

## CHAPTER-V

### Taxes on Motor Vehicles

#### 5.1 Tax administration

The provisions of the Karnataka Motor Vehicles Taxation (KMVT) Act, 1957 and rules made thereunder govern the levy and collection of taxes on motor vehicles. The levy of taxes on motor vehicles is administered by the Transport Department headed by the Commissioner for Transport and Road Safety who is assisted by Joint Commissioners of Transport. There are 59 Regional Transport Offices (RTOs)/Assistant Regional Transport Offices (ARTOs) and 15 check posts in the State.

#### 5.2 Internal audit

The Internal Audit Wing (IAW) is functioning in the Transport Department since 1960.

As per the information furnished by the Department, even though 74 offices were identified for audit during 2014-15, none of the offices were audited due to shortage of staff.

#### 5.3 Results of audit

Test check of records of 52 offices of the Transport Department, conducted during the year 2014-15, disclosed underassessment of tax and other irregularities amounting to ₹ 309.81 crore in 83 cases, which fall under the categories given in **Table 5.1**:

**Table 5.1**  
**Results of audit**

Sl. No.	Category	(₹ in crore)	
		Number of paragraphs	Amount
1.	<b>Performance Audit Report on Levy and collection of Motor Vehicles Tax</b>	1	302.19
2.	Non/short levy of Life Time Tax (LTT) on construction equipment vehicles.	22	1.91
3.	Non/short levy of LTT on non-transport vehicles.	13	0.11
4.	Non/short levy of quarterly tax.	24	2.12
5.	Other irregularities	23	3.48
	<b>TOTAL</b>	<b>83</b>	<b>309.81</b>

During the course of the year, the Department accepted underassessment and other deficiencies involving ₹ 3.02 crore in 58 cases. An amount of ₹ 4.06 crore was also recovered in 72 cases pointed out in earlier years during the year 2014-15.

A Performance Audit on 'Levy and collection of Motor Vehicle Tax' involving ₹ 302.19 crore and a few illustrative cases involving ₹ 1.32 crore which came to notice during compliance audit are mentioned in the following paragraphs.

## 5.4 Performance Audit Report on 'Levy and collection of Motor Vehicles Tax'

### Highlights

Control lapses resulted in 4,281 transport vehicles escaping the tax net, with a revenue loss of ₹ 13.17 crore, at the time of their migration between jurisdictions.

**(Paragraph 5.4.2.1)**

Only 21.01 *per cent* of transport vehicles and 19.38 *per cent* of non-transport vehicles have complied with periodical fitness test and certification. Failure to ensure compliance in respect of other vehicles, had the additional consequence of depriving Government of revenue of ₹ 74.07 crore between April 2010 and March 2015.

**(Paragraph 5.4.2.2)**

Arrears of revenue amounting to ₹ 141.65 crore from 68,653 transport vehicles were not booked in DCB and followed up by the Department.

**(Paragraph 5.4.3.1)**

Lack of adequate controls in respect of collection of quarterly tax led to 22,002 transport vehicles skipping payment of tax for one to 16 quarters resulting in non-realisation of ₹ 45.31 crore.

**(Paragraph 5.4.3.2)**

Lack of adequate controls in respect of collection of Life Time Tax from battery operated vehicles and construction equipment vehicles resulted in failure to recognise the arrears of revenue of ₹ 4.61 crore.

**(Paragraph 5.4.4)**

Green Tax amounting to ₹ 23.52 crore from 4,02,666 transport vehicles and ₹ 29.01 crore from 9,69,706 non-transport vehicles was not realised.

**(Paragraph 5.4.5)**

### 5.4.1 Introduction

Levy and collection of Motor Vehicles Tax (MVT) is regulated by the provisions of The Motor Vehicles (MV) Act 1988, the Central Motor Vehicles (CMV) Rules 1989, the Karnataka Motor Vehicles (KMV) Rules, 1989 and the Karnataka Motor Vehicles Taxation (KMVT) Act, 1957 and Rules made thereunder. The Transport Department is mainly concerned with regulation of the use of Motor Vehicles in the State and collection of MVT in accordance with the provisions of these Acts and Rules.

The regulations are aimed at ensuring that all the transport or non-transport vehicles running in the State are registered with the Department and are either paying quarterly tax regularly or have paid Life Time Tax (LTT). Regulatory functions of the Department also include ensuring that all transport vehicles in use are issued permits and Fitness Certificates (FC) which are to be renewed periodically. The Department is also required to verify the fitness of non-transport vehicles for their use on roads by issuing Registration Certificates (RC) and their further renewal. Collection of taxes as prescribed under the KMVT Act from such vehicles which are registered in other States but plying in the State is also to be ensured by the Department.

The activities of the Department such as registration of vehicles, collection of tax, fee, fine, etc., issue and renewal of permits and FCs are computerised using an application software developed by National Informatics Centre (NIC) called VAHAN.

An information system Audit entitled 'Performance Audit on Computerisation of Transport Department' was conducted on the above software. This was reported in the Audit Report of the year 2010-2011 (paragraph No.4.7).

#### 5.4.1.1 Organisational Setup

The Department is headed by the Commissioner for Transport and Road Safety and is under the administrative control of the Additional Chief Secretary to Government of Karnataka, Transport Department. He is assisted by four Additional Commissioners one each for Administration, Enforcement South, Enforcement North and Karnataka State Transport Authority (STA), one Joint Commissioner (Environment and e-Governance), one Law Officer, two Financial Advisers and an Assistant Director of Statistics at Headquarters Office. There are six transport divisions in the State, each headed by a Joint Commissioner. Under the divisions, there are 59 Regional Transport Offices (RTOs)/Assistant Regional Transport Offices (ARTOs) headed by Deputy Commissioners for Transport/Senior Regional Transport Officers/ Regional Transport Officers or Assistant Regional Transport Officers (ARTOs). Of the 59 field offices (RTOs/ ARTOs), one RTO stationed in Bangalore deals exclusively with auto rikshaw permits and issues relating to Public Sector Undertakings in the Transport Sector.

RTOs and ARTOs are assisted by Superintendents, Inspectors of Motor Vehicles (IMVs) and other administrative and clerical staff. Besides, the Department has established 15 Check Posts bordering the State to monitor inter-State movement of vehicles and to levy and collect tax from vehicles registered in other States but plying in the State.

#### **5.4.1.2 Audit Objectives**

The objectives of the Performance Audit (PA) were to ensure whether:

1. The system in existence in the department is sufficient to exercise effective control over registration and regulation of all the vehicles plying in the State, including inter-State vehicles; and
2. The system of levy and collection of tax, fees and penalties on motor vehicles is effective and adequate to comply with the provisions of the KMVT Act.

#### **5.4.1.3 Audit Criteria**

The following were used as sources of criteria:

1. The Motor Vehicles Act, 1988
2. The Central Motor Vehicles Rules, 1989
3. The Karnataka Motor Vehicles Rules, 1989
4. The Karnataka Motor Vehicle Taxation Act, 1957
5. The Karnataka Motor Vehicle Taxation Rules, 1957

#### **5.4.1.4 Scope**

The period of audit was for five years from 2010-11 to 2014-15. Adequacy of the systems and controls within the Department for registration and regulation of the vehicles plying in the State, efficiency in levy and collection of tax, fees, fines and penalties were analysed in the PA.

Twenty<sup>1</sup> out of the fifty nine RTOs/ARTOs were selected for detailed scrutiny of records by random sampling method using IDEA software with random number seeding on the list of RTOs/ARTOs arranged in alphabetical order. Data analysis of all the RTOs/ARTOs was also carried out. In addition, records maintained in six<sup>2</sup> out of 15 check posts, one bordering each of the six neighboring States, were also checked.

#### **5.4.1.5 Methodology**

The database back-up of VAHAN of all the RTOs/ARTOs and check posts was obtained from the Department and analysed using IDEA software. Records maintained in the 20 selected RTOs/ARTOs and six check posts were examined to ascertain follow-up action taken on vehicles declared as under non-use, collection of arrears of tax, vehicles which have not renewed FCs and renewal of RCs.

An Entry Conference was held with the Principal Secretary, Transport Department and the Commissioner for Transport and Road Safety in March 2015, in which the objectives, scope and methodology were discussed in detail. An exit conference was held on 21 October 2015 in which the audit

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<sup>1</sup> Auto-rickshaw permits and Transport Corporation, Bagalkot, Belagavi, Bengaluru (Central), Bengaluru (East), Bhalki, Dharwad, Electronic City, Gadag, Hosapete, Hunsur, Kalaburgi, Koppala, K.R. Puram, Madhugiri, Mysuru (West) Raichur, Sagar, Sakaleshapura and Yelahanka.

<sup>2</sup> Attibele, Bagepalli, Humnabad, Nippani, Ramanagara and Talapady.

findings, conclusions and recommendations were discussed with Additional Chief Secretary to Government of Karnataka (ACS), Transport Department and the Commissioner for Transport and Road Safety.

#### **5.4.1.6 Acknowledgement**

We acknowledge the co-operation of the Transport Department, Government of Karnataka in providing the necessary information and records for audit. We also acknowledge the valuable inputs given by Government/Department in the entry and exit conferences and during the course of audit.

Important audit observations on the issue are mentioned in the following paragraphs.

#### **5.4.2 Registration and Regulation of Motor Vehicles**

Audit analysis revealed that in respect of registration of new vehicles, the controls employed by the Department were fairly adequate. Certain Control deficiencies were observed in the matter of:

- (i) registration of migrated vehicles due to non-compliance with the provisions of MV Act, 1988;
- (ii) issue/renewal of FCs to transport vehicles due to issue of FC with validity for more than two years in case the transport vehicles are identified to pay LTT at the time of registration, absence of follow-up action to ensure timely renewal of FC, absence of control mechanism in VAHAN to detect vehicles which are due for renewal of FC/RC, etc.

##### **5.4.2.1 Transport vehicles escaping the tax net and the administrative control of the Department on migration**

Under the CMV Act and Rules made thereunder, vehicles migrating from one State to another shall obtain a No Objection Certificate (NOC) from the RTO at the origin and produce before the RTO at the destination for registration in that State. Similarly, for a vehicle migrating from one RTO (origin) to another (destination) within the State, the procedure prescribed under Section 49<sup>3</sup> of the CMV Act has to be followed. In each of the RTOs/ARTOs, the NOC module of the VAHAN system is used to record vehicles moved out of the jurisdiction of that office either to other RTOs within the State or to other States. After recording the migration in the NOC module, the RTO stops further monitoring over that vehicle for collection of periodical taxes due, renewal of FC, etc. Subsequently, it shall be the duty of the destination RTO to exercise administrative control over the vehicle.

Audit examined the cases recorded in the tables of NOC module of all the RTOs in the State which were stated to be migrated to other RTOs within the State, to ensure continuity in administrative control over such vehicles.

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<sup>3</sup> Section 49 of the Motor Vehicles Act, 1988 – If the owner of a motor vehicle ceases to reside or have his place of business at the address recorded in the certificate of registration, and if the new address is within the jurisdiction of another registering authority, he shall, within thirty days of such change of address, intimate the new address and forward the certificate of registration to the registering authority other than original registering authority who shall communicate the altered address to the original registering authority.

Audit observed that there were entries relating to 59,939 transport vehicles in the NOC tables which were paying quarterly tax registered across all RTOs/ARTOs in the State as have migrated to other RTOs within the State between April 2009 and March 2015. Cross verification of these with reference to registration details of the destination office revealed that 4,281 vehicles failed to get enrolled at the destination. Verification of tax collection tables in VAHAN of all the RTOs/ARTOs and Check Posts revealed that these vehicles did not pay their quarterly taxes due after the date of migration. The total amount of quarterly tax due from these vehicles as on 31 March 2015 amounted to ₹ 13.17 crore. The omission on the part of the RTOs/ARTOs concerned in dispensing with their administrative control over these vehicles without ensuring their enrollment at the specified destination has allowed these vehicles to escape the tax net and other administrative controls exercised by the Department over transport vehicles.

The Government/Department stated in the exit conference that, the issue would be addressed in the newer version of VAHAN which would be having a centralised database network.

A centralised database with a web based application enabling the public to access the services offered by the Department and for registration, payment of fees, taxes etc., could provide an easy solution by capturing the new address of the vehicle and assigning it to the jurisdictional registering authority. For this purpose a master table of jurisdiction of each RTO has to be created and updated in the VAHAN. These measures were suggested to the Department in the Information Systems Audit on 'VAHAN', and were accepted by the Department. However, none of these suggestions have been implemented as of November 2015.

**Recommendation No. 1: The Department may provide a web-based system with a centralized database by which the vehicle owners may avail the services offered by the Department, pay taxes and voluntarily update change of addresses etc., if any.**

#### **5.4.2.2 Fitness of vehicles not tested and certified periodically**

The CMV Act stipulates that a certificate of registration issued for a non-transport vehicle shall be valid only for a period of 15 years from the date of registration and shall be renewable. In case of transport vehicles, a fitness certificate (FC) is issued for a period of two years from the date of registration and renewable every year thereafter. A transport vehicle shall not be deemed to be validly registered, unless it carries a certificate of fitness.

At the time of renewal of registration certificate of a non-transport vehicle or renewal of FC of a transport vehicle, fitness test has to be conducted by IMV as per the provisions of Rule 62 of CMV Rules, 1989. It stipulates that the FC has to be issued after conducting tests of 15 specified components in a vehicle. On an average, three different mandatory tests under each specified component have been prescribed. Therefore, an IMV, while issuing FC for a vehicle, should have performed a minimum of 45 tests of fitness.

Analysis of VAHAN database has revealed the following:

1. There were 12,02,838 non-transport vehicles registered between April 1995 and March 2000, which were due for renewal of their RCs between April 2010 and March 2015. Of this, only 2,33,132 vehicles (i.e., 19.38 *per cent*), renewed their RC and the balance 80.62 *per cent* of vehicles had not complied with the provisions of the Act.

2. FC data relating to 9,43,687 transport vehicles registered in the State between April 2000 and March 2013 were due for renewal of FC at least one time (maximum of five times) between April 2010 and March 2015. Of these, 4,04,385 vehicles (42.85 *per cent*) did not appear for fitness test even once between April 2010 and March 2015 and 2,05,868 vehicles (21.82 *per cent*) discontinued after appearing for the fitness test up to a certain period. Another 14.32 *per cent* (1,35,158 vehicles) appeared for the test only sporadically after a gap of two or more years as against the mandatory annual requirement. Aggregate percentage of non-compliance with FC provisions was 78.99 *per cent* (7,45,411 vehicles).

Failure to comply with the provisions of the MV Act in respect of FC renewal, and use of such vehicles in a public place constitute a danger to the public from road safety point of view and a compromise on the standards for controlling air pollution. Audit analysis of the data relating to high non-compliance level as also fitness test conducted by the Department revealed the following:

1. There were 2,44,737 cases, in which transport vehicles were given fitness validity for the period of 15 years from the date of their registration as against two years validity period stipulated under the MV Act. This was due to fitness validity period linked with tax option details in VAHAN instead of on vehicle category.

2. In respect of the 1,23,680 vehicles which appeared for fitness test after delay of seven months to 10 years, additional fee of ₹ 2.82 crore was leviable. Against this, the RTOs/ARTOs concerned collected fine of ₹ 54.90 lakh only, resulting in short levy of additional fee of ₹ 2.27 crore. Thus, the Department has failed to penalise the non-compliance appropriately.

3. It was seen that 2,61,395 transport vehicles which did not appear for FC renewal between April 2010 and March 2015 have transacted with the RTOs, on one to 10 times during the same period for various services such as change of address, quarterly tax payment, removal of entries relating to hypothecation, etc. But the FC default of those vehicles was not detected and enforced due to system lapses. This shows that Enforcement activities of the Department have not been upgraded to smarter ways to ensure compliance with the provisions the CMV Act.

4. It was noticed that in 20 RTOs/ARTOs, fitness test for 5,69,224<sup>4</sup> transport vehicles were conducted during the years 2012-13 to 2014-15. On any given day, only one IMV is assigned to conduct fitness test of transport vehicles by the RTO. The average number of vehicles inspected by an IMV per day for an RTO ranged from one to 138. Though the Department has not made any realistic assessment of number of vehicles that could be inspected by an IMV in a day for the purpose of FC, it is clear from the above details

<sup>4</sup> These vehicles include vehicles registered prior to April 2000.

that an officer is left with an average<sup>5</sup> of only 15 minutes for each vehicle, which is hardly sufficient to perform a minimum of 45 tests per vehicle as discussed above.

5. Non-renewal of registration certificate by 9,69,706 non-transport vehicles and non-renewal or intermittent renewal of FC by 7,45,411 transport vehicles has also had an additional consequence of depriving State revenue by way of fees prescribed for these purposes under the MV Act amounting to ₹ 8.49 crore and ₹ 65.58 crore respectively.

While accepting audit observation in the exit conference, the Government/Department, stated that the non-transport vehicles are difficult to trace after a period of 15 years of registration. In respect of transport vehicles, it was stated that the onus to renew FC lies with the owner of the vehicle and if any vehicle plies on road without valid FC, statutory cases are booked and appropriate penal action is being taken. The Department, however, reiterated that the issue relating to FC will be taken up seriously and will be complied with.

**Recommendation No. 2: The Department may consider the following:**

- **VAHAN software may be modified to determine FC validity period based on vehicle category. Controls may also be built in to prompt the officials regarding FC default of vehicles appearing for obtaining other services from the Department.**
- **Service stations<sup>6</sup> having qualified personnel and testing equipments may be authorised for conduct of fitness test in an efficient manner with the task of fitness testing and certification in the interest of greater efficiency and effectiveness.**
- **Details of Vehicles in default of renewal of RC or FC may be generated through VAHAN and real time access may be given to all the Departments having stake in regulation of vehicle movements.**
- **Awareness among public may be created by advertising the necessity of renewal of registration/fitness certificate through audio visual media, particularly the FM Radio, which has currently the widest reach.**

**5.4.3 Inadequate controls to monitor and follow up tax default cases**

Demand, Collection and Balance (DCB<sup>7</sup>) statements are to be prepared periodically which provide management information on tax default cases and helps Department to follow them up with recovery proceedings. Non-utilization of DCB module of the VAHAN software was pointed out to the Department in the IS Audit in 2011.

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<sup>5</sup> Considering at least 8 hours on the job on a daily basis.

<sup>6</sup> Section 56(2) of MV Act provides for notification of “authorised testing stations” for conducting fitness tests and issue of FCs.

<sup>7</sup> Preparation of DCB Statement involves booking of demand as and when tax becomes due for the State, posting of collection after reconciliation and striking of balance. Action taken for recovery of the balance shall also be prepared on each DCB statement. Scrupulous compliance with the above steps in preparation of DCB is essential for a proper tax administration.

The Government had replied in September 2012 that certain problems were encountered due to bifurcation of some RTOs by opening new offices, legacy data entry of all the RTOs/ARTOs, etc and stated that necessary action will be taken to implement the DCB module after addressing these problems.

On verification, it was noticed that the DCB module has not yet been put to use in 24<sup>8</sup> out of the 59 RTOs/ARTOs as of 31 March 2015, which is a matter of concern.

#### 5.4.3.1 Failure to detect and follow-up arrears of tax

In the RTOs/ARTOs, where the module was being used, analysis revealed that processing of DCB statements in VAHAN software was erroneous and was not capable of detecting all the defaults in payment of quarterly taxes due from transport vehicles. For instance, no entries were found in the DCB tables in respect of 68,653<sup>9</sup> transport vehicles which had stopped payment of quarterly tax. In the absence of entry in DCB statements, the follow-up on the arrears of revenue in these cases is not possible.

In respect of these vehicles, 1 to 19 quarterly tax payments were in default as on 31 March 2015 and the total revenue due amounted to ₹ 141.65 crore.

Incorrect processing controls in VAHAN resulted in the following deficiencies as well:

1. The tax payments made in other RTOs/ARTOs in the State are not getting accounted for against the tax demand in the parent RTOs. During 2010-11 to 2014-15, it was noticed that 676 vehicles were mentioned in the DCB table as defaulters for the period for which tax had already been paid. It was also noticed that the VAHAN system does not exclude the vehicles which are exempted from payment of tax under non-use declaration while generating DCB statements. These errors resulted in overstatement of arrears. This issue was also pointed to the Department in the Performance Audit on 'Computerisation of Transport Department', for which Department had replied in September 2012 that all the offices of the Department would be networked. However, the same has not been implemented even as of November 2015.
2. Out of 15.67 lakh entries in the DCB tables, 8.58 lakh entries (54.75 *per cent*) were showing arrears for future periods. Hence, the figures generated did not represent a true picture of the position of arrears of the office.
3. DCB statements generated through VAHAN do not have provision for booking demand for penalty<sup>10</sup> due from defaulters. Consequently, there were omissions in collecting penalty from 39,194 vehicles which defaulted in

<sup>8</sup> Autorickshaw, Bagalkote, Balki, Ballari, Basavakalyana, Belagavi, Chamarajanagara, Davanagere, Hosapete, Hunsur, Jamkhandi, Jnanabharathi, Karwar, Kolar, Madikeri, Mandya, Mysore (West), Nagamalagala, Puttur, Raichur, Ramanagara, Sirsi, Tiptur and Yadgir.

<sup>9</sup> The list of these vehicles has been prepared considering all the aspects such as vehicles moved out on NOC/CC, exemption claimed on account of surrender of documents of vehicles under non-use, tax paid in any other RTO, etc.

<sup>10</sup> Section 12-B of KMVT Act, 1957, provides for composition of offences on payment of money as prescribed under the Act. Rule 29(1) of KMVT Rules, 1957, prescribes payment of penalty of 20 *per cent* of quarterly tax in case of default of tax.

making quarterly tax payments of ₹ 47.40 crore between April 2010 and March 2015, but paid the taxes due after delay ranging from seven days to over four years. Non-levy of penalty in these cases amounted to ₹ 9.48 crore.

Analysis of data also revealed that in respect of 1,23,716 vehicles, which had paid tax of ₹ 129.64 crore after the due dates prescribed under the Act, penalty of ₹ 7.78 crore only was levied and collected by the RTOs/ARTOs. The actual amount of penalty recoverable in these cases was ₹ 25.93 crore. Thus, the short levy of penalty amounts to ₹ 18.15 crore.

4. During 2010-11 to 2014-15, the DCB statements generated contained 12,093 entries involving ₹ 8.73 crore of negative arrears owing to negative figures in the opening and closing balances of the tables.

The reason for this as found in Audit analysis was that when any vehicle is in default for several quarters continuously, instead of booking the total amount of tax due from that vehicle, tax due for the first quarter of default alone is booked in the DCB. As a result, when a vehicle which is in default for more than one quarter, makes payment towards total arrears or any other sum exceeding tax for one quarter, the net closing balance of arrears would be a negative figure. This information is not only misleading with reference to the vehicle in particular (by way of not showing the correct tax due), the negative amount would, while summing up the arrears for that period for the RTO as a whole, affect the total amount. Due to this, total arrears for the RTO would invariably get understated.

Depiction of only one quarter tax in the DCB is being followed in the Department since April 1986 in accordance with a Circular<sup>11</sup> issued by the Commissioner for Transport on 8 April 1986.

In the said circular, the Commissioner had directed that in respect of the vehicles which have paid tax regularly for some time and discontinued thereafter, demand should be restricted to one quarter or one year, as the case may be, for the purpose of accounts. This decision was taken to avoid depiction of inflated arrears in DCB due to various reasons mentioned therein such as lack of information on vehicles that are scrapped or moved out of the State, etc.

The same reasons however, do not hold good for the present scenario, particularly post-2009, when the Department has completely switched over to computerised environment and information in digital form is available across various Departments of Government of Karnataka. Hence, the DCB generated are not reliable and not depicting the correct position of arrears of revenue.

In the exit conference, the Government accepted that booking of one quarter of tax in DCB against the total amount of arrears due from defaulting vehicles do not provide the correct position of arrears and hence the 1986 circular has to be withdrawn and correct procedure has to be followed.

**Recommendation No. 3: The Department may take appropriate steps to modify VAHAN system to raise demand for tax from all the vehicles as and when the tax amount becomes due to the State Government and update the same with further periodical dues, so that the DCB statements**

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<sup>11</sup> Circular No. CT/DCB/PR-125/85.6 dated 8.4.1986

**represent true and fair view of position of arrears in each RTO and for the Department as a whole.**

#### **5.4.3.2 Non detection of missing quarterly tax payments by transport vehicles**

Owners of transport vehicles are permitted to pay quarterly tax in any of the 59 RTO/ARTO offices or 15 check posts established across the State border. It is a good facility offered by the Department to the public. But this facility requires an integrated system which can capture the details of payments made anywhere in the State in a central server, so that continuity in payment of tax could be ensured or default could be detected. As of June 2015, the Department does not have an integrated system, but all RTOs/check posts are functioning in distributed network systems which are not even inter-connected to share data.

With a view to ensure that adequate controls exist in the Department to ensure regular payment of quarterly tax by the transport vehicles and the tax paid are at the prescribed rate, quarterly tax payment details of transport vehicles under five<sup>12</sup> categories operating in all the 59 RTOs were examined.

Audit analysis revealed that adequate controls were not in place in the Department to ensure continuity in payment of quarterly tax and at the prescribed rate as mentioned below:

1. It was noticed that 22,002 (5.63 *per cent* out of 3,90,832 vehicles analysed) transport vehicles skipped payment of tax for one to 16 quarters and accepted for the intervening or recent quarters between 1 April 2010 and 31 March 2015. The Department also failed to detect the same and raise demands through DCB. The total amount of tax due in these cases was ₹ 45.31 crore. Besides, a mandatory penalty of ₹ 9.06 crore was also leviable.
2. Also, during the same period, short payment of quarterly tax to the tune of ₹ 2.71 crore by 4,575 (1.17 *per cent*) transport vehicles was noticed in 44 RTOs/ARTOs<sup>13</sup>. Though quarterly tax collected was less than the actual amount due, the differential amounts were not demanded by the RTOs/ARTOs concerned.

Thus, there was no effective control to detect missing quarterly tax payments or short payments and follow them up with suitable action. In the absence of centralised network system, the Department should have at least envisaged data porting from the RTO/ARTO or Check Post in which tax has been paid to the RTO in which the vehicle is registered ('parent' RTO). As of now, no such data porting is being done, leaving the system vulnerable to the possibility of skipping tax payment for intervening quarters/periods.

<sup>12</sup> HPV, MPV, LPV, HGV and MGV.

<sup>13</sup> Basavakalyana, Ballari, Belagavi, Bengaluru (Central), Bengaluru (West), Bengaluru (East), Bengaluru (North), Bengaluru (South), Bidar, Bhalki, Chickballapura, Chikkodi, Chitradurga, Davangere, Devanahalli, Dharwad, Electronic City, Gadag, Hassan, Honnavara, Hospet, Hunsur, Jnanabharathi, Kalaburgi, Kolar, Koppal, K.G.F, K.R.Puram, Madhugiri, Madikeri, Mangaluru, Mandya, Mysore East, Mysore West, Nagamangala, Nelamangala, Puttur, Raichur, Sagar, Sakaleshapura, Tumkur, Vijayapur, Yelahanka and Yadgir.

The payment made by vehicle owners in RTOs/ARTOs other than in the parent RTO is getting recorded in two different tables. The reason for having two different tables for the same purpose is not forthcoming. This would add to the difficulties to track payment and port data to the parent RTO/ARTO.

Proper maintenance of tax card<sup>14</sup> and insisting production of tax card, at the time of payment of tax by the owner of the vehicle, by the Department would be a appropriate control to ensure that quarterly tax for a vehicle is paid regularly without any missing tax periods and at the appropriate rate.

The Government/Department stated in the exit conference, that consolidated data of payment of quarterly tax in respect of transport vehicles is being taken up in a newer version of VAHAN software. The Government/Department also agreed to the suggestion to modify VAHAN Software so as to raise demand for tax from vehicle owners as and when due, update with further periodical dues, so that the DCB statements provide true and fair view of arrears.

**Recommendation No. 4: The Department may switch over to centralised database network system and also introduce smart tax cards to access all the relevant information regarding transport vehicles, such as the date up to which quarterly tax has been paid by the vehicle, actual amount of quarterly tax fixed for the vehicle, etc. at the time of collection of tax at any RTO in the State.**

#### **5.4.3.3 Incorrect extension of tax exemptions<sup>15</sup> to transport vehicles**

Tax exemption availed by transport vehicles for being under 'non-use' between April 2010 and March 2015 were analysed to verify whether adequate controls were in place to ensure that exemption granted were in accordance with the provisions of the KMVT Act and necessary action for cancellation of RC or collection of tax is taken after the period of exemption. The exemptions were granted after collecting all the prescribed documents, but there are no controls to ensure that period of such exemptions are restricted as per the provisions of the Act, i.e. one year on application and extendable up to three years continuously at a time. Also, there was no information in the VAHAN in respect of the cases where applications of 'non-use' were rejected by the Department. In the IS Audit of 'Computerisation of Transport Department' of the Audit Report of the year 2010-2011, it was commented (Paragraph 4.7.8.3), that the Surrender of Vehicles module was not being used by the Department as of November 2011. The Government

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<sup>14</sup> Under Section 5 of the KMVT Act, 1957, when the tax levied under Section 3 in respect of a motor vehicle is paid, the taxation authority shall issue to the person paying the tax (a) a receipt in the prescribed form indicating therein the amount of tax paid; and (b) a taxation card in the prescribed form indicating therein the rate at which the tax is leviable and the period for which the tax has been paid.

<sup>15</sup> By a Notification dated 6.9.2007, Government of Karnataka exempted motor vehicles registered in the State of Karnataka and not used on roads, from payment of tax under the said Act for a period of one quarter, half year or year as the case may be. The owners are required to surrender the documents such as Registration Certificate, Permit and Fitness Certificate with the registering authority. The period of non-use shall not exceed three years at a time. Thereafter, the authorities may take action to cancel the registration.

replied that provision is made in VAHAN to record surrender of vehicle and training has been imparted to the officers of the Department to use this module. Details of the findings are mentioned below:

1. In 45 RTOs/ARTOs<sup>16</sup>, 7,226 vehicle owners had applied for non-use and paid fee for the same as of 31 March 2015. Of these, only 4,961 vehicles were found in the surrender table of VAHAN. It was not ascertainable from the records whether the applications for non-use were rejected in respect of the remaining vehicles or were processed outside VAHAN software;
2. Between April 2010 and March 2015, 1,423 vehicles were granted exemption under 'non-use'. Of these, only 75 vehicles were released subsequently. The remaining 1,348 vehicles have not been released by their owners. Of these, 366 vehicles were found to be under non-use for more than three years. However, no action was taken by the RTOs to cancel the RCs in any of these cases;
3. It was also noticed in the table relating to revoking of exemption from payment of tax that 458 vehicles released between April 2010 and March 2015 were stated to be under surrender after 1.4.2010 in the release table. However, there was no corresponding entry in the table relating to grant of exemption. This indicates incorrect processing in VAHAN.

In view of the incomplete database in VAHAN in respect of vehicles claiming exemption for non-use, the manual records maintained in 15 RTOs/ARTOs<sup>17</sup> were test checked by Audit and noticed that from 1966-67, 2,991 vehicles were kept under non-use. The Department did not take any action to cancel the registration of vehicles under non-use for more than three continuous years.

Analysis of the data and the records maintained in the RTOs also revealed that the Department is not enforcing the renewal of the non-use period by the applicants. Government/Department did not furnish their reply in this regard (November 2015).

#### **5.4.4 Demand and collection of Life Time Tax on non-transport and construction equipment vehicles**

Life Time Tax (LTT) on non-transport vehicles and construction equipment vehicles<sup>18</sup> is levied on the invoice price of the vehicle. Design weakness in

<sup>16</sup> Ballari, Belagavi, Bengaluru (Central), Bengaluru (West), Bengaluru (East), Bengaluru (North), Bengaluru (South), Bidar, Bhalki, Chamarajanagar, Chickballapura, Chikkodi, Chitradurga, Davangere, Devanahalli, Dharwad, Electronic City, Gadag, Hassan, Honnavara, Hospet, Hunsur, Kalaburgi, Koppal, K.G.F, K.R.Puram, Madhugiri, Madikeri, Mangaluru, Mandya, Mysuru (East), Mysuru (West), Nagamangala, Nelamangala, Puttur, Raichur, Jnanabharathi, Sagar, Sakaleshapura, Tumakuru, Vijayapur, Yelahanka, and Yadgir.

<sup>17</sup> Bengaluru (Central), Bengaluru (East), Bhalki, Electronic City, Gadag, Kalaburgi, Hosapete, Hunsur, Koppal, K.R. Puram, Madhugiri, Mysuru (West), Raichur, Sagar and Yelahanka

<sup>18</sup> Construction equipment vehicle means "rubber tyred (including pneumatic tyred), rubber padded or steel drum wheel mounted, self propelled, excavator, loader, backhoe, compactor roller, dumper, motor grader, mobile crane, dozer, fork lift truck, self-loading concrete mixer or any other construction equipment vehicle or combination thereof

VAHAN in capturing the details of invoice price of each registered vehicle which was leading to incorrect invoice price or not capturing the invoice price in the registration table was pointed out to the Department in the IS Audit of Computerisation of Transport Department. It was also reported that the VAHAN system does not prompt for collection of tax on expiry of exempted period.

In their reply Government stated in September 2012 that matter has been referred to the NIC for rectification.

Audit analysis of the VAHAN database, however, revealed that, as of 31 March 2015, no improvement in the system has been implemented to address the above issues. In this connection, the following further observations are made:

- (1) Out of 9,167 battery operated vehicles registered between April 2005 and March 2010, sale amount in respect of 2,147 vehicles was not captured in VAHAN and for the remaining vehicles, the data integrity is compromised because of unrealistic figures. Similarly, out of 12,618 construction equipment vehicles registered between April 2010 and March 2015, sale amount was not captured in respect of 790 vehicles.
- (2) Between April 2005 and March 2010, 6,427 two wheelers and 2,740 LMVs operated on electricity were registered. After availing exemption for the initial five years, these vehicles were liable for payment of LTT between April 2010 and March 2015. Of these, 3,870 two wheelers and 529 LMVs failed to pay the tax dues. No action was taken by the RTOs/ARTOs concerned to demand and collect the tax due in these cases. No entries were found in the DCB Statements generated through VAHAN in respect of tax due from these cases. Non demand of LTT amounted to ₹ 83.14 lakh<sup>19</sup> in these cases.
- (3) In 36 RTOs/ARTOs<sup>20</sup> in respect of 589 construction equipment vehicles registered between April 2010 and March 2015, only one instalment of tax had been paid by their owners. Second instalment of LTT<sup>21</sup> amounting

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designed for off-highway operations in mining, industrial undertaking, irrigation and general construction but modified and manufactured with “on or off” highway capabilities”.

<sup>19</sup> Sale value of 3870 two wheelers was taken at ` 30,000 per vehicle and that of 529 LMVs taken at ₹3,50,000/- in the absence of invoice price data in the registration table.

<sup>20</sup> Belagavi, Bengaluru (Central), Bengaluru (West), Bengaluru (East), Bengaluru (South), Bhalki, Bidar, Chamarajanagara, Chickballapura, Chikkodi, Chitradurga, Davangere, Devanahalli, Dharwad, Electronic City, Gadag, Hassan, Hosapete, Hunsur, Jnanabharathi, Kalaburgi, Kolar, Koppal, K.G.F, K.R.Puram, Madikeri, Mangaluru, Mandya, Mysuru (West), Nagamangala, Nelamangala, Raichur, Sagar, Tumakuru, Vijayapur and Yelahanka

<sup>21</sup> As per Schedule A-7 of KMVT, Act, 1957, the rate of LTT leviable on construction equipment vehicle is six *per cent* on the cost of the vehicle with effect from 1 April 2010. The Schedule also provides percentage of depreciation to be allowed in calculating LTT based on the age of the vehicle from the date of registration up to 1 April 2010. Section 3-A of KMVT Act, 1957, provides for levy of *cess* rate of 10 *per cent* with effect from 1 April 2010 and 11 *per cent* with effect from 1 April 2011 on LTT. Section 4 of KMVT Act, 1957, provides that LTT on these vehicles is to be paid in two equal installments i.e. first installment to be paid on the tax due or at the time of registration and second installment to be paid within six months from the date of payment of first installment. The benefit of payment of tax in two installments was removed with effect from 1 April 2013

to ₹ 3.78 crore was neither demanded nor paid by the owners of vehicles between April 2010 and March 2015. The LTT due from these vehicles were not depicted in the DCB tables of VAHAN software.

These cases would establish that the Department has not taken adequate measures to develop control mechanism in the VAHAN software to ensure capturing the correct invoice price of the vehicles registered and to watch recovery of LTT due from vehicles after the period of exemption. Besides, follow-up on LTT due from battery operated vehicles and construction equipment vehicles by the RTOs concerned were also inadequate.

The Government/Department stated in the exit conference, that construction equipment vehicles are used in project areas and rarely found on roads. It was difficult to trace these vehicles even by inspecting the project sites. Most of these vehicles would have moved out of the State also. But efforts are being made to trace these vehicles and recover tax. For new registration, entire amount of LTT due is being collected at the time registration and hence such cases of non-realisation of second instalment would not arise in future. It was also replied that the DCB will be updated with arrears in LTT on battery operated vehicles and construction equipment vehicles and would be followed up.

#### **Excess collection of tax from the battery operated vehicles**

Audit analysis revealed that in respect of 3,319 battery operated vehicles registered between April 2010 and March 2015, LTT was collected by 49 RTOs/ARTOs<sup>22</sup> on the date of registration, depriving the owners thereof of the exemption available under the notification.

The total LTT collected from these vehicles amounted to ₹ 3.25 crore. The tax amount that would be due from these vehicles after five years from the date of registration would be ₹ 2.24 crore, which resulted in excess collection of tax of ₹ 1.01 crore.

The concession/exemption granted to the battery operated vehicles by the Government is to promote use of alternate sources of energy in vehicles.

The Department stated that the issue of collection of tax in advance in respect of battery operated vehicles will be examined and that the Notification granting exemption of tax for a period of five years will be looked into.

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in KMVT (Amendment) Act, 2013, and from that date entire amount of tax was payable on the date of registration.

<sup>22</sup> Bagalkote, Ballari, Belagavi, Bengaluru (Central), Bengaluru (West), Bengaluru (East), Bengaluru (North), Bengaluru (South), Bidar, Chickmagalur, Chitradurga, Davangere, Devanahalli, Dharwad, Electronic City, Gadag, Gokak, Hassan, Haveri, Honnavara, Hospet, Hunsur, Jnanabharathi, Jamakandi, Kalaburgi, Karwar, Kolar, Koppal, K.G.F, K.R.Puram, Madhugiri, Madikeri, Mangaluru, Mandya, Mysore East, Mysore West, Nagamangala, Nelamangala, Puttur, Ramnagar, Raichur, Sagar, Shimoga, Sirsi, Tiptur, Tumkur, Udipi, Vijapura and Yelahanka.

#### 5.4.5 Non demand/escapement of levy of Green Tax

Data analysis was carried out with a view to ensure that the system of levy and collection of Green Tax (GT)<sup>23</sup> is effective and adequate in respect of non-transport vehicles and transport vehicles.

Analysis of 5,29,159 transport vehicles was done which were registered between April 2000 and 31 March 2007 and were liable for payment of GT at least one time between 2010 and 2015. It was noticed that department had not realised GT of ₹ 23.52 crore from 4,02,666 vehicles.

For the same period i.e. between 2010 and 2015, GT of ₹ 29.01 crore due from 9,69,706 non-transport vehicles was also not realised by Government as these vehicles did not appear for renewal of RC.

It was noticed that the non-realisation was mainly due to GT getting collected at the time of vehicles being presented for FC/renewal of RC. Whenever vehicles fail to appear for FC or renewal of RC, as the case may be, collection of GT also gets affected.

The ACS stated in the exit conference, that the Green Tax is an annual levy after seven years of initial registration of transport vehicles and has to be collected at the time of renewal of FC of transport vehicles for all earlier years for which it was due.

**Recommendation No. 5: Section 3-B of the KMVT Act may be amended to ensure collection of green tax from all vehicles after their prescribed age.**

#### 5.4.6 Conclusion

System in place seems to be fairly adequate to ensure proper registration of vehicles and for levy and collection of LTT on non-transport vehicles at the time of registration. But adequate controls are not built into the system to ensure regular payment of quarterly tax at prescribed rate in case of transport vehicles. The system of monitoring and follow-up in this regard are also found to be lacking due to incorrect DCB statements generated through VAHAN and booking of only one quarter tax per vehicle as arrears as against actual amount of tax due from the tax defaulting vehicles. Controls with regard to regulation of use of motor vehicles were also found to be inadequate due to poor compliance level with FC/renewal of RC provisions. Department had not made any realistic assessment of number of vehicles that could be tested by an IMV in a day for the purpose of FC. Recovery of 'Green Tax'

<sup>23</sup> Under Section 3-B of the KMVT Act 1957, GT shall be levied and collected from the owners of non-transport vehicles and transport vehicles for the purpose of implementation of various measures to control air pollution. The rates for collection GT are as below:

Class and age of the vehicle	Rate of GT
Non-transport vehicle after completing 15 years from the date of its registration or at the time of renewal of certificate of registration	
(a) Two wheelers	250
(b) Other than two wheelers	500
Transport vehicles after completing seven years from the date of its registration or at the time of renewal of fitness certificate	200 per annum

was impaired due to its collection being linked with FC/renewal of RC. The Department accepted the recommendations in the exit conference.

## 5.5 Non-demand and collection of LTT on construction equipment vehicles

Construction equipment vehicles, which were taxed at quarterly rates upto 31 March 2010, were brought under LTT by the KMVT (Amendment) Act, 2010 with effect from 1 April 2010. By the KMVT (Second Amendment) Act, 2010, the rate of tax was fixed at six *per cent* of the cost of the vehicle at the time of registration of new vehicles. Appropriate reduction in rates according to the age of the vehicle was prescribed for those already registered. This tax was permitted to be paid in two equal instalments, half the amount of tax at the time of registration or the date when it becomes due and the balance within six months from the date of payment of the first instalment. Cess at 10 *per cent* of the tax upto 31 March 2011 and at 11 *per cent* from 1 April 2011 was also leviable.

On test check of records of 10 RTOs/ARTOs between May 2014 and November 2014, Audit noticed the following:

In six<sup>24</sup> RTOs/ARTOs, LTT and cess of ₹ 77.46 lakh in respect of 67 construction equipment vehicles were not collected. In one case in RTO, Mysuru (East), tax was levied at quarterly rates instead of LTT for a vehicle registered during October 2011. In the remaining 66 cases, LTT was not collected.

Further, in 21 cases in six<sup>25</sup> RTOs/ARTOs, we noticed that the owners of the vehicles had paid the first instalment, but not paid the second instalment amounting to ₹ 15.02 lakh.

The total non-demand and short/non collection of LTT works out to ₹ 92.48 lakh.

After this was brought to the notice of the Commissioner for Transport and Road Safety during March 2015 and referred to Government during June 2015, ₹ 18.66 lakh was recovered in 22 cases. Reply is awaited in respect of the remaining cases (November 2015).

## 5.6 Non-demand of quarterly tax

Section 3 of the KMVT Act, 1957 provides for levy of tax on all motor vehicles that are suitable for use on roads. Taxes for different categories of vehicles are to be levied at the rates specified in the schedule to the Act. The tax levied shall be paid by the registered owners of the vehicles in advance for a quarter, half year or year, within fifteen days from the commencement of such period. In addition, cess at 11 *per cent* of the tax is also leviable.

During test check of records of seven<sup>26</sup> RTOs between September 2014 and January 2015, Audit noticed that tax and cess of ₹ 34.08 lakh, due for the various periods from January 2012 to May 2014 in respect of 93 vehicles of different classes, were not paid. The RTOs concerned had not taken action to raise demand and recover the taxes due.

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<sup>24</sup> Bengaluru (West), Belagavi, Kalaburgi, Mysuru (East), Kolar Gold Fields (KGF) and Vijapura

<sup>25</sup> Bagalkot, Belagavi, Dharwad, Koppal, KGF and Tiptur

<sup>26</sup> Bagalkote, Ballari, Jamkhandi, KGF, Koppal, Mangaluru and Puttur

After these cases were brought to the notice of the Commissioner for Transport and Road Safety during March 2015 and referred to Government during June 2015, ₹ 4.40 lakh was recovered in 19 cases and demand notices were issued in 14 cases. Reply is awaited in respect of remaining cases (November 2015).

### **5.7 Non-demand of LTT on motor vehicles run on electricity**

Section 3(1) of the KMVT Act, 1957, provides for levy of LTT on motor cycles and motor cars. Notification No.HTD 236 TME 93 issued in November 1993 exempted motor vehicles run on electricity from payment of tax for a period of five years from the date of registration. Further, KMVT (Amendment) Act, 2010 prescribed LTT at four *per cent* for motor cycles and motor cars run on electricity in Part A1 and Part A5 of the Schedule respectively with age-wise reduction in rates of tax. Cess at 10 *per cent* of the tax upto 31 March 2011 and at 11 *per cent* from 1 April 2011 is also leviable.

During test check of records in five<sup>27</sup> RTOs and one<sup>28</sup> ARTO between June and October 2014, Audit noticed that LTT was not demanded on 45 motor cars and 25 motor cycles run on electricity after the exemption period of five years. The total non-demand of LTT amounted to ₹ 5.73 lakh.

After this was brought to the notice of the Department between July and December 2014 and referred to the Government, in June 2015, ₹ 3.97 lakh was recovered in 35 cases and demand notices were issued in 30 cases. Replies are awaited in respect of remaining five cases (November 2015).

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<sup>27</sup> Bengaluru (Central), Bengaluru (East), Bengaluru (North), Bengaluru (South) and K.R. Puram.

<sup>28</sup> Hunsur.

