

Chapter III

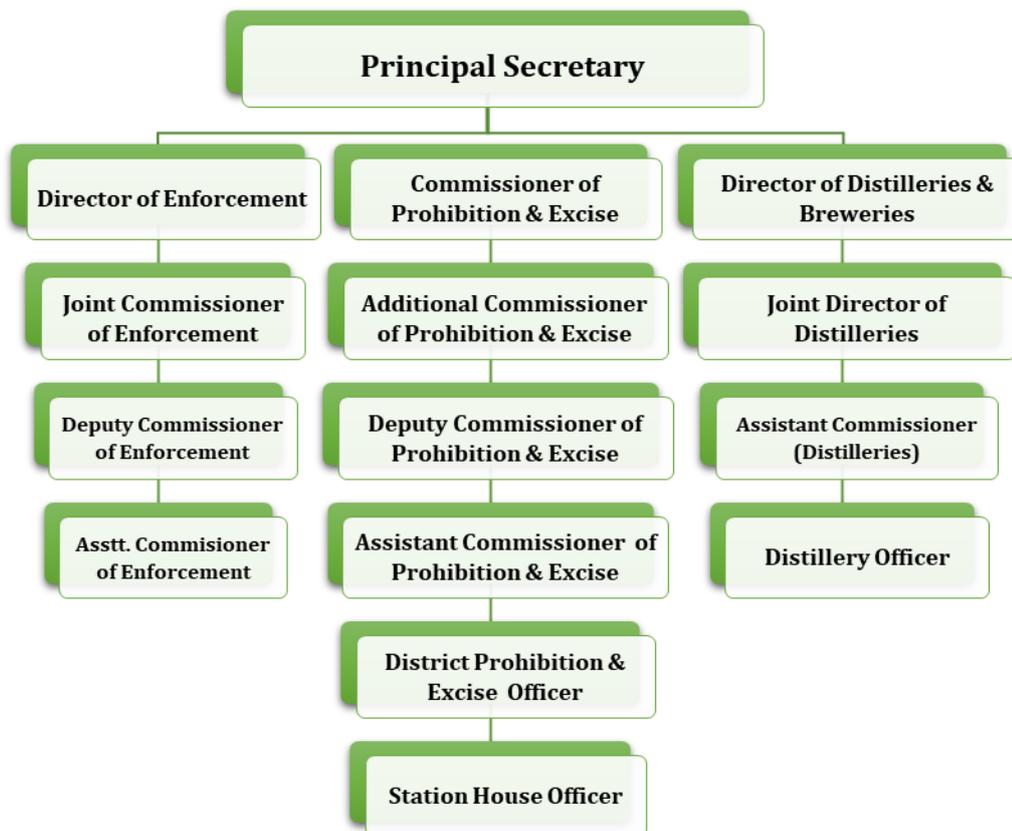
State Excise Duties

3.1 Tax Administration

Prohibition and Excise (P&E) Department is governed by ‘The Telangana Excise Act, 1968’, ‘The Telangana Prohibition Act, 1995’¹ and ‘The Narcotic Drugs and Psychotropic Substances Act, 1985’ (Central Act) and makes policies pertaining to Prohibition & Excise in the State of Telangana. The Department ensures that Excise Revenue is protected and collected according to the relevant Acts and Rules. It also creates awareness among the people of Telangana on the evil effects of consumption of alcoholic products and also illicit distillation of liquor and encourages establishment of Drug De-Addiction Centers.

The Principal Secretary to Government, Revenue Department is the administrative head of the department at the Government level. The organizational set up of the Department for administration of tax is depicted in the organogram given below:

Figure-3.1: Organogram



State Excise revenue forms the third largest source of revenue for the State and accounts for 10.49 *per cent* of the total revenue of the State. It has been increasing from year-to-year since the formation of Telangana State in June 2014 and has exceeded the budget estimates during the three-year period 2016-17 to 2018-19. During the year 2018-19, the total revenue from Excise was ₹10,637.56 crore². The monthly break-up of Excise revenue during the year is given below.

¹ Government of Telangana vide G.O.Ms.No.45, Law(F) dated 1 June 2016 adopted the said Act of combined State of Andhra Pradesh.

² Source: Finance Accounts of Government of Telangana for 2018-19.

Chart 3.1 State Excise revenue realised for the Financial Year 2018-2019



3.2 Results of Audit

Audit of State Excise receipts was conducted through a test check of the relevant records in 39 out of 94 Excise units (41.49 per cent) in the State during 2018-19, to gain assurance that the Taxes are levied, collected and accounted for in accordance with the relevant Acts, Codes and Manuals, and the interests of the Government are safeguarded. These 39 units were selected based on revenue collected. Audit noticed instances of deviations/non-compliance with the provisions of the Acts and Rules in 87 cases involving an amount of ₹23.38 crore, due to various reasons, as detailed below in **Table 3.1:**

Table-3.1 Categories of Audit Observations on Excise tax receipts

(₹in crore)

Sl. No.	Category of Audit observations	No. of deviations	Amount
1	Non-levy or short levy of Excise Tax and interest thereon	38	7.30
2	Non-levy of interest	8	0.99
3	Loss of revenue due to non-registration of lease deeds	11	1.97
4	Non-levy or short levy or non-fixation of toddy rentals	4	0.14
5	Non-levy or short levy of compounding fee	6	0.11
6	Non-levy or short levy of penalty	12	0.74
7	Other irregularities	8	12.13
	Total	87	23.38

There are seven broad categories of audit observations under State Excise as detailed above. Since audit findings are based on a test check, the Department needs to examine all the units to ensure that the taxes are levied as per the provisions of the Act and Rules³.

³ The Telangana Excise Act, 1968 read with (1) The Telangana Excise (Grant of Licence of Selling by Shop and Conditions of Licence) Rules, 2012; (2) The Telangana Excise (Grant of Licence of Selling by Bar and Conditions of Licence) Rules, 2005; (3) The Telangana Excise (Grant of Licence of Selling by In-House and Conditions of Licence) Rules, 2005 read with Government Orders and (4) The Telangana Excise (Levy of Interest on Government Dues) Rules, 1982.

Significant cases involving non-compliance with the provisions of the Acts and Rules by the District Prohibition and Excise Officers (DPEOs) that resulted in short levy or non-levy of taxes of ₹ 3.65 crore in 19 cases are discussed in the subsequent paragraphs.

3.3 Short levy and collection of Excise Tax for Liquor Shops/ Bars

Excise tax to the tune of ₹2.70 crore was short levied from shops and bar located within the periphery of Greater Hyderabad Municipal Corporation.

As per Section 28 of The Telangana Excise Act, 1968 read with Rule 16⁴ of Telangana Excise Rules, 2012, Rule 10⁵ of Telangana Excise Rules, 2005 and Government Orders⁶, excise tax is leviable on retail liquor shops (A4 Shops) and bars (2B bars)⁷ at the rate of ₹1.10 crore and ₹40.00 lakh respectively for the period 2017-19. The orders further stipulate that excise tax for shops/bars situated within the municipal limits will also apply to shops/bars situated within five kilometers (km) of municipal corporation areas.

Audit test checked (January 2019) the records of the District Prohibition & Excise Officer (DPEO), Shamshabad and found that the DPEO had issued licences for two A4 shops and one 2B bar in Gandipet village which is adjacent to Khanapur village which is in the periphery of Greater Hyderabad Municipal Corporation.⁸

As these shops and bar were located within the periphery of Greater Hyderabad Municipal Corporation, excise tax should have been levied on par with shops/bars located in Municipal Corporation area. However, the Department levied excise tax of ₹2.10 crore instead of ₹4.80 crore which resulted in short levy of excise tax of ₹2.70 crore.

The matter was referred to Department in August 2019 and to the Government in September 2019; Reminders were issued to the Government in May 2020 and October 2020; replies have not been received.

3.4 Non-levy of interest on belated payment of Excise Tax for Liquor Shops/Permit Rooms/Bars

Excise Tax was paid after due date with delays and interest on belated payment of ₹ 65.62 lakh was not levied by the concerned DPEOs.

The licence holders of retail liquor shops, permit rooms and bars are required to pay Excise Tax on or before the dates prescribed in the Telangana Excise Rules⁹. Payment of

⁴ Grant of Licence of Selling by Shop and Conditions of Licence Rules, 2012.

⁵ Grant of Licence of Selling by Bar and Conditions of Licence Rules, 2005.

⁶ G.O. Ms.No.200 and 201 of Revenue (Excise-II) Department, dated 12 September 2017 -A4 shops.

G.O. Ms. No.222 Revenue (Excise-II) Department, dated 27 September 2017 – 2B Bars.

⁷ Licences to establish a liquor shop and to run a bar are issued in Form A4 and Form 2B respectively.

⁸ G.O.Ms. No. 407 of MA&UD(Elec-II) Department dated 31 August 2013.

⁹ Rule 12 and Rule 25 (2) of The Telangana Excise (Grant of Licence of Selling by Shop and Conditions of Licence) Rules, 2012 and Rule 10 of The Telangana Excise (Grant of Licence of Selling by Bar and Conditions of Licence) Rules, 2005.

Excise Tax after the due dates is treated as 'arrears of revenue' and interest at the rate of 18 per cent per annum is leviable on such arrears of revenue¹⁰.

Audit test checked (between April 2018 and January 2019) the records of the offices of 10 DPEOs¹¹ and observed that 685 licensees paid the Excise Tax belatedly with delays ranging from 1 to 889 days. The DPEOs concerned did not levy interest on belated payments made to an extent of ₹65.62 lakh.

In reply to Audit, five DPEOs¹² stated that action would be taken to collect the interest, four DPEOs¹³ stated that the matter would be examined and DPEO, Jogulamba Gadwal replied that A4 Shops pointed out by Audit were transferred to the jurisdiction of other DPEOs and awaiting their reply.

The matter was referred to the Department in June 2019 and to the Government in September 2019; Reminders were issued to the Government in May 2020 and October 2020; replies have not been received.

3.5 Short or non-collection of Compounding Fee

Compounding Fee amounting to ₹10.89 lakh was not collected/ short collected in several offences.

As per the Telangana Excise Rules,¹⁴ every licensee has to follow licence rules while conducting liquor business. The Commissioner of Prohibition and Excise issued instructions¹⁵ to collect compounding fee for offences such as non-maintenance/ non-production of accounts, violation of business hours and sale of liquor to persons below 21 years of age, etc.

Audit scrutinised (between September 2018 and January 2019) station house records of five DPEOs¹⁶ and observed that 43 excise offences,¹⁷ which were compoundable in nature, were booked by the excise officers. However, in respect of 39 cases, the DPEOs concerned did not collect the compounding fee and in respect of 4 cases,¹⁸ compounding fee was short collected from the licensees. This resulted in short or non-collection of compounding fee of ₹10.89 lakh.

DPEOs Saroornagar, Secunderabad, Shamshabad, Nagarkurnool replied that action would be taken to collect the compounding fee and DPEO, Hyderabad assured a detailed reply.

¹⁰ Section 65 of The Telangana Excise Act, 1968 read with Rule 3 of The Telangana Excise (Levy of Interest on Government Dues) Rules, 1982.

¹¹ DPEOs Adilabad, Hyderabad, Jogulamba-Gadwal, Khammam, Mahabubnagar, Nalgonda, Peddapalli, Saroornagar, Shamshabad and Vikarabad.

¹² DPEOs Mahabubnagar, Peddapalli, Saroornagar, Shamshabad and Vikarabad.

¹³ DPEOs Adilabad, Hyderabad, Khammam and Nalgonda.

¹⁴ The Telangana Excise (Grant of Licence of Selling by Shop and Conditions of Licence) Rules, 2012 and The Telangana Excise (Grant of Licence of Selling by Bar and Conditions of Licence) Rules, 2005.

¹⁵ Circular Number 302/2014/CPE/TS/F4-1 dated 15 December 2015 and Circular No.302/2014/CPE/TS/F4 dated 06 February 2016.

¹⁶ DPEOs Hyderabad, Nagarkurnool, Saroornagar, Secunderabad, Shamshabad.

¹⁷ Sale of liquor in unauthorised premises, non-production of nowkarnama and non-updation of accounts, etc.

¹⁸ DPEOs – Hyderabad-2 cases, Saroornagar-1 case and Nagarkurnool-1 case.

The matter was referred to the Department in May 2019 and to the Government in September 2019; Reminders were issued to the Government in May 2020 and October 2020; replies have not been received.

3.6 Non-levy of additional ‘In-House Consumption Excise Tax’ on Club Licensees

‘In-House Consumption Excise Tax’ of ₹ 9.60 lakh was not levied on two club licensees having additional plinth area of more than 500 square meters each.

As per Rule 11 of the Telangana Excise (Grant of Licence of Selling by In-House and Conditions of Licence) Rules 2005, ‘In-House Consumption Excise Tax’ of ₹6 lakh per year is leviable on club licensees holding a plinth area up to 500 square meters (sq. mt) in areas with population that exceeds the prescribed limit¹⁹. Further, as per Government Order²⁰, an additional ‘In-House Consumption Excise Tax’ at the rate of 10 per cent is leviable for every additional 500 sq. mt of such plinth area.

Audit scrutinised (February 2019) the club licence renewal files for the period 2016-17 in the office of the Commissioner of Prohibition and Excise, Hyderabad and observed that additional ‘In-House Consumption Excise Tax’ of ₹9.60 lakh was not levied on two club licensees²¹ who held additional plinth area of more than 500 sq. mt each.

The matter was referred to the Department in June 2019 and to the Government in September 2019. Reminders were issued to the Government in May 2020 and October 2020; replies have not been received.

3.7 Non-levy of permit room Excise Tax in respect of Liquor Shops

Permit Room Excise Tax of ₹8.68 lakh was not levied/not proportionately levied though the population of the locality of Liquor shops was above 5,000.

All retail liquor shop licence holders in places where population is 5,000 and above are required to establish permit rooms adjacent to such shops²². Government Order²³ dated 26 February 2016 required all retail liquor shops to have permit rooms adjacent to such shops. For a permit room, Excise Tax of Rupees four lakh for two years was payable in two instalments²⁴.

Audit test checked (between July and December 2018) the records of the offices of DPEOs, Nagarkurnool and Jogulamba Gadwal and observed that two A4 shops that got licences prior to February 2016 in Peddakothapally village (having a population of more than 5,000) had not established permit rooms.

¹⁹ Where population of the revenue village and in its hamlets/municipality/municipal corporation is above 3,00,000.

²⁰ G.O.Ms.No.184 Revenue (Excise-II) Department, dated 25 July 2016.

²¹ M/s Nizam Club, Hyderabad and M/s Fathemaidan Club, Hyderabad.

²² As per Section 28 of The Telangana Excise Act, 1968 read with Rule 25(2) of The Telangana Excise (Grant of Licence of Selling by Shop and Conditions of Licence) Rules, 2012.

²³ G.O.Ms.No.39, Revenue (Ex-II) Department, dated 26 February 2016, effective date for establishing permit room was 29 February 2016.

²⁴ As per para 13, G.O.Ms.No.163 Revenue (Ex-II) Department dated 11 September 2015.

Audit also observed that DPEO, Jogulamba Gadwal did not levy permit room Excise Tax proportionately on four A4 shops for the period of licence from 01 March 2016 to 30 September 2016.

The above lapses resulted in non-levy of Excise Tax of Rupees four lakh and ₹4.68 lakh respectively, resulting in loss of revenue of ₹8.68 lakh.

The matter was referred to the Department in August 2019 and to the Government in October 2019. Reminders were issued to the Government in May 2020 and October 2020; replies have not been received.