

**REPORT OF THE
COMPTROLLER AND AUDITOR GENERAL
OF INDIA**

FOR THE YEAR ENDED 31 MARCH 2008

**(REVENUE RECEIPTS)
GOVERNMENT OF UTTAR PRADESH**

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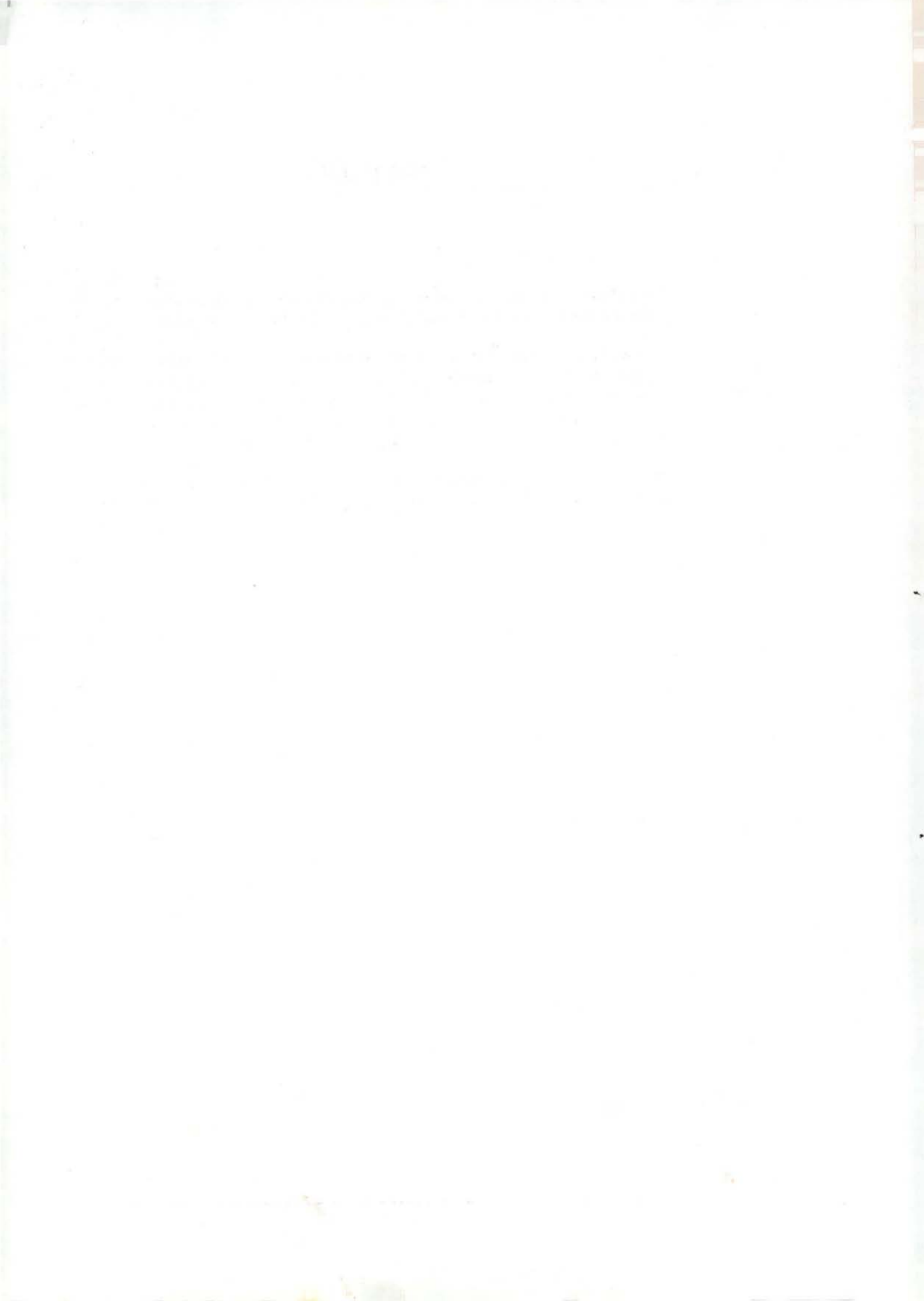
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PREFACE

This Report for the year ended 31 March 2008 has been prepared for submission to the Governor under Article 151 (2) of the Constitution.

The audit of revenue receipts of the State Government is conducted under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. This report presents the results of audit of receipts comprising trade tax, state excise, taxes on motor vehicles, stamp duty and registration fees, other tax and non-tax receipts of the State.

The cases mentioned in the report are among those which came to notice in the course of test audit of records during the year 2007-08 as well as those which came to notice in earlier years but could not be included in the previous years' reports.



OVERVIEW

This report contains 16 paragraphs including two reviews relating to non/short levy of tax, penalty, interest etc., involving Rs. 1,035.85 crore. Some of the major findings are mentioned below:

I. General

- The total receipts of the Government of Uttar Pradesh for the year 2007-08 were Rs. 68,672.47 crore against Rs. 60,599.52 crore during 2006-07. The revenue raised by the State Government amounted to Rs. 30,775.33 crore comprising tax revenue of Rs. 24,959.32 crore and non-tax revenue of Rs. 5,816.01 crore. The receipts from the Government of India were Rs. 37,897.14 crore (State's share of divisible Union taxes: Rs. 29,287.74 crore and grants-in-aid: Rs. 8,609.40 crore). Thus, the State Government could raise only 45 *per cent* of the total revenue. Taxes on sales, trade etc. (Rs. 15,023.10 crore) and miscellaneous general services (Rs. 1,153.53 crore) were the major source of tax and non-tax revenue respectively during the year 2007-08.

(Paragraph 1.1)

- As on 31 March 2008 arrears of revenue under principal heads of revenue as reported by concerned departments were Rs. 11,658.61 crore.

(Paragraph 1.5)

- Test check of the records of trade tax, state excise, taxes on vehicles, goods and passengers, stamp duty and registration fees, public works, finance departments, forest and entertainment tax etc., conducted during the year 2007-08 revealed under assessments/short levy/loss of revenue amounting to Rs. 2,251.28 crore in 1,986 cases. During the year 2007-08, the concerned departments accepted under assessments and other deficiencies of Rs. 90.76 lakh in 144 cases of which Rs. 85.57 lakh had been recovered in 134 cases upto March 2008.

(Paragraph 1.6)

- Inspection reports numbering 8,688 issued upto 31 December 2007 containing 21,049 audit observations with money value of Rs. 2,642.28 crore had not been settled upto June 2008.

(Paragraph 1.7)

II. Trade Tax

- Seven dealers were liable to pay penalty of Rs. 1,156.50 crore for importing taxable goods from outside the State without declaration in form XXXI.

(Paragraph 2.5.1)

- In cases of 17 dealers, though tax of Rs. 6.83 crore was levied on concealed turnover but minimum penalty of Rs. 3.41 crore was not imposed.

(Paragraph 2.5.2)

III. State Excise

- 127 licensees of country liquor, who had short lifted 1,33,072.581 bulk litre of minimum guaranteed quota, were liable to pay excise duty of Rs. 1.09 crore.

(Paragraph 3.2)

IV. Taxes on Vehicles, Goods and Passengers

A review on **Levy and collection of taxes, fees and penalties etc. in inter State vehicular traffic** revealed as under:

- Due to non-revalidation of time barred bank drafts, revenue of Rs. 1.64 crore remained out of Government account.

(Paragraph 4.2.6.1)

- Short levy of tax, additional tax and non-imposition of penalty on vehicles plying without countersigned permit resulted in short realisation of Rs. 71.40 crore.

(Paragraph 4.2.8)

- Non-realisation of tax and additional tax from goods carriage resulted in loss of Rs. 5.16 crore.

(Paragraph 4.2.10)

- Non-levy of tax on laden weight of the vehicles resulted in short realisation of Rs. 7.34 crore.

(Paragraph 4.2.11)

- Delay in circulation of orders resulted in non-realisation of Rs. 6 crore.

(Paragraph 4.2.12)

- Short assessment of additional tax from stage carriage on inter state routes under bilateral agreement resulted in short realisation of Rs. 2.51 crore.

(Paragraph 4.2.14)

V. Stamp Duty and Registration Fee

A review of **Deficiencies in charging of stamp duty on valuation of property and different nature of documents** revealed as under:

- Non-existence of provision for levy of additional stamp duty in the development areas resulted in non-realisation of revenue of Rs. 344.19 crore.

(Paragraph 5.2.6)

- Non-levy of stamp duty on sale of industrial property resulted in non-realisation of revenue of Rs. 36.72 crore.

(Paragraph 5.2.7)

- Undervaluation of residential and commercial land/building resulted in short levy of stamp duty of Rs. 34.30 crore.

(Paragraph 5.2.9)

- Short levy of stamp duty due to incorrect determination of circle rate resulted in loss of revenue of Rs. 2.93 crore.

(Paragraph 5.2.14)

VI. Other Tax and Non-Tax Receipts

For carrying the forest produce out of the forest area, transit fee of Rs. 1.40 crore was not realised from the contractors of National Highway Authority of India.

(Paragraph 6.4)

CHAPTER-I GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Uttar Pradesh during the year 2007-08, the State's share of divisible Union taxes and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

(Rupees in crore)						
Sl. No.	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
I.	Revenue raised by the State Government					
	• Tax revenue	13,601.23	15,692.61	18,857.90	22,997.97	24,959.32
	• Non-tax revenue	2,282.08	2,720.29	2,930.32	6,532.64	5,816.01
	Total	15,883.31	18,412.90	21,788.22	29,530.61	30,775.33
II.	Receipts from the Government of India					
	• State's share of divisible Union taxes	13,272.97	15,055.26	18,203.13	23,218.31	29,287.74 ¹
	• Grants-in-aid	2,481.69	4,149.28	5,357.80	7,850.60	8,609.40
	Total	15,754.66	19,204.54	23,560.93	31,068.91	37,897.14
III.	Total receipts of the State (I + II)	31,637.97	37,617.44	45,349.15	60,599.52	68,672.47
IV.	Percentage of I to III	50	49	48	49	45

The above table indicates that during the year 2007-08, the revenue raised by the State Government was 45 per cent of the total revenue receipts (Rs. 68,672.47 crore) against 49 per cent in the preceding year. The balance 55 per cent of receipts during 2007-08 was from the Government of India.

¹ For details, please see Statement No. 11 - detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Uttar Pradesh for the year 2007-08. Figures under the major heads 0020 - Corporation tax, 0021 - Other taxes on income and expenditure, 0028 - Taxes on income other than corporation tax, 0032 - Taxes on wealth, 0037 - Customs, 0038 - Union excise duties, 0044 - Service tax and 0045 - Other taxes and duties on commodities and services - Share of net proceeds assigned to States booked in the Finance Accounts under 'A - Tax revenue' have been excluded from revenue raised by the State and included in 'State's share of divisible Union taxes' in this statement.

1.1.2 The following table presents the details of tax revenue raised during the period from 2003-04 to 2007-08:

(Rupees in crore)								
Sl. No.	Head of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Increase (+) or decrease (-) in 2007-08 with reference to 2006-07	Percentage of increase or decrease with reference to 2006-07
1.	Trade tax	7,684.13	8,888.31	11,284.67	13,278.82	15,023.10	(+) 1,744.28	(+) 13.13
2.	State excise	2,472.37	2,686.19	3,088.54	3,551.25	3,948.40	(+) 397.15	(+) 11.18
3.	Stamp duty and registration fees	2,296.06	2,682.36	2,996.78	4,513.67	3,976.68	(-) 536.99	(-) 11.89
4.	Taxes on vehicles	676.96	775.84	965.20	1,017.60	1,145.84	(+) 128.24	(+) 12.60
5.	Taxes and duties on electricity	174.72	354.36	182.26	193.92	206.65	(+) 12.73	(+) 6.56
6.	Land revenue	117.67	102.44	108.69	187.52	392.53	(+) 205.01	(+) 109.32
7.	Other taxes and duties on commodities and services	92.78	112.28	114.76	131.57	137.50	(+) 5.93	(+) 4.50
8.	Taxes on goods and passengers	80.21	81.74	105.19	108.70	109.65	(+) 0.95	(+) 0.87
9.	Other (hotel receipts, corporation tax, etc.)	6.33	9.09	11.81	14.92	18.97	(+) 4.05	(+) 27.14
Total		13,601.23	15,692.61	18,857.90	22,997.97	24,959.32	(+) 1,961.35	(+) 8.52

Reason for variation beyond ten *per cent*, as furnished by the Transport Department, is the recovery of arrear of passenger tax from Uttar Pradesh State Transport Corporation. Other departments did not inform (November 2008) the reasons for variation despite being requested (July 2008).

1.1.3 The following table presents the details of non-tax revenue realised during the period 2003-04 to 2007-08:

(Rupees in crore)								
Sl. No.	Head of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Increase (+) or decrease (-) in 2007-08 with reference to 2006-07	Percentage of increase/decrease with reference to 2006-07
1.	Misc. general services	41.80	58.02	75.02	2,281.23	1,153.53	(-) 1,127.70	(-) 49.43
2.	Interest receipts	658.09	597.93	457.94	828.86	1,247.84	(+) 418.98	(+) 50.54
3.	Forestry and wild life	60.96	107.42	161.98	212.27	294.80	(+) 82.43	(+) 38.81
4.	Major and medium irrigation	136.10	176.60	53.78	143.29	319.43	(+) 176.14	(+) 122.92
5.	Education, sports, art and culture	227.68	581.02	934.81	814.96	1,217.62	(+) 402.66	(+) 49.40
6.	Other administrative services	116.91	128.23	99.96	99.71	146.10	(+) 46.39	(+) 46.52
7.	Non-ferrous mining and metallurgical industries	251.05	292.01	354.60	345.34	395.20	(+) 49.86	(+) 14.43
8.	Police	75.91	97.58	96.66	209.60	147.17	(-) 62.43	(-) 29.78
9.	Crop husbandry	188.73	18.60	40.84	33.96	51.03	(+) 17.07	(+) 50.26

Sl. No.	Head of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Increase (+) or decrease (-) in 2007-08 with reference to 2006-07	Percentage of increase/decrease with reference to 2006-07
10.	Social security and welfare	33.65	17.25	14.23	15.77	19.73	(+) 3.96	(+) 25.11
11.	Medical and public health	42.69	42.03	39.75	62.67	72.11	(+) 9.44	(+) 15.06
12.	Minor irrigation	18.53	12.53	21.21	33.02	31.41	(-) 1.61	(-) 4.87
13.	Roads and bridges	41.79	31.67	55.36	58.83	74.24	(+) 15.41	(+) 26.19
14.	Public works	19.92	31.44	36.09	26.59	34.03	(+) 7.44	(+) 27.98
15.	Co-operation	7.57	8.15	6.27	7.02	6.33	(-) 0.69	(-) 9.82
16.	Others	360.70	519.81	481.82	1,359.42	605.44	(-) 753.98	(-) 55.46
Total		2,282.08	2,720.29	2,930.32	6,532.64	5,816.01	(-) 716.63	(-) 10.96

The concerned department did not inform (November 2008) the reasons for variations despite being requested (July 2008).

1.2 Variations between the budget estimates and actuals

The variations between the budget estimates and actuals of revenue receipts for the year 2007-08 in respect of principal heads of revenue are mentioned below:

(Rupees in crore)

Sl. No	Head of revenue	Budget estimates	Actual receipts	Variation excess (+) short fall (-)	Percentage of variation
Tax revenue					
1.	Trade tax	17,314.10	15,023.10	(-) 2,291.00	(-) 13.23
2.	State excise	4,192.00	3,948.40	(-) 243.60	(-) 5.81
3.	Stamp duty and registration fees	4,276.00	3,976.68	(-) 299.32	(-) 7.00
4.	Taxes on goods and passengers	707.00	109.65	(-) 597.35	(-) 84.49
5.	Taxes on vehicles	826.30	1,145.84	(+) 319.54	(+) 38.67
6.	Other taxes and duties on commodities and services	133.46	137.50	(+) 4.04	(+) 3.03
7.	Taxes and duties on electricity	240.05	206.65	(-) 33.40	(-) 13.91
8.	Land revenue	102.73	392.53	(+) 289.80	(+) 282.10
Non-tax revenue					
1.	Misc. general services	1,149.68	1,153.53	(+) 3.85	(+) 0.33
2.	Interest receipts	1,664.82	1,247.84	(-) 416.98	(-) 25.05
3.	Forestry and wild life	185.15	294.80	(+) 109.65	(+) 59.22
4.	Major and medium irrigation	53.77	319.43	(+) 265.66	(+) 494.07
5.	Education, sports, art and culture	85.63	1,217.62	(+) 1,131.99	(+) 1,321.95
6.	Non-ferrous mining and metallurgical industries	448.96	395.20	(-) 53.76	(-) 11.97

The concerned departments did not inform (November 2008) the reasons for variations despite being requested (July 2008).

1.3 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and percentage of such expenditure to the gross collection during the years 2005-06, 2006-07 and 2007-08 along with the relevant all India average percentage of expenditure on collection to gross collection for 2006-07 are mentioned below:

(Rupees in crore)						
Sl. No.	Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of cost of collection to gross collection	All India average percentage for the year 2006-07
1.	Trade tax	2005-06	11,284.67	193.51	1.71	0.82
		2006-07	13,278.82	200.19	1.51	
		2007-08	15,023.10	228.19	1.52	
2.	Taxes on vehicles, goods and passengers	2005-06	1,070.39	31.27	2.92	2.47
		2006-07	1,126.30	30.25	2.69	
		2007-08	1,255.49	36.15	2.87	
3.	State excise	2005-06	3,088.54	33.39	1.08	3.30
		2006-07	3,551.25	37.34	1.05	
		2007-08	3,948.40	44.57	1.13	
4.	Stamp duty and registration fees	2005-06	2,996.78	52.55	1.75	2.33
		2006-07	4,513.67	61.36	1.36	
		2007-08	3,976.68	72.71	1.83	

Thus, the cost of collection under trade tax and taxes on vehicles, goods and passengers were higher than the all India average percentage for the year 2006-07.

1.4 Arrears in assessment

The details of assessments relating to trade tax pending at the beginning of the year, additional cases became due for assessment during the year, cases disposed during the year and cases pending at the end of the year as furnished by the Trade Tax Department during 2003-04 to 2007-08 are mentioned below:

Year	Opening balance	Cases which become due for assessment	Total	Cases disposed of during the year	Cases pending at the close of the year
2003-04	4,75,512	4,83,428	9,58,940	4,76,263	4,82,677
2004-05	4,82,677	5,87,405	10,70,082	5,39,360	5,30,722
2005-06	5,30,722	5,33,349	10,64,071	5,22,962	5,41,109
2006-07	5,41,109	6,00,531	11,41,640	5,64,532	5,77,108
2007-08	5,76,968 ²	6,19,710	11,96,678	2,58,011	9,38,667

² Figures as intimated by the department are at variance with last year's report. On being asked it was stated by the department (November 2008) that difference is due to clerical mistake. Figure of opening balance for the year 2007-08 is correct.

The pending cases have been steadily increasing every year. The department needs to take appropriate steps to dispose of the arrears in assessment.

1.5 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2008, in respect of some principal heads of revenue amounted to Rs. 11,658.61 crore of which Rs. 4,903.09 crore relating to trade tax were outstanding for more than five years as mentioned below:

(Rupees in crore)

Sl. No.	Heads of revenue	Amount of arrears as on 31 March 2008	Arrears outstanding for more than five years as on 31 March 2008	Remarks
1.	Trade tax	11,081.94	4,903.09	Out of Rs. 11,081.94 crore, demand for Rs. 794.91 crore had been certified for recovery as arrears of land revenue. Recoveries amounting to Rs. 1,306.59 crore had been stayed by the Courts/ Government. Recoveries amounting to Rs. 205.35 crore were outstanding against Government/semi-Government departments. Demand of Rs. 1,278.55 crore was likely to be written off. Rs. 35.10 crore were outstanding on transporters. Recovery certificates amounting to Rs. 929.70 crore have been sent to other States. Arrears not covered under recovery certificates but under specific action of department amounted to Rs. 6,531.74 crore.
2.	Entertainment tax	11.74	4.40	Out of Rs. 11.74 crore, demand for Rs. 5.55 crore had been certified for recovery as arrears of land revenue. Recoveries amounting to Rs. 5.72 crore had been stayed by the courts/Government. Notices have been issued for balance of Rs. 47 lakh.
3.	State excise	58.90	NA	Out of Rs. 58.90 crore, demand for Rs. 29.60 crore had been certified for recovery as arrears of land revenue. Recoveries amounting to Rs. 23.64 crore had been stayed by the Court and Rs. 2.61 crore by the Government/ department. Demand for Rs. 3.05 crore was likely to be written off.
4.	Stamp and registration	422.91	NA	Out of Rs. 422.91 crore, demands for Rs. 101.06 crore had been certified for recovery as arrears of land revenue. Recoveries amounting to Rs. 27.10 crore had been exempted by court. Demand for Rs. 193.93 crore had been stayed by different courts. Balance demand of Rs. 100.82 crore was pending recovery.

Sl. No.	Heads of revenue	Amount of arrears as on 31 March 2008	Arrears outstanding for more than five years as on 31 March 2008	Remarks
5.	Land revenue	11.38	NA	Out of Rs. 11.38 crore, demands for Rs. 1.55 crore had been stayed by the Government. Balance demand for Rs. 9.83 crore was pending recovery.
6.	Taxes on vehicles, goods and passengers Road tax 13.69 Goods tax 15.45 Passengers tax <u>42.60</u> <u>71.74</u>	71.74	NA	Out of Rs. 71.74 crore demands for Rs. 0.66 crore and Rs. 0.15 crore had been stayed by court and Government respectively. Demand of Rs. 0.14 crore was likely to be written off. Balance demand of Rs. 70.79 crore was pending for recovery.
Total		11,658.61	4,907.49	

1.6 Results of audit

Test check of the records of trade tax, state excise, taxes on vehicles, goods and passengers, stamp duty and registration fees, public works, finance departments, forest and entertainment tax etc., conducted during the year 2007-08 revealed under assessments/short levy/loss of revenue amounting to Rs. 2,251.28 crore in 1,986 cases. During the year 2007-08, the concerned departments accepted under assessments and other deficiencies of Rs. 90.76 lakh in 144 cases of which Rs. 85.57 lakh had been recovered in 134 cases upto March 2008.

This report contains 16 paragraphs including two reviews involving financial effect of Rs. 1,035.85 crore. The departments/Government accepted audit observations involving Rs. 927.83 crore, of which Rs. 8.83 crore had been recovered upto November 2008.

1.7 Outstanding inspection reports and audit observations

Accountant General (Commercial and Receipts Audit) conducts periodical inspection of the Government departments to test check the transactions and verify the maintenance of important accounting and other records as per the prescribed rules and procedures. These inspections are followed up with inspection reports (IRs). When important irregularities detected during the inspection are not settled on the spot, these IRs are issued to the heads of offices inspected with a copy to the next higher authorities. More important irregularities are reported to the heads of departments and the Government. The heads of offices are required to furnish replies to IRs through the respective heads of departments within a period of two months.

The number of IRs and audit observations relating to revenue receipts issued upto 31 December 2007 which were pending settlement by the departments as

on 30 June 2008, along with corresponding figures for the preceding two years are mentioned below:

Sl. No.		2006	2007	2008
1.	Number of inspection reports pending settlement	7,832	9,524	8,688
2.	Number of outstanding audit observations	19,257	21,445	21,049
3.	Amount of revenue involved (Rs. in crore)	4,225.60	4,782.48	2,642.28

The department wise details of IRs and audit observations outstanding as on June 2008 and the amount involved are indicated below:

Sl. No.	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Amount of revenue involved (in crores of rupees)	Year to which the observations relate
1.	Forestry and wild life	905	1,716	1,004.95	1991-92 to 2007-08
2.	Trade tax	2,060	8,221	567.17	1984-85 to 2007-08
3.	State excise	830	1,191	391.32	1984-85 to 2007-08
4.	Land revenue	696	1,030	29.46	1987-88 to 2007-08
5.	Taxes on vehicle, goods and passengers	972	2,949	139.49	1984-85 to 2007-08
6.	Public works	519	811	33.96	1986-87 to 2007-08
7.	Irrigation	374	648	81.84	1984-85 to 2007-08
8.	Taxes on purchase of sugarcane	96	111	53.51	1985-86 to 2007-08
9.	Stamp duty and registration fees	1,350	3,093	116.74	1983-84 to 2007-08
10.	Agriculture	208	311	22.55	1985-86 to 2007-08
11.	Electricity duty	275	349	167.07	1988-89 to 2007-08
12.	Food and civil supplies	114	179	19.61	1991-92 to 2007-08
13.	Co-operation	106	115	5.98	1985-86 to 2007-08
14.	Entertainment tax	116	143	5.02	1994-95 to 2007-08
15.	Medical and public health	64	179	3.59	2002-03 to 2007-08
16.	Jail	03	03	0.02	2002-03 to 2007-08
Total		8,688	21,049	2,642.28	

Since the outstanding amount represents unrealised revenue, the Government needs to take speedy and effective action on the issues raised in the IRs.

1.8 Follow up on Audit Reports - summarised position

To ensure accountability of the executive in respect of all the issues dealt in the various Audit Reports (ARs), the Department of Finance issued instructions in June 1987 to initiate *suo moto* action on all paragraphs/reviews figuring in the Audit Reports irrespective of whether the cases were taken up for examination by the PAC or not. Out of paragraphs/reviews included in Audit Reports relating to the period 2002-03 to 2006-07 which have already been laid before the State legislature, explanatory notes (ENs) in respect of 85 paragraphs/reviews were not received in audit office as on August 2008 even after the lapse of the prescribed period of three months. The outstanding ENs dating back to 2002-03 are as mentioned below:

Year of Report	Date of presentation of Audit Report to the legislature	No. of paragraphs/ reviews included in the Audit Reports	No. of paragraphs/ reviews on which ENs have been received from the departments	No. of paragraphs/ reviews on which ENs have not been received from the departments
2002-03	08 November 2004	26	11	15
2003-04	20 July 2005	25	10	15
2004-05	11 March 2006	22	12	10
2005-06	25 January 2007	21	00	21
2006-07	15 February 2008	24	00	24
Total		118	33	85

1.9 Compliance with the earlier Audit Reports

In the Audit Reports 2002-03 to 2006-07 cases of under assessments, non/short levy of taxes, loss of revenue, failure to raise demands, etc. involving Rs. 3,468.26 crore were reported. As of August 2008, the departments concerned have accepted observations of Rs. 253.96 crore and recovered Rs. 1.43 crore. Audit Report wise details of cases accepted and recovered are mentioned below:

(Rupees in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2002-03	1,546.48	109.91	0.05
2003-04	473.20	104.01	0.12
2004-05	449.74	30.39	1.18
2005-06	906.66	7.91	0.05
2006-07	92.18	1.74	0.03
Total	3,468.26	253.96	1.43

CHAPTER-II

TRADE TAX

2.1 Results of audit

Test check of the assessments and other records of trade tax offices, conducted during 2007-08, revealed non/short levy of penalty/interest, irregular exemption of tax, misclassification of goods, incorrect, short /non-levy of tax, etc. of Rs. 1,191.14 crore in 1,210 cases, which fall under the following categories:

(Rupees in crore)			
Sl. No.	Categories	Number of cases	Amount
1.	Non/short levy of penalty/interest	472	1,171.14
2.	Incorrect /short levy of tax	261	8.83
3.	Irregular grant of exemption from tax	222	5.91
4.	Misclassification of goods	32	1.45
5.	Irregularities relating to central sales tax	40	0.56
6.	Mistake in computation	36	0.30
7.	Turnover escaping tax	9	0.15
8.	Other irregularities	138	2.80
Total		1,210	1,191.14

During the year 2007-08, the department accepted under assessments and other deficiencies of Rs. 51.45 lakh involved in 124 cases of which 11 cases involving Rs. 5.91 lakh had been pointed out during 2007-08 and the remaining in the earlier years. The department recovered Rs. 46.26 lakh in 114 cases during the year 2007-08, of which nine cases involving Rs. 3.96 lakh related to the year 2007-08 and the balance to the earlier years.

A few illustrative cases involving Rs. 838.92 crore, are mentioned in the succeeding paragraphs.

2.2 Non/short levy of tax

2.2.1 Under the Uttar Pradesh Trade Tax Act, 1948 (UPTT Act) tax is leviable as per the schedule of rates, notified by the Government from time to time. In case of goods, not classified elsewhere, tax is leviable at the rate of 10 *per cent* with effect from 1 December 1998. Further, under section 2(g) of the Foreign Trade (Development and Regulation) Act, 1992 (FT Act) license means a license to import or export and includes a customs clearance permit and any other permission issued under the Act. Duty entitlement pass book (DEPB) is an export incentive, introduced by the Government of India, Ministry of Commerce. By a circular issued on 13 August 2003, the department clarified that DEPB is covered under import license under section 2 (g) of FT Act and import license was exempted from levy of tax vide notification of 17 February 2000 whereas DEPB does not fall under the category of any license.

Test check of the records of two trade tax offices¹ between May 2005 and September 2005 revealed that two dealers sold DEPB, valued at Rs. 82.94 crore, during 2001-02 to 2002-03. The assessing authorities (AAs), while finalising between December 2003 and May 2005 the assessments, treated DEPB as import license and it was exempted from tax under the circular of August 2003 whereas DEPB is not a licence. Treatment of an export incentive as a license resulted in non-levy of tax of Rs. 8.29 crore.

After the cases were pointed out, the department stated in March 2007 that in case of Kanpur, tax of Rs. 1.81 lakh has been levied whereas in another case objection has not been accepted. However, reasons though called for, for not accepting the objection of similar nature has not been received (November 2008).

The matter was reported to the department and the Government between August 2005 and January 2006; their reply has not been received (November 2008).

2.2.2 As per the Government notification dated 15 January 2000, issued under the UPTT Act, tax on sale of photographic paper is leviable at the rate of eight *per cent*. Further, entry tax is not leviable on photographic paper.

Test check of the records of office of the Deputy Commissioner (Assessment) {DC (A)} Trade Tax (TT) Gulawati, in December 2006 revealed that a dealer sold photographic paper valued as Rs. 16.32 crore during the year 2003-04. The dealer was liable to pay a tax of Rs. 1.31 crore against which the dealer paid tax of Rs. 65.10 lakh as entry tax. This resulted in short levy of revenue of Rs. 65.90 lakh after taking the amount of entry tax paid by the dealer.

The matter was reported to the department and the Government (January 2007); their reply has not been received (November 2008).

2.2.3 It has judicially been held² that warranty claim³ is part of taxable turnover.

¹ DC (A) XIX, TT, Kanpur and AC TT Koshikalan, Mathura.

² Mohd. Ekram Khan & sons Vs Commissioner of TT civil appeal no. 9,618 of 2003, SC.

³ The amount received in lieu of replacement of defective parts under specified period.

Test check of the records of five trade tax offices, between October 2005 and July 2007 revealed that six dealers received warranty claims of Rs. 1.06 crore during 2001-02 to 2004-05 against replacement of defective parts of motor vehicles and computers. The AAs while finalising the assessments, between October 2003 and March 2007 failed to include the same in taxable turnover. This resulted in non-levy of tax of Rs. 7.80 lakh as mentioned below:

(Rupees in lakh)

Sl. No.	Name of the office	Assessment year (Month & year of assessment)	Name of commodity (rate of tax in per cent)	Turnover not assessed	Tax leviable
1.	DC (A) VI TT Lucknow	2004-05 (March 2007)	Computer parts (4)	61.35	2.45
2.	DC (A) I TT Saharanpur	2001-02 (October 2003)	Motor vehicle parts (12)	7.16	0.86
		2002-03 (October 2004)		4.35	0.52
3.	DC (A) TT Bahraich	2003-04 (December 2005)	Motor vehicle parts (12)	5.92	0.71
		2004-05 (November 2006)		5.45	0.65
4.	DC (A) TT Basti	2002-03 (March 2005)	Motor vehicle parts (12)	9.60	1.15
5.	DC (A) I TT Lucknow	2003-04 (April 2005)	Motor vehicle parts (12)	6.77	0.81
		2002-03 (July 2004)	Motor vehicle parts (12)	1.66	0.20
		2003-04 (June 2005)		3.72	0.45
Total				105.98	7.80

After the cases were pointed out, the department stated between October 2007 and February 2008 that tax of Rs. 4.70 lakh in respect of Sl.No. 2, 4,5 and in one case (2003-04) of Sl. No.3 have been levied. A report on recovery and reply in the remaining cases has not been received (November 2008).

The matter was reported to the department and the Government between December 2005 to September 2007; their reply has not been received (November 2008).

2.3 Short levy of tax due to misclassification of goods

Under the UPTT Act, tax on classified goods is leviable as prescribed in the schedule of rates, notified by the Government from time to time. The goods not classified in the prescribed schedule of rates, are taxable at the rate of 10 *per cent*, with effect from 1 December 1998.

Test check of the records of nine trade tax offices between September 2005 and February 2008 revealed that in cases of nine dealers, the AAs while finalising the assessments for the years 2000-01 to 2005-06 between March

2005 and March 2007 applied incorrect rate of tax on sale of goods valued as Rs. 13.32 crore due to misclassification of goods. This resulted in short levy of tax of Rs. 96.79 lakh as mentioned below:

(Rupees in lakh)						
Sl. No.	Name of the unit	Assessment year (Month and year of assessment)	Nature of irregularity	Turnover	Rate of tax <u>leviable</u> levied (per cent)	Tax short levied
1.	DC (A) I TT Aligarh	2000-01 (March 2005)	Nycil powder was treated as medicine instead of cosmetics.	19.54	<u>15</u> 8	1.37
		2002-03 (March 2005)		853.19	<u>16</u> 8	68.26
2.	DC (A) I TT Gorakhpur	2004-05 (December 2006)	Preserved food articles were treated as sweetmeat and <i>namkeen</i> .	32.12	<u>12</u> 5	2.25
3.	AC Sec. VIII TT Agra	2003-04 (May 2006)	Petroleum based oil was treated as an unserviceable item.	16.57	<u>20</u> 5	2.49
4.	DC (A) VII TT Kanpur	2004-05 (March 2005)	Canvas cloth was treated as <i>Tat-patti</i> .	15.14	<u>10</u> 5	0.76
5.	DC (A) II TT Bareilly	2003-04 (November 2005)	Poly urethane foam cutting sheet was treated as waste product.	69.72	<u>10</u> 5	3.49
		2004-05 (March 2007)		65.71		3.28
6.	DC (A) XIII TT Kanpur	2003-04 (July 2005)	Synthetic resin was treated as chemical instead of resin.	178.51	<u>10</u> 4	10.71
7.	DC (A) VIII TT Noida	2004-05 (March 2007)	Preserved food sold in sealed packets was treated as cooked food.	42.08	<u>12</u> 8	1.68
8.	DC (A) TT Modinagar	2005-06 (October 2006)	Oil cake was treated as organic manure.	21.41	<u>10 & 4</u> Nil	1.44
9.	AC Sec VII TT Lucknow	2004-05 (January 2007)	Electrical goods were treated as electronic goods.	17.69	<u>10</u> 4	1.06
Total				1,331.68		96.79

After the cases were pointed out, the department stated between September 2007 and September 2008 that tax of Rs. 14.64 lakh in cases of Sl. No. 3, 6 and 8 have been levied. A report on recovery and reply in the remaining cases has not been received (November 2008).

The matter was reported to the Government between April 2006 to March 2008; their reply has not been received (November 2008).

2.4 Short levy of tax due to application of incorrect rate of tax

Under the UPTT Act, tax on classified goods, is leviable as prescribed in the schedule of rates, notified by the Government from time to time. Goods not classified in any schedule of rates, are taxable at the rate of 10 *per cent* with effect from 1 December 1998.

Test check of the records of five trade tax offices, between September 2005 and July 2007 revealed that the AAs while finalising the assessments of five dealers between January 2004 and December 2006, levied tax at lower rate on the turnover of Rs. 2.13 crore. This resulted in short levy of tax of Rs. 7.69 lakh as mentioned below:

(Rupees in lakh)						
Sl. No.	Name of the units	Assessment year (Month and year of assessment)	Name of the commodity	Turnover	Rate of tax <u>leviable</u> levied (per cent)	Amount of tax short levied
1.	DC (A) V TT Ghaziabad	2001-02 (January 2004)	Poly urethane foam	62.52	<u>16</u> 10	3.75
2.	DC (A) V TT Varanasi	2002-03 (February 2005)	Auto tyre and tubes	47.10	<u>12</u> 08	1.88
3.	AC Sec I TT Sitapur	2002-03 (March 2005)	PVC footwear	13.25	<u>08</u> 04	0.53
4.	DC (A) VII TT Kanpur	2003-04 (January 2006)	Perfume	20.17	<u>16</u> 15	0.20
		2004-05 (December 2006)		48.30	<u>16</u> 15	0.48
5.	DC (A) XII TT Kanpur	2002-03 (October 2004)	Auto tyre and tubes	16.57	<u>12</u> 08	0.66
		2003-04 (June 2005)		4.68	<u>12</u> 08	0.19
Total				212.59		7.69

After the cases were pointed out between December 2005 and July 2007, the department stated in November 2007 that the tax of Rs. 6.16 lakh have been levied in case of Sl. No. 1 to 3. A report on recovery and reply in the remaining cases has not been received (November 2008).

The matter was reported to the Government between December 2005 and July 2007; their reply has not been received (November 2008).

2.5 Non-imposition of penalty

2.5.1 Under the UPTT Act, a registered dealer, intending to import taxable goods from outside the State, shall furnish a declaration in form XXXI to the AA where such goods are intended to be imported from outside the State by road, rail, river or air. The importer shall not obtain delivery thereof unless he furnishes to the AA, the declaration in duplicate, duly filled in and signed by him for endorsement by such authority. In the event of violation of these provisions, the AA may direct that such dealer or person shall pay, by way of

penalty, a sum not exceeding 40 *per cent* of the value of goods, imported or three times of the tax leviable on such goods, whichever is higher. Further, the Commissioner, Trade Tax directed in October 2005 that timely penal action may be taken against import of goods, not supported with the declaration form.

Test check of the records of five trade tax offices between December 2005 and October 2007 revealed that six dealers imported goods from outside the State valued at Rs. 2,451.99 crore without declaration form XXXI. The AAs, while finalising between September 2004 and March 2007 the assessments for the years from 2002-03 to 2004-05 levied the tax but failed to impose the maximum penalty of Rs. 1,156.45 crore for unauthorised import of goods as mentioned below:

(Rupees in crore)					
Sl. No.	Name of the office	Assessment year (Month and year of assessment)	Value of the goods imported	Name of commodity	Maximum penalty leviable
1.	DC (A) II TT Lucknow	2002-03 (February 2007)	767.83	Superior kerosene oil, liquefied petroleum gas, furnace oil and naphtha	347.19
		2003-04 (June 2006)	693.64		345.52
		2004-05 (March 2007)	986.05		461.95
		2004-05 (March 2007)	1.25	Superior kerosene oil	0.50
2.	AC Sec IX TT Varanasi	2003-04 (March 2006)	2.00	Gold	0.80
3.	DC (A) I TT Gautam Buddha Nagar	2004-05 (November 2006)	0.69	Raw agarbatti, raw agarbatti material and packing material	0.28
4.	DC (A) V TT Noida	2004-05 (November 2006)	0.30	Spices, biscuits, Chowmein, pulses, rice, ice cream, sweets and consumables.	0.12
5.	AC Sec XII TT Kanpur	2002-03 (September 2004)	0.23	Raw material of agarbattis	0.09
Total			2,451.99		1,156.45

After the cases were pointed out, the department stated in January 2008 that penalty of Rs. 822.19 crore in three cases of Sl. No. 1 and in case of Sl. No. 5 have been imposed. Reply in the remaining cases has not been received (November 2008).

The matter was reported to the Government between July 2006 and February 2008; their reply has not been received (November 2008).

2.5.2 Under the provision of the UPTT Act, if the AA is satisfied that a dealer has concealed his turnover or has deliberately furnished incorrect particulars of his turnover, he may direct such dealer to pay by way of penalty, in addition to tax, a sum not less than 50 *per cent* but not exceeding 200 *per cent* of the amount of tax which would thereby have been avoided.

Test check of the records of 14 trade tax offices⁴, between December 2003 and February 2008 revealed that 17 dealers had concealed sales turnover of Rs. 170.62 crore between 1995-96 and 2004-05. The AAs while finalising between February 1999 and March 2006 the assessment for the years between 1995-96 and 2003-04 levied tax of Rs. 6.83 crore but did not impose minimum penalty of Rs. 3.41 crore. A few illustrative cases are mentioned below:

(Rupees in lakh)

Sl. No.	Name of the unit	Assessment Year (Month and Year of assessment)	Concealed turnover	Name of the commodity	Tax levied on concealed turnover	Minimum penalty leviable
1.	DC (A) VII TT NOIDA	1997-98 (February 1999) ⁵	12,220.00	Electronic goods	241.07	120.54
		2000-01 (February 2003)	522.50		5.13	2.56
2.	DC(A) VIII TT Agra	2000-01 (March 2003)	350.00	Auto parts and shoes	37.00	18.50
		2001-02 (March 2003)	2,500.00		260.00	130.00
3.	AC Sec IX TT Meerut	2003-04 (June 2005)	450.00	Vanaspati Ghee	90.00	45.00
4.	AC TT Chandauli	1995-96 (November 2004)	258.76	Coal	11.95	5.97
5.	DC(A) I TT Moradabad	2003-04 (November 2004)	47.00	Glue and tallow	4.10	2.05
		2003-04 (March 2006)	14.57	Cooked food	1.12	0.56

After the cases were pointed out, the department stated between February 2006 and September 2008 that the penalty of Rs. 2.23 crore in 14 cases have been imposed. A report on recovery and reply in the remaining cases has not been received (November 2008).

The matter was reported to the Government between January 2004 and March 2008; their reply has not been received (November 2008).

⁴ DC (A) VI TT Agra, AC Sect. IV TT Aligarh, TTO Gr.II Bharthana, AC TT Chandauli, DC (A) TT Deoria, AC TT Gautam budh nagar, AC TT Mau, AC Sect. IX TT Meerut, DC (A) TT Mirzapur, DC (A) I TT Moradabad, AC Sect. I TT Muzaffarnagar, DC (A) VII TT Noida, DC (A) TT Shahjahanpur, AC Sect. I TT Sitapur.

⁵ The case was under litigation and was decided in September 2005.

2.5.3 Under the provisions of the UPTT Act, if the AA is satisfied that any dealer or other person, without reasonable cause, has failed to deposit the tax within the prescribed period, he may direct the dealer to pay by way of penalty, in addition to tax, if any, payable by him, a sum which shall not be less than 10 *per cent* but not exceeding 25 *per cent* of the tax due, if the tax due is upto Rs. 10,000 and 50 *per cent* if it is above Rs. 10,000.

Test check of the records of seven trade tax offices⁶ between November 2005 and March 2008 revealed that eight dealers, assessed between February 2005 and March 2007 for the years 1995-96 to 2003-04, did not deposit their admitted tax of Rs. 1.81 crore within the prescribed period. The delay ranged between one and 302 days and in four cases the delay was more than one month. Belated payment of admitted tax attracted minimum penalty of Rs. 18.08 lakh which was not imposed by the AAs.

After the cases were pointed out, the department stated between July 2007 and May 2008 that penalty of Rs. 22.15 lakh⁷ in seven cases have been imposed. A report on recovery and reply in the remaining cases has not been received (November 2008).

The matter was reported to the Government between December 2006 and March 2008; their reply has not been received (November 2008).

2.5.4 Under the UPTT Act, a person responsible for making payment to a contractor, for discharge of any liability on account of valuable consideration payable for the transfer of property in goods in pursuance of works contract, shall deduct an amount equal to four *per cent* of such sum, payable under the Act, on account of such works contract. In case of failure to deduct the amount or deposit the amount so deducted into the Government treasury before the expiry of the month, following the month in which the deduction was made, the AA may direct that such person shall pay by way of penalty a sum not exceeding twice the amount so deducted.

During test check of the records of nine trade tax offices, it was noticed between January 2007 and January 2008 that 11 dealers⁸, while making the payment to the contractors, deducted the tax of Rs. 49.79 lakh at source, during the years 2002-03 to 2004-05 but did not deposit the same in the Government treasury within the time prescribed. The delay ranged between one and 419 days and in four cases the delay was more than two months. The AAs while finalising (between December 2005 and March 2007) the

⁶ DC(A)V TT Agra, DC(A) II TT Allahabad, DC(A) VI TT Ghaziabad, DC(A) II TT Lucknow, DC(A) VI TT NOIDA, DC(A) I TT Saharanpur and DC(A) TT Sultanpur.

⁷ The AAs have levied more than minimum penalty in some cases.

⁸ Executive Engineer (EE) Rural Engineering Services Mirzapur Division, Rural Engineering Services Sonbhadra Division, Nagar Palika Saharanpur, Bridge Construction Division PWD Kanpur, PWD Orai Distt. Jalaun, Construction Division UP Jal Nigam Bijnaur, Rural Engineering Services Varanasi, National Highway Division-I PWD Varanasi, UP Samaj Kalyan Nigam Ltd. Banda and IRCON International Bareilly.

assessments failed to impose the maximum penalty of Rs. 99.58 lakh as mentioned below:

(Rupees in lakh)				
Sl. No.	Name of office	Assessment Year (Month and year of assessment)	Amount of tax	Maximum penalty leviable
1.	AC Sec II TT Mirzapur	2003-04 (March 2006) 2004-05 (March 2007)	0.39 1.64	0.78 3.28
2.	AC Sec I TT Sonbhadra	2004-05 (March 2007)	1.86	3.72
3.	AC Sec I TT Saharanpur	2004-05 (February 2007)	4.03	8.06
4.	AC Sec II TT Banda	2003-04 (September 2006)	3.58	7.16
5.	AC Sec XII TT Kanpur	2004-05 (November 2006)	3.10	6.20
6.	AC Sec I TT Orai	2003-04 (February 2006)	2.40	4.80
7.	AC TT Bijnaur	2003-04 (December 2005)	1.75	3.50
8.	AC Sec IX TT Varanasi	2003-04 (March 2006)	8.23	16.46
		2004-05 (March 2006)	10.01	20.02
		2002-03 (October 2006)	3.05	6.10
		2003-04 (March 2006)	4.11	8.22
		2002-03 (March 2006)	0.78	1.56
		2003-04 (March 2006)	3.33	6.66
9.	DC (A) III Bareilly	2003-04 (January 2005) 2004-05 (March 2007)	0.97 0.56	1.94 1.12
Total			49.79	99.58

After the cases were pointed out, between March 2007 and February 2008 the department stated in September 2008 that penalty of Rs. 8.86 lakh in two cases has been imposed. A report on recovery and reply in the remaining cases has not been received (November 2008).

The matter was reported to the Government between March 2007 and February 2008; their reply has not been received (November 2008).

2.5.5 Under the provisions of the Central Sales Tax Act, 1956 (CST Act), if a registered dealer purchases any goods from outside the State at concessional rate of tax, on the strength of declaration in form C by falsely representing that such goods are covered by his registration certificate (RC) under the CST Act or if the goods purchased from outside the State at concessional rate of tax, are used for the purpose other than that for which the RC was granted, the dealer is liable to be prosecuted. However, in lieu of prosecution, if the AA deems it fit, he may impose a penalty upto one and half times of the tax, payable on the sale of such goods.

Test check of the records of 13 trade tax offices between June 2006 and February 2008 revealed that during the years 2003-04 to 2004-05, 13

dealers purchased goods valued as Rs. 5.29 crore, at concessional rate of tax, against declaration in form C. As the items purchased by the dealers were not covered by their RCs or disposed of for the purpose not mentioned in the RCs, the dealers were liable to pay penalty upto Rs. 89.49 lakh as mentioned below:

(Rupees in lakh)

Sl. No.	Name of the unit	Assessment year (Month and year of assessment)	Name of the commodity/ Rate of tax (per cent)	Amount of purchase	Penalty leviable
1.	AC Sec IX TT Kanpur	2004-05 (March 2006)	Chemical (10)	154.54	23.18
2.	DC (A) VIII TT Lucknow	2003-04 (March 2006)	Plastic sheet (10)	6.47	0.97
3.	AC Sec II TT Jhansi	2004-05 (May 2006)	Motor chassis (12)	17.24	3.10
4.	DC (A) I TT Rampur	2003-04 (February 2006)	Tiles, furniture, signboard, equipments, plant and machinery (16 and 10)	6.00	0.96
5.	AC Sec I TT Kanpur	2004-05 (August 2005)	Adhesive (12)	48.65	8.76
6.	DC(A) IV TT Noida	2003-04 (March 2006)	Plastic granules and Nitrogen gas (10 and 12)	65.43	9.97
7.	DC (A) XX TT Kanpur	2004-05 (January 2007)	Power oil (20)	53.24	15.97
8.	DC (A) III TT Bareilly	2004-05 (March 2007)	Nickel screen, plastic liner, polythene and stationery (10)	18.15	2.72
9.	DC (A) I TT Gautam Budh Nagar	2004-05 (March 2006)	Mineral, tin container and plastic container (10)	28.93	4.34
10.	DC (A) TT Etah	2004-05 (March 2007)	Generator set (10)	18.30	2.75
11.	AC Sec XIX TT Kanpur	2004-05 (September 2007)	Plant and machinery, generator (10)	51.44	7.72
12.	AC Sec VII TT Lucknow	2004-05 (March 2007)	Mini colour lab machine (10)	59.28	8.89
13.	DC (A) X TT Agra	2003-04 (October 2005)	Machine and Coromix moulding (10)	1.09	0.16
Total				528.76	89.49

After the cases were pointed out, the department stated between April 2007 and January 2008 that the penalty of Rs. 47.01 lakh in seven cases had been imposed. A report on recovery and reply in the remaining cases has not been received (November 2008).

The cases were reported to the Government between July 2006 and March 2008; their reply has not been received (November 2008).

2.6 Non-charging of interest

Under the provisions of the UPTT Act, every dealer liable to pay tax, is required to deposit the amount of tax into the Government treasury before the expiry of the month, following the month in which the tax was due. The tax admittedly payable by the dealer, if not paid by the due date, attracts interest at the rate of two *per cent* per month upto 11 August 2004 and thereafter at the rate of 14 *per cent* per annum on the unpaid amount, till the date of deposit.

Test check of the records of five trade tax offices between May 2004 and October 2007 revealed that in case of five dealers, assessed between December 2003 and March 2007, admitted tax of Rs. 43.10 lakh was deposited late. The delay ranged from six to 1,196 days and in three cases, the delay was more than 30 months. Belated payment of admitted tax attracted interest of Rs. 17.33 lakh, which was not levied by the AAs as mentioned below:

(Rupees in lakh)

Sl. No.	Name of the Office	Assessment year (Month and year of assessment)	Admitted tax	Interest leviable
1.	DC (A) I TT Orai	2005-06 (March 2007)	23.16	5.51
2.	DC (A) TT Ambedkarnagar	2003-04 (March 2006)	7.36	3.75
3.	DC (A) IV TT Saharanpur	2002-03 (March 2005)	5.19	3.53
4.	AC Sec IX TT Ghaziabad	2001-02 (March 2004)	5.33	3.35
5.	DC (A) TT Mirzapur	2001-02 (December 2003)	2.06	1.19
Total			43.10	17.33

After the cases were pointed out, the department stated in August 2007 and September 2008 that interest of Rs. 6.70 lakh has been levied in two cases of Sl. No. 1 and 5. The department has recovered Rs. 2.58 lakh out of Rs. 5.51 lakh in case of Sl. No. 1. A report on recovery of the balance amount and reply in the remaining cases has not been received (November 2008).

The matter was reported to the department and the Government between July 2004 and December 2007; their reply has not been received (November 2008).

2.7 Irregular exemption

2.7.1 Section 8(5) of the CST Act, amended from 13 May 2002 (read with the Commissioner's circular dated 27 May 2002) provides that benefit of exemption from or reduction in rate of tax on inter state sales of goods is admissible only on submission of declarations in form C and D. Further, such benefit on ISS is admissible to new units covered by notification issued under Section 4A of the UPTT Act.

Test check of the records of five trade tax offices between October 2005 and July 2007 revealed that during the years 2002-03, 2003-04 and 2004-05, five dealers, holding eligibility certificates (ECs) made inter state sales of self

manufactured goods valued at Rs. 5.25 crore without declaration in form C. The AAs assessed the tax and allowed exemption under Section 4A of Rs. 35.03 lakh. This resulted in irregular exemption of Rs. 35.03 lakh as mentioned below:

(Rupees in lakh)						
Sl. No.	Name of unit	Assessment year (Month and year of assessment)	Name of the commodity	Amount of ISS without form C	Tax levied	Exemption allowed
1.	DC (A) IV TT Ghaziabad	2004-05 (March 2007)	Soft drinks, mineral water and beverages.	249.00	32.40	16.20
2.	DC (A) TT Gulawati Bulandshahar	2002-03 (February 2005)	Whey powder and casin	162.65	16.26	12.20
3.	DC (A) VII TT Kanpur	2003-04 (October 2006)	Multilayer polyfilm	66.80	6.68	4.91
4.	DC (A) IV TT Noida	2002-03 (February 2005)	Aeroseal valve and pump spares	43.11	4.31	1.08
5.	DC (A) I TT Sitapur	2002-03 (March 2005)	Molasses	3.21	0.64	0.64
Total				524.77	60.29	35.03

After the cases were pointed out, the department stated in June 2007 that tax of Rs. 12.84 lakh has been levied in two cases of Sl. No.2 and 5. A report on recovery and reply in the remaining cases has not been received (November 2008).

The matter was reported to the department and the Government between December 2005 and February 2008; their reply has not been received (November 2008).

2.7.2 By a notification issued in January 2001, tax on sale of timber, imported from outside India, is leviable at the rate of 20 *per cent* with effect from 1 February 2001. Further, sale of bullock cart is exempted from tax.

Test check of the records of office of AC Sector XI, TT, Lucknow revealed in February 2005 that a dealer imported timber from outside India valued as Rs. 30.76 lakh during the year 2001-02 for use in manufacture of bullock carts. However, scrutiny of the assessment records of the dealer revealed that he did not manufacture the bullock cart and instead sold the timber in the same form and condition, which was taxable at the rate of 20 *per cent* under the aforesaid notification. The AA while finalising the assessment in March 2003 did not detect it and granted exemption from payment of tax. This resulted in irregular availment of exemption of tax of Rs. 6.15 lakh.

After the case was pointed out, the department stated in October 2006 that tax of Rs. 9 lakh has been levied on sale of imported timber valued as Rs. 45 lakh⁹. A report on recovery has not been received (November 2008).

The matter was reported to the Government in December 2005; their reply has not been received (November 2008).

⁹ The AA enhanced the turnover and levied the tax accordingly.

2.8 Non/short levy of entry tax

Under the UP Tax on Entry of Goods Act, 2001, entry tax on value of goods is leviable as per schedule of rates notified by the Government from time to time.

Test check of the records of nine trade tax offices between June 2005 and February 2008, revealed that in seven cases, the AAs while finalising between February 2005 and March 2007 the assessments for the years 2002-03 to 2004-05 did not levy entry tax of Rs. 9.61 lakh on the purchase of cement, coal, machinery, wax, paper and diesel and in two cases, on the purchase of diesel, it was short levied by Rs. 29.80 lakh. This resulted in non/short levy of entry tax of Rs. 39.41 lakh as mentioned below:

(Rupees in lakh)

Sl. No	Name of the unit	Assessment year (Month and year of assessment)	Name of the commodity	Value of the commodity	Rate of entry tax (per cent)	Amount of tax short/non levied
					leviable levied	
1.	AC Sec VII TT Lucknow	2004-05 (March 2007)	Machinery	59.28	$\frac{2}{--}$	1.19
2.	DC (A) TT Faizabad	2004-05 (March 2007)	Coal	109.78	$\frac{2}{--}$	2.20
3.	DC (A) TT Gautam Budh Nagar	2004-05 (October 2006)	Wax and Paper	16.06	$\frac{4}{--}$	0.64
4.	DC (A) XII TT Lucknow	2004-05 (May 2006)	Diesel	22.46	$\frac{5}{--}$	1.12
5.	DC (A) Karvi Chitrakoot	2003-04 (March 2006)	Cement	120.92	$\frac{2}{--}$	2.42
6.	DC (A) TT Balrampur	2003-04 (March 2006)		60.49	$\frac{2}{--}$	1.21
7.	DC (A) TT Mirzapur	2002-03 (February 2005)	Machinery	41.48	$\frac{2}{--}$	0.83
8.	DC (A) TT Sultanpur	2004-05 (March 2007)	Diesel	773.22	$\frac{5}{2}$	23.20
9.	AC Sec I TT Hathras	2004-05 (March 2007)		219.95	$\frac{5}{2}$	6.60
Total				1,423.64		39.41

After the cases were pointed out, the department stated between September 2007 and February 2008 that entry tax of Rs. 34.26 lakh have been levied in five cases. A report on recovery and reply in the remaining cases has not been received (November 2008).

The matter was reported to the Government between August 2005 and March 2008; their reply has not been received (November 2008).

CHAPTER-III STATE EXCISE

3.1 Results of audit

Test check of the records of the offices of State excise, conducted during the year 2007-08, revealed cases of low recovery of alcohol, non-lifting of minimum guaranteed quota (MGQ) of country liquor, non-realisation of licence fee, non-levy of interest and other irregularities, amounting to Rs. 18.80 crore in 93 cases, which fall under the following categories:

(Rupees in crore)

Sl.No.	Categories	Number of cases	Amount
1.	Low recovery of alcohol from molasses	22	9.59
2.	Non-lifting of MGQ of country liquor	19	4.05
3.	Non-realisation of licence fee	6	1.69
4.	Non-levy of interest	15	0.21
5.	Other irregularities	31	3.26
Total		93	18.80

During the year 2007-08, the department recovered Rs. 6.39 lakh, involved in 12 cases of low recovery of alcohol, non-lifting of MGQ and other irregularities, pointed out in earlier years.

A few illustrative cases, involving Rs. 1.26 crore, are mentioned in the succeeding paragraphs.

3.2 Loss of excise duty due to short lifting of minimum guaranteed quota of country liquor

Under the provisions of the Uttar Pradesh Excise (Settlement of licences for the retail sale of country liquor) Rules 2002, a licensee is liable to lift the entire minimum guaranteed monthly quota (MGQ) fixed for each licensee, during the year. In case of failure, the licensing authority has to adjust the outstanding balance amount of licence fee from the security deposit of the licensee and also issue a notice to the licensee by the third day of the next month to replenish the deficit in the security amount either by lifting such quantity of country liquor involving duty equivalent to the adjusted amount or by depositing cash or a combination of both. In case the licensee fails to replenish the deficit in security amount by the 10th day of the next month, his licence shall stand cancelled.

During test check of the records of 11 district excise offices¹ (DEO), it was noticed between September 2005 and February 2008 that 127 licensees lifted 19,42,698.169 bulk litre (BL) of country liquor against MGQ of 20,75,770.75 BL during the period from 2004-05 to 2006-07. As the full quantity of MGQ of country liquor was not lifted during the year, differential amount of license fee i.e. Rs.1.09 crore on short lifted quantity of 1,33,072.581 BL of liquor, was to be recovered from the licensees. The department, however, did not initiate any action either to adjust the amount from security or to cancel the licence. This resulted in loss of excise duty of Rs. 1.09 crore.

The matter was reported to the department and the Government between September 2007 and March 2008; their replies have not been received (November 2008).

3.3 Loss of excise duty due to irregular conversion of Indian made foreign liquor (IMFL)

Under the provision of the UP Excise Act, 1910, and the rules made thereunder, blending and reduction of plain spirit is permitted in store vats under the supervision and presence of the officer-in-charge. IMFL does not fall under the category of plain spirit. Excise duty at the rate of Rs. 130 per BL and Rs. 85 per BL was leviable on IMFL and country liquor respectively during 2006-07. However, the rules did not provide for conversion of IMFL into country liquor.

During test check of the records for the period 2006-07 of Majhola Distillery, Majhola, Pilibhit, it was noticed (February 2007) that 57,162.2 BL of IMFL was converted into 67,550.6 BL of country liquor with the permission of the Deputy Excise Commissioner (Distribution). The department was not empowered to give the permission of such conversion under any Rules. The conversion reduced the strength of liquor from 42.8 per cent to 36 per cent. Excise duty of Rs. 74.31 lakh was chargeable on the total quantity of IMFL.

¹ DEOs Ballia, Barabanki, Deoria, Hardoi, Kausambi, Mau, Orai, Rae Bareilly, Saharanpur, Sitapur and Unnao.

The IMFL converted into country liquor could fetch only Rs. 57.42 lakh as excise duty. Thus, irregular conversion of liquor (IMFL) resulted in loss of excise duty of Rs. 16.89 lakh.

The matter was reported to the department and the Government (September 2007); their replies have not been received (November 2008).

CHAPTER-IV TAXES ON VEHICLES, GOODS AND PASSENGERS

4.1 Results of audit

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

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

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

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

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

Highlights

- Due to non-revalidation of time barred bank drafts, revenue of Rs. 1.64 crore remained out of Government account.
(Paragraph 4.2.6.1)
- Short levy of tax, additional tax and non-imposition of penalty on vehicles plying without countersigned permit resulted in short realisation of Rs. 71.40 crore.
(Paragraph 4.2.8)
- Non-realisation of tax and additional tax from goods carriage resulted in loss of Rs. 5.16 crore.
(Paragraph 4.2.10)
- Non-levy of tax on laden weight of the vehicles resulted in short realisation of Rs. 7.34 crore.
(Paragraph 4.2.11)
- Delay in circulation of orders resulted in non-realisation of Rs. 6 crore.
(Paragraph 4.2.12)
- Short assessment of additional tax from stage carriage on inter state routes under bilateral agreement resulted in short realisation of Rs. 2.51 crore.
(Paragraph 4.2.14)

4.2.1 Introduction

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

The types of vehicles, normally covered under the scheme/agreements, are stage carriages¹, contract carriages / tourist taxies² and goods carriages³.

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

4.2.2 Organisational setup

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

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

4.2.3 Scope and methodology of audit

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

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

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

³ Goods carriages refers to vehicles holding national permit.

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

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

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

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

4.2.4 Audit objectives

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

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

4.2.5 Acknowledgement

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

Audit Findings

System deficiencies

4.2.6 Deficiencies in collection of revenue

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

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

4.2.6.1 Non-revalidation of time barred bank drafts

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

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

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

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

4.2.6.2 Short realisation of additional tax through bank drafts

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

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

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

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

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

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

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

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

4.2.7 Internal audit

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

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

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

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

Compliance deficiencies

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

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

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

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

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

4.2.9 Non-realisation of countersignature fees

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

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

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

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

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

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

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

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

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

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

¹⁰ Allahabad, Jhansi, Lucknow and Varanasi.

¹¹ Bareilly, Lalitpur, Mirzapur and Saharanpur.

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

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

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

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

4.2.12 Delay in circulation of orders

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

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

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

4.2.13 Non-imposition of penalty on vehicles of other states

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

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

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

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

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

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

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

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

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

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

4.2.15 Non-cancellation of national permit

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

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

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

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

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

¹⁸ Haryana, Himanchal Pradesh, Rajasthan and Madhya Pradesh.

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

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

4.2.16 Conclusion

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

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

4.2.17 Summary of recommendations

The Government may consider:

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

4.3 Short levy of additional tax on passenger vehicles

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

¹⁹

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

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

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

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

After the cases were pointed out, the Government stated in July 2008 that the documents under observation have been referred to the collectors concerned for proper valuation of the properties. It was further stated that internal audit wing has been established which will scrutinise the documents of under valuation.

The Government may consider prescribing submission of documents like *khasra* along with map of the land/property and ensuring submission of declaration in form appended to Rule 6² of SVOP Rules by the transferor, specifying the area covered under agricultural, residential, industrial and commercial in rate list circulated by the Collectors of the districts.

5.2.10 Non-fixation of standard lease rent

Under the provisions of IS Act, stamp duty on lease, for a term upto 20 and 30 years, is chargeable as conveyance for a consideration equal to five and six times respectively of the amount of the annual rent reserved. The provisions for fixation of minimum annual lease rent do not exist in Act/Rules.

Test check of the records of the offices of two SRs³ revealed that four out of 84 lease deeds, relating to commercial land worth Rs. 4.13 crore for the period 20 and 30 years were registered between July 2005 and March 2006 respectively for a consideration of Rs. 252 (annual rent of Rs. 12) on which stamp duty of Rs. 610 was paid. It was observed that the properties worth Rs. 4.13 crore, valued at circle rate, were leased on nominal lease rent of Re. 1 per month only. The lessor (owner of the land) could have earned Rs. 33.04 lakh annually if calculated at the rate of eight *per cent* normal bank interest. Even if the bank interest of Rs. 33.04 lakh per annum be assumed as benefit in the form of lease rent, stamp duty of Rs. 17.47 lakh could have been levied. Thus, in the absence of any provision to fix the standard lease rent by the authorities, the Government was deprived of revenue to that extent as shown in Appendix-VI.

After this was pointed out, the Government accepted the observations in July 2008 and stated that necessary amendment in the Act was being proposed on this issue.

The Government may consider making a provision for fixation of minimum annual rent for leased property in the interest of revenue of the State.

5.2.11 Internal audit

Internal audit is a vital component of control mechanism and is generally defined as the control of all controls to enable an organisation to assure itself that the prescribed systems are functioning reasonably well.

It was however, noticed that internal audit wing (IAW) was not in existence in the department, leaving it vulnerable to the risk of control failure.

After the matter was reported, the Government stated in July 2008 that IAW has been established in the department.

² Statement of market value, furnished by the transferor.

³ SR Etawah and SR Jaunpur.

Compliance deficiencies

5.2.12 Short levy of stamp duty on different kind of leases

Under the IS Act, on an instrument, where the lease purports to be for a term exceeding 30 years or in perpetuity or does not purport to be for any definite term, stamp duty is chargeable as for conveyance for a consideration equal to the market value of the property. The IGR clarified on 22 April 2003 that if a lease for a period upto 30 years, contained provision for further extension for a certain or indefinite period, stamp duty shall be charged on the consideration of market value of the property.

5.2.12.1 Test check of the records of offices of 39 SRs revealed that 71 lease deeds for a period upto 30 years were registered between January 2003 and February 2007, on which stamp duty of Rs 32.32 lakh was levied. Since the recital of the deeds contained the provision of indefinite extension, stamp duty of Rs. 6.87 crore, based on market value of the property of Rs. 72.08 crore was leviable. Incorrect computation of lease period resulted in short levy of stamp duty of Rs. 6.54 crore as shown in Appendix-VII.

5.2.12.2 Test check of the records of SR II, Varanasi revealed that nine deeds of transfer of property, by way of sub lease situated in the area of Uttar Pradesh State Industrial Development Corporation (UPSIDC) Varanasi executed by the lessees in favour of other persons, were registered between June 2002 and September 2006 for a consideration of Rs. 11.81 lakh on which stamp duty of Rs. 1.18 lakh was levied. Since sub leases purport for the period exceeding 30 years, these deeds were required to be registered as conveyance on the market value of Rs. 2.65 crore on which stamp duty of Rs. 26.47 lakh was chargeable. This resulted in short levy of stamp duty of Rs. 25.29 lakh.

After the matter was pointed out, the Government stated in July 2008 that cases will be referred to the Collectors concerned for investigation. Further report has not been received (November 2008).

5.2.13 Short levy of stamp duty due to misclassification of documents

Under the provision of the IS Act, every instrument mentioned in the schedule shall be chargeable to stamp duty at the rates prescribed therein. An instrument is required to be classified on the basis of its recitals given in the document and not on the basis of its title.

Test check of the records of 31 SRs revealed that 90 instruments registered between May 2002 and February 2007 were classified on the basis of their titles and stamp duty was levied accordingly. Scrutiny of the recitals of these documents, however, revealed that these documents were misclassified and

REPORT OF 31 MARCH 2009

D.P. No.	Proposed Para No.	A.I.R. No.	Unit	Matter	Amount (Rs. in lakh)
47/08-09	2.13.5	300/08-09	DC (A)-II, CT, Meerut	Penalty u/s 10A	8.81
36/08-09	2.13.5	212/08-09	DC (A)-VII, CT, Kanpur	Penalty u/s 10A	1.34
5/08-09	2.13.4	452/08-09	DC (A)-II, CT, Rampur	Penalty u/s 8D(6)	2.16
59/08-09	2.13.6	300/08-09	DC (A)-II, CT, Meerut	Penalty u/s 15A(1)(qq)	3.86
26/08-09	2.12.1	69/08-09	DC (A), Ferozabad	Misuse of declaration forms (Form 3B)	7.95
33/08-09	2.12.1	212/08-09	DC (A)-VII, CT, Kanpur	Misuse of declaration forms (Form 3B)	55.51
13/08-09	2.7	83/08-09	DC (A)-I, CT, Bareilly	Evasion of tax by Khadi Gramodyog Institutions	1.45
52/08-09	2.7	383/08-09	DC (A)-III, CT, Saharanpur	Evasion of tax by Khadi Gramodyog Institutions (Rubber roll)	7.61
56/08-09	2.10	299/08-09	DC (A)-VI, CT, Noida	Non/Short levy of State Development Tax	54.54
75/08-09	2.11	386/08-09	DC (A)-I, CT, Shahjahanpur	Irregular Adjustment of purchase tax	2.06
21/08-09	2.11	450/08-09	DC (A)-II, CT, Lakhimpur Kheri	Irregular adjustment of purchase tax	1.20
53/08-09	2.5	370/08-09	DC (A)-XVI, CT, Kanpur	Short levy of tax due to misclassification of goods (Vicco turmeric cream)	6.40
TOTAL					152.89

(A.S. Sheikh)
Sr. Audit Officer
Report (R.R.)

resulted in short levy of stamp duty of Rs. 4.51 crore as mentioned below:

(Rupees in lakh)				
Sl. No.	No. and value of documents	SD leviable levied	Short levy of SD	Nature of irregularity
1.	<u>45</u> 2,992.84	<u>288.35</u> 0.02	286.29	Conveyance deeds were misclassified as correction deeds.
2.	<u>39</u> 1,667.62	<u>157.79</u> 0.28	157.79	Conveyance deeds were misclassified as power of attorney.
3.	<u>3</u> 64.50	<u>4.52</u> 0.28	4.24	Mortgage deeds were misclassified as deposit of title deeds.
4.	<u>1</u> 15.12	<u>1.51</u> 0	1.51	Conveyance deed was misclassified as lease deed.
5.	<u>1</u> 15.00	<u>1.35</u> 0.10	1.25	Mortgage deed was misclassified as bank <i>guarantee</i> .
6.	<u>1</u> 7.02	<u>0.49</u> 0.07	0.42	Settlement deed was misclassified as trust deed.
Total	<u>90</u> 4,762.10	<u>454.01</u> 2.54	451.47	

After the matter was reported, the Government stated in July 2008 that the cases will be referred to the Collectors concerned for investigation. Further report has not been received (November 2008).

5.2.14 Short levy of stamp duty due to incorrect determination of market value

Under the provisions of the SVOP Rules, the Collector of the district shall biennially fix the minimum rate of valuation of land and building. He may revise it within a period of two years from the date of fixation of value or rent if any discrepancy/incorrectness of rates is noticed.

Scrutiny of the biennial rate list of Varanasi *Sadar*, for the year 2002-03, revealed that rates of lands and buildings were fixed by the Collector concerned in April 2002 with average rise of 16 *per cent* on previous fixation in November 1999. Further, these rates were again revised in August 2002 after four months to rectify the incorrectness of rates with enhancement of average 30 *per cent*. This rise works out to be 50.8 *per cent* on biennial rate list of November 1999. Had the biennial rates been fixed genuinely in April 2002 i.e. with 50.8 *per cent* average rise on rates of November 1999, the rectification of rates in August 2002 could have been avoided and also the enhanced stamp duty, based on enhanced valuation from April 2002 to July 2002 could have been levied. This resulted in loss of revenue of Rs. 2.93 crore due to incorrect determination of biennial rates in April 2002. The details are mentioned below:

(Rupees in lakh)			
Sl. No.	Name of the Unit	Amount of stamp duty levied during four months from April 2002 to July 2002	Loss of revenue (30 <i>per cent</i>)
1.	SR I Varanasi	234.15	70.25
2.	SR II Varanasi	222.52	66.76
3.	SR III Varanasi	260.20	78.06
4.	SR IV Varanasi	260.43	78.13
Total		977.30	293.20

After this was pointed out, the Government and department stated that the process for making rules for logical annual fixation of rate is being taken up. At present rates are fixed at the discretion of the collectors.

5.2.15 Irregular adjustment of stamp duty

Under the provisions of IS Act, if an agreement of sale of property is entered into, where the possession of property is not delivered nor agreed to be delivered without execution of conveyance, stamp duty on one half of the consideration set forth will be leviable on such agreement. The duty thus paid, is required to be adjusted towards total duty payable at the time of execution of conveyance deed in pursuance of such agreement.

5.2.15.1 Test check of the records of office of SR I, Ghaziabad revealed that an agreement of sale of industrial property for consideration of Rs. 23 crore was executed on 21 June 2004 on which 50 *per cent* stamp duty of Rs. 1.15 crore was charged. As per the terms and condition of the agreement, the conveyance deed was to be executed latest by 15 October 2004 but it was not executed within the stipulated time. After expiry of stipulated period of the agreement, two conveyance deeds were again executed for the same property in pursuance of another two agreements. However, stamp duty of Rs. 1.15 crore paid at the time of original agreement was incorrectly adjusted towards duty payable on the deed of conveyance. This resulted in short levy of stamp duty of Rs. 1.15 crore.

5.2.15.2 Test check of the records of the office of SR I, Hapur in December 2007 revealed that during 2006-07, an agreement for sale of land for consideration of Rs. 2.87 crore was executed, on which stamp duty of Rs. 11.46 lakh was charged. However, sale deed was not executed as per the terms and conditions of the agreement within the stipulated time and the property was sold to the third party having different title. Stamp duty of Rs. 28.65 lakh was chargeable on deed of conveyance⁴ against which stamp duty of Rs. 17.19 lakh was charged after making the adjustment of Rs. 11.46 lakh, paid at the time of original agreement. This resulted in short levy of stamp duty of Rs. 11.46 lakh.

After the matter was pointed out, the Government stated in July 2008 that the case will be referred to the Collector for scrutiny. Further report has not been received (November 2008).

5.2.16 Short levy of stamp duty in execution of developer's agreement.

Under the provisions of IS Act, if a building is constructed on a land by a person other than the owners of the land having a stipulation that after construction, such building or part thereof shall be held or sold jointly or severally by that other person and the owner of the land, stamp duty on such agreement shall be charged as a conveyance for a consideration equal to the amount or value of land.

⁴ Deed No. 10871/07, Registered on 9.8.07.

Test check of the records of offices of five⁵ SRs revealed that nine agreements were registered between March 2003 and November 2006 between the builder and the owner of the land. Stamp duty of Rs. 20.33 lakh was levied on value of land of Rs. 2.03 crore, against the stamp duty of Rs. 77.20 lakh leviable on the value of owner's share in the building of Rs. 7.72 crore at circle rate being higher than the value of land. This resulted in short levy of stamp duty of Rs. 56.87 lakh.

After the matter was reported, the Government stated in July 2008 that the department has been directed to examine the case. Further report has not been received (November 2008).

5.2.17 Conclusion

Stamp duty and registration fee is important tax revenue of the State. Lack of monitoring mechanism or submission of documents like *khasra* along with map of the land/property and declaration in form VI by the executants, specifying the area covered under agricultural, residential, industrial and commercial, in rate list circulated by the Collectors of the districts in cases of undervaluation of properties which were settled at level of SRs resulted in short levy of stamp duty. Revenue from the registration of the instruments of purchase of the sick industrial units through public auction was also not tapped adequately in the absence of a system for collection of relevant details from the department of the industries. The internal control mechanism of the department was weak as is evidenced by the absence of internal audit wing.

5.2.18 Summary of recommendations

The Government may consider:

- bringing out a notification declaring the areas developed under the UPID Act as development areas for the purpose of levy of additional stamp duty;
- prescribing a system of providing information regarding disposal of sick industrial units to the stamp and registration department for levying stamp duty;
- prescribing a time limit for registrations of documents after transfer/handing over possession of the immovable property and providing penal clause for failure to get the documents registered within the prescribed time limit;
- prescribing submission of documents like *khasra* along with map of the land/property and ensuring submission of declaration in form VI by the executants, besides, specifying the area covered under agricultural, residential, industrial and commercial in rate list circulated by the Collectors of the districts; and
- inserting provision for fixation of minimum annual rent for leased property in the interest of revenue of the State.

⁵ SR 1 Lucknow, SR I, II, III and IV Varanasi.

CHAPTER-VI OTHER TAX AND NON-TAX RECEIPTS

6.1 Results of audit

Test check of the records of the offices of Uttar Pradesh State Power Corporation, Uttar Pradesh Jal Nigam and development authorities of Moradabad, Faizabad and Ghaziabad, Forest Department and Entertainment Tax Department conducted during the year 2007-08, revealed non-refund of interest, etc. of Rs. 853.59 crore in 150 cases which fall under the following categories:

(Rupees in crore)			
Sl. No.	Category	Number of cases	Amount
Interest receipts			
1.	Non-refund of interest	3	797.51
2.	Non-recovery of royalty	1	0.02
3.	Other irregularities	4	12.94
	Total	8	810.47
Forest receipts			
1.	Non-recovery of royalty and other dues	39	21.75
2.	Loss of revenue due to non-auction of seized goods/ fallen trees	20	2.14
3.	Incorrect assessment of lease rent	2	1.26
4.	Other irregularities	66	17.73
	Total	127	42.88
Entertainment tax			
1.	Non-charging of interest	5	0.12
2.	Non-realisation of tax	2	0.09
3.	Other irregularities	8	0.03
	Total	15	0.24
	Grand Total	150	853.59

During the year 2007-08, the department recovered Rs. 8.33 lakh in four cases which were pointed out in earlier years.

A few illustrative cases, involving Rs. 26.56 crore are mentioned in the succeeding paragraphs.

INTEREST RECEIPTS

6.2 Non-payment of interest

Interest bearing loans are sanctioned from time to time for implementation of various schemes of the power projects, for promoting the industrial development of the State, for rehabilitation of sick sugar mills and for making the payments of balance amount of dues of sugar canes. As per terms and conditions of the loan, the responsibility of payment of interest and refund of loans rests with the corporation concerned.

Test check of the records of Uttar Pradesh Finance Corporation (UPFC) Kanpur, revealed in December 2007 that an interest bearing loan of Rs. 41.25 crore, termed as quasi equity¹, was sanctioned (July 2000) for various activities of the corporation. Interest of Rs. 21.65 crore, accrued upto July 2007, at the rate of 7.5 *per cent* per annum was payable by the UPFC. The corporation neither paid any interest nor made any provision in the annual accounts.

After the case was pointed out in December 2007, the corporation sent a letter to Government in January 2008 requesting for waiver of interest. Further, report has not been received (November 2008).

FOREST RECEIPTS

6.3 Unauthorised retention of state revenue and its utilisation

According to paragraph 21 of Uttar Pradesh State Financial Hand Book (Volume V) Part I, "all moneys as defined in articles 266, 267 and 284 of the Constitution, received by or tendered to Government servants in their official capacity shall, without undue delay be paid in full into the treasury or into the bank and shall be included in the Government account. Except as provided in para 21A, moneys received as aforesaid shall not be appropriated to meet departmental expenditure, nor otherwise kept apart from the Government account." This paragraph further provides that the direct appropriation of departmental receipts to departmental expenditure is authorised in certain cases notwithstanding the provisions of para 21 and in the case of cash received by the Forest Department and utilised in meeting immediate local expenditure, provided that the authority hereby given for the direct appropriation of the revenues of the State, including departmental receipts, shall not be construed as an authority for keeping the receipts and payments pertaining to such appropriation outside the account of the payments into, and the withdrawals from the Government account.

¹ Interest bearing loan in shape of shares.

Against the above provisions of the financial rules, for assisted natural regeneration (ANR) works in the sal forest areas, the State Government ordered (February 2001) the Forest Department to deposit 1/3rd royalty received from the Forest Corporation on the sale of sal species of sal forest areas in the forest deposit account and remaining 2/3rd royalty into the Government account as revenue receipts. Amount so deposited into forest deposit account would then be utilised for ANR works, the execution of which was not possible adequately in the past due to lack of non-plan funds.

Test check of the records of three divisional forest officers², between December 2006 and March 2008 revealed that in pursuance of the above Government orders, Rs. 3.44 crore was deposited into the forest deposit account during the year 2001-02 to 2007-08, out of the royalty received from the Forest Corporation on account of sale of sal species and Rs. 2.07 crore was utilised out of this deposit money during 2002-08 for ANR works by these divisions. Thus, the decision/order of the State Government to utilise a portion of State revenue instead of remitting it into the treasury/bank in full as State revenue receipt was in contravention of the provisions of Financial Rules. It resulted in unauthorised retention of State revenue of Rs. 3.44 crore and utilisation thereof for Rs. 2.07 crore.

The cases were reported to the Government (March 2008); their reply has not been received (November 2008).

6.4 Non-levy of transit fee

Section 4 (b) (iv) of the Indian Forest Act, 1927 defines peat, surface soil, rock and minerals comprising main minerals and sub-minerals as “forest produce.” As per U.P. Minor Minerals (Concession) Rules, 1963, ordinary earth is also a mineral³. Further, rule 3 and 5 of the Uttar Pradesh Transit of Timber and Other Forest Produce Rules, 1978, read with the Government order dated 14 June 2004, provides that transit fee at the rate of Rs.38 per MT was to be levied for carrying forest produce out of the forest area.

Test check of the records of the Director, Social Forestry Division, (DSFD) Lalitpur in February 2008 revealed that the contractors of National Highway Authority of India (NHAI) carried different kinds of forest produce such as grit, sand, earth out of the forest area during the year 2006-07 to 2007-08 without payment of transit fee. The department did not realise the transit fee of Rs. 1.40 crore as mentioned below:

² DFO Lakhimpur deposited Rs. 2,11,84,109 and utilised Rs.1,57,96,456, DFO Baharaich deposited Rs. 95,65,355 and utilised Rs. 16,00,000 and DFO Shahjahanpur deposited Rs. 36,34,987 and utilised Rs. 33,37,242.

³ Mineral conversion rate from cum to MT

I. Sand – 9 ton per 4.50 m³

II. Earth - 9 ton per 5.29 m³

III. Grit – 9 ton per 5.29 m³

(Rupees in lakh)				
Material	Quantity (Cubic Meter)	Total Quantity (in MT)	Rate of transit fee per MT	Transit fee due
Sand	606	1,212	Rs. 38	0.46
Earth	2,15,521	3,66,670	Rs. 38	139.33
Grit	1,040	1,769	Rs. 38	0.67
Total				140.46

After the cases were pointed out, the DSFD stated in February 2008 that major portion of forest produce taken by NHAI was earth and transit fee was not leviable on earth. The reply was not tenable in view of provision under UP Minor Minerals (concession) Rules.

The case was reported to the department and the Government in March 2008; their reply has not been received (November 2008).

ENTERTAINMENT TAX

6.5 Non-charging of interest on belated payment of tax

Under the Uttar Pradesh Entertainment and Betting Tax Act, 1979, entertainment tax is to be deposited within three days from the close of week by the cinema owners and within one week after the closure of month by the cable operators. In case of default, interest at the rate of one and a half *per cent* per month for the first three months and two *per cent* thereafter is recoverable from the cinema owners and in case of cable operators, it is recoverable at the rate of two *per cent* per month.

Test check of the records of three offices of Entertainment tax Department⁴, revealed between September 2007 and December 2007 that entertainment tax of Rs. 23.39 lakh, (June 1999 to October 2006) due from 20 cable operators, was not deposited in time. The delay ranged from 5 to 37 months. Interest of Rs. 6.80 lakh, though leviable, was not charged from the cable operators by the department.

⁴ (i) Asstt. Entertainment Tax Commissioner, Gautambudhnagar,
(ii) Deputy Entertainment Tax Commissioner, Kanpur Nagar and Lucknow.

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

Lucknow,
The 16 January, 2009



(REEMA PRAKASH)
Accountant General (C&RA)
Uttar Pradesh

Countersigned

New Delhi,
The 20 January, 2009



(VINOD RAI)
Comptroller and Auditor General of India



Appendices



APPENDIX-I

Non-revalidation of time barred bank drafts

(Reference Para 4.2.6.1)

(Amount in Rupees)

Sl No.	Year	No. of cases	Amount involve
1.	2002-03	72	3,60,200
2.	2003-04	75	2,05,660
3.	2004-05	1,715	75,93,108
4.	2005-06	1,518	74,89,199
5.	2006-07	157	7,64,132
Total		3,537	1,64,12,299 or 1.64 crore

APPENDIX-II
Delay in circulation of orders
(Reference Para 4.2.12)

Revised rate of additional tax effective from 2 Nov.2002

(Amount in Rupees)

Sl. No.	Name of the units	No. of vehicles	Additional tax levied	Additional tax leviable	Difference
1.	Tax Collection Centre, Kotawan	1,194	12,27,352	78,46,300	66,18,948
2.	Tax Collection Centre, Goverdhan	85	47,976	2,46,450	1,98,474
3.	Tax Collection Centre, Mugarra	864	8,11,626	29,87,350	21,75,724
4.	Tax Collection Centre, Raksha	149	1,32,783	4,62,250	3,29,467
5.	Tax Collection Centre, Ambabay	75	73,265	3,69,500	2,96,235
6.	Tax Collection Centre, Dewari	136	1,80,321	7,03,400	5,23,079
7.	Tax Collection Centre, Kairana	93	47,058	1,83,750	1,36,692
8.	Tax Collection Centre, Purkaji	124	1,24,654	7,98,200	6,73,546
9.	Tax Collection Centre, Bilaspur	35	35,921	2,53,050	2,17,129
10.	Tax Collection Centre, Chaokhata	114	71,120	1,61,544	90,424
11.	Tax Collection Centre, Naubatpur	784	5,88,280	19,39,200	13,50,920
12.	Tax Collection Centre, Kulahi	37	55,736	2,30,000	1,74,264
13.	Tax Collection Centre, Tamkuhiraj	321	1,63,702	4,15,050	2,51,348
14.	Tax Collection Centre, Bahedi	136	1,47,413	5,20,050	3,72,637
15.	Tax Collection Centre, Majhola	22	21,036	97,400	76,364
16.	Tax Collection Centre, Damanganj	208	1,91,123	7,38,350	5,47,227
17.	Tax Collection Centre, Shrinagar	56	34,910	87,100	52,190
18.	Tax Collection Centre, Fatehpur Sikari	1,322	12,81,260	55,19,000	42,37,740
19.	Tax Collection Centre, Saiya	112	1,22,836	7,03,150	5,80,314
20.	Tax Collection Centre, Masaura	88	75,354	3,14,000	2,38,646
21.	Tax Collection Centre, Bhaguwala	67	87,930	5,34,900	4,46,970
22.	Tax Collection Centre, Shahibabad	348	2,40,256	14,62,505	12,22,249
23.	Tax Collection Centre, Noida by pass	839	5,82,645	42,21,750	36,39,105
24.	Tax Collection Centre, Bhopura	671	4,12,765	35,33,623	31,20,858
25.	Tax Collection Centre, Maharajpur	891	7,51,993	60,89,250	53,37,257
26.	Tax Collection Centre, Kalindi Kunj	515	4,04,826	18,89,700	14,84,874
Total		9,286	79,14,141	4,23,06,822	3,43,92,681

Revised rate of additional tax effective from 17 March 2006

(Amount in Rupees)

Sl. No.	Name of Units	No. of Vehicles	Additional tax levied	Additional tax leviable	Difference
1.	Tax Collection Centre, Kotawan	3,426	32,19,146	49,48,680	17,29,534
2.	Tax Collection Centre, Goverdhan	17	39,500	64,600	25,100
3.	Tax Collection Centre, Mugarra	185	5,77,050	10,73,510	4,96,460
4.	Tax Collection Centre, Raksha	23	1,12,300	2,29,740	1,17,440
5.	Tax Collection Centre, Ambabay	34	1,78,550	3,65,320	1,86,770
6.	Tax Collection Centre, Dewari	117	2,56,650	5,01,530	2,44,880
7.	Tax Collection Centre, Kairana	15	1,28,900	2,95,840	1,66,940
8.	Tax Collection Centre, Harinagar	10	44,650	81,080	36,430
9.	Tax Collection Centre, Purkaji	387	4,74,400	7,16,142	2,41,742
10.	Tax Collection Centre, Bilashpur	77	1,15,000	2,04,140	89,140
11.	Tax Collection Centre, Kalindikunj	2,560	40,34,800	92,47,560	52,12,760
12.	Tax Collection Centre, Chhutmalpur	39	58,300	96,280	37,980
13.	Tax Collection Centre, Mohand	87	1,10,200	1,93,240	83,040
14.	Tax Collection Centre, Sarshawa	85	2,72,570	4,02,370	1,29,800
15.	Tax Collection Centre, Udi	32	1,94,100	3,58,220	1,64,120
16.	Tax Collection Centre, Chaokhata	63	4,20,400	7,77,570	3,57,170
17.	Tax Collection Centre, Naubatpur	228	16,84,250	31,34,820	14,50,570
18.	Tax Collection Centre, Kulahi	51	2,93,300	5,44,360	2,51,060
19.	Tax Collection Centre, Tamkuhiraj	22	92,750	1,73,830	81,080
20.	Tax Collection Centre, Bahedi	7	3,400	4,080	680
21.	RTO, Agra (AITP)	11	30,92,000	75,35,360	44,43,360
22.	Tax Collection Centre, Damanganj	57	2,74,900	4,99,690	2,24,790
23.	Tax Collection Centre, Shri Nagar	8	25,900	36,760	10,860
24.	Tax Collection Centre, Fatehpur Sikari	2,800	41,93,530	61,28,230	19,34,700
25.	Tax Collection Centre, Saiya	75	4,42,980	8,52,660	4,09,680
26.	Tax Collection Centre, Masaura	19	64,400	1,82,920	1,18,520
27.	Tax Collection Centre, Bhaguwala	52	1,14,324	2,15,990	1,01,666
28.	Tax Collection Centre, Noida by pass	1,652	31,90,450	67,32,580	35,42,130
29.	Tax Collection Centre, Bhopura	150	5,28,200	11,78,300	6,50,100
30.	Tax Collection Centre, Maharajpur	1,177	24,84,950	50,28,990	25,44,040
31.	Tax Collection Centre, Shahibabad	186	4,19,550	9,05,450	4,85,900
32.	Tax Collection Centre, Loni	18	49,900	1,07,600	57,700
	Total	13,670	2,71,91,300	5,28,17,442	2,56,26,142
					3,43,92,681
	Grand Total				6,00,18,823

Rs. 6 crore

APPENDIX – III
Residential and commercial land valued as agricultural land
(Reference Para No. 5.2.9.1)

(Rupees in lakh)

Sl. No.	District	Name of unit	Number of documents	Amount of short levy of stamp duty
1.	Agra	Sub-Registrar – II	10	101.84
	-do-	Sub-Registrar – IV	19	101.75
2.	Aligarh	Sub-Registrar – II	4	7.32
	-do-	Sub-Registrar – III	1	1.91
3.	Allahabad	Sub-Registrar – II	5	12.97
4.	Barabanki	Sub-Registrar, Nawabganj	8	118.10
5.	Gautambudh Nagar	Sub-Registrar – I, NOIDA	3	7.35
	-do-	Sub-Registrar – II, NOIDA	6	14.26
	-do-	Sub-Registrar – III, NOIDA	6	19.65
	-do-	Sub-Registrar, Greater NOIDA	3	10.60
6.	Ghaziabad	Sub-Registrar – I	1	3.15
	-do-	Sub-Registrar – II	5	41.39
	-do-	Sub-Registrar – III	9	46.27
	-do-	Sub-Registrar – IV	8	266.12
	-do-	Sub-Registrar – II, Hapur	8	51.41
7.	Gorakhpur	Sub-Registrar – I	2	4.26
8.	Hamirpur	Sub-Registrar	2	5.70
9.	J.P. Nagar	Sub-Registrar, Amroha	1	1.66
10.	Jaunpur	Sub-Registrar, Mariyahu	3	18.77
	-do-	Sub-Registrar, Macchli Shahar	2	3.53
	-do-	Sub-Registrar, Sadar	1	0.80
11.	Jhansi	Sub-Registrar – I	3	63.92
	-do-	Sub-Registrar – II	3	102.93
12.	Kanpur	Sub-Registrar – I	1	2.08
	-do-	Sub-Registrar – II	1	13.41
	-do-	Sub-Registrar – III	6	31.44
	-do-	Sub-Registrar – IV	1	0.56
13.	Lucknow	Sub-Registrar – I	3	42.81
	-do-	Sub-Registrar – II	3	17.48
	-do-	Sub-Registrar – III	1	8.64
	-do-	Sub-Registrar – V	1	7.33
14.	Meerut	Sub-Registrar – III	6	11.78
	-do-	Sub-Registrar – IV	7	127.69
15.	Moradabad	Sub-Registrar – I	5	18.48
	-do-	Sub-Registrar – II	17	487.74
16.	Srawasti	Sub-Registrar, Bhinga	1	2.18
17.	Sultanpur	Sub-Registrar, Sadar	2	7.55
18.	Varanasi	Sub-Registrar – II	1	0.54
	-do-	Sub-Registrar, Ram Nagar	3	9.34
Total		39	172	1,794.71

APPENDIX – IV

Incorrect valuation of land and building (Reference Para No. 5.2.9.2)

(Rupees in lakh)				
Sl. No.	District	Name of unit	Number of documents	Amount of short levy of stamp duty
1.	Agra	Sub-Registrar – I	6	10.22
	-do-	Sub-Registrar – II	5	20.91
	-do-	Sub-Registrar – IV	2	5.81
2.	Aligarh	Sub-Registrar – I	2	43.18
	-do-	Sub-Registrar – II	2	3.89
3.	Allahabad	Sub-Registrar – II	14	8.01
4.	Faizabad	Sub-Registrar, Sadar	2	3.21
5.	Gautam budh Nagar	Sub-Registrar – I	1	0.50
	-do-	Sub-Registrar – II	1	0.42
	-do-	Sub-Registrar – III	4	342.79
	-do-	Sub-Registrar, Greater NOIDA	2	3.12
6.	Ghaziabad	Sub-Registrar – I	5	163.78
7.	Gorakhpur	Sub-Registrar – I	4	3.04
8.	Jaunpur	Sub-Registrar, Sadar	2	4.80
	-do-	Sub-Registrar, Macchli Shahar	1	1.84
9.	Jhansi	Sub-Registrar – I	3	3.44
	-do-	Sub-Registrar – II	6	4.10
10.	Kanpur	Sub-Registrar – I	5	4.87
	-do-	Sub-Registrar – IV	15	13.99
11.	Lucknow	Sub-Registrar – I	8	13.25
	-do-	Sub-Registrar – II	5	142.98
	-do-	Sub-Registrar – III	8	20.37
	-do-	Sub-Registrar – IV	6	30.29
	-do-	Sub-Registrar – V	10	28.29
12.	Meerut	Sub-Registrar – II	1	1.12
	-do-	Sub-Registrar – III	4	6.83
13.	Moradabad	Sub-Registrar – I	2	10.16
14.	Sultanpur	Sub-Registrar, Sadar	1	0.94
15.	Varanasi	Sub-Registrar – I	1	3.53
	-do-	Sub-Registrar – II	8	33.27
	-do-	Sub-Registrar – III	5	44.93
	-do-	Sub-Registrar, Ram Nagar	17	6.76
Total		32	158	984.64

APPENDIX – V

Valuation of land and building at residential rates instead of commercial rates

(Reference Para No. 5.2.9.3)

(Rupees in lakh)				
Sl. No.	District	Name of unit	Number of documents	Amount of short levy of stamp duty
1.	Aligarh	Sub-Registrar – I	5	9.05
	-do-	Sub-Registrar – II	3	7.63
2.	Allahabad	Sub-Registrar – II	1	5.15
3.	Bulandshahar	Sub-Registrar – I	1	1.30
4.	Faizabad	Sub-Registrar, Sadar	1	0.26
5.	Ghaziabad	Sub-Registrar – I	1	15.88
	-do-	Sub-Registrar – III	1	1.31
	-do-	Sub-Registrar – IV	1	12.99
	-do-	Sub-Registrar – I, Hapur	4	4.09
6.	Gautam Budh Nagar	Sub-Registrar, Greater NOIDA	1	258.28
7.	Jaunpur	Sub-Registrar, Sadar	4	46.32
	-do-	Sub-Registrar, Macchli Shahar	1	1.01
8.	Jhansi	Sub-Registrar – I	4	21.50
	-do-	Sub-Registrar – II	1	0.21
9.	Kanpur	Sub-Registrar – I	7	49.83
	-do-	Sub-Registrar – II	1	7.12
	-do-	Sub-Registrar – IV	4	47.06
10.	Lucknow	Sub-Registrar – I	2	3.49
	-do-	Sub-Registrar – II	2	15.44
	-do-	Sub-Registrar – V	2	8.34
11.	Moradabad	Sub-Registrar – I	3	4.14
12.	Sultanpur	Sub-Registrar, Sadar	3	1.93
13.	Varanasi	Sub-Registrar – II	2	3.46
	-do-	Sub-Registrar – III	2	23.84
Total		24	57	549.63

APPENDIX – VI

Non fixation of standard lease rent (Reference Para No. 5.2.10)

Sl. No.	Name of unit	Sale No./ Doc. No. (Date of Regn.)	Details of property (Lease period)	Valuation as per circle rate (Rupees in crore)	Normal rate of bank interest @ 8 per cent per annum	Valuation of deed on interest	Stamp duty payable	Value set forth	Stamp duty paid
						(Rupees in lakh)		(In Rupees)	
1.	SR Etawah	2559/1662 (24.3.04)	Vill. Mohanpur Manik, Etawah Area: 2760 Sq.m. (20 years)	1.66	13.25	66.24	6.62	60	100
2.	SR Jaunpur	2703/3324 (6.7.05)	Vill. Hesampur Parg. Haveli Teh. Sadar, Jaunpur Area: 2993 Sq.m. (30 years)	1.20	9.58	57.47	5.75	72	100
3.	-do-	2706/3362 (8.7.05)	Vill. Hesampur Parg. Haveli Teh. Sadar, Jaunpur Area: 1996.25 Sq.m. (20 years)	0.79	6.39	31.94	3.19	60	100
4.	-do-	2706/3363 (8.7.05)	Vill. Hesampur Parg. Haveli Teh. Sadar, Jaunpur Area: 1195.75 Sq.m. (20 years)	0.48	3.82	19.13	1.91	60	310
Total				4.13	33.04	174.78	17.47	252	610

APPENDIX – VII
Short levy of stamp duty on different kind of leases
(Reference Para No. 5.2.12.1)

(Rupees in lakh)

Sl. No.	District	Name of unit	Number of documents	Amount of short levy of stamp duty
1.	Agra	Sub-Registrar – I	1	1.86
	-do-	Sub-Registrar – II	2	10.81
2.	Aligarh	Sub-Registrar – I	3	11.41
	-do-	Sub-Registrar – II	1	7.77
3.	Allahabad	Sub-Registrar – II	2	8.48
4.	Bulandshahar	Sub-Registrar, Sadar	1	3.37
5.	Gautam Budh Nagar	Sub-Registrar – III, NOIDA	1	29.88
	-do-	Sub-Registrar, Greater NOIDA	1	6.03
6.	Ghaziabad	Sub-Registrar – II	1	0.54
	-do-	Sub-Registrar – I, Hapur	4	9.49
7.	Gorakhpur	Sub-Registrar – I	3	2.37
8.	Hardoi	Sub-Registrar, Sadar	1	7.06
9.	J.P. Nagar	Sub-Registrar, Sadar	1	1.30
10.	Jaunpur	Sub-Registrar, Sadar	2	11.92
	-do-	Sub-Registrar, Macchli Shahar	1	42.03
11.	Jhansi	Sub-Registrar – I	4	10.42
	-do-	Sub-Registrar – II	3	5.78
12.	Kanpur	Sub-Registrar – I	1	8.42
	-do-	Sub-Registrar – III	1	13.40
13.	Lucknow	Sub-Registrar – I	1	4.96
	-do-	Sub-Registrar – III	1	2.89
	-do-	Sub-Registrar, Mohan lal ganj	1	6.80
14.	Meerut	Sub-Registrar – I	1	18.09
	-do-	Sub-Registrar – II	2	6.74
	-do-	Sub-Registrar – IV	6	100.22
15.	Moradabad	Sub-Registrar – I	4	86.83
	-do-	Sub-Registrar – II	2	56.57
16.	Sultanpur	Sub-Registrar, Sadar	1	76.13
17.	Varanasi	Sub-Registrar – III	4	40.59
	-do-	Sub-Registrar – IV	3	13.04
18.	Deoria	Sub-Registrar, Rudrapur	1	7.35
19.	Mainpuri	Sub-Registrar, Sadar	1	4.70
20.	Mau	Sub-Registrar, Mohammadabad Gohna	1	1.34
21.	Ghazipur	Sub-Registrar, Sadar	1	1.60
22.	Etawah	Sub-Registrar, Sadar	1	7.96
23.	Ballia	Sub-Registrar, Sadar	1	2.15
	-do-	Sub-Registrar, Bilthra Road	3	20.91
	-do-	Sub-Registrar, Barria	1	1.72
	-do-	Sub-Registrar, Sikandarpur	1	1.22
Total		39	71	654.15