

CHAPTER – IV
REVENUE SECTOR

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4.1 Introduction

4.1.1 Trend of Revenue Receipts

The tax and non-tax revenue raised by the Government of Arunachal Pradesh during 2016-17, the State share of net proceeds of divisible Union taxes and duties assigned to the State, Grants-in-aid received from the Government of India during the year and corresponding figures for the preceding four years are shown in table below:

Table: 4.1.1 - Trend of Revenue Receipts

(₹ in crore)

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue raised by the State Government						
1.	Tax revenue	316.50	434.51	462.16	535.07	708.75
	Non-tax revenue	284.22	405.06	457.64	392.12	544.82
Total		600.72	839.57	919.80	927.19	1,253.57
Receipts from the Government of India						
2.	Share of net proceeds of divisible Union taxes and duties	957.93	1,045.85	1,109.98	7,075.58	8,388.30
	Grants-in-aid	4,202.87	3,935.01	7,106.27	2,550.33	2,137.70
Total		5,160.80	4,980.86	8,216.25	9,625.91	10,526.00
3.	Total revenue receipts of the State Government (1+2)	5,761.52	5,820.43	9,136.05	10,553.10	11,779.57
4.	Percentage of 1 to 3	10.43	14.42	10.06	8.79	10.64

(Source: Finance Accounts of respective years)

The above Table shows that during 2016-17, revenue raised by the State Government (₹ 1,253.57 crore) was 11 per cent of its total revenue receipts. The balance 89 per cent of receipts during 2016-17 was from the Government of India.

Details of tax revenue raised against Budget Estimate (BE) during 2012-13 to 2016-17 are given in the following table:

Table: 4.1.2 - Details of Tax Revenue raised

(₹ in crore)

Head of Revenue	2012-13		2013-14		2014-15		2015-16		2016-17		Percentage Increase (+)/ Decrease (-) in 2016-17 over 2015-16
	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
Land Revenue	6.66	4.70	5.16	11.39	6.21	5.99	5.64	8.89	8.92	6.44	(-)27.56
Stamp Duty	2.50	3.05	2.73	4.18	4.03	3.83	5.28	5.63	8.04	5.08	(-)9.76
State Excise	32.00	49.11	56.70	55.50	68.74	59.87	66.70	86.33	130.63	109.05	(+)26.32
Taxes on Sales, Trade, etc.	226.55	161.62	321.80	223.60	338.03	195.24	178.10	190.22	236.92	282.54	(+)48.53
Motor vehicle Tax	18.00	13.38	15.64	17.09	17.99	17.78	18.14	19.30	22.82	24.47	(+)26.79
Taxes on goods and passengers	0.00	84.64	0.00	122.75	111.94	179.45	233.78	224.70	263.31	281.17	(+)25.13
Total	285.71	316.50	402.03	434.51	546.94	462.16	507.64	535.07	670.64	708.75	32.46

(Source: Budget Documents and Finance Accounts of respective years)

Details of Non-tax Revenue raised from 2012-13 to 2016-17 are shown in the following table:

Table: 4.1.3 - Details of Non-Tax Revenue raised

(₹ in crore)

Head of Revenue	2012-13		2013-14		2014-15		2015-16		2016-17		Percentage increase(+)/ Decrease (-) in 2016-17 over 2015-16
	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
Power	200.67	113.07	110.03	145.41	289.48	182.63	184.17	117.04	226.66	259.61	(+)121.87
Interest Receipts	55.00	40.32	58.93	24.66	67.77	13.12	31.61	39.11	36.98	56.39	(+)44.18
Forestry & Wild Life	15.40	7.49	28.98	11.89	55.90	9.28	8.29	13.76	10.97	13.86	(+)0.73
Public works	4.00	16.17	11.90	29.83	21.39	19.98	23.52	7.35	10.21	8.95	(+)21.77
Miscellaneous General Services	15.00	0.02	0.12	0.01	0.03	0.01	0.04	54.39	30.48	21.67	(-) 60.16
Other Administrative Service	7.08	7.58	8.09	8.57	10.02	8.29	10.65	9.52	11.09	11.24	(+)18.07
Police	3.60	2.32	3.41	3.09	3.06	1.29	1.30	9.34	18.32	64.36	(+)589.08
Medical & Public Health	0.51	0.49	0.50	0.71	0.67	0.71	0.81	0.61	0.77	0.80	(+)31.15
Co-operation	1.45	0.24	0.93	0.48	0.31	0.57	0.67	0.58	1.12	0.40	(-) 31.03
Other Non-Tax Receipts	118.46	42.27	93.89	180.41	200.3	221.76	231.3	140.42	182.3	107.54	(-)23.42
Total	421.17	284.22	316.78	405.06	648.93	457.64	492.36	392.12	528.90	544.82	38.94

(Source: Budget Documents and Finance Accounts of respective years)

The concerned departments did not furnish the reasons for variations in receipts of tax and non-tax revenue from the previous year despite a request to this effect (November 2017).

4.1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2017 on one Major Head of revenue '0040'-Taxes on Sales, Trade, etc., amounted to ₹ 87.60 crore of which ₹ 33.43 crore was outstanding for more than five years, as detailed in the table below:

Table: 4.1.4 - Arrears of revenue

(₹ in crore)

Sl. No.	Head of Revenue	Amount outstanding as on 31 March 2017		Replies of the Department
		Total	For more than five years	
1	0040 - Taxes on Sales, Trade, etc.	87.60	33.43	The Department did not furnish reasons for arrears.
Total		87.60	33.43	

(Source: Information furnished by the Departments)

It could be seen from the table that recovery of ₹ 33.43 crore was pending in Tax & Excise Department for more than five years which indicated that the chances of recovery was remote and also pointed to systemic weakness in the revenue recovery mechanism of the State Government. The information on total amount of arrears of revenue as well as amount outstanding for more than five years as on 31 March 2017 was not furnished by

the other major revenue earning departments¹ of the State Government though called for.

4.1.3 Arrears in assessments

Details of cases pending at the beginning of the year, cases due for assessment, cases disposed of during the year and number of cases pending finalization at the end of the year were not furnished by Tax and Excise Department though called for (March 2018).

4.1.4 Evasion of tax detected by the Department

No information in respect of evasion of tax detected was furnished by the Tax and Excise Department (March 2018) though called for.

4.1.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year (2016-17), claims received during the year, refunds allowed during the year and cases pending at the close of the year (2016-17) was not furnished by the Tax and Excise Department though called for.

4.1.6 Response of the Government/Departments towards Audit

The Principal Accountant General, Arunachal Pradesh, conducts periodical inspection of government departments to test-check transactions and verify maintenance of important accounts and other records, as prescribed in the rules and procedures. These inspections are followed up with Inspection Reports (IRs) incorporating irregularities detected during inspections and not settled on the spot, which are issued to Heads of Offices inspected, with copies to the next higher authorities for taking prompt corrective action. Heads of Offices are required to promptly comply with observations contained in the IRs, rectify commissions/omissions and report compliance through initial replies to the Accountant General, Arunachal Pradesh within one month from the date of issue of IRs. Serious financial irregularities are reported to the Heads of Departments and the Government.

As of June 2017, 350 IRs containing 1,202 paragraphs involving ₹ 4,176.02 crore remained outstanding for want of replies/compliance from the concerned departments. The position in this respect for the preceding two years is shown in the table below:

Table: 4.1.5 - Details of pending Inspection Reports

	June 2015	June 2016	June 2017
Number of IRs pending settlement	299	324	350
Number of outstanding Audit Observations	974	1,093	1,202
Total amount involved (₹ in crore)	4,180.79	4,602.22	4,176.02

Department-wise details of the IRs and audit observations outstanding as on 30 June 2017 and amounts involved are shown in the table below:

¹ 1. Land Management Department 2. Transport Department 3. State Lottery Department 4. Environment & Forest & Wildlife Department.

Table: 4.1.6 - Department-wise details of IRs

(₹ in crore)

Sl. No.	Department	Nature of receipts	No of outstanding		Money value involved
			IRs	Audit Observations	
1	Tax & Excise	Taxes on Sales, Trade etc.	89	400	139.02
		State Excise	57	157	8.12
2	Land Management	Land Revenue	31	128	3,891.41
3	Transport	Taxes on Motor Vehicles	49	165	17.80
4	State Lottery	Lottery	19	52	34.30
5	Geology & Mining	Non-ferrous Mining & Metallurgical Industries	100	281	79.01
6	Environment & Forest & Wildlife	Forestry & Wild Life	5	19	6.36
Total			350	1,202	4,176.02

Audit did not even receive first replies from 28 Heads of Offices for 29 IRs issued during 2016-17. The increasing pendency of IRs and paras and the fact that first replies to IRs had not been received from as many as 28 Heads of Offices indicated the casual approach the Heads of Offices and Departments to rectify defects, omissions and irregularities pointed out in the IRs.

The Government may consider constituting a committee headed by the Chief Secretary to monitor the response of departments to audit observations in a time bound manner and for clearance of old outstanding IRs.

4.1.7 Departmental Audit Committee Meetings

The Government set up Audit Committees to monitor and expedite the progress of settlement of the IRs and Paragraphs in the IRs. However, no Departmental Audit Committee meeting for Revenue Sector was held during 2016-17. As can be seen from Para 4.1.6 there is large pendency of IRs. In view of this, the Government may ensure holding of regular Audit Committee meetings to expedite clearance and settlement of outstanding audit observations.

4.1.8 Response of Departments to Draft Audit Paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller & Auditor General of India are forwarded by the Principal Accountant General, Arunachal Pradesh to the Principal Secretaries/Secretaries of concerned departments, drawing their attention to audit findings and requesting them to send responses within six weeks. The fact of non-receipt of replies from departments/ government is invariably indicated at the end of such paragraphs included in the Audit Report.

Nine paragraphs proposed to be included in the Audit Report of the Comptroller and Auditor General of India for the year ended 31 March 2017 were sent to the Principal Secretaries/Secretaries of respective Departments between July 2017 and August 2017. The Principal Secretaries/Secretaries of the Government did not furnish replies to any of the paragraphs (March 2018) and these have been included in this Report without any response from the departments and government.

4.1.9 Follow-up on Audit Reports

The internal working system of the Public Accounts Committee (PAC) notified in December 2002, laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the departments shall initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for consideration of the PAC. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports were being delayed inordinately. One hundred four paragraphs (including two performance audit) included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Arunachal Pradesh for the years ended 31 March 2012, 2013, 2014, 2015 and 2016 were placed before the State Legislative Assembly between 23 September 2013 and 14 October 2017. The action taken explanatory notes from the concerned departments on these paragraphs were received late with average delay of 24 months in respect of each of these Audit Report. As of March 2018, action taken explanatory notes in respect of 10 paragraphs from various departments had not been received for the Audit Report year ended 31 March 2016.

The PAC discussed 32 selected paragraphs pertaining to the Audit Reports for the years from 2001-02 to 2012-13 and its recommendations on two paragraphs were incorporated in their 60th Report (27 September 2012). Out of 32 paragraphs, 18 paragraphs were settled by the PAC and Action Taken Notes have not been received in respect of 14 recommendations of the PAC related to the Audit Reports for the years 2001-02 to 2012-13 from the Tax & Excise and Geology & Mining Departments as detailed in the following table:

Table: 4.1.7 - Details of ATNs not received as on 31 March 2017

Year	Name of the Department	No. of Recommendation
2001-02	Tax & Excise	1
2002-03	Geology & Mining	1
2003-04	Tax & Excise	1
2004-05	Tax & Excise	1
2006-07	Geology & Mining	3
2007-08	Geology & Mining	2
2008-09	Geology & Mining	1
2009-10	Geology & Mining	1
2012-13	Geology & Mining	3
Total		14

4.1.10 Analysis of mechanism for dealing with issues raised by Audit

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

The succeeding paragraphs 4.1.10.1 and 4.1.10.2 discuss the performance of the Department of Transport and cases detected during the course of local audit during the last 10 years and also cases included in Audit Reports for the years 2007-08 to 2016-17.

4.1.10.1 Position of Inspection Reports

The summarized position of the Inspection Reports issued during the last 10 years to various offices under the administrative control of the Department of Transport as on 31 March 2017 is shown in Table 4.1.8:

Table: 4.1.8 - Position of Inspection Reports

(₹ in lakh)

Year	Opening Balance			Addition during the year			Clearance during the year			Closing balance during the year		
	IRs	Para	Money value	IRs	Para	Money value	IRs	Paras	Money value	IRs	Para	Money value
2007-08	50	121	831.15	1	6	18.09	10	22	163.81	41	105	685.43
2008-09	41	105	685.43	1	5	82.98	1	2	0.20	41	108	768.21
2009-10	41	108	768.21	0	0	0	0	6	84.91	41	102	683.30
2010-11	41	102	683.30	2	8	71.89	1	3	3.63	42	107	751.56
2011-12	42	107	751.56	1	5	15.56	4	2	1.31	39	110	765.81
2012-13	39	110	765.81	0	0	0	0	5	15.58	39	105	750.23
2013-14	39	105	750.23	0	0	0	0	0	0	39	105	750.23
2014-15	39	105	750.23	0	0	0	1	5	15.56	38	100	734.67
2015-16	38	100	734.67	3	16	164.88	0	0	0	41	116	899.55
2016-17	41	116	734.67	8	58	264.33	0	9	178.65	49	165	820.35

During 2016-17, the Department of Transport did not arrange to hold any Audit Committee Meeting with the Principal Accountant General's office to settle the old paragraphs.

4.1.10.2 Recovery of Accepted Cases

The position of paragraphs included in Audit Reports of the last 10 years, those accepted by the Department of Transport and amounts recovered are mentioned in the following table:

Table: 4.1.9

(₹ in crore)

SL. No.	Year of Audit Report	No. of Paragraphs included	Money value of the paragraphs	No. of paragraphs accepted having Money value	Money value of accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases of 31 March 2016
1	2006-07	2	0.07	2	0.07	Nil	Nil
2	2007-08	0	0.00	0	0.00	Nil	Nil
3	2008-09	3	0.30	3	0.30	Nil	Nil
4	2009-10	0	0.00	0	0.00	Nil	Nil
5	2010-11	3	0.20	3	0.20	Nil	Nil
6	2011-12	0	0.00	0	0.00	Nil	Nil
7	2012-13	0	0.00	0	0.00	Nil	Nil
8	2013-14	0	0.00	0	0.00	Nil	Nil
9	2014-15	2	0.30	2	0.30	Nil	Nil
10	2015-16	2	3.23	2	3.23	Nil	Nil
Total		12	4.10	12	4.10	Nil	Nil

From the above table it can be seen that there was no recovery even in accepted cases, throughout during the last 10 years. No mechanism for pursuance of accepted cases was put in place by the Department. In the absence of a suitable mechanism, the Department could not monitor recoveries of accepted cases.

The Department should take immediate action to pursue and monitor prompt recovery of dues involved in the accepted cases.

4.1.11 Audit Planning

The offices under various Departments are categorized into high, medium and low risk units, according to their revenue position, past trends of audit observations and other parameters. An Annual Audit Plan is prepared on the basis of risk analysis, which includes critical issues in Government Revenues and Tax Administration, *i.e.* budget speech, White Paper on State Finances, Reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings, factors of the tax administration, audit coverage and its impact during past five years, *etc.*

During 2016-17, there were 132 auditable units, of which 29 were planned and were actually audited, which was *22 per cent* of the total auditable units.

4.1.12 Results of Audit

4.1.12.1 Position of Local Audits conducted during the year

Test check of records of the 29 units conducted during 2016-17 revealed under assessment/ short levy/ loss of revenue aggregating ₹ 32.39 crore in 149 cases. During the course of the year, the Departments concerned accepted under-assessment and other deficiencies of ₹ 2.40 crore involved in 15 cases, which were pointed out in audit during 2016-17. However, no recovery was made during the period.

4.1.13 Coverage of this Report

This Chapter contains eight audit paragraphs having financial effect of ₹ 3.71 crore. No replies to these eight paragraphs was received from any of the concerned departments as of March 2018.

Compliance Audit Paragraphs

Tax and Excise Department

4.2 Failure of Assessing Officer to detect short-realisation of tax

Failure of the Assessing Officer to detect short-realisation of tax of ₹ 96.68 lakh from registered works contractors due to application of lower tax rate at four per cent instead of 12.50 per cent

Under Section 5(2) of the Arunachal Pradesh Good Tax (APGT) Act, 2005, a dealer executing works contracts shall be liable to pay Value Added Tax (VAT) on the balance turnover after deduction of charges incurred towards labour, services, *etc.* If such charges are not ascertainable, a deduction of *25 per cent* is allowed on the total turnover.

As per Section 87(10) of the said Act, if the dealer furnished false, misleading or deceptive returns, he shall be liable, in addition to tax evaded, to pay penalty of a sum of rupees one lakh or the amount of tax evaded whichever is greater. Also, Section 44 (2) of the Act stipulates payment of interest ranging between *12 to 24 per cent* per annum for the period of default in payment of due tax.

Further, Section 47A (1) (a) of the Act *ibid* provides for deduction of VAT at source by the Government/Departments while making payment to works contractors at a rate of 12.50 *per cent* and at a rate of four *per cent* on the total value of works in respect of registered dealer who opted for '*Simplified Accounting Method for Works Contracts*'. Under this method, the registered dealer has to apply to the Superintendent of Taxes (ST) under whom he is registered in form FF-14 that he is opting for the simplified method along with copies of his contract document.

Scrutiny of records (November 2016) of the Superintendent of Tax (ST), Yingkiong revealed that in the following three cases the contractors did not opt for '*Simplified Accounting Method for Works Contracts*' as available under Section 47A (1) (a) of the APGT Act, 2005 but paid taxes at lower rate of four *per cent* instead of 12.50 *per cent*.

4.2.1 A registered works contractor, (M/s OA Construction Pvt. Ltd, Yingkiong VAT TIN: 12090030183) had declared a total gross turnover of ₹ 11.10 crore during the period from March 2013 to June 2016 in his returns. As per the returns the dealer had paid tax of ₹ 42.82 lakh at four *per cent* on gross turnover of ₹ 11.10 crore (duly supported by challans for Tax Deduction at Source for that amount as proof of payment). However, the tax deductible at source was to be ₹ 104.02 lakh calculated at the rate of 12.50 *per cent* (since the dealer had not opted for '*Simplified Accounting Method for Works Contracts*') on his taxable turnover of ₹ 8.32 crore after allowing 25 *per cent* deduction for labour and service charges of ₹ 2.78 crore on gross turnover of ₹ 11.10 crore under Section 5 (2) of the APGT Act, 2005. Thus, the contractor was also liable to pay balance tax of ₹ 61.20 lakh which the Assessing Officer failed to detect from the returns. The dealer was also liable to pay minimum interest of ₹ 13.57 lakh (@ 12 *per cent* per annum calculated up to March 2017) due to default in payment of due tax under Section 44(2) of the APGT Act, 2005. Penalty of ₹ 61.20 lakh is also leviable to the contractor under Section 87 (10) of the APGT Act, 2005.

4.2.2 Six registered works contractor had declared a total gross turnover of ₹ 6.59 crore during the period from March 2014 to March 2016 in their returns. As per the returns the dealers had paid tax of ₹ 26.26 lakh at four *per cent* on gross turnover of ₹ 6.59 crore (duly supported by challans for Tax Deduction at Source for that amount as proof of payment). However, the tax deductible at source was to be ₹ 61.74 lakh calculated at the rate of 12.50 *per cent* (since the dealer had not opted for '*Simplified Accounting Method for Works Contracts*') on his taxable turnover of ₹ 4.94 crore after allowing 25 *per cent* deduction for labour and service charges of ₹ 1.64 crore on gross turnover of ₹ 6.59 crore under Section 5(2) of the APGT Act, 2005. Thus, the contractors were also liable to pay balance tax of ₹ 35.48 lakh which the Assessing Officer failed to detect from the returns. The dealer was also liable to pay minimum interest of ₹ 5.29 lakh (@ 12 *per cent* per annum calculated up to March 2017) due to default in payment of due tax under Section 44(2) of the APGT Act, 2005. Penalty of ₹ 51.51 lakh is also leviable to the contractor under Section 87 (10) of the APGT Act, 2005 (**Appendix 4.2.1**).

The cases were reported to the Department (July 2017), however, reply was still awaited (July 2018).

4.3 Non-furnishing of returns by registered dealers

Failure of the Superintendent of Taxes (ST), Yingkiong to levy and realise penalty from 18 registered dealers for non-submission of returns resulted in loss of revenue of ₹ 19.50 lakh

Rule 36 (1) & (2) of the Arunachal Pradesh Goods Tax (APGT) Rules, 2005, stipulates that every dealer liable to pay tax shall furnish a return in form FF-01 for each tax period² within 28 days from the end of the tax period. Also, under Section 87(9) (a) of the APGT Act, 2005 if a dealer fails to furnish any return by the due date, he is liable to pay penalty of ₹ 100 per day of default subject to a maximum of ₹ 10,000.

Scrutiny of records (November 2016) of the ST, Yingkiong revealed that 18 registered dealers, whose annual turnover was below rupees one crore, did not submit their returns for periods ranging from 05 months to 77 months in respect quarterly tax periods between October 2010 and March 2017. As the dealers did not furnish returns their turnover could not be ascertained by the Assessing Officer. Due to non-submission of returns, the dealers were liable to pay penalty of ₹ 19.50 lakh. The details are given in **Appendix 4.3.1**. No action was also initiated by the Assessing Officer to issue notice to the dealers for non-submission of returns and realisation of the penalty till March 2017.

The case was reported to the Department (July 2017); reply was awaited (July 2018).

4.4 Failure of Assessing Officer to take action to register unregistered dealers

Two Assessing Officers failed to take action to register 24 unregistered dealers engaged by DDOs for supplies/works and to impose penalty of ₹ 24 lakh

Section 19 of the Arunachal Pradesh Goods Tax (APGT) Act, 2005 states that a dealer dealing in goods other than those mentioned in the First Schedule of the said Act shall be required to register under the Act if his turnover in the current year exceeds the taxable quantum of ₹ 5.00 lakh. Further, under Section 87(4) of the Act, if any dealer fails to register himself, he is liable to pay a penalty of ₹ 1,000 per day, subject to a maximum of rupees one lakh. For this purpose, the Assessing Officer has been delegated authority to impose penalties for contravention of the provisions of the Act and to enforce payment and recovery of such penalty vide Tax and Excise Department Notification No. TAX (VAT)-208/2010 dated 6 July 2012.

Cross verification of records of the STs, Roing and Yingkiong during September 2016 and November 2016 with those of four DDOs³ revealed that 24 contractors/dealers were engaged for various supplies/works during April 2014 to March 2016. Audit observed that the turnover of these 24 dealers was more than ₹ 5.00 lakh. However, the dealers did not register themselves though required under Section 19 of the APGT Act, 2005.

² Rule 34 of the APGT Rules stipulates that tax period of a dealer whose turnover in a particular year is over rupees one crore shall be one month, and shall, at the option of the dealer, be either one month or a quarter if the turnover is or below rupees one crore.

³ EE, PWD, Roing : 9 dealers; DC, Roing : 2 dealers; DVO, Roing : 1 dealer, EE, PWD, Yingkiong : 12 dealers.

Further, the Assessing Officers (AO) failed to take action to register these 24 dealers even after being pointed out by Audit. The said 24 dealers were liable to pay penalty of rupees one lakh each under Section 87(4) totaling ₹ 24.00 lakh.

The case was reported to the Department (August 2017); reply was awaited (July 2018).

4.5 Loss of Revenue due to non-renewal of licences

Failure of the Commissioner of Excise to initiate action led to non-realisation of licence fee of ₹ 34.50 lakh and penalty ₹ 5.10 lakh from eight wholesale vends⁴ of IMFL/Beer.

Under the Arunachal Pradesh Excise Act, 1993 and Rules made thereunder, a licence granted for operating a wholesale vend of India Made Foreign Liquor (IMFL)/Beer shall remain valid for one year from the date of issue. On expiry of the validity period, the licensee shall either return the licence or get it renewed on payment of the prescribed annual fee of ₹ 1.50 lakh in advance. If the licensee fails to renew the licence before expiry of the validity period, he shall be liable to pay penalty at the rate of ₹ 75.00 per day in addition to the annual fees for the period of default in payment. Further, Section 29(1) (b) of the Act provides that the licence may be cancelled or suspended if the prescribed annual licence fee payable by the licensee has not been duly paid.

Scrutiny of records (August 2016) of the Commissioner of Excise (CE) revealed that eight wholesale vends did not renew their licences before the expiry of the validity period falling between September 2013 and February 2016 even after 408 to 1,409 days (calculated upto March, 2017). The wholesale vends neither returned their licences nor paid renewal fee of ₹ 34.50 lakh, and were thus also liable to pay penalty ₹ 5.10 lakh (calculated upto March 2017). The details are given in **Appendix 4.5.1**. The CE neither took any initiative to realize the prescribed renewal fee and penalty nor cancelled the licences as prescribed under Section 29(1) (b) of the Act.

Thus, due to inaction of the CE, there was revenue loss of ₹ 39.60 lakh (licence fee ₹ 34.50 lakh and penalty ₹ 5.10 lakh).

The case was reported to the Department/Government (July 2017); reply was awaited (July 2018).

4.6 Loss of Revenue due to non-renewal of brand/label

Failure of the Commissioner of Excise to realise renewal fee of brand names/label and penalty resulted in revenue loss of ₹ 45.40 lakh.

The Department of Tax and Excise through a Notification No. Ex-145/97 dated 9 March 1998 imposed fees for registration of brand names and labels of Indian Made Foreign Liquor (IMFL) manufactured or sold in Arunachal Pradesh to be valid for one year from the date of issue of the registration certificate and thereafter to be renewed annually. The fees for renewal of brand name/label in respect of whisky, rum, wine, vodka, etc., was

⁴ Wholesale vend means the vendor exceeding the limit of sale of retail.

fixed at ₹ 10,000.00 to ₹ 15,000.00 per annum. Further, as per Department of Tax and Excise Notification No. Ex-40/98 dated 12 May 2004, penalty of ₹ 15,000.00 was to be imposed in the event of default in renewal of registration of brand names and labels of IMFL before expiry of the validity period.

Scrutiny of records (August 2016) of the Commissioner of Excise (CE) revealed that validity of registration for 129 brands/labels of IMFL from 36 manufacturers had expired for periods ranging one to four years during July 2013 and July 2016 (detailed in **Appendix 4.6.1**). The manufacturers did not apply for renewal of the brand names/labels. Audit also observed that the CE did not take any action to issue notice to the manufacturers to renew their brand name of IMFL resulting in non-realisation of renewal fees of ₹ 26.05 lakh and penalty ₹ 19.35 lakh on account of default in renewal of registration.

Thus, failure of the CE to take action to realize the renewal fee of brand names/label and penalty thereof, resulted in loss of revenue of ₹ 45.40 lakh to the state exchequer.

The case was reported to the Department (July 2017); reply was awaited (July 2018).

Transport Department

4.7 Non-realisation of road tax

Road tax of ₹ 85.73 lakh due from 769 commercial vehicles and penalty of ₹ 21.43 lakh remained unrealized for default of payment of tax for more than one year to six years

Under Section 4 of the Arunachal Pradesh Motor Vehicles Taxation Act, 1984, road tax at prescribed rate shall be levied and collected annually/quarterly/monthly as the case may be, on all motor vehicles used or kept for use in the State, unless an owner of such vehicle is exempted from tax on the basis of his application to the effect that the vehicle would not be used in any public place and the registration certificate is surrendered. Section 13 of the Act further provides that in the event of failure to pay the tax by any owner, the Taxation Officer shall, in addition to the tax due, levy and collect penalty not exceeding one-fourth of the annual tax.

Scrutiny of records of six District Transport Officers (DTOs)⁵ (May 2016 to July 2016) revealed that 769 owners of commercial vehicles neither paid road tax amounting to ₹ 85.73 lakh for different periods ranging one to six years falling between September 2010 and May 2016 nor obtained any exemption from the concerned DTOs by surrendering their registration certificates. The details are given in the following table:

⁵ DTO Yupia; DTO Pasighat; DTO Aalo; DTO Ziro; DTO Tezu; and DTO Bomdila.

Table: 4.7.1 - Details of non-payment of Road Tax

(₹ in lakh)

Sl. No.	Name of DTO	No of vehicles not paying road tax	Year of arrears	Road tax Due	Penalty Due	Total amount due
1	DTO Yupia	177	1-3 yrs	17.33	4.33	21.66
2	DTO Pasighat	114	1-6 yrs	13.13	3.28	16.41
3	DTO Aalo	88	1-4 yrs	8.65	2.16	10.81
4	DTO Ziro	79	1-2 yrs	4.28	1.07	5.35
5	DTO Tezu	80	1-5 yrs	13.99	3.50	17.49
6	DTO Bomdila	231	1-6 yrs	28.35	7.09	35.44
Total		769		85.73	21.43	107.16

The maximum penalty of ₹ 21.43 lakh leviable for default in payment of the aforesaid tax was also not levied by the DTOs.

Thus, failure of the DTOs to issue Demand Notice to the defaulters and lack of enforcement to ensure compliance resulted in non-realization of a total revenue of ₹ 1.07 crore.

The case was reported to the Department (July 2017); reply was awaited (July 2018).

4.8 Non-realisation of entry tax

Failure of the District Transport Officer, Bomdila to collect entry tax of ₹ 19.33 lakh on 27 commercial vehicles imported from outside the State

Rule 4 (1) and (5) of the Arunachal Pradesh Entry Tax (APET) Act, 2010 states that entry tax shall be leviable on the import of any motor vehicle into the State for use or sale therein which is liable for registration in the State under the Motor Vehicles Act, 1988. No Registering Authority shall either register any such motor vehicle or assign any new registration mark to such motor vehicle unless payment of entry tax has been made by the person concerned. Further, as per Section 4(d) of the Arunachal Pradesh Goods Tax Act 2005, motor vehicles are taxable at the rate of 12.5 *per cent*, and excavator and tipper are taxable at the rate of four *per cent*.

Scrutiny (July 2016) of the records of the District Transport Officer (DTO), West Kameng District, Bomdila revealed that 27 commercial motor vehicles such as light commercial vehicles, excavator, tipper, *etc.*, having total value of ₹ 2.63 crore were imported from Assam and were registered by the DTO during the period from April 2010 to February 2014. Audit, however, observed that entry tax at the prescribed rate of 12.5 *per cent* on 18 vehicles and four *per cent* on nine vehicles amounting to ₹ 19.33 lakh (details in **Appendix 4.8.1**) was not realized from the vehicle owners by the DTO, in contravention of the provisions of the APET Act, 2010.

Thus, failure of the DTO, Bomdila to ensure realization of entry tax before registering 27 commercial vehicles resulted in a revenue loss of ₹ 19.33 lakh to the State exchequer.

The case was reported to the Department (August 2017); reply was awaited (July 2018).

4.9 Non-renewal of fitness certificates

Failure of five DTOs to ensure renewal of fitness certificates of 526 vehicles resulted in revenue loss of ₹ 13.96 lakh.

As per Section 56 of the Central Motor Vehicles Act, 1988 and Rule 62 of the Central Motor Vehicles (CMV) Rules, 1989, a transport vehicle shall not be deemed to be validly registered under Section 39 of the Act *ibid* unless it carries a certificate of fitness. A fitness certificate granted in respect of a newly registered transport vehicle is valid for two years and is required to be renewed every year thereafter. Payment of the prescribed testing fee of ₹ 200.00, ₹ 300.00 and ₹ 400.00 for light, medium and heavy vehicle respectively is required to be made under Rule 81 of the CMV Rules, 1989. Further, plying a vehicle without valid registration is punishable under Section 192 of MVT Act, 1988 with a fine not less than ₹ 2,000.00 for the first offence.

Scrutiny (May 2016 to July 2016) of records of five District Transport Offices (DTO)⁶ revealed that the owners of 526 transport vehicles⁷ (commercial vehicles) failed to renew their certificates of fitness before the expiry of the validity period ranging from one to five years falling between November 2011 and June 2016 and avoided payment of ₹ 3.44 lakh as testing fee. The DTOs also failed to issue notices to the vehicle owners for renewal of the same. Audit further observed that these 526 commercial vehicles continued to ply without valid fitness certificates for which a penalty of ₹ 10.52 lakh (@ ₹ 2000 x 526 Vehicles) was hence leviable.

Thus, failure of the five DTOs to renew fitness certificates and non- levy of the consequent penalty, resulted in a revenue loss of ₹ 13.96 lakh (fitness fee of ₹ 3.44 lakh and penalty ₹ 10.52 lakh).

The case was reported to the Department (August 2017); reply was awaited (July 2018).

⁶ 1. DTO, Tezu; 2. DTO, Bomdila; 3. DTO, Pasighat; 4. DTO, Aalo; 5. DTO, Ziro.

⁷ Tezu: 113 vehicles; Bomdila: 219 vehicles; Pasighat: 30 vehicles; Aalo: 85 vehicles, Ziro: 79 vehicles.

