

CHAPTER – IV

Revenue Receipts



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REVENUE RECEIPTS

4.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Sikkim during the year 2009-10, the State's share of net proceeds of divisible Union taxes and duties assigned to States and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below.

Table – 4.1

(₹ in crore)

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Revenue raised by the State Government					
	· Tax revenue	147.23	173.18	197.86	199.19	223.65
	· Non-tax revenue	990.10	1,085.04	1,413.74	1,205.31	1,356.44
	Total	1,137.33	1,258.22	1,611.60	1,404.50	1,580.09
2.	Receipts from the Government of India					
	· Share of net proceeds of divisible Union taxes and duties	182.13	222.78	345.12	364.20	374.68
	· Grants-in-aid	644.90	635.54	742.71	902.55	1,299.62
	Total	827.03	858.32	1,087.83	1,266.75	1,674.30
3.	Total receipts of the State Government (1 and 2)	1,964.36	2,116.54	2,699.43	2,671.25	3,254.39
4.	Percentage of 1 to 3	58	59	60	53	49

The above table indicates that during the year 2009-10, the revenue raised by the State Government (₹ 1,580.09) was 49 per cent of the total revenue receipts against 53 per cent in the preceding year. The balance 51 per cent of receipts during 2009-10 was from the Government of India.

4.1.1 Tax revenue

The following table presents the details of tax revenue raised during the period from 2005-06 to 2009-10:

Table – 4.2

(₹ in crore)

Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of increase (+)/decrease (-) in 2009-10 over 2008-09
1.	Sales tax/VAT	56.65	74.66	81.32	101.14	121.07	(+) 19.71
2.	Taxes on income other than corporation tax	47.82	46.71	49.10	16.16	2.84	(-) 82.43
3.	State excise	32.96	33.31	37.94	46.47	57.27	(+) 23.24
4.	Stamps and registration fees	2.27	2.52	4.26	4.35	4.48	(+) 2.99
5.	Taxes on vehicles	4.24	5.95	6.22	6.94	7.88	(+) 13.54
6.	Other taxes and duties on commodities and services	2.68	9.25	16.26	22.18	27.39	(+) 23.49
7.	Land revenue	0.61	0.78	2.75	1.95	2.71	(+) 38.97
	Total	147.23	173.18	197.85	199.19	223.64	(+) 12.27

The following reasons for variations were reported by the concerned Departments.

Sales Tax/VAT: The increase was due to improvement in mode of payment of tax by introducing clearance through private/public banks and improvement in monitoring mechanism.

Taxes on income other than corporation tax: The reason for variation in Income tax was due to less realisation of taxes on income levied under State law due to implementation of Central Income Tax Act 1961.

State Excise: The increase was due to more realisation on Country Liquor Fees and other receipts and better management of revenue collection

The other departments did not inform (October 2010) the reasons for variation, despite being requested (May 2010 and August 2010).

4.1.2 Non-tax revenue

The following table presents the details of non-tax revenue raised during the period from 2005-06 to 2009-10:

Table – 4.3

(₹ in crore)

Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of increase (+)/decrease (-) in 2009-10 over 2008-09
1.	Interest receipts	6.31	5.34	15.10	25.94	44.18	(+)70.32
2.	Road transport	13.67	14.86	15.62	17.64	20.29	(+)15.02
3.	Plantations	2.01	1.95	2.10	2.35	1.80	(-)23.40
4.	Dividends & profits	1.14	0.76	0.68	1.31	0.46	(-)64.89
5.	Forestry and wild life	9.97	9.50	10.95	11.26	8.79	(-)21.94
6.	Tourism	0.81	0.87	1.18	2.11	1.62	(-)23.22
7.	Crop husbandry	0.36	0.50	1.64	0.71	0.40	(-)43.66
8.	Power	28.00	58.16	97.66	154.74	285.83	(+)84.72
9.	Printing & stationery	1.65	1.69	1.98	1.50	2.27	(+)51.33
10.	Medical and public health	0.91	0.60	1.14	0.96	1.02	(+)6.25
11.	Village & small industries	0.14	0.10	0.23	0.08	0.09	(+)12.50
12.	Public works	3.09	3.74	4.32	4.97	2.89	(-)41.85
13.	Police	14.14	13.90	14.64	11.68	14.52	(+)24.32
14.	Animal husbandry	0.41	0.39	0.43	0.30	0.32	(+)6.67
15.	Industries	0.19	0.02	0.01	0.25	0.18	(-)28.00
16.	State lotteries	898.35 (22.19)	963.30 (50.01)	1,232.55 (30.84)	957.00 (54.46)	949.92 (40.90)	(-)0.74
17.	Others	8.95	9.36	13.51	12.51	21.86	(+)74.74
	Total	990.10	1,085.04	1,413.74	1,205.31	1,356.44	(+)12.54

The following reasons for variations were reported by the concerned Departments.

Interest Receipts: The increase was due to more realisations under interest on GPF and GIS.

Road Transport: The increase was due to increase in traffic flow at the later part of the year, for which the collections of supervision charges rose up.

Forestry and Wildlife: The decrease was due to less receipts from sericulture activities.

Crop Husbandry: The decrease was due to discontinuance of practice of collection of farmers' contributions.

Power: The increase was due to more receipts on sale of Power.

Printing & Stationary: The increase was due to realisation of outstanding dues from Finance, Revenue & Expenditure Department and Home Department and advance received from Information & Public Relations Department and Health Care, Human Services and Family Welfare Department.

Police: The increase was due to reimbursement of actual expenditure incurred on deployment of IRBn personnel by Delhi Police and NHPC and more realisations on miscellaneous receipts and Police Check Post.

The other departments did not inform (October 2010) the reasons for variation, despite

¹Figures in brackets represent net receipts.

being requested (May 2010 and August 2010).

4.1.3 Variations between the budget estimates and actuals

The variations between the budget estimates (BE) and actual of revenue receipts for the year 2009-10 in respect of the principal heads of tax and non-tax revenue are mentioned below:

Table – 4.4: Budget estimates and actual

(₹ in crore)

Sl. No.	Head of revenue	BE	Actuals	Variations excess (+) shortfall(-)	Percentage of variation
A	Tax revenue				
1	Sales tax (including VAT)	96.50	121.07	(+)24.57	(+)25.46
2	State excise	47.60	57.27	(+)9.67	(+)20.32
3	Other taxes and duties on commodities and services	16.62	27.39	(+)10.77	(+)64.80
4	Taxes on vehicles	7.80	7.88	(+)0.08	(+)1.03
5	Stamps and registration	3.54	4.48	(+)0.94	(+)26.55
6	Taxes on income other than corporation tax.	1.67	2.84	(+)1.17	(+)70.06
7	Land Revenue	3.45	2.71	(-)0.74	(-)21.45
B	Non-tax revenue				
8	Miscellaneous general services	30.00	41.90	(+)11.90	(+)39.67
9	Power	165.00	285.83	(+)120.83	(+)73.23
10	Police	17.90	14.52	(-)3.38	(-)18.88
11	Road transport	15.35	20.29	(+)4.94	(+)32.18
12	Forestry and wildlife	8.10	8.79	(+)0.69	(+)8.52
13	Interest receipts	3.08	44.18	(+)41.10	(+)1,334.42
14	Public works	3.65	2.89	(-)0.76	(-)20.82
15	Other administrative services	2.53	4.42	(+)1.89	(+)74.70
16	Water supply and sanitation	2.60	2.61	(+)0.01	(+)0.38
17	Public Service Commission	0.00	0	0	
18	Medical and Public Health	0.55	1.02	(+)0.47	(+)85.45
19	Tourism	1.30	1.62	(+)0.32	(+)24.62
20	Dividends and profits	0.75	0.46	(-)0.29	(-)38.67
21	Urban Development	0.94	3.04	(+)2.10	(+)223.40
22	Education, Sports, Art and Culture	0.85	1.57	(+)0.72	(+)84.71
23	Contributions and recoveries towards pension	0.02	5.19	(+)5.17	(+)25,850.00
24	Housing	0.36	0.27	(-)0.09	(-)25.00
25	Information and Publicity	0.09	0.20	(+)0.11	(+)122.22
26	Other Social Services	0.03	0.04	(+)0.01	(+)33.33
27	Crop Husbandry	0.34	0.40	(+)0.06	(+)17.65
28	Animal Husbandry	0.45	0.32	(-)0.13	(-)28.89
29	Fisheries	0.02	0.02	0	0.00
30	Plantations	2.50	1.80	(-)0.70	(-)28.00
31	Food storage and warehousing	0.06	0.08	(+)0.02	(+)33.33
32	Cooperation	0.00	0.01	(+)0.01	-
33	Other Rural Development Programme	0.10	2.55	(+)2.45	(+)2,450.00
34	Minor Irrigation	0.12	0.36	(+)0.24	(+)200.00
35	Village and Small Industries	0.25	0.09	(-)0.16	(-)64.00
36	Labour and Employment	0.10	0.25	(+)0.15	(+)150.00
37	Industries	0.17	0.18	(+)0.01	(+)5.88
38	Stationery and Printing	1.51	2.27	(+)0.76	(+)50.33
39	Non-Ferrous, Mining & Metallurgical Industries	0.08	0.13	(+)0.05	(+)62.50
40	Other Social Security and Welfare Programme.	0.01	0.01	0.00	0.00
41	Other General Economic Services	0.07	0.11	(+)0.04	(+)57.14

The following reasons for variations between BE and actuals were reported by the concerned departments.

Sales tax (including VAT): (i) Improvement in mode of payment of tax by introducing clearance through private/public banks, and (ii) Improvement in monitoring mechanism.

State Excise: Better management of revenue.

Police: The variation was due to (i) receipt of reimbursement of actual expenditure incurred on deployment of IRBn personnel by NHPC, (ii) Receipts from renewal of Arms licence as per actual, and (iii) reimbursement of expenditure incurred on police check posts by Government of India for the period 1 April 2007 to 31 March 2008.

Road transport: The revenue increased due to rise in collection of supervision charges as a result of increased traffic flow at the later part of the year.

Tourism: Leasing out of new properties.

Urban Development: (i) Better renewal initiative and new licences, (ii) Credit of tender collection of 2010-11, (iii) Regularisation of collection of mobile towers, (iv) enhanced collection from added assets in respect of rent from premises, and (v) collection as per MOU in respect of Ropeway.

Animal Husbandry: Tax collection of the Department decreased due to exemption given to the co-operatives by the Government while importing livestock and birds from outside the State.

Other Rural Development Programme: Sanction of new schemes.

Minor Irrigation: Excess was due to transfer of five *per cent* storage charges accumulated in Stock Suspense head to revenue head.

Labour and Employment: (i) Implementation of Sikkim Labour Protection Act 2005, and (ii) Increase in number of shops and commercial establishments.

Stationery and Printing: Realisation of old dues and advance receipt form IPR and Health Care, Human Services and Family Welfare Department.

Non-Ferrous, Mining & Metallurgical Industries: Receipt of more applications from public for stability report.

The other departments did not inform (October 2010) the reasons for variation despite being requested (May and August 2010).

The fact remains that the very large variations under most of the heads point to the need for framing of budget estimates on a realistic basis.

4.1.4 Analysis of collection

The break-up of total collection at the pre-assessment stage and after regular assessment of the year 2009-10 and the corresponding figures for the preceding two years as furnished by the departments is as follows:

Table – 4.5

(₹ 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 3 to 7
1	2	3	4	5	6	7	8
Sales	2007-08	1.63	1.72	1.25	Nil	4.60	35.43
Tax/	2008-09	1.91	1.99	1.35	1.24	4.01	47.63
VAT	2009-10	36.79	0.64	0.21	0.75	36.88	99.76

4.1.5 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2007-08, 2008-09 and 2009-10 along with the relevant all India average percentage of expenditure on collection to gross collection for 2008-09 was as follows:

Table – 4.6

(₹ in crore)

Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage for the year 2008-09
Sales	2007-08	81.32	1.72	2.12	0.88
Tax/VAT	2008-09	101.14	1.95	1.93	
	2009-10	121.07	3.75	3.08	
State Excise	2007-08	37.94	1.97	5.19	3.66
	2008-09	46.46	2.36	5.08	
	2009-10	57.27	3.62	6.32	
Motor Vehicles Tax	2007-08	6.22	0.60	9.65	2.93
	2008-09	6.94	0.77	11.10	
	2009-10	7.88	1.34	17.00	

Thus, percentage of expenditure on collection during 2009-10 as compared to the corresponding all India average percentage for 2008-09 was high in all the taxes which the Government needs to look into. The reasons for higher percentage of expenditure than all India average as informed by the respective departments were as follows:

Sales Tax/VAT: Abnormal rise of expenditure in 2009-10 due to release of arrear salary in pursuance of pay scale revision with effect from 1 January 2006.

State Excise: Extensive touring and training of Excise personnel for collection of revenue.

Motor Vehicle Tax: Intensive tour in connection with checking of vehicles plying on different routes and to attend meetings outside Sikkim.

4.1.6 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2010 in respect of some principal heads of revenues as furnished by the Department amounted to ₹ 36.70 crore out of which ₹ 10.92 crore was outstanding for more than five years as mentioned in the following table.

Table – 4.7

(₹ 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
1	Sales Tax/VAT	0.44	0.31
2	Income tax	7.49	7.49
3	Road Transport	1.73	Nil
4	Non-Ferrous Mining & Metallurgical Industries	3.30	2.55
5	Animal Husbandry	0.57	0.57
6	Police	23.17	Nil
	Total	36.70	10.92

4.1.7 Arrears in assessment

The details of pending assessment cases at the beginning of the year, cases becoming due for assessment during the year, cases disposed off during the year and number of cases pending at the end of 2009-10 as furnished by the Department in respect of Sales tax/VAT was as under:

Table – 4.8

Opening balance	New case due for assessment during 2009-10	Total assessments due	Cases disposed off during 2009-10	Balance at the end of the year	Arrears in percentage against total cases
296	211	507	192	315	62.13

It was stated (October – November 2010) by the Department that under the Sikkim Value Added Tax Act 2005, it is not prescribed to frame assessment of each dealer every year. Cases due for assessment have been calculated on the basis of numbers of dealers selected for framing assessment.

4.1.8 Evasion of tax

No case of evasion of tax was intimated by the Finance, Revenue and Expenditure Department in respect of Sales tax/VAT during the year.

4.1.9 Write off and waiver of revenue

No information about cases of write off and waiver of revenue was furnished by any of the departments.

4.1.10 Refunds

The number of refund cases pending at the beginning of the year 2009-10, claims received during the year, refunds allowed during the year and cases pending at the close of the year, as reported by the departments are mentioned below:

Table – 4.9

(*₹ in lakh*)

Sl. No.	Particulars	State Excise		Sales Tax/VAT		Income Tax	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1	Claims outstanding at the beginning of the year	Nil		Nil		Nil	
2	Claims received during the year	1	9.12	NA	75.53	1	0.50
3	Refunds made during the year	1	9.12	NA	75.53	1	0.50
4	Balance outstanding at the end of the year	Nil		Nil		Nil	

4.1.11 Compliance with the earlier Audit Reports

During the years from 2004-05 to 2008-09, the departments/Government accepted audit observations involving ₹ 98.47 crore of which only ₹ 0.50 lakh had been recovered till March 2010 as mentioned below.

Table – 4.10

(*₹ in crore*)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2004-05	85.71	85.71	0.02
2005-06	9.95	6.80	0.48
2006-07	22.31	5.39	—
2007-08	1.33	0.32	—
2008-09	8.48	0.25	—
Total	127.78	98.47	0.50

The fact that only 0.51 *per cent* of the accepted amount has been recovered, points to the need for the Government to take concerted action in this regard.

4.1.12 Failure of senior officials to enforce accountability and protect the interest of the State Government

The Accountant General (Audit) (AG), Sikkim conducts periodical inspection of the Government departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the inspection reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt

corrective action. The heads of offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the AG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Departments and the Government.

Inspection reports issued upto December 2009 disclosed that 245 paragraphs involving ₹ 511.41 crore relating to 100 IRs remained outstanding at the end of June 2010 as mentioned below.

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2010 and the amounts involved are mentioned below.

Table – 4.11

(₹ in crore)

Sl. No.	Name of the Department	Nature of Receipts	Number of outstanding IRs	Number of outstanding audit objections	Money value involved (₹ in crore)
1.	Finance, Revenue and Expenditure	State lotteries	06	12	136.87
		Sales tax/VAT	09	44	88.53
		Income tax	12	54	34.78
2.	Mines, Minerals and Geology	Mines, Minerals and Geology	02	02	3.31
3.	Urban development and housing	Urban development and housing	08	19	2.47
4.	Motor vehicles	Motor vehicles	02	06	0.16
5.	Forest	Forest	32	54	46.10
6.	Excise (Abkari)	State excise	05	12	1.89
7.	Land Revenue and Disaster Management	Land revenue	15	16	0.64
8.	Energy and power	Energy and power	09	26	196.66
Total			100	245	511.41

Even the first replies required to be received from the heads of offices within one month from the date of issue of the IRs were not received for five IRs issued upto December 2009. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and heads of the departments failed to initiate action to rectify the defects, omissions and irregularities pointed out by the AG in the IRs.

It is recommended that the Government takes suitable steps to put in place an effective procedure for prompt and appropriate response to audit observations as well as taking action against officials/officers who fail to send replies to the IRs/paragraphs as per the prescribed time schedules and also fail to take action to recover loss/outstanding demand in a time bound manner.

4.1.13 Departmental Audit Committee Meetings

During 2009-10, two Audit Committee meetings were held and 15 IRs and 57 paragraphs were discussed out of which 10 IRs and 20 paragraphs were settled.

4.1.14 Response of the Departments to the draft audit paragraphs

Draft audit paragraphs are issued to the concerned heads of the departments with a copy to the Finance, Revenue and Expenditure Department, the replies to which are to be communicated to the Accountant General within six weeks of the date of their receipt.

Five draft paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India for the year ended March 2010 were forwarded to the Secretaries of the respective departments between May 2010 and June 2010 through demi-official letters. The administrative secretaries (including Director in case of State Lotteries) responded to four paragraphs featuring in this chapter.

4.1.15 Follow up on Audit Reports – summarised position

The Administrative Departments are required to submit explanatory notes on paragraphs and reviews included in the Audit Reports after its presentation in the State Legislature.

As at the end of 2009-10, Audit Reports for the period upto the year 2006-07 were discussed and recommendations made and Audit Report 2007-08 was under discussion.

4.1.16 Results of audit

Test check of the records of 16 units of income and commercial tax, state excise, transport, state lotteries, mines & geology, urban development and housing, forest department and other departmental offices conducted during the year 2009-10 revealed under-assessments/short levy/loss of revenue aggregating ₹ 101.45 crore in 35 cases. During the course of the year, the departments concerned accepted under-assessments and other deficiencies of ₹ 0.15 crore involved in seven cases, all of the 35 cases were pointed out in audit during 2009-10.

This chapter contains five paragraphs relating to loss/non-realisation of revenue and extension of undue financial benefit, involving financial effect of ₹ 7.08 crore. The departments/ Government have accepted audit observations involving ₹ 0.15 crore. In case of other observations the Department has justified its action which has been contested in audit.

FINANCE, REVENUE & EXPENDITURE DEPARTMENT (INCOME TAX AND COMMERCIAL TAX DIVISION)

4.2 Short levy of tax

Assessment of income tax at rates lower than the applicable ones resulted in underassessment of tax and consequential short levy of ₹ 6.83 crore.

The Sikkim Income Tax Manual 1948 provides the framework for levying and collecting income tax in Sikkim. Accordingly, income tax on the gross sale proceeds of the previous year at prescribed rate is required to be charged from all persons engaged in business. The Finance Minister of Sikkim approved (May 1998) a slab rate of taxation in respect of commission agents and distributors. Against the statutory rate of three *per cent* per annum leviable on gross sale proceeds beyond ₹ 10 lakh (₹ 23,230 on sales up to ₹ 10 lakh) of the previous year, the slab approved prescribed rate of tax as three *per cent* for gross turnover of up to ₹ 30 lakh, two *per cent* for gross turnover up to ₹ one crore and one *per cent* for gross turnover above ₹ one crore for commission agents and distributors. Mention was made in the Audit Report 2000-01 about the irregular approval and adoption of slab rates not permitted under the law.

Test check of records (April and December 2009) of the office of the Joint Commissioner, Income Tax and Commercial Tax Divisions, Jorethang revealed that income tax for the periods from April 1999 to March 2007 of a dealer (M/s Yuksom Breweries Ltd., Melli, South Sikkim) engaged in manufacturing beer was assessed to ₹ 3.77 crore on its turnover of ₹ 374 crore on the basis of reduced rates of tax applicable for commission agents and distributors. The dealer being a manufacturer, not commission agent or distributor, was liable to be taxed under the provisions of Sikkim Income Tax Manual i.e., at the flat rate of three *per cent* on the gross sales turnover. Thus, irregular adoption of slab rates not applicable for the dealer resulted in short levy of income tax to the tune of ₹ 6.83 crore (**Appendix – 4.1**). It was further seen that while the dealer did not submit any return for assessment of income tax for the accounting year 2007-08, the Department also did not obtain the books of accounts from the dealer to ascertain the turnover for assessment of tax.

On this being pointed in audit, the Assistant Commissioner, Jorethang Division stated (April 2009) that the dealer was being assessed since inception, after getting approval from the higher authorities, on the basis of slab rates for commission agents/wholesalers. The reply is not tenable in view of the relevant provisions of the Manual as well as the fact that the dealer was a manufacturing unit and not a commission agent. Besides, similar dealers (M/s Sikkim Distilleries Limited, Rangpo, East Sikkim) engaged in manufacturing of liquors were being assessed and tax realised at the prescribed rate of Sikkim Income Tax Manual 1948.

The matter was referred to the Department/Government (May 2010); their reply has not been received (August 2010).

FINANCE, REVENUE & EXPENDITURE DEPARTMENT (DIRECTORATE OF STATE LOTTERIES)

4.3 Loss of assured revenue

Reduction of assured revenue on frivolous ground of a marketing agent about the decline in sales turnover, without any verification thereto by the Department, resulted in a loss of ₹ 15.18 crore.

The Department entered into an agreement (May 2005) with a marketing agent (MA, M/s Sugal and Damani) for marketing of online computerised lottery for a period of 7 years. According to the agreement, the MA would pay (a) one *per cent* of the turnover up to ₹ 1,000 crore or ₹ 10 crore per annum whichever is higher and (b) on additional turnover over and above ₹ 1,000 crore, 0.50 *per cent* of the additional turnover to the State Government.

Scrutiny of the records revealed (November 2009) that after completion of two years from the date of agreement, the MA requested for reduction of assured revenue on the ground of considerable decline in the sale of online lottery due to ban of lottery in Karnataka and imposition of Lottery Tax in Maharashtra. On the basis of request from the MA, without any verification of the factual position, the Department entered into (March 2008) another agreement reducing the assured revenue of 0.50 *per cent* to 0.25 *per cent* on the additional turnover over and above ₹ 1,000 crore.

Scrutiny of the statement of sale proceeds submitted to the Department by the MA itself revealed that there was consistent increase over the period in the sale of lottery tickets as well as the corresponding turnover which increased from ₹ 47.34 crore in February 2008 to ₹ 466.52 crore in September 2009. It was further seen that the Department had no mechanism of its own to verify the sale of tickets and corresponding turnover for which it had to rely fully upon the statement submitted by the MA which was fraught with the risk of understatement/ concealment of turnover and consequential loss of revenue. Scrutiny of records revealed that in atleast two years i.e. 2006-07 and 2008-09, the turnover of the lottery receipts had exceeded ₹ 1,000 crore. Thus, while the plea of the MA was not based on facts, the Department irregularly reduced assured revenue without any verification of the factual position which resulted in a loss of ₹ 15.18 crore during the period from May 2008 to August 2009.

In reply, the Department stated (June 2010) that the request of the MA was accepted to give them additional incentives for marketing the Sikkim online lottery more effectively to enhance sales volumes. It was further stated that due to market dynamics, the volume of sales of online lottery picked up dramatically with the increase of revenue to the Government. The reply is not tenable as the reduction in the rate of assured revenue on the plea of decline in the sale of online lottery was not based on facts and the Department allowed the additional incentives without verification of factual position with the net

result of loss of assured revenue.

4.4 Extension of undue financial benefit

Defective agreement with marketing agent resulted in a loss of ₹ 5.19 crore towards non-imposition of penal interest, besides delay and non-realisation of sale proceeds of ₹ 66.73 crore with consequential extension of undue financial benefit.

The Government of Sikkim entered into (August 2001) an agreement with a marketing agent (MA)² for a period of seven years for the operation, maintenance and marketing of the State's online lottery. The requirement of monthly deposit of the sale proceeds in the Government account as mentioned in the original agreement was revised in the supplementary agreement (December 2003) to deposit sale proceeds within 15 days from the dates of draws.

Scrutiny (February 2009) of the records of the Director, Sikkim State Lotteries revealed that although the Department was considering (November 2002) for inclusion of a penal provision against the delay in deposit of the sale proceeds in the supplementary agreement, the same was not incorporated in the agreement signed in December 2003. It was further seen that in the cases of agreements drawn with the other marketing agents³, the penal clauses i.e., imposition of interest at 12 *per cent* against default in payment or terms of agreements were inserted in the agreements.

The MA did not deposit sale proceeds ranging from ₹ 1.04 crore to ₹ 17.45 crore in respect of 16 draws held during August 2006 to August 2008 within 15 days of the draws, the delay in deposit ranged from 42 days to 604 days. There being no provision in either of the original and supplementary agreements to safeguard the Government's interest against delay in payment of sale proceeds, the Department could not take any action against the MA. Thus, the defective agreement resulted into undue financial benefit to the MA and the Government suffered a loss of ₹ 5.19 crore⁴ towards interest on delayed remittances as detailed in the **Appendix – 4.2**.

After this was pointed out, the Director, State Lotteries while accepting the facts stated (March, June 2009 and July 2010) that there being no clause in the Agreement for charging interest on delayed payment, it was not possible for the Department to charge the interest as calculated by Audit. The fact remains that Government revenue was not safeguarded while drawing Agreement or subsequently by amending the Agreement, resulting in undue retention of Government money by the MA and loss of interest to Government.

² M/s Tashi Delek Gamin Solutions Pvt. Ltd., Mumbai.

³ with M/s Martin Lottery Agencies Ltd. in February 2001, October 2004 and with M/s Sugul & Damani in May 2005

⁴ Calculated at 12 *per cent per annum* stipulated in agreements drawn with other marketing agents.

4.5 Loss of State revenue

Failure of the Department to realize prize money in time from the marketing agent led to the loss of revenue of ₹ 49.46 lakh.

In accordance with the Government notification dated 5 February 1974, winning from lottery and commission from the sale of such lottery on the amount of ₹ 10,000 and above will be assessed to Income Tax (Sikkim Income Tax) as per rates prescribed under the notification issued in April 1970.

As per clause 4 of the agreement (9 December 2003) executed between the State Government and Marketing Agent⁵, the latter shall deposit the sale proceeds with the Government within 15 days of the date of the draw. Scrutiny of the records revealed (February 2009) that in respect of three draws held from June to November 2007, the Marketing Agent remitted the sale proceeds in October 2008 and January 2009. In the meantime, Central Income Tax was implemented in the State from 16 June 2008. Due to delay in remittance of sale proceeds by the Marketing Agent, while making payment to the prize winners by the Lottery Department after 16 June 2008, the amount of tax against payment of prize money had to be collected under Central Income Tax. This resulted in loss of State revenue of ₹ 49.46 lakh as detailed below:

Table - 4.12

(In rupees)

Name of the scheme	Draw no.	Date of draw	Prize money	Due date of remittance/ prize money	Date of remittance	Delay in remittance (In days) (Col. 6 – 5)	Amount of State Income Tax (In rupees)
1	2	3	4	5	6	7	8
Thunder Ball	258	26-06-07	2,61,82,571	10-07-07	06-10-08	454	26,17,345
Easy Lotto	48	26-10-07	1,29,00,000	09-11-07	24-10-08	350	12,89,088
Easy Lotto	53	09-11-07	1,04,00,000	23-11-07	07-01-09	411	10,39,088
						Total	49,45,521

In reply (March and June 2009) the Director, State Lotteries stated that due to poor market condition of the lottery, the Marketing Agent could not release the amount in time. Further, with the implementation of Central Income Tax Act 1961 in Sikkim from June 2008, the agent deducted income tax under Central Income Tax Act 1961, the rate of which is three times more than those under Sikkim Income Tax Manual for which there was no loss of revenue to the Government. Reply of the Director is not tenable as the delay beyond 15 days in realising prize money was against the contractual agreement and has unduly benefitted the Marketing Agent towards deferment in payment of Government dues for a period ranging from 350 to 454 days. Timely compliance of the contractual terms would have enabled the State Government to realise income tax revenues under the State Act.

⁵M/s Tashi Delek Gaming Solutions Private Limited, Mumbai

RURAL MANAGEMENT AND DEVELOPMENT DEPARTMENT

4.6 Non-realisation of cess from contractors' bills

Failure of the Department to levy environment cess on payments towards work bills resulted in non-realisation of Government revenue to the tune of ₹ 25.18 lakh.

Under the provisions of Sikkim Ecology Fund and Environment Cess Act 2005 and notification issued thereunder (March 2007, effective from 1 April 2007), the departments of the State Government are required to levy environment cess at 0.50 *per cent* on the gross value of work bills.

Scrutiny of the records revealed that the Rural Management and Development Department (RMDD) was not realising any cess against the payments made to the contractors towards work bills. This resulted in non-realisation of Government revenue to the tune of ₹ 25.18 lakh as detailed in the **Appendix – 4.3**.

While accepting the observation, the Department stated (June 2010) that the amount as pointed out in Audit would be deducted from the subsequent running account bills of the contractors. Fact remained that the amount, though promised for recovery at the instance of Audit, has not yet been recovered (November 2010).

