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

**FOR THE YEAR ENDED 31 MARCH 2004**

**(REVENUE RECEIPTS)  
GOVERNMENT OF KERALA**

REVENUE RECEIPTS - KERALA 2003-04

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COMPTROLLER AND AUDITOR GENERAL OF INDIA  
2005

*Price: Rs 65 (Inland)*  
*US \$5 (Overseas)*

<http://cagindia.org/states/kerala/2004>

PRINTED BY THE SUPERINTENDENT OF GOVERNMENT PRESSES, AT THE GOVERNMENT PRESS,  
MANNANTHALA, THIRUVANANTHAPURAM—2005.

Presented to  
the Legislature  
on 20/7/05.....



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THE  
REPORT  
OF THE  
COMMISSIONER OF THE  
GENERAL LAND OFFICE

FOR THE YEAR  
ENDING 31st MARCH 1904

GOVERNMENT OF  
INDIA

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## PREFACE

This report for the year ended 31 March 2004 has been prepared for submission to 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 sales tax, taxes on agricultural income, state excise, land revenue and building tax, taxes on vehicles, taxes and duties on electricity, stamps and registration fees, forest receipts and other non-tax receipts of the State.

The cases mentioned in this Report are among those which came to notice in the course of test audit of records during the year 2003-04 as well as those which came to notice in earlier years but could not be included in previous Reports.





# Overview



## Overview

This Report contains 28 paragraphs including two reviews relating to non-levy/short levy/loss of tax involving Rs 130.68 crore. Some of the major findings are mentioned below.

### I. General

During the year 2003-04, Government of Kerala raised a total revenue of Rs 8,895.75 crore comprising tax revenue of Rs 8,088.77 crore and non-tax revenue of Rs 806.98 crore. The State Government received Rs 2,012.01 crore by way of State's share of divisible Union Taxes and Duties and Rs 907.61 crore as grants-in-aid from the Government of India. Sales Tax (Rs 5,991.43 crore) formed the major portion (74 per cent) of the tax revenue of the State. Receipts from Forestry and Wild Life (Rs 187.18 crore) formed the major portion (23 per cent) of the non-tax revenue. Compared to the previous years, the total revenue raised by the State Government registered increase of 11 per cent, the State's share of divisible Union Taxes and Duties registered increase of 17 per cent while grants-in-aid from Government of India recorded decrease of three per cent during 2003-04.

(Paragraph 1.1.)

Test check of records of the Departments of Agricultural Income Tax and Sales Tax, State Excise, Land Revenue, Motor Vehicles, Registration, Power, Forest, etc., conducted during 2003-04, revealed underassessments /short levy of revenue aggregating Rs 201.01 crore in 1,791 cases. During the course of the year 2003-04, the departments concerned accepted underassessments, etc., of Rs 8.61 crore involved in 536 cases of which 146 cases involving Rs 2.72 crore were pointed out in audit during 2003-04 and the rest in earlier years.

(Paragraph 1.11.)

Out of inspection reports issued up to the end of December 2003 there were 3,095 outstanding reports containing 13,812 audit observations involving Rs 447.71 crore as at the end of June 2004 for want of final replies from the departments.

(Paragraph 1.12.1.)

### II. Sales Tax

A review 'Exemptions and Concessions under KGST Act and CST Act' revealed the following:

- Objectives/goals in granting exemptions /concessions/deferment of Rs 766.05 crore could not be evaluated

(Paragraph 2.2.6.)

- Inadmissible grant of exemption led to loss of revenue of Rs 25.73 lakh.

(Paragraph 2.2.7.)

- Incorrect grant of concession/exemption resulted in short levy of tax of Rs 1.66 crore.

(Paragraph 2.2.8.)

- *Department failed to cross verify declarations of Rs 10 lakh to Rs 6.48 crore in 97 cases.*

*(Paragraph 2.2.9.)*

*Application of incorrect rate of tax resulted in short levy of tax of Rs 1.23 crore in 16 cases.*

*(Paragraph 2.3.)*

*Excess Tax of Rs 2.50 crore collected by an assessee was not forfeited to Government.*

*(Paragraph 2.4.)*

*Underassessment of turnover in nine cases resulted in short levy of tax of Rs 64.90 lakh.*

*(Paragraph 2.5.)*

*Interest of Rs 99.91 crore was short/non demanded in 17 cases.*

*(Paragraph 2.6.)*

*Penalty of Rs 55.17 lakh was not levied in five cases.*

*(Paragraph 2.7.)*

### **III. Land Revenue and Building Tax**

*Collection charge of Rs 1.59 crore for recovery of arrears was not/short demanded from the defaulters in 16 offices.*

*(Paragraph 3.3.)*

*Luxury tax on residential buildings amounting to Rs 14.20 lakh was not collected in 13 Taluk Offices.*

*(Paragraph 3.4.)*

### **IV. Taxes on Vehicles**

*A review, "Receipts of Motor Vehicles Department" revealed the following.*

- *Arrears of vehicle tax on transport vehicles(excluding arrears of Rs 275.21 crore due from KSRTC) alone aggregated Rs 46.73 crore as on 31 March 2003*
- *No action was taken to realise Rs 46.78 lakh in 18 cases, though they were shown as RR cases.*  
*(Paragraph 4.2.5.)*
- *Vehicle tax not demanded/realised amounted to Rs 6.02 crore in 6,029 cases.*  
*(Paragraph 4.2.6.)*

- *Registration was granted to 29 vehicles without proof of payment of entry tax amounting to Rs 36.05 lakh* (Paragraph 4.2.8.)
- *Compounding fees amounting to Rs 41.16 lakh, due on account of various offences detected, was not realised* (Paragraph 4.2.10.)

*Vehicle Tax of Rs 51.77 lakh was not collected from the owners of 124 'All India Tourist' vehicles.*

(Paragraph 4.3.)

*Composite tax of Rs 19.71 lakh was short collected in 1,026 cases.*

(Paragraph 4.4.)

#### **V. Other Tax Receipts**

*Failure to achieve the norms fixed by the Central Board of Molasses resulted in non-levy of excise duty of Rs 20.80 lakh.*

(Paragraph 5.4.)

#### **6. Non-Tax Receipts**

##### **Forest Receipts**

*An amount of Rs 10.03 lakh being the balance royalty was not demanded from a company.*

(Paragraph 6.2.)



# **Chapter I**

## **General**

1970

1970



# CHAPTER I

## GENERAL

### 1.1. Trend of revenue receipts

1.1.1. The tax and non-tax revenue raised by Government of Kerala during the year 2003-04, the State's share of net proceeds of the divisible Union Taxes and Duties assigned to States and grants-in-aid received from Government of India during the year and the corresponding figures for the preceding four years are given below.

		1999-2000	2000-01	2001-02	2002-03	2003-04
(In crore of rupees)						
<b>1</b>	<b>Revenue raised by the State Government</b>					
	a) Tax revenue	5,193.50	5,870.26	5,923.42	7,302.54	8,088.77
	b) Non-tax revenue*	530.72 (487.21)	659.08 (610.12)	543.38 (477.73)	677.76 (618.05)	806.98 (752.02)
	<b>Total *</b>	<b>5,724.22</b> <b>(5,680.71)</b>	<b>6,529.34</b> <b>(6,480.38)</b>	<b>6,466.80</b> <b>(6,401.15)</b>	<b>7,980.30</b> <b>(7,920.59)</b>	<b>8,895.75</b> <b>(8,840.79)</b>
<b>2</b>	<b>Receipts from Government of India</b>					
	a) Share of net proceeds of the divisible Union Taxes and Duties	1,535.22	1,585.61	1,614.26	1,715.22	2,012.01
	b) Grants-in-aid	682.31	615.90	975.33	938.37	907.61
	<b>Total</b>	<b>2,217.53</b>	<b>2,201.51</b>	<b>2,589.59</b>	<b>2,653.59</b>	<b>2,919.62</b>
<b>3</b>	<b>Total revenue receipts of the State Government (1 and 2) *</b>	<b>7,941.75*</b> <b>(7,898.24)</b>	<b>8,730.85*</b> <b>(8,681.89)</b>	<b>9,056.39*</b> <b>(8,990.74)</b>	<b>10,633.89*</b> <b>(10,574.18)</b>	<b>11,815.37*</b> <b>(11,760.41)</b>
<b>4</b>	<b>Percentage of 1 to 3</b>	<b>72</b>	<b>75</b>	<b>71</b>	<b>75</b>	<b>75</b>

\* The figures shown in brackets are the figures net of expenditure on prize winning tickets of the lotteries conducted by the Government.

\* For details please see statement No. 11 – Detailed Accounts of Revenue by Minor Heads in the Finance Accounts of Kerala for respective years. 'Share of net proceeds assigned to States' under the Major Heads 0020, 0021, 0028, 0032, 0037, 0038, 0044 and 0045 booked in the Finance Accounts under 'A-Tax Revenue' has been excluded from the revenue raised by the State and included in the State's share of divisible Union Taxes in this statement.

1.1.2. Details of the tax revenue raised during the year 2003-04, along with the figures for the preceding four years are given below.

Sl. No.	Revenue Head	1999-2000	2000-01	2001-02	2002-03	2003-04	Percentage of increase (+)/ decrease (-) in 2003-04 over 2002-03
		(In crore of rupees)					
1	Sales Tax	3,853.54	4,344.33	4,440.85	5,343.15	5,991.43	(+) 12
2	State Excise	591.10	688.94	541.46	663.07	655.91	(-) 1
3	Stamps and Registration Fees						
	a) Stamps- Judicial	23.21	26.65	24.04	39.84	43.32	(+) 9
	b) Stamps - Non- Judicial	164.98	210.89	262.87	314.14	334.02	(+) 6
	c) Registration Fees	91.46	103.56	107.37	132.55	172.47	(+) 30
4	Taxes and Duties on Electricity	3.33	14.92	5.18	192.63	189.97	(-) 1
5	Taxes on Vehicles	380.83	394.85	452.18	513.20	585.78	(+) 14
6	Taxes on Agricultural Income	14.19	3.83	1.87	6.40	8.74	(+) 37
7	Land Revenue	34.67	39.35	34.93	38.40	40.59	(+) 6
8	Others	36.19	42.94	52.67	59.16	66.54	(+) 12
	<b>Total</b>	<b>5,193.50</b>	<b>5,870.26</b>	<b>5,923.42</b>	<b>7,302.54</b>	<b>8,088.77</b>	<b>(+) 11</b>

The Departments attributed the increase in receipts during 2003-04 as compared to 2002-03 to the following.

**Taxes on Vehicles:** The increase was attributed to the increase in vehicle population, enhancement of rate of tax and increase in collection of arrears of tax.

**Stamps and Registration Fees:** Increase in the number of documents registered during the year.

The reasons for variation though called for in May 2004 from heads of other departments have not been received till December 2004.

1.1.3. Details of non-tax revenue realised during the year 2003-04 along with the figures for the preceding four years are given below.

Sl. No.	Head of Revenue	1999-2000	2000-01	2001-02	2002-03	2003-04	Percentage of Increase(+)/ decrease (-) in 2003-04 over 2002-03
		(In crore of rupees)					
1	State Lotteries	57.31	85.21	55.94	68.38	78.72 <sup>▲</sup>	(+) 15
2	Forestry and Wild Life	109.88	141.24	113.70	149.58	187.18	(+) 25
3	Interest Receipts	37.31	36.81	31.08	35.86	32.40	(-) 10
4	Education, Sports, Art & Culture	39.18	44.98	53.56	63.41	81.86	(+) 29
5	Medical and Public Health	18.82	20.66	19.85	28.16	27.61	(-) 2
6	Crop Husbandry	5.25	40.53	7.58	12.76	22.71	(+) 78
7	Animal Husbandry	5.08	5.28	5.03	6.94	6.31	(-) 9

▲ From gross receipts of Rs 133.68 crore expenditure of Rs 54.96 crore on prize winning tickets has been deducted, but expenditure of Rs 53.45 crore on commission to agents and establishment expenses of Rs 2.92 crore have not been deducted.

Sl. No.	Head of Revenue	1999-2000	2000-01	2001-02	2002-03	2003-04	Percentage of Increase(+)/ decrease (-) in 2003-04 over 2002-03
		(In crore of rupees)					
8	Public Works	1.82	2.17	1.56	2.15	2.90	(+) 35
9	Others	212.56	233.24	189.43	250.81	312.33	(+) 25
	<b>Total</b>	<b>487.21</b>	<b>610.12</b>	<b>477.73</b>	<b>618.05</b>	<b>752.02</b>	(+) 22

The Departments attributed the increase in receipts during 2003-04 as compared to 2002-03 to the following.

**State Lotteries:** The increase was due to introduction of a new lottery 'Chaithanya' with effect from September 2003.

The reasons for variation though called for in May 2004 from the heads of other departments have not been received till December 2004.

### 1.2. Initiatives for mobilisation of Additional Resources

During the year 2003-04, Government of Kerala raised a total revenue of Rs 8895.75 crore comprising tax revenue of Rs 8088.77 crore and non-tax revenue of Rs 806.98 crore. The XI Finance Commission's projection of revenue of the State, budget estimates and the actual receipts were as under:

(In crore of rupees)

Nature of revenue	XI Finance Commission's Projection	Budget estimates	Actual receipts	Percentage of variation	
				between Finance Commission's projection and actual receipts	between budget estimates and actual receipts
Own tax revenue	10,134.08	8,683.92	8,088.77	(-) 20	(-) 7
Own non-tax revenue	1,164.36	767.87	806.98	(-) 31	(+) 5
<b>Total</b>	<b>11,298.44</b>	<b>9,451.79</b>	<b>8,895.75</b>	<b>(-) 21</b>	<b>(-) 6</b>

Against the Finance Commission's projection of Rs 11298.44 crore, budget estimates aggregated only Rs 9451.79 crore and the actual receipt of Rs 8895.75 crore was 21 *per cent* short of the Commission's projection and six *per cent* short of the budget estimates.

The Government had not proposed mobilisation of any additional revenue during the year, but expected a revenue loss of Rs 500 crore on introduction of VAT with effect from 1 April 2003. As the introduction of VAT was deferred till 1 April 2005, Government imposed 15 *per cent* of additional sales tax on sales tax with effect from 1 July 2003 and stated in July 2004 that an additional revenue of Rs 293.26 crore was realised during 2003-04. However, the receipt under 'Sales Tax' was Rs 427 crore less than the estimate of Rs 6418 crore.

### 1.3. Analysis of budget preparation

Under the Kerala Budget Manual, the heads of departments shall forward proposals for budget estimates of receipts directly to the Finance Department with

copy to the concerned Administrative Departments in the Government which in turn shall forward the same to the Finance Department with their remarks and the Finance Department shall thereafter finalise the budget estimates. The budget estimates of revenue shall be based on existing rates and no increase or decrease in the rates shall be proposed unless approved by the Government.

The budget estimates of the revenue for the year 2003-04 and the actual receipts were as under.

**(In crore of rupees)**

Revenue head	Budget estimates made by Government		Actual receipts	Variation between Government estimates and actual receipts
	Original	Revised		
Sales Tax	6,418.00	6,200.00	5,991.43	(-) 426.57
State Excise	800.00	687.00	655.91	(-) 144.09
Taxes and Duties on Electricity	177.27	303.79	189.97	(+) 12.70
Stamps & Registration Fees				
a) Stamps Non-judicial	376.12	459.81	334.02	(-) 42.10
b) Registration fees	150.08	144.11	172.47	(+) 22.39

The above table indicates that though estimates under 'Sales Tax' and 'State Excise' were scaled down, the actual receipts were less than the revised estimates. Under 'Taxes and Duties on Electricity' the original estimate of Rs 177.27 crore was enhanced to Rs 303.79 crore whereas the actual receipt was only Rs 189.97 crore. Under Stamps (Non-judicial), even though the original estimate of Rs 376.12 crore could not be achieved, the estimate was revised to Rs 459.81 crore.

The above suggests that the budget estimates were not being prepared in a realistic manner.

#### **1.4. Variation between budget estimates and actuals**

The variation between budget estimates of revenue for the year 2003-04 and the actual receipts under principal heads of revenue are given below.

Revenue Head	2003-04			Percentage of variation
	Budget estimates	Actual receipts	Variation Increase (+)/ Shortfall (-)	
	(In crore of rupees)			
Sales Tax	6,418.00	5,991.43	(-) 426.57	(-) 7
State Excise	800.00	655.91	(-) 144.09	(-) 18
Stamps and Registration Fees				
a) Stamps- Non-Judicial	376.12	334.02	(-) 42.10	(-) 11
b) Registration Fees	150.08	172.47	(+) 22.39	(+) 15
Taxes on Vehicles	582.40	585.78	(+) 3.38	(+) 1
Forestry and Wild Life	220.00	187.18	(-) 32.82	(-) 15
Taxes and Duties on Electricity	177.27	189.97	(+) 12.70	(+) 7
Taxes on Agricultural Income	3.00	8.74	(+) 5.74	(+) 191
Land Revenue	47.47	40.59	(-) 6.88	(-) 14

The reasons given by the departments for the variation between budget estimates and actuals for 2003-04 were as follows.

**Stamps and Registration Fees:** Reduction of stamp duty and undervaluation of documents due to non-fixation of fair value of land.

**Taxes and Duties on Electricity:** Increase was due to remittance of a portion of arrears by the Kerala State Electricity Board during 2003-04.

**Taxes on Agricultural Income:** Increase was due to collection of arrears.

The reasons for variation called for in May 2004 from the heads of other departments have not been received till December 2004.

### 1.5. Cost of collection

The gross collections under major revenue heads, expenditure incurred on collections and the percentage of expenditure to gross collections during the years 2001-02, 2002-03 and 2003-04 along with the relevant all India average percentage of expenditure on collection to gross collections for 2002-03 are given below.

Sl. No.	Revenue Head	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure to gross collection	All India average percentage
			( In crore of rupees )			
1.	Sales Tax	2001-02	4,440.85	40.04	0.90	
		2002-03	5,343.15	44.55	0.83	1.18
		2003-04	5,991.43	56.73	0.95	
2.	Stamps (Non- Judicial) and Registration Fees	2001-02	370.24	32.57	8.80	
		2002-03	446.69	38.13	8.54	3.46
		2003-04	506.49	40.00	7.90	
3.	State Excise	2001-02	541.46	30.77	5.68	
		2002-03	663.07	35.29	5.32	2.92
		2003-04	655.91	41.69	6.36	
4.	Taxes on Vehicles	2001-02	452.18	12.69	2.81	
		2002-03	513.20	14.08	2.74	2.86
		2003-04	585.78	15.47	2.64	

It can be seen from the above table that percentage of cost of collection in respect of 'Stamps and Registration Fees' and 'State Excise' was much higher than All India Average. The Excise Department attributed the reason for the high cost of collection to priority given for enforcement of Abkari laws /rules consequent on ban in sale of arrack with effect from 1996. The Registration Department had not furnished any specific reason but stated that no system of analysis of cost of collection existed in the Department.

### 1.6. Collection of sales tax per assessee

As per the data furnished by the Commissioner of Commercial Taxes, the sales tax revenue realised per assessee was Rs 0.03 crore during 1999-2000 to 2001-02 and Rs 0.04 crore in 2002-03 and 2003-04. The year-wise particulars of the

number of assessees and sales tax revenue realised is given below.

(In crore of rupees)

Year	No. of assessees	Sales tax revenue	Revenue per assessee
1999-2000	1,30,379	3853.54	0.03
2000-01	1,34,944	4344.33	0.03
2001-02	1,38,100	4440.85	0.03
2002-03	1,41,290	5343.15	0.04
2003-04	1,43,669	5991.43	0.04

### 1.7. Analysis of arrears of revenue

As on 31 March 2004, arrears of revenue under principal heads of revenue, as reported by the departments were as under.

(In crore of rupees)

Sl. No.	Department	Arrears	Arrears outstanding for more than 5 years	Remarks
1.	Power	65.77	0.34	Since Government had decided in October 2002 to net off the dues between Kerala State Electricity Board and Government as on 31 March 2002, the arrears due from Kerala State Electricity Board up to 31 March 2002 have not been included by the Chief Electrical Inspector in the arrears.
2.	Local Fund Audit	37.37	5.60	The department attributed arrears to non-remittance of audit fees by auditee institutions.
3.	Factories and Boilers	1.27	0.03	Dues from factories which had stopped functioning.
4.	Mining and Geology	0.52	0.12	The arrears were due to dispute regarding claims, court stays, etc.

Details of arrears of revenue in respect of other departments though called for in May 2004 have not been received till December 2004.

### 1.8. Arrears in assessment

The details of sales tax and agricultural income tax assessment cases pending at the beginning of the year, cases becoming due for assessment during the year, cases disposed of during the year and number of cases pending finalisation at the end of each year during 2002-03 and 2003-04 as furnished by the Department, are given below.

Year	Opening balance	Cases due for assessment during the year	Total	Cases finalised during the year	Balance at the close of the year	Percentage of column 5 to 4
1	2	3	4	5	6	7
<b>Sales Tax</b>						
2002-03	1,42,209	1,54,981	2,97,190	1,75,869	1,21,321	59
2003-04	1,21,321	1,73,035	2,94,356	1,65,035	1,29,321	56
<b>Agricultural Income Tax</b>						
2002-03	8,817	4,550	13,367	7,252	6,115	54
2003-04	6,115	7,156	13,271	7,380	5,891	56

The above table shows that the Department completed only 56 per cent of the assessments due for completion under 'Sales Tax' and 'Agricultural Income Tax' during 2003-04. The delay in finalisation of assessments resulted in delay in realisation of the revenue involved in these cases.

### 1.9. Write-off and waiver of revenue

The table below indicates details of revenue exceeding Rs 10,000 (for each department) written-off or waived by some Departments during the year 2003-04.

Revenue Head	(In lakh of rupees)			
	Written-off		Waived	
	No. of cases	Amount	No. of cases	Amount
Sales Tax	-	-	3	119.36
State Excise	8	8.44	-	-
<b>Total</b>	<b>8</b>	<b>8.44</b>	<b>3</b>	<b>119.36</b>

Arrears of instalments of rental of Rs 8.44 lakh due from contractors of toddy shops in 8 cases were written off as they were either insolvent or no more. Waiver of Rs 119.36 lakh represented central sales tax due from Kerala State Rubber Marketing Federation (Rs 39.65 lakh) and sales tax due from Paying Counter of Medical College Hospital, Thiruvananthapuram (Rs 40.11 lakh) and Keraleeya Ayurveda Samajam Hospital and Nursing Home, Shoranur (Rs 39.60 lakh).

### 1.10. Refunds

The number of refund cases pending at the beginning of the year 2003-04, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2003-04 were not available with the Commercial Taxes Department.

### 1.11. Results of audit

Test check of the records of Sales Tax, Agricultural Income Tax, State Excise, Motor Vehicles, Forest and other departmental offices conducted during the year 2003-04 revealed underassessments/short levy/loss of revenue aggregating Rs 201.01 crore in 1,791 cases. During the course of the year, the Departments

concerned accepted underassessments, etc., of Rs 8.61 crore involved in 536 cases, of which 146 cases involving Rs 2.72 crore were pointed out in audit during 2003-04 and the rest in earlier years. At the instance of Audit, the Departments collected Rs 3.71 crore in 371 cases during 2003-04.

This report contains 28 paragraphs including two reviews relating to short/non-levy of tax, duty and interest, penalty, etc., involving financial effect of Rs 130.68 crore. The Departments/Government have so far accepted the audit observations involving Rs 20 crore out of which Rs 68.29 lakh was recovered. Final reply had not been received in the remaining cases till December 2004.

## **1.12. Control Environment for Accountability**

### **1.12.1. Responsiveness to Audit Inspection Reports**

According to the instructions issued by Government in November 1965, first replies to inspection reports are required to be sent within four weeks from the date of its receipt. In order to apprise the Government of the position of pending audit observations from time to time, statements of outstanding audit observations are forwarded to Government and their replies watched in audit. Important irregularities and defects in assessments, demand and collection of State receipts, noticed during local audit but not settled on the spot, are communicated to the heads of the offices and to the next higher departmental authorities through inspection reports. The more important financial irregularities are brought to the notice of the Heads of Departments and the Government for taking prompt corrective measures.

As at the end of June 2004, there were 3,095 outstanding inspection reports containing 13,812 audit observations involving Rs 447.71 crore issued up to December 2003. The details of reports outstanding as at the end of June for the years 2002 to 2004 are given below.

(In crore of rupees)

Period	Number of inspection reports	Number of audit observations	Amount involved
As at the end of June 2002	4,493	15,967	1,118.82
As at the end of June 2003	3,614	15,584	586.99
As at the end of June 2004	3,095	13,812	447.71

Revenue head-wise details of the outstanding inspection reports as at the end of June 2004 are given below.

(In crore of rupees)

Sl. No.	Revenue Head	Number of inspection reports	Number of audit observations	Amount
1	Sales Tax	1,229	7,574	259.68
2	Taxes on Agricultural Income	345	2,552	65.38
3	State Excise	367	661	7.01
4	Taxes on Vehicles	402	1,703	12.45
5	Land Revenue	82	163	2.55
6	Forestry and Wild Life	133	236	68.54



Sl. No.	Revenue Head	Number of inspection reports	Number of audit observations	Amount
7	Stamps and Registration Fees	526	898	2.96
8	Taxes and Duties on Electricity	11	25	29.14
	<b>Total</b>	<b>3,095</b>	<b>13,812</b>	<b>447.71</b>

First replies to 221 inspection reports issued up to December 2003 were not furnished by the departments till the end of June 2004. This was brought to the notice of the Chief Secretary to Government between July 2004 and September 2004.

### 1.12.2. Departmental Audit Committee Meetings

Government set up Audit Committees (during various periods) to monitor and expedite the progress of settlement of Inspection Reports and paragraphs in the Inspection Reports relating to Commercial Taxes, Motor Vehicles, Registration, etc., departments. Details of Audit Committee meetings held during the year 2003-04 and the paragraphs settled are given below.

(In crore of rupees)

Revenue Head	No. of meetings held during 2003-04	No. of paragraphs outstanding as on 31 March 2003	Amount	Year and number of paragraphs settled	Amount
Sales Tax	2	8,066	442.86	Between 1988-89 and 1998-99 364	6.97
Motor vehicles	2	2,164	12.74	Up to 1999-2000 and 2000-01 to 2002-03 382	1.92
Land Revenue	2	1,054	4.55	Between 1991-92 and 2002-03 71	1.17
Stamps and Registration Fees	2	1,152	3.73	Between 1991-92 and 2002-03 159	0.77
Forest	1	1,079	78.50	Between 1983-84 and 2001-02 40	0.25
State Excise	1	1,303	7.74	Between 2001-02 and 2002-03 4	Nil
<b>Grand total</b>	<b>10</b>	<b>14,818</b>	<b>550.12</b>	<b>1,020</b>	<b>11.08</b>

One thousand and twenty paragraphs involving Rs 11.08 crore were settled in 10 meetings of the Audit Committees under various revenue heads during 2003-04. Though seven *per cent* of the number of paragraphs outstanding at the beginning of the year was settled, the monetary value of clearance was only two *per cent*.

No Audit Committee has been constituted for the revenue head 'Taxes and Duties on Electricity' and no meeting was held during 2003-04 in respect of revenue head 'Taxes on Agricultural Income'.

### **1.12.3. Response of the departments to Draft Audit Paragraphs**

According to the instructions issued in 1965 by Government of Kerala, the result of verification of the facts on the draft audit paragraphs are required to be communicated to the Accountant General within six weeks from the date of receipt of the same. Draft paragraphs are always forwarded to the Secretaries by name drawing their attention to the audit findings and requesting them to send their response within six weeks. In case the final reply cannot be given within six weeks, an interim reply is to be given to the Accountant General and in any case, final reply should be sent within three months from the date of receipt of the draft paragraph. The fact of non-receipt of replies from Government are invariably indicated at the end of each paragraph included in the Audit Report.

The Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Revenue Receipts), Government of Kerala, includes 101 draft paragraphs which were forwarded to the Secretaries to Government. However, replies/response to 65 draft paragraphs were awaited (December 2004). The draft paragraphs have been suitably clubbed into 28 paragraphs in this Report.

### **1.12.4. Follow up action on Audit Reports - Summarised position**

The instructions issued by Government from time to time for timely follow up action on the Audit Reports and matters pertaining to the Committee on Public Accounts stipulate that it is imperative to submit Action Taken Notes (ATNs) on paragraphs and reviews included in the Audit Report indicating the remedial action taken or proposed to be taken, within three months from the date of presentation of Audit Report to the Legislature without waiting for any notice or call from the Committee on Public Accounts.

Review of outstanding ATNs on paragraphs included in nine Reports of the Comptroller and Auditor General of India (Revenue Receipts) for the years ended 31 March 1994 to 31 March 2002 disclosed that the departments had not submitted remedial ATNs on 75 paragraphs on which ATNs were due as on 31 December 2004 as indicated in Annexure-I.

Out of the total 404 audit paragraphs included in the above nine Audit Reports, the departments submitted remedial ATNs on 329 paragraphs only and none of these ATNs was furnished within the prescribed period of three months.

The Committee on Public Accounts had also expressed displeasure over the extraordinary delay on the part of the Government in furnishing statement of remedial ATNs on audit paras to the Legislature. Government directed (April 1997) all Heads of departments/Secretaries to Government to give topmost priority to the work and to ensure that remedial measures on all audit paras were furnished to the Legislature within a period of three months of the presentation of the Report to the Legislature. In spite of this, delay continued in furnishing of ATNs.

Though the Audit Report for the year ended 31 March 2003 was laid on the table of the Legislature in June 2004 and the time limit of three months for furnishing remedial ATNs had elapsed in September 2004, the departments had submitted ATNs only on six of the 43 paragraphs included in the above Audit Report till December 2004.



**Chapter II**  
**Sales Tax**

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## CHAPTER II

### SALES TAX

#### 2.1. Results of Audit

Test check of sales tax assessments and refund cases and connected documents of Sales Tax Offices conducted in audit during the year 2003-04 revealed underassessments of tax, non-levy of penalty, etc., amounting to Rs 170.34 crore in 1,367 cases which may broadly be categorised as under.

Sl. No.	Category	Number of cases	Amount (In crore of rupees)
1.	Exclusion of turnover from assessment	205	6.17
2.	Incorrect grant of exemption	97	2.02
3.	Application of incorrect rate of tax	224	2.50
4.	Incorrect grant of concessional rate of tax	25	4.62
5.	Non-levy of penalty/interest	383	142.16
6.	<b>Review on Exemptions and Concessions under KGST Act and CST Act</b>	1	4.13
7.	Other lapses	432	8.74
	<b>Total</b>	<b>1,367</b>	<b>170.34</b>

During 2003-04, the Department accepted underassessments, etc., of Rs 6.51 crore involved in 296 cases of which 89 cases involving Rs 2.31 crore were pointed out during 2003-04 and the rest in earlier years. At the instance of audit the Department recovered an amount of Rs 1.17 crore involved in 149 cases during the year.

Illustrative cases involving Rs 105.10 crore and the results of a review on '**Exemptions and Concessions under KGST and CST Act**' involving Rs 4.13 crore are given in the following paragraphs.

**2.2. Review on Exemptions and Concessions under KGST Act and CST Act**

**Highlights**

- Objectives/goals in granting exemptions/concessions/deferment of Rs 766.05 crore could not be evaluated  
(Paragraph 2.2.6)
- Inadmissible grant of exemption led to loss of revenue of Rs 25.73 lakh.  
(Paragraph 2.2.7)
- Incorrect grant of concession/exemption resulted in short levy of tax of Rs 1.66 crore.  
(Paragraph 2.2.8)
- Department failed to cross verify declarations of Rs 10 lakh to Rs 6.48 crore in 97 cases.  
(Paragraph 2.2.9)

**2.2.1. Introduction**

Sales tax is the major source of revenue of the State. The Kerala General Sales Tax Act, 1963 (KGST Act) governs the law relating to the levy and collection of sales tax in the State. The Central Sales Tax Act, 1956 (CST Act) governs the law relating to the levy and collection of CST in the State.

Under the KGST Act, a dealer who deals in the goods specified in III Schedule to the Act shall not be liable to pay tax in respect of the sale or purchase of such goods. The Government is empowered to make exemptions or reduction in rate of tax payable under the KGST Act. Purchase turnover of goods, which are taxable at the last purchase point, is exempted if covered by declaration issued by the purchasing dealer in Form 25. Consignment sales turnover of goods transferred to agent/principal, branch/head if covered by declaration in Form F is also exempted under the CST Act. Under the CST Act, export/import supported by documents, sale/purchase for export covered by declarations in Form H, sales in transit covered by Form E1, E2, etc., are exempted. Concessions are available for goods mentioned in notifications issued under KGST Act and CST Act, interstate sales covered by declarations issued in Form C, purchases by Government departments covered by declarations in Form D, purchase of raw materials/packing materials by industrial units for use in/for packing finished products if covered by declaration in Form 18 etc.

Government of Kerala issued notifications from time to time granting exemption or concession from payment of tax to small scale industries, medium and large scale industrial units. The eligibility certificate to SSI to avail sales tax exemption under specific notifications are issued by district level committee headed by



General Manager, District Industries Centre (GM, DIC) and to medium and large scale industrial units set up on or after 1 April 1993 by the Department of Commercial Taxes.

### 2.2.2. *Organisational set up*

The Department of Commercial Taxes which administers the sales tax laws in the State is under the control of the Commissioner of Commercial Taxes (CCT). The Commissioner is assisted by the Deputy Commissioners (DC), Inspecting Assistant Commissioners and Assessing Officers, who are designated as Assistant Commissioners(AC) (Assessment) and Sales Tax Officers (STOs).

### 2.2.3. *Scope of audit*

Details were collected from the Directorate of Industries and Commerce and Deputy Commissioner (General), CCT and assessment records relating to 39\* assessing offices mainly Special and other Circles where assessment files of industrial units eligible for/availling exemptions are dealt with, were test checked between 27 October 2003 and 31 May 2004.

### 2.2.4. *Audit objectives*

A review of the assessments finalised for the years 1998-99 to 2002-03 was conducted to ascertain whether

- Adequate and effective internal control system existed for ensuring compliance with the prescribed Codal /Manual provisions.
- Any infirmity existed in the legislative provisions and the related rules.
- Exemptions and reductions in rate of tax allowed to various commodities/class of beneficiaries were in accordance with conditions/restrictions prescribed by Government and the prescribed declarations were obtained.
- Records showing details of beneficiaries/quantum of exemption availed of were maintained properly.
- Fixed Capital Investment created for grant of exemptions was maintained throughout the period of exemption (five/seven years).

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\* Sales Tax Offices I Circle Alappuzha , II Circle Alappuzha, Angamaly, Attingal, I Circle Changanacherry, II Circle Changanacherry, Chengannur, Cherthala, I Circle Ernakulam, II Circle Ernakulam, III Circle Ernakulam, IV Circle Ernakulam, Irinjalakuda, I Circle Kalamassery, II Circle Kalamassery, Karunagappally, Kayamkulam, I Circle Kollam, II Circle Kollam, III Circle Kollam, I Circle Kottayam, II Circle Kottayam, I Circle Kozhikode, II Circle Kozhikode, III Circle Kozhikode, IV Circle Kozhikode, V Circle Kozhikode, Neyyattinkara, II Circle Thrissur, III Circle Thrissur, IV Circle Thrissur, Special Circle Alappuzha, Special Circle I Ernakulam, Special Circle II Ernakulam, Special Circle III Ernakulam, Special Circle (Hill Produce) Mattancherry, Special Circle Kollam, Special Circle Kottayam and Special Circle Thrissur.

**2.2.5. Trend of revenue and extent of exemptions**

Total tax revenue raised by the State and receipts from Sales tax during the years 1998-99 to 2002-03 were as shown below:

(Rupees in crore)

Year	Total tax revenue	Sales tax receipts	Percentage of Sales tax to total tax revenue
1998-99	4,649.56	3,366.62	72.40
1999-00	5,193.50	3,853.54	74.20
2000-01	5,870.26	4,344.33	74.01
2001-02	5,923.42	4,440.85	74.97
2002-03	7,302.54	5,343.15	73.17

As per the information supplied by CCT, exemption and deferment of sales tax granted to SSI units and medium and large scale industrial units during the period from 1998-99 to 2002-03 were as under:

(Rupees in crore)

Year	Exemption granted to SSI units*		Exemption granted to Medium and Large Scale Industrial units		Sales Tax deferment		Total
	No. of units	Amount	No. of units	Amount	No. of units	Amount	
1998-99	84	96.53	26	116.80	3	9.36	222.69
1999-00	72	100.77	10	45.06	Nil	0	145.83
2000-01	52	77.24	21	83.46	1	7.45	168.15
2001-02	76	72.40	5	12.16	2	2.89	87.45
2002-03	35	72.89	9	55.75	1	13.29	141.93
<b>Total</b>	<b>319</b>	<b>419.83</b>	<b>71</b>	<b>313.23</b>	<b>7</b>	<b>32.99</b>	<b>766.05</b>

The total amount of exemption/deferment availed by the units in each year was not available.

**2.2.6. Lack of monitoring of objectives achieved**

• **Small/Medium/Large Scale Industries**

By notifications issued in 1980 and thereafter Government of Kerala exempted the small/medium/large scale industrial units from payment of tax in respect of goods manufactured and sold by them for a period of five/seven years from the date of commencement of production of such goods subject to certain conditions. Though sales tax exemptions of Rs 766.05 crore were granted, monitoring at any

\* The figures shown are exclusive of exemptions granted in respect of small scale industries by GM, DICs of Kozhikode, Kasaragod, Idukki and Wayanad. Details in respect of these districts have not been received from the Department of Industries and Commerce.

level to see the total amount availed by units and corresponding achievement of the objectives was done neither by CCT nor by Industries Department.

- **Deferment cases**

The medium and Large Scale Industrial Units, have the option for deferment of taxes for a period of ten years from the date of commencement of commercial production or from the date on which diversification, expansion or modernisation has been completed. The unit which opts for deferment of taxes will not be permitted to avail of exemption, but will be permitted to collect taxes as per rules. The tax so collected by unit shall be remitted to Government in equal monthly instalments over a period of five years from the eleventh year with simple interest at the rate of 15 *per cent per annum*. In case of default penal interest at the rate of two *per cent per annum* shall be charged for the period of delay.

Though sales tax deferment of Rs 32.99 crore was granted from 1998-99 to 2002-03 details of deferment were not readily available in any of the assessment offices. In the absence of maintenance of registers for reference of the details at Assessing Officer's level, repayment of instalments which were due for recovery could not be monitored at any level.

**Inadmissible deferment cases**

It was noticed in Special Circle, Alappuzha that in the case of an assessee against a total amount of Rs 1.77 crore permitted for deferment, the Department allowed deferment of tax for Rs 2.14 crore while finalising the assessment for 2000-01 and 2001-02 in November 2003. This resulted in non-demand of tax of Rs 36.80 lakh.

**2.2.7. Inadmissible exemption allowed resulting in loss of revenue**

- **Small Scale Industrial Units**

Exemption can be granted subject to such restrictions and conditions as may be prescribed by the Government in the notifications. The Assessing Officers shall set off the tax due from assessee against the amount available for exemption during the year as per the certificate issued by GM, DIC. In case where certificates issued by GM, DIC are in violation to the conditions stipulated by the Government in their notification, Assessing Officer shall bring the matter to the notice of higher authorities.

Scrutiny of records of seven offices\* revealed that the assessing authorities allowed set off of tax of Rs 25.73 lakh in nine cases during the years 1997-2001 by issue of certificates to units manufacturing splints and veneers, packing materials. These products are not mentioned in the table appended to the Khadi and Village Industries Commission's notifications, etc. This resulted in inadmissible exemption of Rs 25.73 lakh.

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\* STO Alathur, STO Angamaly, STO Attingal, STO Karunagappally, STO II Circle Kollam, STO III Circle Kollam, STO II Circle Kottayam

Instead of allowing exemption based on the certificate issued by GM, DIC, the Assessing Officers should have taken up the matter with higher authorities since the exemptions were against the terms and conditions stipulated in the notification.

**2.2.8. Incorrect grant of concession/exemption**

• By notifications issued in March 1995, July 1996 and December 1999, Government reduced the rate of tax to four *per cent* on sale of goods within the state manufactured by SSI Units whose total turnover did not exceed Rs 50 lakh in a year. Where the total turnover exceeds Rs 50 lakh, reduced rate will be applicable up to turnover of Rs 50 lakh and normal rate on the turnover above Rs 50 lakh during such first year. In subsequent years normal rates are applicable. The SSI units were eligible for a concessional rate of eight *per cent* from January 2000. This rate was, however, not applicable for processing and sale of mineral water since no manufacturing process was involved as judicially held<sup>♦</sup>.

In ten offices the application of incorrect concessional rate of four *per cent* in nine cases and excess exemption allowed in one case resulted in short levy of tax of Rs 95.14 lakh as detailed below.

(In lakh of rupees)

Sl. No.	Name of office No. of cases	Assessment year/Month of assessment	Name of commodity/ Rate of tax (in <i>per cent</i> )	Nature of irregularity	Turn-over	Short levy	Remarks
1.	STO, Special Circle, Mattancherry 1	1997-98 February 2002	Wheat Products 4	While finalising the assessment of a company, exemption of tax of Rs 1.92 crore was allowed against the allowable exemption of Rs 1.44 crore.		47.64	After the case was pointed out by audit in December 2002, the Assessing Authority stated that the matter would be examined.
2.	STO, II Circle, Perumbavoor 1	1998-99 January 2003	Cement 12.5	While finalising the assessment of a SSI unit, sales turnover of cement was incorrectly assessed at the rate of four <i>per cent</i> against 12.5 <i>per cent</i> . Surcharge was also not levied.		17.99	After the case was pointed out by audit in October 2003, the assessment was revised in December 2003 and additional demand of Rs 17.99 lakh was adjusted against the SSI exemption available.

<sup>♦</sup> 131 STC 538 Teejan Beverages Ltd. Vs State of Kerala and others.

(In lakh of rupees)

Sl. No.	Name of office No. of cases	Assessment year/Month of assessment	Name of commodity/ Rate of tax (in per cent)	Nature of irregularity	Turn-over	Short levy	Remarks
3.	STO, Special Circle, Thiruvananthapuram 1	1998-99 & 1999-2000 December 2002 & January 2003	Polythene films 10 for 1998-99 and 6/8 for 1999-2000	While finalising the assessment of a SSI unit the tax was levied at the rate of four per cent instead of prevailing rates.	216.70	9.75	After the case was pointed out by audit in August 2003, the Assessing Authority stated that the goods sold by the assessee were packing materials. The Government stated in November 2004 that the goods sold were tubings, pouches and polythene films with the logo of the purchaser printed on it and so the goods were packing materials. The reply was not tenable as the goods are unsuitable of being used as packing materials without undergoing some manufacturing process. Further report had not been received (December 2004).
4.	STO, Manjeri 1	1998-99 March 2002	Plastic water storage tanks 10	While finalising the assessment of a SSI unit, tax was levied at four per cent instead of at 10 per cent.	88.38	5.83	After the case was pointed out by audit in November 2002, the assessment was revised in November 2002 and tax due was set off against the exemption available.
5.	STO, Tirurangadi 1	1998-99 February 2003	Furniture 10	While finalising the assessment of a SSI unit engaged in the manufacture and sale of furniture, tax was levied at four per cent instead of at 10 per cent though the total turnover of the unit exceeded Rs 50 lakh during 1995-96	62.20	4.11	After the case was pointed out by audit on 1 January 2004, the Department informed in August 2004 that the assessment was revised on 21 January 2004. Further report had not been received (December 2004).
6.	STO, Alathur 1	2000-01 October 2001	Mineral water, soda water 20	Tax due on sales turnover of mineral water was assessed at lower rate and incorrectly adjusted against the exemption.	15.53	3.11	After the case was pointed out by audit in January 2003, the Department informed in May 2004 that the assessment was revised in September 2003. Further report had not been received (December 2004).

**Audit Report (Revenue Receipts) for the year ended 31 March 2004**

(In lakh of rupees)

Sl. No.	Name of office No. of cases	Assessment year/Month of assessment	Name of commodity/ Rate of tax (in per cent)	Nature of irregularity	Turn-over	Short levy	Remarks
7.	STO, Special Circle <u>I, Ernakulam</u> 1	1998-99 January 2003	Voltage <u>stabilizer</u> 8 and 2	Tax at four per cent only was levied instead of the normal rate though total turnover exceeded Rs 50 lakh.	68.76	3.03	When the case was pointed out in April 2004, the Assessing Officer stated (April 2004) that notice had been issued. Further report had not been received (December 2004).
8.	<u>STO, North Parur</u> 1	1997-98 and 1998-99 between August and December 2001	<u>Cement paint</u> 8	While finalising the assessment of a dealer in cement paint, turnover of cement paint was taxed at 4 per cent instead of 8 per cent.	46.24	2.03	After the case was pointed out by audit in January 2003, the Department informed in May 2004 that notice had been issued to revise the assessment. Further report had not been received (December 2004).
9.	Office of the IAC, <u>Pathanamthitta</u> 1	1997-98 and 1998-99 June 2001	Alum and <u>Bauxite</u> 10	While finalising the assessment of a SSI unit tax was levied incorrectly at four per cent though the turnover exceeded Rs 50 lakh during 1997-98 and 1998-99.	16.95	1.12	After this was pointed out by audit in December 2002, the Assessing Officer stated in April 2003 that the assessments had been revised and the case was advised for revenue recovery. Government informed in May 2004 that the collection was pending. Further report had not been received (December 2004).
10.	STO, I Circle, <u>Kalamassery</u> 1	1998-99 March 2002	Wiring <u>cables</u> 12.5	Rate of four per cent was applied on total turnover of Rs 58.07 lakh instead of four per cent on the first Rs 50 lakh and normal rate on the turnover exceeding Rs 50 lakh.	58.07	0.53	On this being pointed out the Assessing Officer stated in May 2004 that action was being taken to reopen the assessment. Further reply was awaited (December 2004).
<b>Total</b>						<b>95.14</b>	

- Under the CST Act, 1956, Government reduced in November 1993 tax payable on any goods manufactured by new large and medium scale industries to two per cent for a period of five years from the date of commencement of commercial production by such units. Where a sale of any goods in the course of interstate trade or commerce has either occasioned the movement of such goods from one State to another or has been effected by a transfer of documents of title to such goods during their movement from one State to another, any subsequent

sale during such movement effected by a transfer of documents of title to such goods, shall be exempt from tax.

Scrutiny of assessment records revealed that in three circles, the exemptions granted were incorrect resulting in non-levy of tax of Rs 15.39 lakh in three cases as per details given below:

(In lakh of rupees)

Sl. No.	Name of office No. of cases	Assessment year/ Month of assessment	Commodity/ Rate of tax (in per cent)	Nature of irregularity	Amount of short levy	Remarks
1.	STO, Second Circle, Palakkad 1	1998-99 September 2002	Heat Resistant Latex Rubber Thread (HRLRT) 2	While finalising the assessment of a medium/large scale industrial unit engaged in the manufacture of HRLRT, tax of Rs 10.56 lakh was set off against the exemption limit available to the unit though the assessee was not eligible for the exemption.	10.56	After the case was pointed out by audit in November 2003, the Department informed in August 2004 that the assessment had been modified and demand notice issued. Further report had not been received (December 2004).
2.	STO, Second Circle, Kalamassery 1	1992-93 March 1999	Winter garments 10	While finalising the assessment of a dealer, the Assessing Authority exempted the turnover of Rs 25.80 lakh relating to the sale of raw materials of garments to exporters in Chennai.	2.58	After the case was pointed out by audit in December 1999, the Department revised the assessment in October 2003 creating additional demand of Rs 2.58 lakh. Government informed in May 2004 that notice for revenue recovery had been issued. Further report had not been received (December 2004).
3.	STO, Special Circle (HP), Mattancherry 1	1995-96 March 2000	Welding rods 4	While finalising the assessment of a dealer, inter-state sale of welding rods for Rs 56.17 lakh was incorrectly exempted as sale in transit. As the transfer of documents had taken place before the movement of goods, subsequent sale could not be treated as transit sale. The despatch of goods was not to the assessee but directly to the subsequent purchaser and hence the sale was not in the course of movement of goods.	2.25	After the case was pointed out by audit in June 2000, the Assessing Authority stated that the requirements of Section 6(2) of CST Act was satisfied in this case. The matter was referred to Government (September 2001) and they reported that transaction in this case was not covered by Section 6(2) and the dealer was not eligible for exemption. Further report had not been received (December 2004).
<b>Total</b>					<b>15.39</b>	

The above cases were reported to Government between December 2003 and April 2004; their final reply was awaited (December 2004).

- Government by notifications exempted new SSI units from payment of tax due on goods produced and sold by them for a period of five/seven years from the date of commencement of commercial production. Exemption from sales tax was admissible only for goods manufactured and sold by the unit. It has been judicially held\* that rice and paddy are two distinct commodities, distinct in nature and character and that a dealer is liable to pay purchase tax on the purchase of paddy procured in circumstances in which no tax has been paid. It was also held\* that SSI units are not entitled to get SSI exemption on purchase tax.

In five offices purchase tax on purchase turnover on paddy was incorrectly allowed to set off against the SSI exemption in 20 cases. This resulted in grant of incorrect exemption of Rs 51.84 lakh including surcharge as detailed below.

(In lakh of rupees)

Sl. No.	Name of office/ No. of cases	Assessment year/ Month of assessment	Commodity/ Rate of tax in per cent	Nature of irregularity	Amount of short levy of tax including surcharge	Remarks
1.	STO, <u>Angamaly</u> 3	1997-98 to 1999-00 Between October 2001 and March 2002	<u>Paddy</u> 1	While finalising the assessments of seven SSI units engaged in the manufacture of rice, the tax on the purchase turnover of paddy for Rs 13.34 crore was incorrectly set off against SSI exemption.	14.67	After the cases were pointed out in January 2003, the Department stated in January 2003 that the cases would be examined. Further report had not been received (December 2004).
		1998-99 September 2001	<u>Paddy</u> 1	While finalising the assessments of a SSI unit engaged in the manufacture of rice, the tax levied on the purchase turnover of paddy for Rs 3.95 crore was set off against SSI exemption.	4.35	After the case was pointed out by audit in January 2003, the Assessing Authority stated that even though turnover of paddy was not assessed, there was no short levy as the assessee was eligible for SSI exemption. The reply is not tenable as tax was to be levied on purchase of paddy. Further report had not been received (December 2004).
2.	STO, First Circle, <u>Perumbavoor</u> 12	1999-2000 to 2001-02 between June 2002 and July 2003	<u>Paddy</u> 1	While finalising the assessments of 12 dealers engaged in the manufacture of rice, the tax levied on the purchase turnover of paddy for	18.15	After the cases were pointed out by Audit in July 2003, the Department stated in October 2004 that the assessments had been revised in all cases. Further

\* Raja Provision Stores Vs Appellate Tribunal (Sales Tax), Thiruvananthapuram 105 STC 225 (SC)

\* State of Kerala Vs M/s Vattukalam Chemicals Industries (2002) 10 KTR 69 (SC)



(In lakh of rupees)

Sl. No.	Name of office/ No. of cases	Assessment year/ Month of assessment	Commodity/ Rate of tax in per cent	Nature of irregularity	Amount of short levy of tax including surcharge	Remarks
				Rs 17.22 crore was incorrectly set off against SSI exemption.		report had not been received (December 2004).
3.	STO, Third Circle, Palakkad 3	1999-00, 2000-01, 2001-02 October 2002	Paddy 1	While finalising the assessment of three SSI units manufacturing rice, purchase turnover of Rs 10.33 crore on purchase of paddy was set off against SSI exemption.	10.93	After the cases were pointed out by audit in September 2003, the Department informed in September 2004 that action had been taken to revise the assessment in one case. Further report had not been received (December 2004).
4.	STO, North Parur 1	1999-2000 and 2000-01 March 2002	Paddy 1	While finalising the assessments of a SSI unit engaged in the manufacture of rice, the tax levied on the purchase turnover of paddy for Rs 1.13 crore was set off against SSI exemption.	1.97	After the case was pointed out by audit in January 2003, the Assessing Authority stated that the exemption given on purchase turnover of paddy was in the form of rebate. It is true that tax payable can be deducted from the tax on rice which alone need be adjusted against SSI exemption. But the assessee had to pay purchase tax which was not demanded. Further report had not been received (December 2004).
5.	STO, Aluva 1	1997-98 October 2001	Paddy 1	While finalising the assessments of a SSI unit engaged in the manufacture of rice, the tax levied on the purchase turnover of paddy for Rs 1.61 crore was set off against SSI exemption.	1.77	After the case was pointed out by audit in October 2002, the Assessing Authority stated that assessments in the case of all rice mills were completed as done in this case. The reply is not tenable in view of the decision that purchase tax cannot be adjusted against SSI exemption. Further reply was awaited (December 2004).
<b>Total</b>					<b>51.84</b>	

The above cases were reported to Government in April 2004.

- Under the first schedule to the KGST Act, 1963, tax on soda is leviable at the rate of 20 per cent at the point of first sale in the State by a dealer who is liable to tax under the Act.

In STO Kodungallur, while finalising the assessment of two assesseees engaged in hotel business the sales turnover of Rs 14.75 lakh of soda was exempted from tax

during the years from 1999-2000 to 2001-02 assessed between April 2002 and September 2002 treating it as second sales. But the assessee had purchased soda from registered dealers who were not liable to tax as the turnover was below the assessable limit. So the sale by the assessee is to be treated as first sale in the State. The incorrect exemption allowed has resulted in short levy of tax of Rs 3.16 lakh.

After the cases were pointed out by audit in January 2004, the Government stated in November 2004 that the assessee was second seller of the commodity and hence not exigible to tax. The reply is not tenable in view of the fact that the commodity had not been taxed at any point. The first sale effected was by a dealer not liable to tax and it has been judicially<sup>✓</sup> upheld by the High Court of Kerala that in such cases the sales by dealer is treated as first sale.

The cases were reported to Government in February 2004; their reply had not been received (December 2004).

#### **2.2.9. Declarations**

##### **• Non-conducting of cross verification of declarations in Form 25**

Under the KGST Act, 1963 and Rules made thereunder a dealer who purchases goods taxable at last purchase point shall not be liable to pay tax, if he proves that he is not the last purchaser within the State. For this he shall file the originals and duplicates of declarations in Form 25 issued by the purchasing dealer. The correctness of exempted turnover accounted in the purchasing dealer's turnover can be ascertained by the Assessing Officer, only if the duplicate of the declaration filed by the selling dealer is sent to the assessing circle of the purchasing dealer for cross verification.

In seven assessment cases test checked in five offices<sup>♦</sup> during the period from 1999-2000 to 2002-03, duplicates of declarations in Form 25 had not been sent for cross verification in 97 cases where amount covered by declarations varied from Rs 10 lakh to Rs 6.48 crore.

##### **2.2.10. Concession/exemption allowed without stipulated declarations/with defective declarations**

• Under the KGST Rules, any dealer in goods taxable at the point of last purchase in the State, shall, if he is not liable to tax on such goods if he not being the last purchaser, obtain a declaration in Form 25 from the person to whom he has sold goods and shall submit in duplicate to the Assessing Authority.

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<sup>✓</sup> 102 STC 143 M.S. Raja Mohammed Vs State of Kerala

<sup>♦</sup> Special Circle (Hill Produce) Mattancherry, Sales Tax Offices Irinjalakuda, Neyyattinkara, Circle I Ernakulam and Circle I Kozhikode

Test check of STOs IV Kozhikode, Special Circle (Hill Produce) Mattancherry and Karunagapally revealed that in two cases the exemption of turnover was allowed on the basis of duplicate/triplicate Form 25 instead of original and duplicate. In one case the turnover of Rs 5.06 crore was exempted though Form 25 valued at Rs 4.18 crore were available. This resulted in irregular exemption of tax of Rs 53.65 lakh.

- The CST Act, 1956 read with rules made thereunder provides that branch transfer of goods are exempted from tax provided the same is covered by declaration in Form F. Rules provide that single declaration shall cover on transactions pertaining to one calendar month.

It has been noticed in audit that while finalising the assessments for the years from 1998-99 to 2001-02 between December 2001 and June 2003 three<sup>^</sup> assessing authorities have accepted Form F declarations covering transactions for whole year from dealers of coconut oil, rubberised coir, fibre foam, medicines, cashew and vacuum flask in violation of Act/rules. This resulted in incorrect exemption of tax of Rs 29.22 lakh.

- The KGST Act and Rules provide that a dealer is liable to purchase industrial raw material, component parts, containers or packing materials for use in the production of finished products for sale inside the state or in the course of inter-state sale, trade and commerce at concessional rate of tax provided he furnishes a certificate in declaration Form 18 duly filled in.

It was noticed in Special Circle, Thrissur that in one case the concessional rate of tax was allowed to dealers by accepting declarations in Form 18 in which column numbers 1 to 5 of the certificates were not filled in. This resulted in short levy of tax of Rs 5.52 lakh.

- Under the CST Act, 1956 the sale or purchase preceding the sale or purchase in the course of export shall be deemed to be in the course of such export if such last sale or purchase took place after and was for the purpose of complying with the agreement or order for or in relation to such export. Form of declaration prescribed under KGST Rules in proof of sale for export is Form 18 A and that under CST Act is Form H. A scrutiny revealed that exemptions were allowed accepting defective declarations in many cases test checked.

#### **Acceptance of defective Form 18 A declarations**

In 13 cases test checked defective declarations in Form 18A were accepted for giving exemption for Rs 7.65 crore. Tax effect involved amounted to Rs 51.04 lakh as shown in Annexure II:

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<sup>^</sup> Special Circle Thrissur, Alappuzha, Ernakulam

### **Acceptance of defective Form H declarations**

In two offices exemption was allowed on turnover of Rs 1.09 crore accepting defective declaration in Form H in 4 cases, tax effect involved amounted to Rs 11.35 lakh as shown in Annexure III.

These show that the declarations were not scrutinised properly before accepting them for allowing tax concession/exemption.

#### **2.2.11. Internal control**

Internal controls are intended to provide reasonable assurance of proper enforcement of laws, rules and departmental instructions. They also help in prevention of loss of revenue and in the creation of reliable financial and management information system for prompt and efficient services and for adequate safeguards against evasion of duties. Internal audit is expected to provide an assurance regarding the adequacy and effectiveness of internal controls.

- There is an Internal Audit Wing functioning in the Commercial Taxes Department under the supervision and control of DC (A&I) with Zonal offices at Ernakulam and Kozhikode. The STOs attached to the Zonal office are to conduct Internal Audit of the circles annually. According to the Department, there was no pendency in internal audit and all internal audits were completed before the audit was done by the Accountant General.

Details of internal audit conducted during the years from 1999-2000 to 2002-03 were as follows:

<b>Year</b>	<b>1999-00</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>
No. of assessments completed	1,57,035	1,86,692	1,48,951	1,80,182
Coverage of assessment files in Internal Audit	Not furnished	Not furnished	65,177	97,927
Percentage of coverage	Not furnished	Not furnished	<b>43.76</b>	<b>54.35</b>

This shows that internal audit was not completed before audit was done by Principal Accountant General (Audit), Kerala.

- Under the Agricultural Income Tax and Sales Tax Manual (AIT and ST Manual) Vol. III, a Demand, Collection and Balance Register (DCB) has to be maintained by each Sales Tax Officer dealer wise. After correctly fixing the arrear position of the office, a certificate should be sent to the CCT with copies to the Inspecting Assistant Commissioner (IAC) and Deputy Commissioner (DC). Any delay in this regard should be reported to the CCT by the IAC and DC with suitable recommendation for disciplinary action. However DCB registers were not maintained properly in any of the 39 offices test checked. The DCB statement so prepared were not giving a proper reflection of the demand, collection and balance of the concerned offices and there was no internal control mechanism to cross check or verify the correctness of the balance shown therein.

In four\* STOs against the demand of Rs 30.32 lakh created during the period between 2000-01 and 2002-03, the remission of tax of Rs 64.26 lakh was given resulting in excess credit of Rs 33.94 lakh.

• **Non-reconciliation of remittances**

As per the Kerala Financial Code Vol.I, the Departmental sub controlling officers should reconcile the Departmental figures with the treasury figures and obtain the signature of the Treasury Officer on the statement prepared by them in token of the agreement of their figures with those of the treasury. The reconciliation of remittances made into treasury by the Sales Tax Officers based on daily collections of sales tax revenue in their respective offices were not being properly done. A statement prepared by the respective offices was furnished every month to the Commissioner of Commercial Taxes without any reconciliation and without authentication by Treasury Officer. Of late, to avoid delay in furnishing the statement of revenue, it was reported that, the triplicate copy of the challans were being collected by the Office of the Inspecting Assistant Commissioner (IAC) and distributed to concerned circles with a statement of revenue for the respective month for onward transmission to the Commissioner of Commercial Taxes, that too without any reconciliation or certification of the correctness of the figures booked under each circle by the concerned Sub Treasury Officer.

• **Delay in realisation of Cheques**

A review of Cheque Registers revealed that there was delay ranging from 30 days to 159 days in crediting cheques for Rs 19.26 crore to government account causing blockage of government money in 29 offices as shown in Annexure IV.

These deficiencies clearly indicate lack of internal control mechanism in the Department.

**2.2.12. Recommendations**

Control mechanism should be put its place to ensure

- Maintenance of DCB and all other registers are in the prescribed format
- Reconciliation of remittances into the treasury
- All valuables are promptly brought into the Government account
- Internal Audit machinery needs to be strengthened so as to improve overall efficiency and effectiveness of the department
- The assessing officer should insist on the prescribed declarations before granting exemptions/deferment/set off. Continued maintenance of fixed capital assets created for availing the SSI exemptions throughout the period of exemption should be ensured

All these points were communicated to the Department and Government in June 2004; their replies have not been received (December 2004).

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\* Changanacherry, Kayamkulam, Kottayam and Thrissur

### **2.3. Application of incorrect rate of tax**

Under the KGST Act, 1963, rate of tax depends on the nature of sale, point of sale and also on the kind of commodity.

In 11<sup>♦</sup> offices, there was short levy of tax and surcharge of Rs 1.23 crore in 16 cases as per details given in Annexure V. Additional demand of Rs 72.39 lakh was created in 10 cases. The amount was pending collection.

The cases were reported to Government between August 2003 and April 2004. Further report had not been received (December 2004).

### **2.4. Non-forfeiture of unauthorised collection of surcharge**

Under the Kerala Surcharge on Taxes Act, 1957, if any person collects any sum by way of surcharge, he shall be liable to pay penalty not exceeding Rs 5,000 and any sum so collected shall be liable to be forfeited to Government.

In STO, Special Circle I, Ernakulam, while finalising the assessment for 1999-2000 in October 2003, of an assessee, surcharge of Rs 2.50 crore collected in excess by the unit was not forfeited to Government by the Assessing Officer. On this being pointed out in audit in March 2004, the Assessing Authority stated in April 2004 that the amount related to surcharge was collected by the assessee.

The case was reported to the Department in June 2004 and to Government in August 2004. Further report had not been received (December 2004).

### **2.5. Underassessment of turnover**

Under the KGST Act, 1963, taxable turnover means the turnover, on which a dealer shall be liable to pay tax after making the prescribed deductions from the gross turnover.

In nine<sup>♥</sup> offices turnover of Rs 11.48 crore in nine cases was incorrectly excluded from levy of tax resulting in short levy of tax of Rs 64.90 lakh including surcharge as per details given in Annexure VI.

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<sup>♦</sup> STOs Special Circle III Ernakulam, Special Circle I Ernakulam, Special Circle Mattancherry, Angamaly, Circle I Ernakulam, Circle I Kollam, Special Circle II Ernakulam, WC & LT Alappuzha, Deputy Commissioner Ernakulam, Circle II Palakkad, Nedumangad.

<sup>♥</sup> STO Pathanamthitta, Kasaragod, STO Special Circle (Hill Produce) Mattancherry, Special Circle Tirur, Special Circle Mattancherry, STO Circle II Mattancherry, AIT&STO Kuthiathode, STO Circle I Kozhikode, STO Circle II Thripunithura.

## 2.6. Non/Short-levy of interest

2.6.1. Under the KGST Act, 1963, if the tax or any amount due under the Act is not paid by any dealer within the time prescribed, the dealer shall pay, by way of interest a sum equal to one *per cent* of such amount for each month or part thereof for the first three months of delay and two *per cent* of such amount for each month or part thereof for subsequent months.

In six offices, the assessing authorities either failed to levy or short levied interest amounting to Rs 75.10 lakh in the following six cases.

(In lakh of rupees)

Sl. No.	Name of office/ No. of cases	Assessment year/Month and year of assessment	Nature of irregularity	Non/short levy of interest	Remarks
1.	STO, Special Circle, Kollam 1	1997-98 April 2002	While finalising the assessment of an exporter of cashew, the Assessing Officer levied interest of Rs 5.46 lakh instead of Rs 50.62 lakh on the unpaid tax of Rs 50.12 lakh.	45.16	After the case was pointed out by audit in May 2003, Government stated in October 2004 that interest of Rs 45.16 lakh was demanded and advised for revenue recovery. Further report had not been received (December 2004).
2.	STO, Special Circle, Mattancherry 1	1996-97 March 2001	While finalising the assessment of a local authority, the Assessing Authority failed to levy interest for the non-payment of tax of Rs 17.57 lakh from May 1997 to March 2001.	15.99	After the case was pointed out by audit in November 2001, the Department stated in September 2004 that interest was recomputed and demand raised. Further report had not been received (December 2004).
3.	STO, Special Circle (Hill Produce), Mattancherry 1	1997-98 October 2001	While finalising the assessment in October 2001 of a dealer in tyres, tubes, etc., rubber cess paid was excluded from the turnover in the monthly return for April 1997 to January 1998. Subsequently, the assessee returned the turnover and paid tax. Interest due on the tax amount was not demanded.	6.10	After this was pointed out in May 2002, the Department levied in June 2002 an interest of Rs 6.24 lakh and adjusted it against the refund due to the dealer. Adjustment details had not been received (December 2004).
4.	STO, Kothamangalam 1	1992-93 April 2001	While finalising the assessment of a dealer, interest on unpaid amount of admitted tax of Rs 1.85 lakh was not demanded.	3.20	After the case was pointed out by audit in November 2002, Assessing Authority stated that the case would be examined. Further report was not received (December 2004).
5.	STO, I Circle, Ernakulam 1	1997-98 December 2002	While finalising the assessment of a dealer, interest was not levied for non-payment of tax due on conceded taxable turnover of Rs 34.62 lakh.	3.02	After the case was pointed out by audit in May 2003, the Department stated in July 2004 that the demand notice had been issued to collect interest. Further report had not been received (December 2004).

(In lakh of rupees)

Sl. No.	Name of office/ No. of cases	Assessment year/Month and year of assessment	Nature of irregularity	Non/short levy of interest	Remarks
6.	STO, Special Circle, Alappuzha 1	1998-99 March 2003	While finalising the assessment, the Assessing Authority did not levy interest due to non-payment of tax of Rs 1.79 lakh.	1.63	After the case was pointed out by audit in August 2003, the Assessing Authority levied interest in August 2003. The Department stated in August 2004 that the awardee of works contract were effecting tax deduction at source and remitting to Government. There was no evidence to show that the tax had been deducted at source and remitted to Government. Further report had not been received (December 2004).
			<b>Total</b>	<b>75.10</b>	

The Department revised the assessment in five cases raising an additional demand of Rs 71.90 lakh.

**2.6.2.** Under the KGST Act, 1963, if the sales tax due is not paid within the time prescribed, the dealer shall pay interest at the rates prescribed. Where any dealer has failed to include any turnover in any return filed or any turnover has escaped assessment, interest shall accrue from such date the tax would have fallen due for payment.

In 11 offices<sup>♦</sup>, the Assessing Authorities had either failed to levy or levied short the interest of Rs 99.16 crore in 11 cases on the tax assessed between August 2000 and March 2003 on the escaped or on suppressed turnover during the period from 1998-99 to 2001-02 as per details given in Annexure - VII.

On this being pointed out between October 2001 and January 2004 the Assessing Authorities revised the assessment in five cases and raised demand of Rs 43.49 lakh.

The above cases were reported to Government between December 2003 and April 2004. Further report had not been received (December 2004).

## 2.7. Non-levy of penalty

Under the KGST Act, 1963, the Assessing Authority shall finalise the assessment of certain specified category of dealers without detailed scrutiny. On reopening such assessment, if the tax paid by the dealer is less than the amount of tax he is

<sup>♦</sup> STO Special Circles – Thiruvananthapuram, Kollam, Kottayam, STO Pathanamthitta, Special Circle (Hill Produce) Mattancherry, Circle II Mattancherry, Circle III Thrissur, Special Circle III Kozhikode, STO Tirurangadi, STO Thiruvalla and STO IV Kozhikode.



liable to pay, the Assessing Authority shall impose penalty at thrice the amount of such difference.

In five such cases in four offices penalty of Rs 55.17 lakh on additional demand created was not imposed.

(in lakh of rupees)					
Sl. No	Name of office/ No. of cases	Assessment year/month and year of revision	Nature of irregularity	Amount of penalty	Remarks
1.	STO, V Circle, Kozhikode 2	2000-01 March 2003	The assessment of a dealer was reopened and tax of Rs 6.22 lakh was levied on the sales turnover of closing stock of timber of previous year for Rs 51.87 lakh that was not disclosed by the assessee. However, penalty was not levied and demanded.	18.67	After the case was pointed out in August 2003, the Department in August 2004 stated that the assessment was revised levying penalty and the amount was recommended for revenue recovery. Further reply had not been received (December 2004).
		2001-02 October 2002	The assessment of a dealer was reopened and tax was levied on the sales turnover of Rs 24.30 lakh on the turnover of timber purchased inter-state and not reported by the assessee in the return. However, penalty was not levied and demanded.	8.75	The case was pointed out by audit in August 2003. No reply had been received (December 2004).
2.	STO, II Circle, Mattancherry 1	1999-2000 January 2002	While reopening the assessment to assess escaped turnover of sale/transfer of export incentives of Rs 81.67 lakh, penalty was not imposed.	24.50	After this was pointed out by audit in November 2002, the Assessing Authority stated that penalty need not be levied in doubtful cases and interest was leviable only from the date of issue of demand notice. The reply was not tenable in view of the clear provisions in the Act to levy penalty in such cases. Further reply had not been received (December 2004).
3.	STO, Ottappalam 1	1999-2000 November 2002	While reopening the assessment of a dealer, though additional demand for tax of Rs 0.67 lakh was created, penalty was not imposed.	2.02	After this was pointed out by audit in August 2003, the Department stated in September 2004 that the assessment was revised. Further report had not been received (December 2004).
4.	STO, II Circle, Tripunithura 1	2000-01 November 2001	While completing the assessment of a dealer the entire turnover was exempted. The assessee had not returned sales turnover of DEPB licence for Rs 5.14 lakh which was assessable to tax. Penalty leviable was not imposed.	1.23	After this was pointed out, the Assessing Authority stated in January 2003 that the case would be examined. Further reply had not been received (December 2004).
<b>Total</b>				<b>55.17</b>	

The above cases were reported to Government in April 2004. Further report had not been received (December 2004).

**2.8. Non-levy of surcharge**

Under the Kerala Surcharge on Taxes Act, 1957, the tax payable under the KGST Act, shall be increased by a surcharge of 10 *per cent* in the case of a dealer whose turnover exceeds Rs 10 lakh in a year.

In STO, Second Circle, Palakkad, the Assessing Officer while finalising the assessment of an individual unit for the year 1995-96 in February 2002 omitted to levy surcharge on the tax due on a turnover of Rs 7.71 crore. The tax stood adjusted against the eligible exemption. This resulted in non-levy of surcharge of Rs 3.86 lakh.

On this being pointed out in December 2002, the Assessing Officer stated in December 2002 that final reply would be submitted. Further report had not been received (December 2004).

The case was reported to Government in December 2003; their reply had not been received (December 2004).

**2.9. Non-forfeiture of excess tax collected**

Under the KGST Act, no registered dealer shall collect any sum purporting to be by way of tax in respect of sale of any goods, at a rate exceeding the rate at which he is liable to pay tax. If any person collects any sum in contravention of the provision he shall be liable to pay penalty not exceeding five thousand rupees and any sum collected by the person by way of tax or purporting to be by way of tax shall be liable to be forfeited to Government by an order issued by the Assessing Authority. Cardamom is taxable at first purchase point and cashew is taxable at last purchase point.

In Sales Tax Office, Special Circle, Kottayam, a dealer in timber and hill produce had irregularly collected tax on cardamom and cashew to the tune of Rs 0.94 lakh. But the Assessing Authority did not forfeit the collection made by the assessee, while finalising the assessment for 1997-98 in November 2002.

Similarly, in the same Circle, while finalising in May 2002 the assessment of a dealer in surgical gloves for the year 1998-99, the excess collection of tax of Rs 0.50 lakh was ordered to be adjusted against future dues instead of forfeiting the amount to Government.

Non-forfeiture of tax collected in the above cases amounted to Rs 1.44 lakh.

On these being pointed out, the Assessing Authority stated in May 2003 that notices had been issued. The Department informed in August 2004 that the assessment was revised in July 2004 and collected tax was forfeited to Government.

### 2.10. Mistake in computation of tax

The KGST Rules, 1963 and the instructions issued in February 1992 by the erstwhile Board of Revenue (Taxes), lay down departmental procedure for verifying and checking all calculations and credits given in an assessment order.

During the course of audit it was noticed that in two cases mistakes in computation of tax resulted in non/short levy of tax of Rs 3 lakh as detailed below:

(In lakh of rupees)					
Sl. No.	Name of Office No. of cases	Assessment year/ Month of assessment	Nature of irregularity	Amount of short levy	Remarks
1.	STO, I Circle, Palakkad 1	2000-01 June 2002	While finalising the assessment of a SSI unit, taxable sales turnover of Rs 21.21 lakh was taken as Rs 1.67 lakh and assessed accordingly. The tax due was adjusted against the exemption available.	1.56	After the case was pointed out in December 2003, the assessment was revised and the additional demand created was adjusted against the exemption available.
2.	STO, Manjeri 1	2001-02 October 2003	While completing the revised assessments of a dealer levying tax on the turnover suppressed by the assessee as revealed in the inspection conducted by the Intelligence Wing of the Department; although the turnover of Rs 64.83 lakh already assessed as per the original assessment was excluded, tax of Rs 1.44 lakh given credit in the original assessment, was again afforded credit in the revised assessment order.	1.44	After the case was pointed out in March 2004, the Assessing Authority rectified the mistake. Further report had not been received (December 2004).
<b>Total</b>				<b>3.00</b>	

The above cases were reported to Government in March and April 2004. Further report had not been received (December 2004).

### 2.11. Short levy of turnover tax

Under the KGST Act, any dealer in foreign liquor (Indian Made Foreign Liquor and Foreign Liquor) should pay turnover tax on the turnover at all points of sales at five *per cent* with effect from 1 April 1995. KGST Rules, 1963 and the instructions issued in June 1989 and February 1992 lay down departmental procedure for verifying and checking of all calculations of turnover, tax and credits in an assessment order.

In STO, Manjeri, while finalising in July 2002 the assessment for the year 2000-01 of an assessee running a hotel, turnover tax was levied only on a turnover of Rs 17.91 lakh although the turnover assessable was Rs 1.18 crore. This had resulted in short levy of turnover tax of Rs 5 lakh.

After the case was pointed out by audit in February 2004, the Department stated in September 2004 that the assessment was revised. Further report had not been received (December 2004).

### **2.12. Misclassification of goods**

Under the KGST Act, tax on centrifugal pumps (including mono block pump sets), electrically operated or engine operated was at the rate of 12.5 *per cent*. The rate was reduced to two *per cent* in respect of mono block pump sets up to 1 HP and to 10 *per cent* in respect of other pump sets vide Schedule II to SRO 1728/93.

In Sales Tax Office, Special Circle, Thrissur, while finalising the assessment for 1998-99 of a dealer in August 2001, turnover of jet pumps amounting to Rs 1.38 crore was assessed to tax at two *per cent* instead of at the correct rate of 10 *per cent* applicable to all pumps other than mono block pump sets up to 1 HP. This resulted in short levy of tax of Rs 12.17 lakh.

After this was pointed out by audit in August 2002, the Assessing Officer stated that mono block pumps included jet centrifugal pumps also. This is not correct as mono block pumps and jet centrifugal pumps work on different technology. The mono block pump works on a single suction hose pipe while jet centrifugal pump work on two suction hose pipes joined at the foot valve. Hence jet pumps cannot be classified as mono block pumps.

The matter was referred to Government in February 2004. Further reply had not been received (December 2004).

**Chapter III**  
**Land Revenue and**  
**Building Tax**

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**CHAPTER III**  
**LAND REVENUE AND BUILDING TAX**

**3.1. Results of Audit**

Test check of the records of the Offices of the Land Revenue Department conducted in audit during 2003-04 revealed short/non-levy of tax, etc., amounting to Rs 10.70 crore in 100 cases which may broadly be categorised as under.

(In crore of rupees)

Sl. No.	Category	Number of cases	Amount
1	Short levy under building tax	57	0.37
2	Short levy under other items	42	2.69
3	Assessment and collection of building tax	1	7.64
	<b>Total</b>	<b>100</b>	<b>10.70</b>

During 2003-04, the Department accepted underassessments, etc., of Rs 71.41 lakh involved in 58 cases of which 16 cases involving Rs 11.48 lakh were pointed out in audit during 2003-04 and the rest in earlier years. During the year, the Department recovered an amount of Rs 21.80 lakh in 42 cases of which 11 cases involving Rs 1.55 lakh were pointed out during 2003-04 and the rest in earlier years.

A few illustrative cases involving Rs 9.40 crore are given in the following paragraphs.

### **3.2. Assessment and collection of building tax**

#### ***Delay in enlistment and assessment of building tax***

##### **3.2.1. Failure to enlist assessable buildings**

Under the Kerala Building Tax (Plinth Area) Rules, 1992, every Village Officer shall transmit to the Assessing Authority, within 5 days of the expiry of each month, a monthly list of buildings liable to assessment, together with extracts from building application register of the local authority within whose area, the buildings included in the list are situated. Government also directed the local authorities in November 1994 to forward a monthly statement of buildings which are assigned new door numbers and which are assessed/reassessed to property tax by such local authority to the Tahsildar of the concerned Taluk not later than the 15<sup>th</sup> of the succeeding month.

Test check of 52 Village Offices revealed that neither the monthly lists were submitted by Village Officers nor the Assessing Authorities enforced submission of these lists.

Cross verification of the records of 12 Taluk Offices\* out of 26 Taluk Offices test checked with the records of Local Authorities revealed that out of 932 buildings checked, 335 buildings assessed to house tax by Local Authorities between April 1998 and March 2003 escaped building tax assessment. This resulted in non-assessment of building tax of Rs 2.29 crore calculated at prescribed rates on the basis of plinth area.

On this being pointed out by audit, the Commissioner of Land Revenue stated in March 2004 that necessary instructions would be given for proper and timely assessment of buildings and prompt collection of building tax.

##### **3.2.2. Delay in assessment of building tax**

Under the Kerala Building Tax Act, 1975 (KBT Act) on completion of construction or major repair or improvement of a building, the owner shall furnish to the Assessing Authority a return in the prescribed form along with copy of approved plan. If any person fails to file a return, the Assessing Authority shall assess the building tax to the best of its judgment.

In 22 Taluks<sup>#</sup>, audit noticed between October 2003 and March 2004 that assessment of tax on 1,751 buildings completed between April 1998 and March 2003 were not finalised. The tax effect involved was Rs 4.13 crore. Age-wise pendency was as given below:

\* Aluva, Chavakkad, Chengannur, Chirayinkil, Kanayannur, Kasargod, Kuninathunad, Neyyattinkara, Nedumangad, Thiruvananthapuram, Thiruvalla and Thrissur.

# Adoor, Aluva, Ambalappuzha, Chavakkad, Chengannur, Chirayinkil, Kanayannur, Kannur, Kochi, Kollam, Kothamangalam, Kottayam, Kunnathunad, Muvattupuzha, Neyyattinkara, Palakkad, Peerumedu, Perinthalmanna, Tirur, Thiruvananthapuram, Thiruvalla and Thrissur.



(In lakh of rupees)

Period of delay	Residential buildings		Other buildings		Buildings of autonomous bodies		Petrol pump		Total	
	No. of cases	Tax involved	No. of cases	Tax involved	No. of cases	Tax involved	No. of cases	Tax involved	No. of cases	Tax involved
12 months	587	59.18	74	109.98	1	0.09	4	1.45	666	170.7
2 years	515	42.10	82	38.82	4	78.17	5	1.69	606	160.78
3 years	279	32.88	40	20.21	1	0.52	10	1.60	330	55.21
4 years	125	11.26	21	10.14	1	3.31	2	1.33	149	26.04
Total	1,506	145.42	217	179.15	7	82.09	21	6.07	1751	412.73 say 4.13 crore

The Commissioner stated in April 2004 that direction would be issued to all District Collectors after obtaining item wise details from the Accountant General.

### 3.2.3. Non realisation of assessed tax

Under the KBT Act, when any building tax is due in consequence of any order passed under the Act, the Assessing Authority shall serve on the assessee a notice of demand in the prescribed form specifying the sum payable.

In Kanayannur Taluk demand notices were not issued till December 2003 on two assessments completed in July 2000 and February 2001. This resulted in non-realisation of building tax of Rs 21.31 lakh.

After this was pointed out by audit, the Assessing Authority stated in September 2004 that the assessment orders were approved during an intensive special drive, but the builders had claimed that the buildings consisted of different apartments owned by different persons which were to be assessed separately and that the assessment proceedings would be completed shortly. No reason is attributed for delay in not revising these orders.

### 3.2.4. Failure to collect assessed tax

Under the KBT (Plinth Area) Rules, the building tax assessed shall be paid to the concerned Village Officer within the time specified in the order of assessment in four equal quarterly instalments. Delay in payment of tax attracts six *per cent* interest from the date of default. Arrears of building tax can be recovered under Kerala Revenue Recovery Act, 1968 (KRR Act).

Test check of the collection registers in 30 village offices in 15 Taluks<sup>♦</sup> revealed that in 113 cases tax of Rs 69.32 lakh assessed between 1998 and 2003 remained uncollected even after 6 to 48 months from the expiry of the due date for their payment. No action was taken to report these amounts for revenue recovery.

<sup>♦</sup> Adoor, Aluva, Ambalapuzha, Chavakkad, Chengannur, Chirayinkeezh, Kannur, Kollam Perumbavoor, Nedumangad, Neyyattinkara, Palakkad, Perinthalmanna, Thiruvalla and Thrissur.

(In lakh of rupees)

Period of pendency	No. of cases	Amount
6 months to one year	47	23.09
One to two years	46	28.81
Two to three years	10	12.34
Three to four years	10	5.08
<b>Total</b>	<b>113</b>	<b>69.32</b>

### 3.2.5. Improper maintenance of records

Under the Kerala Building Tax Rules, 1974, each Assessing Authority is required to maintain a register of assessments and each Village Officer a register of persons assessed.

Test check revealed that nine Assessing Authorities\* were not maintaining the register of assessment properly and that details of collection in 51 cases assessed between April 1998 and March 2002 involving Rs 31.89 lakh were not entered in the register even after lapse of one to four years after assessment. However, no action was taken to ascertain whether the Village Officers had collected these amounts or not.

### 3.2.6. Internal control system

Internal controls are intended to provide reasonable assurance of proper enforcement of laws, rules and departmental instructions. They also help in prevention of loss of revenue and in the creation of reliable financial and management information system for prompt and efficient services and for adequate safeguards against evasion of duties. Internal audit is expected to provide an assurance regarding the adequacy and effectiveness of internal controls.

As regards building tax, the internal control mechanism should ensure that all buildings liable to tax are assessed in time, demands raised and collection effected. There should also be a time limit for the disposal of appeal and realisation of collected tax. The test check of records revealed that the Department did not have proper control over listing of assessable buildings, monitoring of assessment and collection of tax.

All these points were communicated to the Department and Government in May 2004; their final replies have not been received (December 2004).

### 3.3. Non/Short realisation of collection charges

Under the Kerala Revenue Recovery Rules, 1968, collection charges at the rate of five *per cent* of the arrears collected by the Government on behalf of any institution notified under KRR Act, had to be realised from the institutions

\* Tahsildars: Ambalapuzha, Chavakkad, Changanassery, Kanayannur, Kunnathunad, Neyyattinkara, Palakkad, Perinthalmanna and Thiruvananthapuram

up to 7 July 1997. Thereafter, the charges are recoverable direct from all the defaulters including defaulters of Government revenue.

Verification of records in 16 Taluk Offices<sup>▼</sup> between October 2002 and October 2003 revealed that, while recovering arrears on behalf of various Government departments/notified institutions during the period from April 2000 to March 2003, the Tahsildars did not realise the collection charge or realised it short from the defaulters. This resulted in short/non-realisation of collection charges of Rs 1.59 crore.

After this was pointed out between October 2002 and October 2003, the Department stated that collection charges were not realised in respect of requisition received from Government departments on the basis of a Government letter in September 1999 which laid down that collection charges need not be collected in such cases. Reply is not tenable as the rule specifically provides for realisation of collection charges from defaulters on recovery of dues. The Commissioner agreed to examine this. Further reply has not been received (December 2004).

This was reported to Government in April 2004. Government also endorsed the views of the Department which is against the existing rules.

### 3.4. Non-levy of luxury tax on residential buildings

Under the KBT Act, luxury tax at Rs 2,000 *per annum* is leviable on every residential building having a plinth area of 278.7 m<sup>2</sup> or more and completed on or after 1 April 1999. It is payable in advance on or before the 31 March every year. Tahsildars entrusted with assessment of building tax are the Assessing Authority for luxury tax also.

In 13 Taluk offices\* Assessing Authorities who assessed building tax between May 1999 and August 2003, failed to assess luxury tax on 257 residential buildings of plinth area exceeding 278.7 m<sup>2</sup> and completed between April 1999 and March 2003. This resulted in non-realisation of luxury tax of Rs 14.20 lakh.

After this was pointed out in audit to the department between December 2002 and December 2003, the department accepted the non realisation and stated between September 2003 and June 2004 that Rs 1.66 lakh had been realised in 41 cases in six Taluks. Further reply had not been received (December 2004).

This was reported to Government in April 2004. Their reply has not been received (December 2004).

▼ Taluk Offices: Changanassery, Devikulam, Kanjirappally, Kochi, Kunnathunad, Mananthavady, Meenachil, Pathanapuram, Perinthalmanna, Tirurangadi and Vaikom  
Tahsildar (RR): Aluva, Ambalappuzha, Chittur, Meenachil and Thiruvananthapuram

\* Changanassery, Chittur, Kochi, Koyilandi, Kunnathunad, Kuttanad, Mavelikkara, Neyyantinkara, Pathanapuram, Perinthalmanna, Thalassery, Thiruvananthapuram and Vadakara.

**3.5. Under-assessment of building tax**

Under the KBT Act, if plinth area of a building completed after 10 February 1992 is increased subsequently by new extension, major repair or improvement, building tax shall be computed on total plinth area of the building including the addition and credit shall be given to the tax already levied and collected before the addition.

In Taluk offices, Changanassery and Mavelikkara while finalising assessment of tax on extension of two buildings completed after 10 February 1992, the Assessing Authorities assessed the building tax for the extended portion alone instead of computing tax for the plinth area of the entire building including the addition and giving credit to tax already collected. This resulted in underassessment of building tax of Rs 2.93 lakh.

After this was pointed out to the Department in July and November 2003, the Department stated in August 2004 that Rs 0.50 lakh had been collected in one case in Changanassery. Final reply in the remaining case has not been received (December 2004).

This was reported to Government in April 2004. Government stated in October 2004 that the building in Mavelikkara Taluk was also reassessed and that Rs 1.22 lakh out of additional demand of Rs 2.43 lakh had been realised. Further reply had not been received (December 2004).

**Chapter IV**  
**Taxes on Vehicles**

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## CHAPTER IV

### TAXES ON VEHICLES

#### 4.1. Results of Audit

Test check of the records of the offices of the Motor Vehicles Department conducted in audit during 2003-04 revealed short/non-levy of tax/fees, incorrect exemption, etc., amounting to Rs 11.22 crore in 83 cases, which may broadly be categorised as under.

(In crore of rupees)

Sl. No.	Category	Number of cases	Amount
1.	Short/non-levy of tax	55	2.37
2.	Incorrect classification of vehicles	23	0.16
3.	Other lapses	4	0.14
4.	<b>Review on Receipts of Motor Vehicles Department</b>	1	8.55
	<b>Total</b>	<b>83</b>	<b>11.22</b>

During 2003-04, the Department accepted underassessments of Rs 94.09 lakh involved in 111 cases of which 10 cases involving Rs 3.01 lakh were pointed out in audit during 2003-04 and the rest in earlier years. At the instance of Audit, the Department recovered an amount of Rs 23.80 lakh in 89 cases during the year.

A few illustrative cases involving Rs 75.87 lakh and results of a review on '**Receipts of Motor Vehicles Department**' involving Rs 8.55 crore are given in the following paragraphs.

## **4.2. Review on Receipts of Motor Vehicles Department**

### **Highlights**

- *Arrears of vehicle tax on transport vehicles(excluding arrears of Rs 275.21 crore due from KSRTC) alone aggregated Rs 46.73 crore as on 31 March 2003*
- *No action was taken to realise Rs 46.78 lakh in 18 cases, though they were shown as Revenue Recovery cases. (Paragraph 4.2.5)*
- *Vehicle tax not demanded/realised amounted to Rs 6.02 crore in 6,029 cases. (Paragraph 4.2.6)*
- *Registration was granted to 29 vehicles without proof of payment of entry tax amounting to Rs 36.05 lakh (Paragraph 4.2.8)*
- *Compounding fees amounting to Rs 41.16 lakh, due on account of various offences detected, was not realised (Paragraph 4.2.10)*

### **4.2.1. Introduction**

The Motor Vehicles Department which administers the provisions of the Motor Vehicles Act, 1988 (MV Act), in the State is one of the major revenue earning departments of the State. Levy of vehicle tax is governed by the Kerala Motor Vehicles Taxation Act, 1976 (KMVT Act). Tax on non-transport vehicle is to be paid in cash and on transport vehicle by crossed demand draft. On payment of tax, the Taxation Officer shall issue a tax licence and make requisite endorsement in the certificate of registration regarding the details. Motor vehicles brought from other States and liable to registration in Kerala are subject to tax under the Kerala Tax on Entry of Goods into Local Areas Act, 1994.

### **4.2.2. Organisational Set up**

The Department is headed by the Transport Commissioner (TC). A Deputy Transport Commissioner (DTC) is in charge of each of the four zones (South Zone, Central Zone I, Central Zone II and North Zone). There are 18 Regional Transport Offices (RT offices) including one exclusively for Nationalised Sector (NS) and 42 Sub Regional Transport Offices (SRTO) each headed by Regional Transport Officer (RTO) and Joint Regional Transport Officer (JRTO) respectively who are assisted by Motor Vehicle Inspectors (MVI) and Assistant Motor Vehicle Inspectors (AMVI) for the enforcement of the Acts and Rules. In addition, there are 12 check posts located in the borders with the neighbouring States of Tamil Nadu and Karnataka.

### **4.2.3. Audit Objectives**

A review on the assessment and collection of vehicle tax, fees for various services rendered by the Department and compounding fees for offences detected, etc., during the period from 1998-99 to 2002-03 was conducted



between November, 2003 and March 2004. Records maintained in the TC's office, all the four DTC offices, 13<sup>1</sup> out of 18 RT offices, 11<sup>2</sup> out of 42 SRTOs and 5<sup>3</sup> out of 12 Motor Vehicle Check Posts were test checked with a view to

- ascertain the extent of correctness of compliance of provisions of relevant Acts and Rules
- see whether timely action was taken by the Department to realise tax dues; and
- ensure that proper internal control mechanism existed for the enforcement of provisions in the Acts and Rules.

#### 4.2.4. Trend of revenue

During the year 1998-1999 to 2002-2003 receipts under KMVT Act, ranged between 80.79 and 90.50 *per cent* of the total receipts of the Department. Receipts under MV Act, such as fees for registration of vehicles, grant of permits, driving licenses, certificate of fitness, etc ranged between 9.46 and 16.05 *per cent* and other receipts contributed 0.04 to 3.16 *per cent*. Actual collections came between 76.07 and 94.89 *per cent* of budget estimates as detailed below:

(In crore of rupees)

Year	No. of registered vehicles	Budget estimates	Actual collection				Percentage of collection to the total collection of the Department			Percentage of collection to budget estimates
			Tax	Fee	Other receipts	Total	Tax	Fee	Other Receipts	
1998-99	17,08,938	425.00	292.61	30.57	0.13	323.31	90.50	9.46	0.04	76.07
1999-00	19,10,237	431.00	336.65	43.79	0.39	380.83	88.40	11.50	0.10	88.36
2000-01	21,11,885	460.85	341.50	52.92	0.43	394.85	86.49	13.40	0.11	85.68
2001-02	23,15,372	491.17	377.70	62.97	11.51	452.18	83.53	13.93	2.54	92.06
2002-03	25,52,171	540.81	414.62	82.37	16.21	513.20	80.79	16.05	3.16	94.89

Increase in the number of vehicles registered has contributed to the increase in the revenue receipts.

#### Non/partial compliance of Act/Rules /Orders

#### VEHICLE TAX ARREARS

#### 4.2.5. Arrears pending collection.

Under the Kerala Motor Vehicles Manual (KMV Manual), RTOs and JRTOs are required to maintain in respect of transport vehicles, a DCB register showing tax due, collected and balance for every quarter including previous arrears. The head of the office is required to check the correctness of the entries in the register with reference to the respective tax files.

As per DCB statements as on 31 March 2003 vehicle tax of Rs 46.73 crore was pending collection under the following categories:

<sup>1</sup> RT Offices Alappuzha, Attingal, Ernakulam, Kannur, Kasaragod, Kollam, Kottayam, Kozhikode, Malappuram, Palakkad, Thiruvananthapuram, Thiruvananthapuram(NS) and Thrissur

<sup>2</sup> SRTOs: Aluva, Changanassery, Chengannur, Guruvayur, Kottarakkara, Neyyattinkara, Perumbavoor, Tirur, Thalsserry, Thiruvalla and Thodupuzha

<sup>3</sup> Amaravila, Gopalapuram, Sultan Bathery, Velanthavalam and Walayar

(In crore of rupees)

Category	Amount
Reported for Revenue Recovery action	6.87
Stay by Courts	4.72
Stay by Government	0.31
Stay by Department	0.16
Want of service verification reports	34.67
<b>Total</b>	<b>46.73</b>

Age of arrears could not be ascertained due to the absence of year-wise breakup of the arrears with the Department.

The above arrears did not include vehicle tax of Rs 275.21 crore due from Kerala State Road Transport Corporation (KSRTC) as well as dues from non-transport vehicles, which may be substantial. It was also not possible to monitor the arrears on non-transport vehicles, as tax on non transport vehicles could be remitted in any of the transport offices/Friends Janasevana Kendrams and as no DCB registers are required to be maintained on them.

#### **Incorrect reporting of arrears**

Under the KMVT Act and the Rules made thereunder, the registered owner of a motor vehicle who intend to avail tax exemption for non use of a vehicle in a quarter is required to give an intimation to the RTO in Form 'G' within a week from the commencement of the quarter. The KMV Manual Volume III provides for maintenance of a register of tax exemptions for noting the details of prescribed forms. These intimations are to be sent to the concerned circle officers within 10 days from the beginning of the quarter, who in turn, after making necessary inquiries should submit the reports in respect of all ineligible cases by the first week of the second month of the quarter, so that steps for recovery of arrears can be initiated early in such cases. Reports on service verification in respect of eligible cases should be submitted in the first week of the succeeding quarter.

- The time limit prescribed for obtaining such service verification reports was not adhered to, with the result that Rs 34.67 crore was kept as arrears for want of service verification reports.

- Detailed scrutiny of the files on DCB statement, registers and files on non use intimations in 11 offices<sup>4</sup> revealed that arrears of Rs 62.42 lakh were shown in the DCB statement for want of service verification reports for the quarter ending 31 March 2003 whereas as per Tax Exemption Register the arrears were shown as Rs 5.37 lakh only. This resulted in over reporting of Rs 57.05 lakh towards arrears for want of service verification in DCB statement. The Department, however, failed to furnish reasons for such variation in figures. This is a clear indication of the incorrect reporting of facts to higher authorities.

<sup>4</sup> RTOs Attingal, Kasargod, Kollam, Kozhikode, Malappuram, Palakkad and Thrissur and SRTOs Aluva, Guruvayoor, Tirur and Thalassery

During discussion in April 2004, TC admitted that the arrears shown under the head 'Service Verification' was exaggerated and did not reflect the actual state of affairs.

### Revenue Recovery

Under the KMV Manual, Revenue Recovery Registers (RR Registers) should be maintained in all RT/SRT Offices. It should be reviewed periodically to ensure deletion of cases disposed of and adding new cases. The entries in the register should be reconciled with the entries in the register maintained by the concerned Revenue Authorities. If Revenue Recovery requisition is returned by the revenue authorities, the Department should either rectify the defects pointed out or take further action including seizure of vehicle.

- Rupees 6.87 crore was shown under revenue recovery action (RR action) in the DCB statement as on 31 March 2003. Its correctness could not be verified by Audit in the absence of RR registers in 11 offices. In 12 offices<sup>5</sup> where RR registers were produced to Audit, the amount reported for RR action as per RR register amounted to Rs 93.08 lakh, against Rs 64.04 lakh shown in the DCB statement resulting in under reporting of arrears of Rs 29.04 lakh. This indicates that the RR registers were not reviewed periodically to ensure that the amount under RR shown in the DCB agreed with the DCB figure.

TC agreed with the audit observations and stated that the Department would take action for proper maintenance and updating of registers.

- As per the existing instructions, RR action should be initiated against those who fail to remit tax within 15 days of issue of demand notices. In four offices<sup>6</sup>, RR action was not initiated for realising arrears of Rs 6.88 lakh in 23 cases, demands of which were raised between April 1998 and August 2003 till date (March 2004).

TC stated that action would be taken for realisation of arrears.

- In RT Office, Kozhikode, the tax arrears of Rs 46.78 lakh on 18 contract carriages was shown as under revenue recovery in the RR registers and DCB statements. A crosscheck revealed that none of the 18 cases was pending with Revenue Department. Tahsildar (RR), Kozhikode, returned 15 cases to the RTO in 2001-02 on the ground that the defaulters could not be identified as per the addresses in the RR requisitions. In two cases the matter was to be considered afresh and decided by the RTO himself, as ordered by the Hon'ble High Court of Kerala and the remaining case was not even forwarded to the Revenue Department.

TC agreed to conduct an enquiry by the DTC Kozhikode and take further action for the recovery of Rs 46.78 lakh.

<sup>5</sup> RT Offices Ernakulam, Kozhikode, Palakkad and Thrissur and SRTOs Aluva, Guruvayur, Kottarakkara, Neyyattinkara, Thalassery, Thiruvalla, Tirur and Thodupuzha

<sup>6</sup> RT Offices Alappuzha, Kottayam and Palakkad and SRTO, Thodupuzha

#### **4.2.6. Non demand of vehicle tax**

- ***Tax on interstate contract carriages***

Under the KMVT Act, Government prescribed tax for inter-state contract carriages at a rate higher than that for intra-state contract carriages from 1 April 1994. The Hon'ble High Court of Kerala held on 11 December 1995 that inter-state contract carriages were liable to be taxed at the same rates as for intra-state contract carriages. On appeal by the State the Hon'ble Supreme Court upheld on 10 August 1999 the validity of the revised rates but directed that the State should not demand the enhanced tax from the respondents for the period from 11 December 1995 to 10 August 1999. The TC in September 1999 has given instructions to the RTOs/JRTOs to take effective steps for the recovery of balance tax.

In seven offices<sup>7</sup>, demand notices were not issued in 174 cases involving Rs 1.04 crore and in 56 cases involving Rs 1.13 crore demands were raised between June 2000 and May 2002. However in none of the cases recovery has been effected by actions such as revenue recovery, seizure of vehicle under KMVT Act etc. This resulted in non-realisation of Rs 2.17 crore in 230 cases.

TC stated that Department would take urgent action to realise the balance tax of Rs 2.17 crore.

- ***Vehicles registered without collection of one time tax***

Under KMVT Act, one time tax for the period from date of purchase of the vehicle till renewal is leviable on motor cars, motor cycles and three-wheelers from 1 April 1998 onwards which is to be paid at the time of registration at the rates specified in the Act.

In 19 offices<sup>8</sup>, one time tax on 815 vehicles registered between 1 April 1998 and 14 November 2001 was not demanded. This resulted in non-realisation of tax amounting to Rs 1.37 crore.

TC in April 2004 stated that Department would take action to collect the amount due on these vehicles expeditiously.

#### **Default by vehicle owners availing instalment facility**

Though the KMVT Act does not empower Government to grant instalment facility to the defaulters, the Government has been granting the facility to the vehicle owners who fail to remit quarterly tax within the prescribed periods on the condition that they should remit the arrears within a stipulated period in specified number of instalments.

In 11 offices<sup>9</sup>, in 134 cases, the defaulters either failed to pay any instalment or stopped payment after one or two instalments. The Department did not take

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<sup>7</sup> RT Offices, Ernakulam, Kannur, Kasargod, Kozhikode, Palakkad and Thiruvananthapuram and SRTO Thodupuzha

<sup>8</sup> RT Offices Alappuzha, Attingal, Ernakulam, Kannur, Kollam, Kottayam, Kozhikode, Malappuram, Palakkad and Thrissur and SRTOs Aluva Changanassery, Chengannur, Guruvayur, Kottarakkara, Neyyattinkara, Perumbavoor, Thalassery and Thiruvalla

<sup>9</sup> RTOs Alappuzha, Attingal, Ernakulam, Kannur, Kasargod, Kottayam, Malappuram, Thiruvananthapuram and Thrissur SRTOs Neyyattinkara and Thalassery

any action to realise the balance tax by initiating RR action and seizure of vehicles, etc. This resulted in non-recovery of Rs 79.61 lakh relating to the period from April 1998 to March 2003.

### Non raising of demand

Tax prescribed in the schedule to the KMVT Act is to be paid in advance and within the period prescribed in the Kerala Motor Vehicles Taxation Rules, 1989. In cases of non-payment, demand notice shall be issued not later than the end of the quarter.

- In nine offices<sup>10</sup>, tax for the period from October 1998 to March 2003 on 406 goods vehicles were not remitted within the prescribed time. No demand was also raised by the Department. This resulted in non-raising of demand of Rs 39.49 lakh.

- *Non-levy of tax on goods vehicles of other states.*

As per bilateral agreements entered into with the Governments of Karnataka and Tamil Nadu, specified number of goods vehicles based in those states were allowed to operate in Kerala on countersigned permits on payment of tax in home state but free of tax in the reciprocating state. However, the Governments decided to allow the State Transport Authority (STA) of the reciprocating State to collect tax of Rs 1,500 *per annum* up to March 1999 and Rs 3,000 *per annum* thereafter. Though the permit counter-signed is for five years, tax is to be collected on yearly basis. In cases of non-operation in subsequent year(s), the owner is required to surrender the counter-signed permit and that fact is to be noted in the register of counter-signature. If tax is not paid on vehicle with valid permit, action such as issuing demand notice, initiating RR action, seizure of vehicle etc., should be taken.

Verification of registers on countersignature and collection of tax maintained in the State Transport Authority revealed that though tax on 365 to 1,408 goods vehicles remained unremitted each year between 1998-99 and 2002-03, no action was taken to realise it. Moreover, there was no mention of surrender of countersigned permits in these registers. This resulted in non-levy of tax of Rs 1.28 crore as shown below:

(In crore of rupees)

Year	No. of vehicles having valid permit			No. of vehicles on which tax was		Non-levy of tax
	Karnataka	Tamil Nadu	Total	collected	Uncollected	
1998-99	1,344	2,531	3,875	3,510	365	0.05
1999-00	1,344	3,687	5,031	4,402	629	0.19
2000-01	1,344	4,341	5,685	4,277	1,408	0.42
2001-02	1,344	4,343	5,687	4,500	1,187	0.36
2002-03	1,327	4,836	6,163	5,309	854	0.26
<b>Total</b>	<b>6,703</b>	<b>19,738</b>	<b>26,441</b>	<b>21,998</b>	<b>4,443</b>	<b>1.28</b>

TC stated that the Department would take action to collect the amount.

<sup>10</sup> RTOs Alappuzha, Kasargod, Kottayam, Malappuram and Palakkad, SRTOs Changanassery, Kottarakkara, Neyyattinkara and Thiruvalla.

• **4.2.7. Short levy due to non-reclassification of omnibuses**

Government of India, Ministry of Surface Transport clarified in July 1998 that, omnibuses registered in the name of public/private firms, companies, institution, organisations etc. could be classified as 'omnibuses for private use' on the basis of an undertaking regarding the use of the vehicles for private purposes only. The above clarification was revoked in March 2000. Hence all those vehicles are to be reclassified as "private service vehicles" which attract higher rate of tax.

In 14 transport offices<sup>11</sup>, 184 omnibuses registered in the name of companies which were originally registered as omnibus for private use on the strength of earlier clarification were not re-classified and taxed as private service vehicles. This resulted in short levy of Rs 14.06 lakh from April 2000 to March 2003.

TC stated that action would be taken to realise the amount after examining each case.

**4.2.8. Registration of vehicles without payment of entry tax**

The Kerala Tax on Entry of Goods into Local Areas Act, 1994 provides for the levy of a tax on entry into any local area of the State for use or sale therein of any motor vehicle which is liable for registration in the State under the MV Act, 1988. Vehicles registered in other States 15 months prior to their registration in Kerala, vehicles of Central Government and vehicles used exclusively for defence purposes are exempted from the tax. The registration authority shall not register the vehicles unless payment of tax by the person concerned is ensured by production of proof.

In the RT Office (NS) two VOLVO buses purchased from outside the State and 27 buses, bodies of which were built on 'chassis of motor vehicles' purchased from outside the State, were registered in the State without payment of entry tax. This has resulted in non-realisation of entry tax amounting to Rs 36.05 lakh.

TC stated that Department had to take action to collect the entry tax.

**4.2.9. Non /short collection of fees**

• **Non/short collection of fees for exhibition of advertisements.**

• As per KMV Rules, any advertisements, writings or figures can be exhibited on transport vehicles only with the sanction of the STA/RTA and on payment of an annual fee of Rs 10 per 100 cm<sup>2</sup> of the area covered. On obtaining the sanction, the vehicles are to be produced before the circle officer, for measurement of the area and determination of fees due.

In five offices<sup>12</sup>, failure to measure the area and collect the required fee on 57 advertisements, display of which were sanctioned between April 1998 and March 2003 resulted in non levy of fee of Rs 5.28 lakh.

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<sup>11</sup> RT Offices Ernakulam, Kannur, Kottayam, Kozhikode, Malappuram, Muvattupuzha, Palakkad, Pathanamthitta, Thiruvananthapuram and Thrissur and SRTOs Aluva, Parassala, Paravur and Neyyattinkara

<sup>12</sup> RT Offices Ernakulam, Kollam, Kottayam, Thiruvananthapuram and Thrissur

TC stated that action would be taken to collect the amount after examining each case.

- One time tax applicable for 15 years is payable on newly registered motor cars, whereas tax for one/two year only is payable on vehicles registered as motor cabs/tourist motor cabs. Some vehicle owners evade the payment of one time tax by obtaining motor cabs/tourist motor cabs permits for their newly registered cars and get it altered as motor cars by surrendering the permits within months.

In 12 offices<sup>13</sup> revenue deferred on 165 such cases amounted to Rs 28.30 lakh which could have been avoided by making provisions for collecting differential tax for the balance period while sanctioning alteration.

#### 4.2.10. Inadequacy of field checking

- *Delay in disposal of check reports*

With a view to detect offences of non compliance to the provisions of the MV Act, 1988, KMVT Act, and the rules made thereunder, the Executive Wing of the Department is conducting checking of vehicles. Under the MV Act, the officers are empowered to compound the offence for such amount as the State Government by notification specify. In the cases not compounded on the spot the check reports are to be forwarded to the concerned RTO/JRTO for further action. The charge memos on these check reports are required to be issued within seven days of receipt of reports in the office. The check reports are closed after collecting compounding fee. The action on the reports should be completed within two months of the date of check.

Check reports received in RT/SRT offices during the period 1998-1999 to 2002-2003 were not disposed of even after lapse of six years to one year. The amount held up in 12,375 pending check reports worked out to Rs 41.16 lakh as detailed below:

(In lakh of rupees)

Nature of Offence	No. of Offices	No. of cases	Amount involved	Remarks
Overload	22 <sup>14</sup>	626	23.56	Minimum fine of Rs 2,000 plus Rs 1,000 for every tonne of excess load had not been collected on the spot. Besides, the requirement of unloading the excess load was also not complied.
Unauthorised exhibition of advertisement	12 <sup>15</sup>	92	5.94	Calculated at Rs 10 per 100 cm <sup>2</sup> of area covered by the advertisement.
Others	22 <sup>16</sup>	11,657	11.66	The offences are required to be compounded at varying rates. However, compounding fee was arrived at the minimum rate of Rs 100.
	<b>Total</b>	<b>12,375</b>	<b>41.16</b>	

<sup>13</sup> RT Offices: Alappuzha, Ernakulam, Kasargod, Kottayam, Kozhikode, Malappuram, Palakkad and Thrissur and SRTOs Chengannur, Perumbavoor, Tirur and Thalassery

<sup>14</sup> All RT/SRT Offices test checked except Thiruvananthapuram(NS) and Guruvayoor

<sup>15</sup> RTOs Ernakulam, Kannur, Kasargod, Kollam, Kottayam, Kozhikode, Malappuram and Thrissur, SRTOs Aluva, Neyyattinkara, Perumbavoor and Tirur

<sup>16</sup> All RT/SRT Offices test checked except Thiruvananthapuram(NS) and Thiruvananthapuram

TC stated that the Department would take action to dispose of the check reports and realise the amount expeditiously.

- **Levy of compounding fee at lesser amounts**

Under the MV Act, using vehicles without registration attracts a fine up to Rs 5,000 subject to a minimum of Rs 2000, with effect from 14 November 1994. Government authorised the officers to compound such offences for a compounding fee at rates less than the minimum specified in the Act. For non-transport and transport vehicles, it was Rs 100 and Rs 500 till 31 March 1998 and Rs 200 and Rs 1,000 up to 14 April 2002. From 15 April 2002 onwards, it was Rs 500 for both non-transport vehicles and two/three wheeler transport vehicles and Rs 1,000 for light motor transport vehicles. It was, however, observed that the executive officers of the MV department were collecting compounding fee at the rates, which were less than the minimum prescribed in the Act. The revenue forgone in 751 cases in 15<sup>17</sup> offices worked out to Rs 11.60 lakh.

TC stated that the matter of enhancing compounding fee to a level not less than the minimum prescribed in the MV Act would be taken up with the Government.

#### ***4.2.11. Inadequate supervision on the functioning of "Friends Janasevanakendram"***

Government have set up integrated service centre called 'Friends Janasevana Kendrams' to facilitate public to remit various fees through a single window. Motor Vehicle Department is the major participating Government department in the programme. TC had given instructions to all the RTOs to exercise supervision and control over the staff deputed from the Department and the activities related to the Department. RTOs were to ensure that the amount collected at the Kendram were credited to the revenue head of the Department within three days. The Kendram at Thiruvananthapuram started functioning in June 2000 and others in March 2001.

- In 9 Janasevanakendrams<sup>18</sup> delay up to 86 days was noticed in transfer crediting amounts ranging between Rs 0.43 lakh and Rs 12.77 lakh to the receipt head of the Department.
- Though the Kendrams were handing over statements of collections monthly to the RTO, reconciliation of the remittances with the treasury records as per Kerala Financial Code Volume I and Kerala Treasury Code Volume I was not done.
- RTOs were not ensuring supervision and control over the staff deputed to the Kendram and activities related to the Department. This led to defalcation of Rs 6.26 lakh in 140 cases during the period from March

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<sup>17</sup> RTOs Alappuzha, Kannur, Kasargod, Malappuram, Palakkad and Thrissur , SRTOs Changanassery, Chengannur, Guruvayur, Kottarakkara, Neyyattinkara, Tirur, Thalassery, Thiruvalla and Thodupuzha

<sup>18</sup> Alappuzha, Kottayam, Ernakulam, Thrissur, Palakkad, Malappuram, Kozhikode, Kannur and Kollam



2001 to September 2002 in Kozhikode Kendram. This was detected in September 2002 by audit in seven cases.

TC stated that delay in transfer crediting of motor vehicle tax etc., collected through 'Janasevanakendrams' would be taken up with Government.

#### **4.2.12. Non-reconciliation of remittances**

The Kerala Treasury Code, Vol. I and Kerala Financial Code Vol. I provide for periodical reconciliation of remittances into the treasury. In the Motor Vehicles Department the reconciliation is to be done every month and the reconciled statement of remittances should reach the DTC/TC office before the 20<sup>th</sup> of the succeeding month.

It is however, noticed that in 10<sup>19</sup> out of the 29 offices test checked, the reconciliation was in arrears for periods of over three to six years and in six<sup>20</sup> offices the delay ranged from one to three years.

TC agreed to take action to complete the reconciliation.

#### **4.2.13. Internal control**

Internal controls are intended to provide reasonable assurance of proper enforcement of laws, rules and departmental instructions. They help in the prevention of frauds and other irregularities. Internal control also helps in the creation of reliable financial and management information system for prompt and efficient service and for adequate safeguards against evasion of Government revenue.

However, the system was not working effectively as revealed from the following:

- Biennial inspection of the RT/ SRT offices by the Internal Inspection Wings of the TC and DTC offices were in arrears. Inspection for the periods prior to 2000 was pending in 15 offices<sup>21</sup> of the State.
- Quarterly review of cases advised for RR action as prescribed in the KMV Manual, was not done properly by RTOs and JRTOs as indicated by absence of up to date entries in the RR registers. This resulted in accumulation of arrears.
- Entries in the DCB Registers were not verified periodically with reference to the tax files as was evident from the fact that tax files were not maintained in most of the offices. Thus the Department failed to ensure the correctness of the arrears and to monitor its collection.
- Though recovery of Rs 4.72 crore has been stayed by Courts of Law, Original Petition (O.P) registers prescribed by the Department to monitor

<sup>19</sup> RT Offices: Alappuzha, Kozhikode, Kannur, Thiruvananthapuram (NS) and SRTOs Changanassery, Neyyattinkara, and Thalassery.

DTC Offices: Ernakulam and Kozhikode .

TC Office: Thiruvananthapuram.

<sup>20</sup> RT Offices: Ernakulam, Kottayam, Palakkad and Thiruvananthapuram. SRTO Guruvayur and DTC Thrissur.

<sup>21</sup> RTOs Alappuzha, Attingal, Ernakulam, Idukki, Kannur, Kasaragod, Malappuram, Palakkad, Pathanamthitta Thiruvananthapuram (NS) and Wayanad, SRTOs Nedumangad DTCs Ernakulam, Kozhikode and Thiruvananthapuram.

the progress of the Court cases were not maintained in 10<sup>22</sup> out of 24 offices, and hence the cases were not being effectively pursued.

#### **4.2.14. Recommendations and suggestions**

Government may ensure that

- DCB registers are maintained properly and clearance of arrears monitored effectively;
- Service verification reports of vehicles for which exemptions for non-use are claimed are completed in time.
- Reconciliation of remittances into treasury are done monthly as prescribed; and
- Internal control in the form of inspections and quarterly reviews need to be done effectively.

Government may also look into the deficiencies in the Act/Rules/Orders pointed out and initiate remedial measures. Steps may be taken to strengthen internal control system to make it more effective.

The above points were discussed with the Transport Commissioner in April 2004. His replies in some cases have been incorporated.

All the points were communicated to the Government in May 2004; their reply has not been received (December 2004).

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<sup>22</sup> RT Offices: Kasargod and Thiruvananthapuram, SRTOs Neyyattinkara, Kottarakkara, Chengannur, Thiruvalla, Changanassery, Aluva, Guruvayur and Tirur.

### 4.3. Non realisation of vehicle tax

Government in January 1994, prescribed a composite fee based on seating capacity on All India Tourist permit vehicles of other States/Union Territories authorised to ply in Kerala. Government rescinded the above order in October 2001 and reverted to a vehicle tax leviable on each seat. Consequently vehicles of 14 to 35 seats which were hitherto liable to a composite fee of Rs 12,000 per quarter became taxable at Rs 1,400 per passenger seat per quarter from 1 November 2001. However, the High Court of Kerala, in its interim orders on writ petitions (between November 2001 and February 2002) allowed the vehicle owners to pay the composite fee. Later in its final order the Court dismissed the petitions on 8 March 2002 and ordered that the petitioners should pay arrears of tax with interest at 15 percent *per annum* within a period of 15 days from the date of the judgement. This was later extended up to 30 March 2002. The Court also ordered that the non-payment thereafter would be treated as default and all consequences for the same would follow.

Records of check posts under Regional Transport Office Wayanad, Sub Regional Transport Office Kanhangad and TC, Thiruvananthapuram revealed that balance tax as a result of decision of the Honorable High Court was not collected from owners of 124 All India Tourist vehicles. This resulted in non-realisation of vehicle tax of Rs 51.77 lakh for the period from November 2001 to March 2002.

After this was pointed out by audit between July 2002 and January 2003, the Department accepted the audit observation and stated in August 2004 that Rs 2.28 lakh had been collected on six vehicles. Further reply was awaited (December 2004).

The matter was reported to Government in December 2003 and February 2004. Their reply was awaited (December 2004).

### 4.4. Short levy of composite tax

Under the KMVT Act, on goods carriage vehicles registered and usually kept in any other State or Union Territory in India and authorised to ply in the State of Kerala under a National Permit, composite tax at Rs 3,000 *per annum* or at the rate at which similar vehicle from Kerala is taxed in their home State, whichever is higher, shall be payable.

The rate of composite tax per vehicle is Rs 5,000 *per annum* for National permit goods carriages registered in the State of Kerala and plying in the states of Gujarat, Haryana, Maharashtra, Rajasthan and West Bengal and Union Territory of Delhi.

Test check of the records of the TC Office, Thiruvananthapuram revealed that 1,026 goods carriages registered in above states were authorised to ply in Kerala under National Permit during the year 2001-02 on payment of composite tax of Rs 3,000 *per annum* instead of at the rate of Rs 5,000 *per annum*. The tax was remitted half yearly in 81 cases instead of yearly. No

action was taken by the Department to demand and collect differential tax through the concerned State/Regional Transport Authorities. This resulted in short levy of composite tax of Rs 19.71 lakh.

After these cases were pointed out to the Department in January 2003, Department stated in August 2004 that STAs of concerned States were addressed to realise the tax and Rs 0.24 lakh from 11 vehicles had been realised. Further report had not been received (December 2004).

The matter was reported to Government in December 2003 and February 2004. Government stated between July and October 2004 that Rs 0.46 lakh had been collected in 24 cases. Further reply was awaited (December 2004).

#### **4.5. Short collection of tax on interstate contract carriages**

Under KMVT Act, tax on a motor vehicle shall be paid in advance for a quarter or year. However, only one tenth or one third of the quarterly tax is payable on All India Tourist permit vehicles registered in other states which enter Kerala and stay therein up to 7 days or 8 to 30 days respectively. TC in January 2002 clarified that the tax licences so issued are for one round trip only and subsequent entry into the State attracts further levy of tax.

In Regional Transport Offices, Kannur and Kasargod, five All India Tourist Permit vehicles were allowed multiple entries after paying one tenth and one third of the quarterly tax. This resulted in short levy of Rs 2.71 lakh.

After this was pointed out by audit to the Department in November 2002 and December 2003, the TC stated that instructions would be given to RTOs, Kannur and Kasargod to realise the dues. Further report had not been received (December 2004).

The matter was reported to Government in March 2004; their reply was awaited (December 2004).

#### **4.6. Non/Short levy of additional tax**

Under the KMVT Act, when any registered owner or any other person who has possession or control of any motor vehicle used or kept for use in the State has not paid tax within the prescribed period, he shall pay additional tax ranging from 10 to 50 *per cent* of the tax due, depending upon the period of delay. From May 1998 onwards, the counter clerk was entrusted with the work to assess additional tax, accept vehicle tax, make entry in registration certificate and issue tax licence without any counter check by Taxation Officer.

In eight Transport Offices<sup>#</sup>, additional tax for delay in payment of tax was not levied on 23 vehicles and it was short levied on 13 vehicles during the year 2002-03. This resulted in non/short levy of additional tax of Rs 1.68 lakh.

After this was pointed out to the Department by Audit between April and September 2003 the TC stated in August 2004 that concerned RTOs and Joint

<sup>#</sup> Regional Transport Offices : Alappuzha, Idukki, Malappuram, Kottayam, Palakkad Thiruvananthapuram and Wayanad .  
Sub Regional Transport Offices: Irinjalakuda.

RTOs were being reminded to realise the balance additional tax and that Rs 0.49 lakh from 13 vehicles had been realised. Further report had not been received (December 2004).

The matter was reported to Government in February 2004. Government stated in four communications between July and October 2004 that Rs 0.72 lakh had been collected in 18 cases. Further reply was awaited (December 2004).



# **Chapter V**

## **Other Tax Receipts**





**CHAPTER V**  
**OTHER TAX RECEIPTS**

**5.1. Results of Audit**

Test check of the records of the offices of the State Excise and Registration Departments, Agricultural Income Tax Offices and Office of the Chief Electrical Inspector conducted in audit during the year 2003-04 revealed non/short levy of duty/tax, incorrect exemption, etc., amounting to Rs 8.44 crore in 224 cases which may be categorised as under.

(In crore of rupees)

Sl. No.	Category	No. of cases	Amount
<b>A. State Excise</b>			
1.	Non-levy of duty on inadmissible wastage	5	0.08
2.	Short/non-levy of duty due to other lapses	42	1.06
<b>B. Taxes on Agricultural Income</b>			
3.	Short levy due to grant of inadmissible expenses	32	2.15
4.	Exclusion of income from assessment	31	0.85
5.	Incorrect computation of income	7	0.30
6.	Other items	43	0.95
<b>C. Stamps and Registration Fees</b>			
7.	Purchase and Sale of stamps	1	2.22
8.	Undervaluation of documents	25	0.33
9.	Misclassification of documents	2	0.21
10.	Incorrect exemption	18	0.04
11.	Other lapses	17	0.24
<b>D. Taxes and Duties on Electricity</b>			
12.	Short remittance of duty	1	0.01
	<b>Total</b>	<b>224</b>	<b>8.44</b>

During the year 2003-04 the Departments accepted underassessments, etc., of Rs 32.00 lakh involved in 62 cases of which 26 cases involving Rs 19.00 lakh were pointed out during 2003-04 and rest in earlier years. At the instance of Audit, the Departments collected an amount of Rs 2.08 crore in 90 cases of which 20 cases involving Rs 10.86 lakh were pointed out during 2003-04 and the rest in earlier years.

A few illustrative cases involving Rs 2.57 crore are given in the following paragraphs.

## **Stamps and Registration Fees**

### **5.2. Purchase and sale of Stamps**

#### **5.2.1. Introduction**

Stamp duties other than duties or fees collected by means of judicial stamps, but not including rates of stamp duty, is a subject included in the concurrent list of the Seventh Schedule of the Constitution of India. Duties or fees collected by means of judicial stamps are regulated by State Legislation. Parliament has exclusive power to make laws with respect to any of the matters regarding rates of stamp duty in respect of bills of exchange, cheques, promisory notes, bills of lading, letters of credit, policies of Insurance, transfer of shares, debentures, proxies and receipts. In respect of other documents, the legislature of any State has exclusive power to make laws for that State. Under Article 268 of the Constitution, stamp duties on documents mentioned in the Union List are also collected and appropriated by the states within which such duties are leviable.

The Indian Stamp Act, 1899 and the Kerala Stamp Act, 1959 are the basic laws governing stamp duty on non-judicial transactions in Kerala. The levy of stamp duty on judicial transactions in Kerala is governed by Kerala Court Fees and Suits Valuation Act, 1959.

#### **5.2.2. Indenting of stamps**

The Commissioner, Land Revenue is the Ex-officio Superintendent of stamps under the Kerala Manufacture and Sales of Stamps Rules, 1960, (KMSSR). The Superintendent of Stamps, Central Stamp Depot, Thiruvananthapuram (CSD) obtains quarterly indents from the District Stamp Depots and consolidate them and consolidated indents are placed before the India Security Press, Nasik (ISP Nasik) for procurement of stamps of denomination more than Rs 500 and with Security Printing Press, Hyderabad (SSP) for denomination of up to Rs 500. The stamps were delivered by ISP Nasik direct to District Stamp Depots up to September 1998. Thereafter, CSD was nominated as nodal point responsible to collect stamps personally from ISP Nasik for distribution to District Stamp Depots. The stamps from SSP Hyderabad continued to be despatched to District Stamp Depots.

A comparison of the indents placed for different kinds of non judicial stamps by CSD with that supplied by the ISP, Nasik revealed that ISP Nasik supplied stamps short as compared to the indents placed by CSD. The position of indents placed with SSP, Hyderabad was not available with department. The supplies received from ISP Nasik were as under:

(In crore of rupees)

Year	Value of Stamps indented	Value of Stamps received	Actual revenue realised on sale of Non-judicial stamps*
1995-1996	2,430.43	212.55	242.76
1996-1997	2,139.01	725.63	248.73
1997-1998	2,115.65	284.97	227.48
1998-1999	1,254.93	680.86	232.88
1999-2000	6,032.58	1,024.18	270.19
2000-2001	1,303.73	1,283.21	308.76
2001-2002	698.11	161.83	332.96
2002-2003	202.22	125.00	406.25

\* Actual revenue realised on sale of stamps includes stamps received from Hyderabad

It would be seen from the above table that indent made by the Department was far more than the stamps received from ISP Nasik. Consolidated position of indents to and supply from SSP Hyderabad and the revenue realised on sale of stamps from SSP is not available. It would be seen from the above that there is a need for strengthening the indenting procedure on a scientific basis.

### 5.2.3. Supply and receipts of stamps

It was noticed that CSD, Thiruvananthapuram did not have any consolidated information about the receipts and sale of stamps. In absence of this it was not clear how monitoring was done for receipts and sale of stamps.

Details regarding India Special Adhesive Stamps and Non-judicial general stamps collected by audit from 11<sup>#</sup> Depots including CSD, Thiruvananthapuram, revealed the following.

- **India Special Adhesive Stamps**

India Special Adhesive Stamps valued at Rs 91.08 crore were supplied by the ISP, Nasik during the period 1995-96 to 1997-98 and 2002-03. A comparison of these stamps with the actual receipts at CSD, Thiruvananthapuram revealed that in 1995-96 receipts were in excess of supplies by Rs 2.70 crore while in the years 1996-97, 1997-98 and 2002-03 there was a short supply of Rs 72.07 crore as detailed below :

(In crore of rupees)

Year	Supplied	Received	Excess	Shortage
1995-96	3.43	6.13	2.70	-
1996-97	5.52	5.44	-	0.08
1997-98	12.82	9.22	-	3.60
2002-03	69.31	0.92	-	68.39
Total			2.70	72.07

Note : No difference was noticed from 1998-99 to 2001-2002.

<sup>#</sup> CSD-Thiruvananthapuram, Stamp Depot-Kollam, Kottayam, Alappuzha, Ernakulam, Thrissur, Palakkad, Kozhikode, Mananthavady, Manjeri and Kannur.

- *Non-judicial general stamps*

As regards non-judicial general stamps it was noticed that stamps valued at Rs.140.05 crore were found to have been received in excess during the years 1995-96, 1996-97 and 1998-99 than those supplied by the CSD, Nasik while stamps valued at Rs.0.19 crore were received short in 1997-98 as shown below :

**(In crore rupees)**

<b>Year</b>	<b>Supplied</b>	<b>Received</b>	<b>Excess</b>	<b>Shortage</b>
1995-96	174.13	174.78	0.65	-
1996-97	557.03	691.43	134.40	-
1997-98	264.75	264.56	-	0.19
1998-99	654.00	659.00	5.00	-
<b>Total</b>			<b>140.05</b>	<b>0.19</b>

Note : No difference was noticed after 1998-99.

It would be seen from the above that the Department had no control over the receipts and supply of stamps. There was nothing on record to indicate that the matter regarding the shortage/excess had been taken up with higher authorities or with the ISP, Nasik.

#### **5.2.4. Internal Control**

As Central, Local and Branch Depots did not furnish periodical statements of sales to the Commissioner (Land Revenue), he was not aware of the stock position of various kinds of stamps in depots. Similarly, CSD placed indents for stamps for local depots while excess stock was available in some other depots. Lack of control/co-ordination had resulted in the following discrepancies.

- As per KMSSR, on last working day of September and March each year the Officer-in-charge of local depots will count stamps under his control. He is also required to send the report to the Superintendent of Stamps, CSD Thiruvananthapuram.

During the course of audit it was noticed that the local depots did not prepare monthly plus and minus memorandum showing the position of stocks in hand with the certificate of physical verification required to be sent to the District Treasury Officer. Consequently, the statements were not sent to CSD, Thiruvananthapuram. In absence of this, the information regarding denomination-wise stamps was not available with CSD, Thiruvananthapuram.

- Demand for non-judicial general stamp (NJGS) of higher denominations is less. However, when ISP, Nasik introduced in March 1997, NJGS of the denominations Rs 10,000, Rs 15,000, Rs 20,000 and Rs 25,000 CSD procured stamp papers of the above denominations valued Rs 2,765 crore between 1996-97 and 2001-02. Out of this, CSD distributed stamps to Depots, valued

Rs 1,703.25 crore as on 31 March 2003 and stamps worth Rs 1,061.75 crore remained undistributed as below :

(In crore of rupees)

Year	Opening balance	Receipt	Supply	Closing balance
1996-97		540		540
1997-98	540	0	489.25	50.75
1998-99	50.75	563	361	252.75
1999-2000	252.75	700	292	660.75
2000-01	660.75	942	221.25	1,381.50
2001-02	1,381.50	20	128.00	1,273.50
2002-03	1,273.50	0	211.75	1,061.75
		<b>2,765</b>	<b>1,703.25</b>	

It would be seen that the distribution of stamps during the year 2001-02 and 2002-03 was very meagre in comparison to closing balances during these years.

As a consolidated statement of stock is absent, the balance of stock of each denomination available in Depots as on 31 March 2003 could not be ascertained.

- Test check of records of District Stamp Depot, Mananthavady revealed that following categories of stamps having value of Rs 7.99 crore remained unsold from periods noted against each as shown under.

(In lakh of rupees)

Category of Stamps	Value of Stamps held	Period from which held
Impressed Court Fee Stamps	764.31	1993-94
Share Transfer Stamps	21.99	1995-96
India Insurance Stamps	12.38	1996-97
<b>Total</b>	<b>798.68</b>	

Neither the Officer-in-charge of the Depot nor Superintendent of Stamps, CSD, Thiruvananthapuram made any effort to transfer the stamps to any other depots where these could be sold. Instead the CSD, Thiruvananthapuram continued to procure stamps of these categories from ISP Nasik.

#### 5.2.5. Loss of revenue due to irregular sale of insurance stamps

As per Indian Stamp Act, 1899, on policy of insurance the stamp duty at the prescribed rate is leviable on the amount insured. Under the KMSSR, stamps purchased in Kerala State alone shall be used for the instruments executed within the State.

As per the information received from Life Insurance Corporation (LIC) Divisions, Thiruvananthapuram and Kozhikode it was noticed that they had used insurance policy stamps purchased from a firm in Tamil Nadu (M/s Shara

Enterprises, Chennai) which was not licensed for vending stamps even in the State of Tamil Nadu. Purchase of stamps from outside the State for execution of policies of insurance in Kerala during 2001-2002 resulted in a loss of Rs 31.90 lakh to the Government of Kerala.

- Under KMSSR, sale of stamp is required to be made either by the Treasuries as ex-officio stamp vendors or by licensed stamp vendors.

LIC Division, Thiruvananthapuram purchased during 2001-2002 insurance policy stamps valued at Rs 35.42 lakh from a firm in the State (M/s Sneha Services, Kurichi, Kottayam) which was not a licensed vendor to sell stamps. Licence produced by the firm was that of another vendor authorised to draw stamps from Sub Treasury, Chengannur. It was further observed that no insurance policy stamps were sold to any vendor so far (March 2003) as no stocks were held by the Sub Treasury. This resulted in a loss of revenue of Rs 35.42 lakh. Besides, use of fake stamps could not be ruled out.

- Five licensed stamp vendors sold insurance stamps to LIC Divisions in excess of their purchases from their designated Stamp Depot/Treasury during the period from 1999 to 2003 as shown below:

(In lakh of rupees)

Name of Vendor (designated stamp depot/Treasury)	Period	Name of LIC Division	Excess sale of stamps	Remarks
K.V.John, (Additional Sub Treasury, Kozhikode)	2001 to 2003	Kozhikode	86.61	The licensed vendor purchased stamps valued Rs 22.05 lakh and sold stamps worth Rs.108.66 lakh to the LIC Division.
M.U.Abdul Azeez and M.A.Kunju Beevi (District Stamp Depot, Ernakulam)	1999 to 2002	Ernakulam	29.85	The licensed vendor purchased stamps valued Rs 17.97 lakh and sold stamps amounting to Rs. 47.82 lakh during this period.
M.C.Suresh, (Sub Treasury, Ettumanoor.)	1999 to 2000	Kottayam	15.27	The licensed vendor sold stamps valued Rs 21.75 lakh against purchase of Rs.6.48 lakh.
T.C.John, (District Treasury, Kottayam)	April 2002 to January 2003	Thiruvananthapuram	18.55	The vendor sold stamps amounting to Rs 29.07lakh against purchase of Rs 10.52 lakh.
	<b>Total</b>		<b>150.28</b>	

The above cases suggest that the internal control mechanism in the Land Revenue Department (which has the authority for issuing licenses) as well as Finance Department was not adequate and it failed to detect loss of revenue/irregular sale of stamps amounting to Rs 2.18 crore. There was also no reasonable assurance against the possibility of circulation of fake insurance policy stamps.

#### **5.2.6. Irregularity in sale of stamp by vendors**

Under the KMSSR, every vendor licensed to sell stamps shall record in his own handwriting on the back of every stamp paper, other than adhesive

stamps, sold by him, serial number (beginning with the first sale of each financial year), date of sale, name and residence of the purchaser, value of stamp in full in words and his ordinary signature. If the stamp is for use of any person other than the purchaser, the name and address of the other person should also be recorded. Corresponding entries are to be made in a register in Form III maintained by the vendor and also in the filing sheets of documents registered in the Sub Registry.

Cross verification of records for the period 2000-01 to 2002-03, maintained by six vendors\* with the records maintained in the Treasuries/Sub Treasuries to which they were attached and details of stamps entered in the filing sheets of documents registered in the Sub Registries revealed the following irregularities in 503 cases.

Sl No.	Year	Name of Treasury/ Sub Treasury	No. of Vendors	No. of cases	Amount (in lakh of rupees)	Nature of Irregularity
1.	2000-01 and 2001-02	Parassala	1	233	1.28	As per entry in the filing sheets in Sub Registry, stamp papers were sold by the vendors. But as per those vendor's account, stamps of serial numbers used in the registered documents were not sold by them. Besides serial numbers of most of the stamps shown as sold by Parassala vendor did not find place in the Vendor's Register.
		Varkala and Malappuram	2	11	0.14	
2.	2000-01 and 2001-02	Parassala, Attingal, Varkala, Neyyattinkara, Malappuram	5	211	2.21	Denominations of stamps used in registered documents vary from that shown in vendors' account.
3.	2000-01 and 2001-02	Attingal, Parassala, Neyyattinkara	3	26	0.20	The serial numbers of the stamp papers used in registered documents were same as those that were surrendered before the RDO for refund.
4.	2001-02 and 2002-03	Parassala, Thiruvananthapuram	2	22	0.37	There was no record in the treasuries about the issue of these stamp papers.
				<b>503</b>	<b>4.20</b>	

However, the concerned authorities failed to detect irregular sale of stamp papers of Rs 4.20 lakh.

A comparison of sale of non-judicial stamp papers with stamp duty levied by the Registration Department could not be done in audit as details of stamp papers sold through Depots/Treasuries were not made available by the Land Revenue Department in spite of repeated request.

\* P. Azeez (Thiruvananthapuram), S.Gopalakrishnan Nair (Neyyattinkara), V.Kanthaswami Pillai (Parassala), N.Krishnankutty Nair (Attingal), V.Sasidharan (Varkala), K.P.Balakrishnan Nair, Malappuram.

The matter was pointed out to the Department between June and October 2004 and reported to Government in September and October 2004; their replies are awaited (December 2004).

### **5.3. Short levy of stamp duty and registration fee**

The Kerala Stamp Act, 1959, provides that while registering any instrument of transfer of property, if the registering officer has reason to believe that the value of the property or the consideration has not been fully and truly set forth in it, he may, after registering such document refer the same to the Collector for determination of the value or consideration and the duty payable thereon. The Collector may, *suo motu*, within two years from the date of registration of any instrument not already referred to him, call for and examine the instrument and determine its value or consideration and the duty payable thereon.

It was noticed in Sub Registry, Kuzhalmannom that an individual acquired 53 cents of land for a total consideration of Rs 5.30 lakh through four sale deeds registered on 1 August 2001 and sold the same to a company through a sale deed registered on 4 August 2001 for Rs 18.02 lakh. Though there was undervaluation of properties amounting to Rs 12.72 lakh in the four sale deeds of 1 August 2001, the Sub Registrar did not refer them to the Collector for determination of value or consideration and duty payable thereon. This resulted in short levy of stamp duty and registration fee of Rs 1.53 lakh.

After this was pointed out to the Department by Audit in March 2003, the Department stated in November 2003 that the Sub Registrar had since referred the document to the District Registrar. Further report has not been received (December 2004).

Government reply to the reference made in November 2003 has not been received (December 2004).

## **State Excise**

### **5.4. Low production of spirit from molasses**

As per the Kerala Excise Manual, Volume II, a yield of 475 proof litres of spirit per tonne of molasses may be taken as a fair average out-turn whereas the norm fixed by the Central Board of Molasses was 373.5 proof litres. The Kerala Distillery and Warehouse Rules, 1968, envisage that whenever the out-turn of spirit is consistently low, the officer should arrange for examination of samples of the spent wash as it leaves the still. Mention was made in the Reports of the Comptroller and Auditor General of India (Revenue Receipts) for the years ended 31 March 1997 and 31 March 1999 on low yield of spirit in the years 1994-95, 1996-97 and 1997-98. Government, in the action taken report on the recommendations of the Committee on Public Accounts (1998-2000) in their 59<sup>th</sup> Report, stated (April 2003) that action had been taken to amend the Manual and Rules to ensure correct yield of spirit and to make



mandatory the sample testing of fermented wash before distillation and spent wash after distillation.

The records of a distillery at Cherthala for the year 2002-03 revealed that 24.49 lakh proof litres of spirit was produced from 6916.64 metric tonnes of molasses. Based on the norms fixed by Central Board of Molasses the yield was short by 1.34 lakh proof litres involving excise duty of Rs 20.80 lakh.

After this was pointed out to the Department in August 2003, the Department stated that the objection is against the existing rule whereby duty for low production can be levied only if the degree of attenuation exceeds five. The Rules have not so far been amended to ensure levy of duty for the actual yield of spirit by making sample testing of fermented wash as well as spent wash mandatory, as suggested by the Committee on Public Accounts.

The matter was reported to Government in February 2004; their reply had not been received (December 2004).

### **5.5. Short levy of gallonage fee**

Under the Foreign Liquor Rules, gallonage fee at the rate prescribed by Government is payable on the quantity of Indian made foreign liquor (IMFL) sold by FL 9 licensees. Gallonage fee for 2001-02 was Rs 2 per bulk litre (BL) of beer and Re 0.80 per BL of IMFL and that for 2002-03 was Re 0.75 per BL and Re 0.25 per BL respectively.

Kerala State Beverages Corporation Bonded Warehouse, Nedumangad as an FL 9 licensee sold 18.53 lakh BL of beer and 55.92 lakh BL of IMFL during 2001-02 and 21.24 lakh BL beer and 62.54 lakh BL of IMFL during 2002-03. Against gallonage fee of Rs 1.13 crore due for 2001-02 and 2002-03, the amount remitted was Rs 1.05 crore. This resulted in short levy of Rs 8.06 lakh.

This was pointed out to the Department in August 2003 and reported to the Government in February 2004. The department stated in August 2004 that the amount was demanded from the Corporation. Further reply had not been received (December 2004).

### **5.6. Short collection of cost of establishment**

As per the proceedings (June 1999) of the Excise Commissioner, rates of average cost of pay and allowances and contributions towards leave salary, pension and DCRG, etc., recoverable on account of deputing Excise supervisory staff for supervision of Distilleries, Bonded Ware Houses of Kerala State Beverages Corporation, etc., were revised with effect from 1 March 1997. The Commissioner of Excise later clarified in August 2000 that the recovery is to be effected on the basis of scale of pay of the incumbents working in the institution.

In two institutions\*, the recovery of cost of pay, pension and leave salary contribution, dearness allowance, bonus, etc., was either not in compliance with the revised order or the cost was recovered on the basis of the scale of pay of the sanctioned post instead of the scale of pay of the incumbents

\* K.S. Distillery; Varam, Kerala State Beverages Corporation Bonded Ware House at Nedumangad.

working in the institutions. These resulted in short collection of cost of establishment amounting to Rs 1.54 lakh relating to the period from April 1999 to March 2003.

After this was pointed out to the Department by Audit between February 2003 and August 2003, the Department stated in November 2003 that it collected Rs 1.10 lakh towards balance establishment cost from one institution. Further report has not been received (December 2004).

This was reported to Government in April 2004; their reply had not been received (December 2004).

## **Taxes on Agricultural Income**

### **5.7. Incorrect set off of loss**

As per the Kerala Agricultural Income Tax Act, 1991, where any person sustains a loss as a result of computation of agricultural income any year, the loss shall be carried forward to the following year and set off against the agricultural income of that year and if it cannot be wholly set off, the amount of loss not so set off, shall be carried forward to the following year and so on, but no loss shall be carried forward for more than eight years.

In the Office of the Inspecting Assistant Commissioner (Special), Commercial Taxes, Kozhikode, an assessee company had unabsorbed loss of Rs 5.15 lakh for assessment year 1991-92. A portion of this loss amounting to Rs 4.62 lakh was merged with the loss of Rs 4.65 lakh for the assessment year 1992-93 and the unabsorbed loss for assessment year 1992-93 was computed as Rs 9.27 lakh. However, while finalising in September 2002 the assessments for the assessment years 1994-95 and 1995-96, the Assessing Officer had set off carried forward losses of Rs 5.15 lakh of assessment year 1991-92 and Rs 9.27 lakh against actual loss of Rs 4.65 lakh of assessment year 1992-93. This resulted in excess adjustment of Rs 4.62 lakh with a tax effect of Rs 3 lakh.

Audit pointed out this in April 2003; the Assessing Officer revised the assessment in April 2003. Further report has not been received (December 2004).

The case was reported to Government in December 2003. Government accepted, in June 2004, the fact that there was double carry forward of loss and that the assessment was modified on 22 April 2003 but there was no short levy of tax. This is not correct since by deletion of "excess loss carried forward" of Rs 4.62 lakh, Government stands to gain tax of Rs 3 lakh on it. Further remarks have not been received (December 2004).

**Chapter VI**  
**Non-Tax Receipts**

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**CHAPTER VI**  
**NON-TAX RECEIPTS**

**FOREST RECEIPTS**

**6.1. Results of Audit**

Test check of the records of Offices of the Forest Department conducted in audit during 2003-04 revealed non-levy/short realisation of revenue amounting to Rs 31.19 lakh in 17 cases, which may broadly be categorised as under.

(In lakh of rupees)

Sl. No.	Category	Number of cases	Amount
1.	Non/short realisation of Sales Tax/Income Tax	3	6.92
2.	Short/non-demand of lease rent on forest lands	3	5.04
3.	Loss in auction/re-auction, disposal of forest produce, short/non-realisation of penalty and other charges	6	10.90
4.	Other lapses	5	8.33
	<b>Total</b>	<b>17</b>	<b>31.19</b>

During 2003-04, the Department accepted underassessments of Rs 12.94 lakh involved in 9 cases of which 5 cases involving Rs 8.28 lakh were pointed out in audit during 2003-04 and the rest in earlier years. During the year the Department recovered an amount of Rs 0.25 lakh in one case pointed out prior to 2003-04.

A few illustrative cases involving Rs 16.94 lakh are given in the following paragraphs.

**6.2. Non demand of balance royalty**

An agreement executed in October 1974 between M/s Hindustan Paper Corporation and Government of Kerala provides for the supply of a specified quantity of eucalyptus, reeds, other pulpwood, etc., from forests in Kerala to the Corporation's paper mill, Hindustan News Print Limited (HNL) at Kottayam District on payment of royalty fixed from time to time. By an undertaking in November 2001, HNL agreed that pending finalisation of rates by Government, they would pay a tentative rate of royalty for the working season 2001-2002. Government subsequently approved these rates.

- Test check of record of Forest Division, Thiruvananthapuram revealed in December 2002 that royalty on 3,768.369 metric tonne of raw material supplied to HNL between April and June 2001 was collected only at the pre-revised rate as undertaking regarding the rate of royalty was executed only in November 2001. The Department had not demanded the balance royalty and taxes amounting to Rs 5.52 lakh, even after the execution of the undertaking.

Audit pointed out this to the Department in December 2002. The Department stated in August 2004 that Rs 4.68 lakh had already been adjusted against the advance payment made by the Company and that action was underway to realise the balance of Rs 0.66 lakh from the Company. Further report is awaited (December 2004).

Reference was made to Government in December 2003. Their reply has not been received (December 2004).

- For bamboo allotted to HNL in lieu of short allotment of reeds, value payable is the selling price for bamboo fixed under the Kerala Forest Produce (Fixation of Selling Price) Act, 1978, being notified before the commencement of each financial year.

A quantity of 22,313.295 metric tonne bamboo valued at Rs 2.48 crore was supplied to HNL from Nilambur Division between October 2000 and May 2001 against an advance payment of Rs 2.44 crore. The Department, however had not demanded the balance amount of Rs 4.51 lakh from the Company.

After this was pointed out in Audit to the Department in July 2001, the Department stated in August 2003 that the balance royalty was realised.

On reporting the case to Government in November 2001, the Government confirmed that the recovery was already made in September 2001.

Delay on the part of the Department to collect the revenue due to Government in time reveals absence of proper control mechanism.

**6.3. Non-realisation of re-auction loss**

As per Kerala Forest Code Vol. I, sale of timber and forest produce at depots shall be effected only after proper notification and publicity. According to terms and conditions prescribed in the notification for auction sale of timber, firewood, etc., by Forest Department, the successful bidder in auction should remit the entire bid amount and remove the items within the specified time. In the event of breach of any of the conditions by the successful bidder, the produce shall be re-auctioned and the bidder shall make good to Government any loss due to re-auction and the expenditure incurred for such re-auction.

In Forest Division, Kannur, two successful bidders in timber auctions held in October 2001 and October 2002 got auction confirmed in their names after remitting part value, but did not remit the balance sale value. Loss sustained by Government in re-auction of the un-removed timber, conducted between July and December 2002 was not demanded from original bidders. This resulted in non-realisation of Rs 6.91 lakh.

After this was pointed out to the Department in April 2003 and reported to Government in December 2003, they stated in June and August 2004 that revenue recovery, under KRR Act, was in progress in both the cases. Further report has not been received (December 2004).

Thiruvananthapuram,

The 24 JUN 2005

(ARVIND K. AWASTHI)

Principal Accountant General (Audit), Kerala

Countersigned

New Delhi,

The 19 JUL 2005

(VIJAYENDRA N. KAUL)

Comptroller and Auditor General of India





## Annexure - I

(Reference: Paragraph 1.12.4)

### Year wise analysis

Year of Audit Report	Date of presentation to the Legislature	Due date for ATN	Delay in terms of month up to December 2004	Number of paragraphs for which ATN not furnished
1993-94	25.04.1995	24.08.1995	112	2
1994-95	04.03.1996	03.06.1996	102	2
1995-96	11.03.1997	10.06.1997	90	6
1996-97	23.04.1998	22.07.1998	77	3
1997-98	19.02.1999	18.05.1999	67	7
1998-99	21.02.2000	21.05.2000	55	2
1999-2000	01.03.2001	01.06.2001	49	3
2000-01	11.03.2002	11.06.2002	30	22
2001-02	16.06.2003	16.09.2003	15	28
<b>Total</b>				<b>75</b>

### Department wise and age wise analysis

Period of delay	Commercial Tax		Excise	Motor Vehicles	Registration	Land Revenue	Forest	Others	Total
	Sales Tax	Agricultural Income Tax							
Between 12 months and 23 months	18	6			1	1		2	28
Between 24 months and 59 months	12	6				2		7	27
Between 60 months and 119 months	1					1		18	20
<b>Total</b>	<b>31</b>	<b>12</b>			<b>1</b>	<b>4</b>		<b>27</b>	<b>75</b>

## Annexure II

(Reference: Paragraph 2.2.10)

(In lakh of rupees)

Sl No.	Name of Office	Assessment year Month and year of assessment	Defect noticed	Turnover exempted	Tax effect
1	STO, II Circle, Kottayam	<u>2000-01 &amp; 2001-02</u> Between August 2002 and June 2003	Form 18A incomplete, Prior agreement, Date and number of agreement with foreign buyers, purchase order number <i>etc.</i> were not entered	57.09	4.57
2	STO, I Circle Changanassery	<u>2000-01</u> December 2002	Form 18A incomplete, Prior agreement, Date and number of agreement with foreign buyers, purchase order number <i>etc.</i> were not entered	6.10	0.49
3	Spl. Circle (Hill Produce) Mattancherry.	<u>1998-99</u>	Form 18A incomplete, Prior agreement, Date and number of agreement with foreign buyers, purchase order number <i>etc.</i> were not entered	18.94	0.83
4	Spl. Circle (Hill Produce) Mattancherry	<u>1997-98</u> July 2002	Form 18A incomplete, Prior agreement, Date and number of agreement with foreign buyers, purchase order number <i>etc.</i> were not entered	342.05	26.34
5	Spl. Circle (Hill Produce) Mattancherry	<u>1997-98</u> July 2000	Form 18A incomplete, No prior agreement with foreign buyer proved. Agreement / Contract number has not been entered in Form 18 A.	7.09	0.97
6	Spl. Circle (Hill Produce) Mattancherry	<u>1999-2000</u> November 2002	Form 18A incomplete, Certificate 1 was not filled in, except name of goods.	14.99	1.15
7	Spl. Circle (Hill Produce) Mattancherry	<u>1999-2000 (KGST &amp; CST)</u> April 2003	It is seen that photocopy of the certificate of export and Form 18A were accepted.	57.19	4.40
8	Spl. Circle, Kollam	<u>1997-98 (KGST &amp; CST)</u> August 2001	Form 18A is not supported by valid certified copy of bill of lading.	6.92	0.37
9	Spl. Circle, Kollam	<u>2000-01</u> January 2003	Form 18A incompletely filled in; Date of agreement / order of the foreign buyer <i>etc.</i> were not entered in.	1.72	0.14
10	STO, IV Circle, Thrissur	<u>1999-2000</u> March 2003	Turnover of Rs 6.16 lakh was exempted by accepting Form 18A which did not contain details of prior agreement with foreign buyer.	6.16	0.41
11	Spl.Circle, Alappuzha	<u>1998-99</u> April 2002	Turnover of Rs 2.31 crore was exempted by accepting Form 18A declarations with out relevant details of prior agreement with foreign buyer recorded therein.	230.63	10.14
12	STO, Cherthala	<u>1998-99</u> December 2003	Turnover of Rs 8.89 lakh was exempted by accepting Form 18A declarations without relevant details of prior agreement with foreign buyer recorded therein.	8.89	0.39
13	STO III Circle, Ernakulam	<u>2001-02</u> June 2003	Turnover of Rs 7.03 lakh was exempted by accepting Form 18A declarations without relevant details of prior agreement with foreign buyer recorded therein.	7.03	0.84
<b>Total</b>				<b>764.80</b>	<b>51.04</b>

**Annexure III**  
**(Reference: Paragraph 2.2.10)**

(In lakh of rupees)

Sl No.	Name of Office	Assessment year Month and year of assessment	Defect noticed	Turnover exempted	Tax effect
1	Spl. Circle (Hill Produce) Mattancherry	<u>1999-2000</u> September 2003	Defective H Form accepted. H form was defective since details of prior contract with foreign buyer had not been entered in the form. Turnover exempted is Rs 26.61 lakh.	26.61	2.05
2.	Spl. Circle, (Hill Produce), Mattancherry	<u>1999-2000</u> September 2003	Defective H Form accepted. H forms covering turnover of Rs 30.83 lakh were defective since name and address of exporters, CST registration number, etc., were not in the declaration	30.83	3.08
3	STO III Circle, Ernakulam	<u>2001-02</u> June 2003	Defective H form accepted. H forms covering turnover of Rs 20.19 lakh were defective since prior agreement with foreign buyer were not recorded therein the declarations.	20.19	2.42
4.	STO III Circle, Ernakulam	<u>2001-02</u> June 2003	Defective H Form accepted. H forms covering turnover of Rs 38.60 lakh were defective since prior agreement with foreign buyer were not recorded therein the declaration.	31.67	3.80
<b>Total</b>				<b>109.30</b> Say <b>Rs 1.09 crore</b>	<b>11.35</b>

**ANNEXURE IV***(Reference: Paragraph 2.2.11)***(in lakh of rupees)**

Name of Office	No. of cases test checked	Cheque Amount Ranging		Total Amount of Cheque	Delay in realisation in Days
		From	to		
STO I Circle, Kollam	2	0.78	1.02	1.10	52 to 153
STO II Circle, Kollam	16	0.22	1.46	11.05	33 to 71
STO III Circle, Kollam	13	1.37	3.17	28.40	31 to 45
STO, Spl.Circle, Kollam	23	0.20	4.24	20.90	33 to 159
STO, Spl.Circle, Thrissur	58	0.25	11.07	241.36	37 to 110
STO, III Circle, Thrissur	37	0.34	5.67	32.59	33 to 90
STO, IV Circle, Thrissur	14	0.37	3.30	17.04	31 to 65
STO, II Circle, Thrissur	13	0.29	8.45	31.76	34 to 107
STO Irinjalakuda	29	0.37	3.92	58.83	33 to 117
STO Karunagappally	15	0.42	10.34	51.50	31 to 117
STO Attingal	10	0.27	2.66	12.48	33 to 37
STO Neyyattinkara	24	0.63	2.28	33.92	34 to 126
STO, Spl.Circle, Alappuzha	18	1.07	12.86	71.42	32 to 101
STO, II Circle, Alappuzha	2	0.81	0.95	1.77	31 to 54
STO, I Circle, Alappuzha	8	0.23	2.31	6.41	33 to 43
STO Cherthala	4	0.23	0.50	2.00	34 to 78
STO, Spl. Circle II, Ernakulam	12	2.07	55.09	134.54	30 to 53
STO, Spl. Circle III, Ernakulam	23	1.00	39.54	202.51	31 to 58
STO, I Circle, Ernakulam	100	0.27	11.82	272.83	31 to 140
STO, II Circle, Ernakulam	12	0.31	0.91	6.66	32 to 75
STO, III Circle, Ernakulam	53	0.22	15.97	373.99	32 to 64
STO, IV Circle, Ernakulam	61	0.26	9.03	132.39	34 to 67
STO, II Circle, Kalamassery	19	0.24	3.81	32.22	37 to 43
STO, I Circle, Kalamassery	42	0.37	10.66	112.85	32 to 78
STO, I Circle, Kozhikode	17	0.20	1.07	7.99	30 to 57
STO, II Circle, Kozhikode	7	0.20	1.60	4.93	34 to 45
STO, III Circle, Kozhikode	21	0.21	4.06	12.43	31 to 45
STO, IV Circle, Kozhikode	22	0.21	0.50	7.67	32 to 90
STO, V Circle, Kozhikode	9	0.21	0.44	2.84	32 to 46
<b>TOTAL</b>				<b>1926.37</b>	

**Annexure V**  
**(Reference: Para 2.3)**

(In lakh of rupees)

Sl. No.	Name of Office/ No. of cases	Commodity	Assessment year/ Month of assessment	Rate applicable	Turn-over	Tax short levied and surcharge	Remarks
				Rate applied (In per cent)			
1.	STO, Special Circle III, <u>Ernakulam</u> 1	Cellular telephone	1997-98 December 2000	$\frac{12.5}{6}$	578.61	41.37	After the case was pointed out by audit in August 2001, Government informed in March 2004 that an additional demand of Rs 41.37 lakh has been raised. Further reply had not been received (December 2004).
2.	STO, Special Circle I, <u>Ernakulam</u> 1	Cellular phone	1996-97 and 1997-98 July 2000 & July 2001	$\frac{20}{6}$ $\frac{12.5}{6}$	96.55 341.98	39.32	After the case was pointed out by audit in October 2001, the Assessing Authority stated that the case would be examined. Further report had not been received (December 2004).
3.	STO, Special Circle, <u>Mattancherry</u> 3	Works contract	1997-98 and 1998-99 January 2002	$\frac{7}{2}$	179.43	9.86	After the case was pointed out by audit in November 2002, the Department stated in August 2004 that the assessment had been revised. The amount was pending collection. Further report had not been received (December 2004).
		Cotton crape and elastic bandages, orthopaedic cast padding and plaster of paris	1997-98 October 2001	$\frac{10}{8}$	84.57	1.86	After the case was pointed out by audit in October 2002, the Government informed in May 2004 that the assessment was revised. The assessee had filed appeal and the same was pending (December 2004).
		Firewood	1999-2000 March 2002	$\frac{12.5/12}{10/8}$	43.59	1.31	After the case was pointed out by audit in October 2002, the Department stated in August 2004 that the assessment was revised. Further report had not been received (December 2004).
4.	STO, <u>Angamaly</u> 1	Crude rice bran oil	1997-98 December 2001	$\frac{8}{4}$	153.08	6.74	After the case was pointed out by audit in December 2002, the Department revised in January 2003 the assessment creating an additional demand of Rs 6.74 lakh, which was adjusted against the SSI exemption available to the unit.
5.	STO, First Circle, <u>Ernakulam</u> 2	Cellular phone and spares	1999-2000 January 2003	12.5 up to 31.12.99 and 12 there after $\frac{6}{10}$ 8	40.74 12.65 10.77 2.73	3.82	After the case was pointed out by audit in May 2003, the Government stated in November 2004 that the assessment was revised and the amount was advised for revenue recovery. Further report had not been received (December 2004).

(In lakh of rupees)

Sl. No.	Name of Office/ No. of cases	Commodity	Assessment year/ Month of assessment	Rate applicable	Turn-over	Tax short levied and surcharge	Remarks
				Rate applied (In per cent)			
		Engineering items	<u>2000-01</u> February 2003	$\frac{8}{4}$	28.41	1.14	After the case was pointed out by audit in May 2003, the Assessing Authority stated in October 2003 that the assessment was revised. Further report had not been received (December 2004).
6.	STO, First Circle, Kollam 1	IMFL	<u>1999-2000</u> September 2002	$\frac{85}{75}$	44.15 (for 1/2000 to 3/2000)	4.41	After the case was pointed out by audit in May 2003, the Assessing Authority issued notice in July 2003 to revise the assessment. Further report had not been received (December 2004).
7.	STO, Special Circle II, Ernakulam 2	Sutures	<u>1999-2000</u> November 2001	10 (up to 31.12.1999) and 8 <u>thereafter</u> 8	108.69	2.39	After the case was pointed out by audit in November 2002, the Assessing Authority stated that sutures would come under 'drug' as per the definition in Drugs and Cosmetics Act, 1940. The reply of the Assessing Authority was not tenable as 'sutures' is not an item coming under 'drug' or any other entry in the First Schedule. So the item comes under entry 156 of First Schedule to KGST Act. While classifying goods, for assessment purposes, the meaning assigned to goods in the KGST Act, 1963, should be considered. Further report had not been received (December 2004).
		Compact Disc	<u>1997-98</u> and <u>1998-99</u> October 2001	$\frac{10}{6}$	18.09 11.90	1.32	After the case was pointed out by audit in November 2002, Government stated in September 2004 that Compact Disc can never be grouped under electronic instruments and CDs are to be treated as an item falling under tapes and cassettes. The reply of the Government is not tenable as CD has been included in the list of electronic goods (Schedule VI - SRO 1728/93). The rate of tax on CD had been reduced with effect from 1 April 1999 only. Normal rate of 10 per cent is applicable up to 31 March 1999 and at six per cent thereafter. Further report had not been received (December 2004).
8.	STO (Works contract and Luxury Tax), Alappuzha 1	Works contract	<u>2000-01</u> September 2002	$\frac{5.6}{2}$ (70% of 8)	95.11	3.42	After the case was pointed out by audit in July 2003, the Government stated in September 2004 that the assessment was revised and the amount had been advised for revenue recovery. Further report had not been received (December 2004).

(In lakh of rupees)

Sl. No.	Name of Office/ No. of cases	Commodity	Assessment year/ Month of assessment	Rate applicable	Turn-over	Tax short levied and surcharge	Remarks
				Rate applied (In per cent)			
9.	Office of the Deputy Commissioner, Ernakulam 1	Works contract	1997-98 November 2001	$\frac{5.6}{2}$	60.86	2.40	After the case was pointed out by audit in June 2002, the Assessing Authority stated that runways are roads for running aircraft. The reply is not tenable as runways and Taxi Track are not considered as road in common parlance. Further report had not been received (December 2004).
10.	STO, Second Circle, Palakkad 2	Mineral water	1998-99 April 2002	$\frac{20}{10}$	12.43	1.37	After the case was pointed out by audit in November 2003, the Government stated in August 2004 that the assessment was reopened and the amount was advised for revenue recovery. Further report had not been received (December 2004).
		Calcium Carbide	1999-2000 and 2000-01 between May 2002 and August 2002	$\frac{6}{4}$	13.70 22.94	1.22	After the case was pointed out by audit in November 2003, the Assessing Authority stated that the case would be examined. Further report had not been received (December 2004).
11.	STO, Nedumangad 1	Non-alcoholic drinks, beverages, etc	1998-99 March 2003	$\frac{20}{6}$	9.75	1.50	On this being pointed out in April 2003 by audit, the Government informed in May 2004 that the assessment had been revised in January 2004 creating additional demand. Further report had not been received (December 2004).
<b>Total</b>						<b>123.45</b> say <b>Rs 1.23</b> <b>crore</b>	

**Annexure VI**  
**(Reference: Para 2.5)**

(In lakh of rupees)

Sl. No.	Name of office/ No. of cases	Assessment year/ Month of assessment	Name of commodity/ Rate of tax in per cent	Nature of observation/irregularity	Short levy of tax including surcharge	Remarks
1.	STO, Pathanamthitta 1	1998-99 & 1999-2000 August 2000 and March 2001	Pepper and ginger 4	While finalising the assessment of a dealer during August 2000 and March 2001, turnover of Rs 5.65 crore relating to purchase of pepper and ginger within the State was exempted from levy of tax as the dealer was a 100 per cent Export Oriented Unit.	24.74	After the case was pointed out in October 2001, the Assessing Authority stated that the assessments were revised in March 2003 raising demand of Rs 24.74 lakh. Further report had not been received (December 2004).
2.	STO, Kasargod 1	1995-96 & 1996-97 October 1999 and March 2000	PVC pipes 10	While completing the assessments of a SSI unit, the turnover of Rs 1.68 crore on the first sale of PVC pipes was incorrectly given exemption treating it as second sales.	15.14	After the case was pointed out in February 2001, the assessments were revised by the Department and Rs 14.08 lakh was adjusted against SSI exemption and the balance amount of Rs 1.06 lakh was demanded from the assessee. Further reply was awaited (December 2004).
3.	STO, Special Circle, (Hill Produce), Mattancherry 1	1998-99 to 2000-01 June 2002	Coffee seeds 4 up to 31 December 1999 and from 1 January 2001 and 8 from 1 January 2000 to 31 December 2000 at the point of first purchase in the State	The Assessing Authority did not levy tax on purchase of coffee seeds aggregating Rs 2.15 crore transferred to Coimbatore.	11.86	After the case was pointed out in May 2003, Government informed in May 2004 that the omission had been rectified and additional demand had been advised for revenue recovery. Final reply was awaited (December 2004).
4.	STO, Special Circle, Tirur 1	1996-97 March 2001	Hawai sheets and chappals 10	While finalising the assessment on best of judgement of a SSI unit engaged in the manufacture and sale of hawai sheets and chappals purchase turnover of rubber for Rs 33.38 lakh conceded was not reckoned for fixing the total turnover.	3.67	After the case was pointed out in June 2001, the Assessing Authority revised the assessment raising demand of Rs 9.80 lakh which included the short levy pointed out in audit. Further report had not been received (December 2004).
5.	STO, Special Circle, Mattancherry 1	1997-98 September 2001	Rubber Cess Re 1 per Kg 10	Cess of Rs 31.33 lakh payable on rubber transferred during the period from 19 December 1997 to 31 March 1998 was not included in the turnover of rubber.	3.45	After this was pointed out by audit in October 2002, the Assessing Authority revised the assessment in November 2002 creating an additional demand of Rs 3.33 lakh. Further reply was awaited (December 2004).
6.	STO, Second Circle, Mattancherry 1	1999-2000 October 2000	Timber 10 at the point of first sale and 2.5 at the point of last sale up to 31.12.1999 and at 2 thereafter	While finalising the assessment of a dealer who purchased timber valued at Rs 1 crore on payment of tax due at the point of first sale and used the same in the manufacture of guitar	2.69	After the case was pointed out by audit in December 2001, the Assessing Authority stated in November 2002 that tax at the second point of levy was not assessable as timber and guitar



(In lakh of rupees)

Sl. No.	Name of office/ No. of cases	Assessment year/ Month of assessment	Name of commodity/ Rate of tax in per cent	Nature of observation/irregularity	Short levy of tax including surcharge	Remarks
				finger board, rosewood parquet flooring tiles etc., which was exported out of India, the turnover was not assessed to tax for the second point of levy.		finger boards, parquet flooring tiles etc were one and the same commodity and there was no manufacture of finished goods. The contention was not tenable in view of the clarification issued in August 2001 by the Commissioner of Commercial Taxes, which indicated that there was manufacture, when rosewood logs were used in the production of guitar, rosewood parquet tiles etc. Moreover as the goods purchased were disposed of in a manner other than by way of sale within the State or in the course of inter state sale, tax was leviable on the turnover due at the point of last sale. Further report had not been received (December 2004).
7.	AIT & STO, Kuthiathode 1	1999-2000 June 2002	DEPB Licence 10	Sale proceeds of DEPB licence amounting to Rs 17.92 lakh received during the year was not assessed to tax.	1.84	On this being pointed out by audit in September 2003, the Assessing Authority stated in October 2003 that notice had been issued. Further report had not been received (December 2004).
8.	STO, I Circle, Kozhikode 1	2001-02 December 2002	Aluminium Scrap 8	While finalising the assessment of a SSI unit, no tax was levied on the purchase turnover of aluminium scrap vessel amounting to Rs 12.43 lakh, purchased from unregistered dealers and used in the manufacture of aluminium circles.	1.10	After the case was pointed out by audit in June 2003, the Department stated in July 2004 that the assessment had been revised and the amount was advised for revenue recovery. Further report had not been received (December 2004).
9.	STO, II Circle, Tripunithura 1	2000-01 November 2001	DEPB Licence 8	While completing the assessment of a dealer the entire turnover was exempted. The assessee had not included sales turnover of D.E.P.B licence for Rs 5.14 lakh.	0.41	After this was pointed out by audit in January 2003, the Assessing Authority stated in January 2003 that the case would be examined. Further report had not been received (December 2004).
<b>Total</b>				<b>1148.16 say Rs 11.48 crore</b>	<b>64.90</b>	

**Annexure VII**  
**(Reference: Para 2.6.2)**

(In lakh of rupees)

Sl.No.	Name of office/ No of cases	Assessment year/Month and year of assessment	Nature of defect	Non/short levy of interest	Remarks
1.	STO, Special Circle, Thiruvananthapuram  1	1998-99 to 2001-02 February 2003	While finalising the assessment of a dealer on the best of judgement, the assessing officer did not levy interest on the tax due on the turnover of Rs 2940.39 crore not returned.	9852.33	After this was pointed out by audit in August 2003, the Assessing Authority stated that interest would be levied only in the case of default in payment of admitted tax. The reply was not in consonance with the provisions of the Act. Further the Department stated in August 2004 quoting the decision reported in 12 KTR 133 HC Kerala that as the assessee had not filed any return, there is no self assessment. Moreover, there is no failure to include any turnover of his business in any return filed. This contention is not correct, as the assessee had not filed any return. As per decision quoted in 121 STC 586 (High Court of Kerala) non-filing of return by dealer is a case of turnover escaping assessment. So the assessee is liable to pay interest. The assessee had challenged the case in High Court of Kerala. Further report had not been received (December 2004).
2.	STO, Special Circle, Kollam 1	1998-99 February 2003	While finalising the assessment on 'best judgement' basis in respect of a dealer in cashew kernel, though the assessee failed to include the purchase turnover of Rs 4.96 crore of raw nut in the return, interest on the tax due on the excluded turnover was, however, not worked out and demanded.	31.61	After the case was pointed out by audit in May 2003, the Government informed in October 2004 that interest of Rs 31.61 lakh was demanded. Further report had not been received (December 2004).

(In lakh of rupees)

Sl.No.	Name of office/ No of cases	Assessment year/Month and year of assessment	Nature of defect	Non/short levy of interest	Remarks
3.	STO, Special Circle, Kottayam 1	<u>1998-99</u> November 2002	While finalising the assessment of an assessee, turnover of software for Rs 50.56 lakh and works contract of Rs 92.58 lakh was not included in the returns though shown in the accounts by the assessee, were assessed to tax. However, the interest due on the tax accrued on the escaped turnover was not levied.	7.74	After the case was pointed out in May 2003, the Department stated in August 2004 that the assessee had filed appeal against the assessment order and Deputy Commissioner (Appeal) accepted and allowed the appeal. Second appeal was filed by the Department against the appellate order. The case was reported to Government in December 2003. Further report had not been received. (December 2004).
4.	STO, Pathanamthitta 1	<u>1998-99 &amp; 1999-2000</u> Between August 2000 and March 2001	While finalising the assessment of an assessee, the Assessing Officer did not levy interest on the tax of Rs 5.89 crore due on the purchase turnover of black pepper and ginger during 1998-99 and 1999-2000 which was not conceded in the return.	6.26	After the case was pointed out by audit in October 2001, the Assessing Authority revised the assessment levying interest in March 2003. Further report had not been received (December 2004).
5.	STO, Special Circle (Hill Produce), Mattancherry 1	<u>1998-99</u> February 2003	While finalising the assessment of a dealer, though the Assessing Authority levied tax of Rs 4.62 lakh due on the turnover on the sales of import licence for Rs 46.22 lakh, which the assessee had failed to include in the return but did not levy interest.	4.21	After the case was pointed out in May 2003, the Department stated in June 2003 that the interest could be levied only on the basis of a demand notice. The reply was not tenable that the Act empowers the Assessing Officer to levy interest on tax due on turnover escaped assessment. The case was reported to Government in December 2003; their reply had not been received (December 2004).
6.	STO, II Circle, Mattancherry 1	<u>1999-2000</u> January 2002	While reopening the assessment to assess escaped turnover of sale/transfer of export incentives of Rs 81.67 lakh interest due on tax was not worked out and demanded.	3.68	After the case was pointed out by audit in November 2002, the Assessing Authority stated that interest was leviable only from the date of issue of demand notice. The reply is not tenable in view of the clear provisions in the Act. Further report had not been received (December 2004).
7.	STO, III Circle, Thrissur 1	<u>1998-99</u> October 2002	While finalising the assessment for the year 1998-99 of a dealer, the Assessing Authority levied interest of Rs 1.35 lakh only against the correct amount of Rs 4.16 lakh on escaped turnover.	2.81	After the case was pointed out by audit in April 2003, Assessing Authority revised the assessment. Further report was not received (December 2004).

(In lakh of rupees)

Sl.No.	Name of office/ No of cases	Assessment year/Month and year of assessment	Nature of defect	Non/short levy of interest	Remarks
8.	STO, Special Circle II, <u>Kozhikode</u> 1	2000-01 February 2003	An assessee suppressed taxable turnover of Rs 41.60 lakh. However, while finalising the assessment, interest was not levied and demanded.	2.33	After the case was pointed out by audit in May 2003, the Department had not furnished any reply (December 2004).
9.	<u>STO, Tirurangadi</u> 1	1998-99 to 2000-01 September 2002 and December 2002	While finalising the assessments of an assessee, purchase turnover of Rs 93.44 lakh relating to timber, plywood and 'U' foam were not included in the return and assessee paid tax as per return. Later the escaped turnover was assessed and a demand of Rs 2.93 lakh was raised without levy of interest though it was payable by the assessee for non-payment of tax.	1.74	After the case was pointed out by audit in January 2004, the Assessing Authority stated that the case would be examined. Further report had not been received (December 2004).
10.	<u>STO, Thiruvalla.</u> 1	1999-2000 March 2003	While finalising the assessment of a dealer, the Assessing Authority did not levy interest on tax of Rs 2.36 lakh due on escaped turnover.	1.58	After the case was pointed out in June 2003, the Department stated in October 2003 that the assessment was revised and the interest was demanded and advised for recovery. The appeal filed by the assessee is pending. Further report had not been received (December 2004).
11.	STO, IV Circle, <u>Kozhikode</u> 1	1999-2000 & 2000-01 March 2003	While finalising the assessments of a dealer, the Assessing Authority did not levy interest on tax of Rs 1.88 lakh due on an aggregate turnover of Rs 46.88 lakh escaped assessment.	1.23	After the case was pointed out in June 2003, the Assessing Authority revised the assessments in July 2003 and raised the demand. Further report had not been received (December 2004).
			<b>Total</b>	<b>9915.52 say 99.16 crore</b>	