

CHAPTER – VI
REVENUE RECEIPTS
GENERAL

6.1 Trend of revenue receipts

6.1.1 Tax and non tax revenue raised by the Government of Arunachal Pradesh during the year 2005-06, the State's share of divisible Union taxes and grants in aid received from Government of India during the year and the corresponding figures for the preceding four years are given below :

Table 6.1

Rupees in crore

Sl. No.	Head of revenue	2001-02	2002-03	2003-04	2004-05	2005-06
I	Revenue raised by State Government					
	Tax revenue	30.89	37.26	43.73	50.11	62.09
	Non tax revenue	70.91	76.30	120.57	170.20	202.36
	Total	101.80	113.56	164.30	220.31	264.45
II	Receipts from Government of India					
(a)	State's share of divisible Union taxes	90.93	121.68	160.60	191.95	272.15
(b)	Grants in aid	892.57	873.05	1,251.46	1,089.58	1,312.81
	Total	983.50	994.73	1,412.06	1,281.53	1,584.96
III.	Total receipts of State (I + II)	1,085.30	1,108.29	1,576.36	1,501.84	1,849.41
IV.	Percentage of (I to III)	9	10	10	15	14

6.1.2 Non plan grants received by the State from Government of India during the period from 2000-01 to 2004-05 are given below :

Table 6.2

Rupees in crore

Year	2001-02	2002-03	2003-04	2004-05	2005-06
Non plan grants	246.76	242.83	300.04	299.64	388.50

It would be seen that in comparison with 2001-02, non plan grants received by the State during 2005-06 increased by 57 per cent.

6.1.3 The details of tax revenue raised during the year 2005-06 alongwith the figures for the preceding four years are given below :

Table 6.3

							Rupees in crore
Sl. No.	Head of revenue	2001-02	2002-03	2003-04	2004-05	2005-06	Percentage of increase (+) or decrease (-) in 2005-06 over 2004-05
1.	Sales tax	16.78	17.62	21.79	28.25	47.69	(+) 68.81
	Central sales tax	...	...	...	...	...	...
2.	State excise	10.55	14.26	15.42	17.79	9.51	(-) 46.54
3.	Stamps and registration fees	0.27	2.10	0.31	0.46	0.41	(-) 10.87
4.	Taxes and duties on electricity	...	...	...	0.01	...	(-) 100
5.	Taxes on vehicles	1.61	1.75	2.02	2.21	2.99	(+) 35.29
6.	Taxes on goods and passengers	...	...	...	...	...	...
7.	Land revenue	1.00	0.81	3.57	0.76	1.11	(+) 46.05
8.	Taxes on agricultural income	...	...	...	...	...	...
9.	Others	0.68	0.72	0.62	0.63	0.38	(-) 39.68
Total		30.89	37.26	43.73	50.11	62.09	(+) 23.91

Reasons for decrease under head "State excise" though called for in June 2006 have not been received (November 2006). Increase in collection of sales tax was due to increase in registration of dealers under AP Goods Tax Act (Value Added Tax Act).

6.1.4 The details of the major non tax revenue raised during the year 2005-06 alongwith the figures for the preceding four years are given below:-

Table 6.4

							Rupees in crore
Sl. No.	Head of revenue	2001-02	2002-03	2003-04	2004-05	2005-06	Percentage of increase (+) or decrease (-) in 2005-06 over 2004-05
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Interest receipts	6.36	5.97	8.45	5.07	6.98	(+) 37.67
2.	Dairy development	0.02	0.01	0.01	0.03	0.03	...
	Other non tax receipts	15.75	24.25	30.60	29.08	27.19	(-) 6.50
3.	Forestry and wild life	25.24	15.61	9.62	10.53	13.71	(+) 30.19
4.	Non ferrous mining and metallurgical industries	4.48	7.44	17.39	28.26	24.94	(-) 11.74
5.	Miscellaneous general services (including lottery receipts)	3.66	6.73	15.64	8.61	5.57	(-) 35.30

Rupees in crore							
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
6.	Power	11.86	12.17	33.62	83.65	88.77	(+) 6.12
7.	Major and medium irrigation	...	...	...	...	...
8.	Medical and public health	0.10	0.13	0.27	0.18	0.17	(-) 5.55
9.	Co-operation	0.02	0.03	0.02	0.10	0.11	(+) 10.00
10.	Public works	1.77	2.18	1.90	2.35	3.23	(+) 37.44
11.	Police	0.87	0.71	1.81	0.83	1.51	(+) 81.93
12.	Other administrative services	0.78	1.07	1.24	1.51	30.15	(+) 1896.68
Total		70.91	76.30	120.57	170.20	202.36	(+) 18.89

Reasons for decrease under “non ferrous mining and metallurgical industries” though called for in June 2006 have not been received (November 2006).

6.1.5 Variation between budget estimates and actuals

The variations between budget estimates and actual of revenue receipts for the year 2005-06 in respect of the principal heads of tax and non tax revenue are given below:

Table 6.5

Rupees in crore					
Sl. No.	Head of revenue	Budget estimates	Actual	Variations excess (+) or shortfall (-) with reference to actual	Percentage of variation
1.	Sales tax	60.00	47.69	(-)12.31	(-) 20.52
2.	State excise	18.00	9.51	(-) 8.49	(-) 47.17
3.	Stamps and registration fees	0.60	0.41	(-) 0.19	(-) 31.67
4.	Land revenue	2.20	1.11	(-) 1.09	(-) 49.55
5.	Forestry and wildlife	12.00	13.71	(+) 1.71	(+) 14.25
6.	Other administrative services	1.35	30.15	(+) 28.80	(+) 2133.33

Reasons for variations between budget estimates and actual though called for have not been furnished (November 2006).

6.1.6 Cost of collection

The gross collection under principal revenue heads, expenditure incurred on collection and percentage of such expenditure to gross collection during the years 2003-04 to 2005-06 along with all India average percentage of expenditure on collection for 2004-05 were as under:

Table 6.6

Rupees in crore						
Sl. No.	Head of revenue	Year	Collection	Expenditure on collection of revenue ⁵⁴	Percentage of expenditure on collection	All India average percentage for 2004-05
1	Sales tax	2003-04	21.79	0.98	4.50	
		2004-05	28.25	1.33	4.71	0.95
		2005-06	47.69	1.51	3.17	
2.	State excise	2003-04	15.42	0.70	4.54	
		2004-05	17.79	0.84	4.72	3.34
		2005-06	9.51	0.31	3.26	

It would be seen from above that expenditure on cost of collection during 2005-06 was higher as compared to the all India average for the year 2004-05.

6.1.7 Collection of sales tax per assessee

The number of assessees, sales tax revenue and sales tax revenue per assessee for the period from 2003-04 to 2005-06 was as follows:

Table 6.7

Rupees in crore			
Year	Number of assessees	Sales tax revenue	Revenue/assessee
2003-04	491	21.79	0.044
2004-05	1,374	28.25	0.021
2005-06	1,834	47.69	0.026

The above table reveals that with the introduction of value added tax, the number of small and medium assessees has gone up leading to increase in sales tax revenue. There was marginal increase in revenue per assessee in comparison to year 2004-05.

6.1.8 Arrears in assessment

The details of cases pending assessment at the beginning of 2005-06, cases due for assessment during the year, cases disposed of during the year and number of cases pending finalisation at the end of the year as furnished by the taxation Department are given below:

⁵⁴ Figures as furnished by the Department.

Table 6.8

Name of tax	Opening balance	Cases due for assessment during the year	Total	Cases finalised during the year	Balance at the close of the year	Percentage of column 5 to 4
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Sales tax/ Central sales tax/VAT	352	1,834	2,186	162	2,024	7

It appears from above, that the percentage of final assessments was merely seven *per cent* of the total assessments due upto 2005-06. Government has not fixed any norm quantifying the number of assessments to be completed by each assessing officer during a particular period.

6.1.9 Arrears of revenue

The arrears under land revenue head as on 31 March 2006 amounted to Rs. 9.07 crore of which Rs. 7.23 crore was outstanding for more than five years.

Arrears of revenue in respect of state excise and sales tax are nil and particulars in respect of motor vehicle taxes and environment and forest are awaited (November 2006).

6.1.10 Result of audit

Test check of records of sales tax, land revenue, State excise, motor vehicles tax, forest receipts and other receipts conducted during 2005-06 revealed under assessment/ non levy/ short levy/ loss of revenue of Rs. 40.15 crore in 99 cases. During the year, the Departments accepted short/non levy and under assessment of Rs. 3.14 crore in 35 cases pointed out in 2005-06 and in earlier years and recovered Rs. 59.53 lakh. No reply has been received in respect of remaining cases.

This chapter contains 23 paragraphs involving Rs. 8.69 crore. The Department/Government accepted 12 cases involving Rs. 6.91 crore of which Rs. 0.06 crore was recovered upto November 2006 and three cases involving Rs. 0.37 crore had not been accepted. Report on recovery in these cases and reply in other cases had not been received (November 2006).

6.1.11 Failure of senior officials to enforce accountability and protect interest of Government

The Principal Accountant General (Audit), Meghalaya, Arunachal Pradesh and Mizoram, Shillong conducts periodical inspection of various offices of Government/Departments to test check the correctness of assessments, levy and collection of tax and non tax receipts and verify the maintenance of

accounts and records as per Acts, Rules and procedures prescribed by Government/Departments from time to time. These inspections are followed by inspection reports (IRs) issued to the heads of office inspected with copies to the higher authorities. Serious irregularities noticed in audit are also brought to the notice of Government/heads of the Department, by the office of the Principal Accountant General (Audit), Meghalaya, Arunachal Pradesh and Mizoram, Shillong. A half yearly report regarding pending IRs is sent to the secretaries of the concerned Department to facilitate monitoring and settlement of audit objections raised in these IRs through intervention of Government.

IRs issued upto December 2005 pertaining to offices under sales tax, state excise, land revenue, motor vehicle taxes and forest receipts disclosed that 482 observations relating to 167 IRs involving money value of Rs. 136.86 crore remained outstanding at the end of June 2006. Of these, 47 IRs. containing 74 observations involving money value of Rs. 9.30 crore had not been settled for more than five years. The year wise position of outstanding IRs and paragraphs is detailed in **Appendix – XXXIX**.

In respect of 63 observations relating to 18 IRs involving money value of Rs. 15.63 crore issued upto March 2006, even first reply from the Department/Government had not been received (November 2006).

It is recommended that Government prescribe a time schedule for regular submission of reply to IRs/paragraphs for settlement.

The position of old outstanding IRs/paragraphs was reported to Government in July 2006; reply had not been received (November 2006).

6.1.12 Response of the Departments to draft paragraphs

The draft paragraphs are forwarded to the secretaries of the concerned Departments through demi official letters drawing their attention to the audit findings and requesting them to send their reply within six weeks. The fact that the replies from the Departments have not been received are invariably indicated at the end of each such paragraph included in the Audit Report.

Twenty three draft paragraphs proposed for inclusion in this Report were forwarded demi officially to the secretaries of the respective Departments during May 2006 and June 2006. Besides, the Chief Secretary to the State Government was also requested to arrange for discussion of the issues raised in the draft audit paragraphs for effective inclusion of the views/comments of Government in the Audit Report. Despite these efforts, no response was received in respect of twenty two draft paragraphs and these have been included in this Report without the response of Government.

6.1.13 Follow up on Audit Report – summarised position

With a view to ensure accountability of the executive in respect of all the issues dealt with in various Audit Reports, the Shakhder Committee, appointed to review the response of the State Government to Audit Reports, recommended (March 1993), *inter alia* that the concerned Departments of the State Government should without waiting for the receipt of any notice or call from the Public Accounts Committee (PAC), submit *suo motu* replies on all paragraphs and reviews featuring in the Audit Reports within three months, and, submit action taken notes (ATN) in respect of recommendations of the PAC within the dates as stipulated by the PAC or within a period of six months whichever is earlier.

While accepting the recommendations (1996), Government specified the time frame of three months for submission of *suo motu* replies by the concerned Departments. The PAC specified the time frame for submission of ATN on their recommendations as one month upto 49th Report.

Reviews of outstanding explanatory notes on paragraphs included in the Report of the Comptroller and Auditor General of India for the years from 1988-89 to 2004-05 revealed that the concerned administrative Departments were not complying with these instructions. As of November 2006, *suo motu* explanatory notes on 46 paragraphs of these audit reports were outstanding from various Departments as detailed in **Appendix – XL**.

Review of four reports of the PAC containing recommendations on 15 paragraphs in respect of Forest, Finance and Excise Departments presented to the legislature between September 2001 and March 2003 revealed that the Departments had failed to submit ATN on the recommendations made by the PAC as detailed below :

Table 6.9

Year of Audit Report	Paragraph numbers on which recommendations were made by the PAC but ATNs are awaited	Number of PAC Reports on which recommendations were made	Date of presentation of the Report of the PAC to the State Legislature
1986-87	6.4, 6.6, 6.7 and 6.8	49 th Report	3 March 2003
1991-92	6.4, 6.5 and 6.6	44 th Report	21 September 2001
1994-95	6.4	44 th Report	21 September 2001
1995-96	6.4, 6.5 and 6.6	46 th Report	19 March 2002
	6.7, 6.8 and 6.10	48 th Report	19 March 2002
1996-97	6.7	46 th Report	19 March 2002

Thus, due to failure of the Department to comply with the instructions of the PAC the objective of ensuring accountability remained unfulfilled.

DRAFT PARAGRAPHS

ENVIRONMENT AND FOREST DEPARTMENT

6.2 Non levy of penalty

Penalty of Rs. 12.53 crore was not realised from 785 offenders for unauthorised occupation of 2,824.7812 hectares of land in reserve forests.

Under Section 72 (C) of the Assam Forest Regulation 1891, (AFR), as adopted by Government of Arunachal Pradesh and Rules framed thereunder, if any person unauthorisedly occupies any land in a reserve forest in which he has not been allowed to settle, the divisional forest officer (DFO) shall eject or order him to vacate the land forthwith and confiscate or destroy any crops raised and any building constructed on such land. Further, the rules provide that if any person intentionally disobeys such order to vacate the forest land, he shall be liable to pay penalty which may extend to Rs. 500 and if such disobedience is continued, he shall be liable to pay further penalty which may extend to Rs. 100 per day during the period such breach continues.

Test check of records of the Principal Chief Conservator of Forests, Arunachal Pradesh in May 2005 revealed that during 1981-82 to 2004-05, 785 persons unauthorisedly occupied 2,824.7812 hectares land in reserved forest under 13 forest divisions⁵⁵ of Arunachal Pradesh. The concerned DFOs served eviction notices between February 2000 and March 2002 on the encroachers for vacating the forest land without confiscating or destroying any crops raised or any building constructed. The encroachers did not comply with the notices and continued to occupy the aforesaid forest land unauthorisedly till the date of audit (May 2005). The Department did not initiate any further action to evict the encroachments either. Penalty upto Rs. 12.53 crore for the period from 2000-01 to 2004-05 could have been levied.

After this was pointed out in July 2005, the PCCF stated in March 2006 that the Government had adopted the AFR and not the rules framed thereunder.

The contention of not adopting the Rules under AFR is not tenable as the provisions for issue of eviction notice and levy of penalty are both governed by the Rules framed under AFR.

The matter was reported to Government in July 2005; their reply has not been received (November 2006).

⁵⁵ *Dibang forest division; Seppa forest division; Deomali forest division; Banderdewa forest division; Khellong forest division; Hapoli forest division; Along forest division; Namsai forest division; Yingkiong forest division; Lohit forest division; Namdapha; Itanagar Social forestry division; Pasighat forest division.*

6.3 Illicit removal of forest produce

Loss of revenue of Rs. 3.59 lakh due to illicit removal of 168.63 cum of timber by miscreants.

Under the AFR 1891 and Rules framed thereunder (as adopted by Government of Arunachal Pradesh), felling of trees and removal of forest produce from the reserve forest area without valid pass constitutes a forest offence punishable with fine. Forest produce felled/removed illegally is also liable to be seized by the Forest Department. Rate of royalty of A I and B II class timber ranges between Rs. 5,210 and Rs. 499.

Test check of records of the DFO, Khellong forest division, Bhalukpong in June 2005 revealed that in 111 cases, trees of different species were illegally felled between July 2003 and March 2005 and the entire outturn of 168.63 cum of timber valued at Rs. 3.59 lakh was removed by miscreants. Removal of timber by miscreants from the State reserve forest indicates inadequate enforcement of forest protection. This resulted in loss of revenue of Rs. 3.59 lakh.

After this was pointed out in July 2005, the DFO while admitting the facts stated in October 2005 that it was not possible to confront the heavily armed miscreants due to non availability of forest protection force and armed forest staff.

The matter was reported to Government in July 2005; their reply has not been received (November 2006).

6.4 Loss of revenue due to non transportation of timber to safer place

Failure to transport logs of soft wood species led to loss of revenue of Rs. 2.49 lakh.

The AFR (as applicable in Arunachal Pradesh) provides that when there is reason to believe that a forest offence has been committed in respect of any forest produce, such produce shall be seized and brought to the forest depot under intimation to the higher authority and to the court for speedy trial and disposal.

In Bomdila forest division, it was noticed in June 2004 that in a joint inspection conducted (February 2002) by the Assistant Conservator of Forests, Mobile Squad and Range Officer, Nafra Range, 69 illegally felled Chirpine trees/logs measuring 101.362 cum valued at Rs. 2.49 lakh were seized and handed over to the Range Officer, Nafra Range. The DFO, Bomdila forest division approached the Conservator of Forests, Western Arunachal Circle in February 2002 to provide fund for dragging and transporting the same to safe

custody. However, till date of audit, neither any fund was provided nor were the logs transported to safe depot. Meanwhile, Chirpine, being a soft species, deteriorated within one year of its being felled due to exposure to the vagaries of weather leading to loss of revenue of Rs. 2.49 lakh.

The matter was reported to the Department/Government in July and November 2004; their reply has not been received (November 2006).

6.5 Loss of revenue

Loss of revenue of Rs. 83.68 lakh due to concealment of number of blazes, faulty agreement and delay in finalisation of working plan.

6.5.1 Government of Arunachal Pradesh (GOAP) fixed royalty on pine resin per blaze per season at Rs. 15 upto March 2001 and Rs. 17 thereafter. Number of trees tapped and blazes put are enumerated by the range staff and royalty is realised on total number of blazes put. Clause 40 of the approved working scheme for resin tapping in Bomdila forest division, stipulates the average yield of resin per blaze at 4 kilogram (Kg). GOAP executed an agreement with a lessee for extraction of 'pine resin' from specified pine trees within the forest areas under Bomdila forest division in April 1991 for 10 years and subsequently renewed in September 2001 for another span of 10 years.

Test check of records of the DFO, Bomdila in April 2005 revealed that a licensee extracted 29.36 lakh kgs of resin from pine trees on payment of royalty of Rs. 89.70 lakh during the period 2000-01 to 2002-03. As per norm although 7.34 lakh blazes were required to extract 29.36 lakh kgs of resin, the licensee paid royalty for only 5.50 lakh blazes. Less enumeration of 1.84 lakh blazes led to loss of royalty of Rs. 29.47 lakh. Thus, failure of the concerned range staff to enumerate the actual number of blazes put by the licensee, resulted in loss of revenue of Rs. 29.47 lakh.

6.5.2 It was judicially held by the Honourable Supreme Court (January 1998) that for harvesting forest produce, a working plan (WP) should be prepared within a period of two years and got approved by Government of India (GOI). In case WP is not prepared within the timeframe, harvesting shall remain suspended until the same is prepared and approved by the GOI.

It was noticed that the division prepared and submitted the WP (12 August 2003) belatedly, after lapse of more than five years from the date of the order of the Apex Court, which was duly approved by GOI on 30 October 2003. The operation of resin tapping was, however, not carried out during 2003-04 and no royalty was realised. Thus, delay on the part of the DFO in finalising and getting the WP approved, led to non tapping of 2.29 lakh blazes during the harvesting season of 2003-04 resulting in loss of revenue of Rs. 38.93 lakh.

6.5.3 The terms and conditions of the agreement entered into by GOAP and the lessee stipulated, *inter-alia*, that the lessee shall pay prescribed royalty on

total number of blazes put. The terms and conditions of the agreement however, did not provide any penal clause against the lessee in the event of his failure to put blazes on the entire stock of pine trees as per approved WP to safeguard Government revenue.

It was seen that 2.17 lakh pine trees with 2.29 lakh blazes were available for extraction of pine resin for the period from April 2004 to March 2005 as per approved WP. But the lessee tapped only 1.38 lakh trees with 1.38 lakh blazes during the aforesaid period. Balance 0.79 lakh trees with 0.91 lakh blazes were not tapped by the lessee for no recorded reason. The DFO also could not initiate any action against the lessee in absence of any penal clause in the agreement in this regard. Thus, execution of faulty agreement led to loss of revenue of Rs. 15.28 lakh.

The cases were reported to the Department and Government in June 2005 and April 2006; their reply has not been received (November 2006).

EXCISE DEPARTMENT

6.6 Non realisation of security deposit

Failure of the Department to take action resulted in non realisation of security deposit of Rs. 8.25 lakh.

The GOAP, Excise Department in their notification of 23 March 2004, fixed security for retail licenses of IMFL at Rs. 0.25 lakh with immediate effect.

Test check of records of the Superintendent of Excise (SE), Lohit District, Tezu in February 2005 revealed that 33 retail license holders neither deposited the security amount nor was any action initiated by the Department to realise the amount of security till the date of audit. Inaction on the part of Department resulted in non realisation of security deposit of Rs. 8.25 lakh.

After this was pointed out in June 2005, the SE while admitting the facts stated in May 2006, that security deposit of Rs. 5.50 lakh was realised from 22 retailers and the remaining amount would be recovered. Realisation of balance amount of Rs. 2.75 lakh from 11 retailers, however, has not been intimated (November 2006).

The case was reported to Government in June 2005; their reply has not been received (November 2006).

6.7 Loss of revenue

Failure of the Department to realise licence fee and penalty before cancellation of two licences led to loss of revenue of Rs. 8.45 lakh.

Under the Arunachal Pradesh Excise Act 1993, and Rules made thereunder, licence granted for dealing in IMFL shall remain valid for one year from the date of issue. On expiry of its validity period, the licensee shall either return the licence or get it renewed on payment of prescribed annual fee in advance. If he fails to get the licence renewed on payment of prescribed fee before expiry of validity period of licence he shall be liable to pay penalty in addition to the fee, at the rate of Rs. 70 per day for the period of default in payment of fee.

Test check of records of the SE, Lohit district, Tezu in February 2005 revealed that licences of two wholesale vends of IMFL were valid upto December 2001 and December 2002 respectively. On expiry of the validity periods of the licences, the proprietors neither got their licences renewed nor returned the same to the issuing authority and continued their business unauthorisedly. The Department did not initiate any action either to realise the prescribed fee and penalty for delay in renewal of licence or to take over the stock of IMFL for recovery of dues. Both the licences were, however, cancelled in August 2004 without realising Government revenue although security deposit of Rs. 50,000 in each case was forfeited. This resulted in loss of revenue of Rs. 8.45 lakh.

After this was pointed out in June 2005, the SE while admitting the facts stated in May 2006 that notices had been issued to the proprietor of wholesale vends to deposit outstanding dues. But there was no possibility of realising the balance dues.

The case was reported to Government in June 2005/April 2006; their reply has not been received (November 2006).

GEOLOGY AND MINING DEPARTMENT

6.8 Non levy of additional royalty

Failure of the Department to initiate action against a lessee led to non realisation of additional royalty of Rs. 1.79 crore.

Rule 23 (1) of the Petroleum and Natural Gas Rules, 1959 (PNG Rules) envisages that if any royalty is not paid by the lessee to the State Government within the time specified for such payment, the amount of such royalty shall be increased by an additional 10 *per cent* for each month or portion thereof during which such royalty remains unpaid.

Test check of records of the Director of Geology and Mining (DGM), AP, Itanagar in April 2005 revealed that GOAP executed a lease agreement in September 1997 with a lessee for extraction of crude oil. The agreement stipulated, *inter alia*, that the lessee should pay royalty to the State Government within 30 days of the month to which the operation/extraction relates. The lessee extracted 70,230 tonnes of crude oil between October 2002 to December 2004 and after delay ranging between one and four months deposited royalty of Rs. 11.72 crore between February 2003 and March 2005. The Department did not levy additional royalty of Rs. 1.79 crore for the delay.

After this was pointed out in June 2005, the Department stated in March 2006 that demand notice for depositing additional royalty has been issued. Report on recovery is awaited (November 2006).

The case was reported to Government in June 2005 and April 2006; their reply has not been received (November 2006).

6.9 Short realisation of royalty

Failure of the Department to initiate action against a lessee led to short realisation of royalty and additional royalty of Rs. 11.71 lakh.

Rule 14 (2) of the PNG Rules, envisaged that a lessee shall, within seven days of every month, furnish full and proper return to the State Government showing the quantity of crude oil obtained/extracted during the preceding month from the area leased out. These rules further stipulate that, the lessee shall pay the State Government royalty at the rate prescribed by GOI from time to time. In case of non payment of royalty within the stipulated time, the same shall be increased by 10 *per cent* for each month or portion of a month during which such royalty remains unpaid.

Test check of records of DGM, Arunachal Pradesh, Itanagar revealed in April 2005 that a lessee extracted 6,113 tonnes of crude oil involving royalty of Rs. 51.96 lakh as per monthly reports during October to December 2002. But the lessee paid royalty of Rs. 49.52 lakh for 5,826 tonnes of crude oil during the same period. The differential royalty was neither paid by the lessee nor was any action initiated by the Department to realise the same. This resulted in short realisation of royalty of Rs. 2.44 lakh. Besides, additional royalty of Rs. 9.27 lakh was also leviable.

After this was pointed out in June 2005, the Department in May 2006 stated that demand has been raised against the lessee. Report on recovery has not been intimated (November 2006).

The case was reported to Government in June 2005 and April 2006; their reply has not been received (November 2006).

6.10 Short realisation of revenue

Undue financial benefit extended to a lessee by incorporating lower rate of royalty in the agreement resulting in short realisation of revenue of Rs. 3.64 crore.

GOI periodically determines the royalty payable on minerals which is collected and appropriated by the State Governments. Accordingly, agreement is to be executed between the lessee and the State Government stipulating *inter alia*, that the lessee shall pay to the State Government royalty at the rates prescribed by GOI from time to time in terms of provisions of the PNG Rules. The rates of royalty prescribed by GOI during the period April to December 2004 varied between Rs. 1,492 and Rs. 2,072 per tonne.

Test check of records of the DGM, Itanagar revealed in April 2005 that a mining lease agreement was executed on 21 October 1997 between a lessee and GOAP fixing royalty of Rs. 528 per tonne of crude oil for a period of 20 years without any reference to the prevalent rates of royalty effective from 16 June 1995. The lessee extracted 31,884.61 tonnes of crude oil between April and December 2004 and paid royalty of Rs. 1.68 crore at the rate of Rs. 528 per tonne against Rs. 5.32 crore leviable at the rates prescribed by GOI during the aforesaid period. Thus, incorporation of inappropriate rate in the agreement resulted in short realisation of revenue of Rs. 3.64 crore besides undue benefit to the lessee. This loss could have been avoided, had Government stipulated in the agreement, that payment of royalty would be made at prevalent Government rates as was done in case of Oil India Limited, a public sector undertaking.

After this was pointed out in April 2005, the Department while admitting the facts stated in May 2006, that the lessee was asked to deposit the balance amount of royalty. The reply was, however, silent about the reasons for execution of faulty agreement which led to short realisation of revenue.

The case was reported to Government in June 2005 and April 2006; their reply has not been received (November 2006).

LAND MANAGEMENT DEPARTMENT

6.11 Non realisation of land revenue

Erroneous allotment of 5.17 lakh sq m of land to NEEPCO led to non realisation of land revenue of Rs. 67.25 lakh and recurring loss of revenue of Rs. 10.35 lakh every year.

The GOAP, Land Management Department instructed (July 1994) all the Deputy Commissioners (DC) to realise land revenue at the rate of Rs. 5 per

sq. m as premium (one time payment) plus annual lease rent at Rs. 2 per sq. m with effect from April 1994 for land allotted to any organisation for industrial purposes. Separate rates were, however, prescribed for State/Central Government Departments.

Test check of records of the DC, Land Revenue, Bomdila in May 2005 revealed that the GOAP, Land Management Department allotted 43,25,600 sq m of land in Trizine, Singachung and Jamziri area of West Kameng district in November 2001 to the North Eastern Electric Power Corporation Limited (NEEPCO) for establishment of Kameng Hydro Electric project, Kimi Power House. The above allotment included 5,17,300 sq m of Government land in Jamziri area. NEEPCO being a commercial organisation engaged in production and distribution of power, was liable to pay premium and annual lease rent of Rs. 67.25 lakh on the aforesaid land for the period from November 2001 to October 2005. But the Department did not charge any premium and lease rent for the aforesaid land which resulted in non realisation of land revenue of Rs. 67.25 lakh. Further, there will be annual recurring loss of Rs. 10.35 lakh towards lease rent till the allotment order is rectified.

After this was pointed out in May 2005, the DC, Land Revenue, Bomdila while admitting the facts stated in June 2006 that NEEPCO was directed to pay the premium and lease rent immediately. Report on recovery is awaited (November 2006).

The case was reported to Government in July 2005 and April 2006; their reply has not been received (November 2006).

TAXATION DEPARTMENT

6.12 Evasion of tax

A registered dealer concealed taxable turnover of Rs. 1.58 crore and evaded tax of Rs. 15.76 lakh and penalty of Rs. 23.64 lakh.

Under the provisions of Arunachal Pradesh Sales Tax Act (APST Act), 1999 if any dealer conceals turnover or furnishes incorrect particulars of such turnover in any return, he shall be liable to pay penalty in addition to the tax payable by him a sum not exceeding one and a half times of tax due.

Test check of records of the Superintendent of Taxes (ST), Papumpare, Zone I, Naharlagun in September 2005 revealed that a dealer disclosed sales turnover of Rs. 18.06 lakh for the period from April 2002 to March 2004 and was assessed in December 2004 accordingly. Further scrutiny of C form utilisation statements revealed that the dealer actually sold goods valued at Rs. 1.76 crore during the aforesaid period. Thus, the dealer concealed turnover of Rs. 1.58 crore which escaped the notice of the assessing officer (AO)

leading to evasion of tax of Rs. 15.76 lakh. Besides, penalty not exceeding Rs. 23.64 lakh was also leviable.

The matter was reported to the Department/Government in October 2005 and March 2006; their replies have not been received (November 2006).

6.13 Underassessment as turnover escaped assessments

Underassessment of tax of Rs. 2.38 lakh and penalty of Rs. 3.57 lakh as turnover of Rs. 29.71 lakh escaped assessment.

Under Section 18 (1) of the APST Act, if the AO has reason to believe that whole or any part of turnover of the dealer in respect of any period has escaped assessment to tax, he may after giving the dealer a reasonable opportunity of being heard and making such enquiry as he considers necessary, proceed to determine to the best of his judgment the amount of tax due from the dealer in respect of such turnover. Further, if the dealer conceals any part of his gross turnover, the AO may direct that, in addition to amount of tax so assessed, a sum not exceeding one and half times the amount of tax due shall be recovered by way of penalty.

Test check of records of the ST, Papumpare, Zone I, Naharlagun in September 2005 revealed that a dealer imported taxable goods valued at Rs. 1.80 crore for the period from April 2002 to March 2004. The AO determined the sales turnover after adding 10 *per cent* profit on such purchase and completed the assessment accordingly in December 2004. Further scrutiny revealed that, although the dealer mentioned that four C forms remained unutilised during the aforesaid period, he actually imported goods worth Rs. 27.01 lakh by using those C forms. This resulted in under assessment of tax of Rs. 2.38 lakh. Besides, penalty not exceeding Rs. 3.57 lakh was not levied.

After this was pointed out in October 2005 and March 2006, the AO while admitting the facts stated in June 2006 that concealment was due to belated submission of utilisation statement of 'C' forms. The report on reassessment and recovery of tax is awaited (November 2006).

The matter was reported to Government in October 2005 and March 2006; their replies have not been received (November 2006).

6.14 Underassessment of tax due to mistake in computation

A dealer was levied tax of Rs. 76.52 lakh instead of Rs. 81.77 lakh resulting in underassessment of tax of Rs. 5.25 lakh.

Under the provision of the APST Act, the authority which made an assessment may at any time within three years from the end of the financial year in which such assessment was made and of its own motion rectify any arithmetical

mistake apparent from the record. In Arunachal Pradesh, motor vehicle is taxable at the rate of 12 *per cent*.

Test check of records of the ST Zone – II, Itanagar in December 2005 revealed that a dealer disclosed turnover of sales of Rs. 7.63 crore for the period from April 2003 to March 2004 as per books of account. The AO, however, while making the assessment in August 2005 levied tax of Rs. 76.52 lakh instead of Rs. 81.77 lakh calculated at the rate of 12 *per cent*. Mistake in computation of tax by the AO resulted in under assessment of tax of Rs. 5.25 lakh.

After this was pointed out in March 2006, the AO stated in August 2006 that sale of spare parts of Rs. 48.98 lakh taxable at the rate of eight *per cent* was also included in the turnover. The reply is not tenable as sale of spare parts of Rs. 8.18 lakh was assessed separately by the AO.

The case was reported to Government in March 2005; their reply had not been received (November 2006).

6.15 Inadmissible exemption from payment of tax

Grant of inadmissible exemption of taxable turnover of Rs. 1.24 crore led to underassessment of tax of Rs. 9.92 lakh.

Under the provision of APST Act, tax payable by a dealer shall be at the rates specified under schedule I annexed to the Act. Act further provides that, sale of goods specified under schedule II shall be exempted. Cement is taxable at the rate of eight *per cent*.

Test check of records of the ST, Papumpare, Zone I, Naharlagun in September 2005 revealed that a dealer sold cement valued at Rs. 1.89 crore during the period between April 2002 and March 2004 and the AO assessed the dealer in February 2005 after deducting turnover of Rs. 1.24 crore as specified in schedule II. Since cement is not specified in schedule II and is taxable at the rate of eight *per cent* as per schedule I, grant of exemption of Rs. 1.24 crore was inadmissible and led to under assessment of tax of Rs. 9.92 lakh.

The case was reported to the Department and Government in October 2005; their reply has not been received (November 2006).

6.16 Concealment of turnover

A dealer concealed turnover of Rs. 43.15 lakh and evaded tax of Rs. 3.45 lakh and penalty of Rs. 5.18 lakh.

Under the provisions of APST Act, if the Commissioner is satisfied that any dealer conceals any part of his turnover or furnishes incorrect particulars of such turnover, he may direct that such dealer shall, in addition to any tax or

interest payable by him, pay by way of penalty a sum not exceeding one and half times the amount of tax sought to be evaded.

Test check of records of the ST, Papumpare, Zone I, Naharlagun in September 2005 revealed that a cement dealer (A) in his statement, disclosed purchase of cement valued at Rs. 43.15 lakh from another dealer (B) registered in the same circle during the period from April 2002 to March 2004. Cross verification of records revealed that the dealer 'B' did not disclose sale of cement to dealer 'A' during the aforesaid period. Thus, dealer 'B' concealed turnover of Rs. 43.15 lakh and evaded tax of Rs. 3.45 lakh calculated at the rate of eight *per cent*. Besides, maximum penalty of Rs. 5.18 lakh was also leviable.

The case was reported to the Department and Government in October 2005; their reply has not been received (November 2006).

6.17 Irregular allowance of deduction

Underassessment of tax of Rs. 7.71 lakh due to irregular grant of exemption of Rs. 82.63 lakh.

Under clause (b) of Rule 14(1) of APST Rules 2000, a dealer who wishes to deduct from his gross turnover amount of sales on the ground that he is making a sale to a registered dealer in the state for further sale of the goods, shall, produce a declaration in form 'A' obtained from the purchasing dealer in this behalf. Cement and electronics items are taxable at the rate of eight and 12 *per cent* respectively with effect from April 2002.

6.17.1 Test check of records of the ST, Papumpare, Zone II, Itanagar in December 2005 revealed that a cement dealer disclosed gross turnover of Rs. 1.30 crore during the period from April 2002 to March 2004 and claimed deduction of Rs. 55.19 lakh being sale covered by form 'A' and the AO also assessed the dealer accordingly in February 2005. Further scrutiny, however, revealed that the turnover deducted was not supported by any declaration in form 'A'. Thus, deduction of Rs. 55.19 lakh allowed from the gross turnover was inadmissible and resulted in underassessment of tax of Rs. 4.42 lakh.

6.17.2 Similarly, another dealer dealing in electronics items registered in the same zone claimed exemption of Rs. 34.21 lakh being sales supported by form 'A' and the AO assessed the dealer accordingly in August 2005. Further scrutiny, however, revealed that out of Rs. 34.21 lakh, the dealer furnished declaration for Rs. 6.77 lakh only. Thus, exemption granted for the balance amount of Rs. 27.44 lakh was inadmissible and resulted in underassessment of tax of Rs. 3.29 lakh.

After this was pointed out in March 2006, the AO in respect of the former case stated in August 2006 that deduction allowed was supported by 'A' forms. The reply is not tenable as further scrutiny revealed that these forms were

issued by the purchasing dealers after the date of completion of assessment. No reply has been received in respect of later case.

The cases were reported to Government in March 2006; their reply has not been received (November 2006).

6.18 Loss of revenue

A non registered dealer irregularly procured one C form and imported goods valued at Rs. 37.69 lakh resulting in loss of revenue of Rs. 11.30 lakh.

Under section 7 of the Central Sales Tax Act (CST Act) 1956, any dealer liable to pay tax under the sale tax laws of the appropriate State shall possess a certificate of registration granted by the competent authority. Further, rule 12(6) of the CST (Return and Turnover) Rules, 1957 states that, form 'C' shall be obtained by the purchasing dealer in the State in which he is registered. Commissioner of Tax (COT) is responsible for proper custody and accountal of declaration form. Act further provides that, whoever falsely represents while purchasing goods in course of interstate trade that such goods are included in his certificate of registration, shall be liable to pay penalty not exceeding one and a half times the tax due. Glassware is taxable at the rate of 12 per cent with effect from April 2002.

Cross verification of records of the ST, Guwahati with those of the ST, Papumpare revealed that a dealer stated to have been registered in Papumpare district, imported glassware valued at Rs. 37.69 lakh against one form 'C' from a dealer of Assam during the period from July 2002 to May 2003 in course of interstate trade or commerce. It was, however, noticed that the dealer was neither registered with the ST, Papumpare nor was the 'C' form issued by the COT, AP. This resulted in loss of revenue of Rs. 11.30 lakh including penalty.

After this was pointed out in October 2005, the ST, Papumpare while confirming the aforesaid facts referred the matter to the COT for further action. Reply of the COT is awaited (November 2006).

The case was reported to Government in November 2005 and April 2006; their reply has not been received (November 2006).

6.19 Evasion of tax by unregistered dealer

Failure to register a dealer and deduct tax at source led to evasion of tax of Rs. 5.30 lakh.

Under Section 10(1) of the APST Act, no dealer liable to pay tax shall carry on business unless he has been registered and possesses a certificate of registration. The Act empowers the AO to register a dealer if he fails to apply for registration. The Act further provides for deduction of tax at source at the rate of four *per cent* in respect of works contract.

Cross check of records of the Executive Engineer, Rural Works Division (E.E, RWD), Papumpare, Itanagar with those of the ST, Papumpare revealed that a dealer executed a works contract, valued at Rs. 1.33 crore between April 2002 and March 2004. The dealer neither applied for registration nor was he registered by the AO as required under the Act. The amount of tax was also not deducted by the Rural Works Department at the time of making payment. Thus, lack of coordination between EE, RWD, Papumpare and ST, Papumpare resulted in evasion of tax of Rs. 5.30 lakh.

After this was pointed out in November 2005, the AO while admitting the facts stated in August 2006 that tax was not deducted by the Government Department due to delay in receipt of Government notification. The reply is however silent regarding action taken to register the dealer and recover the tax.

The case was reported to Government in November 2005; their reply has not been received (November 2006).

6.20 Irregular grant of exemption

A dealer was irregularly allowed exemption of Rs. 14.58 lakh resulting in underassessment of tax of Rs. 2.39 lakh including interest.

Under the CST Act and Rules framed thereunder, interstate sales to Government Departments duly supported by certificate in form 'D' are taxable at the concessional rate of four *per cent*. Sales of goods to Government Department within the state are taxable as per schedule I attached to the local Sales Tax Act. Electrical and electronic goods are taxable at the rate of 12 *per cent*.

Test check of records of the ST, Papumpare, Zone II, Itanagar revealed in December 2005 that a dealer sold electronic goods of Rs. 14.58 lakh to Government Departments within the state during the period from April 2002 to March 2005 against form 'D' and claimed exemption from payment of tax and the AO assessed the dealer in August 2005 accordingly. Since sale to Government Departments within the state is intrastate sales, grant of

exemption was inadmissible. This resulted in under assessment of tax of Rs. 2.39 lakh including interest.

After this was pointed out in March 2006, the AO stated in August 2006 that purchasing Government Department had been asked to pay the tax. Report on recovery is awaited (November 2006).

The case was reported to the Government in March 2006 and April 2006; their reply has not been received (November 2006).

6.21 Underassessment of tax due to incorrect deduction

Underassessment of tax of Rs. 2.92 lakh due to irregular allowance of deduction of Rs. 36.48 lakh.

Under Section 7 of the APST Act, in determining the taxable turnover of a dealer, a deduction on account of tax collected by him is allowed from the gross turnover in accordance with the prescribed formula.

Test check of records of the ST, Papumpare, Naharlagun revealed in September 2005 that turnover of two dealers for the year 2002-03 and 2003-04 was determined at Rs. 4.87 crore after adding 10 *per cent* profit on cost price. Though the element of tax was not included in the turnover, an amount of Rs. 36.48 lakh was deducted from the taxable turnover by the AO. Such inadmissible deduction resulted in underassessment of tax of Rs. 2.92 lakh.

The matter was reported to the Department/Government in October 2005 and April 2006; their reply has not been received (November 2006).

6.22 Turnover escaped assessment

Three dealers sold cement valued at Rs. 3.29 crore but disclosed turnover of Rs. 1.81 crore and evaded tax of Rs. 10.99 lakh and penalty of Rs. 16.49 lakh.

Under Section 18 of the APST, if the AO has reason to believe that whole or any part of the turnover of a dealer in respect of any period has escaped assessment to tax, he may after giving the dealer reasonable opportunity of being heard, and making such enquiry as he considers necessary, proceed to determine to the best of his judgment, the amount of tax due from the dealer in respect of such turnover and may also direct that in addition to the amount so assessed, a sum not exceeding one and half times the tax due shall be recovered from the dealer by way of penalty.

Test check of records of the ST, Papumpare, Zone I and II, Naharlagun and Itanagar in September and December 2005 revealed that three registered dealers disclosed sales of 2,25,839 bags of cement valued at Rs. 3.71 crore

during 2002-03 and 2003-04. Further scrutiny of TDS challans by audit revealed that the turnover included sale of 82,760 bags of cement to Government Departments valuing Rs. 1.91 crore at the rate of Rs. 230 per bag. The remaining 1,43,079 bags of cement were sold to private consumers on which turnover of Rs. 1.81 crore at the rate of Rs. 126 per bag was disclosed by the dealer instead of Rs. 3.29 crore calculated at the prevalent rate of Rs. 230 per bag⁵⁶. The AO accepted the returns and assessed the dealers accordingly in July 2004. Thus, turnover of Rs. 1.48 crore⁵⁷ escaped assessment and tax of Rs. 10.99 lakh was evaded by these dealers. Besides, penalty of Rs. 16.49 lakh was also leviable.

After this was pointed out in October 2005 and March 2006, the AO stated in June 2006 that Government approved rate was applicable only in departmental purchase and was not at all related to market price. The reply is not tenable as Government approved rate was based on prevailing market price relating to that period.

The cases were reported to Government in October 2005 and March 2006; their reply has not been received (November 2006).

TRANSPORT DEPARTMENT

6.23 Unauthorised plying of motor vehicles

Non realisation of motor vehicle tax of Rs. 39.03 lakh from the owners of 242 commercial vehicles led to unauthorised plying of vehicles without payment of tax, besides non levy of penalty of Rs. 9.76 lakh.

The Arunachal Pradesh Motor Vehicle Taxation Act (APMVT Act) 1984, provides that road tax at the 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 any vehicle is exempted from tax based on an application to the effect that the vehicle would not be used in any public place and the registration certificate is surrendered. The Act further provides that in the event of failure to pay the tax due, the taxation officer shall in addition to the tax due, levy and collect penalty of one fourth of the annual tax and proceed to recover the same as an arrear of land revenue.

Test check of records of the DTO, Yupia in February 2004 revealed that although 242 owners did not obtain any exemption by surrendering their registration certificates, they did not pay road tax of Rs. 39.03 lakh due between 2000-01 to 2004-05. The Department also did not levy minimum penalty amounting to Rs. 9.76 lakh.

⁵⁶ The price at which cement was sold by the dealer to Government Departments.
⁵⁷ (1,43,079 X Rs..230) – Rs..180.71 lakh.

After this was pointed out in June 2004, the DTO, Yupia stated (June 2006) that as per suggestion of audit, the cases had been sent to bakijai officer⁵⁸ (BO) for recovery of dues as arrears of land revenue. Report on recovery by BO is awaited (November 2006).

The matter was reported to Government in June 2004; their reply has not been received (November 2006).

6.24 Non realisation of fitness fee

Non realisation of fitness fee of Rs. 4.21 lakh from the owners of 1,280 vehicles led to unauthorised plying of vehicles without fitness besides non levy of minimum fine of Rs. 25.60 lakh.

Section 56 of the MV Act provides that, a transport vehicle shall not be deemed to be validly registered unless it carries a fitness certificate (FC) issued by the competent authority. FC issued to new transport vehicles is valid for a period of two years and is to be renewed annually thereafter on payment of prescribed fees. The Act further provides for a minimum fine of Rs. 2,000 for the first offence and Rs. 5,000 each for subsequent offences. The enforcement staff are required to conduct periodical check of vehicles to ensure that no vehicle plies on road without a valid FC along with other requirement of the Act and Rules.

Test check of records of the DTO, Yupia revealed in February 2004 that 2,254 transport vehicles were registered upto March 2000 out of which 974 vehicles renewed their FCs between April 2002 and March 2003. The remaining 1,280 vehicle owners neither renewed their FCs nor surrendered their certificate of registration. The enforcement staff of the transport Department also failed to detect these vehicles plying without FC, resulting in non realisation of fitness fee of Rs. 4.21 lakh and minimum fine of Rs. 25.60 lakh.

After this was pointed out in February 2004, Government stated in July 2006 that all the cases had been forwarded to the designated BO to recover the amount as arrears of land revenue but the BO failed to trace out the owners of the vehicles. Thus failure of the Department to take timely action led to loss of revenue of Rs. 29.81 lakh.

⁵⁸ Recovery officer.