

Chapter IV

Revenue Sector

CHAPTER IV REVENUE SECTOR

4.1 Trend of revenue receipts

4.1.1 The Revenue Receipts of the State comprises,

- Tax and non-tax revenues raised by the Government of Sikkim,
- State's Share of Net Proceeds of divisible Union taxes and duties assigned to the State, and
- Grants-in-Aid received from the Government of India.

The details along with the corresponding figures for the preceding four years have been depicted in **Table 4.1.1:**

Table 4.1.1: Trend of Revenue Receipts

(₹ in crore)

Sl. No.		2014-15	2015-16	2016-17	2017-18	2018-19
I	Revenue raised by the State Government					
	• Tax revenue	527.54	566.82	652.56	688.33	892.92
	• Non-tax revenue	698.08	412.99	451.64	654.38	6,57.78
	Total	1,225.62	979.81	1,104.20	1,342.71	1,550.70.
II	Receipts from Government of India					
	• State's share of net proceeds of divisible Union taxes	809.33	1,870.28	2,069.19	2,634.66	2,794.67
	• Grants-in-aid	2,427.00	934.20	1,436.91	1,235.42	1,574.99
	Total	3,236.33	2,804.48	3,506.10	3,870.08	4,369.66
III	Total receipts of State Government (I + II)	4,461.95	3,784.29	4,610.30	5,212.79	5,920.36
IV	Percentage of I to III	27	26	24	26	26

Source: Finance Accounts, Government of Sikkim

Revenue Receipts of the State increased by 44.84 per cent from ₹ 4087.64 crore in 2014-15 to ₹ 5,920.36 crore in 2018-19 at an annual average rate of 8.97 per cent. During 2018-19, Revenue Receipts grew by ₹ 707.57 crore (13.57 per cent) over the previous year, mainly on account of the State Goods and Service Tax. About 26.19 per cent of Revenue Receipts during 2018-19 came from State's Own Resources while Central Tax Transfers and Grants-in-Aid together contributed 73.81 per cent.

Tax Revenue constituted 15.08 per cent of Revenue Receipts and increased by ₹ 204.59 crore during 2018-19, recording a growth of 29.72 per cent over the previous year. Non-Tax Revenue in 2018-19 constituted 11.11 per cent of the total Revenue Receipts and increased marginally by ₹ 3.40 crore with growth rate of 0.52 per cent over the previous year.

4.1.2 The details of the tax revenue raised during the period from 2014-15 to 2018-19 are given in **Table 4.1.2.**

Table 4.1.2: Details of Tax Revenue realised

(₹ in crore)

Sl. No.	Head of revenue	2014-15		2015-16		2016-17		2017-18		2018-19		% of increase (+) or decrease (-) in 2018-19 over 2017-18	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1	State Goods and Services Tax (SGST)	Not Applicable						0.00	171.39	253.07	405.72	-	137
2	Goods and Service Tax (Compensation)	Not Applicable						-	00	110.58	00	-	-
3	Sales Tax/Value Added Tax (VAT)	259.45	282.10	300.00	325.72	361.00	364.82	388.26	249.66	154.00	188.20	-60	-25
4	Taxes on Income and Expenditure other than Corporation Tax	8.01	7.93	8.51	7.92	9.00	7.82	10.00	8.04	10.00	10.57	0	31
5	State Excise	120.93	131.36	135.00	142.08	144.45	156.24	155.00	150.47	158.54	183.09	2	22
6	Stamps and Registration Fees	7.70	6.77	7.64	8.51	7.64	12.57	7.82	13.57	13.34	14.95	71	10
7	Taxes on Vehicles	18.82	19.42	21.07	22.36	24.00	24.90	28.50	29.37	31.05	33.10	9	13
8	Other Taxes and Duties on Commodities and Services	75.60	73.81	81.26	58.38	93.07	79.82	72.84	58.39	32.63	48.21	-55	-17
9	Land Revenue	6.89	6.15	6.89	1.85	6.89	6.39	7.09	7.44	7.10	9.08	0	22
	Total	497.4	527.54	560.37	566.82	646.05	652.56	669.51	688.33	770.31	892.92	0.47	30

* BE: Budget Estimates, Source: Estimate of Receipts, Finance Department, GoS and Finance Accounts 2018-19

It appears from the above table that the actual realization was 116 per cent over the Budget Estimates (BE). The percentage of realisation under different heads ranged between 106 per cent to 160 per cent of the BE which indicate that the budget was not prepared based on realistic estimates.

Tax Revenue increased by ₹204.59 crore (30 per cent) in 2018-19 as compared to previous year, the increase was mainly contributed by 'State Goods and Services Tax' (SGST) by ₹234.33 crore (137 per cent), State Excise by ₹32.62 crore (22 per cent) and Other Taxes on Income and Expenditure by ₹2.53 crore (31 per cent).

The respective departments reported the following reasons for variations:

State Excise: Increase in revenue was due to increase in production and sale of alcoholic products.

State Goods and Services Tax: Increase in collection of State Goods and Services Tax was due to increase in the number of tax payers and decrease in Value Added Tax collection due to it being subsumed under the Goods and Services Tax.

In respect of the other revenue heads, the departments concerned did not furnish reasons for variations.

4.1.3 The details of the non-tax revenue raised during the period 2014-15 to 2018-19 are given in **Table 4.1.3:**

Table 4.1.3: Details of Non-Tax Revenue realised

(`in crore)

Sl. No.	Head of revenue	2014-15		2015-16		2016-17		2017-18		2018-19		Percentage of increase (+) or decrease (-) in 2018-19 over 2017-18		
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
1	Power	121.10	113.56	125.10	147.68	140.10	170.04	160.10	310.26	190.10	269.44	19	-13	
2	Interest receipts	31.05	66.44	31.21	72.52	37.21	78.38	50.41	114.76	50.41	125.33	150	9	
3	Police	55.32	17.60	55.35	61.68	52.42	41.43	52.74	45.39	57.11	46.64	8	3	
4	Road Transport	43.00	27.63	39.35	41.55	47.00	48.71	55.00	52.08	59.00	53.96	7	4	
5	Forestry and Wild Life	15.35	11.45	12.06	12.79	12.06	16.02	13.50	14.21	13.50	17.53	0	23	
6	Other Administrative Services	10.25	13.59	10.40	7.30	2.38	9.32	4.83	5.30	7.79	5.04	61	-5	
7	Public Works	5.68	3.66	6.83	4.25	4.22	8.65	4.37	15.38	4.59	28.01	5	82	
8	Plantations	5.00	2.31	5.18	3.86	5.18	5.21	5.18	2.19	7.00	2.41	35	10	
9	Water Supply and Sanitation	3.91	3.25	3.99	3.80	4.26	4.04	5.00	4.88	10.00	4.29	100	-12	
10	Tourism	2.80	2.64	3.14	3.96	3.80	5.42	4.50	5.14	4.64	6.16	3	20	
11	Medical and Public Health	2.50	1.97	2.50	2.15	2.50	2.59	2.50	2.11	2.50	2.37	0	12	
12	Other Rural Development Programmes	1.50	1.65	1.50	0.94	1.50	0.51	1.50	0.91	1.50	0.98	0	8	
13	Stationery and Printing	1.90	1.75	2.03	1.83	1.81	2.16	1.85	3.08	1.95	1.52	5	-51	
14	Crop Husbandry	0.91	0.56	0.91	0.70	0.91	0.57	0.91	0.34	0.63	0.37	-31	9	
15	Education, Sports, Art and Culture	1.34	1.22	1.17	1.16	1.12	2.05	1.15	2.31	1.17	2.32	2	0	
16	State Lotteries (SL)	Gross	787.23	418.64	--*	--*								
		Net	36.00	44.33	37.40	20.02	33.55	45.00	50.00	55.03	55.00	57.82	10	5
17	Others	10.08	10.16	12.24	26.80	12.24	11.54	12.92	21.01	15.03	33.59	16	60	
Total (with gross figures of SL)		1,098.92	698.08											
Total (withnet figures of SL)		347.69	323.77	350.36	412.99	362.26	451.64	426.46	654.38	481.92	657.78	13	0.6	

Source: Finance Accounts 2018-19 and Estimate of Receipts, Finance Department, GoS..

* Gross figures of State Lotteries have not been furnished by the Department for 2015-19. Since gross figures of State Lotteries have not been reflected for the year 2015-19, percentage increase/decrease has not been calculated.

It appears from the above table that the actual realisation was 136 per cent over the Budget Estimates. The percentage of realisation under different heads ranged between 43 per cent to 610 per cent of the BE which indicate that the budget was not prepared based on realistic estimates.

Non-tax revenue increased by ₹ 3.40 crore (one per cent) in 2018-19 over the previous year. The increase was mainly under Public Works by ₹12.63 crore (82 per cent), Forestry and Wildlife by ₹3.32 crore (23 per cent) and Tourism by ₹1.02 crore (20 per cent). The increase was offset by decrease mainly under Power by ₹40.82 crore (13 per cent).

The respective departments reported the following reasons for variations:

Water supply and sanitation: Decrease in revenue was due to IT problems on account of which water supply bills could not be printed and claimed.

Power: Decrease in revenue was due to less consumption of power with the introduction of LED lights and non-payment of electricity bill by consumers.

Medical and Public Health: Increase in revenue was due to tendering of more works during 2018-19.

Forestry and Wildlife: Increase in revenue was due to increase in other receipts.

Education, Sports, Arts and Culture: Increase in revenue was due to receipt of hostel rent, ground rent, storage charges and sale of text-books to non-COI holder students.

State Lotteries: Increase in revenue was due to enhancement of government revenue from ₹ 36,257 to ₹ 52,000 per draw *w.e.f.* 11 October 2018 for 16 draws *per day*.

In respect of other revenue heads, the departments concerned did not furnish reasons for variations.

4.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2019 in respect of some Heads of Revenue as reported by the departments amounted to ₹ 345.36 crore, of which, ₹136.83 crore was outstanding for more than five years (as detailed in **Table 4.2.1**).

Table 4.2.1: Arrears of Revenue

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding		Replies of Department
		As on 31 March 2019	For more than five years	
1	Power	342.23	135.47	Non-payment of Electricity Bills by consumers
2	Animal Husbandry	0.15	-	Entry tax of ₹ 34.98 lakh, due from a firm M/S Uttara Foods & Feed Pvt. Ltd., was only partially paid by the firm leaving a balance of ₹ 14.58 lakh.
3	Roads and Bridges Department	2.98	1.36	The road machineries of the department were mostly deployed for the departmental works. Due to fund constraint, recovery of hire charges from departmental works were pending. Whenever the funds are made available, the recovery from departmental contractual works would be made.
Total		345.36	136.83	

Source: Information received from departments

4.3 Response of the departments/ Government towards Audit

The Principal Accountant General (PAG), Sikkim conducts periodical inspection of the Government departments to test check the transactions and verify the maintenance of the important accounts and other records as prescribed in the Rules and procedures. Inspection Reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot are issued to the heads of the offices inspected with copies to the next higher authorities for prompt corrective action. The heads of the offices/ departments are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the PAG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Department and the Government.

It was seen that 256 paragraphs involving ₹ 674.32 crore relating to 96 IRs remained outstanding at the end of June 2019. The details along with the corresponding figures for the preceding two years are mentioned in the following table:

Table 4.3.1: Details of pending Inspection Reports

Particulars	June 2017	June 2018	June 2019
Number of outstanding IRs	91	89	96
Number of outstanding audit observations	242	242	256
Amount involved (₹ in crore)	594.30	567.01	674.32

4.3.1 The department-wise details of the IRs, the audit observations outstanding as on 30 June 2019 and the amounts involved are mentioned in the following table:

Table 4.3.2: Department-wise details of IRs

Sl. No.	Name of Department	Nature of Receipts	No. of outstanding IRs	No. of outstanding Audit observations	Money value involved (₹ in crore)
1	Finance (Commercial Taxes Division)	VAT/Taxes on Sales, Trade, etc.	18	51	375.32
2	Excise (Abkari)	State Excise	14	41	22.65
3	Land Revenue and Disaster Management	Land Revenue	18	23	8.94
4	Transport (Motor Vehicles Division)	Taxes on Motor Vehicles	6	16	6.28
5	Mines, Minerals and Geology	Non-ferrous Mining and Metallurgical Industries	3	3	3.31
6	Forest, Environment and Wildlife Management	Forestry and Wildlife	10	20	1.02
7	Finance (Directorate of State Lotteries)	State Lotteries	3	8	19.25
8	Urban Development and Housing	Urban Development	15	44	20.12
9	Energy and Power	Power	9	50	217.43
Total			96	256	674.32

Audit did not receive even the first replies from the heads of offices within one month from the date of issue of 10 numbers of IRs (issued during 2018-19) till June 2019. Pendency of IRs due to non-receipt of the replies was indicative of heads of offices and heads of the departments not initiating adequate action to rectify the defects, omissions and irregularities pointed out by the PAG through IRs.

The Government may consider having an effective system for prompt and appropriate response to audit observations.

4.3.2 Departmental Audit Committee Meetings

The Government set up audit committees to monitor and expedite the progress of the settlement of the IRs and paragraphs in the IRs. During 2018-19, one Audit Committee Meeting was held with Energy and Power Department wherein 14 paragraphs involving ₹ 209.01 crore relating to four IRs were settled.

The overall progress on settlement of paragraphs needs to be improved in view of the huge pendency of IRs and paragraphs.

4.3.3 Response of the departments to the draft audit paragraphs

The PAG forward the draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India to the Principal Secretaries/ Secretaries of the Department concerned, drawing their attention to audit findings and requesting them to send their response within four weeks. The fact of non-receipt of replies from the departments/ Government is invariably indicated at the end of such paragraphs included in the Audit Report.

One draft paragraph proposed for inclusion in the Audit Report of the Comptroller and Auditor General of India for the year ended March 2019 was forwarded to the head of the Department through demi-official letter for which reply was received.

4.3.4 Follow up on Audit Reports - summarised position

The Rules of Procedures of the Committee on Public Accounts of the Sikkim Legislative Assembly (internal working) lays 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 Government should submit the action taken explanatory notes within three months of tabling the Report for consideration of the Committee. In spite of these provisions, the explanatory notes on the audit paragraphs of the Reports were being delayed inordinately.

Reports of the Comptroller and Auditor General of India of the Government of Sikkim for the years ended 31 March 2014, 2015, 2016, 2017 and 2018 containing 17 paragraphs under Revenue Sector were placed before the State Legislative Assembly between March 2015 and August 2019. Action taken explanatory notes in respect of 12 paragraphs from six departments {Excise; Finance⁸²; Transport (Motor Vehicles Division); Urban Development and Housing; Power; and Water Resources and River Development} had not been received for Audit Reports for the years ending 31 March 2014, 2015, 2016 and 2017.

During 2018-19, the PAC did not discuss any Audit Report.

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

To analyse the system of addressing the issues highlighted in the IRs/ Audit Reports by the departments/ Government, action taken on the paragraphs and Performance Audits (PAs) included in the Audit Reports pertaining to the last 10 years in respect of Power Department was evaluated and included in this Report.

The succeeding paragraphs 4.4.1 to 4.4.2 discuss the performance of the Power Department in dealing with the cases detected in course of local audit conducted during the last ten years and also the cases included in the Audit Reports pertaining to the last 10 years.

⁸² *Commercial Taxes Division and Directorate of Sikkim State Lotteries*

4.4.1 Position of IRs

The summarised position of IRs issued during the last ten years, paragraphs included in these Reports and their status as on 30 June 2019 are given in the following table:

Table 4.4.1: Position of Inspection Reports

(₹ in crore)

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance		
	IRs	Para- graphs	Money value	IRs	Para- graphs	Money value	IRs	Para- graphs	Money value	IRs	Para- graphs	Money value
2009-10	8	27	188.10	0	0	0	0	2	1.65	8	25	186.45
2010-11	8	25	186.45	0	0	0	0	0	0	8	25	186.45
2011-12	8	25	186.45	1	9	214.91	0	3	66.82	9	31	334.54
2012-13	9	31	334.54	0	0	0	0	0	0	9	31	334.54
2013-14	9	31	334.54	0	0	0	0	0	0	9	31	334.54
2014-15	9	31	334.54	1	6	91.27	0	2	12.30	10	35	413.51
2015-16	10	35	413.51	1	13	1.75	0	0	0	11	48	415.26
2016-17	11	48	415.26	1	13	7.30	0	1	1.34	12	60	421.22
2017-18	12	60	421.22	0	0	0	0	0	0	12	60	421.22
2018-19	12	60	421.22	1	4	7.27	4	14	211.06	9	50	217.43

The Department arranged one Departmental Audit Committee meeting wherein 14 paragraphs involving ₹ 209.01 crore relating to four IRs were settled.

4.4.2 Recovery in accepted cases

The position of paragraphs included in the Audit Reports pertaining to the last 10 years accepted by the Department and recovery effected there-against is mentioned in the following table:

Table 4.4.2: Details of accepted paragraphs and recovery thereof

Year of Audit Report	No. of paragraphs included	Money value of the paragraphs (₹ in crore)	Number of paragraphs accepted	Money value of accepted paragraphs (₹ in crore)	Amount recovered during the year (₹ in crore)	Cumulative position of recovery of accepted cases (₹ in crore)
2008-09	No paragraphs featured in the Audit Report					
2009-10	No paragraphs featured in the Audit Report					
2010-11	01	94.85	0	NA	Nil	Nil
2011-12	01	52.71	01	52.71	Nil	Nil
2012-13	No paragraphs featured in the Audit Report					
2013-14	No paragraphs featured in the Audit Report					
2014-15	No paragraphs featured in the Audit Report					
2015-16	01	4.11	01	4.11	Nil	Nil
2016-17	01	2.54	01	2.54	Nil	Nil
2017-18	No paragraphs featured in the Audit Report					

It was evident from the above table that the progress of recovery even in accepted cases was very slow during the last ten years. The recovery in accepted cases was to be pursued as arrears recoverable from the parties concerned. The Department/ Government had not put in place any mechanism for pursuance of the accepted cases. In the absence of a suitable mechanism, the Department could not monitor the recovery in accepted cases.

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

**4.5 Action taken on the recommendations accepted by the departments/
Government**

The draft reports on Performance Audits (PAs) conducted by the PAG are forwarded to the Government/ Department concerned for their information with a request to furnish their replies. These PAs are also discussed in the exit conference and the Department's/ Government's views are included while finalising the PAs for the Audit Reports.

The following PA on Sikkim State Lotteries (Directorate of Sikkim State Lotteries) had featured in the Audit Report 2015-16. The details of recommendations and their status are given in the following table:

Table 4.5.1: Details of recommendations and their status

Year of AR	Name of the PA	Details of the Recommendations	Status
2015-16	Performance Audit on Sikkim State Lotteries	The State needs to lay down clear and workable modality to ascertain the quantum of sale proceeds and deposit thereof into Government account. Benchmarking of State revenue should be done with gross value of sale proceeds of lottery tickets. Commission of distributors should be fixed after deducting operating cost, prize money, printing cost, charges to the other State, etc.	As per audit recommendation on modality for ascertaining the quantum of sale proceeds, benchmarking of State revenue with gross value of sale proceeds of lottery tickets, the DSSL stated that Sikkim State Lotteries including other smaller states conducts its lottery as per Rule 3 (10) of the Lotteries (Regulation) Rules, 2010 due to non-availability of a market of its own, whereas bigger lottery playing States conduct/can conduct under Rule 4 (4) of the Lotteries (Regulation) Rules, 2010. As per Rules 3 (10) of Lotteries (Regulations) Rules, 2010, the DSSL have been charging ₹ 5.03 lakhs per draw for bumper and ₹ 70,100/- per draw in respect of Paper Lottery. Similarly, for online lotteries, the DSSL have been charging ₹ 59,000/- only per draw respectively.
		Uniformity may be brought in the process of award of marketing contracts, by following laid down procedure for selection of marketing agencies to make it more competitive and transparent.	The Distributors/Marketing Agents for sale of Sikkim Online Lotteries and Paper Lotteries are appointed by way of open tender as per Rule 18 of the Sikkim on-line Network Lottery Rules, 2001 and Rule 04 of the Sikkim State Lottery Rules, 2003 respectively.
		The application software, programmes, operating systems, hardware and all other devices may be prescribed and standardised. Uniformity, to the extent possible, in utilisation of hardware and software systems should be maintained for all Online Lottery MAs. Annual financial and systems audit of the Lottery Schemes must be conducted.	The systems being used for conducting lotteries are certified by Standardised Testing and Quality Certification Directorate (STQC) under the Ministry of Electronics and Information Technology. DSSL is audited annually by O/o The Pr. A.G (Audit), Sikkim.
		Internal control system may be strengthened by appropriate measures,	The Internal Audit Division of Finance Department has been

Year of AR	Name of the PA	Details of the Recommendations	Status
		preferably by setting up an independent internal audit wing and compliance with the observations made by the wing may be ensured.	consulted for auditing as per the recommendation.
		Government should draw the scheme for utilisation of revenue generated out of operation of lotteries, as envisaged under Notification under Rule 3(2) of Lottery Regulation Rules, 2010, for development activities of social importance like health, education, poverty alleviation, etc. and it should be kept in a separate account earmarked for above purpose.	As per Office Memorandum no. FIN/DSSL/II/132/14-15/01 dated 30 th May, 2015 issued by the O/o the Controller of Accounts, Finance Department, Government of Sikkim, the net revenue received out of lottery transactions are transferred to the Head of Account 0075-Miscellaneous General Service, 103-State Lotteries by Sikkim State Lotteries.

NB: Status as in the table is based on departmental replies.

4.6 Audit Planning

The unit offices under various departments were categorised into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. The annual audit plan was prepared on the basis of risk analysis which *inter alia* included 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 during the past five years, factors of the tax administration, audit coverage and its impact during the past five years *etc.*

During 2018-19, there were 16 auditable units, of which 10 units (63 *per cent*) were planned and audited.

4.7 Results of audit

Test check of the records of 10 units under Revenue departments {Finance Department, Transport Department, Excise Department, Land Revenue & Disaster Management Department, Forest and Environment Department, Mines and Geology Department and Urban Development Department} was carried out during the year 2018-19. It revealed irregularities involving revenue aggregating to ₹ 338.75 crore in 31 cases. During the course of the year, the departments concerned accepted all the 31 observations.

4.8 Coverage of this Report

This Chapter contains one Compliance Audit para involving financial effect of ₹ 0.86 crore.

**Finance Department (Commercial Taxes Division) and
Excise Department**

4.9 Non realisation of Profession Tax

Failure of the Commercial Taxes Division to bring the persons evading tax into the tax net by coordinating cross verification of records with the Excise Department resulted in non-realisation of profession tax amounting to ₹ 0.86 crore.

Section 4 (2) of Sikkim Tax on Professions, Trades, Callings and Employments Act, 2006, provides for levy of profession tax on persons engaged in any profession, trade, calling or employment and falling under several classes.

Additionally, as per Section 14 (2)- without prejudice to the provisions of sub-section (1), an employee referred to in that sub-section shall be liable to pay, in addition to the amount of tax, simple interest at two *per cent* of the amount of tax due for each month or part thereof for the period for which the tax remains unpaid.

Further, Section 32 (1) (c) of the Sikkim Tax on Professions, Trades, Callings and Employments Act, 2006 stipulates that no Government, local authority, educational institution, corporation or body corporate established under a Central or State Act, shall renew any license issued by them to any person, unless the Commissioner certifies in the prescribed manner that such person- (i) has no liability to pay tax or has not defaulted in furnishing any returns together with the receipted challan or challans showing payment of all taxes payable under this Act, or (ii) has not defaulted in making payment of tax otherwise payable by, or due from him under this Act.

In order to examine the effectiveness of collection of profession tax, Audit examined the records of the Commercial Taxes Division of Finance Department in respect of the following class of persons who were liable to pay profession tax as given below:

Table 4.6.1: Rate of Profession Tax

Sl. No.	Class of persons	Rate of tax
1	Licensed foreign liquor vendors	₹ 1500 per annum
2	Licensed country liquor vendors and owners or Occupiers or lessees of residential hotels below three-star category	₹ 1500 per annum

Source: The Sikkim Tax on Professions, Trades, Callings and Employment Act, 2006

Audit collected the information from Excise Department of Government of Sikkim and collated it with the records of Commercial Taxes Division of Finance Department.

As per the records furnished by the Excise Department, it was noticed that the Department had total number of 2181 registered licensed foreign liquor vendors / bars having tax liability of ₹ 1,500 *per annum* in 2016-17, 1806 in 2017-18 and 1769 during 2018-19 as detailed in **Appendix 4.1**. Year-wise details of the total licensees in Sikkim who were liable to pay profession tax during the period 2016-17 to 2018-19 are shown below:

Table 4.6.2: Year-wise details of the total licensees in Sikkim

Period	No. of licensees (FLB+FLR ⁸³)	Type Licencee (Nos)		Tax Rate	Tax to be paid	Tax realised	Tax due
		New	Renewed				
a	b	c	d	e	(Amount in ₹)		h = f-g
2016-17	2181	159	2022	1500	3271500	Nil	3271500
2017-18	1806	46	1760	1500	2709000	Nil	2709000
2018-19	1769	220	1549	1500	2653500	Nil	2653500
Total	5756	425	5331	1500	8634000	Nil	8634000

Cross verification of tax payment details provided by the Commercial Tax Division of Finance Department with the licences issued by the Excise Department to the vendors for running the liquor shop revealed that during 2016-17 to 2018-19, Department failed to levy and collect professional tax from the vendors/bars as provided in the Act. Thus, failure of the Commercial Taxes Division and Excise Department to bring the persons evading tax into the tax net in violation of Section 14 (2) and Section 32 (1) (c) of the Sikkim Tax on Professions, Trades, Callings and Employments Act, 2006 resulted in non-realisation of profession tax amounting to ₹ 0.86⁸⁴ crore excluding penal interest.

The findings indicate that the CTD does not have effective mechanism in place to ensure collection of tax from all the eligible tax payers. Further, the Excise Department should have obtained the clearance certificate from the CTD as per Section 32 (1) (c) of the Act before renewal of licenses.

On matter being reported to the Department/Government, the CTD in its reply (January 2020) stated that the Excise Department should have ensured that the licensees obtained the clearance certificate from CTD before issue of new licenses/renewals. As an enforcement measure, the CTD had served (September 2019) notice of hearing to 54 numbers of liquor vendors and notice of demand to 33 liquor vendors.

The reply of the CTD in putting the entire blame on the Excise Department is not tenable as the superintendence and control for the proper execution of the provisions of the Act and the rules for levy and collection of tax vest in the Commissioner, CTD, as per Section 3 (3) of the Sikkim Tax on Professions, Trades, Callings and Employments Act, 2006. The non-realisation of profession tax of ₹ 0.86 crore from 5,756 liquor vendors was due to enforcement lapses on the part of the Commercial Taxes Division and the same needs to be corrected now and the dues recovered from the registered parties.

Recommendation: The Department may devise a mechanism for effective collection of Profession Tax by coordinating with other departments concerned.

⁸³ FLB= Foreign Liquor Bar, FLR= Foreign Liquor Retailer

⁸⁴ Numbers of vendors - 5756 (2016-17: 2181, 2017-18: 1806 and 2018-19 : 1769) x ₹ 1,500 = ₹86,34,000

