

CHAPTER III

REVENUE RECEIPTS

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3.1 Trend of Revenue Receipts

3.1.1 The tax and non-tax revenue raised by the Government of the Union Territory of Puducherry and the Grants-in-Aid received from the Government of India (GOI) during the year 2017-18 and the corresponding figures for the preceding four years are mentioned in **Table 3.1**.

Table 3.1: Trend of revenue receipts

(₹ in crore)

Sl. No.	Category	2013-14	2014-15	2015-16	2016-17	2017-18
I	Revenue raised by the Government					
	(a) Tax revenue	1,904.51	1,992.74	2,260.34	2,401.21	2,805.55
	(b) Non-tax revenue	1,192.59	1,300.36	1,137.75	1,245.37	1,373.73
	Total (I)	3,097.10	3,293.10	3,398.09	3,646.58	4,179.28
II	Receipts from GOI - Grants-in-Aid	1,210.51	1,464.80	1,689.86	1,736.37	1,823.39
III	Total receipts of the Government (I + II)	4,307.61	4,757.90	5,087.95	5,382.95	6,002.67
IV	Percentage of I to III	72	69	67	68	70

(Source: Finance Accounts of the respective years)

During the year 2017-18, the revenue raised (₹ 4,179.28 crore) by the Union Territory Government was 70 per cent of the total revenue receipts (₹ 6,002.67 crore), as against 68 per cent in the preceding year. The balance (₹ 1,823.39 crore) 30 per cent of the receipts during 2017-18 were obtained from the GOI as Grants-in-Aid and contributions.

3.1.2 The details of tax revenue raised during the period from 2013-14 to 2017-18 are given in **Table 3.2**.

Table 3.2: Details of Tax Revenue raised

Sl. No.	Heads of revenue	2013-14		2014-15		2015-16		2016-17		2017-18		Percentage of increase (+)/ decrease (-) in 2017-18 over 2016-17
		Budget	Actuals									
1	Goods and Services Tax	Nil	851.31	*								
2	Taxes on Sales, Trade, etc.	1,505.00	1,256.71	1,380.00	1,313.13	1,510.00	1,438.89	1,600.00	1,576.48	1,725.00	1,008.45	**
3	State Excise	620.00	511.72	560.00	544.67	630.00	673.75	775.00	671.27	700.00	769.92	(+)14.70
4	Stamps and Registration Fees	98.00	82.79	96.00	74.96	115.00	76.37	100.00	65.50	80.00	70.50	(+)7.63
5	Taxes on Vehicles	66.00	51.95	63.00	58.46	83.00	69.34	83.00	86.94	92.00	104.29	(+)19.96
6	Land Revenue	0.80	1.14	0.80	1.30	1.75	1.93	1.75	1.02	2.62	1.08	(+)5.88
7	Others	0.20	0.20	0.20	0.22	0.25	0.06	0.25	Nil	0.38	Nil	Nil
Total		2,290.00	1,904.51	2,100.00	1,992.74	2,340.00	2,260.34	2,560.00	2,401.21	2,600.00	2,805.55	

* New scheme of taxation introduced with effect from 1 July 2017

** Not comparable since VAT on all items except petroleum goods and alcohol subsumed in GST from 1 July 2017.
(Source: Finance Accounts of the respective years)

3.1.3 The details of non-tax revenue raised during the period from 2013-14 to 2017-18 are given in **Table 3.3**.

Table 3.3 : Details of non-tax revenue raised

Sl. No.	Heads of revenue	2013-14		2014-15		2015-16		2016-17		2017-18		Percentage of increase (+) / decrease (-) in 2017-18 over 2016-17
		Budget	Actuals									
1	Power	1,200.00	1,055.15	1,220.00	1,159.92	1,300.00	990.60	1,200.00	1,116.21	1,253.00	1,197.17	(+) 7.25
2	Interest Receipts, Dividends and Profits	36.29	68.44	81.62	93.28	93.28	91.88	97.10	66.45	72.10	98.90	(+) 48.83
3	Medical and Public Health	14.50	9.46	10.97	9.15	12.54	16.58	19.01	13.51	14.01	16.64	(+) 23.17
4	Education, Sports, Art and Culture	0.26	0.91	1.00	0.99	1.14	2.22	2.44	1.07	2.44	1.25	(+) 16.82
5	Crop Husbandry	0.46	0.38	0.41	0.43	0.47	0.66	0.72	1.23	1.32	1.13	(-) 8.13
6	Other receipts	58.49	58.25	46.00	36.59	52.57	35.81	50.73	46.90	57.13	58.64	(+) 25.03
Total		1,310.00	1,192.59	1,360.00	1,300.36	1,460.00	1,137.75	1,370.00	1,245.37	1,400.00	1,373.73	

(Source : Finance Accounts of the respective years)

3.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2018 under the principal heads of revenue amounted to ` 968 crore, of which ` 306.48 crore were outstanding for more than five years, as detailed in **Table 3.4**.

Table 3.4 : Arrears of revenue

(₹ in crore)

Sl. No.	Departments	Total arrears	Arrears outstanding for more than five years	Remarks
1	Agriculture	0.32	0.32	Arrears due from Puducherry Agro Services and Industrial Corporation Limited (PASIC) and local bodies towards rent, cost of seeds and other services.
2	Commercial Taxes	291.87	180.75	Arrears related to collection of tax under PGST/CST and VAT Acts and major portion was covered under Court cases.
3	Co-operative	0.29	0.01	Arrears related to societies, which were dormant/under liquidation.
4	Electricity	461.15	103.18	Arrears were due to non-payment of electricity charges.
5	Excise	52.14	11.85	Arrears were mainly due to non- payment of <i>kist</i> by the lessees of arrack and toddy shops.
6	Fisheries and Fishermen Welfare	0.03	0.03	Arrears of lease amount on fish farm at Coringa River, Yanam.
7	Government Automobile Workshop	1.15	0.62	Arrears were due from Government departments towards sale of petrol, oil and lubricants and work bills.
8	Hindu Religious Institutions and Wakf Board	0.74	0.43	Arrears were due to shortfall in collection of dues from temples.
9	Industries and Commerce	0.10	0.10	Arrears related to rent due from defunct industrial units.
10	Information and Publicity	0.12	0.12	Arrears related to rental dues from Government guest house and canteen.
11	Judicial	0.07	0.04	Arrears in payment of fines and pendency of appeals in Courts.
12	Local Administration	136.00	0.00	Arrears related to due in property tax, rent, entertainment tax, water charges and professional tax.
13	Public Works Department	23.17	8.82	Arrears related to licence fee for Government quarters and water tax.
14	Stationery and Printing	0.68	0.15	Arrears related to non-recovery of dues from Government departments.
15	Tourism	0.16	0.05	Arrears were mainly due from Guests and Government officials towards room rent.
16	Town and Country Planning	0.01	0.01	Arrears related to final cost of plots due from the allottees of various housing schemes.
Total		968.00	306.48	

(Source : Details furnished by respective Departments)

Adi-Dravidar Welfare Department, District Rural Development Agency, Revenue and Disaster Management Department and Transport Department did not furnish (January 2019) the details of arrears of revenue.

3.3 Arrears in assessments

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed off during the year and number of cases pending for finalisation at the end of the year, as furnished by the Commercial Taxes Department (CTD), in respect of Value Added Tax, are shown in **Table 3.5**.

Table 3.5 : Arrears in assessments

Head of revenue	Opening balance	New cases due for assessment during 2017-18	Total assessments due	Cases disposed of during 2017-18	Balance at the end of the year	Percentage of disposal (col. 5 to 4)
(1)	(2)	(3)	(4) = (2)+(3)	(5)	(6)=(4)-(5)	(7)
VAT Scrutiny Assessment	21,792	4,448	26,240	2,215	24,025	9.22

(Source : Details furnished by respective Department)

As the percentage of disposal was very low, the Department should take adequate steps for speedy finalisation of cases, which were selected for detailed scrutiny. The Commissioner replied (January 2019) that the pending assessments would be completed within a period of two years.

3.4 Evasion of tax detected by the Department

The details of cases of evasion of tax detected by CTD, cases finalised and the demands for additional tax raised as reported by the Department are given in **Table 3.6**.

Table 3.6 : Evasion of Tax

Head of revenue	Cases pending as on 31 March 2017	Cases detected during 2017-18	Total	Number of cases in which assessment/ investigation completed and additional demand with penalty etc., raised		Number of cases pending for finalisation on 31 March 2018
				Number of cases	Amount of demand (₹ in lakh)	
Sales Tax/VAT	408	12	420	30	45.74	390

(Source : Details furnished by respective Department)

It would be seen from the above table that finalisation of cases is very low when compared to the total pendency. The Department may institute appropriate measures for finalisation of pending cases, so as to ensure early realisation of revenue.

3.5 Response of the Departments/Government towards audit

Accountant General (Economic and Revenue Sector Audit), Tamil Nadu arranges periodical inspection of the Government Departments to test check the transactions and verify the maintenance of important accounts and other records as per the prescribed rules and procedures. These inspections are followed up with Inspection Reports (IRs). Important irregularities are included in the IRs, issued to the Heads of offices inspected with copies to the next higher authorities, for taking corrective action. The Heads of offices/Government are required to comply with the observations contained in the IRs, rectify the defects and omissions promptly and report compliance to the office of the Accountant General within one month from the dates of issue of the IRs. Serious irregularities are also brought to the notice of the Heads of Departments by the office of the Accountant General.

Inspection Reports issued upto 31 December 2017 disclosed that 772 paragraphs involving ₹ 253.76 crore relating to 204 IRs remained outstanding at the end of June 2018, along with the corresponding figures for the preceding two years, as mentioned in **Table 3.7**.

Table 3.7 : Details of pending IRs

Inspection reports	June 2016	June 2017	June 2018
Number of outstanding IRs	209	214	204
Number of outstanding audit observations	785	940	772
Amount involved (₹ in crore)	270.46	307.86	253.76

(Source: As per data maintained in the Office of the AG (E&RSA), Tamil Nadu)

3.5.1 Department-wise details of IRs and audit observations outstanding as on 30 June 2018 and the amounts involved are mentioned in **Table 3.8**.

Table 3.8 : Department-wise details of IRs

(₹ in crore)

Sl. No.	Tax Heads	Outstanding		Amount
		Inspection Reports	Audit Observations	
1	Sales Tax	44	273	104.20
2	Stamp Duty and Registration Fee	74	217	5.81
3	Taxes on Vehicles	48	193	4.34
4	State Excise	38	89	139.41
Total		204	772	253.76

(Source: As per data maintained in the Office of the AG (E&RSA), Tamil Nadu)

3.5.2 Non-production of records to audit for scrutiny

The programme of local audit of commercial tax offices is prepared sufficiently in advance and intimated to the Department one month before the commencement of local audit to enable them to keep relevant records ready for audit scrutiny.

During 2017-18, 230 sales tax assessment records relating to three offices were not made available for audit.

The matter regarding non-production of records in each office is included in IRs of the respective offices. The same was also brought to the notice of the Secretary, Commercial Taxes Department in January 2019. The reply of the Government was awaited (August 2019).

The delay in production of records for audit would render audit scrutiny ineffective, as rectification of under-assessments, if any, might become time barred by the time these records are produced to audit.

3.5.3 Response of the Departments to draft Audit Paragraphs

Five draft paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India for the year ended March 2018 was forwarded to the Secretaries of Revenue and Finance Departments between July and November 2018 through demi-official letters. The Secretary of the Revenue Department did not send reply to two draft paragraphs (January 2019). The paragraphs have been included in the Report without the response of the Secretary of the Department concerned.

3.5.4 Follow-up on Audit Reports

The internal working system of the Public Accounts Committee, 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. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports were being delayed inordinately. Twenty one paragraphs included in the Revenue Chapter of the Reports of the Comptroller and Auditor General of India relating to the Government of Union Territory of Puducherry for the years ended 31 March 2011 to 31 March 2017 were placed before the Legislative Assembly of UT between July 2012 and July 2018. The action taken explanatory notes from the concerned Departments in respect of nine paragraphs were received belatedly with average delay of more than 16 months, while in respect of 12 paragraphs included in the Audit Reports for

the year ended 31 March 2013 to 31 March 2017, explanatory notes were not received.

Eighteen paragraphs included in the Audit Reports of the Comptroller and Auditor General of India for the years 2010-11 to 2015-16 are yet to be discussed by PAC (January 2019), while action taken notes in respect of 50 recommendations pertaining to paras discussed by PAC were awaited from the Departments concerned.

3.6 Analysis of the mechanism for dealing with the issues raised by Audit

To analyse the system of addressing the issues highlighted in IRs/Audit Reports by the Departments/Government, the action taken on the paragraphs and Performance Audits included in the Audit Reports of the last 10 years for one Department has been evaluated and included in this Audit Report.

The succeeding paragraphs 3.6.1 to 3.6.3 discuss the performance of the Excise Department under revenue head '0039' and cases detected in the course of local audit during the last 10 years and also the cases included in the Audit Reports for the years 2008-09 to 2017-18.

3.6.1 Position of Inspection Reports

The summarised position of IRs issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2018 are tabulated in **Table 3.9**.

Table 3.9 : Position of Inspection Reports

(₹ in crore)

Year	Opening balance			Additions			Total			Clearance			Closing balance		
	IRs	Paras	Money value	IRs	Paras	Money value	IRs	Paras	Money value	IRs	Paras	Money value	IRs	Paras	Money value
2008-09	27	58	6.07	5	6	0.21	32	64	6.28	4	7	0.25	28	57	6.03
2009-10	28	57	6.03	2	3	0.16	30	60	6.19	6	8	0.21	24	52	5.98
2010-11	24	52	5.98	1	2	0.09	25	54	6.07	1	8	0.00	24	46	6.07
2011-12	24	46	6.07	7	21	132.78	31	67	138.85	10	20	3.27	21	47	135.58
2012-13	21	47	135.58	6	11	0.41	27	58	135.99	1	4	0.56	26	54	135.43
2013-14	26	54	135.43	8	23	0.72	34	77	136.15	0	3	0.02	34	74	136.13
2014-15	34	74	136.13	0	0	0.00	34	74	136.13	1	3	0.02	33	71	136.11
2015-16	33	71	136.11	3	10	0.82	36	81	136.93	0	0	0.00	36	81	136.93
2016-17	36	81	136.93	7	14	2.48	43	95	139.41	2	6	0.49	41	89	138.92
2017-18	41	89	138.92	6	16	0.94	47	105	139.86	5	11	0.43	42	94	139.43

(Source: As per data maintained in the office of the AG (E&RSA), Tamil Nadu)

As against 27 IRs involving 58 paragraphs, which were pending at the beginning of 2008-09, the number at the end of 2017-18 had increased to

42 IRs involving 94 paragraphs. This indicated that response to the local audit reports was poor and adequate steps needed to be taken by the Department to clear the outstanding IRs and paragraphs.

3.6.2 Recovery of accepted cases

During the last 10 years, three draft paragraphs and two Performance Audits involving ` 106.30 crore were included in the Revenue Receipts Chapter of the Report of the Comptroller and Auditor General of India, Government of the Union Territory of Puducherry. In respect of one case involving money value of ` 35.48 crore, the Government amended the provision retrospectively with effect from March 2007. Further, the Department also accepted audit observations involving ` 4.94 crore and recovered ` 1.92 crore.

3.6.3 Action taken on the recommendations accepted by the Department/Government

The draft Performance Audits are forwarded to the concerned Department/Government for their information with a request to furnish their replies. These reviews are also discussed in Exit Conference. The Department's/Government's views are considered while finalising the reviews for the Audit Reports.

Two Performance Audits, *viz.*, "Receipts from State Excise" and "Functioning of State Excise Department of the UT of Puducherry" were included in the Reports of the Comptroller and Auditor General of India for the year ended 31 March 2009 and 31 March 2015 respectively. The recommendations contained therein, *viz.*, incorporating provisions in the Act for levy of penalty for non-lifting of minimum guaranteed quantity of arrack and for collection of security deposit equal to twelve months' *kist*, framing a suitable provision in the Act for levy of interest on belated payment of excise dues and fixing a time limit for periodical revision of the licence fee in the Act, were accepted by the Government. However, necessary amendments to the Pondicherry Excise Act and Rules were awaited (January 2019).

3.7 Audit planning

The unit offices under various Departments are categorised into high, medium and low risk units according to their revenue position, past trends of audit observations, nature/volume of transactions, etc. The annual audit plan is prepared on the basis of risk analysis which, *inter-alia*, includes statistical analysis of the revenue earnings during the past five years, features of the tax administration, audit coverage and its impact during the past five years, etc.

During the year 2017-18, the audit universe comprised 33 auditable units; out of which, 16 units were planned and audited during the year 2017-18, *i.e.*, 48.48 *per cent* of the total auditable units.

3.8 Results of audit

Test check of the records of sales tax/value added tax, state excise, stamp duty and registration fees and taxes on vehicles conducted during the year 2017-18 revealed under-assessment/short levy/loss of revenue amounting to ₹ 32.76 crore in 67 cases. During the course of the year, the Department accepted under-assessments and other deficiencies in 12 cases involving ₹ 37.99 lakh and recovered a sum of ₹ 20.99 lakh in 11 cases. Out of this, two cases involving ₹ 0.23 lakh were pointed out in 2017-18 and the rest in earlier years.

3.9 Coverage of this Chapter

This Chapter contains a thematic audit on “Transition to GST in Puducherry” and two draft paragraphs one each in Commercial Taxes and Registration departments involving money value of ₹ 27.95 crore. The Department accepted audit observations involving ₹ 1.34 crore. After the issue of one draft paragraph, the Department collected an amount of ₹ 15.38 lakh.

COMMERCIAL TAXES DEPARTMENT

3.10 Audit of “Transition to GST in Puducherry”

3.10.1 Introduction

The Goods and Services Tax (GST), subsuming several central and state levies came into effect on 1 July 2017. GST is an indirect tax (or consumption tax) levied on the supply of goods and services. The GST system is a federal tax structure system, consisting of two components, *viz.*, Central GST (CGST) and State GST (SGST), with both the Centre and States empowered to levy tax simultaneously on every transaction of supply of goods and services except exempted goods and services and goods, which are outside the purview of GST. Accordingly, Central Goods and Services Tax Act, 2017 (CGST Act) and Puducherry Goods and Services Tax Act, 2017 (PGST Act) were enacted. For successful implementation of any new tax regime, adequate preparedness and transition provisions are a pre requisite. This is required to instill confidence among the tax payers about the new tax regime and to ensure that administration of tax and ease of doing business is not affected adversely.

The transitional provisions relating to migration of existing taxpayers and transitional arrangements for input tax credit are enumerated in Chapter XX of the CGST and PGST Acts. The said Acts provide that on and from the appointed day, every person registered under any of the existing laws and having a valid Permanent Account Number (PAN) shall be issued a certificate of registration on provisional basis subject to such conditions as may be prescribed, which unless replaced by a final certificate of registration, shall be liable to be cancelled, if the prescribed conditions are not complied with. The said Acts also entitle the registered dealers to carry forward the amount of credit available under the existing Acts, by submitting a declaration in FORM GST TRAN-1 and subject to the fulfilment of conditions prescribed for carry forward of such credit.

In the Union Territory of Puducherry (UT), GST is administered by the Commercial Taxes (CT) Department. The Commissioner of State Taxes, is the head of the Department and is assisted by Joint Commissioner of State Taxes and Deputy Commissioners of State Taxes, who exercise administrative control. The department has four divisional offices in Puducherry and one each in the outlying regions of Karaikal, Mahe and Yanam. The monitoring and control at the Government level is exercised by the Commissioner-cum-Secretary to Government (Finance), Puducherry.

The GST Council issued guidelines in September 2017 for division of tax base between the Centre and States to ensure single interface under GST. Accordingly, out of 14,063 taxpayers registered in the UT of Puducherry, 2,392 taxpayers were assigned to the Centre and the remaining 11,671 taxpayers were brought under the jurisdiction of the UT.

Audit was undertaken to ascertain whether the Department ensured migration of all existing taxpayers to the GST regime and correctness of credit carried forward by the dealers in FORM TRAN-1. For this process, the legacy data of Puducherry Value Added Tax (PVAT) was obtained from the CT Department and the details of registered dealers under PVAT Act as contained in VAT assessee master was compared with the GST registration data to verify the process of migration of tax payers. The data relating to TRAN-1 returns submitted by the registered dealers for claiming transitional credit, obtained from the BOWEB portal of the CT Department forms the basis of verification of carry forward of credit by the dealers. The amount of SGST credit claimed by the dealers in TRAN-1 returns was cross verified with the closing balance of input tax credit carried forward by the dealers in the monthly return of June 2017 submitted under the PVAT Act. The details regarding filing of returns and the amount of CENVAT credit carried forward by the dealers in the return relating to the period ending with the day immediately preceding the appointed day was obtained from the Central Excise and Service Tax Department through the Data sharing policy of the Central Board of Indirect

Taxes and Customs (CBIC) to verify the correctness of the CGST credit claimed by the dealers in the TRAN-1 returns.

An Entry Conference was held with the Department in 30 May 2018 wherein the objective, scope and methodology of audit were explained. The draft report was forwarded to the Government in November 2018.

The information furnished by the CT Department indicated that in the UT of Puducherry, 1,139 dealers had filed TRAN-1 returns, claiming SGST credit of ₹ 36.81 crore and CGST credit of ₹ 332.22 crore. Out of the above, the credit claimed by dealers falling under the jurisdiction of CT Department of Puducherry in 819 TRAN-1 returns was ₹ 29.11 crore under SGST and ₹ 158.31 crore under CGST; the correctness of which was verified in audit.

The report was discussed with the Commissioner of State Taxes in the Exit Conference held on 04 January 2019. The views expressed at the Exit Conference have been considered and duly incorporated in relevant paragraphs of the report.

Audit Findings

3.10.2 Migration of Taxpayers

Section 139 of PGST Act, provides that on and from the appointed day, every person registered under any of the existing laws and having a valid PAN shall be issued a certificate of registration on provisional basis, subject to such conditions as may be prescribed, which unless replaced by a final certificate of registration, shall be liable to be cancelled, if the conditions so prescribed are not complied with. As per Section 22 of the Act *ibid*, every supplier making a taxable supply of goods or services or both in the State shall be liable to be registered under this Act, if his aggregate turnover in a financial year exceeds ₹ 20 lakh. As per the Section 24 of the Act *ibid*, every casual taxable person making taxable supply is required to be registered under this Act.

The process of migration started in the UT of Puducherry from November 2016 and accordingly the State data of active dealers was sent to Goods and Services Tax Network (GSTN) in batches. The username ID and password provided by GSTN to the Department was in turn intimated to the dealers through their registered mobile number. The dealers were, then, required to login into the GST common portal, complete the enrolment process; upon which the taxpayer would get a provisional certificate of registration, which will have the Goods and Services Taxpayers Identification Number (GSTIN). Upon furnishing of further details/particulars, the dealer would be granted final certificate of registration and thereby completing the migration process.

An analysis of data dump obtained (May 2018) from the CT Department of Puducherry with the details of existing dealers furnished (July 2018) by the Department indicated that 16,622 dealers were due to be migrated to GST regime.

Results of audit checks to ensure due migration of all existing dealers are mentioned below:

- Out of the 16,622 dealers existing under VAT regime, 13,247 dealers had been migrated to GST. Out of the remaining 3,375 dealers, reasons for non-migration of 3,372 dealers includes cancellation of Registration Certificates, stoppage of business, turnover of the dealers being below the threshold limit of ` 20 lakh, etc. During Exit Conference, the Department stated that migration in respect of the remaining three dealers was kept in abeyance due to pendency of legal process. Further report in this regard is awaited.
- Registration status of 246 dealers, whose RCs under the existing law were cancelled after the appointed date was continued to be declared under provisional registration in the GST website. During Exit Conference, Department stated that the issue would be taken up with the GSTN for removal of these inactive dealers from the portal.

3.10.3 Verification of transitional credit

The due date for filing of TRAN-1 form by the dealers for availing transitional credit was 31 December 2017. The details of TRAN-1 filed by the dealers were made available to the Department by GSTN in March 2018. A detailed check list was issued to all the assessing officers for verification of TRAN-1. Despite the availability of TRAN-1 details and issue of guidelines for verification of TRAN-1, Audit noticed that as of September 2018, only 55 TRAN-1 cases were stated to have been verified by the Department. This indicates the absence of proper monitoring system to ensure due adherence by the assessing officers, of the instructions regarding verification of transitional credit claimed by the dealers. The absence of a proper monitoring system resulted in incorrect or excess claim of transitional credit by the dealers remaining undetected by the Department. These cases are illustrated in the succeeding paragraphs.

3.10.3.1 Arrangement for verification of TRAN-1

In the UT of Puducherry, 1,139 dealers had filed TRAN-1 returns, claiming SGST credit of ` 36.81 crore and CGST credit of ` 332.22 crore. Out of the above, the credit claimed by dealers falling under the jurisdiction of CT Department of Puducherry in 819 TRAN-1 returns was ` 29.11 crore under SGST and ` 158.31 crore under CGST.

To an audit query regarding the methodology for verification of TRAN-1, the Commissioner (ST), Puducherry stated that SGST credit in respect of all the

dealers, irrespective of the jurisdiction would be verified by the CT Department of Puducherry, and CGST credit of all the dealers would be verified by the Centre as legacy data of the dealers would be available with the erstwhile departments, viz., Central Excise and Commercial Tax.

The above arrangement for verification of credits was not based on any legal backing. Any Revenue Act for the purposes of administration and collection, should have a well-defined jurisdiction. The CT Department of Puducherry did not have authority for assumption of jurisdiction of a dealer, who had been allotted to the Centre. Further, since many dealers had claimed both SGST and CGST credits, in such cases, the issue of notice, issue of summons, calling for information etc. would be done by both the officers for the same TRAN-1, which would definitely end up in many legal tangles, if the registered person questions the jurisdiction of the officers.

As per the provisions of Section 168 of the PGST Act, the Commissioner has been given powers to give instructions to the officers in his jurisdiction to follow a system for uniformity in implementation of the Act within the department. But no powers had been provided in the Statute to either transfer or assume jurisdiction of registered persons allotted to the Centre.

During Exit Conference, the Commissioner replied (January 2019) that the data in respect of CGST credit for dealers under the jurisdiction of the State would be obtained from the Commissioner (Central Taxes) within four months and the verification would be taken up. Further reply was awaited (August 2019).

3.10.3.2 *Incorrect carry forward of CGST credit*

As per the provisions of Section 140(1) of the CGST Act, a registered person, other than a person opting to pay tax under composition levy, shall be entitled to take, in his electronic credit ledger, the amount of CENVAT credit carried forward in the return relating to the period ending with the day immediately preceding the appointed day, furnished by him under the existing law in such manner as may be prescribed. Such amount of credit was required to be disclosed in Table 5(a) of Form TRAN-1. The claim of transitional credit was subject to the condition that the dealer had furnished all the returns required under the existing law for the period of six months immediately preceding the appointed date.

Audit cross verified the amount of transitional CENVAT credit claimed by the dealers in Form GST TRAN-1 with the carry forward credit details of the dealers obtained from the Central Excise and Service Department. In cases, where the dealers had not mentioned the registration number under the existing Acts in GST TRAN-1, the same was ascertained on the basis of PAN obtained from the GST registration number. Such cross verification revealed the following:

- Sixty eight dealers of five¹ divisions had claimed credit of ` 17.99 crore in the GST TRAN-1 returns filed by them. The credit available to them under the existing Act was, however, ` 13.28 crore. Thus, there was excess claim of CGST credit of ` 4.71 crore by the dealers.
- Five dealers of Puducherry Goods Division I and Puducherry Goods Division III, who had not filed all the returns required under the existing law for the period of six months immediately preceding the appointed date, had however, incorrectly claimed CGST credit of ` 91.93 lakh in GST TRAN-1 returns.

During the Exit Conference, the Commissioner replied (January 2019) that the Central Excise/Service Tax authorities would be addressed and action would be taken. Further reply was awaited (August 2019).

3.10.3.3 *Incorrect carry forward of SGST credit*

As per the provisions of Section 140 (1) of PGST Act, a registered person, other than a person opting to pay tax under composition levy, shall be entitled to take, in his electronic credit ledger, credit of the amount of VAT, if any, credit carried forward in the return relating to the period ending with the day immediately preceding the appointed day, furnished by him under the existing law in such manner as may be prescribed. Such amount of credit was required to be disclosed in Table 5(c) of Form TRAN-1.

Audit cross verified the amount of SGST claimed by the dealers in Form TRAN-1 with the amount of VAT credit carried forward by them in the return for the month of June 2017 filed by them under the PVAT Act. Such cross verification revealed the following:

- Fourteen dealers of four² divisions had claimed SGST credit of ` 1.22 crore in the return in Form TRAN-1 filed by them. The credit carried forward by them in the return for the month of June 2017 filed by them under the PVAT Act, was, however, ` 0.89 crore. Thus, there was excess claim of SGST credit of ` 33.07 lakh by the dealers.
- Two dealers of Puducherry Goods Division I and Puducherry Goods Division II, who had not filed returns regularly for all the six months preceding the appointed date under the PVAT Act, had, however incorrectly carried SGST credit of ` 1.03 lakh in the return in Form TRAN-1.

¹ Puducherry Goods Division I, Puducherry Goods Division II, Puducherry Goods Division III, Puducherry Service Division and Karaikal.

² Puducherry Goods Division I, Puducherry Goods Division III, Puducherry Service Division and Karaikal.

During the Exit Conference, the Commissioner replied (January 2019) that in 12 cases notices had been issued. For the remaining cases, it was stated that the difference was attributable to VAT paid on electricity charges in three cases, and payment of advance tax in excess in the remaining case. The reply for the four cases was not acceptable since the provisions of the Section 140 of the CGST/SGST Act did not permit carry forward of credit other than the credits that had been explicitly provided. Further reply was awaited (August 2019).

3.10.3.4 *Incorrect carry forward of credit relating to interstate transactions not covered by declaration forms*

As per the second proviso to Section 140(1) of the PGST Act, so much of credit as is attributable to interstate transactions, which are not covered by declaration forms shall not be eligible to be credited to the electronic credit ledger. For this purpose, the dealers were required to provide details of statutory forms, viz., Form C in respect of interstate sales, Form F for branch/stock transfer of goods to outside State, Form H in respect of pre-export sales and Form I in respect of sale to Special Economic Zone outside the State for the period 1 April 2015 to 30 June 2017. The difference of tax payable on the turnover, which was not covered by declaration forms was required to be deducted from the balance of credit of VAT as per the return of June 2017 and the remaining credit was alone eligible to be carried forward to the electronic credit ledger.

The details of interstate transactions for the period 1 April 2015 to 30 June 2017 and the turnover, which was not covered by declaration forms were obtained from the database of CT Department. The same was cross verified with the details furnished in Form TRAN-1. Such verification revealed that out of 155 registered persons, who had claimed SGST credit of ` 22.57 crore, 77 dealers of five³ divisions had not deducted the difference of tax payable on the turnover, which was not covered by declaration forms and had incorrectly carried forward SGST credit amounting to ` 19.24 crore.

The Commissioner replied during Exit Conference (January 2019) that completion of assessments was an ongoing process and after the completion of the assessment, action would be taken. Further reply was awaited (August 2019).

3.10.3.5 *Incorrect carry forward of credit relating to capital goods*

Section 140 (2) of the PGST Act provides that a registered person shall be entitled to take, in his electronic credit ledger, credit of the unavailed input tax credit in respect of capital goods, not carried forward in a return, furnished

³ Puducherry Goods Division I, Puducherry Goods Division II, Puducherry Goods Division III, Yanam and Karaikal.

under the existing law by him, for the period ending with the day immediately preceding the appointed day in such manner as may be prescribed.

Explanation under the Section provides that the expression “unavailed input tax credit” means the amount that remains after subtracting the amount of input tax credit already availed in respect of capital goods by the taxable person under the existing law from the aggregate amount of input tax credit to which the said person was entitled in respect of the said capital goods under the existing law.

As per the provisions of Section 16(1) (i) of the PVAT Act, input tax credit for capital goods shall be in three years by equated monthly instalments commencing from the month following the commencement of commercial production or sale of taxable goods.

Scrutiny of TRAN-1 returns revealed that 20 dealers had claimed SGST credit of ` 24.70 lakh in respect of capital goods. Audit scrutiny of 36 monthly returns filed by the dealers under the PVAT Act along with Form GST TRAN-1 submitted by them for claim of transitional credit revealed that nine dealers of Puducherry III division, who did not claim any credit relating to capital goods under the PVAT Act, had, however claimed SGST credit of ` 17.56 lakh in Form TRAN-1. As the PGST Act only provided for carry forward of unavailed credit alone, the claim in respect of capital goods, which was not preferred under the PVAT Act is not in order.

During the Exit Conference, it was replied (January 2019) that, in three cases, notices had been issued and in two cases, it was stated that electricity charges had been wrongly entered as capital goods credit. In the remaining four cases, where invoices were produced for verification, the claims were found to be ineligible. Further reply was awaited (August 2019).

3.10.3.6 Incorrect claim of credit by an agent

Section 142 (14) of the PGST Act provides that an agent shall be entitled to take credit of the tax paid on the goods which are available with the agent on the appointed date subject to the condition that both the principal and agent declare the stock of goods lying with such agent on the day immediately preceding the appointed day in such form and manner and within such time as may be prescribed.

Audit noticed that a registered dealer of Puducherry Goods Division II had claimed SGST credit of ` 3.98 lakh in Form TRAN-1 as an agent holding the goods on behalf of the principal. The principal, however, did not file Form GST TRAN-1. Hence, the claim of credit by the agent was not in order.

During Exit Conference, the Commissioner replied (January 2019) that the dealer had claimed R26 credit as the above credit and action would be taken to collect the differential amount. Further reply was awaited (August 2019).

3.10.3.7 Excess credit of claim in electronic credit ledger

During the process of filing of Form TRAN-1, the dealers were given the option to file revised Form TRAN-1 for rectifying the errors or wrong claims, which were made in the original Form filed by the dealers. The revised Form was required to be filed within the time limit prescribed for filing of Form TRAN-1.

Scrutiny of Form TRAN-1 filed by the dealers revealed that some dealers had filed revised TRAN-1. Audit noticed that subsequent to filing of revised TRAN-1, the amount of credit originally claimed by the dealer also got modified as per the revised TRAN-1 and both the Forms carried the same amount of SGST and CGST credits. Audit, however, noticed that while the increase in claim of credit as per revised TRAN-1 got credited to the electronic credit ledger of the dealers, in case where there was reduction in claim as per revised TRAN-1, the same was not affected and the electronic credit ledger continued to carry the claim as per original TRAN-1.

Eight dealers had filed revised TRAN-1 and the amount claimed as per revised TRAN-1 was ₹ 8.83 crore. The electronic credit ledger of the dealers, however, indicated transitional credit of ₹ 9.84 crore. This indicates that the excess claim as per original TRAN-1 was not reversed subsequent to filing of revised TRAN-1 by the dealers, resulting in excess credit of claim of ₹ 1.01 crore.

The Commissioner during Exit Conference stated (January 2019) that the issue would be taken up with GSTN. Further reply was awaited (August 2019).

3.10.4 Arrangement to handle legacy assessment

The number of assessments, which were pending finalisation as on 31 March 2017 was 21,792. The pendency position had further increased and 24,025 assessments were pending finalisation as on 31 March 2018. Even after switch over to GST in July 2017, huge number of assessments is pending finalisation; the earliest of which relate to assessment year 2008-09. However, no time limit was fixed for completion of pending assessments.

The Commissioner during Exit Conference replied (January 2019) that the pending assessments would be completed within a period of two years. Further reply is awaited (August 2019).

3.10.5 Conclusion

Audit of Transition to GST in Puducherry indicated that there was an urgent need for verification for correctness of transitional credit claimed by the dealers as any lapse or deficiency or continued inaction on the part of the

Department would result in utilisation of incorrect or excess claim of credit by the dealers, thereby having a serious impact on the revenue of the UT. The Department needed to devise a time bound action plan for finalisation of pending assessments relating to the PVAT Act, so that the assessing officers may devote their time exclusively for the successful implementation of the system of GST in the UT of Puducherry.

COMMERCIAL TAXES DEPARTMENT

VALUE ADDED TAX

3.11 Non-reversal of Input Tax Credit

Non-coverage of valid declarations in Form-C in respect of inter-state sales turnover resulted in non-reversal of input tax credit of ₹ 1.01 crore.

As per Rule 17(14) (iii) of the Puducherry Value Added Tax Rules, 2007, no Input Tax Credit (ITC) shall be claimed or allowed to a registered dealer on the tax paid on purchase of goods, if the sales in the course of interstate trade or commerce are not covered by valid declarations in Form C.

Scrutiny of records (February 2018) of Industrial Assessment Circle, Puducherry revealed that a dealer had claimed ITC of ` 1.25 crore on local purchase of goods valued at ` 40.73 crore during the year 2015-16. The total sales turnover of the dealer during the year was ` 39.72 crore comprising local sales turnover of ` 2.65 crore, interstate sales turnover of ` 31.76 crore (of which, ` 27.76 crore was not covered by valid declarations in Form C) and high sea sales turnover of ` 5.31 crore. Though the interstate sales turnover not covered by valid declarations in Form C warranted reversal of ITC, reversal was neither made by the dealer nor enforced by the Assessing Authority.

After this was referred to the Government in August 2018, Government accepted (August 2018) the audit observation and stated that the Assessing Authority had revised the assessment of the dealer in August 2018 and determined the total amount of ITC eligible for adjustment as ` 24.09 lakh by reversing ITC of ` 1.01 crore relating to the interstate sale of goods not covered by declaration in Form C. Report on collection of additional demand was awaited (August 2019).

REVENUE AND DISASTER MANAGEMENT DEPARTMENT
3.12 Non-withdrawal of concession of stamp duty granted to women purchasers on violation of conditions
Non-withdrawal of concession granted to woman purchasers on violation of conditions resulted in non-collection of stamp duty of ₹ 49.99 lakh.

Government of Union Territory of Puducherry granted (December 2004) remission of 50 *per cent* of stamp duty to the women member(s) acquiring property through conveyance, exchange or gift. The remission was subject to the condition that the beneficiary shall not, within five years of registration of the instrument through which the concession was obtained, create / execute any instrument, including power of attorney, in favour of any male member except mortgage to Government/Nationalised Banks/ Registered Co-operative Societies. However, the women beneficiaries were permitted to alienate such property after remitting back the amount of concession availed by them.

Scrutiny (between October 2016 and March 2018) of 1,248 documents registered in the four⁴ registration offices during the period July 2014 to January 2017 revealed that in 34 cases, the women purchasers, who availed the concession of 50 *per cent* of stamp duty on purchase of properties had subsequently executed deeds of alienation within five years of such purchase, as detailed below:

- In 30 cases, simple/equitable mortgage deeds were executed in favour of banks/entities other than Nationalised Banks/Registered Cooperative Societies.
- In four cases, instruments of power of attorney/conveyance/ settlement deeds in favour of male members were executed.

Since the conditions subject to which the concession of stamp duty was granted were not adhered to, the women beneficiaries were required to remit back the amount of concession availed by them. The registering officers, while registering the subsequent instruments, however, failed to ensure the same. This resulted in incorrect allowance of remission of stamp duty of ₹ 49.99 lakh.

This was pointed out to the Department between October 2016 and March 2018 and referred to Government in April and May 2018. The reply was awaited (August 2019).

⁴ District Registry-Puducherry, Sub Registry-Oulgaret, Sub Registry-Villianur and Sub Registry-Yanam.