

**CHAPTER – IV**  
**REVENUE SECTOR**

## CHAPTER-IV

### REVENUE SECTOR

#### 4.1 General

##### 4.1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Nagaland during the year 2014-15, the State's share of net proceeds of divisible Union taxes and grant-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

**Table-4.1.1**

*₹ in crore*

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
I	Revenue raised by the State Government					
	• Tax revenue	227.32	303.88	339.95	333.39	388.60
	• Non-tax revenue	183.14	232.95	207.17	216.57	270.61
	<b>Total-I</b>	<b>410.46</b>	<b>536.83</b>	<b>547.12</b>	<b>549.96</b>	<b>659.21</b>
	<b>Percentage of increase over previous year</b>	<b>33.76</b>	<b>30.79</b>	<b>1.92</b>	<b>0.52</b>	<b>19.86</b>
II	Receipt from the Government of India					
	• States share of net proceeds of divisible Union taxes	689.46	803.20	917.14	1,001.27	1,062.69
	• Grants-in-aid	3,900.07	4,246.35	4,740.03	4,946.67	5,929.04
	<b>Total-II</b>	<b>4,589.53</b>	<b>5,049.55</b>	<b>5,657.17</b>	<b>5,947.94</b>	<b>6,991.73</b>
III	Total receipts of the State Government (I+II)	4,999.99	5,586.38	6,204.29	6,497.90	7,650.94
	Percentage of I to III	8	10	9	8	9

Thus, growth of revenue during 2014-15 over previous year was at 19.86 *per cent* against 0.52 *per cent* in the year 2013-14. Further, during the year 2014-15, the revenue raised by the State Government (₹ 659.21 crore) was nine *per cent* of the total revenue receipts against eight *per cent* in the preceding year. The balance 91 *per cent* of receipts during 2014-15 was from the Government of India.

**4.1.2** The following table presents the details of Tax revenue raised during the period 2010-11 to 2014-15.

**Table-4.1.2**

₹ in crore

Sl No.	Head of revenue	2010-11	2011-12	2012-13	2013-14	2014-15	Percentage of increase (+) or decrease (-) in 2014-15 over 2013-14
1	Sales Tax/VAT	167.22	231.12	257.21	250.20	294.29	(+)18
2	State Excise	3.00	3.36	3.73	4.86	4.70	(-)03
3	Stamps and Registration Fees	1.35	1.85	1.58	1.77	1.93	(+)09
4	Taxes and duties on Electricity	0.05	0.04	0.05	0.04	0.03	(-)25
5	Taxes on vehicle	23.92	34.58	41.59	36.15	46.46	(+)29
6	Taxes on Goods and Passengers	6.62	4.85	6.71	10.79	9.73	(-)10
7	Other taxes on Income and expenditure	24.57	27.03	27.22	28.30	27.95	(-)01
8	Other taxes and duties on Commodities and Services	0.00	0.37	1.14	0.58	2.77	(+)378
9	Land Revenue	0.59	0.68	0.72	0.70	0.74	(+)06
	<b>Total</b>	<b>227.32</b>	<b>303.88</b>	<b>339.95</b>	<b>333.39</b>	<b>388.60</b>	<b>(+)17</b>

The reasons for variations were not reported by the departments though called for.

**4.1.3** The following table presents the details of Non-Tax revenue raised during the period from 2010-11 to 2014-15.

**Table-4.1.3**

₹ in crore

Sl, No.	Head of revenue	2010-11	2011-12	2012-13	2013-14	2014-15	Percentage of increase (+) or decrease (-) in 2014-15 over 2013-14
1	Interest Receipts	14.35	9.62	5.90	7.62	7.23	(-)05
2	Housing	3.63	4.38	5.12	5.13	5.01	(-)02
3	Water Supply & Sanitation	1.29	1.62	1.74	1.95	1.95	(-)00
4	Forestry and Wildlife	10.18	8.87	7.76	8.81	9.68	(+)10
5	Education, Sports, Art and Culture	8.74	12.16	45.57	67.83	103.56	(+)53
6	Miscellaneous General Services	12.43	29.01	6.60	6.57	13.08	(+)99
7	Power	74.01	94.28	102.83	88.31	98.91	(+)12
8	Medical & Public Health	0.09	0.21	0.35	0.55	0.52	(-)05
9	Co-operation	0.34	3.54	1.13	2.45	0.98	(-)60
10	Public Works	0.72	0.69	0.18	0.40	0.11	(-)73
11	Police	34.21	30.65	7.34	3.37	1.45	(-)57
12	Other Administrative Services	2.90	2.38	3.22	2.73	4.03	(+)48
13	Crop Husbandry	0.16	0.20	0.16	0.27	0.10	(-)63
14	Others	20.09	35.34	19.27	20.58	24.00	(+)17
	<b>Total</b>	<b>183.14</b>	<b>232.95</b>	<b>207.17</b>	<b>216.57</b>	<b>270.61</b>	<b>(+)25</b>

The reasons for variations were not stated by the departments.

#### 4.1.4 Variation between the budget estimates and actuals

The variation between the budget estimates and actuals of revenue receipts under the principal heads of Tax and Non-Tax revenue for the year 2014-15 are mentioned in the following table:

Table-4.1.4

Sl. No.	Head of revenue	Budget Estimates (₹ in crore)	Actual Receipts (₹ in crore)	Variation Increase (+) Decrease (-)	Percentage of variation
<b>Tax Revenue</b>					
1	Sales Tax/VAT	294.36	294.29	(-)0.07	(-)02
2	State Excise	4.47	4.70	(+)0.23	05
3	Stamps and Registration fees	1.67	1.93	(+)0.26	16
4	Taxes on vehicles	46.00	46.46	(+)0.46	01
5	Taxes on Goods and Passengers	7.50	9.73	(+)2.23	30
6	Land revenue	0.81	0.74	(-)0.07	(-)09
<b>Non-Tax Revenue</b>					
7	Interest Receipts	3.00	7.23	(+)4.23	141
8	Other Administrative Service	3.00	4.03	(+)1.03	34
9	Medical & Public Health	0.39	0.52	(+)0.13	33
10	Public Works	0.88	0.11	(-)0.77	(-)88
11	Forestry & Wildlife	13.07	9.68	(-)3.39	(-)26
12	Education, Sports, Art and Culture	0.46	103.56	(+)103.10	22413
13	Power	125.00	98.91	(-)26.09	(-)21

Source: Receipt Budget and Finance Account for the year 2014-15.

The reasons for variations were not stated by the departments.

#### 4.1.5 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2015 in respect of principal Heads of Revenue as reported by the departments was ₹ 12.69 crore of which ₹ 4.60 crore (36.24 per cent) was outstanding for more than five years as per details mentioned in the following table:

Table-4.1.5

₹ in crore

Sl. No	Head of Revenue	Amount outstanding as on 31 March 2015	Amount outstanding for more than five years
1	Taxes/ VAT on Sales, Trades etc.	12.69	4.60

#### 4.1.6 Arrears in assessment

The details of Sales tax/VAT assessment cases pending at the beginning of the year 2014-15, cases which were due for assessment during the year, cases disposed of during the year and number of cases pending at the end of the year 2014-15 as furnished by Commissioner of Taxes are mentioned in the following table:

**Table-4.1.6**

Head of Revenue	Opening Balance as on 1 <sup>st</sup> April 2014	New cases due for assessment during 2014-15	Total assessment due	Cases disposed of during 2014-15	Balance at the end of the 31 <sup>st</sup> March 2015	Percentage of cases disposed to the total assessment due
1	2	3	4	5	6	7 (5 to 4)
Taxes /VAT on Sales, Trades etc.	806	4649	5455	3254	2201	60

The arrear in assessment increased from 806 to 2201 cases with the addition of another 4649 cases which became due for assessment during the year 2014-15 and 3254 cases got disposed during the year. The percentage (60) of cases disposed during the year was encouraging and needs to be maintained.

#### **4.1.7 Response of the Departments/Government towards audit**

Transactions and maintenance of important accounts and other records of the departments are test checked and Inspection Report containing audit findings is issued to the Head of the Office so audited for comments and/or compliance. Audit findings of serious nature are processed into draft paragraph and forwarded to the Administrative Head of the concerned Department through demi-official letter drawing their attention to the audit findings with a request to furnish their response within six weeks. The response of the Departments/Government towards audit is discussed in succeeding paragraphs.

#### **4.1.7(a) Failure of senior officials to enforce accountability and protect the interest of the State Government**

The Accountant General (Audit), Nagaland (AG) conducts periodical inspection of the Government Departments to test check the transactions and verify the maintenance of 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 the 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 the Offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the AG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the Heads of the Departments and the Government.

Inspection Reports issued upto June 2015 disclosed that 226 paragraphs involving ₹ 50.62 crore relating to 74 IRs remained outstanding as mentioned in the following table along with the corresponding figures for the preceding two years.

**Table-4.1.7**

	June 2013	June 2014	June 2015
Number of outstanding IRs	89	94	74
Number of outstanding audit observations	344	352	199
Amount involved (₹ in crore)	80.49	82.58	49.47

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2015 and the amount involved are mentioned in the following table:

Table-4.1.8

Sl. No.	Name of Department	Name of Receipts	No. of outstanding IRs	No. of Outstanding Audit Observations	Money Value involved (₹ in crore)
1	Finance	Taxes/VAT on Sales, Trade etc	30	139	42.98
2	Finance	Miscellaneous General Services/Lottery	03	16	2.59
3	Transport	Taxes on Vehicles/ Taxes on Goods & Passengers	23	44	3.90
<b>Total</b>			<b>56</b>	<b>199</b>	<b>49.47</b>

In respect of three IRs received during 2014-15, even the first reply required to be received from the Heads of Offices within one month from the date of issue of the IRs were not received up to December 2015. This large pendency of IRs due to non-receipt of replies is indicative of the fact that the Heads of offices and Heads of departments failed to initiate action to rectify the defects, omissions and irregularities pointed out by the Accountant General in the IRs.

It is recommended that the Government takes suitable steps to install an effective procedure for prompt and appropriate response to audit observations as well as take action against officials/officers who fail to send replies to IRs/paragraphs as per prescribed time schedules and also fail to take action to recover loss/outstanding demand in a time bound manner.

#### **4.1.7(b) Departmental Audit Committee Meetings**

In order to expedite settlement of the outstanding audit observations contained in the IRs, Departmental Audit Committees are constituted by the Government. These Committees are chaired by the Secretaries of the concerned Administrative Department and attended by the concerned officers of the State Government and officers of the Accountant General (AG). The audit committees need to meet regularly in order to expedite clearance of the outstanding audit observations.

During 2014-15, no audit committee meeting was convened to clear the outstanding audit observations.

The Government may ensure holding of frequent meetings of these committees for ensuring effective action on the audit observations leading to their settlement.

#### **4.1.7(c) Response of the Departments to the draft audit paragraphs**

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are forwarded by the Accountant General to the Principal Secretaries/Secretaries of the concerned departments, drawing their attention to Audit findings and requesting them to send their response within six weeks.

The fact of non-receipt of the replies from the departments/Government is invariably indicated at the end of such paragraphs included in the Audit Report.

Three draft paragraphs were sent to the Principal Secretaries/Secretaries of the respective departments by name during July to October 2015. The Principal Secretaries/Secretaries of the Departments did not send replies (December 2015) and the same have been included in this Report without the response of the Departments.

**4.1.7(d) Follow up on Audit reports – summarised position**

The internal working system of the Public Accounts Committee, notified in December 2002, laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for consideration of the Committee.

However, *suo-moto* explanatory notes were not furnished to AG (Audit) by the departments and were also not received through Nagaland Legislative Assembly Secretariat in respect of paragraphs/reviews appeared in the Audit Reports. Hence, status on delay of submission of explanatory notes cannot be commented upon.

During 2014-15 no PAC meeting was held and no Action Taken Notes were also received.

**4.1.7(e) Compliance with the earlier Audit Reports**

In the Audit Reports 2008-09 to 2013-14, cases of under assessments, evasion/non/short levy of taxes/penalty, loss of revenue, failure to raise demands etc., involving ₹ 29.86 crore were reported. As of March 2015, the departments concerned have accepted observations of ₹ 1.99 crore and recovered ₹ 0.33 crore which was 16.58 per cent of accepted money value. Audit Report wise details of cases accepted and recovered are given in the following table:

**Table-4.1.9**

**₹ in crore**

<b>Year of Audit Report</b>	<b>Total Money Value</b>	<b>Accepted money value</b>	<b>Recovery made</b>
2008-09	11.78	0.00	0.00
2009-10	0.23	0.16	0.16
2010-11	7.99	0.43	0.00
2011-12	0.20	0.00	0.00
2012-13	1.20	0.17	0.17
2013-14	8.46	1.23	0.00
<b>Total</b>	<b>29.86</b>	<b>1.99</b>	<b>0.33</b>

#### 4.1.8 Analysis of mechanism for dealing with the issues raised by Audit

In order to analyse the system of addressing the issues highlighted in the Inspection Reports/Audit Reports by the Department/Government the action taken on the paragraphs and Performance Audits included in the Audit Reports of the last five years in respect of one Department is evaluated and included in each Audit Report.

The succeeding paragraphs 4.1.8 (a) and 4.1.8 (b) discuss the performance of Taxation Department in dealing with the cases detected in the course of local audit conducted during the last ten years and also the cases included in the Audit Reports for the years 2004-05 to 2013-14.

#### 4.1.8(a) Position of Inspection Reports

A summarised position of Inspection Reports issued during the last ten years, paragraphs included in these Reports and their status as on 30 June 2015 are given in the following table:

**Table-4.1.10**

Money value: ₹ in crore

Year	Opening Balance <sup>1</sup>			Addition during the year			Clearance during the year			Closing Balance		
	IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value
2004-05	15	32	8.34	6	27	2.37	1	14	0.70	20	45	10.01
2005-06	20	45	10.01	-	-	-	-	-	-	20	45	10.01
2006-07	20	45	10.01	-	-	-	-	-	-	20	45	10.01
2007-08	20	45	10.01	3	31	0.25	-	-	-	23	76	10.26
2008-09	23	76	10.26	1	10	0.18	-	-	-	24	86	10.44
2009-10	24	86	10.44	1	2	0	1	2	0	24	86	10.44
2010-11	24	86	10.44	-	-	-	-	-	-	24	86	10.44
2011-12	24	86	10.44	3	35	23.71	0	9	8.53	27	112	25.62
2012-13	27	112	25.62	1	3	0.77	-	-	-	28	115	26.39
2013-14	28	115	26.39	1	7	1.01	-	-	-	29	122	27.40
2014-15 Up to 06/2015	29	122	27.40	1	20	21.30	0	3	5.72	30	139	42.98

Audit reminded the Department periodically to furnish the replies to the outstanding audit observations.

#### 4.1.8(b) Assurances given by the Departments/Government on the issues highlighted in the Audit Reports

##### 4.1.8(b)(i) Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last five years and those accepted by the departments and the amount recovered are mentioned in the following table:

<sup>1</sup> Opening balance differs from the last year due to review of old inspection report during the year 2014-15.



**Table-4.1.11**

Year of Audit Report	No. of paragraphs included	Money value of the paragraphs (₹ in crore)	No. of paragraphs accepted	Money value of accepted paragraphs (₹ in crore)	Amount recovered during the year (₹ in crore)	Cumulative position of recovery of accepted cases
2009-10	1	0.23	1	0.16	0.16	0.16
2010-11	-	-	-	-	-	-
2011-12	1	0.20	-	-	-	-
2012-13	2	0.53	2	0.17	0.17	0.17
2013-14	2	8.46	-	-	-	-
<b>Total</b>	<b>6</b>	<b>9.42</b>	<b>3</b>	<b>0.33</b>	<b>0.33</b>	<b>0.33</b>

From the above table, it is seen that during the last five years, an amount of ₹ 0.33 crore was accepted and recovered by the Department.

**4.1.8(b)(ii) Action taken on the recommendations accepted by the Departments/Government**

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

During the period from 2002-03 to 2013-14, two Performance Audits in respect of Finance (Taxation) Department were featured in the Audit Report 2008-09 and 2010-11. Details are given in the following table:

**Table-4.1.12**

Year of Audit Report	Name of the review	No. of recommendations	Details of the recommendations accepted
2008-09	Transition from Sales Tax to Value Added Tax	7	Nil
2010-11	Performance Audit on 'Utilisation of declaration forms in Inter State Trade'	5	Nil

**4.1.9 Results of audit**

**4.1.9(a) Position of local audit conducted during the year**

Test check of the records of 4 units of Transport and Finance (Taxes) departments conducted during the year 2014-15 revealed under assessment/short levy/loss of revenue/non-realisation of outstanding revenue aggregating ₹ 21.49 crore in 24 cases.

**4.1.9(b) This Report**

This Report contains three paragraphs involving financial effect of ₹ 1.64 crore. The audit findings are discussed in succeeding paragraphs.

## FINANCE (TAXATION) DEPARTMENT

### 4.2 Evasion of tax by concealment of turnover

**One motor vehicle dealer based in Dimapur district concealed taxable turnover amounting to ₹ 602.99 lakh leading to evasion of tax of ₹ 79.90 lakh during 2011-14. Interest amounting to ₹ 47.15 lakh was also leviable on the amount of tax evaded by the dealer.**

Section 32 of the Nagaland Value Added Tax (NVAT) Act requires that the appropriate Assessing Authority (AA) on the basis of the information contained in the Return filed by the dealer scrutinises the correctness of the tax assessed by the dealer himself. For this purpose, the AAs may require the dealer to produce any account details, documents or any other evidences as may be deemed necessary for such scrutiny. Section 58 of the Act further states that where in any particular year, the gross turnover of a dealer exceeds fourty lakh rupees, then such dealer shall get his accounts, in respect of that year audited by an accountant<sup>2</sup> within six months from the end of that year and obtain a report of such audit in the prescribed form duly signed and verified by such accountant and setting forth such particulars as may be prescribed. A true copy of such report shall be furnished by such dealer to the Commissioner by the end of the month after expiry of the period of six months during which the audit would have been completed. Further, as per Rule 49 of the NVAT Rules 2005, interest at 2 *per cent* per month is payable from the date the tax payable had become due to the date of its payment or to the date of order of assessment, whichever is earlier.

During test check (June 2015) of the annual tax returns filed from 2011-12 to 2013-14 in respect of one dealer<sup>3</sup> based in Dimapur District bearing TIN 13010365072, it was observed that the dealer filed NVAT Returns declaring Gross Turn Over<sup>4</sup> under Section 34 of NVAT Act 2005 and the same was accepted by the AA under Section 32 of the said Act.

Examination of records revealed that the Deputy Excise & Taxation Commissioner (ST), Rewari, Haryana referred (February 2015) four 'C' form numbers for verification as detailed below:

**Table-4.2.1**

'C' Form Number	Taxable amount (in ₹)	Period
139831	60,10,792.33	1 <sup>st</sup> Quarter 2011-12
139832	41,79,864.46	2 <sup>nd</sup> Quarter 2011-12
139833	55,51,821.99	3 <sup>rd</sup> Quarter 2011-12
139834	42,98,603.50	4 <sup>th</sup> Quarter 2011-12
<b>Total</b>	<b>200,41,082.28</b>	

<sup>2</sup> Chartered Accountant

<sup>3</sup> M/s National Automobiles

<sup>4</sup> ₹ 9088026 (2011-12), ₹ 5678309 (2012-13) and ₹ 11358439 (2013-14).

These forms were issued to the said dealer and utilised by the dealer during the year 2011-12. As could be seen from the table above, the dealer actually purchased goods valuing ₹ 200.41 lakh against four 'C' forms during 2011-12. However, the dealer disclosed purchase of goods worth ₹ 82.23 lakh only. Thus, the dealer concealed Turn Over of ₹ 118.18 lakh which led to evasion of Tax amounting to ₹ 15.66 lakh (**Appendix-4.2.1(i)**).

Further, on scrutiny of the way bills data (**Appendix-4.2.2**) furnished by the Department, in respect of the dealer during the period from 2012-13 to 2013-14, revealed that the dealer concealed purchase of goods valued ₹ 392.08 lakh and ₹ 92.73 lakh resulting in evasion of tax amounting to ₹ 51.95 lakh and ₹ 12.29 lakh respectively (**Appendix-4.2.1(ii)**).

Thus, acceptance of Returns not supported by proper Utilisation Certificates of statutory forms and audited accounts coupled with failure to cross verify the disclosed business activities in the Returns with the actual business activities of the dealer led to evasion of tax amounting to ₹ 79.90 lakh<sup>5</sup>. In addition to the above, an amount of ₹ 47.15 lakh (**Appendix-4.2.1**), was also leviable from the dealer as interest @ 2 per cent per month on the amount of tax evaded by the dealer.

While furnishing replies (November 2015) the Department stated that revision was carried out by the Commissioner in March 2015 under Section 78 of NVAT Act and the tax liability was enhanced by ₹ 8.21 lakh. However, the Department was silent on how the tax was assessed to only ₹ 8.21 lakh as against the tax payable of ₹ 79.90 lakh by the dealer for the escaped turnover.

Reply of the Government had not been received (January 2016).

#### **4.3 Evasion of Tax**

**Failure of the Assessing Authority to exercise the mandatory checks resulted in concealment of purchase turnover of ₹ 195.44 lakh and evasion of tax to the extent of ₹ 25.23 lakh by a dealer.**

Rule 67 of the NVAT Rules, 2005 provides that a dealer who imports taxable goods into Nagaland from any place located outside Nagaland shall submit to the in-charge of the check-post established under section 66 of the Act, a declaration in Form VAT 23 (*Challan Inward*) indicating the value of goods, etc. brought in, who in turn shall verify the documents and record the same in the Daily Goods Movement Register (*Incoming*) before allowing the entry of goods. Every dealer who was issued a form VAT 23 or who imports goods from outside Nagaland shall submit the VAT 23 form in original along with the returns to the Assessing Authority (AA).

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<sup>3</sup> ₹ 1565917/- (2011-12)+ ₹ 5195017/- (2012-13) + ₹ 1228641/- (2013-14)= ₹ 7989575/-

The AA is required to take everything into consideration during scrutiny to avoid any mistake and thereafter serve the notice in the prescribed form to the dealer to make the payment of tax along with all other penal charges as per the provisions of the Act.

Examination of the Self-Assessment and Trading account submitted to the Deputy Commissioner of Taxes, Dimapur by M/s Sanitary & Hardware Centre (bearing VAT TIN No. 13020159042, CST TIN No. 13020070126, Ward-B) under section 32 and 34 of the NVAT Act 2005 revealed that the dealer disclosed a total interstate purchase of ₹ 72.20 lakh during 2010-11 and 2011-12. Accordingly, the AA assessed the tax payable by the dealer as ₹ 5.24 lakh. On cross examination of the dealer's returns with the Challan Inward (VAT 23) register maintained by the Assistant Commissioner of Taxes (Mobile Squad), Dimapur it was noticed that the dealer had actually imported goods into Nagaland valued at ₹ 2.68 crore during the above mentioned period. This resulted in concealment of import of goods valuing ₹ 1.96 crore and consequent evasion of tax of ₹ 25.23 lakh as given below:

Table-4.2.2

Period	Purchase shown in the Trading Account and VAT Tax Return (₹ in lakh)	Purchase as per Inward Challan (₹ in lakh)	Concealment of purchase (₹ in lakh)	Rate of NVAT (Calculated at the highest rate) (in per cent)	Amount of NVAT evaded (₹ in lakh)
2010-11	33.10	122.90	89.80	12.50	11.23
2011-12	39.10	144.74	105.64	13.25	14.00
<b>Total</b>	<b>72.20</b>	<b>267.64</b>	<b>195.44</b>		<b>25.23</b>

Thus, failure on the part of the Assessing Authority to scrutinise the mandatory forms and consider the value of goods imported into the State during the assessment resulted in the concealment of turnover by the dealer and evading tax payable to the tune of ₹ 25.23 lakh.

In reply (August 2015), the Department as well as the Government stated that consequent to audit observation, show cause notice was issued to the dealer. However, in response to the show cause notice, the dealer submitted a representation stating several discrepancies in the way bill entries and therefore the Taxation Department initiated action to cross examine the utilisation statement of 'C' form, purchase bills and mobile way bills. During that exercise the Department noticed concealment of turnover of ₹ 88.19 lakh<sup>6</sup> by the dealer and accordingly the tax payable was reassessed to ₹ 5.32 lakh as against ₹ 25.23 lakh as pointed out by audit. The facts however remains that the amount of ₹ 5.32 lakh payable by the dealer as worked out by the Department had not been recovered (January 2016).

<sup>6</sup> 2010-11-₹ 48.86 lakh and 2011-12 -₹ 39.33 lakh

#### **4.4 Irregular allowance of Input Tax Credit**

##### **One dealer irregularly claimed Input Tax Credit amounting to ₹ 11.82 lakh against interstate sales which is taxable at concessional rates.**

The Nagaland Value Added Tax (NVAT) Act, 2005 and NVAT Rules, 2005 govern the levy and collection of value added tax (VAT) in Nagaland at every point of sale. The tax payable by a dealer under the Act on sale is called Output Tax while the tax paid by the dealer on purchases is called Input Tax. The process of setting off Input Tax Credit (ITC) from the output tax is called input rebating. A dealer is liable to pay the net tax<sup>7</sup> after such adjustment.

Further, section 17 (4) (d) of NVAT Act, 2005 provide that the ITC can be claimed for sales in the course of inter-state trade or commerce under the Central Sales Tax Act, 1956 in full paid or payable basis. In other words, ITC cannot be claimed against interstate sales for which concessional rate of Central Sales Tax (CST) is charged.

One dealer<sup>8</sup> under Ward C of Dimapur Zone, dealing with goods taxable at 4.75 *per cent* under NVAT Act, 2005 claimed ITC of ₹ 11.82 lakh for sales of ₹ 13.89 crore during 2012-13 and the same was accepted (December 2013) by the Assessing Officer.

Scrutiny of trading accounts and returns filed by the dealer revealed that the dealer was procuring goods from within the State and was selling the same through interstate sales. The Assessing Authority however, assessed (December 2013) and levied tax of ₹ 25.49 lakh at the concessional rate of CST for interstate trade.

However, the Assessing Authority had allowed ITC claim of ₹ 11.82 lakh to the dealer during 2012-13 which was not admissible. Thus, due to irregular allowance of ITC to the dealer there was loss to the Government to that extent.

The matter was reported to the Government (September 2015). In response the Government stated (October 2015) that the return for the year 2012-13 was reassessed and the ITC claim of the dealer was disallowed. However, no intimation has been received from the Government about the recovery of the amount (January 2016).

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<sup>7</sup> Net Tax = Output Tax- Input Tax

<sup>8</sup> M/S Mahalaxmi Mines, Pvt. Ltd.