

CHAPTER-IV: STATE EXCISE

4.1 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 16.73 *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.

4.2 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 2010-11 was ₹ 1,390.00crore and revenue realised was ₹ 1,506.44 crore, an increase of 8.38 *per cent* over the budget estimate. The Government may prepare realistic budget so that the receipts may be realised as per budget estimates.

4.3 Trend of Revenue Receipts

Actual receipts from State Excise Department during the years 2006-07 to 2010-11 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
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
2010-11	1390.00	1506.44	(+)116.44	(+)8.38	9005.14	16.73

It may be observed from the above table that the actual receipts during the period 2006-07 to 2010-11 exceeded the budget estimates, and during the year 2010-11 there was a huge increase in the receipts. The increase was due to increased collection of process fees and also due to collection of excise duty due to more sale of liquor. 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.

4.4 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 amounted to ₹ 25.30 crore of which ₹ 23.07crore were outstanding for more than five years. The following table depicts the position of arrear of revenue during the period 2006-07 to 2010-11:

(₹ in crore)

Year	Opening balance of arrears	Demand raised during the year	Amount collected during the year	Closing balance of arrears
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
2010-11	25.60	0.37	0.67	25.30

The above table indicates that recovery of arrears was very low as compared to outstanding. It is recommended that the Government may consider taking appropriate measures by way of initiating certificate proceedings under the Act to recover the arrears.

4.5 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 2008-09, 2009-10 and 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection of preceding years is indicated in the following table:

(₹ in crore)

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	2008-09	964.10	26.30	2.73	3.27
	2009-10	1187.72	35.35	2.98	3.66
	2010-11	1506.44	40.68	2.70	3.64

4.6 Impact of audit

4.6.1 Position of Inspection Reports (IR): During the last five years, audit through its IR 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 ₹ 102.45 crore in 3355 cases. Of these, the Department/ Government had accepted audit observations in 2027 cases involving ₹ 31.99 crore and had since recovered ₹ 0.10 crore. The details are shown in the following table:

(₹ in crore)

Year of IR	No. of units audited	Amount objected		Amount accepted		Amount recovered	
		Cases	Amount	Cases	Amount	Cases	Amount
2005-06	10	759	45.40	577	20.32	32	0.042
2006-07	3	194	3.81	145	0.76	Nil	Nil
2007-08	12	1143	18.74	912	0.54	55	0.038
2008-09	10	223	17.79	56	2.85	2	0.02
2009-10	16	1036	16.71	337	7.52	Nil	Nil
Total		3355	102.45	2027	31.99	89	0.10

The above table indicates that during the last five years only 0.31 *per cent* recovery has been made on the accepted cases which are negligible. The Government needs to look into the recovery of arrears of revenue.

After we pointed this out, the Government stated (September 2011) that efforts will be made for early recovery in the cases.

4.6.2 Position of Audit Reports : In the Audit Report 2004-05 to 2009-10 the cases of non-recovery of duty, short realisation of licence fees, non/short levy of entertainment duty were indicated involving ₹ 30.97 crore. The Department has accepted the observations of ₹ 9.42 crore of which ₹ 0.07 crore were recovered till March 2011 as shown in the table.

(₹ in crore)

Sl. No	Year of the Audit Report	Total money value	Amount accepted	Recovery made up to March 2011
1.	2004-05	10.25	0.11	0.04
2.	2005-06	4.09	0.08	Nil
3.	2006-07	Nil	Nil	Nil
4.	2007-08	14.95	8.68	Nil
5.	2008-09	1.20	0.07	0.03
6.	2009-10	0.48	0.48	Nil
	Total	30.97	9.42	0.07

It may be seen from the above table that 0.74 *per cent* recovery has been made by the Department in the cases accepted and those pointed out in Audit report which is almost negligible.

4.7 Internal Audit

The objective of an Internal Audit Wing (IAW) is to have a deterrent and reforming effect in the prevention of mistakes and to play a corrective role by pointing out mistakes and ensuring remedies without loss of time. Though, the post of Joint Director, Finance and Assistant Internal Audit Officer has been sanctioned for the Internal Audit, but during the year no units were either planned or audited due to the vacancy of the post of Joint Director.

4.8 Results of audit

We conducted test check of the records of nine units of the State Excise Department during the year 2010-11. We found non-recovery of duty, non-levy of penalty, short realisation of licence fees, non/short levy of entertainment duty etc. amounting to ₹ 64.62 crore in 1332 cases. The observations broadly fall under the following categories:

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
1.	Non/short levy of excise duty	116	10.05
2.	Non-levy of penalty for failure to maintain minimum stock of spirit in warehouses.	143	9.81
3.	Non-levy/recovery of duty on excess wastage	987	12.13
4.	Other irregularities	86	32.63
	Total	1332	64.62

During the course of the year, the Department accepted underassessment, non/short levy of duty, licence fee etc of ₹ 22.02 crore in 1084 cases. The Department recovered ₹ 3.34 lakh in cases pointed out by audit in earlier years.

A few illustrative cases involving ₹ 2.47 crore are mentioned in the following paragraphs.

4.9 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 cases relating to application of incorrect rate of licence fee, wastage in transport and non-levy of penalty 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 Assistant Commissioners/ District Excise Officers 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.

4.10 Non-levy of penalty due to non-maintenance of minimum stock of country liquor

According to Rule 4(4)(A) 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 four¹ District Excise Officers (DEO) (between July 2010 and November 2010) that on 1124 occasions, the licensee maintained stock of bottled country liquor of 802.91 crore proof litre (PL)² as against the prescribed minimum quantity of 804.07 crore PL. Thus, there was shortage of 1.16 crore PL for which penalty of ₹ 2.32 crore was to be levied on the licensees. Despite this the Department had neither issued any show cause notice in these cases nor levied any penalty against the licensee resulting in non levy of ₹ 2.32 crore.

After we pointed this out, the Government stated (September 2011) that in respect of Janjgir and Koria district, the Collector had passed an order for imposition of penalty while for Raipur district it was stated that the case was under consideration before the Collectors' court and in respect of Dhamtari district, it was stated that the licensee has appealed before the Commissioner, Excise against the orders of the Collector for imposition of penalty.

¹ Dhamtari, Janjgir-Champa, Koria & Raipur.

² Proof litre (PL) – PL is the standard measurement of alcohol as per the strength of the alcohol packed in bottles.

4.11 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 at the rate of ₹ 48 per proof liter (PL) on that excess wastage shall be recovered from the licensee.

We found in the test check of the records of the District Excise Officer (DEO), Dhamtari (November 2010) that 15.00 lakh PL of country liquor was transported from manufacturing warehouse to storage warehouse during the period from April 2009 to March 2010 of which 14.82 lakh PL was acknowledged. Wastage of 14848.90 PL was allowed in excess against the permissible limit of 3751.31 PL. This resulted in excess allowance of wastage of 14848.90 PL of country liquor for which Excise duty amounting ₹ 7.12 lakh was

leviable, despite this, DEO had neither issued any show cause notice nor levied any penalty against the licensee.

After this was pointed out by us, the Government accepted the objection and intimated (September 2011) that the licensee has appealed before the Commissioner, Excise against the orders of the Collector for imposing penalty amounting ₹ 7.12 lakh.

4.12 Application of incorrect rate of licence fee

According to section 62(2 j) of Chhattisgarh Excise Act 1915 and notification issued there under, the Government of Chhattisgarh fixed the licence fee as under:

Criteria	Year		
	2008-09	2009-10	2010-11
Area where population is less than one lakh	4 lakh	6 lakh	6 lakh
Area where population is more than one lakh and less than three lakh.	6 lakh	8 lakh	8 lakh

We found in the test check of records of the District Excise Officer, (DEO) Ambikapur, for the period 4/2008 to 3/2010, that the DEO levied the licence fee for three years amounting ₹ 20.00 lakh from two licensees at the rate of ₹ four lakh for 2008-09 and ₹ six lakh for 2009-10 and 2010-11

considering the population of Ambikapur less than one lakh. But as per Notification dated 12/03/2003, State Government constituted the Municipal Corporation Ambikapur. Since the towns, whose population are more than one

lakh are only notified as Municipal Corporation, the licence fee amounting ₹ 28.00 lakh should have been levied. This resulted in a loss of ₹ eight lakh.

After this was pointed out by us, the Government intimated (September 2011) that as per the data available from the District planning and statistical officer, the population of Ambikapur is 95,823 and as such the licence fee deposited by the licensee is correct.

The reply is not correct because as per the Government notification dated 12.3.2003, Municipal Corporation Ambikapur was constituted in place of Municipal Council and as per the notification dated 28.2.03, the area whose population is above one lakh is only notified as Municipal Corporation. This indicates lack of coordination between the Government Departments.