

## CHAPTER VI : STATE EXCISE

### 6.1 Tax administration

Excise Department is one of the major revenue earning department of the state and the contribution of the Excise receipts to the total tax revenue of the state during the last five years were between 14 and 16.67 *per cent*. Receipts from excise comprise receipts derived from duty, fee or confiscation imposed or ordered under the provisions of Chhattisgarh Excise Act, 1915 and rules and notifications issued thereunder. It also includes revenue from manufacture, possession and sale of liquor, *Bhaang* and poppy heads. The Department maintains a set of liquor shops and gives annual licences to private contractors to sell country spirits, foreign liquor, *bhaang* and poppy from their shops. Licence for manufacture of liquor are granted and renewed every year by the Excise Commissioner on payment of prescribed fee subject to prior approval of the State Government. The department follows the undermentioned Acts and Rules:

- Chhattisgarh Excise Act, 1915;
- Chhattisgarh Entertainment Duty and Advertisement Tax Act, 1936;
- Chhattisgarh Distillery Rules, 1995; and
- Chhattisgarh Foreign liquor Rules, 1996.

The State Excise Department is headed by the Excise Commissioner. He is assisted by Additional Excise Commissioner, Deputy Commissioners, Assistant Commissioners, District Excise Officers and Assistant District Excise Officers.

### 6.2 Analysis of budget preparation

Budget is prepared as per Chhattisgarh Budgetary Manual. The Budget procedure provides that the estimates of receipts should show the amount expected to be realised within a year. The preparation of annual budget estimate of excise revenue is based on the revenue expected to be collected in a year in the shape of licence fee, duty, permit fee, bottling fee, application fee, labeling fee, allotment of shops for sale of liquor, licence fees etc. The budget estimate for the year 2009-10 was ₹ 1,158 crore and revenue realised was ₹ 1,187.72 crore, an increase of 2.57 *per cent* over the budget estimate and the increase is mainly due to increase in the receipts from foreign liquor, country spirit, licence fee and other minor revenue heads. The Government may prepare realistic budget so that the receipts may be realised as per budget estimates.

### 6.3 Trend of Revenue Receipts

Actual receipts from State Excise Department during the years 2005-06 to 2009-10 along with the total tax receipts during the period is exhibited in the following table:

(₹ in crore)

Year	Budget estimate	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the state	Percentage of the actual receipts vis-à-vis total tax
2005-06	525.00	634.00	(+) 109.00	(+) 20.76	4051.91	15.65
2006-07	704.44	706.81	(+) 2.37	(+) 0.34	5045.70	14.00
2007-08	840.00	843.10	(+) 3.10	(+) 0.37	5618.10	15.00
2008-09	950.00	964.10	(+) 14.1	(+) 1.48	6593.72	14.62
2009-10	1158.00	1187.72	(+) 29.72	(+) 2.57	7123.25	16.67

Actual receipt was more than the budget estimates due to increase in the receipts from processing fee, duties and consumption of liquor in the year 2009-10. It may be observed from the above table that the actual receipts during the period 2005-06 to 2009-10 exceeded the budget estimates. It clearly indicates that the department had not taken into account all the inputs while preparing the budget and this resulted in variation in the budget figures and the actual receipts.

#### 6.4 Cost of collection

The gross collection in respect of State Excise receipts, expenditure incurred on their collection and the percentage of such expenditure to gross collection during the years 2007-08, 2008-09 and 2009-10 along with the relevant all India average percentage of expenditure on collection to gross collection of preceding years is indicated in the table below:

Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage of expenditure to gross collection of preceding year
State Excise 0039	2007-08	843.10	19.75	2.34	3.30
	2008-09	964.10	26.30	2.73	3.27
	2009-10	1187.72	35.35	2.98	3.66

It may be seen from the table that though the percentage of expenditure on the collection of revenue in the state was lower than the all India average percentage, but the same has been increasing.

#### 6.5 Arrear of revenue

The arrears of revenue as on 31 March 2010 amounted to ₹ 25.60 crore of which ₹ 22.94 crore were outstanding for more than five years. The following table depicts the position of arrear of revenue during the period 2005-06 to 2009-10:

(₹ in crore)

Year	Opening balance of arrears	Demand raised during the year	Amount collected during the year	Closing balance of arrears
2005-06	23.00	0.12	0.05	23.07
2006-07	23.07	0.01	0.29	22.79
2007-08	22.79	0.21	0.18	22.82
2008-09	22.82	0.49	0.05	23.26
2009-10	23.26	2.42	0.08	25.60

The above table indicates that there was marginal recovery of arrears of revenue.

**The Government needs to take appropriate measures to recover the arrears.**

## 6.6 Impact of audit

**6.6.1 : Position of IRs :** During the last five years, audit through its Audit Reports had pointed out non-recovery of duty, short realisation of licence fees, non-levy of penalty, non/short levy of entertainment duty with revenue implication of ₹ 123.90 crore in 2893 cases. Of these, the Department/Government had accepted audit observations in 2174 cases involving ₹ 58.38 crore and had since recovered ₹ 0.10 crore. The details are shown in the following table:

(₹ in crore)

Year of Audit Report	No. of units audited	Amount objected		Amount accepted		Amount recovered	
		Cases	Amount	Cases	Amount	Cases	Amount
2004-05	10	574	38.16	484	33.91	1	0.0022
2005-06	10	759	45.40	577	20.32	32	0.042
2006-07	3	194	3.81	145	0.76	-	-
2007-08	12	1143	18.74	912	0.54	55	0.038
2008-09	10	223	17.79	56	2.85	2	0.02
<b>Total</b>		<b>2893</b>	<b>123.90</b>	<b>2174</b>	<b>58.38</b>	<b>90</b>	<b>0.10</b>

The above table indicates that during the last five years only 0.17 *per cent* recovery has been made on the accepted cases which is negligible. **The Government needs to look into the recovery of arrears of revenue.**

**6.6.2 : Position of Audit Reports :** In the Audit Report 2004-05 to 2008-09 the cases of under/non-assessment, loss of revenue and non-levy of penalty were indicated involving ₹ 30.49 crore. The Department has accepted the observations of ₹ 8.94 crore of which ₹ 0.03 crore were recovered till March 2010 as shown in the table.

Sl. No	Year of the Audit Report	Total money value	Amount accepted	Recovery made up to March
1.	2004-05	10.25	0.11	0.01
2.	2005-06	4.09	0.08	-
3.	2006-07	-	-	-
4.	2007-08	14.95	8.68	-
5.	2008-09	1.20	0.07	0.02
	<b>Total</b>	<b>30.49</b>	<b>8.94</b>	<b>0.03</b>

**The Department should take steps for recovery as pointed out in Audit Reports.**

## 6.7 Internal Audit

Internal Audit Wing (IAW) has been formed in the department. For this, post of Joint Director, Finance and Assistant Internal Audit Officer has been sanctioned. During the year, 16 units have been inspected and instructions have been given to the concerned units for removal of irregularities noticed during inspection.

**The Government may issue necessary instruction to the IAW for issuing the inspection reports promptly and obtain the compliance in time.**

## 6.8 Results of audit

Test check of the records of 16 units relating to Excise Department revealed non-recovery of duty, non-levy of penalty, short realisation of licence fees, non/short levy of entertainment duty etc. amounting to ₹ 16.71 crore in 1,036 cases which fall under the following categories:

(₹ in crore)			
Sl. No.	Category	No. of cases	Amount
1.	Non/short levy of excise duty	32	6.42
2.	Non-levy of penalty for failure to maintain minimum stock of spirit in warehouses.	201	2.39
3.	Non-levy/recovery of duty on excess wastage	661	0.42
4.	Recovery of arrears of entertainment tax and non-levy of penalty	81	0.26
5.	Other irregularities	61	7.22
<b>Total</b>		<b>1,036</b>	<b>16.71</b>

During the year, the Department accepted under assessment, non/short levy of duty, licence fee of ₹ 7.52 crore in 337 cases.

A few illustrative cases involving ₹ 48.04 lakh are mentioned in the following paragraphs.

## 6.9 Audit observations

*We scrutinised the assessment records of excise duty, fee and charges in the district excise offices (DEOs) and found several cases of non-observance of the provisions of the Acts/Rules/Annual Excise Policies (AEP) leading to loss/non/short levy and realisation of excise duty, fee, charges, fine and non-destruction of excise goods etc., and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out by us. Such omissions on the part of the Superintendents of Excise are pointed out by us each year, but not only do the irregularities persist but these remain undetected till an audit is conducted. There is need for the department to improve the internal control system including strengthening of internal audit so as to avoid recurrence of such irregularities.*

## 6.10 Non-levy of penalty for failure to maintain the minimum stock of spirit in warehouses

According to Rule 4(4) of Chhattisgarh Country Spirit Rules, a licensee shall maintain at each storage warehouse, a minimum stock of bottled country liquor equivalent to average issue of five days of the preceding month. In the event of failure to maintain the minimum stock of spirit in warehouse, the Collector may impose a penalty not exceeding ₹ two per proof litre on the licensee, for the quantity found short of the prescribed minimum stock. This penalty shall be payable by the licensee irrespective of whether any loss has actually been caused to the Government or not.

We found in the test check of the records of three<sup>1</sup> District Excise Officer (DEO) (between December 2008 and October 2009) that on 1,720 occasions, the licensee maintained stock of bottled country liquor of 101.48 lakh proof litre (PL) as against the prescribed minimum quantity of 285.55 lakh PL. Despite this the Department has neither issued any show cause notice in these cases nor levied any penalty against

the licensee. Thus, there was shortage of 184.07 lakh PL for which penalty of ₹ 3.68 crore was to be levied on the licensees. The department did not levy the amount resulting in non-levy of ₹ 3.68 crore.

After we pointed out the cases (between December 2009 and March 2010), the Government stated (August 2010) that an amount of ₹ 51,745 has been recovered and for rest of the cases show cause notices have been served to the licensees. Further progress in the matter is awaited (November 2010).

<sup>1</sup> Janjgir (Champa), Korba, Mahasamund.

### 6.11 Non-levy of duty on excess wastage in transportation of bottled country liquor

Rule 10(A)(i) of Chhattisgarh Country Spirit Rules provides the maximum permissible limit of 0.1 *per cent* for wastage in transport of bottled country liquor if the manufacturing warehouse and the storage warehouse are located in the same district and 0.25 *per cent* if the manufacturing warehouse and the storage warehouse are located in different districts. Further as per Rule 10(A)(3), if wastage is more than the permissible limit, the prescribed duty on that excess wastage shall be recovered from the licensee.

We found in the test check of the records of the six<sup>2</sup> District Excise Officers (DEO) between July 2006 and October 2009 that 1.34 crore proof litre (PL) of country liquor was transported from manufacturing warehouse to storage warehouse during the period from December 2005 to March 2009 of which 1.33 crore PL was

acknowledged. Wastage of 1.32 lakh PL was allowed against the permissible limit of 33,467.68 PL. Despite this, the Department has neither issued any show cause notice in these cases nor levied any penalty against the licensee. Thus, there was excess wastage of 98,997.76 PL of country liquor for which excise duty of ₹ 47.52 lakh was leviable, but no duty was levied. This has resulted in non realisation of revenue of ₹ 47.52 lakh.

After we pointed out the cases (between November 2009 and February 2010), the Government stated (July 2010) that an amount of ₹ 2.92 lakh has been recovered from the licensee and for the remaining, cases are pending for decision and orders before the concerned Collectors. Further progress in the matter is awaited (November 2010).

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<sup>2</sup> Dhamtari, Janjgir, Korba, Mahasamund, Raipur and Rajnandgaon.