

CHAPTER IV: REVENUE RECEIPTS

GENERAL

4.1 Trend of Revenue Receipts

4.1.1 The tax and non-tax revenue raised by the Government of Arunachal Pradesh during the year 2010-11, the State's share of net proceeds of divisible Union taxes and duties assigned to the State 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	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Revenue raised by the State Government					
	• Tax revenue	78.24	98.09	136.22	173.44	214.99
	• Non-tax revenue	297.17	656.92	772.01	511.25	530.14
	Total	375.41	755.01	908.23	684.69	745.13
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	347.14	437.87	462.09	475.40	720.18
	• Grants-in-aid	1869.62	1810.13	2485.64	3134.78	3956.78
	Total	2216.76	2248.00	2947.73	3610.18	4676.96
3.	Total revenue receipts of the State Government (1 and 2)	2592.17	3003.01	3855.96	4294.87	5422.09
4.	<i>Percentage of 1 to 3</i>	<i>14</i>	<i>25</i>	<i>24</i>	<i>15.94</i>	<i>16.12</i>

The above table indicates that during the year 2010-11 the revenue raised by the State Government (₹ 745.13 crore) was 13.74 *per cent* of the total revenue receipts against 15.94 *per cent* in the preceding year. The balance 86.26 *per cent* of receipts during 2010-11 was from the Government of India.

4.1.2 The following Table presents the details of tax revenue raised during the period 2006-07 to 2010-11:

Table: 4.2

(₹ in crore)

1	Head of Revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+)/(-) decrease in 2010-11 over 2009-10
1.	Tax on Sales, Trade, etc.	61.64	77.06	105.67	130.23	168.24	(+) 29.19
2.	State Excise	10.98	11.60	16.60	23.79	29.74	(+) 25.01
Stamp Duty and Registration Fees							
3.	Stamps – Judicial	0.55	0.86	1.25	1.88	1.86	(-) 1.06
	Stamps – Non-Judicial						
	Registration Fees						
4.	Taxes and Duties on Electricity					0.000006	
5.	Taxes on Vehicles	2.93	6.42	7.76	13.07	11.76	(-) 10.02
6..	Land Revenue	2.10	2.12	4.90	4.43	3.37	(-) 23.93
7.	Others	0.04	0.03	0.04	0.04	0.02	(-) 75.00
Total		78.24	98.09	136.22	173.44	214.99	(+) 23.95

The reasons for variations were neither stated nor on records.

4.1.3. The following table presents the details of the non-tax revenue raised during the period 2006-07 to 2010-11:

Table: 4.3

(₹ in crore)

Sl. No.	Head of Revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+)/(-) decrease in 2010-11 over 2009-10
1.	Interest Receipts	13.54	29.10	34.80	40.02	111.35	(+) 178.24
2.	Dairy Development	0.03	0.03	0.03	0.02	0.02	
3.	Other Non-tax Revenue	84.05	62.01	42.75	51.30	69.11	(+) 34.72
4.	Forestry and Wild Life	9.03	8.57	12.50	9.99	12.22	(+) 22.32
5.	Mining Receipts Non-Ferrous Mining & Metallurgical Industries	47.60	45.82	42.95	57.56	37.27	(-) 35.25
6.	Miscellaneous General services (Including Lotteries)	15.85	45.56	20.26	11.39	1.62	(-) 85.78

Sl. No.	Head of Revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+)/(-) decrease in 2010-11 over 2009-10
7.	Power	119.05	458.06	609.74	329.27	282.18	(-) 14.30
8.	Medical and Public Health	0.19	0.37	0.28	0.23	0.35	(+) 52.17
9.	Co-operation	0.11	0.40	1.03	0.73	0.70	(-) 4.11
10.	Public Works	2.22	1.59	2.56	4.28	3.02	(-) 29.44
11.	Police	2.03	1.22	1.97	1.13	3.12	(+) 176.11
12.	Other Administrative Services	3.41	4.19	3.13	5.33	9.18	(+) 72.23
Total		297.11	656.92	772.01	511.25	530.14	(+) 3.69

The reasons for variations were neither stated nor on records.

4.1.4 Response of Departments towards Audit

On the basis of inspections conducted in various departments of the State Government by sending audit parties from the office of the Accountant General each year, all the irregularities noticed during conduct of audit are discussed on the last day of audit with the Head of Office. During discussions, objections are dropped where possible and the objections which are of serious nature are incorporated in Inspection Report and forwarded to the concerned office with request to furnish reply within a specific period. Objections of very serious nature are developed into Draft Audit Paras (DAP) and forwarded to the Secretary of the related Department requesting acceptance of the facts and figures and comments, if any, to be communicated within six weeks. In case no reply is received the DAPs are included in the report of the CAG as Audit Paras.

4.1.5 Failure of Senior Officials to enforce accountability and protect the interest of the State Government

The Accountant General, Arunachal Pradesh, conducts periodical inspection of the Government Departments to test check the transactions and verify the maintenance of the 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 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 replies to the AG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the Heads of Departments and the Government.

Inspection Reports issued upto June 2011 disclosed that 677 paragraphs involving ₹ 463.34 crore relating to 338 IRs remained outstanding at the end of June 2011, along with the corresponding figures for the preceding two years, as mentioned in the following table.

Table: 4.4

	June 2009	June 2010	June 2011
Number of outstanding IRs	258	287	338
Number of Outstanding Audit Observations	661	784	677
Amount Involved (Rupees in crore)	316.47	427.97	463.34

The Department-wise details of the IRs and Audit Observations outstanding as on 30 June 2011 and the amounts involved are mentioned in Table 4.5.

Table: 4.5

(₹ in Crore)

Sl. No	Name of the Department	Nature of Receipts	Number of outstanding IRs	Number of outstanding Audit Observations	Money Value Involved
1.	Finance	Taxes/VAT on Sales, Trade, etc;	67	273	39.63
		Entry Tax			
		Electricity Duty			
		Entertainment Tax, Luxury Tax, etc;			
2.	Excise	State Excise	73	136	42.01
3.	Revenue	Land Revenue	32	93	95.25
4.	Transport	Taxes on Motor Vehicles	45	76	17.41
5.	Stamps & Registration	Stamps & Registration Fees	-	-	-
6.	Mines & Geology	Non-ferrous Mining and Metallurgical Industries	20	43	138.28
7.	Forest & Environment	Forest & Wildlife	97	43	108.08
8.	Water Resources	Water Rates	-	-	-
9.	State Lotteries		04	13	22.68
Total			338	677	463.34

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 119 IRs issued upto December 2010. 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 may take suitable steps to install 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.

4.1.6. Departmental Audit Committee Meetings

In order to expedite settlement of the outstanding audit observations contained in the IRs, a Departmental Audit Committee is constituted by the Government. These Committees are chaired by the Secretaries and attended by officers of the Departments concerned and Accountant General's Office.

In order to expedite clearance of the outstanding audit observations, it is necessary that the Audit Committees meet regularly. During the year 2009-10 and 2010-11, no Audit Committee Meeting was held, despite being requested. Thus, the concerned Departments failed to take advantage of the Audit Committee mechanism set up.

4.1.7. Response of the Departments to Draft Audit Paragraphs

The Draft Paragraphs are forwarded to the Secretaries of the concerned departments through demi-official letters drawing their attention to the audit findings and requesting them to send their reply within six weeks. The fact that the replies from the Departments had not been received is invariably indicated at the end of each paragraph included in the Audit Report.

Twenty Draft Paragraphs proposed for inclusion in the Report for 2009-10 were forwarded to the Secretaries of the respective Departments during June 2010 and September 2010. Besides, the Chief Secretary to the State Government was also requested to arrange for discussion of the issues raised in the Draft Audit Paragraphs for inclusion of the views/comments of the Government in the Audit Report. Despite these efforts, no response was received on these Draft Paragraphs and consequently these had to be included in the Report without the response of the Government. During the current year 23 Paragraphs have already been taken up with the Govt. Replies are still awaited (October 2011).

4.1.8. Follow-up on Audit Reports – Summarised Position

With a view to ensure accountability of the executive in respect of all the issues dealt with in various Audit Reports, the Shakhder Committee, appointed to review the response of the State Government to Audit Reports, recommended (March 1993), *inter alia*, that the concerned departments of the State Government should without waiting for the receipt of any notice or call from the Public Accounts Committee (PAC), submit *suo motu* replies on all paragraphs and reviews featuring in the Audit Reports within three months, and submit the Action Taken Notes (ATN) in respect of

the recommendations of the PAC within the dates as stipulated by the PAC or within a period of six months whichever is earlier.

While accepting the recommendations (1996), the Government specified the time frame of three months for submission of *suo moto* replies by the concerned Departments. The PAC specified the time-frame for submission of ATNs on their recommendations as one month upto the 49th Report.

Reviews of the outstanding Explanatory Notes on the paragraphs included in the Reports of the Comptroller and Auditor General of India for the years from 1990-91 to 2009-10 revealed that the concerned Administrative Departments were not complying with these instructions. The paras outstanding upto the year 2007-08 of the Audit Report have been transferred to the State Government for necessary action as per the decision taken in the 'National Seminar on Legislative Audit Interface' held in July 2010. As of November 2011, *suo motu* Explanatory Notes on 41 paragraphs of these Audit Reports were outstanding from the various Departments.

Review of five reports of the PAC containing recommendations on 19 paragraphs in respect of Forest, Finance and Excise Departments presented to the Legislature between September 2001 and March 2006 revealed that the concerned Departments had failed to submit ATN on the recommendations made by the PAC as mentioned in the following table.

Table: 4.6

Year of the Audit Report	Paragraph numbers on which recommendations were made by the PAC but ATNs are awaited	Number of PAC Report on which recommendations were made	Date of presentation of the Report of the PAC to the State Legislature
1986-87	6.4, 6.6, 6.7 and 6.8	49 th Report	3 March 2003
1991-92	6.4, 6.5 and 6.6	44 th Report	21 September 2001
1994-95	6.4	44 th Report	21 September 2001
1995-96	6.4, 6.5 and 6.6	46 th Report	19 March 2002
	6.7, 6.8 and 6.10	48 th Report	-do-
1996-97	6.7	46 th Report	-do-
1997-98	6.3, 6.5 (i), (ii)	51 st Report	21 March 2006
1998-99	6.3.6 (a) and 6.5	51 st Report	-do-

Thus, due to the failure of the Departments to comply with the instructions of the PAC, the objective of ensuring accountability remained unfulfilled.

The Government may consider taking effective steps against the defaulting Departments including fixing responsibility to ensure accountability of the executive.

4.1.9 Position of the Audit Paragraphs raised by Audit

The following is the position of paragraphs included in the ‘Revenue Receipts’ Chapter of the Audit Reports relating to the Government of Arunachal Pradesh for the last ten years in respect of the Land Management Department:

Table: 4.7

(₹ in lakh)

Sl. No.	Year of Audit Report	Paragraph No.	Caption of the Paragraph	Amount
1.	2000-2001	-	-	-
2.	2001-2002	-	-	-
3.	2002-2003	-	-	-
4.	2003-2004	5.13	Non- realisation of Penalty	108.00
5.	-do-	5.14	Short realisation of Land Revenue	164.97
6.	-do-	5.15	Unauthorised Occupation of Government Land without payment of Land Revenue	36.49
7.	-do-	5.16	Short realisation of Lease Rent	26.59
8.	-do-	5.17	Non-realisation of Land revenue	8.68
9.	2004-2005	5.14	Short-realisation of Revenue	16.67
10.	-do-	5.15	Loss of Revenue	6.25
11.	2005-06	6.11	Non-realisation of Land Revenue	77.60
12.	2006-07	6.11	Non-realisation of Revenue	273.00
13.	2007-2008	-	-	-
14.	2008-2009	4.7	Short realisation of Lease-Rent	349.25
15.	-do-	4.8	Short realisation of Land Revenue	33.39
16.	2009-2010	-	-	-
Total				1100.89
Say Rs. 11.01 crore				

It is recommended that the Government may consider taking suitable steps to install an effective procedure for prompt and appropriate response to audit observations

The summarised position of Inspection Reports issued during the last 10 years, paragraphs included in these reports and their status as on March 2011 are given in the following table.

Table: 4.8

(₹ in crore)

Year	Opening Balance			Additions during the Year			Clearance during the Year			Closing Balance during the Year		
	IRs	Para graphs	Money Value	IRs	Para graphs	Money Value	IRs	Para graphs	Money Value	IRs	Para graphs	Money Value
2000-01	52	126	2.3	22	44	3.22	5	7	0.56	69	163	4.96
2001-02	69	163	4.96	28	46	10.27	4	8	0.65	93	201	14.58
2002-03	93	201	14.58	27	73	42.51	4	10	0.73	116	264	56.36
2003-04	116	264	56.36	27	91	16.44	6	13	0.32	137	342	72.48
2004-05	137	342	72.48	31	62	33.27	5	8	1.02	163	396	104.73
2005-06	163	396	104.73	33	63	45.3	2	3	1.1	194	456	148.93
2006-07	194	456	148.93	27	85	31.6	0	4	0.34	221	537	180.19
2007-08	221	537	180.19	25	63	39.1	0	1	0.2	246	599	219.09
2008-09	246	599	219.09	34	97	32.46	0	0	0	280	696	251.55
2009-10	280	696	251.55	33	75	41.03	0	0	0	313	771	292.58
2010-11	313	771	292.58	25	133	170.99	0	3	0.23	338	901	463.34

No Audit Committee Meetings were held during 2009-10 and 2010-11.

4.1.10 Recovery of Accepted Cases

Position of recovery of accepted cases is given in the following table:

Table: 4.9

(₹ in crore)

Year of Audit Report	Total Money Value	Accepted Money Value	Recovery Made
2003-04	23.05	0.27	0.01
2004-05	5.43	1.90	-
2005-06	8.69	6.91	0.06
2006-07	31.53	6.60	-
2007-08	112.38	51.25	-
2008-09	31.87	-	-
2009-10	49.27	0.42	0.34
Total	262.22	67.35	0.41

Total recoveries made as at the end of 2010-11 was not even one *per cent* of the accepted money value.

It is recommended that the Government may consider prescribing more stringent measures, including fixing of responsibility, for recovery of dues in the accepted cases in the interest of revenue.

4.1.11 Action taken on the recommendations accepted by the Departments/ Government

The draft Performance Reviews conducted by the AG are forwarded to the concerned Departments/Government for their information with a request to furnish replies. These reviews are also discussed in an Exit Conference and the Department's/Government's views are included while finalising the reviews for the Audit Reports.

The following table indicates the issues highlighted in the reviews on the **Transport, Land Management and Environment & Forest Departments** featured in the last 10 Audit Reports, including the recommendations and action taken by the Departments on the recommendations accepted by it as well as the Government.

Table: 4.10

Year of Audit Report	Name of the Review	No. of Recommendations	Details of the recommendations accepted	Status
1999-2000	Receipts under Taxes on Motor Vehicles	Nil	Nil	-
2001-02	Assessment, levy and collection of Land Revenue	2	2	-
2003-04	Collection of Forest receipts in Arunachal Pradesh	5	Nil	-
Total		7	2	-

During the period for 1999-2000, 2001-02 & 2003-04, three reviews pertaining to the Motor Vehicles, Land Management and Environment & Forest Departments were conducted which contained Seven recommendations. Out of seven recommendations, two were accepted. Position of the balance five recommendations is not available.

It is recommended that the Government may put in place a monitoring mechanism to watch and ensure timely action on the recommendations accepted by the concerned Departments to improve revenue collection.

4.1.12 Audit Planning

The unit offices under various Departments are categorised into high, medium and low risk units, according to their revenue position, past trends of audit observations and other parameters. The Annual Audit Plan is prepared on the basis of risk analysis which, *inter-alia*, includes critical issues in Government Revenues and Tax Administration, i.e. Budget Speech, White Paper on State Finances, Reports of the Finance Commission (State and Central), recommendations of the Tax Reforms Committee, Statistical Analysis of the revenue earnings during the past five years, features of the Tax Administration, audit coverage and its impact during past five years, etc.

During the year 2010-11, the audit universe comprised of 127 auditable units, of which 24 units were planned against which 25 units were audited during the year 2010-11 which is 20 *per cent* of the total auditable units.

Besides the compliance audit mentioned above, no Performance Reviews were taken up to examine the efficacy of the tax administration of these receipts.

4.1.13 Position of Local Audit conducted during the year

Test check of the records of 25 units of Commercial Tax, State Excise, Motor Vehicles, Forest and other Departmental Offices conducted during the year 2010-11 revealed under assessments/short-levy/loss of revenue aggregating ₹ 170.99 crore in 133 cases. The Departments collected ₹ 0.10 crore in three cases during 2010-11.

4.1.14 Results of Audit

Test check of the records of Sales Tax, Land Revenue, State Excise, Motor Vehicles Tax, Forest and Other receipts conducted during 2010-11 revealed under assessment, non/short levy, loss of revenue, etc. of ₹ 10.56 crore in 19 paragraphs. Replies in all the cases had not been received (February 2012). These are discussed in succeeding paragraphs 4.2.1 to 4.2.19.

TAXATION DEPARTMENT

4.2.1 Loss of Revenue due to non-registration of Government Departments

Non-registration of State Government Departments resulted in non-realisation of revenue of ₹ 23.94 lakh and penalty of ₹ three lakh on sale of timber, sand and stone

Section 2(l) (ii) read with Section 19 (i) of the Arunachal Pradesh Goods Tax (APGT) Act, 2005 provides that each Government Department, if it sells, supplies or distributes goods in the course of specified activities, falls within the definition of a dealer and is required to be registered under the Act. As per Section 87(4), if any dealer fails to register himself, he is liable to pay a penalty of ₹ 1000 per day, subject to maximum of ₹ one lakh. In Arunachal Pradesh, timber was taxable at the rate of 12.5 *per cent* upto 13 August 2008 and thereafter, exempted from tax. Sand and stone are, however, taxable at the rate of 12.5 *per cent*.

4.2.1(i). On cross checking the records of the Divisional Forest Officer (DFO), Khellong Forest Division, Bhalukpong, with those of the Superintendent of Taxes, Border Facilitation Counter, Bhalukpong, in March 2011, it was observed that the Forest Division sold 2134.825 cubic metres of timber valued at ₹ 76.59 lakh to authorised wood-based industries in 2005-06 and 2006-07. The DFO neither applied for registration nor paid any tax on the aforesaid sale of timber. The Assessing Officer (AO) also did not initiate any action to get the Division registered and to collect the tax. This resulted in non-realisation of revenue of ₹ 9.57 lakh and penalty of ₹ one lakh.

4.2.1(ii). Test check of the permit books for sale of sand and stone of the Assistant Mineral Development Officers (AMDO), Tezu and Roing in January-February 2011, revealed that the Mineral Department sold sand and stone valued at ₹ 1.15 crore to 627 dealers within the State between April 2005 and January 2011.

On cross verification with the records of the Taxation Department, Tezu and Roing it was found that neither the AMDOs nor the purchasing dealers were registered. The AO also had not taken any action for their registration which resulted in non-realisation of revenue of ₹ 14.37 lakh and penalty of ₹ two lakh.

The cases were reported to the Department/Government in May 2011 but reply has not been received (October 2011).

4.2.2. Evasion of Tax by two Unregistered Dealers

Non-registration of two dealers under APST Act led to evasion of tax of ₹ 9.59 lakh for which interest & penalty of ₹ 24.86 lakh was also recoverable

Under Section 7 (2) of the Central Sales Tax (CST) Act, 1956, any dealer liable to pay tax under the appropriate sales tax laws of the State, shall apply for registration in the prescribed form. Similarly, under Section 10(1) of the Arunachal Pradesh Sales Tax (APST) Act, 1999 no dealer shall carry on business of taxable goods unless he is registered and possesses a certificate of registration. Under Section 22 (l) (a) and Section 21 (1) (i) (i) of the APST Act, if any dealer liable to pay tax under the Act, fails to get himself registered is, in addition to any tax or interest payable by him, liable to pay by way of penalty a sum not exceeding the amount of assessed tax.

Cross verification of the records of two dealers registered in ST, Khonsa with those of two Assam-based dealers in December 2010 revealed that the dealers imported cement and electrical goods valued at ₹ 1.20 crore between April 2002 and April 2005 by utilising four 'C' Forms. The dealers were, however, registered under the CST Act only and did not apply for registration under the APST Act. The AO also did not initiate action to register the dealers and realise tax on import of taxable goods. This led to evasion of tax of at least ₹ 9.59 lakh. Besides, interest of ₹ 15.27 lakh, penalty of ₹ 9.59 lakh was also leviable for carrying on business without registration.

The cases were reported to the Department/Government in May 2011, but reply has not been received (October 2011).

4.2.3. Evasion of tax by dealers registered under the CST Act

Two registered dealers evaded payment of tax of ₹ 87.50 lakh (including Interest and Penalty) by fraudulently using 'C' Forms issued to them.

Under Section 8 of the CST Act, a registered dealer may purchase goods from a registered dealer of another state at a concessional rate by furnishing the prescribed declaration in Form 'C'. Further, the provision under section 10 states that if a person furnishes a declaration form which he knows or has reasons to believe to be false, he is punishable with simple imprisonment which may extend upto six months or with fine or with both.

While auditing the records pertaining to the years April 2000 to March 2010 of ST, Khonsa in December 2010, it was noticed that M/s. Chakban Crushing Unit and M/s. Tezam Enterprises, registered under the CST Act in Khonsa Unit Office, procured declarations in Form 'C' from the Assessing Officer to purchase goods from outside the State. The dealers did not submit any Utilisation Certificate in support of the declaration forms used.

During cross verification of declaration forms received from Assam, it was noticed that by utilisation of four 'C' forms¹ issued to these dealers, cement valued at ₹ 2.49 crore during 2003-04 and 2004-05 was imported from M/s. Lafarge India (P) Limited, a Guwahati-based dealer. As per records of M/s. Lafarge India (P) Limited, two forms issued to M/s. Chakban Crushing Unit were utilised by M/s. N. T. Enterprise and two forms issued to M/s. Tezam Enterprises were utilised by M/s. T.J. Enterprise for purchase of cement valued at ₹ 1.81 crore and ₹ 67.22 lakh respectively. The ST, Khonsa intimated that both the dealers in whose name the forms were utilised were not registered. The fraudulent method adopted by M/s. Chakban Crushing Unit and M/s. Tezam Enterprises to evade tax escaped notice of the ST. The dealers, thus, concealed turnover of ₹ 2.49 crore and evaded tax of ₹ 19.89 lakh payable under the APST Act. Besides, interest of ₹ 27.83 lakh and Penalty of ₹ 39.78 lakh were also leviable. Fraudulent use of declaration forms calls for prosecution as provided under the CST Act.

On this being pointed out in May 2011, the Department issued demand notices in the names of the unregistered dealers in whose names the forms were used and goods imported. This action on the part of the Department was not correct as steps were required to be taken against the registered dealers to whom the forms were issued and who were liable to ensure their proper utilisation.

The cases were reported to the Department/Government in May 2011, but reply has not been received (October 2011).

4.2.4. Short/non-levy of Entry Tax

Entry Tax of ₹ 11.89 lakh was short levied on import of goods valued at ₹ 1.40 crore. Similarly, two dealers imported taxable goods of ₹ 15.99 crore without payment of Entry Tax of ₹ 1.54 crore

Section 3 (2) (b) of the APGT Act states that every person who is an importer shall be liable to pay tax on every entry effected by or for him on goods for consumption, use or sale in local areas of Arunachal Pradesh other than a non-taxable import.

4.2.4 (i): While auditing the records of Superintendent of Taxes, Tezu, Roing and Pasighat in January and February 2011, it was noticed that 99 dealers imported taxable goods valued at ₹ 1.40 crore between April 2009 and March 2010. Entry Tax of ₹ 17.48 lakh was leviable in these cases, against which only ₹ 5.59 lakh was levied/realised. This resulted in short realisation of Entry Tax of ₹ 11.89 lakh due to wrong application of rate of tax.

¹ No.GG 081666 and GG 081667 issued to M/s.Chakban Crushing Unit.
No. GG 327513 and GG 327514 issued to M/s. Tezam Enterprises

4.2.4 (ii): Similarly, it was noticed during test check of records of the Officer-in-charge of the Border Facilitation Counter (BFC), Santipur and Bhalukpong in February and March 2011, that two importers imported taxable goods valued at ₹15.99 crore between April 2006 and November 2010 from outside the State. The Officers in-charge of the BFCs, however, allowed the goods to enter the State without collecting Entry Tax at the prescribed rates. On scrutiny of the records of the dealers available with the Department, it was noticed that the dealers neither submitted any tax return nor paid the due tax. Thus, import of goods without payment of entry tax led to non-realisation of revenue of ₹ 1.54 crore.

The cases were reported to the Department/Government in May 2011 reply has not been received (October 2011).

4.2.5. Non-levy of Tax and Penalty for misuse of 'C' Forms

Two dealers purchased cement of ₹ 2.94 crore and evaded tax of ₹ 36.71 lakh. Besides, penalty of ₹ 55.06 lakh was also leviable for misuse of 'C' forms

Under Section 8 of the CST Act, a registered dealer may purchase goods from a registered dealer of another State at a concessional rate by furnishing the prescribed declarations in Form 'C'. Further, under Section 10 (b), if a person, being a registered dealer, falsely represents when purchasing any class of goods, that goods of such class are covered by his certificate of registration, he is liable to pay penalty in lieu of the prosecution not exceeding one and a half times the amount of tax which would have been levied.

On cross verification of the records of the Superintendent of Taxes, Zone-I, Naharlagun and Zone-II, Itanagar, with those of the Superintendent of Taxes, Shillong, in April-May 2010, it was noticed that between April 2006 and March 2009, two dealers dealing in hardware, glasses, plywood and electrical goods, imported cement valued at ₹ 2.94 crore, which was not included in their certificates of registration, at a concessional rate of tax against eight declarations in Form 'C'. The dealers neither submitted any return nor paid the applicable tax for the years from 2006-07 to 2008-09. Thus, the dealers concealed turnover of at least ₹ 2.94 crore and evaded tax of ₹ 36.71 lakh. Besides, the dealers were also liable to pay Penalty of ₹55.06 lakh (maximum) for using the declaration forms for import of cement which was not specified in the registration certificate of the dealers. No notice was issued by the Assessing Officer (AO) to the dealers in this regard.

The cases were reported to the Department/Government in August 2010, but reply has not been received (October 2011).

4.2.6. Concealment of Purchase

Failure of the Assessing Officer to detect import of taxable goods of ₹ 15.76 lakh, led to evasion of tax of ₹ 1.82 lakh. Besides, interest of ₹ 1.71 lakh and penalty of ₹ 1.82 lakh was also leviable

Under Section 87 (10) of the APGT Act, if a dealer submits false, misleading or deceptive returns, he is liable to pay penalty of a sum of ₹ one lakh or the amount of tax evaded, whichever is greater, in addition to the tax payable by him.

While auditing the records of the Superintendent of Taxes, Zone-II, Itanagar, in April-May 2010, it was noticed that a registered dealer, in the statement of utilisation of 'C' forms, disclosed taxable purchase of ₹ 1.20 lakh from a dealer registered in Guwahati, Assam against a 'C' Form during April 2005 and March 2006 in the course of inter-State trade.

On cross verification of the records of both the dealers it was found that the Arunachal-based dealer had actually purchased electronic goods valued at ₹ 15.76 lakh during the year 2005-06 by utilising that 'C' Form. The dealer had thus submitted false and misleading information in his return, which was accepted by the Department. Thus, the dealer concealed taxable purchase of ₹ 14.56 lakh and evaded the liability to pay tax of ₹ 1.82 lakh. Besides, interest of ₹ 1.71 lakh and penalty of ₹ 1.82 lakh was also leviable.

The case was reported to the Department/Government in August 2010, but reply has not been received (October 2011).

4.2.7. Evasion of tax by an unregistered dealer

An unregistered dealer imported taxable goods valued at ₹ 3.40 crore by utilising 'F' forms issued to him and evaded Tax of ₹ 42.53 lakh on which interest of ₹ 51.04 lakh and penalty of ₹ one lakh was leviable

Under Section 19 (1) (b) of the APGT Act, every dealer is required to apply for registration if the dealer's taxable turnover in any financial year exceeds ₹ five lakh. Further, under Rule 15 of the APGT Rules, 2005, an application for registration shall be made within a period of 30 days from the date of becoming liable to pay tax under the Act, failing which, under Section 87 (4) of the Act, he is liable to pay penalty of ₹ one lakh. In addition, the dealer, under Section 44 (2), is liable to pay interest upto 24 *per cent* per annum on the amount that remained unpaid for the entire period of default.

Section 8 (3) of the CST Act, 1956, provides that the registered dealer is entitled to effect interstate purchase of goods, specified in the certificate of registration which are intended for resale by him by utilising the prescribed forms.

It was noticed during test check of records of the Superintendent of Taxes, Zone-I, Naharlagun, in May 2010 that 11 'F' Forms were issued to a dealer registered under

the Central Sales Tax Act, for import of goods. The dealer neither applied for registration under the APGT Act nor did the Department initiate any action. On further scrutiny, it was noticed that the dealer imported butter valued at ₹ 3.40 crore during 2005-06 by utilising two 'F' forms from a dealer of Uttar Pradesh which escaped notice of the ST. Further, since under CST Act, goods can be imported which are intended for resale, butter imported by the dealer would have been re-sold. As the dealer was not registered under the State Taxation Act he did not submit any return along with payment of admitted tax on the aforesaid import of butter. This resulted in evasion of tax of ₹ 42.53 lakh. Besides, interest of ₹ 51.04 lakh and penalty of ₹ one lakh was also leviable.

The case was reported to the Department/Government in August 2010, but no reply has been received (October 2011).

4.2.8. Loss of Revenue due to non-completion of Assessment

There was loss of revenue of ₹ 85.72 lakh due to non-completion of assessment on best judgement basis

Under Section 16 (5) of the APST Act, if any dealer fails to furnish returns along with payment of admitted tax as per return or fails to comply with the requirement of notice served on him, the Assessing Officer (AO) may assess the dealer on best judgement basis. Further, as per Section 22 (1) (e), a dealer who fails to furnish without reasonable cause any return in the prescribed manner within the prescribed time, is liable to pay, in addition to the tax and interest thereon, a penalty not exceeding one half of the assessed tax.

It was noticed during test check of records of the ST, Khonsa, in December 2010 that a dealer registered under the APST Act neither submitted returns nor paid any tax since April 2002. The ST did not initiate any action to complete the assessment on best judgement basis as per the provisions of the Act.

On cross verification of the records of the aforesaid dealer with one Assam-based dealer registered in Dibrugarh, it was found that the dealer imported cement valued at ₹ 3.23 crore during 2002-03 by utilising seven 'C' Forms issued to him. Since the dealer did not file any return during the year, he concealed a turnover of at least ₹ 3.23 crore and evaded tax of ₹ 25.82 lakh. Besides, interest of ₹ 46.99 lakh for default in payment of tax and penalty of ₹ 12.91 lakh for evasion of tax by non-submission of returns, was also leviable. The Department did not assess the dealer on best-judgement basis and raise the demand as provided in APST Act. Failure on the part of the ST to assess the dealer resulted in loss of revenue of ₹ 85.72 lakh as the dealer discontinued his business and did not apply for registration under the APGT Act.

The case was reported to the Department/Government in May 2011, but reply has not been received. (October 2011).

4.2.9. Unchecked misuse of Declaration Forms by fraudulent dealers

Three dealers imported taxable goods of ₹ 2.68 crore and fraudulently evaded tax of at least ₹ 63.18 lakh (including interest and penalty)

Under Section 90 (7) of the APGT Act, if a person willfully attempts to evade payment of tax, he is liable for rigorous imprisonment for a term of not less than six months but not exceeding three years and with a fine. The Commissioner under Section 94 (1) may accept by way of composition of offence a sum not exceeding ₹ 5,000 or double the amount of tax evaded, whichever is greater.

4.2.9 (i): It was noticed during test check of records of the Superintendent of Taxes, Zone-II, Itanagar, in April-May 2010 that a dealer was registered under both the APGT and CST Acts and 'F' Forms were issued to the dealer for import of goods into the State. The dealer had not furnished the Utilisation Statement of the forms till date (October 2011).

On cross verification of the records of the aforesaid dealer with one Assam-based dealer it was found that the 'F' Forms issued to him were utilised in the name of an unregistered dealer and taxable goods valued at ₹ 1.85 crore were imported between 2006-07 and 2007-08. In order to evade the liability to pay tax, the dealer imported the goods in the name of an unregistered dealer and concealed the entire turnover of ₹ 1.85 crore. Such misutilisation of 'F' Forms resulted in evasion of tax of at least ₹ 7.40 lakh. Besides, interest of ₹ 4.30 lakh and penalty of ₹ 14.80 lakh by way of composition of offence was also leviable.

4.2.9 (ii): In another case, information was received from the Audit Office, Assam, Guwahati, regarding purchase of taxable goods valued at ₹ 82.65 lakh by two dealers under the jurisdiction of ST, Tezu, from two Assam-based dealers during 2006-07 and 2007-08 by utilising five declarations in form 'C'.

On cross verification of this information with the records of ST, Tezu, in February 2011 it was found that the aforesaid two purchasing dealers were not registered there. On further scrutiny of the 'C' Form Issue Register, it was noticed that the 'C' Forms were issued to four different dealers registered under the jurisdiction of ST, Tezu. Thus, these four registered dealers misused the declaration forms and imported taxable goods valued at ₹ 82.65 lakh in the name of unregistered dealers. This resulted in evasion of tax of ₹ 10.33 lakh and interest of ₹ 5.69 lakh. Besides, penalty of ₹ 20.66 lakh by way of composition of offence is also leviable.

The cases were reported to the Department/Government between August 2010 and May 2011, but replies have not been received (October 2011).

4.2.10. Non-realisation of Entry Tax by DTOs

Failure to collect Entry Tax from 63 vehicles before registration resulted in non-realisation of tax of ₹ 34.81 lakh.

Under the provisions of the APGT Act, Entry Tax at the rate of 12.5 *per cent* shall be paid on the import of a motor vehicle which is not registered in Arunachal Pradesh, at the time of registration of the motor vehicle. In October 2005, the Commissioner of Taxes, Arunachal Pradesh, requested the Deputy Commissioners (DCs) of the respective Districts to ensure payment of the Entry Tax prior to the registration of the imported vehicles.

On cross verification of the records of the District Transport Officers (DTO), Khonsa and Roing with those of the Superintendent of Taxes, Khonsa and Roing between December 2010 and February 2011, it was found that 63 new motor vehicles valued at ₹ 2.78 crore, imported from outside the State were registered between April 2005 and January 2011, without collection of Entry Tax amounting to ₹ 34.81 lakh.

The case was reported to the Department/Government in May 2011, but reply has not been received (October 2011).

4.2.11. Non-levy of penalty

Penalty of ₹ five lakh was not levied and realised from 17 dealers who did not furnish returns within the due date

Under the APGT Act, if a registered dealer fails to furnish any return by the due date, he is liable to pay a Penalty of ₹ 100 per day for the default, subject to a maximum of ₹ 10,000.

While auditing the Superintendent of Taxes, Pasighat, in February 2011, it was noticed from the assessment records that 17 dealers did not furnish their returns for the period between April 2005 and March 2010. For non-submission of the returns, the dealers were liable to pay penalty of ₹ five lakh. The Assessing Officer, however, did not take any action to levy and realise the penalty. Thus, failure of the Department to monitor such cases resulted in non-levy of penalty of ₹ five lakh.

The cases were reported to the Department/Government in May 2011, but their reply is awaited (October 2011).

4.2.12. Non-realisation of tax due to evasion by unregistered dealers and non-deduction of tax at source by Government Departments

Non-registration of nine dealers by the Assessing Officers led to evasion of tax of ₹ 23.63 lakh and penalty of ₹ nine lakh.

Under Section 19 of the APGT Act, a dealer who is liable to pay tax shall not carry on business unless he has been registered and possesses a certificate of registration. As per Section 47 A (2) of the APGT Act, deduction of tax at source (TDS) is required to be done for sale or supply of taxable goods to Government failing which penalty not exceeding twice the tax deductible was to be paid. Further, under Section 87 (4) of the Act *ibid*, if any unregistered dealer carries on business of taxable goods, he is liable to pay penalty not exceeding ₹ one lakh.

On cross verification of the registration records of the Superintendent of Taxes, Zone-I, Naharlagun, and Zone-II, Itanagar, with those of two Departments² of the State Government between April and May 2010, it was noticed that nine unregistered dealers supplied taxable goods like medicines, medical equipment and machine parts valued at ₹ 2.26 crore between September 2007 and June 2008. The dealers had neither applied for registration nor were they registered by the Assessing Officers. Tax was also not deducted by the purchasing Government Departments at the time of making payment. This resulted in evasion of tax of ₹ 23.63 lakh. Besides, penalty of ₹ nine lakh was also leviable.

The Departments were also liable to pay upto ₹ 47.26 lakh towards penalty for non-deduction of tax at source as provided in the Act.

The cases were reported to the Department/Government in August 2010, replies are awaited (October 2011).

TRANSPORT DEPARTMENT

4.2.13. Short-realisation of Composite Fee due to irregular grant of Temporary Permits

Irregular issue of Temporary Permits resulted in short-realisation of Composite Fee of ₹ 7.20 lakh

Under the provisions of the Motor Vehicles (MV) Act, 1988, the State Transport Authority (STA) may grant Temporary Permits to meet a particular need to be effective for a limited period which shall not, in any case, exceed four months. In circumstances of exceptional nature, the reasons for which should be recorded in writing, the Temporary Permit may exceed the period of four months but should not exceed one year. As provided under Section 96 (2) (vii), the Transport Department, in

² Mission Director (NRHM), Director of Health Services, Naharlagun, and Executive Engineer, PWD, Capital Division – A.

its notification of July 2000, had fixed the rate of Composite Fee for trucks with regular permits at ₹ 5,000 per annum and for trucks plying with temporary permits at ₹ 2,000 per annum.

On test check of the records of the State Transport Authority (STA), Naharlagun in April 2011, it was noticed that in 240 cases, Temporary Permits were granted for a period of one year each on different dates between April 2005 and March 2011 on realisation of ₹ 2,000 per annum, without recording any reason for exceeding the time limit. In respect of the aforesaid cases, regular permits were to be issued and Composite Fee of ₹ 5,000 realised in each case. Thus, due to irregular grant of Temporary Permits, there was short-realisation of Composite Fee of ₹ 7.20 lakh³.

The case was reported to the Department/Government in July 2011, but reply has not been received (October 2011).

4.2.14. Non-levy of Fines

Failure to initiate action against 180 owners of transport vehicles plying without permits led to non-levy of minimum fine of ₹ 3.60 lakh
--

Under Section 192 A of the MV Act, 1988, (as amended in 1994), no owner of a motor vehicle shall use or permit the use of the vehicle as a transport vehicle in any public place unless a permit is granted or countersigned by the prescribed authority. Whoever drives or causes or allows a motor vehicle to be used as a public carrier without a permit shall be punishable for the first and subsequent offences with a minimum fine of ₹ 2,000 and ₹ 5,000 respectively. Further, under Section 15 of the Arunachal Pradesh Motor Vehicles Taxation Act, the owner of a motor vehicle may apply to the Taxation Officer by surrendering his registration certificate to the effect that his vehicle shall not be used as a transport vehicle in any public place for a particular period.

On test check of the records of the STA, Naharlagun, in April 2011, it was noticed from the Permit Registers that the validity period of 180 permits granted to owners of transport vehicles expired on different dates between February 2005 and March 2011. The owners neither got the permits renewed before their expiry nor submitted any application to the Taxation Officer to the effect that their vehicles would not be used as transport vehicles after expiry of the permits. No action was initiated by the STA to issue Demand Notices for collection of penalty from the defaulting vehicle owners. Thus, failure on the part of the STA to initiate appropriate action resulted in non-levy of fine to the tune of ₹ 3.60 lakh.

The case was reported to the Department/Government in July 2011, but reply has not been received (October 2011).

³ Being the differential composite fee of ₹ 3000 p.a.in respect of 240 vehicles.

4.2.15. Unauthorised use of motor vehicles without payment of tax

Non-realisation of motor vehicles tax of ₹ 9.00 lakh and penalty of ₹ 2.25 lakh from owners of 52 commercial vehicles led to unauthorised use of motor vehicles without payment of tax

Under Section 4 of the Arunachal Pradesh Motor Vehicles Taxation Act, 1984, the road tax at the prescribed rate shall be levied and collected annually/quarterly/monthly, as the case may be, on all motor vehicles used or kept for use in the State, unless an owner of such vehicle is exempted from tax on the basis of his application to the effect that the vehicle would not be used in any public place and the Registration Certificate is surrendered. Section 13 of the Act further provides that in the event of failure to pay the tax by any owner, the Taxation Officer shall, in addition to the tax due, levy and collect penalty not exceeding one-fourth of the annual tax. Further, under Section 18 (b) of the Act, any police officer not below the rank of Sub-Inspector or any other prescribed officer, can stop such vehicle from plying for the purpose of satisfying himself that due tax in respect of such vehicle has been paid.

On test check of the combined registers⁴ of the District Transport Officer (DTO), Bomdila, in May 2010, it was seen that 52 owners of commercial vehicles neither paid road tax amounting to ₹ nine lakh for different periods falling between February 2007 and March 2010, nor obtained any exemption by surrendering their Registration Certificates. The maximum penalty of ₹ 2.25 lakh leviable for the default in payment of the aforesaid tax was neither levied nor collected. No action was initiated at the level of the Deputy Commissioner to issue Demand Notices for collection of the tax and penalty from the defaulting vehicle owners. The vehicles were also not stopped from plying by the authorised office of the Department. Failure on the part of the authorities to initiate appropriate and timely action resulted in unauthorised use of these vehicles and non-realisation of revenue of ₹ 11.25 lakh⁵.

On this being pointed out in July 2010, the DTO, Bomdila, stated in September 2010 that Demand Notices were issued to the vehicle owners for payment of tax. No report on recovery has, however, been received (September 2011).

The cases were reported to the Department/Government in July 2010, but reply has not been received (October 2011).

⁴ Containing registration and road tax payment details of the vehicles.

⁵ Road tax ₹ 9.00 lakh + penalty ₹ 2.25 lakh

STATE EXCISE DEPARTMENT

4.2.16. Non-realisation of Renewal Fees and Penalty

Failure of the Department to initiate action against nine retail licensees for non-renewal of licences led to non-realisation of Renewal Fees of ₹ 9.20 lakh and Penalty of ₹ 3.07 lakh

Under the provisions of the Arunachal Pradesh Excise Rules 1994, a licence granted to a retail vendor of IMFL shall expire after one year from the date of issue. Further, the Excise Department had instructed in March 1996, that if a retail vendor fails to get the licence renewed on payment of a renewal fee of ₹ 40,000 within the stipulated validity of licence, he shall be liable to pay, in addition to the renewal fee, a penalty of ₹ 50 per day for the period of default.

On test check of the Licence Fee Register of the Superintendent of Excise, Khonsa, in December 2010, it was noticed that nine retail licences expired during the period from May 2006 to November 2010. The licensees however, did not get their licences renewed and continued with their business.

The SE also did not take any action to review the Licence Fee Register to detect the defaulters and realise the prescribed Renewal Fee of ₹ 9.20 lakh and penalty of ₹ 3.07 lakh⁶. Laxity on the part of SE resulted in non-realisation of revenue of ₹ 12.27 lakh.

The cases were reported to the Department/Government in March 2011 but reply has not been received (October 2011).

4.2.17. Non-realisation of Security Deposit

Security Deposit of ₹ 5.50 lakh was not realised from 22 retail licensees

The Excise Department, in its notification of 23 March 2004, fixed with immediate effect, a security of ₹ 25,000 for retail licences of Indian Made Foreign Liquor (IMFL) and country liquor. Accordingly, the Commissioner of Excise instructed in June 2004, all Deputy Commissioners in the State in June 2004 to realise the prescribed security deposit at the time of renewal of licences.

Test check of the records of the Superintendent of Excise, Khonsa, in December 2010, revealed that 22 retail licence holders who were issued licences prior to the notification, had not deposited the Security Deposit at the time of renewal of their licences. No action was initiated by the Department despite the specific instructions of the Commissioner of Excise. This resulted in non-realisation of Security Deposit of ₹ 5.50 lakh.

The cases were reported to the Department/Government in March 2011 but reply has not been received (October 2011).

⁶ Calculated upto 10 December 2010

4.2.18. Non-realisation of Establishment Charges**Establishment Charges of ₹ 10.67 lakh in respect of excise officials posted in different Bonded Warehouses were not realised**

Rule 74 (a) of the Arunachal Pradesh Excise Rules, 1994, lays down that the Collector shall employ such officers and establishment, as the Excise Commissioner may direct, to the charge of a private warehouse. The licensee of the warehouse shall pay to the Government, in advance, a fee in cash equivalent to the establishment cost of such officers for three months, as the Excise Commissioner may fix. The cost of the establishment shall include the pay and allowances as well as the leave salary and pension contributions.

Test check of the Register of Establishment Cost of the Excise Commissioner in June 2011, revealed that three excise officials were posted in three different private warehouses at Banderdewa. The Establishment Charges as calculated by us and verified by the Department for these three officials for the period from July 2009 to March 2011 were ₹ 10.67 lakh. However, the private warehouses did not make any payment towards Establishment Charges for the aforesaid period. The Department neither worked out the Establishment Charges nor raised any demand for payment of the same. Thus failure of the Department to raise demand led to non-realisation of Establishment Charges of ₹ 10.67 lakh.

The cases were reported to the Department/Government in September 2011 but reply has not been received (October 2011)

LAND MANAGEMENT DEPARTMENT**4.2.19. Short-realisation of Lease Rent****Short realisation of Lease Rent of ₹ 3.73 crore, besides interest of ₹ 74.90 lakh**

Under the Arunachal Pradesh Allotment of Government Land Rules, 1988, every allottee/lessee shall pay lease rent annually to the Government at the rate fixed by the Government from time to time. Further, if any lessee fails to pay the full amount of lease rent he shall be liable to pay interest at the rate of 10 *per cent* and 15 *per cent* per annum on the unpaid amount of lease rent payable for the land allotted for residential and commercial purposes respectively.

On test check of the revenue returns of the Director of Land Management, Itanagar, in July 2011, it was noticed that 131.40 lakh square metres and 1.17 lakh square metres of land were under occupation of different allottees for residential and commercial purposes respectively in two Districts⁷ from April 2009 to March 2011. The annual lease rent payable by the allottees during the aforesaid period worked out to ₹ 4.05 crore, against which only ₹ 31.84 lakh was realised by the concerned Deputy

⁷ Lower Dibang Valley and Upper Dibang Valley Districts

Commissioners. The Department did not raise any demand or serve any notice to the occupants for payment of lease rent and interest. This resulted in short realisation of lease rent of ₹ 3.73 crore. Besides, interest of ₹ 74.90 lakh for non-payment of the balance lease rent was also leviable.

The cases were reported to the Department/Government in September 2011 but reply has not been received (October 2011).