

CHAPTER-V Other Tax/Non-tax Receipts

5.1 Tax administration

This chapter consists of receipts from State excise, taxes on motor vehicles and mining activities. The tax/revenue administration is governed by Acts and Rules framed separately for each revenue receipt.

5.2 Results of audit

In 2013-14, test check of records of 18 units relating to excise, 51 units relating to taxes on motor vehicles, one unit relating to electricity tax and 14 units relating to mineral receipts showed non/short realisation of revenue and other irregularities involving ₹ 166.29 crore in 229 cases, which fall under the categories given in **Table 5.1**:

Table 5.1

(₹ in crore)

Sl. No	Category	Number of paragraphs	Amount
	State Excise		
1.	Non/short levy of licence fee on RS-2 licence	03	1.60
2.	Non levy of penalty for short lifting of IML	04	2.28
3.	Non-collection of stamp duty on renewal/grant of licence	39	7.42
4.	Other irregularities	24	1.88
	Total	70	13.18
	Taxes on motor vehicles		
1.	Non/short levy of Life Time Tax in respect of construction equipment vehicles.	29	2.60
2.	Non/short levy Life Time Tax in respect of non-transport vehicles	36	1.37
3.	Other irregularities	45	17.40
	Total	110	21.37
	Electricity Tax		
1.	Non-payment/ Non-demand of Electricity tax	02	0.27
2.	Short levy/ payment of Electricity tax	03	0.09
	Total	05	0.36
	Mineral receipts		
1.	Non/short levy of royalty/dead rent	13	3.79
2.	Non/short collection of Environment Protection Fee	08	10.03
3.	Non/short levy of penalty for transportation of minerals without obtaining Mineral Despatch Permits	08	99.12
4.	Other irregularities	15	18.44
	Total	44	131.38
	Grand Total	229	166.29

During the course of the year, the Departments concerned had accepted underassessment and other deficiencies involving ₹ 42.05 crore in 109 cases which were pointed out in earlier years. An amount of ₹ 10.67 crore was recovered in 57 cases during the year 2013-14. A few illustrative cases involving ₹ 103.53 crore are discussed in the following paragraphs.

State Excise

5.3 Short Lifting of IML

According to rule 14(2) of the Karnataka Excise (Sale of Indian and Foreign Liquors) Rules, 1968, “the licensees holding retail shop licences in Form CL-2 and Bar licences in Form CL-9 shall lift for sale from a distributor licensee, the minimum quantity of liquor fixed per month for the shop. The minimum limit is based on the license fee prescribed for each type of licence, overheads, other expenses incurred, location of the shop, area of operation, sale of liquor in the previous years and similar factors to ensure that illicit liquor is not obtained by the licensees and sold in the shop and to ensure that no attempt is made to undersell the liquor and thereby wholesome liquor obtained only from authorised sources is sold to the customers. In case, the licensee fails to lift the minimum quantity of liquor fixed for the month, he shall be liable to pay ₹ 100 for every bulk litre on the quantity short lifted”.

Test check of the consumption registers maintained by seven¹ Inspectors of Excise (IOE) under Deputy Commissioners of Excise (DCOE)- Bangalore (East) and Bangalore (West) during January 2014 revealed that 29 licensees (CL-9) had short lifted 2,14,153 bulk litres of IML for the period from 2008-09 to 2012-13. Though these licensees had violated the minimum limits prescribed for lifting of IML, no action was taken by the Department to levy penalty for short lifting of IML as prescribed under the Rules. The non levy of penalty worked out to ₹ 2.14 crore.

After Audit pointed out these cases to the IOEs concerned, IOEs Whitefield and K.R.Puram stated (January 2014) that notices will be issued to six licensees in their jurisdiction. The matter in respect of the remaining 23 licensees under five IOEs was stated to be under examination.

The matter was reported to the Department and Government in March 2014 and June 2014 respectively. Their replies were awaited (October 2014).

¹ IOEs, Banashankari, Gandhinagar, K.R. Puram, Munireddy Palya, Rajmahal Vilas, RPC Layout and Whitefield,

Taxes on Motor Vehicles

5.4 Non/Short levy of Life Time Tax on construction equipment vehicles

As per the Karnataka Motor Vehicles Taxation (KMVT) Act 1957, quarterly tax was payable up to 31 March 2010 on construction equipment vehicles. With effect from 1 April 2010, these vehicles are liable for Life Time Tax (LTT), which is payable at the rate of 6 *per cent* of the cost of the vehicle, subject to depreciation. Further, cess at the rate of 10 *per cent* with effect from 1 April 2010 and 11 *per cent* with effect from 1 April 2011 of the tax levied is also applicable. The LTT levied was permitted to be paid in two equal instalments, half the amount to be paid at the time of tax due or during registration and the balance amount of tax to be paid within six months after the date of payment of the first instalment. Non-payment of tax constitutes an offence and the KMVT Rules 1957 provide payment of 1 *per cent* of the tax payable for each defaulting month, as penalty.

As per the KMVT Act, the cost of the imported vehicle for the purpose of LTT is 'the value of the vehicle as endorsed in the Bill of Entry under the Customs Act, together with custom duty, freight charges and other taxes levied'.

On a test check of 'B'² Register and Registration files in 17³ Regional Transport Offices (RTOs) between April 2013 and February 2014, we noticed that LTT of ` 1.13 crore was either not levied or levied short in respect of 148 construction equipment vehicles. Penalty of ` 15.75 lakh was also leviable in these cases. The details are given below:

- In respect of 23 vehicles, the vehicle owners had not paid even the first instalment of LTT amounting to ` 28.25 lakh.
- In respect of 122 vehicles, the vehicle owners who had paid first instalment between October 2010 and September 2012 had failed to pay the second instalment (April 2013) despite the lapse of more than six months from the date of payment of first instalment. The total amount of second instalment of tax in these cases amounted to ` 83.63 lakh. As of 31 March 2013, age-wise delay in non-payment of second instalment is given in **Table 5.2**.

Table 5.2

Period of delay after the time limit due for payment	Number of vehicles	Amount of tax (in lakh)
1 month and up to 6 months	72	50.46
More than 6 months and up to 12 months	25	16.02
More than 12 months and up to 18 months	11	8.13
More than 18 months	14	9.02
Total	122	83.63

² The Register contains day-wise details of tax paid for registered vehicles.

³ RTOs - Bagalkot, Belgaum, Bidar, Chamarajanagar, Chitradurga, Hospet, Jamkhandi, Jnanabharathi, Karwar, Mandya, Mysore (East), Mysore (West), Nagamangala, Raichur, Tumkur, Yadgir, Yeshwanthpur.

No action was taken by the RTOs concerned to demand and collect the same.

- In respect of three imported construction equipment vehicles, for levy of LTT, cost of the vehicles was taken as ` 141.15 lakh against actual cost of ` 174.88 lakh specified in the Bills of Entry. This resulted in short levy of LTT by ` 1.54 lakh⁴.

These cases were pointed out to the RTOs concerned between April 2013 and February 2014, and brought to the notice of the Commissioner for Transport and Road Safety (February and May 2014). The Government/department reported recovery of ` 34.26 lakh including penalty in 40 cases and issued demand notices in 15 cases. Replies in the remaining 93 cases were awaited (October 2014).

5.5 Non levy of Life Time Tax on non-transport vehicles

Tax on cars and jeeps owned by Central Government employees, defence personnel, employees of public sector undertakings owned by Government of India including Nationalised banks, were taxed (up to 28 December 2011) on quarterly basis as per Part A⁵ of the Schedules to KMVT Act. With effect from 29 December 2011, LTT⁶ was levied on motor cars and jeeps purchased by these persons in the State of Karnataka as per Part A5 of the Schedule to the KMVT Act.

Non-payment of tax constitutes an offence and the KMVT Rules 1957 provide for payment of 1 *per cent* of the tax payable for each defaulting month, as penalty.

Test-check of records of six⁷ RTOs between June 2013 and November 2013 revealed that LTT of ` 29.80 lakh due in respect of 50 vehicles bought in the State by these employees was not paid. Instead quarterly tax is being paid on these vehicles. No action had been taken by the Department to raise demand and recover the taxes due. A sum of ` 3.92 lakh was required to be levied as penalty⁸ in these cases.

After this was brought to notice, the RTOs, Chamarajanagar, Mysore (West), Bidar and Karwar replied that demand notices were being issued and the cases would be taken to Demand, Collection and Balance (DCB) statement. RTOs, Bangalore (West) and Davanagere replied that demand notices had already been issued. However, no records were produced to Audit to verify issue of demand notices.

This was brought to the notice of the Commissioner for Transport and Road Safety (Commissioner) between June 2013 and December 2013 and again in March 2014. Recovery of taxes and penalty amounting to ` 12.66 lakh in 16 cases and issuance of demand notices in eight cases were reported (May 2014)

⁴ LTT leviable ₹ 11.64 lakh less levied ₹ 10.10 lakh

⁵ Part A of the Schedules to KMVT (Taxation) Act – Levy of quarterly tax on vehicles

⁶ Cess at the rate of 10 *per cent* with effect from 1.4.2010 and 11 *per cent* with effect from 1.4.2011 of the tax levied is also applicable

⁷ RTO – Bangalore (West), Bidar, Chamarajanagar, Davanagere, Karwar and Mysore (West)

⁸ Calculated up to March 2013.

by the office of the Commissioner and the same was endorsed by the Government. Reply in the remaining cases was awaited (October 2014).

Receipts from Mineral

5.6 Non levy of penalty for transportation of minor minerals without Mineral Dispatch Permit (MDP)

Rule 42 of the Karnataka Minor Mineral Concession (KMMC) Rules, 1994, envisages that no person shall transport or cause to be transported any minor mineral except under or in accordance with a Mineral Dispatch Permit (MDP) to be issued by Deputy Director(DD) or Senior Geologist (SG), Mines and Geology.

Further, as per Part-V Clause-4 of the quarry lease deed, the quarry lease holder will be liable for penalty at five times of royalty for transporting minor mineral without obtaining MDP.

During the test check of records in the offices of four⁹ DDs and two¹⁰ SGs between November 2013 and February 2014, we noticed that 83.37 lakh MT of building stone and 20,698 MT of Lime shell was transported by the lessees during the years 2011-12 and 2012-13. Out of this, only 17.15 lakh MT of building stone and 14,950 MT of Lime shell was transported after obtaining MDPs and the remaining 66.22 lakh MT of building stone and 5,748 MT of Lime shell was transported without obtaining MDPs.

We noticed that the offices concerned had not levied penalty as per the terms of the quarry lease deed for transporting of building stone and Lime shell without obtaining MDPs. The non-levy of penalty worked out to ` 99.51 crore.

When we pointed this out between (November 2013 and February 2014), DD-Belgaum and SG-Bidar, stated that Rule 42 of KMMC Rules, 1994, is not applicable in respect of non-specified minor mineral by virtue of Rule 31 of said Rules, which reads as “The provisions of Rules 6,7,8,19 (19A, 20) and Rules 35 to 41 shall mutatis mutandis apply to quarry leases granted or renewed under the Chapter-IV – Grant of quarry leases for Non-specified Minor Minerals”. Reply was not tenable as Rule 31 refers to the Rules relating to grant of quarrying leases and Rule 42 of KMMC Rules, 1994 is applicable to all minor minerals which clearly states that no minor mineral shall be transported except in accordance with MDP issued under this Rule by the competent authority. In the remaining cases, it was stated that the cases would be examined.

This was brought to the notice of the Department during December 2013 and April 2014 and referred to the Government in the month of July 2014. Their replies were awaited (October 2014).

⁹ Belgaum, Mangalore, Karwar, Ramanagara
¹⁰ Bidar,Udupi.

5.7 Short deduction of royalty due to incorrect adoption of rates of royalty

According to Rule 36 of the Karnataka Minor Mineral Concession (KMMC) Rules, 1994, the holder of a quarrying lease or licence, shall pay royalty on the minor mineral removed or consumed by the lease / licence holder or his agent, manager, employee or contractor at the rates specified in Schedule-II under the Rules. The rates under Schedule II were revised with effect from 23 June 2007 whereby rate of royalty on murrum, ordinary sand and building stone were revised from ` 5/-, ` 15/- and ` 25/- per metric tonne (MT) respectively to ` 10/-, ` 30/- and ` 30/- per MT respectively.

As per the circular instruction (December 2007) of Commerce and Industries Department, Government of Karnataka, in respect of works executed by the work executing departments like Public Works Department, the department should deduct royalty from the bills of the contractors, if they fail to produce proof of payment of royalty to the departments concerned.

During the test check of records of quarry leases of building stone in the office of Deputy Director (DD), Mines and Geology, Belgaum in December 2013, we noticed that M/s. Karnataka Road Development Corporation Limited (KRDCL) for whom a contractor, M/s. P.B.I. Construction Company, had executed a work¹¹ had submitted the running account bills of the contractor along with the details of payment of royalty deducted and remitted to Government account during 2010-11 and 2011-12. Audit scrutiny of the running account bills revealed that M/s KRDCL had deducted only ` 41.33 lakh (at pre-revised rate) against the deductible amount of ` 82.34 lakh (at revised rate) resulting in short levy of royalty of ` 41.01 lakh. The details are given in **Table 5.3** below:

Table 5.3

(` in lakh)

Minor Mineral	Quantity on which royalty deducted (in metric tonnes)	Royalty leviable at revised rates	Royalty deducted	Short levy of royalty
Murrum	2,03,507.57	20.35	10.18	10.17
Building Stone	2,05,144.37	61.54	30.77	30.77
Sand	1,508.70	0.45	0.38	0.07
		82.34	41.33	41.01

The Department had not detected the short levy of royalty even though the running account bills were submitted to it and hence no action had been taken to recover the royalty short levied.

On this being pointed out by Audit, DD, Belgaum stated (December 2013) that action would be taken to collect the royalty due.

¹¹ "Improvements to road from Peeranwadi upto Goa" for M/s. Karnataka Road Development Corporation Limited (KRDCL) during the years 2010-11 and 2011-12.

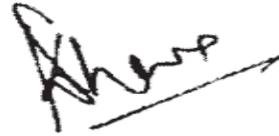
This was brought to the notice of the Department during November 2013 and January 2014. The issue was also raised with the Director of Mines and Geology in May 2014 and referred to Government in July 2014; their replies were awaited (October 2014).



Bengaluru
The

(L. Angam Chand Singh)
Principal Accountant General
(Economic and Revenue Sector Audit)
Karnataka

Countersigned



New Delhi
The

(Shashi Kant Sharma)
Comptroller and Auditor General of India