

CHAPTER III
TAXES ON AGRICULTURAL INCOME

3.1 Results of audit

Test check of the records of the agricultural income tax offices conducted during the year 2007-08 revealed underassessments of tax amounting to Rs. 3.69 crore in 43 cases which fall under the following categories:

(Rupees in crore)

Sl. No.	Category	No. of cases	Amount
1.	Inadmissible expenses	10	3.25
2.	Income escaping assessment	11	0.15
3.	Incorrect computation of income	5	0.12
4.	Incorrect computation of tax	4	0.04
5.	Incorrect status	1	0.01
6.	Other lapses	12	0.12
Total		43	3.69

During the year 2007-08, the department accepted underassessment and other deficiencies of Rs. 22.60 lakh involved in 15 cases. The department recovered Rs. 2.11 lakh in 10 cases of which one case involving Rs. 5,887 was pointed out during 2007-08 and the balance to the earlier years.

A few illustrative cases involving Rs. 0.12 crore are mentioned in the succeeding paragraphs.

3.2 Lack of internal control/monitoring mechanism

The Government, vide its order of March 2005, abolished the office of the Inspecting Assistant Commissioner (Special), Agricultural Income Tax and Commercial Tax, Ernakulam effective from April 2005. The agricultural income tax assessment files dealt with by the abolished office were transferred to various commercial tax offices in the State in July 2005.

The arrears of revenue on account of agricultural income tax due for collection by the defunct Inspecting Assistant Commissioner (Special) as on 31 March 2005 were Rs.52.27 crore. Test check of the records of selected transferee offices indicated that no arrangement was made for collection of the arrears of revenue of Rs. 52.27 crore. Year-wise breakup of arrears are given below:

(Rupees in crore)

Year	Amount
1998-99	16.60
1999-00	7.72
2000-01	6.02
2001-02	6.51
2002-03	6.38
2003-04	3.44
2004-05	5.60
Total	52.27

Stagewise arrears are not available with the department. The omission on the part of the department was due to the following system deficiencies:

- No adequate monitoring mechanism was planned at the time of abolishing an institution which had huge arrears of revenue pending collection.
- Though the work was distributed among various Commercial Tax Offices in the State, no transferee office could initiate any step, as they had not received the related files with the position of arrears.

After the cases were pointed out in April 2007, the department stated in September 2008 that arrear fixation was not made in individual cases and details of arrears were not transferred to transferee offices.

The matter was reported to the department and the Government in April 2007; their reply has not been received (December 2008).

3.3 Short levy due to incorrect computation of depreciation

Under the Kerala Agricultural Income Tax Act, 1991 (KAIT Act), depreciation is allowed at the prescribed rates on the written down value of the building, machinery, plant, furniture etc.

During scrutiny of the records in the office of the Inspecting Assistant Commissioner (Special) Ernakulam in August 2004, it was noticed that while finalising (April 2003) the assessment of a company for the year 2001-02,

depreciation of Rs. 71.57 lakh was allowed on the original cost of assets instead of Rs. 59.35 lakh admissible on the written down value of assets as on 1 April 2001. This resulted in grant of excess depreciation of Rs. 12.22 lakh and consequent short levy of tax of Rs. 7.33 lakh.

After the case was pointed out to the department in August 2004 and reported to Government in February 2005, the Government stated in March 2008 that the assessment had been revised and the collection was pending. A report on recovery has not been received (December 2008).

3.4 Omission to assess income

Under the KAIT Act, the total agricultural income of any charitable trust does not include any agricultural income derived from property held under the trust wholly for charitable or religious purposes, to the extent to which such income is applied or set apart for application to such purposes in the State.

During scrutiny of the records in agricultural income tax and sales tax office Kottayam, in May 2007, it was noticed that while finalising the assessments of a charitable trust for the assessment year 2004-05 in October 2006, the assessing officer omitted to levy tax on income of Rs. 9.11 lakh not applied or set apart for charitable purpose. This resulted in short levy of tax and surcharge of Rs. 4.69 lakh.

After the case was pointed out in May 2007, the department revised (June 2008) the assessment. A report on recovery has not been received (December 2008).

The matter was reported to the Government in January 2008; their reply has not been received (December 2008).