

CHAPTER-III STATE EXCISE

3.1 Tax administration

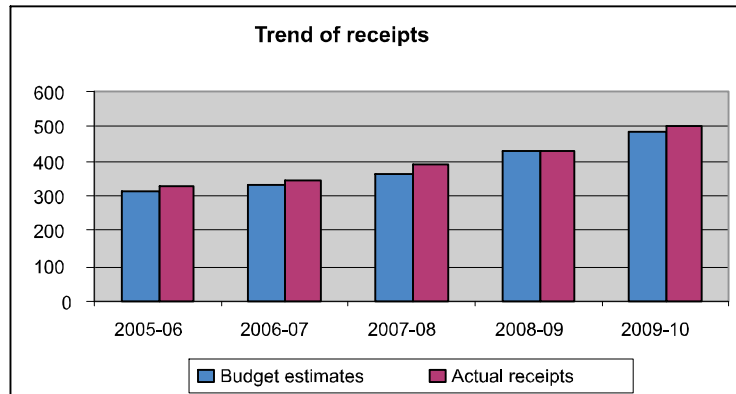
Principal Secretary (Excise and Taxation) is the administrative head at Government level. The department is headed by the Excise and Taxation Commissioner (ETC). The department has been divided in three Zones¹⁴ which are headed by the Additional ETC (South Zone), Deputy ETC of North Zone and Central Zone. Besides, 22 Excise and Taxation Inspectors under the control of Assistant Excise and Taxation Commissioner (AETC) of the respective districts, are deputed to oversee and regulate levy/collection of excise duties and allied levies.

3.2 Trend of receipts

Actual receipts from the State Excise during the years 2005-06 to 2009-10 along with the total tax/non-tax receipts during the same period is exhibited in the following table and paragraphs:

(Rupees in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/shortfall (-)	Percentage of variation	Total tax/non-tax receipts of the State	Percentage of actual receipts vis-à-vis total tax/non-tax receipts
2005-06	315.00	328.97	(+) 13.97	(+) 4	2,186.69	15
2006-07	330.00	341.86	(+) 11.86	(+) 4	2,993.23	11
2007-08	362.69	389.57	(+) 26.88	(+) 7	3,780.61	10
2008-09	428.61	431.83	(+) 3.22	(+) 1	3,998.73	11
2009-10	480.07	500.26	(+) 20.19	(+) 4	4,358.18	11



It would be seen from the above that there was no major variation between the actuals and budget estimates prepared by the department except during 2007-08 indicating therein that the budget estimates were prepared on realistic basis.

¹⁴ South Zone (Shimla, Solan, Sirmour, Kinnaur and Spiti area).
North Zone (Chamba, Kangra and Una).
Central Zone (Bilaspur, Hamirpur, Kullu, Lahaul area and Mandi).

3.3 Cost of collection

The gross collection in respect of state excise revenue receipts, expenditure incurred on collection and percentage of such expenditure to gross collection during the years 2005-06 to 2009-10 along with the relevant all India average percentage of expenditure on collection to gross collection for 2008-09 were as follows:

(Rupees in crore)

Head of revenue	Year	Collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage of expenditure on collection for the preceding year
State excise	2005-06	328.97	4.24	1.29	3.34
	2006-07	341.86	3.86	1.13	3.40
	2007-08	389.57	4.05	1.04	3.30
	2008-09	431.83	4.46	1.03	3.27
	2009-10	500.26	5.06	1.01	3.66

The above table indicates that the percentage of expenditure on collection was always less than the all India average percentage during the period 2005-06 to 2008-09.

The Government needs to continue and monitor this practice of efficient tax collection.

3.4 Impact of audit

During the last five years (including the current year's report), we have pointed out 192 observations on non/short recovery of license fee and interest on late payment of license fee, non-realisation of duty on excess wastage, low yield of spirit from molasses, short recovery of fixed fee, etc., with revenue implication of ₹ 54.14 crore. The Department/Government had accepted audit observations in 199 cases involving ₹ 19.28 crore. The details are shown in the following table:

(Rupees in crore)

Year of Audit Report	No. of units audited	Observations included		Observations accepted		Amount recovered
		No.	Amount	No.	Amount	Amount
2005-06	36	38	3.03	14	0.48	1.82
2006-07	35	25	2.08	125	3.56	1.56
2007-08	33	44	2.53	8	0.41	2.54
2008-09	38	30	37.61	9	1.35	6.05
2009-10	38	55	8.89	43	13.48	0.10
Total	180	192	54.14	199	19.28	12.07

The department had so far recovered ₹ 12.07 crore which included recovery of accepted cases pertaining to the period prior to 2005-06 also. This is indicative of the fact that the department had not been able to enforce prompt recovery even in accepted cases.

3.5 Results of audit

Test check of the records of 38 units relating to excise duty, license fee receipts etc., revealed non/short realisation of excise duty/license fee/interest/penalty

and other irregularities involving ₹ 8.89 crore in 55 cases, which fall under the following categories:

Sr. No.	Categories	Number of cases	(Rupees in crore)
			Amount
1.	Non/short realisation of excise duty	08	1.49
2.	Non/short realisation of license fee, interest/penalty	33	2.41
3.	Other irregularities	14	4.99
Total		55	8.89

During the course of the year, the department accepted underassessment and other deficiencies of ₹ 13.48 crore in 43 cases which were pointed out in earlier years. An amount of ₹ 9.52 lakh was realised in six cases during the year 2009-10.

A few illustrative cases involving ₹ 1.47 crore are mentioned in the following paragraphs.

3.6 Audit observations

Scrutiny of the records in the offices of the Excise and Taxation Department revealed several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of excise duty, fees, interest etc. as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Every year we point out such omissions in audit, but not only do the irregularities persist but also remain undetected till an audit is conducted. There is need for the Government to improve the internal control system including strengthening of internal audit so that occurrence of such cases can be avoided.

3.7 Non-compliance of provisions of Act/Rules

The Punjab Distillery Rules (PDR), 1932 as applicable to the state of Himachal Pradesh provide:

- (i) *Norms for manufacture of rectified spirit from molasses;*
- (ii) *Levy of fixed fee, additional fee, interest at prescribed rate.*

The AETCs did not observe some of the above provisions in the cases mentioned in paragraphs 3.7.1 to 3.7.4 which resulted in non/short levy of excise duty/fixed fee/additional fee/interest of ₹ 1.47 crore.

3.7.1 Low yield of spirit from molasses

AETC Una

We noticed in October 2009 that a brewery¹⁵ used 7,39,619 mounds¹⁶ (2,73,659 quintals) of molasses for manufacture of rectified spirit (RS) during 2008-09. Against the yield of

As per norms fixed in the PDR, 1932, as applicable to Himachal Pradesh, one mound of molasses shall produce 3.5 London proof gallons of country spirit. Shortfall in production below fixed norms was, thus, not allowable.

¹⁵ M/s Rangar Breweries Ltd., Mehatpur, Una.

¹⁶ One mound = 0.37 quintal yields 3.5 London proof gallons.

RS 1,17,52,545 proof litres¹⁷ as per prescribed norms, the actual yield was shown as 1,03,97,285 proof litres. Thus, 13,55,260 proof litres involving excise duty of ₹ 1.36 crore was short produced for which no reasons were on record. This resulted in loss of revenue to that extent.

After we reported the matter, the AETC stated that the yield of spirit from molasses depends upon sugar contents, starch and quality of yeast and temperature conditions. The provision of rule 9.37 of the PDR 1932 does not take into account these critical factors. However, we observed that the department had not taken any initiative to revise the norms. As such, the existing norms will apply.

The matter was reported to the Department and to the Government in November 2009. We have not received their replies (September 2010).

3.7.2 Short recovery of fixed fees

Three AETCs¹⁸

We noticed between August and November 2009 that nine licensees imported 17.45 lakh proof litres of Indian Made Foreign Liquor and 24.43 lakh bulk litres of beer during 2008-09. They were liable to pay "Fixed fees" of ₹ 24.78 lakh against which the licensees paid ₹ 20.72 lakh. This resulted in short realisation of ₹ 4.06 lakh. We noticed that the five licensees had paid the minimum fees while the remaining four had paid it short. The AETCs did not take any action to recover the fees short realised.

As per Excise Announcements 2008-09, "Fixed fees" of ₹ 1 per proof litre subject to minimum of ₹ 25,000 in respect of foreign liquor and 30 paise per bulk litre on beer, wine and cider subject to minimum of ₹ 15,000 was chargeable from L-1-B (wholesale vend) licensees.

We reported the matter to the Department and to the Government between November and December 2009. We have not received their replies (September 2010).

3.7.3 Non-levy of interest

Four AETCs¹⁹

We noticed between October 2009 and February 2010 that 35 licensees deposited license fee of ₹ 4.43 crore late with an average delay of 127 days during 2008-09. They were liable to pay interest of ₹ 4.04 lakh on the belated payments. However, the concerned AETCs did not levy the same. This resulted in short recovery of revenue to that extent.

Excise Announcements for the year 2008-09 provide for levy of interest for non-payment/belated payment of license fee.

¹⁷ One gallon = 4.54 proof litres.

¹⁸ Kangra: four licensees: ₹ 2.05 lakh; Solan: four licensees: ₹ 0.92 lakh and Una: one licensee: ₹ 1.09 lakh.

¹⁹ Hamirpur: ₹ 1.98 lakh; Kullu: ₹ 1.10 lakh; Mandi: ₹ 0.52 lakh and Una: ₹ 0.44 lakh.

We reported the matter between October 2009 and February 2010 to the Department. It accepted the audit observation and intimated (September 2010) that out of recoverable amount of ₹ 4.04 lakh, ₹ 2.73 lakh²⁰ had been recovered and attempts were being made to recover the balance amount. Further report on recovery and the reply of the Government to whom the cases were forwarded between November 2009 and February 2010 have not been received.

3.7.4 Non-levy of additional fee on short lifting of minimum guaranteed quota

AETC Shimla

We noticed in November 2009 that three licensees²¹ lifted 26,628 proof litres against MGQ of 49,100 proof litres of liquor fixed by the department during 2008-09. This resulted in short lifting of 12,652 proof litres²² for which additional fee of ₹ 2.53 lakh though payable was not demanded by the AETC. The mistake had escaped the notice of the

Excise Announcements 2008-09 provide that every licensee shall be required to lift minimum guaranteed quota (MGQ) as fixed for each vend. Failing which he shall be liable to pay license fee based on MGQ. Additional fee of ₹ 20 per proof litre shall be paid by the licensee on the quantity falling short of 80 per cent of MGQ.

ETC also to whom the 'Annual Lifting and Consumption Statement' enclosed with the return was furnished.

After we reported the matter in November 2009 to the Department, it accepted the audit observation and intimated (September 2010) that ₹ 16,000 had been recovered from one licensee. Further report on recovery and reply of the Government to whom the cases were forwarded in December 2009 has not been received.

²⁰ Hamirpur: ₹ 1.21 lakh; Kullu: ₹ 1.10 lakh; Mandi: ₹ 32,000 and Una: ₹ 10,000.

²¹ M/s Kewal Ram, ₹ 0.65 lakh; M/s Kuldeep Kumar Kaith, ₹ 0.94 lakh and M/s Sharma and Co. (Dinesh Kumar), ₹ 0.94 lakh.

²² 80 per cent of MGQ of 49,100 proof litres i.e. 39,280 proof litres - 26,628 proof litres = 12,652 proof litres.