

CHAPTER-III STATE EXCISE

3.1 Tax administration

Excise duty on liquor for human consumption, fees in case of other intoxicants such as *charas*, *bhang* and *ganja* etc. and confiscation imposed or ordered is levied under the UP Excise Act, 1910 (UPE Act) and rules made thereunder. These rules have been made in order to have a proper check over leakages of revenue in the department by enforcing control over illicit production, import and export of alcohol, illegal purchase and sale of liquor and other intoxicants.

Alcohol is produced in distilleries mainly from molasses obtained as a byproduct during manufacturing of sugar. Various kinds of liquor, such as country liquor (CL) and Indian made foreign liquor (IMFL) like whisky, brandy, rum and gin are manufactured from alcohol. Excise duty on production of alcohol and liquor in distilleries forms a major part of excise revenue. Liquor for human consumption is issued from distilleries either under bond without excise duty or on pre-payment thereof at the prescribed rates. Apart from excise duty, licence fee also forms part of excise revenue. The District Collector (DC) with the assistance of the District Excise Officer (DEO) is responsible for settlement of liquor shops in the district.

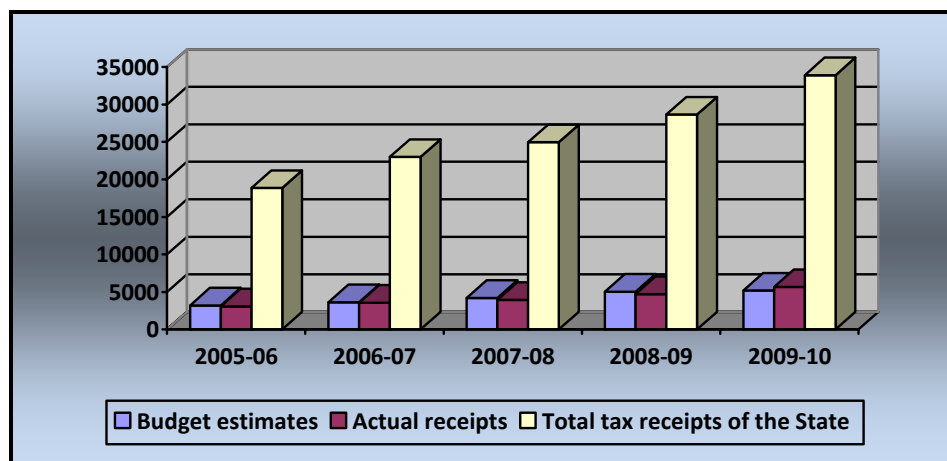
The collection of duty, fee and other taxes is administered and monitored by the Commissioner, Excise who is assisted by two Additional Excise Commissioners, three Joint Excise Commissioners (JECs), 10 Deputy Excise Commissioners (DECs) and six Assistant Excise Commissioners (AECs) at headquarters. For the purpose of effective administration, the State is divided into four zones and 17 circles. At district level the DEOs/AECs are posted to assess, levy and collect revenue. At the distillery, the AEC/officer incharge (inspector) is posted for levy and collection of excise duty.

3.2 Trend of receipts

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

(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 /non-tax receipts
2005-06	3,200.00	3,088.54	(-) 111.46	(-) 3.48	18,857.90	16.38
2006-07	3,650.00	3,551.25	(-) 98.75	(-) 2.71	22,997.97	15.44
2007-08	4,192.00	3,948.40	(-) 243.60	(-) 5.81	24,959.32	15.82
2008-09	5,040.00	4,720.01	(-) 319.99	(-) 6.35	28,658.97	16.47
2009-10	5,176.45	5,666.06	489.61	9.46	33,877.60	16.73



3.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2010 amounted to ` 63.23 crore of which ` 58.41 crore were outstanding for more than five years. The following table depicts the position of arrears of revenue during the period 2005-06 to 2009-10.

(` in crore)

Year	Opening balance of arrears	Amount collected during the year	Closing balance of arrears
2005-06	58.41	0.30	59.86
2006-07	59.86	0.05	60.89
2007-08	60.89	0.06	61.39
2008-09	61.39	0.03	61.95
2009-10	61.95	0.07	63.23

It is evident from the above table that during the years 2005-06 to 2009-10, the amount of arrears was increasing but the collection of arrears by the Department was very low.

We recommend that the Government may consider taking appropriate steps for early recovery of the arrears.

3.4 Cost of collection

The gross collection of the State Excise revenue receipts, expenditure incurred on collection and percentage of such expenditure to the gross collection during the years 2007-08, 2008-09 and 2009-10 along with the relevant all India average percentage of cost of collection to gross collection for 2008-09 are mentioned below:

(` in crore)

Head of revenue	Year	Gross collection	Cost of collection	Percentage of cost of collection to gross collection	All India average percentage of cost of collection 2008-09
State Excise	2007-08	3,948.40	44.57	1.13	3.66
	2008-09	4,720.01	50.19	1.06	
	2009-10	5,666.06	70.86	1.25	

We noted that the cost of collection for the State Excise Department is well below the all India average.

3.5 Revenue impact of audit

During the last five years (excluding the report of the current year), we through our Inspection Reports had pointed out non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemption, application of incorrect rate of tax, incorrect computation etc. with revenue implication of ` 1,971.10 crore in 676 cases. Of these, the Department/Government had accepted audit observations in 27 cases involving ` 93 lakh and had since recovered ` 50.14 lakh. The details are shown in the following table:

(` in crore)

Year	No. of units audited	Amount objected		Amount accepted		Amount recovered	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2004-05	62	146	48.59	02	0.43	--	--
2005-06	66	126	470.67	04	0.24	04	0.24
2006-07	80	122	60.68	--	--	--	--
2007-08	82	93	18.80	12	0.06	12	0.06
2008-09	118	189	1,372.36	09	0.20	09	0.20
Total	408	676	1,971.10	27	0.93	25	0.50

3.6 Results of audit

Our test check of the records of 119 units during 2009-10 relating to State Excise receipts revealed under assessments of tax and other irregularities involving ` 66.93 crore in 140 cases which fall under the following categories:

(` in crore)

Sl. No.	Categories	Number of cases	Amount
1.	Low recovery of alcohol from molasses	46	57.16
2.	Non-lifting of MGQ of country liquor	28	2.10
3.	Non-realisation of licence fee	15	0.43
4.	Non-levy of interest	11	0.15
5.	Other irregularities	40	7.09
Total		140	66.93

During the course of the year, the Department accepted and recovered underassessment and other deficiencies of ` 94.79 lakh in 20 cases, of which one case involving ` 30,435 was pointed out in audit during the year 2009-10 and the rest in earlier years.

A few illustrative cases involving ` 1.44 crore are mentioned in the following paragraphs.

3.7 Audit observations

Our scrutiny of records in the offices of the State Excise Department revealed cases of non-lifting of MGQ of country liquor, non-levy of interest and transit loss of total reducing sugar as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out by us. We point out such omissions each year, but not only do the irregularities persist, these remain undetected till we conduct an audit. There is need for the Government to improve the internal control system so that recurrence of such lapses in future can be avoided.

3.8 Loss of excise duty due to short lifting of Minimum Guaranteed Quota of country liquor

Nine district excise offices¹

Under the provisions of Rule 14 of the Uttar Pradesh Excise (Settlement of licences for the retail sale of country liquor) Rules 2002, a licensee is liable to lift the entire minimum guaranteed monthly quota (MGQ) fixed for him, during the year. In case of failure, the licensing authority has to adjust the outstanding balance amount of license fee from the security deposit of the licensee and also issue a notice to the licensee by the third day of the next month to replenish the deficit in the security amount either by lifting such quantity of country liquor involving duty equivalent to the adjusted amount or by depositing cash or a combination of both. In case the licensee fails to replenish the deficit in security amount by the tenth day of the next month, his licence shall stand cancelled.

We observed that 128 licensees lifted 27.92 lakh bulk litre (BL) of country liquor against MGQ of 29.18 lakh BL during the year 2008-09. As the full quantity of MGQ of country liquor was not lifted during the year, differential amount of licence fee i.e. ` 1.31 crore on the short lifted quantity of 1.26 lakh BL of liquor, was to be recovered from the licensees. The Department, however, did not

initiate any action either to adjust the amount from the security deposits or to cancel the licence. This resulted in loss of excise duty of ` 1.31 crore as shown in Appendix-X.

We reported the matter to the Department and the Government between May 2009 and March 2010; their reply has not been received (October 2010).

¹ Allahabad, Etawah, Ghaziabad, Gorakhpur, Jhansi, Mathura, Mau, Orai and Varanasi.

3.9 Non-levy of interest on belated payment of excise revenue

Five district excise offices² and two distilleries³

Under the provision of Section 38 (A) of the Uttar Pradesh State Excise Act, 1910, where any excise revenue is not paid within three months from the date on which it becomes payable, interest at the rate of 18 *per cent* per annum is recoverable from the date such excise revenue becomes payable.

We observed that excise revenue of ₹ 34.09 lakh pertaining to the period 2002-03 to 2006-07 was deposited late with delays ranging from 100 days to 1496 days. However, the Department did not levy interest amounting to ₹ 12.85 lakh on the belated payment.

We reported the matter to the Department and Government between November 2006 and

March 2010; their reply has not been received (October 2010).

3.10 Loss of revenue due to transit loss of Total Reducing Sugar (TRS)

Six distilleries⁴

Rules 8, 20 and 25 of the UP Excise Rules do not provide for any loss of Total Reducing Sugar (TRS) present in molasses during transit. Further, as per the Excise Commissioner's Circular in May 1995 a maximum 12 *per cent* unfermentable sugar is present in TRS and as such 46.20 Alcoholic Litre (AL) of spirit can be produced from one quintal of TRS.

We observed that while transporting molasses during September 2007 and November 2009 there was a loss of TRS which ranged between 0.18 to 3.70 *per cent* as compared to the TRS shown in the transport passes issued by the sugar factories. The distilleries received 1,636.24 quintal of TRS short from which 75,593.22

AL of alcohol involving excise revenue of ₹ 2.92 crore could have been produced as shown in Appendix-XI.

We reported the matter to the Department and the Government between August 2009 and March 2010; their reply has not been received (October 2010).

² Jhansi, Lakhimpur Kheri, Mathura, Mau and Raebareli.

³ NICL Raja Ka Sahaspur, Moradabad and Rampur distillery.

⁴ Bajaj Hindustan Ltd., Ganganauli, Saharanpur, Co-operative sugar mills distillery, Anoop Sahar, Bulandshahar, K.M. Sugar mills distillery, Faizabad, Narang distillery, Gonda, Simbhauli, Ghaziabad and Sir Shadi Lal distillery, Muzaffarnagar.