

CHAPTER I - GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Gujarat, the State's share of divisible Union Taxes and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are as given below.

(Rupees in crore)

Sl. no.	Particular	2004-05	2005-06	2006-07	2007-08	2008-09
I	Revenue raised by the State Government					
	• Tax revenue	12,957.70	15,698.11	18,464.63	21,885.57	23,557.03
	• Non-tax revenue	3,090.50	3,353.37	4,948.78	4,609.31	5,099.32
	Total	16,048.20	19,051.48	23,413.41	26,494.88	28,656.35
II	Receipts from the Government of India					
	• State's share of divisible Union Taxes	2,219.30	3,372.43	4,425.95	5,426.09	5,725.86
	• Grants-in-aid	1,997.45	2,642.96	3,162.86	3,768.88	4,293.50
	Total	4,216.75	6,015.39	7,588.81	9,194.97	10,019.36
III	Total receipts of the State	20,264.95	25,066.87	31,002.22	35,689.85	38,675.71¹
IV	Percentage of I to III	79	76	76	74	74

The above table indicates that during the year 2008-09, the revenue raised by the State Government was 74 per cent of the total revenue receipts (Rs. 38,675.71 crore). The balance 26 per cent of the receipts was from the Government of India.

1.1.2 The following table presents the details of tax revenue raised by the State during the period from 2004-05 to 2008-09.

For details, please see statement No. 11, Detailed Accounts of revenue by minor heads in the Finance Accounts of the Government of Gujarat for the year 2008-09. Figures under the Heads "0020 - Corporation tax, 0021 - Taxes on Income other than corporation tax, 0028 - Other taxes on income and expenditure, 0032 - Taxes on wealth, 0037 - Customs, 0038 - Union excise duties, 0044 - Service tax, 0045 - Other taxes and duties on commodities and services", - share of net proceeds assigned to states booked in the Finance Accounts under A - 'Tax Revenue', have been excluded from revenue raised by the State and included in State's share of divisible union taxes in this statement.

(Rupees in crore)

Sl. no.	Heads of revenue	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage of increase (+) or decrease (-) in 2008-09 over 2007-08
1.	Sales tax/VAT	6,702.03	8,646.13	10,886.21	13,199.04	15,143.86	(+) 14.73
	Central sales tax	1,606.59	1,915.21	1,931.25	1,905.50	1,666.79	(-) 12.53
2.	State excise	47.09	48.06	41.94	47.20	48.71	(+) 3.20
3.	Stamp duty and registration fees	962.80	1,153.16	1,425.03	2,018.43	1,728.50	(-) 14.36
4.	Taxes and duties on electricity	1,829.07	1,899.68	2,087.77	2,046.52	2,369.91	(+) 15.80
5.	Taxes on vehicles	1,060.93	1,153.97	1,191.15	1,310.09	1,381.66	(+) 5.46
6.	Taxes on goods and passengers	160.11	156.30	5.96	151.62	169.35	(+) 11.69
7.	Other taxes on income and expenditure	132.91	119.32	131.07	149.67	185.84	(+) 24.17
8.	Other taxes and duties on commodities and services	221.29	226.05	265.54	374.41	318.91	(-) 14.82
9.	Land revenue	234.88	380.23	498.71	683.09	543.50	(-) 20.44
Total		12,957.70	15,698.11	18,464.63	21,885.57	23,557.03	(+)7.64

The reasons for variations in the receipts during the year 2008-09 from those of 2007-08 as reported by the concerned departments are mentioned below.

Sales tax/VAT: The upward revision in price of petroleum products on two occasions during the year 2008-09 contributed mainly to the increase in sales tax/VAT.

Electricity duty: The increase was due to increase in both electricity charges and the sale of electricity.

The other departments did not inform (November 2009) the reasons for variations despite being requested (April 2009).

1.1.3 The following table presents the details of non-tax revenue raised by the State during the period from 2004-05 to 2008-09:

(Rupees in crore)

Sl. no.	Heads of revenue	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage of increase (+) or decrease (-) in 2008-09 over 2007-08
1.	Interest receipts	469.72	130.91	283.07	329.88	567.81	(+) 72.13
2.	Dairy development	0.45	0.45	0.48	0.45	0.56	(+) 24.44
3.	Other non-tax receipts	474.58	607.86	914.20	870.55	1,309.72	(+) 50.45
4.	Forestry and wild life	42.39	42.76	36.91	35.08	40.51	(+) 15.48
5.	Non-ferrous mining and metallurgical industries	1,422.42	1,880.18	2,173.76	2,082.14	1,559.82	(-) 25.09
6.	Miscellaneous general services	174.26	217.57	968.96	588.53	643.29	(+) 9.30
7.	Power	52.13	21.26	0.06	6.57	77.52	(+) 1079.91
8.	Major and medium irrigation	207.09	248.62	330.61	452.82	455.77	(+) 0.65
9.	Medical and public health	48.87	53.83	66.68	66.25	126.50	(+) 90.94
10.	Co-operation	14.94	16.55	16.18	15.68	19.25	(+) 22.76
11.	Public works	30.92	26.99	30.64	27.19	31.69	(+) 16.55
12.	Police	48.85	71.28	90.66	86.24	77.44	(-) 10.20
13.	Other administrative services	103.88	35.11	36.57	47.93	189.44	(+) 295.24
Total		3,090.50	3,353.37	4,948.78	4,609.31	5,099.32	(+) 10.63

The concerned departments did not furnish (November 2009) the reasons for variations despite being requested (April 2009).

1.2 Variations between the budget estimates and actuals

The variations between the budget estimates and actuals of revenue receipts for the year 2008-09 in respect of the principal heads of tax and non-tax revenue are as mentioned below:

(Rupees in crore)

Sl. no.	Heads of revenue	Budget estimates	Actuals	Variation excess (+) or short fall (-)	Percentage of variation
Tax revenue					
1.	Sales tax/VAT/ Central sales tax	17,023.00	16,810.65	(-) 212.35	(-) 1.25
2.	Taxes and duties on electricity	2,260.00	2,369.91	(+) 109.91	(+) 4.86
3.	Stamp duty and registration fees	1,658.00	1,728.50	(+) 70.50	(+) 4.25
4.	Taxes on vehicles	1,412.40	1,381.66	(-) 30.74	(-) 2.18
5.	Taxes on goods and passengers	238.00	169.35	(-) 68.65	(-) 28.84
6.	Land revenue	550.00	543.50	(-) 6.50	(-) 1.18
7.	State excise	50.00	48.71	(-) 1.29	(-) 2.58
8.	Other taxes on income and expenditure	145.00	185.84	(+) 40.84	(+) 28.17
Non-tax revenue					
9.	Non-ferrous mining and metallurgical industries	2,347.80	1,559.82	(-) 787.98	(-) 33.56
10.	Interest receipts	207.00	567.81	(+) 360.81	(+) 174.30
11.	Major and medium irrigation	461.15	455.77	(-) 5.38	(-) 1.17
12.	Medical and public health	82.78	126.50	(+) 43.72	(+) 52.81
13.	Forestry and wild life	53.35	40.51	(-) 12.84	(-) 24.07
14.	Education, sports, arts and culture	62.06	155.91	(+) 93.85	(+) 151.22
15.	Police	99.75	77.44	(-) 22.31	(-) 22.37
16.	Public works	33.60	31.69	(-) 1.91	(-) 5.68
17.	Miscellaneous general services	433.57	643.29	(+) 209.72	(+) 48.37

The reasons for the variations between budget estimates and actual receipts as reported by the concerned departments are mentioned below.

Sales tax/VAT/Central sales tax: The reduction of Central sales tax rate from three to two *per cent* with effect from 1 June 2008 resulted in decrease in collection against estimates.

Electricity duty: The increase was due to increase in both electricity charges and the sale of electricity.

The other departments did not inform (November 2009) the reasons for variations despite being requested (April 2009).

1.3 Analysis of collection

The break-up of the total collection at the pre-assessment stage and after regular assessment of sales tax and motor spirit tax for the year 2008-09 and the corresponding figures for the preceding two years as furnished by the department is mentioned below.

(Rupees in crore)

Heads of revenue	Year	Amount collected at pre-assessment stage	Amount collected after regular assessment (additional demand)	Amount refunded	Net collection	Percentage of column 3 to 7
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Sales tax/VAT	2006-07	12,463.47	397.57	630.76	12,230.28	102
	2007-08	14,918.87	447.05	712.85	14,659.07	102
	2008-09	15,793.59	186.40	1,338.19	14,641.80	108
Motor spirit tax	2006-07	587.18	-	-	587.18	100
	2007-08	451.47	-	-	451.47	100
	2008-09	526.35	-	-	526.35	100

Thus, the percentage of collection of revenue at pre-assessment stage ranged between 102 and 108 *per cent* under sales tax/VAT during the years 2006-07 to 2008-09 and was 100 *per cent* under the motor spirit tax.

1.4 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2006-07, 2007-08 and 2008-09 alongwith the relevant all India average percentage of expenditure on collection to gross collection for 2007-08 are mentioned below.

(Rupees in crore)

Heads of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage of cost of collection for the year 2007-08
Sales tax/VAT/Central sales tax	2006-07	12,817.46	83.03	0.65	0.83
	2007-08	15,104.54	98.43	0.65	
	2008-09	16,810.65	99.51	0.59	
Taxes on vehicles	2006-07	1,191.15	26.15	2.20	2.58
	2007-08	1,310.09	38.57	2.94	
	2008-09	1,381.66	43.43	3.14	
Stamp duty and registration fees	2006-07	1,425.03	25.02	1.76	2.09
	2007-08	2,018.44	26.23	1.30	
	2008-09	1,728.50	42.16	2.44	
State excise	2006-07	41.94	5.06	12.06	3.27
	2007-08	47.20	7.65	16.21	
	2008-09	48.71	6.88	14.12	

The cost of collection in respect of sales tax/VAT/central sales tax was lower than the all India average. In respect of stamp duty and registration fees, while the cost of collection was lower than the all India average during 2006-07 and 2007-08, it was marginally higher in 2008-09. The cost of collection of state excise was much higher than the all India average, while in case of taxes on vehicles, it was marginally higher.

The abnormal increase in the collection charges in respect of stamp duty and registration fees in 2008-09 is mainly due to sharp increase in the expenditure on Direction and Administration.

The Government needs to take appropriate measures to bring down the cost of collection.

1.5 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2009 in respect of some principal heads of revenue amounted to Rs. 9,609.38 crore, of which Rs. 3,162.62 crore was outstanding for more than five years as mentioned below.

(Rupees in crore)

Sl. no.	Heads of revenue	Amount outstanding as on 31 March 2009	Amount outstanding for more than 5 years as on 31 March 2009	Remarks
1.	Sales tax	8,853.90	2,839.06	Of the total outstanding amount, Rs. 932.13 crore is covered by recovery certificate. Recovery of Rs. 2,440.40 crore has been stayed by the High

				Court of Gujarat and other judicial authorities. Recovery of Rs. 254.90 crore is held up due to the dealers being insolvent. Rs. 454.52 crore is unlikely to be recovered and hence proposed to be written off and Rs. 4,771.95 crore is under various stages of recovery.
2.	Electricity duty	675.41	277.36	Out of Rs. 675.41 crore, recovery of Rs. 617.05 crore is covered by stay orders of the High Court and other judicial authorities. The remaining amount of Rs. 58.36 crore is under various stages of recovery.
3.	Taxes on vehicles	80.07	46.20	Out of Rs. 80.07 crore, demand of Rs. 46.63 crore is covered by recovery certificate and Rs. 33.87 crore is under various stages of recovery.
Total		9,609.38	3,162.62	

1.6 Arrears in assessments

The number of cases pending for assessment at the beginning of the year 2008-09, due for assessment during the year, disposed during the year and pending at the end of the year 2008-09 alongwith the figures for the preceding four years as furnished by the Commercial Tax Department² are mentioned below.

(No. of cases)						
Year	Opening balance as on 1 April	Additions during the year	Total (2+3)	Clearance during the year	Closing balance at the end of the year(4-5)	Percentage of column 6 to 4
1	2	3	4	5	6	7
2004-05	8,35,675	3,86,757	12,22,432	2,91,089	9,31,343	76
2005-06	9,31,343	4,58,817	13,90,160	7,07,451	6,82,709	49
2006-07	6,82,709	4,24,113	11,06,822	3,78,420	7,28,402	66
2007-08	7,28,402	3,84,961	11,13,363	4,00,588	7,12,775	64
2008-09	3,46,922 ³	1,08,174	4,55,096	1,27,315	3,27,781	72

Thus, the percentage of closing balance at the end of each year during 2004-05 to 2008-09 to total cases becoming due for assessment ranged between 49 and 76 per cent. The gradual decrease in cases due for assessment was due to the introduction of the Gujarat Value Added Tax Act, 2003 with effect from 1 April 2006 in place of the Gujarat Sales Tax Act, 1969. Under the GVAT Act, only cases selected for scrutiny are classified as due for assessment as against returns filed by all the dealers considered due for assessment under the GST Act.

² In respect of sales tax/VAT, profession tax, purchase tax on sugarcane, lease tax, luxury tax and tax on works contracts.

³ Differs from the closing balance of 7,12,775 reported by the department for 2007-08.

1.7 Evasion of tax

The details of cases of evasion of tax detected by the Commercial Tax, Motor Vehicles and Stamp Duty and Registration Fees Departments, cases finalised and the demands for additional tax raised as reported by the departments are as mentioned below.

Sl. no.	Name of tax/duty	Cases pending as on 31 March 2008	Cases detected during 2008-09	Total	No. of cases in which assessments/ investigations completed and additional demand including penalty etc., raised		No. of cases pending as on 31 March 2009
					No. of cases	Amount of additional demand (Rupees in crore)	
1.	Sales tax/VAT	780	204	984	266	926.11	718
2.	Motor vehicles tax	69,161	26,634	95,795	26,511	24.66	69,284
3.	Stamp duty and registration fees	1,11,773	30,547	1,42,320	32,280	34.27	1,10,040

The large amount of additional demand amounting to Rs. 926.11 crore, which is Rs. 718.16 crore more than the corresponding amount of Rs. 207.95 crore reported in the Audit Report for 2007-08, reflects concerted efforts of the respective departments in detecting evasion of tax. However, such high incidence of evasion is a matter of concern for the State Government in the wake of implementation of VAT in the State as there is very little scope for taking up assessments of majority of the dealers.

In case of motor vehicles tax and stamp duty and registration, the numbers of pending cases continue to be almost at the same level as the previous year. It is necessary to finalise these cases at the earliest to minimise the risk of loss of revenue.

1.8 Refunds

The number of refund cases pending at the beginning of the year 2008-09, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2008-09, as reported by the Commercial Tax Department are as mentioned below.

(Rupees in crore)

Sl. no.	Category	Sales tax/VAT	
		No. of cases	Amount
1.	Claims outstanding at the beginning of the year 2008-09	2,660	200.03
2.	Claims received during the year	2,863	762.81

3.	Refunds made during the year	3,222	666.25
4.	Balance outstanding at the end of the year	2,301	296.59

1.9 Failure to enforce accountability and protect interest of Government

Principal Accountant General (Commercial and Receipt Audit) (PAG), Gujarat, arranges to conduct periodical inspection of the Government departments to test check the transactions and verify the maintenance of important accounting and other records as per the prescribed rules and procedures. These inspections are followed up with inspection reports (IRs). When important irregularities detected during inspection are not settled on the spot, these IRs are issued to the heads of the offices inspected with a copy to the next higher authority. The heads of offices and the respective next higher authorities are required to ensure compliance with the observations contained in the IRs and rectify the defects and omissions promptly and report their compliance to the PAG. Serious irregularities are also brought to the notice of the heads of the departments by the office of the PAG through draft paragraphs. A half yearly report of the pending IRs and audit observations is sent to the Secretary of the concerned department to facilitate monitoring of the audit observations in the pending IRs.

The number of IRs and audit observations relating to revenue receipts issued upto 31 December 2008 and pending settlement by the departments as on 30 June 2009 alongwith the corresponding figures for the preceding two years is mentioned below.

Particulars	As at the end of		
	June 2007	June 2008	June 2009
Number of outstanding inspection reports	3,548	3,794	4,035
Number of outstanding audit observations	9,493	10,607	11,426
Amount of revenue involved (Rupees in crore)	3,447.39	4,120.45	4,987.77

IRs issued up to December 2008 pertaining to the offices of sales tax/commercial tax, profession tax, forest, land revenue, motor vehicles tax, stamp duty and registration fees, entertainment tax and luxury tax disclosed that 11,426 observations relating to 4,035 IRs remained outstanding at the end of June 2009. Of these, 1,089 IRs containing 2,668 observations had not been settled for more than seven years. Even the initial replies which were required to be received from the heads of offices within one month from the date of issue were not received in respect of the 199 IRs issued during the year 2008-09. As a result, serious irregularities commented upon in these IRs had not been settled as of June 2009.

The departmentwise break up of IRs and audit observations pending as on 30 June 2009 is detailed in Annexure-I.

1.10 Departmental audit committee meetings

In order to expedite the settlement of outstanding audit observations contained in the IRs, departmental audit committees are constituted in all the departments of the Government. These committees are chaired by Secretaries of the concerned administrative departments and attended by the concerned officers of the State Government and officers of the PAG (C&RA), Ahmedabad/ Accountant General (Civil Audit), Rajkot.

In order to expedite the clearance of the outstanding audit observations, it is necessary that the audit committees meet regularly and ensure that final action is taken on all audit observations outstanding for more than a year, leading to their settlement. The information regarding number of audit committee meetings held, IRs and paragraphs settled during the year 2008-09 is mentioned below.

(Rupees in lakh)

Sl. no.	Name of the department	No. of audit committee meetings held	No. of IRs/paragraphs settled		Money value of paragraphs settled
			IRs	Paragraphs	
1.	Sales tax	6	--	403	19.83
2.	Land revenue	There was no response from these departments to the request for holding audit committee meeting during 2008-09.			
3.	Stamp duty and registration fees				
4.	Motor vehicles tax				
5.	Geology and Mining				
6.	Luxury tax				

1.11 Response of the departments to draft audit paragraphs

According to the hand book of instructions for speedy settlement of draft paragraphs issued by the Finance Department on 12 March 1992, results of verification of facts contained in the draft paragraphs are required to be communicated to the Accountant General (AG) within six weeks from the date of their receipt. In exceptional cases where it is not possible to furnish the final reply to the draft paragraph within the above time limit, an interim reply should be given to the AG.

Seventy three draft paragraphs (clubbed into 47 paragraphs) proposed for inclusion in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2009 (Revenue Receipts) were forwarded to the Secretaries of the respective departments between April and October 2009 through demi-official letters. The Secretaries of the respective departments did not reply to the draft paragraphs except in case of two reviews. The paragraphs of the reviews have been included in this report after incorporating the response of the secretaries of the concerned departments.

1.12 Follow up on Audit Reports - summarised position

As per instructions issued by the Finance Department on 12 March 1992, administrative departments are required to submit explanatory notes on paragraphs and reviews included in the Audit Reports (AR) within three

months of presentation of the ARs to the Legislature, without waiting for any notice or call from the Public Accounts Committee, duly indicating the action taken or proposed to be taken.

The ARs for the years 2006-07 and 2007-08 were presented to the State Legislature on 29 September 2008 and 28 July 2009 respectively. Explanatory notes in respect of paragraphs included in AR 2006-07 and 2007-08 were not yet furnished by the departments as mentioned below (November 2009).

Name of the Department	2006-07	2007-08	Total
Finance (Sales tax)	13	13	26
Revenue (Stamp duty)	06	16	22
(Land revenue)	07	05	12
Port and Transport (Transport)	03	02	05
Information and Broadcasting (Entertainment tax and Luxury tax)	01	05	06
Industries and Mines & Energy and Petrochemicals (Mining receipts)	02	01	03
Home (Police receipts)	02	---	02
Total	34	42	76

1.13 Compliance with the earlier Audit Reports

During the years between 2003-04 and 2007-08, the department/Government accepted audit observations involving Rs. 821.15 crore of which an amount of Rs. 45.75 crore had been recovered till 31 March 2009 as mentioned below:

(Rupees in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2003-04	1,076.89	151.93	13.71
2004-05	247.14	131.34	6.96
2005-06	441.53	427.76	21.94
2006-07	94.53	23.84	1.74
2007-08	304.96	86.28	1.40
Total	2,165.05	821.15	45.75

The recovery in respect of the accepted cases was very low (six *per cent* of the accepted money value). Besides, there has not been any further recovery in respect of the cases relating to years 2003-04 to 2006-07 and the figures of recovery in respect of these years have remained static as compared to those reported in the last Audit Report.

The Government may advise the concerned departments to take necessary steps for speedy recovery.

1.14 Results of audit

Test check of the records of sales tax, land revenue, state excise, motor vehicles tax, stamp duty and registration fees, electricity duty, other tax receipts, forest receipts and other non-tax receipts conducted during the year 2008-09 revealed under assessment/short levy/loss of revenue amounting to Rs. 6,023.46 crore in 1,418 cases. During the year, the departments accepted under assessment of Rs. 15.97 crore in 358 cases and recovered Rs. 5.45 crore in 233 cases pointed out in 2008-09 and earlier years.

This report contains 47 paragraphs including three reviews relating to non/short levy of taxes, duties, interest and penalties involving Rs. 5,743.47 crore. The departments/Government accepted audit observations involving Rs. 46.98 crore of which Rs. 2.21 crore had been recovered. These are discussed in the succeeding chapters II to VII.