

## REVENUE RECEIPTS

### 4.1 Trend of revenue receipts

**4.1.1** The tax and non-tax revenue raised by the Government of Union Territory of Puducherry and the grants-in-aid received from the Government of India during the year 2008-09 and the corresponding figures for the preceding four years are mentioned in the following table:

(Rupees in crore)

Sl. No.	Category	2004-05	2005-06	2006-07	2007-08	2008-09
I	<b>Revenue raised by the Government</b>					
	• Tax revenue	404.58	479.40	569.55	652.85	725.35
	• Non-tax revenue	500.72	510.99	549.92	625.82	628.64
	<b>Total (I)</b>	<b>905.30</b>	<b>990.39</b>	<b>1,119.47</b>	<b>1,278.67</b>	<b>1,353.99</b>
II	Receipts from the Government of India- Grants-in-aid	725.70	811.49	764.09	856.95	1,104.51
III	Total receipts of the Government (I + II)	1,631.00	1,801.88	1,883.56	2,135.62	2,458.50
IV	Percentage of I to III	56	55	59	60	55

The above table indicates that during the year 2008-09, the revenue raised by the Union Territory Government was 55 per cent of the total revenue receipts (Rs 2,458.50 crore) as against 60 per cent in the preceding year. The balance 45 per cent of the receipts during 2008-09 was from the Government of India.

**4.1.2** The details of the tax revenue raised during the year 2008-09 alongwith the figures for the preceding four years are mentioned in the following table:

(Rupees in crore)

Sl. No.	Heads of revenue	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage of increase (+)/ decrease (-) in 2008-09 over 2007-08
1.	VAT/Taxes on sales, trade, etc.	246.48	304.22	364.89	354.98	381.86	7.57
2.	State excise	110.29	125.17	143.49	224.02	279.60	24.81
3.	Stamp duty and registration fees	23.52	23.97	31.01	41.37	30.80	(-) 25.55
4.	Taxes on vehicles	23.87	25.56	29.01	31.60	32.46	2.72
5.	Land revenue	0.29	0.31	0.91	0.54	0.38	(-) 29.63
6.	Other receipts	0.13	0.17	0.24	0.34	0.25	(-) 26.47
	<b>Total</b>	<b>404.58</b>	<b>479.40</b>	<b>569.55</b>	<b>652.85</b>	<b>725.35</b>	<b>11.11</b>

The reason for the variation in receipts during 2008-09 over 2007-08 in respect of state excise as furnished by the concerned department is as mentioned below:

**State excise:** The increase was due to increase in the realisation of *kist*<sup>1</sup> amount and increased collection of excise duty and additional excise duty.

The other departments did not furnish (November 2009) the reasons for the variations despite being requested (October 2009).

**4.1.3** The details of major non-tax revenue raised during the year 2008-09 alongwith the figures for the preceding four years are mentioned in the following table:

(Rupees in crore)

Sl. No.	Heads of revenue	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage of increase (+) / decrease (-) in 2008-09 over 2007-08
1.	Power	464.48	486.88	508.95	570.36	545.90	(-) 4.29
2.	Interest receipts, dividends and profits	5.25	4.13	7.23	21.41	47.60	122.33
3.	Medical and public health	4.11	3.57	7.52	7.83	6.55	(-) 16.35
4.	Education, sports, art and culture	0.51	0.46	0.47	0.48	0.46	(-) 4.17
5.	Crop husbandry	0.28	0.53	0.43	0.34	0.29	(-) 14.71
6.	Other receipts	26.09	15.42	25.32	25.40	27.84	9.61
<b>Total</b>		<b>500.72</b>	<b>510.99</b>	<b>549.92</b>	<b>625.82</b>	<b>628.64</b>	<b>0.45</b>

The reasons for variation in receipts during 2008-09 over 2007-08 as furnished by the concerned department in respect of the interest receipts, dividends and profits are as mentioned below:

**Interest receipts, dividends and profits:** The increase was due to receipt of interest by investing cash balances in 14 day treasury bills and increase in receipt of dividends from various corporations.

The other departments did not report (November 2009) the reasons for variations, though requested for (October 2009).

## 4.2 Variations between the budget estimates and actuals

The variations between the budget estimates and actual revenue receipts for the year 2008-09 in respect of the principal heads of tax and non-tax revenue are mentioned in the following table:

<sup>1</sup> *Kist* – Monthly instalments

(Rupees in crore)

Sl. No.	Heads of revenue	Budget estimates	Actuals	Variations excess (+) or shortfall (-)	Percentage of variation
1.	VAT/Taxes on sales, trade, etc.	410.00	381.86	(-) 28.14	(-) 6.86
2.	State excise	247.00	279.60	32.60	13.20
3.	Stamp duty and registration fees	38.49	30.80	7.69	(-) 19.98
4.	Taxes on vehicles	36.00	32.46	3.54	(-) 9.83
5.	Land revenue	0.30	0.38	0.08	26.67
6.	Power	617.00	545.90	(-) 71.10	(-) 11.52
7.	Interest receipts, dividends and profits	5.15	47.60	42.45	824.27
8.	Medical and public health	6.20	6.55	0.35	5.65
9.	Education, sports, art and culture	0.73	0.46	(-) 0.27	(-) 36.99
10.	Crop husbandry	0.42	0.29	(-) 0.13	(-) 30.95

The reason for variation between the budget estimates and actuals in respect of state excise as furnished by the concerned department is as mentioned below:

**State excise:** The increase was due to the levy of additional excise duty, increase in rates of excise duty and increase in collection of *kist* amount.

The other departments did not report (November 2009) the reasons for variations, though requested for (October 2009).

### 4.3 Analysis of the collection

The break-up of the total collection at pre-assessment stage and after regular assessment of sales tax under the Pondicherry General Sales Tax Act and VAT for the year 2008-09 and the corresponding figures for the preceding two years as furnished by the concerned department are mentioned in the following table:

(Rupees in crore)

Year	Amount collected at pre-assessment stage	Amount collected after regular assessment (additional demand)	Penalties for delay in payment of taxes and duties	Amount refunded	Net collection	Percentage of column 2 to 6
1	2	3	4	5	6	7
2006-07	364.31	1.07	0.35	0.84	364.89	99.84
2007-08	350.30	4.43	0.37	0.12	354.98	98.68
2008-09 PGST VAT	382.23	1.11	0.47	1.95	381.86	100.10

The above table shows that the collection of revenue at the pre-assessment stage ranged between 98.68 and 100.10 *per cent* during 2006-07 to 2008-09.

#### 4.4 Arrears of revenue

The arrears of revenue pending for collection as on 31 March 2009 under the principal heads of revenue, as reported by various departments was Rs 261.50 crore as indicated below:

(Rupees in crore)

Sl. No.	Departments	Total arrears	Arrears outstanding for more than five years	Remarks
(1)	(2)	(3)	(4)	(5)
1.	Electricity	135.24	24.91	The arrears comprise of Rs 45.92 crore from the high tension (HT) consumers and Rs 89.32 crore from low tension (LT) consumers. Out of the HT arrears, Rs 22.65 crore is due from a UT Government owned company; Rs 84.22 lakh is pending with Claims Commissioner, New Delhi; Rs 12.80 crore is covered under litigation and Rs 3.78 crore is proposed to be recovered through Revenue Recovery Act. Rupees 5.85 crore is due from other consumers/ industries. Under LT category, Rs 21.54 crore is due from Local Bodies and Rs 4.79 crore from Government departments. Rupees 62.99 crore is due from other consumers/ industries.

(1)	(2)	(3)	(4)	(5)
2.	Commercial Taxes	111.85	5.73	The arrears relate to collection of tax under PGST/CST and VAT Acts. Rupees 72.37 crore is pending due to court stay orders, Rs 30.67 lakh is proposed to be recovered through Revenue Recovery Act and Rs 39.17 crore is pending at various stages of recovery.
3.	Public Works	11.16	2.06	The arrears relate to water charges due from consumers and licence fee from Government servants.
4.	Government Automobile Workshop	1.37	----	The arrears are due from Government departments towards sale of petrol, oil and lubricants.
5.	Port	0.64	----	The arrears relate mainly to lease rent due from M/s. Concor (A Government of India undertaking).
6.	Police	0.32	----	The arrears relate to supplies made to other parties and recovery of licence fee from retired Government servants.
7.	Stationery and Printing	0.27	0.03	The arrears relate to payment due from Government departments.
8.	Agriculture	0.17	0.08	The arrears relate mainly to rent due from UT Government owned companies and the amount due from commune panchayats.
9.	Town and Country Planning	0.14	0.14	The arrears relate to enhanced plot cost due from the allottees from various housing schemes.
10.	Information and Publicity	0.11	0.09	The arrears are mainly due from Pondicherry Tourism and Development Corporation towards canteen rent.
11.	Tourism	0.08	0.02	The arrears are mainly due from guests/Government Officials/MLAs/Hon'ble Ministers towards room rent.
12.	Co-operation	0.08	0.02	The arrears relate to audit fees, leave salary and pension contribution dues.
13.	Judicial	0.05	0.04	In some cases, accused are undergoing imprisonment and in some cases, appeals are pending in courts.
14.	Legislative Assembly Secretariat	0.01	0.01	The arrears relate to payment of rent by the lessees towards Legislators' hostel canteen.
15.	Health and Family Welfare	0.01	----	The arrears are due from local bodies and Deputy Director (Employees' State Insurance).
<b>Total</b>		<b>261.50</b>	<b>33.13</b>	

The other departments viz., Transport, Women and Child Development, Fisheries and Fishermen Welfare and Industries did not furnish (November 2009) the details of arrears of revenue despite being requested (October 2009).

#### 4.5 Fraud and evasion of tax

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

Cases pending as on 1 April 2008	Cases detected during 2008-09	Total	Number of cases in which assessment/investigation completed and additional tax and penalty levied		Number of pending cases as on 31 March 2009
			Number of cases	Amount demanded	
28	64	92	12	Rs 22,230	80

The Government needs to take quick action in respect of the pending cases.

#### 4.6 Failure to enforce accountability and protect interest of the Government

The Accountant General (Commercial and Receipt Audit), Tamil Nadu arranges periodical inspection of the Government departments to test-check the transactions and verify the maintenance of important accounts and other records as per the prescribed rules and procedures. These inspections are followed up with inspection reports (IRs). Important irregularities are included in the IRs issued to the heads of offices inspected with the copies to the next higher authorities for taking prompt corrective action. The heads of offices/Government are required to comply with the observations contained in the IRs, rectify the defects and omissions promptly and report compliance to the office of the Accountant General within two months from the dates of issue of the IRs. Serious irregularities are also brought to the notice of the heads of the departments by the office of the Accountant General.

Audit scrutiny of IRs issued upto December 2008 disclosed that 560 paragraphs involving Rs 77.89 crore relating to 176 IRs remained outstanding at the end of June 2009. Department-wise break up of the IRs

and audit observations outstanding as on 30 June 2009 are mentioned below:

(Rupees in crore)

Sl. No.	Tax heads	Outstanding		Amount
		Inspection reports	Audit observations	
1.	Sales tax	41	210	64.26
2.	Land revenue	29	63	1.79
3.	Stamp duty and registration fees	53	113	1.34
4.	Taxes on vehicles	29	125	4.11
5.	State excise	24	49	6.39
<b>Total</b>		<b>176</b>	<b>560</b>	<b>77.89</b>

#### 4.7 Compliance with earlier Audit Reports

During the last three years from 2005-06 to 2007-08, the department/Government accepted audit observations involving Rs 23.93 crore, out of which only Rs 19.67 lakh has been recovered till October 2009 as mentioned in the following table:

(Rupees in crore)

Year of Audit Report	Revenue effect of chapter	Amount accepted by the department	Amount recovered
2005-06	22.13	22.13	Nil
2006-07	1.13	Nil	Nil
2007-08	9.49	1.80	0.20
<b>Total</b>	<b>32.75</b>	<b>23.93</b>	<b>0.20</b>

Thus, only 0.84 *per cent* of the accepted amount has been recovered till October 2009. The Government needs to monitor and effect speedy recovery of the amounts pointed out in the Audit Reports as well as IRs.

#### 4.8 Results of audit

Test check of the records of sales tax, state excise, stamp duty and registration fees and taxes on vehicles, etc. conducted during the year 2008-09 revealed under assessment/short levy/loss of revenue amounting to Rs 117.43 crore in 75 audit observations. During the course of the year, the departments accepted Rs 73.48 crore, of which, Rs 73.47 crore was pointed out during 2008-09 and the rest in earlier years. The department recovered Rs 5.14 lakh.

After the issue of a draft paragraph, the department recovered the entire amount of Rs 2.81 lakh pertaining to that audit observation during 2008-09.

This chapter contains a review on “state excise receipts” and a paragraph relating to incorrect remission of stamp duty and registration fee involving Rs 73.28 crore. The departments accepted the audit observations and recovered Rs 0.75 lakh during the year. These are mentioned in the succeeding paragraphs 4.9 and 4.10.

## REVENUE (EXCISE) DEPARTMENT

### 4.9 Review on receipts from state excise

#### *Highlights*

- There is no provision for levy of penalty on non-lifting of the minimum guaranteed quantity of *arrack*. 596 bidders did not lift the minimum guaranteed quota of *arrack* of 1.71 crore bulk litres. In the absence of a penalty clause, no action could be taken against the bidders.

(Paragraph 4.9.8)

- There is no provision in the Pondicherry Excise Act for levy of interest on belated payment of excise dues. Therefore, interest on belated payment of licence fee, excise duty, additional excise duty, countervailing duty, etc., could not be levied. This resulted in foregoing of revenue recoverable on account of interest.

(Paragraph 4.9.9)

- No periodical returns were prescribed for submission to the higher authorities to facilitate monitoring of excise receipts and overall functioning of the department.

(Paragraph 4.9.11)

- Non-levy of the additional excise duty from 23 April 2007 to 31 March 2008 resulted in non-realisation of revenue of Rs 35.48 crore.

(Paragraph 4.9.13)

- Import fee on the rectified spirit, extra neutral alcohol and special spirits was not levied resulting in non-realisation of revenue of Rs 36.26 crore.

(Paragraph 4.9.14)

➤ **Due to issue of incorrect notification, there was non-realisation of revenue of Rs 31.25 lakh.**

*(Paragraph 4.9.18)*

### **4.9.1 Introduction**

The levy and collection of the excise receipts of the Union Territory of Puducherry are governed by the Pondicherry Excise Act, 1970, the Pondicherry Excise Rules, 1970 made thereunder and instructions/notifications issued from time to time. The receipts consist of state excise duty, additional excise duty, countervailing duty, additional countervailing duty, and lease rent in respect of *arrack* and toddy shops. It is the second largest revenue earning head of the state receipts. There are six distilleries and one brewery in the state. The state imports Indian made foreign liquor, rectified spirit, etc., from other states. There is a provision for bonded<sup>2</sup> warehouses and the goods are removed on the payment of duties from the bonded warehouses. The arrears of excise duty can be recovered as arrears of land revenue under the Revenue Recovery Act.

A review of the system of assessment, levy and collection of excise receipts was conducted by audit. It revealed a number of system and compliance deficiencies which have been discussed in the subsequent paragraphs.

### **4.9.2 Organisational set up**

The administration of the excise laws in the Union Territory of Puducherry is carried out by the Excise Commissioner, Puducherry, as the head of the department, under the control of the Revenue Secretary. He is also the Collector of Puducherry and Additional Secretary (Revenue) to the Government. For the purpose of excise receipts, the state has been divided into four zones *viz.*, Puducherry, Karaikal, Mahe and Yanam. Puducherry Zone is headed by a deputy commissioner and the other three zones are headed by deputy collectors. They are assisted by tahsildars and deputy tahsildars in collection of the excise revenue.

### **4.9.3 Scope of review**

The records for five years from 2003-04 to 2007-08 of the office of the Deputy Commissioner (Excise), Puducherry, Deputy Collectors, Karaikal,

<sup>2</sup> Bonded warehouses : It is that part of a distillery in which spirits in a fit state of consumption or intended for redistillation are kept without payment of excise duty.

Mahe and Yanam including all six distilleries and one brewery were test-checked between February and May 2009.

#### **4.9.4 Audit objectives**

The review was conducted with a view to:

1. assess the efficiency and effectiveness of the system of levy and collection of duty and fee in respect of distilleries/brewery;
2. ascertain whether the provisions of the Act and Rules made thereunder were adequate and complied with; and
3. assess whether an adequate internal control mechanism existed to ensure proper realisation of duty, fee, interest and penalty.

#### **4.9.5 Acknowledgement**

The Indian Audit and Accounts Department acknowledges the co-operation of the Excise department in providing the necessary information and records for audit. An entry conference was held in March 2009 in which the department was apprised of the audit objectives and the scope and methodology of the review. The audit findings were reported to the department/Government in May/August 2009. The results of audit and recommendations were discussed in an exit conference held in October 2009. The Government was represented by the Secretary to the Government, Revenue and Disaster Management department, and the department by the Commissioner of Excise, Puducherry. The replies of the Government and the department received during the exit conference and at other times have been appropriately incorporated in the relevant paragraphs.

#### **Audit findings**

#### **4.9.6 Trend of revenue**

A comparison of the budget estimates and the actual receipts for the last five years ending 31 March 2008 is mentioned in the following table:

(Rupees in crore)				
Year	Budget estimates	Actuals	Variation	Variation percentage of increase (+) / decrease (-)
2003-04	85	105.66	20.66	(+) 24.31
2004-05	90	110.29	20.29	(+) 22.55
2005-06	98	125.17	27.17	(+) 27.72
2006-07	115	143.49	28.49	(+) 24.77
2007-08	138	224.02	86.02	(+) 62.33

The variations between the budget estimates and the actuals ranged between 23 and 62 *per cent* indicating that the budget estimates were not formulated in a scientific manner keeping in view the actual revenues realised in the past years.

After this was pointed out, the Government stated (October 2009) that the audit point had been noted for compliance and future guidance.

The Government may ensure that budget estimates are framed in a manner to be as close to actuals as possible.

#### 4.9.7 Position of arrears

The status of uncollected revenue of state excise pertaining to the period from 1968-69 to 2007-08 and outstanding as on 31 December 2008 as furnished by the department is mentioned in the following table:

Sl. No.	Particulars	Number of cases	Amount (Rupees in lakh)
1.	Cases forwarded to the Government for write-off (interest amount on fully paid principal as on 31.12.2007)	198	567.00
2.	Cases forwarded to the Government for write-off (interest amount on unpaid principal as on 31.12.2007)	Not available	1,775.00
3.	Cases pending for decision before various courts (principal amount)	24	123.09
4.	Cases pending with the department under RR Act (principal amount)	289	1,123.17
	<b>Total</b>	<b>511</b>	<b>3,588.26</b>

The age-wise pendency of the arrears furnished by the department in respect of the cases pending before various courts and the department (principal amount only) as on 31 December 2008 (excluding 12 cases<sup>3</sup> pending before court in respect of Karaikal region) is mentioned below:

<sup>3</sup> The information in these cases was not furnished by the department despite being requested (August 2009).

Age	Number of cases <sup>4</sup>	Arrear amount <sup>5</sup> (Rupees in lakh)
Above 25 years	71	144.65
From 15 years to 25 years but less than 25 years	27	40.18
From 10 years to 15 years but less than 15 years	164	859.60
From 5 years to 10 years but less than 10 years	3	4.37
Less than 5 years	36	185.70
<b>Total</b>	<b>301</b>	<b>1,234.50</b>

The foregoing table indicates that 85 *per cent* (Rs 10.44 crore) of the arrears were pending for more than 10 years, of which 14.97 *per cent* (Rs 1.85 crore) of arrears relate to more than 15 years.

**4.9.7.1** Test check of the records indicated that out of 301 cases, relating to the years 1968-69 to 2007-08 in 110 cases, the entire demand raised by the department was still pending as on 31 December 2008.

**4.9.7.2** In accordance with the Government order dated 29 October 1999, the department had obtained securities from the licensees. However, audit did not find even a single case out of the 36 cases where the department had initiated action to recover the revenue by disposing off the securities at their disposal.

After this was reported to the Government, the Government accepted (October 2009) the audit observation and stated that necessary action would be taken to collect the amount.

## System deficiencies

### 4.9.8 Absence of a penalty provision for non-lifting of minimum guaranteed quantity of *arrack*

As per the Pondicherry Excise Act, 1970 readwith Rule 178-A of the Pondicherry Excise Rules, 1970, no licensee shall purchase *arrack* from the Government Distillery less than the minimum guaranteed quantity specified by the Excise Commissioner in the notification issued under Rule 144. But the Act/Rules do not provide for penalty in case of breach of the above rule by the licensees.

Test check of the records indicated that, during the period from 2003-04 to 2007-08, 613 bidders were given licences for lifting *arrack* from the

<sup>4</sup> Total cases (Court cases 24 + RR Act 289) – court cases (12) = 301 cases.

<sup>5</sup> Total amount (Rs 1,246.26 lakh) – amount of 12 court cases (Rs 11.76 lakh) = Rs 1,234.50 lakh.

distilleries. Out of these, 596 bidders did not lift the minimum guaranteed quantity of *arrack*. As against the total contracted quantity of 8.25 crore bulk litres of *arrack*, only 6.54 crore bulk litres were lifted leaving a balance of 1.71 crore bulk litres. In the absence of a penalty clause, the loss of excise duty incurred on account of short lifting of the minimum guaranteed quantity could not be recovered.

After this was pointed out, the Government accepted (October 2009) the audit observation and stated that the need for framing a provision for the levy of a penalty in the Act had been noted. Further report has not been received (November 2009).

The Government may consider incorporating necessary provision in the Act for levy of penalty for non-lifting of minimum guaranteed quantity.

#### **4.9.9 Absence of a provision for levy of interest on belated payment of the excise dues**

The Pondicherry Excise Act, 1970 does not have a provision for charging interest on belated payment of excise dues to the Government.

In the absence of a provision, interest on belated payment of licence fee, excise duty, additional excise duty, countervailing duty and additional countervailing duty could not be charged. This resulted in forgoing of revenue recoverable on account of interest.

After this was pointed out, the Government accepted (October 2009) the audit observation and stated that the need for incorporating a provision for charging interest in the Act had been noted.

The Government may consider framing a suitable provision in the Act for charging interest on belated payment of the excise dues to the Government.

#### **4.9.10 Non-revision of licence fee**

With effect from 31 May 2002, the Government fixed the rate of licence fee for the shops conducting wholesale and retail sale of IMFL at the following rates:

- Wholesale vending of IMFL = Rs 3 lakh per annum
- Retail vending of IMFL with bar = Rs 2 lakh per annum
- Retail vending of IMFL without bar = Rs 1.75 lakh per annum

It was observed that no time limit has been prescribed in the Act for periodical revision of the rates of licence fee. Audit noticed that though the sales turnover of IMFL sales had increased from Rs 35.24 crore in 2002-03 to Rs 60.47 crore in 2007-08, i.e., an increase of 72 *per cent*, the rates of licence fee for IMFL wholesale and retail vending remained unchanged.

Besides, the sale of IMFL had gone up from 9.30 lakh cases to 19.52 lakh cases i.e., an increase of 110 *per cent* and given the fact that no new licences were issued<sup>6</sup>, except to co-operation and tourism sectors, the existing 87 FL1<sup>7</sup> and 249 FL2<sup>8</sup> licensees continued to pay the same fees every year since May 2002.

After the need for revision of licence fee was brought to the notice of the Government, it stated in October 2009 that the rules would be amended to prescribe escalation clause in the relevant provisions so that increased licence fee could be collected at the time of renewal of IMFL wholesale and retail vending licences.

The Government may consider introducing a provision for periodical revision of the licence fee in the Act.

#### **4.9.11 Failure of the department to establish management control system**

Internal controls are intended to provide reasonable assurance of orderly, efficient and effective operations, safeguarding resources against irregularities, adhering to laws, regulations and management directives and developing and maintaining reliable data. Proper internal controls are essential for providing timely warning to an organisation about irregularities or deficiencies in its functioning.

However, no periodical returns (monthly, quarterly etc.) were prescribed for submission to the competent higher authority to facilitate monitoring of receipts and collection of excise duty/licence fee, *kist* etc., and overall functioning of the excise department. No manual has been prescribed for proper functioning of the department. In the absence of these returns, the efficacy of monitoring the assessment, levy and collection of excise receipt at higher levels could not be ascertained by audit.

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<sup>6</sup> Government Notification No.15306/DCE.91/99-2000 dated 28.2.2000 prohibiting the issue of licence to private persons.

<sup>7</sup> FL1 – Licence for possession and sale of Indian made liquors/foreign liquors and beer not to be consumed in the premises.

<sup>8</sup> FL2 – Licence for possession and sale of Indian Liquor or Foreign Liquor or both or beer to be taken out of the licensed premises in sealed or capsuled boxes or to be consumed in the premises combined with meal or eatables.

The Government may consider issuing directions for preparing a departmental manual for control records and prescribe returns for effective monitoring of various functions of the department.

#### **4.9.12 Non-levy of excise duty/additional excise duty on export of IMFL outside India**

Rule 124 of the Pondicherry Excise Rules, 1970 provides for remission of duty only in respect of goods sent to other states within India from the Union Territory of Puducherry but no such exemption has been allowed in respect of exports out of India.

However, in other states like Punjab and Haryana, the procedures are well defined and orders exist prescribing a detailed procedure for the export of spirits outside the country. No such procedure has been prescribed by the Government of Puducherry for the export of spirits outside India.

It was observed in audit that 26 lakh proof litres of IMFL exported for use outside the country were exempted from levy of excise duty/additional excise duty. In the absence of detailed procedures, the correctness of the exemption of the IMFL exported outside the country amounting to Rs 22.26 crore could not be ascertained.

The Government accepted the audit observation and stated (October 2009) that action would be taken to bring in a specific provision in the Rule. Further report has not been received (November 2009).

#### **Compliance deficiencies**

#### **4.9.13 Non-levy of additional excise duty**

The Government of Puducherry issued a notification dated 23 April 2007 prescribing the levy of additional excise duty (AED) payable per bulk litre of IMFL and beer. The rate varied between Rs 26 and Rs 149 for IMFL and Rs 9 and Rs 15 for beer, depending upon the declared price range.

Test check of the records of five distilleries and one brewery indicated that 41.35 lakh bulk litres of IMFL and 163 lakh bulk litres of beer were manufactured and exported (to other states within India) during the period from 23 April 2007 to 31 March 2008 on which additional excise duty was not levied. This resulted in non-realisation of revenue of Rs 35.48 crore as mentioned in the following table:

(Rupees in crore)				
Sl. No.	Name of the distillery/brewery	Nature of spirit	Quantity in bulk litres	Non-payment of additional excise duty
1.	M/s. United Spirits Limited	IMFL	21,95,871	7.72
2.	M/s. Ravikumar Distilleries		2,19,419	0.95
3.	M/s. Vinbros & Company		9,59,614	4.55
4.	M/s. Premier Distilleries		3,17,432	1.15
5.	M/s. Dee Kay Exports		4,43,009	1.52
6.	M/s. Skol Breweries	Beer	1,63,22,670	19.59
	<b>Total</b>		<b>2,04,58,015</b>	<b>35.48</b>

After this was pointed out, the Government accepted the audit observation. Further report on recovery has not been received (November 2009).

#### 4.9.14 Non-levy of import fee on spirits imported

As per Section 2(19) of the Pondicherry Excise Act, liquor includes spirits of wine, denatured spirits, wine, beer, toddy and all liquids consisting of or containing alcohol. As per Rule 5A of the Pondicherry Excise Rules, as amended from November 2001, an import fee shall be levied on the import of all Indian liquor and foreign liquor at the rate of Rs 6 per bulk litre. As per Rule 273 (b), a valid licence holder importing alcohol is required to execute a bond in Form A, which prescribes a condition that no liquor/spirit shall be removed before the proper duty or fee, if any, has been paid.

Audit scrutiny revealed that during the period from 2003-04 to 2007-08, 6.05 lakh bulk litres of rectified spirit, extra neutral alcohol and special spirits imported by an *arrack* unit<sup>9</sup> and six distilleries<sup>10</sup> were kept in a bonded warehouse and removed for the purpose of production of IMFL/*arrack*. However, import fee, though leviable on such import, was not levied resulting in non-realisation of revenue of Rs 36.26 crore.

After this was pointed out, the Government accepted (October 2009) the audit observation. A report on further action taken has not been received (November 2009).

#### 4.9.15 Non-raising of demand in respect of establishment charges

As per the provisions of the Pondicherry Excise Rules, the cost of establishment including pay, leave salary, contributory provident-cum-

<sup>9</sup> M/s Puducherry Distilleries Limited

<sup>10</sup> M/s United Spirits Limited, M/s Vinbros & Co., M/s Premier Distilleries, M/s Deekay Exports, M/s Ravikumar Distilleries and M/s Khoday Industries Limited

pension fund and pensionary contribution in respect of excise supervisory officers deputed at distillery/brewery shall be paid in advance by the distillery/brewery.

It was noticed in audit that the pay commission arrears in respect of 28 officials of the department amounting to Rs 5 lakh (being 40 *per cent* of the total arrears) being first instalment was paid by the Government for their services rendered in all the distilleries and brewery and balance of Rs 9 lakh was paid in second instalment. No demand was, however, raised by the department against the distilleries/brewery for reimbursement of pay commission arrears. This resulted in non-realisation of revenue of Rs 14 lakh.

After this was pointed out, the department accepted the audit observation and stated (October 2009) that necessary demand would be raised. Further report has not been received (November 2009).

#### **4.9.16 Non-collection of additional excise duty and additional countervailing duty**

As per notification dated 23 April 2007 additional excise duty and additional countervailing duty shall be levied on excise articles manufactured or imported inside Puducherry.

**4.9.16.1** Test check of the permit records and register of despatches in respect of two distilleries<sup>11</sup>, indicated that a total quantity of 49,983 bulk litres of IMFL were removed from the warehouse on 23 April 2007 for consumption within the Union Territory without payment of additional excise duty. This resulted in non-realisation of AED of Rs 16 lakh.

**4.9.16.2** Test check of the import permit registers and release register of FL 1 licensees<sup>12</sup> in respect of Puducherry, Karaikal and Mahe regions indicated that three lakh bulk litres of beer and 44,189 bulk litres of IMFL were imported from outside states on or after 23 April 2007. The department did not levy additional countervailing duty on the above quantity which resulted in non-realisation of revenue of Rs 79 lakh.

<sup>11</sup> M/s Ravikumar Distilleries and M/s Premier Distilleries

<sup>12</sup> Taurus & Taurus, Lakshmi Vinayaga Beverages, R.R. Wine Merchant, Sri Meenakshi Wines, Happy wines, Ding Dong Liquors, Sri Murugan Enterprises, Malligarjuna Agency, Devi Wines, Sri Murugan Enterprises, Anupama Wines, M/s AMS Liquor Merchants (Karaikal) and M/s Royal Wines (Karaikal), M/s Thiruvonam Wines, M/s Apollo Wines, M/s Thirumal Wines, M/s Durga Wines, M/s Cacatte Wines, M/s Maveli Wines, M/s Prabhat Trade Links, M/s Wine Centre, M/s CeeCee & CeeCees

After this was pointed out, the Government accepted the audit observations and stated (October 2009) that the amount would be collected. Further report has not been received (November 2009).

#### **4.9.17 Non-collection of *kist* for excess lifting of *arrack***

As per Rule 178A of the Pondicherry Excise Rules, 1970 and the conditions of the licence, a licensee is liable to lift the entire minimum guaranteed quantity fixed for each licensee during the year. Further, any excess quantity may be allowed to be drawn subject to the payment of additional *kist* proportionate to the excess quantity allowed to be drawn.

Test check of the records indicated that in 17 cases, the licensees lifted 25.1 lakh bulk litres of *arrack* as against the minimum guaranteed quantity of 23.62 lakh bulk litres during the period from 2003-04 to 2005-06. Additional *kist* proportionate to the excess quantity amounting to Rs 29.52 lakh, though leviable, was not levied.

After this was pointed out, the Government accepted the audit observation and stated (October 2009) that the amount would be collected from the licensees. Further report has not been received (November 2009).

#### **4.9.18 Loss of revenue due to incorrect issue of notification**

As per Section 66 of the Pondicherry Excise Act, 1970, the Government is vested with the power to issue any notification exempting intoxicants from payment of the excise duty.

**4.9.18.1** The Government of Puducherry issued a notification dated 9 October 2008 exempting the canteen stores department at the NCC group headquarters, Puducherry from the payment of additional excise duty on import of IMFL and beer for a period of 5 years from 23 April 2007.

Audit noticed that though the Government issued the notification with retrospective effect, the Act does not specifically<sup>13</sup> mention that exemption notification with retrospective effect can be issued. This resulted in loss of revenue of Rs 16.25 lakh for the period from July 2007 to March 2008.

**4.9.18.2** Pondicherry Excise Rules, 1970, do not provide for exemption of licence fee to be collected every year from licensees. In contravention of the rules, the Government issued a notification in April 1999 exempting the canteen stores department of the NCC Directorate from

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<sup>13</sup> Karnataka Excise Act, 1966 – Section 67(a) – Government may exempt or reduce whether prospectively or retrospectively the excise duty levied under Section 22 or the licence fee payable by or under this Act, in respect of any liquor sold.

payment of the whole of licence fee, resulting in the loss of revenue of Rs 15 lakh for the period from 2003-04 to 2007-08.

After this was pointed out, the Government stated that action would be taken in consultation with the Law department. Further report has not been received (November 2009).

#### **4.9.19 Conclusion**

The review on receipts from state excise revealed several systemic deficiencies that affected the efficiency and effectiveness of levy and collection of the revenue. These included absence of a penalty provision for non-lifting of the minimum guaranteed quantity of *arrack*, absence of a provision for the levy of interest on belated payment of excise dues, no provision about a time limit clause in the Act for periodical revision of the rates of the licence fee and exemption of the excise duty on Indian made foreign liquor exported outside the country. Absence of the departmental manual and necessary mechanism to ensure co-ordination among the functional units resulted in short realisation of the revenue. Failure of the department to monitor revenue realisation also resulted in pendency of arrears for a long time.

#### **4.9.20 Summary of Recommendations**

The Government may consider the following recommendations for improving the system and compliance:

- incorporating necessary provision in the Act for levy of penalty for non-lifting of minimum guaranteed quantity;
- framing a suitable provision in the Act for charging of interest on belated payment of the excise dues to the Government;
- introducing a provision for fixing a time limit for periodical revision of the licence fee in the Act; and
- issuing directions for preparing a departmental manual for control records and prescribe returns for effective monitoring of various functions of the department.

**REGISTRATION DEPARTMENT  
STAMP DUTY AND REGISTRATION FEES**

**4.10 Incorrect grant of remission**

As per Government notification<sup>14</sup> issued in December 2004, remission of 50 per cent of the stamp duty and transfer duty was granted to women members who acquire property through deed of sale, exchange or gift subject to certain conditions.

Test check of the records in three sub registries<sup>15</sup> indicated that immovable properties valued at Rs 3.05 crore were purchased/acquired by a society, trust and partnership firm represented by women through 11 sale deeds registered in 2006 and 2007. Thus, the women did not purchase the property in their individual capacity and no remission from payment of stamp duty was admissible. However, the registering authorities incorrectly allowed a remission of Rs 15.25 lakh, being 50 per cent of the stamp duty of Rs 30.50 lakh, treating the execution of the deeds in favour of the women in their individual capacity. The incorrect remission resulted in short levy of stamp duty of Rs 15.25 lakh.

After this was pointed out (November 2007 and February 2009), the department accepted (between September 2008 and April 2009) and recovered (February 2009) Rs 0.75 lakh in respect of nine sale deeds pertaining to Karaikal. Further report on recovery in respect of the remaining amount has not been received (November 2009).

The matter was reported to the Government between December 2007 and March 2009; reply had not been received (November 2009).

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<sup>14</sup> Notification No.8834/Revenue-03/2004 dated 17 December 2004  
G.O.Ms.No.59/LAS/2004 of Local Administration, Secretariat, Government of  
Puducherry dated 28 December 2004.

<sup>15</sup> Karaikal, Bahour and Yanam.