

CHAPTER – VI

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CHAPTER – VI

REVENUE RECEIPTS

GENERAL

6.1 Trend of revenue receipts

6.1.1 The tax and non-tax revenue raised by the Government of Arunachal Pradesh during the year 2007-08, the State's share of divisible Union taxes and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

Table 6.1

(Rupees in crore)

Sl. No.	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
I.	Revenue raised by the State Government					
	• Tax revenue	43.73	50.11	62.09	78.24	98.09
	• Non-tax revenue	120.57	170.20	202.36	297.17	656.92
	Total	164.30	220.31	264.45	375.41	755.01
II.	Receipts from Government of India					
	• State's share of divisible Union tax	160.60	191.95	272.15	347.14	437.87
	• Grants-in-aid	1,251.46	1,089.58	1,312.81	1,869.62	1,810.13
	Total	1,412.06	1,281.53	1,584.96	2,216.76	2,248.00
III.	Total receipts of State (I + II)	1,576.36	1,501.84	1,849.41	2,592.17	3,003.01
IV.	Percentage of (I to III)	10	15	14	14	25

The above table indicates that during the year 2007-08, the revenue raised by the State Government was only 25 per cent of the total revenue receipts (Rs. 3,003.01 crore). The balance 75 per cent of receipts during 2007-08 was from the Government of India.

6.1.2 The non-plan grants received by the State from the Government of India during 2003-04 to 2007-08 are mentioned below:

Table 6.2

(Rupees in crore)

Year	2003-04	2004-05	2005-06	2006-07	2007-08
Non-plan grants	300.04	299.64	388.50	387.54	380.30

Thus, non-plan grants received by the State during 2007-08 had increased by 27 per cent over the level in 2003-04.

6.1.3 The following table presents the details of tax revenue raised during the period from 2003-04 to 2007-08:

Table 6.3

(Rupees in crore)

Sl. No.	Head of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Percentage of increase (+) or decrease (-) in 2007-08 over 2006-07
1.	Sales tax	21.79	28.25	47.69	61.64	77.06	(+) 25.02
	Central sales tax	...	...	...	...	...
2.	State excise	15.42	17.79	9.51	10.98	11.60	(+) 5.65
3.	Stamp and registration fees	0.31	0.46	0.41	0.55	0.86	(+) 56.36
4.	Taxes and duties on electricity	...	0.01	...	...	...
5.	Taxes on vehicles	2.02	2.21	2.99	2.93	6.42	(+) 119.11
6.	Taxes on goods and passengers	...	...	...	...	...
7.	Land revenue	3.57	0.76	1.11	2.10	2.12	(+) 0.95
8.	Taxes on agricultural income	...	...	...	...	...
9.	Others	0.62	0.63	0.38	0.04	0.03	(-) 25.00
Total		43.73	50.11	62.09	78.24	98.09	(+) 25.37

The reason for increase in sales tax was attributed by the concerned department to increase in registration of dealers under Arunachal Pradesh Goods Tax Act (Value Added Tax Act). The other departments did not inform the reasons for variation despite being requested (May 2008).

6.1.4 The following table presents the details of the major non-tax revenue raised during the period from 2003-04 to 2007-08:

Table 6.4

(Rupees in crore)

Sl. No.	Head of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Percentage of increase (+) or decrease (-) in 2007-08 over 2006-07
1.	Interest receipts	8.45	5.07	6.98	13.54	29.10	(+) 114.92

Sl. No.	Head of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Percentage of increase (+) or decrease (-) in 2007-08 over 2006-07
2.	Dairy development	0.01	0.03	0.03	0.03	0.03	-
3.	Other non-tax receipts	30.60	29.08	27.19	84.05	62.01	(-) 26.22
4.	Forestry and wildlife	9.62	10.53	13.71	9.03	8.57	(-) 5.09
5.	Non ferrous mining and metallurgical industries	17.39	28.26	24.94	47.60	45.82	(-) 3.74
6.	Miscellaneous general services (including lottery receipts)	15.64	8.61	5.57	15.85	45.56	(+) 187.44
7.	Power	33.62	83.65	88.77	119.05	458.06	(+) 284.76
8.	Major and medium irrigation	-	-	-	-	-	-
9.	Medical and public health	0.27	0.18	0.17	0.19	0.37	(+) 94.74
10.	Co-operation	0.02	0.10	0.11	0.11	0.40	(+) 263.64
11.	Public works	1.90	2.35	3.23	2.22	1.59	(-) 28.38
12.	Police	1.81	0.83	1.51	2.03	1.22	(+) 39.90
13.	Other administrative services	1.24	1.51	30.15	3.41	4.19	(+) 22.87
Total		120.57	170.20	202.36	297.11	656.92	(+) 121.10

The concerned departments did not inform (November 2008) the reasons for variation despite being requested (May 2008).

6.1.5 Variation between budget estimates and actuals

The variations between budget estimates and actual of revenue receipts for the year 2007-08 in respect of the principal heads of tax and non-tax revenue are mentioned below:

Table: 6.5

(Rupees in crore)					
Sl. No.	Head of revenue	Budget estimates	Actual	Variation excess (+) or shortfall (-) with reference to actual	Percentage of variation
1.	Sales Tax	58.00	77.06	(+) 19.06	(+) 32.86
2.	State excise	11.00	11.60	(+) 0.60	(+) 5.45
3.	Power	85.00	458.06	(+) 373.06	(+) 438.89

4.	Non ferrous mining and metallurgical industries	15.50	45.82	(+) 30.32	(+) 195.61
5.	Forestry and Wildlife	9.00	8.57	(-) 0.43	(-) 4.77
6.	Miscellaneous services	18.00	45.56	(+) 27.56	(+) 153.11

The concerned departments did not inform (November 2008) the reasons for variations between the budget estimates and actuals despite being requested (May 2008).

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 2005-06 to 2007-08 along with all India average percentage of expenditure on collection for 2007-08 were as under:

Table – 6.6

(Rupees in crore)

Sl. No.	Head of revenue	Year	Collection	Expenditure on collection of revenue ⁹	Percentage of expenditure on collection	All India average percentage for the year 2006-07
1	Sales Tax	2005-06	47.69	1.51	3.17	0.82
		2006-07	61.64	2.50	4.06	
		2007-08	77.06	2.89	3.75	
2.	State Excise	2005-06	9.51	0.31	3.26	3.30
		2006-07	10.98	0.44	4.01	
		2007-08	11.60	0.44	3.79	

Thus, the percentages of expenditure on collection in respect of sales tax and state excise heads were higher than the all India average percentage of expenditure for the year 2006-07 except in case of state excise during the year 2005-06.

6.1.7 Arrears in assessment

The details of cases pending assessment at the beginning of 2007-08, cases due for assessment during the year, cases disposed of during the year and number of cases pending at the end of the year as furnished by the department are given below:

⁹ Figures as furnished by the department.

Table – 6.7

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/ Motor Spirits	3,789	1,968	5,757	406	5,351	7.05

Thus, during 2007-08 the percentage of final assessments was only seven *per cent* of the total assessments. The Government has not fixed any norm quantifying the number of assessments to be completed by each assessing officer during a particular period.

6.1.8 Arrears of revenue

The arrears of revenue as on 31 March 2008 in respect of some principal heads of revenue amounted to Rs 71.16 crore out of which Rs 7.65 crore was outstanding for more than five years as mentioned in the table below:

Table – 6.8

(Rupees in crore)

Sl. No.	Head of revenue	Amount outstanding as on 31 March 2008	Amount outstanding for more than 5 years as on 31 March 2008
1.	Land Revenue	43.94	7.65
2.	Geology and Mining	21.81	-
3.	Environment and Forest	5.41	-
Total		71.16	7.65

Arrears of revenue in respect of sales tax and state excise are nil and particulars in respect of motor vehicle taxes has not been received (November 2008).

6.1.9 Result of Audit

Test check of records of sales tax, land revenue, state excise, motor vehicles tax, forest and other receipts conducted during 2007-08 revealed under assessments, non/short levy, loss of revenue etc., of Rs. 236.31 crore in 105 cases. During the year, the departments accepted short/non-levy and under assessment of Rs. 57.58 crore in 17 cases pointed out in 2007-08 and in earlier years and recovered Rs 4.52 lakh. No reply has been received in respect of the remaining cases.

This chapter contains 20 paragraphs involving Rs. 108.14 crore. The department/Government accepted six cases involving Rs. 50.98 crore. Report on recovery in these cases and reply in other cases had not been received (November 2008).

6.1.10 Failure of senior officials to enforce accountability and protect interests of Government

The Accountant General, Arunachal Pradesh, Itanagar conducts periodical inspection of various offices of the 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 the 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 the Government/heads of the departments, by the office of the Accountant General, Arunachal Pradesh. A half yearly report regarding pending IRs is sent to the Secretaries of the concerned departments to facilitate monitoring and settlement of audit objections raised in these IRs through intervention of the Government.

Inspection reports issued upto December 2007 pertaining to offices under sales tax, state excise, land revenue, motor vehicle taxes and forest receipts disclosed that 512 observations relating to 254 IRs involving money value of Rs. 142.27 crore remained outstanding at the end of June 2008. Of these, 112 IRs containing 236 observations involving money value of Rs. 15.79 crore had not been settled for more than five years.

In respect of observations relating to 19 IRs involving money value of Rs. 28.16 crore issued upto March 2008, even first reply from the department/Government had not been received (November 2008). It is recommended that Government prescribe a time schedule for regular submission of reply to IRs/paragraphs for settlement.

6.1.11 Recovery of revenue of accepted cases

During the years 2002-03 to 2007-08, the Government/departments accepted audit observations involving Rs. 67.72 crore of which only Rs. 9 lakh had been recovered till September 2008 as mentioned below:

Table 6.9

(Rupees in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2002-03	5.77	0.79	0.02
2003-04	23.05	0.27	0.01

2004-05	5.43	1.90	-
2005-06	8.69	6.91	0.06
2006-07	31.53	6.60	-
2007-08	112.38	51.25	-
Total	186.85	67.72	0.09

The above table indicates that amount recovered was only 0.13 *per cent* of the accepted amount. Recovery of such meagre amount reflects apathy on the part of the departments/Government in prompt recovery of Government dues.

6.1.12 Audit Committee meetings

During the year 2007-08, no audit committee meeting was held.

6.1.13 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 paragraphs included in the Audit Report.

Twenty two draft paragraphs proposed for inclusion in this Report were forwarded to the Secretaries of the respective departments during November 2007 and July 2008. 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 inclusion of the views/comments of the Government in the Audit Report. Despite these efforts, no response was received on these draft paragraphs and consequently these had to be included in this Report without the response of the Government.

6.1.14 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 receipts 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 the action taken notes (ATN) in respect of the 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 recommendation (1996), the 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 the outstanding explanatory notes on the paragraphs included in the Report of the Comptroller and Auditor General of India for the years from 1988-89 to 2006-07 revealed that the concerned administrative departments were not complying with these instructions. As of November 2008, *suo motu* explanatory notes on 57 paragraphs of these audit reports were outstanding from various departments.

Review of five reports of the PAC containing recommendations on 19 paragraphs in respect of Forest, Finance and Excise Departments presented to the Legislature between September 2001 and March 2006 revealed that the department had failed to submit ATN on the recommendations made by the PAC as mentioned below:

Table: 6.10

Year of Audit Report	Paragraph numbers on which recommendations were made by the PAC but ATNs are awaited	Number of PAC report 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	-do-
1996-97	6.7	46 th Report	-do-
1997-98	6.3, 6.5 (i), (ii)	51 st Report	21 March 2006
1998-99	6.3.6 (a) and 6.5	51 st Report	-do-

Note: In respect of 6.5 and 6.3.6 of 1997-98 and 1998-99 respectively, the paragraphs were recommended to be dropped by the PAC (51st report).

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

AUDIT OF TRANSACTIONS
ENVIRONMENT AND FOREST DEPARTMENT
6.2 Non-levy of penalty
Penalty of Rs. 2.38 crore was not realised from 323 offenders for unauthorised occupation of 3,559.17 hectares of land in reserve forests

Under the AFR (as adopted by the Government of Arunachal Pradesh) and rules framed thereunder, if any person unauthorisedly occupies any land in a reserved 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 a 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 the records of five forest divisions¹⁰ between July 2007 and January 2008 revealed that during 2005-06 to 2006-07, 323 persons unauthorisedly occupied 3,559.17 hectares of land in reserved forests. The concerned DFOs served eviction notices on the encroachers to vacate the forest land without confiscating or destroying the crops raised or buildings constructed. The encroachers did not comply with the notices and continued to occupy the aforesaid forest land unauthorisedly till March 2008. The department did not initiate any further action to evict the encroachers. For such continued offence, penalty upto Rs. 2.38 crore though leviable was not levied.

The case was reported to the department/Government between November, 2007 and April 2008; their reply has not been received (November 2008).

6.3 Non-realisation of revenue due to non-approval of working plan
Non-approval of the working plan for operation of cane led to non-realisation of revenue of Rs. 1.08 crore

The Supreme Court instructed (January 1998) that for scientific management of forests, working plans for extraction and operation of forest produce in all forest divisions should be prepared by the concerned division and approved by the Union Ministry of Environment and Forest within two years. Extraction of forest produce should be carried out strictly in accordance with the approved

¹⁰ Deomali, Dibang, Lohit, Namsai, and Pasighat.

working plan. The apex court also stipulated that in case a regular working plan is not prepared and got approved within the time frame, future felling will remain suspended.

To ensure the annual yield of cane on a sustained basis, the cane bearing areas are divided into four blocks. One block is operated in a year and put to rest for the subsequent three years, thus maintaining a cycle of four years keeping 25 *per cent* as reserve for supporting the clump as well as for the purpose of regeneration. Thus, non-extraction of cane hinders regeneration of new shoots and results in loss of revenue.

Test check of the records of DFO, Yingkiong forest division in March 2008 revealed that the division sent the draft working plan to the CCF (Working Plan) in September 2007 after a lapse of nine years which has not yet been approved. As a result, 9.98 lakh kaps¹¹ of cane remained un-extracted during the period from April 2003 to March 2008. Non-extraction of cane, thus, hindered regeneration of new shoots and resulted in non-realisation of revenue of Rs. 1.08 crore.

The case was reported to the department/Government in April 2008; their reply has not been received (November 2008).

6.4 Loss of revenue

6.4.1 Inaction of the Environment and Forest Department to take timely action to cancel the lease and re-settle it led to loss of revenue of Rs. 31.92 lakh

The Government of Arunachal Pradesh (GOAP), Environment and Forest (E and F) Department in their notification of March 2001 fixed royalty on tapping of resin from pine trees (*pinus markusii*) at Rs. 3 per blaze¹² per season.

Test check of the records of the DFO, Lohit Forest Division, Tezu in August 2007 revealed that in June 2000, the GOAP executed an agreement with a lessee for tapping of resin from pine trees for a period of 10 years. The agreement stipulated that the lessee shall be held responsible for any breach of the condition of the license and the license may be cancelled at the discretion of the Principal Chief Conservator of Forest (PCCF). In the event of cancellation of the license, the PCCF shall have the power, subject to the approval of the Government to grant license to any other party. Though 10.85 lakh pine trees (*pinus markusii*) with blazes were available for the extraction of pine resin for the period from April 2002 to March 2007, the lessee tapped

¹¹ 1 kap = 72 running feet.

¹² Cut mark on the body of the trees through which resin is extracted.

21,260 tress only from April 2002 to September 2002 and unilaterally stopped the operations from October 2002. No action was initiated by the department to cancel the license and grant it to any other party. Thus, inaction on the part of the department led to loss of revenue of Rs. 31.92 lakh.

6.4.2 Absence of penal clause in the agreement led to loss of revenue of Rs. 12.07 lakh

The GOAP, E and F Department fixed royalty on pine resin from pine trees (*Pinus Roxburghii*) at Rs.17 per blaze per tapping season. The number of trees tapped and blazes put are enumerated by the departmental staff and royalty is realised on the total number of blazes put. The terms and conditions of the agreement entered into by the GOAP and three lessees during June 2000 did not provide any penal clause against the lessees in the event of their failure to put blazes on the entire stock of pine trees as per the approved working plan.

Test check of the records of the DFO, Bomdila in February 2008 revealed that 2.23 lakh pine trees (*Pinus Roxburghii*) with 2.29 lakh blazes were available for extraction of pine resin for the period from April 2006 to March 2007 as per the approved working plan. But the lessees tapped only 1.52 lakh trees with 1.58 lakh blazes during the aforesaid period. Balance 71,000 trees with 71,000 blazes were not tapped by the lessees for no recorded reason. The department could not initiate any action against the lessees in the absence of any penal clause in the agreement. Thus, execution of faulty agreement led to the loss of revenue of Rs. 12.07 lakh.

The cases were reported to the department/Government between November 2007 and April 2008; their reply has not been received (November 2008).

6.5 Non-realisation of revenue

Inaction of the department against orders of the Government led to non-realisation of revenue of Rs. 20.65 lakh

In Arunachal Pradesh, timber is operated departmentally and allotted to the wood based industries on prior realisation of the full value of the timber. The terms and condition of allotment of timber stipulate that every WBI is required to furnish an undertaking in writing to the effect that he is bound to take the departmentally operated timber as and when allotted by the Government.

Test check of the records of the DFO, Namsai forest division in August 2007 revealed that the division carried out departmental timber operation during 2001-02 and allotted 5,769.3557 cum of timber to a wood based industries after obtaining an undertaking in prescribed form. The wood based industries lifted 2,055.0136 cum of timber leaving a balance 3,714.3431 cum unlifted.

The balance timber was allotted to other wood based industries, of which, one wood based industries which was allotted 1,060.3601 cum, requested the PCCF in August 2004 to grant a rebate of 40 *per cent* as the logs were of soft species and had deteriorated in quality due to constant exposure to the vagaries of nature. The State Government ultimately allowed rebate of 35 *per cent* and directed the PCCF to realise the amount from the original allottee. Further scrutiny revealed that the rebate of Rs. 20.65 lakh was allowed to the wood based industries but no action was initiated to recover the amount from the original allottee till August 2007. This resulted in non-realisation of revenue of Rs. 20.65 lakh.

The case was reported to the department/Government in November 2007; their reply has not been received (November 2008).

6.6 Wrong fixation of upset price of timber

Wrong fixation of upset price by the department led to loss of revenue of Rs. 15.30 lakh

The upset price of seized¹³ and drift timber¹⁴ is calculated by adding 25 *per cent* departmental charges, Rs. 5 per cft as notional charges and three *per cent* contingency charges over the royalty on timber. However, in respect of trees felled and transported to the forest depot by the user agencies, only royalty is chargeable.

Test check of the records of the DFO, Deomali Forest Division in July 2007 revealed that a user agency extracted 2,303 logs measuring 854.834 cum and handed over to the DFO. The DFO converted the timber into six lots but wrongly fixed the upset price as Rs. 27.28 lakh at par with the seized and drift timber. Thereafter, though the lots were put to sale on five occasions, it evoked no response due to the high upset price. Ultimately, after approval of the PCCF, 468 logs valued at Rs. 6.85 lakh were settled (September 2005) with the wood based industries. Over the years, the remaining 1,835 logs lost their commercial value. A committee constituted in October 2007 recommended to write off the royalty value of Rs. 15.30 lakh of the deteriorated timber. Thus, due to wrong fixation of upset price, the department sustained loss of revenue of Rs. 15.30 lakh.

The case was reported to the department/Government in December 2007; their reply has not been received (November 2008).

¹³ Seizure of illicit timber felled by miscreants in a reserved forest.

¹⁴ Timber carried by river current.

6.7 Illicit removal of timber

Illicit removal of 319.895 cum of timber by the miscreants led to loss of revenue of Rs. 7.85 lakh

Under the Assam Forest Regulation (AFR) 1891 and the rules framed thereunder (as adopted by the GOAP), felling of trees and removal of forest produce from a reserve forest area without a valid pass constitutes a forest offence punishable with fine. Forest produce felled/removed illegally is also liable to be seized by the E and F Department. Protection of forest produce from illegal felling/removal is the primary responsibility of the department. The department has forest protection squads in the State to keep round the clock vigil in the forest areas to pre-empt illegal felling.

Test check of the offence register of three¹⁵ forest divisions between August 2007 and January 2008 revealed that in 15 cases, trees of different species were illegally felled between December 2003 and November 2007 and the entire quantity of 319.895 cum of timber valued at Rs. 7.85 lakh was removed by the miscreants. The removal of timber by the miscreants from the state reserve forest indicates inadequate enforcement of forest protection. This resulted in loss of revenue of Rs. 7.85 lakh.

The cases were reported to the department/Government between November 2007 and April 2008; their reply has not been received (November 2008).

EXCISE DEPARTMENT

6.8 Non-realisation of renewal fee and penalty

Failure of the department to initiate action against nine retail licenses for non-renewal of licences led to non-realisation of renewal fee of Rs. 4.95 lakh and penalty of Rs. 5.09 lakh

Under the provisions of the Arunachal Pradesh Excise Rules 1994, a licence granted to a retail vendor shall expire after one year of the date of issue. Further, the Excise Department had instructed in March 1996 that if any retail vendor fails to renew the licence on payment of the renewal fee of Rs. 15,000 within the stipulated date, he shall be liable to pay, in addition to the renewal fee, a penalty of Rs. 50 per day for the period of default.

Test check of the records of the Superintendent of Excise (SE), Changlang in January 2008 revealed that nine retail licences for different periods between January 2004 and August 2008 were to be renewed on due dates falling between December 2003 and July 2007. However, the licensees did not renew

¹⁵ Dibang, Namsai and Pasighat.

their licences. The department also failed to realise renewal fee of Rs. 4.95 lakh and did not levy penalty of Rs. 5.09 lakh for non-payment of renewal fee.

After this was pointed out, the SE stated (February 2008) that all the retail licence holders had been directed to deposit renewal fee and penalty immediately. A report on recovery has not been received (November 2008).

The cases were reported to the Government in January 2008, their reply has not been received (November 2008).

6.9 Non-realisation of security deposit

Security deposit of Rs. 4.75 lakh was not realised from 19 retail licensees

The Excise Department in their notification of 23 March 2004 fixed, with immediate effect, a security of Rs. 25,000 for retail licences of Indian made foreign liquor (IMFL) and country liquor.

Test check of the records of four SEs¹⁶, between September 2007 and March 2008 revealed that 19 retail licence holders had not deposited the security amount of Rs. 4.75 lakh and no action was initiated by the department to realise it. This resulted in non-realisation of security deposit of Rs. 4.75 lakh.

After the cases were pointed out, the SE, Changlang stated in February 2008 that the retail licence holders were directed to deposit the security money immediately. A report on recovery and reply of other three SEs have not been received (November 2008).

The cases were reported to the Government/department in January 2008; their reply has not been received (November 2008).

6.10 Non-levy of penalty

For lifting and transportation of IMFL without permit, penalty of Rs. 4.40 lakh though leviable was not levied

The Arunachal Pradesh Excise Act, 1993, lays down that all retail licensees of IMFL are to obtain a licence from the authority for sale of IMFL. Under section 26 of the Act, all retail licensees are to obtain a permit from the Excise Department before lifting of IMFL consignment from the wholesale vends and transporting them to their licenced shops. Further, section 34 stipulates that if any person in contravention of the Act transports and sells any intoxicant or removes any intoxicant from any warehouse or other place of storage, he shall

¹⁶ Aalo, Changlang, Pasighat, and Roing.

be liable to imprisonment for a term which may extend to two years or to a fine which may extend to Rs. 5,000 or both.

Test check of the records of the Commissioner of Excise (CE) in June 2007 revealed that 88 retail licensees did not obtain any permit from the Excise Department prior to lifting of IMFL from the whole sale vends and transporting them to their shop. The retail licensees had violated the provision of Excise Act and thus, became liable to pay penalty of Rs. 4.40 lakh besides imprisonment terms, none of which was imposed.

After the case was pointed out, the CE, while admitting the facts stated in August 2007 that the concerned SEs were directed to impose penalty on all the offenders. Further report on realisation of penalty has not been received (November 2008).

The case was reported to the Government between in July 2007; their reply has not been received (November 2008).

GEOLOGY AND MINING DEPARTMENT

6.11 Non levy of additional royalty

Failure of the department to initiate action against two lessees for delayed payment of royalty led to non-realisation of additional royalty of Rs. 37.42 crore

The Petroleum and Natural Gas (PNG) Rules, 1959 envisage 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 the records of the Directorate of Geology and Mining (DGM), AP, Itanagar in June 2007 revealed that the State Government executed a lease agreement in September 1997 with a lessee for extraction of crude oil. The agreement, inter alia, stipulated that the lessee should pay royalty to the State Government within 30 days of the month to which the production related. The lessee extracted 53,650.33 tonne of crude oil between January 2006 and January 2007 for which royalty of Rs. 14.99 crore was paid between May 2006 and March 2007 after delays ranging between one and five months. For the delay in payment of royalty, additional royalty of Rs. 2.97 crore though leviable was not levied and recovered by the department.

Similarly, another lessee extracted 3,18,570.38 tonne of crude oil involving royalty of Rs. 30.36 crore between June 1995 and March 2004 of which royalty of Rs. 16.28 crore was paid by the lessee and the balance royalty of

Rs 14.80 crore was paid belatedly between March and November 2004. For belated payment, additional royalty of Rs. 34.45 crore though leviable, was not levied and recovered by the department.

The cases were reported to the department/Government in August 2007; their reply has not been received (November 2008).

6.12 Short realisation of royalty

Faulty agreement resulted in extension of undue benefit to a lessee and short realisation of royalty of Rs. 15.46 crore

The Government of India (GOI) periodically determines the royalty payable on minerals which is collected and appropriated by the State Government. In terms of provisions of the PNG Rules, an 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 rate prescribed by the GOI from time to time. The rates of royalty prescribed by the GOI during the period January 2006 to January 2007 varied between Rs. 2,474 and Rs. 3,196 per tonne.

Test check of the records of the DGM, AP in June 2007 revealed that a mining lease agreement was executed on 21 October 1997 between a lessee and the State Government fixing royalty at Rs. 528 per tonne of crude oil for a period of 20 years effective from 16 June 1995 without any reference to the prevalent rates of royalty. The lessee extracted 69,255.8663 tonnes of crude oil between January 2006 and January 2007 and paid royalty of Rs. 3.66 crore at the rate of Rs. 528 per tonne against Rs. 19.12 crore leviable at the rate prescribed by the GOI during the aforesaid period. Thus, incorporation of fixed rate of royalty instead of prevalent rates as notified by the GOI, in the agreement as was done in the agreement entered into with M/s Oil India Limited, a public sector undertaking, resulted in short realisation of revenue of Rs. 15.46 crore.

The case was reported to the department/Government in August 2007; their reply has not been received (November 2008).

6.13 Short realisation of royalty on boulders

Short realisation of royalty by Rs. 10.77 lakh due to incorrect application of rate

The Government of Arunachal Pradesh in their addendum of 18 March 2006 enhanced the rate of royalty on boulders from Rs. 79 per cum to Rs. 110 per cum with immediate effect.

Test check of the records of the DGM, AP in June 2007 revealed that between May 2006 and February 2007, 34,714.55 cum boulders were extracted and utilised in works by the contractors under four user agencies¹⁷. The user agencies, however, realised royalty of Rs. 27.42 lakh from the contractors at the pre-revised rate instead of Rs. 38.19 lakh calculated at the rate of Rs. 110 per cum. No action was initiated by the DGM to recover the balance royalty of Rs. 10.77 lakh either from the user agencies or from the concerned contractors.

The case was reported to the department/Government in August 2007; their reply has not been received (November 2008).

STATE LOTTERY DEPARTMENT

6.14 Non-forfeiture of unclaimed prize money

Unclaimed prize money of Rs. 49.91 crore remained out of Government accounts due to non-inclusion of penal/deterrent clause in the agreement

Under the AP State Lottery Rules, 2001, all unclaimed prize money shall be the property of the State Government. The Government of Arunachal Pradesh executed agreements with four distributors between December 2005 and February 2006 for organising paper lottery. Clause 9 of the agreements stipulates that all unclaimed prize money shall be deposited with the Government by the distributor upon the settlement of the account which shall be submitted by the distributor to the Government for each draw on or before the 60th day from the date of holding of the respective draw. No penal/deterrent clause was included in the agreement for default in depositing the unclaimed prize money to the Government.

Test check of the records of the Secretary, State Lottery Department, AP in December 2007 revealed that in respect of 591 draws conducted by four distributors between 26 June 2006 and 12 August 2007 prize money totalling Rs. 49.91 crore remained unclaimed. But even after expiry of the stipulated period of 60 days from the date of holding the draws, the unclaimed prize money was neither deposited by the distributors nor was any action taken by the department to recover and forfeit the unclaimed amount. No penal action against the distributors could be initiated by the department due to non-inclusion of a penal clause in the agreement. This resulted in non-realisation of revenue of Rs. 49.91 crore.

After this was pointed out, the department while admitting the facts stated in May 2008 that the distributors had been directed to deposit the unclaimed

¹⁷ Public Health Engineering, East Kameng, Pasighat; Irrigation and Flood Control, Daporijo, Papumpare, Tawang, Ziro; Executive Engineer, Public Works Department, Upper Siang, Yingkiang and Border Roads Task Force, Tezu.

prize money of Rs. 49.91 crore. A report of deposit of unclaimed amount has not been received (November 2008).

The case was reported to the Government in February 2008; their reply has not been received (November 2008).

6.15 Non-realisation of licence fee

Inaction of the department to levy licence fees on 42 retailers led to non-realisation of revenue of Rs. 8.62 lakh

Under the provisions of the AP State Lottery (amended) Rule 2005, all the retailers dealing with lotteries (including on-line lotteries) of other state Governments within the State of AP, were liable to pay a lumpsum amount of Rs.2000 as licence fee per terminal per month with effect from 24 November 2005.

Test check of the records of the Secretary, State Lottery Department, AP in December 2007 revealed that 42 retailers of three districts¹⁸ were engaged in the business of other State Government lotteries. The retailers neither paid license fee for the period from December 2005 to November 2007 nor was any action taken by the department to levy and realise it. Thus, laxity on the part of the department led to non-realisation of license fee of Rs. 8.62 lakh.

The case was reported to the department/Government in February 2008; their reply has not been received (November 2008).

TAXATION DEPARTMENT

6.16 Non-realisation of revenue due to non-registration of Government department

Non-registration of forest divisions resulted in non-realisation of revenue of Rs. 33.09 lakh on sale of timber

Under the Arunachal Pradesh Goods Tax Act, 2005, a dealer means a person who buys, sells, supplies or distributes goods for cash or deferred payment and includes all departments of the Central Government or a State Government if it sells, supplies or distributes goods in the course of specified activities. Further, under section 19 (i) of the Act, every dealer liable to pay tax is required to be registered under the Act. In Arunachal Pradesh, timber is taxable at the rate of 12.5 *per cent*.

¹⁸ Lower Subansiri, Papumpare and East Kameng.

Cross check of the records of five DFOs¹⁹ with those of four²⁰ Superintendent of taxes (ST) between September 2007 and March 2008 revealed that the forest divisions sold 6,945.4208 cum of timber valued at Rs.2.65 crore between April 2005 and March 2007 to the saw mills and wood based industries within the state. The DFOs neither applied for registration nor paid any tax on the aforesaid sale of timber. The AOs also did not initiate any action to get these divisions registered and collect the tax. This resulted in non-realisation of revenue of Rs. 33.09 lakh.

After the case was pointed out, the ST, Roing stated in January 2008 that the concerned DFO was requested to get the division registered and deposit the due tax. Further report on registration and recovery of tax and reply in respect of the other three STs have not been received (November 2008).

The cases were reported to the Government between between November 2007 and April 2008; their reply has not been received (November 2008).

6.17 Evasion of tax by the unregistered dealers

Failure to register 15 dealers and non-deduction of tax at source led to evasion of tax of Rs. 1.77 crore for which maximum penalty of Rs. 33.97 lakh was also leviable

Under the Arunachal Pradesh Sales tax (APST) Act, 1999, 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 also provides for deduction of tax at source in case of purchase of taxable goods by a Government department. If a dealer being liable to pay tax fails to get himself registered, he is liable to pay penalty in addition to tax payable by him, a sum not exceeding the amount of assessed tax.

Further under section 19 of the APST Act, every dealer whose turnover exceeds the taxable quantum is required to apply for registration and to be registered under the Act. Where a person who is required to be registered under the Act has failed to apply for registration within one month from the day on which the requirement arose, the person is liable to pay, by way of penalty, an amount equal to Rs. 1,000 per day subject to a maximum of Rs. 1 lakh. The Act, however, does not have any provision for deduction of tax at source in case of purchase of taxable goods by a Government department.

6.17.1 Cross verification of the records of the Directorate of Social Welfare (DSW), Naharlagun with those of the ST, Zone-I and Zone-II, Naharlagun and

¹⁹ Aalo, Likabali, Pasighat, Roing and Tezu.

²⁰ Aalo, Pasighat, Roing and Tezu.

Itanagar in June 2007 revealed that 10 unregistered dealers sold taxable goods valued at Rs. 13.24 crore to DSW between May 2006 and January 2007. The dealers neither applied for registration nor were they registered by the AO as required under the Act. The purchasing department also did not deduct tax at source due to non-issue of notification in this regard by the Government under the APGT Act. This resulted in evasion of tax of Rs. 1.46 crore. Besides, penalty of Rs. 10 lakh was also leviable.

6.17.2 Cross check of the records of the Directorate of Health Services (DHS), Naharlagun with those of the ST, Zone-I, Naharlagun in June 2007 revealed that two dealers sold taxable goods valued at Rs. 2.87 crore to the DHS in March 2005. The dealers neither applied for registration nor was any action taken by the AO to get these dealers registered as required under the Act. Tax was also not deducted by the DHS at the time of making the payment. This resulted in evasion of tax of Rs. 12.73 lakh. Besides, penalty of Rs. 12.73 lakh was also leviable.

After the case was pointed out, the ST stated in October 2007 that the matter has been taken up with DHS for realisation of tax. A report on recovery has not been received (November 2008).

6.17.3 Cross check of the records of the Geology and Mining Department, AP with those of the ST, Ziro in June 2007 revealed that a dealer supplied sand and stone valued at Rs. 64.66 lakh between January 2005 and January 2007 to the National Hydroelectric Power Corporation (NHPC). The dealer neither applied for registration nor paid tax on the aforesaid sale of sand and stone. The ST, Ziro also did not initiate any action to get the dealer registered and realise tax. This resulted in non-realisation of revenue of Rs. 8 lakh and penalty of Rs. 8 lakh.

After the case was pointed out, the ST stated in August 2007 that the dealer was asked to deposit the tax. A report on recovery has not been received (November 2008).

6.17.4 Test check of the records of the ST, Zone-I, Naharlagun in June 2007 revealed that a dealer applied for registration in July 2006 but no action was initiated by the AO to register the dealer. Verification of the records of the Directorate of Social Welfare (DSW), Naharlagun revealed that the dealer sold goods valued at Rs. 1.76 crore between February and August 2006. The dealer neither submitted any return nor paid tax to the AO. Thus, delay in registration of the dealer had resulted in evasion of tax of Rs. 7.02 lakh.

6.17.5 Cross check of the records, of the EE, Tawang Public Works Division (PWD), Tawang with those of the ST, Bomdila in February 2005 revealed that a dealer executed works contract valued at Rs. 80.94 lakh during 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 PWD at the time of making payment. This resulted in evasion of tax of Rs. 3.24 lakh. The dealer was also liable to pay penalty of Rs. 3.24 lakh.

After the case was pointed out, the ST while admitting the facts stated in March 2008 that the matter had been taken up with the EE, PWD, Tawang. A report on recovery has not been received (November 2008).

The cases were reported to the department/Government between August 2007 and March 2008; their reply has not been received (November 2008).

6.18 Underassessment of tax

Non-inclusion of excise duty in sale price of IMFL led to underassessment of tax of Rs. 21.80 lakh

Under the APGT Act, ‘sale price’ means the amount paid or payable as valuable consideration for any sale. In May 2005, the Commissioner of Taxes, AP clarified that all duties and fees levied under the AP Excise Act shall form part of the sale price. In Arunachal Pradesh, IMFL is taxable at the rate of 20 *per cent*.

Test check of the records of the ST, Pasighat, Roing and Tezu between September 2006 and October 2007 revealed that 10 wholesale vendors sold 99,978 cases of IMFL between April 2005 and March 2007 and disclosed sale price of Rs. 6.17 crore and paid tax of Rs. 1.23 crore on the turnover without including the element of excise duty of Rs. 1.09 crore collected from the purchasers. Since excise duty forms part of the sale price as per the aforesaid clarification, the sale price should have been determined at Rs. 7.26 crore instead of Rs. 6.17 crore. This resulted in underassessment of tax of Rs. 21.80 lakh.

The cases were reported to the department/Government between in November and December 2007; their reply has not been received (November 2008).

6.19 Evasion of tax by the registered dealers under the APGT Act

Two dealers concealed turnover of Rs. 1.08 crore and evaded tax of Rs. 13.22 lakh for which penalty of Rs. 13.22 lakh was leviable

Under the provisions of the APGT Act, if a dealer conceals the particulars of his turnover in his return, he shall pay by way of penalty, in addition to the tax payable by him, sum of Rs. 1 lakh or the amount of tax deficiency, whichever is greater.

Test check of the records of the ST, Zone-I and Zone-II, Naharlagun and Itanagar in June 2007 revealed that two dealers sold taxable goods valued at Rs. 1.22 crore between October 2005 and August 2006 to two Government departments²¹ and realised tax of Rs. 14.96 lakh from them. The dealers, however, disclosed turnover of Rs. 13.88 lakh only in their returns and paid tax of Rs. 1.74 lakh. The dealers thus, concealed turnover of Rs. 1.08 crore and evaded tax of atleast Rs. 13.22 lakh. Besides, for submission of false return, penalty of atleast Rs. 13.22 lakh was also leviable.

After the case was pointed out, the ST Zone-II stated in September 2007 that the dealer had been directed to pay the tax and penalty of Rs. 13.22 lakh. A report on recovery of dues and reply in respect of the dealer of Zone-I has not been received (November 2008).

The case was reported to the Government in August 2007; their reply has not been received (November 2008).

6.20 Concealment of turnover

A dealer evaded tax of Rs. 5.73 lakh by concealing turnover of Rs. 47.78 lakh. Besides, penalty and interest of Rs. 8.60 lakh and Rs. 6.71 lakh respectively was also leviable

Under the provisions of the APST Act, if a dealer conceals any part of his turnover or furnishes incorrect particulars of such turnover in his return, he is liable to pay, in addition to the tax, penalty not exceeding one and a half times the tax due. Further, if a dealer fails to pay the full amount of tax due within the specified time, he shall be liable to pay simple interest ranging between 12 and 24 *per cent* per annum for the period of default on the amount of tax short paid.

Test check of the records of the ST, West Siang District, Aalo in March 2008 revealed that a dealer dealing in electronic goods disclosed turnover of Rs. 4.80 lakh during 2002-03 which was accepted by the assessing officer (AO) and was assessed accordingly in April 2003. Further scrutiny of the case records of the dealer under the Central Sales Tax (CST) Act, 1956 revealed that the dealer imported electronic goods from a dealer registered in Unit-C, Guwahati, Assam valued at Rs. 47.78 lakh by utilising one declaration in form 'C'. Thus, the dealer concealed turnover of Rs. 47.78 lakh and evaded tax of Rs. 5.73 lakh. For evasion of tax, maximum penalty of Rs. 8.60 lakh and interest of Rs. 6.71 lakh was also leviable but was not levied.

²¹ Director of Social Welfare and Executive Engineer, Public Health Engineering, Itanagar.

The case was reported to the department/Government in April 2008; their reply has not been received (November 2008).

6.21 Non-levy of penalty

A dealer evaded tax of Rs. 3.39 lakh including interest for import of goods not covered by certificate of registration for which maximum penalty of Rs. 2.64 lakh was also leviable

Under section 10 (b) of the CST Act, if any registered dealer falsely represents when purchasing any class of goods that goods of such class are covered by his certificate of registration, the AO may, after giving such person a reasonable opportunity of being heard, direct that he shall pay by way of penalty a sum not exceeding one and half times the amount of tax which would have been levied under Section 8(2) of the Act in respect of sale of goods to him.

Test check of the records of the ST, West Siang District, Aalo in March 2008 revealed that a dealer dealing in automobile spare parts, GI pipes etc, disclosed turnover of Rs. 5.92 lakh during 2003-04 and the AO accepted the returns and assessed the dealer accordingly in October 2005. Verification of the records of a dealer registered in Unit 'A', Guwahati revealed that the dealer registered in Aalo imported packed food valued at Rs. 14.65 lakh by utilising one declaration in form 'C' during the aforesaid period which was not covered by his certificate of registration. Further, this transaction was neither disclosed by the dealer in his return nor assessed by the AO. The dealer thus, falsely represented when purchasing goods that the goods were covered by his certificate of registration. The dealer thus, evaded tax of Rs. 3.39 lakh including interest. Besides maximum penalty of Rs. 2.64 lakh was also leviable.

The case was reported to the department/Government in April 2008; their reply has not been received (November 2008).