

Chapter-III State Excise

3.1 Tax administration

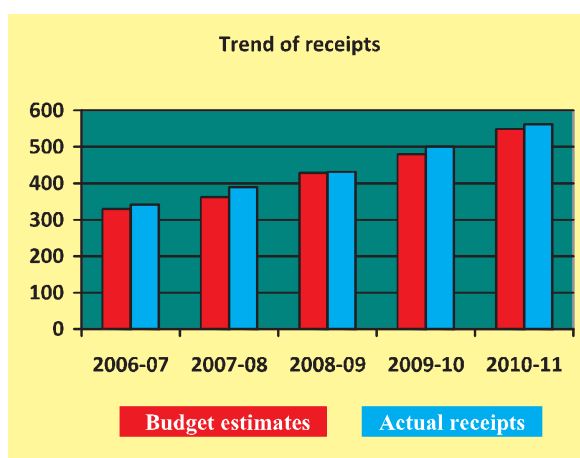
The Principal Secretary (Excise and Taxation) is the administrative head at Government level. The Department is headed by the Excise and Taxation Commissioner (ETC). The Department has been divided in three Zones³³ which are headed by the Additional ETC (South Zone), Deputy ETC of North Zone and Central Zone. Besides, 22 Excise and Taxation Inspectors under the control of the Assistant Excise and Taxation Commissioner (AETC) of the respective districts, are deputed to oversee and regulate levy/collection of excise duties and allied levies.

3.2 Trend of receipts

Actual receipts from State Excise during the years 2006-07 to 2010-11 along with the total tax receipts 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 receipts
2006-07	330.00	341.86	(+) 11.86	(+) 4	1,656.38	21
2007-08	362.69	389.57	(+) 26.88	(+) 7	1,958.18	20
2008-09	428.61	431.83	(+) 3.22	(+) 1	2,242.49	19
2009-10	480.07	500.26	(+) 20.19	(+) 4	2,574.52	19
2010-11	549.46	561.53	(+) 12.07	(+) 2	3,642.38	15



It would be seen from the above table that there was no major variation between the actual receipts and budget estimates prepared by the Department indicating therein that the budget estimates were prepared on a realistic basis.

³³ South Zone (Shimla, Solan, Sirmour, Kinnaur and Spiti area), North Zone (Chamba, Kangra and Una) and Central Zone (Bilaspur, Hamirpur, Kullu, Lahaul area and Mandi)

3.3 Cost of collection

The gross collection in respect of state excise revenue receipts, expenditure incurred on collection and percentage of such expenditure to gross collection during the years 2006-07 to 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection were as follows:

(₹ in crore)

Head of revenue	Year	Collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage of expenditure on collection for the preceding year
State Excise	2006-07	341.86	3.86	1.13	3.40
	2007-08	389.57	4.05	1.04	3.30
	2008-09	431.83	4.46	1.03	3.27
	2009-10	500.26	5.06	1.01	3.66
	2010-11	561.53	5.84	1.04	3.64

Source: Finance Accounts

The above table indicates that the percentage of expenditure on collection was always significantly lower than the all India average percentage during the period 2006-07 to 2009-10.

The Government needs to continue and monitor this practice of efficient tax collection.

3.4 Impact of audit

During the last five years (including the current year's report), we have pointed out 15 cases on non/short recovery of license fee and interest on late payment of license fee, non-realisation of duty on excess wastage, low yield of spirit from molasses, short recovery of fixed fee etc., with revenue implication of ₹ 14.18 crore. The Department/Government had fully/partially accepted audit observations in seven cases involving ₹ 1.65 crore. The details are shown in the following table:

(₹ in lakh)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	No.	Amount	No.	Amount	No.	Amount
2006-07	1	NMV	Nil	Nil	Nil	Nil
2007-08	3	127.00	2	124.57	2	109.39
2008-09	3	1,065.00	3	29.13	3	21.62
2009-10	4	147.00	2	6.57	2	2.89
2010-11	4	78.79	1	4.40	1	3.45
Total	15	1,417.79	8	164.67	8	137.35

The Department had so far recovered ₹ 1.37 crore in respect of accepted cases. This is indicative of the fact that the Department had not been able to enforce recovery even in accepted cases.

The Government may consider introducing a mechanism for ensuring prompt recovery of revenue involved in accepted cases.

3.5 Results of audit

In 2010-11, our test check of the records of 37 units relating to excise duty, license fee receipts etc., revealed non/short realisation of excise duty/license fee/interest/penalty and other irregularities involving ₹ 3.64 crore in 48 cases, which fall under the following categories:

(₹ in crore)			
Sr. No.	Categories	Number of cases	Amount
1.	Non/short realisation of excise duty	07	1.25
2.	Non/short realisation of license fee, interest/penalty	31	2.11
3.	Other irregularities	10	0.28
Total		48	3.64

During the course of the year, the Department accepted underassessment and other deficiencies of ₹ 11.68 lakh in six cases which were pointed out in earlier years. An amount of ₹ 3.45 lakh was realised in two cases during the year 2010-11.

A few illustrative cases involving ₹ 39.33 lakh are mentioned in the following paragraphs:

3.6 Audit observations

Scrutiny of the records in the offices of the Excise and Taxation Department revealed several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of excise duty, fees, interest etc. as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Every year we point out such omissions in audit, but not only do the irregularities persist, these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system including strengthening of internal audit so that occurrence of such cases can be avoided.

3.7 Non-compliance of provisions of the Act/Rules

The Punjab Distillery Rules (PDR), 1932 as applicable to the state of Himachal Pradesh provide:

- (i) norms for manufacture of rectified spirit from molasses;
- (ii) levy of fixed fee, additional fee and interest at prescribed rates.

The AETCs did not observe some of the above provisions in the cases mentioned in paragraphs 3.8 to 3.11 which resulted in non/short levy of excise duty/fixed fee/additional fee/interest of ₹ 39.33 lakh.

3.8 Low yield of spirit from molasses

Assistant Excise and Taxation Commissioner (AETC) Una

As per norms fixed under Rule 37 read with Rule 35 of the Punjab Distillery Rules 1932, as applicable to Himachal Pradesh, 1.49 quintal of molasses shall yield 454.60 litres of wash and 100 litres of wash will yield 12 litres of spirit. As such, one quintal of molasses will yield 36.61 proof litres of spirit.

We noticed in January 2011 from the molasses receipt and issue register and spirit issue register that a distillery³⁴ used 2,33,489 quintals of molasses for manufacture of rectified spirit (RS) during 2009-10. Against the yield of RS of 85,48,032.29 proof litres as per prescribed norms, the actual yield was shown as 82,88,859.50 proof litres. Thus, 2,59,172.79 proof

litres of RS involving excise duty of ₹ 25.92 lakh was short produced for which no reasons were on record.

We reported the matter to the Department and the Government in March 2011. We have not received their replies (December 2011).

³⁴ M/s Rangar Breweries Ltd., Mehatpur, Una

3.9 Loss of revenue due to less fixation of liquor quota

AETC Bilaspur

Minimum guaranteed quota (MGQ) of Country Liquor (CL) and Indian Made Foreign Spirit (IMFS) as allotted by the Excise and Taxation Commissioner to each district is further distributed vend-wise by the AETC incharge of the concerned districts. Trends of lifting/consumption of previous years serve as a fair guide to fix the quota of each vend. The Excise announcements for the year 2009-10 provided for grant of additional quota to the extent of 15 per cent at the rate of 25 per cent and a further 35 per cent at the rate of 50 per cent of the prescribed license fee if the MGO of any vend has been lifted in full.

We noticed in February 2011 from the statements of annual quota that liquor quota for Bilaspur district for 2009-10 was fixed less by five per cent as compared to the previous year. As against MGQ of 16.97 lakh Proof Litres (PLs) of CL/IMFS, MGQ of 16.20 lakh PLs of CL/IMFS was fixed for 2009-10. The overall reduction in quota was subsequently apportioned amongst vends of this district. Out of 121 vends, as many as 47 vends exhausted their allocated quota much

before close of the year and drew 43,911 PLs of CL/IMFS as additional quota by paying 25 per cent of the license fee. As a result, the Department had to forgo revenue of ₹ 39.46 lakh on account of lesser fixation of MGQ for this district.

We reported the matter to the Department and the Government in March 2011. We have not received their replies (December 2011).

3.10 Non-levy of interest on late deposit of license fee

Two AETCs³⁵

Excise announcements for the years 2008-09 and 2009-10 provide that full monthly instalments of license fee based on MGQ of liquor fixed for each vend is required to be paid by the last day of each month and the last instalment for the month of March shall be paid in full by 15th of March. The announcements also provide for levy of interest at the rate of 10 per cent per annum upto one month and 18 per cent per annum thereafter in case of late payment of license fee.

3.10.1 We noticed during January and March 2011 from M-2 register³⁶ that three licensees had deposited license fee of ₹ 49.31 lakh belatedly (between June 2009 and August 2010) for the years 2008-09 and 2009-10. The delay ranged between two and 518 days. They were therefore liable to pay interest of ₹ 2.88 lakh on the belated payments. However, the concerned AETCs did not levy the same. This resulted in short recovery of revenue to that extent.

³⁵ Sirmour: Two licensees: ₹ 82,000 and Shimla: One licensee: ₹ 2.06 lakh

³⁶ It contains total demand for a particular year against vends and recovery of monthly instalments thereof (like a demand and collection register).

We reported the matter to the Department and the Government between March and April 2011. We have not received their replies (December 2011).

Two AETCs³⁷

Rule 9.5 of the Punjab Distillery Rules, 1932 stipulates that the licensee shall pay quarterly license fee within seven days of the expiry of each quarter. In the event of failure to pay the fee by the due date, interest at the rate of 12 per cent per annum upto one month and if the default in payment exceeds one month, interest at the rate of 18 per cent per annum for the entire delay shall be payable.

3.10.2 We noticed between July 2010 and March 2011 from the license fee register that two distilleries³⁸ in Solan and Sirmour district deposited (between August 2008 and January 2011) quarterly license fee of ₹ 85.68 lakh belatedly for the years 2007-08 to 2009-10. The delay ranged between 15 and 518 days. Interest of ₹ 4.40 lakh on these belated payments was leviable but not demanded by the AETCs. This resulted in short recovery of

revenue to that extent.

After we reported the matter to the Department and the Government between September 2010 and April 2011, they accepted the audit observation and intimated (August 2011) that ₹ 3.45 lakh had been recovered from two licensees. Further report on recovery has not been received (December 2011).

3.11 Non-recovery of license fee and interest

AETC Bilaspur

The licensee shall be required to lift the Minimum Guaranteed Quota (MGQ) as fixed for each vend. In case the licensee is unable to lift the proportionate MGQ within a month, he shall still be required to pay the full instalment of license fee for that month. If the licensee fails to deposit the license fee plus interest upto the last day of the next month or the last installment by 15th March, the AETC/ETO, incharge of the district would ordinarily seal the vend on the first day of the following month or 16th of March as the case may be. In the case of continued default in payment, the Departmental officers were empowered for recovery of outstanding Government dues as Arrears of Land Revenue (ALR).

We noticed in February 2011 from M-2 register that a unit was allotted to a licensee³⁹ with 48,420 proof litres of MGQ of country liquor having annual license fee of ₹ 46 lakh for the year 2008-09. Although the licensee did not pay the full instalment of proportionate monthly license fee of ₹ 3.83 lakh from April 2008 onwards, he continued his business during the year and the AETC did not take any action to seal vend. The proposal for re-auctioning of the unit was sent to the

³⁷ BBN: ₹ 2.41 lakh and Sirmour: ₹ 1.99 lakh

³⁸ M/s Himalayan Gold Beverages (P) Ltd., Nalagarh and M/s Yamuna Beverages Pvt. Ltd., Paonta Sahib

³⁹ M/s Rajinder Chaddha, Roura Sector III, Bilaspur

Deputy Excise and Taxation Commissioner (CZ) Mandi in July 2008 and to the Excise and Taxation Commissioner (ETC) in January 2009. The ETC observed in February 2009 that it would not be appropriate to re-allot the unit at this advanced stage of the financial year and directed the AETC that pressure may be kept on the licensee to recover the maximum license fee to avoid loss of Government revenue. Thus, due to inaction and indecisiveness on the part of the Department to seal vend and re-allot the unit, the Department could recover only ₹ 23.76 lakh against the annual license fee of ₹ 46 lakh from the licensee. This resulted in non-recovery of ₹ 32.05 lakh including interest of ₹ 9.81 lakh calculated upto March 2011.

We reported the matter to the Department and the Government in March 2011; we have not received their replies (December 2011).