THE NEW INDIAN EXPRESS | KERALA

Tax collection failed to keep pace with economic growth: CAG report

Fiscal deficit 3.86% of GSDP in 2024-25, up from 3.02% previous yr; nat'l average 3.23%

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THE Comptroller and Auditor General of India has flagged a widening fiscal deficit for Kerala. The state's fiscal deficit went up to 3.86% of GSDP from 3.02% in the previous year, well above the national average of 3.23%, said the state finances report for 2024-25 tabled in the assembly on Tuesday.

The report also warned against growing off-budget borrowings. The multiple accounting irregularities identified include irregular parking of the Chief Minister's Distress Relief Fund (CMDRF) in the government's consolidated fund. This was done to artificially reduce deficit figures.

The report said the state's revenue deficit worsened sharply. It rose from 1.60% in 2023-24 to 2.49% of GSDP in 2024-25. The national average was only 0.67%.

Tax collection failed to keep pace with the economic growth (9.97%) and the state's own tax revenue (SOTR) buoyancy was only 0.31, significantly less than one. The SOTR buoyancy reflects the growth of taxes relative to the economy. For Kerala, every 10% the economy expanded, taxes grew by only around 3%.

Growth in SGST and sales tax, state's largest tax avenues, remained sluggish at 5.73% and 0.01% respectively. Committed expenditure consumed nearly 80% of revenue receipts and accounted for 64.40% of revenue expenditure. It included salaries amounting to ₹41,550 crore, interest payments of ₹29,138 crore and pensions amounting to ₹27,875 crore.

The state's total outstanding liabilities stood at ₹4,45,901 crore, which was 35.71% of GSDP. The national average was 28.02%. Off-budget borrowings through KIIFB and KSSPL, to the tune of ₹39,230 crore, were not disclosed in the budget. When included, the total liabilities will rise to 38.86% of GSDP.

The report said ₹262.06 crore lying in five treasury accounts of the CMDRF was transferred to the consolidated fund during 2024-25. This accounting understated the state's revenue and fiscal deficits by ₹262 crore. The state government told CAG that it was a routine practice in the year-end to artificially reduce public account size. The funds will be re-credited in the following week.

However, the CAG rejected the justification, saying routing public donations through the consolidated fund contravened accounting norms and was highly irregular.

Revenue deficit worsened

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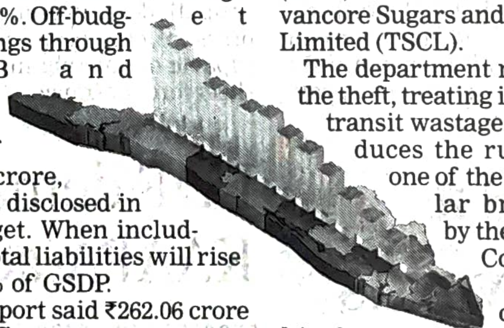

₹2.2 crore loss due to regularisation of Extra Neutral Alcohol theft

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THE Comptroller and Auditor General of India (CAG) has flagged the excise department's regularisation of a massive theft of Extra Neutral Alcohol (ENA) from the state-run Travancore Sugars and Chemicals Limited (TSCL).

The department regularised the theft, treating it as normal transit wastage. TSCL produces the rum Jawan, one of the most popular brands sold by the Beverages Corporation.

The theft came to light on 30 June, 2021 when Excise officials intercepted two tanker lorries transporting 40,000 bulk litres (BL) each of ENA to the distillery. They found a shortage of 20,386 BL of spirit — with 12,687 BL missing from one vehicle and 7,699 BL from the other.

The drivers admitted that the spirit was illicitly sold in Madhya Pradesh with the alleged involvement of certain employees of the distillery. The department released the remaining ENA after levying a fine of ₹6,76,072, calculated at ₹20 per proof litres, treating the shortage as transit wastage. The report said the government suffered unrecovered revenue loss of ₹2.20 crore due to the theft. Excise officials subsequently checked the storage tanks at TSCL and identified further discrepancies. There was a shortage of over 4.6 lakh BL of ENA, enough to produce over 1 lakh cases of Indian-made foreign liquor.

A police case was filed in connection with the theft. But the department neither initiated recovery of the revenue lost nor pursued dues from those involved. Instead, it granted TSCL a storage wastage allowance backdated nine years, from 2013-14 to 2021-22, without records of any physical verification. Surprisingly, a joint stock check done three months before the incident had recorded no shortage. The loss of revenue to the state due to the shortage was ₹49.68 crore.

The CAG also flagged a pattern in bottling wastage at the distillery. Wastage was consistently above 250 BL per batch before the 2021 incident. It then dropped after monitoring tightened and rose back to earlier levels by January 2024. The company had no explanation for this.