

CHAPTER-II: SALES TAX

2.1 Introduction

2.1.1 Tax revenue administration

Levy and collection of receipts under the sales tax are regulated by the Maharashtra Value Added Tax (MVAT) Act, 2002 and MVAT Rules, 2005, read with notifications issued by the Government from time to time as well as circular instructions issued by the Sales Tax Department. The Act, Rules and instructions are implemented by the Commissioner of Sales Tax under the overall control of the Principal Secretary to the Government in Finance Department, assisted by the zonal Additional Commissioners of Sales Tax, Joint Commissioners of Sales Tax in respect of functional branches and Deputy Commissioners of Sales Tax and other officers at divisional level. The sales tax receipts mainly comprises of tax on sales, trade etc. The sales tax Department is also in the process of completing the pending assessment under the erstwhile Bombay Sales Tax Act and allied Acts.

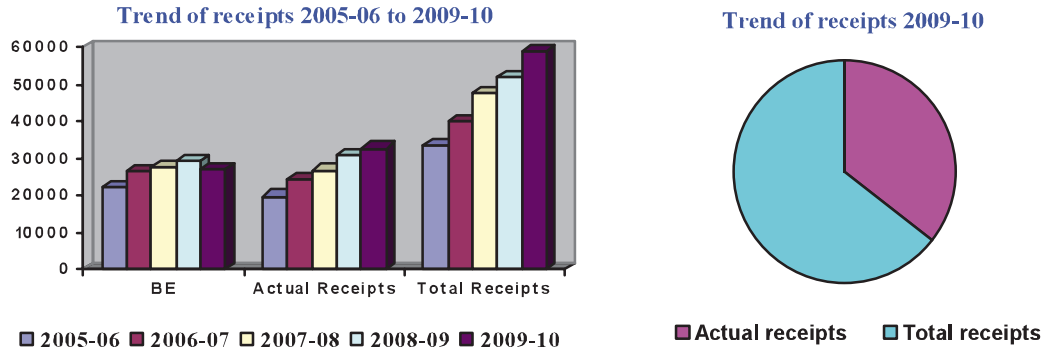
2.1.2 Trend of receipts

Actual receipts from Sales tax, Value Added Tax (VAT), etc., during the years 2005-06 to 2009-10 alongwith the total tax receipts during the same period is 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	22,128.41	19,676.74	(-) 2,451.67	(-) 11.08	33,540.24	58.67
2006-07	26,314.51	24,130.72	(-) 2,183.79	(-) 8.30	40,099.24	60.18
2007-08	27,465.00	26,752.80	(-) 712.20	(-) 2.59	47,528.41	56.29
2008-09	29,039.00	30,680.53	(+) 1,641.53	(+) 5.65	52,029.94	58.97
2009-10	27,006.00	32,676.02	(+) 5,670.02	(+) 21.00	59,106.33	55.28

As can be seen from the above table, the revenue collection under VAT increased by 66 per cent in 2009-10 as compared to 2005-06.



The variation between the budget estimates and actual receipts for the year 2009-10 was 21 *per cent* which indicates that the budget estimates were not realistic.

2.1.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2010 in respect of sales tax/VAT as furnished by the Department amounted to ₹ 38,357.32 crore, of which ₹ 30,991.47 crore had been outstanding for more than five years, as mentioned in the following table:

(Rupees in crore)

Sl. no.	Head of revenue	Amount outstanding as on 31 March 2010	Amount outstanding for more than five years as on 31 March 2010	Remarks
1.	Sales tax, etc.	38,357.32	30,991.47	Stay orders were granted by the appellate authorities for ₹ 18,097.80 crore; recovery proceedings for ₹ 10,413.42 crore were not initiated as the time limit was not over and the remaining amount was in various stages of recovery.

2.1.4 Arrears in assessment

The following table shows the details of pending Sales tax assessment cases for the years 2007-08, 2008-09 and 2009-10 as furnished by the Departments:

Year	Opening balance	New cases due for assessment	Total assessments due	Disposal			Balance at the end of the year	Percentage of column 8 to 4
				Cases not to be assessed ¹	Cases disposed off	Total		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Sales tax								
2007-08	9,19,504	Nil	9,19,504	2,86,634	95,755	3,82,389	5,37,115	58
2008-09	5,37,115	91,024	6,28,139	3,04,881	1,39,266	4,44,147	1,83,992	29
2009-10	1,83,992	1,20,248	3,04,240	91,524	1,29,990	2,21,514	82,726	27
Motor spirit tax								
2007-08	7,610	Nil	7,610	531	303	834	6,776	89
2008-09	6,776	102	6,878	2,384	152	2,536	4,342	63
2009-10	4,342	86	4,428	1,037	142	1,179	3,249	73
Purchase tax on sugarcane								
2007-08	709	3	712	—	68	68	644	90
2008-09	644	313	957	9	67	76	881	92
2009-10	881	144	1,025	51	57	108	917	89
Entry tax								
2007-08	366	496	862	—	809	809	53	6
2008-09	53	96	149	34	50	84	65	44
2009-10	65	308	373	36	259	295	78	21
Lease tax								
2007-08	5,551	Nil	5,551	475	322	797	4,754	86
2008-09	4,754	407	5,161	477	448	925	4,236	82
2009-10	4,236	363	4,599	1,015	448	1,463	3,136	68
Luxury tax								
2007-08	7,290	388	7,678	—	1,535	1,535	6,143	80
2008-09	6,143	3,547	9,690	1,455	2,040	3,495	6,195	64
2009-10	6,195	2,113	8,308	1,168	2,397	3,565	4,743	57
Tax on works contracts								
2007-08	1,55,862	Nil	1,55,862	9,501	5,146	14,647	1,41,215	91
2008-09	1,41,215	4,814	1,46,029	17,159	6,362	23,521	1,22,508	84
2009-10	1,22,508	13,311	1,35,819	31,833	15,707	47,540	88,279	65
Total								
2007-08	10,96,892	887	10,97,779	2,97,141	1,03,938	4,01,079	6,96,700	
2008-09	6,96,700	1,00,303	7,97,003	3,26,399	1,48,385	4,74,784	3,22,219	
2009-10	3,22,219	1,36,573	4,58,792	1,26,664	1,49,000	2,75,664	1,83,128	

Though five years have passed since introduction of VAT, 1,83,128 assessments pertaining to erstwhile Bombay Sales Tax Act and allied Acts are still pending. Immediate steps may be taken to complete these assessments within a definite time frame.

¹ These cases were not to be assessed according to the Government Resolution dated 5 January 2007.

2.1.5 Assessee Profile

During the year 2009-10 the position regarding number of dealers, dealers who failed to file returns in time and action taken by the Department was as under:

(Rupees in crore)

No of dealers	No of defaulters	Action Taken			Pending Action	Penalty levied
		Show cause notice ² issued	Unilateral Assessment Order passed	Prosecution lodged		No. of cases/ Amount (₹)
5,74,375	30,485	58,995	5,243	98	15	1,121/ 69.04

2.1.6 Cost of collection

The gross collection in respect of Value Added Tax, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years 2007-08, 2008-09 and 2009-10 alongwith the relevant all India average percentage of expenditure on collection to gross collection for the year 2008-09 are given in the following table:

(Rupees in crore)

Sl. no.	Head of revenue	Year	Gross collection ³	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage for the year 2008-09
1.	Sales tax/ VAT	2007-08	26,752.80	155.53	0.58	0.88
		2008-09	30,680.53	216.38	0.71	
		2009-10	32,676.02	283.65	0.87	

As seen from the above, the cost of collection in the State of Maharashtra, during the periods 2007-08 to 2009-10 is less as compared to the all India average for the year 2008-09.

2.1.7 Analysis of collection

The break-up of the total collection at the pre-assessment stage and after regular assessments of sales tax, entry tax and luxury tax for the year 2009-10

² Depending upon the periodicity of returns, namely monthly, quarterly or six monthly.

³ Figures as per the Finance Accounts.

and the corresponding figures for the preceding two years as furnished by the Department is as mentioned in the following table:

(Rupees in crore)

Head of revenue	Year	Amount collected at pre-assessment stage	Amount collected after regular assessment (additional demand)	Penalties for delay in payment of taxes and duties	Amount refunded	Net collection	Percentage of column 3 to 7
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Finance Department							
Sales tax/VAT, etc.	2007-08	28,903.67	324.84	43.02	2,709.67	26,561.86	109
	2008-09	32,234.87	248.10	—	2,057.84	30,425.13	106
	2009-10	34,438.67	660.30 ⁴	—	2,616.14	32,482.83	106
Entry tax	2007-08	4.43	2.84	0.35	Nil	7.62	58
	2008-09	5.04	0.20	—	Nil	5.24	96
	2009-10	6.65	2.66	—	Nil	9.31	71
Luxury tax	2007-08	246.25	42.56	19.45	Nil	308.26	80
	2008-09	261.48	1.18	—	Nil	262.66	100
	2009-10	211.41	3.27	—	Nil	214.68	98

The above table shows that collection of revenue at the pre-assessment stage in respect of sales tax/VAT ranged between 106 and 109 *per cent* during 2007-08 to 2009-10. This indicates that the VAT collection is mainly through voluntary compliance. During the period 2007-08 to 2009-10, the amount collected at the pre-assessment stage was more than the amount due to the Government resulting in refunds aggregating ₹ 7,383.65 crore. The revenue collected after regular assessment was quite low.

2.1.8 Impact of Audit Reports

Revenue impact

During the last five years, 2004-05 to 2008-09, we had pointed out cases of underassessments/non/short levy/loss of revenue of sales tax, etc., interest and other irregularities with revenue implication of ₹ 2,059.95 crore in 1,272 cases. Of these, the Department had accepted audit observations in 604 cases involving ₹ 544.38 crore and had recovered ₹ 8.81 crore in 237 cases. The details are shown in the following table:

⁴ Figure includes penalties for delay in payment of sales tax, etc. bifurcation of which was not made available.

(Rupees in crore)

Year	Amount objected		Amount accepted		Amount recovered	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2004-05	254	175.42	178	25.84	134	6.90
2005-06	171	19.60	110	11.90	60	1.35
2006-07	83	8.97	83	8.97	28	0.52
2007-08	187	41.74	167	9.21	15	0.04
2008-09	577	1,814.22	66	488.46	-	-
Total	1,272	2,059.95	604	544.38	237	8.81

The Government may consider issuing instructions to the Department to recover the amount involved in accepted cases on priority.

2.1.9 Results of audit

We reported underassessment/short levy/loss of revenue etc., amounting to ₹ 547.72 crore in 724 cases as shown below on the basis of test check of the records of the Sales Tax Department conducted during the year 2009-10:

(Rupees in crore)

Sl. no.	Category	No. of cases	Amount
1.	Claims for compensation under VAT	6	377.69
	Non-recovery of arrears of sales tax, etc.	8	124.68
2.	Incorrect grant of set off	113	8.01
3.	Non/short levy of tax	265	9.07
4.	Non-realisation of value added tax	169	2.77
5.	Non/short levy of interest/penalty	57	2.65
6.	Non-forfeiture of excess collection of tax	20	0.53
7.	Other irregularities	86	22.32
Total		724	547.72

In response to our observations made in the local audit reports during the year 2009-10 as well as during earlier years, the Department accepted underassessments/other deficiencies involving ₹ 5.44 crore in 258 cases. Out of this, 27 cases involving ₹ 80.81 lakh were pointed out during 2009-10 and the rest during earlier years. During the year 2009-10, the Department recovered ₹ 1.48 crore in 155 cases out of which ₹ 72.95 lakh in 23 cases were pointed out during 2009-10 and the rest in earlier years.

A few audit observations involving ₹ 0.65 crore are mentioned in the succeeding paragraphs numbers 2.3.1 to 2.3.7.

2.1.9.1 Claim for Value Added Tax - compensation of loss of revenue

The Maharashtra Value Added Tax (MVAT) was implemented with effect from 1 April 2005. The Government of India (GoI) agreed to compensate the Government of Maharashtra (GoM) for loss of revenue consequent to the implementation of VAT and issued guidelines in July 2005 and June 2008 on the modalities for calculation of compensation claim. As per these guidelines, the VAT receipts were to be compared with revenue of the pre-VAT period and suitably extrapolated on the basis of the average growth of the rate of revenue of the previous five years. Further, tax receipt from motor spirit tax (MST), tax on liquor and input tax credit (ITC) under VAT adjusted against Central Sales Tax (CST) were to be excluded while computing the receipts. The resultant net revenue was to be compared with the projected tax revenue for 2007-08 to arrive at the loss due to the introduction of VAT. The compensation was allowable at 50 per cent of such loss of revenue during the year 2007-08. The GoM preferred (May 2009) its final compensation claim of ₹ 2,726.10 crore for the year 2007-08, against which the GoI sanctioned ₹ 1,720 crore upto February 2010.

The refunds granted, receipts on account of the MST (non-VAT revenue), tax on liquor and input tax credit against the CST allowed as per the returns relating to the period from April 2007 to March 2008 in Mumbai and Nashik divisions were scrutinised between November and December 2009. The total amount of refund, MST, tax on liquor and input tax credit involved in the compensation claim under VAT and amounts test checked for the period 2007-08 in the selected divisions were as under:

(Rupees in crore)

Description	Total amount involved in compensation claim	Mumbai division	Nashik division
Refund	2,687.62	546.70	275.48
MST	6,780.80	6,780.80	NIL
Tax on liquor	1,081.53	391.83	252.48
ITC	1,622.09	471.16	98.06

We noticed the following irregularities:-

(Rupees in crore)

Sl. no.	Category	Amount
1.	Inclusion of excess receipts on account of tax on liquor	0.32
2.	Short claim of compensation due to ITC against CST	283.14
3.	Loss of compensation claim due to delay in grant of refund	2.83
Total		286.29

The matter regarding compensation claims were reported to the Government (June 2010), their reply has not been received (November 2010).

2.2 Audit observations

On the basis of scrutiny of the assessment records of Bombay Sales Tax/Value Added Tax (VAT), Central Sales Tax and Works Contract Tax maintained in Sales Tax Department we reported several cases of non-observance of provisions of Acts/Rules, non/short levy of tax, irregular grant of exemptions and other cases as mentioned in the succeeding paragraphs in this Chapter. These cases are illustrative and are based on a test check carried out by us. Such omissions on the part of Assessing Authorities (AAs) are pointed out in audit each year, but not only do the irregularities persist; these remain undetected till we conduct audit. There is need for the Government to improve the internal control system including strengthening of internal audit.

2.3 Non-observance of the provisions of Acts/Rules

The BST/MVAT/CST/WCT Acts and Rules empowers/provide for:

- (i) registration of dealers liable for payment of tax under the VAT Act;*
- (ii) levy of tax/turnover tax/surcharge/interest at the prescribed rate;*
- (iii) exemption of tax on deemed export/branch transfers/inter-State sales subject to submission of the prescribed declarations/certificates;*

We noticed that the AAs, while finalising the assessments, did not observe some of the provisions of the Act/Rules and notification issued thereunder in cases mentioned in the paragraph 2.3.1 to 2.3.7. These mistakes resulted in non/short levy/non-realisation of tax/interest/excess grant of set-off, etc., of ₹0.65 crore.

2.3.1 Non-realisation of Value Added Tax from licencees extracting sand from river bed/sea

Sales Tax Officer (Registration branch), Kolhapur, Ratnagiri and Sindhudurg divisions

Under the provisions of MVAT Act, 2002, sand is covered by entry 1 of Schedule E of the Act during April 2005 and is taxable at 12.5 per cent. However, with the amendment of the description of the entry 69 of Schedule C with effect from 1 May 2005 sand is taxable at 4 per cent thereafter. Further, under Section 3 of the MVAT Act, 2002, every dealer is required to obtain a certificate of registration if the turnover of sales during the year is ₹ 5 lakh and above and VAT at the prescribed rate is leviable on the turnover of sales of sand. Besides, interest and penalty is leviable as per provisions of the Act.

The Commissioner of Sales Tax in his letter dated 28 March 2007 addressed to the Principal Secretary, Revenue and Forest Department had called for information in respect of these licenses regarding name, address, quantity of sand extracted and amount of royalty paid.

This was done as most of the licensees were found to be either unregistered or defaulters/evaders in payment of tax. The Sales Tax Department had not taken any follow-up action to get these dealers registered under MVAT Act though more than three years have elapsed since the Department called for the said information from the collectorates through the Revenue Department.

The licences for extraction of minor minerals and sand are issued by the district collectors. In order to ascertain whether dealers liable to be covered were registered under the Act and were paying taxes, details were independently collected by us between April and May 2010 from the offices of the three district Collectors at Kolhapur, Ratnagiri and Sindhudurg.

Information furnished by these three collectorates revealed that they had issued 178 licences during the periods from 2005-06 to 2009-10 for extraction of sand. We cross-checked this information with the sales tax Department to find out whether all these licencees have registered themselves under the MVAT Act. Cross-check revealed that 169 out of these 178 licensees in the three districts have not been registered under MVAT Act. These 169 unregistered licencees had extracted sand aggregating 7.91 lakh brass⁵.

In the absence of data regarding value of sand extracted for sale by the licensees, we worked out its value on the basis of the District Schedule of Rates available with the respective offices of the Public Works Department. The cost of sand extracted for sale, excluding transportation charges in respect of these unregistered dealers worked out to ₹ 69.21 crore for the period 2005-06 to 2009-10.

The non-realisation of revenue in respect of these 169 unregistered licencees was estimated at ₹ 2.77 crore.

After we reported the matter to the Department/Government in June 2010, the Finance Department directed (July 2010) the Sales Tax Department to furnish compliance to audit. The Deputy Commissioner of Sales Tax (Inspection) stated (November 2010) that out of 169 unregistered licencees, 15 licencees have since been got registered under VAT and action to register the remaining 154 licencees and assess them to tax is in progress. Further reply in the matter is awaited (November 2010).

⁵ Brass is 2.83 cubic meter.

2.3.2 Short levy of tax

Senior Deputy Commissioner, A-01, Nariman Point and Deputy Commissioner, B-114, B-143 of Worli and Andheri divisions

Under the provisions of the BST Act, the rate of tax applicable on any commodity was determined with reference to the relevant entry in schedule 'B' or 'C' of the Act. Further, the Government, by notification from time to time, exempted certain sales or purchases from payment of tax in full or any part thereof, which are payable under the provisions of the Act, subject to such conditions as are prescribed. Besides, turnover tax (TOT), surcharge (SC) and interest were also leviable as per the provisions of the Act.

During test check of the records of three divisions in July 2008, we noticed in the assessments of three dealers finalised between October 2007 and January 2008, for the periods between 2002-03 and 2003-04, that on sales valued at ₹ 2.02 crore, due to application of incorrect rates of tax and incorrect grant of exemption, there was underassessment of tax of ₹ 13.02 lakh, including interest of ₹ 15,000.

After we pointed out the cases, in August 2008, the Department accepted the observations and rectified/revised the assessments between May 2009 and October 2009, and raised additional demands totaling ₹ 13.02 lakh including interest of ₹ 15,000. A report on recovery is awaited (November 2010).

We reported the matter to the Government in May 2010; their reply is awaited (November 2010).

2.3.3 Short levy of Central Sales Tax

Senior Assistant Commissioner of Sales Tax, A-01, Nariman Point, Mumbai division and Sales Tax Officer, C-907, Jalna, Aurangabad division

Under Section 8 of the CST Act, 1956 and rules made thereunder, tax on sales in the course of inter-State trade, supported by valid declarations in Form 'C', is leviable at the rate of four *per cent* of the sale price. Otherwise, in respect of declared goods, tax is leviable at twice the rate applicable on sales and in respect of goods other than declared goods, at 10 *per cent* or at the rate applicable to the sale or purchase of goods, inside the State, whichever is higher. Besides, interest and penalty is also leviable as per the provisions of the BST Act.

During test check of the records between January 2008 and July 2008, we noticed in the assessment of two dealers finalised in March 2006 and December 2007 for the years 2000-01 and 2002-03 that in one case inter-State sales valued at ₹ 2.80 crore were taxed at 13 *per cent* instead of the applicable rate of 15.3 *per cent*. In other case on sales

valued at ₹ 68.53 lakh tax was levied at concessional rate of four *per cent*. Our scrutiny revealed that the dealer had purchased the goods valued at ₹ 68.53 lakh on 15 May 2002 and 2 October 2002, whereas he had obtained registration under the CST Act on 3 October 2002. As such the transactions in Form 'C' were not eligible for concessional rate of tax since they were prior to the date of registration of the dealer. These mistakes resulted in underassessment of tax of ₹ 21.25 lakh including interest of ₹ 6.69 lakh.

After we pointed out these cases in January 2008 and July 2008, the Department revised/rectified the assessments in March 2008 and May 2009 raising additional demands of ₹ 21.27 lakh including interest of ₹ 6.71 lakh. A report on recovery is awaited (November 2010).

We reported the matter to the Government in May 2010; their reply is still awaited (November 2010).

2.3.4 Non-levy of interest

Senior Assistant Commissioner of Sales Tax, A-01, Nariman Point division and Sales Tax Officer E-303, Aurangabad division

Under the provisions of Section 36(3)(b) of the Bombay Sales Tax Act, 1959, if any tax has remained unpaid for any period of assessment, then the dealer was liable to pay by way of simple interest at the rate of two *per cent* (1.25 *per cent* with effect from July 2004) of such tax for each month or part thereof from the date immediately following the date on which the period for which the dealer has been assessed expires till the date of order of assessment and where any payment of such unpaid tax whether in full or part is made on or before the date of order of assessment, the amount of such interest shall be calculated by taking into consideration the amount of and the date of such payment.

During test check of the records between January 2009 and May 2009, we noticed in the assessments of two dealers, finalised between October 2007 and March 2009, for the period 2003-04, that dues totaling ₹ 10.61 lakh, as a result of assessment, were not paid by the dealers for periods ranging from 43 to 60 months, from the period of assessment till the date of order of assessment. In these cases the assessing authorities had also not levied interest totaling

₹ 7.97 lakh on the unpaid dues.

After we pointed out these cases, between February and June 2009, the Department accepted the audit observations and rectified the mistakes between July and November 2009 raising additional demands of ₹ 7.97 lakh. A report on recovery is awaited (November 2010).

We reported the matter to the Government in May 2010; their reply is still awaited (November 2010).

2.3.5 Non-levy of purchase tax

Sales Tax Officer, C-629, Thane division

Under the provisions of the BST Act, 1959, Rules and notifications issued thereunder, certain class of purchases was exempt from payment of tax, subject to conditions prescribed therein. If the conditions were not complied with, purchase tax was leviable on the purchase price of such goods at the rate specified in the schedule to the Act. The amount of tax paid on such purchases was to be set-off against the purchase tax so leviable. Besides, surcharge and interest at the prescribed rates was also leviable under the provisions of the Act.

During test check of the records in January 2008, we noticed in the assessment of a dealer who was manufacturer-exporter of hot pots, casseroles and insulated wares, for the periods 2002-03 and 2003-04, finalised in September 2006, that purchases of packing material valued at ₹ 2.02 crore was exempted from tax on

declarations in form G-I. However, as per notification entry G-5 under which form G-I was issued, reseller-exporters alone were allowed to issue form G-I. This resulted in contravention of recitals under which form G-I was to be issued by the purchasing dealers for which purchase tax was required to be levied. As purchase tax was not levied during assessments it resulted in underassessment of tax of ₹ 8.57 lakh including interest of ₹ 2.51 lakh

After we pointed out the case, in February 2008, the Department accepted the observation and revised the assessments in June 2009 raising additional demands aggregating ₹ 8.57 lakh. A report on recovery is awaited (November 2010).

We reported the matter to the Government in May 2010; their reply is still awaited (November 2010).

2.3.6 Acceptance of declarations for stock transfer beyond the assessment period

Deputy Commissioner of Sales Tax ,B-161, Raigad division

Under Section 6A (i) of the CST Act, 1956, no tax is payable by a dealer on movement of goods to other States which is not by way of sale but by reason of transfer of stock to other places of his business or to his agent or principal. For claiming exemption the dealer may furnish to the assessing authority a declaration in form 'F' duly filled in and signed by the Principal Officer of the other place of business or his agent as the case may be along with evidence of despatch of the goods. Further, as per the CST (Registration and Turnover) Rules, 1957, a single declaration in form 'F' is required for transfer of goods, effected during a period of one calendar month.

During test check of the records in August 2008, we noticed in the assessment of a dealer, finalised in January 2008, for the period 2003-04, that claim relating to transfer of goods valued at ₹ 70.93 lakh to the agents in other states was exempted from tax on production of declarations in form 'F'. Scrutiny revealed that the declarations in

form 'F' covered transactions for the entire year. As such, the declarations should have been restricted to the assessment year under consideration and the turnover of goods transferred to their agents should have been taxed under the local Act. The omission to do so resulted in underassessment of tax of ₹ 8.83 lakh including interest of ₹ 1.74 lakh.

After we pointed out this case, in September 2008, the Department accepted the observation and rectified the assessment in October 2009 raising additional demand of ₹ 8.83 lakh. A report on recovery is awaited (November 2010).

We reported the matter to the Government in May 2010; their reply is still awaited (November 2010).

2.3.7 Non-levy of turnover tax and surcharge

Sales Tax Officer, C-348, Churchgate division

Under the provisions of the Bombay Sales Tax Act, 1959, turnover tax at the rate of one *per cent* was leviable on the turnover of sales of goods specified in schedule C, after deducting resales of goods from such turnover. Further, surcharge at the rate of 10 *per cent* of the tax was also payable where the aggregate of taxes payable by a dealer exceeded ₹ one lakh. Turnover tax was also leviable on the turnover of sales supported by declarations issued under BST Act, subject to such conditions as were prescribed by the State Government from time to time.

During test check of records in December 2007, we noticed in the assessments of a dealer, finalised in July 2006, for the period 2004-05, that turnover tax and surcharge was not levied on sale of olive oil valued at ₹ 4.04 crore due to application of

incorrect notification entry A-4A under which turnover tax and surcharge was exempt. However this notification was applicable to edible oils excluding olive oil. Non-levy of turnover tax of ₹ 4.04 lakh and surcharge of ₹ 1.61 lakh resulted in underassessment of ₹ 5.65 lakh.

After we pointed out the case in January 2008, the Department reassessed the case in November 2009 raising additional demand of ₹ 11.40 lakh including interest of ₹ 3.74 lakh and penalty of ₹ 2 lakh. A report on recovery is awaited (November 2010).

We reported the matter to the Government in May 2010; their reply has not been received (November 2010).