

CHAPTER I

GENERAL

1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Tamil Nadu during the year 2006-07, 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:

(Rupees in crore)						
Sl. No.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
I	Revenue raised by the Government of Tamil Nadu					
	• Tax Revenue	14,341.71	15,944.97	19,357.04	23,326.03	27,771.15
	• Non-tax revenue*	1,860.62 (1,742.46)	2,093.79 (2,058.53)	2,208.35	2,600.75	3,422.57
	Total	16,202.33 (16,084.17)	18,038.76 (18,003.50)	21,565.39	25,926.78	31,193.72
II	Receipts from the Government of India					
	• State's share of divisible Union taxes	3,047.57	3,544.20	4,236.39	5,012.74	# 6,393.86
	• Grants-in-aid	1,586.84	2,122.75	2,649.75	3,020.47	3,325.65
	Total	4,634.41	5,666.95	6,886.14	8,033.21	9,719.51
III	Total receipts of the State [(I) + (II)]	20,836.74 (20,718.58)	23,705.71 (23,670.45)	28,451.53	33,959.99	40,913.23
IV	Percentage of I to III	77	76	76	76	76

The above table indicates that during the year 2006-07, the revenue raised by the State Government was 76 per cent of the total revenue receipts (Rs.40,913.23 crore) as in the preceding year. The balance 24 per cent of receipts during 2006-07 was from the Government of India.

* Figures in bracket represent non-tax revenue including receipts from lotteries net of expenditure on prize winning tickets.

For details please see Statement No.11 – Detailed accounts of revenue by minor heads of Finance Accounts of the Government of Tamil Nadu for the year 2006-07. Figures under the head '0021 – Taxes on income other than corporation tax – Share of net proceeds assigned to States' booked in the Finance Accounts under 'A – Tax revenue' have been excluded from the revenue raised by the State and included in 'State's share of divisible Union taxes' in this statement.

1.1.1 The following table presents the details of tax revenue raised during the period 2002-03 to 2006-07:

(Rupees in crore)

Sl. No.	Heads of revenue	2002-03	2003-04	2004-05	2005-06	2006-07	Percentage of increase (+) or decrease (-) in 2006-07 over 2005-06
1	Sales tax	9,589.60	11,004.63	12,996.18	15,554.69	17,727.16	14
2	State excise	2,113.61	1,657.10	2,549.00	3,176.65	3,986.42	25
3	Stamp duty and registration fees	1,079.12	1,316.40	1,604.36	2,084.86	2,997.46	44
4	Taxes on vehicles	745.62	934.29	1,014.75	1,124.93	1,260.88	12
5	Land revenue	8.40	17.50	71.95	179.48	120.68	(-) 33
6	Taxes on agricultural income	1.63	1.25	0.59	0.13	0.07	(-) 46
7	Taxes on immovable property other than agricultural land (urban land tax)	12.69	12.03	11.81	11.86	14.45	22
8	Others	791.04	1,001.77	1,108.40	1,193.43	1,664.03	39
Total		14,341.71	15,944.97	19,357.04	23,326.03	27,771.15	19

The reasons for increase/decrease in 2006-07 over 2005-06 as furnished by the departments are mentioned below:

Sales tax: The increase was due to more receipt of revenue of 21.55 *per cent* under the Central Sales Tax Act and 12.94 *per cent* under State Sales Tax Act.

State excise: The increase was attributed to considerable increase in volume of sale of Indian made foreign liquor/beer.

Stamp duty and registration fees: The increase was mainly due to increase in registration of documents and introduction of the levy of Rs.100 from March 2006 on each document, encumbrance certificate and certified copies of scanning.

The other departments did not inform (November 2007) the reasons for variation despite being requested (June 2007).

1.1.2 The following table presents the details of major non-tax revenue raised during the period 2002-03 to 2006-07:

(Rupees in crore)

Sl. No.	Heads of revenue	2002-03	2003-04	2004-05	2005-06	2006-07	Percentage of increase (+) or decrease (-) in 2006-07 over 2005-06
1	Interest receipts, dividends and profits	594.70	559.74	590.05	819.91	1,134.00	38
2	Crop husbandry	62.22	61.61	57.27	66.43	74.45	12
3	Forestry and wild life	157.44	90.21	155.07	138.59	82.31	(-) 41
4	Non-ferrous mining and metallurgical industries	181.09	377.54	409.58	465.68	566.64	22
5	Education, sports, art and culture	89.50	122.58	143.43	209.98	215.83	3
6	Other receipts						
	• State lotteries	119.50	22.18	---	---	---	---
	• Others	656.17	859.93	852.95	900.16	1,349.34	50
	Total	1,860.62	2,093.79	2,208.35	2,600.75	3,422.57	32

The reasons for increase/decrease in 2006-07 over 2005-06 as furnished by the departments are mentioned below:

Interest receipts: The increase was mainly due to more interest receipts from local bodies, public sector and other undertakings and on investment of cash balances.

Forestry and wild life: The decrease was mainly due to decrease of revenue from sale of timber and other forest produce and lower receipts from social and farm forestries.

The other departments did not inform (November 2007) the reasons for variations despite being requested (June 2007).

1.2 Variations between budget estimates and actuals

The variations between the budget estimates and actuals of revenue receipts for the year 2006-07 in respect of the principal heads of tax and non-tax revenue are mentioned below:

(Rupees in crore)

Sl. No.	Heads of revenue	Budget estimates	Actuals	Variations excess (+) or short fall (-)	Percentage of variation
1	Sales tax	18,089.66	17,727.16	(-) 362.50	(-)2
2	State excise	3,673.26	3,986.42	313.16	9
3	Stamp duty and registration fees	2,451.65	2,997.46	545.81	22
4	Taxes on vehicles	1,248.28	1,260.88	12.60	1
5	Land revenue	52.63	120.68	68.05	129
6	Taxes on immovable property other than agricultural land (urban land tax)	16.27	14.45	(-)1.82	(-)11
7	Taxes and duties on electricity	250.00	266.40	16.40	7
8	Interest receipts, dividends & profits	748.50	1,134.00	385.50	52
9	Non-ferrous mining and metallurgical industries	527.91	566.64	38.73	7
10	Crop husbandry	70.96	74.45	3.49	5
11	Roads and bridges	28.83	33.01	4.18	15
12	Major and medium irrigation	17.95	28.51	10.56	59

The following reason for variation was reported by the Land Revenue Department:

Land revenue: The increase was mainly due to increased receipts from sale proceeds of waste lands and redemption of land tax.

The other departments did not inform (November 2007) the reasons for variations despite being requested (June 2007).

1.3 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and percentage of such expenditure to gross collection, during the years 2004-05, 2005-06 and 2006-07 along with the relevant all India average percentage of expenditure on collection to gross collection for 2005-06 were as follows:

(Rupees in crore)

Sl. No.	Heads of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage for the year 2005-06
1	Sales tax	2004-05	12,996.18	102.34	0.79	0.91
		2005-06	15,554.69	106.64	0.69	
		2006-07	17,727.16	120.96	0.68	
2	Taxes on vehicles	2004-05	1,014.75	48.56	4.79	2.67
		2005-06	1,124.93	49.50	4.40	
		2006-07	1,260.88	30.43	2.41	
3	State excise	2004-05	2,549.00	25.88	1.02	3.40
		2005-06	3,176.65	27.76	0.87	
		2006-07	3,986.42	33.11	0.83	
4	Stamp duty and registration fees	2004-05	1,604.36	84.02	5.24	2.87
		2005-06	2,084.86	86.83	4.16	
		2006-07	2,997.46	106.89	3.57	

Thus, the percentage of expenditure on collection in respect of stamp duty and registration fees was higher than the all India average.

1.4 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2007 in respect of some principal heads of revenue amounted to Rs.318.48 crore, of which Rs.127.39 crore were outstanding for more than five years as mentioned below:

(Rupees in crore)

Sl. No.	Heads of revenue	Amount outstanding as on 31 March 2007	Amount outstanding for more than 5 years as on 31 March 2007	Remarks
1	2	3	4	5
1	Stamp duty and registration fees	160.35	43.97	The entire arrears were covered by the recovery certificates.

1	2	3	4	5
2	Urban land tax	114.98	40.98	Demands amounting to Rs.14.37 crore were stayed by the Government, High Court and other judicial authorities. Recovery of Rs.8.56 crore was stayed by the Principal Commissioner of Land Reforms. Rs.86.97 crore was under various stages of collection. Rs.5.08 crore has since been collected.
3	State excise	40.53	40.53	Out of the total arrears of Rs.40.53 crore, demands amounting to Rs.16.00 crore were covered under the Revenue Recovery Act; demands amounting to Rs.1.85 crore were stayed by High Court and other judicial authorities; Rs.4.14 crore was held up due to rectification/ review application. Rs.31 lakh was held up on account of persons becoming insolvent and Rs.18.23 crore was under various stages of collection.
4	Taxes on vehicles	2.62	1.91	Out of the total arrears of Rs.2.62 crore, demands amounting to Rs.1.82 crore were covered under the Revenue Recovery Act. Demands amounting to Rs.33 lakh were stayed by the High Court and other judicial authorities. Rs.11 lakh is likely to be written off. Rs.25 lakh was under various stages of collection. Rs.11 lakh has since been collected.
Total		318.48	127.39	

The position of arrears of revenue pending collection at the end of 2006-07 in respect of other departments, was not furnished (November 2007), despite being requested (June 2007).

1.5 Arrears in assessment

The number of cases pending for assessment at the beginning of the year 2006-07, becoming due during the year, disposed during the year and pending finalisation at the end of the year 2006-07 alongwith the figures for the preceding four years as furnished by the Commercial Taxes Department in respect of Sales Tax and Revenue Department in respect of Urban Land Tax are mentioned below:

Heads of revenue	Opening balance	Cases which become due for assessment	Total	Cases disposed during the year	Cases pending at the end of the year	Percentage of disposal (Col.5 to4)
1	2	3	4	5	6	7
2002-03						
Sales Tax	33,208	1,38,048	1,71,256	1,22,757	48,499	72
Urban Land Tax	3,048	1,421	4,469	88	4,381	2
2003-04						
Sales Tax	48,499	1,64,397	2,12,896	1,59,363	53,533	75
Urban Land Tax	4,421	1,583	6,004	911	5,093	15
2004-05						
Sales Tax	53,533	1,71,052	2,24,585	1,70,293	54,292	76
Urban Land Tax	5,093	2,227	7,320	1,383	5,937	19
2005-06						
Sales Tax	54,292	1,77,496	2,31,788	1,62,872	68,916	70
Urban Land Tax	5,937	3,812	9,749	2,101	7,648	22
2006-07						
Sales Tax	68,916	1,82,457	2,51,373	1,51,825	99,548	60
Urban Land Tax	7,648	2,076	9,724	2,974	6,750	31

The above table reveals that disposal of the sales tax assessment cases ranged between 60 and 76 *per cent* during 2002-03 to 2006-07. It was the least in 2006-07. The disposal of the urban land tax assessment case ranged between 2 and 31 *per cent* during 2002-03 to 2006-07.

1.6 Evasion of tax

The details of cases of evasion of sales tax detected, sales tax cases finalised and demands for additional tax raised as reported by the Commercial Taxes Department are mentioned below:

Head of revenue	Cases pending as on 31 March 2006	Cases detected during 2006-07	Total cases	Cases in which assessments/ investigations completed and additional demand including penalty etc., raised		No. of cases pending finalisation as on 31 March 2007
				No.	Amount (Rupees in crore)	
Sales tax						
• Enforcement wing.	6,582	1,532	8,114	7,833	Not furnished	281
• Administrative wing.	6,757	6,900	13,657	7,223	88.96	6,434

It is necessary to finalise these cases at the earliest to minimise the risk of loss of revenue.

1.7 Write off and waiver of revenue

During the year 2006-07, Rs.2.23 lakh (in six cases) relating to sales tax was written off by the department as irrecoverable. Reasons for the write off as reported by it are mentioned below:

(Rupees in lakh)

Sl. No.	Reasons	No. of cases	Amount
1	Defaulters not having any property	5	2.02
2	Defaulters adjudged insolvent	1	0.21
Total		6	2.23

In addition to the above, sales tax amounting to Rs.32 lakh in 19 cases was waived by the department during the year.

1.8 Refunds

The number of refund cases pending at the beginning of the year (1 April 2006), claims received during the year, refunds allowed during the year and cases pending at the close of the year (31 March 2007) as reported by the departments are mentioned below:

(Rupees in crore)

Sl. No.	Particulars	Sales tax		Taxes on vehicles	
		No. of cases	Amount	No. of cases	Amount
1	Claims outstanding at the beginning of the year	79,498	162.87	22	0.09
2	Claims received during the year	23,760	68.01	786	1.37
3	Refunds made during the year	20,103	45.18	767	1.33
4	Balance outstanding at the end of the year	83,155	185.70	41	0.13

Tamil Nadu General Sales Tax Act (TNGST Act) provides for payment of interest, calculated at the rate of one *per cent* or part thereof, if the excess amount is not refunded to the dealer within 90 days from the date of order of assessment or revision of assessment or within 90 days from the date of receipt of order passed in appeal, revision or review. The pending refund cases need attention to avoid mandatory payment of interest.

1.9 Results of audit

Test check of the records of sales tax, land revenue, state excise, motor vehicles tax, stamp duty and registration fees, electricity duty, other tax and non-tax receipts conducted during 2006-07 revealed underassessment/short levy/loss of revenue and other observations amounting to Rs.377.99 crore in 6,692 cases. During the year, the departments accepted underassessment of Rs.96.33 crore in 2,539 cases pointed out in 2006-07 and earlier years and recovered/adjusted Rs.64.84 crore.

This Report contains 25 paragraphs involving two reviews relating to non/short levy of taxes, duties, interest and penalties and other audit observations involving revenue of Rs.151.38 crore. The departments/Government accepted audit observations involving revenue of Rs.78.42 crore, of which Rs.56.94 crore had been recovered/adjusted by the departments upto September 2007. Final reply has not been received in respect of the remaining cases (October 2007).

1.10 Failure to enforce accountability and protect interest of the Government

Audit observations on incorrect assessments, short levy of taxes, duties and fees, etc., as also defects in the maintenance of initial records noticed during audit and not settled on the spot are communicated to the heads of offices and other departmental authorities through inspection reports. Serious financial irregularities are reported to the heads of the departments concerned and the Government. The heads of offices are required to furnish replies to the

inspection reports through their respective heads of departments within a period of two months.

1.10.1 The number of inspection reports and audit observations relating to revenue receipts issued upto 31 December 2006, which were pending for settlement by the departments as on 30 June 2007, along with corresponding figures for the preceding two years are mentioned below:

	Position as on 30 June		
	2005	2006	2007
Number of inspection reports pending for settlement	6,134	6,708	6,638
Number of outstanding audit observations	20,477	22,549	23,047
Amount of revenue involved (Rs.in crore)	2,399.64	2,556.70	2,772.37

The increase in the outstanding audit observations is indicative of non-compliance with the Government's instruction to send replies to the initial audit observations and report on further action taken thereon within the stipulated time. Though State audit committees and departmental audit committees were constituted in March 1993 with the objective of expeditious settlement of the outstanding observations, the number of observations were still on the increase.

1.10.2 Revenue headwise breakup of the inspection reports and audit observations outstanding as on 30 June 2007 is mentioned below:

Sl. No.	Revenue heads	Number of outstanding		Amount (Rupees in crore)	Earliest year to which the inspection report relates
		Inspection reports	Audit observations		
1	2	3	4	5	6
1	Sales tax	3,194	15,597	842.50	1987-88
2	Stamp duty and registration fees	903	1,480	140.87	1984-85
3	Land revenue	800	1,978	1,096.46	1988-89
4	Taxes on vehicles	451	924	83.96	1983-84
5	State excise	292	997	143.22	1987-88
6	Taxes on agricultural income	86	227	81.47	1986-87
7	Mines and minerals	272	681	302.96	1989-90

1	2	3	4	5	6
8	Urban land tax	239	644	36.86	1983-84
9	Electricity duty	60	110	33.46	1986-87
10	Entertainment tax	111	134	9.03	1992-93
11	Luxury tax	218	252	1.49	1997-98
12	Betting tax	12	23	0.09	1991-92
Total		6,638	23,047	2,772.37	

1.11 Departmental audit committee meeting

During the course of the year 2006-07, five meetings were held in respect of electricity duty and taxes on vehicles. 250 paras involving a revenue of Rs.5.42 crore were settled during these meetings. In respect of other receipts, no departmental audit committee meeting was held during the year 2006-07.

1.12 Response of the department/Government to draft audit paragraphs

The Government (Finance Department) had issued directions (April 1952) to all the departments to send their response to the draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India within six weeks. 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 response within six weeks from the date of receipt of the draft paragraphs. The fact of non-receipt of replies from the departments/Government is invariably indicated at the end of such paragraphs included in the Audit Report.

52 draft paragraphs (combined into 25 paragraphs including two reviews of this report) proposed to be included in this Report were forwarded to the secretaries of the respective departments during the period from April to June 2007, through demi official letters followed by reminders in September 2007.

The secretaries of the departments did not send replies to 48 draft paragraphs including one review and thus there was non-compliance to the above mentioned instructions of the Government. These paragraphs have been included in this report without the response of the secretaries of the departments.

1.13 Follow-up on Audit Reports – summarised position

With a view to ensure accountability of the executive in respect of all the issues dealt with in the Audit Reports, the Public Accounts Committee (PAC) directed that the concerned departments should furnish remedial/corrective action taken notes (ATN) on all paragraphs contained therein, within the prescribed time frame.

A review of the outstanding ATNs as of 31 March 2007 on paragraphs included in the Report of the Comptroller and Auditor General of India, Revenue Receipts, Government of Tamil Nadu, discussed by the PAC revealed that the departments had not submitted the ATNs in respect of 1,015 recommendations pertaining to 292 audit paragraphs (the earliest of which relate to the Report of 1986-87).

Further, PAC has also laid down that necessary explanatory notes for the issues mentioned in the Audit Reports should be furnished to the committee within a maximum period of two months from the date of placing the Reports before the legislature. Though the Audit Reports for the years from 1998-99 to 2004-05 were placed before the Legislative Assembly between May 2000 and May 2006, the departments are yet to submit explanatory notes for 69 paragraphs (including eight reviews) included in these reports.

1.14 Recovery of revenue of accepted cases

In respect of paragraphs featured in the Audit Reports 2001-02 to 2005-06, the department/Government accepted audit observations involving Rs.129.47 crore of which only Rs.15.29 crore had been recovered till 31 August 2007 as mentioned below:

(Rupees in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2001-02	512.60	10.90	8.74
2002-03	1,032.59	83.77	1.53
2003-04	815.05	25.95	0.58
2004-05	576.20	5.12	2.63
2005-06	228.71	3.73	1.81
Total	3,165.15	129.47	15.29