and toddy and the losses incurred on re-auction conducted on determination of leases.

4.14.4. Highlights

(a) The total arrears of revenue pending realisation for the period ended 31st March 1986, as worked out by the department in September 1986, amounted to Rs.59.05 crores (which have since gone up to Rs.67.10 crores as at the of March 1987).

(b) These arrears do not depict the correct position due to non-inclusion on interest due on belated payments of shop rentals, crediting of rentals against demand for subsequent months, instead of first adjusting against interest due and not taking to demand, amounts pertaining to fines and fees for compounding excise offence as and when due.

(c) An analysis showing various stages of action taken for recovery has not been worked out by the department for the State as a whole. However in 6 districts, the arrears of Rs.21.61 crores were at the following stages of action;

(i) Recovery stayed by courts (Rs.8.31 crores),

(ii) Recovery pending with the Revenue department (Rs.0.23 crore),

(iii) pending with the department (Rs.13.07 crores).

Irregularities noticed in the course of review conducted during March 1987 are mentioned below.

4.14.5. Position of arrears

(i) The total arrears of revenue pending realisation for the period ended 31st March 1986, as worked out by the department in September 1986, amounted to Rs.59.05 crores. Year-wise analysis is given below:

Year	Amount (In crores of rupees)
upto 1981-82	1.29
1982-83	1.40
1983-84	3.13
1984-85	16.13
1985-86	37.10
Total	59.05

(ii) The arrears mentioned above do not depict the correct position. The actual realisable arrears would be much more for the following reasons.

(a) These arrears do not include the amounts due from toddy and arrack contractors towards interest on belated payments of shop rentals, as the department has not been working out periodically such interest due on belated payments and taking it to demand.

(b) In cases in which interest was due from contractors for belated payment of rentals for a particular month, they were permitted to credit the rentals

against the demand for the subsequent months, instead of first adjusting the interest due and then accounting only the balance towards the rentals.

(c) Instead of taking to demand the amounts pertaining to fines and fees realisable for compounding excise offences as and when decided, such amounts are taken simultaneously under demand as well as collection, only when they are actually collected.

(iii) The arrears as at the end of March 1986 (Rs.59.05 crores) had increased by 61 per cent as compared to those (Rs.36.70 crores) at the end of March 1985. The reason for this steep increase was stated (January 1987) to be mainly due to stay orders obtained by arrack contractors from the High Court of Karnataka on the recovery of 25 per cent of the rentals (which accounted for Rs.21.30 crores) on the ground that bottled arrack, in the different sizes of bottles as required by them was not supplied after introduction of the system of supply in sealed bottles.

(iv) The department has not prepared, for the State as a whole, an anlysis showing the various stages of action taken for recovery, but have only the district-wise totals. According to the information collected by audit during the period from November 1986 to June 1987, in six districts (Bangalore, Belgaum, Shimoga, Raichur, Chickmagalur and Uttara Kannada), the arrears of Rs.21.61 crores were at the following stages of action.

Stage of Action	Amount in arrears (In crores of rupees)
1. Recovery stayed by Courts	8.31
2. Recovery pending with the Revenue Department	0.23
3. Pending with the Excise Department	13.07
Total	21.61

4.14.6. Ineffective action for recovery of arrears

Some important and interesting cases, wherein the arrears have remained unrealised due to delayed and ineffective action on the part of the department, are mentioned below.

(A) Cases pending in courts

(i) Compulsory bottling of arrack in all cases before sale to contractors was introduced for the first time in Karnataka with effect from July 1985. Several contractors filed writ petititons in the High Court of Karnataka praying for grant of stay on the recovery of 25 per cent of rentals on the ground that the consumption of arrack had gone down as they were not supplied bottled arrack in sufficient quantities in the different sizes required by them, with the result that they incurred heavy loss and were not in a position to pay the monthly rentals. Stay was granted in these cases and the arrears involved on this account amounted to Rs.21.30 crores during the year 1985-86.

In reply to a query, the department stated (January 1987) that in respect of the amounts covered by the stay orders, they could take action only on specific orders from the Court for the recovery of security deposit. However, the department has not moved the court for fixing a security to be furnished by the contractors for the amounts covered by stay orders, in the interest of Government revenue. No action was also taken till March 1987 to get the stay orders vacated

(ii)(a) The retail sale of arrack in a taluk in Belgaum district for the year 1984-85 was entrusted to a firm on a monthly rental of Rs.5,56,200 and the right to vend covered the entire taluk. The firm filed a writ petititon (No.333/86) in the High Court of Karnataka seeking stay orders from recovery of rentals on the plea that they were not supplied arrack in sufficient quantities during the months of November and December 1984 and that they had incurred heavy losses on that account. The High Court, in their order dated 28th November 1985, stayed the recovery of balance of rentals for the months of March and May 1985 amounting to Rs.8,83,200.

The details of rentals and consumption of arrack in the said taluk during 1984-85 along with preceding two years are given below:

Year	Rentals per month	Consumption in bulk litres for the year	for Novem-ber	for Dec-ember
	Rs.			
1982-83	2,20,000	1,12,752	10,000	9,160
1983-84	4,15,600	1,29,351	10,711	11,728
1984-85	5,56,200	1,66,646	10,000	13,000

(ii)(b) On similar grounds, an arrack contractor in another taluk in the same district for the year 1984-85, brought stay orders from the High Court of Karnataka on 2nd January 1985 on the recovery of the rentals amounting to Rs.4,00,800 for the months of May and June 1985.

Details of consumption of arrack in that taluk (which area was covered by the contract) during May and June 1985 and for the same months during two earlier years are given below.

Year	Rentals per month Rs.	Consumption in bulk litres for the year	for May	for June
1982-83	3,30,000	1,96,000	20,000	11,000
1983-84	4,86,400	1,75,000	15,000	15,000
1984-85	5,00,800	2,19,000	25,000	28,000

It is evident from the above tables that in both the cases though there was no shortfall in consumption (when compared with the corresponding months of the

previous years) as claimed by the contractors in their petitions to the court, the department did not take any action to get the stay vacated, but allowed the amounts to contin in arrears(February 1987).

(iii) The retail vend of arrack in another taluk of Belgaum district for the year 1969-70 was entrusted to a contractor on a monthly rental of Rs.37,500. The contractor failed to furnish the security deposit, as prescribed in the Karnataka Excise (Lease of Retail Vend of Liquors) Rules, 1967. The department cancelled the licence and conducted fresh auction on 24th June 1969. Government incurred a loss of Rs.12,400 per month due to shortfall in the bid amount accepted in the re-auction, and the total loss for the excise year 1969-70 amounted to Rs.1,48,800. This was proposed to be recovered from the first contractor as per terms of his contract. The house property of the contractor at Belgaum was auctioned on 19th December 1975 and the sale proceeds of Rs.16,020 credited to Government on 30th December 1975. The son of the contractor filed a suit (No.O.S.7/1976) in the Belgaum district court against the auction of the house. The case was disposed of on 23rd August 1977 in favour of Government. The department, without knowing the disposal of the case, had been corresponding with Government Pleader since 1977. Though the court case related only to the disposal of the house property and covered only dues to the extent of Rs.16,020, no action was taken by the department since 1975 to recover the balance amount of Rs.1,32,780 on the plea that the case was pending in the Court. Arrears to that extent are still pending recovery (February 1987).

(B) Cases pending with Revenue Department

(i) A sum of Rs.53,760 has been outstanding

towards excise arrears since 1952-53 in respect of a contractor in Bangalore district. The department had not obtained any security from the contractor. The whereabouts of the contractor were not known to the department. When the case was referred (October 1970) to the Tahsildar informing him that the contractor was owning a furniture shop at a specified address, the Tahsildar replied (October 1980) that the address given by the department was incorrect. The amount is yet to be recovered (February 1987).

(ii) The excise arrears relating to the years 1956-57 recoverable from another contractor amounted to Rs.59,316. The contractor had pledged two of his properties valued at Rs.80,000 as security for the fulfilment of the contract. On his failure to pay the rentals, his properties were notified for auction for the first time in October 1961. The auction could not be conducted, as no bidders turned out on the day of auction. Subsequent to this, the auction of the house was fixed atleast five times between January 1963 and April 1973 but it could not be finalised as there were no bidders or the bid amounts offered were very low or adequate notice was not given to the parties about the intention to hold the auction.

The case was referred to the Revenue Department during June 1973 for recovery as arrears of land revenue; arrears still remain unrealised (February 1987).

(C) Cases pending with the Excise Department

(i) A sum of Rs.31,75,345 was due from a toddy contractor in Shimoga district for the year 1983-84 towards arrears of shop rentals. Though there are no provisions in the Act for the recovery of the rentals

in instalments, the department permitted the contractor during October 1986 to pay the amount in 96 monthly instalments. The department has not obtained any security from the contractor for this amount nor have they indicated whether the contractor has to pay interest on belated payments recoverable under Rule 15 of the Karnataka Excise Licences (General Conditions) Rules, 1967. The first instalment of Rs.32,200 was remitted during October 1986. The balance is still pending recovery (February 1987).

(ii) Similarly, in the case of another arrack contractor, in the same district, for the year 1983-84, the arrears of rentals amounting to Rs.4,00,200 were permitted, by the Excise Commissioner, during October 1986, to be paid in sixty monthly instalments, without obtaining any security. The instalments of recovery are yet to be paid (February 1987).

(iii) In respect of the lease of retail vend of arrack during the year 1946-47 in a taluk in Raichur district, the arrears of shop rentals recoverable from contractors amounted to Rs.54,935. In these cases, the department had obtained fixed deposit receipts held by the contractors in the Urban Co-operative Bank Limited, Raichur as security for the due performance of the contract. The bank went into liquidation and as the receipts could not be encashed, the liquidator requested the Deputy Commissioner (Excise) Raichur during December 1975 to approach the Government to write off the amount; the Excise Commissioner in June 1976, requested the liquidator to issue a certificate to that effect. Correspondence is still going on between the two and the arrears are yet to be regularised (February 1987). These dues have become irrecoverable due to the delay in realisation of the securities offered.

(iv) Another excise contractor of Raichur district was in arrears of rentals to the extent of Rs.64,726 for the year 1951-52. As the licensee had expired, the department initiated action for the recovery of the amount from the sureties of the contractors, but the Civil Judge, Raichur in his judgement dated 29th March 1973 held that the arrears cannot be recovered from the sureties. On the department's proposing recovery of the arrears from the wife of the deceased defaulter, the District Court, Dharwar declared her as insolvent. Consequently, the Superintendent of Excise recommended to the Excise Commissioner in January 1986 for approach ing Government to write off it. There is no further progress in the case (February 1987).

(v) In the case of an excise contractor in Uttara Kannada district, the department proposed to purchase the lands belonging to the sureties of the contractor towards the arrears of rentals recoverable (Rs.46,027) for the year 1968-69. Accordingly, lands valuing Rs.8,700 belonging to the sureties of the contractor were attached and taken over by the department during December 1975. The department has not taken action to get the sale deed executed and title of the land transferred in favour of Government. Further, the right of cultivation of land had not been auctioned every year and the auction proceeds credited to Government. When this was pointed out in audit in December 1986, the department initiated action to transfer the title in favour of Government by addressing a letter to the Tahsildar, Bhatkal in December 1986. There has been no progress in recovery since 1968-69, except Rs.8,700 (Which has been adjusted by transfer credit). The balance (Rs.37,236) due for recovery is still outstanding (February 1987).

The above points were brought to the notice of Government in April 1987; their reply has not been received (June 1987).

CHAPTER 5

TAXES ON MOTOR VEHICLES

5.1 Results of Audit

Text check of records in the offices of the Motor Vehicles department, conducted in audit during 1986-87, disclosed under-assessments of tax, fees etc., amounting to Rs.1 627.42 lakhs in 164 cases, which fall broadly under the following categories.

	No. of cases	Amount (In lakhs of rupees)
1. Short levy of tax on motor vehicles	52	25.30
2. Non-realisation of tax/fees	94	1504.56
3. Irregular refunds	4	47.56
4. Non-levy of penalty and other irregularities	14	50.00
Total	164	1627.42

Some of the important cases are mentioned in the following paragraphs.

5.2. Short recovery due to application of incorrect rates of tax

(i) As per the Karnataka Motor Vehicles Taxation (Amendment) Act, 1985, with effect from 1st August 1985, tax at enhanced rate is payable in respect of

motor cars owned by companies. It has been clarified by Government in the Karnataka Motor Vehicles Taxation (Amendment) Act, 1986 that a 'company' for this purpose means "an Association of number of individuals for the purpose of carrying on trade or other legitimate business, a number of persons united for the purpose or in a Joint concern for profit as a Company of merchants, private partnerships or incorporated body of men, firm, house or partnership or a Corporation".

In Bangalore (South, East and Central), Chitradurga, Mandya and Karwar regions, on 92 motor cars owned by the companies, taxes were collected at the rates applicable to cars owned by persons other than companies. The mistake resulted in tax being levied short by Rs.1,04,307 for various periods falling between August 1985 and December 1987.

On the short recovery being pointed out in audit between June 1986 and March 1987, an amount of Rs.72,688 pertaining to 66 vehicles was recovered during the period from December 1986 to August 1987.

The case was reported to Government in May 1987; they confirmed the facts (August 1987).

(ii) As per item 8 of part 'A' of the Schedule to the Karnataka Motor Vehicles Taxation Act, 1957, on an articulated vehicle, tax upto 31st July 1985 was leviable at the rate of Rs.1,450 per quarter for the first 15,000 kilograms of permitted laden weight plus Rs.80 for every additional 250 kilograms or part thereof. With effect from 1st August 1985, these vehicles were categorised under item 10 of part 'A' of the schedule by the Karnataka Motor Vehicles Taxation (Amendment) Act, 1985, and the rate of tax was revised to Rs.1,885 for the first 15,000 kilograms, and Rs.104

(Rs.105 from 1st April 1986) for every 250 kilograms or part thereof in excess of 15,000 kilograms.

In Shimoga and Mandya regions, on 3 articulated vehicles with permitted laden weight exceeding 15,000 kilograms, tax was assessed incorrectly for the various periods falling between April 1979 and December 1986, at the rate applicable to goods vehicles as per item 3 of part 'A' of the Schedule, instead of under items 8 and 10 of the Schedule applicable to articulated vehicles. The mistake resulted in tax being levied short by Rs.85,073 (including difference of surcharge and rural development cess).

The short recovery was pointed out to the department in May 1986 and November 1986; they stated (September 1987) that the entire amount had been recovered in April and August 1987.

(iii) Under the Karnataka Motor Vehicles Taxation Act, 1957, tax on an articulated vehicle is leviable with reference to its registered laden weight. By a notification issued on 20th October 1975, under the provision of the Motor Vehicles Act, 1939, Government fixed, for purposes of levy of tax, the maximum laden weight of transport vehicles at 125 per cent of the gross vehicles weight, as certified by the manufacturer, in respect of the models of the years 1953 and later years.

In Shimoga region, in respect of an articulated vehicle, the gross vehicle weight was certified by the manufacturer as 39,760 lbs. But at the time of registration (6th January 1977) the registered laden weight for the purposes of levy of tax was erroneously fixed by the registering authority at 15,300 kilograms

taking into account only maximum laden weight of the prime-mover, instead of 22,543 kilograms based on 125 per cent of the gross vehicle weight certified by the manufacturer. On the mistake being pointed out in audit in May 1982, the department refixed the registered laden weight at 22,540 kilograms with effect from 1st September 1983, but no action was taken in respect of short levy for the period 6th January 1977 to 31st August 1983. The incorrect fixation of registered laden weight at the time of registration and levy of tax at the rates applicable to goods vehciles, instead of at the rate applicable to articulated vehicles, resulted in short levy of tax amounting to Rs.63,535 for the period from 6th January 1977 to 31st August 1983.

On the short levy for the said period being pointed out in audit (June 1986), the department stated (December 1986) that a notice had been issued to the registered owner.

The above cases were reported to Government between March and May 1987; their reply has not been received (October 1987), except in respect of sub-paragraph (i) above.

5.3. Non-recovery of tax

(i) As per the provisions of the Karnataka Motor Vehicles Taxation Act, 1957, the Commissioner for Transport is the taxation authority in the case of a fleet owner, and the tax due for a year in respect of public service vehicles is determined by him, based on the returns submitted by the fleet owner. However, in case of non-revenue yielding vehicles such as non-transport and goods vehicles owned by the fleet owner

and used for carrying on his business, tax is required to be collected by the concerned Regional Transport Officers with effect from 1st April 1986.

In Raichur region, tax in respect of three jeeps and two goods vehicles owned by Karnataka State Road Transport Corporation was not recovered by the Regional Transport Officer presuming that the tax on such vehicles also, as in the case of public service vehicles, would be recovered by the Transport Commissioner, who is the taxation authority for the public service vehicles owned by the Corporation. The omission resulted in non-recovery of tax amounting to Rs.29,634 for the period from April 1986 to November 1987.

On the non-recovery of tax being pointed out in audit (February 1987), the department stated (February 1987) that action would be taken to recover the amount from the corporation. Report on action taken has not been received (October 1987).

(ii) Under the Karnataka Motor Vehicles Taxation Act, 1957, transport vehicles registered in other States and plying in Karnataka under All India Tourist Omnibuses permits are liable to pay tax under the provisions of this Act, if they pick up or set down passengers in Karnataka in violation of the conditions attaching to the permits. As per notifications issued in September 1972 and December 1976, tourist omnibuses registered in other States and plying in the State of Karnataka on permits issued by the home States were exempt from levy of tax in Karnataka subject to certain conditions, but this exemption was withdrawn by a notification issued on 31st March 1981. As a result, on such tourist omnibuses, tax became leviable with effect from 1st April 1981.

In Shimoga region, five tourist omnibuses, registered in Andhra Pradesh, Tamil Nadu, Nagaland and Goa, were found by the department between February 1981 and September 1982 to be picking up and setting down passengers in Karnataka in violation of the conditions attached to the permit. The Regional Transport Officer forwarded his findings to the Regional Transport Authorities of other States/Union Territory, but did not recover the tax amounting to Rs.18,180 due to the State of Karnataka.

The omission was pointed to the department in June 1986; their reply has not been received (October 1987).

(iii) By a Government notification issued on 30th October 1980, under section 16(1) of the Karnataka Motor Vehicles Taxation Act, 1957, tractor-trailers, the registered owners of which are agriculturists and whose main source of income is from agriculture, were exempt from payment of tax for the first year after their registration and the tax payable for the subsequent years was to be paid at a concessional rate of Rs.10 per year. This rate was increased to Rs.100 per year, by the Karnataka Motor Vehicles Taxation (Amendment) Act, 1985, with effect from 1st August 1985.

In Davanagere region, on 64 tractor-trailer units, tax due (after completion of first year of their registration) for various periods falling between January 1981 and October 1987 was not recovered. The omission resulted in non-recovery of tax amounting to Rs.13,405.

On the omission being pointed out in audit in January 1987, the department stated (August 1987)

that an amount of Rs.2,817 had since been recovered in 13 cases between March and July 1987.

The above cases were reported to Government in May 1987; their reply has not been received (October 1987).

5.4. Short recovery of tax

(i) Under the Karnataka Motor Vehicles Taxation Act, 1957, a tax at the rates specified in Part-A of the Schedule to the Act is leviable on all motor vehicles suitable for use on roads, and the unit of taxation for the purpose is one quarter of a year.If the vehicle is used even for one day in a month, it is deemed to have been used for whole of that month and tax is leviable at two-fifth of the quarterly rate, as the non-use is for a period not less than two continuous calendar months in that quarter.

In Bidar region, the registered owners of 17 stage carriages used the vehicles for 7 days from 1st November 1985 to 7th November 1985 and surrendered the documents to the Regional Transport Officer on 8th November 1985. However, based on the instructions issued (November 1985) by the Transport Commissioner, tax was recovered for seven days only, instead of at two-fifth of the quarterly rate applicable in these cases accepting the non-use of the vehicles from 8th November 1985. The mistake resulted in tax being recovered short by Rs.56,735.

The short recovery of tax was pointed out to the department in February 1987; their reply has not been received (October 1987).

(ii) As per item 6 of Part-A of the Schedule to the Karnataka Motor Vehicles Taxation Act, 1957, as amended with effect from 1st August 1985, tax in respect of motor vehicles, for which special permits have been issued under section 63(6) of the Motor Vehicles Act, 1939, is leviable at the rate of Rs.300 per quarter for every passenger (excluding the driver) which the vehicle is permitted to carry, whereas the rate of tax in respect of stage carriages under item 4(4)(a) of the Schedule ibid is Rs.250 per quarter for every passenger (other than driver and conductor) which the vehicle is permitted to carry.

(a) If special permits are issued to vehicles already covered under stage carriage permits, the difference between the rates of tax is required to be collected for the period for which such permits are issued. Since taxes in respect of all stage carriages owned by Karnataka State Road Transport Corporation are assessed after the close of the year by the Transport Commissioner, he has issued instructions (January 1986) to the Corporation as well as Regional Transport Authorities to collect the differential tax of Rs.50 per seat per quarter at the time of issuing spcial permits to the stage carriages owned by the Corporation.

In Karwar, Bijapur, Bidar and Bangalore (central) regions, on 56 stage carriages owned by Karnataka State Road Transport Corporation, for which special permits under section 63(6) of the Motor Vehicles Act, 1939 were issued during the year 1985-86, the differential tax at the rate of Rs.50 per seat per quarter was not recovered for the period from August 1985 to March 1986. The omission resulted in non-recovery of tax of Rs.74,775.

On the omission being pointed ut in audit between November 1986 and March 1987, the Regional Transport Officers concerned agreed to take necessary action. Report on action taken has not been received (October 1987).

(b) If special permits are issued to vehicles already covered by stage carriage permits, tax in respect of the seat meant for the conductor is also recoverable.

In Tumkur region, in respect of 30 stage carriages for which special permits under section 63(6) of the Motor Vehicles Act, 1939 were issued during various periods falling between August 1985 and February 1987, tax was recovered for every seated passenger excluding the driver and conductor, instead of excluding the driver only. The mistake resulted in short recovery of tax amounting to Rs.32,500.

The mistake was pointed out to the department in March 1987; their reply has not been received (October 1987).

The above cases were reported to Government between May and July 1987; their reply has not been received (October 1987).

5.5. Non-levy of additional tax

Under the Karnataka Motor Vehicles Taxation Act, 1957, when any motor vehicle is altered or proposed to be used in such a manner as to cause the vehicle to become a vehicle in respect of which a higher rate of tax is payable, the registered owner or person who is in possession or control of such vehicle is required to pay additional tax, which is equal to the difference between the tax already paid and the tax which is payable for the period for which the vehicle was so used. It has also been judicially held that the use of a vehicle in a manner other than the purpose for which it has been permitted

makes the owner liable for additional taxes (Noorulla Khan Vs. Regional Transport Officer, 1985 ILR 2711) and that it is the use of the vehicle for carrying passengers for hire or reward, which determines the category of the motor vehicle whether it is adapted for that purpose or not (No.SC 1424 State of Mysore Vs. Syed Ibrahim AIR 1967).

(i) In Bangalore South, Chitradurga, Mandya, Karwar and Davanagere regions, in respect of 312 cases detected by the department, luxury taxies with seating capacity of 6+1 were either found plying with altered seating capacities or carrying additional number of passengers, thus establishing the use of the vehicles as stage/ contract carriages. Although these offences were compounded by levy of penalty, no action was taken to realise the additional tax due. The omission resulted in non-realisation of tax amounting to Rs.7,14,973.

On the non-levy being pointed out in audit between June 1986 and January 1987, the department stated (August 1987) that an amount of Rs.9,646 in respect of 2 vehicles in Mandya region had since been recovered in March and April 1987. Report on action taken in the remaining cases has not been received (October 1987).

(ii) In Bangalore South, East and Karwar regions, 16 omnibuses and one motor car (non-transport) were found by the department to be carrying passengers for hire or reward and thus being used as stage/contract carriages. Even though the cases were compounded departmentally by levying penalty, no action was taken to realise the additional tax due. The omission resulted in non-realisation of tax amounting to Rs.23,548.

On the non-levy being pointed out in audit between

June 1986 and December 1986, the Regional Transport Officers concerned agreed (June to December 1986) to take necessary action. Report on action taken has not been received (October 1987).

The above cases were reported to Government in May 1987; their reply has not been received (October 1987).

5.6. Irregular grant of exemption from tax

As per Government notification dated 2nd May 1958, issued under section 16(1) of the Karnataka Motor Vehicles Taxation Act, 1957, motor vehicles owned by Government of India and used for Government purposes were exempt from payment of tax. However, the exemption was withdrawn from 1st August 1984 by another notification dated 27th July 1984.

In Bangalore (South) region, an omnibus owned by Director, Rural Housing Wing, Faculty of Civil Engineering, Bangalore University was exempted from payment of tax from the date of registration (13th November 1979) treating it as a vehicle of Government of India. Since the unit was only a grant-in-aid institution of the National Building Organisation, New Delhi, exemption allowed for the period from 13th November 1979 to 31st July 1984 was irregular. This resulted in non-realisation of tax amounting to Rs.25,240.

On this being pointed out in audit in July 1986, the department issued (July 1986) demand notice to the registered owner.

The case was reported to Government in May 1987; their reply has not been received (October 1987).

5.7. Non-recovery of compounding fee

Under the Karnataka Motor Vehicles Taxation Act, 1957 and the rules framed thereunder, fine is leviable on any person convicted of any offence specified in Section 12 of the Act **ibid.** The prescribed officer may, in lieu of the fine leviable, permit composition of the offence on payment of specified penalty amount by the offender within seven days from the date of service of a notice.

In Mandya region, in respect of 59 offences detected by the department between January 1978 and August 1984 and permitted to be compounded by the authorised officer during 1984-85, no action was taken to recover the compounding fee amounting to Rs.13,485 till the date of audit.

On the omission being pointed out in audit (November 1986), the department recovered a sum of Rs.1,750 during the period from December 1986 to April 1987.

The case was reported to Government in May 1987; they confirmed the facts in September 1987.

5.8. Loss of revenue due to lacuna in the rules

Under the Karnataka Motor Vehicles Taxation Act, 1957, tax is leviable with reference to the seating capacity of a public service vehicle. With effect from 7th October 1969, under the Karnataka Motor Vehicles Rules, 1963, for a public service vehicle, minimum seating capacity is prescribed with reference to its wheel base. In the case of vehicles registered outside the State, though assigned fresh registration mark in the State of Karnataka on their migrating to this

State, it has been held judicially (W.P.No.1104 of 1975 of the High Court of Karnataka) that the Regional Transport Officers have no powers to enforce minimum seating capacity under the existing provisions of the rules, unless the registered owners make an application for reconstruction of the body of the vehicle.

Three stage carriages with wheel base of 5,195 MM each, originally registered in the neighbouring state of Kerala, between September and December 1984, were brought to Mangalore, by change of address, within a week of their original registration and kept for use in that region thereafter. However, the registration numbers to be re-assigned in Karnataka were reserved in August 1984 itself, i.e., earlier to the date of registration in Kerala. The initial registration of the vehicles in Kerala enabled the registered owner in getting the seating capacity fixed at 41 and 43 (excluding the driver and conductor) as against the minimum 48 seats (on the basis of wheel base) prescribed in Karnataka. Since there is no provision in the Act or Rules, requiring the registered owner to comply with the provisions of minimum seating capacity in such cases, there was loss of revenue to the extent of Rs.46,730 in case of these three vehicles alone for the period September 1984 to May 1987.

The lacuna in the Rules/Act was reported to the department in April 1987 and to Government in July 1987; their replies have not been received (October 1987).

5.9. Working of the National Permit Scheme and agreements regulating inter-State vehicular traffic

5.9.1. Introductory

The inter-State vehicular traffic between Karnataka

and other States is governed by the Motor Vehicles (National Permit) Rules, 1975 framed by the Government of India under the Motor Vehicles Act, 1939, composite permits issued under multi-lateral agreements entered into by the Government of Karnataka with the States in the South Zone in respect of goods vehicles and bi-lateral agreements with seven States/Union Territories which cover goods and also passenger vehicles. The permits issued by other States under the bilateral agreements to ply in Karnataka, except temporary permits issued by them for periods not exceeding 30 days at a time, are required to be countersigned by the Karnataka State Road Transport Authority on payment of the prescribed fees. However, under Section 63(7) of the Motor Vehicles Act, 1939, any State Transport Authority is authorised to grant permits for the whole or any part of India in respect of such number of All India Tourist Vehicles and tourist taxis as may be prescribed by the Central Government and such vehicles based in other States can ply in Karnataka without counter-signature and without payment of tax to this State.

The number of valid permits, issued by the State Transport Authority, Karnataka under various schemes during the last three years, is as follows:-

(i) National Permits, South Zone Permits and Tourist Vehicle Permits

As at the end of	Goods Vehicles		Passenger Vehicles	
	National permits	South Zone Agreements	All India Tourist Omnibuses	South Zone Taxies
31-3-1984	1041	785	36	96
31-3-1985	1006	779	50	96
31-3-1986	1321	539	50	94

(ii) Bilateral Agreements

a) Passenger vehicles

At the end of the year	Tourist Vehicles		Contract carriage buses	Taxies	Stage carriages.
	Buses	Cabs			
1983-84	25	192	15	233	419
1984-85	39	184	15	302	432
1985-86	39	392	15	328	454

b) Goods Vehicles

1. Number of permits issued by other States and countersigned by the Karnataka State Transport Authority

State	As at the end of					
	1983-84		1984-85		1985-86	
	Public Carrier	Private Carrier	Public Carrier	Private Carrier	Public Carrier	Private Carrier
Tamil Nadu	2971	88	3000	99	3000	105
Andhra Pradesh	3750	150	4163	131	4198	134
Maharashtra	3634	100	4511	100	4490	47

State	As at the end of 1983-84 Public Carrier	1983-84 Private Carrier	1984-85 Public Carrier	1984-85 Private Carrier	1985-86 Public Carrier	1985-86 Private Carrier
Kerala	945	52	994	56	993	62
Goa	392	26	398	29	455	31
Madhya Pradesh	32	-	32	-	32	-

2. Number of permits issued by Karnataka State Transport Authority to ply in other States

State	At the end of 1983-84 Public Carrier	1983-84 Private Carrier	1984-85 Public Carrier	1984-85 Private Carrier	1985-86 Public Carrier	1985-86 Private Carrier
(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)
Tamil Nadu	2679	105	2667	139	2619	146
Andhra Pradesh	2958	109	3939	148	4239	131
Maha-rashtra	2826	82	4646	96	4584	97
Kerala	929	68	937	79	909	77
Goa	449	33	470	34	468	34

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)
Madhya Pradesh	34	-	32	-	31	-
Delhi	31	-	31	-	31	-

5.9.2. Scope of Audit

The records relating to the National Permit Scheme and also the permits issued under various agreements, in respect of vehicles of other States permitted to ply in Karnataka, maintained by the Karnataka State Transport Authority were test checked to verify if the taxes due to this State were correctly assessed, realised promptly and accounted for without delay.

5.9.3. Highlights

(a) Half-yearly composite fees amounting to Rs.2.21 lakhs for the year 1985-86 due to Karnataka in respect of 442 permits issued by 11 States and 2 Union Territories for vehicles permitted by them under the National Permit Scheme to ply in Karnataka were not recovered;

(b) In respect of 400 vehicles permitted by the State Transport Authority, Andhra Pradesh in excess of the maximum number of 900 prescribed in the reciprocal agreement for their vehicles to ply in Karnataka, there was short recovery of tax amounting to Rs.30.62 lakhs due to recovery of tax at the concessional rates during the period from December 1985 to March 1987;

(c) There was a similar short recovery of Rs.3.46 lakhs during 1985-86 in respect of 53 vehicles permitted by the State Transport Authority, Kerala in excess of the prescribed limit of 900.

Irregularities noticed during review (conducted during February to March 1987) of the working of the various schemes in the State are mentioned in the following paragraphs.

5.9.4. National Permit Scheme

(i) Under the National Permit Scheme, in force from 26th September 1975, the holder of a National Permit for public carrier goods vehicle is authorised to ply the vehicle in not less than five contiguous States including the home State. The permit holder, in addition to the motor vehicles tax and annual authorisation fee of Rs.500 payable to the home State, is required to pay a composite fee in respect of each State/Union Territory opted for operation, as specified in the permit. For the other States, composite fee is payable at the rate of Rs.1,500 per annum with effect from 1st April 1986, (Rs.700 upto 31st March 1980 and Rs.1,000 from 1st April 1981 to 31st March 1986) while for the Union Territories, it is payable at the rate of Rs.150 per annum (for Delhi the rate is Rs.750 from 1st April 1986 and Rs.500 prior to this). The composite fee is payable in one or two instalments on or before 15th March and 15th September each year by the permit holders. The Transport Commissioner of the home State is required to collect the composite fee due to other States/Union Territories in the form of demand drafts and send the same to the concerned States/Union Territories.

(ii) Non-collection of composite fee

No procedure is prescribed to keep a record of all the permits issued by the other States under the scheme to ensure recovery of the composite fee in full. In a number of cases in which the permit

holders had opted to pay the fee in two instalments, demand drafts relating to one half year were either not at all received or received long after the due date. Demands for recovery of composite fee not received were also not being raised against the concerned States/Union Territories by the State Transport Authority. During the year 1985-86, half-yearly composite fee amounting to Rs.2.21 lakhs due to Karnataka in respect of 442 permits issued by 11 States and 2 Union Territories was not received.

(iii) Short collection of composite fee

As per Government notification of 31st January 1976, the composite fee may be paid in two equal half yearly instalments during the financial year. However, fees were being collected by the State Transport Authority, Nagaland, Kohima from the permit holders, reckoning the period of one year from the date of issue of authorisation and not for each financial year as prescribed. Non-payment of taxes on the basis of financial year resulted in short payment of fees amounting to Rs.18,875 in 32 cases.

(iv) Non-levy of penalty for delayed payment

As per Government notification of 25th November 1981, if the composite fees payable on or before 15th March and 15th September are not paid on the due date, an additional sum of Rs.100 as penalty for delay of every month or part of the same shall be recovered from the permit holders. However, in respect of 180 cases of delayed payments of fees, additional amount of Rs.24,180 towards penalty was not levied and recovered by 16 States/Union Territories.

5.9.5. Multi-lateral (South Zone) Agreement

(i) The South Zone reciprocal agreement came into effect from 1st January 1967. The present agreement entered into by the Government of Karnataka with the States of Andhra Pradesh, Kerala, Maharashtra, Tamil Nadu, Gujarat and Union Territories of Pondicherry, Goa, Daman and Diu and Dadra and Nagar Haveli is valid for a period of five years with effect from 1st of April 1984. Under the agreement, the holder of a permit is authorised to ply his vehicle in not less than three States including his home State. The permit holder, in addition to the motor vehicles tax and annual authorisation fee of Rs.300 payable to the home State, is required to pay an annual tax of Rs.1,000 for each State and Rs.150 for each Union Territory opted for operation. The tax is payable in one instalment (on or before 15th March) or two instalments (on or before 15th March and 15th September) by permit holders. The Transport Commissioner of the home State is required to collect the tax in the form of demand drafts in respect of other States/Union Territories and remit it to the concerned States/Union Territories.

(ii) Loss of revenue due to operation of additional number of vehicles

(a) As per the reciprocal agreement, the total number of composite permits which could be issued by each of the States of Andhra Pradesh, Kerala, Tamil Nadu, Maharashtra, Karnataka and Gujarat for plying in other States should not exceed 900. During the meeting of the Standing Committee of the Transport Commissioners held at Panaji, Goa in May 1984, it was decided to increase the limit by 400 in respect

of all the States. However, in the subsequent meeting of the Committee held on 12th December 1985, it was decided to bring down the limit to 900 in view of the decision of the Government of India to abolish the scheme by converting Zonal Permits to National Permits, based on the recommendation of Transport Development Council. No fresh permits were granted or renewed, with effect from 1st April 1986, except allowing the existing permit holders to retain their permits till its validity date. However, it was noticed that additional 400 permits were issued by the State Transport Authority, Andhra Pradesh on 19th December 1985, increasing the same from 900 to 1300. Since the issuing of additional permits was contrary to the decision taken (on 12th December 1985) in the Standing Committee's meeting, and was not covered by any reciprocal agreements, tax at the rates prescribed under Karnataka Motor Vehicles Taxation Act, 1957 should have been recovered from the vehicles covered by these additional permits, instead of at the concessional tax of Rs.1,000 per annum per vehicle. This resulted in loss of revenue amounting to Rs.30.62 lakhs during the period from 19th December 1985 to 31st March 1987 and a further recurring loss of Rs.26.16 lakhs per annum till the currency of the permits ceases.

(b) Similarly, the total number of permits issued by the State Transport Authority, Kerala, which were current as on 31st March 1986 for operation in Karnataka during the period April 1985 to March 1986, exceeded the permitted quota of 900 by 53. Since the excess number of permits issued is not covered by any reciprocal agreements, tax under the Karnataka Motor Vehicles Taxation Act, 1957 should have been collected in these 53 cases, instead of concessional composite tax at the rate of Rs.1,000 per annum per vehicle. This resulted in loss of revenue

amounting to Rs.3,46,620 during the year 1985-86 and a further annual recurring loss to that extent till the currency of the permits ceases.

(iii) Non-recovery of composite tax

There was no systamatic arrangement for ensuring the recovery of instalments of tax on due dates. In respect of 102 cases relating to 6 States and 2 Union Territories, tax for the second half year during 1985-86 payable at the rate of Rs.500 was not received. This resulted in non-realisation of revenue amounting to Rs.51,000 during the year 1985-86.

(iv) Non-realisation of penalty for delayed payments

As per the agreement, if the taxes payable on or before 15th March and/or 15th September are not paid on due date, an additional sum of Rs.100 per month of delay or part thereof shall be recovered from the permit holders by way of penalty. In respect of 108 cases of delayed payments of taxes by permit holders of 5 States and one Union Territory during 1985-86, additional amount, by way of penalty, amounting to Rs.13,600 was not recovered.

On this being pointed out in audit (March 1987), the department addressed the State Transport Authorities of the Southern States for furnishing details of permits and payment of the amounts.

5.9.6. All India Tourist Vehicles

Under Rule 130(2) of the Karnataka Motor Vehicles Rules, 1963, a fee of Rs.50 (Rs.100 from 7th September 1985) is payable in respect of an application for

replacement of a vehicle involving variation of permit. In 242 cases, the State Transport Authority granted permission for replacement of vehilces in respect of All India and South Zone tourist motor cabs and tourist omnibuses, but no fees were recovered as aforesaid. This resulted in loss of revenue amounting to Rs.17,150.

On this being pointed out in audit (March 1987), the department stated that the replacement of the vehicle cannot be construed as variation of permit and hence the fees prescribed need not be recovered. However, the argument is not tenable, as replacement of a vehicle involves variation of permit inasmuch as the registration mark etc., of the replaced vehicle are to be entered in the permit.

5.9.7. Bilateral Agreements

In order to meet mutual and short term requirements of inter-State passenger and goods traffic, the Government of Karnataka have entered into bilateral agreements with Andhra Pradesh, Kerala, Tamil Nadu, Maharashtra, Madhya Pradesh, Goa and Delhi, under which the State Transport Authorities can permit the vehicles of other States to ply in Karnataka. The permits issued under the bilateral agreements are of two types (i) countersigned permits and (ii) temporary permits not requiring counter-signature.

(a) Countersigned Permits

(i) As per the reciprocal agreements with the Governments of Maharashtra and Goa, in respect of public carriers (goods vehicles) of that State/Union Territory permitted to ply in Karnataka, the permit holders are required to pay tax at Rs.15 per metric ton or part thereof per month on the pay load (registered laden weight minus unladen weight). The agree-

ments stipulate that the counter-signature granted shall be valid only for the duration of the period for which all taxes due to the reciprocating State have been paid. However, the State Transport Authority is not in a position to enforce this provision in the agreements, since they are not having a consolidated record for watching recovery of taxes in respect of such vehicles. The total amount of tax outstanding for recovery in respect of these two States as at the end of March 1986 amounted to Rs.22,79,204.

Further, as per the bilateral agreements entered into with the Governments of Andhra Pradesh and Maharashtra, Andhra Pradesh based vehicles having countersingature in the State of Maharashtra and Maharashtra based vehicles having countersignature in the State of Andhra Pradesh, passing through the Bidar corridor in Karnataka State on National Highway (Hyderabad to Sholapur and vice versa) are required to pay an amount of Rs.1,000 per annum in quarterly instalments as tax to Karnataka State. The Bidar corridor countersignature permits in this regard are issued by the State Transport Authority, Karnataka based on the information received from the State Transport Authorities of Andhra Pradesh and Maharashtra. Since the permit holders are authorised to pay tax at the regional transport office at Bidar also, adequate procedure is not prescribed to watch the recovery either at Bidar or at Transport Commissioner's office except when the non-payment of taxes are detected by the enforcement staff.

On this being pointed out in audit (March 1987), the department agreed to ascertain the facts of recovery of tax from the Regional Transport Officer, Bidar.

(ii) Under the reciprocal agreement between the Governments of Karnataka and Maharashtra, effective from 1st October 1979, the demand drafts for motor vehicles tax payable by the Maharashtra State Road Transport Corporation for the operation of its stage carriages in Karnataka are received in Transport Commissioner's office from various divisions of the Corporation after the completion of each quarter. No system has been evolved to ensure the correctness and timely payment of tax for all the quarters by all divisions of Corporation.

(b) Temporary Permits

Temporary permits, which are valid for a period not exceeding 30 days, are issued by the Transport Authorities of other States to public carriers (goods vehicles) and contract carriages (taxies) for plying in Karnataka. These permits do not require countersignature by the Karnataka State Transport Authority. The permits are issued for a single trip and for the routes specified in the permits. Vehicles visiting the State on temporary permits have to pay motor vehicles tax due to Karnataka State, at the rates prescribed in the Karnataka Motor Vehicles Taxation Act, 1957.

(i) During the year 1985-86, short payments of taxes amounting to Rs.15,488 due to the adoption of incorrect rates of tax in respect of temporary permits issued by the States of Tamil Nadu, Andhra Pradesh, Madhya Pradesh, Rajasthan, Kerala, Maharashtra and Gujarat were noticed in audit. In addition to the above, arrears of tax amounting to Rs.21,00,453 were also outstanding for recovery as at the end of March 1986 from the following States/Union Territories.

Tamil Nadu	-	Rs.2,92,067
Andhra Pradesh	-	Rs.1,97,397
Madhya Pradesh	-	Rs.3,07,642
Maharashtra	-	Rs.8,88,897
Gujarat	-	Rs.3,01,155
Kerala	-	Rs. 48,636
Goa	-	Rs. 64,659
		Rs.21,00,453

(ii) Further, it was indicated in the statements of temporary permits issued to tourist taxies of other States, plying in Karnataka, that the taxes due to Karnataka would be paid at the border. But the fact of recovery of tax in all such cases is not being watched by the State Transport Authority.

On this being pointed out in audit (March 1987), the department stated that the matter was being taken up with the concerned State Transport Authority for strict adherence of the provisions contained in the reciprocal agreement.

5.9.8. Other defects in the system

(i) The State Transport Authority, which has been entrusted with the administration of these schemes, did not have a detailed record of all the permits actually issued by other States/Union Territories under the various schemes/agreements. No periodical returns or copies of permits issued by other States/Union

Territories were being received and resultantly no vehicle-wise demand collection and balance register was maintained by the State Transport Authority, Karnataka. The total tax dues to this State under any of the schemes or non-payment of tax/composite tax by the reciprocating States/Union Territories also is not available in any of the records. No separate records are maintained by the department for accounting of revenue collections under authorisation fees, renewal fees etc., in respect of permits granted to home State vehicles.

(ii) The demand drafts towards payment of composite fee/composite tax were not being received in this State immediately after their receipt in the reciprocating State. In several cases, the demand drafts were received after their currency period, as a result of which they were required to be returned to the concerned States for revalidation. However, no proper watch was kept by the department over receipt back of those demand drafts after revalidation. As at the end of 5th November 1986, 211 demand drafts (Rs.1,58,786) returned for revalidation, as detailed below, are yet to be received back by the department.

No. of demand drafts	Amount Rs.	Periods for which pending
3	2,838	3 years (from 31-3-84)
17	10,784	2 years (from 31-3-85)
145	1,13,686	1 year (from 31-3-86)
46	31,478	less than a year
211	1,58,786	

These defects/omissions were pointed out to the department during February 1987 to March 1987; their reply has not been received (October 1987).

The above points were reported to Government in May 1987; their reply also has not been received (October 1987).

CHAPTER 6

TAXES ON AGRICULTURAL INCOME

6.1. Results of Audit

Test check of the records in Agricultural Income Tax Offices, conducted in audit during the year 1986-87, revealed under-assessment of tax amounting to Rs.48.13 lakhs in 58 cases, which broadly fall under the following categories.

	No. of cases	Amount (In lakhs of rupees)
1. Errors in computation of income and tax	27	18.04
2. Income escaping assessment	5	13.22
3. Non-levy of penalty and interest	6	3.39
4. Other irregularities	20	13.48
Total	58	48.13

Some of the important cases are mentioned in the following paragraphs.

6.2. Omission to assess the income returned

Under the Karnataka Agricultural Income Tax Act, 1957, agricultural income tax at the rates specified is payable by a person on the total agricultural income

of the previous year.

(i) In Chickmagalur district, while computing the taxable income of an assessee from his coffee estates for the previous years relevant to the assessment years 1980-81 to 1982-83, an amount of Rs.1,76,000 representing agricultural income from orange, cardamom and coconuts plantations was omitted to be included in the taxable income. The omission resulted in tax being levied short by Rs.91,778.

The short levy was reported to the department in November 1986; their reply has not been received (October 1987).

(ii) In respect of another assessee in the same district, while computing the taxable income for the previous year relevant to the assessment year 1983-84, an amount of Rs.17,325 representing agricultural income from orange and cardamom planatations derived by the assessee was omitted to be included in the taxable income. This resulted in tax being levied short by Rs.11,260.

On the short levy being pointed out in audit in December 1985, the department stated (October 1986) that an additional demand of Rs.11,260 had since been raised against the assessee. Report on recovery is awaited (October 1987).

The above cases were reported to Government in May 1986 and February 1987; their reply has not been received (October 1987).

6.3. Income from coffee crops escaping assessment

Under the Karnataka Agricultural Income Tax

Act, 1957, the income from coffee crop during the relevant previous year is computed on the basis of valuation of points declared by the Coffee Board in respect of such crop. Any receipt in respect of an earlier season's coffee crop received during the previous year, over and above the amount already considered for assessment in the preceding years, is considered as income of the previous year.

(i) In Chickmagalur district, coffee receipts amounting to Rs.1,41,976 in respect of 1977-78 crop season, declared by the Coffee Board on 2,58,139 points of an assessee (at 55 paise per point) and received by him during the previous year relevant to the assessment year 1981-82, were omitted to be included in the total agricultural income for that year.This resulted in tax being levied short by Rs.79,584.

On the short levy being pointed out in audit in November 1986, the assessing officer agreed (November 1986) to re-examine the case. Report on result of examination has not been received (October 1987).

(ii) In case of an assessee in Kodagu district, the income from coffee, for the 1978-79 crop season, amounting to Rs.82,528 received during the previous year relevant to the assessment year 1981-82 was not considered for assessment, though returned by him in his annual return for that year. The omission resulted in tax being levied short by Rs.44,631.

On the omission being pointed out in audit in December 1986, the assessing officer issued (December 1986) a notice to the assessee for rectifying the mistake apparent from the records. Report on further action taken has not been received (October 1987).

(iii) In Kodagu district, the agricultural income returned by an assessee for the assessment year 1980-81 included a sum of Rs.15,711, being the coffee income in respect of 15,711 points awarded to him for the 1978-79 crop season. The coffee income on 15,711 points, at the rate of Rs.7 per point declared by the Coffee Board, actually amounted to Rs.1,09,977. Out of this, Rs.62,985 was considered in the assessment year 1979-80. Hence balance income of Rs.46,992 should have been considered as coffee income in the assessment year 1980-81, instead of Rs.15,711. The mistake resulted in escapement of taxable income by Rs.31,281 and consequent short levy of tax by Rs.13,885.

On the mistake being pointed out in audit in June 1986, the department rectified the mistake and raised additional demand of Rs.13,885 in July 1986.

(iv) In Kodagu district, while assessing a Hindu Undivided Family for the assessment year 1983-84, income from coffee crop on 96,056 points declared by the Coffee Board at the rate of Rs.7.25 per point for the crop season 1980-81 upto 31st March 1983, was erroneously worked out at Rs.7 per point. The mistake resulted in short computation of taxable income by Rs.24,014 and consequent short levy of tax by Rs.15,609.

On the mistake being pointed out in audit in March 1986, the department raised additional demand of Rs.15,609 and collected the amount in October 1986.

The case was reported to Government in June 1986; they confirmed the facts (April 1987).

(v) In Mysore district, while computing the

taxable agricultural income of an assessee for the previous year ending 30th September 1984 (relevant to the assessment year 1985-86), coffee income from 1982-83 crop season, on 2,38,489 points, was determined at the rate of Rs.7.25 per point, instead of at Rs.7.70 per point (including 45 paise per point declared on 21st September 1984) declared by the coffee Board. This resulted in short computation of taxable income for the assessment year 1985-86 by Rs.1,07,320. It was noticed that the assessee firm had declared the aforesiad income of Rs.1,07,320 for the assessment year 1986-87. As there was reduction in rate of tax during 1986-87, the mistake in not taking the income in the relevant assessment year resulted in short realisation of tax by Rs.16,098.

The mistake was reported to the department in August 1986; their reply has not been received (October 1987).

(vi) In Chickmagalur district, only fifty per cent of pool payments relating to crop season 1976-77 made by a company during the years 1976-77, 1977-78 and 1978-79 were included in the assessment of an assessee on the plea that the assessee and his wife had pooled coffee together. However, it was noticed that the remaining fifty per cent of the pool payments received from the company were omitted to be included in the assessment of his wife. The omission resulted in escapement of tax on the income of Rs.24,288, Rs.38,486 and Rs.22,582 for the assessment years 1977-78, 1978-79 and 1979-80 respectively and consequent short levy of tax by Rs.15,999.

The case was reported to the department in July 1986; their reply has not been received (October 1987).

(vii) In Kodagu district, while finalising the assessment of income of an estate as tenants-in-common, the

taxable agricultural income of each of the tenants-in-common was determined for the assessment years 1978-79 and 1980-81 as Rs.22,085 and Rs.64,945 respectively. These incomes were excluded for being taxed along with the agricultural income from other sources. However, there were no individual files of these two members borne on the records of the concerned assessing officer and the said incomes escaped taxation. If the income is added to the assessments of these members as Hindu Undivided Family for these years in that circle, the short levy of tax for these years amounted to Rs.22,665 and Rs.33,136 respectively.

On the mistake being pointed out in audit in May 1985, the department stated (January 1987) that the additional tax of Rs.22,665 for the assessment year 1978-79 had since been levied and collected in June 1985 but no tax could be levied for the year 1980-81 as the net income even after the addition resulted in loss in the hands of both the persons.

The case was reported to Government in February 1987; they confirmed the facts (June 1987).

(viii) In Chickmagalur district, the taxable income of an assessee for the previous year relevant to the assessment year 1980-81 was not revised when the taxable income of the firm, of which he was a partner, was revised. Omission to assess the revised share of income of Rs.1,30,711 resulted in tax being levied short by Rs.22,000.

On the omission being pointed out in audit in July 1985, the assessing authority rectified (August 1985) the assessment.

The above cases were reported to Government between June 1986 and June 1987; their reply has not been received (October 1987), except in respect of sub-paragraphs (iv) and (vii) above.

6.4. Incorrect determination of taxable income

(i) Under the Karnataka Agricultural Income Tax Act, 1957 and the rules made thereunder, any sum paid by an assessee as contribution to a gratuity fund approved by the Commissioner for payment of gratuity under the Payment of Gratuity Act, 1972, is allowed as deduction. In respect of agricultural income from tea grown and manufactured in the State, the portion of the income worked out under the Income Tax Act, 1961 and left un-assessed as being agricultural income, shall be assessed as income under the Karnataka Agricultural Income Tax Act, 1957. Under the Act of 1957, deduction from agricultural income is allowed towards expenditure incurred on new cultivation of land for growing coffee subject to certain limits. Alternatively, at the option of the assessee, deduction is allowable at a flat rate of twelve and a half rupees for every fifty kilograms of coffee produced and delivered to the Coffee Board.

In Hassan district, while finalising the assessment of an assessee for the year 1978-79, a sum of Rs.6,19,186 debited in his account towards provision for gratuity to staff was not added back to his income, eventhough actual expenditure incurred towards gratuity was also allowed as deduction. The mistake resulted in tax being levied short by Rs.4,02,471. While allowing depreciation on machines of tea manufacture, as deduction for the year 1978-79, the entire amount of Rs.79,434 claimed was allowed, instead of limiting

it to 60 per cent (as 40 per cent was claimed under Income Tax Act). This resulted in escapement of taxable income by Rs.31,774 and consequent short levy of tax of Rs.20,653. In the assessments for the years 1977-78 and 1978-79, expenditure incurred towards maintenance of immature plants and expenses incurred towards supply of plants and stackings were allowed, in addition to the deduction at flat rate of Rs.12.50 for every 50 kilograms of coffee produced and delivered to Coffee Board. The incorrect allowance of expenditure resulted in underassessment of taxable income by Rs.2,13,092 for two years 1977-78 and 1978-79 and consequent short levy of tax by Rs.1,38,510. Further, expenditure amounting to Rs.29,694 not spent in connection with the deriving of agricultural income, was also allowed as deduction during the years 1977-78 and 1978-79, resulting in short levy of tax by Rs.19,301. In the assessment year 1978-79, the share of income of another estate amounting to Rs.39,852 was to be added to the income; on the contrary it was deducted. This resulted in short computation of taxable income by Rs.79,704 and consequent short levy of tax by Rs.51,808.

On these mistakes, involving short levy of tax amounting Rs.6,32,743, being pointed out in audit in September 1986, the department revised the assessments and collected the additional demands of Rs.6,32,743 in January 1987.

(ii) Under the Karnataka Agricultural Income Tax Act, 1957, only 10 per cent of the expenditure incurred on young and immature coffee plants is allowable as deduction in the computation of agricultural income. Also interest on loans borrowed and actually spent on the land from which the agricultural income

is derived is allowable as deduction subject to the rate of interest being restricted to a maximum of 12 per cent per annum.

(a) In respect of an assessee in Chickmagalur district, the entire expenditure incurred during the previous years relevant to the assessment years 1982-83 and 1983-84 towards maintenance of immature coffee plants was allowed as a deduction in full, instead of restricting it to 10 per cent. This resulted in excess deductions of expenditure by Rs.28,500 and Rs.1,20,420 respectively during the years 1982-83 and 1983-84. Also the entire interest payments claimed by him were allowed in full for these two years, without restricting it to the maximum limit of 12 per cent per annum. This resulted in the taxable income being determined less for these years by Rs.34,100 and Rs.30,000 respectively. The loss relating to assessment years 1982-83 and 1983-84 permitted to be carried forward to the following years was thus excess to the extent of Rs.62,600 and Rs.1,50,420 respectively. The potential tax effect at the minimum rate amounted to Rs.17,670 and Rs.68,523 respectively.

On these mistakes being pointed out in audit (December 1986), the assessing officer agreed (December 1986) to examine the case. Report on result of examination has not been received (October 1987).

(b) In two cases of individual assessees in the same district, expenditure of Rs.46,000 (Rs.23,000 each) claimed as deduction towards maintenance of immature plants was allowed in full for the assessment year 1981-82, instead of restricting it to 10 per cent viz., Rs.2,300 in each case. These mistakes resulted in tax being levied short by Rs.26,910.

On the mistakes being pointed out in audit in October 1985, the assessing officer revised (January 1986) the assessments and collected the entire amount in February 1986.

(c) In respect of another assessee in the same district, expenditure on immature plants was allowed as deduction on 6 acres and 20 guntas at the rate of Rs.4,600 per acre, instead of restricting it to 10 per cent. Consequently, the taxable income was determined less by Rs.29,250 and Rs.31,850 for the assessment years 1982-83 and 1984-85 respectively, resulting in short levy of tax by Rs.17,769.

On the mistake being pointed out in audit in December 1986, the assessing officer agreed (December 1986) to examine the case. Report of result of examination has not been received (October 1987).

(iii) Under the Karnataka Agricultural Income Tax Act, 1957, a person deriving agricultural income from land on which coffee is grown, may, in lieu of deductions towards new cultivation of lands or replanting of coffee, at his option exercised in writing, deduct from his agricultural income a sum of twelve and a half rupees for every fifty kilograms of coffee produced and delivered by him to the Coffee Board, subject to maximum of 15 per cent of the average total agricultural income during the previous year and three years immediately preceding it, towards expenditure for new cultivation, replanting and maintenance of immature plants. If the said expenditure is not incurred in that year, the permissible deduction may be carried forward for a period of 5 years beyond the year of assessment and any such sum which is spent for purpose other than that specified above or which

remains unspent for 5 years shall be treated as income of the year succeeding the fifth year. If at any time during the period of 5 years, there is a change of ownership of such land either by sale or otherwise, the amount remaining unspent on that date shall be treated as income of the transferor for the year in which the change of ownership takes place.

In Chickmagalur district, replanting allowance of Rs.35,048 was allowed during the assessment year 1979-80. Out of this, Rs.31,279 remained unspent at the end of assessment year 1984-85. The unspent expenditure of Rs.31,279 should have been treated as income for the assessment year 1985-86, being the year succeding the fifth year of carry forward. However, this was not added back as income during 1985-86. The mistake resulted in tax being levied short by Rs.15,639.

The mistake was reported to the department in November 1986; their reply has not been received (October 1987).

The above cases were reported to Government between January and September 1987; their reply has not been received (October 1987).

6.5. Mistakes in computation of taxable income

Under the Karnataka Agricultural Income Tax Act, 1957, any expenditure (not being in the nature of capital expenditure) incurred in the previous year wholly and exclusively for the purpose of deriving the agricultural income is to be deducted in computing the taxable income of an assessee.

(i) In Belgaum district, while computing the taxable agricultural income of an assessee company for the assessment years 1973-74 and 1974-75, the assessing officer incorrectly allowed (April 1983) deductions in respect of capital expenditure of Rs.26,754 incurred on construction of roads and guest house. The incorrect allowance of deduction of Rs.26,754 during these years resulted in short levy of tax by Rs.16,052.

On the mistake being pointed out in audit in January 1987, the department stated (July 1987) that the case was under examination for revision of assessment. Report on result of examintion has not been received (October 1987).

(ii) In Chickmagalur district, a person had filed two separate returns of income for the assessment years 1983-84, 1984-85 and 1985-86, one as an individual in respect of income from certain sources and another as an unregistered firm in respect of certain other sources. However, while finalising those assessments, an expenditure of Rs.1,78,727 incurred on 41.09 acres of coffee lands in an estate was allowed as deduction by the assessing officer in both the assessments for the three years. As the coffee income from that estate was being included every year in the return filed as an individual, corresponding deduction towards expenditure was allowable only in that assessment. The incorrect allowance of deduction on this account in the firm's assessment also resulted in tax being levied short by Rs.78,069 in those years.

On the short levy being pointed out in audit in November 1986, the assessing officer agreed

(November 1986) to re-examine the cases. Report on action taken has not been received (October 1987).

(iii) In Kodagu district, while computing the taxable income in respect of 6 assessees, the coffee income amounting to Rs.1,03,206 for the assessment years 1979-80 and 1980-81 escaped assessment due to computation mistakes such as incorrect valuation short accountal of income, etc. This resulted in short levy of tax by Rs.41,025.

On this being pointed out in audit in May 1985, the department stated (January 1987) that additional demands of Rs.14,530 had since been raised in respect of two assessees and recovered in December 1985 and August 1986. Report on action taken in respect of the remaining assessees has not been received (October 1987).

(iv)(a) In Kodagu district, in respect of another assessee, the net expenditure on wages for the previous year relevant to the assessment year 1977-78 was adopted as Rs.2,48,278, instead of Rs.2,32,598, resulting in allowance of excess expenditure by Rs.15,680. During the assessment year 1979-80, an expenditure of Rs.10,080 incurred on paddy was also allowed, eventhough only the net income from paddy was returned. Excess allowance of expenditure (Rs.25,760) resulted in short levy of tax by Rs.16,744.

(b) In Kodagu district, in respect of yet another assessee, deductions towards interest amounting to Rs.18,172, curing charges of Rs.15,952 and depreciation of Rs.1,182 not admissible under the Act, were incorrectly allowed for the assessment year 1983-84. This resulted in short levy of tax by Rs.16,659.

On these mistakes being pointed out in audit in December 1986, the department initiated (December 1986) rectificatory action. Report on rectification has not been received (October 1987).

(v) In Mysore district, while computing the income of an assessee for the assessment year 1985-86, an amount of Rs.18,168 spent towards the acquisition of capital assets and other inadmissible expenditure was allowed as deduction. Further, during the assessment years 1983-84, 1984-85, and 1985-86, a deduction of Rs.25,680 towards depreciation was allowed in excess of the admissible amount. The mistakes resulted in short computation of taxable income by Rs.43,848 and consequent short levy of tax by Rs.28,501.

On these mistakes being pointed out in audit in August 1986, the assessing officer agreed (August 1986) to revise the assessments. Report on action taken has not been received (October 1987).

(vi) In Hassan district, while finalising the assessment of an assessee for the year 1981-82, disallowance towards wealth tax expenditure was made to the extent of Rs.36,028, instead ofRs.26,028, resulting in short computation of taxable income by Rs.10,000. While making an assessment for the years 1981-82, 1982-83 and 1983-84, rebate towards life insurance premium amounting to Rs.6,577, Rs.9,603 and Rs.11,473 respectively was allowed to the assessee, eventhough deductions on this account had been claimed and were allowed under the Central Income Tax assessments also. Further, while making assessment for 1985-86, the net income of the assessee was incorrectly worked out as Rs.1,45,254 instead

of Rs.1,54,254. The mistake resulted in short determination of taxable income by Rs.9,000. All these mistakes resulted in short levy of tax amounting to Rs.27,383.

On these mistakes being pointed out in audit (September 1986), the department stated (July 1987) that the said assessments had been revised and amount of Rs.27,383 collected in January 1987 and March 1987.

(vii) In Kodagu district, while finalising the assessment of an assessee for the year 1981-82, the admissible deductions of Rs.4,53,026 were allowed out of the gross income of Rs.7,22,763. The taxable income was wrongly arrived at Rs.2,55,218 instead of Rs.2,69,737. The mistake resulted in short computation of taxable income by Rs.14,519. Further, in the assessment for the year 1982-83, expenditure disallowed (Rs.38,750) on 15.50 acres of young and immature plants was computed at the rate of Rs.2,500 per acre, instead of Rs.2,000 per acre. The mistake resulted in short computation of taxable income by Rs.7,750. These mistakes resulted in short levy of tax amounting to Rs.14,475.

On these mistakes being pointed out in audit in December 1986, the department stated (July 1987) that rectificatory orders had since been passed in May 1987.

(viii) In Kodagu district, while assessing the agricultural income of an assessee (Individual) for the previous years relevant to the assessment years 1977-78, 1978-79 and 1979-80, the assessing officer allowed deductions of Rs.21,000, Rs.26,100 and Rs.26,100

respectively towards maintenance allowance paid by the assessee to his mother in terms of a will of his late father, though these deductions were not admissible under the provisions of the Act. The incorrect allowance of deductions resulted in short computation of agricultural income by Rs.73,200 and consequent short levy of tax by Rs.47,580.

On the mistake being pointed out in audit in December 1986, the assessing officer initiated (December 1986) rectificatory action. Report on action taken has not been received (October 1987).

(ix) In Kodagu district, while computing (March 1984) the taxable income of an assessee for the previous year relevant to the assessment year 1979-80, a deduction of Rs.51,738 (to the extent prescribed in the Act) was allowed by the assessing officer towards depreciation allowance, in addition to Rs.64,890 already debited on that account by the assessee in the profit and loss account. The mistake resulted in less computation of taxable income by Rs.64,890 and consequent short levy of tax by Rs.42,178.

On the short levy being pointed out in audit in December 1986, the assessing officer issued (December 1986) notice to the assessee under Section 37 of the Act for rectifying the mistake. Report on rectification has not been received (October 1987).

(x) In Chickmagalur district, while computing (May 1985) the taxable income of an assessee for the previous year relevant to the assessment year 1980-81, a deduction of Rs.34,169 towards insurance premia paid against loss or damage of crops was allowed by the assessing officer, eventhough this amount had already been debited by the assessee in his profit and loss account. The mistake resulted

in allowing the deduction twice and consequent short levy of tax by Rs.11,959.

On the short levy being pointed out in audit in November 1986, the assessing officer agreed (November 1986) to examine the case. Report on result of examination has not been received (October 1987).

(xi) In Chickmagalur district, while computing the taxable agricultural income of an assessee for the previous years relevant to the assessment years 1982-83 and 1983-84, the assessing officer allowed expenditure at the rate of Rs.5,400 and Rs.5,500 per acre respectively on 267 acres and 21 guntas as against 259 acres and 31 guntas of coffee bearing land declared by the assessee. The excess allowance of expenditure on 7 acres and 30 guntas resulted in the taxable agricultural income being determined short by Rs.84,475, and consequent short levy of tax by Rs.54,909.

On the short levy being pointed out in audit in November 1986, the assessing officer agreed (November 1986) to re-examine the assessment records. Report on action taken has not been received (October 1987)

The above cases were reported to Government between October 1986 and July 1987; their reply has not been received (October 1987).

6.6. Excess deduction towards interest

Under the Karnataka Agricultural Income Tax Act, 1957, in computing the agricultural income of a person, any interest actually paid in the previous year, on any amount borrowed and actually spent on the land from which the agricultural income is derived,

is allowable as deduction subject to interest rate being restricted to a maximum of 12 per cent per annum on the amount borrowed, provided the need for borrowing was bonafide having regard to the assets of the assessee at that time.

(i) In Chickmagalur and Kodagu districts, 14 assessees claimed, in their annual returns, in respect of the previous years relevant to the assessment years 1978-79 and 1981-82 to 1984-85, deductions towards interest at higher rates on loans obtained and spent on lands. These deductions were allowed by the assessing officers instead of restricting them to 12 per cent admissible under the Act. The mistakes resulted in tax being levied short by Rs.1,84,871 on the excess deductions of interest amounting to Rs.4,11,174 allowed by the assessing officers.

On the mistakes being pointed out in audit between July and December 1986, the department stated (July 1987) that revised orders had since been passed in respect of 3 assessees and the additional demands for Rs.78,790 raised against them by one assessing officer in Chickmagalur district. Further report is awaited (October 1987).

The cases were reported to Government in March, April and June 1987; their reply has not been received (October 1987).

(ii) In respect of another assessee in Chickmagalur district, taxable income was short computed by Rs.50,154 during the assessment year 1983-84 due to the allowance of interest (Rs.45,196) twice and other inadmissible expenses of Rs.4,958. The mistakes resulted in short levy of tax by Rs.10,526.

The mistake was reported to the department in November 1986 and to Government in May 1987; their replies have not been received (October 1987).

6.7. Short levy due to incorrect adoption of status

Under the Karnataka Agricultural Income Tax Act, 1957 and the rules made thereunder, any part of the income from coffee crop of the previous year, not accruing and not received in that previous year, is required to be taken as income of the year in which it is received.

In Hassan district, an assessee, who was being assessed in the status of an individual upto the assessment year 1983-84, entered into partnership with 5 others, in a firm constituted with effect from 1st April 1983. According to the partnership deed, payments from Coffee Board relating to 1982-83 coffee season and the entire back payments relating to earlier seasons received after 1st April 1983 would be pooled to the firm to which all parties would be entitled. In pursuant to above partnership deed, coffee income amounting to Rs.1,47,256 pertaining to 1982-83 and earlier coffee crop seasons, received during the previous year relevant to the assessment year 1984-85, was treated as income of the firm and assessed to tax at the hands of all the partners.

As coffee crop for 1982-83 and earlier seasons was pooled to the Coffee Board only by the individual and corresponding expenditure was also allowed as a deduction at his hands, any coffee income relating to those seasons, even if received after the constitution of the firm, cannot be treated as income of the firm. This was income of the individual and was assessable

at his hands. The incorrect assessment of coffee income of Rs.1,47,256 in the status of firm at the hands of the partners, instead of in the hands of the individual, resulted in tax being levied short by Rs.66,466.

On the short levy being pointed out in audit in September 1986, the assessing officer submitted the case to the higher authorities, for **suo motu** revision. Report on action taken has not been received (October 1987).

The case was reported to Government in July 1987; their reply has not been received (October 1987).

6.8. Mistakes in assessments of cases of Hindu Undivided Family

Under the Karnataka Agricultural Income Tax Act, 1957, total agricultural income means the aggregate of all agricultural incomes derived by a person from land situated in the State of Karnataka.

In Chickmagalur district, an assessee who was being assessed in the Status of Hindu Undivided Family, inherited (25th July 1977) share of property in another estate enjoyed by his late father. For the assessment years 1978-79 and onwards, two separate assessments were made viz., one as Hindu Undivided Family and another as 'Individual' in respect of the property inherited in July 1977. As the assessee's children had a right in the property inherited (July 1977) by him from his father, the income derived from the property inherited should have been assessed along with the income derived as Hindu Undivided

Family. Further, expenditure was allowed in respect of 44.35 acres as against the actual coffee yielding area of 41.34 acres in respect of estate inherited by him. The omission to assess the total agricultural income in the status of Hindu Undivided Family and excess allowance of expenditure resulted in tax being levied short by Rs.28,222 for the assessment years 1978-79 and 1979-80.

On the omission being pointed out in audit in July 1980, the department stated (April 1987), that action had since been initiated for **suo motu** revision of the case.

The case was reported to Government in February 1987; they confirmed the facts (June 1987).

6.9. Incorrect grant of exemption from tax

In terms of a Government notification issued on 30th November 1983 under the Karnataka Agricultural Income Tax Act, 1957, agricultural income derived from non-commercial crops and commercial crops grown on dry lands was exempt during the period from 1st April 1975 to 30th March 1982. However, income derived from plantation crops, areca, coconut, mango and other commercial crops grown on wet/irrigated lands during the said period was liable to tax.

In Bangalore district, in the case of an assessee whose accounting period ended on 31st May 1981, income from areca and coconuts amounting to Rs.1,12,154 derived during the previous year 1980-81 relevant to assessment year 1982-83 had not been brought to tax. The incorrect grant of exemption resulted in tax being levied short by Rs.46,815.

On the omission being pointed out in audit in December 1986, the department recovered (December 1986) the entire amount.

The case was reported to Government in April 1987; their reply has not been received (October 1987).

6.10. Mistake in computation of tax

Under the Karnataka Agricultural Income Tax Act, 1957, where the total agricultural income exceeds Rs.1,00,000, the tax payable is Rs.31,840 plus 65 per cent of the amount by which the total income exceeds Rs.1,00,000.

In Chickmagalur district, while finalising the assessments of two assessees for the years 1977-78 and 1978-79, the tax payable on the total agricultural income of Rs.7,69,449 and Rs.1,36,601 was incorrectly worked out as Rs.4,39,084 and Rs.48,310 as against the correct amounts of Rs.4,66,982 and Rs.55,630 respectively. The mistakes resulted in tax being levied short by Rs.35,218.

On the mistakes being pointed out in audit in November 1986, the assessing authority agreed (November 1986) to examine the cases. Report on examination has not been received (October 1987).

The case was reported to Government in February 1987; their reply has not been received (October 1987).

6.11. Non-levy of interest and penalty

Under the Karnataka Agricultural Income Tax

Act, 1957, if an assessee makes an application for being allowed to pay the tax due in instalments, the assessing officer, may, by order in writting, allow the assessee to pay the tax due, in instalments not exceeding four in number at such intervals as the said officer may fix or extend the time for the payment of the entire tax due if the assessee undertakes in writing to pay interest at rates charged by scheduled bank for unsecured loan. The assessing officer in his discretion may also extend the date before which the return under section 18(1) has to be furnished subject to the condition that the assessee undertakes to pay the interest at 12 per cent per annum on the tax due from the due dates till the actual date of payment of tax. The assessing officer may also direct a person to pay in addition to tax, by way of penalty, a sum calculated at 10 per cent of the amount of tax paid short, if after final assessment, it was found that the advance tax paid by the person was less than the tax payable by more than 25 per cent.

(i) In Chickmagalur district, an assessee did not pay the tax within stipulated time in the demand notice issued on conclusion of provisional assessment for the assessment year 1983-84. No interest was levied, though interest of Rs.10,129 was leviable. For belated submission of return also, no interest was levied, though interest of Rs.8,130 could have been levied. Further, as the advance tax paid by the assessee was less than the tax payable by more than 25 per cent, penalty of Rs.7,831 could have been levied, but, no penalty was levied. There was also mistake in computation of tax, which resulted in short levy of tax by Rs.9,821.

On these mistakes being pointed out in audit in July 1986, the department stated (June 1987), that additional demands for Rs.9,821 and Rs.8,130 had since been raised and recovered in February 1987, that the interest of Rs.10,129 levied had been allowed in appeal by the appellate authority, and that the assessee had gone in appeal before appellate tribunal against the levy of penalty of Rs.7,831.

(ii) In Chickmagalur district, in respect of 10 assessees, the assessing authority did not levy interest for delay in filing of returns for the assessment years 1981-82 to 1984-85. The interest amounting to Rs.36,680 was leviable, but it was not levied.

On the omission being pointed out in audit in July 1986, the department stated (between May and August 1987) that interest had since been levied in all the 10 cases and the entire amount recovered between July 1986 and July 1987.

The case was reported to Government in February 1987; they confirmed (June 1987) the recovery of Rs.33,334.

(iii)(a) In Chickmagalur district, on finalisation of assessments in case of 15 assessees, advance tax paid for the assessment years 1982-83 to 1984-85 fell short of the tax payable by more than 25 per cent. But assessing officier did not levy any penalty, though penalty of Rs.46,840 could have been levied in these cases.

On this being pointed out in audit (July 1986) the department accepted (May 1987) the objection, and levied penalty in 13 cases and initiated action in the remaining 2 cases.

The case was reported to Government in March 1987; they confirmed the facts (July 1987).

(b) In another office in Chickmagalur district, on completion of assessments in case of 9 assessees, advance tax paid for the previous years relevant to the assessment years 1981-82 to 1985-86 fell short of the tax payable by more than 25 per cent. But no penalty was levied by the assessing officer, though penalty of Rs.48,172 could have been levied in these cases.

On the omission being pointed out in audit in November 1986), the department agreed (November 1986) to take action. Report on action taken has not been received (October 1987).

(c) In the case of another assessee in Chickmagalur district, the advance tax paid for the three previous years relevant to the assessment years 1981-82 to 1983-84 fell short of the tax payable by more than 25 per cent. Penalty of Rs.30,476 could have been levied in these cases, but no penalty was levied.

The omission was pointed out in audit in July 1985; reply of the department has not been received (October 1987).

(d) In Kodagu district, though the advance tax paid by 23 assessees for the assessment years 1980-81 to 1982-83 fell short of the tax payable by more than 25 per cent, the assessing authority did not levy any penalty. Penalty of Rs.31,342 could have been levied in these cases.

The non-levy of penalty was pointed out in audit in June 1986; reply of the department has not been received (October 1987).

The above cases were reported to Government between January and March 1987; their reply has not been received (October 1987) save in respect of sub-paragraphs (ii) and (iii) (a) above.

CHAPTER 7

LAND REVENUE

7.1. Results of Audit

Test check of records in taluk offices relating to land revenue, conducted during the year 1986-87, revealed short levy of land revenue and water rates amounting to Rs.565.42 lakhs in 75 cases, which broadly fall under the following categories.

	No.of cases	Amount (In lakhs of rupees)
1. Short levy of land revenue and cesses	5	40.75
2. Short levy of water rate	27	456.09
3. Short levy of maintenance cess	23	49.68
4. Other irregularities	20	18.90
Total	75	565.42

Some of the important cases are mentioned in the following paragraphs.

7.2. Omission to raise demands for water rate

Under the Karnataka Irrigation Act, 1965 and the rules made thereunder, at the commencement of each irrigation season, the Irrigation Officer is required to notify the quantity of water to be released from an irrigation work and the areas to be irrigated,

as also the kinds of crops to be grown thereon. On the basis of this notification and after the actual release of water, an officer of the Revenue Department and another from Irrigation Department jointly inspect and prepare a statement of each survey number to which water was supplied or made available and the crops raised therein. Thereafter, the Irrigation Officer is required to prepare a statement of water rates payable by each land holder after taking into account objections received, if any, and forward it to the Revenue Officer concerned for collection.

(i) In 7 taluks in Dharwar, Raichur, Gulburga and Bellary districts, in respect of water made available from Government Irrigation Works during various periods falling between 1980-81 and 1985-86, demands for water rate amounting to Rs.3,42,77,210 were not raised by the Tahsildars, even though landholder-wise demand statements had been received from the Irrigation Officers concerned.

The omission was pointed out in audit between February 1986 and February 1987; reply of the department has not been received (October 1987).

(ii) In 5 taluks in Kodagu, Bijapur, Chitradurga and Mandya districts, in respect of water made available from Government Irrigation works during the years 1979-80 to 1984-85, demands for water rate were raised by the Tahsildars for Rs.73,30,354 only as against Rs.1,31,54,672 intimated by the Irrigation Officers concerned as due from the land holders. This resulted in demand being raised short by Rs.58,24,318.

On the mistakes being pointed out in audit between January and October 1986, the department stated (July 1987) that demand for Rs.5,59,596 relating to Chitradurga district had since been raised in June 1987. Report on action taken for the balance amount has not been received (October 1987).

(iii) In 7 taluks in Hassan, Mysore, Chitradurga, Tumkur and Kodagu districts, in respect of water made available from Government irrigation works, demands for water rate were not raised by the Revenue Officers for the various years falling between 1980-81 and 1985-86 for the reason that the demand statements for those years had not been received from the Irrigation Officers concerned. On the basis of information on irrigable area and the crops grown normally by the land holders, as available in the Taluk Offices, demands not raised amounted to Rs.46.63 lakhs approximately.

On this being pointed out in audit between October 1985 and October 1986, the department stated (September 1987) that the demand statements in respect of a taluk in Chitradurga disrtrict for the years 1983-84 to 1985-86 had since been received from the Irrigation department between February and August 1987 and an amount of Rs.2,18,032 taken to demand in July and August 1987. Reply in respect of other districts has not been received (October 1987).

(iv) In a taluk in Mysore district, demands for water rate amounting to Rs.43,220 for supply of water over 339.14 acres during the years 1982-83 and 1983-84 and over 405.83 acres during the year 1984-85 under a lift irrigation scheme, were not raised by

the Tahsildar, even though the water rate statements had been received from the Irrigation Officer in October 1984. Further, for want of water rate statement from the Irrigation Office, no demands were raised for supply of water under the said scheme over 405.83 acres during 1985-86. Water rate recoverable worked out to Rs.19,480.

The omissions were pointed out in audit in April 1986; reply of the department has not been received (October 1987).

The above cases were reported to Government between March 1986 and May 1987; their reply has not been received (October 1987).

7.3. Omission to raise demands for penal water rate

Under the Karnataka Irrigation Act, 1965, if any person uses water from any irrigation work without obtaining the required permission, he shall, in addition to any penalty which he incurs for such unauthorised use of water, be liable to pay water rate at such rate, as may be determined by the prescribed officer, not being less than ten times and not exceeding thirty times the rate, he would otherwise have been required to pay, had he obtained the permission. Also, if any crop other than that notified is grown, the grower shall be liable to pay water rate not being less than five times and not exceeding ten times the water rate applicable to the crop grown, as may be specified by the Irrigation Officer.

(i) In a Taluk in Chitradurga district,demands for penal water rate amounting to Rs.7,70,709 for unauthorised use of water from irrigation works and Rs.1,88,04,363 for violation of cropping pattern during

the years 1980-81 and 1981-82 levied by the Irrigation Officer and intimated to the Tahsildar for recovery were not raised by the latter.

On the omission being pointed out in audit in March 1986, the department stated (July 1987) that the entire amount had since been taken to demand in July 1986 and June 1987.

(ii) In a taluk in Raichur district, demand statements for Rs.33,30,392 towards penal water rate for unauthorised use of water over an area of 1602.39 acres by land holders, during the years 1981-82 to 1983-84 and for Rs.63,818 towards penal water rate for violation of cropping pattern over an area of 159.05 acres by land holders during the year 1981-82 were received from the Irrigation Officer in the taluk office only in January 1986. Due to delay of 4 to 5 years in the receipt of demand statements, the amounts remained unrealised.

The omission was pointed out in audit in February 1986; reply of the department has not been received (October 1987).

(iii) In 146 cases of unauthorised use of water from an irrigiation work in a taluk in Mandya district over an area of 110 acres during the years 1976-77 to 1982-83, no penal water rate was levied. Even at the minimum penal water rate (ten times the rate applicable to paddy grown in this area), non-levy amounted to Rs.33,000.

The omission was pointed out in audit in April 1986; reply of the department has not been received (October 1987).

The above cases were reported to Government between March and July 1987; their reply has not been received (October 1987).

7.4. Non-levy or short levy of maintenance cess

As per the Karnataka Irrigation Act, 1965, annual maintenance cess of Rs.4 per acre of land in the area benefited by any irrigation work maintained by Government is to be levied. However, no cess is leviable in cases in which no water had been made available during the previous two consecutive years. Further, as per the Karnataka Irrigation (Amendment) Rules, 1972, the Tahsildar concerned is the authority for levying the maintenance cess leviable on such lands.

(i) In a taluk in Chitradurga district, on 61,077 acres of irrigable land, benefited by Government Irrigation works during each of the years 1983-84 and 1984-85, maintenance cess amounting to Rs.4,88,616 was leviable, but was not levied.

On the omission being pointed out in audit in March 1986, the department stated (July 1987) that an amount of Rs.4,35,842 due in respect of 1,08,960 acres benefited by irrigation works during 1983-84 and 1984-85 had since been taken to demand in June 1987 and that in respect of the remaining area of 13,194 acres, no cess was leviable as no water had been made available during the previous two consecutive years

(ii) In 20 taluks, in respect of 9,66,130 acres and 5 guntas of land benefited by irrigation works maintained by Government, maintenance cess amounting to Rs.31,97,929 was leviable for various years falling

between 1978-79 and 1985-86, but it was not levied.

The omission was pointed out in audit between February 1986 and February 1987; the department stated (October 1987) that an amount of Rs.35,667 relating to Bangalore district had been taken to demand in September 1987; reply of the department in respect of the remaining cases has not been received (October 1987).

(iii) In two taluks of Mysore district and in one taluk each of Mandya, Dharwad, Raichur and Bijapur districts, on 4,79,843 acres of land benefited by Government irrigation works during various periods falling between 1979-80 and 1985-86, maintenance cess amounting to Rs.11,18,957 only was levied, as against Rs.19,19,372 leviable. This resulted in cess being levied short by Rs.8,00,415.

The short levy was pointed out in audit between April and August 1986; reply of the department has not been received (October 1987).

(iv) In a taluk in Chitradurga district, out of an irrigable area of 62,880 acres, maintenance cess was to be levied on 59,363 acres during the years 1980-81 to 1982-83 as water was not made available for two consecutive years in respect of remaining area of 3517 acres. However, maintenance cess amounting to Rs.4,60,880 only was levied during these years, instead of Rs.7,12,356 actually leviable on 59,363 acres at the rate of Rs.4 per acre. This resulted in short levy of maintenance cess amounting to Rs.2,51,476.

On the short levy being pointed out in audit in February 1986, the department stated (July 1987) that an amount of Rs.2,51,476 had since been taken to demand in September 1986 and June 1987.

The above cases were reported to Government in March and June 1987; their reply has not been received (October 1987).

7.5. Non-recovery or short recovery of conversion fine

Under the Karnataka Land Revenue Act, 1964 and the rules framed thereunder, when any land held for the purpose of agriculture (and assessed as such) is permitted to be used for any purpose unconnected with agriculture, a conversion fine is leviable at the rate prescribed on the basis of the area of the land and the place in which the land is situated. With effect from 7th May 1979, a fee of Rs.35 for each survey number is also recoverable in such conversion cases towards charges incurred for survey and demarcation.

(i) In a taluk in Mysore district, in 21 cases in which permission was accorded during the years 1982-83 to 1985-86 for the use of agricultural land for non-agricultural purposes, the prescribed conversion fine and fee amounting to Rs.3,19,192 and Rs.770 respectively were recoverable, but were not recovered.

The non-recovery was pointed out in audit in June 1986; reply of the department has not been received (October 1987).

(ii) In one taluk each of Mysore and Bellary districts, in 7 cases, conversion for use of agricultural land for non-agricultural purposes was permitted during the years 1984-85 and 1985-86, but due to application of incorrect rates, conversion fine was levied short by Rs.29,260.

The short recovery was pointed out in audit in June and August 1986; reply of the department has not been received (October 1987).

The above cases were reported to Government in July and September 1986; their reply has not also been received (October 1987).

7.6. Non-levy of land revenue and fine for unauthorised occupation of Government lands

Under the Karnataka Land Revenue Act, 1964, if any person who unauthorisedly uses or occupies any Government land to the use or occupation of which he is not entitled, he shall pay land revenue at twice the amount of assessment, for every year of unauthorised occupation. He shall also be liable to a fine not exceeding Rs.500 per acre per year, if such occupation is for the purpose of cultivation and not exceeding Rs.1,000 per acre per year, if such occupation is for non-agricultural purposes, as determined by the Deputy Commissioner.

(i) In a taluk in Hassan district, 486 persons, in unauthorised occupation of Government lands measuring 1,373 acres since 1980-81, had not been assessed to land revenue, nor was any fine levied on them. The omission resulted in non-levy of land revenue amounting to Rs.37,730 for the period from 1980-81 to 1985-86, based on the minimum annual rate of assessment of Rs.2.29 per acre applicable to lands in that area.

(ii) Similarly, in a taluk in Chitradurga distict, 256 persons, in unauthorised occupation of Government lands measuring 695 acres since 1977, had not been assessed to land revenue nor was any fine levied on them. The amount recoverable towards land revenue alone in these cases worked out to Rs.25,242 for the period from 1978-79 to 1985-86, based on the minimum annual rate of assessment of Rs.2.27 per acre applicable to lands in that area.

The non-levy was pointed out in audit in May 1986 and September 1986; reply of the department has not been received (October 1987).

The above cases were reported to Government in June and July 1987; their reply has also not been received (October 1987).

7.7. Non-recovery of price of land

Under the Karnataka Land Grant Rules, 1969, in respect of dry land and rain-fed wet lands granted for agricultural purposes, the price recoverable from the grantees shall be not less than fifty times and not more than

two hundred times the land revenue payable on such lands. However, Government are empowered to relax any of the provisions of the rules in any case or classes of cases by issue of an order.

(i) In September 1977, Government issued an order, under the powers vested in them, waiving the recovery of 75 per cent of the upset price fixed in respect of lands granted to poor and marginal farmers in a taluk in Bidar district and directing that only 25 per cent of the price be recovered from them. In respect of 553 land grant cases in that taluk in which the title was transferred to the allottees during 1977-78 and subsequent years, the price recoverable at 25 per cent, amounting to Rs.59,826, was not recovered nor was it taken to demand.

The non-recovery was pointed out in audit in July 1986; reply of the department has not been received (October 1987).

(ii) The Karnataka Land Grant Rules, 1969 provide that land not exceeding five hectares (12.5 acres) may be granted to a person eligible under the rules on collection of market value for cultivation of cashewnut subject to the condition that the total holding under cashew cultivation of such grantee does not exceed ten hectares.

A land measuring 7.07 acres situated in a village in Dakshina Kannada district was allotted to an applicant during March 1982 at the rate of Rs.160 per acre for cashew cultivation, as against the market price

of Rs.5,000 to Rs.8,000 per acre prevailing at that time in respect of land situated in that village, as verified from the sale deeds registered in the concerned sub-registries. Even at the minimum market rate of Rs.5,000 per acre, the difference of sale price recoverable for 7.07 acres amounted to Rs.34,219.

The short recovery was pointed out in audit in January 1986; reply of the department has not been received (October 1987).

The above cases were reported to Goverment in March and August 1986; their reply has also not been received (October 1987).

7.8. Short recovery of court fee

Under the Karnataka Court Fee and Suits Valuation Act, 1958, when any application is presented to a land officer by any person holding land settled temporarily under direct engagement with Government and the subject matter of the application relates exclusively to such engagement, a fee of rupee one was required to be paid by affixing court fee labels on the application. By a notification issued on 1st April 1982, Government enhanced the fee to two rupees with effect from that date.

In three taluks in Hassan and Chitradurga districts, on 1,04,600 applications presented to the Tahsildars during the period from 1st April 1982 to 31st August 1986, fee was collected at the rate of one rupee, instead of two rupees. This resulted in short collection of fee by Rs.1,04,600.

The mistake was pointed out in audit between August and December 1986; reply of the department has not been received (October 1987).

The case was reported to Government in July 1987; their reply has also not been received (October 1987).

CHAPTER 8

STAMP DUTY AND REGISTRATION FEES

8.1. Results of Audit

Test check of documents registered in the Offices of the Registrars and Sub-Registrars, conducted in audit during the year 1986-87, disclosed under-assessments of stamp duty and registration fees amounting to Rs.32.33 lakhs in 63 cases, which broadly fall under the following categories.

	No. of cases	Amount (In lakhs of rupees)
1. Incorrect grant of exemption	37	19.56
2. Misclassification of documents	16	7.55
3. Other irregularities	10	5.22
Total	63	32.33

Some of the important cases are mentioned in the following paragraphs.

8.2. Irregular grant of exemption/concession

(i) Government of Karnataka, in exercise of the powers vested in them under the Karnataka Stamp Act, 1957, issued orders (January 1980) exempting from payment of stamp duty, mortgage deeds executed by beneficiaries for obtaining loans from Government under

'People's Housing Scheme' and 'HUDCO assisted People's Housing Scheme'. Similar exemption from payment of stamp duty was not available on mortgage deeds executed in favour of non-government bodies (e.g. Taluk Development Board) in respect of the loans obtained from them under the housing schemes of those bodies.

In ten sub-registries in Kodagu, Bangalore, Hassan, Dharwar and Belgaum districts, 1396 mortgage deeds executed during the year 1981-82 to 1985-86 by the beneficiaries in favour of Taluk Development Boards, for securing loans (Rs.51.50 lakhs) taken from them under their housing schemes, were incorrectly exempted from levy of stamp duty. The irregular exemption resulted in stamp duty and registration fees amounting to Rs.3,33,855 not being realised.

On the omission being pointed out in audit between October 1985 and February 1987, the department stated (May 1987) that in four cases the concerned Sub-registrars had been directed to refer the matter to the Special Deputy Commissioners concerned for action under Section 46-A of the Act. Reply in respect of other cases has not been received (October 1987).

The above cases were reported to Government between November 1986 and July 1987; their reply has not been received (October 1987).

(ii) As per notifications issued by Government from time to time, instruments executed by new industries located in specified districts and industrial areas, in respect of loans taken from approved financial institutions, are exempt from levy of stamp duty, while registration fee is chargeable at a concessional rate of rupee one per Rs.1,000 (as against the normal fee-

of Rs.10 per Rs.1,000). While extending the concession for a period of 5 years from 1st November 1982, Government ordered (October 1982) that certain specified industries such as roller flour mills, rice mills other than modern rice mills with stabilisers, wooden furniture industries etc., located in any area, would not be eligible for incentives and concessions. The fact, that it is a new industry and that effective steps have already been taken for its establishment, has to be certified by the Industries and Commerce Department at the time of registration of documents, to make the industry eligible for these concessions.

(a) In a sub-registry in Raichur district, stamp duty was not levied and registration fee was charged at concessional rate in respect of a mortgage deed executed (August 1984) by an industry in favour of Karnataka State Financial Corporation for obtaining a loan of Rs.15 lakhs for establishment of a roller flour mill, though the concessions to this industry had been discontinued from November 1982 onwards. The irregular grant of exemption and concession resulted in stamp duty and registration fee amounting to Rs.73,500 not being realised.

The mistake was pointed out in audit in July 1986; reply of the department has not been received (October 1987).

(b) In three sub-registries in Mandya and Dharwar districts, on 7 mortgage deeds executed by industries during the years 1982-83 to 1985-86 in favour of Karnataka State Financial Corporation and a scheduled bank for obtaining loans (Rs.12.19 lakhs) for the establishment of rice mills (other than modern rice mills with stabilisers), stamp duty was incorrectly exempted

and registration fees levied at the concessional rate. The irregular grant of exemption and concession resulted in stamp duty and registration fees amounting to Rs.84,089 not being realised.

The mistake was pointed out in audit between May and September 1986; reply of the department has not been received (October 1987).

(c) In four sub-registries in Dharwar, Bijapur, Tumkur and Chickmagalur districts, similar exemption and concession were allowed in respect of 17 mortgage deeds registered by certain industries during the years 1983-84 to 1985-86 for loans amounting to Rs.86.42 lakhs obtained from Karnataka State Financial Corporation/ scheduled banks, even though the prescribed certificate from the department of Industries and Commerce was not produced at the time of registration. The incorrect grant of exemption and concession resulted in stamp duty and registration fees amounting Rs.5,01,086 not being realised.

The mistakes were pointed out in audit between July and December 1986; reply of the department has not been received (October 1987).

(d) In a sub-registry in Hassan district, stamp duty was not levied and registration fee was charged at the concessional rate on 4 mortgage deeds (giving irrevocable power of attorney to the mortgagee to to collect rent or lease amount of the mortgaged property), executed between August 1983 and February 1984 by four industries in favour of the Karnataka State Financial Corporation for securing loans amounting to Rs.8,95,000 obtained for the purpose of establishing rice mills and wooden furniture industry. As these industries had been excluded from exemptions and concessions

with effect from November 1982, they were not entitled to exemption from stamp duty and reduced rate of registration fee. The incorrect grant of exemption and concession and treating these deeds as simple mortgage deeds, instead of mortgage deeds with possession, resulted in stamp duty and registration fee being levied short by Rs.91,975.

The mistake was pointed out in audit in July 1985; reply of the department has not been received (October 1987).

The above cases were reported to Government between January and July 1987; their reply has not been received (October 1987).

(iii) By a notification issued in February 1973, Government remitted the stamp duty chargeable under the Karnataka Stamp Act, 1957, in respect of sale deeds in favour of Central Government executed either by the State Government or others.

In a sub-registry in Bangalore City, a deed registered in June 1984, conveying the assets of a flour mill (consequent on its nationalisation) to a Government of India Undertaking for a consideration of Rs.8.50 lakhs, was exempted from payment of stamp duty on the ground that the vendee was the Union of India represented by the President of India. As the exemption was admissible only in respect of deeds executed in favour of the Government of India and not in favour of undertakings of the Government of India, the exemption granted was incorrect. The incorrect exemption resulted in non-levy of stamp duty amounting to Rs.1,10,500.

The omission was pointed out in audit in February 1986; reply of the department has not been received (October 1987).

The case was reported to Government in July 1987; their reply has also not been received (October 1987).

8.3. Short levy of stamp duty due to application of incorrect rate

(i) According to Section 6 of the Karnataka Stamp Act, 1957, when an instrument is so framed as to come within two or more of the descriptions in the Schedule to the Act and duties chargeable thereunder are different, the instrument shall be chargeable with the highest of such duties.

In a sub-registry in Bangalore City, 3 simple mortgage deeds were executed during the year 1983-84 by certain individuals in favour of the Life Insurance Corporation of India for obtaining loans amounting to Rs.2,05,000 for the construction of houses. The documents included a clause, giving irrevocable power of attorney to the mortgagee to do all things on behalf of the mortgagors and to have the right to sell or dispose of the properties in any manner, in case of default by the mortgagors. The documents were, therefore, both 'simple mortgage deeds' and 'power of attorney' for consideration (amount of loan). The stamp duty leviable on 'power of attorney for consideration' is higher than that leviable on 'simple mortgage deed'. Thus, these three documents were chargeable at higher rates of duty as per Article 41(e). However, the duty was levied by the department at lower rate as per Article 34(b), treating the documents as 'simple

mortgage deeds'. The mistakes resulted in short recovery of stamp duty amounting to Rs.13,780.

The mistake was pointed out in audit in March 1985; reply of the department has not been received (October 1987).

The case was reported to Government in March 1987; their reply has also not been received (October 1987).

(ii) Under the Karnataka Stamp Act, 1957, on deeds of conveyance in respect of properties situated at the various places, stamp duty is leviable, on the market value of the properties concerned, at the rates laid down in the Schedule to the Act.

In a sub-regisrty in Raichur district, a conveyance deed, in which the consideration of property at the market rate was indicated as Rs.3,89,475, was registered in November 1985. On this deed, stamp duty of Rs.16,000 only (including surcharge) was levied due to incorrect adoption of market value as against the stamp duty of Rs.38,950 (including surcharge) leviable. The mistake resulted in stamp duty being realised short by Rs.22,950.

The mistake was reported to the department in August 1986 and to Government in March 1987; their replies have not been received (October 1987).

8.4. Short levy due to misclassification of instruments

(i) As per the Karnataka Stamp Act, 1957, 'mortgage deed' includes every instrument whereby for the purpose of securing money advanced or to be advanced

by way of loan or an existing or future debt or the performance of an engagement, one person transfers, or creates, to or in favour of another, a right over or in respect of a specified property. Any instrument evidencing an agreement relating to deposit of title deeds is chargeable with stamp duty at a rate lower than that chargeable on a mortgage deed.

In four sub-registries in Bangalore, Dharwar, Mysore and Chitradurga districts, 61 documents, executed by certain individuals in favour of certain scheduled banks, for securing repayment of loans amounting to Rs.30,29,200 advanced by the banks, were registered during the years 1982-83 to 1985-86 as 'agreements relating to deposit of title deeds' and assessed to stamp duty accordingly. However, these documents contained recitals to the effect that the deposit of the title deeds was to create a mortgage by security of the properties for the due repayment of the loans and that the loanees shall execute a mortgage deed when called upon by the banks to do so. The documents thereby created a charge on the properties themselves and were not mere deeds evidencing deposit of title deeds and hence should have been classified as mortgage deeds. The incorrect classification of the documents resulted in short levy of stamp duty amounting to Rs.98,429.

These mistakes were pointed out in audit between May 1986 and January 1987; reply of the department has not been received (October 1987).

The cases were reported to Government in June and July 1987; their reply has also not been received (October 1987).

(ii) Under the Karnataka Stamp Act, 1957, an instrument of 'partition' means any instrument whereby the co-owners of any property divide or agree to divide such property in severalty. Hence, there can be a partition only between co-owners of a property. The stamp duty leviable on a partition deed is less than that leviable on deed of gift or conveyance.

In a sub-registry, in Chickmagalur district, in a document registered in September 1984, a portion (valuing Rs.4,00,000) of an immovable property allotted to the sister of the deceased owner was considered as a separated share in a partition and stamp duty levied as applicable to a partition deed. As the said property was a self acquired one of the deceased owner and his sister was never a co-owner of the property, any partition of said property could take place only between the legal heirs (wife, sons and daughter) of the deceased. The allotment of a portion thereof to a sister of the deceased owner as partition share should, therefore, have been treated as a gift and assessed to tax as such. The incorrect classification of the document resulted in stamp duty being levied short by Rs.20,000.

On the mistake being pointed out in audit in December 1986, the Sub-registrar stated (December 1986) that the case would be re-examined. Report on result of examination has not been received (October 1987).

The case was reported to Government in July 1987; their reply has not been received (October 1987).

(iii) Under the Karnataka Stamp Act, 1957, on a conveyance deed the stamp duty is leviable, on the market value of the property, at the rates laid down

in the Schedule to the Act, whereas on a cancellation deed, duty of Rs.30 only is leviable irrespective of the consideration. Cancellation of conveyance under which the right of a property has already passed to the vendee does not reconvey the said right to the vendor. The right of the property can be re-transferred only by a fresh conveyance deed to be executed by the vendee.

(a) A property in Bangalore City, which had been purchased by a person during the year 1973-74 for a consideration of Rs.10,000, was sold back to the seller during 1984-85 for the same consideration and the document was registered in a sub-registry, in Bangalore district, as a deed of cancellation of the original document and assessed to stamp duty and registration fees accordingly. The transaction, being a re-sale by the purchaser to the seller should have been treated as a conveyance and assessed to stamp duty as a conveyance deed on the market value of the property (Rs.1,33,333) during the year of resale. The incorrect classification resulted in stamp duty and registration fee being realised short by Rs.17,310.

The short levy was pointed out in audit in April 1986; reply of the department has not been received (October 1987).

(b) In another sub-registry, in Bangalore City, a document in respect of the re-sale of a vacant site, to a Housing Co-operative Society from whom it had been purchased during June 1981 for a consideration of Rs. 7,750, was registered in December 1985 as a deed of surrender (a classification not provided for

in the Act) and stamp duty of Rs.30 and registration fees of Rs.15 were recovered. As the transaction was only a resale, the document should have been classified as conveyance deed. The mis-classification resulted in stamp duty and registration fee being realised short by Rs.10,745, computed on the market value (Rs.83,000) of the property prevailing during 1984-85.

The short levy was pointed out in audit in September 1986; reply of the department has not been received (October 1987).

The above cases were reported to Government in December 1986 and February 1987; their reply has not been received (October 1987).

8.5. Short levy of stamp duty on lease-cum-sale agreements

Under the Karnataka Stamp Act, 1957, stamp duty chargeable on an agreement relating to a transaction of lease-cum-sale, in connection with the allotment of a building site with or without building thereon, effected by the Karnataka Housing Board, shall be as on 'conveyance' for a market value equal to the security deposit and the amount of average annual rent reserved under such agreement.

In a sub-registry in Hassan district, on 54 documents of lease-cum-sale agreements executed by the beneficiaries in favour of the Karnataka Housing Board during the year 1985-86, stamp duty was levied only on the amount paid initially (Rs.5,65,985), instead of on the full amount payable (Rs.18,64,875), which is equal to security deposit and the amount of average annual rent reserved, as set forth in the documents. The mistake resulted in stamp duty being levied short

by Rs.87,390.

The short levy was pointed out in audit in September 1986; reply of the department has not been received (October 1987).

The case was reported to Government in May 1987; their reply has also not been received (October 1987).

CHAPTER 9

FOREST RECEIPTS

9.1. Results of Audit

Test check of accounts in the divisions in the forest department, conducted in audit during the year 1986-87, revealed non-recovery and short recovery of forest receipts amounting to Rs.140.97 in 93 cases, which broadly fall under the following categories.

	No. of Cases	Amount (In lakhs of rupees)
1. Non-revision and non-fixation of rates	07	18.57
2. Short collection of lease amount	07	27.17
3. Non-recovery of royalty	03	5.79
4. Other irregularities	76	89.44
Total	93	140.97

Some of the important cases are mentioned in the following paragraphs.

9.2. Short recovery of seigniorage rate.

(i) By an order dated 28th February 1985, Government enhanced the seigniorage rate (royalty) for supply

of bamboos to industries from Rs.120 per tonne to Rs.176 per tonne with effect from 1st April 1985. In the case of bamboos supplied to a paper mill (Government company) as raw material for manufacture of newsprint, a concessional rate of 50 per cent of the seigniorage rate was leviable for a period of five years from 1st October 1983.

(a) Out of 4,936.945 tonnes of bamboo supplied to a company by a forest division in Chickmagalur district, during the period from November 1984 to June 1985, the company utilised 673.712 tonnes for the manufacture of newsprint. For the quantity, used otherwise, (4263.233 tonnes) seigniorage rate had to be recovered at Rs.120 per tonne for supplies (2,944.104 tonnes) made upto 31st March 1985 and at Rs. 176 per tonne for supplies (1,319.129 tonnes) made from 1st April 1985 to 30th June 1985). However, seigniorage rate for the entire quantity of bamboo supplied was recovered at a uniform concessional rate of Rs.60 per tonne, resulting in short realisation of revenue amounting to Rs.3,89,005 (including taxes, surcharge and cess).

On the mistake being pointed out in audit (July 1986), the department agreed (July 1986) to recover the amount.

(b) In another forest division in the same district, out of 25,708.243 tonnes of bamboo supplied at concessional seigniorage rates for the manufacture of newsprint to the same company during the period from 1st October 1983 to 31st March 1986, the company utilised only 10,798.591 tonnes for that purpose. The difference of seigniorage rate recoverable on the balance quantity of 14,909.652 tonnes, not used in the manufacture of newsprint, amounted to Rs.12,85,833.

In respect of another quantity of 13,957.704 tonnes of bamboos supplied by the same division during the period from 1st April 1985 to 24th January 1987, and used by the company for manufacture of newsprint, the cost of bamboo was recovered at the pre-revised seigniorage rate of Rs.60 per tonne, instead of Rs.88 per tonne applicable with effect from 1st April 1985. This resulted in short recovery of Rs.4,36,654.

On the mistakes being pointed out in audit (February 1987), the division agreed (February 1987) to recover the amount. However, action taken has not been reported.

The cases were reported to Government between November 1986 and June 1987; their reply has not been received (October 1987).

(ii) In pursuance of a Government order issued on 6th February 1986, the Principal Chief Conservator of Forests reduced (10th March 1986) the seigniorage rates in respect of certain timber used for manufacture of plywood, match wood and packing with effect from 1st April 1986. It has been judicially held* that when the contract is for extraction of wood from standing trees (un-ascertained), the property in cut timber would pass to the purchaser as soon as the trees are felled and the goods become ascertained.

In a forest division in Chickmagalur district, on 863.445 cubic metres of various species of wood

*State of Karnataka vs. West Coast Paper Mills Ltd., KLJ 1985.

stacked out of trees felled by a company and kept in a deliverable state on 20th February 1986, reduced seigniorage rates (effective from 1st April 1986) were charged for the reason that the release order was issued on 11th April 1986, instead of the rates prevailing on the date of felling of the trees when the property in cut timber passed on to the company. The mistake resulted in loss of revenue amounting to Rs.1,09,218.

The mistake was pointed out to the department in February 1987 and to Government in July 1987; their replies have not been received (October 1987).

(iii) By an order dated 28th February 1985, Government enhanced, with effect from 1st April 1985, the seigniorage rate to Rs.550 per cubic metre for supply of kindal wood(with bark). However, in respect of unsound and hollow logs of and above 90 cms., in girth, the seigniorage rate applicable is only 80 per cent of the rate sanctioned for sound logs.

In a forest division in Uttara Kannada district, on 346.283 cubic metres of kindal wood supplied to a company during the year 1985-86, the rate was incorrectly charged at Rs.440 per cubic metre applicable to unsound logs, even though the measurement list of the divisions showed the logs as of good quality. The mistake resulted in short realisation of revenue amounting to Rs.46,624 (including taxes and cess).

The mistake was pointed out to the department in November 1986 and to Government in February and April 1987; their replies have not been received (October 1987).

9.3. Loss on resale of timber

According to the terms and conditions of auction sale of timber, if any contractor fails to pay the instalments of sale value on the due dates, the original contract has to be cancelled and the timber re-auctioned at the risk and cost of the original bidder. The loss sustained shall be recoverable from the defaulter together with the interest due at the rate fixed by Government.

(i) In Dharwar forest division, in respect of 31 cases of resale of timber during the periods between July 1982 and May 1984, the prices fetched fell short of the original bid amounts. However, the differential amount along with interest amounting to Rs.83,626 was not recovered from the original bidders.

On this being pointed out in audit (September 1986), the department agreed (September 1986) to recover the amount. Further action has not been intimated (October 1987).

(ii) In a forest division in Shimoga district, in respect of 8 cases of auction sale of timber during 1978-79 to 1980-81, the original bidders failed to pay the instalments within the stipulated period of 4 months from the date of auction. On resale of timber held in October 1981 at the risk and cost of the original bidders, the price fetched was less than the original bid amounts. However, the resultant loss of revenue alongwith interest amounting to Rs.15,045 was not recovered from the original bidders.

On the omission being pointed out in audit (September 1982), the department agreed to take necessary action to recover the amount. Report on action taken has not been received (October 1987).

The cases were reported to Government in between October 1986 and February 1987; their reply has not been received (October 1987).

9.4. Loss on sale of minor forest produce

(i) According to the terms and conditions of auction sale of minor forest produce, if the original bidder fails to pay the instalments of sale value on the due dates, the original contract has to be cancelled and the minor forest produce re-auctioned at the risk and cost of the original bidder. Further, if the contractor is allowed to pay any instalment after the due date, interest at the rates in force is also recoverable on belated payments.

In a forest division in Dharwad district, in respect of 9 cases of tamarind leases sold by the department during August 1984 and November 1984, instalments of sale value due on 1st November 1984 and 1st January 1985 amounting to Rs.74,093 were not paid by the lessees. The division did not take any action either for the re-auction of the produce at the risk and cost of the original contractors, or for the recovery of the said amount as arrears of land revenue till the date of audit (January 1986).

On this being pointed out in audit in January 1986, the department stated (January 1986) that action had since been initiated to recover the dues as arrears of land revenue. Report on recovery has not been received (October 1987).

The case was reported to Government in May 1986; their reply has not been received (October 1987).

(ii) As per Karnataka Forest Rules, 1969, forest produce shall be disposed of by auction or tender-cum-auction and the sale conducting officer shall accept the offer,

if it is equal to or exceeds the sanctioned upset price. However, the Chief Conservator of Forests may, with the previous sanction of Government, resort to any other methods for disposal or accept individual offers at his discretion in the interest of Government revenue.

In Belgaum forest division, the highest bid of Rs.18,000 obtained in an auction conducted in April 1985 for the disposal of minor forest produce (mango fruits), for the year 1985, was recommended to the Chief Conservator of Forests(General) for acceptance. But the offer was rejected by him and the division was directed to allot the minor forest produce to an individual nominee at the upset price of Rs.5,500. During the year 1986, no auction was conducted and the produce was allotted to the same nominee at the upset price of Rs.5,500. The procedure followed was detrimental to the interest of revenue. On the basis of highest bid obtained during 1985, the loss of revenue suffered by Government amounted to Rs.25,000 for the years 1985 and 1986.

The loss was pointed out to the department in December 1986 and to Government in February and April 1987; their replies have not been received (October 1987).

9.5. Loss due to non-recovery/non-revision of lease rent

(i) As per the terms and conditions for lease of quarries (for extraction of granite stones) and forest land, the lessee is required to pay, for each year

of lease, royalty or dead rent at prescribed rates, whichever is higher.

(a) In Bangalore forest division, in 24 cases where forest lands were leased to contractors for quarrying granite for a period of five years for various periods falling between February 1977 and November 1980, no action was taken by the department to recover lease rent amounting to Rs.3,29,508 at the rate of Rs.500 per acre per annum.

On the omission being pointed out in audit in (August 1986), the department agreed (August 1986) to recover the amount. Report on recovery has not been received (October 1987).

(b) In Dharwad forest division, in respect of 61 cases of leases of forest lands, rent amounting to Rs.62,790 for the years 1983-84 to 1985-86 was not recovered from the lessees.

On the omission being pointed out in audit (September 1986), the department agreed (September 1986) to take action for the recovery of the dues. Report on recovery has not been received (October 1987).

The cases were reported to Government between November 1986 and April 1987; their reply has not been received (October 1987).

(ii) Government issued orders in July 1974 and again in December 1975, reiterating its policy for review of all leases in respect of forest lands with a view to:

(1) terminating leases which are detrimental to the interest of forests as well as those leases where conditions prescribed in the lease have not been satisfied and in the meanwhile charge rent at the rate of Rs.250 per acre per annum in all such cases;

(2) releasing lands, situated near villages, to the tenants on a permanent basis provided the conditions of lease had been satisfied; and

(3) continuing from year to year, the lease of lands, which though developed, were situated in the interior of forests and charge a rent of Rs.50 per acre per annum in respect of them.

In a forest division in Belgaum district, 412 leases involving a total area of 4,364 acres of forest lands not situated in the interior forest area, leases in respect of which leases were being extended from year to year for lease rents varying from Rs.1.50 to Rs.10 per acre per year, were not reviewed in terms of the aforesaid instructions of Government. Pending categorisation and termination of these leases, the lease rent was also not revised to Rs.250 per acre per annum, as prescribed. This resulted in an annual recurring loss of Rs.10.91 lakhs(approximate) for the period from 1976-77 to 1985-86.

On the omission being pointed out in audit (December 1986), the department agreed (December 1986) to take necessary action. Report on action taken has not been received (October 1987).

The case was reported to Government in February 1987 and April 1987; their reply has not been received (October 1987).

9.6. Non-recovery/short recovery of value of firewood

(i) As per Government order of 30th July 1977, the Government firewood depots in the State were handed over to the Karnataka State Forest Industries Corporation, Bangalore with effect from 1st August 1977, subject to the condition that the corporation should pay to the Forest Department at the end of every month the cost of firewood sold by them.

In respect of supplies of firewood (valuing Rs.6,85,536) made by Madikeri forest division to the Corporation during the year 1983-84, neither the Corporation paid any amount to the department nor any action was taken by the department to realise the amount.

On the omission being pointed out in audit (July 1986), the department stated (July 1986) that the demand would be raised against the Corporation. Report on action taken has not been received (October 1987).

(ii) The selling rate of firewood, to be sold at Government firewood depot, Heggadadevan Kote, (in Mysore division) was revised to Rs.283 (including taxes) per tonne by the Conservator of Forests, Mysore Circle, with effect from 20th February 1985.

In respect of 2,629·370 tonnes of firewood sold by that depot during the period from March 1985 to December 1986, the cost of firewood was recovered at the pre-revised rate of Rs.234 (including taxes), instead of Rs.283 per tonne, resulting in loss of revenue amounting to Rs.1,28,839.

On the mistake being pointed out in audit (January 1987), the department agreed (January 1987) to examine

and recover the loss. Report on examination has not been received (October 1987).

The cases were reported to Government between December 1986 and May 1987; their reply has not been received(October 1987).

9.7. Non-recovery of entry fees and other dues

(i) The Karnataka Forest Rules, 1969, as amended by a notification issued in December 1983, require the obtaining of a pass for entry of a goods vehicle into a reserve forest on payment of a fee of Rs.25. The levy of entry fee was, however, discontinued by Government with effect from 28th February 1985.

In a forest division in Shimoga district, entry fee on 7,370 trips, made into the reserve forest by goods vehicles engaged by two companies for removing forest produce from the reserve forest area during the period from December 1983 to February 1985, was not recovered. This resulted in non-realisation of entry fees amounting to Rs.1,84,250.

On the omission being pointed out in audit (July 1986), the department agreed to recover the fee in these cases. Report on recovery has not been received (October 1987).

The case was reported to Government in January 1987; their reply has not been received (October 1987).

(ii) With effect from 1st June 1979, on sale of timber to wood-based industries, administrative charges are recoverable at the rate of Rs.5 per cubic metre of

timber, as part of the price of timber, fixed by the Forest Department. As clarified by Government in their letter dated 14th March 1985, the administrative charges were recoverable upto the end of 31st March 1985 only.

In Madikere forest division, on sale of 6,304.427 cubic metres of timber, in the form of logs and tops, to six wood-based industries during March 1985, administrative charges amounting to Rs.31,522 were not recovered.

On the omission being pointed out in audit (July 1986), the department stated (July 1986) that the amount would be recovered. Report on recovery has not been received (October 1987).

The case was reported to Government in August 1986 and December 1986; their reply has not been received (October 1987).

(iii) Section 98-A of the Karnataka Forest act, 1963 requires the levy of forest development tax at the rate of 8 per cent on the value of forest produce disposed of by sale or otherwise. The value for the purpose as judicially held is inclusive of any central excise duty paid on the manufactured goods or produce under the Central Excise and Salt Act, 1944. Accordingly, sales tax and forest development tax leviable have to be recovered on the sale value, inclusive of central excise duty.

In a forest division in Shimoga district, on supplies of sleepers valuing Rs.16,12,098 made to Railways during the year 1983-84, central excise duty

amounting to Rs. 51,210 (payable by the forest department) was not included in the cost of sleepers recovered from the Railways. Resultantly, the amount of central excise duty, which forms part of the value of the goods, was also not taken into account for the purpose of calculating the forest development tax and sales tax leviable thereon. This resulted in forest development tax and sales tax being levied short by Rs.25,794.

On the short levy being pointed out in audit (June 1986), the division agreed (June 1986) to take action for recovery. Report on action taken has not been received (October 1987).

The matter was reported to Government in December 1986; their reply has not been received (October 1987).

(iv) According to the agreement entered into by a forest division in Mysore district, a paper mill was permitted to extract elephanta grass. The mill was required to pay 'Kamagari charges' in respect of forest officials engaged in the supervision of extraction and weighment of the grass extracted.

However, 'Kamagari charges' amounting to Rs.14,026 in respect of forest officials engaged in the supervision of the extraction work of the mill during the period from 29th November 1985 to 31st March 1986 were not recovered by the division.

On the omission being pointed out in audit in July 1986, the department adjusted (December 1986) an amount of Rs.14,026 out of deposit made by the mill.

The case was reported to Government in March 1987; they confirmed the facts in August 1987.

9.8. Non-recovery of interest on belated payments

By an order issued on 29th August 1973, the rates of interest for the first three months and penal interest for the period in excess of first three months, leviable on revenue outstanding, were fixed by Government at 9 and 13 per cent respectively. By another Government order, with effect from 23rd September 1983, the rate of penal interest was raised to 18 per cent.

(i) In a forest division in Mysore district, a supplemental demand of Rs.6,06,412 raised (due to the revision of selling rate of sandalwood) by the department on 13th December 1984 for sale of sandalwood to a sandal oil factory, was settled by the factory on 14th August 1986 after a delay of 20 months. However, the prescribed interest and penal interest amounting to Rs.1,68,279 were not recovered from the factory.

On the mistake being pointed out in audit (January 1987), the department agreed (January 1987) to recover the interest and the penal interest. Report on recovery is awaited (October 1987).

(ii) In a forest division in Uttara Kannada district, the value of trees damaged by a company during their mining operation in 1981-82 was assessed by the department as Rs.1,99,294 on 1st April 1982. After deducting the cost (Rs.72,244) of timber salvaged from damaged trees by the department and the amount already paid by the company (Rs.50,628), the balance amount of

Rs.76,422 was paid by the company on 6th January 1986. However, the interest and penal interest amounting to Rs.45,487 were not recovered.

The mistake was pointed out to the department in January 1987; their reply has not been received (October 1987).

The cases were reported to Government between February and June 1987; their reply has not been received (October 1987).

9.9. Pricing of forest produce with special reference to wood based industries

9.9.1. Introductory

Forest revenue is derived mainly from the exploitation of forest produce. The forest produce is disposed of by the following methods.

1. Sale by auction or tender or tender-cum-auction

2. Sale by issue of licences at the sanctioned schedule of rates

3. Sale by issue of licences at the sanctioned seigniorage rates.

4. Any other method in the interest of revenue with prior approval of Government.

9.9.2. Scope of audit

A test-check of records in few selected forest divisions was made to verify whether the value of forest produces disposed of by the department was recovered correctly based on the seigniorage rates/ schedule of rates applicable from time to time and whether any procedure was evolved by the department to ensure that the produce supplied at a concessional rate for any specified purpose was actually utilised for that purpose only.

9.9.3. Organisational set up

All important sales of timber and other forest produce are generally held by open public auction, tender or tender-cum-auction. Retail sale of certain categories of timber below specified measurements is made to bonafide consumers by the forest depots as per the schedule of rates. The schedule of rates is compiled and sanctioned on the basis of average rates secured in the preceding three auctions.

Sale by issue of licences, for removal of standing trees of exploitable girth of certain species, to the wood-based industries are made at seigniorage rates. 'Seigniorage Value' is the royalty payable by the consumers and purchasers, for the collection and removal of forest produce, on licences or permits at the rates fixed from time to time. Chief Conservator of Forests is empowered to fix the seigniorage rates of various species of timber and other forest produce after considering the existing trend in market. Accordingly, Chief Conservator of Forests(General) prescribed and revised the seigniorage rates from time to time.

From 23rd February 1981, by an amendment to the Karnataka Forest Act, seigniorage rates were made applicable to timber supplied to the industries also, discontinuing the concessional rates allowed separately to each industry.

9.9.4. Highlights

(a) Adoption of incorrect selling price of timber in 3 forest divisions and in a forest depot resulted in loss of revenue amounting to Rs.5.36 lakhs.

(b) A claim for an amount of Rs.1.84 lakhs, disallowed by Karnataka State Forest Industries Corporation during 1982-83 out of its dues to the department, had not been taken up with the Corporation even after a lapse of 4 years.

(c) Eucalyptus wood was supplied to a paper mill at the concessional rate for the manufacture of newsprint. No system or procedure was evolved to ensure (whether before or after supply of wood) its utilisation for the specified purpose.

(d) Non-collection or short collection of sales tax, forest development tax, administrative charges, supervision charges and selection charges along with the prices fixed in respect of firewood, charcoal, timber etc., resulted in loss of revenue amounting to Rs.10 lakhs.

A review of the pricing of forest produce and supply of timber to wood-based industries revealed the following.

9.9.5. Defects or irregularities in fixation of prices

(i) The revision of seigniorage rates was being made only on adhoc basis enhancing the existing rates by adding certain percentage without actually going into any scientific study of the subject.

(ii) As per the Sale of Goods Act, 1930, when there is a contract for sale of unascertained goods, no property in goods is transferred to the buyer unless the goods are ascertained. In such cases it has been judicially held* that the date of sale is the date on which timber is cut and kept in a deliverable state. In Government Order of February 1986, seigniorage rate for removal of certain species of timber was reduced with effect from 1st April 1986. In 3 Forest divisions, in respect of timber cut and kept ready in a deliverable state prior to 1st April 1986, the reduced rate was incorrectly applied, resulting in short realisation of revenue of Rs.4,28,686.

(iii) The intake rates (average rate of the last three auctions) for timber supplied to Karnataka State Forest Industries Corporation's saw mill at Murkal, during the period 1st June 1982 to 31st March 1987, were to be fixed at the average rate for 'C' class timber in respect of supply made from the Government timber depot at Murkal. It was noticed that in respect of supply made from Government depots situated in

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* State of Karnataka Vs. West Coast Paper Mills 498 KLJ 1985.

other places, lead charges* from those depots to Murkal had been deducted from the average rates secured at those depots as if the selections were made at Murkal depot itself, although there was no obligation on the part of the department to supply timber at Murkal only. As timber was brought to Murkal after selection by Corporation at these depots, there was no justification for the deduction of lead charges from the average rates secured at these depots. The irregular deduction of lead charges resulted in loss of revenue amounting to Rs.1,06,966.

9.9.6. Disallowance by Corporation from the price demanded

Out of Rs.4,13,391 demanded from the Karnataka Forest Industries Corporation, in respect of supplies made from a division in Kodagu district during 1982-83, only Rs.2,29,124 was paid by the Corporation after disallowing Rs.1,84,167. The matter of disallowance, stated to be mainly due to variations in lead charges claimed by the department, had not been taken up with the Corporation so far(June 1987).

9.9.7. Ecualyptus wood supplied at concessional rate without ensuring its proper use

Government accorded (June 1984) sanction for supply of eucalyptus wood to a paper mill (a Government Company) in Shimoga district, for manufacture of newsprint, at 50 per cent of the seigniorage rate.

*The Lead charges are fixed annually for each circle, based on the quotations received from transport contractors. The average lead charges fixed not only include transportation charges to the depots but also loading charges in the forest area of extraction and delivery at the assigned depots.

However, no system or procedure was evolved to ensure (either before or after supply of the wood) that the supplies made at concessional rate were utilised for manufacture of newsprint only. During 1985-86 985 MT of eucalyptus wood were supplied for Rs.1.80 lakhs to the company by a division in Bangalore district at the concessional rate, without ensuring that the entire quantity of wood was utilised exclusively in the manufacture of newsprint. The company also had not furnished the detailed account so far (June 1987).

9.9.8. Application of incorrect rates

(i) The Chief Conservator of Forests (General) had clarified that the revised seigniorage rate of Rs.264.50 per tonne had to be charged (with effect from 29th June 1982) in respect of supply of eucalyptus wood to a company. Out of 5238.20 tonnes of eucalyptus wood released to the company by the Shimoga divison during the period from 1st July 1982 to 15th July 1983, on 574 tonnes, the revised seigniorage rates were not charged. This resulted in short recovery of Rs.39,887 (including Forest Development Tax, Sales Tax and Surcharge).

(ii)While allotting certain quantities of matchwood species of timber to an industry, the Chief Conservator of Forests(General) directed that the value of timber should be recovered at current schedule of rates or at seigniorage rates plus cost of extraction plus 10 per cent supervision charges, whichever was higher. In respect of removals of matchwood during 1983-84, by the company from a forest division in Mysore district, current schedule of rate was not applied

even though it was higher. The incorect adoption of the lower rate resulted in loss of revenue amounting to Rs.21,550(including taxes).

9.9.9. Non-realisation/short realisation of taxes, supervision charges and selection charges along with the price fixed

(i) Under the Karnataka Sales Tax Act, 1957, firewood or charcoal when sold for domestic use is exempt from levy of tax. Some of the logging contractors are required to run, under the terms of contract, Firewood depots at prescribed places after purchasing firewood from the forest department on payment of royalty. As the sale by the Forest department to the contractors cannot be held to be for domestic use, sales tax is payable on such sale. However, no tax including forest development tax was collected by the Forest Department. The non-realisation of taxes on sale of firewood valuing Rs.8,11,233 in two divisions during the years 1983-84 to 1985-86 amounted to Rs.1,09,517.

(ii) On sale of timber, sales tax was leviable at 8 per cent with effect from 1st April 1983 (13 per cent from 1st April 1986) at the point of first sale, while on sale of firewood other than for domestic use, tax was leviable at the general rate of 5 per cent from 1st April 1982 (4 per cent from 1st April 1981 to 31st March 1982) and at 7 per cent from 1st April 1986. In two forest divisions, on sale of timber valuing Rs.52,45,381 made during various periods falling between April 1982 and May 1986, tax was incorrectly levied at rates lower than that prescribed under the Act. The mistake resulted in short realisation

of tax amounting to Rs.1,43,595.

(iii) As per the Karnataka Forest Act, 1963, where forest produce is sold or otherwise disposed of by the Forest Department, forest development tax is leviable at 12 per cent with effect from 1st April 1983. On supplies of timber and lops and tops made to industries in 1983-84 by four forest divisions, forest development tax was incorrectly levied at the old rate of 8 per cent, resulting in tax being levied short by Rs.6,39,952

(iv) In Shimoga forest division, on supply of 781.491 Cu.M. of soft wood to a company manufacturing safety matches, administrative charges, forest development tax, sales tax and suroharge were not recovered, resulting in loss of revenue of Rs.51,435.

(v) As per instructions issued during December 1983 by the Conservator of Forests, Kanara Circle, supervision charges at 10 per cent of the cost of extraction together with taxes thereon were leviable in cases where the industries lift their quota of concealed species from forest depots. However, on purchases of timber on selection basis from forest depot, made by a contractor during 4th January 1984 to 8th February 1985, supervision charges were not levied, resulting in short realisation of revenue by Rs.30,816.

(vi) In respect of ecualyptus citradora leaves of mixed plantation extracted by a company in Shimoga Forest Division, the rate of Rs.30 per 1000 stems (applicable to pure plantation) was incorrectly applied,

instead of Rs.30 per acre of mixed plantation. This, along with recovery of forest development tax at reduced rate, resulted in short realisation of revenue by Rs.14,944.

These irregularities were reported to the department and Government in July 1987; their replies have not been received (October 1987).

CHAPTER 10

OTHER TAX AND NON-TAX RECEIPTS

A. ENTERTAINMENTS TAX

10.1. Results of Audit

Test check of records in Entertainments Tax Offices, conducted in audit during the year 1986-87, disclosed under-assessments of tax amounting to Rs.6.83 lakhs in 38 cases, which broadly fall under the following categories.

	No. of cases	Amount (in lakhs of rupees)
1. Incorrect computation of tax	18	4.93
2. Other irregularities	20	1.90
Total	38	6.83

Some of the important cases are mentioned in the following paragraphs.

10.2. Short levy of entertainments tax

(i) Under the Karnataka Entertainments Tax Act, 1958, in the case of cinematograph shows held in cinema theatres, situated within the limits of local authority whose population does not exceed fifteen thousand, entertainments tax is leviable at 15 per

cent of the gross collection capacity in respect of every show, provided that in the case of cinematograph show of Kannada, Kodava, Konkani or Tulu films, the tax payable shall be one half of the aforesaid rate. When reduction in the payment of tax is allowed in respect of a cinematograph film, the rate of payment for admission shall also be reduced in respect of each admission to the extent of tax reduced in respect of such payment. Where a proprietor does not reduce the rates of payment for admission, he shall,in addition to any other penalty under the Act, be liable to pay tax as if no reduction from the payment of tax was made.

In ten theatres situated within the limits of local authorities in Tumkur, Hassan and Bidar districts, in respect of 3,284 shows of Kannada films held during the various periods falling between April 1984 and November 1986, reduction in the rates of payment for admission was not made by the proprietors concerned, though reduction in the payment of tax for these films was allowed. For this irregularity, the proprietors were liable to pay the tax at the full rate, in addition to penalty leviable under the Act. But tax was levied at the reduced rate (half rate) only and no penalty was levied. The mistake resulted in tax being levied short by Rs.1,71,956.

On the short levy of tax and omission to levy penalty being pointed out in audit between October and December 1986, the department stated (June 1987) that an amount of Rs.21,281 in respect of three theatres had since been recovered and recovery proceedings initiated in one case. Report on action taken in the remaining cases has not been received (October 1987).

(ii). As per the Karnataka Entertainments Tax Act, 1958, on each payment for admission to an entertainment, entertainments tax is payable at 40 per cent of 'payment for admission', where such payment (excluding the amount of tax) exceeds one rupee and twentyfive paise, but does not exceed two rupees and fifty paise. In addition, surcharge equal to the rate of entertainments tax is also leviable. Further, additional tax on cinematograph shows called 'show tax' is payable to end of 31st March 1985 at Rs.30 per show where the rate of payment (including entertainments tax and surcharge) for admission of a person to the highest class of seat or accomodation exceeds two rupees and fifty paise but does not exceed five rupees. With effect from 1st April 1985, show tax was payable at the same rate where the rate of payment (excluding entertainments tax and surcharge) exceeds one rupee and fifty paise but does not exceed two rupees and fifty paise.

In a video centre in Uttara Kannada district, during the period from 30th November 1984 to 27th April 1985, on each ticket with net price of admission of one rupee seventy paise (excluding tax), entertainments tax was collected at the rate of 40 paise per ticket, instead of 70 paise per ticket (40 per cent of Rs.1.70). The mistake resulted in short realisation of tax and surcharge amounting to Rs.10,800 on 18,000 tickets sold during that period. Further, due to fixation of incorrect admission rate at Rs.2.50, instead of Rs.3.10 (including entertainments tax and surcharge), show tax was collected at Rs.20 per show, instead of at Rs.30 per show. This resulted in short realisation of show tax by Rs.3,300 on 330 shows held during that period.

On the mistakes being pointed out in audit (May 1986), the department collected the entire amount of Rs.14,100 in August 1986.

The above cases were reported to Government in February and March 1987; their reply has not been received (October 1987).

10.3. Mistake in computation

Under the Karnataka Entertainments Tax Act, 1958, the amount of tax in respect of each payment for admission, surcharge, fine, penalty or any other amount payable and the amount of refund due shall be rounded off to the next higher multiple of five paise. Where the payment for admission (excluding the amount of tax) exceeds one rupee and twenty five paise but does not exceed two rupees and fifty paise, entertainments tax is leviable at 40 per cent of such payment. In addition, a surcharge of one hundred per cent on the rate of such entertainments tax shall be levied.

In a theatre in Dakshina Kannada district, while determining entertainments tax on 1,41,347 tickets (where the payment for admission (excluding amount of tax) was Rs.2.30 per ticket) sold during the period from 1st April 1984 to 31st December 1986, the provision of rounding off to the next higher multiple of five paise was not followed. As a result, tax was incorrectly computed at 90 paise for non-Kannada films and 45 paise for Kannada films (one half of the rates specified for other films), instead of at 95 paise and 50 paise respectively. The incorrect computation resulted in short levy of entertainments tax and surcharge amounting to Rs.14,135.

On the mistake being pointed out in audit (February 1987), the department stated (August 1987) that rectificatory orders had been passed by the assessing officer.

The case was reported to Government in June 1987; they confirmed the facts (September 1987).

B. STATE LOTTERIES

10.4. Loss of revenue due to excess wastage of paper

As per the terms of agreement entered into between Government and a private press for printing of State lottery tickets, the paper required for printing of the lottery tickets, including 10 per cent extra for printing loss, wastages, cut-bits, trimmings etc., shall be supplied by Government and the printers shall keep the wastage of paper to the minimum.

It was, however, noticed in audit that, out of 42.37 tonnes of paper supplied by Government to the press for printing of lottery tickets for 19 draws held between June 1984 and March 1985, paper wasted by the printer was in excess of the prescribed limit of 10 per cent. The paper wasted in excess worked out to 5.65 tonnes, but no action was taken by the department to recover its cost which amounted to Rs.80,795.

On the loss being pointed out in audit in May 1985 and January 1986, the department stated (December 1986) that the matter was under consideration; their final reply has not been received (October 1987).

The case was reported to Government in November 1986; their reply has also not been received (October 1987).

(Smt.A.L.GANAPATHI)
Accountant General (Audit)-II,
Karnataka

Bangalore,

The 26 JUL 1988

Countersigned

(T.N.CHATURVEDI)
Comptroller and Auditor General
of India

New Delhi,

The 08 AUG 1988

ERRATA

Report (Revenue Receipts) of the Comptroller and Auditor General of India for the year 1986–87–Government of Karnataka.

Sl. No.	*Page No.*	*Para No.*	*Line No.*	*For*	*Read*
1	2	3	4	5	6
1.	(ii)	Table of contents (Para 3.11)	14th from top	Mistakes	Mistake
2.	2	1.2.2	2nd from top	classificiation	classification
3.	7	1.8.5.	19th from top	Non-recòvcery	Non-recovery
4.	10	2.1	3rd from top	Karanataka	Karnataka
5.	17	2.4	6th from top	yeares	years
6.	21	2.8	18th from top	of office	of offices
7.	27	3.2 (iv)	10th from top	inter state	inter-state
8.	31	3.2 (x)	27th from top	delaer	dealer
9.	32	3.3 (ii)*a*	Last	percent of	per cent (
10.	38	3.3 (vii)	8th from top	in sale of	on sale of
11.	40	3.3 (x)	25th from top	act, 1957,	Act, 1957,
12.	41	3.3 (x)	9th from top	(x) (b) above	(ix) (b) above
13.	48	3.4 (vii)	Last	beeen	been
14.	57	3.5 (v) (*a*)	23rd from top	..	Add the following after Rs. 26,294 " Report on recovery has not been received, (October 1987)."
15.	58	3.6	2nd from bottom	had ben	had been

1	2	3	4	5	6
16.	59	3.7 (ii)	28th from top	manufactured	unmanufactured
17.	76	3.15 (i)	5th from bottom	action has	action taken has
18.	83	4.2 (ii)	1st	duitable	dutiable
19.	93	4.9	13th from top	petititions	petitions
20.	94	4.11	19th from top	..	Add the following after from one licensee. "Report on recovery of the balance amount has not been received (October 1987) ".
21.	95	4.12.1	4th from top	inudstries	industries
22.	103	4.13.3	1st	bound	bonded
23.	109	4.14.3 (*b*)	Last	neglibile	negligible
24.	110	4.14.4 (*a*)	10th from top	the of	the end of
25.	110	4.14.4 (*b*)	12th from top	on interest	of interest
26.	117	4.14.6 (B) (i)	6th from top	1970)	1980)
27.	121	5.1	2nd from top	Text check	Test check
28.	121	5.2 (i)	Last	1985.	1985,
29.	124	5.2 (iii)	11th from top	vehciles	vehicles
30.	128	5.4 (ii)*a*	24th	spcial	special
31.	29	5.4 (i)*a*	1st	ut	out
32.	137	5.9.1(Col. VI)	2nd from top	31	32
33.	143	5.9.6	3rd from top	vehilces	vehicles
34.	144	5.9.7 (*a*) (i)	14th from top	singature	signature
35.	200	9.1	7th from top	Rs. 140.97	Rs. 140.97 lakhs
36.	214	9.8 (ii)	8th from top	1987.	1987;
37.	218	9.9.6	14th from top	Rs. 4,13,391	Rs. 4,13,291
38.	218	9.9.7	22nd from top	Ecualyptus	Eucalyptus
39.	221	9.9.9 (vi)	26th from top	ecualyptus	eucalyptus