

Chapter VI
State Excise

CHAPTER-VI STATE EXCISE

6.1 Tax administration

The Secretary to the Government (Taxes) is the administrative head of the Excise Department at Government level. The Department is headed by the Excise Commissioner. The Department has been divided into three¹ zones which are headed by the Joint Excise Commissioners, South, Central and North zone. The divisions at the district level are under the Deputy Commissioners. Besides, Excise Inspectors under the control of the Deputy Commissioner of the respective districts are deputed to oversee collection of excise duties, license fee etc.

6.2 Internal audit

The Internal Audit Wing (IAW) in the State Excise Department is headed by the Joint Commissioner of Excise and is assisted by one Assistant Excise Commissioner, three superintendents, three excise inspectors and six preventive officers.

This wing conducts inspections in the 313 sub offices based on the questionnaire for inspection contained in the Excise Manual in accordance with the guidelines issued by the Finance (IAC) Department as well as Departmental instructions issued from time to time.

Out of the total units, 46 were audited. There were 70 IRs with 119 observations involving ₹ 109.82 crore outstanding at the end of the year. The Department has not prepared a separate internal audit manual.

6.3 Results of audit

In 2013-14, test check of the records of 25 units relating to excise duty, license fee receipts etc., showed non/short realisation of excise duty/license fee/interest/penalty and other irregularities involving ₹ 7.77 crore in 14 cases which fall under the following categories given in **Table - 6.1**.

Table – 6.1

Sl. No.	Categories	Number of cases	(₹ in lakh)
			Amount
1.	Non-levy of excise duty on transit wastage	1	1.76
2.	Short levy of enhanced license fee on FL3 licenses	2	740.00
3.	Short levy of enhanced fee on SP VI and SP VII licenses	2	7.46

¹ South zone (Alappuzha, Kollam, Kottayam, Pathanamthitta and Thiruvananthapuram), Central zone (Ernakulam, Idukki, Palakkad and Thrissur) and North zone (Kannur, Kasargod, Kozhikode, Malappuram and Wayanad)

			(₹ in lakh)
Sl. No.	Categories	Number of cases	Amount
4.	Short collection of rental on toddy shops	1	16.14
5.	Short collection of cost of establishment	3	10.82
6.	Others	5	0.73
	Total	14	776.91

During the course of the year, the Department accepted underassessment and other deficiencies involving ₹ 8.09 lakh in five cases which were pointed out. The Department realised an amount of ₹ 0.10 crore in eight cases during the year 2013-14 which were pointed out during previous years. A few illustrative cases involving ₹ 8.22 crore are discussed in the following paragraphs.

Compliance Audit observations

6.4 Short levy of enhanced license fee from FL-3 licensees

The differential FL-3 license fee was not collected from the licensees though the fee was enhanced during the year.

(Excise Commissionerate, Thiruvananthapuram)

As per Rule 13(3) of the Foreign Liquor Rules, 1953 FL-3 Hotel (Restaurant) licenses were issued to hotels which have obtained three star and above classification for one year on payment of the annual rent of ₹ 22 lakh. As per Rule 13 (15) in the case of enhancement of annual rent/fee, all licensees are liable to remit the difference between the amount of annual rent/fee already remitted and the enhanced rent/fee. Government through a notification² enhanced the annual rent of FL-3 licenses from ₹ 22 lakh to ₹ 23 lakh during 2012-13.

Scrutiny (February 2014) of the FL-3 license issue register for the year 2012-13 in the Office of the Commissioner of Excise, Thiruvananthapuram and the details of fee collected furnished by the 14 Excise Divisional Offices³, revealed that license fee at pre-revised rates for 2012-13 was collected from 740 FL-3 licensees in the State. Though, the annual license fee for 2012-13 was revised, the balance fee was not collected from these 740 licensees. This resulted in short levy of license fee of ₹ 7.40 crore as shown in **Appendix XII**.

When this was pointed out to Department (February 2014) and to Government (April 2014), the Government stated (June 2014) that enhancement of license fee has only prospective effect and Government have no intention to increase license fee retrospectively. The reply furnished is not acceptable as this was in contravention to Rule 13 of Foreign Liquor Rules, 1953. Further remarks have not been received (October 2014).

² GO(P) No. 60/2013/TD dated 30 March 2013

³ Alappuzha, Ernakulam, Idukki, Kannur, Kasargod, Kollam, Kottayam, Kozhikode, Malappuram, Palakkad, Pathanamthitta, Thiruvananthapuram, Thrissur and Wayanad.

6.5 Non-levy of fine due to incorrect computation of transit wastage of spirit

The wastage of ENA was allowed in excess due to incorrect computation of the wastage on the volume in bulk litres without converting it into proof litres based on the strength.

(Excise offices in five distilleries⁴)

Rule 7 (5) of the Kerala Foreign Liquor (Compounding, Blending & Bottling) Rules, 1975 read with Rule 55 of the Kerala Distillery and Warehouse Rules, 1968, specifies allowance for wastage in the case of spirits allowed to be imported. In the case of spirits obtained by the distilleries/blending units in the State, the licensee shall pay duty at the rate⁵ of ₹ 20 per proof litre⁶ (PL) for excess wastage where such losses could not be accounted for the satisfaction of the Deputy Commissioner of Excise. As per Rule 47 A (4) (b) of the Kerala Distillery and Warehouse Rules 1968, all consignments of extra neutral alcohol (ENA) obtained shall be verified by volume and strength jointly by officer-in-Charge of the distillery and licensee and the net quantity received shall be taken into account. As per Rule 11 of the Kerala Rectified Spirit Rules, 1972 a fine at the rates of duty applicable to rectified spirit shall be levied on quantity of spirit wasted in excess of such limits.

Scrutiny of the consignment registers on ENA for the year 2012-13 maintained in five distilleries revealed that the volume and strength of each consignment of spirit received in distillery was less than the volume and strength recorded at the exporting unit. The Department computed the wastage only on the basis of volume in bulk litres without considering the volume in proof litres based on the strength of the spirit. The incorrect computation of the wastage resulted in allowing excess wastage of 1.12 lakh PL and non-levy of duty of ₹ 22.46 lakh as given in **Table - 6.2**.

⁴ United Distilleries Ltd., Amruth Distilleries Ltd., United Spirits Ltd., Empee Distilleries Ltd., Kerala Alcoholic Products Ltd.

⁵ GO(P) No. 97/2010/TD dated 3.4.2010 .

⁶ Spirit having same alcohol content as one litre of 'proof spirit', ie. a mixture of alcohol and water with alcohol 57.06 per cent by volume at 60° F.

Table - 6.2

Non-levy of fine due to allowance of excess wastage

Name of Distillery	Wastage allowed in excess (PL)	Non levy of fine @ ₹ 20 per PL (₹)
1. United Distilleries Ltd.	7,090	1,41,800
2. Amruth Distilleries Ltd.	19,967	3,99,340
3. United Spirits Ltd.	60,612	12,12,240
4. Empee Distilleries Ltd.	15,818	3,16,360
5. Kerala Alcoholics Products Ltd.	8,825	1,76,500
	1,12,312	22,46,240

When the cases were reported (between February and March 2014), officers concerned replied that the cases would be examined and reply furnished. Further report has not been received (October 2014).

The cases were reported to Government in April 2014; their reply has not been received (October 2014).

6.6 Short levy of license fee from licensees of SP VI and SP VII licenses

The license fee on the sale of spirituous preparations though revised, same was collected only at pre-revised rate.

(Two⁷ Excise Division Offices and seven⁸ Excise Circle Offices)

Under Rule 11 of the Kerala Spirituous Preparations (Control) Rules, 1969, for the wholesale and retail sales of spirituous preparations (SP), dealers shall have SP VI and SP VII licenses respectively. Government enhanced⁹ the license fee for SP VI and SP VII licenses from ₹ 500 to ₹ 5,000 and ₹ 150 to ₹ 1,000 respectively.

Scrutiny of the license fee registers for the period 2009-12 of two Divisional and seven Circle Offices revealed that the license fee at pre-revised rates for 2011-12 was collected from the 79 SP VI and 49 SP VII licensees. Though the license fee was revised vide Notifications dated 17.8.2011 and 19.11.2011, the balance was not collected from the licensees. This resulted in non-levy of license fee of ₹ 3.97 lakh as shown in **Appendix XIII**.

⁷ Kasargod and Thrissur.

⁸ Fort Kochi, Irinjalakuda, Kodungalloor, Kunnathunadu, Thrissur, Vadanapally and Wadakkancherry.

⁹ GO(MS) No. 107/2011/TD dated 17.8.2011 and GO(P) No. 150/2011/TD dated 19.10.2011

When this was pointed out (between June 2013 and March 2014), the Department stated that the matter would be examined and reply furnished later. Further report has not been received (October 2014).

The case was reported to Government in February 2014; their reply has not been received (October 2014).