

## CHAPTER-3 State Excise

### 3.1 Tax administration

The Financial Commissioner Taxation and Principal Secretary to the Government of Punjab is overall incharge of the Excise and Taxation Department. Subject to overall control and superintendence of the Excise and Taxation Commissioner (ETC), Punjab, the administration of the Punjab Excise Act, 1914 relating to the import, export, transport, manufacture, sale and possession of intoxicating liquor and of intoxicating drugs is carried out by Additional Excise and Taxation Commissioner at Patiala and six Deputy Excise and Taxation Commissioners (DETCs) at Amritsar, Faridkot, Ferozepur, Jalandhar, Ludhiana and Patiala who arrange draw of vends in their respective areas and exercise the powers of collectors for recovery of excise revenue. Twenty four Assistant Excise and Taxation Commissioners (AETCs), assisted by Excise and Taxation Officers (ETOs) and other allied staff monitor the work at the district level.

### 3.2 Analysis of budget

Scrutiny of Budget records of the Department revealed that the actual receipts were ₹ 2754.60 crore as against the revised Budget Estimates of ₹ 3250 crore for the year 2011-12.

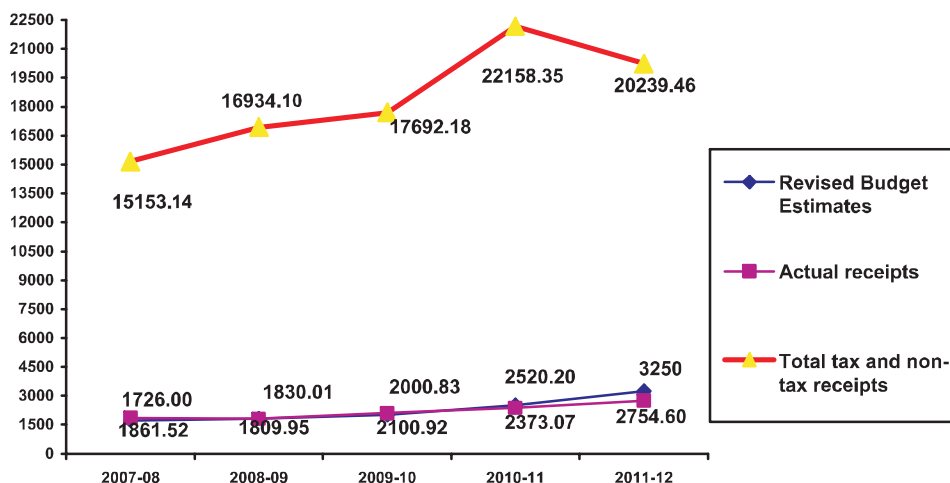
### 3.3 Trend of receipts

Actual receipts from State Excise in the State during the last five years 2007-08 to 2011-12 along with the total tax/non-tax receipts during the same period is exhibited in the following table:

(₹ in crore)

| Year    | Revised Budget estimates | Actual receipts | Variation excess (+)/shortfall (-) | Percentage of variation | Total tax and non-tax receipts of the State | Percentage of actual receipts vis-à-vis total tax and non-tax receipts |
|---------|--------------------------|-----------------|------------------------------------|-------------------------|---|--|
| 2007-08 | 1,726.00                 | 1,861.52        | (+) 135.52                         | (+) 7.85                | 15,153.14                                   | 12.28  |
| 2008-09 | 1,830.01                 | 1,809.95        | (-) 20.06                          | (-) 1.10                | 16,934.10                                   | 10.69  |
| 2009-10 | 2,000.83                 | 2,100.92        | (+) 100.09                         | (+) 5.00                | 17,692.18                                   | 11.87  |
| 2010-11 | 2,520.20                 | 2,373.07        | (-) 147.13                         | (-) 5.83                | 22,158.35                                   | 10.71  |
| 2011-12 | <b>3,250.00</b>          | <b>2,754.60</b> | <b>(-) 495.40</b>                  | <b>(-) 15.24</b>        | <b>20,239.46</b>                            | <b>13.61</b>   |

The trend of actual receipts vis-a-vis budget estimates during 2007-08 to 2011-12 is depicted in the succeeding graph.



### 3.4 Analysis of arrears of revenue

The following table depicts the position of arrears of revenue during the period 2007-08 to 2011-12.

(₹ in crore)

| Year    | Opening balance of arrears | Closing balance of arrears |
|---------|----------------------------|----------------------------|
| 2007-08 | 11.65                      | 11.69                      |
| 2008-09 | 11.69                      | 11.60                      |
| 2009-10 | 11.60                      | 11.50                      |
| 2010-11 | 11.50                      | 14.87                      |
| 2011-12 | 14.23 <sup>1</sup>         | 14.21                      |

The arrears of revenue as on 31 March 2012 was ₹ 14.21 crore, out of which ₹ 11.46 crore were outstanding for more than five years. Demands of ₹ 1.98 crore were covered by recovery certificates; recovery of ₹ 1.27 crore was stayed by the High Court/other judicial and departmental authorities; demands amounting to ₹ 4.63 crore were likely to be written off; ₹ 1.31 crore were being recovered in installments; recovery of ₹ 7.19 lakh was held up due to rectification and the balance of ₹ 4.95 crore was at different stages of action.

### 3.5 Cost of collection

The gross collection, expenditure on collection and the percentage of such expenditure to gross collection in respect of the major revenue receipts, during the years 2007-08 to 2011-12 along with the relevant all India average percentage of expenditure on collection are mentioned below:

<sup>1</sup> As stated by the Department, the difference between closing balance of 2010-11 and opening balance of 2011-12 is due to inadvertant inclusion of VAT/ET in to the arrear of State Excise. The figures have now been reconciled to opening balance of ₹ 14.23 crore for the year 2011-12.

(₹ in crore)

| Year    | Collection | Expenditure on Collection | Percentage of expenditure to gross collection | All-India average percentage over the previous year |
|---------|------------|---------------------------|---|---|
| 2007-08 | 1,861.52   | 13.27                     | 0.71  | 3.30  |
| 2008-09 | 1,809.95   | 14.57                     | 0.80  | 3.27  |
| 2009-10 | 2,100.92   | 17.23                     | 0.82  | 2.77  |
| 2010-11 | 2,373.07   | 20.55                     | 0.86  | 3.64  |
| 2011-12 | 2,754.60   | 30.16                     | 1.09  | 3.05  |

The cost of collection increased by 0.23 per cent in 2011-12 as compared to 2010-11. The percentage of expenditure to gross collection increased due to revision of pay scales of the employees and payment of arrears.

### 3.6 Evasion of tax

The details of cases of evasion of tax detected by the Departments, cases finalised and the demand for additional tax raised at the end of each year during 2007-08 to 2011-12 as reported by the Departments are given below:

| Revenue Head | Year    | No. of cases pending at the beginning of the year | Cases detected during the year | Total | No. of cases in which assessment / investigation completed and Addl. Demand including penalty etc. raised |                  | No. of cases pending at the end of year |
|--------------|---------|---|--------------------------------|-------|---|------------------|---|
|              |         |   |                                |       | Cases   | Amount in crores |   |
| State Excise | 2007-08 | 01  | --                             | -     | --  | --               | 01                                      |
|              | 2008-09 | 01  | --                             | 01    | 01  | 0.01             | --                                      |
|              | 2009-10 | --  | --                             | --    | --  | --               | --                                      |
|              | 2010-11 | 0   | 182                            | 182   | 159   | 1.45             | 23                                      |
|              | 2011-12 | 23  | 75                             | 98    | 98  | 0.10             | --                                      |

### 3.7 Refunds

The opening balance of refund cases, refund cases received, refunds allowed and the closing balance during the period of five years ending 2011-12 as reported by the Excise & Taxation Department are mentioned below:

(₹ in crore)

| Revenue Head | Year    | Cases Outstanding at the beginning of the year |        | Cases received during the year |        | Refunds made during the year |        | Balance outstanding at the end of the year |        |
|--------------|---------|--|--------|--------------------------------|--------|------------------------------|--------|--|--------|
|              |         | No. of cases                                   | Amount | No. of cases                   | Amount | No. of cases                 | Amount | No. of cases                               | Amount |
| State Excise | 2007-08 | 78   | 0.48   | 21                             | 9.61   | 15                           | 9.90   | 84   | 0.19   |
|              | 2008-09 | 84   | 0.19   | 61                             | 1.96   | 31                           | 1.76   | 114  | 0.39   |
|              | 2009-10 | 114  | 0.39   | 14                             | 0.48   | 18                           | 0.44   | 110  | 0.43   |
|              | 2010-11 | 110  | 0.43   | 28                             | 2.08   | 23                           | 2.09   | 115  | 0.42   |
|              | 2011-12 | 115  | 0.42   | 25                             | 0.09   | 12                           | 0.04   | 128  | 0.47   |

### 3.8 Impact of Audit Reports

#### 3.8.1 Revenue impact

During the last five years, Audit had pointed out loss of excise duty due to sub

normal yield of spirit from molasses/grains and other irregularities with revenue implication of ₹ 112.88 crore in 165 cases. Out of these, the Department/ Government had accepted ₹ 15.27 crore involved in 24 cases and recovered ₹ 4.56 crore in 16 cases. The details are shown in the following table:

(₹ in crore)

| Year                 | Number of units audited | Amount objected |               | Amount accepted |              | Amount recovered |             |
|----------------------|-------------------------|-----------------|---------------|-----------------|--------------|------------------|-------------|
|                      |                         | No. of cases    | Amount        | No. of cases    | Amount       | No. of cases     | Amount      |
| 2006-07 <sup>2</sup> | 44                      | 29              | 79.78         | 18              | 9.89         | 05               | 0.45        |
| 2007-08 <sup>3</sup> | 35                      | 07              | 8.53          | 05              | 5.11         | 04               | 1.69        |
| 2008-09              | 50                      | 22              | 13.28         | 01              | 0.27         | 01               | 1.04        |
| 2009-10              | 52                      | 14              | 2.80          | -               | -            | -                | -           |
| 2010-11              | 36                      | 93              | 8.49          | -               | -            | 06               | 1.38        |
| <b>Total</b>         | <b>217</b>              | <b>165</b>      | <b>112.88</b> | <b>24</b>       | <b>15.27</b> | <b>16</b>        | <b>4.56</b> |

**The Government may consider issuing of instructions for the recovery of the revenue at least in the accepted cases on priority.**

### 3.9 Working of internal audit wing

Internal audit is intended to examine and evaluate the level of compliance with the Rules and procedures so as to provide a reasonable assurance on the adequacy of the internal control. Effective internal audit system both in the manual as well as computerised environments are a pre-requisite for the efficient functioning of any Department. However, no internal audit wing exists in Department.

### 3.10 Results of audit

Test check of the records of 46 units relating to State Excise receipts revealed underassessment of tax and other irregularities involving ₹ 297.45 crore in 105 cases which broadly fall under the following categories:

(₹ in crore)

| Sr. No. | Categories   | No. of cases | Amount        |
|---------|--|--------------|---------------|
| 1.      | Non/short deposit of licence fee                             | 29           | 0.31          |
| 2.      | Revenue loss due to sub normal yield of spirit from molasses | 08           | 32.13         |
| 3.      | Other irregularities   | 68           | 265.01        |
|         | <b>Total</b>   | <b>105</b>   | <b>297.45</b> |

During the year 2011-12, the Department accepted ₹ 0.14 crore involved in two cases and recovered ₹ 4.48 crore in five cases pertaining to the audit finding of previous years.

An illustrative case involving ₹ 0.08 crore is discussed in the succeeding paragraph.

<sup>2</sup> Outstanding paragraphs pertaining to Audit Reports for the years 2006-07 and 2007-08 had been transferred (January 2012) by the Public Accounts Committee to the concerned departments with direction to take further action at their own level.

<sup>3</sup> As sr. no. 1

### 3.11 Audit observations

Scrutiny of the records of State Excise Department revealed cases of non-observance of the provisions of the Rules/Excise policy resulting in short recovery of license fee (₹ 8.09 lakh) of Distillery License in form D-2 as mentioned in the succeeding paragraph of this chapter. This is an illustrative case based on a test check carried out in audit and this remained undetected till an audit was conducted. The Government needs to improve the internal control system to avoid occurrence of such short recovery in future.

### 3.12 Non-observance of provisions of the Acts/Rules

The Punjab Distillery Rules 1932 provide for:-

- (i) yield of spirit at prescribed norms;
- (ii) recovery of establishment charge; and
- (iii) recovery of renewal fee of various licenses.

The Department did not observe some of the provisions of the Act in the cases mentioned in the paragraph 3.12.1 which resulted in short realisation of renewal fee of ₹ 8.09 lakh as per the Excise Policy for 2011-12.

#### 3.12.1 Short Deposit of Renewal fee of Distillery License (D-2)

The Punjab Distillery Rules, 1932 read with Excise Policy for the year 2011-12 provides that an application for the renewal of D-2 license shall be made by the licensee to the Excise Commissioner so as to reach him at least 90 days before the expiry of old license. The renewal fee is also required to be deposited likewise. The renewal fee for D-2 license was enhanced to ₹ 20 lakh in excise policy for the year 2011-12 from ₹ 10 lakh prescribed for the year 2010-11.

Audit observed (March 2012) from the records relating to the renewal of the licenses in the offices of Excise & Taxation Officers, A.B. Sugars Ltd. Randhawa, Dasuya and Khasa Distillery, Distt. Amritsar for the year 2009-10 and 2010-11, that the Licences in D-2 of these distilleries were renewed for the period from 04.08.2010 to 03.08.2011 and from 1<sup>st</sup> July to 31 July 2011 respectively. Since the licenses of these distilleries were renewed for the broken period for the year 2010-11 and 2011-12, the licensees were required to deposit the licence fee of ₹ 28.09 lakh i.e. proportionately with reference to amount of license fees fixed for financial year 2010-11 and 2011-12 against which licence fee of ₹ 20 lakh only was deposited by them. This has resulted in short deposit of renewal fee amounting to ₹ 8.09 lakh.

When this was pointed out in audit (March 2012), the Department accepted the audit objection and recovered the deficient renewal fee of ₹ 6.76 lakh. The balance of ₹ 1.33 lakh is still to be recovered.

Audit reported the matter to the Department and the Government (May 2012); their replies are awaited (December 2012).