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REPORT OF THE COMPTROLLER
AND AUDITOR GENERAL
OF INDIA

FOR THE YEAR 1973-74

GOVERNMENT OF KERALA
REVENUE RECEIPTS



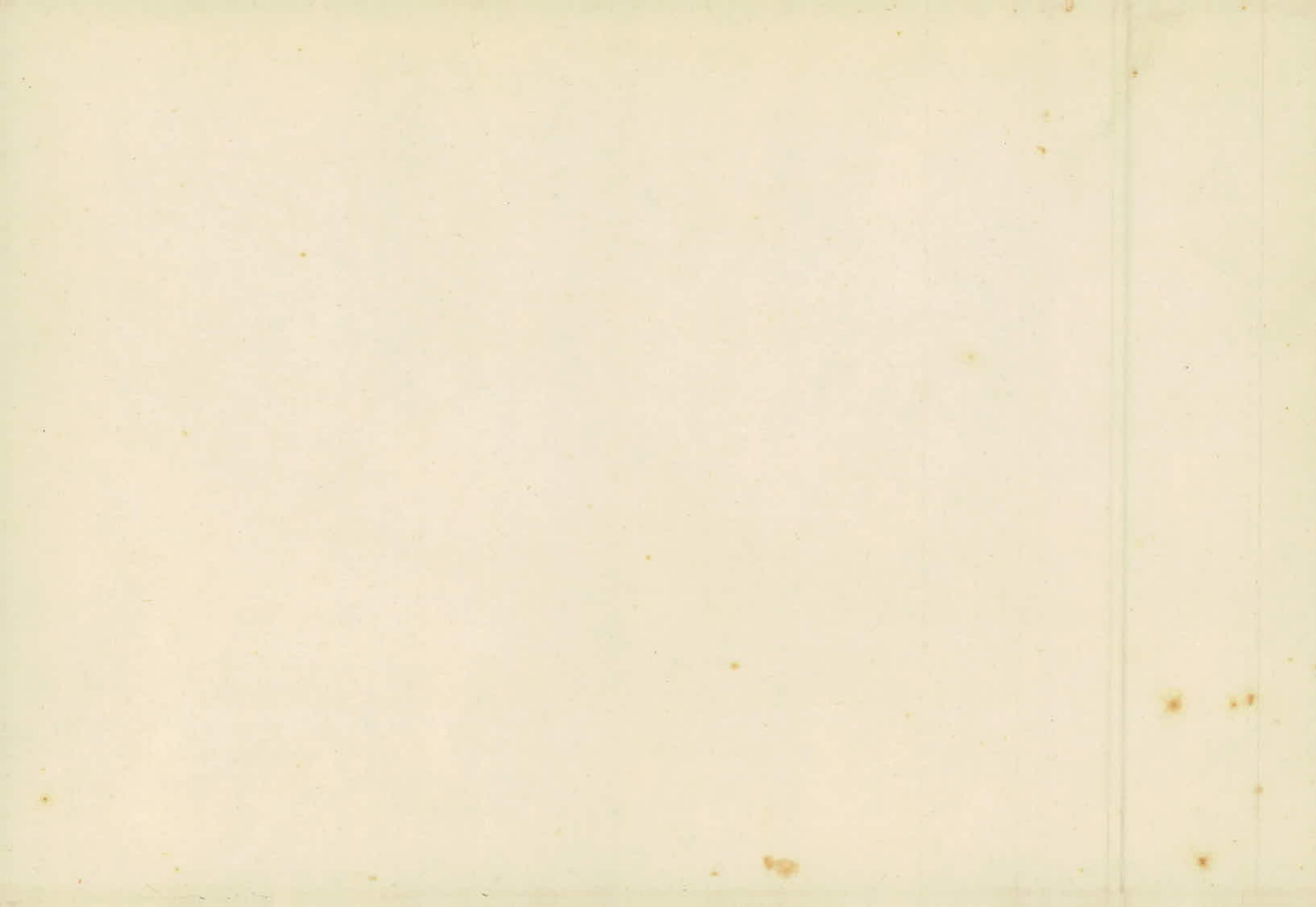


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PREFATORY REMARKS

The Audit Report on Revenue Receipts (Civil) of the Government of Kerala for the year 1973-74 is presented in a separate volume as was done last year. The material in the Report has been arranged in the following order:—

- (i) Chapter I deals with trends of revenue classifying them broadly under tax revenue and non-tax revenue. The variations between Budget estimates and the actuals in respect of principal heads of revenue and the position of arrears of revenue etc., are discussed in this Chapter.
- (ii) Chapter II deals with the measures taken for mobilisation of resources during the Fourth Five Year Plan.
- (iii) Chapters III to VII deal with points of interest which came to notice in the audit of Sales Tax, Taxes on Agricultural Income, State Excise Duties, Stamp Duty and Registration Fees and other Revenue Receipts.
- (iv) Chapter VIII deals with the Kerala State Lotteries.

2. The points brought out in this Report are those which have come to notice during the course of test audit. They are not intended to convey any general reflection on the financial administration by the departments concerned.

CHAPTER I

GENERAL

1. Trend of Revenue Receipts

The total revenue receipts of the Government of Kerala for the year 1973-74 was Rs. 215.82 crores against the anticipated revenue of Rs. 210.92 crores. The total revenue realised during the year registered an increase by 9.83 per cent over that in 1972-73 (Rs. 196.49 crores). Of the total receipts of Rs. 215.82 crores, Rs. 115.75 crores represented receipts under 'Tax Revenue' and the balance under 'Non-tax Revenue'. The receipts from Government of India (Rs. 82.73 crores) accounted for 38.33 per cent of the total revenue receipts during the year.

2. Analysis of Revenue Receipts

(a) An analysis of the receipts during 1973-74 along with the corresponding figures for the preceding four years is given below:—

	1969-70	1970-71	1971-72	1972-73	1973-74	Percentage of increase over 1969-70
	<i>(in crores of rupees)</i>					
I. Revenue raised by State Government:						
(a) Tax Revenue	60.79	67.97	74.70	82.80	95.26	56.70
(b) Non-tax Revenue	27.83	27.92	39.52	34.21	37.83	35.93
Total—I	88.62	95.89	114.22	117.01	133.09	50.18
II. Receipts from Government of India:						
(a) State's share of net proceeds of the divisible Union taxes	24.88	30.23	36.78	44.03	47.38	90.43
(b) Grants-in-aid	23.42	24.67	28.19	35.45	35.35	50.94
Total—II	48.30	54.90	64.97	79.48	82.73	71.28
III. Total revenue receipts of State I+II	136.92	150.79	179.19	196.49	215.82	57.62
IV. Percentage of I to III	64.72	63.59	63.74	59.55	61.67	..

Thus about 38 per cent of the State's total revenue receipts for the year 1973-74 come from the Union Government and the State's mobilisation amounted approximately to 62 per cent.

(b) *Tax Revenue raised by the State*

Receipts from tax revenue constitute about 72 per cent of the State's own revenue receipts. An analysis of tax revenue for the year 1973-74 and for the preceding four years is given below:—

	<i>Receipts during</i>					<i>(+) increase (-) decrease with reference to 1972-73</i>
	1969-70	1970-71	1971-72	1972-73	1973-74	
<i>(in crores of rupees)</i>						
IV. Taxes on income other than corporation tax—taxes on agricultural income	2.95	3.28	3.64	3.12	2.87	— 0.25
IX. Land Revenue	1.95	1.15	1.83	2.62	3.06	+ 0.44
X. State Excise Duties	8.70	10.01	9.99	9.42	11.88	+ 2.46
XI. Taxes on Vehicles	5.90	6.82	7.02	7.16	6.75	— 0.41
XII. Sales Tax	32.24	37.42	42.37	46.14	53.80	+ 7.66
XIII. Other Taxes and Duties	2.88	2.66	2.81	6.23	6.84	+ 0.61
XIV. Stamps						
(a) Non-judicial	4.18	4.50	4.51	5.45	6.85	+ 1.40
(b) Judicial	0.98	0.90	1.20	1.20	1.45	+ 0.25
XV. Registration	1.01	1.23	1.33	1.46	1.76	+ 0.30
Total	60.79	67.97	74.70	82.80	95.26	

Reasons for the abnormal variation in the case of 'Land Revenue,' 'State Excise Duties,' 'Sales Tax,' 'Stamps' and 'Registration' are awaited from Government (February 1975).

(c) *Non-tax revenues of the State*

Forest, Interest, Education, Agriculture, Industries, Medical, Irrigation, Navigation, Embankment and Drainage Works and Public Works were the principal sources of non-tax revenue. Receipts from the non-tax revenues of the State constitute about 28 per cent of the revenue raised by the State. An analysis of non-tax revenue under

ERRATA

Report of the Comptroller and Auditor General of India for the year 1973-74, Government of Kerala (Revenue Receipts)

<i>Page</i>	<i>Para</i>	<i>Line</i>	<i>For</i>	<i>Read</i>
2	2 (b)	Heading	Tax Revenue	Tax revenue
2	2 (b) Table (IV)	..	Taxes on income other than cor- poration tax— taxes on agri- cultural income	Taxes on Income other than Cor- poration Tax— Taxes on Agri- cultural Income
2	2 (b) Table (Total)	..	Add '+12.46'	in the last col.
3	3 (a)	2	Tax Revenue and Non-tax Revenue	tax revenue and non-tax revenue
4	3 (b) Table (1)	..	Taxes on income other than cor- poration tax— taxes on agri- cultural income	Taxes on Income other than Cor- poration Tax— Taxes on Agri- cultural Income
8	8 (a) (i)	2	'Basic Tax'	'basic tax'
13	8 (g)	4	Private	private
15	10 (v)	4	Irrigation Projects	irrigation projects
20	10 (A) Sales Tax Table	1972-73	(a) General Sales tax	(a) General sales tax
20	10 (A) Land Revenue	1	Land Revenue	land revenue
22	10 (A) 1972-73	1	Irrigation	irrigation
22	@ Notes	2	Grant	grant
23	III B	2	Plan period	plan period

<i>Page</i>	<i>Para</i>	<i>Line</i>	<i>For</i>	<i>Read</i>
25	V (b) (ii)	12 +13	Agricultural Income	agricultural income
34	21 (iv)	11	Assessing Officer	assessing officer
39	26 (i)	23	sated	stated
47	36	13	Agricultural Income	agricultural income
55	48	Heading	Excise Duty	excise duty
58	53	Table Item 3	Deeds	deeds
61	57	5	;	and
70	72	11	Eucalyptus	eucalyptus
79	Appendix	Item (1)	Taxes on in- come other than corporat- ion tax—taxes on agricultural income	Taxes on Income other than Cor- poration Tax— Taxes on Agri- cultural Income

the principal heads for the year 1973-74 and the preceding four years is given below:—

	1969-70	1970-71	1971-72	1972-73	1973-74	(+) increase (-) decrease with reference to 1972-73
	(in crores of rupees)					
1. Forest	8.83	9.14	10.61	10.46	14.54	+ 4.08
2. Interest	6.32	4.89	14.63	8.81	4.13	— 4.68
3. Education	1.82	1.76	1.93	3.93	4.83	+ 0.90
4. Agriculture	1.05	2.11	1.92	1.46	2.85	+ 1.39
5. Industries	0.53	0.36	0.50	0.18	0.15	— 0.03
6. Medical	0.45	1.35	1.49	0.71	1.82	+ 1.11
7. Public Works	0.79	0.90	1.08	1.46	1.62	+ 0.16
8. Irrigation, Navigation, Embankment and Drainage (commercial and non-commercial)	0.28	0.35	0.39	0.32	0.42	+ 0.10
9. Others	7.76	7.06	6.97	6.88	7.47	+ 0.59
Total	27.83	27.92	39.52	34.21	37.83	+ 3.62

Reasons for abnormal variation in the case of 'Forest', 'Interest', 'Education', 'Agriculture', 'Industries', 'Medical', 'Public Works', and 'Irrigation, Navigation, Embankment and Drainage' are awaited from Government (February 1975).

3. Variation between Budget estimates and actuals

(a) The variation between the Budget estimates and actuals in respect of Tax Revenue and Non-tax Revenue for the year 1973-74 and preceding four years is given below:—

	Year	Budget estimates	Actuals	Variation	Percentage of variation
		(in crores of rupees)			
A. Tax Revenue	1969-70	66.08	72.26	+ 6.18	+ 9.35
	1970-71	77.90	81.79	+ 3.89	+ 4.99
	1971-72	90.52	91.36	+ 0.84	+ 0.93
	1972-73	102.74	102.84	+ 0.10	+ 0.10
	1973-74	107.27	115.75	+ 8.48	+ 7.91
B. Non-tax Revenue	1969-70	69.19	64.66	— 4.53	— 6.55
	1970-71	66.57	69.00	+ 2.43	+ 3.65
	1971-72	74.49	87.83	+ 13.34	+ 17.91
	1972-73	88.64	93.65	+ 5.01	+ 5.65
	1973-74	103.65	100.07	— 3.58	— 3.45

(b) The figures of Budget estimates and actuals for the five years from 1969-70 to 1973-74 in respect of each of the major heads are given below to show the variation and its magnitude in each case:—

<i>Heads of revenue</i>	<i>Year</i>	<i>Budget estimates</i>	<i>Actuals</i>	<i>Variation</i> (+) <i>increase</i> (-) <i>decrease</i>	<i>Percentage of variation</i>
<i>(in crores of rupees)</i>					
1. Taxes on income other than corporation tax— taxes on agricultural income	1969-70	3.39	2.95	-0.44	-12.97
	1970-71	3.41	3.28	-0.13	-3.81
	1971-72	3.25	3.64	+0.39	+12.00
	1972-73	3.45	3.12	-0.33	-9.57
	1973-74	3.58	2.87	-0.71	-19.83
2. Land Revenue	1969-70	2.07	1.95	-0.12	-5.80
	1970-71	2.03	1.15	-0.88	-43.35
	1971-72	2.12	1.83	-0.29	-13.67
	1972-73	3.42	2.62	-0.80	-23.38
	1973-74	2.80	3.06	+0.26	+9.28
3. State Excise Duties	1969-70	9.85	8.70	-1.15	-11.67
	1970-71	9.00	10.01	+1.01	+11.22
	1971-72	10.00	9.99	-0.01	-0.10
	1972-73	11.00	9.42	-1.58	-14.36
	1973-74	9.30	11.88	+2.58	+27.74
4. Taxes on Vehicles	1969-70	6.03	5.90	-0.13	-2.15
	1970-71	6.46	6.82	+0.36	+5.57
	1971-72	6.90	7.02	+0.12	+1.73
	1972-73	8.30	7.16	-1.14	-13.73
	1973-74	8.03	6.75	-1.28	-15.94
5. Sales Tax	1969-70	29.66	32.24	+2.58	+8.70
	1970-71	33.75	37.42	+3.67	+10.87
	1971-72	40.00	42.37	+2.37	+5.92
	1972-73	45.40	46.14	+0.74	+1.63
	1973-74	50.11	53.80	+3.69	+7.36
6. Other Taxes and Duties	1969-70	3.33	2.88	-0.45	-13.51
	1970-71	4.04	2.66	-1.38	-34.16
	1971-72	5.21	2.81	-2.40	-46.07
	1972-73	6.68	6.23	-0.45	-6.74
	1973-74	6.20	6.84	+0.64	+10.32

Heads of revenue	Year	Budget estimates	Actuals	Variation	Per-
				(+) increase (-) decrease	centage of varia- tion
(in crores of rupees)					
7. Stamps (Non-judicial)	1969-70	3.57	4.18	+0.61	+17.09
	1970-71	4.00	4.50	+0.50	+12.50
	1971-72	4.47	4.51	+0.04	+ 0.89
	1972-73	4.95	5.45	+0.50	+10.10
	1973-74	5.00	6.85	+1.85	+37.00
8. Registration	1969-70	0.96	1.01	+0.05	+ 5.21
	1970-71	0.97	1.23	+0.26	+26.80
	1971-72	1.21	1.33	+0.12	+ 9.91
	1972-73	1.46	1.46	..	..
	1973-74	1.49	1.76	+0.27	+18.12
9. Forest	1969-70	7.77	8.83	+1.06	+13.64
	1970-71	8.75	9.14	+0.39	+ 4.45
	1971-72	9.65	10.61	+0.96	+ 9.94
	1972-73	10.75	10.46	-0.29	- 2.69
	1973-74	11.25	14.54	+3.29	+29.24

Reasons for the wide variation in the case of 'Agricultural Income Tax', 'State Excise Duties', 'Taxes on Vehicles', 'Other Taxes and Duties', 'Stamps (Non-judicial)', 'Registration' and 'Forest' are awaited from Government (February 1975).

4. Cost of collection

Expenditure incurred in collecting the receipts under the major heads of revenue during the three years from 1971-72 to 1973-74 is given in the Appendix.

5. Arrears in assessment

The number of assessments finalised during 1973-74 by the Agricultural Income Tax and Sales Tax Department and assessments pending finalisation on 31st March 1974 as reported by the department are indicated below:—

	Number of assessments	
	Finalised during 1973-74	Pending finalisation as on 31st March 1974
Agricultural Income Tax	29,579	17,203
Sales Tax	57,509	21,187

6. Frauds and evasions (Sales Tax)

Particulars of cases where offences under the Kerala General Sales Tax Act during 1973-74 were penalised and additional tax levied as reported by the department are shown below:—

	<i>Number of cases</i>	<i>Turnover involved</i>	<i>Additional tax levied/ composition fees/security collected</i>
		Rs.	Rs.
Offences under Section 46 of the Act	8112	6,62,83,476	21,92,787
Offences under Section 47 of the Act	5407	..	4,99,665
Offences under Section 29-A of the Act	5951	..	7,17,242

7. Uncollected revenue

The total revenue collected and arrears of revenue pending collection at the end of the three years from 1971-72 to 1973-74 as reported by the Government were as follows:—

<i>Year</i>	<i>Total amount collected</i>	<i>Arrears pending collection at the end of March</i>	<i>Percentage of arrears to total revenue</i>
		<i>(in crores of rupees)</i>	
1971-72	179.19	20.93	11.68
1972-73	196.49	28.32*	14.41
1973-74	215.82	33.40 @	15.48

* Does not include arrears pertaining to the departments of Health Services, Survey and Land Records and Taxes on goods and passengers carried by road or on inland waterways.

@ Does not include arrears pertaining to Taxes on passengers and goods, Survey and Land Records and Chief Engineer, 'General and Projects'.

The details of outstandings as on 31st March 1974 are given below:—

<i>Sl. No.</i>	<i>Source of revenue</i>	<i>Amount pending collection</i>	<i>Amount of arrears of more than five years old</i>
		<i>(in lakhs of rupees)</i>	
1.	Land Revenue	366.42	155.66
2.	Sales Tax	1271.11	359.63
3.	Agricultural Income Tax	388.23	52.85
4.	State Excise Duties	330.93	*
5.	Vehicle Tax	21.52	8.02
6.	Electricity Duties	109.19	@
7.	Forest	399.96	27.63
8.	Director of Municipalities	14.26	0.13
9.	Director of Panchayats	6.54	0.72
10.	Police	71.07	49.97
11.	Education	29.82	*
12.	Director of Health Services	15.52	0.80
13.	Public Health Engineering	144.85	34.79
14.	Co-operation	24.30	2.60
15.	Irrigation	49.25	11.81
16.	Stationery	16.05	0.01
17.	Printing	23.26	0.10
18.	Examiner of Local Funds	22.23	6.55
19.	Miscellaneous Departments	35.93	4.96
	Total	3340.44	716.23

8. An analysis of arrears of revenue pending collection as on 31st March 1974 in respect of certain departments is given below:—

(a) Land Revenue

Arrears of land revenue as at the end of March 1974 amounted to Rs. 3.66 crores as against Rs. 3.43 crores outstanding at the end of March 1973. Year-wise analysis of the outstanding amounts is given below:—

* Details are awaited from the department (February 1975).

@ Year-wise analysis not furnished by the department as the relevant details are stated to have not been given by the Kerala State Electricity Board.

<i>Year</i>	<i>Arrears as on</i>	
	<i>31st March 1973</i>	<i>31st March 1974</i>
	<i>(in crores of rupees)</i>	
Upto 1969-70	1.08	1.88
1970-71	0.22	0.34
1971-72	0.43	0.36
1972-73	1.70	0.48
1973-74	..	0.60
Total	3.43	3.66

According to information furnished by the department (December 1974) the amount of arrears as on 31st March 1974 was in the following stages of action:—

<i>Stages of action</i>	<i>Amount of arrears (in lakhs of rupees)</i>
(i) Revenue Recovery	354.83
(ii) Amount stayed by High Court	3.77
(iii) Amount stayed by Government	5.16
(iv) Amount stayed by other authorities	2.66
Total	366.42

(i) Basic Tax

Out of Rs. 366.42 lakhs remaining uncollected at the end of March 1974, Rs. 161.27 lakhs related to 'Basic Tax' under the Kerala Land Tax Act, 1961. This Act was struck down by the Kerala High Court in 1970 and a new Act enabling collection of basic tax was brought into force only in 1972. Under the new Act (Kerala Land Tax Act, 1972), notices in prescribed forms have to be issued to the land holders before coercive steps are taken to collect the tax. Delay in the preparation and issue of notice for collecting the dues, as envisaged in the Act, was stated to be the reasons for the accumulation of arrears.

In Cannanore District basic tax amounting to Rs. 92.27 lakhs was pending collection at the end of March 1974. Of this, collection of Rs. 75.09 lakhs being the tax due for the period from September 1957 to December 1969 was stayed by Government in January 1973.

The stay on collection was vacated in January 1974. According to a report sent by the District Collector, Cannanore to the Board of Revenue (February 1973) the stay orders stood in the way of speedy collection of arrears in the District.

Basic Tax on unsurveyed forest lands amounting to Rs. 7.91 lakhs was pending collection in Palghat District at the end of March 1974. Non-finalisation of the form of notice to be served on 'the Land holders' was stated to be the reason for the accumulation of arrears. The law does not prescribe any particular form of notice, nevertheless, the Board of Revenue had prepared and issued the form of notice to the District Collector, Palghat as early as in November 1961.

(ii) *Land Assignment dues*

Land Assignment dues amounting to Rs. 23.80 lakhs remained uncollected as at the end of March 1974. A major portion of the arrears relating to Idukki District (Rs. 11.97 lakhs) was reported to be not collectable on account of:—

- (i) unauthorised alienation of land subsequent to issue of assignment orders,
- (ii) lack of full particulars of the assignees and
- (iii) the assignees not having the necessary means to pay the arrears.

(b) *Sales Tax*

Sales Tax demand raised but not collected as at the end of March 1974 amounted to Rs. 12.71 crores as against Rs. 10.00 crores outstanding at the end of March 1973. Year-wise analysis of the outstanding amounts is given below:—

Year	<i>Arrears as on</i>	
	31st March 1973	31st March 1974
	<i>(in crores of rupees)</i>	
Upto 1969-70	4.24	4.40@
1970-71	0.95	1.18@
1971-72	1.32	1.54@
1972-73	3.49	1.36
1973-74	..	4.23
Total	10.00	12.71

@ Reasons for variation of the figures awaited from the department.

According to information furnished by the department (October 1974) the amount of arrears as on 31st March 1974 was in the following stages of action:—

<i>Stages of action</i>	<i>Amount of arrears (in lakhs of rupees)</i>
(i) Revenue Recovery	388.33
(ii) Amount stayed by courts	117.48
(iii) Amount stayed by Government	40.94
(iv) Amount stayed by other authorities	52.68
(v) Application before the Magistrate under Section 23(2)(b) of the Kerala General Sales Tax Act	57.92
(vi) Amount likely to be written off	185.81
(vii) Other stages	427.95
Total	1271.11

Delay in finalising assessments in time, non-disposal of appeals by the appellate authorities and delay in finalising revenue recovery proceedings are stated to be the main reasons for the accumulation of arrears.

(1) A sum of Rs. 21.27 lakhs being the arrears from one of the assessees, pertaining to the period 1966-67 and 1967-68 (the assessments of which were finalised only in March 1971 and March 1972 respectively) could not be collected pending disposal of appeal filed by the assessee before the Deputy Commissioner (Appeals) in June 1971 and May 1972 respectively.

(2) Arrears amounting to Rs. 38.69 lakhs due from another assessee for the years 1963-64 to 1970-71 (of which Rs. 9.63 lakhs represented Sales Tax collected from customers in 1968-69) was advised for collection under revenue recovery proceedings in January 1971. The revenue recovery proceedings are still pending finalisation (December 1974).

(c) Agricultural Income Tax

Agricultural Income Tax demand raised but not collected as at the end of March 1974 amounted to Rs. 3.88 crores as against

Rs. 3.06 crores outstanding at the end of March 1973. Year-wise analysis of the outstanding amounts is given below:—

Year	Arrears as on	
	31st March 1973	31st March 1974
	<i>(in crores of rupees)</i>	
Upto 1969-70	0.75	0.67
1970-71	0.29	0.23
1971-72	0.53	0.33
1972-73	1.49	0.66
1973-74	..	1.99
Total	3.06	3.88

The amount remaining uncollected as on 31st March 1974 was stated by the department (October 1974) to be in different stages of action as shown below:—

Stages of action	Amount of arrears <i>(in lakhs of rupees)</i>
(i) Revenue Recovery	94.30
(ii) Amount stayed by courts	46.82
(iii) Amount stayed by Government	9.74
(iv) Amount stayed by other authorities	78.86
(v) Amount likely to be written off	1.43
(vi) Other stages	157.08
Total	388.23

Report regarding reasons for arrears is awaited.

Arrears of Agricultural Income Tax amounting to Rs. 10,88,560 due from an assessee for the period from 1964-65 to 1969-70 remained uncollected at the end of March 1974 mainly for the reason that all the assessments for these years were pending disposal in appeal before the Deputy Commissioner (Appeals).

(d) State Excise Duties

Arrears of State excise duties outstanding as at the end of March 1974 amounted to Rs. 3.31 crores as against Rs. 3.47 crores outstanding at the end of March 1973. Year-wise analysis of the outstandings called for in May 1974 is awaited from the department (February 1975).

According to information furnished by the department (January 1975) the amount of arrears as on 31st March 1974 was in the following stages of action:—

<i>Stages of action</i>	<i>Amount of arrears (in lakhs of rupees)</i>
(i) Revenue Recovery	40.84
(ii) Amount stayed by Government, Courts and other authorities, remission etc.	290.09
Total	330.93

A sum of Rs. 34.74 lakhs being the Abkari arrears due from a licensee for the period 1971-73 was advised for Revenue Recovery in August 1972.

(e) Electricity Duty

Section 4 of the Electricity Duty Act, 1963 prescribes levy of electricity duty on consumers at varying rates ranging from 10 per cent to 20 per cent of price of energy billed for. The licensee is to collect this duty from the consumers and remit it to Government. The arrears of electricity duty to be realised from various licensees are given below:—

<i>Licensee</i>	<i>Amount of duty due (in lakhs of rupees)</i>	<i>Remarks</i>
1. Kerala State Electricity Board	90.96	Upto the end of February 1974.
2. Kottayam Electric Supply Agency	16.80	For the period ended 31st March 1974.
3. Cochin Power and Light Corporation, Ernakulam (since taken over by the Kerala State Electricity Board)	0.91	Electricity duty (Rs. 0.14 lakh) due for the period September 1963 to April 1967 and penal interest due (Rs. 0.77 lakh) for the period October 1967 to December 1970.
4. Others	0.52	
Total	109.19	

(f) Forest

Arrears of revenue pending collection at the end of March 1974 in Forest Department amounted to Rs. 399.96 lakhs. The arrears represented the amount due from other departments, Government of India, Public Sector Undertakings, private parties etc., towards value of forest produce supplied, lease rent of forest area, liability of contractors etc.

The break up of the arrears is given below:—

	<i>Amount due as on 31st March 1974 (in lakhs of rupees)</i>
Government of India	62.18
Public Sector Undertakings of the Central Government	0.25
Public Sector Undertakings of the State Government	31.03
Departments of the State Government	25.02
Other State Governments	12.87
Local Bodies	27.98
Private parties	240.63
Total	399.96

(g) Public Health Engineering Department

Arrears of revenue pending collection at the end of March 1974 in Public Health Engineering Department amounted to Rs. 144.85 lakhs. The arrears represented the amount due from other departments, Government of India, Public Sector Undertakings, Private parties etc. The break up of the arrears is given below:—

	<i>Amount due as on 31st March 1974 (in lakhs of rupees)</i>
Government of India	4.09
Public Sector Undertakings of the Central Government	7.06
Public Sector Undertakings of the State Government	16.00
Local Bodies:	
(a) Cochin Corporation, Municipalities and Panchayats of Ernakulam Division	105.03
(b) Trivandrum Corporation	3.33
Private parties	9.34
Total	144.85

(h) Police Department

Arrears of revenue pending collection at the end of March 1974 in Police Department amounted to Rs. 71.07 lakhs. The arrears represented the amount due from other departments, Government of India, Other State Governments and Public Sector Undertakings.

	<i>Amount due as on 31st March 1974 (in lakhs of rupees)</i>
Government of India	59.24
Public Sector Undertakings of the Central Government	5.97
Public Sector Undertakings of the State Government	0.11
Other State Governments	5.75
Total	71.07

9. Writes off, waivers and remissions of revenue

Details of demands written off, waived and remissions made during 1973-74 furnished by the department are given below:—

<i>Department</i>	<i>Writes off of losses, irrecoverable revenue, duties etc.</i>		<i>Waivers</i>		<i>Remissions</i>	
	<i>Items</i>	<i>Amount Rs.</i>	<i>Items</i>	<i>Amount Rs.</i>	<i>Items</i>	<i>Amount Rs.</i>
1. Agricultural Income Tax and Sales Tax	183	73,900	1	1,581	2	6,956
2. Land Revenue	2	754	..	..	..	..
3. Motor Vehicles	15	8,832	..	..	..	..
4. State Excise	..	—	..	..	1	41,180
Total	200	83,486	1	1,581	3	48,136

CHAPTER II

MOBILISATION OF RESOURCES

10. Mobilisation of resources

The Fourth Five Year Plan stressed the need for mobilisation of additional resources by the State Government for financing plan and non-plan requirements during the plan period (1969 to 1974). This was sought to be achieved by adopting specific measures like (i) additional taxation especially of agricultural income and urban property values and (ii) efficient and profitable operation of public undertakings and (iii) a more effective drive for small savings particularly in rural areas. Efforts were to be directed to augment resources by:

- (i) mobilising additional resources in the rural sector, especially from the agricultural sector;
- (ii) enhancing the rate of taxation and by rationalising the tax system;
- (iii) tapping the source of unearned increment in income and wealth as a result of increase in land values in and around developing urban areas;
- (iv) withdrawing tax incentives when the purposes have been served by them and where the return is not commensurate with the revenue loss; and
- (v) raising the rate of return on capital employed in electricity undertakings, and by industrial and commercial undertakings other than public utilities as well as by improving financial returns from Irrigation Projects.

The estimated plan outlay during the Fourth Five Year Plan for the State was Rs. 258.40 crores and was distributed under different heads as follows:—

	<i>(in crores of rupees)</i>
1. Agricultural and allied sectors	48.89
2. Irrigation and Power	109.53
3. Transport and Communication	19.65

	<i>(in crores of rupees)</i>
4. Industry and Minerals	22.08
5. Education, Public Health and other Social Services	57.69
6. Miscellaneous	0.56
Total	258.40

I. Excess/shortfall and reasons therefor

Against the estimated plan outlay of Rs. 258.40 crores, the total receipts of the State Government during the plan period was Rs. 317.35 crores. The target of receipts set forth in the plan and the actual realisation are indicated in the table below:—

	<i>Estimates</i>	<i>Actuals</i>
	<i>(in crores of rupees)</i>	
1. State budgetary sources other than negotiated loans and market borrowings by State enterprises	Nil*	Nil**
2. Additional resources mobilisation	50.00	39.23
3. Borrowings by the State Government	5.00	48.83@
4. Borrowings by the State enterprises	28.40	53.49
5. Central assistance	175.00	175.80
Total	258.40	317.35

The resources actually mobilised exceeded the plan outlay by Rs. 58.95 crores. This additional effort for mobilisation of resources was necessary because of increase in plan outlay. However,

* The total gap of budgetary resources of the State during the Fourth Five Year Plan period (at 1968-69 rates of taxes, electricity tariffs, bus fares etc.) was Rs. 125.32 crores. This gap had been ignored based on a general consensus among the State Government, the Government of India and the Planning Commission that it would be made good by some sort of special Central assistance (vide foot note on page 21 of Fourth Five Year Plan of State Planning Board, Trivandrum).

** Small Savings of Rs. 12.76 crores for the plan period is to be exhibited as a Public Debt, but the amount has been used by the Government to meet the State's Budgetary gap.

@ Includes net increase in overdraft on plan account of Rs. 24.29 crores.

the plan outlay was subsequently revised upward from Rs. 258.40 crores to Rs. 308.85 crores. Thus after meeting this increased requirement, there was net excess realisation of Rs. 8.50 crores. This excess was utilised for meeting increase in non-developmental expenditure such as that due to revision of pay and enhancement of dearness allowance of employees.

Although there was a shortfall of Rs. 10.77 crores in respect of resources expected from additional taxation measures, the increase in resources generated was achieved mainly by resorting to additional borrowings from the Life Insurance Corporation of India and the Reserve Bank of India, besides overdraft of Rs. 24.29 crores. Information regarding the interest liability incurred by Government on the additional borrowings from the Life Insurance Corporation of India and the Reserve Bank of India including over draft is awaited (February 1975).

The target fixed towards mobilisation of additional resources through taxation measures and the actual achievements during each plan period (I to IV) are indicated below:—

<i>Year</i>	<i>Target fixed</i>	<i>Amount realised</i>	<i>Variation</i>	<i>Percentage of variation</i>
	<i>(in crores of rupees)</i>			
First Plan (1951-56)	No target fixed	6.00	..	..
Second Plan (1956-61)	8.60	12.12	+ 3.52	+ 40.9
Third Plan (1961-66*)	23.00	26.21	+ 3.21	+ 18.3
Fourth Plan (1969-74)	50.00	39.23	— 10.77	— 21.5

Even though during the discussions with the Planning Commission on the Fourth Plan, Government agreed to raise Rs. 50 crores by new/additional taxation measures, the additional revenue anticipated by Government from these measures after taking into account the normal growth in revenue was Rs. 55.41 crores. Against this, Rs. 39.23 crores only could be raised as indicated below:—

* During the period 1966 to 1969 plan was on annual basis.

<i>Principal heads of revenue</i>	<i>Measures introduced in 1969-70</i>		<i>Measures introduced in 1970-71</i>	
	<i>Anticipated during plan period</i>	<i>Actuals during plan period</i>	<i>Anticipated during plan period</i>	<i>Actuals during plan period</i>
(1)	(2)	(3)	(4)	(5)
				(in crores)
Taxation				
Agricultural Income tax	..	..	1.72	1.24
Land Revenue	3.50	..	3.00	..
Taxes on Vehicles	3.97	2.70	..	..
Sales Tax	2.92	3.87	3.27	4.42
Stamp duty	2.21	3.68	..	..
Registration fees	..	..	0.44	0.44
Total	12.60	10.25	8.43	6.10
Others				
Revision of rates of subscription to General Provident Fund	..	..	3.26	4.62
Enhancement of bus fares	..	..	..	..
Revision of rates of electricity tariff	7.00	5.35	..	..
Less				
Abolition of tuition fees in standards IX and X	..	— 7.70	..	..
Total	19.60	7.90	11.69	10.72
Variation between anticipated revenue and actuals		— 11.70		— 0.97

* No measures were taken during this period.

@ Includes anticipated yield from measures not implemented.

<i>Measures introduced in 1971-72</i>		<i>Measures introduced in 1972-73</i>		<i>Measures introduced in 1973-74</i>		<i>Total</i>	
<i>Anticipated during plan period</i>	<i>Actuals during plan period</i>	<i>Anticipated during plan period</i>	<i>Actuals during plan period</i>	<i>Anticipated during plan period</i>	<i>Actuals during plan period</i>	<i>Anticipated during plan period</i>	<i>Actuals during plan period</i>
(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
<i>of rupees)</i>							
..	..	..	..	..	..	1.72	1.24
6.00	2.04	2.00	..	..	..	14.50	2.04
..	..	..	..	..	..	3.97	2.70
*	*	9.42	12.26	..	..	15.61	20.55
..	..	..	..	..	..	2.21	3.68
*	*	..	..	..	..	0.44	0.44
6.00	2.04	11.42	12.26	..	..	38.45	30.65
3.31	3.31	..	..	..	..	6.57	7.93
3.39	3.00	..	..	..	..	3.39	3.00
..	..	..	..	..	..	7.00	5.35
..	..	..	..	..	..		— 7.70
12.70	8.35	11.42	12.26	..	..	55.41@	39.23
— 4.35		+ 0.84		..	..		— 16.18

The reasons for the excess and shortfall under certain major heads of tax revenue as reported by the State Government are analysed in the following paragraphs:—

A. Tax receipts

Sales Tax

The plan envisaged an increase in sales tax by Rs. 15.61 crores during the plan period. Against this, the receipts from this head rose to Rs. 20.55 crores at the end of the plan period. The increase is mainly accounted for by different measures taken by the State Government as indicated below:—

<i>Year</i>	<i>Measures introduced</i>	<i>Anticipated receipts during plan period</i>	<i>Actuals during plan period</i>
		<i>(in crores of rupees)</i>	
1969-70	Revision of rates of sales tax	2.92	3.87
1970-71	Revision of rates of sales tax	3.27	4.42
1972-73	Enhancement of rate of:—		
	(a) General Sales tax	6.27	6.27
	(b) Sales tax on petroleum products	3.15	5.99
	Total	15.61	20.55

Stamp Duty

The plan envisaged an increase in Stamp duty by Rs. 2.21 crores during the plan period. Against this, the receipts from this head rose to Rs. 3.68 crores at the end of the plan period. The increase is accounted for by the following measures taken by the State Government:—

<i>Measure proposed</i>	<i>Anticipated receipts during plan period</i>	<i>Actuals during plan period</i>
	<i>(in crores of rupees)</i>	
Rationalisation of Stamp duty	2.21	3.68

Land Revenue

The plan envisaged an increase in Land Revenue by Rs. 14.50 crores during the plan period. Against this, however, the receipts

from this head were only Rs. 2.04 crores at the end of the plan period. Various measures proposed by the State Government during the plan period and achievements thereagainst are indicated below:—

<i>Measures proposed</i>	<i>Anticipated</i>	<i>Actuals</i>
	<i>receipts during plan period</i>	<i>during plan period</i>
	<i>(in crores</i>	<i>of rupees)</i>
Education cess on property tax and building tax	2.50	Nil
Admission fees in schools	1.00	Nil
Taxes on buildings	1.00	Nil
Cess on properties and buildings	2.00	Nil
Removal of exemption from Land Tax	1.50	0.90
Revision of rates of Plantation tax	1.50	1.14
Taxes on non-agricultural lands in urban areas	3.00	Nil
Rationalisation of irrigation cess	2.00	Nil
Total	14.50	2.04

Shortfall in achievements with reference to the measures indicated above is stated to be due to the following reasons:—

1969-70

'Education cess' on property tax and building tax and admission fees in schools was not brought into force by necessary legislation on account of opposition from public.

1970-71

The proposed taxes on buildings and cess on properties and buildings were not implemented owing to legal difficulties. However, an ordinance was promulgated on 18-11-1974 and given effect from 1-4-1973.

1971-72

The shortfall was stated to be mainly due to (i) non-implementation of necessary legislation of taxes on non-agricultural lands in urban areas due to protest from the affected parties (ii) non-collection of tax under the measure 'removal of exemption in respect of land tax' due to striking down of the Kerala Land Tax Act by the High Court and delay in issuing notices for collection of dues as envisaged

in the new Act and (iii) short-collection of plantation tax due to delay in conducting quinquennial revision and non-revision of assessments in pursuance of the Amendment Act of 1971, for want of additional staff.

1972-73

The measure 'rationalisation of Irrigation cess' was stated to have remained unimplemented owing to non-completion of drafting of necessary legislation.

B. Borrowings

- (i) Borrowings by the State over the plan period Rs. 48.83 crores*
- (ii) Borrowings by the State enterprises Rs. 53.49 ,,

C. Central Assistance Rs. 175.80 ,,

II. Transfer of resources from Centre to State

The following table shows the trend in the transfer of resources from Central Government to the State during the plan period.

Year	Transfer through Finance Commission	Transfer through Planning Commission	Other transfers	Total
(1)	(2) @	(3) £	(4)	(5)
	(in crores of rupees)			
1969-70	35.20	33.16	27.60	95.96
1970-71	40.51	33.07	32.43	106.01
1971-72	47.08	37.20	27.88	112.16
1972-73	54.39	41.72	95.08	191.19
1973-74	57.73	41.35	48.11	147.19

* Includes net increase in overdraft on plan account of Rs. 24.29 crores.

@ Column 2 includes share of net proceeds of the divisible Union taxes, grant-in-aid under Article 275(1) of the Constitution and Grant in lieu of tax on railway passenger fares.

£ Column 3 represents assistance received for State Plan Schemes (Rs. 175.80 crores) and for Centrally Sponsored Schemes (Rs. 10.17 crores) and by way of ways and means advances for Plan Schemes (Rs. 0.53 crore).

III. Fiscal position of the State

A. One way of looking at the tax performance of a State may be to see the ratio of per capita revenue to per capita income of the State. The following table indicates the ratio of per capita tax revenue to per capita income of the State during the five years of the plan period.

<i>Year</i>	<i>Population (in lakhs)</i>	<i>Per capita revenue in rupees from taxes</i>	<i>Per capita income in rupees (current prices)</i>	<i>Ratio of column (4) to (3)</i>
(1)	(2)	(3)	(4)	(5)
1969-70	205.80	29.54	554.83	18.78
1970-71	210.61	32.27	600.35	18.60
1971-72	215.54	34.66	589.13	17.00
1972-73	220.59	37.53	655.65	17.47
1973-74	225.76	42.20	..*	..*

(Information as furnished by Government)

B. The scheme for generation and distribution of power absorbed 29.5 per cent of outlay on the State's plans during the Plan period. The investment in power projects by way of loans advanced by the State Government to the State Electricity Board rose from Rs. 112.46 crores in 1968-69 to Rs. 157.85 crores in 1973-74. The return on investments by way of interest due and electricity duty realised on these schemes during the plan period was 30.65 per cent. The following table shows investments made by the State Government in the State Electricity Board and the return obtained.

<i>Year</i>	<i>Loans advanced to the State Electricity Board</i>	<i>Interest due on loans</i>	<i>Electricity duty realised</i>
	<i>(in crores of rupees)</i>		
1971-72	18.68	7.97	1.94
1972-73	11.05	8.40	2.32
1973-74	3.00	8.53	2.46

* Details awaited from Government (February 1975).

C. During the Fourth Plan period, the State Government had to avail of overdraft of Rs. 391.21 crores from the Reserve Bank of India on 1186 occasions to cover both plan and non-plan expenditure as follows:

<i>Year</i>	<i>Overdraft availed (in crores of rupees)</i>	<i>Number of occasions</i>
1969-70	48.60	169
1970-71	106.00	362
1971-72	129.29	366
1972-73	38.78	87
1973-74	68.54	202
Total	391.21	1186

IV. In the following case the State Government have foregone revenue under the taxation laws by grant of exemptions under the statutes.

General Sales Tax

A new Section, 5A was introduced in the General Sales Tax Act, 1963 with effect from 1st April 1970 according to which Government was empowered to levy tax on purchase of goods within the State in respect of which no tax has been levied either at the sale point or at the purchase point. It was noticed during audit that Government subsequently granted exemptions in respect of purchase of certain commodities like soft wood for manufacture of splints and packing cases, raw-materials for umbrella, gold and silver ornaments by jewellery dealers etc. The tax foregone on this account is estimated at Rs. 19 lakhs per annum. A proposal to withdraw such exemption is stated to be under consideration of Government.

V. Certain lacunae in the State Taxation Laws noticed in audit are mentioned below:—

(a) State Excise Duties

There are enabling provisions in the Abkari Act and Distillery and Warehouse Rules to levy export duty|fee on liquor produced in the State and exported to other places. The Kerala Government have not taken action so far to levy such duty|fee, whereas, other States levy export duty|fee on liquor exported by them to other States





including Kerala. This source has thus remained untapped for years. To a reference made by audit, Government replied in June 1974, that the matter was being examined.

(b) *Agricultural Income Tax*

(i) Under Section 35 (1), if for any reason agricultural income chargeable to tax under the Agricultural Income Tax Act, has escaped assessment in any financial year, the Agricultural Income Tax Officer may at any time, within three years of the end of that year serve on the person liable to pay tax, a notice to bring the escaped income to bear tax. However, Section 35 (2) prohibits assessment of escaped income after expiry of three years from the end of the year in which the agricultural income was first assessable. On the other hand, under the Central Income Tax Act, the period of limitation to assess such escaped income is 8 years, if the income escaping assessment is less than Rs. 50,000 and 16 years in the case where it is Rs. 50,000 or more in a year. Several cases of loss of revenue under Agricultural Income Tax Act due to operation of Section 35 (2) *ibid* came to notice of audit. An amendment to the Section on the lines of the Central Income Tax Act has not so far been considered by Government.

(ii) Under the provisions of the Kerala Agricultural Income Tax Act, 1950, agricultural income derived from cultivation of tea means that portion of the income derived from the cultivation, manufacture and sale of tea as is defined to be agricultural income for the purpose of enactments relating to Indian Income Tax. The Supreme Court of India pronounced in 1968 that there was no provision in the Kerala Act authorising the Agricultural Income Tax Officer to disregard the computation of the tea income made by the income tax authorities acting under the Central Income Tax Act, and so the Agricultural Income Tax Officer is bound to accept the computation of the tea income made by the Central Income Tax authorities and to assess only 60 per cent of the income so computed as Agricultural Income. Though the lacuna in the State Act was thus pointed out in 1968, no remedial measures were taken by the department to safeguard the interest of State revenue against any possible loss due to mistakes in computation made by the Central Income Tax Officer with the result that even mistakes apparent from the records could not be rectified by the Agricultural Income Tax Officer till the Central Income Tax assessments are revised.

CHAPTER III

SALES TAX RECEIPTS

11. Results of test audit in general

During the period 1973-74, test audit of documents of the Commercial Tax Offices revealed under-assessment of tax of Rs. 6.54 lakhs in 128 cases and over-assessment of Rs. 8,925 in one case.

The under-assessment of tax of Rs. 6.54 lakhs is due to mistakes categorised under the following heads:—

<i>Nature of irregularity</i>	<i>No. of items</i>	<i>Amount (in lakhs of rupees)</i>
1. Turnover escaping tax	55	4.90
2. Irregular exemptions	12	0.35
3. Double accountal of remittance/ arithmetical mistakes	11	0.17
4. Non-levy of penalty	23	0.66
5. Other lapses	27	0.46
	<hr/> 128	<hr/> 6.54

A few cases of under-assessment/over-assessment are mentioned in paragraphs 12 to 19.

12. Turnover escaping tax

(i) Under Section 5 A of the Kerala General Sales Tax Act, 1963 value of motor spirits, petrol, kerosene etc., purchased from Cochin Refineries Limited by other oil companies and transferred to their branches/depots outside the State is assessable to sales tax at the rate of 3 per cent from 1st April 1970. It was noticed in audit (August 1973) that out of the total purchase turnover of Rs. 4,54,38,378 returned by an oil company for the assessment year 1970-71, only Rs. 3,25,99,455 had been assessed to tax in a Sales Tax Office, leaving out of consideration Rs. 1,28,38,923 being excise duty





paid by the assessee. It was pointed out (September-October 1973) to the Board of Revenue and Government that excise duty paid in this case formed part of the taxable purchase turnover. Government intimated (November 1974) that the escaped turnover of Rs. 1,28,38,923 had been assessed to tax in October 1974 and an additional demand of Rs. 4,04,426 raised. Report regarding collection is awaited.

(ii) From 1966, Kerala State Electricity Board is a registered dealer under the Kerala General Sales Tax Act. The Board had been remitting the collected tax on sale of goods other than electricity, but the Board had neither been filing any sales tax returns nor had it been assessed to tax by the Sales Tax department.

During local audit of a divisional office under the Board (January 1970), it was noticed that while effecting a sale of imported equipments to a contractor between August 1968 and November 1968 for Rs. 49.66 lakhs, sales tax had not been collected and remitted to Government by the Board despite a specific provision in the agreement with the contractor for the collection of sales tax on such sales. As the Sales Tax department did not follow the normal procedure of obtaining Sales Tax returns in the case of the Board, the turnover of Rs. 49.66 lakhs escaped assessment. Further action in the matter is barred by limitation of time as four years from the expiry of the year to which the tax related have already elapsed. This resulted in a loss of revenue (sales tax and surcharge) of Rs. 3.65 lakhs.

(iii) According to Section 5 A of the Kerala General Sales Tax Act, 1963 tax is leviable on purchase of goods on which no tax has been levied previously and when such goods are either consumed by the dealer in the process of manufacture of other goods, or disposed of in any manner other than by way of sale within the State, or despatched outside the State except as a direct result of inter-State sale. During local audit of a Sales Tax Office (July 1973) it was pointed out that in the case of two assessee's turnover of goods purchased from unregistered dealers had not been subjected to tax under Section 5 A. It was stated by the department (December 1973) that the assessments were revised raising an additional tax of Rs. 5,114 on an escaped turnover of Rs. 1,62,352. Credit particulars are awaited (February 1975).

13. Irregular exemption

(i) An assessee (owning a printing press) who supplied printed ration cards to Government during 1967-68 split the turnover relating to the supply into two items, viz., (i) cost of paper and (ii) printing charges and claimed exemption for the latter. This claim was allowed by the assessing officer while finalising the assessment for the year 1967-68. During local audit (February 1970), it was pointed out that in the absence of two separate contracts between the assessee and Government, one for the supply of paper and the other for labour (for printing the ration cards), only one sale of finished goods (ration cards) could be deemed to have taken place and hence the exemption of printing charges from the taxable turnover was not in order. Thereupon, the assessing officer revised the assessment (December 1970) but levied tax at 5 per cent (the correct rate was 3 per cent) on the entire turnover of Rs. 5,33,200 made by the assessee in the sale of ration cards. The assessee went on appeal against the revision and the High Court of Kerala disposed of the appeal (July 1973) upholding taxability of the turnover at 3 per cent. Accordingly, the assessment was revised again (March 1974) demanding Rs. 16,796 as tax on the turnover of Rs. 5,33,200. The additional demand was realised in December 1974.

(ii) Sales turnover of old rubber trees are subject to tax as per the directives of the Kerala Sales Tax Appellate Tribunal issued in January 1969. But an assessee was given exemption in a Sales Tax Office in respect of an amount of Rs. 2,52,606 realised by him in 1969-70 by selling rubber trees, although similar earnings of the same assessee in the next two years viz., 1970-71 and 1971-72 were duly assessed to tax. On the inconsistency being pointed out in audit (September 1973), reassessment for the year 1969-70 was made by the department (March 1974) and an additional demand of Rs. 7,957 was raised. According to information received from Government (October 1974) the additional tax demanded has been realised in full in April 1974.

14. Double accountal of a remittance

During local audit (May 1970) of a Sales Tax Office, the treasury challan in support of a credit of Rs. 12,012.75 afforded to an assessee in the accounts relating to his Central Sales Tax assessment for

1966-67 was not produced for verification. The assessing officer stated (September 1972) that the challan was not traceable but he had checked the treasury records and certified that the credit afforded was bonafide. On further verification (August 1973) by the department at the instance of audit, it transpired that while remitting into the treasury a cheque for Rs. 12,012.75 given by the assessee, the department had wrongly prepared the challan in the name of another assessee and that credit for the amount had been given to both the assesseees viz., the one who gave the cheque and the other in whose name the challan was prepared. Thus, a single remittance had been accounted for in the accounts of two assesseees. In December 1973 the credit given to the wrong assessee was withdrawn and additional demand for Rs. 12,012.75 raised.

Government stated (September 1974) that the Board of Revenue had been requested to ascertain the reason for the delay in finding out and rectifying the mistake, the lapses on the part of the officers in giving wrong credit and refund, giving a wrong reply to audit etc., and to take proper action against the officers responsible.

15. Under-assessment due to misclassification of goods

Under the Kerala General Sales Tax Act, 1963 the general rate of tax is three per cent but 'foodgrains' such as paddy, rice, wheat, maize, jowar, bajra, barley, ragi and such other items as may be notified by the Government are taxable at the rate of one per cent. By a notification issued in August 1972 'milo' was also included in the term of 'food grains' and thus became subject to tax at the concessional rate of one per cent. Prior to August 1972, milo was, therefore, taxable at the rate of three per cent.

It was, however, noticed that the sales turnover of 'milo' of Rs. 5,01,311 for the year 1968-69 of one dealer was assessed to tax at one per cent treating it as 'food grains'. When the correct position was pointed out in audit to the assessing authority, the assessment was revised in February 1972 and an additional tax demand of Rs. 10,528 was raised. The assessee preferred an appeal but the appeal was dismissed (February 1974) as the notification declaring 'milo' as food grain did not have retrospective effect. Government reported (October 1974) that the assessee had remitted the additional demand in August 1974.

16. Grant of registration without verification

Before granting certificate of registration under the Kerala General Sales Tax Act to any dealer, the Sales Tax Officer has to satisfy himself, after conducting necessary enquiries, that the particulars furnished in the application are correct. The departmental manual and the standing order issued by the Board of Revenue in July 1966 also stress the need for conducting proper enquiries so that registration is not granted on the basis of bogus applications.

It was noticed in audit (October 1972) that a person who had applied for registration under the local Act as well as under the Central Sales Tax Act in April 1970 for doing business in timber was granted registration under both the Acts on the date of application itself. No security for the proper payment of tax was demanded despite a report of the Village Officer to the effect that the applicant possessed only 20 cents of land. Inspection of the place of business was also not conducted at any time. When the final demand notice for a tax of Rs. 35,572 (General Sales Tax and Central Sales Tax) for the year 1970-71 was issued in September 1971, the assessee declined to accept it stating that he had not registered himself as a dealer nor had he conducted any business. However, the dealer himself had returned a turnover of Rs. 2,05,000 for the year 1970-71. The amount was advised (January 1972) for recovery under Revenue Recovery Act, but the Revenue authorities informed the assessing officer in July 1972 that the assessee possessed no properties for attachment. The case was reported (November 1972) to the Board of Revenue. The Board informed audit (November 1973) that the matter was being examined. Final reply is awaited (February 1975).

17. Under-assessment of tax due to treatment of outright sales as branch transfer

Under the Kerala General Sales Tax Act sale means transfer of property in goods for valuable consideration and as such branch transfers are not sales and do not attract sales tax. In an assessing office, transfers of raw materials worth Rs. 9,25,455 made by an assessee-company to some other concerns (claimed to be the branches of the former) were excluded from the taxable turnover for the assessment year 1970-71. It was pointed out (July 1973) in local audit that evidence to support the presumed relationship between

the assessee-company and those concerns was lacking. On re-examination of the case by the department at the instance of audit, it was found that the assessee-company could only establish that transfer of stock worth Rs. 7,61,416 was to branches, and the transfer of stock for Rs. 1,64,039 to one concern was actually an outright sale. The assessment was revised in January 1974 for taxing the turnover of Rs. 1,64,039 which had been erroneously treated as branch transfer and exempted from tax earlier.

18. Non-levy of penalty

Under the Kerala General Sales Tax Act, 1963 an assessee who fails to pay the tax assessed or any instalment thereof within the time specified for the purpose, is liable to pay penalty at the rate of 0.5 per cent on the tax due for the first three months and 1 per cent per month for each subsequent month. In the case of three assessees penalty for failure to pay the tax within the stipulated time was not levied in a Sales Tax Office. On this being pointed out in audit (August-September 1973), demand for a penalty of Rs. 32,313 was raised (October 1973). Particulars of collection, advised for revenue recovery, are awaited (February 1975).

19. Over-assessment of tax

Under the Kerala General Sales Tax Act copra is taxable at the point of last purchase in the State and the rate of tax on it was raised from two per cent to three per cent with effect from 1st April 1969. It was, however, noticed that in one case the turnover of Rs. 9,91,667 relating to 1968-69 which was liable to tax at the rate of two per cent was erroneously assessed to tax (November 1972) in a Sales Tax Office at three per cent leading to an excess demand of Rs. 9,916, but surcharge at the rate of 5 per cent on the tax was not also levied. Consequently there was an over-assessment of tax of Rs. 8,925.

CHAPTER IV

AGRICULTURAL INCOME TAX

20. Results of test audit in general

During 1973-74, test audit of the documents of Agricultural Income Tax Offices revealed under-assessment|over-assessment of tax of Rs. 56.12 lakhs in 405 cases.

The under-assessments|over-assessments are broadly categorised as follows:—

<i>Nature of irregularity</i>	<i>No. of items</i>	<i>Amount (in lakhs of rupees)</i>
1. Income escaping assessment	181	25.68
2. Under-assessment due to incorrect computation of income	50	3.03
3. Under-assessment due to incorrect registration|Renewal of Registration of firm	12	6.26
4. Under-assessment due to assignment of incorrect status	30	5.77
5. Under-assessment due to grant of inadmissible deductions	49	10.00
6. Application of incorrect rate of tax	14	0.65
7. Other irregularities	47	2.53
8. Over-assessment	22	2.20
	<hr/> 405	<hr/> 56.12

A few cases of under-assessment|over-assessment are mentioned in paragraphs 21 to 36.

21. Income escaping assessment

(i) According to a Supreme Court decision (October 1965) the agricultural income on account of excess amounts realised on previous seasons' coffee crop should be considered as derived in the year in which the relevant entry was made in the accounts about the

sale of coffee to the Coffee Board. Thus in the case of an assessee who maintains his accounts on mercantile system, receipts from coffee whenever received were to be considered as derived in the year in which the coffee produced was handed over to the Coffee Board and taxed accordingly. However, this principle was not observed in two assessing offices in relation to the assessment of agricultural income of two companies and a registered firm in respect of the assessment years from 1967-68 to 1972-73 resulting in an undercharge of tax amounting to Rs. 85,639.

This was brought to the notice of the Board of Revenue (August 1974).

(ii) In the case of an assessee holding 24 blocks of rubber, income from 12 blocks of rubber only was assessed to tax for the assessment years 1969-70 and 1970-71, treating other 12 blocks as immature. In computing the net taxable income, the assessing officer disallowed 50 per cent of the manuring expenses as pertaining to immature area. Claiming that there was no immature area during the relevant period, the assessee went in appeal which was allowed. While revising the assessment on the basis of appellate orders, the entire manuring expenses were allowed as deduction. However, income from 12 blocks of rubber incorrectly treated as immature in the original assessment was omitted to be assessed in the revised assessment as well. This mistake continued to persist in the assessments for 1971-72 and 1972-73 also with the result that an estimated income of Rs. 1,08,000 escaped assessment during the four years. The resultant under charge of tax was Rs. 44,000. On this being pointed out in audit (March 1973), the department revised (November 1973) the assessment to tax an additional income of Rs. 31,046 from 2 more blocks of rubber (i.e., altogether 14 blocks) involving an additional demand of tax of Rs. 11,678. Of this, Rs. 3,505 were paid by the assessee in January 1974. Details of recovery of the balance are awaited (February 1975).

The Board of Revenue has been requested (May 1974) to clarify how the number of rubber blocks got reduced from 24 on initial assessment to 14 in the revised assessment of November 1973. Reply is awaited (February 1975).

(iii) The annual accounts of an assessee-company for the year ended 31st March 1969 indicated that it had sold a total quantity of

17,2016.50 kilogrammes of rubber during the year at the average rate of Rs. 4.88 per kilogramme. Even though the total sale proceeds of rubber during the year, computed on this basis, worked out to Rs. 8,39,440, the amount shown in the profit and loss account and reckoned for assessment purposes was Rs. 7,80,421 only. This resulted in an income of Rs. 59,019 escaping assessment involving an undercharge of tax of Rs. 24,245. On this being pointed out in audit (July 1973), the department initiated action (March 1974) to revise the assessment. Further developments are awaited (February 1975).

(iv) An inspection of the holdings of a domestic company which had 268.80 acres of cardamom land spread over three divisions was conducted by the department in January 1972 to assess its income for the accounting year 1970-71. In the case of one division the inspection disclosed that during the previous year relevant to the assessment year 1971-72 the company had 30 acres of 1967 cardamom plantation with an estimated yield of 10 kilogrammes per acre and 25 acres of pre-1965 cardamom plantation with an estimated yield of 35 kilogrammes per acre. Besides these 55 acres, the assessee had conceded, for the assessment year 1971-72, another 10 acres of yielding cardamom plantation in that division. The Assessing Officer, while computing the taxable income from that division for the assessment year 1971-72, took into account only the income from the 25 acres of pre-1965 plantation and ignored the income from the remaining 40 acres of yielding cardamom plantation. This resulted in income of Rs. 44,000 escaping assessment and consequent short levy of tax of Rs. 24,200. On this being pointed out in audit, the department admitted the mistake and initiated action in July 1973 to revise the assessment. Government stated (November 1974) that the Board of Revenue had been instructed to see that the income escaped is assessed to tax immediately and to report results.

(v) In computing the total income for three assessment years 1970-71 to 1972-73 of a group of assessees holding properties as tenants-in-common, income from 16.35 acres of rubber plantation which had already started yielding was omitted to be assessed. On this being pointed out in audit, the department revised the assessments in February, 1974 by taxing an escaped income of Rs. 41,100. The additional demand raised as a result of the revision was



Rs. 8,704. Government stated (September 1974) that an amount of Rs. 420 had been realised from one of the share-holders of the tenancy and the balance tax was pending under Revenue Recovery proceedings.

22. Mistake in computation of income

In computing the taxable income for assessment year 1969-70 of a domestic company which claimed a deduction of Rs. 10,57,743 towards cultivation and upkeep expenses, the assessing officer disallowed 10 per cent of it as representing the amount expended for the cultivation and upkeep of immature plants from which no agricultural income had been received during the previous year. But while computing ten per cent of Rs. 10,57,743, the assessing officer disallowed erroneously Rs. 10,577 only instead of Rs. 1,05,774. This resulted in excess computation of the company's loss by Rs. 95,197 and its carry forward for adjustment against future years' profit. On this being pointed out in audit, the department rectified (April 1974) the mistake.

23 Under-assessment due to incorrect computation of agricultural income

(i) Under the Kerala Agricultural Income Tax Act, any expenditure incurred in the cultivation, upkeep or maintenance of immature plants from which no agricultural income has been derived during the previous year is not an admissible deduction. During the previous years relevant to the assessment years 1970-71 and 1971-72, about fifty per cent of an assessee's rubber plantations was immature. In working out the total income of the assessee for these years the assessing officer disallowed fifty per cent of all payments like way expenses, Provident Fund contributions etc., made to the labourers as pertaining to immature area. However, 50 per cent of bonus paid to the labourers during these years was not so disallowed. This resulted in an under-assessment of tax of Rs. 1,06,665. On this being pointed out in audit (August 1974), Government admitted the short levy and stated (February 1975) that the Board of Revenue was being asked to consider revision of the assessment disallowing the expenses on bonus payments to labour employed in immature area.

(ii) Under the Agricultural Income Tax Act the assessee may at his option keep his accounts either on cash basis or on accrual basis. But in the case of change in the method of accounting, the assessing officer must ensure that items of expenditure which have been allowed on cash basis are not allowed on accrual basis and *vice versa*. In computing the income of a company for the assessment years 1965-66 to 1968-69 from properties taken on lease, the lease amount debited in the Profit and Loss account on accrual basis was allowed as deduction. But for the assessment year 1969-70, the assessing officer computed the taxable income after allowing deduction of lease amounts actually paid during the relevant accounting period with the result that lease amount of Rs. 1,75,975 pertaining to previous years which had been allowed as deduction in previous assessments on accrual basis was again allowed as deduction on cash basis. This resulted in under-assessment of tax of Rs. 75,645. The matter was reported to Government in October 1974. Reply is awaited.

(iii) A domestic company derived agricultural income from coffee, cardamom and tea grown on its agricultural holdings during the previous year ended 31-3-1970 relevant to the assessment year 1970-71. While computing the net taxable income, expenses common to all the commodities were apportioned among various sources of income as income from tea is partly assessable to central income tax also. But, while allocating the remuneration of Rs. 1,21,798 paid by the company to their managing agents, proportionate remuneration was not apportioned to tea and the entire expenditure was allocated to coffee and cardamom. This resulted in allowing excess deduction of Rs. 32,124 towards managing agents' remuneration involving an undercharge of tax of Rs. 20,880.

When the omission was pointed out in audit (July 1974), the assessing officer stated that the company had not allocated any portion of the managing agency remuneration towards tea as there was no income from tea as per the computation made by them. The reply is not found acceptable as the income of the company from tea for the year had been computed by the Central Income Tax Officer as Rs. 5,21,902.

The matter was reported to the Government in October 1974 and reply is awaited (February 1975).

(iv) In the revised assessment for the years 1966-67 and 1967-68 completed in March 1972 in the case of an assessee who owned extensive pineapple gardens interplanted with coconut palms, the department fixed the effective area of pineapple cultivation at 119.05 acres, for the purpose of estimating the income therefrom. This was fixed after deducting from the total area held by the assessee, 30 acres on account of space for 6253 coconut trees at the rate of about one cent for two trees. It was noticed in audit that out of 6253 coconut trees reckoned for reduction of space in the accounting years prior to 31st March 1967, 1903 trees were planted in 1968 and later. The correct number of trees standing during the relevant period was, therefore, only 4350. Adoption of incorrect data for the assessment of income resulted in under-assessment of income from 10 acres of pineapple amounting to Rs. 27,000 (computed on the basis of income per acre adopted by the assessing officer in respect of the area already assessed) involving an undercharge of tax of Rs. 11,000.

On this being pointed out in audit, the department stated that action under Section 34 of the Act has been initiated for revising the assessments. Further developments are awaited (February 1975).

(v) While determining the taxable income for the assessment year 1965-66 of an assessee holding extensive pineapple gardens, deductions allowed by the assessing officer towards expenses for pineapple cultivation worked out to Rs. 750 per acre. On an appeal filed by the assessee against certain disallowances made by the assessing officer, the Appellate Assistant Commissioner set aside the assessment (July 1966) and observed *inter alia* that deduction allowed at the rate of Rs. 750 per acre was high and that deduction at the rate of Rs. 700 per acre would be fair enough for pineapple cultivation. This observation of the appellate authority was not, however, taken into account by the assessing officer while revising the assessment.

Further, it was noticed that even though the effective area under pineapple cultivation during the relevant period was only 119.05 acres, cultivation expenses for pineapple were claimed and allowed for the entire holdings of the assessee, extending to 170.29 acres. Against cultivation expenses of Rs. 83,335 admissible for 119.05 acres at the rate of Rs. 700 per acre, the amount actually allowed was Rs. 1,28,298 resulting in excess allowance of Rs. 44,963. The consequential short levy of tax amounted to Rs. 12,752. On this

being pointed out in audit, Government stated (October 1974) that necessary instructions had been issued by the Board of Revenue for revising the assessment under Section 34 of the Act. Further developments are awaited (February 1975).

24. Loss of Revenue

Under the Kerala Agricultural Income Tax Act, 1950, no deduction is admissible in respect of any expenditure laid out or expended for the cultivation, upkeep or maintenance of immature plants from which no agricultural income has been derived during the relevant previous year.

It was, however, noticed that a pineapple estate of 170.29 acres owned by an assessee had been interplanted with immature coconut palms which were 4350 in number upto 1968 and 6200 thereafter. An estimated expenditure of Rs. 1,30,000 incurred on cultivation and upkeep of the above immature coconut trees was allowed as deduction in computing the total income of the assessee for the assessment years 1966-67 to 1972-73. This not being an admissible deduction under the Act, there was an under-assessment of tax of Rs. 56,000. On this being pointed out in audit (September 1973), the department initiated action under Section 35 of the Act to revise the assessments for the years 1970-71 to 1972-73. Further developments are awaited (February 1975).

The short levy of tax of Rs. 22,775 for the assessment years 1966-67 to 1969-70 resulted in loss of revenue as the department expressed its inability (June 1974) to revise the assessments as they had been barred by limitation of time.

25. Under-assessment due to incorrect registration granted to firm

Under the Kerala Agricultural Income Tax Act, 1950 and Rules made thereunder, one of the essential requirements for registration of a firm is that its instrument of partnership should specify the share of each partner. However, in an Agricultural Income Tax Office, the assessing officer granted registration to a firm and completed the assessments for the years 1961-62 to 1972-73 in the status of a registered firm, though its instrument of partnership did not specify the share of each of the partners. The incorrect grant of registration

to the firm resulted in an under-assessment of tax of Rs. 1,13,441 for the assessment years 1961-62 to 1972-73 (excluding 1971-72, assessment in respect of which was remanded in appeal).

When this was pointed out in audit (October 1973), the assessing officer admitted (January 1974) that the facts pointed out were correct, but stated that the Commissioner of Agricultural Income Tax and Sales Tax held that the registration granted to the assessee firm was in order. However, where a Commissioner gives an order in revision on facts which are either incorrect or on legal inferences not based on correct facts or law, there is no provision for correcting such order.

26. Under-assessment due to incorrect renewal of registration of firm

(i) A firm constituted under an instrument of partnership dated 1st April 1955 with two partners, an individual and his wife, and their four minor children admitted to benefits of partnership was granted registration for the first time on 15th March 1963 for assessment year 1962-63 and the renewal of registration granted year after year, except for assessment year 1965-66, when it was assessed as an unregistered firm for failure to file the returns of income and the application for renewal of registration. The minors admitted to benefits of partnership attained majority, the eldest of them during the accounting year relevant to assessment year 1964-65, the second during the accounting year relevant to assessment year 1967-68, the third one during the accounting year relevant to the assessment year 1968-69 and the fourth during the accounting year relevant to assessment year 1969-70. Consequent on the minors becoming major, the constitution of the firm and the individual shares of the partners changed and the firm was, therefore, not eligible for renewal of registration for the respective years, under Section 27 of the Act and rules made thereunder as clarified by judicial decisions. The incorrect grant of renewal of registration to the firm for the assessment years 1967-68 to 1971-72 resulted in under-charge of tax of Rs. 1,69,000.

On the objection being pointed out in audit, Government admitted the mistake (December 1974) and stated that the assessment for the year 1967-68 had been rectified and action was being taken to rectify the mistake in respect of subsequent years.

(ii) Under the provisions of the Agricultural Income Tax Act and Rules made thereunder, a firm to whom a certificate of registration was granted may have the certificate of registration renewed for a subsequent year(s) on application signed by all partners (not being minors) declaring that the constitution of the firm and the individual shares of the partners as specified in the instrument of partnership remain unaltered. But in the case of a registered firm, the certificate of registration granted for the assessment year 1957-58 was renewed for all subsequent assessment years upto 1970-71 though there was a change in the constitution of the firm from the assessment year 1968-69 as one of the partners died in the accounting year relevant to that assessment year. The incorrect renewal of registration thus granted to the firm for the three assessment years 1968-69 to 1970-71 resulted in under-assessment of tax of Rs. 1,49,097. This was brought to the notice of the department during local audit (April 1974). Government admitted the mistake and stated (December 1974) that the Agricultural Income Tax Officer had been directed by the Board of Revenue to revise the assessments immediately.

(iii) In another Agricultural Income Tax Office, it was noticed that a registered firm was granted renewal of registration for the assessment years 1967-68 onwards despite the fact that there were changes in the constitution of the firm and the individual share of the partners. The irregular renewal of registration to the firm resulted in short levy of tax of Rs. 7,940 for the assessment years 1967-68 to 1972-73.

On this being pointed out in audit, the department initiated action to rectify the mistake for the years 1970-71 to 1972-73 under Section 36 of the Act. Government stated (November 1974) that instructions had been issued by the Board of Revenue to get the assessments for the years 1967-68 to 1969-70 revised under Section 34 of the Act. Further developments are awaited.

(iv) According to Agricultural Income Tax Rules, 1951, the application for renewal of registration of a firm for the purpose of agricultural income tax assessments should be signed personally by all partners (not being minors) in the firm. However, an assessing officer granted renewal of registration to a firm while assessing its income for the assessment year 1972-73, even though the application



was not signed by one of the partners. The incorrect renewal of registration so granted resulted in an undercharge of tax of Rs. 21,029.

The department reported (October 1973) that the mistake had been rectified and additional demand of tax of Rs. 21,029 raised. Audit was further informed (November 1974) that the revised assessment was set aside by the appellate authority (June 1974) and in the fresh assessment, the status of the assessee as registered firm was restored by the assessing authority (September 1974) based on a revised application for renewal of registration submitted by the assessee (August 1974) duly signed by all the partners personally.

27. Under-assessment due to assignment of incorrect status

(i) Under the Kerala Agricultural Income Tax Act, 1950, if the assessing officer is satisfied that the joint property of a Hindu Undivided Family has not been partitioned among the various members or groups of members in definite portions, such family shall be deemed, for the purpose of assessment, to continue to be a Hindu Undivided Family. But in an assessing office, while assessing the income of a group of individuals who were members of a Hindu Undivided Family and holding property of the family not subjected to any partition in definite portions, the assessing officer completed the assessment assigning incorrect status as Tenants-in-Common. This resulted in an undercharge of tax of Rs. 2,49,103 for three assessment years 1969-70 to 1971-72.

On this being pointed out in audit, the assessing officer stated that the status as Tenants-in-Common was assigned as per an order issued by the Board of Revenue in October 1965. A scrutiny of the relevant orders, however, revealed that the Board were of the view that the correct status to be assigned was that of Hindu Undivided Family under Section 29 of the Act, but they ordered the completion of the assessments as Tenants-in-Common to avoid revision of assessments already made fearing legal complications. The orders of the Board regarding the status being left undisturbed is contrary to its own finding out facts of the case. This was brought to the notice of the Board in July 1974. Further developments are awaited (February 1975).

(ii) Under the provisions of the Kerala Agricultural Income Tax Act as clarified by judicial decisions, where persons join together to acquire, hold and manage property jointly for the purpose of producing income, they are to be assessed as "association of individuals". But in an assessing office, while assessing the income of a group of persons who jointly derived agricultural income by joint management of properties so acquired, the assessing officer incorrectly assigned them the status of Tenants-in-Common and assessed them individually. This resulted in an undercharge of tax of Rs. 19,987 for the assessment years 1966-67 to 1972-73.

On this being pointed out in audit, the department initiated action under Section 35 of the Act to revise the assessments for the years 1970-71 to 1972-73. Further developments are awaited (February 1975).

23. Under-assessment due to grant of inadmissible deduction

(i) Under the Kerala Agricultural Income Tax Act, 1950, any expenditure laid out or expended for the cultivation, upkeep or maintenance of immature plants from which no agricultural income has been derived is not an allowable deduction in the computation of agricultural income. It was, however, noticed that expenditure of Rs. 1,55,470 incurred on replanting of rubber was allowed as deduction in computing the agricultural income of a foreign company for the assessment year 1970-71. The consequent undercharge of tax was Rs. 1,16,602. This was brought to the notice of department during local audit (May 1974). Further developments are awaited (February 1975).

(ii) In computing the income of an assessee-company for the assessment year 1969-70, the entire expenses on wages and other amenities provided for the workers were allowed as deduction though more than fifty per cent of the holdings was immature plantations and the assessee himself had admitted that 23.5 per cent of the workers were utilised on immature plantations. Inadmissible deduction thus allowed on account of salaries, wages and bonus came to Rs. 1,86,468 involving an undercharge of tax of Rs. 1,09,632.

On this being pointed out in audit (June 1973), the department stated in January 1974 that expenses like salary, wages, bonus etc.



were allowable items even if there were immature areas, as the company would have incurred these expenses even without immature area. This position is not correct in audit's view having regard to the relevant provisions of the Act and the case laws. This was brought to the notice of the Board of Revenue in April 1974. Further developments are awaited (February 1975).

(iii) An assessee acquired a portion of an estate by a deed executed on 31st May 1969. A liability of Rs. 48,562 towards gratuity payable to staff and workers of the estate outstanding on the date of partition became payable by the assessee as per the terms of the partition deed. The assessee made a provision of Rs. 48,562 in the accounts for the year 1969-70 for extinguishing this liability, which the assessing officer allowed as a deduction in computing the taxable income for the assessment year 1970-71. As a liability of Rs. 48,562 was part and parcel of the subject matter of partition and charged in the share, it was in the nature of capital expenditure and, therefore, not an admissible deduction under the Kerala Agricultural Income Tax Act, as clarified by judicial decision. Thus the deduction allowed incorrectly resulted in an undercharge of tax of Rs. 22,838. On this being pointed out in audit (September 1973), the department revised the assessment and raised the additional demand in December 1973. The assessee remitted Rs. 7,726 towards the additional demand in April 1974. Details of collection of the balance amount are awaited (February 1975).

29. Under-assessment due to application of incorrect rate of tax

(i) The Agricultural Income Tax (Amendment) Act, 1967 raised the rate of super tax payable by companies on agricultural income exceeding Rs. 20 lakhs from 31 paise to 37 paise in the rupee with effect from 1st September 1967. In an assessing office super tax on agricultural income of a company exceeding Rs. 20 lakhs was, however, levied at the old rate of 31 paise in the rupee for the assessment year 1968-69 resulting in short levy of tax of Rs. 68,050. This was brought to the notice of the department during local audit (August 1974). Government stated (November 1974) that the Board of Revenue had issued necessary instructions to the assessing officer to rectify the mistake immediately and to report result.

(ii) Two individual assesseees had taxable income of Rs. 1,20,528 and Rs. 1,03,395 for the assessment year 1970-71. The super tax leviable on them was Rs. 25,216 and Rs. 18,192 against which the tax calculated and demanded by the department was Rs. 19,066 and Rs. 12,954 respectively. The consequent short levy (including surcharge) was Rs. 11,958. On this being pointed out in audit, Government admitted the mistake and stated (November 1974) that the Agricultural Income Tax Officer was being directed to rectify the mistake immediately.

30. Under-assessment due to incorrect set off of loss

In computing the taxable income of a company for the assessment year 1971-72, an assessing officer adjusted from the net profit Rs. 59,627 towards loss claimed by the assessee and carried forward from previous assessment years 1969-70 and 1970-71. It was, however, noticed that the assessee had taxable income for the assessment years 1969-70 and 1970-71 and had no loss to be carried forward for adjustment, as claimed. The incorrect set off of loss has thus resulted in under-assessment of tax of Rs. 32,795. This was brought to the notice of the department during local audit (August 1974). Further developments are awaited (February 1975).

31. Loss of revenue due to delay in completing assessment

(i) Under Section 35 of the Kerala Agricultural Income Tax Act, 1950, no order of assessment shall be made in respect of any agricultural income which had escaped assessment in any financial year after the expiry of three years from the end of the year in which the income was first assessable. In the case of an assessee (individual), the Agricultural Income Tax Officer initiated action on 31st January 1970 to assess his agricultural income from the assessment year 1966-67. But the assessment was delayed till 30th March 1973 when the officer could finalise the assessment for the year 1969-70 only, the assessments for the previous assessment years having become time-barred. This resulted in an estimated income of Rs. 90,000 escaping assessment and a loss of revenue of Rs. 16,931 for the three assessment years 1966-67 to 1968-69.

On this being pointed out in audit, the department stated (June 1974) that the assessing authority might have been satisfied that the income from the properties would not reach the assessable minimum

even though notice under Section 35 was issued for these years. This does not appear to be correct in view of the fact that the assessing officer had fixed the income of the assessee as Rs. 30,000 under Section 18 (4) of the Act for the assessment year 1969-70 though the minimum taxable income as laid down in the Act was Rs. 3,600 only for individual assessees.

(ii) If agricultural income chargeable to tax escapes assessment in any financial year, it can, after giving due notice to the assessee concerned, be assessed to tax at any time within three years from the end of the year in which it was first assessable.

The agricultural income for assessment year 1969-70 of an assessee who expired on 2nd April 1969 was not assessed to tax within the prescribed time limit, i.e., before the end of 1972-73. This resulted in an estimated income of Rs. 30,260 escaping assessment.

On this being pointed out (October 1973) in audit, the department stated (January 1974) that action had been taken to serve notices on the legal heirs; but the notices were returned by the Village Officers unserved. The assessment became time-barred on 31st March 1973. Government admitted (November 1974) that the action taken to serve notices on the legal heirs was tardy and misdirected and that the aspect was being looked into.

32. Under-assessment due to computation of income at the hands of wrong assessee

An Agricultural Income Tax Officer rejected the contention of an individual assessee for excluding income from properties claimed to have been settled in favour of his wife and children in 1959 as the deed of settlement was found to be a "Sham document" and the properties in question were found to be still in the possession and enjoyment of the assessee. Although there was nothing on record to indicate any change in the facts and circumstances of the case, while making the assessment for the years 1969-70 to 1972-73, income from some of the said properties was erroneously excluded from the income of the assessee and assessed in the hands of the beneficiaries. This resulted in an under-assessment of tax of Rs. 59,206 in the hands of the assessee and an over-assessment of Rs. 46,607 in the hands of the beneficiaries. The consequent undercharge of tax was Rs. 12,599.

This was brought to the notice of the department during local audit (June 1974). Further developments are awaited (February 1975).

33. Short levy due to grant of incorrect exemption

Under Section 10 of the Agricultural Income Tax Act, share of income received from an unregistered firm is exempt from tax to the extent of one sixth of the total agricultural income of the assessee or six thousand rupees whichever is less. However, in an Agricultural Income Tax Office, the share income received by four assessees from an unregistered firm was wholly exempted from tax during the assessment years 1968-69 and 1969-70. The omission to apply the limit prescribed in the Act resulted in under-assessment of income of Rs. 99,600 involving short levy of tax of Rs. 11,755.

On this being pointed out in audit, Government stated (August 1974) that instructions had been issued to the Agricultural Income Tax Officer to revise the assessments of the partners in their individual capacity immediately.

34. Under-assessment due to failure to club income

Under the Agricultural Income Tax Act, income of wife arising from assets transferred directly or indirectly to her by the husband otherwise than for adequate consideration as well as her income from a firm in which her husband is also a partner is to be included in the total agricultural income of the husband and assessed to tax at his hands.

It was, however, noticed in the course of test audit that failure to club wife's (a) share income from the firm as well as (b) income from transferred assets to that of the husband in the assessment of three individual assessees for the assessment years 1970-71 to 1973-74 resulted in under-assessment of tax of Rs. 20,120.

On this being pointed out in audit, the Government stated (October-November 1974) that the Agricultural Income Tax Officers had been instructed to rectify the mistakes. Further report is awaited (February 1975).

35. Over-assessment

(i) According to the Schedule to the Agricultural Income Tax Act as amended in 1970, the tax payable by domestic companies with total agricultural income in excess of Rs. 3 lakhs but not more than Rs. 10 lakhs was 60 per cent of the amount of income subject to the marginal limits prescribed therein. In an assessing office it was, however, noticed that in the case of a company whose total agricultural income for the assessment year 1970-71 was Rs. 3,44,998, the tax payable was worked out without applying the marginal limits prescribed in the Act. This resulted in an over-assessment of tax of Rs. 6,000. This was brought to the notice of the department during local audit (July 1974). Government stated (November 1974) that the mistake was rectified in September 1974.

(ii) In the case of an assessee, the super tax leviable on the net assessable income of Rs. 72,241 for the assessment year 1970-71 was Rs. 8,127. But the department, due to an error in calculation, actually levied super tax of Rs. 13,775 resulting in excess demand of tax of Rs. 5,930 (including surcharge of Rs. 282).

On this being pointed out in audit, the department rectified the mistake (October 1974).

36. Other topics of interest

Under the provisions of the Kerala Agricultural Income Tax Act, 1950, agricultural income derived from land by the cultivation of tea means that portion of the income derived from the cultivation, manufacture and sale of tea as is defined to be agricultural income for the purpose of the enactments relating to Indian Income Tax. According to a judgement pronounced by the Supreme Court of India in 1968, there is no provision in the Kerala Act authorising the Agricultural Income Tax Officer to disregard the computation of the tea income made by the income tax authorities acting under the Central Income Tax Act and so the Agricultural Income Tax Officer is bound to accept the computation of the tea income made by the Central Income Tax authorities and to assess only 60 per cent of the income so computed as Agricultural Income. Though the lacuna in the State Act was thus pointed out in 1968, no remedial measures were taken by the department to safeguard the interest of State revenue against any possible loss due to mistakes in computation made by the Central

Income Tax Officer with the result that even mistakes apparent from the records could not be rectified by the Agricultural Income Tax Officer till the Central Income Tax assessments are revised. Two of such cases noticed during local audit are detailed below:—

(i) In the case of assessment of tea income exhibited in sterling by a foreign company for the assessment year 1968-69 (previous year 1st December 1966 to 30th November 1967) the computation was made by the Central Income Tax Officer converting sterling into rupee at the wrong exchange rate of Rs. 18 per sterling against the correct rate of Rs. 21 per sterling which prevailed till 19-11-1967. The income thus incorrectly worked out was adopted by the assessing officer for the purpose of Agricultural Income Tax assessment resulting in an under-assessment of income of Rs. 5,34,020 involving a short levy of tax of Rs. 3,47,647. When this was pointed out in local audit (July 1974), the assessing officer stated that under the Agricultural Income Tax Act he has to accept the computation of the Central Income Tax authorities.

(ii) Another foreign company deriving income from tea submitted its return for the previous year 1st January 1967 to 31st December 1967 relevant to the assessment year 1968-69 by converting its entire income and expenditure at the rate of Rs. 18 per £ 1 sterling though the correct rate of exchange applicable upto 19th November 1967 was Rs. 21 per £ 1 sterling. The company adopted the exchange rate of Rs. 18 per £1 sterling first to convert rupee expenditure to sterling for computing net income in sterling. The net income so computed was then converted to Indian currency at the same rate of exchange which considerably inflated the sterling expenditure and deflated the net rupee income. The Central Income Tax Officer completed the assessment for 1968-69 by accepting the incorrect figures thus returned by the company. The Agricultural Income Tax Officer in turn adopted the wrong figures computed by the Central Income Tax Officer which resulted in escapement of income of Rs. 1,03,666 (approximately) involving an underassessment of tax of Rs. 42,285.

When this was pointed out in audit (May 1974), the assessing officer stated that necessary action would be taken on receipt of the revised computation from the Central Income Tax authorities.



CHAPTER V

STATE EXCISE DUTIES

37. Results of test audit in general

During the period 1973-74, test audit of documents of the departmental officers revealed under-assessment|losses to the extent of Rs. 338.78 lakhs broadly categorised as follows:—

<i>Nature of irregularity</i>	<i>No. of items</i>	<i>Amount (in lakhs of rupees)</i>
1. Loss due to low yield of spirit	2	30.13
2. Loss on reauction of Abkari shops	1440	160.00
3. Loss on account of duty free allowance of unauthorised wastage of spirit	42	11.44
4. Short demand of tree tax	28	5.31
5. Short collection of gallonage fee	41	7.19
6. Short collection of duty on spirit	20	112.43
7. Other lapses	94	12.07
8. Over-assessments	2	0.21
	<u>1669</u>	<u>338.78</u>

A few important cases are mentioned in paragraphs 38 to 52.

38. Loss of revenue due to low yield of spirit from wash

Production of alcohol by fermentation of carbohydrates and distillation of the fermented wash is closely related to the attenuation of the fermented wash. The term 'attenuation' indicates the number of degrees on saccharometer by which gravity of the wash before fermentation and after fermentation differs. As the sugar content in the wash gets converted into alcohol during fermentation, the fall in gravity of the wash, as indicated by the saccharometer, indicates the quantity of sugar got converted into alcohol and thereby, the quantity of alcohol produced during fermentation. It has,

therefore, been prescribed in the Distillery and Warehouse Rules (Part II) that in order to determine the minimum yield of alcohol in a distillery, the attenuation factor (which is obtained by dividing the fall in gravity by the yield per 100 litres of wash) should never be above 5.

It was, however, noticed during the local audit of a distillery that the fall in gravity of wash fermented during the period from 1st April 1972 to 18th May 1972 was on an average 73 degrees in all cases and the attenuation factor more than 10 (i.e., 10.332). Wash to the extent of 19,20,067 litres fermented during this period should have correctly yielded 2,80,329 proof litres of spirit against which only 1,35,662 proof litres of spirit was accounted for in the books of the distillery.

Short production|accounting of 1,44,667 proof litres of spirit resulted in a loss of revenue of Rs. 26,04,000 in this particular case alone. Remarks of Government are awaited (February 1975).

39. Reauction of Abkari shops before expiry of the period of contracts and consequent remission of revenue

By an order issued by the Government in March 1972, the contractors of about 3982 Abkari shops in the State who had entered into contracts with Government to run the shops for the period from 1st April 1971 to 31st March 1973 were given option to terminate the contracts in respect of any of those shops with effect from 1st May 1972 and surrender them for resale. The contractors were to have no liability for the loss, if any, arising out of the resale of the shops. About 1440 shops so surrendered were resold in auction for the period from 1st May 1972 to 31st March 1973. The reason adduced by Government for giving option to the contractors for terminating the contracts in the middle was that certain post auction developments affected the Abkari trade in the State adversely. It was, however, noticed during test check of transactions in some Excise Range Offices that the quantity of liquor sold during 1971-72 was more than that during 1970-71.

Resale of the surrendered shops giving rise to new contracts (in modification of the original contracts) had resulted in a loss of rentals of Rs. 1.60 crores (approximately).

40. Loss of revenue on account of unauthorised allowance of storage wastage on compounded spirit

According to the provisions of Kerala Distillery and Warehouse Rules, duty on spirits produced in a distillery has to be levied on the quantity and strength of such spirit before compounding it and no wastage is admissible, after the spirit is compounded. But during the local audit of two distilleries it was noticed that storage wastage aggregating 16,356 proof litres of compounded spirit had been allowed (15,916.28 proof litres during the period from April 1971 to December 1972 in one distillery and 440 proof litres during 1967-68 to 1972-73 in another) resulting in the non-levy of duty amounting to Rs. 2,93,293. On this being pointed out in audit, the Board of Revenue admitted the mistake and stated (February 1975) that action was being taken to collect the duty.

41. Short levy of duty due to irregular allowance of wastage in reducing and blending operations

Under the Kerala Distillery and Warehouse Rules, 1968, reducing and blending operations carried out in distilleries do not affect the strength of spirit used and therefore, no allowances are prescribed therein for losses arising out of such operations. It was, however, noticed in audit that in a distillery, wastage in reducing and blending operations amounting to 2901 proof litres of spirit had been allowed duty free between April 1973 and March 1974. This led to short levy of duty of Rs. 44,967.

When this was pointed out in audit, the department admitted the mistake and initiated action to collect the duty short levied, from the distillery (October 1974).

42. Excess wastage of arrack in transit

Under the Kerala Distillery and Warehouse Rules, the maximum permissible wastage when spirits are transported in metallic receptacles is 0.5 per cent. If wastage exceeds this limit, duty on such excess wastage is to be collected at the tariff rate, i.e. the rate prescribed for Indian made rectified spirit. During local audit of an Excise Range Office, it was, however, seen that on an excess transit wastage of 1238.70 proof litres of arrack noticed in the case

of a distillery between April 1970 and November 1973 duty had been collected only at the rate of Rs. 2.50 per proof litre instead of at the correct rate of Rs. 15.50 per proof litre applicable to rectified spirit and that this had resulted in a short-levy of duty of Rs. 16,103. On this being pointed out in audit (January 1974), Government admitted the mistake and stated (February 1975) that the distillery had been asked to remit the duty.

43. Loss of revenue due to non-levy of tree tax in respect of toddy shops run under Departmental Management system.

Under Sections 12 and 18 of the Abkari Act, toddy producing trees could be tapped only on the authority of tree tapping licences issued by the Excise Department and also on payment of excise duty on toddy in the form of a tax on each tree tapped. Tree tapping licences are issued for each half of a financial year and rate of tree tax is also fixed on half yearly basis. As per the provisions contained in the Tree Tax Rules, certain minimum number of trees are required to be applied for tapping by the shop-keepers and no person to whom a licence is issued shall claim exemption from the payment of the full amount of the tree tax due for any half year on the ground that he has not had the full benefit of the licence throughout the half year. A toddy shop-keeper can, instead of producing toddy by tapping the trees situated within the boundaries of the locality in regard to his shop, purchase toddy from another after obtaining permission of the Excise authorities and on the basis of transport permits issued by them.

It was seen during the local audit of Excise Range Offices that issue of tree tapping licences and collection of tree tax were not insisted upon by the department in the case of toddy shops run under Departmental Management system. In these cases no documentary evidences permitting the Departmental Management Agents to purchase toddy from other shop-keepers were available in the Range Offices, and so the Agents should be considered to have produced toddy during the periods of Departmental Management by resorting to illicit tapping of trees. Loss of revenue due to non-levy of tree tax in the case of 99 toddy shops (in five Ranges) run by Departmental Management Agents for various periods during 1971-73, worked out on the prescribed minimum number of trees required to be licensed, comes to Rs. 91,200.

Remarks of the Board of Revenue are awaited (February 1975).

44. Short demand of tree tax

Under an order issued by Government in August 1971, the right of vending toddy in 147 shops in Trichur district for 1971-73 was awarded to four co-operative societies organised for the purpose. The order stipulated that the number of trees that would be allowed to be tapped for each shop would be fixed as the average number of trees tapped for that shop during the preceding five years and that the tree tax payable would be fixed at 25 per cent of the normal rate. It was apparent from the order that in case the society tapped more trees than that fixed on the basis of the average for the preceding five years, tax was to be levied at full rates for the number of trees tapped in excess. During local audit of two Excise Range Offices it was seen that:

- (i) during 1972-73 one co-operative society tapped 526 coconut trees in excess of the average number fixed;
- (ii) during the period from October 1971 to March 1973, another society tapped 4143 trees in excess of the average number fixed; and
- (iii) tax on trees tapped in excess had been collected at the concessional rate instead of at the full rate, resulting in a short demand of Rs. 70,035.

On this being pointed out in audit, Government informed (October 1974) that the amount had been reported for Revenue Recovery action.

45. Short levy due to non-accounting of foreign spirits used for compounding

Under the Kerala Distillery and Warehouse Rules, all spirits compounded with foreign spirits or essences should be treated as 'Indian made foreign spirits' for the purpose of calculation of duty and the portion of such essences or spirits so added for compounding or flavouring will not be excluded for purpose of levy of duty. It was seen in audit, that in a distillery 1650 proof litres of High Bouquet Brandy added to the spirits produced in the distillery in the process of compounding in 1972-73 was not included in the quantity of compounded spirits assessed to duty. The consequent short levy of duty was Rs. 29,700.

Remarks of Government are awaited (February 1975).

46. Short levy of licence fee due to grant of unauthorised licence

Under the Rules for the issue of licences for sale of Foreign Liquor, licences in form F.L. 3 are to be issued to recognised hotels or restaurants run on European lines after realising an annual fee of Rs. 4,000 in each case by the Excise Commissioner. Ordinarily these licences will be issued only to those hotels and restaurants which provide facilities as would cater to the needs and tastes of foreign tourists and which have at least 15 beds and minimum of 5 rooms. Licences in form F.L. 6 are granted by the Excise Commissioner under orders of the Government when the circumstances are such as not to allow the issue of licences of any other description provided for in the rules. It was, however, seen in audit that, the Commissioner of Excise had issued licences to a hotel for six years from 1967-68 to 1972-73 in form F.L. 6 (Special licence) after collecting annual fee of Rs. 500 only instead of in form F.L. 3. This resulted in short levy of licence fee amounting to Rs. 21,000.

Remarks of the department are awaited (February 1975).

47. Short recovery of Abkari arrears due to omission to levy interest

An Excise Divisional Officer reported to the Revenue authorities (June 1970) an amount of Rs. 77,590.22 (being the Abkari arrears, the interest thereon upto 31st March 1970 and notice fees) due from a Contractor of certain arrack shops for 1969-70, for recovery under the Revenue Recovery Act. The arrears would accrue interest (at 9 per cent) from 1st April 1970 till the actual dates of realisation. The Revenue authorities recovered Rs. 77,590.22 as reported by the Excise Department in instalments over a period of three years and closed the recovery file in April 1973 showing no more dues against the Contractor. It was noticed during the local audit of Revenue Office (June 1974) that the department did not collect the interest due on the Abkari arrears from 1st April 1970 till the date of collection of the arrears and also that they did not follow the principle of adjusting the amounts recovered first against the interest due. The omissions, resulted in a short recovery of Rs. 14,647 from the Contractor. On this being pointed out, the Board of Revenue stated (November 1974) that the entire arrears of Rs. 14,647 and the interest of Rs. 1,907 accrued thereon upto 9th October 1974 had been realised in October 1974.

48. Non-levy of Excise Duty on medicinal preparations supplied to institutions not entitled to duty concession.

Under Rule 7 of Medicinal and Toilet Preparations (Excise Duties) Rules, 1956, hospitals and dispensaries working under the supervision of or subsidised by Central or State Government, charitable hospitals and dispensaries under the administrative control and management of local bodies, Medical Store Depot of the Central or State Government and every other institution certified by the principal medical officer of the district in which such institution is situated, as supplying medicines free to the poor, are exempted from payment of excise duty on medicinal preparations containing alcohol, manufactured in India and supplied direct from the Bonded factories or warehouses. No other institution is entitled to this concession.

It was, however, noticed during the local audit of the accounts of a manufacturer of medicinal preparations that medicines were supplied free of duty to 5 institutions such as Port Trust, Foreign Collaboration project, Local bodies or private hospitals etc. As these institutions/organisations do not fall under any of the categories referred to above, the issue of duty free medicines was incorrect. The excise duty leviable on such issues worked out to Rs. 10,295. On the mistake being pointed out in audit, the department agreed to issue notice to the manufacturer demanding duty. Details of collections are awaited (February 1975).

49. Short collection of excise duty on spirits

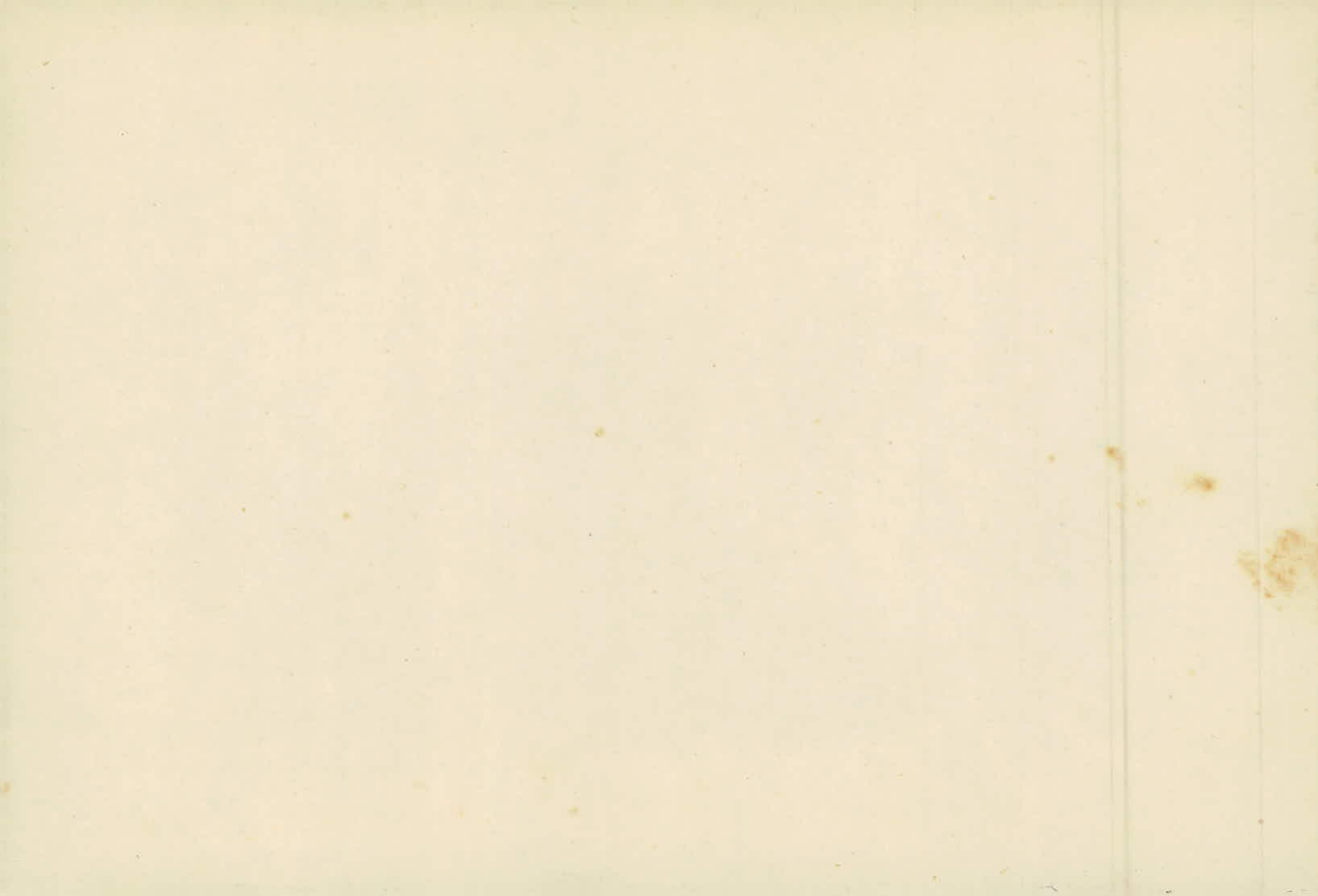
In distilleries, saccharine materials are fermented in vats to produce spirits. The spirit so produced is distilled in stills from where it passes to spirit receivers. The spirit in the receivers is finally transferred to warehouses from where it is issued either under bond or after payment of excise duty. In order to ensure that the entire production is properly accounted for and subjected to excise levy, control registers are maintained by distillery officers. After each stage in the manufacturing process, the spirit contained in various vats, receivers, etc., is measured using dips. The spirit content (expressed in terms of litres) computed with reference to pre-determined dip tables is then entered in the prescribed registers.

(i) In a distillery, on two occasions (August 1972 and December 1972) the quantity of spirit produced and collected in receivers as indicated by the dip readings and computed with reference to dip table was not fully accounted for in the registers, resulting in short-accountal of 494.73 proof litres of spirit. Excise duty leviable from the distiller on this quantity comes to Rs. 7,668. The matter was reported to the department in January 1974. The Board of Revenue stated (August 1974) that the distillery had been instructed to pay the duty.

(ii) In a distillery 84,368.64 proof litres of spirit contained in five vats were shown as issued to a sixth vat in May 1971 for blending arrack; however, against this issue, only 83,831.25 proof litres were shown as received in the receiver vat. Thus a quantity of 537.39 proof litres of spirit escaped assessment to excise duty, resulting in a short levy of Rs. 8,330. On this being reported in audit in September 1973, Board of Revenue issued (August 1974) necessary instructions to collect the amount from the distillery. Details of collection are awaited (February 1975).

50. Release of property liable to confiscation

When an offence under the Abkari Act is detected, the offenders are prosecuted or the offences compounded departmentally. According to Section 65 of the Act, any property seized in connection with an offence is liable to confiscation. In cases where prosecution is launched, the court will, while convicting or acquitting the offender, decide whether the property seized is to be confiscated or released. Section 67 of the Act stipulates that if any offence is compounded, the property seized in connection with that offence and liable to confiscation, may, at the option of the Abkari Officer, 'be confiscated or released on payment of the value thereof as estimated by such officer.' During local audit of eight Excise Range Offices, it was seen that while compounding Abkari cases in which one lorry, six cars, three jeeps, one auto-rikshaw and one cycle had been seized, the department released the vehicles without collecting any amount towards their estimated value and that in two other cases where two cars had been seized, the vehicles were released after collecting only Rs. 1,000 in each case. The non-collection of the estimated value of the vehicles in these cases before their release resulted in a loss of revenue of Rs. 2.25 lakhs (approximately). On this being pointed



out in audit, the Board of Revenue admitted the mistake and issued (March 1974) instructions to all departmental officers not to release any property seized in connection with Abkari offences and liable to confiscation without realising its estimated value in advance.

51. Non-recovery of duty

Under the Kerala Distillery and Warehouse Rules, a distiller may be permitted to export spirits to other States without payment of duty, provided he executes a bond for payment of duty at prescribed rates in case of his failure to account for the spirits so exported. In such cases, the Excise authorities at the receiving end are required to send reports regarding verification of each consignment. If such verification report is not received within twenty-one days, excise duty and gallonage fee on the quantity of liquor exported under bond are to be realised from the distiller. During local audit of a distillery, it was noticed (July 1973) that verification reports for 4,12,720 proof litres of liquor exported under bond during the period from December 1967 to December 1972 had not been obtained. In September 1974, such verification reports were outstanding in respect of 85,772 proof litres. Excise duty of Rs. 15,43,896 and gallonage fee of Rs. 5,55,168 were leviable from the distillery for this quantity not covered by verification reports. The Board of Revenue stated (August 1974) that necessary instructions had been issued to cancel the bonds in case verification reports in respect of all consignments of liquor exported under bond were not obtained within a fortnight. Further developments are awaited (February 1975).

52. Excess demand of Abkari rentals

During local audit (September 1973) of an Excise Range Office, it was noticed that Abkari rentals due from a contractor who abandoned an arrack shop before completion of his biennial contract for 1971-73 were worked out incorrectly, resulting in an excess demand of Rs. 20,820 and that the arrears including the excess demand had been advised for action under Revenue Recovery Act. On this being pointed out, the department rectified the mistake (November 1973) and withdrew the excess demand.

CHAPTER VI

STAMP DUTY AND REGISTRATION FEES

53. Results of test audit in general

During the period 1973-74, a test audit of the documents of the departmental officers revealed undervaluation of properties, misclassification of documents to the extent of Rs. 25.37 lakhs broadly categorised as follows:—

<i>Nature of irregularity</i>	<i>No. of items</i>	<i>Amount (in lakhs of rupees)</i>
1. Misclassification of documents	4690	6.04
2. Undervaluation of documents	90	1.66
3. Undervaluation of properties in settlement Deeds	61	0.61
4. Non execution of release deeds in respect of properties offered as security by chitty foremen	44	0.20
5. Other lapses	12544	16.86
	<hr/> 17429	<hr/> 25.37

A few cases of undervaluation are mentioned in paragraphs 54 to 59.

54. Loss due to delay in commencing action on cases of undervaluation

Under Section 45 A of the Kerala Stamp Act, if the registering officer while registering a sale deed has reason to believe that the "consideration" shown is not true, may refer it to the Collector for determination of the "consideration" and the proper duty payable thereon. After registration of an instrument of sale, the Collector may, if understatement of consideration comes to his notice, within two years from the date of registration take action for the determination of the consideration and the proper duty payable. After two years from the date of registration of an instrument no action is possible under Section 45 A for determination of consideration and the proper duty payable.





In respect of five sale deeds registered in two Sub-Registry Offices of the State in 1971, where the consideration shown ranged from Rs. 7,100 to Rs. 50,000 (total consideration Rs. 92,100), it was noticed that the whole or major portions of the properties involved were mortgaged for considerably higher amounts within a short period (and no improvements on the properties had been made after purchase). From the mortgage amounts the same properties fetched the value of the properties in the sale deeds could have reasonably been fixed at amounts ranging from Rs. 50,000 to Rs. 4,72,500 (total Rs. 8,57,648). There was thus an understatement of consideration of Rs. 7,65,548 in the five sale deeds in two Registry Offices resulting in a short levy of Rs. 91,040 (Stamp duty Rs. 83,384 and registration fee Rs. 7,656). As the registering officers failed to bring the understatement of consideration in the sale deeds to the notice of the District Collector while registering the mortgage deeds, the revenue of Rs. 91,040 has been lost to Government. On this being pointed out in audit (November 1973), the department accepted the mistake (February 1974) and stated that action under Section 45 A was not possible as two years had passed after the date of registration of the sale deeds.

55. Short levy due to undervaluation of properties in settlement deeds

In 56 deeds of settlement registered during the period from April 1966 to September 1972 in various Sub-Registry Offices of the State the value of the properties shown ranged between Rs. 500 and Rs. 33,000 (total value Rs. 2,84,725). The value of the same properties shown by the settlers in the returns filed by them in connection with the Central Direct Taxes proceedings, as well as the value fixed by the Central Direct Taxes authorities and accepted by the settlers ranged between Rs. 4,500 and Rs. 97,055 (total Rs. 13,88,540). The undervaluation in the 56 documents amounted to Rs. 11,03,815 resulting in a loss of revenue of Rs. 38,637 on stamp duty and registration fee (stamp duty Rs. 27,598 and registration fee Rs. 11,039). On this being pointed out in audit, the department stated (April 1974) that the cases had been referred to District Collectors under Section 45 A of the Kerala Stamp Act for determining the value of the properties and the correct duty leviable in each case. Further developments are awaited (February 1975).

56. Loss due to omission in computing the correct value of consideration in a sale deed

As per Section 25 of the Kerala Stamp Act, 1959, where any property is transferred to any person subject to the payment of any money whether being or constituting a charge upon the property or not, such money is to be deemed the whole or part as the case may be of the consideration in respect whereof the transfer is chargeable with *advalorem* duty. During the audit of a Sub-Registry Office, it was noticed that in a sale deed, whereby the transfer was made by the vendor in consideration of payment by the purchaser to a Bank of a sum of Rs. 4,04,527 obtained by the vendor by mortgaging the properties scheduled in the deed and also by hypothecating movable machinery and equipments not scheduled, stamp duty and registration fee were levied only on Rs. 1,78,000 paid by the purchaser to the Bank under the said deed to set off the debts due to the Bank by the vendor to that extent. As per the stipulation in Section 25 of the Stamp Act, stamp duty and registration fee should have been levied on the whole debt of Rs. 4,04,527 (charged on the property and on the machinery and equipment) which was the consideration by virtue of which the transfer was made. Consequently there was a short levy of Rs. 30,588 (stamp duty Rs. 28,322 and registration fee Rs. 2,266).

Remarks of the department are awaited (February 1975).

57. Security from chitty foremen

Section 17(1) of the Travancore Chitties Act requires that foremen of chitties should execute bonds in favour of or in trust for the subscribers, either by pledging property sufficient for the realisation of twice the chitty amount or by depositing cash of not less than the chitty amount in any approved bank. According to Rule 37 of the Travancore Chitty Rules and clarificatory instructions issued in December 1971 by the Inspector General of Registration, property so offered as security is to be free from all encumbrances. A property offered as security in respect of an earlier chitty is not to be accepted as security for a subsequent chitty unless the necessary deed releasing the previous encumbrance is duly executed.

During local audit of 30 Sub-Registry Offices, it was, however, seen that landed properties accepted as securities for earlier chitties

and consequently encumbered had been accepted as security in respect of 79 chitties registered during 1972 and 1973. Failure of the department to insist on execution of release deeds in these cases before accepting the encumbered properties as security resulted in a loss of revenue of Rs. 27,479 (stamp duty Rs. 3,780; registration fee Rs. 23,699). When one of these cases was pointed out, the Inspector General of Registration admitted the mistake and stated (August 1973) that action was being taken against the concerned Registering Officer. Further developments are awaited (February 1975).

58. Loss of revenue due to misclassification of documents

It was noticed during the local audit of a Sub-Registry Office that a document which embodied in clear terms an obligation to pay a sum of Rs. 3,84,692.64 by one of the two executants of the document to the other was classified by the Sub-Registrar as an agreement of indeterminate value and assessed to stamp duty of Rs. 4.50 and registration fee of Rs. 20. The document satisfied all conditions of a bond as defined in Section 2 (a) (ii) of the Kerala Stamp Act, viz., attestation of the instrument by witnesses and laying down an obligation on the part of a person to pay money to another, the money being not payable to order or bearer. Also the obligation to pay money in this case was further borne out by payment of the amount promised in the document by another document registered in the office. The courts have also held that an instrument in the form of an agreement between two parties, containing among other covenants, a covenant to make certain payments, which is also attested by witnesses and is not payable to order or bearer, is correctly classifiable as a bond. The above document should have, therefore, been classified as a bond under Section 2 (a) (ii) of the Kerala Stamp Act and assessed to stamp duty of Rs. 9,617.50 under Article 13 of the Schedule to the Act and to registration fee of Rs. 3,847 as per provisions in the table of fees issued by the Government. The misclassification of the document by the Sub-Registrar, thus, resulted in a loss of revenue of Rs. 13,440 (stamp Rs. 9,613 plus fee Rs. 3,827). On this being pointed out, the department admitted the mistake and stated (October 1974) that the Sub-Registrar had been directed to make good the deficit stamp duty.

59. Understatement of consideration in sale deeds

During local audit (October 1973) of a Sub-Registry Office, it was found that the consideration shown in twenty-four sale deeds registered in the office between October 1971 and December 1972 aggregated Rs. 46,200 only whereas in the sale agreements registered between May 1971 and August 1972 in the same office prior to sale, the amount of consideration for which the same properties had been agreed to be sold had been shown as Rs. 1,08,794. Except in four of these cases, the vendees in the final sale deeds were the same persons as those mentioned in the agreements registered earlier or their close relatives. The undervaluation of the properties while executing the sale deeds resulted in a loss of revenue of Rs. 6,277 by way of stamp duty and registration fees. As all the agreements had been registered in the same office, the registering authority could have detected the undervaluation, had he referred to the prescribed registers while registering the sale deeds. The case was reported to Government in November 1973. Government stated (March 1974) that:—

(i) action had been initiated against the concerned officers for not tracing out the previous agreements before registering the sale deeds;

(ii) all the 24 cases would be referred to the District Collector for taking action under Section 45 A (which empowers the Collector to determine the consideration) and Section 62 (which renders persons executing instruments with an intent to deprive Government of any duty liable to punishment) of the Kerala Stamp Act, 1959; and

(iii) instructions had been issued to all registering authorities to maintain special registers to note cases of agreements preceding sales.

According to information received (September 1974) from Government, all the cases of undervaluation of documents mentioned in the paragraph have been reported to the District Collector for necessary action. Further developments are awaited (February 1975).



CHAPTER VII

OTHER REVENUE RECEIPTS

SECTION A—LAND REVENUE

60. Short levy of plantation tax

Under the Kerala Plantation Tax Act, 1960, the extent of any plantation liable to tax is to be determined with reference to the number of yielding trees (coconut and arecanut), plants (rubber, coffee, tea and cardamom) and vines (pepper) standing on all lands held by its owner. In an assessing office, assessments for the years 1967-68 to 1972-73 relating to a plantation-company were however, finalised without taking into account the correct number of yielding trees and plants standing on the plantation owned by it although details thereof were available in the returns for 1966-67 filed by the assessee. This resulted in short levy of plantation tax of Rs. 1.15 lakhs (approximately). On this being pointed out in audit (March 1974), Government stated (November 1974) that the company was assessed to an additional tax of Rs. 47,259 for the years 1967-68 to 1972-73 provisionally. Details of final assessment are awaited.

In another assessing office, assessments for the years 1966-67 to 1970-71 of five other plantation owners were finalised in the same manner, without reference to the correct number of yielding trees and plants standing on the concerned plantations, even though particulars thereof were available in the returns filed by the assessees in earlier years and also in the reports prepared by the department after inspection of the plantations in terms of Section 21 of the Act. The short levy of plantation tax in these cases amounted to Rs. 11,482. On this being pointed out (October 1973), the assessments were revised (July 1974) by the department. Government stated (November 1974) that three of the assessees already remitted the amount and the department initiated action under the Revenue Recovery Act to realise the dues from the others.

61. Short levy of rent on bearing trees leased out under Kuthakapattom Rules

By an order issued in May 1966, Government revised the rate of rent to be realised for lease or licence of trees under Kerala Land Assignment Rules 1964. The Kerala Land Assignment Rules 1964 stipulate that the said rules are applicable to assignment of Government land under Kuthakapattom Rules of 1947 also. Hence the revised rates of rents prescribed under the Government Order of May 1966 have to be applied in the case of land and trees leased out under Kuthakapattom Rules also. But, during the course of local audit of various Taluk Offices, it was noticed that rent at revised rates had not been given effect to in the case of trees leased out under Kuthakapattom Rules. In such cases the rent at the pre-revised rates under Kuthakapattom Rules is being realised even now. This resulted in short levy of Rs. 1.88 lakhs in the case of 22 villages in 11 Taluks during the period from 1966-67 to 1973-74. The matter is still under correspondence with State Government (February 1975).

62. Arrears in revision of assessments

For assessing plantation tax payable under the Kerala Plantation Tax Act, 1960, the extent of plantation held by each assessee is to be determined with reference to the number of bearing trees, plants, vines, etc., standing on all lands held by him and the extent of the plantation so determined is to be revised suitably, once in every five years or earlier to ensure proper reflection of the changes brought about in the meantime. It was, however, noticed in local audit that the quinquennial revision of the extent of plantations, due in April 1970, had fallen into heavy arrears. In two Taluks alone, revision to be made in April 1970 has not yet been done in nearly 7,000 cases (March 1974).

The Kerala Plantation Tax (Amendment) Act 1971 reduced the minimum area of plantations subject to tax from two hectares to one hectare from 1st April 1971. Consequently, a large number of land holders holding more than one hectare, who had been exempted till then, became liable to tax from that date. Local audit in twelve assessing offices, however, disclosed that only 1,444 new assesseees had been brought to tax from 1st April 1971 although about 80000

new assessees (holding more than one hectare but less than two hectares as per land records) are estimated to have come into being following the enactment of the Amendment Act.

63. Other topics of interest

Under the Kerala Plantation Tax Act, 1960, every person, who holds on the specified dates, plantation area exceeding the exemption limit, has to file a return in the prescribed form on the date prescribed. The Act stipulates that if any person fails without reasonable cause or excuse to submit the return in time, he shall be punishable with a fine which may extend to five rupees for every day during which the default continues. But during the course of local audit of plantation tax assessment records in the various Taluk Offices, it was noticed that though there had been general omission on the part of the assessees in filing the return on due dates, the penal provision under Section 19 of the Act was not invoked by the department in these cases. On the omission being pointed in audit, the State Board of Revenue issued in July 1974, circular instructions to assessing authorities to invoke the penal provision in deserving cases.

SECTION B—TAXES ON VEHICLES

64. Irregular exemption

Section 22 of the Kerala Motor Vehicles Taxation Act, which empowers Government to exempt owners of motor vehicles from payment of tax does not confer any power on Government to notify exemptions retrospectively. During local audit of a Regional Transport Office, it was, however, noticed that in the case of a fleet owner (having more than one hundred and fifty transport vehicles), from whom both tax under Section 3 (1) and surcharge under Section 24 A of the Act were due, the surcharge for the period 1968-69 to 1971-72 amounting to Rs. 2,59,93,000 was remitted by Government by granting exemption retrospectively. The exemption notification for the period 1968-69 and 1969-70 was issued in September 1970 and that for 1970-71 and 1971-72 in October 1971 and October 1972 respectively.

On the correct position being pointed out in audit, Government admitted the irregularity and stated (February 1974) that steps had already been taken to amend the Act so as to empower Government

to grant exemption prospectively and retrospectively and that a Bill for the purpose was being prepared. Further developments are awaited (February 1975).

65. Short levy of tax

Taxes on vehicles used as stage carriages are to be computed on the basis of their passenger capacity. According to Rule 302 (as amended in February 1969) of the Kerala Motor Vehicles Rules, the minimum seating (passenger) capacity of a vehicle is to be worked out with reference to its wheel base. By an order issued in July 1971, Government exempted from the operation of this Rule all stage carriages registered as on 31st March 1971. This exemption was not, however, available to vehicles registered or reconstructed thereafter. A test check of the accounts in two Regional Transport Offices in the State, however, disclosed that this rule regarding fixation of minimum passenger capacity with reference to the wheel base of the vehicle had been overlooked in taxing 16 stage carriages registered/reconstructed on or after 1st April 1971, resulting in under-assessment of passenger capacity and consequential short levy of tax to the extent of Rs. 38,156. The case was reported to the department in June-July 1974. Reply is awaited (February 1975).

66. Non-levy of tax on passengers and goods on interstate goods vehicles

During the local audit of a Regional Transport Office in the State it was noticed that tax on passengers and goods leviable under Kerala Motor Vehicles (TPG) Act, 1963, was omitted to be demanded and levied on 30 goods vehicles of other States plying in the State both under interstate reciprocal agreement and under multipoint taxation scheme, for various periods from 1-4-1970 to 31-3-1973, resulting in a short levy of tax amounting to Rs. 25,237. On this being pointed out in audit, the department admitted the omission and intimated in September 1973 that tax on passengers and goods leviable on 7 of the vehicles amounting to Rs. 7,125 had been realised and action was also in progress to realise the tax on passengers and goods due on the remaining vehicles.

But subsequently, Government stated (December 1974) that the 30 cases referred to in the paragraph were not cases of non-levy



as tax had been paid then and there in most of the cases, but the fact of having collected the tax was omitted to be noted in the D.C.B. Register.

SECTION C—ENTERTAINMENT TAX

67. Loss due to short levy of Additional Tax on Entertainments and Surcharge on Entertainments

Under the Kerala Additional Tax on Entertainments and Surcharge on Show Tax Act, 1963, the rates of additional tax on entertainments and surcharge on entertainments have to be applied on the 'payment of admission' to any entertainment. Based on a decision of the Kerala High Court, pronounced in 1963, the Government clarified (May 1965 and April 1972) that the 'payment of admission' is the totality of the payments made by a person for securing admission to the show and the entire amount collected by the proprietor for admitting persons should be taxed.

It was, however, noticed during local audit of the accounts maintained by Local Bodies in relation to the levy that additional tax on entertainments and surcharge on entertainments were levied on the price of tickets after excluding the element of the additional tax| surcharge. In the case of assessments finalised by 173 Local Bodies (3 Corporations, 28 Municipalities|Townships and 142 Panchayats) during 1972-73 and 1973-74 the incorrect method of assessment resulted in a short levy of tax of Rs. 11.42 lakhs (additional tax on entertainments—Rs. 11.10 lakhs; surcharge on entertainments—Rs. 0.32 lakh).

The Act does not contain an enabling provision to reopen the assessments once finalised. According to a judgment (May 1973) of the Kerala High Court the Local Body cannot, in the absence of an express provision in the Act, reopen concluded assessments for demanding the tax omitted to be levied earlier. Remarks of the Government are awaited (February 1975).

68. Defalcation of Additional Tax on Entertainment

Local audit (March 1974) of receipts and refunds of 'Additional Tax on Entertainments' in a Panchayat Office for the period from

1969-70 to 1973-74 disclosed a case of suspected defalcation. The amount suspected to have been defalcated includes Rs. 16,060 relating to Additional tax on entertainments due to Government. The defalcation was made possible by omitting certain demands and by making bogus entries under amount collected in the Demand, Collection and Balance Statements. On this being pointed out in audit, the department admitted the irregularity and stated (September 1974) that:

- (1) steps had been taken to make good the loss sustained and
- (2) officers responsible for the irregularity were being proceeded against.

Further developments are awaited (February 1975).

69. Misclassification of Additional Tax on Entertainments

According to Section 4 of the Kerala Additional Tax on Entertainments and Surcharge on Show Tax Act, 1963, the entire proceeds of the additional tax on entertainments are to be made over by the local authority to Government after deducting two per cent towards collection charges. Government's share of the additional tax on entertainments is calculated on the basis of the total collection as recorded in the register of receipts maintained by the local authority. During the course of audit (July 1974) of the accounts maintained by a Municipal Office in relation to the levy, it was noticed that in twelve cases additional tax on entertainments amounting to Rs. 10,282 collected during the period from November 1973 to January 1974 was wrongly classified under 'advertisement tax' in the register of receipts. On this misclassification being pointed out in audit, the Municipality accepted the mistake and made necessary corrections in the register (July 1974). The misclassification, if allowed to stay, would have resulted in reducing Government's share of the tax by Rs. 10,075.

70. Non-remittance|delay in remittance of tax by Local Bodies

According to Section 4 of the Kerala Additional Tax on Entertainments and Surcharge on Show Tax Act, 1963, the entire proceeds on account of the additional tax on entertainments, surcharge on entertainments and surcharge on show tax, received by Local Bodies, shall be remitted to Government after deducting collection charges

prescribed. Government had also directed (November 1969) that the amounts collected in a month should be remitted before the 10th of the succeeding month. It was noticed during local audit that an amount of Rs. 26.21 lakhs collected as additional tax on entertainments, surcharge on entertainments and surcharge on show tax by 48 Local Bodies comprising 2 Corporations, 13 Municipalities and 33 Panchayats was not remitted (August 1974) and that in the case of 35 Local Bodies comprising 7 Municipalities and 28 Panchayats there was delay in remittance ranging from one month to over one year involving an amount of Rs. 9.08 lakhs.

SECTION D—ELECTRICITY DUTY

71. Loss of revenue

According to Section 4 of the Kerala Electricity Duty Act, 1963 every consumer shall pay to Government a duty at varying rates ranging from 10 per cent to 20 per cent of the price of energy billed for. The licensee is to collect this duty from the consumers and remit it to Government. The tariff for supply of energy during the period 1st October 1962 to 31st December 1969 prescribes a minimum charge ranging from Rs. 2 to Rs. 20 per meter per month. In the case of those who consumed energy, cost of which was less than the minimum charge, the minimum charge was collected as price of energy. Duty under Section 4 of the Act in such cases had, therefore, to be collected on the minimum charge. But, during the period 15th April 1963 to 29th October 1965, the Kerala State Electricity Board collected duty on the price of energy actually consumed and not on the minimum charge billed for. Short demand of duty on this account as worked out by the Board came to Rs. 5,43,678. On the ground that huge expenditure is involved in re-writing the invoices and recovering the amounts from the consumers, Government in February 1972 agreed to compound the duty payable at Rs. 3 lakhs which the Board paid to Government from their own funds in September 1972. There is no provision in the Act for compounding duty payable by consumers under Section 4 and the action of Government was, therefore, not in order. This resulted in a loss of revenue of Rs. 2,43,678.

SECTION E—FOREST

72. Loss of revenue due to non-realisation of the value of timber grown in Government land sold by a private company

A private company which is engaged in cultivation and processing of hill products has been in restricted possession of about 215 square miles of Government land in Devicolam Taluk, got transferred as concession area under a Deed of Ratification of 1878. As per the Deed of Ratification and the Agreement on Modification of Taxes and also as reiterated subsequently in an order of the Government issued in January 1966, timber grown in the concession area can be removed out of the area by the company only after payment to Government, of value of such timber at seigniorage rates. But by an order issued in August 1967, the Government permitted the company to sell the Eucalyptus raised within the concession area to another private company, engaged in the manufacture of synthetic products; without payment of seigniorage. A total quantity of 2,29,171 cu.m. of eucalyptus was removed from the concession area during the period from 10th July 1967 to 29th March 1971. Loss of revenue sustained by Government due to remission of seigniorage on the above quantity of timber works out to Rs. 52.71 lakhs. Sales tax lost on this account was Rs. 1.58 lakhs. Reply of the Government called for in June 1971 is still awaited (February 1975).

73. Loss of revenue due to delay in disposing of soft wood

Soft wood trees numbering 112 standing in one of the coupes in a forest division was estimated to yield 974 cu.m. of timber based on the marking done by the department in 1963-64. Though the Government by an order issued in December 1966 sanctioned the sale of these trees on 'Mellabhom basis' the sale was not conducted then by the department on the ground that the trees would require a re-marking to find out the volume they might have gained since the original marking. In the re-marking, which was completed in December 1967, these trees were estimated to yield 1304 cu.m. of timber. Proposals for the sale of the trees were initiated again in October 1968 and the sale finalised in April 1969. In actual execution of the extraction work, the contractor could collect only 274 cu.m. of timber, leaving a deficit of 700 cu.m., from the yield estimated in the original marking. On the low yield being pointed out during local



audit, the department reported that the trees in question were over-matured trees and it was common with soft wood trees to develop certain interior defects after complete growth, which accounted for the deficiency. The delay on the part of the department in disposing of the trees before over-maturity, thus, resulted in short collection of timber of 700 cu.m., with reference to quantity estimated in the first marking and consequent loss of revenue of Rs. 84,700 (approximately).

CHAPTER VIII

KERALA STATE LOTTERIES

74. With a view to raising funds for plan schemes and to increase non-tax revenue, a scheme for conducting State Lotteries was sanctioned by the Government of Kerala in August 1967. The first draw of the lottery was held on 26th January 1968. Till the end of March 1974, 56 draws were held. A review of the working of the scheme upto March 1974 revealed the following points:—

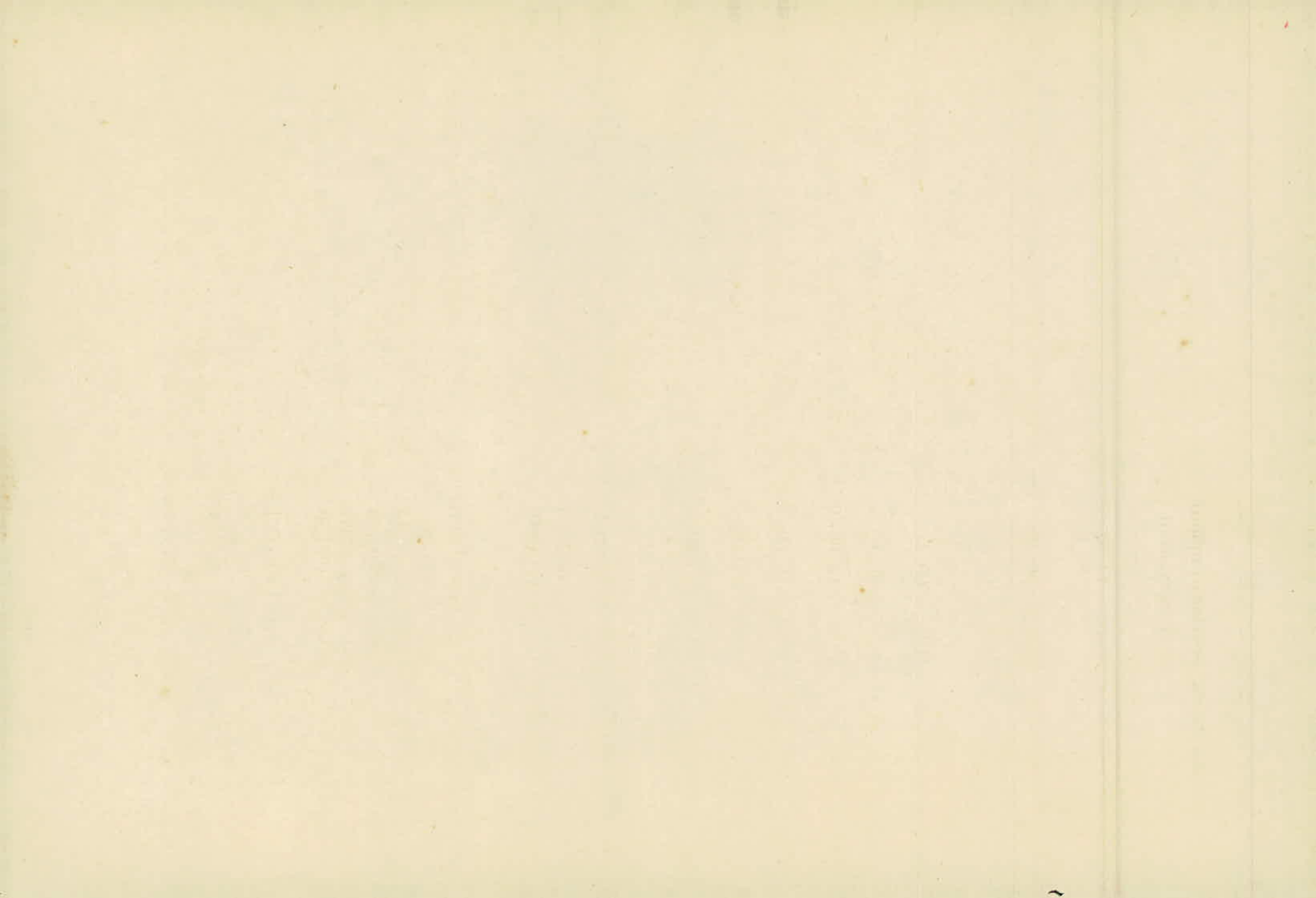
(i) Trend of revenue

The gross receipts, expenditure and the net income during the Fourth Five Year Plan are indicated below:—

	1969-70	1970-71	1971-72	1972-73	1973-74
Number of draws	10	10	8	10	9
	<i>(in lakhs of rupees)</i>				
Gross receipts	256.63	254.43	186.56	167.29	173.44
Direct expense for prize money	75.28	92.95(a)	73.02	58.68	59.51
Commission	1.55(b)	50.81	38.26	34.52	36.40
Printing and sealing charges	5.11	4.38	3.42	1.92(b)	2.91
Advertisement and publicity	5.03	7.60	6.67	7.50	13.31
Miscellaneous including establishment expenditure	6.59	6.74	6.66	6.75	7.17
Net income	163.07	91.95	58.53	57.92	54.14
Percentage of net revenue to gross receipts	63.54	36.14	31.37	34.62	31.21

(a) Includes payment of bills relating to previous years.

(b) The entire claims had not been brought to account during the year.



The gross and net income showed a declining trend from 1970-71 onwards. These came down sharply from Rs. 256.63 lakhs and Rs. 163.07 lakhs in 1969-70 to Rs. 173.44 lakhs and Rs. 54.14 lakhs in 1973-74 respectively. The fall in net income was attributed by the department to fall in the sale of lottery tickets.

(ii) The following table shows the percentage of net income and expenditure on various items to gross receipts as compared to corresponding percentages in respect of the lottery scheme in Tamilnadu during the Fourth Five Year Plan.

Year	Net income as Percentage to gross receipts		Commission and Bonus to agents as percentage to gross receipts		Publicity charges as percentage to gross receipts		Prize amount as percentage to gross receipts		Administration expenses as percentage to gross receipts	
	Kerala	Tamil nadu	Kerala	Tamil nadu	Kerala	Tamil nadu	Kerala	Tamil nadu	Kerala	Tamil nadu
1969-70	63.54	52.63	..	13.16	1.96	1.09	29.33	30.20	2.59	0.78
1970-71	36.14	51.27	20.00	13.40	3.00	1.15	36.53	31.68	2.64	0.96
1971-72	31.37	60.70	20.51	10.09	3.57	2.25	39.14	24.12	3.57	1.02
1972-73	34.62	38.72	20.63	11.93	4.48	3.12	35.08	39.57	4.03	2.42
1973-74	31.21	48.41	20.98	13.06	7.67	4.44	34.31	27.00	4.13	2.70

It would appear that the progressive decrease in the percentage of net profit of Kerala Lotteries is due to:—

- higher administrative expenditure and publicity charges;
- higher rate of commission and other benefits to agents; and
- higher expenditure on prizes.

(iii) Printing of tickets

While considering paragraph 33 of Audit Report, 1970, the Public Accounts Committee 1971-72 in their Seventh Report (issued in March 1972) adversely commented about the delay in taking effective steps to get the tickets printed in the Government Press, Trivandrum. However, tickets continue to be printed by a private press outside the State. A sum of Rs. 21.90 lakhs had been paid during the period 1967-68 to 1973-74 for printing 18.14 crores tickets in all upto the LVI lottery (March 1974).

The department stated (October 1974) that Government had decided in July 1974 to establish a security press in the Stamp Manufacturing Compound, Trivandrum and the Director of Printing and

Stationery had been entrusted with the responsibility of drawing up the scheme. Till the establishment of the press, the existing arrangement of printing tickets in the private press had to be continued.

(iv) **Unsold tickets**

On an average, about 26 per cent of the tickets printed remained unsold every year. Expenditure on printing 457.57 lakhs unsold tickets out of 1814.90 lakhs tickets printed upto 31st March 1974 was Rs. 5.43 lakhs.

The work of printing lottery tickets has been entrusted to a firm in Tamilnadu. The agreement entered into with this firm provides for placing work orders in batches for the printing of tickets pertaining to each lottery and for the supply by the firm of the printed tickets also in batches of 10 to 15 lakhs every three days. It was, however, noticed that the department had not followed this procedure and print orders for the entire quantity of tickets are given in one lot with the result that there was heavy stock of unsold tickets.

In respect of the following lotteries by the time last consignments were received from the press, there were lakhs of tickets available with the Directorate for being released to the District Offices and also unsold tickets with the District Offices with the result that these consignments could not be released at all and had to be destroyed. The avoidable expenditure on this account amounted to Rs. 68,000.

<i>Lottery</i>	<i>Date of receipt of last consignment</i>	<i>No. of tickets received (in lakhs)</i>	<i>No. of tickets already with the Directorate for release to District Offices (in lakhs)</i>	<i>No. of tickets with the District Offices remaining unsold (in lakhs)</i>
10th	11-4-1969	12.00	14.90	4.51
16th	30-10-1969	9.00	10.55	15.60
	31-10-1969	6.00		
37th	8-2-1972	10.00	11.25	12.20
54th	27-11-1973	21.00	3.85	9.27

(v) **Absence of security arrangements and supervision by department in printing of tickets**

The private press, where tickets are printed is made responsible to make adequate security arrangements. It was stated by the



department that any security arrangement would be ineffective unless a large number of persons were employed at the time of printing, as printing of the tickets, numbering, binding, packing etc., were done simultaneously at different parts of the press. In the absence of effective departmental supervision, the possibility of spurious tickets being printed cannot be ruled out.

(vi) **Unclaimed prizes**

As on 31st October 1974 there were 6942 unclaimed prizes amounting to Rs. 21.09 lakhs upto the 32nd draw. Prize registers relating to 33rd draw (September 1971) onwards have not been posted up-to-date and hence the amount of unclaimed prizes could not be ascertained. As these registers are the only consolidated record for watching payment of prizes relating to a draw, non-completion of the register is fraught with the risk of payments made on forged or duplicate tickets remaining undetected.



(R. C. GHEI)

Accountant General, Kerala.

Trivandrum,

The 12TH APRIL 1975.

Countersigned



(A. BAKSI)

New Delhi,

The 18TH APRIL 1975 *Comptroller and Auditor General of India.*

APPENDIX

APPENDIX

Statement showing cost of collection under the principal heads of revenue*(Reference: Para 4 Page 5 of Chapter I)*

<i>Head of Account</i>	<i>Year</i>	<i>Gross collection</i>	<i>Expenditure on collection</i>	<i>Percentage of expenditure on gross collection</i>
		<i>(in crores of rupees)</i>		
1. Taxes on income other than corporation tax—taxes on agricultural income	1971-72	3.64	0.09	2.47
	1972-73	3.12	0.08	2.56
	1973-74	2.87	0.07	2.44
2. Land Revenue	1971-72	1.83	3.75	*
	1972-73	2.62	3.84	*
	1973-74	3.06	4.51	*
3. State Excise Duties	1971-72	9.99	0.68	6.81
	1972-73	9.42	0.75	7.96
	1973-74	11.88	0.86	7.24
4. Taxes on Vehicles	1971-72	7.02	0.24@	3.42
	1972-73	7.16	0.24@	3.35
	1973-74	6.75	0.27@	4.00
5. Sales Tax	1971-72	42.37	1.05	2.48
	1972-73	46.14	1.08	2.34
	1973-74	53.80	1.32	2.45
6. Stamps (Non-judicial)	1971-72	4.51	0.22	4.88
	1972-73	5.45	0.24	4.40
	1973-74	6.85	0.29	4.23
7. Registration	1971-72	1.33	0.85	64.00
	1972-73	1.46	0.86	59.00
	1973-74	1.76	0.98	55.68
8. Forest	1971-72	10.61	3.05	28.74
	1972-73	10.46	3.36	32.12
	1973-74	14.54	3.78	25.99

*The expenditure incurred under Land Revenue cannot be considered as having been incurred solely for collecting land revenue as the department has several other administrative functions.

@Expenditure under taxes on vehicles includes expenditure incurred on collection of taxes on passengers and goods also.

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