



GOVERNMENT OF KARNATAKA

REPORT
OF THE
COMPTROLLER
AND
AUDITOR GENERAL OF INDIA

For the year 1976-77

(REVENUE RECEIPTS)

THE
RECORDS
OF
THE
MADRAS GOVERNMENT

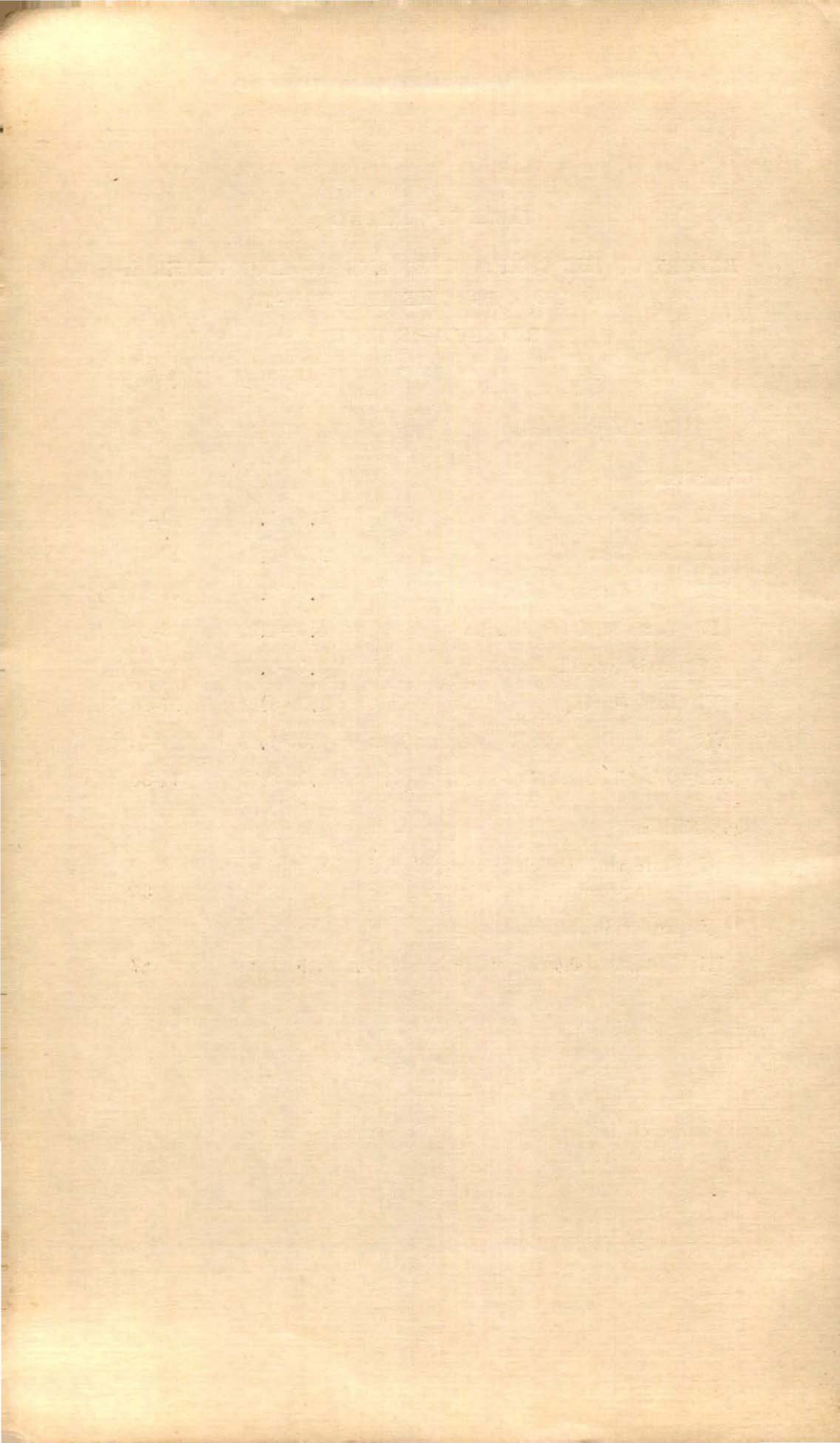
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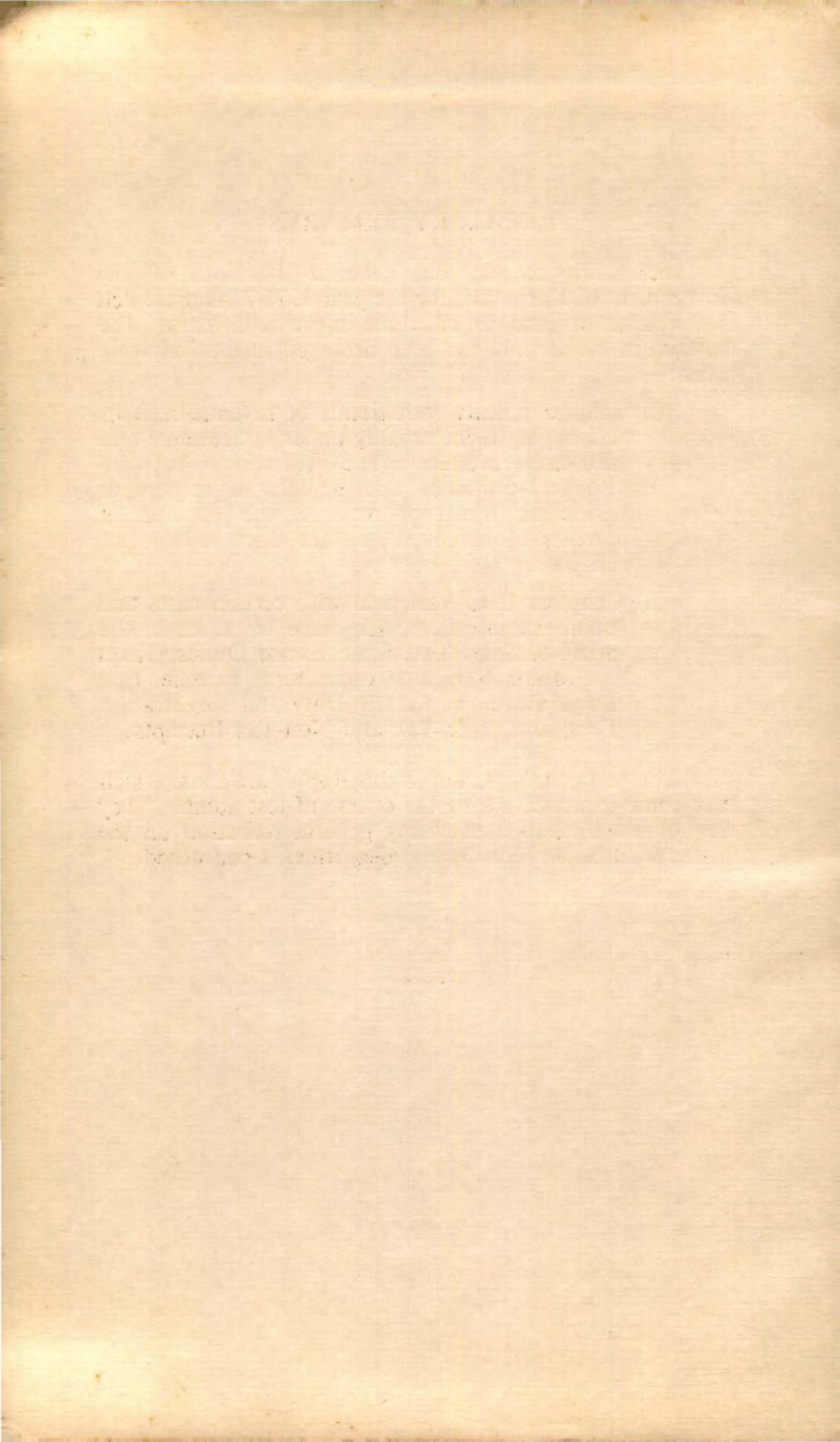


PREFATORY REMARKS

The Audit Report on Revenue Receipts of the Government of Karnataka for the year 1976-77 is presented in a separate volume, as was done in previous years. The material in the Report has been arranged in the following order :—

- (i) Chapter I deals with trends of revenue receipts classifying them broadly under tax revenue and non-tax revenue. The variations between Budget estimates and actuals in respect of principal heads of revenue, the position of arrears of revenue, etc., are discussed in this chapter.
- (ii) Chapters II to VIII deal with certain cases and points of interest which came to notice in the audit of Sales Tax, State Excise Duties, Taxes on Motor Vehicles, Agricultural Income Tax, Land Revenue, Stamp Duty and Registration Fees, and other Tax and Non-Tax Receipts.

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



CHAPTER I

GENERAL

1.01. Trend of revenue receipts

The total receipts of the Government of Karnataka for the year 1976-77 were Rs. 559.11 crores, against the anticipated receipts of Rs. 513.94 crores. The total receipts realised during the year registered an increase of 8.7 per cent over those in 1975-76 (Rs. 514.12 crores). Out of the total receipts of Rs. 559.11 crores, Rs. 424.32 crores represented revenue raised by the State Government, of which Rs. 269.26 crores represented 'Tax Revenue' and the balance 'Non-Tax Revenue'. The receipts from the Government of India (Rs. 134.79 crores) during the year accounted for 24 per cent of the total receipts, as in the previous year.

1.02. Analysis of revenue receipts

(a) An analysis of the receipts during 1976-77 along with the corresponding figures for the preceding two years is given below :

	<i>Receipts during</i>		
	<i>1974-75</i>	<i>1975-76</i>	<i>1976-77</i>
	<i>(In crores of rupees)</i>		
I. Revenue raised by the State Government—			
(a) Tax Revenue	198.59	236.73	269.26
(b) Non-tax Revenue	125.37	155.80	155.06
Total I	323.96	392.53	424.32
II. Receipts from the Government of India—			
(a) State's share of divisible Union taxes	66.55	86.65	91.54
(b) Grants-in-aid	22.59	34.94	43.25
Total II	89.14	121.59	134.79
III. Total receipts of the State (I and II)	413.10	514.12	559.11
IV. Percentage of I to III	78	76	76

(b) **Tax revenue raised by the State.**—Receipts from tax revenue during 1976-77 constituted 63 per cent of the revenue raised by the State. An analysis of tax revenue for the year 1976-77 and for the preceding two years is given below :

	Receipts during			(+) Increase/ (-) decrease in 1976-77 with reference to 1975-76
	1974-75	1975-76	1976-77	
(In crores of rupees)				
(i) Taxes on Agricultural Income	1.61	3.02	4.30	+ 1.28
(ii) Other Taxes on Income and Expenditure	..	..	3.43	+ 3.43
(iii) Land Revenue	6.95	7.09	4.25	— 2.84
(iv) State Excise Duties	47.54	52.01	52.27	+ 0.26
(v) Taxes on Motor Vehicles	12.66*	15.63	24.92	+ 9.29
(vi) Sales Tax	93.64*	117.87	137.30	+19.43
(vii) Other Taxes and Duties	23.34	30.32	32.01	+ 1.69
(viii) Stamps and Registration Fees	12.85	10.79	10.78	— 0.01
Total	198.59	236.73	269.26	+32.53

(i) The tax revenue of Rs. 3.43 crores under "Other Taxes on Income and Expenditure" was due to introduction of a new tax, *viz.*, Tax on Professions, Trades and Callings with effect from 1st April 1976.

(ii) The increase of Rs. 19.43 crores under "Sales Tax" was attributed by the department mainly due to normal growth in trade and revision of rates of tax on certain commodities.

* Differs from the figure appearing in the Report of the Comptroller and Auditor General of India on Revenue Receipts for the year 1974-75 by Rs. 0.01 crore due to rounding off.

(iii) The increase of Rs. 9.29 crores under "Taxes on Motor Vehicles" was stated by Government to be due mainly to merger of Taxes on Passengers and Goods with the Motor Vehicles Tax with effect from 1st July 1976 and also increase in the number of vehicles.

(c) **Non-tax revenue of the State.**—Interest, Education, Medical, Forest, Industries and Irrigation, Navigation, Drainage and Flood Control Projects were the principal sources of non-tax revenue in the State. Receipts from non-tax revenue during 1976-77 constituted 37 per cent of the revenue raised by the State. An analysis of non-tax revenue under the principal heads for the year 1976-77 and for the preceding two years is given below :—

	Receipts during			with reference to 1975-76
	1974-75	1975-76	1976-77	
	(+) Increase/ (-) decrease in 1976-77			
	(In crores of rupees)			
(i) Interest	38.94	38.83	63.41	+24.58
(ii) Education	3.37	3.83	4.24	+ 0.41
(iii) Medical	1.98	2.65	3.26	+ 0.61
(iv) Forest	27.82	29.29	29.05	— 0.24
(v) Industries	17.89	19.47	16.66	— 2.81
(vi) Irrigation, Navigation, Drainage and Flood Control Projects	3.49	6.27	4.05	— 2.22
(vii) Others	31.88	55.46	34.39	—21.07
Total	125.37	155.80	155.06	— 0.74

The increase of Rs. 24.58 crores under "Interest" was mainly due to increased interest receipts from the Karnataka Electricity Board, the Mysore Power Corporation and other public sector undertakings (Rs. 21.67 crores) and departmental commercial undertakings (Rs. 2.26 crores).

1.03. Variations between Budget estimates and actuals

(i) The variation of Rs. 36.00 crores between Budget estimates and actuals during 1976-77 was made up of an excess of Rs. 7.41 crores in tax revenue and

Rs. 28.59 crores in non-tax revenue. The comparative figures for the three years from 1974-75 to 1976-77 are given below :

	Year	Budget Estimates	Actuals	Variation (+) increase	Percentage of variation
(In crores of rupees)					
A. Tax revenue	1974-75	159.02	198.59	+39.57	24.88
	1975-76	208.55	236.73	+28.18	13.51
	1976-77	261.85	269.26	+ 7.41	2.80
B. Non-tax revenue	1974-75	110.54	125.37	+14.83	13.41
	1975-76	128.31	155.80	+27.49	21.42
	1976-77	126.47	155.06	+28.59	22.06

(ii) Variations between Budget estimates and actuals under the principal heads of revenue are given below :

Head of revenue	Year	Budget Estimates	Actuals	Variation (+) increase/ (-) shortfall	Percentage of variation
(In crores of rupees)					
(i) Taxes on Agricultural Income	1974-75	1.90	1.61	- 0.29	-15
	1975-76	1.75	3.02	+ 1.27	+73
	1976-77	2.25	4.30	+ 2.05	+91
(ii) Land Revenue	1974-75	6.00	6.95	+ 0.95	+16
	1975-76	6.15	7.09	+ 0.94	+15
	1976-77	7.00	4.25	- 2.75	-39
(iii) State Excise Duties	1974-75	38.00	47.54	+ 9.54	+25
	1975-76	49.75	52.01	+ 2.26	+ 5
	1976-77	56.00	52.27	- 3.73	- 6
(iv) Taxes on Motor Vehicles	1974-75	13.00	12.66	- 0.34	- 3
	1975-76	13.85	15.63	+ 1.78	+13
	1976-77	16.00	24.92	+ 8.92	+68
(v) Sales Tax	1974-75	71.00	93.64	+22.63	+32
	1975-76	100.00	117.87	+17.87	+18
	1976-77	139.00	137.30	- 1.70	- 1
(vi) Other Taxes and Duties	1974-75	19.85	23.34	+ 3.49	+18
	1975-76	25.40	30.32	+ 4.92	+19
	1976-77	31.10	32.01	+ 0.91	+ 2
(vii) Stamps and Registration Fees	1974-75	8.80	12.85	+ 4.05	+50
	1975-76	11.15	10.79	- 0.36	-20
	1976-77	10.50	10.78	+ 0.28	- 1
(viii) Interest	1974-75	32.75	38.94	+ 6.19	+19
	1975-76	42.85	38.83	- 4.02	- 9
	1976-77	45.15	63.41	+ 18.26	+40

<i>Head of revenue</i>	<i>Year</i>	<i>Budget Estimates</i>	<i>Actuals</i>	<i>Variation (+) increase/ (-) shortfall</i>	<i>Percentage of variation</i>
<i>(In crores of rupees)</i>					
(ix) Education	1974-75	4.16	3.37	- 0.79	-1.9
	1975-76	3.99	3.83	- 0.16	-4
	1976-77	3.86	4.24	+ 0.38	+ 9
(x) Medical	1974-75	2.31	1.98	- 0.33	-14
	1975-76	2.85	2.65	- 0.20	- 7
	1976-77	3.15	3.26	+ 0.11	+ 3
(xi) Forest	1974-75	21.00	27.82	+ 6.82	+32
	1975-76	23.75	29.29	+ 5.54	+23
	1976-77	28.00	29.05	+ 1.05	+ 4
(xii) Industries	1974-75	19.31	17.89	- 1.42	- 7
	1975-76	24.42	19.47	- 4.95	-20
	1976-77	16.03	16.66	+ 0.63	+ 4
(xiii) Irrigation, Navigation, Drainage and Flood Control Projects	1974-75	2.00	3.49	+ 1.49	+75
	1975-76	3.00	6.27	+ 3.27	+109
	1976-77	5.00	4.05	- 0.95	-19

Variations between Budget estimates and actuals for 1976-77 were more than 10 per cent under the following heads of revenue :

<i>Head of revenue</i>	<i>Variation (+) increase/ (-) shortfall (In crores of rupees)</i>	<i>Reasons for variation as reported by the departments</i>
(i) Taxes on Agricultural Income	+ 2.05	As a result of good coffee crop and high international prices of coffee during 1975-76.
(ii) Land Revenue	-2.75	*
(iii) Taxes on Motor Vehicles	+ 8.92	*
(iv) Interest	+18.26	Mainly due to increased interest receipts from Karnataka Electricity Board, Mysore Power Corporation and other public sector undertakings.
(v) Irrigation, Navigation, Drainage and Flood Control Projects	+0.95	Mainly due to increased interest charges on capital invested on Irrigation projects.

* Information awaited from the department (February 1978).

1.04. Cost of collection

Expenditure incurred in collecting the receipts under the principal heads of revenue during the three years 1974-75 to 1976-77 is given in Appendix I.

1.05. Taxation proposals

Government proposed to raise an additional revenue of Rs. 15.75 crores during the year 1976-77. The measures proposed, additional revenue anticipated from each of the measures, actual amount realised during the year and the reasons for variation, as reported by the departments, are given below :

<i>Measures</i>	<i>Date of implemen- tation</i>	<i>Amount antici- pated</i>	<i>Amount realised</i>	<i>Reasons for variation</i>
<i>(In crores of rupees)</i>				
1. Enhancement of rates of sales tax and purchase tax	1st April 1976	2.00	1.70	Due to the continuance of old rate of tax on electrical motors and bulbs and amendment of Section 5 (3A) of the Karnataka Sales Tax Act, 1957, in April 1976 with retrospective effect from 1st April 1972, resulting in loss of one per cent of tax on metal caps used in manufacture of bulbs.
2. Additional taxes on entertainment	1st April 1976	1.50	1.99	Due to efforts of mobile squads created during the year and adjustments in the basic value of tickets by cinema theatres.
3. Enhancement of rates of stamp duty on conveyances and mortgages	1st April 1976	1.75	1.10	Due to decrease in the registration of documents on account of implementation of new Acts like the Urban Land (Ceiling and Regulation) Act, 1976.

Measures	Date of implementation	Amount anticipated	Amount realised	Reasons for variation
(In crores of rupees)				
4. Enhancement of education cess and health cess	1st April 1976	2.00	2.07	
5. Profession tax	1st April 1976	4.00	3.43	Due to (a) exemption from payment of profession tax to the employees who are drawing salary between Rs. 400 and Rs. 500 (Rs. 37 lakhs); (b) the taxation measures came into force from 1st April 1976 in respect of Government employees from whom tax could be collected only for eleven months (Rs. 11 lakhs); and (c) certain concessions given to advocates, homeopathic doctors, etc. (Rs. 9 lakhs).
6. Extension of agricultural income tax to cover all crops	1st April 1976	2.00	0.80	Government announced reliefs on account of drought situation prevalent in large areas of the State during 1976-77.
7. Revision of water rates	1st July 1976	2.50	1.99	Due to drought situation during 1976-77.

1.06. Arrears in assessments

The number of assessments finalised by the Commercial Tax Department and the assessments pending finalisation as on 31st March 1976 and 31st March 1977 (with year-wise break-up), as reported by the department, are indicated in Appendix II.

Category-wise break-up of the pending assessments as on 31st March 1977, as furnished by the department, is

as follows :

(a) Sales Tax

	<i>Number of cases pending</i>		<i>Percentage to the total number of cases pending</i>	
	<i>Karnataka Sales Tax</i>	<i>Central Sales tax</i>	<i>Karnataka Sales tax</i>	<i>Central Sales tax</i>
1. Turnover of Rs. 2 lakhs and above	12,814	8,195	30	39
2. Turnover of Rs. 1 lakh and above but below Rs. 2 lakhs	8,397	5,184	20	24
3. Turnover of less than Rs. 1 lakh	21,319	7,983	50	37

(b) Entertainments Tax

	<i>Number of cases pending</i>	<i>Percentage to the total number of cases pending</i>
1. Turnover of Rs. 2 lakhs and above	16	0.7
2. Turnover of Rs. 1 lakh and above but below Rs. 2 lakhs	34	1.1
3. Turnover of less than Rs. 1 lakh	2,029	98.2

(c) Taxes on Agricultural Income

	<i>Number of cases pending</i>	<i>Percentage to the total number of cases pending</i>
1. Assesseees having income over Rs. 25,000	2,259	7
2. Assesseees having income over Rs. 15,000 but not exceeding Rs. 25,000	4,259	14
3. Assesseees having income over Rs. 7,500 but not exceeding Rs. 15,000	7,030	22
4. Assesseees having income of Rs. 7,500 and below	17,789	57
5. Refund cases	53	..

1.07. Uncollected revenue

The total revenue collected and the arrears of revenue pending collection at the end of 1975-76 and 1976-77, as reported by the departments, are shown below :

<i>Year</i>	<i>Total amount collected</i>	<i>Arrears pending collection as at the end of March</i>	<i>Percentage of arrears to total collection</i>
<i>(In crores of rupees)</i>			
1975-76	392.53	31.77	8
1976-77	424.32	**	**

The details of outstanding amounts as on 31st March 1977 in respect of some of the principal sources of revenue are given below :

<i>Sl. no.</i>	<i>Source of revenue</i>	<i>Amount pending collection</i>	<i>Amount of arrears more than five years old</i>
<i>(In crores of rupees)</i>			
1.	Land Revenue	**	**
2.	Sales Tax	24.30	6.89
3.	Taxes on Agricultural Income	1.28	0.32
4.	State Excise Duties	3.20	0.53
5.	Taxes on Motor Vehicles	**	**
6.	Electricity Duties	**	**
7.	Entertainments Tax	0.25	0.02
8.	Forest	**	**
	Total	29.03	7.76

An analysis of arrears of revenue pending collection as on 31st March 1977 in respect of certain departments is given below :

(a) Sales Tax

Sales tax demands raised but not collected as on 31st March 1977 amounted to Rs. 24.30 crores as against Rs. 12.03 crores outstanding as on 31st March 1976.

** Information awaited from the departments (February 1978).

Year-wise analysis of the outstanding amount is given below :

Year	Arrears as on			
	31st March 1976		31st March 1977	
	Karnataka Sales Tax	Central Sales Tax	Karnataka Sales Tax	Central Sales Tax
	(In crores of rupees)			
Up to 1971-72	3.40	1.58	3.82	3.08
1972-73	1.06	0.17	1.20	0.49
1973-74	0.99	0.22	1.92	0.46
1974-75	1.70	0.41	2.98	0.34
1975-76	1.93	0.57	3.74	0.37
1976-77	..	..	4.31	1.59
Total	9.08	2.95	17.97	6.33

According to information furnished by the department (September 1977), out of Rs. 24.30 crores remaining uncollected as on 31st March 1977, Rs. 2.57 crores were not due for recovery by that date ; the recovery of the remaining Rs. 21.73 crores is stated to be in the following stages of action :

Stages of action	Amount of arrears	
	Karnataka Sales Tax	Central Sales Tax
	(In lakhs of rupees)	
Amount covered by stay orders	362	248
Amount covered under solvency proceedings	8	1
Amount proposed for recovery from other persons under Section 14 of the Karnataka Sales Tax Act	9	23
Amount likely to be written off	23	3
Amount covered by show cause notices	109	31
Amount covered by instalment facility	122	52
Amount pending adjustment by conversion into a loan free of interest	496	**
Amount under revenue recovery proceedings	342	121
Amount proposed for recovery through magistrates as fines	127	35
Other reasons	53	8
Total	1,651	522

** Actual amount : Rs. 557.80.

(b) Taxes on Agricultural Income

The demand raised but not collected as on 31st March 1977 amounted to Rs. 1.28 crores as against Rs. 1.66 crores outstanding as on 31st March 1976. Year-wise analysis of the outstanding amount is given below :

Year	Arrears as on	
	31st March 1976	31st March 1977
	(In crores of rupees)	
Up to 1972-73	0.33	0.32
1973-74	0.16	0.10
1974-75	0.17	0.11
1975-76	1.00	0.14
1976-77	..	0.61
Total	1.66	1.28

According to information furnished by the department (September 1977) the amount of arrears as on 31st March 1977 was in the following stages of action :

Stages of action	Amount of arrears (In lakhs of rupees)
Amount not fallen due	28.61
Amount covered by stay orders	11.29
Amount covered by instalment facility	1.92
Amount covered by show cause notices	11.57
Amount covered by revised assessment proceedings	1.06
Amount for which demand notices have been issued	11.84
Amount under revenue recovery proceedings	61.07
Recovery due from other persons (Section 43A)	0.21
Total	127.57

(c) Entertainments Tax

Entertainments tax demands raised but not collected as on 31st March 1977 amounted to Rs. 24.88 lakhs as against Rs. 12.54 lakhs outstanding as on 31st March 1976. Year-wise analysis of the outstanding amount is given

below :

<i>Year</i>	<i>Arrears as on 31st March 1977 (In lakhs of rupees)</i>
Up to 1973-74	2.60
1974-75	0.42
1975-76	2.27
1976-77	19.59
Total	24.88

According to information furnished by the department (September 1977), the amount of arrears as on 31st March 1977 was in the following stages of action :

<i>Stages of action</i>	<i>Amount of arrears (In lakhs of rupees)</i>
Amount not fallen due	0.83
Amount covered by stay orders	5.05
Amount likely to be written off	0.07
Amount under revenue recovery proceedings	9.64
Amount covered by show cause notices	1.84
Amount pending adjustment	0.21
Other reasons	7.24
Total	24.88

(d) State Excise Duties

The demand raised on account of State excise duties but not collected as on 31st March 1977 amounted to Rs. 3.20 crores. Year-wise analysis of the outstanding amount is given below :

<i>Year</i>	<i>Arrears as on 31st March 1977 (In lakhs of rupees)</i>
Up to 1971-72	52.80
1972-73	0.13
1973-74	18.29
1974-75	35.64
1975-76	2.61
1976-77	210.48
Total	319.95

1.08. Frauds and evasions

The number of cases detected to the end of 31st March 1977, the number of cases finalised, and the

number of cases pending, as reported by the department, are given below :

	<i>Number of cases as on 31st March 1977</i>		
	<i>Detected</i>	<i>Finalised</i>	<i>Pending</i>
(a) Agricultural Income Tax	686	566	120
(b) Entertainments Tax	2,417	1,904	513
(c) Sales Tax—(i) Karnataka Sales Tax	2,427	1,572	855
(ii) Central Sales Tax	..	..	..
Total	5,530	4,042	1,488

1.09. Writes-off and remissions of revenue

(a) Details of demands written off and remissions allowed during 1976-77, as furnished by some of the departments, are given below :

<i>Department</i>	<i>Writes-off of losses, irrecoverable revenue, duties, etc.</i>		<i>Remissions</i>	
	<i>Number of items</i>	<i>Amount (In lakhs of rupees)</i>	<i>Number of items</i>	<i>Amount (In lakhs of rupees)</i>
State Excise	11	0.49	..	..
Sales Tax	157	1.82	39	2.57

(b) The reasons for writes-off under 'Sales Tax', as furnished by the department (September 1977), are as follows :

	<i>Number of assessees</i>	<i>Amount (In lakhs of rupees)</i>
1. Defaulters who were adjudged insolvent	1	0.005
2. Defaulters who did not have any property	31	0.009
3. Defaulters whose whereabouts are not known	109	1.767
4. Defaulters who died leaving no property behind them	6	0.013
5. Defaulters who closed business leaving nothing behind them/having no income	4	0.013
6. Institutions like societies with no assets to recover the dues	14	1.903
7. Writes-off of penalty where taxes are fully paid	31	0.680
Total	196	4.390

CHAPTER II

SALES TAX

2.01. Results of test audit in general

During the period 1st April 1976 to 31st March 1977, test audit of assessments/refund files disclosed under-assessment of tax of Rs. 47.72 lakhs in 435 cases. The under-assessment of tax is categorised under the following heads:

Nature of irregularity	Number of cases	Amount (In lakhs of rupees)
1. Incorrect computation of taxable turnover	161	37.02
2. Incorrect computation of tax	171	5.89
3. Non-levy/short levy of penalty	49	1.60
4. Others	54	3.21
Total	435	47.72

Some important cases are mentioned in the following paragraphs.

2.02. Non-levy of tax on gunny bags

Under the Karnataka Sales Tax Act, 1957, sale of 'gunny bags' was subject to multipoint tax at 1 per cent up to 31st March 1966 and at 1.5 per cent thereafter.

A dealer in Bangalore City engaged by the Food Corporation of India to supply wheat products out of wheat supplied by the Corporation, was allowed to replace old gunny bags by new ones wherever necessary. The cost of new bags replaced was reimbursed by the Corporation. The consideration paid to the dealer towards new gunny bags during the years 1966-67 and 1967-68 amounted to Rs. 3,27,492 and Rs. 2,90,941 respectively. Even though the transaction amounted to a 'sale', it was not subjected to tax.

On this being pointed out in audit (September/October 1973), the department accepted the objection and rectified the assessments for the years 1966-67 and 1967-68 along

with the assessments for the year 1965-66. The differential tax of Rs. 11,326 was collected in November 1975.

The matter was also reported to Government in April 1977. Government confirmed the facts (August 1977).

2.03. Non-levy of tax on the sales turnover of pierced cocoons

Under the Karnataka Sales Tax Act, 1957, silkworm cocoons sold by cocoon rearers are exempt from levy of sales tax. Further, no tax is leviable on inter-State sale of goods under the Central Sales Tax Act, 1956, if the sale or purchase of such goods is generally exempt from tax under the State Act.

(a) In a Commercial Tax Office in Bangalore District Circle, inter-State sales turnovers of pierced cocoons by two dealers (not rearers) for the years 1973-74 to 1975-76, aggregating Rs. 3,50,658 were exempted from levy of tax, even though pierced cocoons sold by dealers are not exempt from levy under the State Act. This resulted in short levy of tax of Rs. 35,065.

(b) Similarly, in the same Commercial Tax Office in respect of a dealer, a sales turnover of Rs. 84,216 relating to the pierced cocoons for the years 1973-74 to 1975-76, involving tax of Rs. 3,140 was incorrectly exempted under the Karnataka Sales Tax Act, 1957.

The matter was reported to Government in April 1977. Government stated (August 1977) that the general issue regarding conferring exemption from payment of sales tax on silkworm cocoons with retrospective effect, is under consideration separately and that the final decision thereon would meet the points of Audit. Further developments are awaited (February 1978).

2.04. Non-levy/incorrect refund of purchase tax

According to the Karnataka Sales Tax Act, 1957, a dealer who purchases goods from unregistered dealers and consumes them in the manufacture of other goods for sale or otherwise, is liable to pay purchase tax on the goods so purchased, at the rates applicable to the sale of such goods.

(i) In a Commercial Tax Office, Bangalore Division, turnovers relating to Java Citronella grass (oil grass) purchased from unregistered dealers for the purpose of

extraction of oil used in the manufacture of soap and perfumes, during the years 1971-72 to 1974-75, were not taxed on the ground that the oil grass was "plant" and eligible for exemption under serial number 12 of the Fifth Schedule to the Act.

It was pointed out in audit (June 1976) that the oil grass was not "plant" as held by the department, but "grass" which is included in the definition of grass in the Act as it was cut and removed from the earth at the time of sale.

The department accepted the views of Audit (January 1977) and agreed to raise an additional demand of Rs. 11,596.

The matter was also reported to Government in April 1977. Government stated (October 1977) that a sum of Rs. 3,500 had since been recovered to the end of July 1977 and the recovery of the balance is being pursued through Court. Further report is awaited (February 1978).

(ii) In a Commercial Tax Office (Chitradurga district), purchase turnover of Rs. 5,11,910 for the period 10th August 1972 to 31st March 1973, relating to paddy purchased from unregistered dealers and converted into beaten rice (**avalakki**) was not taxed. On this being pointed out in audit (June 1976), the department collected the tax of Rs. 7,832 (November 1976).

In another Commercial Tax Office (Raichur district), tax of Rs. 2,181 levied on paddy purchased from unregistered dealers and converted into parched rice (**mandalu**), during the years 1970-71 to 1972-73, was incorrectly refunded to the dealer on the presumption that purchase of paddy was not eligible to tax as per a judicial decision. This decision applies only to cases of dehusking of paddy and not to cases of manufacture of parched rice. On this being pointed out in audit (July-August 1976), the department stated (June 1977) that the matter is under examination.

The matter was reported to Government in April 1977. Government confirmed the facts (October 1977) and stated that the question of initiating revision proceedings is under consideration.

(iii) In the case of three assesseees (Bangalore City and South Kanara districts) the turnovers relating to goods

purchased from unregistered dealers and used in the manufacture of other goods had been omitted to be assessed to tax.

On these cases being pointed out in audit (October 1975 and January and June 1976), the assessments were revised (May 1976, December 1976 and February 1977) by the department and additional demands aggregating Rs. 19,665 were raised.

The matter was also reported to Government in September 1977. Government stated (October 1977, December 1977 and January 1978) that in one case the dealer has preferred an appeal before the High Court (June 1977) and in another case a sum of Rs. 8,244 has been recovered (November and December 1977). Particulars of recovery in respect of the remaining case are awaited (February 1978).

2.05. Excess refund of tax owing to incorrect computation of turnover

The turnovers relating to the sale of toddy for the assessment years 1965-66, 1966-67 and 1967-68 were returned by an assessee (Gulbarga district) on the basis of a yield of 22 gallons of toddy tapped per tree per year and converting the yield into number of bottles, adopting a ratio of six bottles per gallon of toddy. In the absence of production of books of accounts, the assessing officer estimated (November 1969) the yield of toddy at 25 gallons per tree per year.

When this estimation was challenged by the assessee in appeal, the Appellate Authority in its order (August 1974) allowed the appeal and restored the turnover at 22 gallons per tree per year as returned by the assessee.

However, while giving effect to the appellate order, the assessing officer adopted (November 1976) the ratio of 5 bottles for every gallon of toddy as against the standard ratio of 6.99 bottles of 650 ml., each, prescribed under the Excise rules.

This resulted in determination of lesser turnover for levy of sales tax and consequent excess refund of tax amounting to Rs. 70,377 (approximately).

The matter was reported to Government in July 1977; reply is awaited (February 1978).

2.06. Irregular exemption of turnover as sales through agents

In the office of an Assistant Commissioner of Commercial Taxes (Assessments) in Bangalore City, the sales turnovers of soaps of an assessee, amounting to Rs. 23,24,709 for the period 1964-65 to 1969-70, were exempted on the ground that the sales were made through agents. It was pointed out in audit (August-September 1976) that the exemption was not in order as the assessee had not produced proof to show that the sales were made through agents.

The department accepted the views of Audit and stated (August 1977) that the omission has been rectified (March 1977) in assessments concluded as a result of appeal when the case was remanded (November 1976) by the Deputy Commissioner for fresh assessment, by raising (March 1977) an additional demand of Rs. 1.43 lakhs. Report regarding recovery is awaited (February 1978).

The matter was also reported to Government in September 1977. Government stated (November 1977) that they have no further remarks to offer.

2.07. Short levy of tax on sales turnover of sub-lessees

In the assessment of the turnover of two toddy contractors, the assessing officer (Mysore division) adopted, in the absence of books of account, one and half times the amount of **kist** remitted by them as well as their sub-lessees for the purpose of determining the turnover.

On an appeal, the Appellate Authority ordered the exclusion of the turnover relating to the sub-lessees and held that this amount could be assessed separately in the assessments relating to the sub-lessees individually.

While giving effect to the appellate order, turnover of Rs. 6.67 lakhs, representing the portion of the turnover relating to the sub-lessees was excluded from the assessment of the contractors. This portion of the turnover was, however, not assessed separately as required in the appellate order, resulting in short levy of tax of Rs. 28,138.

On this being pointed out in audit (October 1975), the assessments of two sub-lessees were concluded and a demand of Rs. 13,320 raised (April 1976). Report regarding recovery is awaited (February 1978). In the remaining 7 cases, involving a tax effect of Rs. 14,818 Government

stated (August 1977) that the tax is irrecoverable because either the parties are not traceable or the cases had become time barred.

2.08. Non-levy of tax on sale of yarn by a society

In the assessment of a handloom fabrics manufacturers' society in Bijapur district, distribution of cotton and silk yarn by the society to its members during the years 1969-70 to 1971-72 was not taxed on the ground that the transactions did not amount to sale. It was pointed out in audit (July 1975) that the distribution of yarn involved sale and in fact similar transactions of this society during the subsequent years, viz., 1972-73 and 1973-74, had been taxed. The department accepted (March 1976) the omission and the assessment for the years 1969-70 and 1971-72 were revised, raising a demand of Rs. 7,219 (March 1976).

The matter was also reported to Government in May 1976. Government confirmed the facts and stated (July 1976) that since the assessee had failed to pay the additional demand, an application for the recovery had been filed in Court. Further developments are awaited (February 1978).

2.09. Excess refund of Central sales tax

In the case of an assessee in Bangalore division, the tax due under the Central Sales Tax Act, 1956, for the year 1963-64, correctly worked out to Rs. 16,82,781 as against which tax of Rs. 16,91,017 as per returns had been paid entitling the assessee to a refund of Rs. 8,236. However, the tax due was actually assessed at Rs. 16,60,440 and the dealer was granted a refund of tax of Rs. 30,777 resulting in excess refund of Rs. 22,541.

On this being pointed out in audit (July 1976), the assessment order was revised (March 1977) determining the tax due at Rs. 16,71,330 and an amount of Rs. 10,890 was recovered by adjustment against the refund due to the assessee for the year 1965-66. Action is yet to be taken (February 1978) to pass further rectification order and for recovery of the balance of Rs. 11,651.

The matter was reported to Government in October 1977 ; reply is awaited (February 1978).

2.10. Application of incorrect rate of Central sales tax

Prior to 1st July 1975, the turnover of inter-State sales of declared goods was taxable under the Central Sales Tax Act, 1956, at the same rate as was applicable to the sale or purchase of goods inside the State under the State Sales Tax Act; with effect from 1st July 1975, inter-State sales turnover of declared goods is taxable at the rates prescribed under the State Act if it is covered by the declaration in the prescribed form and at double that rate if it is not covered by such declaration.

(i) The rate of tax on coconuts (declared goods) was reduced from 3 per cent to 2 per cent under the Karnataka Sales Tax Act, 1957, with effect from 1st April 1970, and the inter-State sale of coconuts was, therefore, subject to tax at 3 per cent up to 31st March 1970, under the Central Act. It was seen in audit (September 1976) that in the assessment of a dealer under the Central Sales Tax Act, 1956, in Bangalore district, inter-State sales turnover of coconuts for Rs. 19,88,425 relating to the year 1969-70, was incorrectly taxed at 2 per cent instead of at 3 per cent, resulting in short levy of tax of Rs. 19,884.

On this being pointed out in audit (September 1976), the department rectified the mistake and raised the additional demand (October 1976).

The matter was also reported to Government in May 1977. Government confirmed the facts and stated (August 1977) that the assessee had paid the whole amount between December 1976 and July 1977.

(ii) In another case in a Commercial Tax Office (Chitradurga district), inter-State sales turnover of declared goods, viz., hides and skins and cotton, amounting to Rs. 21.09 lakhs, relating to four dealers though not covered by declarations in the prescribed form, was taxed at the State rate of tax of 2 per cent or 3 per cent applicable to the goods under the Karnataka Sales Tax Act, 1957, instead of at double these rates for the period July 1975 to March 1976. This resulted in short levy of tax of Rs. 62,532.

The matter was reported to Government in October 1977; reply is awaited (February 1978).

2.11. Incorrect computation of refund of tax

According to the provisions of the Karnataka Sales Tax Act, 1957, the tax paid in respect of the sale or purchase of any of the declared goods under the State Act is refundable if such goods are sold subsequently in the course of inter-State trade or commerce and tax has been paid on such inter-State sales turnover under the Central Sales Tax Act, 1956.

An assessee in Dharwar district effected purchases of cotton seeds worth Rs. 10,01,548 and **gingelly** worth Rs. 1,18,588 before 1st January 1968 which were sold subsequently in the course of inter-State trade. The amount of tax paid under the State Act and which was refundable was incorrectly computed at 2 per cent instead of one per cent on cotton seed and at 3 per cent instead of 2 per cent on **gingelly**, although the enhanced rates were given effect to only from 1st January 1968. This resulted in excess refund of Rs. 11,202.

On this being pointed out in audit (June 1977), the department recovered the amount (June 1977).

The matter was also reported to Government in September 1977. Government confirmed (October 1977) the facts and stated that the amount had been recovered (June 1977).

2.12. Excess levy of tax owing to misclassification of goods

(i) Under the Karnataka Sales Tax Act, 1957, blasting gunpowder is taxable at 6 per cent.

In a Commercial Tax Office (Bellary district) the sales turnover of an assessee relating to blasting gunpowder, for the years 1974-75 and 1975-76, was taxed at 15 per cent applicable to guns, resulting in excess levy of tax of Rs. 16,181.

This was pointed out in audit in October 1976; reply from the department is awaited (February 1978).

(ii) Under the Karnataka Sales Tax Act, 1957, ore was taxable at the purchase point at 8 per cent, while general goods not mentioned in any of the schedules were taxable at 3 per cent up to 30th June 1972 and at 3½ per cent thereafter.

In a Commercial Tax Office (Bangalore district), the turnover relating to purchase of china-clay was taxed treating the commodity as ore, for the period 1970-71 to 1974-75. As china-clay is not ore and as specific rate of tax is not prescribed for china-clay in the Act, the commodity is taxable as general goods.

On this being pointed out in audit (June 1976), the department rectified the mistake (September 1976) and refunded an amount of Rs. 29,892 to the assessee.

(iii) Under the Karnataka Sales Tax Act, 1957, motor vehicles were taxable at 11 per cent up to 31st March 1970 and 12 per cent from 1st April 1970, while machinery and parts thereof were taxable at 6½ per cent up to 31st March 1970 and 6 per cent from 1st April 1970.

In a Commercial Tax Office (Bangalore district), the turnovers of an assessee relating to the sales of road rollers and their parts, for the years 1969-70 and 1970-71, were taxed treating them as motor vehicles and their parts instead of as machinery and parts thereof.

On this being pointed out in audit (September 1976), the mistake was rectified (November 1976) and a refund of Rs. 22,356 was granted to the assessee.

All the three cases were also reported to Government in July and September 1977. Government confirmed the facts (November 1977) in respect of (ii). Reply is awaited in respect of other cases (February 1978).

2.13. Short levy of tax on inter-State sales of charcoal

According to the Central Sales Tax Act, 1956, when the goods taxable at 3 per cent or more under the State Act are sold in the course of inter-State trade or commerce, tax leviable, under the Central Sales Tax Act is as follows:

(a) Three per cent subject to the production of the declaration in the prescribed form;

(b) Ten per cent or the rate applicable to the sale or purchase of such goods inside the State, whichever is higher, if the declaration in the prescribed form is not produced.

In the assessment of a dealer in Belgaum district under the Central Sales Tax Act, the turnover of Rs. 1.59 lakhs,

relating to inter-State sale of charcoal during the year 1974-75, which was not supported by the declarations in the prescribed form, was incorrectly taxed at 3 per cent instead of at 10 per cent.

On this being pointed out in audit (December 1976 and January 1977) the Commercial Tax Officer rectified the mistake and collected the difference of tax of Rs. 11,126 (March 1977).

The matter was also reported to Government in September 1977. Government confirmed the facts of the case (September 1977).

2.14. Misclassification of goods

Under the Karnataka Sales Tax Act, 1957, coconuts are taxable as declared goods, while desiccated coconut powder is taxable as general goods at multipoint.

In a Commercial Tax Office (Hassan district) it was noticed in audit (July 1977) that in the assessment of a dealer for the assessment years 1968-69 to 1973-74, desiccated coconut powder was treated as coconut and the inter-State sales turnover thereof was assessed to tax accordingly. The tax levied on the corresponding purchase turnover of coconuts was refunded under the Karnataka Sales Tax Act, 1957. This misclassification resulted in incorrect refund and short levy of tax of Rs. 36,676.

The matter was reported to Government in September 1977; reply is awaited (February 1978).

2.15. Non-levy of additional sales tax

Under the Karnataka Sales Tax Act, 1957, as amended with effect from 1st April 1975, an additional tax at ten per cent of the tax payable is to be levied and collected from every dealer whose total turnover is Rs. 10 lakhs or more.

In six Commercial Tax Offices in Bangalore City, Bangalore district, and Gulbarga division, the additional tax was omitted to be levied, resulting in non-levy of tax of Rs. 10,515 in the case of 13 dealers.

On this being pointed out in audit (between May 1976 and January 1977), a sum of Rs. 9,078 was collected (between August 1976 and August 1977) and action had

been taken (December 1976 and January 1977) to demand the remaining amount. Further report is awaited (February 1978).

The matter was also reported to Government in September 1977. Government confirmed the facts of the case (November 1977).

2.16. Incorrect computation of rate of tax

Under the Central Sales Tax Act, 1956, the tax payable by a dealer on the inter-State sales turnover of goods which are taxable at a rate lower than 4 per cent under the State Act is to be calculated at such lower rate. Such lower rate of tax for the purpose of levy on the inter-State sales turnover of goods has to be arrived at after including the element of additional tax leviable under the Karnataka Sales Tax Act, 1957, provided that the rate after adding the element of additional tax does not exceed 4 per cent.

In the case of two dealers (Dharwar district) inter-State sales turnover of Rs. 60.90 lakhs relating to cotton, for the period 1st July 1975 to 3rd November 1975 was taxed at the rate of 3 per cent instead of at 3.3 per cent. This resulted in short levy of tax of Rs. 18,270.

The matter was reported to Government in September 1977; reply is awaited (February 1978).

2.17. Application of incorrect rate of State sales tax

Under the Karnataka Sales Tax Act, 1957, machine parts were taxable at 4 per cent up to 31st March 1964, 6 per cent from 1st April 1964 to 31st March 1966 and 6½ per cent from 1st April 1966 to 31st March 1970.

In the case of a dealer in Bangalore division the sales turnovers of Rs. 4.83 lakhs relating to the sales of jigs and other small tools, classifiable as machine parts, were taxed at 4 per cent for the years 1965-66 and 1966-67. This resulted in short levy of tax of Rs. 10,824.

On this being pointed out in audit (September 1977), the department agreed (September 1977) to rectify the assessment. Further report is awaited (February 1978).

The matter was also reported to Government in October 1977. Government stated (January 1978) that the relevant assessment records have been forwarded to the

Karnataka Appellate Tribunal in connection with an appeal preferred by the assessee and that no action can be taken on the points raised in audit until the records are received back from the Tribunal. Further reply is awaited (February 1978).

2.18. Short levy of tax on leather

Under the Karnataka Sales Tax Act, 1957, hides and skins are taxable as "declared goods" at the purchase point, while leather is taxable at sale point as unclassified goods.

In one of the Commercial Tax Offices in Bangalore division it was noticed in audit (September 1977) that during the years 1971-72 to 1973-74 a dealer purchased hides and skins and sold leather after processing the hides and skins. The assessing officer treated leather and hides and skins as the same commodity and exempted the intra-State sales of leather from tax, as hides and skins were not taxable at sale point under the Act. The inter-State sales of leather which were not supported by Form 'C' were taxed at 2 per cent instead of at 10 per cent. As leather is a commodity commercially different from hides and skins, it cannot be treated at par with the declared goods for taxation purposes. The incorrect classification resulted in short levy of tax of Rs. 93,730.

The matter was reported to Government in October 1977; reply is awaited (February 1978).

2.19. Non-imposition of penalty for belated payment of tax

Prior to 1st April 1970, dealers who were permitted to file quarterly returns of turnover were required to pay the tax payable for each quarter at the time of filing the returns. Otherwise, they were liable to pay penalty calculated in the manner specified in Section 13(2) of the Karnataka Sales Tax Act, 1957.

In a Commercial Tax Office in Bangalore City, it was noticed in audit (May 1976) that for the year 1968-69, an assessee was permitted to pay tax in quarterly instalments but it was paid for the first three quarters only after the due dates. The tax for the last quarter was not paid even at the time of the assessment for the year. Though the delay

in payment of tax attracted penalty amounting to Rs. 24,686 up to the date of assessment (February 1976), the assessing authority did not raise any demand in this behalf.

The matter was reported to Government in August 1976. Government stated (January 1977) that no penalty could be levied on provisional tax which had not been paid, citing a High Court decision in support. But, according to this decision, on reduction of provisional demand on final assessment the penalty gets correspondingly reduced. The High Court had not decided that penalty is not leviable for non-payment of the provisional tax. In the case of non-levy of penalty pointed out above, the provisional demand was actually revised upward on final assessment. Government was informed accordingly in February 1977. Government confirmed the facts (February 1978) and stated that the demand for the penalty has been raised (August 1976). Report regarding recovery is awaited (February 1978).

2.20. Irregular reduction of demand

Mention was made in paragraphs 25 and 2.14 of the Reports of the Comptroller and Auditor General of India on Revenue Receipts for the years 1974-75 and 1975-76, respectively, about irregular reduction of demand owing to double postings of credits.

(i) In a Commercial Tax Office (Bangalore district), in the case of eight dealers, the credits for monthly payments of tax were either incorrectly given or posted twice. This resulted in irregular reduction of demand aggregating Rs. 17,789.

On this being pointed out in audit (March 1977), the department accepted the omissions and raised additional demand (September 1977) amounting to Rs. 12,462 in four cases and rectified the omissions in the remaining cases. Report regarding recovery is awaited (February 1978).

(ii) In another Commercial Tax Office (Dharwar district), in the case of three dealers the credits for payment of tax were posted twice, resulting in reduction of demand of Rs. 10,915.

On this being pointed out in audit (August 1977), the department recovered (August 1977) a sum of Rs. 1,860 in one case. Report regarding recovery in respect of the other two cases is awaited (February 1978).

The case at (i) was reported to Government in May 1977 and the case at (ii) in October 1977. Government confirmed the facts (October 1977 and January 1978).

2.21. Evasion of tax due to non-registration

In Bellary district two excise contractors who were granted the right of sale of toddy by the Excise department had not registered themselves as dealers under the Karnataka Sales Tax Act, 1957, and consequently their sales turnovers (Rs. 2.67 lakhs) were not assessed to sales tax.

On this being pointed out in audit (April 1976), the assessing authority assessed (February and March 1977) the dealers to tax and raised demand of Rs. 17,680 comprising tax of Rs. 10,680 and penalty of Rs. 7,000 out of which a sum of Rs. 3,640 had been recovered (June 1977). Report regarding recovery of the balance amount is awaited (February 1978).

The matter was also reported to Government in October 1977 ; reply is awaited (February 1978).

2.22. Irregular grant of concessional rate of tax

Mention was made in paragraphs 20 and 2.12 of the Reports of the Comptroller and Auditor General of India on Revenue Receipts for the years 1974-75 and 1975-76, respectively, about irregular grant of concession to components of component parts. On further scrutiny similar cases noticed in audit (between March 1975 and September 1977) are detailed below :

(i) In two Commercial Tax Offices in Bangalore, in the case of two dealers the sales of aluminium filter housing and auto components during the years 1970-71 and 1971-72, sold to another dealer manufacturing component parts of motor vehicles, were taxed at the concessional rate, resulting in short levy of tax of Rs. 13,019.

On this being pointed out in audit (January 1975/ November 1975), the assessments were rectified and the difference of tax recovered (January 1976/January 1977).

(ii) In three Commercial Tax Offices in Bangalore City and Mysore City, in respect of three dealers the sales turnover for the year 1971-72 of goods like bolts, nuts, spares, clutch pins, studs, collars, washers and iron castings were taxed at the concessional rate of 2 per cent even though

they were not goods falling under the Second Schedule. This resulted in short levy of tax of Rs. 31,990.

On this being pointed out in audit (between March 1975 and September 1977), the department agreed (September 1977) to revise the assessments. Further report is awaited (February 1978).

The matter was also reported to Government in October 1977; reply is awaited (February 1978).

2.23. Harvesting and transportation charges escaping assessment

Under serial number 11-A of the Third Schedule to the Karnataka Sales Tax Act, 1957, sugarcane is taxable at 10 per cent of the purchase value in the hands of the last purchaser in the State. In the assessment of a sugar factory in Bidar district for the years 1971-72 and 1972-73, the charges towards harvesting and transportation of sugarcane amounting to Rs. 35,44,150 which were reimbursed by the factory to the ryots, were incorrectly excluded while computing the taxable purchase value. This resulted in short levy of tax of Rs. 3,56,882.

It was pointed out in audit in October 1975 that harvesting charges are charges to be incurred normally by the ryots and reimbursement of such charges by the factory as also transportation charges are to be treated as forming part of purchase value in cases where agreements provide for ex factory delivery.

The department accepted (March 1977) the omission and assessments for the two years 1970-71 and 1972-73 were revised.

The matter was also reported to Government in April 1977; Government stated (October 1977) that the dealer has preferred an appeal before the Karnataka Appellate Tribunal (December 1976). Further developments are awaited (February 1978).

2.24. Exemptions

Some important cases of irregular exemptions noticed in the course of test audit of assessment records during the year 1976-77 are mentioned in the following paragraphs.

(i) Confiscated goods.—Confiscated goods sold by the Customs and Central Excise Departments of the Government of India were not being taxed in the State on the basis of the clarification issued by the Government of Karnataka in June 1960. It was stated by Government that the Central Excise Department was not liable to be registered as a dealer under the Karnataka Sales Tax Act, 1957, and that the sale of confiscated goods was not liable to sales tax under the Act.

In view of the magnitude and frequency of sale of such confiscated goods in the State, the matter was taken up by Audit (June 1974) with Government with a request to consider the amplification of the term 'dealer' in Section 2(k) of the Act so as to bring within its scope the Central Government also. Similar amendment to the Kerala Sales Tax Act, 1963, introduced in 1968, with retrospective effect, by which sale of confiscated goods became taxable, was also brought to the notice of Government.

Government stated (April 1976) that Section 2(k) of the Act has been amended with effect from 1st April 1976, so as to make the Central Government liable for sales tax under the Act.

During the year 1976-77, tax of Rs. 36,160 was collected on a turnover of Rs. 21.70 lakhs as a result of this amendment.

(ii) Sale of scrap.—It was seen in audit (April/September 1970) that sales of scrap like copper wire, copper alloy, aluminium and cable wire by the State Electricity Board were not being taxed. On this being pointed out in audit (September 1970), the Commissioner of Commercial Taxes, relying upon a Supreme Court judgment of 1967, stated (October 1970) that the Board carries on business of generation and distribution of electricity and it cannot be considered to be selling the scrap "in the course of business". As large quantities of scrap sold by the Board regularly and continuously escaped tax, the matter was reported to Government in September 1975 with a request to consider an amendment of the term 'business', if necessary, so as to bring within its ambit sale of surplus unserviceable or scrap materials by institutions like the State Electricity Board. In the case of Karnataka Electricity Board alone the sale turnover of scrap materials for the year 1969-70 was of the order of Rs. 57.68 lakhs involving

a tax effect of Rs. 1.73 lakhs and this aspect of accrual of a considerable amount of additional revenue was brought to notice of Government. Amendments made in the Sales Tax Act of Tamil Nadu in 1964, and of Kerala in 1974 for this purpose were also brought to the notice of Government.

Government stated (July 1976) that the term 'business' in Section 2 of the Karnataka Sales Tax Act, 1957, has been amended with effect from 1st April 1976 so as to include any transaction in connection with or incidental or ancillary to trade, commerce, manufacture, adventure or concern.

(iii) **Products of village industries.**—Under serial number 28 of the Fifth Schedule to the Karnataka Sales Tax Act, 1957, products of village industries, when sold by a **bonafide** producer recognised by the Commissioner are exempted from sales tax. Village industries numbering 34 have been listed in Rule 25-A of the Karnataka Sales Tax Rules, 1957. Restrictions regarding the number of units of production or the number of persons employed are also mentioned in the Rule.

It was pointed out in audit (August 1975) that in the case of cottage oil industry even though the number of **ghanis** was restricted to two, there was ample scope for unscrupulous dealers to produce substantial quantities of oil from more than two **ghanis** in the same premises by obtaining separate registration certificates in the names of relatives and even labourers regularly employed. As cottage oil industries using electricity are also eligible for exemption, the production of oil and oilcake in such cases would be quite high. Further, even though under serial number 28 of the Fifth Schedule product of village industries when sold by **bonafide** producer is exempted from tax, the Commissioner of Commercial Taxes clarified that sale of such goods in the hands of all subsequent dealers is also exempt. **Ghani** oil is not easily distinguishable from the resembling products produced by large scale industries. In the case of soap making industries also, the exemption was applicable to industries employing not more than twelve persons irrespective of the output. It was noticed that annual production of soap in such soap making industries varied from Rs. 1 lakh to Rs. 5 lakhs.

As the exemption was intended for small industries and not affluent producers, Government was requested (August

1975) to review the existing scheme of granting exemption to the village industries and to consider fixing certain turnover/production limits, in addition to existing restrictions. Government stated (January 1977) that with a view to checking the misuse of exemption given to village industries, serial number 28 of the Fifth Schedule has been amended. Consequently Rule 25-A of the Karnataka Sales Tax Rules is also being amended. In notification of May 1977, publishing the draft amendment Rules, Government have proposed the annual turnover of Rs. 1 lakh for all the village industries in addition to the existing restrictions regarding number of persons employed or number of units of production.

(iv) Branch transfers.—Under the Central Sales Tax Act, 1956, transfer of goods by a registered dealer to any other place of his business outside the State or to his agent or principal in other States is exempt from tax, on production of declarations in the prescribed form duly filled in and signed by the principal officer of the other place of business or his agent or principal as the case may be, along with the evidence of despatch of such goods.

In the assessment of a dealer in Bangalore district, a turnover of Rs. 3,19,280, for the year 1973-74, relating to M. S. scraps was exempted from tax, as branch transfers to Madras. It was pointed out in audit (July 1976) that as the declaration in the prescribed form was not furnished along with the evidence of despatch of goods, the turnover was taxable at 3 per cent under the Act.

The department rectified the mistake (February 1977) and raised demand of Rs. 9,578. Report regarding recovery is awaited (February 1978).

The matter was also reported to Government in October 1977; reply is awaited (February 1978).

CHAPTER III

STATE EXCISE DUTIES

3.01. Non-collection of excise duty on narcotic drugs

Prior to the amendment of Section 2 (h) of the Medicinal and Toilet Preparations (Excise Duties) Act, 1955, by the Finance Act, 1976, "narcotic drug" or "narcotic" was defined as "a substance (other than alcohol) which, when swallowed or inhaled by, or injected into a human being induces drowsiness, sleep, stupefaction or insensibility in human being and includes all alkaloids of opium". The anaesthetic drugs are meant to induce insensibility in human beings and hence they fall under the definition of narcotic drug. According to the schedule appended to Section 3 of the Act, excise duty at 10 per cent **ad valorem** is leviable on narcotic drug till 15th March 1976, when the definition of narcotic drug was amended, resulting in exclusion of anaesthetic drugs from the scope of medicinal and toilet preparations in the absence of any specific notification issued by the Central Government declaring them to be narcotic drugs.

It was noticed in audit (July 1976), that a licensee manufacturing anaesthetic drugs of different varieties cleared such drugs valued at Rs. 19.71 lakhs without payment of any excise duty during the period 1st April 1975 to 15th March 1976 and the duty not collected amounted to Rs. 1.97 lakhs. The details of clearances prior to 1st April 1975 are awaited (February 1978).

The matter was reported to the Excise Commissioner in July 1976 and to Government in November 1976. Government, after consulting the Government of India, instructed (September 1977) the Excise Commissioner to collect excise duty due on the above mentioned drugs from the firm. Particulars of recovery are awaited (February 1978).

3.02. Short levy of excise duty on rectified spirit exported outside the State

Under the Karnataka Excise (Excise Duties) Rules, 1968, the effective rate of duty on rectified spirit exported

outside the State, but within India, is 25 paise per bulk litre of the strength of London proof. It was, however, noticed in audit (January 1976 and January 1977) that four distilleries in the State had exported during the years 1971 to 1974 a quantity of 8,99,350 bulk litres of rectified spirit of 66 degrees to 68 degrees overproof strength (equivalent to 14,96,994 bulk litres of the London strength proof), but duty thereon had been levied at 25 paise per overproof bulk litre. This resulted in short levy of duty and cesses amounting to Rs. 1,70,328.

The matter was reported to Government in September 1976. Government stated (October 1977) that the Excise Commissioner, Bangalore has been requested to take necessary action to recover the duty of Rs. 24,225 from one distillery. Action taken in respect of the remaining distilleries is awaited (February 1978).

3.03. Incorrect application of exemption order

By an order issued in February 1976 under Section 67 (a) of the Karnataka Excise Act, 1965, Government exempted the excise duty leviable on rectified spirit sold to institutions belonging to the State Government and local bodies for **bonafide** medicinal or scientific or research or educational, etc., purposes.

(a) However, in the District Excise Office, Belgaum, the department had permitted (May 1976) sale of 1,059 bulk litres of rectified spirit to two private educational institutions, exempting it from the levy of the excise duty and the cesses amounting to Rs. 16,229.

The matter was reported to Government (July 1977). Government stated (August 1977) that the entire amount was recovered (May 1977).

(b) During 1975-76 the department had allowed the sale of 7,556 bulk litres of rectified spirit to twenty-nine private/Central Government institutions exempting it from the levy of duty. This resulted in non-levy of duty and the cesses amounting to Rs. 1,16,401.

The matter was reported to Government in August 1977. Government stated (October 1977) that recoveries have been effected in full (Rs. 9,512) in respect of three districts. Further report in respect of other districts is awaited (February 1978).

3.04. Excess wastage of rectified spirit

The establishment of four warehouses by a private firm for the purpose of manufacturing arrack out of rectified spirit was sanctioned by Government in June 1975 as a package deal to run for five years. The terms of the sanction included supply, on Government account, of rectified spirit from distilleries and delivery of arrack (after conversion of spirit) to the specified arrack depots by the firm. The firm was allowed a total wastage of 5 per cent towards losses at several stages from the point of supply of rectified spirit to the point of sale of arrack from the feeding centres. The warehouses started functioning from October 1975.

It was noticed in audit (November 1976 to February 1977) that in two warehouses (South Kanara and Bangalore districts) during the excise year 1975-76, wastage had been allowed in excess of the prescribed limit to the extent of 6,858 proof litres, resulting in loss of revenue of Rs. 52,738.

The matter was reported to the department in December 1976 and April 1977 and to Government in June 1977; reply is awaited (February 1978).

3.05. Storage loss of rectified spirit in excess of the permissible limit

Mention was made in paragraph 49 of the Report of the Comptroller and Auditor General of India on Revenue Receipts for the year 1974-75 regarding the non-collection of duty on shortage of rectified spirit in excess of the permissible limit of one per cent stored in a year under Rule 25 of the Karnataka Excise (Distillery and Warehouse) Rules, 1967. Instances of similar shortages were noticed in audit during the year 1976-77 also. A total storage loss of 95,443 proof litres in excess of the permissible limit relating to the years 1969-70 to 1975-76 was noticed in two distilleries (Bangalore and Mandya), involving duty value and cesses amounting to Rs. 7.97 lakhs.

The duty and cesses were not collected nor is there any evidence on record that the licensees had proved to the satisfaction of the Deputy Commissioner that the deficiency in excess of the permissible limit could not have been prevented even by the exercise of proper care and precautions.

The matter was reported to Government in June 1977; reply is awaited (February 1978).

3.06. Non-levy of duty on excess wastages of rectified spirit in transit

Rule 37 of the Karnataka Excise (Rectified Spirits) Rules, 1967, contemplates the procedure for the movement of rectified spirit under bond and as per Rule 40(2) *ibid* the officer-in-charge of the bonded laboratory may write off wastages of spirit up to $\frac{1}{8}$ per cent. Any wastage in excess of $\frac{1}{8}$ per cent should be reported to the Deputy Commissioner for obtaining the orders of the Excise Commissioner as regards the amount of duty to be levied.

During the year 1975-76, a distillery in Bangalore, while bringing rectified spirit under bond from two distilleries of Belgaum district for the manufacture of Indian liquors, had recorded transit wastages in excess of the prescribed limit to the extent of 6,010 proof litres, involving duty of Rs. 54,841 including cesses. The excess wastage was neither regularised nor the duty and cesses recovered.

The matter was reported to the Excise Commissioner in May 1977 and to Government in June 1977; reply is awaited (February 1978).

3.07. Non-collection of cost and duty on wastages of spirit utilised from Government account

Under the package deal sanctioned by Government in June 1975, a distillery in Bangalore was manufacturing arrack out of rectified spirit supplied on Government account and was supplying the same to the depots at Tumkur and Kolar districts. The distillery was also manufacturing and supplying arrack to the depots at Bangalore district out of rectified spirit purchased on their own account.

During the period September 1975 to May 1976, separate accounts were not maintained by the distillery in respect of rectified spirit received on Government account and that purchased by them on their own account. Out of 21.64 lakh litres of rectified spirit received on Government account, 9.65 lakh litres were utilised for their own private account after payment of the cost of the same to the distilleries concerned. But the entire transit and issue wastages were shown against Government account instead of restricting them to the proportionate wastages

relatable to the quantity utilised on Government account, resulting in non-collection of the duty and cesses aggregating Rs. 27,980 and the cost of rectified spirit amounting to Rs. 3,838.

The matter was reported to the Excise Commissioner in March 1977 and to Government in June 1977; replies are awaited (February 1978).

3.08. Delay in issue of arrack and toddy licences

According to Rule 16 of the Karnataka Excise (Lease of the Right of Retail Vend of Liquors) Rules, 1969, the person whose bid is confirmed shall, within fifteen days from the date of confirmation or the thirtieth day of June, whichever is earlier, complete the formalities like execution of lease deed after furnishing security and applying for licence, so that the lease could be effective from the first day of July of the next excise year. Proviso to Rule 18 of the Rules provides that in the event of non-compliance with the provisions of Rules 16 and 17, the Deputy Commissioner may continue the licence of the previous licensee in respect of the same shop/shops till fresh licences are issued.

In South Kanara district, due to (i) non-issue of licences before the 30th June, and (ii) not arranging for continuance of the previous licences in cases of delay in issue of confirmation orders and complying with other formalities prescribed in the Rules, sums aggregating Rs. 4.95 lakhs were lost to Government for the excise years 1974-75 and 1975-76.

The matter was reported to the Excise Commissioner in December 1976 and to Government in June 1977; replies are awaited (February 1978).

3.09. Unauthorised financial aid to excise contractors

Under the Karnataka Excise Licences (General Conditions) Rules, 1967, and the Karnataka Excise (Lease of the Right of Retail Vend of Liquors) Rules, 1969, an amount equal to one month's rental towards security is required to be deposited by the lessees in advance with the department at the time of confirmation of annual lease. This amount is to be adjusted against the rental due for the last month of the lease year.

It was, however, noticed in audit (July 1976 to March 1977) that out of such advance deposits collected in

12 districts, sums aggregating Rs. 185.68 lakhs during the years 1974-75 and 1975-76, were either refunded in cash (Rs. 130.94 lakhs) or adjusted against dues of rental for months earlier than the last month of the lease year (Rs. 54.74 lakhs), both in contravention of the provisions of the Rules mentioned above, resulting in unauthorised financial aid to licensees.

The matter was reported to Government in May 1977. Government stated (November 1977) that due to credit squeeze imposed by banks and financial difficulties experienced by the excise contractors all over the State the Excise Commissioner issued instructions to the Deputy Commissioners of the districts to exercise their discretion carefully and assess the amount liable for adjustment in a realistic manner and refund the balance to the concerned lessees. The statutory rules cited above do not, however, provide for any relaxation, at the discretion of the Excise Commissioner or of the Deputy Commissioners of the districts, of the requirement that the security deposit is to be adjusted against the rental due for the last month of the lease year.

ANOTHER TOPIC OF INTEREST

3.10. **Improper clearance of rectified spirit as denatured spirit**

No excise duty is leviable on "denatured spirit" under the Karnataka Excise Act, 1965 and the Rules made thereunder. Rule 2(c) (viii) of the Karnataka Excise (Denatured Spirit and Spirituous Preparations) Rules, 1967 empowers Government to prescribe the proportion of the ingredients to be added to spirit for denaturing, to render it unfit for human consumption. Under these powers vested in them, Government issued a Notification on 26th June 1968 according to which the denaturing of spirit with pure castor oil in the proportion of 99 per cent spirit and one per cent of pure castor oil by volume was allowed.

In a distillery it was observed (February 1974) that 2,41,990 litres (3,87,184 proof litres) of rectified spirit, subjected to the admixture of castor oil in the proportion prescribed by Government, were cleared free of duty as denatured spirit during the period 1969-70 to 1971-72, involving a tax effect of Rs. 28.26 lakhs.

Government was requested (December 1975) to intimate whether authoritative and expert technical opinion had been obtained to confirm that addition of one per cent of pure castor oil by volume to the rectified spirit would ensure that the admixture is rendered unfit for human consumption. Government stated (August 1977) that the admixture of one per cent castor oil was ordered based on the request of the licensee, for using the same for manufacture of brake fluid and that it is not possible to comment on this issue at this distance of time, in the absence of records and the opinions of the Excise Commissioner/technical experts.

The technical opinions of the Drugs Controller for State of Karnataka and the Principal, Government College of Pharmacy, Bangalore obtained by Audit, however, revealed (March 1977) that the addition of one per cent of castor oil to the rectified spirit does not make the spirit unfit for human consumption.

The matter was reported to Government in August 1977. Government stated (January 1978) that the denaturation of rectified spirit by addition of one per cent castor oil is not being allowed at present and that the question of withdrawal of the standing order is under examination.

CHAPTER IV

TAXES ON MOTOR VEHICLES

4.01. Results of test audit in general

During the period 1st April 1976 to 31st March 1977, test audit of receipts accounts in the Regional Transport and other offices of the Motor Vehicles Department disclosed under-assessment of taxes to the extent of Rs. 20.01 lakhs in 51 cases. The under-assessment of taxes may be categorised under the following heads :

<i>Category</i>	<i>Number of cases</i>	<i>Amount (In lakhs of rupees)</i>
1. Short levy of motor vehicles tax	29	17.96
2. Short levy of taxes on passengers and goods	13	1.08
3. Others	9	0.97
Total	51	20.01

Some important cases are mentioned in the following paragraphs.

4.02. Short levy of tax on vehicles covered by special permits

According to the notification issued by Government in October 1972, the rate of tax leviable on vehicles used for carrying a passenger or passengers for hire or reward under a special permit issued under the Motor Vehicles Act, 1939, and which are not covered by any other permits, was revised from Rs. 35 to Rs. 70 per seat per quarter with effect from 1st July 1972.

In two Regional Transport Offices (Bidar and Dharwar districts), 15 vehicles satisfying these conditions were assessed to tax subsequent to 1st July 1972 at the rate of Rs. 35 per seat per quarter instead of at Rs. 70 per seat per quarter, resulting in short levy of tax of Rs. 35,484 for the period November 1973 to July 1974.

On this being pointed out in audit (April/May 1976), the Regional Transport Officers accepted (May 1976), the

fact of short levy and one of them (Dharwar district) reported (May 1977) that a sum of Rs. 348 had been recovered. Further report is awaited (February 1978).

The matter was also reported to Government in June 1976; reply is awaited (February 1978).

4.03. Loss of revenue due to excess refund/short levy

Under Section 7 of the Karnataka Motor Vehicles Taxation Act, 1957, read with Rule 23 of the Karnataka Motor Vehicles Rules, 1957, where a tax on any motor vehicle has been paid for any period and it is proved to the satisfaction of the prescribed authorities that the vehicle has not been used during the whole of that period or a continuous part thereof not being less than one calendar month, a refund of such portion of the tax, prescribed in the table under Rule 23, should be made. Accordingly, when the vehicle has not been used during the whole of a quarter/half year/year the tax paid for the period should be refunded. In respect of a vehicle which has not been used for a period not less than one calendar month but less than two complete calendar months during the quarter, the rate of refund is 30 per cent of the quarterly tax and in respect of the vehicle which has not been used for a period not less than two continuous calendar months during the quarter but less than the whole quarter, the refund would be 60 per cent of the quarterly tax.

In the case of a fleet owner, operating in the whole of the State, assessments for the year 1973-74 had been completed allowing reduction/refund of tax on **pro rata** basis at one-twelfth of the annual tax for each complete month of non-use in contravention of the provisions in the Act and Rules. This resulted in excess refund/short levy of tax of Rs. 54,056. On this being pointed out in audit (June 1977), the department agreed (June 1977) to adopt the correct procedure and also to review the assessments relating to the period prior to 1973-74. Further report is awaited (February 1978).

The matter was also reported to Government in August 1977. Government stated (October 1977) that refund is being allowed under the Karnataka Motor Vehicles Taxation Act, 1957, at proportionate rate of tax payable in respect of released vehicles and at one-twelfth of the annual tax for every calendar month in respect of newly registered vehicles

belonging to fleet owners. This view is not acceptable since the Act or Rules do not contemplate calculation of tax at one-twelfth of annual tax for every calendar month.

4.04. Non-revision of the registered laden weight

Mention was made in paragraph 76 of the Report of the Comptroller and Auditor General of India on Revenue Receipts for the year 1974-75 about the loss of revenue due to non-revision of the registered laden weight.

In Mysore region in respect of four goods vehicles, tax was recovered on the registered laden weight which was different from that prescribed in the notification issued by Government in January 1959. No action was taken by the registering authority to revise the registered laden weight. This resulted in loss of revenue of Rs. 21,302 for the period April 1970 to December 1976. On this being pointed out in audit (February 1977), the registering authority agreed (February 1977) to revise the registered laden weight. Further report is awaited (February 1978).

The matter was also reported to Government in April 1977. Government stated (December 1977) that recovery of Rs. 11,537 has been effected in respect of two vehicles. In the third case the owner is stated to have gone on appeal to the Deputy Transport Commissioner. Particulars of recovery are awaited in respect of the fourth case (February 1978).

4.05. Incorrect extension of exemption to transferred vehicles

Mention was made in paragraph 4.16 of the Report of the Comptroller and Auditor General of India on Revenue Receipts for the year 1975-76 regarding incorrect extension of exemption from levy of motor vehicles tax to vehicles transferred from Government to the Karnataka Land Army Corporation. Similar instances were noticed during 1976-77 also.

(i) In respect of forty-six vehicles transferred by the Public Works Department to the control of the newly formed Karnataka Urban Water Supply and Drainage Board in August 1975, motor vehicles tax was not levied and collected, resulting in non-collection of tax of Rs. 1,83,420 for the period August 1975 to March 1977.

On this being pointed out in audit (February 1977 to July 1977), the Regional Transport Authorities concerned agreed (February 1977 to July 1977) to raise the demands. In one regional transport office in Mysore region, a sum of Rs. 11,979 has since been collected (July 1977). Report regarding recovery in other regional transport offices is awaited (February 1978).

(ii) In a regional transport office (Bangalore district), it was noticed in audit (December 1976) that tax was not being recovered on one goods vehicle transferred to the Karnataka Small Industries Corporation (from the Agriculture Department) and on two goods vehicles belonging to the Bangalore Dairy, a commercial undertaking of the Government of Karnataka.

On this being pointed out in audit (December 1976), a sum of Rs. 13,230 was recovered (July 1977) from the Corporation and an amount of Rs. 34,000 was stated to be due for recovery from the Government Dairy (February 1978).

The matter was also reported to Government in May 1977; reply is awaited (February 1978).

4.06. Non-levy of tax on Government vehicles sold to private parties

Motor vehicles owned by the Government of Karnataka and used for Government purposes are exempted from payment of motor vehicles tax under a notification (May 1958) issued under Section 16 of the Karnataka Motor Vehicles Act, 1957. In respect of six goods vehicles sold in auction to private parties by the Deputy Commissioner, Raichur, during the period June 1974 to August 1974, the change in ownership was not effected in the records of the registering authorities with the result that the tax due on the vehicles amounting to Rs. 62,100 from the date of sale of these vehicles to the end of March 1977 had not been recovered.

On this being pointed out in audit (July 1977), the registering authority agreed (July 1977) to take up the matter with the Deputy Commissioner. Further report is awaited (February 1978).

The matter was also reported to Government in August 1977; reply is awaited (February 1978).

4.07. Adoption of incorrect registered laden weights

Under the Motor Vehicles Act, 1939, the Government of Karnataka issued a notification in January 1959 directing that the maximum laden weight of a goods vehicle as certified by the manufacturer should be increased by 25 per cent to arrive at the registered laden weight of the vehicle for the purposes of taxation.

During audit of the accounts of two regional transport offices in Bijapur and Belgaum districts for the year 1975-76 and 1976-77 respectively, it was noticed (March 1977), that in respect of seven goods vehicles brought into the State of Karnataka from other States, tax was continued to be collected on the basis of the registered laden weights recorded in the certificates of registration issued by the original registering authority, without ascertaining whether the registered laden weights indicated therein had been determined by increasing the maximum laden weights certified by the manufacturers by 25 per cent. In the Belgaum region, however, it was noticed (April 1977) that in respect of five vehicles the registered laden weights were revised and the correct rate of tax assessed with effect from the quarter ended 30th September 1971.

Non-revision of the registered weights in these two regions resulted in loss of revenue of Rs. 12,100 for the period 1st April 1970 to 30th June 1976. Similarly, in the case of nine goods vehicles registered in other regions of the State and plying in the regions mentioned above, tax was being collected on the registered laden weights originally fixed and the same were not revised. This resulted in further loss of revenue of Rs. 39,180 for the period January 1967 to March 1975.

On this being pointed out in audit (March 1977), the Regional Transport Officer, Bijapur, stated (July 1977) that particulars of maximum laden weights, etc., have been called for from the original registering authorities for revising the registered laden weights. Further report is awaited (February 1978).

The matter was also reported to Government in June 1977; reply is awaited (February 1978).

4.08. Non-issue of permits to tractor-trailer combinations

Mention was made in paragraph 4.20 of the Report of the Comptroller and Auditor General of India on Revenue

Receipts for the year 1975-76 about the non-issue of permits to tractor-trailer combinations in five regional transport offices and consequential non-collection of permit fees.

Further check in audit (1976-77) of the accounts of five other regional transport offices at Bijapur, Hassan, Kolar, Bellary and Chitradurga for the year 1975-76 disclosed that 313 tractor-trailer combinations were plying in these regions without obtaining permits, involving loss of permit fees amounting to Rs. 54,775.

On this being pointed out in audit (July 1977), the department agreed (July 1977) to take necessary action. Further report is awaited (February 1978).

The matter was also reported to Government in September 1977 ; reply is awaited (February 1978).

4.09. Allotment of advance registration numbers without realisation of fees

Under the Karnataka Motor Vehicles Rules, 1963, as amended by a notification of June 1975, the registering authority shall, on receipt of an application under the Motor Vehicles Act, 1939, assign to the vehicle of the applicant the registration number which falls in the serial order after the registration number last assigned. But the owner of a vehicle may, on an application along with a non-refundable fee of Rs. 500, get a registration number which is in the range of 500 numbers from the registration number last assigned reserved to his vehicle.

It was noticed in audit (between October 1976 and March 1977) of the records of the five Regional Transport Offices that advance numbers had been allotted in 302 cases without receiving applications from the owners and without realising the prescribed fee. This resulted in loss of revenue of Rs. 1.51 lakhs.

The matter was reported to the department between October 1976 and March 1977 and to Government in September 1977 ; reply is awaited (February 1978).

4.10. Escapement of tax on passengers and goods

Mention was made in paragraph 4.24 of the Report of the Comptroller and Auditor General of India on Revenue Receipts for the year 1975-76 regarding the non-assessment

of taxes on passengers and goods within the prescribed period of three years.

On further scrutiny it was noticed in audit (September 1976 to June 1977) that in four regions (Bangalore, Mysore, Mandya and Hassan) taxes on passengers and goods in respect of 35 vehicles, for the years 1968-69 to 1973-74, were not assessed within the prescribed period of three years, resulting in loss of revenue of Rs. 39,790.

The matter was reported to Government in September 1977; reply is awaited (February 1978).

4.11. Short levy of composition fee in lieu of tax on passengers and goods

Under Section 14 of the Karnataka Motor Vehicles (Taxation on Passengers and Goods) Act, 1961, an operator of a passenger vehicle is permitted to pay composition fee in lieu of tax on the basis of the total daily mileage permitted or at the option of the operator, on the basis of only the number of seats allowed in the permit.

In Kolar region it was noticed in audit (June 1973) that in respect of five passenger vehicles allowed to ply in a town, although the total daily mileage permitted was not indicated in the permits, the operators were allowed the benefit of composition of tax and the composition fee as paid by the operators was being accepted by the tax officer on the basis of mileages declared by them in the composition applications.

On this being pointed out in audit (June 1973), the tax officer examined the cases and reassessed the tax in respect of all the cases and raised (February 1975) demands for Rs. 12,419 being the difference in tax for the period November 1970 to December 1973. But the demands in these cases were set aside (August 1976) by the Appellate Authority on the ground that the composition fee once accepted by the tax officer was final and could not be reopened in the absence of a specific provision to that effect in the Act for such a revision.

The matter was reported to Government in March 1977; reply is awaited (February 1978).

4.12. Non-revision of seating capacity in permits

Under the Motor Vehicles Act, 1939, as amended in 1969, the holder of a permit can, with the permission of the authority which granted the permit, replace the vehicle covered by the permit, by another vehicle of the same nature.

The Secretary, Regional Transport Authority, Bangalore, allowed replacements of eight passenger vehicles by passenger vehicles of higher seating capacities, subject to the condition that the holders of the permits should restrict the actual seats to the capacities originally permitted, until variations in seating capacities conforming to those of the replacing vehicles were permitted by the Regional Transport Authority. The permits were, however, not revised to reflect the increased seating capacity of the replacing vehicles for long periods ranging from 7 months to 16 months in seven cases, resulting in short realisation of revenue of Rs. 28,722 by way of composition fee in lieu of taxes on passengers and goods, for the years 1973-74 to 1975-76.

On this being pointed out in audit (December 1975), demand notices were issued by the department in respect of four vehicles during the period March 1976 to August 1976. In respect of the remaining four vehicles, the amounts due are stated (October 1976) to have been included in the recoveries to be effected out of the compensation payable to the owners of contract carriages taken over by Government. Recovery particulars are awaited (February 1978).

The matter was also reported to Government in February 1976; reply is awaited (February 1978).

CHAPTER V

AGRICULTURAL INCOME TAX

5.01. Results of test audit in general

During the period 1st April 1976 to 31st March 1977 test audit of documents in the Agricultural Income Tax Offices revealed under-assessment of tax of Rs. 12.54 lakhs in 165 cases and over-assessment of Rs. 4.26 lakhs in 44 cases.

The under/over-assessment of tax is categorised under the following heads :

<i>Category</i>	<i>Under-assessments</i>		<i>Over-assessments</i>	
	<i>Number of items</i>	<i>Amount (In lakhs of rupees)</i>	<i>Number of items</i>	<i>Amount (In lakhs of rupees)</i>
1. Incorrect computation of tax	18	0.18	9	0.05
2. Incorrect computation of income	73	6.05	18	1.21
3. Incorrect allowance of depreciation	20	0.36	8	0.21
4. Income escaping assessment	34	2.20	..	..
5. Incorrect allowance of earned income relief	3	*	3	0.03
6. Incorrect adoption of status	4	0.59	1	**
7. Miscellaneous	13	3.16	5	2.76
Total ..	165	12.54	44	4.26

Some important cases are mentioned in the following paragraphs.

*Actual amount : Rs. 453.

** Actual amount: Rs. 180.

5.02. Incorrect computation of income

(i) In the case of a company (Kodagu district) owning coffee and tea estates in both the States of Karnataka and Tamil Nadu, the entire head office expenses were allowed as deduction, for the assessment year 1969-70, from the income relating to the estate in the State of Karnataka instead of restricting them to the part of the expenses attributable to it. This resulted in short computation of income leading to loss in that year and consequently short levy of tax of Rs. 4,346 in the next assessment year.

Further, the company was permitted to change its accounting year to end three months after its previous year ending date, with the condition that depreciation would be allowed only for 3 months for the assessment year 1969-70. Full depreciation was, however, allowed resulting in excess computation of loss of Rs. 9,431 for the assessment year 1969-70 and consequent short levy of tax of Rs. 3,489 for the assessment year 1970-71.

On these being pointed out in audit (December 1976) the department rectified the mistakes (January 1977).

The matter was also reported to Government in June 1977. Government confirmed the facts and stated (July 1977) that the mistake has been rectified by setting off this item against an item of expenditure which was not allowed previously.

(ii) While computing the total income of a company under the Agricultural Income Tax Act, 1957, deduction towards managing agency commission at 10 per cent of the net profit is admissible. One company owning three estates in Kodagu district derived profit from one of them and sustained loss from the other two estates for the period ended 30th June 1969. While allowing deduction towards managing agency commission, only the gross profit of the company was considered instead of considering the net profit after adjusting the loss of the two estates. This resulted in short computation of income of Rs. 26,340 and consequent short levy of tax of Rs. 12,228.

On this being pointed out in audit (November 1976) the department rectified the mistake (January 1977), and stated (September 1977) that after allowing an admissible expenditure previously disallowed, an amount of Rs. 7,629 has been collected (August 1977).

The matter was also reported to Government in August 1977. Government confirmed the facts (February 1978).

5.03. Non-restricting of expenditure on immature coffee plants

Mention was made in paragraph 5.5 of the Report of the Comptroller and Auditor General of India on Revenue Receipts for the year 1975-76 regarding the allowance of expenditure incurred on the maintenance of young and immature plants in full as a deduction in computing income instead of limiting it to ten per cent.

In the course of audit it was further noticed (August 1976) that in the case of a company (Chickmagalur district), for the assessment year 1974-75, the assessing officer estimated the expenditure on young and immature plants as Rs. 47,250 out of which Rs. 42,520 being 90 per cent thereon should have been disallowed. Instead, only an amount of Rs. 5,582 was disallowed, resulting in short levy of tax of Rs. 22,163.

On this being pointed out in audit (August 1976), the department rectified the assessments (July 1977).

The matter was also reported to Government in July 1977. Government confirmed the facts and stated (February 1978) that as a result of the cumulative effect of the revision of assessments for the previous years the actual short levy worked out to Rs. 17,696 and that this amount has been recovered in August 1977.

5.04. Incorrect allowance of expenditure

Under the Karnataka Agricultural Income Tax Act, 1957, deduction is allowed towards any expenditure (not being in the nature of capital expenditure) laid out or expended in the previous year wholly and exclusively for the purpose of deriving agricultural income.

(i) During the accounting year relevant to the assessment year 1974-75, in three cases (Chickmagalur district) the assessee had sold their estates conceding the right to receive the value of 1973-74 coffee crops to the vendee, reserving only the right to receive the difference in value of coffee points in respect of coffee made over by the vendor (assessee) to the Coffee Board up to 31st March 1973.

For the assessment year 1974-75, the assessee offered for assessment the amounts received from the Coffee Board for the crop season 1972-73 and claimed an amount of Rs. 1,73,405 as deductions towards expenditure on the payments made towards gratuity, compensation, etc., in respect of the estates sold. As the assessee did not derive any agricultural income for the crop season 1973-74, no expenditure could be allowed to them relating to that crop season. However, the Agricultural Income Tax Officer allowed the expenditure as deduction in computation of agricultural income. This incorrect allowance of expenditure resulted in short levy of tax of Rs. 69,023.

(ii) Similarly, in the case of another assessee company in the same district, for the assessment year 1972-73, expenditure of Rs. 1,21,480 on certain items like advertisement, amalgamation, entertainment, interest, audit fee and provision for superannuation scheme not relatable to the deriving of the agricultural income assessed, was allowed as deduction, resulting in short levy of tax of Rs. 72,888.

On these being pointed out in audit (September 1976) revision proceedings have been initiated by the department (May 1977). Report regarding recovery is awaited (February 1978).

(iii) While computing the agricultural income of an assessee (Hassan district) depreciation of Rs. 28,611 was allowed twice. Further, the entire expenditure of Rs. 5,714 on immature plants was allowed instead of allowing only 10 per cent of the same as provided under the Act. These omissions resulted in short computation of income of Rs. 33,268 resulting in short levy of tax of Rs. 12,252.

On this being pointed out in audit (July 1977), the department issued (July 1977) notice to the assessee. Further report is awaited (February 1978).

(iv) In an agricultural income tax office (Kodagu district) in the case of a firm which was dissolved on 30th June 1973, value of coffee points amounting to Rs. 1.53 lakhs relating to 1971-72 and 1972-73 coffee seasons, was assessed to tax for the assessment year 1974-75. Out of the total expenditure of Rs. 61,378 claimed by the assessee, an amount of Rs. 2,378 was disallowed and the balance of Rs. 59,000 was allowed as deduction. This was not correct as no expenditure for the purpose of deriving agricultural income was incurred by the assessee during the

previous year, relevant to the assessment year 1974-75, in respect of coffee points relating to 1971-72 and 1972-73 coffee seasons. This resulted in short levy of tax of Rs. 13,265.

On this being pointed out in audit (July 1976), the department stated (August 1977) that revision proceedings have been initiated. Further report is awaited (February 1978).

(v) In the case of an assessee (Chickmagalur district), while computing the income for the assessment years 1973-74 and 1974-75, expenditure on certain items like maintenance of young and immature plants, depreciation on building and car, upkeep of bungalow and maintenance of car was allowed in excess of the amount admissible. This resulted in short levy of tax of Rs. 21,921 (Rs. 15,612 in 1973-74 and Rs. 6,309 in 1974-75).

On this being pointed out in audit (August 1976), the department stated (November 1977) that the assessments for the years 1973-74 and 1974-75 were revised. Further report is awaited (February 1978).

The matter was reported to Government in August 1977 in respect of cases at (i) to (iv) and in April 1977 in respect of the case at (v) ; reply is awaited (February 1978).

5.05. Irregular set-off of losses

Under the Karnataka Agricultural Income Tax Act, 1957, where any person sustains a loss in agricultural income in any year, the loss shall be carried forward to the following year and it shall be set off against the agricultural income for that year.

In the case of an assessee (Chickmagalur district), who was assessed in the status of 'Individual' up to the assessment year 1970-71, the loss to be carried forward at the end of the said assessment year, was computed at Rs. 32,684. For the assessment year 1971-72, the claim of the assessee for adopting the status as 'Hindu undivided family' was accepted (June 1974) and the assessee assessed in the status of 'Hindu undivided family'. The loss of Rs. 32,684 was allowed as set-off. As there was no assessment in the status of 'Hindu undivided family' prior to the assessment year 1971-72, the set-off allowed was not in order. This resulted in loss of revenue of Rs. 7,752.

The matter was reported to the department in March 1977 and to Government in July 1977; reply is awaited (February 1978).

5.06. Incorrect computation of income from tea

Under the Income Tax Act, 1961, income derived from the sale of tea grown and manufactured by an assessee shall be computed as if it were income derived from business and 40 per cent of such income is deemed to be income liable to Central income tax. The balance which is treated as agricultural income is liable to tax under the State Agricultural Income Tax Acts.

In the case of an assessee (Chickmagalur district) the income from tea for the assessment years 1972-73 and 1973-74 was determined as Rs. 81,418 for the purpose of the Income Tax Act. Therefore, the income from tea for the purpose of agricultural income tax should have been Rs. 1.22 lakhs. Instead, an income of Rs. 30,630 was adopted, resulting in an excess carry forward of loss of Rs. 91,497 and consequent short levy of tax of Rs. 16,528.

On this being pointed out in audit (September 1976), the department rectified the assessment and collected the amount short levied (September 1977).

The matter was also reported to Government in July 1977. Government confirmed the facts (October 1977).

5.07. Incorrect deduction allowed

Mention was made in paragraph 95 of the Report of the Comptroller and Auditor General of India on Revenue Receipts for the year 1974-75 regarding the inadmissibility of provision for future payment, in computation of agricultural income unless it was related to a specific liability in respect of the previous year.

In a similar case of an assessee company (Chickmagalur), for the assessment year 1974-75, a general provision towards gratuity was allowed as a deduction in the computation of agricultural income. This resulted in short computation of income of Rs. 22,243 and consequent short levy of tax of Rs. 13,346.

On this being pointed out in audit (July 1976), the department rectified the assessment and collected the amount (September 1977).

The matter was also reported to Government in October 1977. Government confirmed the facts of the case (November 1977).

5.08. Excess levy of tax due to arithmetical error

In the case of an assessee firm (Chickmagalur district), the total expenditure incurred by the firm in the accounting year 1974-75, relevant to the assessment year 1975-76, was adopted as Rs. 4.74 lakhs instead of Rs. 5.74 lakhs. This resulted in an excess computation of income by Rs. one lakh, and consequent excess levy of tax of Rs. 36,418.

On this being pointed out in audit (March 1977), the department rectified the assessment (September 1977).

The matter was also reported to Government in July 1977. Government confirmed the facts (October 1977).

5.09. Income escaping assessment

An assessee (Kodagu district) returned an income of Rs. 2,52,876 being the value of coffee points of the 1972-73 season, at Rs. 4 per point. In the assessment made (September 1975) the department adopted a valuation of Rs. 3.90 per point without assigning any reasons. This valuation was lower than the valuation of Rs. 4.28 per point which the Coffee Board declared later in June 1974 for the above assessment and which the department had also adopted in respect of the same 1972-73 season in two similar cases assessed earlier (February 1975). The adoption of the lower rate of Rs. 3.90 per point resulted in short computation of income of Rs. 23,510 and consequent short levy of tax of Rs. 13,402.

On this being pointed out in audit (May 1976), the department rectified the mistake (November 1976) and raised additional demand for Rs. 11,872 after adjusting a refund of Rs. 1,530 due to the assessee.

The Coffee Board declared a further amount of 7 paise per point for the same season in August 1975. When the assessment was completed in September 1975, the amount of 7 paise per point declared was also required to be considered for assessment, which would have resulted in further levy of tax of Rs. 2,589. The department had not accepted this point on the ground that the difference in value would come up for the computation of income for the assess-

ment year 1976-77, as the information regarding differential value was received from the Coffee Board in June 1976. But, as mercantile system is adopted by the assessee for maintenance of accounts, the receipt will have to be taken as income for the year to which it relates and not for the year in which the amount was received.

The matter was reported to Government in August 1977. Government endorsed the views of the department (November 1977).

5.10. Omission to include income of minor children

Under the Karnataka Agricultural Income Tax Act, 1957, income arising directly or indirectly to a minor from his admission to the benefits of partnership in a firm has to be clubbed with the income of the individual (father), if the individual is also a partner in that firm. This position is not altered even if the individual partner's share income from the firm is taxable in the hands of the Hindu undivided family.

In a case in Kodagu district, an assessee transferred to each of his two minor sons one-third of his interest in a partnership during the previous year ended 31st March 1971 and the firm was reconstituted by admitting these two minors to the benefits of the partnership. In computing the total agricultural income of the assessee for the previous year ended 31st March 1971 relevant to the assessment year 1971-72, the share income of minor children was not included in the individual income of the assessee, who had claimed the status of 'Hindu undivided family' consisting of himself as **kartha** and his wife and daughter. The income of the minors was assessed in the status of 'Individuals'. This resulted in short levy of Rs. 12,826.

The matter was reported to Government in June 1976; reply is awaited (February 1978).

5.11. Incorrect adoption of status

Two individuals (Chickmagalur district) purchased an estate in January 1967 by contributing capital in equal shares with the understanding that the profits and losses arising therefrom would be shared equally and that in all other respects they would be guided by the provisions of

the Indian Partnership Act, 1932. For the assessment year 1970-71, the assessee returned the income in the status of 'Hindu undivided family' and for the assessment years 1971-72 to 1973-74 as 'firm' and 'partners'. However, the assessee had not applied for registration under the Karnataka Agricultural Income Tax Act, 1957, for these years and hence the status should have been adopted as "unregistered firm" instead of as "tenants-in-common" as was done by the assessing officer. The short levy of tax on account of adoption of incorrect status amounted to Rs. 24,396 for the assessment years 1970-71 to 1973-74.

The matter was reported to Government in May 1977; reply is awaited (February 1978).

5.12. Excess allowance of deduction on interest

Mention was made in paragraph 86 of the Report of the Comptroller and Auditor General of India (Civil) for the year 1970-71 regarding excess allowance of deduction of interest relating to secured loan over the statutory limit of $7\frac{1}{2}$ per cent.

Similar excess allowance of interest above the statutory limit was noticed in audit (July 1976) in the case of three assesseees, resulting in short levy of tax of Rs. 30,029.

On this being pointed out in audit (July 1976), the department agreed (August 1977) to examine the cases. Further report is awaited (February 1978).

The matter was also reported to Government in August 1977; reply is awaited (February 1978).

OTHER TOPICS OF INTEREST

5.13. Assessment of discontinued firms

Under the existing provisions of the Karnataka Agricultural Income Tax Act, 1957, there are no enabling provisions for assessing the income of a firm received after its dissolution either in the hands of the dissolved firm or in the hands of the partners.

In one case (Kodagu district), the department had assessed (November 1975) such income (Rs. 2,39,742) in the hands of the partners of the dissolved firm. When the illegality of the assessment was brought to the notice

(July 1976) of the department by Audit, the department while conceding (June 1977) the mistake, did not consider it necessary to disturb the assessments.

The matter was reported to Government in August 1977 for considering insertion of a suitable provision in the Act to cover such cases. Government stated (January 1978) that the question of amending the Act to make a specific provision for levying tax on income of dissolved firm received after dissolution is under examination.

5.14. Application of the term 'Individual'

The Karnataka Agricultural Income Tax Act, 1957, provides *inter alia* for clubbing of the agricultural income of an individual with that of his wife or minor child. It has been judicially held that the expression 'Individual' used in this connection is restricted in its connotation to mean only a male person. Consequently, income arising on account of transfer of assets by a mother to her minor child and admission of a minor child to the benefits of partnership in a firm, of which the mother is also a partner, could not be assessed in the hands of the mother. So also, income arising as a result of membership of the husband in a firm, of which his wife is a partner and transfer of assets to the husband by the wife could not be clubbed with the income of the wife and assessed in her hands.

The matter was reported to Government in February 1975, for considering incorporation of a suitable provision in the Act, on the lines of the Central Income Tax Act, to cover such cases. Government stated (January 1978) that the proposal to amend the Act was under examination.

CHAPTER VI

LAND REVENUE

6.01. Short levy of betterment contribution

Under the Karnataka Irrigation (Levy of Betterment Contribution and Water Rate) Act, 1957, the amount of betterment contribution payable shall be an amount equal to one-half of the difference between the market value of land benefited before the date of commencement of construction of the irrigation work and the market value after the date of completion of construction of the irrigation work, limited to Rs. 1,500 per acre.

The market value of land measuring 498 acres 37 guntas benefited by an irrigation tank in a taluka of North Kanara district before the commencement (February 1966) and after completion (June 1969) of construction of the tank, was determined by the Betterment Levy Officer (April 1971) at Rs. 500 and Rs. 1,500 per acre, respectively. On this basis the betterment contribution in respect of the land should have been fixed at Rs. 500 per acre. The contribution had, however, been fixed (September 1974) for 494 acres at Rs. 300 per acre only, resulting in short levy of Rs. 1,01,263.

This was pointed out in audit in November 1976. Government stated (November 1977) that the concerned Assistant Commissioner had passed orders (January 1977) for fixing levy of betterment contribution at Rs. 500 per acre. Particulars of recovery are awaited (February 1978).

6.02. Omission to book the demand for watching collection

(i) According to the Karnataka Irrigation Act, 1965, the Irrigation Officer has to specify by a notification the kind of crops that shall be grown on any land under an irrigation work. Any person who grows crops other than those specified in the notification shall be liable to pay such water rate as may be determined by the Irrigation Officer, not being less than five times but not exceeding ten times the water rate which he would otherwise have been required to pay.

It was noticed in audit (January 1977) in a taluka office (Raichur district) that for the **rabi** and **kharif** seasons of 1972, an amount of Rs. 3,36,440 representing the penal water rate was levied (February 1974) by the Irrigation Officer for violation of the cropping pattern in an area of 1,682.08 acres, covering thirteen villages coming under the command of a Major Irrigation Project. But the demand sent by the Irrigation Officer in February 1974 was not taken (January 1977) to the general demand, collection and balance register of the office for watching the collection of dues.

On this being pointed out in audit (January 1977), the tahsildar agreed (January 1977) to include the demand.

(ii) In another taluka (Hassan district), for the years 1972-73 and 1973-74, an amount of Rs. 13,540 representing **inam** premium in respect of 10 villages was not taken to the general demand, collection and balance register of the office for watching the collection of dues.

On this being pointed out in audit (March 1976), the department included (May 1976) the amount in the demand, collection and balance register for March 1976.

The matter was also reported to Government in April and June 1976. In respect of (i) Government stated (December 1977) that the demand of Rs. 3.36 lakhs was included in the demand, collection, balance statement for October 1977. Particulars of recovery are awaited (February 1978). In respect of (ii) reply is awaited (February 1978).

6.03. Short levy of penal water rate for unauthorised use of water

Mention was made in paragraph 7.5 of the Report of the Comptroller and Auditor General of India on Revenue Receipts for the year 1975-76 regarding short levy of penal water rate for unauthorised use of water.

The Karnataka Irrigation Act, 1965, provides for the levy of penalty for unauthorised use of water and the penalty leviable shall not be less than ten times the rate admissible, had permission for the temporary supply of water been obtained. As the rate payable in respect of the authorised temporary supply of water is twice that

prescribed for permanent water supply, the penalty leviable for unauthorised use of water would be not less than twenty times the normal water rate.

It was, however, seen in audit (July 1977) of a taluka office (Chitradurga district) that penalty had been levied at ten times the normal water rate instead of twenty times the normal water rate in 321 cases of unauthorised use of water, for the period 1965-66 to 1976-77, resulting in short levy of penalty of Rs. 50,746.

On this being pointed out in audit (July 1977), the tahsildar agreed (July 1977) to book the demand for collection. Further report is awaited (February 1978).

The matter was also reported to Government in August 1977; reply is awaited (February 1978).

6.04. Non-levy of measurement fees in cases of conversion/ alienation of lands

According to the Karnataka Land Revenue Act, 1964, and the Rules made thereunder, fees for measurement of lands and preparation of plans in respect of all cases of conversion/alienation of agricultural lands into lands for non-agricultural use are recoverable at the prescribed rates from the persons in whose favour the orders of conversion are passed. In a taluka (Bangalore district) the measurement charges were, however, not recovered in 411 cases of conversion/alienation effected between the years 1969 and 1975. This resulted in non-raising of demand amounting to Rs. 8,100.

The matter was reported to Government in March 1976; reply is awaited (February 1978).

6.05. Short levy of penalties for unauthorised occupation of Government land

According to the Karnataka Land Revenue Act, 1964, if a person occupies and cultivates Government land unauthorisedly, he is liable to pay land revenue at twice the normal rate besides being liable to pay fine not exceeding five hundred rupees per acre for every year of such unauthorised occupation.

In a taluka office (Mysore district), it was noticed in audit (November 1975), that in respect of 19 cases of

unauthorised occupation of land, the penalty was not levied for the entire period of unauthorised occupation and for the full extent of lands unauthorisedly occupied. This resulted in short levy of penalty of Rs. 19,787.

The matter was reported to Government in February 1976. Government stated (June 1977) that action is being taken by the concerned tahsildar to book the demand. Further report is awaited (February 1978).

6.06. Loss of revenue due to delay in revision settlement

According to the provisions of Section 115 of the Karnataka Land Revenue Act, 1964, land revenue settlement of 1942 in three talukas of Raichur district remained in force till the end of 1971-72. The Act provides that, when, in the opinion of the State Government, a revision settlement is inexpedient or when the introduction of such settlement has for any cause been delayed, the State Government may extend the term of settlement in force for the time being for such period as it may think fit. No orders extending the term of the settlement of 1942 have been passed by Government and as such the settlement of 1942 ceased to be in force and revision settlement became due in 1972-73 in respect of the three talukas.

The Director of Survey, Settlement and Land Records submitted proposals to Government in May 1973 for revision of settlement with his estimate of increase in revenue on that account by Rs. 2 lakhs per year. But so far the revision settlement has not been finalised. The State Government have, however, issued notification in September 1976 directing a revision settlement for this area. The staff sanctioned for the purpose are stated to have commenced the revision work only in May 1977. As per proviso under Section 122 of the Act, the revision settlement can be given effect to only from the date of commencement of the revenue year in which the revision settlement is introduced. Owing to delay in the introduction of the land revenue settlement which became due in 1972-73, there has been an estimated recurring loss of Rs. 2 lakhs per year from 1972-73.

The matter was reported to Government in April 1976. Reply is awaited (February 1978). The department, however, stated (April 1977) that the reasons for the delay in revision are purely administrative and that in view of the

notification issued in September 1976 under Section 114 of the Karnataka Land Revenue Act, 1964, the previous settlement should continue to remain in force till the revision settlement is finalised. But due to the restriction imposed by proviso to Section 122 of the Karnataka Land Revenue Act cited above, the annual estimated recurring loss of Rs. 2 lakhs will continue to be incurred by Government until the revised settlement takes effect. Information regarding the year in which the revision settlement was due in the other talukas and the extent of delay in giving effect to the revision settlement in those talukas is furnished in Appendix III.

6.07. Short levy of conversion fine

Mention was made in paragraph 76 of the Report of the Comptroller and Auditor General of India on Revenue Receipts for the year 1973-74 about the short levy of conversion fine in respect of agricultural land for non-agricultural use due to non-application of the enhanced rate.

Similar cases of short levy of conversion fine amounting to Rs. 36,428 were noticed during audit (May 1977) of the accounts of the Deputy Commissioner, Chitradurga district, in 68 cases relating to the years 1973-74 and 1974-75.

The matter was reported to Government in June 1977; reply is awaited (February 1978).

6.08. Non-collection of cesses for the period of remission of land revenue

The Karnataka Land Revenue Act, 1964, and the Karnataka Land Revenue Rules, 1966, provide for remission of land revenue and remission of suspended land revenue owing to a partial or total failure or destruction of crops on account of drought or any other causes. They do not, however, provide for remission of cesses such as local cess, education cess and health cess, which are levied under provisions of different Acts. These cesses are to be collected even though remission of land revenue is granted.

(i) It was, however, noticed in the audit (September 1976 and May 1977) of the accounts of a taluka office in Belgaum district, that cesses amounting to Rs. 59,776 for the period 1972-73 to 1975-76, had not been

demanded and collected, but were actually reduced from the demand when the remission of land revenue was granted.

(ii) Similarly, in a taluka in Chitradurga district, cesses amounting to Rs. 91,440 for the period 1965-66 to 1971-72, were reduced from the demand when remission of land revenue was granted. On this being pointed out in audit (September 1976 and May 1977), the tahsildars concerned agreed to raise the demand. Further report is awaited (February 1978).

The matter was also reported to Government in July 1977. Government stated (October 1977) that instructions have been issued to all Deputy Commissioners that cesses must be collected even when land revenue is suspended/remitted. Further report is awaited (February 1978).

6.09. ✓ Non-levy of water rate and maintenance cess

According to the Karnataka Irrigation (Levy of Betterment Contribution and Water Rate) Act, 1957, and the Rules made thereunder, water rate is leviable for the use of water from the irrigation works maintained by the State Government. Under the Karnataka Irrigation Act, 1965, maintenance cess is leviable at Rs. 4 per acre of land in the area benefited by any irrigation work maintained by Government.

(a) During the years 1973-74 and 1974-75, though water was supplied to an area of 278.36 acres in a village in Bijapur district, demands for water rate and maintenance cess were omitted to be raised.

On this being pointed out in audit (August 1976), the tahsildar raised (June 1977) a demand of Rs. 8,924 (water rate of Rs. 6,693 and maintenance cess of Rs. 2,231). A sum of Rs. 790 (water rate Rs. 593 and maintenance cess Rs. 197) has since been collected (July 1977). Further report regarding recovery of the balance amount is awaited (February 1978).

(b) It was further seen in audit (September 1976) that demand for maintenance cess in respect of an area of 2,277.40 acres for the years 1973-74 and 1974-75 in a taluka in Bellary district, was not raised.

On this being pointed out in audit (September 1976), the tahsildar raised a demand of Rs. 9,119 (July 1977). Report regarding recovery is awaited (February 1978).

The matter was also reported to Government in September 1977; reply is awaited (February 1978).

6.10. Excess assignment of land revenue to local bodies

Under the Karnataka Village Panchayats and Local Boards Act, 1959, fifty per cent and thirty per cent of land revenue collections in a taluka and a village, respectively, are assignable to the taluka board and the village panchayat concerned. Based on five years' average collections, preceding the date of determination of land revenue collections, assignments are made continuously for four years.

Under the Act, 'land revenue' means all sums and payments received or claimable by or on behalf of Government, from any person on account of land held by or vested in him as fixed at a survey settlement, current in the area in which the land is situated, and does not include the various cesses leviable thereon, under the provisions of different Acts.

It was, however, noticed in audit (November 1976) of a taluka office (North Kanara district) that cesses leviable amounting to Rs. 13,335 on land revenue collections had been included in the land revenue for purposes of allocation for the year 1976-77. This resulted in excess assignment of Rs. 10,668 during the year 1976-77, being the difference between the allocated (Rs. 64,101) and the allocable (Rs. 53,433) share of the local bodies.

The matter was reported to Government in June 1977; reply is awaited (February 1978).

6.11. ✓ Unauthorised occupation of Government land ('takrar takta' cases)

Offences falling under the provisions of the Karnataka Land Revenue Act, 1964, and the Rules made thereunder include encroachment of Government lands, unauthorised use of Government water, unauthorised construction of houses on occupied lands set apart for agricultural purposes, cultivation of areas shown as **kharab** or uncultivable in an occupied survey number where such cultivation is prohibited and injuring boundary marks.

Under the Act, if a person occupies and cultivates Government land unauthorisedly, he is liable to pay land revenue at twice the normal rate besides being liable to pay fine not exceeding Rs. 500 per acre, if such occupation has been for the purposes of cultivation, and not exceeding Rs. 1,000 per acre, if such occupation has been for non-agricultural purposes for every year of such unauthorised occupation.

Procedure for levy of penalties

When a person commits any of the offences falling under one or more of the categories mentioned above, the tahsildar will proceed to hold an enquiry, on the basis of the statement or 'takrar takta' prepared by the village accountants and the reports, sketches and mahazar received from the revenue inspectors, by securing the presence of the person or persons involved, by the service of a notice. The tahsildar will then pass orders directing the levy of fine and assessment.

The following are some of the irregularities noticed by Audit in the levy and collection of such penalties :—

(a) **Non-levy/short levy of penalties.**—In eleven taluka offices (of ten districts), it was noticed in audit (June 1974 to February 1977) that in many cases of unauthorised occupation of land, penalty was either not at all levied or not levied to the extent prescribed, resulting in non-levy/short levy of penalties amounting to Rs. 1.10 lakhs for the years 1969-70 to 1974-75. Out of this, the short levy of Rs. 78,371 noticed in three taluka offices (Bangalore, Mysore and Chickmagalur districts) was reported to Government in February 1976 and July 1977. In respect of the remaining talukas, the short levy of Rs. 31,644 was reported to Government in October 1977. In respect of one taluka office (Mysore district) Government stated (June 1977) that action is being taken by the tahsildar to book the demand. Report regarding recovery in this case and replies in other cases are awaited (February 1978).

(b) **Omission to book the demand.**—As soon as the orders levying penalties are passed by the tahsildar under the Act, the amounts should be entered in the takrar takta register maintained for the purpose and taken to demand for effecting the recovery. It was, however, noticed in audit (June 1974 to July 1977) that in 14 taluka offices the penalties

levied on **takrar takta** amounting to Rs. 4.42 lakhs, for the period 1970-71 to 1975-76, were not taken to demand for recovery.

Out of the penalties of Rs. 4.42 lakhs mentioned above, a sum of Rs. 73,889 outstanding as on 31st March 1974, relating to one taluka office, was taken to demand during March 1976.

The matter was reported to Government in June 1976 ; reply is awaited (February 1978).

(c) Want of details in the orders levying penalty.—

It was also noticed in audit (December 1974) that the orders levying penalties did not contain the details of penalties per year per acre and the area unauthorisedly occupied. In certain cases, fines were levied but the levy of twice the amount of land revenue assessment was omitted. Thus, the incorrect issue of orders regarding the levy of penalties resulted in short levy/non-levy of penalties.

The matter was reported to Government in April 1976. Government issued (January 1977) instructions to all tahsildars that whenever orders levying penalties are passed by them, such orders should invariably contain details such as the area unauthorisedly occupied, the fine levied per acre and whether the fine levied is per year.

(d) Common lands assigned for public purpose.—

According to Government notification dated 27th December 1961, the common lands assigned for public purposes were vested in the Panchayats. As the lands were vested in Panchayats no action could be taken by the revenue authorities under the Karnataka Land Revenue Act, 1964, regarding the unauthorised occupation of grazing lands. Government issued notification dated 11th February 1976 resuming the grazing lands with effect from 11th February 1976. It was noticed in audit (September 1974 to May 1977) that in three taluka offices, no action had been taken to levy penalties under the Act even after the issue of the Government order dated 11th February 1976.

The matter was reported to Government in October 1977 ; reply is awaited (February 1978).

(e) Pending cases and outstanding penalties.—It was noticed in audit (September 1974 to May 1977) of 15 taluka offices that in 11,392 cases of unauthorised occupation of

land, penal action under the Act had not been taken for periods ranging from 1965-66 to 1975-76. In one taluka office (Bellary) alone, the area involved for levy of penalties was 5,638 acres. Further, in eight taluka offices, the work of levying penalties, based on the reports of the revenue authorities, had not been initiated, for periods ranging from 1973-74 to 1975-76.

In some cases where such penal action was taken, the amounts due had not been collected (August 1974 to May 1977), resulting in accumulation of arrears to the extent of Rs. 6.39 lakhs in 9 taluka offices, for the years 1968-69 to 1975-76.

The matter was reported to Government in October 1977; reply is awaited (February 1978).

(f) Improper maintenance of 'takrar takta' register and demand ledgers.—During audit of accounts relating to **takrar takta** cases, for the years 1974-75 and 1975-76, the following omissions were noticed (April 1977) in 2 taluka offices (of 2 districts) :—

(i) All columns in the **takrar takta** register were not filled properly. Abstracts showing the pendency of cases were not drawn up.

(ii) The particulars of area involved and penalties levied were not entered in the register.

(iii) The demand registers relating to these **takrar takta** cases were not maintained (in two taluka offices) and where maintained the entries were not posted up to date.

(iv) Village-wise and hobli (circle)-wise demand registers are not being maintained and where maintained they were not posted up to date and the figures reconciled with those in general demand, collection and balance register.

These omissions were noticed (April and May 1977) even in the registers maintained subsequent to the issue of instructions of Government on 29th January 1977 for proper maintenance of the registers.

The matter was reported to Government in October 1977; reply is awaited (February 1978).

CHAPTER VII

STAMP DUTY AND REGISTRATION FEES

7.01. Results of test audit in general

During the period 1st April 1976 to 31st March 1977, the audit of documents disclosed short collection of stamp duty and registration fees to the extent of Rs. 3.16 lakhs in 145 cases. The short collection of duty/fees is categorised under the following heads :

<i>Category</i>	<i>Number of cases</i>	<i>Amount (In lakhs of rupees)</i>
1. Non-levy/short levy of stamp duty	90	2.79
2. Non-levy/short levy of registration fees	45	0.30
3. Miscellaneous	10	0.07
Total	145	3.16

Some important cases are mentioned in the following paragraphs.

7.02. Incorrect classification of documents

(i) In a Sub-Registry Office (Bangalore district), four documents were registered during the year 1974-75 classifying them as "deposit of title deeds" and levying stamp duty aggregating Rs. 12,551 under Article 6 of the Schedule to the Karnataka Stamp Act, 1957. These documents contained recitals reading "to put the mortgagee in legal or constructive possession of the superstructure, to proceed against the schedule property, etc.,", and hence a charge on the property was found created. These documents, accordingly, should have been classified as "simple mortgage deeds" in view of the provision contained in the Transfer of Property Act attracting higher rates of stamp duty under Article 34 (b) of the Schedule to the Karnataka Stamp Act, 1957. This incorrect classification of documents resulted in short levy of stamp duty of Rs. 1,26,949.

(ii) Similarly, in another Sub-Registry Office in the same district, a document registered as 'deposit of title

deed' executed in favour of the Karnataka State Financial Corporation as security for a loan of Rs. 6 lakhs granted by the Corporation stipulated that if the loanee fails to pay the mortgaged debt, the mortgagee is at liberty to proceed against the property of the title deeds deposited with the mortgagee and also against the person of the mortgager to recover the loan amount. Since the document created an interest not only in the title deeds but in the properties themselves, it should have been classified as 'simple mortgage deed' in view of the provision contained in the Transfer of Property Act. The stamp duty recoverable works out to Rs. 27,000 as against the duty of Rs. 2,450 levied and collected treating the document as a 'deposit of title deed'. The incorrect classification of the document resulted in short levy of stamp duty of Rs. 24,550.

The matter was reported to Government in February 1976 and April 1977; reply is awaited (February 1978).

7.03. Non-levy of stamp duty on mortgage deeds

Under the Karnataka Stamp Act, 1957, Government issued an order in July 1972, reducing the levy of stamp duty to the extent of fifty per cent on instruments executed by land mortgage societies or banks or by an officer or a member thereof relating to the business of such societies or banks where the amount or value specified in the instrument is more than Rs. 10,000.

In a Sub-Registry Office at Dharwar district and another at Gulbarga district, stamp duty had not been levied in respect of 22 mortgage deeds executed in favour of Taluka Primary Co-operative Land Development Banks, even though the consideration in each case exceeded Rs. 10,000. This resulted in non-levy of stamp duty of Rs. 7,631.

The matter was reported to Government in April 1977; reply is awaited (February 1978).

7.04. Irregular exemption of stamp duty

The Karnataka Agricultural Credit Operations and Miscellaneous Provisions Act, 1974, stipulates that a declaration made in the prescribed form mortgaging the immovable property in favour of the credit agency granting the loan shall be deemed to have been registered in

accordance with the provisions of the Indian Registration Act, 1908, and provides for full exemption of registration fees only on such documents.

In a Sub-Registry Office (Kolar district), it was noticed in audit (April 1977) that full exemption of stamp duty was also allowed in respect of three documents registered under the Act. This resulted in non-levy of stamp duty of Rs. 6,600.

The matter was reported to Government in May 1977 ; reply is awaited (February 1978).

7.05. Irregular exemption of stamp duty and registration fees

Under the Karnataka Stamp Act, 1957, Government issued an order in February 1969, reducing the stamp duty only to the extent of fifty per cent on instruments executed by the co-operative societies registered or deemed to have been registered under the Karnataka Co-operative Societies Act, 1959, if the instruments relate to the business of such societies.

It was seen in audit (January 1976) of a Sub-Registry Office (Mandya district) that the reduction of fifty per cent in stamp duty (besides reduction in registration fee to the extent of fifty per cent not authorised by the Government order) was allowed in respect of a conveyance deed executed by the Liquidator of the District Central Co-operative Wholesale Stores in favour of the Karnataka Co-operative Marketing Federation, Bangalore, in connection with the sale of its immovable properties for a consideration of Rs. 3.5 lakhs. As the business of the wholesale stores related to the acquisition and distribution of food grains and other articles, the conveyance of property is not to be treated as relating to the business of the society, entitling reduction of duties. The irregular application of reduction resulted in short levy of stamp duty of Rs. 8,750 and registration fee of Rs. 1,750.

On this being pointed out in audit (June 1977), the Inspector General of Registration and Commissioner of Stamps agreed with the views of Audit and has taken action to raise the demand (September 1977). Particulars of recovery are awaited (February 1978).

The matter was reported to Government (February 1976) ; reply is awaited (February 1978).

7.06. Irregular remission

According to orders issued by Government in February 1969, under Section 9(1) (a) of the Karnataka Stamp Act, 1957, registration fees and stamp duty are remitted in respect of documents executed by Taluka Industrial Co-operative Societies under the Taluka Industrialisation Scheme or by an officer or member thereof relating to the business of such societies. As per the Table of Registration Fees, registration fee of Re. 1 per Rs. 1,000 is leviable on instruments executed to receive loans and credits from approved financial institutions.

(i) It was seen in audit (April 1976 to August 1976) that in two Sub-Registry Offices (Kodagu and Raichur districts) stamp duty and registration fees were fully remitted and in one Sub-Registry Office (Dharwar district) stamp duty was remitted and registration fees were levied at the concessional rate in respect of documents executed in favour of the Karnataka Industrial Co-operative Bank treating them as falling under the exemption mentioned above. The Karnataka Industrial Co-operative Bank is neither an approved financial institution nor a Taluka Industrial Co-operative Society to attract the provisions cited above. Government also clarified (December 1975) that the members of the Karnataka Industrial Co-operative Bank are not entitled for exemption. This irregular exemption/remission in respect of twenty-one documents registered between May 1975 and March 1976 resulted in loss of revenue of stamp duty of Rs. 23,333 and registration fee of Rs. 7,715.

The matter was reported to Government in October 1976. Government accepted the facts and stated (November 1976) that recovery process has been initiated. Report regarding recovery is awaited (February 1978).

(ii) Similarly, in another Sub-Registry Office (Mandya district), stamp duty and registration fees in respect of documents executed in favour of the Karnataka Industrial Co-operative Bank were fully remitted during the period 22nd December 1975 to 22nd February 1976 and in respect of documents registered from 23rd February 1976 onwards, fifty per cent reduction in rate in respect of registration fee was allowed and no stamp duty was collected. The Karnataka Industrial Co-operative Bank is not entitled to exemption of stamp duty and registration

fees provided for in Government order of February 1969, as per clarification issued by Government in December 1975. The irregular remission/reduction allowed resulted in loss of revenue of stamp duty of Rs. 8,200 and registration fee of Rs. 1,805.

The matter was reported to Government in July 1977; reply is awaited (February 1978).

7.07. Short levy of stamp duty and registration fees

A sale deed was executed by a partnership firm in favour of a private limited company, by which, the vendee took over the partnership business as a going concern and also agreed to discharge the mortgage loan payable to a bank. The vendors promoted the vendee company with the main object of acquiring and taking over as a going concern, the entire partnership business with all the assets and liabilities of the said business. The company was incorporated on the 1st May 1970.

The assets transferred were land, wells, buildings, plant and machinery, laboratory equipment, electrical fittings, furniture and fixtures and vehicles. However, the assets mentioned in the sale deed were land, building and borewell only and the consideration was Rs. 5.98 lakhs. The stamp duty and registration fees were levied and collected accordingly.

As seen from the extract of the balance sheet and schedule of fixed assets of the private limited company as on the 30th April 1971, the company had on 1st May 1970, besides an outstanding secured loan (from a bank) of Rs. 7.81 lakhs, land and buildings and plant and machinery valued as under :—

	Rs.
Land	57,965
Buildings	8,13,128
Plant and Machinery	10,29,711

(i) In the case of sale of property which is subject to mortgage and other encumbrance, any unpaid mortgaged money or money charged shall be deemed to be part of the consideration for sale under the Karnataka Stamp Act, 1957. As the vendee took over a flour mill as a going concern, the value of plant and machinery should also have formed part of the consideration.

(ii) On the 1st May 1970 the value of the assets (viz., land, buildings, plant and machinery) was Rs. 19.01 lakhs and the secured loan was Rs. 7.81 lakhs. Hence the stamp duty and registration fees should have been levied on Rs. 26.82 lakhs instead of on Rs. 5.98 lakhs.

The resultant short levy amounted to Rs. 1.35 lakhs towards stamp duty and Rs. 10.430 towards registration fee. On this being pointed out in audit (July 1974), the Inspector General of Registration and Commissioner of Stamps stated (December 1975) that the stamp duty has to be calculated on the consideration as set forth in the deed. Regarding secured loans, the department stated that the parties had intentionally concealed the facts and had failed to disclose the unpaid mortgage money in the deed which would render the party liable to prosecution under the Karnataka Stamp Act, 1957, and action would be taken separately in this behalf. Report of further action taken by the department is awaited (February 1978).

Under the Indian Stamp Act, 1899, a transfer of the property owned by a partnership to a company, the shareholders of which consisted exclusively of members of the partnership who executed the transfer, was held chargeable as a conveyance and on such transfer, duty was charged on the value of the property as evidenced by the books in the partnership.

The matter was reported to Government in June 1976 ; reply is awaited (February 1978).

7.08. Omission to refer the instruments to the Deputy Commissioner for determination of market value

Prior to May 1975, stamp duty was leviable on deeds of conveyance, exchange or gift on the basis of the consideration set forth in the instruments. Under the Karnataka Stamp (Amendment) Act, 1975, stamp duty on the deeds of conveyance, exchange or gift has been made leviable on the market value of the property in question. The Amendment Act also introduced a new Section 45-A in the Karnataka Stamp Act, 1957, which has come into force in certain major cities of the State on the 1st day of May 1975. As per this new Section if the registering officer, while registering any instrument of conveyance, exchange or gift, has reason to believe that the market value of the property

has not been truly set forth in the instrument, he may, after registering the instrument, refer the same to the Deputy Commissioner for determination of the market value of such property and the proper duty payable on the instrument.

On 1st May 1975, Government added a new Rule to the Karnataka Stamp Rules, 1958, requiring the instruments of conveyance, exchange or gift relating to properties in areas where the new Section is in force, to set forth in the instrument itself the particulars such as the area of the land, the plinth area and the built up portion in each of the storeys, material of the wall, roof, the year of construction, etc., to enable the registering officer to compute the market value.

It was noticed in audit (July 1976 to June 1977) that in four Sub-Registry Offices (Bangalore City district) 43 instruments registered between May 1975 and June 1977 were not referred to the Deputy Commissioner for determination of market value although the consideration set forth in the instrument was less than the market value computed by Audit with reference to the guidelines prescribed by Government, resulting in short levy of stamp duty and registration fees amounting to Rs. 73,000.

It was further noticed (June 1976 and July 1977) that in three other Sub-Registry Offices (Bangalore City, Shimoga and Gulbarga districts) no action was taken by the Sub-Registrars to compute the market value independently and refer the instruments to the Deputy Commissioners for the determination of market value wherever necessary.

The matter was reported to Government (October 1977); reply is awaited (February 1978).

CHAPTER VIII

OTHER TAX AND NON-TAX RECEIPTS

A. Entertainments Tax

8.01. Short collection of entertainments tax and surcharge

Under the Karnataka Entertainments Tax Act, 1958, as amended with effect from 1st April 1976, the amount of tax in respect of each payment for admission, surcharge, additional tax, fine, penalty or any other amounts payable and the amounts of refunds due shall be rounded off to the nearest multiple of five paise.

During the audit of accounts for the year 1976-77, it was noticed (April 1976 to March 1977) that in 43 cases assessed by 15 Entertainments Tax Officers, entertainments tax and surcharge thereon were assessed and collected without rounding off the individual amounts to the nearest multiple of five paise. There were excess collections in one case and short collections in forty-two others, resulting in a net short levy of Rs. 24,490 during the period 1st April 1976 to 27th March 1977.

On this being pointed out in audit (April 1976 to March 1977), the department agreed (April 1976 to March 1977) to rectify the assessments and raise additional demands. In four cases a sum of Rs. 1,664 was collected (June and July 1977). Report regarding recovery in the other cases is awaited (February 1978).

The matter was also reported to Government in June 1977. Government stated (October 1977) that by an administrative instruction the Commissioner of Commercial Taxes was directed not to enforce the new provisions from 1st April 1976 to 28th April 1976. But a legislative enactment cannot be amended by an administrative instruction of Government.

8.02. Short levy/collection of show tax

According to the Karnataka Entertainments Tax Act, 1958, show tax for each cinematograph show is leviable in

addition to the entertainments tax and surcharge at the following rates :—

In respect of theatres (other than Class I) in the City of Bangalore	Rs. 10 per show
In respect of theatres in other places with a popu- lation of less than 20,000	Rs. 4 per show

During the audit of an Entertainments Tax Office in Bangalore, it was noticed (June and July 1977) that in respect of two touring talkies which held shows within the Bangalore City Corporation limits, show tax was levied and collected at Rs. 4 per show instead of Rs. 10 per show during the period November 1974 to May 1977. This resulted in short collection of show tax to the tune of Rs. 10,548. On this being pointed out in audit (June and July 1977), the department agreed (July 1977) to take necessary action in the matter. Further report is awaited (February 1978).

The matter was also reported to Government in September 1977 ; reply is awaited (February 1978).

8.03. Excess apportionment of entertainments tax to a local body

Under the Karnataka Entertainments Tax Act, 1958, 10 per cent of the proceeds of the entertainments tax collected under the Act every year in respect of entertainments held within the jurisdiction of any local authority should be credited to the State Government and the balance of 90 per cent paid to the local authority concerned.

It was noticed in audit (June 1977) of the accounts of an Entertainments Tax Office (Shimoga district), for the year 1976-77, that as against a sum of Rs. 26,929 due to be allocated to the local body for the quarter ending June 1976, a sum of Rs. 35,929 had been allocated (September 1976) and drawn (February 1977) by the local body, resulting in excess allocation of revenue to the extent of Rs. 9,000.

On this being pointed out in audit (June 1977), the Entertainments Tax Officer agreed (June 1977) to adjust the excess amount from the amounts due for the subsequent quarters.

The matter was also reported to Government in October 1977. Government stated (January 1978) that the excess amount allocated to the local body has been deducted out of the net proceeds allotted to the Board for the quarter ending 31st March 1977.

B. Electricity Duties

8.04. Inspection of electrical installations

Mention was made in paragraph 53 of the Report of the Comptroller and Auditor General of India on Revenue Receipts for the year 1972-73 regarding omission to conduct periodical inspection of electrical installations by the Electrical Inspectorate and consequent shortfall of Rs. 11.69 lakhs in the anticipated revenue for the year 1971-72. The position has not improved over the last four years, as may be observed from the figures given below :

	1972-73	1973-74	1974-75	1975-76
1. Total number of installations to be inspected	1,01,153	1,03,949	1,04,779	1,08,306
2. Actual number of installations inspected	6,349	5,050	10,983	11,530
3. Anticipated revenue (In lakhs of rupees)	14.12	14.73	15.04	16.90
4. Actual revenue realised (In lakhs of rupees)	3.03	2.99	3.03	2.80
5. Shortfall in revenue (In lakhs of rupees)	11.09	11.74	12.01	14.10

The matter was reported to Government in May 1976. Government stated (August 1977) that non-inspection of the electrical installations is owing to inadequacy of staff and a proposal to reorganise the Electrical Inspectorate is under active consideration of Government, on the finalisation of which the department would be able to inspect all the installations as per the Rules.

C. Forest Receipts

8.05. Results of test audit in general

During the period 1st April 1976 to 31st March 1977, test audit of documents maintained in the forest divisions disclosed non-recovery/short recovery of dues and loss of revenue aggregating Rs. 11.92 lakhs in 38 cases. The cases are categorised under the following heads :—

<i>Nature of irregularity</i>	<i>Number of cases</i>	<i>Amount (In lakhs of rupees)</i>
1. Non-recovery/short recovery in respect of sale of forest produce	11	7.50
2. Non-recovery of forest development tax	9	3.12
3. Non-recovery/short recovery of licence fee	7	0.73
4. Others	11	0.57
Total	38	11.92

Some important cases are mentioned in the following paragraphs.

8.06. Short claim of seigniorage for supply of charcoal and breeze

The Forest Department has been supplying charcoal and breeze (disintegrated charcoal below a certain size) to a Government industrial undertaking for several years and collecting seigniorage at the rates fixed by Government from time to time. The seigniorage rates were revised retrospectively from 1st April 1975, by an order issued on 11th July 1975. The rate for charcoal was enhanced from Rs. 30 per tonne to Rs. 100 per tonne. As regards breeze, payments up to 10 per cent of the quantity of charcoal supplied was not to be claimed; for quantities in excess of this, a rate equal to 50 per cent of the rate applicable to charcoal was leviable.

It was, however, seen in audit (October 1976) that in respect of supply of 6,732.50 tonnes of charcoal and 710.60 tonnes of breeze (the quantity for which seigniorage is payable) made on and from 1st April 1975, claims were preferred at the pre-revised rates. This resulted in short claim of about Rs. 5.41 lakhs (including sales tax and forest development tax).

On this being pointed out in audit (October 1976), the department agreed (October 1976) to take action to send revised bills to the undertaking and inform Audit accordingly. Further reply is awaited (February 1978).

The matter was also reported to Government in March 1977. Government stated (December 1977) that a sum of Rs. 7.02 lakhs is due from the undertaking towards pending bills and that the Forest Department has addressed the undertaking in this regard in August 1977. Particulars of recovery are awaited (February 1978).

8.07. Under-estimation of timber and firewood in coupe sales

Mention was made in paragraph 57 of the Report of the Comptroller and Auditor General of India on Revenue Receipts for the year 1973-74, about the excess yield of timber and firewood over the ocular estimation made by the department for the purpose of fixing the upset prices for the purpose of sales, on tender basis, of coupes in the forest areas.

A similar case was noticed in audit (October/November 1975) in a Forest division (South Kanara district), wherein, during the year 1974-75, the quantity of timber extracted in seven coupes and firewood extracted in five coupes by the successful tenderers was in excess of the estimation to an extent ranging from 12 per cent to 176 per cent. There was no provision in the agreement entered into with the successful bidders for recovery of the value of the excess quantity extracted. The value of the excess quantity is estimated at Rs. 3.33 lakhs.

If the upset price which formed the basis for the sale of coupes on tender basis had been fixed after a realistic estimation of the value of timber and firewood in the areas marked for disposal, the department could have realised increased revenue approximating to the excess benefit derived by the bidders.

The matter was reported to Government in April 1976 ; reply is awaited (February 1978).

8.08. Sale of eucalyptus plantations

In November 1976, the Chief Conservator of Forests furnished to Government the economics of eucalyptus plantations raised by the Forest Department from 1969 onwards. According to the data furnished by him the cost per tonne of wood was Rs. 85, being the average for pit trench planting (Rs. 93) and for tractor ploughed area (Rs. 78). This was based on a rotation period of ten years and the expected yield of 16 tonnes for pit planted area and 20 tonnes for tractor ploughed area.

One of the firms to which the wood was proposed to be allotted represented in November 1976 that in the case of plantations raised between 1969 and 1976, the working cost would have to be averaged out and not based on the rates of the year 1976. Accepting this contention, Government averaged the rate intimated by the Chief Conservator of Forests in 1969 (Rs. 44.75 per tonne) and that intimated by him in 1976 (Rs. 85 per tonne) and arrived at the rate of Rs. 65 per tonne. Orders were issued in April 1977 allotting 1,60,000 tonnes per annum of the eucalyptus wood from post 1969 plantations to three companies (modified to 1,78,000 tonnes in August 1977) at the price of Rs. 65 per tonne of 81 cft. of stacked volume without bark for a period of five years from 23rd April 1977.

It was seen in audit (August 1977) that whereas the rate of Rs. 44.75 per tonne intimated by the Chief Conservator of Forests in 1969 was for wood without bark, the rate of Rs. 85 per tonne worked out by him in 1976 was for wood with bark. The loss in volume due to debarking was 22 per cent as intimated by the Chief Conservator of Forests in 1969. Hence, the cost per tonne of debarked wood would be Rs. 103.70 and the correct average of the costs in 1969 and 1976 of debarked wood would be Rs. 74.20 and not Rs. 65 as arrived at by Government. Owing to incorrect working of the average rate and the selling price, the loss of revenue on 1,78,000 tonnes per annum allotted to the three companies would be Rs. 16.38 lakhs per annum; for the period of five years for which commitment had been made, the loss would work out to Rs. 81.90 lakhs.

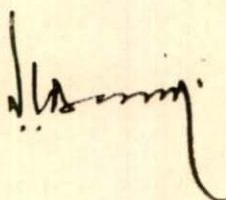
The matter was reported to Government in November 1977; reply is awaited (February 1978).

8.09. Non-recovery of interest for belated payment of royalty

Under an agreement certain species of timber were allotted by a forest division to a company for extraction for a period of 20 years from the year 1966 on payment of value at the rates prescribed from time to time. In October 1970, Government enhanced the rates of royalty on some species of timber retrospectively from 1st October 1969. Consequently, an additional demand of Rs. 3,42,664 was raised in December 1970 on account of the said allotment. On a request from the company, payment of this additional amount was permitted by the Chief Conservator of Forests to be made in four equal quarterly instalments of Rs. 85,666 each, commencing from 30th June 1971. On a further request from the company, the fourth instalment was again permitted to be paid in four equal monthly instalments of Rs. 21,416 each. The grant of instalment facility is,

however, subject to levy of interest on belated payments contemplated in the agreement. The department, however, did not enforce the provisions of the clause in the agreement regarding levy of interest on belated payments, thus resulting in loss of revenue of Rs. 19,855.

The matter was reported to Government in September 1976 ; reply is awaited (February 1978).



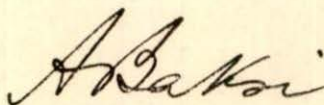
BANGALORE,

The 17 MAR 1978

(S. C. BANERJEE)

Accountant General, Karnataka

Countersigned



NEW DELHI,

The 20 MAR 1978

(A. BAKSI)

Comptroller and Auditor General of India.

ERRATA

**Report of the Comptroller and Auditor General of India for the year
1976-77 (Revenue Receipts)— Government of Karnataka.**

<i>Sl. No.</i>	<i>Page No.</i>	<i>Para No.</i>	<i>Line number of para</i>	<i>For</i>	<i>Read</i>
1.	Table of contents	..		Page (iii) may be inserted against Prefatory Remarks	
2.	Prefatory Remarks	..		On top of the page 'iii' may be inserted	
3.	16	2.04 (i)	8	grass	"goods"
4.	28	2.23	16	ex factory	ex-factory
5.	35	3.06	12	wastges	wastages
6.	50	5.04 (iii)	3	Rs. 5,714	Rs. 5,174
7.	66	6.11 (f) (iv)	1	hobli	Hobli
8.	81	Full stop may be added after the word Karnataka.			

REPORT

of the Commission on the Administration of Justice
for the Year 1967

APPENDIX

1. The Commission on the Administration of Justice
was established by the Government of the United Kingdom
in 1962 to inquire into the working of the courts
and to recommend ways of improving their efficiency.

2. The Commission has since that time held a number of public
hearings and has received many suggestions from judges,
lawyers, laymen and the public.

3. The Commission has also conducted extensive research into
the problems of the courts and has held a number of public
hearings on these subjects.

4. The Commission has published a number of reports
on these subjects and has also published a number of
interim reports.

5. The Commission has also published a number of
interim reports on these subjects and has also published
a number of interim reports.

APPENDIX I

Statement showing cost of collection under the principal heads of revenue

(Reference ; Paragraph 1.04 ; page 6)

<i>Sl. no.</i>	<i>Head of account</i>	<i>Year</i>	<i>Gross collection</i>	<i>Expenditure on collection</i>	<i>Percentage of expenditure on gross collection</i>
<i>(In crores of rupees)</i>					
1.	Taxes on Agricultural Income	1974-75	1.61	0.12	7.50
		1975-76	3.02	0.15	4.90
		1976-77	4.30	0.24	6.00
2.	Land Revenue*	1974-75	6.95	5.00	71.90
		1975-76	7.09	5.42	76.40
		1976-77	4.25	**	**
3.	State Excise Duties	1974-75	47.54	2.88	6.10
		1975-76	52.01	3.09	5.90
		1976-77	52.27	**	**
4.	Taxes on Motor Vehicles	1974-75	12.66	0.41	3.20
		1975-76	15.63	0.46	2.90
		1976-77	24.92	**	**
5.	Sales Tax	1974-75	93.64	1.80	1.90
		1975-76	117.87	2.26	1.90
		1976-77	137.30	2.42	1.76
6.	Stamps and Registration Fees	1974-75	12.85	0.97	7.50
		1975-76	10.79	1.00	9.00
		1976-77	10.78	**	**
7.	Forest*	1974-75	27.82	**	**
		1975-76	29.29	**	**
		1976-77	29.05	**	**

* The expenditure under "Land Revenue" and "Forest" cannot be considered as having been incurred solely for collecting revenue as the departments have several other administrative functions.

**Information awaited from the department (February 1978).

APPENDIX II

Arrears in Assessments

(Reference : Paragraph 1.06, ; page 7)

Year	Number of assessments for disposal	Number of assessments completed	Number of assessments pending at the end of the year	Percentage of pending assessments to total number of assessments due for disposal
1	2	3	4	5
1975-76				
<i>(a) Sales Tax—</i>				
Karnataka Sales Tax	1,66,781	1,21,197	45,584	27
Central Sales Tax	55,947	35,217	20,730	37
<i>(b) Agricultural Income Tax</i>				
	63,786	32,666	31,120	49
<i>(c) Entertainments Tax</i>				
	*	*	*	*
1976-77				
<i>(a) Sales Tax—</i>				
Karnataka Sales Tax	1,66,198	1,23,668	42,530	26
Central Sales Tax	59,513	38,151	21,362	35
<i>(b) Agricultural Income Tax</i>				
	59,765	28,375	31,390	53
<i>(c) Entertainments Tax</i>				
	44,973	42,894	2,079	4

Following is the year-wise break-up for the pending cases :—

Year	Entertainments Tax	Sales Tax		Agricultural Income Tax
		Karnataka Sales Tax	Central Sales Tax	
Up to 1971-72		614	271	5,450
1972-73		872	355	1,937
1973-74		2,324	1,274	2,734
1974-75	1	8,265	4,128	4,478
1975-76	97	30,267	15,307	16,791
1976-77	1,981	188	27	..
Total	2,079	42,530	21,362	31,390

* Information awaited from the department (February 1978).