

CHAPTER VIII CONCLUSION AND SUMMARY OF RECOMMENDATIONS

8.1 Conclusion

The department had made adequate preparations for switching over to VAT. Achievement of the department in computerising the data of existing dealers and introduction of e-filing is worth mentioning. We are happy to mention that Kerala is the pioneer in prescribing mandatory e-filing by all classes of dealers from January 2009. This is indeed a significant achievement which will enable the department to exercise better control and monitoring on the dealers. Also, we appreciate department's move to provide us the access to its database which had made things easy for us.

However, we found the following deficiencies which the Government and the department need to address.

Even after four years of implementation of VAT in the State, the VAT manual has not been finalised due to which there is no reference point for the departmental officers for healthy practices. We noticed instances of non-registration of those liable to get registered and to file returns and cases of non-filing of mandatory documents required for effective scrutiny of the returns. The department has not installed a system for periodic verification of the books of accounts of the dealers paying presumptive tax. Scrutiny of the returns was not effective as revealed from the quantum of non/short levy detected from the sample of assessment files scrutinised by us during this review. Audit assessment done was not as contemplated in the Act and we found that this process is yet to be streamlined. Certain deviations from the VAT design specified by the EPC resulted in loss of revenue and unintended benefit to the dealers. The department did not take timely action to amend the CST (Kerala) Rules in view of the amendments in the CST Act. Though the dealers did not submit the declaration forms within the time specified in the CST Act, the AAs did not finalise the CST assessments as prescribed in the Act. The department has not instituted a system of cross verification with the records of other dealers/IT, CE department/TINXSYS while scrutinising returns/audit assessments. Failure to detect and rectify apparent misclassification of remittances resulted in short demand of VAT compensation from the Central Government. Internal controls in the department needed attention as we found improper maintenance of files, non-compilation of data received at the commissionerate from the field units etc. Due to non-conducting of internal audit, the department remained unaware of the loopholes and the system and compliance deficiencies, some of which have been pointed out in this review.

8.2 Summary of recommendations

The Government/department may consider implementing the recommendations noted under the respective paragraphs in this review with special emphasis on the following to rectify the deficiencies.

The Government may

- Introduce at the earliest a comprehensive manual of VAT specifying procedures for administration of Act and Rule;
- Make provisions in the KVAT Rules for mandatory verification of records of Income Tax/Central Excise departments and TINXSYS while conducting audit assessments/assessment of escaped turnover;
- Consider amendment of Act/Rules to make mandatory deposit of percentage of tax, interest and penalty in dispute, before entertaining appeal cases to ensure registration of genuine appeal cases only and lessen the scope of evasion/ run away cases.
- Amend the Act/Rules to fix a minimum penalty for each and every offence based on its magnitude to avoid unfettered discretion of the assessing officer. There must be specific distinction between amount of penalty leviable for the first and subsequent offences.

The Department may

- effectively monitor disposal of pending assessments and collection of arrears of pre-VAT period;
- evolve a foolproof mechanism for detection of unregistered dealers and bringing them under the tax net. It is desirable to prescribe a system for monitoring surveys/raids and to fix specific targets to the DCs/ Intelligence Wing;
- publish in departmental website details of cancelled and suspended registrations to verify whether dealers avail ITC on goods purchased from such dealers;
- create a database for uploading the stock position of dealers for future reference;
- include an Audit Module in the KVATIS software;
- enforce strict compliance of the provisions regarding filing of the returns and prescribe specific penal provisions for delayed filing of returns to arrest cases of delayed/non-filing of returns;

- direct the AAs to conduct thorough scrutiny of the returns especially with reference to the figures of the enclosures to the audit certificate/P&L account submitted by the dealers;
- take actions such as imposition of penalty, suspension of registration etc, against those who fail to furnish the prescribed documents alongwith the returns, without it being limited to levy of penalty alone;
- enforce compliance of time limit prescribed in the Act for disposal of the appeal cases;
- give direction to the AAs for maintenance of basic records in circles;
- store details of monthly diary received from circles/check posts in computer so that they can consolidate and retrieve it, whenever required and thus avoid wastage of time and manpower in collecting the same data again; and
- ensure that internal audit is strengthened.

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