

## Overview

This Report contains a review on 'transition from sales tax to VAT in Kerala' involving Rs. 295.24 crore. Some of the major findings are mentioned below.

- The percentage of growth of revenue showed an inconsistent trend throughout the pre-VAT and post-VAT period from 2001-02 to 2008-09, though there was growth of revenue in absolute terms.

(Paragraph 2.1)

- Shortcomings in the computerised system implemented by the department coupled with non-computerisation of all the check posts resulted in the returns of the dealers not being effectively scrutinised electronically by the assessing authorities.

(Paragraph 3.4)

- Department is yet to prepare a comprehensive manual prescribing guidelines and norms for effective administration of VAT in the State.

(Paragraph 3.5)

- The department was unable to furnish the number of assessments pending under the repealed Act and also assessments completed during the preceding years after implementation of the VAT which indicates weak monitoring mechanism.

(Paragraph 3.6)

- Registering authorities did not obtain security of Rs. 5.73 crore from new dealers despite specific orders of the Commissioner of Commercial Taxes.

(Paragraph 4.3.1 )

- The department was unable to detect the un-registered dealers and bring them under the tax net due to absence of directives prescribing a system for monitoring surveys/raids.

(Paragraph 4.4.2)

- **The department has not prescribed a system for periodic scrutiny of the books of accounts of the dealers to verify whether a dealer has crossed the threshold of liability for payment of tax.**

**(Paragraph 5.1.3.1)**

- **There was no mechanism for monitoring the receipt and scrutiny of the returns. Test check by audit in two circles revealed short levy of tax of Rs. 21.77 crore including interest and penalty. Besides, assessing authorities incorrectly accepted CST returns which resulted in short levy of tax of Rs. 161.67 crore.**

**(Paragraph 5.2.1 & 5.2.2)**

- **There were deficiencies in the process of allowing input tax credits like non-circulation of list of cancelled registrations, allowance of claims on the strength of purchase list mentioning the registration numbers under the repealed Act, absence of cross verification of the records of the selling dealers etc. Test check in two circles revealed short levy due to excess availing of input tax credit of Rs. 1 crore including interest and penal interest.**

**(Paragraph 6.1.3)**

- **There was short demand of VAT compensation from Central Government by Rs. 93.69 crore due to failure to detect and rectify apparent misclassifications in revenue collection.**

**(Paragraph 6.8 )**

- **Deviation from VAT design specified by the EPC resulted in loss of Rs. 1.30 crore.**

**(Paragraph 6.9.1 )**