

## CHAPTER-VI: STATE EXCISE AND OTHER TAX RECEIPTS

### 6.1 Tax administration

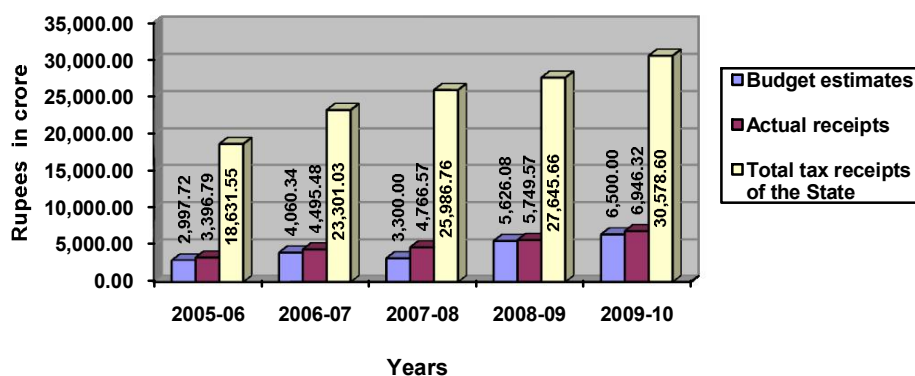
The State Excise duty is generally levied on any liquor, any intoxicating drug, opium or other narcotics and non-narcotic drugs which the State Government may, by notification declare to be an excisable article. The Karnataka Excise (KE) Act, 1965 and Rules made thereunder govern the law relating to the production, manufacture, possession, import, export, transport, purchase and sale of liquor and intoxicating drugs and levy of duties of excise thereon. The State Excise Department (SED) is under the administrative control of the Finance Department and is headed by the Excise Commissioner, who is assisted by Joint Commissioners of Excise. The excise duty is administered by the Deputy Commissioners of Excise at the district level and the Superintendents of Excise, Deputy Superintendents of Excise, Inspectors of Excise and other sub-ordinate officers at the distilleries and range offices.

### 6.2 Trend of receipts

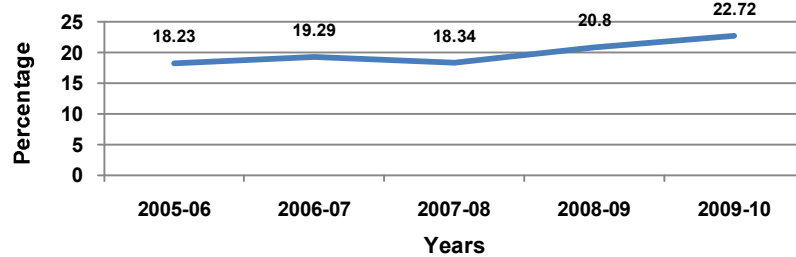
Budget Estimates (BEs) and actual receipts from State Excise along with the total tax receipts during the years 2005-06 to 2009-10 are exhibited in the following table and graphs:

(Rupees in crore)						
Year	Budget estimates	Actual receipts	Variation excess(+)/shortfall(-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2005-06	2,997.72	3,396.79	(+) 399.07	(+)13.31	18,631.55	18.23
2006-07	4,060.34	4,495.48	(+) 435.14	(+)10.72	23,301.03	19.29
2007-08	3,300.00	4,766.57	(+)1,466.57	(+)44.44	25,986.76	18.34
2008-09	5,626.08	5,749.57	(+) 123.49	(+) 2.19	27,645.66	20.80
2009-10	6,500.00	6,946.32	(+) 446.32	(+) 6.87	30,578.60	22.72

Graph 1: Budget estimates, Actual receipts and Total tax receipts



Graph 2: Percentage of Actual receipts vis-à-vis Total tax receipts



It is seen from the graphs that the percentage of variation between the BEs and actual receipts was very high in 2007-08, while for the preceding years, it was more than 10 *per cent* and was lesser than 10 *per cent* after 2007-08. Further, the percentage of actual receipts in total tax receipts ranged between 18.23 *per cent* and 22.72 *per cent* for the five year period from 2005-06 to 2009-10. The Department has not furnished the reasons for variation of the actual receipts as compared to the BEs, despite being requested (September 2010).

### 6.3 Analysis of arrears of revenue

We were intimated (August 2010) that the arrears of revenue as on 31 March 2010 amounted to ₹ 737.78 crore which were stated to be outstanding for more than five years. The year wise position of arrears of revenue is mentioned in the following table.

(Rupees in crore)				
Year	Opening balance of arrears	Amount collected during the year	Closing balance of arrears	Percentage of amount collected to opening balance of arrears
2005-06	781.24	1.03	780.21	0.13
2006-07	780.21	36.74	743.47	4.71
2007-08	743.47	2.33	741.14	0.31
2008-09	741.14	1.64	739.50	0.22
2009-10	739.50	1.72	737.78	0.23

The percentage of collection of arrears to the opening balance of arrears was less than one per cent for all years except during 2006-07, which was still marginal at 4.71 *per cent*.

**We recommend that the Department take effective measures for improving the collection of arrears of revenue.**

### 6.4 Impact of Audit Reports

During the last five years, through our audit reports, we had pointed out non/short levy, non/short realisation, and loss of revenue, etc., with revenue implication of ₹ 6.23 crore in five paragraphs. Of these, the Government/Department had accepted audit observations in three paragraphs involving ₹ 2.03 crore and had since recovered ₹ 16 lakh. The details are given in the following table:

(Rupees in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount <sup>1</sup>	Number	Amount <sup>1</sup>	Number	Amount <sup>1</sup>
2005-06	03	4.98	01	0.78	01	0.07
2006-07	--	--	--	--	--	--
2007-08	01	0.23	01	0.23	01	0.09
2008-09	--	--	--	--	--	--
2009-10	01	1.02	01	1.02	--	--
<b>TOTAL</b>	<b>05</b>	<b>6.23</b>	<b>03</b>	<b>2.03</b>	<b>02</b>	<b>0.16</b>

As seen from the above table, the recovery made by the Department is only eight *per cent* of the amount involved in the total accepted cases.

**We recommend that the Government take measures to ensure expeditious recovery of revenue in respect of the accepted cases.**

### 6.5 Working of internal audit wing

The Internal Audit Wing (IAW) is functioning in the SED with a working strength of one Senior Audit Officer and two Assistant Audit Officers. There are 311 offices in the Department out of which 104 offices were planned for audit during 2009-10 and 108 offices were audited. Year wise details of the number of objections raised and settled with tax effect and recoveries effected during the preceding five years are as under:

(Rupees in lakh)

Year	Objections raised		Objections settled		Objections pending	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Upto 2005-06	419	2,989.40	32	23.48	387	2,965.92
2006-07	56	358.20	01	0.11	55	358.09
2007-08	02	1.40	01	0.12	01	1.28
2008-09	19	19.28	03	0.19	16	19.09
2009-10	10	10.74	02	7.28	08	3.46
<b>Total</b>	<b>506</b>	<b>3,379.02</b>	<b>39</b>	<b>31.18</b>	<b>467</b>	<b>3,347.84</b>

From the above, it is observed that only eight *per cent* of the total objections raised have been settled and a huge number of objections are pending settlement for over five years.

**We recommend that the Department take appropriate steps for speedy clearance of outstanding objections, particularly those pending for more than five years.**

### 6.6 Results of audit

We conducted a test check of records of 27 offices of the SED and one office of the Energy Department during the year 2009-10. We found non/short levy of excise duty, non/short levy of licence fee, non levy of fee on rectified spirit, non-registration/non-payment of luxury tax and incorrect adjustment of tax

<sup>1</sup> Indicates the amount of acceptance and recovery in respect of individual cases included in the respective paragraphs.

paid on consumption of electricity amounting to ₹ 3.60 crore in 11 cases. The observations broadly fall under the following categories:

(Rupees in crore)			
Sl. No.	Category	Number of cases	Amount
<b>State Excise</b>			
1.	Non/short levy of licence fee	04	1.20
2.	Non- levy of fee on rectified spirit	01	1.02
3.	Non/short levy of excise duty	03	0.05
4.	Other irregularities	01	0.01
<b>Total</b>		<b>09</b>	<b>2.28</b>
<b>Luxury Tax</b>			
1.	Non-registration and non-payment of luxury tax	01	0.44
<b>Total</b>		<b>01</b>	<b>0.44</b>
<b>Electricity Tax</b>			
1.	Incorrect adjustment of tax paid on consumption of electricity	01	0.88
<b>Total</b>		<b>01</b>	<b>0.88</b>
<b>Grand total</b>		<b>11</b>	<b>3.60</b>

During the course of the year 2009-10, the Departments accepted underassessments and other deficiencies of ₹ 62.15 lakh in four cases pointed out during the year and recovered ₹ 45.41 lakh in two cases. Further, the SED also recovered ₹ 3.44 crore in 30 cases pointed out in earlier years.

After issue of a draft paragraph, the Government reported (July 2010) recovery of ₹ 5.15 lakh in two cases.

One case on non-levy of fee on rectified spirit involving ₹ 1.02 crore is mentioned in the succeeding paragraph.

### **6.7 Non-levy of fee on rectified spirit**

Superintendent of Excise, M/s. Vishwanath Sugars Limited, Belgaum.

No licensee who produces rectified spirit out of molasses shall issue rectified spirit so produced unless he pays the specified fee on such rectified spirit. The fee specified for rectified spirit issued for own use or for sale to others was ₹ 6 per bulk litre during 2005-06 and 2006-07.

We noticed during November 2009 that the licensee had issued 16.98 lakh bulk litres of rectified spirit during 2005-06 and 2006-07 for own use in ethanol plant. However, fee leviable on the rectified spirit issued for own use was not levied resulting in non-levy of fee of ₹ 1.02 crore.

After we pointed out the case, the Government reported (July 2010) issue of notice for recovery.