

# CHAPTER I

## GENERAL

### 1.1 Trend of revenue receipts

**1.1.1** The tax and non-tax revenue raised by the Government of Tamil Nadu during the year 2002-2003, 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 given below:

(In crore of rupees)

		1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
I	Revenue raised by the State Government					
	(a) Tax Revenue	9,625.30	10,918.93	12,282.24	13,009.70	14,341.71
	(b) Non-tax revenue*	1,156.70	1,356.85	1,710.78	1,556.73	1,860.62
		(1,128.00)	(1,317.66)	(1,657.10)	(1,499.85)	(1,742.46)
	<b>Total</b>	<b>10,782.00</b> <b>(10,753.30)</b>	<b>12,275.78</b> <b>(12,236.59)</b>	<b>13,993.02</b> <b>(13,939.34)</b>	<b>14,566.43</b> <b>(14,509.55)</b>	<b>16,202.33</b> <b>(16,084.17)</b>
II	Receipts from the Government of India					
	(a) State's share of divisible Union taxes	2,408.98	2,667.00	2,783.75	2,870.07	**3,047.57
	(b) Grants-in-aid	1,069.85	1,384.75	1,539.89	1,381.54	1,586.84
	<b>Total</b>	<b>3,478.83</b>	<b>4,051.75</b>	<b>4,323.64</b>	<b>4,251.61</b>	<b>4,634.41</b>
III	<b>Total receipts of the State [(I) + (II)]</b>	14,260.83 (14,232.13)	16,327.53 (16,288.34)	18,316.66 (18,262.98)	18,818.04 (18,761.16)	20,836.74 (20,718.58)
IV	<b>Percentage of I to III</b>	<b>76</b>	<b>75</b>	<b>76</b>	<b>77</b>	<b>77</b>

\* Figures in brackets representing non-tax revenue include 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 the Finance Accounts of the Government of Tamil Nadu for the year 2002-03. 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 revenue raised by the state and included in 'State's share of divisible Union taxes' in this statement.

Of the total receipts (Rs.20,836.74 crore) for the year 2002-03, 77 per cent were raised by the State Government and remaining 23 per cent came from the Union Government as state's share of divisible Union taxes and grants-in-aid.

**1.1.2** The details of tax revenue raised during the year 2002-2003 along with the figures for the preceding four years are given below:

**(in crore of rupees)**

Sl. No.	Head of Revenue	1998-99	1999-00	2000-01	2001-02	2002-03	Percentage of increase (+) or decrease (-) in 2002-2003 over 2001-2002
1	Sales Tax	6,112.94	7,024.23	8,197.15	8,385.59	9,589.60	(+) 14.36
2	State Excise	1,709.81	1,833.70	1,868.68	2,058.22	2,113.61	(+) 2.69
3	Stamp Duty and Registration Fees	672.52	817.58	910.20	1,137.89	1,079.12	(-) 5.16
4	Taxes on Vehicles	518.14	577.98	590.44	648.43	745.62	(+) 14.99
5	Land Revenue	28.29	47.23	55.72	50.47	8.40	(-) 83.36
6	Taxes on Agricultural Income	38.53	17.78	5.23	2.02	1.63	(-) 19.31
7	Taxes on Immovable Property other than Agricultural Land (Urban Land Tax)	14.18	11.47	11.65	14.11	12.69	(-) 10.06
8	Others	530.89	588.96	643.17	712.97	791.04	(+) 10.95
	<b>Total</b>	<b>9,625.30</b>	<b>10,918.93</b>	<b>12,282.24</b>	<b>13,009.70</b>	<b>14,341.71</b>	<b>(+) 10.24</b>

**Sales Tax:** The increase (14.36 per cent) was mainly due to increase of 28.09 per cent under 'Receipts under State Sales Tax'. This increase was partly offset by a decrease of 39.96 per cent under 'Receipts under Central Sales Tax'.

**Taxes on Vehicles:** The increase (14.99 per cent) is mainly due to increased receipts under State Motor Vehicles Taxation Act.

**Land Revenue:** The shortfall (83.36 per cent) was due to remission of land revenue due to severe drought.

**Taxes on Agricultural Income:** The shortfall (19.31 per cent) was due to an all time low price of tea and also due to considerable increase in wage bill of the assesseees.

Reasons for increase/shortfall though called for from other Departments have not been received (October 2003).

**1.1.3** The details of major non-tax revenue raised during the year 2002-2003 alongwith the figures for the preceding four years are given below:

**(in crore of rupees)**

Sl. No.	Heads of Revenue	1998-99	1999-00	2000-01	2001-02	2002-03	Percentage of increase (+) or decrease (-) in 2002-2003 over 2001-2002
1	Interest Receipts, Dividends and Profits	409.24	388.74	440.17	535.42	594.70	(+) 11.07
2	Crop Husbandry	73.48	75.13	64.87	79.19	62.22	(-) 21.43
3	Forestry and Wild Life	64.00	130.08	131.18	97.04	157.44	(+) 62.24
4	Non-Ferrous Mining and Metallurgical Industries	101.04	113.25	395.33	160.40	181.09	(+) 12.90
5	Education, Sports, Art and Culture	38.29	44.86	53.75	65.79	89.50	(+) 36.04
6	Other Receipts						
	(a) State Lotteries	53.62	124.41	121.66	126.70	119.50	(-) 5.68
	(b) Others	417.03	480.38	503.82	492.19	656.17	(+) 33.31
	<b>Total</b>	<b>1,156.70</b>	<b>1,356.85</b>	<b>1,710.78</b>	<b>1,556.73</b>	<b>1,860.62</b>	<b>(+) 19.52</b>

**Interest Receipts, Dividends & Profits:** The increase (11.07 per cent) was mainly due to increase in receipts under 'Interest from Departmental Commercial Undertakings' and 'Interest from local bodies'.

**Forestry and Wild Life:** The increase (62.24 per cent) was mainly due to increased sale of timber and other forest produce, increased receipts from social and farm foresteries.

Reasons for increase/shortfall though called for from other Departments have not been received (October 2003).

## 1.2 Variations between budget estimates and actuals

The variation between the budget estimates and actuals of revenue receipts, for the year 2002-2003 in respect of the principal heads of tax and non-tax revenue are given below:

(in crore of rupees)					
Sl. No	Heads of Revenue	Budget estimates	Actuals	Variations excess (+) or shortfall (-)	Percentage of variation
1	2	3	4	5	6
1	Sales Tax	9,071.41	9,589.60	(+) 518.19	(+) 5.71
2	State Excise	2,357.98	2,113.61	(-) 244.37	(-) 10.36
3	Stamp Duty and Registration Fees	1,285.30	1,079.12	(-) 206.18	(-) 16.04
4	Taxes on vehicles	700.50	745.62	(+) 45.12	(+) 6.44
5	Land Revenue	44.82	8.40	(-) 36.42	(-) 81.26
6	Taxes on Agricultural Income	5.47	1.63	(-) 3.84	(-) 70.20
7	Taxes on Immovable Property other than Agricultural Land (Urban Land Tax)	13.00	12.69	(-) 0.31	(-) 2.38
8	Taxes and Duties on Electricity	261.13	135.18	(-) 125.95	(-) 48.23
9	Interest Receipts, Dividends & profits	440.80	594.70	(+) 153.90	(+) 34.91
10	Non-ferrous mining and Metallurgical industries	155.43	181.09	(+) 25.66	(+) 16.51
11	Crop Husbandry	80.28	62.22	(-) 18.06	(-) 22.50
12	Roads and Bridges	15.96	26.63	(+) 10.67	(+) 66.85
13	Major and Medium Irrigation	8.28	9.52	(+) 1.24	(+) 14.98
14	State Lotteries	133.00	119.50	(-) 13.50	(-) 10.15

**Land Revenue:** The shortfall (81.26 per cent) was due to remission of land revenue due to severe drought.

**Taxes on Agricultural Income:** The shortfall (70.20 per cent) was due to an all time low price of tea and also due to considerable increase in wage bill of assesses.

**Taxes and Duties on Electricity:** The shortfall (48.23 per cent) was mainly due to consumers challenging the levy of tax in the High Court.

**Interest Receipts, Dividends & Profits:** The increase (34.91 per cent) was mainly due to increase in receipts under 'Interest from Departmental Commercial Undertakings' and 'Interest from local bodies'.

### 1.3 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection, during the years 2000-2001, 2001-2002 and 2002-2003 along with the relevant All India Average percentage of expenditure on collection to gross collection for 2001-2002 were as follows:

(in crore of rupees)

Sl. No	Heads of Revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India Average percentage for the year 2001-02
1	Sales Tax	2000-2001	8,197.15	104.88	1.28	1.26
		2001-2002	8,385.59	96.93	1.16	
		2002-2003	9,589.60	93.64	0.98	
2	Taxes on Vehicles	2000-2001	590.44	26.70	4.52	2.99
		2001-2002	648.43	27.05	4.17	
		2002-2003	745.62	35.29	4.73	
3	State Excise	2000-2001	1,868.68	20.92	1.12	3.21
		2001-2002	2,058.22	22.44	1.09	
		2002-2003	2,113.61	NF	NF	
4	Stamp Duty and Registration Fees	2000-2001	910.20	61.19	6.72	3.51
		2001-2002	1,137.89	54.15	4.76	
		2002-2003	1,079.12	71.85	6.66	
NF – Not furnished.						

It can be seen from the above that the percentage of expenditure on collection of taxes on vehicle and stamp duty and registration fee was higher than the All India average.

#### 1.4 Collection of sales tax per assessee

(in crore of rupees)

Year	No. of assessees	Sales tax revenue	Revenue/assessee
1998-1999	1,07,857	6,112.94	0.06
1999-2000	1,09,677	7,024.23	0.06
2000-2001	1,06,242	8,197.15	0.08
2001-2002	1,06,946	8,385.59	0.08
2002-2003	1,45,489	9,589.60	0.07

#### 1.5 Arrears of revenue

The arrears of revenue as on 31 March 2003 in respect of some principal heads of revenue amounted to Rs.9,424.10 crore of which Rs.2,378.63 crore were outstanding for more than 5 years as detailed in the following table:

(in crore of rupees)

Sl. No.	Heads of Revenue	Amount outstanding as on 31 March 2003	Amount outstanding for more than 5 years as on 31 March 2003	Remarks
1	2	3	4	5
1	Sales Tax	8,718.59	1,898.02	Out of total arrears of Rs.8,718.59 crore, demands amounting to Rs.2,512.33 crore were covered under Revenue Recovery Act. Demands amounting to Rs.1,567.25 crore were stayed by Government, High Court and other judicial authorities. A sum of Rs.116.45 crore was held up due to rectification/review applications. Rs.198.58 crore could not be recovered on account of the assessees becoming insolvent. A sum of Rs.193.08 crore

1	2	3	4	5
				was likely to be written off and a sum of Rs.4,120.44 crore was under various stages of recovery. A sum of Rs.10.46 crore had since been collected.
2	Mines and Minerals	462.55	315.58	Out of the total arrears of Rs.462.55 crore, a sum of Rs.172.39 crore was covered by recovery certificates. Demands amounting to Rs.243.17 crore were stayed by High Court and other judicial authorities. Rs.0.07 crore was stayed by Government. A sum of Rs.0.34 crore was held up due to rectification/ review applications. An amount of Rs.0.04 crore was likely to be written off and Rs.42.34 crore was under various stages of recovery. A sum of Rs.4.20 crore had since been collected.
3	Stamp Duty and Registration Fees	76.10	48.92	The entire arrears of Rs.76.10 crore were covered by recovery certificates.
4	Urban Land Tax	85.04	49.21	Out of the total arrears, Rs.14.03 crore is stayed by High Court; Rs.8.89 crore and Rs.6.28 crore were stayed by Government and Head of the Department respectively. Rs.48.49 crore were covered under various stages of recovery. Rs.7.35 crore has since been collected.
5	State Excise	49.45	49.45	Out of the total arrears of Rs.49.45 crore, Rs.11.13 crore was covered by recovery certificates. Rs.5.76 crore was stayed by High Court and Rs.3.24 crore was held up due to rectification/review applications. Rs.0.04 crore could not be collected on account of assessee becoming insolvent. A sum of Rs.4.66 crore was likely to be written off. Rs.24.62 crore had since been collected.
6	Land Revenue	29.54	15.41	Out of the total arrears, demands amounting to Rs.0.92 crore were covered by recovery certificates. Arrears of Rs.4.25 crore were covered by stay granted by High Court and other judicial authorities. A sum of Rs.3.18 crore was stayed by Government and Rs.4.74 crore was likely to be written off. A sum of Rs.16.27 crore was under various stages of recovery. A sum of Rs.0.18 crore had since been collected.

1	2	3	4	5
7	Taxes on Vehicles	2.83	2.04	Out of the total arrears of Rs.2.83 crore, demands amounting to Rs.1.76 crore were covered under Revenue Recovery Act. Demands of Rs.22.56 lakh were stayed by High Court and other judicial authorities and a sum of Rs.0.21 lakh was held up due to rectification/review applications. A sum of Rs.0.35 lakh could not be collected as the assessee had become insolvent. A sum of Rs.20.64 lakh was likely to be written off and Rs.44.90 lakh was under various stages of collection. An amount of Rs.18.05 lakh had since been collected.
	<b>Total</b>	<b>9,424.10</b>	<b>2,378.63</b>	

## 1.6 Arrears in assessments

The details of cases pending assessment at the beginning of the year 2002-03, cases becoming due for assessment during the year, cases disposed of during the year and number of cases pending finalisation at the end of the year 2002-03, as furnished by the Sales Tax Department in respect of Sales Tax and by Revenue Department in respect of Urban Land Tax and Agricultural Income Tax are as follows:

Heads of Revenue	Opening balance	New cases due for assessment during 2002-03	Total assessments due	Cases disposed of during 2002-03	Balance at the end of the year	Percentage of disposal (col. 5 to 4)
1	2	3	4	5	6	7
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%
Agricultural Income Tax	297	3,911	4,208	4,042	166	96%
<b>Total</b>	<b>36,553</b>	<b>1,43,380</b>	<b>1,79,933</b>	<b>1,26,887</b>	<b>53,046</b>	

The reasons for low percentage of finalisation of assessments as stated by the Department was due to reduction in number of field offices and shortage of field staff.



### 1.7 Evasion of tax

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

(in crore of rupees)

Sl. No.	Heads of revenue	Cases pending as on 31 March 2002	Cases detected during 2002-2003	Total	Cases in which assessments/ investigations completed and additional demand including penalty etc., raised		No. of cases pending finalisation as on 31 March 2003
					No.	Amount	
1	Sales Tax						
	i) Enforcement Wing.	2,336	6,355	8,691	5,338	NF	3,353
	ii) Administrative-Wing.	4,323	3,964	8,287	3,920	3.46	4,367
NF – Not furnished.							

### 1.8 Write-off and waiver of revenue

During the year 2002-03, demands of Rs.1.94 crore (in 800 cases) and Rs.3.64 crore (in 785 cases) relating to sales tax and state excise respectively were written off by the Departments as irrecoverable. Reasons for the write-off of these demands as reported by the Departments were as follows:

(in crore of rupees)

Sl. No.	Reasons	Sales Tax		State Excise	
		No. of cases	Amount	No. of cases	Amount
1	Whereabouts of defaulters not known	639	0.78	131	1.28
2	Defaulters no longer alive	38	0.41	---	----
3	Defaulters not having any property	31	0.39	576	1.98
4	Defaulters adjudged insolvent	30	0.35	78	0.38
5	Other reasons	62	0.01	---	----
	<b>Total</b>	<b>800</b>	<b>1.94</b>	<b>785</b>	<b>3.64</b>

## 1.9 Refunds

The number of refund cases pending at the beginning of the year 1 April 2002, claims received during the year, refunds allowed during the year and cases pending at the close of the year as on 31 March 2003, as reported by the Departments are given below:

(in crore of rupees)

Sl. No.	Particulars	Sales Tax		Taxes on Vehicles		Mines and Minerals	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1	Claims outstanding at the beginning of the year	54,297	64.43	52	0.07	2	0.41
2	Claims received during the year	23,594	86.90	55	0.06	19	0.08
3	Refunds made during the year	22,010	47.07	70	0.07	16	0.17
4	Balance outstanding at the end of the year	55,881	104.26	37	0.06	5	0.32

## 1.10 Results of audit

Test Check of records of sales tax, land revenue, state excise, motor vehicles tax, stamp duty and registration fees, electricity duty, other tax receipts and non-tax receipts conducted during 2002-2003 revealed under-assessment/short levy/loss of revenue amounting to Rs.2,266.63 crore in 3,318 cases. During the year the departments accepted under-assessment of Rs.6.37 crore in 778 cases pointed out in 2002-03 and earlier years and recovered Rs.1.63 crore. No replies have been received in respect of the remaining cases.

This Report contains 30 paragraphs including 3 reviews relating to non/short levy of taxes, duties, interest and penalties etc., involving Rs.1,032.59 crore. The Department/Government have accepted audit observations involving Rs.52.77 crore of which Rs.0.30 crore had been recovered upto August 2003. No reply has been received in other cases.

## 1.11 Failure of senior officials to enforce accountability and protect interest of Government

Audit observations on incorrect assessments, short-levy of taxes, duties, 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 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.

**1.11.1** The number of inspection reports and audit observations relating to revenue receipts issued upto 31 December 2002, which were pending settlement by the Departments as on 30 June 2003, along with corresponding figures for the preceding two years, are given below:

	Position as on 30 June		
	2001	2002	2003
Number of inspection reports pending settlement	4,754	5,103	5,627
Number of outstanding audit observations	17,974	19,403	21,348
Amount of revenue involved (in crore of rupees)	633.98	853.49	2,053.26

The increasing trend of outstanding audit reports and objections is indicative of non-compliance with Government's instruction to send replies to initial audit observations, and report on further action taken thereon within the stipulated time. Though various committee such as State Audit Committee, Departmental committee were constituted in March 1993, the objectives of the committees, viz., expeditious settlement of outstanding paras had not been achieved.

**1.11.2** Revenue-headwise breakup of the inspection reports and audit observations outstanding as on 30 June 2003 is given below:

Sl. No.	Revenue Heads	Number of outstanding		Amount (in crore of rupees)	Earliest year to which the report relates
		Inspection Reports	Audit Observations		
1	2	3	4	5	6
1	Sales Tax	2,806	14,979	668.98	1986-87
2	Stamp duty and Registration Fees	1,026	2,014	19.01	1982-83
3	Land Revenue	598	1,639	953.82	1988-89
4	Taxes on Vehicles	307	660	46.11	1983-84
5	State Excise	197	429	97.09	1987-88
6	Taxes on Agricultural Income	74	253	71.87	1986-87
7	Mines and Minerals	179	529	171.56	1989-90
8	Urban Land Tax	217	554	8.56	1983-84
9	Electricity Duty	59	96	7.37	1986-87
10	Entertainments Tax	98	106	8.60	1989-90
11	Luxury Tax	55	67	0.20	1994-95
12	Betting Tax	11	22	0.09	1991-92
	<b>Total</b>	<b>5,627</b>	<b>21,348</b>	<b>2,053.26</b>	

### **1.12 Departmental Audit Committee Meeting**

No Departmental Audit Committee meeting was held during the year 2002-03.

### **1.13 Response of the Departments to Draft Audit Paragraphs**

Government (Finance Department) issued directions in April 1952 to all 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. The fact of non-receipt of replies from the Departments are invariably indicated at the end of each such paragraphs included in the Audit Report.

60 draft paragraphs (clubbed into 30 paragraphs) including 3 reviews proposed to be included in the Report of the Comptroller and Auditor General of India for the year ended March 2003 were forwarded to the Secretaries of the respective Departments during April-July 2003, through demi-official letters and followed up with reminders in August 2003.

The Secretaries of the Departments (except Secretary to Commercial Taxes Department) did not send replies to 18 draft paragraphs. These Paragraphs have been included in this Report without the response of the Secretaries of the Departments. This had resulted in non-compliance to above instructions of the Government.

### **1.14 Follow up on Audit Reports – Summarised position**

With a view to ensuring accountability of the executive in respect of all the issues dealt with in Audit Reports, the Public Accounts Committee (PAC) directed that the Departments should furnish remedial/corrective Action Taken Notes (ATN) on all paragraphs contained therein, within the prescribed time frame.

However, a review of outstanding ATNs as of 31 March 2003 on paragraphs included in the Report of the Comptroller and Auditor General of India, Revenue Receipts, Government of Tamil Nadu, disclosed that for 783 recommendations pertaining to 273 audit paragraphs discussed by PAC, the Department had not submitted remedial ATNs. Out of the 783 recommendations pending, ATNs were not submitted by the Department even once in respect of 420 recommendations; the earliest of which relate to Audit Report 1986-87.

Further, PAC has also laid down that necessary explanatory notes for the issues mentioned in the audit report should be furnished to the Committee within a maximum period of two months from the date of placing of the Reports before Legislature. Though the Audit Reports for the year 1998-99, 1999-2000, 2000-2001 and 2001-2002 were placed before the Legislative Assembly in May 2000, September 2001, May 2002 and May 2003 respectively, the Departments are yet to submit Explanatory Notes for 93 paragraphs (including 10 reviews) included in these reports.