

## CHAPTER I

### GENERAL

#### 1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Tamil Nadu and the state's share of divisible Union taxes and grants-in-aid received from the Government of India during the year 2008-09 and the corresponding figures for the preceding four years are as mentioned in the following table:

(Rupees in crore)

Sl. no.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
<b>I</b>	<b>Revenue raised by the State Government</b>					
	• Tax revenue	19,357.04	23,326.03	27,771.15	29,619.10	33,684.37
	• Non-tax revenue	2,208.35	2,600.75	3,422.57	3,304.37	5,712.33
	<b>Total</b>	<b>21,565.39</b>	<b>25,926.78</b>	<b>31,193.72</b>	<b>32,923.47</b>	<b>39,396.70</b>
<b>II</b>	<b>Receipts from the Government of India</b>					
	• State's share of divisible Union taxes	4,236.39	5,012.74	6,393.86	8,065.27	8,510.80 <sup>1</sup>
	• Grants-in-aid	2,649.75	3,020.47	3,325.65	6,531.77	7,135.01
	<b>Total</b>	<b>6,886.14</b>	<b>8,033.21</b>	<b>9,719.51</b>	<b>14,597.04</b>	<b>15,645.81</b>
<b>III</b>	<b>Total receipts of the State (I + II)</b>	28,451.53	33,959.99	40,913.23	47,520.51	55,042.51
<b>IV</b>	<b>Percentage of I to III</b>	<b>76</b>	<b>76</b>	<b>76</b>	<b>69</b>	<b>72</b>

The above table indicates that during the year 2008-09, the revenue raised by the State Government was 72 per cent of the total revenue receipts (Rs. 55,042.51 crore) as compared to 69 per cent of the total revenue receipts (Rs. 47,520.51 crore) in 2007-08. The balance 28 per cent of the receipts during 2008-09 was from the Government of India.

<sup>1</sup> For details please see Statement No. 11 – Detailed accounts of revenue by minor heads of the Finance Accounts of the Government of Tamil Nadu for the year 2008-09. Figures under the head '0021 – Taxes on income other than corporation tax – Share of net proceeds assigned to states' booked in the Finance Accounts under 'A – Tax revenue' have been excluded from the revenue raised by the state and included in 'State's share of divisible Union taxes' in this statement.

**1.1.2** The following table presents the details of tax revenue raised 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.	Sales tax	12,996.18	15,554.69	17,727.16	18,156.36	20,674.70	(+) 13.87
2.	State excise	2,549.00	3,176.65	3,986.42	4,764.06	5,755.52	(+) 20.81
3.	Stamp duty and registration fees	1,604.36	2,084.86	2,997.46	3,804.74	3,793.68	(-) 0.29
4.	Taxes on vehicles	1,014.75	1,124.93	1,260.88	1,483.21	1,709.57	(+) 15.26
5.	Land revenue	71.95	179.48	120.68	78.03	207.73	(+) 166.22
6.	Taxes on immovable property other than agricultural land (urban land tax)	11.81	11.86	14.45	15.75	11.79	(-) 25.14
7.	Others	1,108.99	1,193.56	1,664.10	1,316.95	1,531.38	(+) 16.28
<b>Total</b>		<b>19,357.04</b>	<b>23,326.03</b>	<b>27,771.15</b>	<b>29,619.10</b>	<b>33,684.37</b>	<b>(+) 13.73</b>

The reasons for increase/decrease in 2008-09 over 2007-08 as furnished by the concerned departments (January 2010) are mentioned below:

**State excise:** The increase of revenue was due to increase in the production of Indian Made Foreign Spirits and Beer which in turn has resulted in increase of the excise duty and vend fee.

**Taxes on vehicles:** The increase of revenue was due to increase in the vehicular population and increase in the rate of life time tax.

**Land revenue:** The increase of revenue was mainly due to increase in the rate of local cess and local cess surcharge.

**Taxes on immovable property other than agricultural land (Urban land tax):** The decrease in revenue was due to non-completion of the assessment and non-collection of revenue as a result of diversion of the manpower to other relief works.

The other departments did not furnish (January 2010) the reasons for variations despite being requested (October 2009).

**1.1.3** The following table presents the details of major non-tax revenue raised 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, dividends and profits	590.05	819.91	1,134.00	1,282.20	1,501.09	(+) 17.07
2.	Crop husbandry	57.27	66.43	74.45	82.41	73.53	(-) 10.78
3.	Forestry and wild life	155.07	138.59	82.31	46.42	82.65	(+) 78.09
4.	Non-ferrous mining and metallurgical industries	409.58	465.68	566.64	581.76	527.36	(-) 9.35
5.	Education, sports, art and culture	143.43	209.98	215.83	301.40	302.74	(+) 0.44
6.	Other receipts	852.95	900.16	1,349.34	1,010.18	3,224.96	(+) 219.25
<b>Total</b>		<b>2,208.35</b>	<b>2,600.75</b>	<b>3,422.57</b>	<b>3,304.37</b>	<b>5,712.33</b>	<b>(+) 72.87</b>

The reason for increase/decrease in 2008-09 over 2007-08 as furnished by the concerned departments (January 2010) is mentioned below:

**Interest receipts, dividends and profits:** The increase was due to increase in the interest receipts from public sector undertakings, departmental commercial undertakings and co-operative societies.

**Other receipts:** The increase was due to very large increase of Rs. 2,000 crore in the receipts of Industries department on account of collection of upfront land lease rent.

The other departments did not furnish (January 2010) the reasons for variations despite being requested (October 2009).

## **1.2 Variations between the budget estimates and actuals**

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

(Rupees in crore)

Sl. no.	Heads of revenue	Budget estimates	Actuals	Variations excess (+) or short fall (-)	Percent-age of variation
1.	Sales tax	19,417.74	20,674.70	(+) 1,256.96	(+) 6.47
2.	State excise	5,329.60	5,755.52	(+) 425.92	(+) 7.99
3.	Stamp duty and registration fees	4,888.90	3,793.68	(-) 1,095.22	(-) 22.40
4.	Taxes on vehicles	1,707.60	1,709.57	(+) 1.97	(+) 0.12
5.	Land revenue	146.18	207.73	(+) 61.55	(+) 42.11
6.	Taxes on immovable property other than agricultural land (urban land tax)	17.94	11.79	(-) 6.15	(-) 34.28
7.	Taxes and duties on electricity	250.09	355.69	(+) 105.60	(+) 42.22
8.	Interest receipts, dividends & profits	1,109.73	1,501.09	(+) 391.36	(+) 35.00
9.	Non-ferrous mining and metallurgical industries	593.40	527.36	(-) 66.04	(-) 11.13
10.	Crop husbandry	94.78	73.53	(-) 21.25	(-) 22.42
11.	Roads and bridges	33.60	45.57	(+) 11.97	(+) 35.63
12.	Major and medium irrigation	22.61	25.47	(+) 2.86	(+) 12.65

The reasons for variations in the actuals over the budget estimates as furnished by the concerned departments (January 2010) are mentioned below:

**Stamp duty and registration fees:** The decrease was due to recession/slow down in real estate sector and consequently registration of documents with high value relating to transfer of properties declined.

**Land revenue:** The increase was due to increase in the rate of local cess and local cess surcharge.

**Taxes on immovable property other than agricultural land (urban land tax):** The decrease was due to non-collection of tax by the department and non-completion of the assessments.

**Taxes and duties on electricity:** The increase was due to collection of arrears consequent to the order of the High Court of Madras.

**Interest receipts, dividends and profits:** The increase in revenue was due to increase in interest receipts from public sector undertakings, departmental commercial undertakings and co-operative societies.

**Non-ferrous mining and metallurgical industries:** The decrease was due to refunds made during the period.

**Crop husbandry:** The decrease was due to remittance of state horticulture farm receipts from the Government account to Tamil Nadu Horticulture Development Agency (TANHODA) account from February 2008 as per the Government Order.

The other departments did not furnish (January 2010) the reasons for variations despite being requested (October 2009).

### 1.3 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and 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 follows:

(Rupees in crore)

Sl. no.	Heads of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage for the year 2007-08
1.	Sales tax	2006-07	17,727.16	120.96	0.68	0.83
		2007-08	18,156.36	139.24	0.77	
		2008-09	20,674.70	187.27	0.91	
2.	Taxes on vehicles	2006-07	1,260.88	30.43	2.41	2.09
		2007-08	1,483.21	40.44	2.73	
		2008-09	1,709.57	47.56	2.78	
3.	State excise	2006-07	3,986.42	33.11	0.83	3.27
		2007-08	4,764.06	38.64	0.81	
		2008-09	5,755.52	45.10	0.78	
4.	Stamp duty and registration fees	2006-07	2,997.46	106.89	3.57	2.58
		2007-08	3,804.74	133.84	3.52	
		2008-09	3,793.68	133.20	3.51	

The percentage of expenditure on collection in respect of taxes on vehicles and stamp duty and registration fees in the state was higher than the all India average for the year 2007-08. The Government needs to take appropriate measures to bring down the cost of collection.

### 1.4 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. 10,204.58 crore, of which Rs. 3,644.95 crore had been 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 five years as on 31 March 2009	Remarks
1.	Sales tax	9,871.35	3,443.53	Out of Rs. 9,871.35 crore, demands of Rs. 1,797.77 crore were covered under the Revenue Recovery Act. Demands of Rs. 1,516.83 crore were stayed by the Government/High Court and other judicial/appellate authorities and Rs. 318.47 crore was held up due to rectification/review application. Rs. 55.11 crore could not be recovered on account of assessee becoming insolvent. Rs. 422.07 crore is likely to be written off/waived. Rs. 2,650.50 crore was covered under the deferral scheme and Rs. 2,330.99 crore was under various stages of recovery. Rs. 779.61 crore has since been collected.
2.	Stamp duty and registration fees	147.88	108.59	Out of Rs. 147.88 crore, demands of Rs. 144.40 crore were covered under the Revenue Recovery Act. Demands of Rs. 3.48 crore were stayed by the High court and other judicial authorities.
3.	Urban land tax	113.85	36.57	Out of Rs. 113.85 crore, demands of Rs. 16.70 crore were stayed by the Government/High Court and other judicial authorities. Recovery of Rs. 3.87 crore was stayed by the Principal Commissioner of Land Reforms. Rs. 81.29 crore was under various stages of collection. Rs. 11.99 crore has since been collected.
4.	State excise	38.83	38.83	Out of Rs. 38.83 crore, demands of Rs. 17.41 crore were covered under the Revenue Recovery Act; demands of Rs. 2.68 crore were stayed by the High Court and other judicial authorities; Rs. 4.36 crore was held up due to rectification/review application. Rs. 7.73 lakh was held up on account of persons becoming insolvent. Rs. 50.60 lakh was likely to be written off. Rs. 13.79 crore was under various stages of collection.
5.	Land revenue	29.06	15.36	Out of Rs. 29.06 crore, demands of Rs. 3.66 crore were covered under the Revenue Recovery Act. Demands of Rs. 3.93 crore were stayed by the High Court and other judicial authorities and Rs. 3.41 crore was stayed by the Government. Rs. 2.49 lakh was likely to be written off. Rs. 16.08 crore was under various stages of collection. Rs. 1.96 crore has since been collected.

6.	Taxes on vehicles	3.61	2.07	Out of Rs. 3.61 crore, demands of Rs. 2.07 crore were covered under the Revenue Recovery Act. Demands of Rs. 30.67 lakh were stayed by the High Court and other judicial authorities. Rs.27.96 lakh is stayed by Government. Rs. 0.26 lakh is likely to be written off. Rs. 64.26 lakh was under various stages of collection. Rs. 31.33 lakh has since been collected.
<b>Total</b>		<b>10,204.58</b>	<b>3,644.95</b>	

The other departments did not furnish (January 2010) the position of arrears of revenue despite being requested (October 2009).

### 1.5 Arrears in assessment

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 Taxes Department in respect of sales tax and Revenue Department in respect of urban land tax are mentioned below:

Heads of revenue	Opening balance	Cases which became due for assessment	Total	Cases disposed during the year	Cases pending at the end of the year	Percentage of disposal (Col.5 to 4)
1	2	3	4	5	6	7
<b>Sales tax/Value added tax (VAT)</b>						
2004-05	53,533	1,71,052	2,24,585	1,70,293	54,292	76
2005-06	54,292	1,77,496	2,31,788	1,62,872	68,916	70
2006-07	68,916	1,82,457	2,51,373	1,51,825	99,548	60
2007-08	99,548	1,78,414	2,77,962	76,814	2,01,148	28
VAT	---	1,44,759	1,44,759	22,108	1,22,651	15
2008-09	2,01,148	---	2,01,148	55,381	1,45,767	28
VAT	1,22,651	1,85,270	3,07,921	95,047	2,12,874	31
<b>Urban land tax</b>						
2004-05	5,093	2,227	7,320	1,383	5,937	19
2005-06	5,937	3,812	9,749	2,101	7,648	22
2006-07	7,648	2,076	9,724	2,974	6,750	31
2007-08	6,750	1,583	8,333	2,253	6,080	27
2008-09	6,080	1,457	7,537	1,384	6,153	18

The reasons attributed by the concerned departments in January 2010 for less number of assessments finalised are mentioned below:

**Sales tax:** The time consumed for creating awareness among the traders, imparting training to the officers on the VAT Act and the preparatory processes for introduction of the VAT Act hampered the pace of finalisation of assessments. Besides, shortage of staff also affected the process of finalisation of assessments.

**Urban land tax:** Shortage of staff as a result of diversion to other relief works hampered the finalisation of assessments.

Immediate action needs to be taken to finalise the remaining cases in sales tax as VAT has been introduced in the state from 2006-07. The number of pending cases in urban land tax is large too. The department should initiate steps to complete the assessments within a definite time frame.

### 1.6 Evasion of tax

The details of cases of evasion of sales tax detected, finalised and demands for additional tax raised as reported by the Commercial Taxes Department are mentioned below:

Head of revenue	Cases pending as on 31 March 2008	Cases detected during 2008-09	Total cases	Cases in which assessments/ investigations completed and additional demand including penalty etc., raised		Cases pending for finalisation as on 31 March 2009
				No.	Amount (Rupees in crore)	
<b>Sales tax</b>						
Enforcement wing	68	64	132	82	Not furnished	50
Administrative wing	4,080	346	4,426	568	57.46	3,858

It is necessary to finalise these cases at the earliest to minimise the risk of loss of revenue.

### 1.7 Write off and waiver of revenue

During the year 2008-09, Rs. 28,053 (in 56 cases) relating to sales tax was written off by the Commercial Taxes Department as irrecoverable. In addition to the above, sales tax amounting to Rs. 32.34 lakh was waived off by the department during the year.

### 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 as reported by the Commercial Taxes department are mentioned below:



(Rupees in crore)

Sl. no.	Particulars	Sales tax	
		No. of cases	Amount
1.	Claims outstanding at the beginning of the year	87,062	212.85
2.	Claims received during the year	7,473	156.04
3.	Refunds made during the year	12,773	187.18
4.	Balance outstanding at the end of the year	81,762	181.71

Tamil Nadu General Sales Tax Act (TNGST Act) provides for payment of interest calculated at the rate of one *per cent* or part thereof, if the excess amount is not refunded to the dealer within 90 days from the date of order of assessment or revision of assessment or within 90 days from the date of receipt of order passed in appeal, revision or review. The pending refund cases need attention to avoid mandatory payment of interest.

The other departments did not furnish the details of refund cases despite being requested (October 2009).

### 1.9 Failure to enforce accountability and protect interest of the Government

The Accountant General, Commercial & Receipt Audit, Tamilnadu (AG) 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). Audit observations on incorrect assessments, short levy of taxes, duties and fees, etc., as also defects in the maintenance of initial records noticed during audit and not settled on the spot are communicated to the heads of offices and other departmental authorities through the IRs. Serious financial irregularities are reported to the heads of the departments concerned and the Government. The heads of offices are required to furnish replies to the IRs through their respective heads of departments within a period of two months to the AG.

**1.9.1** The number of IRs and audit observations relating to revenue receipts issued upto 31 December 2008, which were pending for settlement by the departments as on 30 June 2009, alongwith the corresponding figures for the preceding two years are mentioned below:

	Position as on 30 June		
	2007	2008	2009
Number of inspection reports pending for settlement	6,638	7,271	7,213
Number of outstanding audit observations	23,047	23,624	24,693
Amount of revenue involved (Rs. in crore)	2,772.37	2,951.86	3,417.03

The increase in the outstanding audit observations is indicative of non-compliance with the Government's instruction to furnish replies to the initial audit observations and report on further action taken thereon within the stipulated time. Though state level audit committees and departmental audit committees were constituted in March 1993 with the objective of expeditious

settlement of the outstanding observations, the number of observations were still on the increase.

**1.9.2** The revenue headwise breakup of the IRs and audit observations outstanding as on 30 June 2009 are mentioned below:

Sl. no.	Revenue heads	Number of outstanding		Amount (Rupees in crore)	Earliest year to which the inspection report relates
		Inspection reports	Audit observations		
1.	Sales tax	3,342	16,658	1,127.52	1987-88
2.	Stamp duty and registration fees	1,170	2,311	261.31	1985-86
3.	Land revenue	859	2,012	1,296.87	1988-89
4.	Taxes on vehicles	481	1,013	92.77	1988-89
5.	State excise	288	519	112.76	1987-88
6.	Taxes on agricultural income	73	202	81.03	1988-89
7.	Mines and minerals	301	594	344.32	1990-91
8.	Urban land tax	280	740	43.01	1983-84
9.	Electricity duty	65	116	40.67	1992-93
10.	Entertainment tax	65	69	6.46	1992-93
11.	Luxury tax	121	137	4.31	1994-95
12.	Betting tax	12	25	0.09	1991-92
13.	Entry tax	156	297	5.91	2003-04
<b>Total</b>		<b>7,213</b>	<b>24,693</b>	<b>3,417.03</b>	

### **1.10 Departmental audit committee meeting**

In order to expedite the settlement of the outstanding audit observations contained in the IRs, departmental audit committees are constituted by the Government. These committees are chaired by the Secretaries of the concerned administrative department and attended by the concerned officers of the State Government and officers of the AG (C&RA).

In order to expedite clearance of the outstanding audit observations, it is necessary that the audit committees meet regularly and ensure that final action is taken in respect of all the audit observations outstanding for more than a year, leading to their settlement. During the course of the year 2008-09, 11 meetings were held in respect of the paragraphs pertaining to sales tax, stamp duty and registration fees, transport and prohibition and excise and mines and minerals. 253 paragraphs involving revenue of Rs. 5.68 crore were settled during these meetings.

### **1.11 Response of the departments/Government to draft audit paragraphs**

The Government (Finance Department) issued directions (April 1952) to all the departments to send their responses to the draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India within six weeks from the date of receipt of the draft paragraphs. The draft paragraphs are forwarded by the AG to the Secretaries of the concerned departments through demi-official letters, drawing their attention to the audit findings with a request to send their response within six weeks. The fact of non-receipt of replies from the departments is invariably indicated at the end of each such paragraph included in the Audit Report.

54 draft paragraphs (including 4 reviews) clubbed into 27 paragraphs proposed to be included in the Report of the Comptroller and Auditor General of India for the year ended March 2009 were forwarded to the Secretaries of the respective departments during March-September 2009 through demi-official letters. The Secretaries of the departments did not send replies to 41 draft paragraphs (including 3 reviews). Response of the departments wherever received, has been appropriately included in this report.

### **1.12 Follow-up on Audit Reports**

With a view to ensuring accountability of the executive in respect of the issues dealt with in the Audit Reports, the Public Accounts Committee (PAC) had directed that the department concerned should furnish remedial/corrective Action Taken Notes (ATN) on the recommendations of the PAC relating to the paragraphs contained in the Audit Reports within the prescribed time frame.

A review of the outstanding ATNs as on 31 March 2009 on paragraphs included in the Report of the Comptroller and Auditor General of India, Revenue Receipts, Government of Tamil Nadu and discussed by the PAC revealed that the departments had not submitted the ATNs in respect of 1,021 recommendations pertaining to 301 audit paragraphs.

Further, the PAC has also laid down that necessary explanatory notes for those issues mentioned in the Audit Reports should be furnished to the Committee within the maximum period of two months from the date of placing of the Report before the Legislature. Though the Audit Reports for the years from 2000-01 to 2007-08 were placed before the Legislative Assembly between May 2002 and July 2009, the departments are yet to submit explanatory notes for 87 paragraphs (including 9 reviews) included in these reports.

### **1.13 Compliance with the earlier Audit Reports**

During the period from 2003-04 to 2007-08, the department/Government accepted audit observations involving Rs. 173.45 crore, of which Rs. 78.28 crore had been recovered till 31 October 2009 as mentioned below:

(Rupees in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2003-04	815.05	26.87	0.79
2004-05	576.20	7.16	3.20
2005-06	228.71	5.18	2.27
2006-07	151.38	87.75	64.64
2007-08	408.47	46.49	7.38
<b>Total</b>	<b>2,179.81</b>	<b>173.45</b>	<b>78.28</b>

The Government may institute a mechanism to monitor the position of recoveries pointed out in the Audit Reports and take necessary steps for speedy recovery.

#### **1.14 Results of audit**

Test check of the records of sales tax/VAT, land revenue, state excise, motor vehicles tax, stamp duty and registration fees, electricity duty, other taxes and non-tax receipts conducted during 2008-09 indicated underassessment, short levy, loss of revenue and other observations amounting to Rs. 1,459.26 crore in 2,752 cases. During the year, the departments accepted underassessment of Rs. 17.96 crore in 1,136 cases pointed out in 2008-09 and earlier years and recovered/adjusted Rs. 8.42 crore.

This Report contains 27 paragraphs including four reviews relating to non/short levy of taxes, duties, interest and penalties and other audit observations involving revenue of Rs. 337.40 crore. The departments/Government accepted audit observations involving revenue of Rs. 113.67 crore, of which Rs. 0.98 crore had been recovered/adjusted by the departments upto November 2009. Final reply has not been received in respect of the remaining cases (January 2010). These are discussed in the succeeding chapters II to V.