

EXECUTIVE SUMMARY

Decreasing tax collection and huge short fall compared to budget estimates	Collection of electricity duty decreased for a second year continuously and was at the lowest during 2010-11 in the past five years. Further, during the past five years the actual revenue collection has been persistently short of the budget estimates.
Results of audit	<p>In 2010-11, we test checked the records of five units relating to Power Department and detected under assessment/short levy of tax involving ₹ 3,747.11 crore in six cases.</p> <p>The Department accepted underassessment and other deficiencies of ₹ 2.25 lakh in four cases, of which one case involving ₹ 0.27 lakh was pointed out by us during the year 2010-11 and the rest in earlier years. The Department realised an amount of ₹ 0.86 lakh during the year 2010-11.</p>
What we have highlighted in this Chapter	<p>In this Chapter we present illustrative cases of ₹ 1,108.76 crore selected from observations noticed during our test check of records relating to Electrical Inspectorates where we found that the provisions of the Acts /Rules were not complied with.</p> <p>We noticed that though Kerala State Electricity Board (KSEB) collected electricity duty and other State levies amounting to ₹ 938.14 crore during 2006-10, it did not remit the same to the Government. We consider that such retention of Government revenue was irregular as this action led to significant understatement of revenue from electricity duty in Government accounts.</p>
Our conclusion	We recommend that the Government must take a firm stand on collection of revenue due from KSEB and other paras about the Thrissur Municipal Corporation so as to facilitate preparation of realistic budget estimates and collection.

CHAPTER-VII: OTHER TAX RECEIPTS

7.1 Tax administration

The Kerala Electricity Duty Act, 1963 and Rules made thereunder govern the levy of duty on the sale and consumption of electrical energy. Power Department is under the control of the Secretary (Power) at the Government level and the Chief Electrical Inspector administers the Act with the assistance of Additional Chief Electrical Inspector, Dy. Chief Electrical Inspectors, Electrical Inspectors, Dy. Electrical Inspectors and Asst. Electrical Inspectors on technical matters in Headquarters office. There are 15 Electrical Inspectors out of which 14 are in charge of District offices and one is in charge of the Meter Testing and Standards Laboratory.

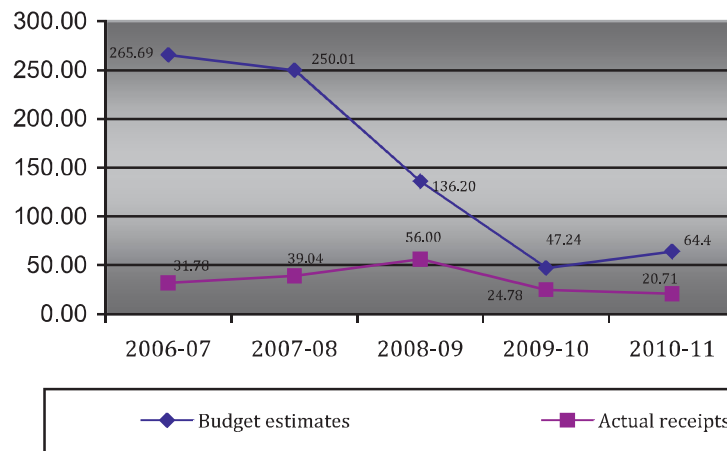
7.2 Trend of receipts

Actual receipts from electricity duty during the last five years (2006-07 to 2010-11) along with the budget estimates during the same period is exhibited in the following table and graph.

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts	Percentage of growth
2006-07	265.69	31.78	(-) 233.91	(-) 88.04	11,941.82	0.26	0.82
2007-08	250.01	39.04	(-) 210.97	(-) 84.38	13,668.95	0.28	22.84
2008-09	136.20	56.00	(-) 80.20	(-) 58.88	15,990.18	0.35	43.44
2009-10	47.24	24.78	(-) 22.46	(-) 47.54	17,625.02	0.14	(-) 55.75
2010-11	64.40	20.71	(-) 43.69	(-) 67.84	21,721.69	0.09	(-) 16.42

Budget estimates and actual receipts



The actual receipts from electricity duty was less than the budget estimate during the last five years. The receipts during 2010-11 was ₹ 20.71 crore which was the lowest in the past five years. The Department may analyse the reason for the declining trend in revenue and fix realistic targets.

7.3 Results of audit

In 2010-11 we test checked the records of five units relating to Power Department. We detected under assessment/short levy of tax involving ₹ 3,747.11 crore in six cases which fall under the following categories :

(₹ in crore)			
Sl. No.	Categories	No. of cases	Amount
1	Short /Non-levy of tax	5	3747.09
2	Other lapses	1	0.02
	Total	6	3747.11

The Department accepted underassessment and other deficiencies of ₹ 2.25 lakh in four cases, of which one case involving ₹ 0.27 lakh was pointed out by us during the year 2010-11 and the rest in earlier years. The Department realised an amount of ₹ 0.86 lakh during the year 2010-11.

A few illustrative cases involving ₹ 1,108.76 crore are mentioned in the following paragraphs.

7.4 Audit observations

Scrutiny of the records of various Electrical Inspectorates and Commercial Tax Offices revealed several cases of non-compliance of the provisions of the Kerala Electricity Duty Act, 1963 and Kerala Tax on Luxuries Act, 1976, 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 in audit. Such omissions on the part of the Electrical Inspectors/CTOs are pointed out by us repeatedly but not only the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system.

A. Taxes and Duties on Electricity

Non-observance of the provisions of the Kerala Electricity Duty Act and Surcharge Act resulted in non-collection of electricity duty.

7.5 Irregular retention of electricity duty by KSEB and resultant under budgeting

(Chief Electrical Inspectorate, Thiruvananthapuram; January 2011)

The Kerala Electricity Duty Act, 1963 authorises licensees to collect and pay to the Government electricity duty under Section 4 and under item number 5 of the schedule to Section 5. The Kerala State Electricity Surcharge Act 1989 empowers the licensees to collect and pay the surcharge duty to Government. Further, the Act provides for payment of interest of not more than 18 *per cent* in case the dues are not paid in time.

We conducted a review on electricity duty during 2003 and pointed out that electricity duty collected by the Kerala State Electricity Board (KSEB) was not paid to the Government. In response, the Government resolved (November 2006) that electricity duty collected by KSEB till March 2006 would be adjusted against

claims due to KSEB, and the electricity duty collected from April 2006 should be promptly paid to Government.

However, we noticed that though KSEB collected electricity duty and other State levies amounting to ₹ 938.14 crore for the years 2006-07 to 2009-10, it did not remit the same to Government. Instead, it retained this amount and provided an additional amount of ₹ 168.91 crore as interest payable at nine *per cent* in its accounts. Thus the total dues of KSEB at the end of 2009-10 was ₹ 1,107.05 crore. The retention of Government revenue was irregular; as such an action led to significant understatement of revenue from electricity duty in Government accounts. We noticed that even though more than ₹ 300 crore was due as electricity duty, the estimate for budget from electricity duty was reduced year

after year which does not give correct picture of revenue realisable under the head of account.

The improper procedure was pointed out to the Department in January 2011. The Department stated that Government has constituted a committee to consider the issue.

We pointed out the case to the Government in May 2011; their reply has not been received (December 2011).

7.6 Loss of revenue due to non-collection of inspection fee

(Electrical Inspectorate, Thrissur; September 2009)

Cable TV operators were permitted to draw their net work through utility poles of the Kerala State Electricity Board. The Inspectors in the Electrical Inspectorate should inspect the network and issue a safety certificate based on an application by the operator. The application shall be filed along with a fee of ₹ five per pole. The fee fixed for inspection was ₹ five per pole per year which should be paid in advance.

We scrutinised the records of the District Electrical Inspectorate, Thrissur and found that inspection fee of ₹ 11.96 lakh was not collected in respect of 46 cable TV operators for the period 2002-03 to 2008-09.

We pointed out the case in September 2009. The Department (October 2010) stated that they had collected ₹ 8.70 lakh as per their records, against ₹ 11.96 lakh pointed out by audit. Further reply in respect of collection of the balance amount is awaited.

We pointed out the case to the Government in May 2011; their reply has not been received (December 2011).

7.7 Non-remittance of interest on belated payment of Electricity Duty by Thrissur Municipal Corporation

(Chief Electrical Inspectorate, Thiruvananthapuram; January 2011)

Section 8 of the Kerala Electricity Duty Act, 1963 provides that if any sum due on electricity duty is not paid within the time allowed under Rule 3 of the Kerala Electricity Duty Rule, it shall be treated as arrears. Arrears with interest not exceeding 18 *per cent* per annum shall be recoverable either through a Civil Court or as an arrear of land revenue.

We noticed that Thrissur Municipal Corporation was liable to pay electricity duty for the period from April 2009 to March 2010 aggregating ₹ 4.15 crore. They paid ₹ 2.84 crore with a delay ranging from 45 to 150 days, leaving a balance of ₹ 1.31 crore. We also found that the

interest¹ leviable on the belated remittance of ₹ 2.84 crore worked out to ₹ 9.41 lakh and on the balance amount of ₹ 1.32 crore (for the period April 2010 to January 2011) the interest worked out to ₹ 9.86 lakh. However, the CEI had not initiated any action to recover the arrear amount of ₹ 1.31 crore and the total interest of ₹ 19.28 lakh from the Corporation.

We pointed this out to the Department and reported it to the Government in February 2011. We have not received further information (December 2011).

B. LUXURY TAX

Non-observance of the provisions of Luxury Tax Act by the assessing officers resulted in short collection of luxury tax of ₹ 7.63 lakh as mentioned in paragraphs 7.8 and 7.9

7.8 Application of incorrect rate of tax

(CTO, LT, Thiruvananthapuram; March 2011)

Section 4(2)(a) of the Kerala Tax on Luxuries Act, 1976 provides that if gross charges of accommodation for residence and other amenities provided in a hotel exceeds ₹ 500 per day per room, luxury tax leviable is 15 *per cent* with effect from July 2006.

We noticed that while completing the luxury tax assessment of a hotel for the year 2006-07 charging rent exceeding ₹ 500 per room, luxury tax on the turnover of ₹ 1.02 crore for the period from July 2006 to March 2007 was assessed to tax at 10 *per cent* instead of at the correct rate

of 15 *per cent*. This resulted in short levy of tax of ₹ 5.11 lakh.

We pointed out the matter to the Department in March 2011 and reported to the Government in May 2011. We have not received further information (December 2011).

7.9 Incorrect computation of tax

(CTO (LT), Thiruvananthapuram; March 2010)

The Kerala Tax on Luxuries Act, 1976, stipulates that where the rate of charges for accommodation for residence and other amenities and services are not more than ₹ 500 per day per room luxury tax is leviable at 10 *per cent*.

We noticed from the records that luxury tax of a hotel on a turnover of ₹ 28.03 lakh was wrongly assessed (October 2008) as ₹ 28,027 instead of ₹ 2.80 lakh. This clerical mistake resulted in short levy of tax of ₹ 2.52 lakh.

¹ At the rate of nine *per cent* for delayed payment as worked out in para no. 7.5

We pointed out the matter to the Department (March 2010) and the Government in May 2011. The Government stated (November 2011) that the assessment has been modified (August 2011) and demand notice issued. We have not received further information (December 2011).