सत्यमेव जयते

Report of the
Comptroller and Auditor General of India

Compliance Audit (Revenue)
for the year ended 31 March 2020

लोकहितार्थ सत्यनिष्ठा

Dedicated to Truth in Public Interest

Government of Tamil Nadu

Report No. 2 of 2022

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PREFACE

This Report of the Comptroller and Auditor General of India for the year ended 31 March 2020 has been prepared for submission to the Governor of the State of Tamil Nadu under Article 151 of the Constitution of India.

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

The instances mentioned in this Report are those, which came to notice in the course of test audit during the period 2019-20 as well as those which came to notice in earlier years, but could not be reported in the previous Audit Reports. The instances relating to the period subsequent to 2019-20 have also been included, wherever necessary.

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

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

OVERVIEW

This report contains 11 paragraphs relating to non / short levy of taxes, interest, penalty, etc. involving ₹ 180.15 crore. Some of the major findings are mentioned below:

I General

The total revenue receipts of the State during 2019-20 were ₹ 1,74,525.90 crore, comprising tax revenue of ₹ 1,07,462.28 crore and non-tax revenue of ₹ 12,887.84 crore. ₹ 26,392.41 crore was received from the Government of India as State's share of divisible Union taxes and ₹ 27,783.37 crore as grants-in-aid. Sales tax and Goods and Services Tax (₹ 82,891.63 crore) formed a major portion (77 *per cent*) of the tax revenue of the State. Interest receipts, dividends and profits (₹ 4,547.74 crore) accounted for 35 *per cent* of the non-tax revenue.

(Paragraph No. 1.1)

Test check of records relating to Goods and Services Tax, commercial taxes, stamp duty and registration fee and land revenue during the year 2019-20 revealed under-assessments, short levy, loss of revenue and other observations amounting to ₹ 236.63 crore in 1,403 cases.

(Paragraph No. 1.9)

II Goods and Services Tax / Value Added Tax

Goods and Services Tax

Compliance Audit on "Functioning of E-way bill system in Tamil Nadu" revealed the following:

- Audit noticed shortcomings in the Common Portal. The portal allowed generation of e-way bills by non-filers of return and taxpayers whose registrations were cancelled. Composite taxpayers also could generate e-way bill for their inter-State trades. System also allowed generation of multiple e-way bills for the same invoice and e-way bills for goods value quoted as null.

(Paragraph No.2.4.2.1)

- An amount of ₹ 80.78 crore was payable by those taxpayers whose registrations were subsequently cancelled. Taxpayers who generated e-way bills did not file GSTR 3B and did not pay tax amounting to ₹ 49.43 crore. Taxpayers who filed NIL returns after generating e-way bills did not pay tax of ₹ 8.22 crore.

{Paragraph No.2.4.2.2(a) to (c)}

- Movement of goods, for which e-way bills were not generated, with expired e-way bill and for which e-way bills generated after interception and with Part-B of e-way bills not having been furnished or updated, were released after collecting a penalty instead of 100 *per cent* tax and equivalent amount of penalty. This resulted in short collection of ₹ 12.09 crore.

{Paragraph No.2.4.2.2(f)}

- There was no provision in the system to create liability in the liability ledger and set off the same against payments made and hence goods were released based on payments credited in the cash ledger.

{Paragraph No.2.4.2.2(g) and 2.4.2.2(h)}

Value Added Tax

- Analysis of data showed that there were irregularities in claim of Input Tax Credit (ITC) to the tune of ₹ 6.43 crore.

(Paragraph No.2.7)

- Leakage of revenue of ₹ 3.29 crore was identified in cases of non-payment of tax by dealers, whose registrations were cancelled, who did not file returns and who filed nil returns despite effecting sales.

(Paragraph No.2.8)

- The department did not levy purchase tax of ₹ 5.48 crore on inter-State consignment sale of pulses and grams.

(Paragraph No.2.9)

III Stamp Duty and Registration Fee

- Audit noticed incorrect / excess allocation and incorrect remission of Transfer Duty Surcharge of ₹ 1.20 crore in 25 Sub-Registries.

(Paragraph No.3.4)

- Misclassification of instruments by the Registering Officers resulted in short collection of Stamp Duty and Registration Fee amounting to ₹ 1.09 crore.

(Paragraph No.3.5)

CHAPTER-I

GENERAL

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GENERAL

1.1 Trend of revenue receipts

1.1.1 Tax and non-tax revenue raised by the Government of Tamil Nadu during the year 2019-20, the State's share of net proceeds of divisible Union taxes and duties assigned to States and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned in Table 1.1

Table 1.1 - Trend of revenue receipts

(₹ in crore)

Sl. No.	Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
1.	**Revenue raised by the State Government**					
	• Tax revenue	80,476.08	85,941.40	93,736.60	1,05,549.90	1,07,462.28
	• Non-tax revenue	8,918.31	9, 913.76	10,764.01	14,200.02	12,887.84
	Total	**89,394.39**	**95,855.16**	**1,04,500.61**	**1,19,749.92**	**1,20,350.12**
2.	**Receipts from the Government of India**					
	• State's share of divisible Union taxes	20,353.86	24,537.77	27,099.71	30,623.03	26,392.41[1]
	• Grants-in-aid	19,259.62	19,838.20	14,679.44	23,368.21	27,783.37
	Total	**39,613.48**	**44,375.97**	**41,779.15**	**53,991.24**	**54,175.78**
3.	**Total revenue receipts of the State Government (1 + 2)**	**1,29,007.87**	**1,40,231.13**	**1,46,279.76**	**1,73,741.16**	**1,74,525.90**
4.	**Percentage of 1 to 3**	**69**	**68**	**71**	**69**	**69**

(Source: Finance Accounts of Government of Tamil Nadu)

During the year 2019-20, the revenue raised by the State Government (₹ 1,20,350.12 crore) was 69 *per cent* of the total revenue receipts. The remaining 31 *per cent* (₹ 54,175.78 crore) of the receipts during 2019-20 was from the Government of India.

[1] For details please see Statement No. 14 – Detailed statements of revenue by minor heads of the Finance Accounts of the Government of Tamil Nadu for the year 2019-20. Figures under various heads relating to 'Share of net proceeds assigned to States' booked in the Finance Accounts under 'A – Tax revenue' have been excluded from the revenue raised by the State and included in 'State's share of divisible Union taxes' in this statement.

1.1.2 The following table presents the details of tax revenue raised during the period from 2015-16 to 2019-20.

Table 1.2 - Details of Tax revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2015-16		2016-17		2017-18		2018-19		2019-20		Percentage of increase (+) or decrease (-) in 2019-20 over 2018-19
		Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	
1	State Goods and Services Tax	-	-	-	-		24,589.31	29,748.45	38,533.09	48,157.40	38,376.19	(-) 0.41
2.	Taxes on Sales, Trade etc.,	68,874.57	57,522.03	64,835.04	63,233.58	73,959.25	46,356.15	44,427.04	42,701.07	48,033.65	44,515.44	(+) 4.25
3.	State Excise	7,296.67	5,836.02	6,636.08	6,248.16	6,902.91	5,815.30	6,997.83	6,863.12	7,262.32	7,205.97	(+) 5.00
4.	Stamps and Registra-tion Fees	10,385.29	8,721.45	9,858.17	7,236.65	8,219.52	9,194.63	10,935.67	11,066.18	13,122.81	10,855.65	(-) 1.90
5.	Taxes on Vehicles	4,882.54	4,233.39	4,793.91	4,854.29	5,418.03	5,362.63	6,211.75	5,572.80	6,510.70	5,674.64	(+) 1.83
6.	Land Revenue	203.41	257.53	315.27	153.40	354.46	152.30	282.39	177.99	357.29	258.30	(+) 45.12
7.	Taxes on immovable property other than agricultural land (urban land tax)	18.09	7.91	18.09	10.20	18.09	8.36	13.00	10.34	13.65	8.83	(-) 14.60
8.	Others[2]	3,968.54	3,897.75	4,235.30	4,205.12	4,717.87	2,257.92	1,378.38	625.31	1,355.24	567.26	(-) 9.28
	Total	**95,629.11**	**80,476.08**	**90,691.86**	**85,941.40**	**99,590.13**	**93,736.60**	**99,994.51**	**1,05,549.90**	**1,24,813.06**	**1,07,462.28**	

(Source: Finance Accounts of Government of Tamil Nadu)

Tax revenue accounted for 61.57 *per cent* (₹ 1,07,462.28 crore) of the total revenue (₹ 1,74,525.90 crore) of the State for the year 2019-20. Increase of ₹ 1,912.38 crore in revenue raised by State Government (1.81 *per cent*) in 2019-20 over the previous year (₹ 1,05,549.90 crore) was due to increase in tax collection under Taxes on Sales, Trade etc., (4.25 *per cent*), State Excise (5.00 *per cent*), Taxes on vehicles (1.83 *per cent*) and Land Revenue (45.12 *per cent*).

Increase in collection under Taxes on Sales, Trade, etc., was due to collection from the sale of IMFL and Beer and Petroleum goods under Tamil Nadu

[2] 'Others' represent tax receipts pertaining to receipts under (i) Agricultural Income, (ii) Goods and Passengers, (iii) Electricity and (iv) Commodities and Service.

Value Added Tax Act. Increase in collection under State Excise was due to higher collection from Foreign Liquor and Spirits.

The decrease in revenue under State Goods and Services Tax was due to lower receipt under advance apportionment from Integrated Goods and Services Tax during the year. The decrease in revenue under Stamps and Registration Fees was due to lesser collection under (i) Fees for Registering documents and (ii) Sale of stamps, etc.,

1.1.3 The following table presents the details of non-tax revenue raised during the period from 2015-16 to 2019-20.

Table 1.3 - Details of Non-tax revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2015-16		2016-17		2017-18		2018-19		2019-20		Percentage of increase (+) or decrease (-) in 2019-20 over 2018-19
		Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	
1.	Interest receipts, dividends and profits	2,750.67	3,093.50	2,874.85	4,503.90	3,816.36	5,357.15	4,086.26	7,031.19	4,631.01	4,547.74	(-) 35.32
2.	Crop Husbandry	145.06	44.93	128.46	56.94	123.40	76.47	59.82	185.06	62.16	53.12	(-) 71.30
3.	Forestry and Wildlife	143.02	85.52	158.59	34.22	161.72	57.51	103.07	145.46	48.63	83.38	(-) 42.68
4.	Non-Ferrous Mining and Metallurgical industries	1,191.80	981.12	1,180.99	983.90	1,186.10	1,146.11	1,452.27	1,057.45	1,987.50	1,150.12	(+) 8.76
5.	Education, Sports, Art and culture	1,985.40	1,355.04	2,404.56	1,195.23	1,606.50	1,153.45	1,448.99	1,592.36	1,264.59	1,792.96	(+) 12.60
6.	Other receipts[3]	2,855.55	3,358.20	2,976.50	3,139.57	5,423.92	2,973.32	4,150.70	4,188.50	5,333.01	5,260.52	(+) 25.59
	Total	**9,071.50**	**8,918.31**	**9,723.95**	**9,913.76**	**12,318.00**	**10,764.01**	**11,301.11**	**14,200.02**	**13,326.90**	**12,887.84**	

(Source: Finance Accounts of Government of Tamil Nadu)

The non-tax revenue accounted for was 7.38 *per cent* (₹ 12,887.84 crore) of the total revenue (₹ 1,74,525.90 crore) of the State for the year 2019-20. Decrease of ₹ 1,312.18 crore in revenue raised by State Government (9.24 *per cent*) in 2019-20 over the previous year (₹ 14,200.02 crore) was due to decrease in collection under Interest receipts, dividends and profits (35.32 *per cent*), Crop Husbandry (71.30 *per cent*) and Forestry and Wildlife (42.68 *per cent*).

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

The decrease in collection under Interest receipts, dividends and profits was due to lesser interest collections from Public Sector Undertakings and interest realised on investment of cash balance.

The decrease in collection under Crop Husbandry was due to lesser receipts from Integrated Coconut Development Scheme.

The overall decrease in collection under Forestry and Wildlife was due to lesser receipts from sale of timber and other forest products.

The increase in collection under Education, Sports, Arts and Culture was due to higher collection under (i) Elementary Education and (ii) Secondary Education, Tuition and other fees.

1.2 Analysis of arrears of revenue

The arrears of revenue, as on 31 March 2020, on some principal heads of revenue amounted to ₹ 30,908.32 crore, of which ₹ 12,451.84 crore was outstanding for more than five years, as detailed in Table 1.4.

Table 1.4 - Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2020	Amount outstanding for more than five years as on 31 March 2020	Replies of Department
1	State Goods and Services Tax	100.74	0.00	Recovery of ₹ 12.95 crore was covered by Recovery Certificates. Recovery of ₹ 32.41 crore was stayed by High Court and other judicial authorities. Collection of ₹ 0.05 crore was held up due to persons becoming insolvent. Amount since collected was ₹ 5.43 crore. Remaining arrears of ₹ 49.90 crore were at various stages of recovery.
2	Taxes on Sales, Trade etc.,	29,583.92	11,481.81	Recovery of ₹ 9,329.38 crore was covered by Recovery Certificates. Recovery of ₹ 10,516.55 crore was stayed by High Court and other judicial authorities. Government stayed the collection of ₹ 5.50 crore. Collection of ₹ 55.56 crore was held up due to persons becoming insolvent. Amount of ₹ 395.83 crore was likely to be written off. Remaining arrears of ₹ 9,281.10 crore were at various stages of recovery.
3	Stamp Duty and Registration Fee	386.46	334.96	Recovery of ₹ 386.41 crore was covered by Recovery Certificates and collection of ₹ 0.05 crore stayed by High Court and other judicial authorities.
4	State Excise	32.75	32.75	Recovery of ₹ 18.50 crore was being done by Recovery Certificates. Recovery of ₹ 1.11 crore was stayed by High Court and other judicial authorities. Recovery of ₹ 0.69 crore was covered by rectification/ review application and persons becoming insolvent. Amount of ₹ 2.25 crore was likely to be written off. Arrears of ₹ 10.20 crore were at various stages of collection.

5	Taxes on vehicles	0.65	0.00	An amount of ₹ 0.14 crore was stayed by High Court and other judicial authorities. Arrears of ₹ 0.51 crore were at various stages of collection.
6	Electricity Taxes	604.22	448.20	Recovery of ₹ 169.64 crore was covered by Recovery Certificates. Recovery of ₹ 384.64 crore was stayed by High Court and other judicial authorities. Government stayed the collection of ₹ 18.75 crore. Collection of ₹ 4.68 crore was held up due to persons becoming insolvent. Remaining arrears of ₹ 26.51 crore were at various stages of recovery.
7	Urban Land Tax	199.58	154.12	Details of various stages of recovery were not furnished by the Department.
	Total	**30,908.32**	**12,451.84**	

(Source: Details furnished by the concerned Departments)

The table further indicates that the amount of uncollected revenue as on 31 March 2020 was about 25.68 *per cent* of the total revenue raised by the Government during the year 2019-20. A sum of ₹ 9,916.88 crore (32.08 *per cent*) is covered by Recovery Certificates under Revenue Recovery Act. Necessary arrangements are required to be taken to collect the arrears in a time bound manner.

1.3 Arrears in assessments

As per the provisions of the Tamil Nadu Value Added Tax Act, 2006, the returns filed by the dealers for the year shall be deemed to have been assessed as on 31 October of the succeeding year. The Tamil Nadu Value Added Tax Act, 2006 provides for selection of cases which were deemed to have been assessed for detailed scrutiny. The details of assessments relating to Value Added Tax, Central Sales Tax etc., pending in the Commercial Taxes Department are given in Table 1.5.

Table 1.5 - Arrears in assessments

Description	Scrutiny assessments	CST and Other assessments	LH assessments
Opening balance of pending assessment of the previous year as on 01.04.2019	54,254	49,747	3,630
Assessment due for the current assessment year 2019-20	1,140	7,685	1,538
Total	55,394	57,432	5,168
Assessment completed during the year 2019-20	9,269	45,162	3,152
Closing balance of assessments pending at the end of the year as on 31.03.2020.	46,125	12,270	2,016

(Source: Details furnished by the Department)

Government may instruct the Department to complete the pending assessments expeditiously as new tax regime (State Goods and Services Tax) had already come into effect from 01 July 2017.

1.4 Evasion of tax detected by the Department

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

Table 1.6 - Evasion of Tax

Sl. No.	Head of revenue	Cases pending as on 31 March 2019	Cases detected during 2019-20	Total	Number of cases in which assessment / investigation completed and additional demand with penalty etc. raised		Number of cases pending for finalisation as on 31 March 2020
					Number of cases	Amount of demand (₹ in crore)	
1	State Goods and Services Tax	0	5,214	5,214	5,087	406.54	127
2	Sales, Trade etc., (Value Added Tax)	5,201	416	5,617	2,969	4,883.91	2,648
3.	Taxes on Vehicles	0	3	3	3	0.03	0

(Source: Details furnished by the Department)

The Commercial Taxes Department had finalised 98 *per cent* of the cases of tax evasion relating to State Goods and Services Tax. However, as far as Value Added Tax is concerned, the department could finalise only 57 *per cent* of cases of tax evasion. Department may frame suitable timeline to complete the cases early.

1.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2019-20, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2019-20 relating to Commercial Taxes Department (Value Added Tax and State Goods and Services Tax), Home (State Excise) and Home (Transport) Department are given in Table 1.7.

Table 1.7 - Details of pendency of refund cases

(₹ in crore)

Sl. No.	Particulars	Value Added Tax		State Goods and Services Tax		State Excise		Motor Vehicles Tax	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1	Claims outstanding at the beginning of the year	3,475	102.78	2,337	90.78	2	0.10	44	0.11
2	Claims received during the year	941	188.80	20,889	2,671.50	1	0.01	280	1.62
3	Total (1+2)	4,416	291.58	23,226	2,762.28	3	0.11	324	1.73
4.	Refunds made during the year (including rejected cases)	3,998	263.79	22,582	2,689.27	2	0.10	235	1.50
5	Balance outstanding at the end of the year	418	27.79	644	73.01	1	0.01	89	0.23

(Source: Replies of concerned Departments)

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

1.6 Response of the Departments / Government towards audit

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

IRs issued up to 31 December 2019 disclosed that 35,462 paragraphs, involving ₹ 6,654.05 crore relating to 5,978 IRs, remained outstanding at the end of June 2020 as mentioned below along with the corresponding figures for the preceding two years in Table 1.8.

Table 1.8 - Details of pending IRs

Particulars	June 2018	June 2019	June 2020
Number of IRs pending for settlement	5,681	5,784	5,978
Number of outstanding audit observations	29,373	32,600	35,462
Amount of revenue involved (₹ in crore)	5,934.99	6,225.78	6,654.05

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

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

The Department-wise details of the IRs and audit observations issued up to 31 December 2019 and outstanding as on 30 June 2020 and the amounts involved are mentioned in Table 1.9.

Table 1.9 - Department-wise details of IRs

(₹ in crore)

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved
1.	Commercial Taxes and Registration	Value added tax and other taxes	1,879	22,188	3,423.62
		Stamp duty and registration fee	1,867	6,449	1,922.96
2.	Revenue	Land revenue	1,122	4,144	100.38
		Urban land tax	116	229	15.68
3.	Home (Transport)	Taxes on vehicles	409	1,103	53.86
4.	Home (Prohibition and Excise)	State excise	227	498	653.64
5.	Industries	Mines and minerals	240	608	274.49
6.	Energy	Electricity tax	118	243	209.42
Total			**5,978**	**35,462**	**6,654.05**

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

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

1.6.2 Departmental Audit Committee Meetings

The Government has set up Audit Committees (during various periods) to monitor and expedite the progress of the settlement of paragraphs in the IRs. In the meeting, the Secretaries of the Departments directed the Head of the Departments to take immediate action to clear the outstanding audit observations. It is recommended that Government may conduct audit committee meeting periodically so that the outstanding audit observations are settled.

1.6.3 Non-production of records to audit for scrutiny

The programme of local audit of commercial tax offices is prepared sufficiently in advance and intimated to the Department / offices one month before the commencement of local audit to enable them to keep relevant records ready for audit scrutiny.

During 2019-20, 12,669 assessment records were called for in 22 assessment circles. Out of this, 10,465 were produced to audit. 2,204 assessment records were not made available for audit. Of this 2,204 records, 1,853 records were not produced in the earlier audit also.

The delay in production of records for audit would render the audit scrutiny ineffective, as rectification of under-assessment, if any, might become time barred, by the time these files are produced to audit. The matter regarding non-production of records in each office and arrears in assessment is brought to the notice of the Department through the local audit reports of the respective offices.

The non-production of assessment records is a serious lapse on the part of the executive authorities thereby defeating the very purpose of audit as it also hinders the discharge of duties of the Comptroller and Auditor General of India (CAG) as enshrined in the Constitution. Government may instruct the Department to produce records without fail to avoid loss of revenue to the Government.

1.6.4 Response of the Departments to draft Audit Paragraphs

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

Eleven draft paragraphs proposed for inclusion in the Report of the CAG for the year ended March 2020 were forwarded to the Secretary to Commercial Taxes and Registration Department between January and September 2021. Government furnished reply in eight cases. No replies have been received in the remaining three cases (December 2021). These paragraphs have been included in the Report without the response of the Secretary of the Department. However, replies of the field offices have been included in the paragraphs.

1.6.5 Follow-up of Audit Reports

With a view to ensure accountability of the executive in respect of the issues dealt with in the Audit Reports, the Public Accounts Committee (PAC) laid down in 1997 that after the presentation of the Report of the CAG in the Legislative Assembly, the Departments shall initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within two months of tabling the Report, for consideration of the PAC. In spite of these instructions, the explanatory notes on audit paragraphs of the Reports were being delayed inordinately. We observed that 203 paragraphs included in the Reports of the CAG on the Revenue Receipts of the Government of Tamil Nadu upto the year ended March 2019 were pending discussion by PAC. Out of the above, the Departments have not furnished explanatory notes in respect of 106 paragraphs. Review of the outstanding action taken notes (ATNs) as of December 2021 on paragraphs included in the Report of the CAG, Revenue Receipts, Government of Tamil Nadu indicated that the Departments had not submitted ATNs for 1,564 recommendations pertaining to 383 audit paragraphs discussed by PAC. Out of the pending 1,564 recommendations, even the first ATN had not been received in respect of 477 recommendations, the earliest of which related to the Audit Report for the year 1986-87.

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

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

1.7.1 Position of Inspection Reports

The summarised position of the IRs issued to Commercial Taxes and Registration Department relating to Value Added Tax during the last 10 years, paragraphs included in these reports and their status as on 31 March 2020 are tabulated in Table 1.10.

Table 1.10 - Position of Inspection Reports

(₹ in crore)

Year	Opening balance			Additions during the year			Clearance during the year			Closing balance		
	IRs	Paras	Money value	IRs	Paras	Money value	IRs	Paras	Money value	IRs	Paras	Money value
2010-11	3,581	13,997	1,452.76	223	1,931	181.25	101	1,655	158.94	3,703	14,273	1,475.07
2011-12	3,703	14,273	1,475.07	197	1,873	236.57	134	1,510	183.50	3,766	14,636	1,528.14
2012-13	3,766	14,636	1,528.14	152	2,388	193.23	628	3,217	399.76	3,290	13,807	1,321.61
2013-14	3,290	13,807	1,321.61	204	3,256	217.68	68	1,005	159.55	3,426	16,058	1,379.74
2014-15	3,426	16,058	1,379.74	198	3,010	461.37	1,359	4,101	189.98	2,265	14,967	1,651.13
2015-16	2,265	14,967	1,651.13	226	4,125	1,288.60	295	3,359	206.36	2,196	15,733	2,733.37
2016-17	2,196	15,733	2,733.37	168	3,206	265.16	263	1,488	95.35	2,101	17,451	2,903.18
2017-18	2,101	17,451	2,903.18	94	2,370	187.21	305	929	90.11	1,890	18,892	3,000.28
2018-19	1,890	18,892	3,000.28	144	3,875	296.28	155	821	104.61	1,879	21,946	3,191.95
2019-20	1,879	21,946	3,191.95	64	1,459	87.94	47	723	17.49	1,896	22,682	3,262.40

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

As against 13,997 paragraphs involving money value of ₹ 1,452.76 crore which were pending at the beginning of 2010-11, the number at the end of 2019-20 had increased to 22,682 paragraphs involving money value of ₹ 3,262.40 crore. This indicates that response to the local audit reports was poor and adequate steps need to be taken by the Department to clear the outstanding paragraphs.

1.7.2 Recovery of accepted cases

During the last 10 years, 110 draft paragraphs including 5 Performance Audit / Reviews involving ₹ 11,882.65 crore were included in the Report of the CAG, Revenue Sector, Government of Tamil Nadu. The Department accepted audit observations in 63 cases involving ₹ 116.93 crore and recovered/adjusted ₹ 57.46 crore.

Out of 110 paragraphs, 95 paragraphs relating to Audit Reports 2010-11 to 2018-19 are yet to be discussed in the PAC. Government had not submitted explanatory notes to 75 paragraphs included in the CAG's Audit Reports for the years 2011-12 and 2013-14 to 2018-19.

Government may review the progress in recovery of accepted cases on priority and take special efforts to ensure recoveries. Further, Government may instruct the Department to furnish explanatory notes and fix a timeline for the same.

1.8 Audit planning

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

During the year 2019-20, the audit universe comprised 1,688 auditable offices, of which 197 offices were planned and 187 offices were audited i.e., 11 *per cent* of the total auditable offices. The details are shown in **Annexure-1**.

1.9 Results of audit

Position of local audit conducted during the year

The records of 64[4] out of 396 auditable offices relating to Commercial Taxes, 59 out of 649 auditable offices relating to stamp duty and registration fee, one out of 285 auditable offices relating to land revenue, eight out of 179 auditable offices relating to Transport, 44[5] out of 75 auditable offices relating to State Excise and 11 out of 33 auditable offices related to Geology and Mining were test checked during 2019-20 and under-assessment, short levy, loss of revenue and other observations amounting to ₹ 236.63 crore were noticed in 1,403 cases. During the year, the Departments accepted under-assessment and other deficiencies in 501 cases involving ₹ 11.37 crore and recovered a sum of ₹ 9.76 crore. Out of these, 31 cases involving ₹ 1.98 crore were pointed out in 2019-20, and 470 cases involving ₹ 9.39 crore pertained to observations raised in earlier years.

1.10 Scope of this Report

This Report contains 11 paragraphs involving financial effect of ₹ 180.15 crore. The Department / Government accepted audit observations involving ₹ 5.03 crore and collected a sum of ₹ 2.39 crore. These are discussed in succeeding Chapters II and III. The audit observations discussed in the subsequent paragraphs are observed from the test check of records in the selected offices. Most of the observations are of a nature that may reflect similar deficiencies/under assessments in other offices, not test checked by Audit. Department may, therefore, carry out internal audit in these offices to ensure that such irregularities and deficiencies, if any, stand rectified.

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4 Objections raised in 42 offices were already considered in the Report for the year ended 31 March 2019.

5 Objections raised in all offices were already considered in the Report for the year ended 31 March 2019.

CHAPTER-II

GOODS AND SERVICES TAX
AND
VALUE ADDED TAX

CHAPTER-II

GOODS AND SERVICES TAX AND VALUE ADDED TAX

2.1 Tax administration

There are 338 assessment circles located across the State, headed by Assessing Authorities (AAs) to carry out the core functions of the department such as issuing of registration certificates, levy of tax and collection of tax under both the existing and erstwhile Acts, assessment and receiving / issuing of declaration forms mandated under the Tamil Nadu Value Added Tax Act, 2006 (TNVAT Act) and Central Sales Tax Act, 1956 (CST Act). These circles are monitored by 42 Territorial Deputy Commissioners at District / Zonal level and 11 Joint Commissioners at the Divisional level. The Commissioner is head of the Department and functioning under the control of the Secretary, Commercial Taxes and Registration Department.

2.2 Internal audit

Internal audit is a vital component to enable an organisation to assure itself that the prescribed systems are functioning reasonably well. There is no separate internal audit wing in the Goods and Services Tax (GST) regime. The subject relating to internal audit is dealt in Review, Appeal and Legacy Section from 01 June 2019. This Section consists of Assistant Commissioners, State Tax Officers and Deputy State Tax Officers and number of audit parties operated during the year 2019-20 was 42.

Audit noted that out of the 338 offices to be audited, 301 offices were planned but 213 offices were audited during the year 2019-20. The Department attributed the reasons for arrear in internal audit due to vacancy of Assistant Commissioners. The Department may consider strengthening internal audit so that all the units due for audit are completed in a time bound manner.

Audit noted that 29,118 paragraphs with money value of ₹ 1,248.22 crore were outstanding as at the end of 31 March 2020 as detailed in Table-2.1.

Table – 2.1: Details of Internal Audit Objections

(₹ in crore)

Year	No. of Inspection Reports	No. of Objections	Money value
Upto 2017-18	1,662	17,589	529.60
2018-19	209	5,851	283.56
2019-20	241	5,678	435.06
Total	**2,112**	**29,118**	**1,248.22**

(Source: Reply of the Department)

It is suggested that measures such as audit committees may be formed to initiate appropriate action for clearance of old outstanding objections pending since 2008-09.

2.3 Audit Methodology and Results of audit

During the year 2019-20, there were 396[1] auditable units in the Commercial Taxes Department. The unit offices were categorised into high, medium and low risk units according to their revenue position, number of dealers and revenue per dealer. Considering the availability of man power, audit was conducted in 64[2] out of 396 (16.16 *per cent*) offices.

Revenue receipts in the test checked 22 offices was ₹ 2,248.72 crore, which was 2.77 *per cent* of total revenue receipts of ₹ 81,234.16 crore for the year 2018-19. Test check of assessment and other records relating to Value Added Tax (VAT) and CST in 22 offices showed non/short levy of tax, interest and penalty, incorrect allowance of input tax credit (ITC), incorrect rate of tax, incorrect issue of refund etc., involving ₹ 214.24 crore in 624 cases. Details of category-wise audit observations have been mentioned in Table 2.2.

Table 2.2: Category-wise details of Audit observations for 2019-20

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
1	Compliance Audit on "Functioning of E-way bill system in Tamil Nadu"	1	157.32
2	Incorrect allowance of input tax credit	216	12.05
3	Non/short levy of tax	100	12.28
4	Non-levy of penalty/interest	33	1.01
5	Incorrect computation of taxable turnover	37	6.50
6	Incorrect rate of tax	33	0.96
7	Incorrect exemption of tax	14	2.52
8	Incorrect issue of refund	23	3.45
9	Others	167	18.15
	Total	**624**	**214.24**

During 2019-20, the Department accepted under assessment of VAT/CST and other deficiencies and collected ₹ 5.64 crore in 397 cases that were pointed out by the audit during the period between 2009-10 and 2019-20.

In respect of one Draft Paragraph issued in July 2021, Government accepted the audit observation and collected a sum of ₹ 2.38 crore in August 2021 as pointed out audit.

[1] 338 assessment units, four Large Taxpayers Units, 42 Zonal Offices, 11 Divisional Offices and one Apex Unit.

[2] Out of 64 offices, 42 offices were covered for conducting Compliance Audit on "Processing of GST Refunds in Tamil Nadu" and the observations raised were included in the Audit Report for the year ended 31 March 2019.

Audit Observations

Audit scrutinised records relating to assessment and collection of VAT and CST and found non/short-levy of tax, interest and penalty, irregular and belated claims of ITC and Non/Short-reversal of ITC. These cases are illustrative and are based on test check carried out by Audit. Therefore, the Department may initiate suitable action to identify similar issues in offices, wherein Audit was not performed, and take corrective action to ensure that the tax, interest and penalty are levied as per provisions of the Act and Rules.

Compliance Audit on 'Functioning of E-way bill system in Tamil Nadu" and a few illustrative cases in Value Added Tax involving ₹ 175.24 crore are discussed in the following paragraphs.

Goods and Services Tax

2.4 Compliance Audit on 'Functioning of E-way bill system in Tamil Nadu'

2.4.1 Introduction

Introduction of the Goods and Services Tax (GST) with effect from 1 July 2017, through a Constitutional amendment[3], ensured uniformity of tax structure throughout the country which facilitated hassle-free movement of goods across the States. As check posts were removed, the inter-State movement of goods by vehicles were to be monitored through generation of e-way bills.

Chapter XVI of the Tamil Nadu Goods and Services Tax Rules, 2017, introduced from 01 April 2018, provides for information to be furnished by taxpayers prior to movement of goods i.e. by generating an e-way bill electronically from the exclusive portal[4] developed by National Informatics Centre (NIC) meant for this purpose. Section 68(1) of the Tamil Nadu Goods and Services Tax Act, 2017, provides that the Government may require the person in charge of a conveyance carrying any consignment of goods of value exceeding such amount as may be specified to carry with him such documents and such devices as may be prescribed. Rule 138 of Tamil Nadu Goods and Services Tax Rules, 2017, stipulate that persons moving goods of consignment of value exceeding fifty thousand rupees shall generate an e-way bill before commencement of such movement. The Commissioner through a notification[5], had notified that no e-way bill is required for intra-State movement for consignment value not exceeding one lakh rupees.

Organisational Structure

In Tamil Nadu, State Goods and Services Tax (SGST) is administered by the Commercial Taxes Department (CTD) in respect of taxpayers allotted to the

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[3] The Constitution (One Hundred and First Amendment) Act, 2016 published in the Gazette of India, Extraordinary, Part II – Section 1 vide No.55 dated 08 September 2016.

[4] ewaybill.nic.in/ewaybillgst.gov.in developed by NIC.

[5] Notification No. 09/2018 dated 31 May 2018.

State. The head of CTD is the Commissioner of State Tax (Commissioner) and he is assisted by Additional Commissioners and Joint Commissioners (JCs). There are twelve[6] Territorial Divisions headed by JCs and the assessing units under the control of the Assistant Commissioners (AC), State Tax Officers (STO) and Deputy State Tax Officers (DSTO), collectively termed as 'Proper Officers' (POs), function under these Territorial Divisions. There are nine[7] Intelligence divisions headed by JC (Intelligence) having Roving squads for intercepting and checking vehicles and Adjudication cells for adjudicating issues arising out of detention of goods and vehicles by Roving squads. The Secretary, Commercial Taxes and Registration Department controls and monitors the CTD.

Audit Objective and Criteria

The audit was performed to ascertain and derive an assurance that

- A robust system was in place for generation of e-way bills and was effectively administered;
- the introduction of e-way bills had controlled evasion of taxes and prevented the incorrect claim of Input Tax Credit; and
- there existed a mechanism for documentation of enforcement activities and monitoring the effectiveness of e-way bill system.

The audit objectives were benchmarked against the following criteria:

- Tamil Nadu Goods and Services Tax Act, 2017 (TNGST Act)
- Tamil Nadu Goods and Services Tax Rules, 2017 (TNGST Rules)
- Central Goods and Services Tax Act, 2017 (CGST Act)
- Central Goods and Services Tax Rules, 2017 (CGST Rules)
- Integrated Goods and Services Tax Act, 2017 (IGST Act)
- Integrated Goods and Services Tax Rules, 2017 (IGST Rules)
- Notifications and circulars issued by the Department.

Audit Scope and Methodology

The audit was conducted between July 2020 and September 2021 and covered e-way bills generated during 1 April 2018 to 31 March 2020. Audit chose five[8] Intelligence Divisions and five[9] Territorial Divisions based on stratified and random sampling techniques. Audit also visited the offices of the Commissioner, Joint Commissioner (Computer Systems) and 156 assessment circles functioning under five Territorial Divisions for collection of data and verification. The details of e-way bills generated during the year 2018-19 and 2019-20 are given in the following Table:

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

[7] Chennai I, Chennai II, Coimbatore, Erode, Madurai, Salem, Tirunelveli, Trichy and Vellore.

[8] Chennai-I, Chennai-II, Coimbatore, Madurai and Salem.

[9] Chennai North, Chennai South, Coimbatore, Madurai and Salem.

Table 2.3 : Details of E-way Bills generated

Sl No.	Particulars	2018-19		2019-20	
		No. of e-way bills	No. of taxpayers	No. of e-way bills	No. of taxpayers
1	E-way bills generated (Intra-state)	2,98,68,769	1,68,139	3,94,23,647	1,87,225
2	E-way bills generated (Inter-state)	3,60,79,805	2,81,531	3,79,12,405	2,92,073
	Total	**6,59,48,574**		**7,73,36,052**	

Source: Details furnished by Commissioner of Commercial Taxes, Chennai

At the commencement of field audit the e-way bill and GST returns data dump were not provided by the Commercial Taxes Department. Hence the audit relied on the various Management Information System (MIS) reports available in the back office portal of the department and commenced the work. Therefore, the observations were based only on the limited audit carried out in the field.

MIS Reports relating to e-way bills and other particulars such as reports relating to dealers whose Registration Certificates were cancelled, who had filed NIL returns, who had not filed returns and composition taxpayers for the selected five territorial divisions were downloaded manually from the back office portal of the CTD and compared. From this, (i) top 100 taxpayers whose registrations were cancelled, (ii) top 100 taxpayers who had filed NIL returns and (iii) top 100 taxpayers who had not filed the returns in each of the sampled five territorial divisions were selected based on the invoice value of the e-way bills. Further, all the 131composition taxpayers who generated e-way bill were selected. Audit also analysed the details of other regular taxpayers. Data for one month for each division and one *per cent* of regular taxpayers within the sampled month were selected by using random sampling technique. In respect of enforcement files, 3,261 out of 3,962 records in five intelligence divisions were chosen and audited as indicated in Table-2.4. These cases were compared manually with individual returns and forms[10] of the tax payers downloaded from the back office portal by using an access provided to Audit to see whether they had furnished the invoices for which e-way bills generated and tax paid for that.

Table 2.4 : Details of sampling

Particulars		Total cases	Checked	percentage
Category of taxpayers	Taxpayers whose registrations had been cancelled	3,791	500	13.19
	Tax payers who had filed Nil returns	1,857	500	26.93
	Composition taxpayers	131	131	100.00
	Tax payers who had not filed returns	4,297	500	11.64
	Regular Taxpayers	30,743	308	1.00
	Total	**40,819**	**1,939**	**4.75**
Others	Enforcement records	3,962	3,261	82.31

10 GSTR-1, GSTR-3B, GSTR-4, CMP-08, DRC-03, DRC-07, Electronic Cash Ledger, Electronic Credit Ledger and Electronic Liability Ledger.

Acknowledgement

An entry meeting was held on 28 July 2020 in which audit objectives, criteria, scope and methodology were explained. Exit conference was held on 29 October 2021 wherein the issues raised in audit were discussed.

2.4.2 Audit Findings

Audit findings have been categorized into two broad perspectives viz., systemic issues and compliance issues, based on the objectives of audit. While the systemic issues aim to bring out the shortcomings relating to adequacy and effectiveness of the e-way bill system, the compliance issues highlight deviations and violations of provisions of Act and Rules and the resultant leakage of revenue. The results of the analysis are placed below.

2.4.2.1 Systemic issues

(a) Generation of e-way bills by return defaulters even after notification of Rule 138E

Rule 138E of TNGST Rules, 2017, stipulates that no person, who has not furnished the returns for a consecutive period of two months, shall be allowed to furnish the information in PART A of FORM GST EWB-01. The Government of Tamil Nadu notified[11] insertion of Rule 138E in TNGST Rules 2017, with effect from 21 June 2019, but extended the date of effect to 21 August 2019[12] and further to 21 November 2019[13]. Hence, with effect from 21 November 2019, e-way bill generation should have been blocked for taxpayers who did not file returns for two or more months consecutively.

Analysis of data of the five territorial divisions revealed that 34 out of 500 taxpayers, who did not file GSTR 3B for two or more consecutive months, generated 455 e-way bills during the period between 21 November 2019 and 26 March 2020. The system permitted generation of e-way bills by these taxpayers even though they did not file returns.

(b) E-way bills generated by taxpayers whose registrations were cancelled

Rule 138 (1) of TNGST Rules, 2017, prescribes that only registered taxpayers are permitted to generate e-way bills.

Scrutiny of MIS reports relating to taxpayers whose registrations were cancelled revealed that 7 out of 500 taxpayers had generated 11 e-way bills even after their registrations were cancelled. The total invoice value of these supplies was ₹ 44.79 lakh and the tax payable amounted to ₹ 6.49 lakh. The system should have blocked generation of e-way bill immediately at the moment the registration was cancelled. However, the system permitted generation of e-way bills even after cancellation of the registration which provides scope for fraudulent or fake transactions.

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11 GO (Ms.) No.54 and Notification No. II(2)/CTR/301(f-3)/2019 dated 23.04.2019.

12 G.O. (Ms.) No. 91 and Notification No. II(2)/CTR/468(h)/2019 dated 24.06.2019.

13 GO (Ms.) No.114 2019 and Notification No. II(2)/CTR/677(d)/2019 dated 20.08.2019.

(c) Multiple e-way bills for the same invoice number

Rule 55 (5) of TNGST Rules, 2017, specifies that where the goods are being transported in batches or lots (a) the supplier shall issue the complete invoice before dispatch of the first consignment; (b) the supplier shall issue a delivery challan for each of the subsequent consignments, giving reference of the invoice; (c) each consignment shall be accompanied by copies of the corresponding delivery challan along with a duly certified copy of the invoice and (d) the original copy of the invoice shall be sent along with the last consignment. Therefore, multiple e-way bills are allowed for different consignments of the same invoice but they shall be generated against the delivery challan numbers relating to the invoice and not the invoice alone.

Analysis of data[14] pertaining to five territorial divisions revealed that (i) 5,090 taxpayers had generated multiple e-way bills for 60,591 invoices with the same invoice number, Goods and Services Tax Identification Number (GSTIN) of consignee, invoice date and invoice value**.** The number of multiple e-way bills ranged from 2 to 39 on a single invoice. (ii) 6,301 taxpayers had generated e-way bills with the same invoice number but different GSTIN of consignee / invoice date / invoice value. There were 69,055 e-way bills generated on 33,141 tax invoice numbers. The number of multiple e-way bills ranged from 2 to 60 for a single invoice. As the system was allowing such multiple generations, Audit could not ascertain the genuineness of the transactions.

(d) E-way bills generated with value of goods as zero

Rule 46 and Rule 55 (1) of TNGST Rules, 2017 stipulate that, where goods are transported for supply and for reasons other than supply, the supplier may issue tax invoice and delivery challan and the same should necessarily contain details of taxable value and the tax. Scrutiny of MIS reports revealed that 1,41,602 e-way bills were generated on tax invoices, delivery challans and bills of supply indicating the value as "Zero". The system, evidently, permitted generation of e-way bills even when the consignment value was indicated as zero. Thus, the design of the system was defective**.**

(e) Generation of e-way bills for inter-State transactions by composition taxpayers

Section 10(2)(c) of TNGST Act, 2017 envisages that a dealer shall be eligible for composition scheme if he is not engaged in making any inter-State outward supplies of goods. Audit scrutiny of the e-way bills revealed that 17 out of 131 composition taxpayers pertaining to 16[15] out of 156 assessment circles had generated 56 e-way bills for effecting inter-state outward supplies. The system failed to prevent generation of e-way bill in these cases. In effect, the

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[14] From the MIS reports pertaining to the period April 2018 to March 2020.

[15] Bazaar Street, Cholavaram, Gugai, Hosur(South)-II, Madurai Rural (East), Mannaddy, Omalur, Palani-I, R G Street, Salem Rural, Sankari, South Avani Moola Street, Surapattu, Thiruparankundram, Velandipalayam and West Veli Street.

system was not designed as per the provisions of the Act and Rules, since composition taxpayers are not supposed to carry out inter-state trade.

On this being pointed out (between January and August 2021) in audit, the Proper Officers of Cholavaram and Tiruparankundram intimated (July 2021) that show cause notices had been issued. Proper Officers of Velandipalayam and Salem Rural intimated (March 2021 and August 2021) that notices would be issued. Replies in respect of the remaining 12 circles are awaited (December 2021).

During the Exit Conference, Government replied (October 2021) that the Goods and Services Tax Network (GSTN) and NIC would be requested to make improvements in their applications to resolve the issue.

2.4.2.2 Compliance issues

The table below brings out the extent of deficiencies noticed during the detailed scrutiny of sampled cases.

Table 2.5 : Overview of sampling and results of audit

Issue	Audit Sample	Number of cases wherein deficiencies noticed		Deficiencies as percentage of sample
		Number of cases	Tax amount involved (₹ in crore)	
Non-payment of tax by the taxpayers who generated e-way bills but their registrations were subsequently cancelled	500	164*	80.78	32.80
Non-filing of returns by taxpayers who transported goods by generating e-way bills	500	294	49.43	58.80
Filing of Nil return by taxpayers despite generation of e-way bills and supply of goods	500	270*	8.22	54.20
Non-reporting of invoices and non-generation of e-way bills for invoices by regular taxpayers	308	82*	0.34	30.19
Sub-Total	**1,808**	**810**	**138.77**	
Enforcement of e-way bill system in Tamil Nadu	3,261	1,499	18.55	45.97

***Number after removing duplicate**

(a) Non-payment of tax by the taxpayers who generated e-way bills but their registrations were subsequently cancelled

Section 29(1) of TNGST Act, 2017, envisages that the proper officer may, either on his own motion or on an application filed by the registered person, cancel the registration. As per Section 29(3) of TNGST Act, 2017, the cancellation of registration shall not affect the liability of the person to pay tax and other dues prior to the date of cancellation.

During the examination of MIS reports relating to taxpayers whose registrations were cancelled, it was found that 162 out of 500 taxpayers pertaining to 80[16] assessment circles, who generated 9,649 e-way bills with total invoice value of ₹ 573.73 crore, did not file GSTR 3B and hence did not pay tax. The tax payable amounted to ₹ 80.78 crore. As the quantum of tax payable was not indicated in 167 e-way bills generated by 16 taxpayers, the tax liability in these cases could not be computed in audit. Out of the above 162 taxpayers, 58 taxpayers under 47[17] assessment circles, who did not file GSTR 3B and did not pay tax, filed GSTR 1 and reported 4,131 invoices as B2B supplies. Since their invoices were reflected in GSTR 1, these would have been auto-populated in GSTR 2A and the purchasing taxpayers would be entitled to ITC on such supplies. The potential claim of ITC on these cases worked out to ₹ 24.48 crore.

On this being pointed out (between December 2020 and August 2021) in Audit, the Proper Officer, Tiruvallur circle stated (July 2021) that an order was issued demanding ₹ 1.61 crore as tax and interest. Proper Officers of 19[18] circles intimated (between March 2021 and September 2021) that notices had been issued. The replies from remaining 60 circles are awaited (December 2021).

During the Exit Conference, Government replied (October 2021) that action would be taken to improve the data analytics system.

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16 Ambattur, Annur, Arisipalayam, Attur (Rural), Avadi, Avarampalayam, Avinashi, Ayyapanthangal, Bazaar Street, Bodinayakanur, Cholavaram, Dindigul (Fort), Dindigul (Rural), Dindigul (Town), Edappadi, Ganapathy, Gummidipondi, Hosur(North)-I, Hosur(North)-II, Hosur(South)-I, Hosur(South)-II, Hosur(South)-III, JJ Nagar, Kancheepuram, Kothagiri, Krishnagiri-I Krishnagiri-II, Kodungaiyur, Kundrathur, Kuniamuthur, Madhavaram, Madurai Rural (East), Madurai Rural (South), Manali, Melur, Mettupalayam Road, Moore Market, Muthialpet, Namakkal (Rural), Namakkal (Town), Nilakottai, Nolambur, Omalur, Palani-I, Palani-II, Pallipalayam, Park Town, Pattaravakkam, Peelamedu North, Peelamedu South, Perur, Podanur, Pollachi Rural, Poonamallee, Porur, Ram Nagar, Royapuram, Salem Rural, Saravanampatti East, Saravanampatti West, Singanallur North, Sivagangai, South Avani Moola Street, Sriperumbudur, Suramangalam, Theni-I, Thirumangalam, Thiruparankundram, Thiruvottiyur, Thudiyalur, Tiruchengodu Rural, Tiruvallur, Tiruverkadu, Tondiarpet, Udumalpet North, Udumalpet South, Uthamapalayam, Vanagaram, Washermenpet and West Veli Street.

17 Ambattur, Annur, Attur (Rural), Avadi, Avinashi, Ayyapanthangal, Cholavaram, Dindigul (Rural), Dindigul (Town), Ganapathy, Gummidipondi, Hosur(North)-I, Hosur(South)-I, Kancheepuram, Kothagiri, Krishnagiri-I, Kodungaiyur, Madhavaram, Madurai Rural (South), Mettupalayam Road, Namakkal (Rural), Nilakottai, Nolambur, Palani-I, Park Town, Pattaravakkam, Peelamedu North, Peelamedu South, Perur, Podanur, Pollachi Rural, Poonamallee, Royapuram, Saravanampatti East, Saravanampatti West, South Avani Moola Street, Sriperumbudur, Suramangalam, Thiruparankundram, Thiruvottiyur, Thudiyalur, Tondiarpet, Udumalpet South, Uthamapalayam, Vanagaram, Washermenpet and West Veli Street.

18 Avadi, Ayyapanthangal, Cholavaram, J J Nagar, Kancheepuram, Kodungaiyur, Manali, Mettupalayam Road, Moore Market, Muthialpet, Park Town, Pattaravakkam, Porur, Vanagaram, Sriperumbudur, Theni-I, Thirumangalam, Thiruvottiyur and Uthamapalayam.

(b) Non-filing of returns by taxpayers who transported goods by generating e-way bills

Section 9(1) of the TNGST Act, 2017, read with Section 5(1) of IGST Act, 2017, specifies that tax shall be levied on all intra-State and inter-State supply of goods and services. Section 37 of the TNGST Act, 2017, read with Rule 59(1) of TNGST Rules, 2017, provides for furnishing the details of all outward supplies in form GSTR1.

Audit scrutiny of e-way bills relating to non-filers of return generated during the period from 1 April 2018 to 31 March 2020 and related records, revealed that 294 out of 500 taxpayers, pertaining to 113[19] out of 156 assessment circles who generated 10,859 e-way bills with invoice value of ₹ 430.24 crore, had not filed GSTR 3B and hence did not pay tax. The tax payable in respect of 10,324 e-way bills amounted to ₹ 49.43 crore. In respect of the remaining 535 e-way bills, with an invoice value of ₹ 25.95 crore, the tax payable was mentioned as zero in the e-way bill and hence the same could not be computed in audit. Further audit scrutiny revealed that in respect of 4,468 out of 10,324 e-way bills generated by 115 taxpayers pertaining to 68 assessment circles[20], the taxpayers had filed GSTR 1 and the invoices were reported in GSTR 1 return as B2B supplies. Since these taxpayers have reported these supplies in GSTR 1, the recipient taxpayers were entitled to ITC based on these supplies

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19 Ambattur, Ambattur Industrial Estate, Annathanapatty, Annur, Attur (Rural), Attur (Town), Avadi, Avarampalayam, Avinashi, Ayyapanthangal, Ayyothyapattinam, Bazaar Street, Broadway, Chengalpattu, Chokkikulum, Cholavaram, Dharmapuri, Dindigul (Rural), Dindigul (Town), Edappadi, Ganapathy, Gudalore, Gummidipondi, Harbour, Harur, Hasthampatty, Hosur(North)-I, Hosur(North)-II, Hosur(South)-I, Hosur(South)-II , Hosur(South)-III , JJ Nagar, Kancheepuram, Karaikudi, KK Nagar, Kondalampatty, Kodungaiyur, Korattur, Koyambedu, Krishnagiri-I, Kumarapalayam, Kuniamuthur, Madhavaram, Madurai Rural (East), Madurai Rural (South), Manali, Maraimalainagar, Mathuranthakam, Mettupalayam Taluk, Mettur, Moore Market, Mudukulathur, Munichalai Road, Muthialpet, Nolambur, Omalur, Padi, Palacode, Palani-I, Palani-II, Pallipalayam, Paramakudi, Park Town, Pattaravakkam, Peelamedu North, Peelamedu South, Perur, Podanur, Pollachi East, Pollachi Rural, Pollachi West, Ponneri, Poonamallee, Porur, R G Street, R S Puram, Ram Nagar, Ramanathapuram, Rasipuram, Royapuram, Salem Bazaar, Saravanampatti East, Saravanampatti West, Sevapet, Singanallur North, Singanallur South, Sivagangai, Sriperumbudur, Suramangalam, Surapattu, Tamil Sangam Salai, Theni-I, Theni-II (Andipatti), Thirukazhukundram, Thirumangalam, Thirumullaivoyal, Thiruparankundram, Thiruvottiyur, Thudiyalur, Tiruchengodu Rural, Tiruttani, Tiruvallur, Udumalpet North, Udumalpet South, Uthamapalayam, Vadavalli, Vallalar Nagar, Vanagaram, Vedasanthur, Velandipalayam, Vengalakadai Street, Washermenpet and West Veli Street.

20 Ambattur, Ambattur Industrial Estate, Annathanapatty, Annur, Attur (Town), Avadi, Avarampalayam, Avinashi, Ayyapanthangal, Broadway, Chokkikulum, Cholavaram, Dharmapuri, Dindigul (Rural), Edappadi, Ganapathy, Gummidipoondi, Harbour, Hasthampatty, Hosur(North)-I, Hosur(North)-II, Hosur(South)-I, Karaikudi, Kondalampatty, Korattur, Kuniamuthur, Madhavaram, Mettur, Nolambur, Omalur, Padi, Palacode, Pattaravakkam, Peelamedu North, Peelamedu South, Perur, Podanur, Pollachi East, Pollachi Rural, Pollachi West, Ponneri, Poonamallee, R S Puram, Ram Nagar, Rasipuram, Royapuram, Salem Bazaar, Saravanampatti West, Singanallur North, Singanallur South, Theni-I, Thirukazhukundram, Thirumangalam, Thirumullaivoyal, Thiruparankundram, Thiruvottiyur, Thudiyalur, Tiruchengodu Rural, Tiruvallur, Udumalpet South, Uthamapalayam, Vadavalli, Vallalar Nagar, Vanagaram, Vedasanthur, Velandipalayam, Vengalakadai Street and Washermenpet.

as GSTR 2A gets auto populated from GSTR 1 of the supplier. The potential claim of ITC on invoice value of ₹ 123.27 crore is ₹ 13.97 crore.

On this being pointed out (between April and August 2021) in Audit, the Proper Officers of 20[21] circles intimated (between July and September 2021) that notices had been issued. Proper Officers of Poonamallee and Tiruparankundram circles intimated (July 2021) that notices would be issued. Replies from the remaining 91 circles are awaited (December 2021).

During Exit Conference, Government replied (October 2021) that action would be taken to improve the data analytics system.

(c) Filing of Nil return by taxpayers despite generation of e-way bills and supply of goods

Section 37 of the TNGST Act, 2017, read with Rule 59(1) of TNGST Rules, 2017, envisages that the details of all outward supplies in form GSTR1 shall be furnished.

Data analysis of the MIS reports in respect of e-way bills generated by taxpayers who reported 'nil' tax payable in their GSTR 3B, revealed the following:

- 36 taxpayers assessed in 33[22] assessment circles who generated 380 e-way bills, did not file GSTR 1 but filed GSTR 3B with NIL tax payable. The invoice value of these supplies amounted to ₹ 10.70 crore. Tax payable in respect of 307 e-way bills amounted to ₹ 99.46 lakh. As the quantum of tax payable was not indicated in the remaining 73 e-way bills, the tax liability in these cases could not be computed in Audit.

  On this being pointed out (between January and August 2021) in Audit, the Proper Officers of 15[23] circles intimated (between February and September 2021) that notices were issued. Proper Officers of Poonamallee and Bodinayakanur circles intimated (July 2021) that notice would be issued. Replies are awaited in respect of 16 circles (December 2021).

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21 Ayyapanthangal, Chengalpattu, Hasthampatty, JJ Nagar, Kancheepuram, Kondalampatty, Koyambedu, Madurai Rural (South), Maraimalainagar, Mathuranthakam, Padi, Pattaravakkam, Porur, Sriperumbudur, Theni-I, Theni-II (Andipatti), Tiruttani, Tiruvallur, Uthamapalayam and Vanagaram.

22 Ambattur, Avadi, Avinashi, Bodinayakanur, Dindigul (Fort), Dindigul (Rural), Gummidipoondi, Harur, Hosur(South)-II, Kancheepuram, Koyambedu, Krishnagiri-I, Kundrathur, Mannady, Maraimalainagar, Muthialpet, P N Palayam, Palani-II, Park Town, Pattaravakkam, Peelamedu South, Perur, Pollachi Rural, Ponneri, Poonamallee, R S Puram, Sriperumbudur, Suramangalam, Surapattu, Theni-II (Andipatti), Thirukazhukundram, Udumalpet South and Vanagaram.

23 Ambattur, Avadi, Gummidipoondi, Hosur(South)-II, Kancheepuram, Koyambedu, Kundrathur, Mannady, Maraimalainagar, Muthialpet, Pattaravakkam, Ponneri, Sriperumbudur, Surapattu, and Theni-II(Andipatti).

- 183 taxpayers assessed in 100[24] assessment circles generated 2,227 e-way bills, but did not report the invoices in GSTR 1. The total invoice value of these supplies amounted to ₹ 80.30 crore. The tax payable in respect of 1,702 e-way bills worked out to ₹ 7.23 crore. As the quantum of tax payable was not indicated in the remaining 525 e-way bills, the tax liability in these cases could not be computed in Audit.

  On this being pointed out (between January and August 2021) in Audit, the Proper Officer of Avarampalayam circle stated (March 2021) that consignee got bankrupt and company was sealed. Further, goods supplied did not return to consignor and hence dealer had not shown this unfructified sales in GSTR 3B / GSTR 1. The reply of the Proper Officer is not acceptable since the e-way bill was not cancelled and no proof was shown for unfructified sales. Proper Officer, Park Town circle stated (March 2021) that the dealer facilitated transportation of goods to the customers and was not doing business transaction. The reply is not acceptable since the e-way bill was generated as supplier and not as transporter. Proper Officers of 33[25] circles intimated (between January and September 2021) that notices were issued. Proper Officers of four[26] circles intimated (between March and July 2021) that notices would be issued. Replies from the remaining 61 circles are awaited (December 2021).

[24] Ambattur, Ambattur Industrial Estate, Annathanapatty, Annur, Attur (Rural), Attur (Town), Avadi, Avarampalayam, Ayyapanthangal, Bazaar Street, Bodinayakanur, Broadway, Chengalpattu, Cholavaram, Devakottai, Dindigul (Fort), Dindigul (Rural), Dindigul (Town), Ganapathy, Gandhipuram, Gugai, Gummidipoondi, Harbour, Harur, Hosur(North)-I, Hosur(North)-II, Hosur(South)-II, Hosur(South)-III, Jaihindpuram, JJ Nagar, Kamarajar Salai, Kancheepuram Rural, Karaikudi, KK Nagar, Kondalampatty, Kodungaiyur, Kothawalchavadi, Koyambedu, Krishnagiri-I, Krishnagiri-II, Kumarapalayam, Kundrathur, Madhavaram, Madurai Rural (East), Madurai Rural (West), Madurai Rural South, Manali, Mannady, Maraimalainagar, Mettupalayam Taluk, Moore Market, Mudukulathur, Namakkal (Rural), Namakkal (Town), Nilakottai, Nolambur, Padi, Palani-I, Pallipalayam, Paramakudi, Park Town, Pattaravakkam, Peelamedu North, Peelamedu South, Periyanayakanpalayam, Podanur, Pollachi Rural, Ponneri, Poonamallee, Porur, R S Puram, Ram Nagar, Ramanathapuram, Salem Bazaar, Salem Rural, Sankari, Saravanampatti East, Saravanampatti West, Singanallur North, Singanallur South, Sriperumbudur, Thirukazhukundram, Thirumangalam, Thirumazhisai, Thiruparankundram, Thirupathur, Thiruvottiyur, Tiruverkadu, Tondiarpet, Trichy Road, Udumalpet North, Udumalpet South, Vadavalli, Vallalar Nagar, Valparai, Perur, Vanagaram, Vedasanthur, Washermenpet and West Veli Street.

[25] Ambattur Industrial Estate, Avadi, Ayyapanthangal, Broadway, Chengalpattu, Cholavaram, Gummidipoondi, Harbour, Jaihindpuram, J J Nagar, Kodungaiyur, Koyambedu, Kundrathur, Kothawalchavadi, Madurai Rural South, Madurai Rural (West), Manali, Mannady, Maraimalainagar, Moore Market, Padi, Pattaravakkam, Peelamedu North, Ponneri, Porur, Sriperumbudur, Thirumangalam, Thirumazhisai, Thiruparankundram, Thiruvottiyur, Tondiarpet, West Veli Street and Vanagaram.

[26] Bodinayakanur, Madhavaram, Poonamallee and Saravanampatti East.

- Seventy taxpayers assessed in 51[27] assessment circles though reported invoices relating to 499 e-way bills in GSTR 1, filed GSTR 3B with NIL tax payable**.** Since GSTR 2A is auto-populated based on the data furnished in GSTR 1, the purchasing taxpayers were entitled to ITC on these purchases although tax was not paid by the selling taxpayers. The potential claim of ITC worked out to ₹ 2.46 crore on the total value of ₹ 24.22 crore.

  On this being pointed out (July and August 2021) in Audit, Proper officers of Ayyappanthangal and Theni-II circles intimated (July and August 2021) that notices were issued. Proper officers of Bodinayakanur and Poonamallee circles intimated (August and September 2021) that notices would be issued. Replies from the remaining 47 circles are awaited (December 2021).

During Exit Conference, Government replied (October 2021) that action would be taken to improve the data analytics system.

(d) Non-reporting of invoices and non-generation of e-way bills for invoices by regular taxpayers

Section 37 of the TNGST Act, 2017, read with Rule 59(1) of TNGST Rules, 2017, specifies that all outward supplies shall be reported in form GSTR1.

- **Invoices not reported in returns**

  Audit noticed that 34 taxpayers in 29[28] out of 156 assessment circles did not report 100 invoices in their GSTR 1. The total invoice value of these supplies amounted to ₹ 4.09 crore. Out of this, the tax payable in respect of 59 invoices worked out to ₹ 32 lakh. As the quantum of tax payable was not indicated in the remaining 41 e-way bills, the tax liability in these cases could not be computed in Audit.

  On this being pointed out (July and August 2021) in Audit, Proper Officer, Hasthampatty Circle intimated (August 2021) that notice was issued. Replies from the remaining 28 circles are awaited (December 2021).

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27 Annur, Attur (Rural), Attur (Town), Avadi, Avarampalayam, Ayyapanthangal, Ayyothyapattinam, Bazaar Street, Bodinayakanur, Chokkikulum, Cholavaram, Dindigul (Rural), Dindigul Town, Ganapathy, Gummidipoondi, Hosur(North)-I, Hosur(North)-II, Jaihindpuram, Kancheepuram Rural, Krishnagiri-II, Kumarapalayam, Kundrathur, Kuniamuthur, Loansquare, Madhavaram, Maraimalainagar, Mettupalayam Taluk, Moore Market, Mudukulathur, Namakkal (Rural), Namakkal (Town), Nilakottai, Nolambur, Omalur, P N Palayam, Pallipalayam, Paramakudi, Pollachi Rural, Ponneri, Poonamallee, Saravanampatti West, Singanallur North, Sowcarpet, Surapattu, Theni-I, Theni-II (Andipatti), Thirumullaivoyal, Thiruparankundram, Tiruchengodu Rural, Tondiarpet and Trichy Road.

28 Avinashi, Ayyothyapattinam, Broadway, Harbour, Hasthampatty, Kancheepuram, Korattur, Kumarapalayam, Kuniamuthur, Loansquare, Maraimalainagar, Moore Market, Nolambur, NSC Bose Road, Palani-I, Pattaravakkam, Peelamedu North, Ponneri, R S Puram, Ram Nagar, Royapuram, Salem Bazaar, Saravanampatti East, Surapattu, Thirumullaivoyal, Thirupathur, Thudiyalur, Tiruverkadu and Uthamapalayam.

- **Invoices partially reported in returns**

  Audit scrutiny revealed that six taxpayers in six[29] out of 156 assessment circles had generated seven e-way bills drawn on invoices valued at ₹ 33.14 lakh, but reported only ₹ 7.35 lakh in their GSTR 1. The escapement of tax in these cases is ₹ 2.20 lakh.

  This was brought to the notice of the Department in August 2021. Reply is awaited (December 2021).

- **E-way bills not generated for invoices reported in GSTR 1**

  Cross verification of e-way bills generated by the selected taxpayers with the GSTR 1 returns revealed that 53 out of 308 taxpayers assessed in 36[30] of 156 assessment circles had not generated e-way bills for 229 invoices reported in GSTR 1.

  This was brought to notice of the Department in August 2021. Reply of the Department is awaited (December 2021).

During Exit Conference, Government replied (October 2021) that action would be taken to improve the data analytics system.

(e) Non-mention of HSN code for goods listed as exempt from e-way bill

Annexure to Rule 138(14)(a) of TNGST Rules, 2017, which lists goods exempt from generation of e-way bills, contains Harmonised System of Nomenclature (HSN) codes for each of these goods. It was noticed that notification exempting[31] goods from e-way bills for intra-state supplies issued by the Commissioner did not provide HSN codes. Absence of HSN code may result in ambiguity in classification, and there is a possibility of certain goods, that may be closer in nature to the ones listed in the annexure but are not actually exempt from e-way bills, passing through without e-way bills in the guise of exempt goods.

This was brought to the notice of the Department in September 2021. During Exit Conference, the Government replied (October 2021) that forms and rules needed to be amended and will be taken up with GSTC policy cell.

(f) Enforcement of e-way bill system in Tamil Nadu

Section 129(1) of the TNGST Act, 2017, prescribes that if any person transports any goods or stores any goods while they are in transit in contravention of the provisions of this Act or the Rules, all such goods and conveyance shall be liable to detention or seizure and they shall be released on

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29 Korattur, Loansquare, Poonamallee, R S Puram, Thirukazhukundram and Tiruverkadu.

30 Alagapuram, Ambattur, Ambattur Industrial Estate, Annur, Avarampalayam, Ayyothiyapattinam, Broadway, Cholavaram, Harbour, Hosur(North)-I, Hosur(south)-II, Kamarajar Salai, Kodungaiyur, Korattur, Kothavalchavadi, Kumarapalayam, Kuniamuthur, Loansquare, Mannady, Mettur, Mooremarket, Peelamedu North, Pollachi East, R S Puram, Ramnagar, Salem Rural, Salem Town West, Saravanampatty East, Saravanampatty West, South Avani Moola Street, Sowcarpet, Udumalpet South, Uthagai North, Uthamapalayam, Vadavalli and Velandipalayam.

31 Vide Notification 09/2018 for intra state movement from 02.06.2018.

payment of the applicable tax and penalty equal to one hundred *per cent* of the tax payable on such goods. Audit scrutinized 3,261 out of 3,962 orders passed by the officers of the Roving squad and Adjudication cell in the selected five Intelligence Divisions, in respect of offences booked for violations during the movement of goods and the observations noticed are detailed below:

- **Release of intercepted vehicles without collection of tax and penalty**

  Rule 138A(1) of the TNGST Rules, 2017, mandates that the person in charge of conveyance should carry the invoice or bill of supply or delivery challan and a copy of the e-way bill in physical form. Rule 138A(5), however, permits the Commissioner to notify, where circumstances so warrant, requiring the person-in-charge of conveyance to carry tax invoice or bill of supply or delivery challan instead of e-way bill. In exercise of the powers conferred as above, the Commissioner instructed[32] in May 2019 that in specific cases, where the person in charge of conveyance of goods possessed any one of the required documents i.e. invoice or e way bill, a penalty of ₹ 10,000 (₹ 5,000 per Act i.e. SGST and CGST), may be levied, if the evidence shows sufferance of tax.

  Audit verification of enforcement records revealed that in 277 out of 3,261 cases, no e-way bill was generated for the goods transported. Since this is a violation of Act, tax and penalty of ₹ 8.06 crore as per provisions of Section 129 should have been collected. However, the department collected a penalty of only ₹ 0.28 crore by levying a penalty of ₹ 10,000 in each case. This resulted in short collection of tax and penalty of ₹ 7.78 crore.

- **Movement of goods with expired e way bill**

  Rule 138(10) of TNGST Rules, 2017, prescribes that an e-way bill or a consolidated e-way bill generated under this rule shall be valid for a prescribed period. The Commissioner may, on the recommendations of the Council, by notification, extend the validity period of an e-way bill for certain categories of goods as may be specified therein. The transporter may extend the validity period, within eight hours from the time of its expiry, after updating the details in Part B of FORM GST EWB-01.

  Audit noticed that in 66 out of 3,261 cases, the validity of e-way bills had expired. Since this is a violation of Act, tax and penalty of ₹ 2.54 crore as per provisions of Section 129 should have been collected. However, the department collected only a penalty of ₹ 0.10 crore. This resulted in a short collection of tax and penalty of ₹ 2.44 crore.

[32] Circular No.10/2019 dated 31 May 2019.

- **E way bill generated after interception**

  Rule 138 (1) of TNGST Rules, 2017, specifies that e-way bill should be generated before commencement of movement of goods.

  Audit noticed that in 57 out of 3,261 cases, e-way bills were generated after interception. Since this is a violation of Act, tax and penalty of ₹ 68.92 lakh as per provisions of Section 129 should have been collected. However, the department collected only an amount of ₹ 10.22 lakh. This resulted in a short collection of tax and penalty of ₹ 58.70 lakh.

- **Details not furnished/updated in Part B of e-way bill**

  Explanation 2 below Rule 138(3) of TNGST Rules, 2017, stipulates that the e-way bill shall not be valid for movement of goods by road unless the information in Part-B of FORM GST EWB-01 was furnished. Further, Rule 138(5) prescribes that where the goods are transferred from one conveyance to another, Part B of the e-way bill shall be updated before further movement.

  Audit noticed that in 44 out of 3,261 cases, information in part B of e-way bill were not furnished. Further, in 45 cases, the vehicle numbers in the bill did not match with the actual registration numbers of the vehicles that carried the goods, since the information was not updated. Since this is a violation of Act, tax and penalty of ₹ 1.42 crore as per provisions of Section 129 should have been collected. However, the department collected only an amount of ₹ 0.14 crore. This resulted in short levy of tax and penalty of ₹ 1.28 crore.

When the above issues were pointed out (between February and August 2021) in Audit, the department stated (between March and September 2021) that the amounts were collected as per the instructions of the Commissioner vide Circular No.10/2019 dated 31 May 2019. Further, during Exit Conference, Government replied (October 2021) that the circular was a pragmatic instruction intended to reduce harassment by roving squad. However, it was proposed to amend the circular for better clarity. It was further replied that the difference between the penalty actually collected and the actual amount to be levied had to be written off.

(g) Non/Short Creation of liability in the liability ledger

As per the Standard Operating Procedure (SOP) issued by the Commissioner for vehicular check by Roving squads, the proceedings shall be uploaded in the system and the demand accruing out of the proceedings shall be created in the Electronic liability register on the GSTN common portal. The payment made should be given credit to such Electronic liability register by debiting the electronic cash ledger of the concerned person. In this connection, it was noticed that-

- Demand in DRC-07[33] was not generated online in respect of 638 out of 3,261 cases. The liability not created in respect of these cases

[33] DRC–07 : Digital summary of demand order.

amounted to ₹ 4.66 crore. It was also noticed that demand in DRC-07 was not created in respect of 52 cases as the consignors belonged to other States. The department did not intimate the details of such offences to the proper officer of respective States. The liability not created in respect of these cases amounted to ₹ 47.46 lakh.

On this being pointed out (between February and August 2021) in audit, JC Chennai I stated (September 2021) that it was a technical issue which would be addressed to JC (Computer Systems). The reply is not tenable since liability can be created for State taxpayers. JC Chennai II stated (August 2021) that DRC 07 had since been created in all cases. JC Salem stated (August 2021) that DRC 07 had since been created for taxpayers from the State and action could not be taken in respect of taxpayers belonging to other States. JC Coimbatore stated (March 2021) that in respect of cases belonging to other States, the respective circles had been informed. Action taken in respect of State taxpayers is awaited (December 2021). Reply from JC Madurai is awaited (December 2021).

- In respect of 8 out of 3,261 cases, although the demand as per order included both tax and penalty of ₹ 20.61 lakh, the DRC-07 was created only for ₹ 10.41 lakh. This resulted in short creation of liability of ₹ 10.20 lakh.

  On this being pointed out (February 2021) in audit, the department stated (September 2021) that presently there was no provision to view the liability register of the dealer and JC (Computer systems) would be addressed in this regard. The reply of the department is not relevant since the observation is about creation of liability by roving squad and not about viewing of the liability register of dealer.

Further, during Exit Conference, the Government replied (October 2021) that the above issues would be examined by the Policy and Planning division and necessary instructions would be issued.

(h) Non-setting off of liability by debiting cash ledger

Section 49 of the TNGST Act, 2017, and the SOP issued by the Commissioner, envisage that liability should be created in the liability register in DRC 07 and this liability shall be set off by debiting the cash ledger.

Scrutiny of enforcement records revealed that in 310 out of 3,261 cases, though liability amounting to ₹ 1.21 crore was created, the same was not set off by debiting the cash ledger. Further verification revealed that in 72 out of 310 cases above, the cash ledger balance available was lesser at ₹ 24.43 lakh against ₹ 45.70 lakh deposited. In 13 out of these 72 cases, the cash ledger balance was NIL. This implied that balances in cash ledger were utilized for some other payments. Further, ten taxpayers, claimed and obtained refund of ₹ 4.68 lakh. Had these taxpayers set off the liability against the balance in the cash register, they would not have been eligible to claim refund.

When this was pointed out (between February and August 2021) in audit, JC Chennai I stated (September 2021) that there was no mechanism to monitor the setting-off function and the issue is pending at the State level. JC Coimbatore replied (March 2021) that in six cases liability has been set off and action would be taken in the remaining cases. JC Salem replied (August 2021) that in one case liability had been set off and action would be taken in the remaining cases. Reply is awaited from JC Chennai II (December 2021).

During Exit Conference, the Government replied (October 2021) that the above issue would be examined by the Policy and Planning division and necessary instructions would be issued.

(i) Other issues

- **Payment under wrong head**

  While scrutinizing the GST payment challans produced by taxpayers for securing the release of detained conveyances, Audit noticed that in 90 cases, the department raised demands of ₹ 32.75 lakh under the incorrect heads of SGST and CGST instead of IGST. In two cases, ₹ 20,000 was raised incorrectly under IGST for intra-state supplies which have to be booked under the CGST and the SGST heads.

  On this being pointed out (between February and August 2021) in audit, JC Coimbatore stated (March 2021) that change in head of account for the collection made was not possible at this point of time and that there was no revenue loss. JC Chennai I and JC Madurai stated (between August and September 2021) that the issue of collection under the wrong head of account would be explained to the Officers entrusted with the duties to safeguard against errors.

  Further, during Exit Conference, the Government replied (October 2021) that necessary advisory would be issued by the audit wing of the department.

- **Incorrect release of goods based on tampered and invalid payment challans**

  When transporters did not carry the necessary documents prescribed in the Act / Rules, the vehicles were detained by the Roving squad and the goods were released on payment of penalty or tax and penalty as the case may be. The release orders were issued after the concerned person deposited Tax/Penalty online and produced proof of payment.

  While verifying the documents produced as proof of payment, Audit noticed that in two cases in JC Madurai, the payment challans had expired and the payments were not realised into the Government account. The amount escaped was ₹ 21,174. In one more case, in Salem division, Audit identified that the payment challan produced by the dealer to get the vehicle released was fake. The challan produced by the dealer indicated an amount of ₹ 32,400 as having paid. However, audit verification at the GSTN portal revealed that the dealer had paid only ₹ 400. The enforcement authorities had released the vehicles without even exercising the basic checks in respect of the payment evidences produced.

On this being pointed out (July and August 2021) in audit, JC Madurai and JC Salem replied (July and August 2021) that the amounts were collected. Further, during Exit Conference, Government replied (October 2021) that action would be taken to improve the Data analytics system.

2.4.3 Conclusion

Due to shortcomings in the design, the system allowed generation of e-way bills by non-filers of return and taxpayers whose registrations were cancelled, which resulted in leakage of revenue. The system could not distinguish between inter-State and intra-State movements of goods by composition taxpayers and permitted generation of e-way bills in both cases. The department was in possession of these details but these issues were not referred to NIC for rectification. In many cases, invoices relating to e-way bills were not reported in GSTR 1 and invoices reported in GSTR 1 did not have e-way bills. In such cases, there was loss of revenue due to non-payment of tax and potential claim of ITC by purchasing taxpayers. Consignments with no e-way bills and with invalid or expired e-way bills have been let off with minor penalty without collecting tax. There is no provision to set off liability in the system and vehicles were released based on the credits reflected in the cash ledger but liability was not created and set off. As a result, taxpayers utilised the amount in the cash ledger towards other purposes or obtained refund.

2.4.4 Recommedations

The Government may

- Address the NIC to correct the system deficiencies to prevent generation of e-way bills by non-filers of return, taxpayers whose registrations were cancelled and inter-State transactions of composition taxpayers;
- Put in place a robust system to analyse e-way bill data to identify and red-flag high risk transactions/taxpayers.
- Devise a system so that detained conveyances are released only after ensuring that the liability had been set off against the demand.

Value Added Tax

2.5 Incorrect allowance of compounded rate of tax

Section 3(4) of the TNVAT Act provides for the dealer to pay tax at compounded rate of 0.5 per cent subject to the condition that the dealer shall effect sale and purchase of the goods only within the State and the turnover relating to taxable goods for a year shall be less than ₹ 50 lakh. Further, if the turnover of the dealer has reached ₹ 50 lakh during the previous year they shall not be entitled to pay tax at compounded rate. The dealers who pay tax at compounded rate shall file returns in Form-K. The compounded dealers who had not adhered to the conditions had to pay tax as mentioned in Section 3(2) of the Act.

Case-1

- On scrutiny of assessment records, it was noted (between December 2019 and March 2020) in six[34] out of 22 Assessment Circles that 10 dealers, who sold goods for ₹ 9.64 crore (during 2014-15 and 2015-16), paid tax at compounded rate on the turnover. Further scrutiny revealed that, the dealers continued to pay tax at the compounded rate despite their turnover exceeded the threshold limit of ₹ 50 lakh in order to avail concession under Section 3(4)(a). The dealers paid only ₹ 3.27 lakh (0.5 *per cent*) as against the due amount of ₹ 25.71 lakh at schedule rates (five *per cent*), which resulted in short payment of tax of ₹ 22.44 lakh. On being pointed out, the AAs of five[35] assessment circles replied (December 2019 to March 2020) that notices were issued in December 2019, January 2020 and February 2020.

Case-2

- On scrutiny of assessment records, it was noticed in three[36] out of 22 Assessment Circles that three dealers made inter-state purchases and paid taxes at compounded rate. The purchases made within the State only are eligible for compounded rate of tax under Section 3(4), therefore these dealers were required to pay tax at normal rates applicable to the commodities they purchased. However, the dealers continued to pay tax at compounded rate. Though the amount of tax due was ₹ 13.40 lakh at scheduled rates (5 and 14.5 *per cent),* the dealers paid only ₹ 0.45 lakh which resulted in short payment of tax to the tune of ₹ 12.95 lakh. On this being pointed out, it was replied by all the three AAs (December 2019 and March 2020) that notices were issued to the dealers.

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34 Cholavaram, Hasthampatty, Krishnagiri-I, Krishnagiri-II, Perundurai and Thanjavur.

35 Hasthampatty, Krishnagiri-I, Krishnagiri-II, Perundurai and Thanjavur.

36 Perundurai, Pudukkottai-I and Tiruverumbur.

Government in their reply dated 08 December 2021 stated that the audit observation is accepted in principle and detailed report on each dealer would be sent to audit after examination of records by the AAs. Further reply is awaited.

Recommendation: The Department may devise a system to monitor violations of Act and Rules by traders paying composite tax and plug the leakage of revenue.

2.6 Non/Short reversal of Input Tax Credit

As per Section 19(4) of the TNVAT Act, input tax credit (ITC) shall be allowed on the purchase of goods in excess of five per cent of tax, if goods are transferred to a place outside the State otherwise than by way of sale; or they are used in manufacture of other goods and transferred to a place outside the State, otherwise than by way of sale. Provided, if a dealer has already availed ITC, it should be reversed. As per Section 19(5)(c) of the TNVAT Act, no ITC shall be allowed on the purchase of goods sold as such or used in the manufacture of other goods and sold in the course of interstate trade or commerce without declaration in Form C. As per Section 19(5)(a) of the TNVAT Act, ITC is not available in respect of sale of goods exempt from levy of tax.

During scrutiny of records in five[37] out of 22 assessment circles, Audit noted (December 2019 to March 2020) from the CST returns and Form WW filed by the dealers that interstate sale of goods without declarations in Form C, stock transfer of goods to other States and sale of exempted goods were effected by 19 dealers during 2014-15 to 2016-17. Scrutiny of the returns filed by the dealers under the TNVAT Act, revealed that the above dealers claimed ITC of ₹ 39.57 crore during 2014-15 to 2016-17 for the sale of goods via interstate trades without declarations in Form C. The dealers had also sold exempted goods and effected stock transfer of goods for a total value of ₹ 28.84 crore. Though the reversal of ITC on the above account worked out to ₹ 89.79 lakh, the dealers had made reversal of only ₹ 2.86 lakh in the monthly returns filed, resulting in short reversal of ITC of ₹ 86.93 lakh in proportion to the sales.

After Audit pointed this out, the AA of Sengottai assessment circle replied (October 2020) that the assessments for the year 2015-16 were revised and a demand of ₹ 10.45 lakh was raised. The AAs of Hasthampatty and Krishnagiri-II assessment circles replied that notices were issued to the dealers (February 2020 and December 2019). The AAs of Tiruverumbur and Virudhunagar assessment circles replied (December 2019 and February 2020) that the audit observation would be examined and a report would be furnished to Audit in due course.

[37] Hasthampatty, Krishnagiri-II, Sengottai, Tiruverumbur and Virudhunagar.

Government in their reply dated 08 December 2021 stated that the audit observation is accepted in principle and detailed report on each dealer would be sent to audit after examination of records by the AAs. Further reply is awaited.

Recommendation: The Government may ensure restriction of claims to eligibility and add back ineligible claims to tax demand.

2.7 Claim of Input Tax Credit

(i) Section 19(1) of the TNVAT Act as amended with effect from 29 January 2016 stipulates that there shall be ITC for the amount of tax paid under the Act, by the registered dealer to the seller on the purchases of taxable goods specified in the First Schedule, provided that the registered dealer, who claimed ITC, shall establish that the tax due on purchase of goods has actually been paid.

The data dump of the VAT transactions of the dealers for the period upto June 2017 were obtained from the department. The data was analysed by the audit and exception cases generated and issued to the field offices. It was noted (between December 2019 and March 2020) that the dealers involved with purchase had claimed ITC of ₹ 6.31 crore on the items purchased from the dealers during April 2016 to June 2017 under following category viz.(i) who had not filed returns, (ii) who had filed nil returns and (iii) whose Registration Certificates (RCs) were cancelled. The above category of dealers had not paid tax for the sales effected by them, and therefore, the claim of ITC of ₹ 6.31 crore as detailed in the table below had to be disallowed:

Table No.2.6 – Claim of Input Tax Credit

Sl. No.	Purchases effected from the dealers	Number of assessment circles and percentage to 22 circles audited	Total number of dealers in the assessment circles	No. of dealers involved in purchase	ITC involved (₹ in crore)
1.	Who had not filed the returns	15 (68)	29,170	29	2.55
2.	Who had filed NIL returns	16 (72)	28,551	28	1.50
3.	Whose RC was cancelled	12 (54)	24,171	17	2.26
				Total	**6.31**

(a) Purchases effected from the dealers who had not filed the returns

29 dealers in 15[38] out of 22 assessment circles claimed ITC of ₹ 2.55 crore based on the purchases of taxable goods specified in the First Schedule of ₹ 41.75 crore during April 2016 to June 2017, in respect of invoices raised by dealers who had not filed returns. As the tax was not paid by the dealers involved in sales, the claim of ITC is not correct. The AA of Salem Rural assessment circle citing the court case (Infiniti Wholesale Limited Vs. AC(CT) Koyambedu Assessment Circle in WA 9265 of 2013 dated 6 November 2014) stated (February 2020) that the ITC claimed by the buyer cannot be denied for the reason that the selling dealer had not filed the returns or not paid the taxes. The reply of the AA is not tenable as the judgment cited related to invoices raised before the date of amendment i.e. 29 January 2016 but cases pointed out in audit related to the period from April 2016 to June 2017. AAs of 10[39] assessment circles replied (between December 2019 and March 2020) that notices were issued to dealers. AAs of four[40] assessment circles replied (December 2019, January 2020 and March 2020) that action would be taken after examining the records and the results of action taken would be intimated to Audit.

(b) Purchases effected from the dealers who had filed NIL returns

28 dealers in 16[41] out of 22 assessment circles claimed ITC of ₹ 1.50 crore, based on purchases of taxable goods specified in the First Schedule of ₹ 20.29 crore during May 2016 to June 2017, in respect of invoices raised by dealers who had filed nil returns. As the tax was not paid by the dealers involved in sales, the claim of ITC is not correct. On this being pointed out, the AA of Pudukkottai-I, assessment circle replied (March 2020), quoting an Andhra Pradesh Court Order, that the dealer had paid the taxes but the selling dealer had not paid the same into Government Account; it was the fault of the selling dealer, for which the purchasing dealer is not responsible. The reply is not tenable since the TNVAT Act, after amendment, (i.e.) January 2016, had fixed responsibility to the dealer who had claimed ITC, to ensure payment of tax by the dealers involved in sales. The AA of Tiruverumbur assessment circle in his reply (December 2019) cited a Madras High Court judgement delivered in W.P.No.105 of 2016 in the case of M/s. JKM Graphics Solutions Private Limited Vs. The Commercial Tax Officer, Vepery assessment circle, wherein it

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38 Cholavaram (8), Cuddalore (1), Krishnagiri-I (2), Lalgudi (1), Maduranthakam (2), Mannargudi (1), Omalur (2), Palakarai-I (1), Perundurai (1), Rajapalayam (1), Ranipet (1), Salem Rural (2), Tenkasi (1), Tiruverumbur (3) and Woraiyur (2).

39 Cuddalore, Krishnagiri-I, Lalgudi, Maduranthakam, Mannargudi, Omalur, Perundurai, Rajapalayam, Tenkasi and Woraiyur.

40 Cholavaram, Palakarai-I, Ranipet and Tiruverumbur.

41 Cholavaram (2), Krishnagiri-I (3), Lalgudi (2), Maduranthakam (2), Mannargudi (1), Omalur (3), Palakarai-I (2), Pudukkottai-I (1), Rajapalayam (1), Salem Rural (3), Sengottai (1), Tenkasi (1), Thanjavur-II (1), Tiruverumbur (3), Virudhunagar (1) and Woraiyur (1).

was held that claims of ITC of dealers prior to 29 January 2016 are admissible notwithstanding non-payment of tax by the dealers involved in sales. The reply is not tenable as cases referred in audit related to invoices raised after the amendment to the Act with effect from 29 January 2016. AAs of 10[42] assessment circles replied (between December 2019 and March 2020) that notices were issued to dealers. The remaining four[43] AAs replied (between January 2020 and March 2020) that action would be taken after verification of records and the results thereon would be intimated to Audit.

(c) Purchases effected from the dealers whose RC was cancelled

17 dealers in 12[44] out of 22 assessment circles had claimed ITC of ₹ 2.26 crore based on the purchases of taxable goods specified in the Schedule-I, of ₹ 38.89 crore effected from May 2016 to June 2017, in respect of invoices raised by the dealers whose RCs were cancelled. As the tax was not paid by the dealers involved in sales, the claim of ITC was not correct. On this being pointed out, the AAs of nine[45] assessment circles replied (between December 2019 and March 2020) that notices were issued to the dealers. The remaining three[46] AAs replied (between December 2019 and February 2020) that action would be taken after verification of records and the results thereon would be intimated to Audit.

Government in their replies dated 08 and 09 December 2021 stated that the audit observation is accepted in principle and detailed report on each dealer would be sent to audit after examination of records by the AAs. Further reply is awaited.

(ii) Section 19(11) of the TNVAT Act stipulates that ITC shall be claimed before the end of the financial year or before 90 days from the date of purchase, whichever is later. As per Section 27(2) of the TNVAT Act, where for any reason, the ITC has been availed wrongly, the AA shall reverse the ITC availed. Section 27(4) of the Act, ibid, provides for levy of penalty at the specified rates.

Scrutiny of records (December 2019 and January 2020) in four[47] out of 22 assessment circles revealed that five dealers had, in the monthly returns of January 2014 to March 2016, claimed ITC of ₹ 12.34 lakh in respect of purchase of goods effected between January 2013 and October 2014. As the

42 Krishnagiri-I, Lalgudi, Maduranthakam, Mannargudi, Omalur, Rajapalayam, Sengottai, Tenkasi, Thanjavur-II and Woraiyur.

43 Cholavaram, Palakarai-I, Salem Rural and Virudhunagar.

44 Cholavaram (4), Cuddalore (1), Hasthampatty (1), Krishnagiri-I (1), Lalgudi (1), Maduranthakam (2), Perundurai (2), Pudukottai-I (1), Ranipet (1), Salem Rural (1), Tenkasi (1) and Woraiyur (1).

45 Cuddalore, Hasthampatty, Krishnagiri-I, Lalgudi, Maduranthakam, Perundurai, Pudukottai-I, Tenkasi and Woraiyur.

46 Cholavaram, Ranipet and Salem Rural.

47 Cholavaram, Cuddalore, Hasthampatty and Krishnagiri-I.

claim of ITC was not made within the prescribed time, the same had to be disallowed and the amount needed to be recovered from the dealers. The AAs, however, failed to notice this and allowed the time-barred claim of ITC. The incorrect claim of ITC of ₹ 12.34 lakh was required to be reversed, besides levy of penalty.

After audit pointed this out, the AAs of three[48] assessment circles replied (December 2019 and January 2020) that notices were issued to the dealers. The AA of Cholavaram assessment circle replied (January 2020) that notice would be issued and the result thereon would be intimated to Audit.

Government in their reply dated 09 December 2021 stated that the audit observation is accepted in principle and detailed report on each dealer would be sent to audit after examination of records by the AAs. Further reply is awaited.

Recommendation: The Government may instruct the department to make use of data available to verify the veracity of ITC claims in accordance with various provisions of Act and Rules and also to identify and disallow time-barred and excess claims.

2.8 Taxable turnover escaping assessment

According to Section 21 of the TNVAT Act 2006, every dealer, liable to pay tax shall file return, in the prescribed form along with proof of payment of tax. According to Section 27 of the Act, the AA may assess any turnover escaped, within a period of six years from the date of original assessment after making such enquiry, as it may consider necessary.

The Commissioner of Commercial Taxes (CCT) issued instructions (January 2013) that all the returns received in a month should be scrutinised by the Assessing Authorities during the month of receipt. The CCT, while enumerating the detailed return scrutiny aspects in January 2014 stated that the return scrutiny menus available in MIS package of intranet of CTD may be utilised by the AAs and annual verification of consolidated and e-filed monthly returns may be undertaken in the return audit menus. The CCT further issued instructions (June 2015) on the steps to be taken by the AA regarding non-filers of monthly returns and in respect of dealers whose return reveal huge mismatch of transactions with other dealers. The instructions involve physical verification of the place of business of non-filers, followed by submission of fortnightly progress report by the Head of the Assessment Circle to the Deputy Commissioner and Joint Commissioner of the details of visits made and the follow-up action taken thereof.

The data dump of the VAT transactions of the dealers for the period upto June 2017 were obtained from the department. The data was analysed by the audit and exception cases generated and issued to the field offices during the conduct of audit. It was noted (between November 2019 and March 2020) that the dealers under following category, (i) RCs were cancelled. (ii) not filed

[48] Cuddalore, Hasthampatty and Krishnagiri-I.

returns, (iii) filed nil returns, had effected sale of goods mentioned under First Schedule for ₹ 37.82 crore and have not disclosed the sale turnover and did not pay tax of ₹ 3.29 crore. The failure to adhere to the instructions of CCT regarding physical verification of place of business and scrutiny of returns filed by the dealers resulted in non-payment of tax as mentioned below:

Table No.2.7 - Non-payment of tax

Sl. No.	Registration/return filed status of the dealers	Number of assessment circles and percentage to 22 circles audited	Total number of dealers in the assessment circles	No. of dealers involved in sales	Tax involved (₹ in Crore)
1.	Whose Registration was cancelled	6 (27)	11,427	12	1.02
2.	Who had not filed the returns	10 (45)	18,567	16	1.64
3.	Who had filed 'Nil' returns	8 (36)	14,506	9	0.63
				Total	**3.29**

(a) Sales effected by dealers whose Registration Certificate was cancelled

Annexure I of the monthly returns of dealers involved in purchase revealed that they had claimed ITC in respect of purchases made from 12 dealers in six[49] out of 22 assessment circles whose RCs had been cancelled between June 2009 and April 2015. Evidently, these 12 dealers continued to carry on business and did not pay tax on the sales effected. The AAs, however, failed to notice the issue and to assess the turnover of ₹ 9.28 crore that had escaped assessment from levy of tax. The tax due on such sales worked out to ₹ 1.02 crore. After audit pointed this out (between December 2019 and February 2020), the AAs of three[50] assessment circles replied (December 2019 and January 2020) that notices were issued to the dealers. The AAs of the remaining three[51] assessment circles replied (between December 2019 and February 2020) that notices would be issued to the dealers after examining the records and the results thereon would be intimated in due course.

[49] Cholavaram (1), Krishnagiri-I (1), Krishnagiri-II (1), Ranipet (1), Salem Rural (3) and Thanjavur-II (5).

[50] Krishnagiri-I, Krishnagiri-II and Thanjavur-II.

[51] Cholavaram, Ranipet and Salem Rural.

(b) Sales effected by dealers who had not filed returns

Annexure I of the monthly returns of dealers involved in purchase revealed that they had claimed ITC in respect of purchases made from 16 dealers in 10[52] out of 22 assessment circles who did not file returns relating to the period 2012-13 to 2015-16. Evidently, these 16 dealers had not paid tax on the sales effected. The AAs, however, failed to notice the issue and to assess the turnover of ₹ 17.02 crore that had escaped assessment from levy of tax. The tax due on such sales worked out to ₹ 1.64 crore. After audit pointed this out, the AAs of eight[53] assessment circles replied that notices were issued to the dealers. The AAs of Cholavaram and Salem Rural assessment circles replied (January and February 2020) that notices would be issued to the dealer after examining the records and the results thereon would be intimated to Audit in due course.

(c) Sales effected by dealers who filed 'Nil' returns

Annexure I of the monthly returns of dealers involved in purchase revealed that they had claimed ITC in respect of purchases made from nine dealers in eight[54] out of 22 assessment circles who had filed "Nil" returns during the year 2015-16. Evidently, these nine dealers had not paid tax on the sales effected. The AAs, however, failed to notice the issue and to assess the turnover of ₹ 11.52 crore that had escaped assessment from levy of tax. The tax due on such sales worked out to ₹ 62.71 lakh. After audit pointed this out (between December 2019 and March 2020), the AAs of four[55] assessment circles replied (December 2019, January 2020 and March 2020) that notices were issued to the dealers. The AAs of remaining four[56] assessment circles replied (December 2019, January 2020 and February 2020) that action would be taken after examining the records and the results thereon would be intimated to Audit.

Government in their reply dated 09 December 2021 stated that the audit observation is accepted in principle and detailed report on each dealer would be sent to audit after examination of records by the AAs. Further reply is awaited.

Recommendation: The Department may utilise the CTD data to identify escapement of turnover in the case of cancelled dealers, Non-filers of monthly returns and 'Nil' return filers and make timely revision of assessments.

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52 Cholavaram (1), Hasthampatty (1), Krishnagiri-I (4), Krishnagiri-II (1), Lalgudi (1), Perundurai (2), Rajapalayam (1), Salem Rural (2), Tenkasi (2) and Thanjavur-II (1).

53 Hasthampatty, Krishnagiri-I, Krishnagiri-II, Lalgudi, Perundurai, Rajapalayam, Tenkasi and Thanjavur-II.

54 Cholavaram (1), Krishnagiri-I (1), Lalgudi (1), Perundurai (1), Ranipet (1), Salem Rural (1), Thanjavur-II (1) and Tiruverumbur (2).

55 Krishnagiri-I, Lalgudi, Perundurai and Thanjavur-II.

56 Cholavaram, Ranipet, Salem Rural and Tiruverumbur.

2.9 Non-levy of purchase tax

As per Section 12 of the TNVAT Act read with entry 68 of Fourth Schedule and entry 110 of First Schedule (Part B) to the TNVAT Act, if the pulses and grams are purchased without payment of tax and stock transferred to other states without payment of tax then purchase tax at the rate of five percent had to be levied on the purchase price involved.

During the scrutiny of records in Virudhunagar assessment circle (February 2020), Audit noticed that 14 dealers purchased pulses and grams for a value of ₹ 235.14 crore without payment of tax. These dealers had effected inter-State stock transfer of goods for a value of ₹ 176.83 crore. Hence, the dealers were liable to pay purchase tax on these goods as per Section 12 of the TNVAT Act. The non-payment of tax worked out to ₹ 5.48 crore on the value of purchases.

On being pointed out, the AA replied (February 2020) that the commodity is exempted under TNVAT Act and hence the levy of purchase tax for pulses and grams does not arise. The reply is not tenable since the exemption upto the threshold limit is applicable only to sale within the State and not to stock transfer outside the State. This view was supported by the decision of Hon'ble Madurai Bench of Madras High Court in the case of NVR and Co. Vs. The Assistant Commissioner of Sales Tax in WP No.11425 dated 6 December 2018 wherein it was held that "the phrase 'in circumstances in which no tax is payable' will get attracted when there is stock transfer of goods to other States by way of consignment sales since the provision was introduced to ensure that the State will not lose its revenue…".

Government in their reply dated 09 December 2021 stated that the audit observation is accepted in principle and detailed report on each dealer would be sent to audit after examination of records by the AAs. Further reply is awaited.

Recommendation: The Department may ensure that purchase tax is paid by dealers as per Section 12 of the TNVAT Act.

2.10 Non-levy of interest for belated payment of tax

According to Section 42(3) of the TNVAT Act, interest at the rate of two per cent per month is payable on the belated payment of unpaid tax.

During the scrutiny of records in 11[57] out of 22 assessment circles, Audit noticed (between December 2019 and March 2020) that 40 dealers had paid tax beyond the due dates prescribed. AAs failed to notice the lapse and did not raise demand of interest for the delayed payments of tax that ranged from 4 days to 2,267 days. Thus, there was non-levy of interest of ₹ 48.88 lakh on the amount of tax of ₹ 4.16 crore paid belatedly.

[57] Krishnagiri-I, Krishnagiri-II, Lalgudi, Palakarai-I, Perundurai, Pudukottai-II, Rajapalayam, Sengottai, Tenkasi, Thanjavur-II and Woraiyur.

When this was pointed out, AA, Sengottai, replied (October 2020) that a demand of ₹ 2.38 lakh had been raised. AAs of six[58] assessment circles replied (between December 2019 and March 2020) that notices were issued to the dealers. The AAs of remaining four[59] assessment circles had replied (between January 2020 and March 2020) that the records of the dealers would be examined and further action taken would be intimated.

Government in their reply dated 09 December 2021 stated that the audit observation is accepted in principle and detailed report on each dealer would be sent to audit after examination of records by the AAs. Further reply is awaited.

Recommendation: The Department may establish a mechanism for automatic levy of interest on belated payment of taxes.

2.11 Non-utilisation of information contained in Form WW

Section 63-A(1) of the TNVAT Act read with Rule 16-A of the TNVAT Rules provides that every registered dealer has to submit an audited report in Form WW, in case the total turnover exceeds ₹ one crore. The CCT instructed (February 2014), the AAs to undertake the verification of monthly returns vis-a-vis Form WW and take appropriate action to identify prospective revenue wherever deficiencies noticed.

Scrutiny (between December 2019 and March 2020) of the Form WW relating to the years 2014-15 to 2017-18 filed by the dealers in 11[60] out of 22 assessment circles indicated that the Accountants had suggested payment of differential tax, interest and reversal of ITC amounting to ₹ 1.01 crore in respect of 39 dealers. The AAs, however, did not initiate any action to recover the amounts due from the dealers based on the remarks of the Accountants made in the Form WW.

After Audit pointed this out, the AAs of five[61] assessment circles replied (December 2019, January 2020 and February 2020) that notices had been issued to the dealers. The remaining six[62] AAs replied (between December 2019 and March 2020) that further action would be taken after verifying the records and a report furnished to Audit.

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58 Krishnagiri-I, Krishnagiri-II, Perundurai, Pudukottai-II, Rajapalayam and Woraiyur.

59 Lalgudi, Palakarai-I, Tenkasi and Thanjavur-II.

60 Cuddalore, Hasthampatty, Krishnagiri-I, Maduranthakam, Palakarai-I, Pudukkottai-I, Rajapalayam, Tenkasi, Thanjavur-II, Tiruverumbur and Woraiyur.

61 Cuddalore, Rajapalayam, Thanjavur-II, Tiruverumbur and Woraiyur

62 Hasthampatty, Krishnagiri-I, Maduranthakam, Palakarai-I, Pudukkottai-I and Tenkasi.

Government in their reply dated 26 November 2021 accepted the audit observation in principle and stated that detailed report on each dealer would be sent to audit after examination of records by the AAs. Further reply is awaited.

Recommendation: The Department may make use of auditors' advice in Form WW to identify deficit payments of tax and act accordingly.

CHAPTER-III

STAMP DUTY AND REGISTRATION FEE

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STAMP DUTY AND REGISTRATION FEE

3.1 Tax administration

The Registration Department administers the Indian Stamp Act, 1899 (IS Act), the Registration Act, 1908 and the Rules made thereunder. The administration of the Department is vested with the Inspector General of Registration (IGR). There are 50 registration districts comprising 578 registration offices including three camp offices in the State. The levy and collection of stamp duty and registration fees are done by the authorities namely District Registrars / Sub-Registrars. The monitoring and control at the Government level is by the Secretary, Commercial Taxes and Registration Department.

3.2 Internal audit

Internal audit is a vital component to enable an organisation to assure itself that the prescribed systems are functioning reasonably well. The Department has a system of internal audit to ensure *cent per cent* audit of all the instruments[1] registered. There are 45 audit units, each headed by a District Registrar. The periodicity of audit of all offices is on monthly basis. The Registration Manual (Part II) provides the required framework for planning and taking up internal audit in the department. A Hand Book of Internal Audit has been prepared by the Department for guidance on this issue.

The details of internal audits due and conducted are placed in **Table - 3.1.**

Table No. 3.1: Details of Internal Audit

Year	Number of audits due	Number of audits completed	Audit in arrears	Percentage of arrears
1	2	3	4	5
Upto 2015-16	5,670	4,286	1,384	--
2016-17	1,321	979	342	26
2017-18	2,426	1,916	510	21
2018-19	3,817	3,038	779	20
2019-20	6,624	5,767	857	13
Total	19,858	15,986	3,872	

(Source: Reply of the Department)

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

The above table indicates an increasing trend in the number of offices in respect of which internal audit was in arrears since 2016-17. The Department attributed the reasons for arrear in internal audit due to vacancy of Audit Registrars and stated that a special team has been formed to clear the backlog.

The Department may consider strengthening internal audit so that all the units due for audit are completed in a time bound manner.

Audit noted that 38,681 paragraphs with money value of ₹ 157.18 crore were outstanding as at the end of 31 March 2020 as detailed in **Table - 3.2.**

Table No. 3.2: Details of Internal Audit Objections

(₹ in crore)

Year	Opening Balance		Observations raised		Observations settled		Observations pending	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Upto 2015-16	19,996	70.91	25,538	72.08	24,285	54.87	21,249	88.12
2016-17	21,249	88.12	27,147	67.09	25,798	58.90	22,598	96.31
2017-18	22,598	96.31	24,078	60.16	16,354	39.49	30,322	116.98
2018-19	30,322	116.98	17,106	41.66	13,213	25.21	34,215	133.43
2019-20	34,215	133.43	15,642	32.16	11,176	8.41	38,681	157.18

(Source: Reply of the Department)

It is suggested that measures such as audit committees may be formed to initiate appropriate action for clearance of old outstanding objections pending since 1992-93.

3.3 Audit Methodology and Results of audit

During the year 2019-20, there were 649 auditable units in the Registration Department. The unit offices were categorised into high, medium and low risk units according to their revenue collection, number of deeds / documents and revenue per deed / document in respect of the year 2018-19. The test check by audit (April to November 2019) was conducted in 59 out of 649 auditable units (9.09 *per cent*). It was noted that the revenue receipts in the test checked units was ₹ 1,782.03 crore, which was 16.10 *per cent* of total revenue receipts of ₹ 11,066.18 crore during 2018-19.

Test check of assessment and other records showed that irregular / incorrect assessment of market value of land and building resulted in short collection of stamp duty and registration fee on lease, Agreement to sale, Power of Attorney, certificate of sale, release and partition of properties etc., involving ₹ 11.40 crore in 633 cases. Accordingly, category-wise audit observations have been mentioned in **Table 3.3**.

Table No. 3.3: Category-wise Audit observations for 2019-20

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
1	Undervaluation of deeds / documents	33	0.20
2	Misclassification of deeds / documents	171	3.44
3	Excess / Incorrect allocation of Transfer Duty Surcharge	56	2.26
4	Others	373	5.50
	Total	**633**	**11.40**

During 2019-20, the Department accepted under assessment and other deficiencies amounting to ₹ 30.03 lakh in 32 cases and collected the said amount as intimated by the audit during the period from 2003-04 to 2016-17.

Audit Observations

Audit scrutinised records (April to November 2019) available in the Department for assessment and collection of stamp duty, registration fee, etc. Audit noticed short realisation of revenue due to misclassification of deeds and irregular remission of transfer duty surcharge. The Government / Department may, undertake a detailed review of all units to check whether similar errors / omissions have taken place elsewhere and if so, to rectify them and put in place a system that would prevent such errors / omissions.

3.4. Excess allocation and incorrect remission of Transfer Duty Surcharge

As per Section 175 of the Tamil Nadu Panchayats Act, 1994 and Section 94 of the Tamil Nadu Urban Local Bodies Act, 1998, transfer duty surcharge (TDS), shall be levied and collected on the deeds of conveyance (instrument of sale), exchange, gift, mortgage with possession and lease in perpetuity. The rate of TDS was notified as two *per cent* of the market value of property vide G.O Ms. No 177 dated 20 November 2003. TDS at two *per cent* along with stamp duty at five *per cent* is collected by the Registration Department at the time of registration and remitted under the Head of Account relating to stamp duty. The TDS is subsequently allocated to the local bodies concerned at the end of every quarter of a year.

(i) Audit noted from the 11[2] periodical quarterly returns of TDS and registers in eight[3] out of 59 Sub-Registrar offices (SR), that ₹ 139.61 lakh was allocated in 62 cases to local bodies during the period from January 2016 to March 2019 towards TDS as against ₹ 44.81 lakh actually collected. The excess allocation was due to following reasons:

- Clerical errors in carrying the value of 21 conveyance / exchange deeds from the 'A' Account[4] into the TDS register. Since a higher value was carried into the TDS register, the TDS allocated was more than actual collection.

- Erroneous allocation of TDS in respect of 41 deeds[5] wherein TDS was not collected.

This resulted in excess allocation of ₹ 94.80 lakh to the local bodies out of the revenue due to the Government.

When pointed out by Audit, four[6] Registering Officers (ROs), replied that excess allocation of TDS would be adjusted during subsequent allocations. Remaining ROs replied that necessary action would be taken under intimation to audit.

(ii) Government of Tamil Nadu implemented a Samadhan Scheme through its order dated 29 December 2017[7] with a view to realising the Stamp duty and Registration fee which remained blocked due to cases pending under Sections 47A and 19B of the IS Act, granting remission of one-third of the difference between stamp duty already paid and stamp duty chargeable on the value of properties as proposed by the ROs based on the market value guidelines in respect of land and Schedule of Rates of Public Works Department in respect of buildings.

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2 Jan-Mar 2016, Apr-Jun 2016, Jul-Sep-2016, Oct-Dec 2016, Jan-Mar 2017, Jul-Sep 2017, Jan-Mar 2018, Apr-Jun 2018, Jul-Sep-2018, Oct-Dec 2018 and Jan-Mar 2019.

3 SR, Alandur, SR, Ambattur, SR, Boothapandi, Joint-I SR, Chennai Central, SR, Hosur, SR, Melapalayam, SR, Tharamangalam and SR, Tiruvarur.

4 Register in which details of deeds presented for registration are entered along with particulars of stamp duty and registration fee collected etc.,

5 Construction Agreement, Deposit of Title Deed, Power of Attorney, Receipt and Settlement, etc.,

6 SR, Alandur, SR, Ambattur, SR, Melapalayam and SR, Tharamangalam.

7 G.O.Ms.No.189, Commercial Taxes and Registration (J1) Department dated 29 December 2017.

Audit scrutiny (April to October 2019) of records in 19[8] Sub-Registrar offices revealed that executants of 70 conveyance deeds opted for Samadhan Scheme 2017 and were granted one-third of differential stamp duty as remission as per the Scheme. However, while giving effect to the Government Order dated 29 December 2017, the ROs collected only two-thirds of the TDS instead of the full TDS. Since the GO ordered remission of only Stamp duty and did not talk about remission of TDS, the ROs should have collected the entire TDS. However, ROs collected only two-thirds of TDS due, amounting to ₹ 50.39 lakh, instead of the entire TDS of ₹ 75.66 lakh. Incorrect execution of Government Orders by the ROs resulted in short collection of ₹ 25.27 lakh (₹ 75.66 lakh – ₹ 50.39 lakh).

On being pointed out by audit, the ROs, Alandur and Avalpoondurai replied (May and August 2019) that it was not mentioned in the Samadhan Scheme Order that remission of stamp duty applicable for five *per cent* duty only and not for TDS of two *per cent*. The reply is not acceptable since the Government did not alter the market value on which stamp duty was chargeable but only granted remission of one-third of the stamp duty chargeable vide Government Order dated 29 December 2017. Since TDS has to be collected on the market value of the properties on which stamp duty is chargeable, the remission of one-third of TDS granted was not in order. Moreover, levy of TDS is governed by separate Act and therefore a notification under the Act is necessary for grant of remission of the TDS. It is pertinent to point out here that in the Union Territory of Puducherry, the Government had issued a separate notification for remission of TDS in respect of properties purchased by women. The ROs of the remaining 17 offices replied (April to October 2019) that a report would be sent after examining the case.

Recommendation: Government may ensure that remission / concession of TDS is granted through orders issued under the relevant Act under which the TDS is levied.

[8] SR, Alandur, SR, Ambasamudram, SR, Andipatti, SR, Avalpoondurai, SR, Jolarpet, SR, Karur West, SR, Kumaratchi, SR, Melapalayam, SR, Nallur, SR, Needamangalam, SR, Ootakamand, Joint-I SR, Palayamkottai, Joint-I SR, Rajapalayam, SR, Selaiyur, SR, Sivakasi, SR, Swamimalai, SR, Thiruppathur, SR, Udumalpet and SR, Vazhapadi.

3.5 Short collection of stamp duty and registration fee due to incorrect classification of partition and release deeds

As per the provisions of Articles 45(a) and 55A of Schedule I to the IS Act, partition among family members and release of properties to family members respectively attract a stamp duty of one *per cent* subject to a maximum of ₹ 25,000. In addition, registration fee is chargeable at one *per cent* on the market value of the immovable property subject to a maximum of ₹ 4,000 as per table under Section 78 of the Indian Registration Act. In cases of transactions among non-family members, stamp duty for release of property is chargeable at eight / seven *per cent* on the market value of property as per Article 55C read with Notification No. II(2)/CTR/355(a)/2016 dated 8 June 2016 and four *per cent* on the market value for partition, on the separated share[9], as envisaged in Article 45(b). In both these cases, registration fee is chargeable at one *per cent* vide table under Section 78 of the Indian Registration Act.

(i) During scrutiny of records (June to October 2019) in 14[10] Sub-Registrar offices, Audit identified that in 21 out of 231 release deeds, there was relinquishment of shares of properties valued at ₹ 6.62 crore amongst family and non-family members. The value of properties transacted among family members was ₹ 1.14 crore and the value transacted among non-family members was ₹ 5.48 crore. However, the ROs, in all these 21 release deeds, collected stamp duty and registration fee at a concessional rate of ₹ 5 lakh applicable for family members instead of ₹ 45.58 lakh, overlooking the transactions involving non-family members. This resulted in short collection of stamp duty and registration fee of ₹ 40.58 lakh. On being pointed out by Audit, four[11] ROs cited IGR's circular dated 7 January 2014 and replied that since the properties released were ancestral properties, they were classified under Article 55-A. The reply was not tenable because the relinquishment of share of property in these cases had not taken place among family members as defined in the IS act. Further, the Madurai Bench of Honourable Madras High Court[12] have held that the definition of the term "family" given in the Explanation under Article 58 was exhaustive and the benefit of Explanation under Article 58 would not be applicable to persons other than those mentioned therein. The ROs of the remaining 10 offices replied (June to October 2019) that a report would be sent after examining the case.

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9 The value of remaining share/s after the exclusion of the share of highest value.

10 SR, Arcot, SR, Avalpoondurai, Joint-I SR, Chennai Central, SR, Ganapathy, Joint-I SR, Villupuram, Joint-II SR, Thiruvannamalai, SR, Kallidaikurichi, SR, Meensurutti, SR, Needamangalam, SR, Rajapalayam, SR, Swamimalai, SR, Thiruverumbur, SR, Thackalai and SR, Woraiyur.

11 SR, Arcot, SR, Avalpoondurai, Joint-I SR, Thiruvannamalai and Joint-I SR, Villupuram.

12 Madurai Bench of Honourable Madras High Court in W.P.No.58 of 2012 in the case of T. Muthu Balu Vs Inspector General of Registration dated 24 February 2014.

(ii) During test check of records (June to October 2019) in 13[13] Sub-Registrar offices, Audit noted that 453 Partition deeds were registered. Analyses of the recitals of 32 Partition deeds, involving partition of immovable properties valued at ₹ 109.69 crore, revealed that the share of properties worth ₹ 13.99 crore were allotted to non-family members. This was also classified by the ROs as partition among family members and stamp duty and registration fee were collected at concessional rates. Owing to failure of the ROs in identifying the non-family transactions, as against the total due of ₹ 94.30 lakh, only ₹ 26.21 lakh was collected as stamp duty and registration fee, which resulted in short collection of ₹ 68.09 lakh. After being pointed out by audit, the RO, Thiruppathur replied that the rights over the property were acquired by operation of law under the Hindu Succession Act 1956. The reply of the RO is not acceptable since audit have not objected to acquisition of rights over the property by legal heirs but to the concessional stamp duty and registration fee offered to persons who were not eligible for such concession under the IS Act. The ROs of Ganapathy and Avalpoondurai citing the Chief Controlling Revenue Authority's (CCRA) orders dated 24 January 2018 replied that legal heirs of the deceased members are also included in the family. The reply is not tenable since the CCRA orders cited is applicable only to the specific case and cannot be extended to all cases. Further, the Madurai Bench of Honourable Madras High Court[14] have held that the definition of the term "family" given in the Explanation under Article 58 was exhaustive and the benefit of Explanation under Article 58 would not be applicable to persons other than those mentioned therein. The ROs of the remaining 10 offices replied (June to October 2019) that a report would be sent after examining the case.

Recommendation: Government may ensure that executive instructions are issued only to clarify ambiguity in Acts and Rules and they do not suggest change in nature of provisions of the Statute. It is also to be ensured that appellate orders issued for specific cases are not adapted *mutatis mutandis* for all cases.

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[13] SR, Avalpoondurai, SR, Ganapathy, SR, Gomangalam, SR, Hosur, SR, Karur West, SR, Kelamangalam, Joint-I SR, Palayamkottai, SR, Sangagiri, SR, Selaiyur, SR, Swamimalai, SR, Thiruppathur, SR, Vaniambadi and SR, Woraiyur.

[14] Madurai Bench of Honourable Madras High Court in W.P.No.58 of 2012 in the case of T. Muthu Balu Vs Inspector General of Registration dated 24 February 2014.

3.6 Misclassification of conveyance-cum-surrender of lease deed as surrender of lease deed

As per Section 5 of IS Act, any deed (instrument) comprising or relating to several distinct matters shall be chargeable with the aggregate amount of the duties with which separate deeds, each comprising or relating to one of such matters, would be chargeable. In the case of Surrender of Lease, maximum stamp duty of ₹ 40 is chargeable as per Article 61 of Schedule I to the IS Act and registration fee is chargeable at the rate of one *per cent* on the improvements as per Article 1(p) of the Table of Fees prepared under Section 78 of the Registration Act, 1908. In the case of transfer of immovable property, stamp duty at the rate of seven *per cent* including TDS, is chargeable on the market value as per Article 23 of Schedule I to the IS Act and registration fee at the rate of four[15] *per cent* is chargeable on the market value as per Article 1(a) of Table of Fees prepared under Section 78 of Indian Registration Act, 1908.

During the test check (October 2019) of records in Sub-Registrar Office, Avinashi, Audit noted that vacant land leased during January 2004 through a lease deed was subsequently surrendered in September 2018. The RO referred the case to the Assistant Executive Engineer (AEE), Public Works Department to ascertain whether there was any building on the vacant land and value the same. On field verification (February 2019), the AEE noticed the presence of a building and determined the value of the building at ₹ 2.38 crore. Based on this report, the RO collected registration fee of ₹ 2.38 lakh in August 2019, being one *per cent* of the value of the building. While originally only a vacant land was leased out, the lessor received the land with a building having been constructed on it, on surrender of lease. Therefore, there is a transfer of immovable property along with surrender of leased land. The transaction, therefore, attracts the provision of Section 5 of IS Act since there are two distinct transactions viz. (i) surrender of lease of vacant land and (ii) transfer of immovable property (building). Therefore, apart from levy of stamp duty as per Article 61 of the IS act and registration fee as per Article 1(p) of Table of fees under Section 78 of the Indian Registration Act, the surrender of lease deed should also be subjected to stamp duty under Article 23 and the corresponding registration fee. However, the RO collected a stamp duty of ₹ 100 and a registration fee of ₹ 2.38 lakh only as against ₹ 16.68 lakh and ₹ 9.53 lakh chargeable if classified under Section 5. This resulted in a short collection of ₹ 23.83 lakh.

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15 w.e.f. 09 June 2017.

On being pointed out by Audit, the RO stated that the registration fee on the building was collected as per the instructions of the IGR (October 2014) and stamp duty at a higher rate was also collected as per Article 61. It was further stated that there was no specific order to collect stamp duty at conveyance rate on the improvements. The reply is not tenable since AEE report had clearly established that there was a building and hence the RO should classify the transaction as per Article 23 of Schedule I to the IS Act and Section 78 of Indian Registration Act and collect stamp duty and registration fee accordingly.

Recommendation: The Department may ensure that the executive instructions are framed after considering relevant provisions of the Act and Rules so that application of these instructions does not result in loss of revenue.

The above issues were referred to the Government in November 2020 and reminded in September and October 2021. Reply is awaited (December 2021).

Chennai
The 05 MAY 2022

(R. AMBALAVANAN)
Principal Accountant General (Audit-I)
Tamil Nadu

Countersigned

New Delhi
The 06 MAY 2022

(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

ANNEXURES

Annexure-1

(Referred to in Paragraph 1.8)

Statement showing the details of audits planned and conducted during the year

Sl. No.	Name of the Department	Nature of receipts	Auditable Offices	Offices planned	Offices audited
1	Commercial Taxes and Registration	Sales Tax and other receipts	396	108	64
		Stamp duty and Registration fee	649	28	59
2	Revenue	Urban Land Tax	24	0	0
		Land Revenue	285	1	1
3	Home (Transport)	Taxes on vehicles	179	50	8
4	Home	Motor Vehicle Maintenance Organisation	22	0	0
5	Home (Prohibition and Excise)	State Excise	75	0	44
6	Industries	Mines and minerals	33	10	11
7	Energy	Electricity duty	25	0	0
Total			**1,688**	**197**	**187**

Glossary of abbreviations

Abbreviations	Full Form
AA	Assessing Authority
AC	Assistant Commissioner
AEE	Assistant Executive Engineer
AG	Accountant General
ATN	Action Taken Note
CAG	Comptroller and Auditor General of India
CCRA	Chief Controlling Revenue Authority
CCT	Commissioner of Commercial Taxes
CGST Act	Central Goods and Services Tax Act
CGST Rules	Central Goods and Services Tax Rules
Commissioner	Commissioner of State Tax
CST	Central Sales Tax
CTD	Commercial Taxes Department
DSTO	Deputy State Tax Officer
GST	Goods and Services Tax
GSTIN	Goods and Services Tax Taxpayers Identification Number
GSTN	Goods and Services Tax Network
HSN	Harmonised System of Nomenclature
IGR	Inspector General of Registration
IGST Act	Integrated Goods and Services Tax Act
IGST Rules	Integrated Goods and Services Tax Rules
IR	Inspection Report
IS Act	Indian Stamp Act
ITC	Input Tax Credit
JC	Joint Commissioner
MIS	Management Information System
NIC	National Informatics Centre
PAC	Public Accounts Committee
PO	Proper Officer
RC	Registration Certificate

Abbreviations	Full Form
RO	Registering Officer
SGST	State Goods and Services Tax
SOP	Standard Operating Procedure
SR	Sub Registrar
STO	State Tax Officer
TDS	Transfer Duty Surcharge
TNGST Act	Tamil Nadu Goods and Services Tax Act
TNGST Rules	Tamil Nadu Goods and Services Tax Rules
TNVAT Act	Tamil Nadu Value Added Tax Act
VAT	Value Added Tax