

## CHAPTER-VI: STATE EXCISE

### 6.1 Tax administration

State Excise revenue comprises receipts derived from any payment, duty, fee, tax, fine or confiscation imposed or ordered under the provisions of the Rajasthan Excise Act, 1950 and rules made thereunder. It also includes revenue from manufacture, possession and sale of liquor, bhang and lanced poppy heads. The Rajasthan Excise Act, 1950 empowers the Government to frame a periodical excise policy.

At Government level, the general superintendence of the State Excise Department is vested with the Principal Secretary to Government in the Finance Department. The Excise Commissioner is the head of the State Excise Department. He is assisted by seven Additional Commissioners. There are 36 District Excise Officers for 33 districts and two prosecution offices at Jaipur and Jodhpur. The enforcement wing of the Department is headed by Director and finance wing by Financial Advisor.

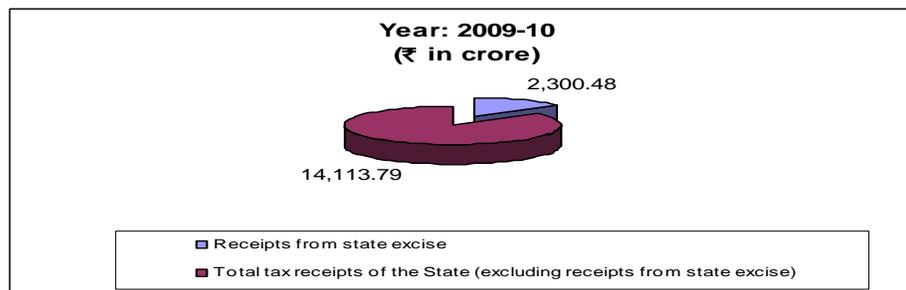
### 6.2 Trend of receipts

Receipts from state excise during the years from 2005-06 to 2009-10 along with the total tax receipts of the State during the same period have been exhibited in the following table:

(₹ 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	1,508	1,521.80	(+) 13.80	(+) 0.92	9,880.23	15.40
2006-07	1,570	1,591.09	(+) 21.09	(+) 1.34	11,608.24	13.71
2007-08	1,750	1,805.12	(+) 55.12	(+) 3.15	13,274.73	13.60
2008-09	2,025	2,169.90	(+) 144.90	(+) 7.16	14,943.75	14.52
2009-10	2,200	2,300.48	(+) 100.48	(+) 4.57	16,414.27	14.02

Receipts from state excise during the year 2009-10 along with total tax receipts of the State (excluding receipts from state excise) are shown in the following pie chart:



Though in actual terms, receipts of state excise have registered increase over the years but the percentage of revenue of State Excise Department to total tax revenue collection in the State has decreased when compared to the year 2005-06. During 2005-06, receipt of state excise accounted for 15.40 *per cent* of total tax revenue of the State. By the year 2009-10, these receipts accounted for 14.02 *per cent* of total tax receipts of the State.

### 6.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2010 amounted to ₹ 218.37 crore, of which ₹ 196.87 crore were outstanding for more than five years. It indicates that the Department had not taken effective steps for recovery of arrears. The following table depicts the position of arrears of revenue during the period from 2005-06 to 2008-09:

(₹ in crore)

Year to which arrears pertain	Opening balance of arrears as on 1.4.2009	Addition in arrears during 2009-10	Amount collected during 2009-10	Closing balance of arrears as on 31.3.2010
Upto 2004-05	200.41	-	3.54	196.87
2005-06	1.98	-	0.06	1.92
2006-07	19.71	0.03	0.31	19.43
2007-08	-	0.05	0.02	0.03
2008-09	0.07	0.05	-	0.12
<b>Total</b>	<b>222.17</b>	<b>0.13</b>	<b>3.93</b>	<b>218.37</b>

The chances of recovery of arrears of ₹ 196.87 crore outstanding for more than five years are bleak.

### 6.4 Cost of collection

The gross collection of the revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the period from 2005-06 to 2009-10 along with the relevant all India average percentage of expenditure on collection to gross collection for same period are as follows:

(₹ in crore)

Sl. no.	Year	Gross collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage
1.	2005-06	1,521.80	34.18	2.25	3.40
2.	2006-07	1,591.09	42.52	2.67	3.30
3.	2007-08	1,805.12	48.51	2.69	3.27
4.	2008-09	2,169.90	64.46	2.97	3.66
5.	2009-10	2,300.48	85.74	3.73	NA

Increase in expenditure on collection of revenue during the year 2008-09 was due to implementation of recommendations of sixth central pay commission in the State.

The percentage of cost of collection of state excise revenue to gross collection has always been on lower side in comparison to all India average percentage.

### 6.5 Impact of audit reports

We, through our audit reports had pointed out cases of non/short levy, non/short realisation, underassessment/loss of revenue, application of incorrect rate of tax, incorrect computation of tax *etc.*, with revenue implication of ₹ 127.26 crore in 25 paragraphs. Of these, the Department/ Government had accepted audit observations in 15 paragraphs involving ₹ 33.13 crore and had since recovered (September 2010) ₹ 2.53 crore in 11 paragraphs as shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount	Number	Amount	Number	Amount
2004-05	4	1.14	3	0.50	3	0.41
2005-06	7	31.62	6	31.35	2	0.85
2006-07	4	19.88	-	-	-	-
2007-08	5	29.18	4	0.96	4	0.95
2008-09	5	45.44	2	0.32	2	0.32
<b>Total</b>	<b>25</b>	<b>127.26</b>	<b>15</b>	<b>33.13</b>	<b>11</b>	<b>2.53</b>

### 6.6 Working of Internal Audit Wing

Financial Advisor is the head of the Internal Audit Wing in State Excise Department. Two internal audit parties are working in the Department each headed by Assistant Accounts Officer. No audit plan showing units to be audited during the year was prepared by the Department. The position of last five years of internal audit was as under:

Year	Pending units	Units added during the year	Total units	Units audited during the year	Units remained unaudited	Percentage of units remained unaudited
2005-06	-	40	40	17	23	58
2006-07	23	40	63	6	57	90
2007-08	57	40	97	20	77	79
2008-09	77	40	117	29	88	75
2009-10	88	40	128	58	70	55

As such, on an average, 71 per cent of units remained unaudited during the last five years.

**The Government may consider strengthening of Internal Audit Wing in order to take appropriate measures for plugging the leakage of revenue and comply with the provisions of the Act.**

## 6.7 Results of audit

On test-check of the records of 37 units relating to state excise, we noticed non/short recovery/loss of excise duty and licence fee and other irregularities involving ₹ 74.90 crore in 181 cases which fall under the following categories:

Sl. no.	Category	Number of cases	Amount (₹ in crore)
1.	Non/short realisation of excise duty and licence fee	88	71.63
2.	Loss of excise duty on account of excess wastage of liquor	47	1.23
3.	Other irregularities	46	2.04
<b>Total</b>		<b>181</b>	<b>74.90</b>

During the year 2009-10, the Department accepted non/short realisation and other deficiencies of ₹ 20.62 crore in 139 cases, of which 74 cases involving ₹ 2.91 crore were pointed out in audit during the year 2009-10 and the rest in earlier years. An amount of ₹ 1.80 crore was realised in 61 cases during the year 2009-10.

After being pointed out, the Government intimated (June 2010) recovery of ₹ 9.04 lakh pertaining to a single observation.

A few illustrative audit observations involving ₹ 1.79 crore are mentioned in the succeeding paragraphs.

## 6.8 Audit observations

During test-check of the records, we noticed several cases of non/short recovery of excise revenue as mentioned in the succeeding paragraphs in this chapter. We pointed out some of these omissions in earlier years but not only did the irregularities persist, these remain undetected till an audit is conducted. These cases are illustrative and are based on test-check carried out by us. There is need for the Government to improve the internal control system including strengthening of internal audit in order to avoid reoccurrence of such cases.

## 6.9 Non-observance of the provisions of Acts/Rules

The Rajasthan Excise Act and Rules provides for:

- (a) Levy of licence fee at prescribed rate; and
- (b) levy of permit fee at the rate of ₹2.50 per bulk litre on rectified spirit.

We noticed that the District Excise Officers did not observe the above provisions in the cases mentioned in the paragraphs 6.9.1 and 6.9.2. This resulted in non/short licence and permit fee of ₹1.79 crore.

### 6.9.1 Short levy of licence fee for composite shops

As per the terms and conditions of licence for retail sale of country liquor issued under the Rajasthan Excise Act, 1950 the annual licence fee, payable for licence of composite shops located within five kilometre of municipal limit or its urban agglomeration limit, was more than the annual licence fees payable by composite shops located in rural areas.

On scrutiny of the records of seven District Excise Offices<sup>1</sup> (between June 2009 and February 2010), we noticed that though, 48 composite shops located either in urban area or within five kilometre of the municipal limit were liable to pay licence fee of ₹ 1.63 crore, yet the Department levied licence fee of ₹ 12 lakh only at the rate

applicable for shops located in rural areas. This resulted in short levy of ₹ 1.51 crore.

On being pointed out, the Government stated (October 2010) that the Urban Land (Ceiling and Regulation) Act, 1976, had already been repealed on 11 January 1999, and its mention in the tender condition was made due to lack of information.

The reply of the Government is not acceptable being not relevant. The cases pointed out by us are located in urban areas or within five kilometre of municipal limit as declared by the Urban Development Department, Government of Rajasthan and by the concerned municipalities which have no relevance to “Urban Agglomeration”.

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<sup>1</sup> Jaipur (City), Jaipur (Rural), Jodhpur, Kota, Nagaur, Pali and Udaipur.

## 6.9.2 Non-recovery of permit fees

Rule 69B of the Rajasthan Excise Rules, 1956 provides for levy of permit fee at the rate of ₹ 2.50 per bulk litre on rectified spirit transported within the State by a distillery and utilising it for the manufacture of country liquor.

In two District Excise Offices<sup>2</sup>, we noticed that two licences<sup>3</sup> one in each District Excise Office, transported 11,00,000 bulk litre of rectified spirit within State from M/s Globus Spirits Limited, Behror (Alwar) for manufacture of country liquor during the year 2008-09.

However, the permit fee of ₹ 27.50 lakh at the rate of ₹ 2.50 per bulk litre leviable on transported rectified spirit was not recovered by the Department.

After this was pointed out, the Department stated (May 2010) that a notification for inserting a proviso in Rule 69B *ibid* for exemption from retrospective effect for permit fee on transportation of rectified spirit is being sent to Government. The fact, however, remains that the permit fee at the prescribed rate was to be levied.

We reported the matter to the Government (October 2009 and December 2009); their reply is awaited (October 2010).

<sup>2</sup> Udaipur and Sriganganagar.

<sup>3</sup> M/s Mahamaya Liquor Industries Bottling Plant, Udaipur and M/s H.H. Bottling Plant, Sriganganagar.