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Utilization of declaration forms in inter-State trade A Study Report



Comptroller and Auditor General of India New Delhi October 2012

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PREFACE

During the course of our regular audits, we have detected several cases of unscrupulous dealers resorting to trade diversion and other malpractices as the checks and balances put in place to prevent tax evasion are not enforced effectively by the Commercial Tax Departments in the States. Taking advantage of the inherent weaknesses in the system, some dealers, instead of paying 12.5 *per cent* Value Added Tax (VAT) on sale of goods, claim inter-state sale of goods and get away by paying only two *per cent* Central Sales Tax (CST). Thus, there is evasion of VAT, leading to revenue loss for the States.

CST was intended to be abolished with the introduction of the Goods and Services Tax (GST). The original roadmap for implementation of GST was 1 April 2011 which was subsequently shifted to 1 April 2012. While presenting the Union Budget for 2012-13 the Finance Minister stated that the Constitution Amendment Bill, which was a pre-requisite for implementation of GST, was before the Parliamentary Standing Committee and drafting of the model legislation for GST was in progress. The GST Network will be set up as a National Information Utility and become operational by August 2012. Hence CST will continue to be in force for some more time. Further, even if GST is introduced in 2013, the State Governments will still be required to complete pending assessments under the earlier Sales Tax regime, the present VAT set-up and CST. Thus, the importance of ensuring that claims for inter-state transactions are genuine and are supported by proper and verifiable documentation will remain, in order to ensure that there is no revenue leakage to the States.

We therefore decided to conduct a performance audit of the process of issuing and accounting of various declaration forms by the Commercial Taxes Department and its utilization by dealers for the purpose of claiming exemption/concessional rate of tax under CST, to see whether the mechanisms put in place had helped to ensure that the exemptions/concessions had been allowed correctly and only in genuine cases and there was no leakage of revenue.

This study report is a compilation of the performance audits conducted by our field offices located in 29 States and three Union Territories, during the period from November 2010 to August 2011.

EXECUTIVE SUMMARY

Context

The Central Sales Tax (CST) is a levy of tax on sales which are effected in the course of interstate trade or commerce. Though CST is a central levy, it is administered by the concerned State in which the sale originates and the revenue goes to the State Government. The seller or a dealer of goods in a State has to collect State Sales Tax on the sale of goods within the State as well as Central Sales Tax on sales that takes place in the course of inter-state trade or commerce.

Under the CST Act, registered dealers are eligible to certain concessions and exemptions of tax on inter-state transactions on submission of prescribed declarations in forms 'C', 'E-I'/'E-II' and 'F'. The State Governments grant these incentives to dealers for furtherance of trade and commerce, on production of these declaration forms. It is the responsibility of the Commercial Tax Department of each State to ensure proper accountal of declaration forms and to take adequate safeguards against misutilization of declaration forms/ certificates on which tax relief is allowed involving large amounts of revenue to the state exchequer.

As part of implementation of Value Added Tax (VAT) and introduction of Goods and Services Tax (GST) in the country, the Centre and the States had agreed to phase out CST through one *per cent* annual rate cut starting 1 April 2007, over a period of four years and it was planned to be completely abolished by 2010-11. Accordingly, CST was reduced from four *per cent* to three *per cent* in 2007-08, and further to two *per cent* in 2008-09 after the introduction of VAT. It was scheduled to be reduced by another one *per cent*, starting 1 April 2009. In a significant departure from the original plans, the Centre and the States decided not to reduce the CST rate in 2009-10. Instead, the tax will be completely withdrawn once the proposed GST is introduced. The Centre would compensate the States on account of loss of revenue due to reduction in CST rates.

Why we did this study

The original roadmap for implementation of GST was 1 April 2011 which was subsequently shifted to 1 April 2012. While presenting the Union Budget for 2012-13 the Finance Minister stated that the 115th Constitution Amendment Bill, which was a pre-requisite for implementation of GST, was before the Parliamentary Standing Committee and drafting of the model legislation for GST was in progress. Hence CST is likely to continue for some more time. Further, even when GST is introduced, the State Governments will still be required to complete pending assessments under the earlier Sales Tax era and the present VAT regime, as well as for pending CST assessments. Thus, the importance of ensuring that claims for inter-state transactions are genuine and are supported by proper and verifiable documentation remains, in order to ensure that there is no revenue leakage to the States.

During our audits, we have noticed several cases of trade diversion and other malpractices as the checks and balances in place to prevent tax evasion are not being enforced effectively. Taking advantage of the inherent weaknesses in the system, some unscrupulous dealers, instead of paying 12.5 *per cent* VAT on sale of goods, claim inter-state sale of goods and get away by paying only two *per cent* CST. Thus, there is evasion of VAT, leading to revenue loss for the States.

We therefore decided to conduct a performance audit of the process of printing, issuing and accounting of these declaration forms by the Commercial Taxes Department and its utilization by dealers for the purpose of claiming exemption/concessional rate of tax under CST, to see whether the mechanisms put in place have helped to ensure that the exemptions/concessions were allowed correctly and only in genuine cases and there was no leakage of revenue.

We specifically attempted to study the following aspects:

- \approx evaluate the adequacy, reliability and effectiveness of the system of receipt, issue and use of statutory forms;
- \approx ascertain whether exemptions/concessions granted by the assessing authorities were supported by valid declaration forms;
- ≈ examine whether there is a system for ascertaining genuineness of the forms in order to prevent evasion of tax and appropriate steps are taken on detection of fake, invalid and defective (without proper and insufficient details) forms;
- \approx analyze whether the TINXSYS website has served as an effective mechanism for cross-verification of inter-state transactions; and
- \approx assess whether an adequate and effective internal control mechanism for preventing leakage of revenue on account of inter-state transactions exists.

How we conducted the audit

The performance audit was undertaken across the country and was conducted by all the 33 field offices¹ located in 29 States and three Union Territories, during the period from November 2010 to August 2011. Our scope was limited to examination of only 'C' and 'F 'declaration forms. The audit was conducted in three phases.

≈ In the first phase the field offices randomly collected data of 'C' and 'F' forms over a period of three months from the assessment folders of selling dealers pertaining to CST assessments completed during the financial years 2007-08 to 2009-10. In this manner, data regarding a total of 1,35,537 forms (1,11,059 'C' forms and 24,478 'F' forms) was collected in an organized database. We consolidated this data and thereafter sorted the database state-wise according to the state from where the declaration forms were issued (i.e. where the purchasing dealer was located).

¹ In Maharashtra there are two field offices – one located in Mumbai and the other in Nagpur.

- \approx In the second phase, the databases were sent to the concerned field offices for them to examine the authenticity of these forms and genuineness of the dealers by checking up with the Commercial Tax Department and subsequently visiting the unit offices to examine the assessment records of the purchasing dealers to verify details such as whether the goods purchased were covered in the registration certificate of the dealer, value of the goods, whether the purchases were accounted for and the assessments, if finalized, were done correctly.
- ≈ In the third phase, mistakes noticed such as fake forms, unregistered dealers, goods not covered in the registration certificate of the dealer, variation in the nature and value of goods, etc. were communicated to the state where the selling dealer was located so that the irregularities could be pointed out to the Department to enable them to revise the assessment and withdraw the exemption/concession.

Our findings

We found that the State governments had no mechanism to collect data relating to concessions/exemptions availed by selling dealers and the consequent loss of revenue to the State. Mechanisms for printing and custody of these declaration forms were either not prescribed, or where in place, were found to be suffering from certain infirmities. In several States, the requirement for these forms was not assessed properly leading to huge accumulation of stock. With GST in the anvil and the consequent abolition of CST, the possibility of utilization of these forms appears to be remote. Physical verification of the stock was either not prescribed or was not conducted leaving the system vulnerable to misuse and the forms falling into the hands of unscrupulous dealers. We found cases where stolen forms were utilized to claim exemptions/concessions. The stock of obsolete forms was not destroyed nor were the details of these forms communicated to other States to enable them to stop their misutilization by selling dealers.

We also noted that recently several States such as Gujarat, Kerala and Maharashtra have started issuing these statutory forms online which would have a salutary impact as the possibility of revenue leakage is minimized and the assessing officers of other States could also check up the genuineness of the dealer and the forms from the Commercial Tax Department's (CTD) website.

The CTDs did not keep a database of dealers who were found utilizing invalid/fake declaration forms in the past. Such dealers were neither blacklisted nor were their details circulated among other assessment units and to other States. We found that dealers who had been found to have used fake/forged forms in the past were not kept under watch by the CTD and consequently they continued to display this pattern of behavior, as evident from the cases which we detected during our present study. The details of bogus or non-existent dealers or those whose registration certificates were cancelled were also not intimated to other State Governments. The CTDs did not keep a sample of the colour, design and format of the forms prevailing in different States for comparison in order to identify fake or forged declaration forms. An Intelligence Wing or a similar mechanism for cross-verifying transactions with other States had not been created in many of the States. Even where such a mechanism existed, its role in detecting fraudulent transactions was very limited.

The website set up by the Empowered Committee of State Finance Ministers to help the CTDs of various States and Union Territories in monitoring the sales/purchases made in the course of inter-state trade and commerce called Tax Information Exchange System (TINXSYS) appeared to have not served the desired purpose as there was huge backlog in data entry in respect of most of the States. Consequently, it could not be used as a central repository of registered dealers and provide a platform where details of forms issued to and utilized by dealers in inter-state transactions could be easily verified by the assessing officers while finalizing the assessments. Utilization of the website by the Assessing Authorities was found to be extremely low in many States. We noticed that the application system for online issue of forms in one State lacked the necessary controls as more than one declaration forms could be issued against a single inter-state purchase.

We found that in certain States new forms were issued though the dealer did not furnish the utilization statements of forms issued earlier to him. In certain cases, forms were not issued chronologically to enable the Department to keep track of the forms. The Registration Certificates (RC) of dealers were cancelled without taking back the unused forms lying in their possession and in some cases forms were issued to dealers whose RCs had already been cancelled. In this scenario, the possibility of misuse of such forms could not be precluded.

Our cross-verification of transactions at both the seller's and the purchaser's end revealed several instances of use of fake forms as these were confirmed by the CTD as not having been issued by them. We also detected cases where the forms used had been issued by the CTD to other dealers or the dealer who issued the form was an unregistered dealer. Forms were found to have been manipulated at the selling dealer's end by inserting additional figures in order to claim excess exemption from/concessional rate of tax. Although in some forms there were erasures/cuttings/overwriting, indicating possible tampering, these were accepted by the CTD without further verification. Duplicate forms were accepted in many cases without insisting on production of the original forms.

We also found instances where the branch to which the goods were stated to have been transferred did not exist. In some cases goods not covered in the registration certificate of the dealer were procured. There were numerous cases where the value of goods shown in the counterfoil of the forms/utilization certificates furnished by the purchasing dealer did not tally with the original copies of the forms available at the selling dealer's end, indicating there was either suppression/overstatement of sales or concealment of purchases or local sales were disguised as inter-state sales to claim tax exemption/concessions. The CTDs therefore need to investigate all such cases. We also found that the Assessing Authorities did not apply themselves while finalizing the assessments. The amounts depicted in the utilization certificates were not reconciled with those shown in the returns filed by the dealers resulting in sales/purchases escaping assessment. The Assessing Authorities also did not complete the CST assessments despite the instructions of the CTD to finalize the cases. The rigors of penalty and interest were not imposed in many cases on dealers who had indulged in malpractices.

Chapter - I Introduction



CHAPTER – I INTRODUCTION

1.1 THE CST ACT

The Central Sales Tax (CST) is a levy of tax on sales which are effected in the course of interstate trade or commerce. According to the Constitution of India, no State can levy sales tax on any sales or purchase of goods that takes place in the course of inter-state trade or commerce. Only Parliament can levy tax on such transactions. The Central Sales Tax Act was enacted in 1956 to formulate principles for determining if a particular sale or purchase of goods can be treated as an inter-state sale. The Act also provides for the levy and collection of taxes on sale of goods in the course of inter-state trade and commerce and to declare certain goods to be of special importance in inter-state commerce or trade. The Act also specifies the restrictions and conditions to which State laws imposing taxes on the sale or purchase of such goods of special importance shall be subject.

The Central Sales Tax is an indirect tax on consumers. Though CST is a central levy, it is administered by the concerned State in which the sale originates and the revenue goes to the State Government. The seller or a dealer of goods in a State has to collect State Sales tax on the sale of goods within the State as well as Central Sales tax on sales that takes place in the course of inter-state trade or commerce. The State from which the movement of goods commences gets the revenue.

Under the CST Act, registered dealers are eligible to certain concessions and exemptions of tax on inter-state transactions on submission of prescribed declarations in Forms 'C', 'E-I/E-II' and 'F'. The State Governments grant these incentives to dealers for furtherance of trade and commerce, on production of these declaration forms. It is the responsibility of the Commercial Tax Department (CTD) to ensure proper accountal of declaration forms and to take adequate safeguards against misutilization of declaration forms on which tax relief is allowed involving large amount of revenue to the state exchequer.

Thus, a registered dealer needs to issue/receive certain declarations in prescribed forms to buyers/from sellers. The nature of 'C' and 'F' forms and their usage are explained in the subsequent paragraphs.

1.2 FORM C

1.2.1 Under the provisions of the CST Act, every dealer, who in the course of inter-state trade or commerce, sells to a registered dealer, goods of the classes specified in the certificate of registration of the purchasing dealer, shall be liable to pay tax at the concessional rate of four

per cent (three *per cent* with effect from 1.4.2007 and two *per cent* with effect from 1.6.2008) of such turnover provided such sales are supported by declarations in form 'C'. All the registered dealers will issue form 'C' at the time of purchasing goods from another registered dealer. The selling dealer, on the basis of this form 'C', charges CST @ two *per cent* and submits the same to his assessing authority as proof or cause for lower collection of CST.

1.2.2 The steps involved in the process are illustrated below:



1.3 FORM F

1.3.1 Form 'F' is used for claiming exemptions on the inter-state movement of goods as stock/branch transfer. Under Section 6A of the CST (Amendment) Act 1972, transfer of goods not by reason of sales by a registered dealer to any other place of his business outside the State or to his agent or principal in other States is exempt from tax on production of declaration in form 'F', duly filled in and signed by the principal officer of the other place of business or his agent or principal as the case may be, along with evidence of dispatch of such goods. The form 'F' is issued by the branch or agent who is receiving goods from another state to the transferor of goods. The transferor of goods can claim exemption from CST on submitting the form to the Department.

1.3.2 Filing of declarations in form 'F' was not mandatory upto May 2002. However, the Act provided for the assessing authority to make such enquiries as he deemed necessary to satisfy himself about the bonafides of the transfer such as sale *patties*, dispatch particulars, way bills etc. From June 2002 form 'F' is compulsory for claiming the transfer as stock/branch transfer for which no CST is to be paid. In the absence of form 'F', all such transfers are to be treated as normal inter-state sales and CST is to be levied. The dealer has the option to submit one form 'F' for all the inter-state stock/branch transfer for a month with supporting annexures if required.



1.4 THE MOVE TO THE NEW TAX REGIME: PHASING OUT OF CST

1.4.1 CST being an impediment to the concept of a common market, the Centre and the States had agreed that with the implementation of Value Added Tax (VAT) and the proposed introduction of Goods and Services Tax (GST), CST would be phased out through one *per cent* annual rate cut starting 1 April 2007, over a period of four years. It was scheduled to be completely abolished by 2010-11. Accordingly, CST was reduced from four *per cent* to three *per cent* in 2007-08, and further to two *per cent* in 2008-09 after the introduction of VAT. It was scheduled to be reduced by another one *per cent*, starting 1 April 2009. In a significant departure from the original plan, the Centre and States decided not to reduce the CST rate in 2009-10. Instead, the tax is to be completely withdrawn once the proposed GST is introduced. The Centre would compensate the States on account of loss of revenue due to reduction in CST rates.

1.4.2 At present, the rate of CST is two *per cent*.

1.5 WHY WE UNDERTOOK THIS STUDY

1.5.1 CST was intended to be abolished with the introduction of the Goods and Services Tax (GST). The original roadmap for implementation of GST was 1 April 2011 which was subsequently shifted to 1 April 2012. While presenting the Union Budget for 2012-13 the Finance Minister stated that the 115th Constitutional Amendment Bill, which was a pre-requisite for implementation of GST, was before the Parliamentary Standing Committee and drafting of the model legislation for GST was in progress. Hence CST will remain in force at least for some more time.

1.5.2 Further, even if GST is introduced in late 2012/2013, the State Governments will still be required to complete pending assessments under the earlier Sales Tax regime, the present VAT

set-up and CST. Thus, the importance of ensuring that claims for inter-state transactions are genuine and are supported by proper and verifiable documentation remains, in order to ensure that there is no revenue leakage to the States.

1.5.3 During our audits, we have noticed several instances of trade diversion and other malpractices as the checks and balances in place to prevent tax evasion are not being enforced effectively. Taking advantage of the inherent weaknesses in the system, unscrupulous dealers, instead of paying 12.5 *per cent* VAT on sale of goods, claim inter-state sale of goods and get away by paying only two *per cent* CST. Thus, there is evasion of VAT, leading to revenue loss for the States.

1.5.4 The CST collections in various States for the period 2006-07 to 2010-11 are given in Annex A.

1.5.5 It is interesting to note that despite a reduction in the CST rate in 2007-08, collections from CST registered a growth over the previous year in Andhra Pradesh, Himachal Pradesh, Jharkhand, Kerala, Punjab, Sikkim and Uttar Pradesh. In Kerala the increase was as much as 199.2 *per cent* while in Uttar Pradesh it was 101 *per cent*. Notwithstanding a further one *per cent* cut in the CST rate in June 2008 and the global economic slowdown which followed soon after, collections from the tax increased in the States of Maharashtra, West Bengal, Chhattisgarh, Uttar Pradesh, Himachal Pradesh, Nagaland, Mizoram, Manipur and Rajasthan in 2008-09. In 2009-10 CST collections in 18 States showed an increase over the previous year while in 2010-11 collection in 22 States registered a growth, the most impressive being that of Meghalaya (270 *per cent*).

1.5.6 We decided to conduct a performance audit of the process of printing, issuing, and accounting of these declaration forms by the Commercial Taxes Department and its utilization by the dealers for the purpose of claiming exemption/concessional rate of tax under CST, to see whether the mechanisms put in place had helped to ensure that the exemptions/concessions had been allowed correctly and only in genuine cases and there was no leakage of revenue.

1.6 OUR AUDIT OBJECTIVES

1.6.1 Our objectives were to:

- ≈ evaluate the adequacy, reliability and effectiveness of the system of receipt, issue and use of statutory forms;
- ≈ ascertain whether exemptions/concessions granted by the assessing authorities were supported by valid declaration forms;
- ≈ examine whether there is a system for ascertaining genuineness of the forms in order to prevent evasion of tax and appropriate steps are taken on receipt and detection of fake, invalid and defective (without proper and insufficient details) forms;
- ≈ analyze the system of uploading the particulars in the TINXSYS website and the data available for verifying the correctness of forms; and

≈ assess whether an adequate and effective internal control mechanism for preventing leakage of revenue on account of inter-state transactions exists.

1.7 OUR AUDIT SCOPE AND METHODOLOGY

1.7.1 The performance audit was undertaken across the country by 33 field offices² located in 29 States and three Union Territories, during the period from November 2010 to August 2011. Our scope was limited to examination of only 'C' and 'F' declaration forms. The audit was conducted in three phases.

- ≈ In the first phase the field offices randomly collected data regarding these forms over a period of three months from the assessment folders of CST assessments of selling dealers completed during the financial years 2007-08 to 2009-10. In this manner, data regarding a total of 1,35,537 forms (1,11,059 'C' forms and 24,478 'F' forms) was collected in an organized database. We consolidated this data and thereafter sorted the database state-wise according to the state from where the declaration forms were issued (i.e. where the purchasing dealer was located).
- \approx In the second phase, the data, thus sorted, was sent to the concerned field offices for them to examine the authenticity of these forms and genuineness of the dealers by checking up with the Commercial Tax Department and subsequently visiting the unit offices to examine the assessment records of the purchasing dealers to verify details such as whether the goods purchased were covered in the registration certificate of the dealer, value of the goods, whether the purchases were accounted for and the assessments, if finalized, were done correctly.
- ≈ In the third phase, mistakes noticed such as fake forms, unregistered dealers, goods not covered in the registration certificate of the dealer, variation in the nature and value of goods, etc. were communicated to the state where the selling dealer was located so that the irregularities could be pointed out to the Department to enable them to revise the assessment and withdraw the exemption/concession.

1.8 CONSTRAINTS FACED BY AUDIT

1.8.1 As mentioned in the preceding para, we had randomly collected data regarding 1,35,537 forms from the case records of CST assessments of selling dealers completed during the financial years 2007-08 to 2009-10. This data constituted a very miniscule sample of the total number of 'C' and "F' forms utilized during this period as we picked up only those cases where the CST assessments were completed from the assessments folders made available to us over a period of three months. Hence, the findings presented in this study report are only illustrative as they have emerged from the small sample of forms randomly collected for the purpose of the

² In Maharashtra there are two field offices – one located in Mumbai and the other in Nagpur.

audit. This data was forwarded to the States where the purchasing dealers who had issued the C/F forms were located, for cross-verification.

We, however, faced certain constraints while conducting cross-verification, as mentioned below:

- \approx The counterfoils of the forms were not available in the purchasing dealer's records.
- ≈ The utilization certificates had not been furnished by the dealers and the assessing authorities did not insist on their production.
- \approx The assessments had not been finalized at the purchasing dealer's end;
- pprox Certain case records could not be made available to audit; and
- ≈ The Department's replies confirming whether certain forms suspected by us to be fake/forged, were awaited in some cases.

1.9 OUR FINDINGS

1.9.1 The results of the performance audit, which was conducted by each Accountant General's office, was featured in the respective State Revenue Receipts Reports of the Comptroller and Auditor General. The cumulative money value of our observations amounted to ₹ 1304.52 crore.

1.9.2 In this Study Report we present the major findings which have been included in the Audit Reports of the CAG of India for various State Governments. Chapters II to IV deal with our findings on the internal control mechanism in the Commercial Taxes Departments of various States for printing, custody and issue of declaration forms and the systems prescribed for ensuring their correct utilization, irregular claims made by the selling dealers and mistakes noticed in the assessment of purchasing dealers.

1.9.3 In Chapter V, we have made certain recommendations and have also reported on the affirmative action taken by some States on the basis of our audit findings.

Chapter - II Internal Control Mechanism



CHAPTER - II INTERNAL CONTROL MECHANISM

2.1 INTRODUCTION

2.1.1 The primary requisite for ensuring that the declaration forms are utilized for their intended purpose and are not used as a tool for resorting to tax evasion is the creation of a robust internal control mechanism in the Commercial Taxes Department (CTD). Such mechanisms should ensure that the forms are printed in a secure environment, correctly accounted for and their utilization properly monitored. Coupled with this, there should be a mechanism through which unregistered/unscrupulous dealers can be identified, fake forms seized and their details promptly communicated to other States. It is incumbent upon the Department to ensure proper custody, receipt and issue of declaration forms so as to obviate the possibility of misuse leading to leakage of revenue.

2.1.2 The prescribed controls regarding printing, custody and issue of forms in most States are various registers for watching receipt and issue of forms both at the Headquarters and at the unit level, conducting physical verification of forms periodically to ensure that they are correctly accounted for, obtaining utilization certificates from the dealers to whom the forms were issued to ensure their proper use, checking the veracity of the dealers and the forms through TINXSYS, notifying other units/CTDs of other States promptly regarding lost/obsolete forms, and an Investigation wing or other mechanism to cross-check samples of forms with other States to ascertain their genuineness of transactions.

2.1.3 At the apex level, the Commissioner of Commercial Taxes (CCT) is responsible for administration of the CST Act and Rules in the CTD, including printing, receipt and distribution of declaration forms to each division and monitoring their correct utilization.

2.2 INCONSISTENCY BETWEEN CST ACT AND STATE RULES

2.2.1 The State Act and Rules are expected to conform to the provisions to the CST Act. We found that in some States the CST rules contained provisions which are against the provisions of the CST Act and rules. For instance, the second proviso to Sub Rule (1) of Rule 12 of the CST (Registration & Turnover) Rules, 1957 provides that a single declaration in form 'C' may cover all transactions of sales taking place in a quarter of a financial year between two dealers. Sub Rule (7) of Rule 12 further provides that the declarations in Form 'C' or Form 'F' shall be furnished to the prescribed authority within three months after the end of the period to which these declarations or the certificate relates. In **Jharkhand**, the Jharkhand Value Added Tax

Rules however stipulate submission of all CST declarations forms by the end of December of the next financial year.

2.2.2 In **Punjab**, the Sub Rules (1) and (2) of Rule 40 of the Punjab VAT Rules, 2005 provide that every taxable person shall furnish the annual statement by 20 November every year along with declarations prescribed under the Central Sales Tax Act, 1956.

2.2.3 In **Assam**, the Commissioner of Taxes, Assam vide circular No. 11/2008 dated 24 April 2008 instructed the assessing authorities (AA) that as regards CST returns, dealers should be asked to produce statutory forms at the time of scrutiny. Thus, the circular of CT, Assam gave the benefit of extension of time beyond the period of three months provided under the CST (R&T) Rules. Such benefit cannot be extended through a circular of the CT as the time limit is statutorily provided in the Central Rules.

2.3 INCONSISTENCY BETWEEN VAT AND CST RULES

2.3.1 As mentioned in the preceding para, the **Jharkhand** CST Rules are inconsistent with the CST rules. We also noticed that the Jharkhand Value Added Tax Rules and Jharkhand CST Rules are contradictory to each other as the Jharkhand VAT Rules stipulate submission of all CST declarations forms by the end of December of the next financial year while the Jharkhand CST Rules provide for furnishing of declaration forms upto the time of assessment (to be finalized within two years under the JVAT Act) and even after assessment upto a particular period as would be allowed by the AA. Absence of a provision of mandatory furnishing of declaration forms along with the returns could result in short payment of tax due to submission of incorrect particulars of transactions in the returns.

2.3.2 During scrutiny, we came across several cases where the dealers admitted payment of concessional rate of tax in their returns but did not furnish declaration forms at the time of assessment.

2.3.4 The Government of Jharkhand stated that consequent to the audit observation, a new Rule 4A had been inserted in the CST (Jharkhand) Rules in July 2011 for furnishing of CST forms for each quarter on or before the 20th day of the month after the end of the succeeding respective quarter.

2.4 NON-COMPLETION OF CST ASSESSMENTS

2.4.1 Section 9 (2) of the CST Act provides that the authorities empowered to assess, re-assess, collect and enforce payment of any tax under the general sales tax law of the appropriate State can assess, re-assess, collect and enforce payment of tax, including any interest or penalty, payable by a dealer under the CST Act. For this purpose they may exercise all or any of the powers they have under the general sales tax law of the State, and the provisions of such law, including provisions relating to assessment.

2.4.2 In **Arunachal Pradesh** no CST assessment had been done till September 2011 as stated by the CTD in September 2011.

2.4.3 In **Assam**, the CT, Assam vide a Circular directed (April 2007) all the AAs to complete all assessments relating to pre-VAT periods (upto May 2005) within 31 May 2007. In respect of the CST assessments for the years 2005-06 and 2006-07, all AAs were directed (April 2009) by the CT, Assam to complete the assessments by 30 September 2009. Our test-check of records of three unit offices revealed that despite the orders of the CT, the AAs did not complete assessments involving turnover of ₹ 496.89 crore under the CST Act in respect of 10 dealers, for the assessment years 2005-06 and 2006-07 till the date of audit.

2.4.4 In **Sikkim**, we observed that most of the dealers either did not submit CST returns or submitted CST returns irregularly. The CTD did not scrutinize any CST return of any dealer to verify, *prima-facie*, correctness of the returns and in fact finalized assessments of only 14 (three industrial dealers, eight cardamom dealers and three scrap dealers) out of 75 CST dealers during the period 2007-08 to 2009-10.

2.4.5 With GST expected to be introduced shortly, non-finalization of the pending CST assessments not only carries the risk of turnover escaping taxation but would also impose an additional burden on the CTDs to finalize the pending cases even as they face the challenges of the new taxation regime.

2.5 ABSENCE OF SEPARATE BUDGET ESTIMATES FOR RECEIPTS UNDER CST ACT

2.5.1 We noticed that in **Arunachal Pradesh**, **Jammu and Kashmir**, **Manipur**, **Meghalaya**, **Mizoram**, **Nagaland**, **Puducherry** and **Tripura** separate budget estimates were not prepared for collection of revenue under the CST Act, as a result of which the Department had no mechanism to forecast/estimate CST revenue collection. This was not conducive to sound financial management and was not in consonance with good budgeting practices.

2.5.2 The CTD in **Arunachal Pradesh** could not furnish the actual receipts from CST during the period 2006-07 to 2010-11 to audit.

2.5.3 In **Karnataka** we noticed in seven assessment circles that as per the assessments concluded there were 2,462 cases of short/non-filing of declaration/statutory forms. In respect of these cases differential tax together with interest aggregated to ₹ 147.40 crore was levied and demand notices were served to the concerned dealers. However, these amounts were not booked and taken as arrears of tax under CST. This included demand notices issued under CST for ₹ 52.19 crore for the assessment years 2005-06 and 2006-07 to M/s. Hindustan Aeronautics Limited.

2.5.4 Though the demand notices were issued in these cases between January 2009 and March 2010, follow up action for recovery of these demands was not evident from the records. As a result, the position of arrears of revenue reported by the CTD was not only inaccurate, but there was also no effective action for recovery of these amounts from the dealers concerned, which is a matter of concern.

2.6 ABSENCE OF A DATABASE OF EXEMPTIONS/CONCESSIONS OF TAX GRANTED

2.6.1 Under the provisions of the CST Act and rules made thereunder, exemption from/concessional rate of tax is allowed by the CTD on fulfillment of certain terms and conditions.

2.6.2 The exemptions/concessions granted under CST constitute tax expenditure for the Government as revenue is foregone in the process. A database of revenue foregone through concessions and exemptions is essential to enable the Department to monitor both the assessment units where the dealers prefer claims of concessions and exemptions in large numbers as well as commodities in respect of which most exemptions/concessions are sought. Further, the absence of such a database means that the Government, while framing policies relating to exemptions to be granted to industrial units, would not be in a position to analyze issues of cost-benefit trade-off properly. Such information is therefore, a pre-requisite for informed decision making.

2.6.3 We found that in none of the States data in respect of exemption/concession of tax granted was being maintained by the CTD. In absence of such a database, the Department could not quantify the amount of revenue foregone due to concessions and exemptions allowed from time to time nor was it possible for the CTD or for audit to carry out a systematic study of the concessions and exemptions granted.

2.6.4 We observed during the performance audit that there were certain sectors which were prone to misuse of tax exemptions/concessions such as vegetable oil dealers in Andhra Pradesh, dealers in chemicals in Goa, cardamom dealers in Tamil Nadu and petroleum dealers based in Puducherry.

2.7 BLACKLISTING OF DUBIOUS DEALERS AND CREATING A DATABASE OF SUCH DEALERS

2.7.1 To prevent evasion of tax, it is expected that the CTD would maintain a database of dubious dealers based on their past history, listing cases of fraud, misuse of forms, use of fake forms, concealment of sales/purchases etc. by these dealers in order to avail exemption or concession of tax in inter-state trade and commerce. This database, if made online on the CTD's website, would not only facilitate the Department in keeping a watch on dealers having dubious track records but would also alert other States about such dealers and ensure effective monitoring of such cases. Further, existence of such a mechanism could also serve as a deterrent for dealers who indulge in such malpractices.

2.7.2 We found that the CTDs in the States have not put in place a system of blacklisting dealers who have been found to be utilizing invalid/fake declaration forms and displaying their names and other details on the official website. A database of dubious dealers has not been created which could have alerted the assessing authorities while taking up scrutiny of returns/assessments relating to purchase/sale involving these dealers.

2.7.3 The disadvantage of not having a database profiling dubious dealers is that dealers who had in the past utilized fake forms in order to claim incorrect exemptions/concessions continued to engage in such malpractices, undetected by the CTD.

An example is cited below:

2.7.4 In **Andhra Pradesh** we had noticed during our past audits that certain dealers falling under the jurisdiction of Special Commodities Circle, Hyderabad were submitting fake declaration forms from the year 2000-01 onwards. In this regard the Government issued orders in July 2004, in respect of 12 vegetable oil dealers who had submitted bogus 'F' forms for the transactions relating to the year 2000-01, to assess their bogus 'F' form turnover under the AP General Sales Tax Act, treating the transaction as local sales. Audit had pointed out during the verification of the records for the assessment years 2004-05, 2005-06 and 2006-07 that certain dealers were repeatedly filing bogus 'F' forms and an observation was also featured in the Audit Report (Revenue Receipts) for the year 2009-10 regarding fake 'F' forms. Out of the four dealers that featured in the observation, two dealers who had submitted fake 'F' forms were found to have indulged in such activities again during our present performance audit. From this it is evident that there was no practice of blacklisting such dealers despite their poor track record.

2.7.5 We also found from the database created by us that these two dealers had claimed exemption of ₹ 3.10 crore for the period 2004-05 to 2006-07. The CTD, Andhra Pradesh therefore needs to investigate the genuineness of all such transactions.

2.7.6 Creating a profile of dealers who have exhibited a pattern of evading taxes would enable the CTDs to keep a watch over them. Such a database would help the Department to monitor such dealers even when the shift is made to the GST regime.

2.8 NON-MAINTENANCE OF SAMPLES OF FORMS OF OTHER STATES

2.8.1 We observed that the CTDs did not keep a sample of the colour, design and format of the forms prevailing in different States for comparison in order to identify fake or forged declaration forms. As all States have not adopted electronic issue of declaration forms, keeping such samples till all the States commence on-line issue of forms fully, would help in detecting fake declaration forms. Non-availability of the samples of forms issued by other States carries the risk of loss of revenue due to acceptance of invalid, obsolete and forged forms.

We cite an example below:

2.8.2 In **Odisha**, while verifying certain 'C' forms which were accepted in March 2009 by the Assessing Authority (AA) during the assessment of a dealer in Cuttack-I East Circle, we noticed that 20 'C' forms issued by purchasing dealers in Andhra Pradesh submitted by the dealer in respect of sale value of ₹ 2.01 crore relating to the year 2005-06 were *prima facie* not genuine. These 'C' forms marked 'Original' were bearing the text "(*Note: to be retained by the selling dealer*)" at the bottom of the form instead of the text "(*Note: to be furnished to the prescribed authority in accordance with the rules framed under Section 13(4)(e) by the appropriate State Government.*)" which are prescribed to be printed in the original part of the form as per the CST Act. Besides, the forms were not having the usual watermark background and logo of the Government of Andhra Pradesh and contained typographical errors. During cross verification conducted by us, the details of these forms could not be traced out from TINXSYS.

2.8.3 As such, acceptance of the said declaration forms without proper scrutiny led to short levy of tax of ₹ 7.74 lakh. Had samples of the forms issued by the CTD of Andhra Pradesh been available with the assessing authorities in Odisha, the fake forms could have been identified.

2.9 PRINTING AND CUSTODY OF FORMS

2.9.1 As registered dealers avail concessions/exemption of tax by using CST forms in the course of inter-state trade, it is incumbent upon the Department to print CST forms with high security standards and to keep the forms in safe custody. Physical verification of the stock of forms is an important instrument of control, along with surprise checks of the subordinate offices and maintenance of prescribed registers together with submission of periodical returns on receipt, issue and utilization of declaration forms.

2.10 PRINTING OF FORMS

2.10.1 The prescribed procedure for printing is that the CTD reviews the existing stock vis-àvis probable requirement of various declaration forms from time to time and places indents for printing of forms to the press in phases giving a specific series and serial numbers, well before the existing stock is exhausted.

2.10.2 We observed that in most of the States the forms are being printed in the Government press, while in Andhra Pradesh, Haryana, Uttar Pradesh, Bihar, Jharkhand and Uttarakhand these are being printed by private printers.

2.10.3 In **Andhra Pradesh** the CTD, in pursuance of Government orders of 13.10.1998, gave the task of printing of statutory forms to private printers. Consequent on receipt of statutory forms from the printer, the same are kept in safe custody in the premises of the CCT.

2.10.4 We observed from the records relating to statutory forms that before entering into an agreement with the printer, the Department sends a specimen copy of the form to the Technical Officer, Government Printing Press, Chanchalguda, Hyderabad to ensure that all the security features as prescribed are duly indicated in the tender notification for incorporation in the forms. We however noticed that the Department did not have a system of sending the printed forms at periodic intervals to the Technical Officer for ensuring that the suppliers had adhered to the norms as stipulated in the tender notification. In view of this, there is a risk of the supplier deviating from the prescribed norms.

2.10.5 In **Uttar Pradesh** we found that forms were printed from the private security press as the facility of printing such forms with required security features like presence of ultra violet security, invisible fibre, seven digit numbering, use of specified ink, anti copying ink and change of colour according to temperature were not available in the Government Press, Allahabad. However, there is no technically qualified team in the Department to ascertain that the forms have been printed with the required security features, the grounds on which the work of printing was assigned to the private press in the first place. The printed forms are also being stored by the press at their own expense.

2.10.6 We found that in some States printing of forms had been done in huge quantity without assessing the actual requirement. Consequently, the Department was saddled with huge number of printed forms and the responsibility of their proper storage and accounting. We cite some examples in the following paragraphs.

2.10.7 In **Sikkim**, declaration forms were got printed sometime in 1983 from the Government of India Press, Nasik, records of which were not available with the Department. The stock printed during 1983 was still lying unused. The CTD did not have any data of declaration forms printed in 1983, forms utilized till March 2010 and forms lying unused. From these facts it was evident that printing of declaration forms during 1983 was done without assessing the requirement of such forms. The declaration forms were printed in such a huge quantity that even after issue of such forms during the last 28 years, the stock could not be fully utilized. However, in April 2011, after destroying the old unused declaration forms, the Department got new forms printed.

2.10.8 In **Meghalaya** we noticed that against 875 books of 'C' forms (each book contains 100 forms) issued by the Commissioner of Taxes (COT), the field offices records showed receipt of 886.55 books, resulting in a discrepancy of 11.55 books as detailed in the following table:

Year	Opening balance	Books issued	Closing balance	Books received by field offices	Difference
2007-08	7850	350	7500	376.28	(-) 26.28
2008-09	7500	350	7150	326.76	(+) 23.24
2009-10	7150	175	6975	183.51	(-) 31.75
Total		875		886.55	(-) 11.55

There is a risk of the missing 'C' forms being misused.

2.10.9 The position of opening balance of 'F' form books, books issued and closing balance was:

Year Opening balance		Books issued	Closing stock	
2007-08	2007-08 8750		8725	
2008-09	8725	25	8700	
2009-10	8700		8700	

(Source: Information furnished by COT and ST field offices)

2.10.10 From the foregoing table it can be seen that the average consumption of 'C' and 'F' forms was 300 and 25 books respectively. Based on this trend, the stock would last for another 24 and 348 years respectively. Thus, printing the forms in excess of the requirement is fraught with the risk of them becoming obsolete/damaged/misused.

Year	Type of declaration	Opening stock	Receipt	Issue	Closing stock					
	form		(in number of books ³)							
2007-08	Form-C	3,291	1,000	4,085	206					
2008-09		206	9,000	4,790	4,416					
2009-10		4,416	5,000	4,405	5,011					
2007-08	Form-F	4,890	Nil	211	4,679					
2008-09		4,679	Nil	210	4,469					
2009-10		4,469	Nil	210	4,259					

2.10.11 In **Assam** the position of forms printed, issued and the closing stock as on 31 March 2010, as furnished by the CTD, was as given below:

2.10.12 As can be seen from the above table, only 631 books of 'F' forms were issued during the period 2007-08 to 2009-10, out of the opening balance of 4,890 books while there was a closing balance of 4,259 books. After introduction of Value Added Tax (VAT), phasing out of CST began with effect from 1 April 2007 with reduction in rate of tax on inter-state sale from four to three *per cent* (April 2007) and three to two *per cent* (June 2008). As the average annual issue of 'F' forms during the last three years was 210 books, it would take a very long time to exhaust the 'F' forms lying in stock.

2.10.13 In **Jammu and Kashmir** no system was put in place by the Department to assess the requirement of forms before placing orders. Our analysis of the information received from the Deputy Commissioner (Stamps), Jammu indicated that printing of the forms was in excess of the requirement. The year-wise position of printing/receipt and issue of declaration forms 'C' and 'F' from 2006-07 to 2009-10 is mentioned in the following table:

Year	Nature of forms	Opening balance of forms	Forms printed/ received	Total	Forms issued	Percentage of issued forms	Closing balance of forms (includes 75 damaged forms)
2006-07	С	43075	700000	743075	288000	39	455075
	F	73213	200000	273213	44000	16	229213
2007-08	С	455075	145000	600075	115000	19	485075
	F	229213	Nil	229213	20000	9	209213
2008-09	С	485075	Nil	485075	150000	31	335075
	F	209213	Nil	209213	Nil	0	209213
2009-10	С	335075	Nil	335075	125000	37	210075
	F	209213	Nil	209213	20000	10	189213

³ Each book of 'C' and 'F' forms contains 25 and 100 leaves respectively.

2.10.14 The foregoing facts indicate that printing of declaration forms was not got done on a realistic basis, being far in excess of the requirement, and hence the forms were vulnerable to damage due to prolonged storage. We further noticed that 75 forms included in the above details had been shown as written off by the Department but were not destroyed and had remained part of the closing stock. There is a risk of these forms falling into the hands of unscrupulous dealers and being misused.

2.10.15 Our scrutiny of records further revealed that the Deputy Commissioner, Sales Tax (Administration), Jammu had got 1.40 lakh forms (C, F, H, E-I and E-II) printed from the Government Press, Jammu at a cost of \gtrless 85,000. The actual date of printing and the reasons for getting the forms printed from the Government Press, Jammu instead of from the India Security Press, Nasik was neither found on record nor furnished by the Department. Of the 1.40 lakh forms printed, 30,000 'H' forms had not been lifted by the Department as of March 2011. The General Manager, Government Press, Jammu had requested (January 2002 and February 2003) the Department for lifting these forms so as to prevent their further deterioration. In February 2004, the Press informed the Department that due to non-lifting of these forms for more than 12 years, the forms had been damaged.

2.10.16 The above facts indicate that the CTD had not discharged its responsibilities properly as not only were orders for printing of the declaration forms placed in excess of their requirements, but the printed declaration forms were not lifted and kept in safe custody to prevent damage. Thus, there is a risk of these forms being misused.

2.10.17 In Nagaland the statutory forms are got printed by the Commissioner of Taxes (COT) from the State Government press and supplied to the divisions for distribution amongst the circle offices under their jurisdiction. The Government of Nagaland got printed 5,58,500 'C' forms from the Deputy Controller of Stamp, Central Stamp Stores, Security Press, Nasik Road during the period from 1973-93. Out of the 'C' forms printed, the Department had issued 3,95,783 forms till 11 June 2001. The Department through a notification dated 16 June 2001 declared all the 3,95,783 'C' forms printed and issued upto 11 June 2001 obsolete and invalid citing the reason "to prevent misuse".

2.10.18 Similarly, the Department got 82,500 'F' forms printed during April 1973 to April 1988 from the Deputy Controller of Stamp, Nasik, of which 19,195 forms were issued till 11 June 2001. All these issued forms were also declared obsolete and invalid through a notification on 11 June 2001.

2.10.19 We scrutinized the departmental records and found that specific reasons for declaring the forms invalid were not recorded and the notification was issued on the verbal instructions of the COT stating that the action was in the interest of government revenue.

2.10.20 The Department's action of declaring all the forms prior to the date of notification obsolete and invalid was not justified as those forms were not called back from the dealers. We found that these forms were misused which we have highlighted in Chapters III and IV of this Report.

2.10.21 In Kerala for inter-state transactions up to December 2009 printed declaration forms were issued to dealers and for transactions thereafter electronic forms are issued. Even after December 2009, printed forms are being issued for transactions pertaining to earlier periods. The Joint Commissioner, under the supervision of the Commissioner of Commercial Taxes, was responsible for distribution of manual forms which were printed at the Kerala Books and Publication Society (KBPS) (a Government Autonomous Body) as per orders placed by the CTD and were kept in their custody. The required number of forms was allotted to the Deputy Commissioners at the district level based on their requisition who in turn were required to collect it from KBPS and distribute them to the Assistant Commissioners as per their indent.

2.10.22 Cross check of records relating to printing and issue of declaration forms available at the Commissionerate and KBPS for the period from April 2005 to June 2011 revealed that the closing balance of 'C' Form books available as per the stock register maintained in KBPS as on 18 June 2011 was 6870 while the balance as per the register maintained in the Commissionerate on that date was 13,950. The excess of 7080 books at the Commissionerate occurred due to issue of 11,130 'C' form books as per 21 sanctions granted between August 2007 and June 2011 not being entered in the stock register maintained at the Commissionerate. On two occasions, the entry in the registers at the Commissionerate and KBPS differed by 200 and 100 books. Between October 2008 and February 2011 three DCs did not lift the allotted 'C' form books aggregating 2,100 from KBPS while four DCs lifted lesser number of books (aggregating 2,250) than that allotted. These facts show that the printing and issue of declaration forms was not properly monitored at the Commissionerate level. No reconciliation/physical verification was seen to have been conducted through which these deficiencies could have been detected. Thus, there is a risk of the forms not accounted for being misused.

2.10.23 In **Arunachal Pradesh** the CTD was unable to furnish to us the position of declaration forms printed during the period 2007-08 to 2009-10 stating that there were no records in the Department regarding printing of 'C/F' forms. The CTD could not also furnish the position of the opening stock of forms as on 1 April 2007.

2.11 CUSTODY OF FORMS

2.11.1 In most of the States, the forms, after printing, are received from the press by an authorized person of the Commissionerate and after physical verification, are taken into stock and kept in safe custody. The forms are then issued to the circles on proper authorization and acknowledgement. Physical verification of forms is also to be carried out at least once every year by a responsible officer who is independent of the authority in charge of the forms.

2.11.2 We noticed lack of controls in some States and cite some examples in the subsequent paragraphs. Lack of adequate controls could result in the forms finding their way into the hands of unscrupulous dealers to evade tax. For example, in **Nagaland**, our cross check of the declaration forms submitted to the assessing officers of Sikkim by a dealer registered in NE Charge circle, Sikkim revealed that two dealers of Nagaland, M/s Kyong Hardware registered under ST, Wokha and M/s Zhimomi Enterprise registered under ACT, Dimapur imported goods worth ₹ 2.62 crore by utilising 25 obsolete 'F' forms during 2007-09. On cross verification it was revealed that the forms used were declared obsolete by the Department in June 2001.

The Department also stated (November 2011) that the forms were not issued to these dealers. Thus, use of obsolete forms resulted in irregular import of goods worth ₹ 2.62 crore by two dealers. The dealers had not accounted for these imports in their records hence, an amount of ₹ 32.81 lakh towards VAT was also evaded.

2.11.3 In **Meghalaya** we noticed that the physical verification of the forms was never carried out either in the office of the Commissioner of Taxes (COT) nor in the field offices during the period under performance audit.

2.11.4 In **West Bengal** we found in four form issuing sections and in the Central Form Issuing Section (CFIS) that the declaration forms were kept in steel almirahs. In three of these sections, the almirahs did not have any double locking system while in two sections, though the almirahs had double locking system, the keys of both the sets were kept with the same person i.e. either the section-in-charge or the officials authorized by the section-in-charge. In CFIS the almirahs marked for the declaration forms were also used for the purpose of keeping other stationery articles and used by all the officials as and when required. Thus, the possibility of misuse or mutilation of declaration forms cannot be ruled out.

2.11.5 In **Rajasthan** we noticed that the forms were not stored properly. We observed from the stock register that 406 'F' forms at Central Store, Jaipur; 25 'C' forms at Chittorgarh and 175 'C' forms at Special Circle–I Jodhpur, were destroyed by termites. The Central Store for declaration forms was situated in Jaipur in a private building and physical verification of the store had not been conducted since February 2004.

2.11.6 In **Himachal Pradesh** our scrutiny of records maintained at the Commissionerate revealed that the stock and issue register of the declaration forms 'C' and 'F' was not maintained properly. We noticed that the declaration forms received from the Printing and Stationery Department were not accounted for in the Stock and Issue register and balances at the end of day were not worked out. The declaration forms were not issued in chronological order and the register was never submitted to the higher authorities, in absence of which safe custody and proper accounting of declaration forms could not be ensured. Thus vital internal control checks for minimizing the risk of misuse of cash value documents like declaration forms 'C' and 'F' were not being exercised.

2.11.7 With GST anticipated to be introduced soon and the consequent abolition of CST, there would be no further requirement for these declaration forms. Further, with the introduction of online issue of declaration forms, paper-based forms are being phased out. Hence, the CTDs need to take into account these facts before deciding on whether to print more forms. Huge accumulation of balances and the accompanying implications of their proper storage and custody carry the inherent risk of these forms finding their way into the hands of unscrupulous dealers.

2.12 ISSUE AND ACCOUNTING OF FORMS

2.12.1 The receipt and issue of the declaration forms are accounted for in separate stock registers by the unit offices indicating receipt and issue of the various declaration forms. When the forms are issued to the dealer, the signature of the dealer as a token of receipt is to be obtained in the register.

2.12.2 Every registered dealer to whom any declaration form is issued by the appropriate authority shall maintain a complete account of every such form. The dealer has to furnish utilization certificate to the competent authority showing the name of dealer to whom the form is issued, bill number and date and description of goods with value. New forms shall not be issued to a dealer until he has rendered a satisfactory account of the old forms issued to him to the prescribed authority.

2.12.3 In **Sikkim**, it was seen that the AAs did not ensure complete utilization of declaration forms issued earlier at the time of issue of subsequent declaration forms. Test check of records of 50 dealers revealed that till March 2010, 11,385 declaration forms were issued to these dealers, of which utilization details for only 5,140 declaration forms were submitted to the Department till December 2010, and utilization details for 6,245 declaration forms were wanting. It was further seen that at the time of applying for issue of declaration forms, 33 dealers had not furnished details of utilization of declaration forms issued earlier but despite this, the AAs continued to issue declaration forms to these dealers. Due to this, misuse of declaration forms by the dealers could not be ruled out.

2.12.4 In **Bihar** we observed that the Department has not prescribed any mechanism for issue of declaration forms, as the forms were found issued from the Commissionerate to the circles as well as to the divisions and also from one circle to another circle. No circle-wise or division-wise ledger was maintained for issuance of forms. The forms were found issued through the stock register itself and no reconciliation of entries was found for those forms which were issued from one circle to another.

2.12.5 Under the instructions issued in January 2006, the circle offices were required to issue 'C' forms to the dealers after filling up the requisite details. In cases where advance 'C' forms were requisitioned by the dealers, the forms could be issued to the dealer after recording the estimated value at the top of the form in red ink. However, in November 2007 the instructions of January 2006 were withdrawn by the Department and fresh instructions were issued for issue of blank 'C' forms. This is fraught with the risk of misuse of forms.

2.12.6 Further, we observed that four Commercial Taxes circles did not maintain the accounts of declaration forms properly as there were discrepancies between the opening and closing stocks of the declaration forms as indicated in the following table:

Name of circle	Year	Opening Stock	Receipt	Total	Issue	Closing Stock	Remarks
Bhagalpur (F form)	2006-07	4,596		4,596	3,793	798	Five forms were exhibited short in the closing stock.
Jamui (F form)	2006-07	1,667		1,667	1,325	367	25 forms were exhibited excess in the closing stock.
Patna South	2006-07	2,165	12,000	14,165	4,916	9,249	The closing stock of the preceding year
(C form)	2007-08	7,257		7,257	4,827	2,430	was not taken as opening stock in the
	2008-09	2,426	4,000	6,426	4,067	2,359	subsequent year.
	2009-10	1,738	14,000	15,738	4,632	1,106	
Samastipur (F form)	2006-07	17	500	517	127	392	Two forms were exhibited excess in the closing stock.

2.12.7 The above facts indicate lack of internal control in the Department. Improper accounting of declaration forms is fraught with the risk of misuse of the same leading to loss of revenue to the exchequer.

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2.12.8 In **West Bengal** we found in the DF (HQ), three mofussil charges (Asansol, Siliguri and Durgapur) and four Declaration Form Issue Sections at Beliaghata, Howrah, Salt Lake and Central Form Issue Section, Kolkata that the stock of all types of declaration forms was maintained together in a single register (folio wise). We noticed that:

- ≈ there was no page counting certificate duly attested by the competent authority at the time of opening of stock register;
- \approx in the stock register, the 'balance in hand' column was not filled up;
- \approx the stock of forms was entered in the stock register at the time of issue to different indenting units. As a result, the stock of forms with the DF (HQ) at any point of time could not be ascertained;
- ≈ periodical physical verification of stock register was not done by the competent authority to certify the existing stock of declaration forms; and
- ≈ reconciliation of stock issued from the DF (HQ) and that received by the issuing office was not done.

2.12.9 In absence of a system of reconciliation of stock, the possibility of loss of forms in transit and their consequent misuse cannot be ruled out. During the course of the performance audit, we found that 2,700 'C' forms and 1,000 'F' forms which were issued by DF (HQ) to Alipur charge were not found entered in the stock register of Alipur charge as detailed in the following table:

Type of Form	Date of issue from DF(HQ)	Serial No.	No. of forms
С	22.08.2007	95C 1022001 to 1023000	1000
С	15.09.2009	95C 1630301 to 1632000	1700
F	15.09.2009	95P 726001 to 727000	1000

2.12.10 In **Himachal Pradesh** our scrutiny of the stock and issue registers of two districts

(Mandi and Sirmour) revealed the following deficiencies:

Date of issue of 'C' forms	Name of the dealer to whom issued	Serial No. of 'C' forms	No. of forms	Deficiencies found
10.05.2007	M/s Tirlok & Sons Brewery and Distillery, Kala Amb	1091601 to 1091630	30	Five 'C' forms bearing No. 1091601 to 1091605 were again issued to M/s Saitech Pharmaceuticals, Kala Amb on 11 May 2007.
27.08.2007	Excise and Taxation Officer, Paonta Sahib	1001351 to 101650	300	Of these, 182 'C' forms were again issued to different firms in August 2007.

2.12.11 We further noticed in AETC Mandi that out of 689 'C' forms which were initially not found traceable in the issue register, 688 forms were reported to have been issued to the dealers between 1 February and 8 February 2011 despite the fact that these forms were destroyed by termites and were not fit to be issued to dealers. However, of these, one form 'C' bearing Sl. No. 08872275 was neither found issued to any dealer nor traceable in the records.

2.12.12 This clearly indicates that the office did not have proper arrangements in place to keep the forms in safe custody. Further, the Department, instead of getting these forms cancelled from the higher authorities, issued these forms to the dealers.

2.12.13 In **Tamil Nadu** as per Standing Order 86 of the Tamil Nadu Commercial Taxes Manual Volume II, each assessing authority shall maintain a Stock Register in Form 89 for accounting the receipt of declaration forms from the Territorial Deputy Commissioners and issue of the forms to the dealers. An Issue Register in Form 90 shall also be maintained by the assessing authority to record dealer-wise details of issue of forms. The format of the Issue Register is such that whenever declaration forms are indented by the dealers, the assessing authority should check the utilization of declaration forms received by the dealers earlier before issuing fresh forms to them.

2.12.14 We noticed during test check in 17 assessment circles that the AAs maintained only one register for accounting both stock and issue of declaration forms. The format of the register was also not uniform and different formats were adopted in different circles. As the registers were not maintained in the prescribed format, we could not ensure whether the AAs exercised necessary checks before issuing declaration forms to the dealers.

2.12.15 In **Nagaland** cross check of the stock register of 'C' forms maintained in the Commissioner's Office with that of the districts revealed short receipt of 1375 'C' forms by the Assistant Commissioner of Taxes, Dimapur during 2007-08 to 2009-10.

2.12.16 After we pointed this out in September 2011 the Department stated in November 2011 that the 'C' forms were declared obsolete and invalid in October 2011 as they were lost. The Department also stated that physical verification would henceforth be conducted periodically.

2.13 FORMS ISSUED THOUGH UTILIZATION CERTIFICATES NOT SUBMITTED

2.13.1 Under the CST (Orissa) Rules, 1957, a registered dealer who wishes to purchase goods from another registered dealer of some other State for the purpose specified in his Registration Certificate, shall obtain, on application, blank declaration forms prescribed under the CST Rules for furnishing the same to the selling dealer. No second or subsequent supply of declaration forms shall be made to him unless he furnishes a copy of the accounts of the forms last supplied to him.

2.13.2 In **Odisha** we noticed in Cuttack-I-East circle that in contravention of the provisions laid down in the Rules, second and subsequent issues of declaration forms had been made to three dealers although utilization accounts in respect of forms issued earlier had not been submitted by them. The details are given in the following table:

Name of the dealer	Date of earlier issue of forms	Number of forms issued	Date of subsequent issue of forms	Number of forms issued
Arjun Traders	24 October 2008	2	7 May 2009	2
Motiwala Traders	6 June 2006	8	16 October 2008	13
Sanjay and Co	9 June 2006	1	24 October 2008	1

We also noticed (December 2010) that as on the date of our audit, these dealers had not submitted the utilization accounts even in respect of the forms issued to them earlier.

2.13.3 In **Meghalaya** as per the directions issued by the Commissioner of Taxes (COT) on 2 December 1996, to all the Superintendent of Taxes (STs), new declaration forms are to be issued only after the utilization statement in the prescribed format is submitted to the ST by the indenting dealers.

2.13.4 Test check of records of nine selected ST field offices revealed that the utilization statements were not submitted by the registered dealers of Tura and Jowai, and were partially furnished by the dealers of Shillong and Nongpoh. We did not find any record or instance where the STs insisted on submission of the same before issue of fresh forms. Issue of the declaration forms without submission of utilization statement was incorrect and indicated that the STs were not following the departmental instructions to prevent evasion of tax, concealment of turnover by misutilization of forms, etc. This also indicated lack of monitoring by the COT to ensure compliance of its instruction.

2.13.5 In **Kerala** though the assessing authorities have been directed to assess the turnover in cases of non-submission of declaration forms, cases of non submission of forms even after one to three years after the assessment year and allowing of exemptions/concessions without their production was noticed in most cases. Utilization statements of the declaration forms were not found in the files produced to us, though audit was conducted one to two years after the assessment year. This indicates that there was no system to promptly verify utilization certificates at the time of scrutiny of returns/conducting tax audits.

2.14 DECLARATION FORMS NOT ISSUED CHRONOLOGICALLY

2.14.1 In **Sikkim**, declaration forms were not being issued chronologically either from the Central store or from any of the unit offices.

2.14.2 In **Uttarakhand**, during scrutiny of the Headquarter's form 'C' issue register, we noticed that 5000 forms bearing Serial No. 140001 to 145000 pertaining to series VAT UA/DT-06 were issued on 23 April 2007 to the Joint Commissioner, Kashipur, and thereafter instead of issuing form 'C' of the same series, 20,000 forms of a different series UK VAT /C 2007 (Serial No. 00001 to 20000) were issued on 9 May 2007. Forms of the old series from Serial No. 145001 to 150000 (5000 forms) were not issued by the Headquarters for more than three years i.e. up to the date of audit.

2.14.3 In **Mizoram** scrutiny of records revealed that the declaration forms were issued from time to time without maintaining the chronological order of the forms. We noticed that the Commissionerate of Taxes issued (November 2010) declaration forms bearing serial numbers DD 025676 to DD 026675 to the ACT, North Zone, Aizawl, whereas the previous series from DD 019926 to DD 020000 having 75 forms were still lying in stock as of July 2011.

2.14.4 We further noticed that the Central Zone issued (September 2006) C-form bearing serial numbers from 01FF 103890 to 01FF 103902 to a dealer (M/s Khaia & Sons) and thereafter in November 2007 seven forms of an earlier series bearing serial numbers 01FF 094804 to 01FF 094810 were issued to the same dealer.

2.14.5 Non-issuance of forms serially undermines the control mechanism and may lead to misuse of forms and evasion of tax.

2.15 UNUSED DECLARATION FORMS NOT TAKEN BACK AFTER CANCELLATION OF RC

2.15.1 As per the CST Rules, declaration forms can be issued only to registered dealers. Once the registration certificate (RC) is cancelled, the dealer becomes an unregistered dealer. Under the provision of Rule 9 of CST (Registration and Turnover) Rules, 1957 if a dealer discontinues his business, he shall intimate the fact to his assessing authority in the prescribed form and should surrender to the notified authority his certificate of registration and the copies thereof. Any unused declaration forms remaining in stock with a registered dealer on the cancellation of his certificate of registration are required to be surrendered so that the forms are not misused.

2.15.2 In **Jammu and Kashmir** we noticed during test-check of records of the Commercial Taxes Circle B, Srinagar that a dealer (M/s Hardev Traders) was issued 150 'C' forms by the AA in April 1990. The dealer had been assessed for the period from 1989-90 to 2000-01 during the years 1993-94 to 2002-03 for 'nil' tax liability. The registration of the dealer was cancelled by the AA in January 2001 without insisting upon submission of the consumption statement/surrender of unused 'C' forms to obviate chances of their misuse. During cross-verification of 'C' forms, we noticed that two dealers of Meghalaya (M/s K.M. & Co & M/s Meghalaya Coal) had shown sales of coal valued at ₹ 7.51 crore during 2009-10 to the dealer. The failure of the AA to obtain the consumption statement/unused 'C' forms at the time of cancellation of registration of the dealer had resulted in their misuse resulting in loss of revenue of ₹ 1.11 crore including interest and penalty. The fate of the remaining 148 'C' forms was not known and the possibility of their misuse could not be ruled out.

2.15.3 Under the CST **Meghalaya** Rules, any unused form remaining in stock with a dealer on the date of cancellation of his RC shall be surrendered to the AA within 15 days of such cancellation. If the dealer fails to surrender unused forms at the time of cancellation of his RC, the COT shall issue a notification in the official gazette, declaring the form obsolete and invalid to prevent misuse of such forms. The CTDs of other States would also be informed accordingly.

2.15.4 In ST, Williamnagar, the RC of a dealer was cancelled (December 2009) but the dealer did not surrender three unused forms. The AA neither asked the dealer to return the forms nor did it report the matter to the COT for making the forms invalid and obsolete so as to prevent their misuse.

2.15.5 We also noticed that two dealers of Meghalaya sold taxable goods valued at ₹ 7.51 crore to a dealer of Jammu and Kashmir during 2009-10 and produced two 'C' forms. The AA accepted the forms and assessed the dealers at concessional rate. Cross-verification of the forms however, revealed that the purchasing dealer of Jammu and Kashmir had already closed down his business and the RC of the dealer was cancelled at the time of purchase of goods but the dealer had not surrendered the forms at the time of cancellation. Thus, submission of the invalid forms remained undetected by the Department at the time of finalizing the assessment due to absence of a system of cross verification of the declaration forms.

2.15.6 In **West Bengal** we found in case of six dealers in four charges that RCs were cancelled without obtaining the utilization certificates and 36 unused forms remained in the possession of these dealers.

2.15.7 In **Odisha**, we noticed that in Cuttack-I East circle, although RCs of 10 dealers were cancelled between 11 May 2009 and 30 December 2009, yet 76 unutilized blank 'C' forms issued to those dealers between 6 June 2006 and 6 September 2009 had neither been surrendered by the dealers nor had the registering authority of the circle insisted on getting back those forms from them before cancellation of the RCs.

2.15.8 Rule 5(9) of the CST (**Delhi**) Rules, 2005 provides that any unused declaration forms remaining in stock with a registered dealer on the cancellation of his Certificate of Registration shall be surrendered to the Commissioner. However seven AAs and one Additional Commissioner, (Zone-VI) stated that the Department does not take back the unused declaration Forms remaining in stock with a registered dealer on the cancellation of his registration.

2.15.9 In **Madhya Pradesh** we noticed that there is no mechanism to ensure that the declaration forms issued to the dealer are returned back after cancellation of the registration to prevent misuse. During test check of records of three circle offices we noticed in 11 out of 18 cases that neither were the declarations issued to the dealers returned nor were their accounts submitted after cancellation of the registration certificates. We further noticed that 181 'C' and 'F' forms remained with these 11 dealers even after the cancellation of their registration certificates.

2.15.10 Retention of the unused 'C' forms by the dealers after cancellation of their RCs was fraught with the risk of misuse of the said declaration forms.

2.16 ISSUE OF FORMS AFTER CANCELLATION OF REGISTRATION CERTIFICATE

2.16.1 As per Rule 10(1) of the CST (**Tamil Nadu**) Rules, 1957 declaration forms can be issued only to registered dealers. Once the registration certificate (RC) is cancelled, the dealer becomes an unregistered dealer. Rule 10(6) of the rules *ibid* provides that unused declaration forms remaining in stock with a registered dealer on the cancellation of his registration certificate or on the stoppage of his business shall be surrendered to the registering authority within seven days from the date of receipt of the order of cancellation or the date of stoppage of business.

2.16.2 Our scrutiny of details regarding issue of declaration forms and data relating to cancelled RCs/stopped business cases available with the Department revealed that 8,322 'C'

form and 1,060 'F' form declarations were issued to 792 dealers, in 226 assessment circles, subsequent to the date of cancellation of their RCs, against the rule provisions.

2.16.3 In **Odisha** in Cuttack-I (East) circle, we noticed that the RC of a dealer was cancelled in January 2010 after his death in November 2009. However, in contravention of the provisions of the above mentioned Rules, the AA issued (30 June 2010) 137 'C' forms in the name of the deceased dealer for inter-state purchase of goods valued at ₹ 14.16 crore made by him during the period from 1 April 2006 to 31 December 2009 and handed over the same to a relative of the deceased dealer to whom a separate Taxpayers Identification Number (TIN) was issued after the death of the dealer. This indicated that the inter-state transactions made by the dealer prior to his death as well as the tax liability of the dealer were not verified by the AA at the time of cancelling his RC. As the dealer was required to issue those forms to the selling dealers while purchasing the goods from outside the State for submission of the same to their AAs within three months after the period of transaction, issue of declaration forms for transactions relating to earlier periods of more than three years of a dealer whose RC was cancelled was not in conformity with the provisions of the Act and Rules.

2.17 PRINTED FORMS ISSUED EARLIER NOT CALLED BACK AFTER ON-LINE ISSUE OF FORMS

2.17.1 In **Gujarat** the declaration forms are being issued online from 1 July 2008 to the dealers directly through a cell created for the purpose under the Joint Commissioner. The information is being uploaded from the department server to TINXSYS server from 1 July 2008. In respect of forms issued from October 2005 to 1 July 2008, the information was being uploaded manually.

2.17.2 The Department had not issued any guidelines/instructions to call back the unutilized declaration forms remaining with the dealers after introduction of online system of issuance of declaration forms. Hence, in the absence of instructions regarding calling back of such unutilized forms, the possibility of their misuse cannot be ruled out.

2.17.3 Similarly, the Government of **Puducherry** introduced a new system of issue of 'C' and 'F' declaration forms online with effect from 23 July 2010. It was introduced initially for covering transactions effected from April 2010 and subsequently this facility was extended for the transactions effected from July 2007. However, it was noticed that the old system of issue of declarations in physical form was continued even after introduction of issue of forms online. Though, the Principal Secretary, Finance, Government of Puducherry, addressed the Secretaries/Commissioners of Commercial Taxes Departments of all the States to accept the computer-generated declaration forms, no notification was issued to the effect that the declaration forms issued in physical form were invalid for the transactions effected from July 2007.

2.18 FORMS ISSUED FOR GOODS NOT COVERED IN THE REGISTRATION CERTIFICATE

2.18.1 As per Section 10-A of the Central Sales Tax Act 1956 read with Section 10(b), if a registered dealer purchases goods which are not mentioned in his registration certificate
against 'C' forms, the authority can impose penalty upon the assessee equivalent to one and a half times the tax which would have been payable. It has also been judicially upheld in the case of State of Tamil Nadu Vs Akhtar (1998) 108 STC 510 (Madras High Court DB) that purchase against 'C' forms of goods not mentioned in registration certificate is an offence and penalty can be imposed.

2.18.2 In **Assam** on cross verification of 'C' forms with the CTDs of the issuing States, we found that in 24 cases, 14 dealers of three States (Arunachal Pradesh, Bihar and Meghalaya) to whom goods of ₹ 4.88 crore were sold by six dealers of Assam, were found either unregistered in the respective state or the goods purchased were not covered by the registration certificate. Thus, the benefit of concessional rates of tax on sales to unregistered dealers or on sales not covered by registration certificate was incorrectly allowed resulting in short levy of tax and interest of ₹ 74.23 lakh.

2.18.3 In **Andhra Pradesh** we noticed in two circles that three dealers who were eligible to purchase explosives, mining machinery, cement, copper wire, aluminum wire and insulation material in the course of inter-state trade as mentioned in the certificates of CST registration had instead purchased diesel oil, pressboards, brass rods, MS rounds, MS angles etc., which were not mentioned in their CST Registration Certificate and issued Form 'C' to the selling dealers in other States. Thus, the issue of Form 'C' for the purchase of commodities, which were not included in the certificate of registration, resulted in misutilization of 'C' Form. The Department should have cross linked and verified the commodities purchased in inter-state sales that were mentioned in the "Forms utilization statement" submitted by the dealer with goods mentioned in the CST registration certificate. The penalty leviable in these cases works out to ₹ 31.82 lakh.

2.18.4 We further noticed in CTO, Suryabagh, Visakhapatnam that a dealer, during the year 2008-09, purchased commodities 'Granites' and 'Transformers' from outside the State at concessional rate by issuing 'C' forms. Scrutiny of the CST registration certificate of the above dealer revealed that the dealer had been registered for issuing forms for 'readymade garments' and 'jewellery'. It is therefore evident that the Department had issued 'C' forms to the dealer without verifying the commodities in his registration certificate. Thus, issuance of 'C' forms for the commodities which were not specified in the registration certificate of the dealer was irregular and attracts penalty of ₹ 3.63 lakh, which was not levied by the Department.

2.18.5 In **Arunachal Pradesh**, on cross verification of records of the Superintendent of Taxes, Zone-I, Naharlagun and Zone-II, Itanagar, with those of the Superintendent of Taxes, Shillong, Meghalaya, we noticed that between April 2006 and March 2009, two dealers dealing in hardware, glasses, plywood and electrical goods, imported cement valued at ₹ 2.94 crore, which was not included in their certificates of registration at concessional rate of tax against eight declarations in Form 'C'. The dealers neither submitted any return nor paid the applicable tax for the years from 2006-07 to 2008-09. Thus, the dealers concealed turnover of at least ₹ 2.94 crore and evaded tax of ₹ 36.71 lakh. Besides, the dealers were also liable to pay maximum penalty of ₹ 55.06 lakh for using the declaration forms for import of cement which was not specified in the registration certificate of the dealers. No notice was issued by the AAs to the dealers in this regard.

2.19 CIRCULATING THE SAMPLES OF INVALID AND OBSOLETE DECLARATION FORMS

2.19.1 The CST Rules in many States provide that the CCT may, by notification, declare that the declaration form of a particular series, design or colour shall be deemed as obsolete and invalid with effect from such date as may be specified in the notification. A copy of such notification shall be sent to other State Governments for publication in their official gazettes.

2.19.2 In many States like **Himachal Pradesh**, **Kerala**, **Nagaland and Rajasthan** we noticed that the Commercial Tax Departments did not keep samples of the colour, design and format of the forms prevailing in different States for comparison in order to identify the fake or forged declaration forms. Therefore, there was a risk of acceptance of invalid, obsolete and forged declaration forms and consequent short levy of tax, as pointed out in Para 2.8.2 above.

2.20 NOTIFICATION REGARDING DEFECTIVE FORMS NOT ISSUED

2.20.1 The CST Rules provide that the Commissioner may, by notification, declare the declaration forms of a particular series as obsolete and invalid with effect from such date as may be specified in the notification.

2.20.2 In **Meghalaya** in two ST field offices (Williamnagar and Tura) we noticed that 111 forms were damaged and not fit for use. The STs did not bring this to the notice of the COT for issue of notification, thereby leaving scope for misuse of the forms by the dealers for purchasing goods.

2.21 NOTIFICATION REGARDING LOST/STOLEN FORMS NOT ISSUED

2.21.1 Under the CST **Meghalaya** Rules, if a form received by the dealer is reported lost, destroyed or stolen, the dealer shall report the fact to the ST and the COT shall issue public notice of the loss, destruction or theft.

2.21.2 We noticed in ST, Circle III, Shillong that a dealer reported loss of four 'F' forms in July 2009 to the ST. But we found that the matter was not reported to COT by the ST. Similarly in Jowai, one 'C' form was reported lost. The ST reported the matter to the COT but the COT did not take action. Consequently, notices for declaring the forms as invalid/obsolete were not issued by the Department.

2.21.3 Rule 6 of Central Sales Tax (**Jammu and Kashmir**) Rules, 1958 provides that if any declaration form is lost, destroyed or stolen, the dealer shall report the fact to the AA immediately and take steps to issue public notice of the loss, destruction or theft as the assessing authority may direct.

2.21.4 We noticed that one dealer, M/s Sheth Constructions, had been issued two 'C' forms (03V-009169 & 03V-009170) on 6 March 2006 by the AA, Circle 'O' Jammu which had been reported lost by the dealer. No action was taken by the Department to notify the loss of 'C' forms to safeguard misuse of these forms in terms of the aforesaid rules. Our verification of 'C' forms revealed that one of the two forms (03V-009169) had been used by M/s N.K. Engineering, Gurdaspur, Punjab for sale of machinery parts, valued at ₹ 1.01 lakh, to the dealer. The misuse of another 'C' form cannot be ruled out.

2.21.5 In Maharashtra Clause 4.10 and 4.11 of the Manual of 'Central Repository' read with Rule 4(A) of the Central Sales Tax (Bombay) Rules, 1957, lays down that declaration forms not issued as they contained printing mistakes or any other error will be cancelled and suitable entries in this regard shall be made in the Register of "forms not issued and cancelled" and the details sent to the record section after approval from the officer concerned for notification in the official Gazette to prevent their misuse.

2.21.6 During scrutiny of the Registers relating to receipts, issue and cancellation in the Central Repository, Mumbai, we noticed that 20,542 declaration forms were cancelled during the period 2005-06 to 2009-10; however, these cancelled forms were not forwarded to the record section for notifying in the official Gazette to prevent their misuse.

2.21.7 In **Nagaland** we found that till date (March 2012), the short receipt of 1375 'C' forms as pointed out in paragraph 2.12.16 above had not been reported to the competent authority by the ACT, Dimapur.

2.22 INVALID FORMS ISSUED

2.22.1 In **Uttarakhand** the CTD notified (November 2006) a particular series of Form 'C' as invalid after 31 December, 2006 and the forms were not to be issued either by the Department or the dealer after such date. However, scrutiny of the form issue register of AC(A), Kotdwara and AC(A)-II Dehradun, revealed that 1303 form 'C' of the series declared as invalid were issued by the Department to 166 dealers for the period from January 2007 to March 2007.

2.22.2 Similarly, scrutiny of the records of one DC (A) and two ACs (A) revealed that the assessing authorities issued form 'C' to the dealers before the date of their invalidation but the dealers instead of replacing the invalid forms with valid ones issued 640 forms amounting to ₹ 34.42 crore to other dealers after the date the forms were declared as invalid.

2.23 ABSENCE OF DATABASE OF BRANCHES OF DEALERS

2.23.1 Sub section (1) of Section 7 of the CST Act stipulates that every dealer has to declare his places of business in other States at the time of seeking registration. Further, sub section (1) of Section 6-A read with Rule 12(5) of the CST (R&T) Rules provides that a declaration in form 'F' has to be submitted for transfer of goods to other places of business or to his agent or principal. A list of branches of the dealer should be included in his Registration Certificate.

2.23.2 While details of the branches of the dealers are entered in the registration certificate which enables verification of the authenticity of the claims for exemption, the CTDs have not developed a database containing names of the dealers; names of the branches; registration number of the branches; nature and value of the goods transferred as branch transfer/consignment sale by dealers and exemption of tax allowed, which would have served as an important control tool and assisted the assessing authorities while finalizing assessments.

2.23.3 In **Chhattisgarh** we found during the test check of the records of CTOs, Manendragarh, Rajnandgaon and Raipur that in five cases of four dealers engaged in trading liquefied petroleum gas, sprinkler system, exothermic material and pesticides, the dealers availed exemption of tax on a turnover of ₹ 2.03 crore during the period April 2004 to March 2007 on account of branch transfer. Scrutiny of the registration certificates of the dealers indicated that the branches to which stock was claimed to have been transferred were not included in the registration certificates of the dealers. Failure of the AAs to scrutinize the 'F' forms with reference to the declared branches as per registration certificates resulted in non-levy of tax of ₹ 20.28 lakh. Besides, penalty of ₹ 60.84 lakh was leviable.

2.23.4 In **Himachal Pradesh** in AETCs, BBN and Sirmour three dealers were assessed for the years 2004-05 to 2008-09 between March 2007 and July 2010. Our scrutiny revealed that the AAs, while framing the assessments, allowed exemption on transfer of goods worth ₹ 80.72 crore made to branches/consignment agents, though the places to which branch transfers were made had not been included in the registration certificate of the dealers. This irregular exemption resulted in non-levy of tax of ₹ 4.73 crore including interest of ₹ 1.46 crore.

2.24 CROSS VERIFICATION OF DECLARATION FORMS

2.24.1 Cross-verification of data/information regarding dealers and the transactions effected by them is a *sine qua non* for the effective implementation of the CST Act as the entire system hedges upon the correctness of the exemption/concession claimed on the basis of statutory forms issued to only registered dealers. Mechanisms for this include the Tax Information Exchange System (TINXSYS), use of the Inter-State Verification Cell and check of selected transactions by the assessing authorities.

2.25 TINXSYS

2.25.1 With a view to helping the Commercial Tax Departments of various States and Union Territories in monitoring the sales/ purchases made in the course of inter-state trade and commerce, the Empowered Committee of State Finance Ministers authored a website named Tax Information Exchange System (TINXSYS) as a repository of inter- state transactions. Apart from dealers' verification, this website is meant for use by the officials of the CTD for verification of Central statutory forms issued by other States' CTDs and submitted to them by the dealers in support of claims for concession/exemption. TINXSYS also provides Management Information System and Business Intelligence Reports to the CTDs to monitor inter-state trade movements. TINXSYS can also be used by any dealer to verify the counter-part dealer in any other State.

2.25.2 Every State is required to send the information on the issue and utilization of declaration forms to the Finance Ministry for uploading onto the website as the system of cross verification of forms will work efficiently only if the entire database regarding issue and utilization of forms are uploaded on TINXSYS by all the States regularly. As on 18 January 2012, barring Himachal Pradesh and Jammu and Kashmir, all other State CTD Headquarters had TINXSYS connectivity. The position is given in Annex B.

2.25.3 In **West Bengal**, the Information Systems Division (ISD) is responsible for uploading data on declaration forms on TINXSYS. The CCT had issued directions in February 2005 that the form issuing sections and the charge offices should send statements on issue of 'C' and 'F' forms twice a month to the ISD for uploading on TINXSYS. The statements relating to the first half of a month are required to be submitted by the 25th of the same month while those of the second half are required to be submitted by the 10th of the next month. All the charge offices are also required to send copies of utilization statements of declaration forms submitted by the dealers to the ISD for uploading in TINXSYS.

2.25.4 We found that the ISD started uploading information regarding issue and utilization of declaration forms from 2006 onwards. However, the directions of February 2005 did not prescribe maintenance of any record/register to monitor the receipts of statements on 'C' and 'F' forms and copies of utilization statements from the declaration form sections and the charge offices and consequently the ISD did not maintain any record/register to monitor the same. Hence we could not ascertain the timely receipt of such statements from the declaration form sections and the charge offices and their uploading in TINXSYS. In absence of any instruction for submission of reports/returns by the declaration forms sections/charge offices/ISD regarding despatch/receipts/uploading of such information to the higher authorities, they were not in a position to monitor the status and take remedial action.

2.26 DATA AVAILABLE ON TINXSYS

2.26.1 We found that the position of data availability on TINXSYS as on 18 January 2012 was as follows:

- ≈ Data regarding dealers and C/F form issue and utilization status was up-to-date (as on 18 January 2012) in the case of Andhra Pradesh, Kerala, Delhi, Gujarat, Maharashtra and Puducherry;
- \approx No data was available in the case of Jammu and Kashmir and Uttar Pradesh;
- ≈ In Jharkhand, barring dealers' data, no information on C/F forms issue and utilization was available;
- \approx For Sikkim, no data regarding 'F' form issue and utilization was available;
- ≈ Data regarding 'F' form utilization was not available in respect of Himachal Pradesh, Karnataka, Madhya Pradesh, Manipur and Nagaland;
- ➢ For Chhattisgarh, Tripura and Haryana, no data regarding 'C' and 'F' form utilization was available;
- ≈ Data regarding 'C' form utilization and 'F' form issue and utilization was not available in case of Uttarakhand, while data regarding dealers reflected the position as of May 2008 and that of 'C' form issue was that of October 2008;
- \approx In the case of Goa, data post-September 2011 was not uploaded as on 18 January 2012.

2.26.2 Thus, TINXSYS served a very limited purpose as barring a few States, the required data was either not available on the website or the available data did not reflect the current position. The details are given in Annex C.

2.26.3 In **Sikkim**, no information regarding dealers and forms issued to the dealers had been uploaded on the TINXSYS website. While verifying the data relating to the State of Sikkim available on the website, it was seen that no dealer details were uploaded on the website for the year 2005 to 2010. Only the number of dealers available in the State for the years from 2007 to 2010 was uploaded on the website. Other details like issue and utilization of various statutory forms, periodic returns, commodity master, district master, office master etc. were not uploaded for any of the years. Non-uploading of data on the site deprived other States to have access to the database of declaration forms issued to dealers of Sikkim which defeated the objective of creation of the website. However, after March 2011, the Department has now started uploading the details of 'C' forms issued to the dealers.

2.26.4 In **Madhya Pradesh** during test check of records in 26 units, we observed that details of only 146 out of 796 declaration forms could be verified by us from TINXSYS. Similarly, 195 out of 534 dealers test checked by us could not be verified from the website. Moreover, in 104 cases, either the TIN number was not entered or the old CST number was mentioned. We further observed during test check from TINXSYS that in case of five dealers in five units either the selling/purchasing dealer's name was different or the registration was shown as cancelled on the website although the dealer was still active.

2.26.5 Under the present system, there is no facility in TINXSYS to enter the amount mentioned in the 'C' forms. We examined the report of data availability in TINXSYS for the state of Madhya Pradesh from the year 2006 to 2010 and found that though the data on dealers and 'C' and 'F' forms issued had been increasing over these years, yet the number of 'C' and 'F' form utilization had remained constant for the last four years. The above situation underscores the necessity of ensuring the uploading of data timely in TINXSYS to reap its benefits.

2.27 INFORMATION ON CANCELLED DEALERS

2.27.1 Information available on TINXSYS enables the assessing authority to ascertain the genuineness of the forms furnished by the dealers in support of claim for concessions/exemptions. Hence, in case of lost/defaced declaration forms, their cancellation should be promptly uploaded on TINXSYS in order to avoid any misuse.

2.27.2 In **Rajasthan**, during the test check of data of cancelled dealers provided by 11 CTOs, we observed that information of cancelled dealers was not uploaded on TINXSYS. Out of a total number of 391 dealers whose RCs were cancelled, details of 201 dealers were not found on TINXSYS while 87 dealers were shown as active dealers. Thus, details of 51 *per cent* cancelled dealers were not uploaded on TINXSYS and 22 *per cent* cancelled dealers were shown as active dealers. Due to non-uploading the information of cancelled dealers, the AAs as well as the dealers of other States were deprived of the opportunity of verifying the genuineness of the dealers.

2.27.3 In **West Bengal** the Information Systems Division started uploading data of central statutory declaration forms in TINXSYS from the year 2006. However, they started capturing records of the cancelled forms from April 2010 only. We cross verified the data made available by the ISD of lost and defaced declaration forms (between August 2009 and January 2011) with the information available on TINXSYS and found that out of 27 'C' and 'F' forms stated to be lost/defaced, details of only seven forms were uploaded on TINXSYS. Further, these seven forms were shown as valid till the date of audit (December 2011). We also noticed that details of the lost and defaced declaration forms were not being intimated to other States to avoid any misuse.

2.27.4 In **Jammu and Kashmir**, under Rule 3 of CST (J&K) Rules 1958, the Commissioner Commercial Taxes is required to publish in the Government Gazette, not later than 30th April every year, a list of dealers registered under the relevant section of the Act in Form-1. Amendments made to the said list from time to time and additions to the lists are also to be published in the Government Gazette within 15 days after the close of the quarter to which amendments or additions relate. We however noticed that the Department has not maintained any database of the dealers conducting inter-state sale/stock transfer. Thus, an electronic database of registered dealers carrying out inter-state sales had not been created by the Department. In the absence of this data, the uploading for cross-verification of the data of declaration forms relating to the dealers on the website was not possible. Thus, the CTD had not taken advantage of the TINXSYS website for cross verification of dealers/forms. There was nothing on record to indicate that the Department had developed requisite manpower and information technology tools, which are necessary for being a partner in TINXSYS.

2.28 VERIFICATION OF INFORMATION FROM TINXSYS

2.28.1 A review of usage of the TINXSYS facility during the period 1.4.2006 to 18.1.2012 showed that the maximum number of visits to the site and number of hours spent on the site was by officials of the CTDs of Madhya Pradesh, Maharashtra and Tamil Nadu while officials of the CTDs of Sikkim, Tripura and Manipur had not even spent one hour on the site during this period. Officials of Nagaland, Mizoram, Arunachal Pradesh, Daman and Diu and Dadra and Nagar Haveli had spent less than 10 hours during the same period. The details are given in Annex D.

2.28.2 In some States like **Bihar** and **Tripura** the Department has not prescribed a system for verification of forms submitted by the dealers with the database available in the TINXSYS website before allowing exemption/ concession of tax. This defeated the very purpose of creation of the site as the assessing officers were not utilizing the website to check the veracity of declaration forms.

2.28.3 In **Gujarat** the TINXSYS website started functioning in 2006. However, the Department issued instructions to the assessing officers to visit TINXSYS or the official website of the Commercial Tax Department of the concerned State to verify the genuineness of the forms submitted by the dealers of Gujarat to avail concession/exemption from levy of CST in June 2011 only. Such instructions were issued only after occurrence of instances where the forms submitted by the dealers were found to be doubtful or the registration numbers of the opposite dealers were cancelled *ab-initio*. Moreover, in spite of specific instructions, it was found in 10

units out of 13 units audited by us that the assessing officers were not utilizing the TINXSYS facility.

2.28.4 In **Goa** the forms uploaded on TINXSYS website did not include bill-wise transactions with the result that the use of TINXSYS in other States would be limited to assuring the genuineness of the forms but not the correctness of the transactions effected through individual forms.

2.28.5 The delay/omission to upload the details of dealers and issue and utilization of forms defeated the very purpose of the creation of the TINXSYS website, viz., effective monitoring of inter-state trade.

2.29 NON-UTILIZATION OF DEPARTMENTAL WEBSITE

2.29.1 In **Uttar Pradesh** we checked the official website of the Commercial Tax department (comtax.up.nic.in), and found that in the "Search Dealers" option, certain information like Taxpayers Identification Number, Dealer's Name, Firm's name, Dealer's Address, Status of Dealer (Active/Suspended), was available. However, the Central registration number of the dealer was not displayed in absence of which it was not possible to identify the status of the dealer under the CST Act.

2.29.2 We further observed that in the "Search Dealers" option Taxpayer identification number (TIN) allotted was displayed but no field was located to enter the CST registration number of the dealer because as per the Empowered Committee of State Finance Minister's decision of 20 September 2005, States following separate TIN for VAT and CST registration were to take steps to issue only one TIN subsequently. But due to allotment of only one TIN for registration under the State Act and Central Act, it was not possible to identify a dealer not registered under the CST Act and in absence of any separate number for CST registration, cross verification through the departmental website by the stakeholders was not possible.

2.29.3 We searched the details of 150 active dealers on the website and found that 53 dealers of 18 districts were not registered under the CST Act but they were found to be carrying on inter-state purchases/stock transfers during 2005-06 to 2007-08 by issuing 'C' and 'F' statutory declaration forms. This shows that at the time of issue of statutory forms to the dealers, the official website was not checked by the AAs and forms were irregularly issued to such dealers whose status of registration under the CST Act was displayed as 'No'.

2.29.4 In **Karnataka** under the new system of on-line issue of statutory forms introduced from 25 April 2009, the dealers submit requests on-line for declaration forms on the basis of interstate purchases effected. After verification and approval by the CTD, the forms are issued online, of which the dealers can take printouts and submit the same to the concerned inter-state sellers. It was observed that as the online format of the statutory forms are not in the 'pdf' format and the 'copy' function in the format of the form provided on-line was not disabled, the system permits the dealer to copy the form on to any word processing application and take unlimited number of copies with suitable alterations in form number, date, dealer name, purchase invoice/bill particulars, amount, etc. This deficiency in this system may lead to a proliferation of bogus forms in the absence of automatic online mechanisms for authentication of forms between all participating States.

2.29.5 A test check of the back end data tables of on-line issue of forms revealed that in 9969 instances the Department issued 'C' forms against the same purchase invoice, date and amount. This proves that the application system lacks necessary controls to prevent the dealer from obtaining more than one declaration form against a single inter-state purchase. Further, under the manual system, in case the dealer inadvertently represented an invoice in more than one form, there was a facility of canceling the form. Under the online system the dealer is deprived of the opportunity of canceling a form after its approval by the CTD.

2.30 OTHER MECHANISMS FOR CROSS VERIFICATION

2.30.1 Given the fact that the TINXSYS database is incomplete and unrealiable, as mentioned in the preceding paragraphs, the cross-verification of transactions through alternative mechanisms assumes great importance. This could either be in the form of setting up a wing exclusively for the purpose of conducting cross-verification or by making it mandatory for the AAs to take up, at least a certain percentage of the forms, for verification. Efforts are also required to be made to make TINXSYS effective.

2.31 CREATION OF AN ENFORCEMENT WING

2.31.1 In Assam, Chhattisgarh, Goa, Haryana, Himachal Pradesh, Kerala, Manipur, Sikkim and Tripura we observed that the Taxation Department has not constituted any enforcement/inter-state investigation wing to detect/deal with cases of utilization of fake/invalid/obsolete declaration forms and to assist the Department in cross verification of transactions with different States. Absence of a centralized system of cross verification of declaration forms which are *prima facie* defective/invalid/fake further made it difficult for the Department to effectively tackle cases of irregular claims of exemptions/concessional rate of taxes by using invalid/obsolete/fake declaration forms.

2.31.2 In **Andhra Pradesh** we observed that the teams that are sent for cross verification of the forms comprise of officials from the same circle to which the statutory forms relate. This practice of forming teams comprising officials from the same circles that issued the forms is fraught with the risk of conflict of interest.

2.31.3 In **Bihar** as per the order of the CCT in June 1991, a verification cell under the 'Bureau of Investigation' (IB) at headquarters level was entrusted to do the verification of declaration forms 'C' and 'F'. The relevant information regarding declaration forms were to be sent by the circles to the IB wing at the Headquarters and information on these forms along with the results of cross-verification was to be recorded in a register maintained for this purpose. Further, the Department issued an instruction in January 2006 that the dealers would submit the utilization/requisition statement of forms in triplicate. One copy was to be placed in the concerned folder of the dealer, the second copy was be placed in the assessment records of the dealer and the third copy was to be sent to the Central IB wing for their verification.

2.31.4 As per the information furnished by the Headquarters IB wing, no declaration forms were sent by the circles to them for verification nor did they requisition the same from the circles during the period 2006-10. Thus, the purpose behind the creation of the IB wing

remained unfulfilled as far as verification of forms was concerned. We also observed that the periodicity and quantum for sending of declaration forms to the Headquarters IB Wing for verification by the circles was not prescribed.

2.31.5 The IB wing, during the period 2006-10, had received 5,522 form 'C' and 1,598 form 'F' for verification from other States. However, none of these forms was verified by the Headquarters IB wing; instead these were sent to the circles concerned for verification with a direction to intimate the results directly to the concerned offices of other States. This indicates that the IB wing was working only as a intermediary for passing on the forms to the circles.

2.31.6 We further observed that no register was maintained by the IB wing for recording information on the forms as required in the aforesaid circular of 1991. Thus it was evident that the Headquarters IB wing was ineffective in the matter of verification of declaration forms.

2.31.7 In **West Bengal** there is an inter-state Verification Cell under the control of an Additional CCT in the Directorate. The Cell started functioning from October 2004 for the purpose of verification of the genuineness of the claims of various inter-state transactions. Based on the requisitions received from various charges in West Bengal, the Cell verifies the authenticity of the claims of inter-state transactions such as stock transfer, sale, purchase, consignment sales, subsequent sales etc. The Cell also receives requisitions from various States for verification of genuineness of 'C' and 'F' forms and the authenticity of the transactions claimed to have effected by their dealers with the dealers of West Bengal. On receipt of verification reports from the charges or the States, those are sent to the concerned charges or the States from where the requisitions for the verification were received.

2.31.8 We found that on receipt of the requisitions for verification of 'C' and 'F' forms from various charges and the other States, the Verification Cell records the particulars of the requisitions in a Receiving register. On receipt of the verification report, the Cell makes similar entries in the Receiving Register. The Cell records the particulars of the requisitions sent to the charges and the States for verification in an Issue Register. On receipt of the verification reports from the concerned charges and the States the Cell enters the particulars of those verification reports in the Issue Register.

2.31.9 On scrutiny of registers and folders as maintained by the Cell, we found that:

• During the period from 2007-08 to 2009-10, the Cell received 913 requisitions for verification of 'C' & 'F' forms, issued 1,104 requisitions to the concerned charges and the States outside West Bengal, received 47 verification reports and issued 113 verification reports. Thus, the number of verification reports received against number of requisitions sent for verification was low.

• The Cell did not maintain any database in respect of declaration forms received and verified, in the absence of which it was unable to furnish information like number of declaration forms received from the charges in a year and other States and the status of verification. On scrutiny of folders maintained by the Cell we found that during the months of April 2007, April 2008 and April 2009 the verification cell issued 58 requisitions to the other States for verification of transactions relating to 'C' and 'F' forms. The Cell however received only four verification reports. We found that no reminders were issued to the States concerned against non-receipt of the verification reports in respect of 54 requisitions.

• Submission of periodical reports or returns in respect of receipt and disposal of requisitions by the Cell was not prescribed by the CCT. As a result, the performance of the Cell was not monitored by the CCT.

• There was no system in place for monitoring the action taken by the concerned charge offices by the Cell after detection of irregularities in declaration forms and its intimation to the concerned charge office.

2.31.10 In **Tamil Nadu** an Inter State Investigation Cell (ISIC) was formed with effect from 1 April 1975. It has been functioning independently since 1987 with the Deputy Commissioner (now Joint Commissioner) as its head under the direct control of the Commissioner of Commercial Taxes. The main functions of the ISIC include the following:

- Investigation and inspection of transactions which are inter-state trade in nature;
- Verification of the existence of dealers including agents and branches situated outside the State and actual receipt, storage and sales of goods by them;
- Verification of the genuineness of the declaration forms obtained from other State dealers; and
- Investigation outside the State of doubtful cases of inter-state sales, consignment sales or branch transfers referred by the assessing authorities.

2.31.11 Cases of interstate transactions are referred to ISIC by the Commercial Tax Departments of other States and the assessment circles in Tamil Nadu for verification of the genuineness of the transactions in the form of Extracts Verification (EVs). The extracts received from other States are verified by the ISIC in the concerned assessment circles in the state and the results are communicated to the respective States. Similarly, inter-state transactions referred by the assessment circles in the state are forwarded to the Investigative Wings of other States for verifications. In some cases, the officials of ISIC are also visiting other States for verifying the genuineness of the transactions.

2.31.12 The ISIC had disposed of 5,919 EVs during the period from April 2006 to March 2010. These consisted of both inward and outward extracts⁴ received for verification. Separate details of inward and outward extracts disposed of each year with money value were not made available to audit.

2.31.13 The disposal of cases by the ISIC for the years from 2006-07 to 2009-10 are given in the following table:-

4

Inward Extract : Extracts containing details of transactions made by the dealers in other States received from those States for verification in Tamil Nadu

Outward Extract : Extracts containing details of transactions, effected by the dealers in Tamil Nadu with the dealers in other States, sent to the counterparts of the respective States for verification

Year	Opening balance	No. of EVs received	Total	No. of EVs disposed off	Closing balance	Percentage of disposal
2006-07	1942	1576	3518	1594	1924	45.30
2007-08	1924	1228	3152	1523	1629	48.31
2008-09	1629	1776	3405	1506	1899	44.22
2009-10	1899	1730	3629	1296	2333	35.71

The pendency position of extracts verification as on 31 March 2010 is given in the following table:

Pending for	No. of EVs	Percentage of pendency	Revenue (₹ in crore)
Less than six months	627	26.87	290.17
Six months and above but less than one year	405	17.36	214.66
One year and above but less than two years	641	27.47	96,13
Two years and above	660	28.33	113.95
Total	2,333		714.91

The Commissioner of Commercial Taxes had neither fixed targets for extracts verification nor a time limit for disposal of the cases.

2.31.14 In **Odisha** we noticed that during the period 2007-08 to 2009-10, the Enforcement Wing (EW) had received 556 declaration forms ('C': 383 and 'F': 173) from other States for cross verification. We further noticed that while sending the details of these declaration forms to the Enforcement Ranges (ERs), the EW had not fixed any timeframe for completion of the cross verification. Due to absence of such an instruction, the respective circles had intimated the results of verification in respect of only 35 'C' forms to the EW out of 556 forms sent to them. The position in respect of verification of the remaining 521 declaration forms was not available in the records of the EW. We also noticed that the records/database of VAT Information System (VATIS) was not consulted to ascertain the jurisdiction of the form issuing dealers. As a result, we observed that the details of 10 declaration forms were wrongly sent between April 2008 and February 2010 to Enforcement Ranges (ER) other than those from whose jurisdiction the forms were issued and hence the result of verification thereof have not been received by the EW as of October 2011. We further observed that during the years 2007-08 to 2009-10, the EW had not detected any fake form, although we found several cases where fake forms were issued from Odisha or were utilized by selling dealers in that State.

2.31.15 In Maharashtra an inter-state cross verification cell is in existence in the Department. Upto August 2008, this Cell was functioning under the Enforcement Branch. From September 2008 onwards, the functioning of the Cell was brought under the Joint Commissioner of Sales Tax (MAHAVIKAS), Mumbai. In this Cell, the cases relating to inter-state transactions on declaration forms which are selected during Business Audit/Refund Audit (BA/RA) and which could not be verified from TINXSYS are received. The Cell rechecks these cases from TINXSYS and doubtful cases are sent to other States for cross verification.

2.31.16 Information received from the Cell revealed that no criteria for selection of cases relating to inter-State transactions on declaration forms for cross check by BA/RA/Large Taxpayers' Unit (LTU) wings was laid down by the Department. In the absence of any criteria or

percentage of check, the extent of cross verification to be carried out is solely at the discretion of the assessing officer. Further, the Cell was not required to select any case *suo moto* but was dependent on the cases referred to it by BA/RA/LTU wings only.

2.31.17 Till September 2011, a total of 713 cases (including several declaration 'C' and 'F' form cases) were received for cross-verification in the Cell from BA/RA/LTU wings out of which 606 cases were referred to other States for verification. 606 cases received from BA/RA/LTU wings were forwarded to the CTDs of other States for cross verification. Further, 439 cases were received from other States for cross verification out of which 314 cases were sent to the respective assessing authorities in the State for verification. With effect from September 2008 to July 2011, the Cell had detected 337 "bogus" 'C' forms and 203 bogus 'F' forms. These forms have either been sent to the concerned branches in the State for corrective action or to the CTD of the State concerned. No information on the extent of corrective action for declaration forms received from other States along with the fraudulent sale to evade the tax was not furnished (October 2011) to us despite being requested.

2.32 CONSEQUENCES OF NON-VERIFICATION

2.32.1 Our study indicated that most States did not issue instructions for mandatory cross verification while in some States, although instructions existed, these were not adhered to in practice. The position prevailing in some selected States is indicated in the following paragraphs:

2.32.2 In **Rajasthan** the CCT, vide circular no. F16(57)TAX/ VAT/ CCT/ 08/64 dated 24.04.2008, issued instructions to verify all transactions supported by 'C' forms for concessional rate of tax that have taken place after 26 September 2005 and to keep a record of such verification in the assessment record of the dealer. We however noticed during test check of the records of two CTOs (Chittorgarh and 'C' Udaipur) that there was no supporting document on the file to prove that the AA had verified the CST declaration forms for inter-state sale amounting to ₹ 19.12 crore on which concession of tax of ₹ 1.14 crore was allowed.

2.32.3 In **Odisha** to check the misuse of the declarations in form 'C' and 'F' and various other malpractices associated therewith, the CCT issued instructions (October 1972 and December 1977) to all the AAs to select a certain percentage of the declaration forms received from other States and submitted by the dealers of the State, as reflected in the assessment cases records, for reference to the AAs of the concerned State for cross verification. Further, every circle and assessment unit is required to maintain two registers in the prescribed proforma, one for declaration forms 'C' received from other States and the other for declaration forms 'C' sent to other States, for verification.

2.32.4 During scrutiny of the records of the test checked circles, we noticed that the circles neither maintained the prescribed registers for cross verification of declaration forms with other States nor was there evidence that they had conducted any cross verification by referring the details of declaration forms to their counterparts in other States for establishing the genuineness of these forms which were accepted at the time of finalization of assessments completed during the years from 2007-08 to 2009-10. There was also no system for furnishing

periodical reports/returns by the AAs to the higher authorities regarding cross verification of declaration forms. Thus, the Department lacked any mechanism to ascertain the genuineness of defective/duplicate/manipulated declaration forms. The CCT was, thus, unaware of the factual position of cross verification done, if any.

2.32.5 The CT, **Assam** directed in May 2000 that all assessing authorities should finalize the CST assessments after proper cross verification of data/information. We observed that the Department has not installed any system for monitoring compliance of this directive by the assessing authorities. Neither has any mechanism been put in place to install a system of cross verification of declaration forms at regular intervals nor has a check list of points to be verified by the assessing authorities while accepting declaration forms, been notified. We noticed that none of the assessing authorities of the unit offices we checked were verifying the information contained in TINXSYS website prior to allowing exemption/concession.

2.32.6 In **Delhi** instructions issued in June 2005 provide that in case of large value transactions claimed to have been made on the basis of central declaration forms, the genuineness of the forms must be got verified from the concerned issuing authority of the State/Union Territory through the Enforcement branch or by sending the officials posted in the ward to different destinations and the Zonal DCs/JCs were required to monitor compliance of the instructions on a weekly basis. However, the Department did not prescribe a system of periodical reporting by the Assessing Authorities to the superior authorities regarding the progress of cross verification of transactions made in the course of inter-state trade or commerce against forms.

2.32.7 Further instructions issued in December 2007 provided that all the Assessing Authorities should verify statutory central forms received from other States along with DVAT 51 through TINXSYS for which access had been given to all the Zonal Deputy Commissioners and in case the details of such forms were not available on TINXSYS, the forms were to be got verified from the concerned issuing authority. There was however, no information available with the Department regarding cross verification of declaration forms submitted by the dealers, with the records of the issuing authorities of other States.

2.32.8 In **Tamil Nadu** we noticed in Bodinayakanur assessment circle that the assessing authority, while finalising the assessments of 13 dealers for the years 2004-05 and 2005-06 between April 2007 and December 2007 allowed exemption on a turnover of ₹ 88.84 crore being stock transfer of cardamom to other States on the strength of 114 form 'F' declarations filed by the dealers. The exemption was allowed without verifying the genuineness of the transactions though on many occasions, the consignment sales transactions of cardamom were proved to be bogus. However, the assessing authority forwarded the details of 'F' form declarations only in June 2008 to the Inter-state Investigation Cell (ISIC) for verification through Joint Commissioner (Enforcement) Madurai. An independent verification by audit revealed that no such reference was received by the JC (Enforcement) Madurai. The action of the assessing authority in granting exemption without verifying the correctness of the transactions, particularly in the light of such transactions found to be bogus in earlier years, resulted in unintended benefit to the dealers.

2.32.9 In **Goa** audit scrutiny of five Ward offices revealed that the Assessing Authorities, at the time of assessment of dealers, do not cross verify the declaration forms with the database

available on the TINXSYS website or carry out a physical check of some forms by sending these to the concerned States for cross verification in order to ensure the genuineness of the forms and the correctness of the claims made by the dealers in their returns for concessions/exemptions in the levy of tax on inter-state sales and branch transfers.

2.32.10 Due to non-conducting cross-verification either by using TINXSYS or through other mechanisms, the CTDs were not able to detect cases of fake forms, manipulated forms, forms used by unregistered dealers, and evasion of tax as highlighted in Chapters III and IV, which we traced out by conducting cross-checks at the ends of both the selling and the purchasing dealers. We also found several cases where there was variation between the figures shown by the selling dealers and those depicted by the purchasing dealers in their utilization certificates/counterfoils of C/F forms, as mentioned in the following paragraph, which remained unnoticed by the CTDs due to absence of cross-checks.

2.33 VARIATION BETWEEN FIGURES FURNISHED BY PURCHASING DEALERS AND SELLING DEALERS

2.33.1 On cross-verification of the 'C'/'F' forms furnished by the selling dealer with the counterfoils of the forms/utilization statements furnished by the purchasing dealers we found that in many cases the figures of sales shown by the selling dealer were less in comparison to the figures of purchases shown by the purchasing dealer or *vice versa*. In such cases the possibility that (a) the selling dealer had suppressed the sales/transfer of goods and sold the goods locally within the State (b) the purchasing dealer concealed the purchases and evaded tax cannot be ruled out. It also points towards tampering of figures in the declaration forms. The absence of mechanisms for cross-verification, either through TINXSYS or through physical cross-check, has given rise to such situations. The CTDs need to investigate such cases to determine the exact nature and value of the transactions and the possible evasion of tax.

Some illustrative cases are cited below:

2.33.2 In **Sikkim** cross verification revealed that in case of two 'F' forms the amount disclosed by the selling dealer was less than the amount disclosed by the purchasing dealers as given in the following table:

Name of the issuing State	Assessment year	'F' form no.	Amount shown as transfer by the issuing dealer (in ₹)	Amount shown as transfer by the utilising/ assessed dealer (in ₹)	Difference in amount (in ₹)
Uttarakhand	2008-09	D049183	818084	414220	403864
Manipur	2008-09	S015779	247896	226578	21318
Total			1065980	640798	425182

2.33.3 In another case, cross verification in respect of 'F' forms used by a dealer, M/s C G Foods India Private Limited, Rangpo revealed that in case of 23 'F' forms the dealer had shown stock transfer for an amount of ₹ 3.23 crore whereas cross verification revealed that ₹ 1.37 crore only

Name of the issuing State	Assessment year	No. of 'F' forms	Amount shown as transfer by the utilising/ assessed dealer	Amount shown as transfer by the issuing dealer	(₹ in lakh Difference in amount
Mizoram	2007-08	1	19.23	14.85	4.37
	2008-09	4	127.10	94.47	32.63
Manipur	2007-08	7	42.94	6.11	36.83
	2008-09	11	133.82	21.80	112.02
Total		23	323.09	137.23	185.85

was shown as stock receipts by the issuing dealers of the respective States against the said 'F' forms. The details are given in the following table:

2.33.4 In **Haryana** we noticed during cross verification of the assessment records of a selling dealer under the control of the AA, Rewari with the utilization account of declaration forms of goods received through inter-state purchase by a dealer of Tamil Nadu that the dealer had claimed and was allowed (February 2010) concessional rate of CST for the assessment year 2006-07 amounting to ₹ 1.33 crore whereas the purchasing dealers of Tamil Nadu had shown purchases of ₹ 4.21 crore against the same form.

2.33.5 In **Bihar** in six circles, we observed that eight dealers had shown inter-state sale of various goods of ₹ 5.82 crore and substantiated the same by producing 15 numbers of 'C' declaration forms issued by the dealers of five States (Assam, Chhattisgarh, Madhya Pradesh, Uttar Pradesh and West Bengal) during the period 2006-10. But as per the information received from these States these declaration forms were shown issued for purchase of goods of ₹ 13.90 crore.

2.33.6 Further, in seven circles we observed that 12 dealers had availed/were allowed exemption/concession of ₹ 9.10 crore on the strength of 28 declarations in form 'C' and 'F' during the period 2006-10. But on cross verification we observed that these declaration forms were issued for ₹ 5.30 crore only as per the utilization statement submitted in the concerned circles of eight States (Chhattisgarh, Delhi, Jharkhand, Madhya Pradesh, Meghalaya, Odisha, Uttar Pradesh and West Bengal).

2.33.7 In **Gujarat** our scrutiny of records pertaining to 12 selling dealers registered with the CTD, Gujarat and assessed between May 2008 and March 2010, revealed that they had shown value of goods sold in inter-state sale as ₹ 1.72 crore against 19 'C' forms. However, the value of such transactions as shown by the purchasing dealers was ₹ 2.44 crore. Further, in case of three dealers (consigners) of Gujarat assessed between July 2007 and February 2010 who had claimed branch transfer of goods valued at ₹ 7.07 crore against 17 'F' forms to the consignees i.e. agent or the principal, we found that the consignees had shown inter-state branch transfer worth ₹ 2.19 crore only in their accounts on the basis of these forms.

2.33.8 In **Jharkhand** cross-verification of data received from five States (Bihar, Chhattisgarh, Odisha, Uttar Pradesh and West Bengal) on sale/stock transfer by nine dealers registered in five Commercial taxes circles of the State indicated that the dealers had been allowed between March 2009 and March 2010 concession/exemption against sale/stock transfer of ₹ 13.73 crore

during the period 2006-08. However, the purchases/stock transfer shown at the purchasing/receiving dealer's end was ₹ 38.35 crore.

2.33.9 In other cases cross verification of data on purchase/stock receipt with records of four dealers of four Commercial taxes circles assessed/re-assessed between January 2009 and September 2011 indicated that the dealers had shown purchase/stock receipt turnover as \mathbf{E} 15.18 crore during 2006-07 and 2008-09 against the sales/stock receipt of \mathbf{E} 17.42 crore shown by the selling dealers, while in one case in Jamshedpur Commercial taxes circle assessed in March 2009 our cross verification of data on purchase/stock receipt of one dealer indicated that the dealer had shown purchase/stock receipt turnover as \mathbf{E} 7.51 crore during 2004-05 against the purchase/stock receipt of \mathbf{E} 13.77 crore shown by the selling dealer.

2.33.10 Fourteen dealers of **Assam** claimed exemption/concessional rate of tax on branch transfers/inter-state sales to 24 dealers of six States (Arunachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Nagaland and Tripura) against one 'F' form and 36 'C' forms on goods valued at ₹ 5.58 crore. Cross-verification of the records of the purchasing dealers revealed that those dealers had actually issued forms valued at ₹ 2.36 crore. Thus, there was variation of ₹ 3.22 crore between the figures of declaration forms as disclosed by the issuing dealers and those disclosed by the selling dealers.

2.33.11 In **Odisha** we noticed that in six circles, 13 dealers disclosed less sales to the extent of ₹ 0.38 crore in 15 'C' forms relating to different periods between April 2005 and November 2008 in comparison to the value disclosed by the purchasing dealers of other States in respect of those forms in their utilization accounts.

2.33.12 We further noticed that 20 dealers in 10 circles exhibited inter-state sales turnover of $\overline{\mathbf{x}}$ 13.56 crore against 38 declaration forms (30 'C' forms and 8 'F' forms) during different periods ranging between April 2004 and March 2009. However, on cross verification of the above forms with the records of the concerned AAs of other States, we noticed that the purchasing dealers had disclosed purchases of goods worth $\overline{\mathbf{x}}$ 9.11 crore against these forms in the utilization accounts.

2.33.13 In **West Bengal** we found in four charge offices that while assessing six cases of four purchasing dealers of West Bengal for the assessment period between 2005-06 and 2008-09 the AAs allowed purchase of ₹ 28.53 lakh as per utilization certificate furnished by the dealers as against sale of ₹ 40.43 lakh recorded in the declaration forms available at the end of the selling dealers of two States (Karnataka and Jammu and Kashmir).

2.33.14 In **Himachal Pradesh** on cross verification of four 'C' forms of selling dealers with the records of four purchasing dealers of three States, assessed between October 2008 and July 2010, we noticed that as against purchase of \mathbf{E} 4.34 crore shown by the purchasing dealers in their utilization certificates submitted to the assessing authorities of the concerned States (Delhi, Meghalaya and Uttarakhand) the dealers claimed and were allowed exemption of \mathbf{E} 55.26 lakh on the strength of 'C' forms.

2.33.15 Further, in the cases of two dealers assessed for the years 2005-06 and 2006-07 between January 2010 and July 2010 by the AA Nahan, we noticed that the dealers had shown value of the inter-state sales as \gtrless 2.03 crore whereas the purchasing dealers of Delhi and Uttarakhand had shown the same as \gtrless 2.47 crore. In another 17 cases, cross verification of

records viz. assessment files and utilization statements of purchasing dealers of Himachal Pradesh with selling dealers of other States revealed that sales amounting to ₹ 10.18 crore were shown by the selling dealers. However, the purchasing dealers had accounted for purchases of ₹ 2.36 crore only.

2.33.16 In Jammu and Kashmir as per information collected by us from seven States (Delhi, Karnataka, Kerala, Madhya Pradesh, Punjab, Rajasthan and Uttar Pradesh), eight dealers registered in eight circles of the State had made inter-state purchases of goods during 2005-06 to 2008-09 valued at ₹ 1.85 crore. Cross verification of the data with the consumption statement of 'C' forms furnished by these dealers to the AAs in the respective circles revealed that the dealers had shown the purchase of goods valued at ₹ 49.56 lakh only which needs to be investigated.

2.33.17 Further, as per data collected by us from Uttar Pradesh, two dealers (M/S Agarwal Oil Refinery and M/S Rite Pack India Pvt. Ltd.) had made stock transfer of goods valued at ₹ 1.28 crore to two dealers of Udhampur and Jammu K-circle. Our cross-verification of the data with the consumption statements of the Jammu and Kashmir dealers furnished by them in the respective circles revealed that the dealers showed stock receipt of goods valued at ₹ 40.84 lakh only. Of the two cases, one consignee (M/S Surya Trading Company, Udhampur) had utilized four 'F' forms in favour of M/s Agarwal Oil Refinery UP, whereas the names of the consignors, as per consumption statement, were Uma Sales Allahabad, D.K. Enterprises, Kanpur, Singla Trading Co, Delhi and Kanpur Twine, Kanpur. All these variations require investigation.

2.33.18 We also noticed other cases in J&K as detailed below:

In two circles (Commercial Tax Circles Jammu (G & I), seven dealers were assessed between April 2005 and March 2007 on inter-state sales valued at ₹ 1.61 crore made by them to eight dealers of five States (Chhattisgarh, Himachal Pradesh, Madhya Pradesh, Maharashtra and Uttar Pradesh). Our cross verification of data with the CTDs of the respective States revealed that the dealers had shown purchase of goods valued at ₹ 2.28 crore on the basis of eight 'C' forms issued by them to the selling dealers of J&K.

2.33.19 In three circles, 12 dealers had made sales valued at ₹ 10.14 crore to 19 dealers of eight States (Delhi, Himachal Pradesh, Madhya Pradesh, Maharashtra, Rajasthan, Uttar Pradesh, Uttarakhand and West Bengal). Our cross-verification with the respective States revealed that the dealers had shown purchase of goods valued at ₹ 5.55 crore on the basis of 22 'C' forms issued by them to the selling dealers of the States.

2.33.20 In 'L' circle, Jammu, three dealers had made stock transfer to three dealers of two States (Gujarat and Himachal Pradesh). Cross-verification with the respective States revealed that the consignors had shown stock transfer of ₹ 9.72 lakh (11 'F' forms) against which the consignee had accounted for ₹ 60.72 lakh. The difference in transfer of goods valued at ₹ 51 lakh was without 'F' forms and needs investigation. Further, in three circles, five dealers had made stock transfer to six dealers of six States (Gujarat, Haryana, Maharashtra, Odisha, Tamil Nadu and Uttar Pradesh). Our cross-verification of the data with the CTDs of the respective States revealed that the consignors had shown stock transfer of ₹ 3.03 crore against which the consignees had accounted for ₹ 2.17 crore in their books. The difference in transfer of goods valued at ₹ 86 lakh needs investigation.

2.33.21 In two circles where five dealers had made sales to seven dealers of four States (Himachal Pradesh, Madhya Pradesh, Uttar Pradesh, and West Bengal), our cross-verification of the data with the CTDs of the respective States revealed that the dealers had actually purchased goods other than those on which exemption was claimed. For example, sales shown were of 'Cold drinks' whereas the purchasing dealers had shown 'packing material' as purchases.

2.33.22 In **Uttar Pradesh** we found in three assessment offices that during 2007-08, three dealers transferred goods amounting to ₹ 3.75 crore against form 'F'. The AAs, while finalizing the assessments, granted exemption of tax of ₹ 45.82 lakh. In order to ascertain the genuineness of the grant of exemption of tax, we verified the details from the respective offices of the consignee dealer and found that the consignee dealers shown receipt of goods amounting to ₹ 2.61 crore only.

2.33.23 We also found in seven assessment offices that during 2007-08, seven dealers declared sale of goods amounting to ₹ 5.40 crore against form 'C'. The AAs, while finalizing (between January 2010 and October 2010) the assessments, levied concessional rate of tax at the rate of three *per cent*. Our cross-verification revealed that the purchasing dealers had accounted for goods of ₹ 97.62 lakh only in their accounts.

2.33.24 In Maharashtra we noticed during test check of the records of eight dealers of Mumbai, Nashik and Thane divisions that goods valued at ₹ 9.86 crore were sold between the periods 2004-05 and 2009-10, to purchasing dealers in Assam, Chhattisgarh, Gujarat, Madhya Pradesh and New Delhi on the basis of eight 'C' forms received from the dealers of those States. However, cross verification of these forms with the assessment records of the dealers in the concerned States revealed that only ₹ 3.68 crore were accounted for by the purchasing dealers. Similarly, cross verification of 'C' form issued during 2003-04 by a purchasing dealer of Uttar Pradesh to the selling dealer in Nagpur revealed that purchasing dealer had issued one 'C' form valued at ₹ 1.02 crore for the purchase of iron and steel. However, result of verification received from the CTD, Uttar Pradesh revealed that the purchasing dealer had accounted for goods worth ₹ 7.74 lakh.

2.33.25 We collected data from the assessment records of CTDs at Delhi, Goa, Haryana, Jammu and Kashmir and Tamil Nadu which revealed that purchases aggregating ₹ 22.48 crore were made by 14 dealers of Maharashtra, during different periods between 2006-07 and 2007-08, on 18 'C' forms. Our cross verification of these details with the data maintained by the Commissioner of Sales Tax, Mumbai revealed that purchases for ₹ 2.23 crore only were accounted for by the dealers in Maharashtra.

2.33.26 We found that three registered dealers of the State had sold goods valued at ₹ 1.77 crore to three dealers of Himachal Pradesh, Gujarat and Kerala and submitted three 'C' forms in support of inter-state sales and claimed concessional rate of tax. Cross verification of these sales from Maharashtra with the assessment records maintained by the CTDs at Himachal Pradesh. Gujarat and Kerala revealed that the purchasing dealers had accounted for goods valued at ₹ 3.66 crore in their accounts against these forms.

2.33.27 Our scrutiny of the data collected from the assessment records of CTDs at Haryana and Tamil Nadu revealed that purchases aggregating ₹ 3.90 crore were made by four dealers, during various periods between 2004-05 and 2007-08, on four 'C' forms issued by the dealers of

Maharashtra to the dealers of these States. We cross verified the details with the data maintained by the Commissioner of Sales Tax, Mumbai which revealed that ₹ 10.03 crore were accounted for by the dealers in Maharashtra.

2.33.28 We found that one dealer in Nagpur division transferred cement, washing machine and its parts valued at ₹ 3.08 crore, to its branches in Odisha on the basis of seven 'F' forms, respectively during the year 2004-05. Our cross verification of these details from the records maintained by the CTD of Odisha revealed that the dealer in Odisha had accounted for ₹ 42.18 lakh against ₹ 3.08 crore.

2.33.29 The concerned CT Departments need to thoroughly investigate all cases where there is a difference in the figures of sales/receipts to determine the value of the transactions and the consequent impact of their overstatement/suppression on the State's revenues.

Chapter - III Assessments of selling dealers





CHAPTER - III ASSESSMENTS OF SELLING DEALERS

3.1 CST ASSESSMENTS

3.1.1 In **Arunachal Pradesh** no CST assessments were done during the period 2006-2010 while in **Sikkim** we observed that most of the dealers either did not submit CST returns or submitted CST returns irregularly. The Division did not scrutinize any CST return of any dealer to verify, prima-facie, correctness of the returns. The Department conducted assessments of only 14 (three industrial dealers, eight cardamom dealers and three scrap dealers) out of 75 CST dealers during 2007-08 to 2009-10.

3.1.2 In **Karnataka** under the CST Act scrutiny assessments were to be taken up and completed for every year. As per the information furnished by the CTD, total number of 1,55,682 assessments (about 21 *per cent*) only were concluded as against 7,44,338 cases due for assessments, leaving a balance of 5,88,656 cases (about 79 *per cent*) for the years 2005-06 to 2009-10. The year wise pendency position is mentioned in the following table:

Year	Number of cases due for assessments	Assessments concluded	Percentage of completion of assessments	Pending assessment cases	Percentage of pending assessments
2005-06	1,08,736	40,951	37.66	67,785	62.34
2006-07	1,18,405	68,522	57.87	49,883	42.13
2007-08	1,10,844	17,223	15.53	93,621	84.47
2008-09	1,68,178	16,303	09.69	1,51,875	90.31
2009-10	2,38,175	12,683	05.32	2,25,492	94.68
Total	7,44,338	1,55,682	21	5,88,656	79

The above table shows that the percentage of assessments concluded each year from 2006-07 to 2009-10 was declining despite increase in the number of dealers under CST each year.

The details of additional revenue generated and collected from the CST assessments concluded from 2005-06 to 2009-10 are given in the following table:

Year	Assessments completed	Additional demand for revenue raised in the assessment orders (₹ in lakh)	Additional revenue collected (₹ in lakh)	Percentage of collection
2005-06	40,951	2713.58	746.27	27.50
2006-07	68,522	14131.11	10286.85	72.79
2007-08	17,223	8449.33	6056.93	71.68
2008-09	16,303	32217.73	5317.27	16.50
2009-10	12,683	12229.07	4827.35	39.47
Total	1,55,682	69740.82	27234.67	39

From the above table it is obvious that substantial additional revenue was raised by the Department on conclusion of assessments. Hence, timely conclusion of the remaining 5,88,656 cases pending for assessment would result in substantial tax revenue to the Government.

3.1.3 Our audit showed several instances where concessions/exemptions were allowed to selling dealers on the basis of fake/obsolete/manipulated forms. The inherent weaknesses in the system were exploited by unscrupulous dealers to their advantage and deprived the State of legitimate revenue. Most of these cases could have been detected had the control mechanisms in the Department been strong as indicated in Chapter II.

Our findings are summarized below:

3.2 CONCESSIONS ALLOWED AGAINST FAKE FORMS

3.2.1 By cross-checking the information regarding selling dealers gathered during the initial phase of the audit with the assessment circles in other States where the purchasing dealers were stated to be registered, we detected several cases of incorrect allowance of concessional sales against forms which were confirmed by the concerned circle of the Department of Commercial Tax of those States as not having been issued by them. Thus, these forms were *prima facie* fake and the State lost revenue owing to utilization of these fake forms by the selling dealer to claim concession rate of tax/exemption from tax.

3.2.2 We found that 213 dealers used 637 fake forms to claim irregular exemptions/concessions of more than ₹ 407.08 crore (Annex E). We further noticed that out of these 213 dealers, 65 dealers were from two States alone (40 dealers were from Gujarat and 25 dealers were from Chhattisgarh). These dealers also had transactions with other States and as such, there is a need for the CTD to investigate these cases thoroughly.



3.2.3 We cite an example in the following paragraph:

In **Andhra Pradesh** we noticed from the check of records of assessments finalized during the period 2007-08 to 2009-10 that in two circles four dealers claimed exemption on their branch transfers/consignment sales on the turnover of ₹ 12.44 crore for the year 2004-05 and a turnover of ₹ 227.01 crore for the years 2005-06 and 2006-07. In support of the claims, the dealers filed 'F' forms obtained from their respective branches/agents located in other States. The concerned assessing authorities finalized the assessments allowing the exemptions based on the declarations filed during the years 2007-08, 2008-09 and 2009-10. Our cross verification of these forms with the records of the sales tax authorities of other States revealed that these forms were not issued to the purchasing dealers of the concerned States as confirmed by the Sales Tax authorities of that State. Thus *prima facie*, the concessional rate of CST allowed was irregular resulting in non-levy of tax of ₹ 23.94 crore.

We also noticed in five circles that 14 dealers claimed concessional rate of tax on their inter-state sales amounting to ₹ 1.47 crore for the years 2005-06 to 2007-08 producing 30 'C' forms issued by dealers/firms from various States. However, on cross-verification of the same, it was informed by the CTDs of other States that the dealers on whose 'C' forms concessions were claimed by the AP dealers were found to be either non-existent or these forms were not issued by them. Thus, there was non-levy of tax and penalty of ₹ 8.65 lakh and ₹ 17.31 lakh respectively.

3.2.4 The assessing authorities, neither at the time of nor at any time before finalizing the assessments, had made any inquiry to ascertain that the particulars contained in the declarations furnished by the dealers were true. As a result, unscrupulous dealers exploited the

weaknesses in the system to extract undue financial gains at a cost to the State exchequer. This underlines the need for creating a database of such dealers and blacklisting them along with stringent cross-verification checks by the CTD to detect such cases.

3.3 USAGE OF FORMS ISSUED TO OTHER DEALERS

3.3.1 We also detected several cases where the selling dealers availed exemptions/concessions on the basis of forms which were found to have been either used by unregistered dealers or were used by purchasing dealers other than those to whom these were shown as issued by the CTD. The forms were thus fraudulently used to evade tax. In such cases there is a strong possibility that either the forms found their way into the hands of unscrupulous dealers due to lax controls in the CTD or the *modus operandi* was that the registered dealers passed on the forms to unregistered dealers who remained outside the tax net and hence did not disclose the inter-state purchases, while the selling dealers enjoyed the concessions/exemptions. The Department needs to investigate all such cases thoroughly.

3.3.2 We noticed that more than 69 dealers used such forms to claim exemption on transfer of goods/concessional rate of tax on sales. Our cross verification with the concerned CTDs of the issuing States confirmed that these forms were used by dealers other than those to whom these were issued by the CTDs. Of these 69 dealers, 19 were from Rajasthan and 11 were from Jammu and Kashmir. The details are given in Annex F.

3.3.3 We present an example below:

In Jammu and Kashmir, in two circles (G and I Jammu), six dealers had made sales valued at \mathbf{E} 10.23 crore to 11 dealers of seven States and one Union Territory (UT) (Delhi, Gujarat, Himachal Pradesh, Madhya Pradesh, Uttar Pradesh, Dadra & Nagar Haveli and West Bengal). Cross-verification of the data with the CTDs of the respective States revealed that the names mentioned in the 'C' forms on the basis of which concession was granted to the selling dealers did not tally with the names shown by the purchasing dealers in their records. These 16 cases required investigation for the concession of tax of \mathbf{E} 1.27 crore granted. Besides, interest and penalty of \mathbf{E} 1.23 crore was also leviable. In absence of a system of cross verification of declaration forms, the mistake remained undetected.

Further, in three circles, five dealers had made stock transfer of goods valued at ₹ 40.79 crore to five dealers of Punjab and Chandigarh. Our cross-verification of the data with the respective CTDs revealed that 25 'F' forms on the basis of which exemption had been granted to the consignors were not issued in the name of consignees by the Department but were shown to have been issued to other consignees. Thus, exemption from payment of tax of ₹ 1.71 crore was incorrect. Besides, interest of ₹ 1.94 crore was also leviable. We further noticed that in two circles, two dealers had shown stock transfer valued at ₹ 1.66 crore to two dealers of Punjab and Chhattisgarh. Cross-verification of the data with the CTDs of the respective States revealed that eight 'F' forms on the basis of which exemption had been granted to the consignors were not issued by their respective Departments. Thus, exemption granted on these forms was not in order and had resulted in incorrect exemption of tax of ₹ 41.20 lakh. Besides, interest of ₹ 57.54 lakh was also leviable.

3.3.4 In **Chhattisgarh**, according to the notification No. 23 dated 23 March 2004 issued by the Government for the period April 2004 to March 2005, inter-state sale of sponge iron by a registered dealer against 'C' form is liable to tax at one *per cent*. Under the Tax Deferment scheme of 1994 notified in October 1994, only a registered dealer holding eligibility certificate for deferment of payment of tax can avail the facility.

3.3.5 We found during the test check of the records of the AC, Raipur that a dealer engaged in steel semis and sponge iron was assessed in August 2009 for the period April 2004 to March 2005 and had sold sponge iron of ₹ 28.72 crore during inter-state sale. Further scrutiny of records revealed that 'C' forms for ₹ 7.06 crore which were attached with the case belonged to another dealer who had the facility of deferment from payment of tax. Thus, the dealer had suppressed the turnover and misrepresented the facts. However, the assessment was done by the AA without undertaking any preliminary checks. This incorrect acceptance of the forms by the AA resulted in non-levy of tax of ₹ 7.06 lakh along with minimum three times penalty of tax evaded amounting to ₹ 21.18 lakh.

3.4 MANIPULATION/FRAUDULENT USE OF FORMS

3.4.1 We also found several instances where the selling dealers manipulated the figures in the forms to claim excess concession of tax. Due to non-conducting of cross-verification with the Commercial Tax Departments of the States which had issued the C/F forms, these fraudulent claims for concessions/exemptions could not be detected by the assessing authorities.

3.4.2 An interesting case is cited below:

We noticed that two sister concerns located in **Goa**, dealing in chemicals, and assessed in the same ward, had manipulated some of the forms issued to them by adding a numeral before/after the figures shown in the forms or by changing the figures themselves. In most cases, the figure '1' was added before the figures of sales in the form thereby inflating the sales figure by $\gtrless 1$ lakh. An example of the manipulation resorted to by one of these firms is given in Annex G.

On checking with the consolidated database prepared by us, we found that these two firms had transactions with dealers in as many as 15 States. We checked a few more transactions and found that the same *modus operandi* was resorted to in order to make fraudulent claims for concessional rate of tax. In all these cases, the CST assessments were completed without detecting the manipulation as no cross-verification was conducted.

The Department admitted the audit observation.

3.4.3 Some other cases are given below:

In another case in Goa, a dealer, registered in Margao, submitted 16 'F' forms which covered transfer of goods during the years 2005-06, 2006-07 and 2007-08. Cross verification of these forms revealed that the dealers to whom the goods were transferred against 12 'F' forms, were actually unregistered dealers. Hence the genuineness of these forms could not be verified.

Transfer of goods to unregistered dealers and claim of exemption of tax against 'F' forms resulted in tax evasion to the tune of ₹ 42.89 lakh.

3.4.4 In **Punjab** while finalizing the assessment (June 2010) of a dealer for the assessment year 2006-07 the AA allowed the concessional rate of tax on the entire inter-state sale of ₹ 73.91 crore against the production of 432 'C' forms. Scrutiny of these declarations revealed that out of these declarations 10 declarations were tampered, whereby the value of goods covered by these forms was increased to the tune of ₹ 2.67 crore than the actual value. Utilization of the declarations in this fraudulent manner with the intention to evade tax resulted in short levy of tax of ₹ 23 lakh, non-levy of penalty of ₹ 45 lakh and interest of ₹ 6 lakh.

3.4.5 In **West Bengal** we found in three charge offices that while assessing three cases of three dealers between 2004-05 and 2006-07 the AAs allowed concessional sales of ₹ 24.33 lakh. However, on cross checking the counter foils of the 'C' forms of the purchasing dealers with the original forms of the selling dealers/ statements of purchase it was revealed that the actual sales was ₹ 96,000. This resulted in non-levy of tax ₹ 1.86 lakh.

3.4.6 In Karnataka we noticed in ACCT, LVO-061, Bangalore that the AA granted exemption of turnover on the basis of declaration form 'F'. However, it was observed that in one form filed for ₹ 12.06 crore during year 2005-06, though the validity of the form was for the month of January 2005, it was tampered and the validity was mentioned as January 2006. Acceptance of the tampered form involving tax effect of ₹ 1.21 crore was incorrect.

3.4.7. In **Odisha**, in two circles, the AAs levied concessional rates of tax on sales turnover of goods worth ₹ 5.04 crore in respect of three dealers relating to different tax periods between July 2005 and October 2006 on the strength of six declarations in form 'C' which were found to be manipulated by erasing, cutting and over-writing etc. This resulted in short levy of tax of ₹ 30.18 lakh. The details are given below:

							(₹ in lakh)
Name of the Range/ circle	Number of dealers	Number of 'C' forms	Period to which the forms relate (Date of assessment)	Nature of irregularities	Name of goods	Value of goods	Tax short levied
Kalahandi Circle	2	4	Between July 2005 and October 2006 (30 March 2009)	 The 'C' forms were duplicate and the printed word 'Duplicate' had been torn off/ erased deliberately. The original invoice numbers, value of goods and names of selling dealers had been erased by white fluid and new invoice numbers, value of goods and names of selling dealers inserted. 	Rice	13.28	0.75
Barbil Circle	1	2	April 2006 to June 2006 (31 March 2009)	 The name of the selling dealer, bill number, date and amount mentioned earlier in the form had been erased with white fluid and overwritten. In one form, the signature of the authorised signatory in the front side does not match with the signature on the reverse side of the form. 	lron ore	490.50	29.43
Total	3	6				503.78	30.18

3.5 LOSS OF REVENUE DUE TO ACCEPTANCE OF OBSOLETE FORMS

3.5.1 To prevent evasion of tax through use of obsolete/invalid declaration forms by dealers of other States, the COT shall, on receipt of the copy of the notification issued by the other States declaring such forms as obsolete/invalid, forward the notification to all the concerned AAs to enable them to cross-check the forms submitted by dealers during assessments.

3.5.2 In **Meghalaya** we noticed that two dealers in ST, Nongpoh and one in ST, Jowai sold taxable goods valued at ₹ 2.02 crore for the period from 1998-99 to 2006-07 in course of interstate trade to Mizoram and furnished 14 'C' forms. The STs accepted, between 2007-08 and 2008-09, the forms and assessed the dealers at concessional rates accordingly.

3.5.3 We cross-verified this information with the Taxation Department of Mizoram and found that all the forms had been declared obsolete by the COT, Mizoram and necessary notification in this respect was issued on 13 October 1999 and 29 January 2003, copies of which were sent to all the COTs of other States. The COT, Meghalaya however, did not forward the notification to his STs. As such, the STs could not detect the obsolete and invalid forms at the time of assessment resulting in underassessment of tax of ₹ 19.55 lakh.

3.5.4 The CT, Nagaland in his letter of February 2002 intimated the CT, **Assam** regarding the cancellation of a series of declarations in form C with effect from 11 June 2001. We found that three AAs allowed five dealers in January 2009 and February 2010 concessional rate of tax on inter-state sale of ₹ 74 lakh against 'C/F' form for the period 2005-06 to 2008-09 which were declared invalid/ obsolete by the Government of Nagaland. This resulted in non-levy of tax and interest of ₹ 8 lakh.

3.5.5 In Jammu and Kashmir a dealer assessed in Circle I, Jammu had shown sales of ₹ 6.96 lakh to a dealer in Assam ('C' form No. AS/96 460315) during 2006-07 and had been allowed exemption on these sales. Cross-verification of the data with the CTD, Assam revealed that the purchasing dealer had shown the said form as having been lost. Thus, the exemption allowed on these sales having a tax effect of ₹ 1.71 lakh, requires investigation to check the genuineness of the sale.

3.5.6 In **Goa** a dealer submitted two 'F' forms which were declared as obsolete and invalid by the Mizoram Commercial Tax Department in May 2002 but exemptions for the years 2006-07 and 2007-08 were claimed and allowed resulting in tax evasion to the tune of \gtrless 4.52 lakh.

3.6 CONCESSIONS/EXEMPTIONS ALLOWED AGAINST DEFECTIVE FORMS

3.6.1 While completing the CST assessments, the assessing authority is required to ensure that concessional rate of tax is allowed only on the basis of genuine and valid statutory forms issued by the respective assessing authority of the issuing state. Under Section 8(4) (1) (a) read with Section 8(1) of the CST Act, the selling dealer shall not be entitled to avail tax at concessional

rate unless he furnishes 'C'/'F' form duly filled and signed by the purchasing dealer/agent containing the prescribed⁵ particulars.

3.6.2 In the case of Salem Magnesite Vs State of Tamil Nadu (1999) 116 STC 110 (Mad HC DB) it was held that duly filled 'C' form should be issued to the seller. The Hon'ble Court observed that sometimes the 'C' form is obtained in advance and particulars of invoice etc. are filled in later. This is not legally correct, as section 8(4)(a) uses the words 'to whom goods are sold'. Thus, duly completed 'C' form should be obtained only after sale, otherwise the 'C' form can be rejected.

3.6.3 In **Punjab** we found that while finalizing the assessment of 91 dealers between April 2009 and March 2011 for the assessment years 2005-06 to 2008-09, the AAs assessed the interstate sales valuing ₹ 254.89 crore at concessional rate of tax, supported by declarations in form 'C' which were incomplete/duplicate/tampered/unsigned, etc. This resulted in short levy of tax of ₹ 22.65 crore. Similarly, we noticed that the AAs, while finalizing the assessments of 17 dealers between April 2009 and March 2011 for the years 2004-05 to 2008-09, allowed deductions on account of branch transfer of goods valued at ₹ 78.68 crore against production of declarations in form 'F'. Scrutiny of these declarations revealed that information like date of registration, quantity and date of dispatch of goods etc. were not found recorded on these declarations. We also noticed that the deductions were allowed against the production of duplicate declarations.

3.6.4. In Meghalaya our analysis of 850 'C' forms (25.80 *per cent*) out of 3,295 'C' forms, randomly selected, revealed that the columns indicating 'date from which registration is valid', 'purchase order no. and date', 'challan no. and date' and 'name of goods' were not filled up. In 22 'C' forms the seal of the issuing authority was not affixed, while in 35 'C' forms RC no. of the purchasing dealer was not mentioned. Similarly we randomly selected 121 'F' forms out of 242 'F' forms (50 *per cent*) and found that in none of the selected 121 forms was the 'date of issue', 'date from which registration is valid', 'date on which delivery was taken by the transferee' and 'RC no. of transferee' filled up.

3.6.5 Though the above forms were incomplete and were thus liable to be rejected at the time of assessment, the AAs accepted these incomplete forms and granted exemption/concession to dealers on goods valued at ₹ 777.50 crore. Thus concession/exemption from payment of tax of ₹ 53.96 crore was allowed without any verification.

3.6.6 In **Assam** concessional rate of tax was allowed on inter-state sale of ₹ 52.21 crore to 44 dealers by eight assessing authorities during the period 2001-02 to 2008-09 against 'C' forms which did not have proper/sufficient details of the purchasing dealers. This resulted in non-levy of tax and interest of ₹ 6.56 crore. Similarly, nine AAs allowed claim of branch transfer of goods valued at ₹ 65.63 crore against defective form 'F' i.e. without proper or sufficient details of the

⁵ **In case of 'C' form:** Date from which registration is valid, seal of the issuing authority, purpose of goods purchased, registration no. and date, name of the purchasing dealer along with registration no., signature of the purchasing dealer etc.

In case of 'F' form: Date from which registration is valid, seal of the issuing authority, description and quantity of goods, registration no. and date of transferor/transferee, name of the transferee and transferor along with registration no, signature of the transferee, date of delivery of goods etc.

transferee/amount involved etc. to 23 dealers during the period 2005-06 to 2007-08 resulting in non-levy of tax and interest of \gtrless 9.72 crore.

3.6.7 In **Tamil Nadu** we noticed during scrutiny of assessment records in Periamedu and Egmore I assessment circles that four declaration forms filed by two dealers were found to be defective as the registration number of the purchasing dealer was not mentioned in the declaration forms. Thus, the exemption allowed/short levy of tax on inter-state sale of goods valued at ₹ 1.88 crore by accepting the defective 'C' form declarations resulted in non/short levy of tax amounting to ₹ 19.65 lakh.

3.6.8 In **Jammu and Kashmir** we noticed in three circles that concessional rate/exemption of tax was allowed to 13 dealers by the AAs during 2008-10 for the assessment years from 2005-06 to 2007-08 on photocopies/counterfoils of 'C' & 'F' forms without insisting on production of original declaration forms on goods valued at ₹ 54.09 crore having a tax effect of ₹ 14.77 crore including interest. We also noticed that concession/exemption of tax was allowed to eight dealers by the AAs between 2008-09 and 2009-10 for the assessment years from 2005-06 to 2006-07 on 'C' and 'F' forms that had incomplete details (like bill No, description of goods, etc.) in respect of transactions in 92 cases. The grant of exemption on these declaration forms of goods valued at ₹ 87.41 crore was not admissible and should have been disallowed by the AA. Further, exemption from payment of tax was allowed to five dealers during 2008-09 and 2009-10 for the assessment years during 2008-09 and 2009-10 for the assessment years during 2008-09 and 2009-10 for the assessment years from 2005-06 and 2006-07 on sales of ₹ 12.07 crore involving tax of ₹ 3.04 crore on declaration forms which were not having the name of the dealer, goods supplied, etc. The AAs had not verified the correctness of the forms but had allowed the exemption.

3.6.9 Further, exemption from tax was allowed between 2008-09 and 2009-10 to 11 dealers on inter-state sales of \gtrless 31.63 crore in two circles on declaration forms that did not bear the name of the dealers to whom exemption was granted. This resulted in inadmissible exemption from tax of \gtrless 7.44 crore including interest.

3.6.10 The fact that improperly filled up forms were unreservedly accepted by the AAs, indicates that due care was not exercised by the Department. This extended an open invitation to dealers to abuse/misuse 'C'/'F' forms and unscrupulously avail concessions/exemptions.

3.7 CONCESSIONS/EXEMPTIONS ALLOWED AGAINST DUPLICATE COPY OF FORMS

3.7.1 It has been judicially held by the Supreme Court of India in the cases of M/s India Agencies Vs Addl. Commissioner of Commercial Tax (December 2004) and M/s Delhi Automobiles Private Limited Vs Commissioner of Sales Tax (1997) 104 STC 75 (SC) that production of original 'C' form claiming concessional rate of tax is mandatory to prevent the forms being misused for the commission of fraud and collusion with a view to evade payment of tax. The High Court of Kerala had ruled that production of original 'C' form is mandatory and submission of duplicate of 'C' form is not a substitute for original 'C' forms. In the case of J N Jetiwa Vs State of Maharashtra- (1995) 11 MTJ 491 (Mah Trib), the Tribunal held there is no provision to submit certified xerox copy of the earlier certificate and xerox copy is not acceptable.

3.7.2 We noticed several cases where exemptions/concessions were allowed without submission of the original copy of the forms. Some illustrative cases are mentioned below:

3.7.3 In Jammu and Kashmir we noticed in four circles that the concessional rate/exemption of tax had been allowed to 34 dealers by the AAs between 2008- 09 and 2009-10 for the assessment years from 2005-06 to 2007-08 on duplicate 'C' and 'F' forms without insisting on production of original declaration forms. The grant of exemption on duplicate forms was not admissible and should have been disallowed by the AAs. These cases involved inter-state sales/stock transfer of ₹ 422.88 crore having tax effect of ₹ 99.93 crore including interest.

3.7.4 In **Chhattisgarh** we found in the test check of the records of CTOs Dhamtari and Korba and ACs, Durg, Raigarh and Raipur that six dealers engaged in sale and purchase of iron and steel, timber, machinery parts and coal had submitted 'duplicate' portion of 'C' forms with their returns, involving sale value of ₹ 3.79 crore. As per the rules, the 'duplicate' portion of forms should have been rejected and tax of ₹ 23.89 lakh should have been levied by treating the transactions as inter-state sale without 'C' form. However, it was found that the same was not done by the AAs.

3.7.5 In **Meghalaya**, in STs, Nongpoh and Jowai, we noticed that two dealers sold coal, iron and steel etc, valued at ₹ 2.57 crore in course of inter-state trade to dealers of Assam and furnished seven 'C' forms. The AAs assessed the dealers at concessional rate. Our scrutiny however, revealed that the dealers submitted the portion of the form marked 'Duplicate' to the AAs instead of the portion marked 'Original'. Such irregular acceptance of 'Duplicate' portion of the form was not correct and verification of original 'C' form was required to be done before the concessional rate of tax amounting to ₹ 6.28 lakh was allowed on these forms.

3.7.6 In **Himachal Pradesh** in two AETC Offices (BBN and Sirmour), our scrutiny of records revealed that while finalizing assessments of seven dealers from March 2007 to December 2009 for the assessment years 2004-05 to 2006-07, the AAs allowed deduction from inter-state sale on account of stock transfers amounting to $\overline{\mathbf{x}}$ 6.73 crore against declarations in duplicate form 'F'. The irregular allowance of exemption of tax on duplicate forms resulted in non-levy of tax of $\overline{\mathbf{x}}$ 1.29 crore including interest of $\overline{\mathbf{x}}$ 50 lakh.

3.7.7 In **Odisha** we noticed in Puri Range and five circles, that the AAs allowed concessional rate of tax to six dealers on the sales turnover of ₹ 1.01 crore against 10 duplicate portions of the declarations forms. This resulted in short levy of tax of ₹ 3.80 lakh.

3.8 FORMS COVERING TRANSACTIONS BEYOND THE PRESCRIBED PERIOD

3.8.1 The CST (Registration and Turnover) Rules provide for furnishing of 'C' declaration forms on a quarterly basis with a proviso that a single declaration form can cover all transactions of sale which take place in a quarter of a financial year between the same two dealers. Similarly, the Rules provide for furnishing of 'F' declaration forms on a monthly basis and a single declaration could cover transactions of a particular month.

3.8.2 In violation of these provisions we noticed that in **Tamil Nadu**, in 14 assessment circles in respect of 35 assessees, 73 'C' form declarations covering transactions pertaining to more than one quarter were accepted and tax was levied at a concessional rate on the entire turnover

of ₹ 18.70 crore, instead of restricting the concessional levy to the transactions relating to one quarter only. Similarly, in six assessment circles, in respect of 17 assessees, 72 'F' declaration forms covering transactions of more than one month for ₹ 87.40 crore were accepted and exemption was allowed, instead of restricting the exemption to transactions relating to a single month.

3.8.3 In **Himachal Pradesh** our scrutiny of records of four AAs revealed that the AAs while finalizing assessments between August 2008 and July 2010 in respect of 11 dealers for the assessment years 2004-05 to 2008-09, allowed exemption of tax on transfers of stock worth ₹ 31.35 crore against 33 'F' forms. Since the 'F' forms furnished by the dealers contained transactions covering more than one calendar month, transactions beyond one month in each form were not covered by valid declarations and were thus liable to be taxed.

3.8.4 In Andhra Pradesh we noticed in 19 circles and five Large Taxpayer's Units (LTUs) that in 27 cases where assessments were completed between February 2008 and March 2010, exemptions on branch/consignment transfers were allowed on 'F' forms covering transactions of more than one calendar month. The transactions of more than one month in these 'F' forms were liable to be rejected and tax of ₹ 2.27 crore leviable on these transactions valued at ₹ 20.30 crore. We further noticed in 20 circles and two LTUs that in respect of 35 cases, while finalizing assessments between March 2008 and March 2010, concessional rate of tax was allowed on 'C' forms covering transactions pertaining to more than a quarter in a financial year. This resulted in short levy of tax of ₹ 43.97 lakh.

3.8.5 In West Bengal we noticed in 11 cases that stock transfer of ₹ 550.38 crore was allowed on 'F' forms covering transactions of more than one calendar month. The amount actually allowable was ₹ 544.71 crore. This resulted in allowance of excess exemption of ₹ 5.67 crore involving tax of ₹ 60.43 lakh. Similarly, in case of two dealers concession was allowed for more than the amount shown in statement of 'C' forms resulting in excess allowance of concessional sale of ₹ 4.22 crore involving tax of ₹ 6.59 lakh.

3.8.6 In **Odisha** we found in two Ranges and six circles, that the AAs allowed concession/exemption of tax in favour of 11 dealers on inter-state sales turnover/branch transfer of goods worth ₹ 15.57 crore relating to different periods between April 2006 and May 2009 against 35 declarations in forms 'C' and 'F' which were found to be invalid as they covered transactions which were for more than the prescribed periods as per the provisions of the Act and hence were not acceptable. This resulted in short levy of tax of ₹ 1.17 crore.

3.8.7 In **Chhattisgarh** we found in the test check of the records of AC-I (Div.I), Bilaspur, AC-II, Durg and CTO, Ambikapur that three dealers engaged in purchase and sale of *bidi* leaves and manufacture and sale of iron and steel for the period April 2005 to March 2007 who were assessed between February 2009 and February 2010 had sold goods of ₹ 3.52 crore. Further scrutiny revealed that eight 'C' forms had transactions of more than a quarter in a financial year. However, the AAs failed to scrutinize these invalid forms which led to short levy of tax of ₹ 30.90 lakh.

3.8.8 In **Goa** audit scrutiny revealed in three ward offices, nine cases of irregular exemption on invalid 'F' forms by eight dealers involving tax of \gtrless 2.20 crore covering transactions beyond one calendar month.

3.8.9 In **Karnataka** in 10 assessment charges we noticed that while finalizing the assessments under the CST Act for the assessment years 2005-06 to 2007-08, the AAs had accepted declaration forms 'F' for a turnover of ₹ 545.06 crore covering transactions for more than one calendar month in violation of the provisions of the Act. Thus, the allowance of exemption without verification of the declaration forms resulted in non-levy of tax of ₹ 61.36 crore.

3.9 CONCESSIONS ALLOWED ON BELATED SUBMISSION OF FORMS

3.9.1 As per Rule 12(7) of the CST (Registration & Turnover) Rules, 1957, the declaration in form 'C' or form 'F' shall be furnished to the prescribed authority within three months after the end of the period to which the declaration or the certificate relates, provided that if the prescribed authority is satisfied that the person was prevented by sufficient cause from furnishing such declaration within the aforesaid time, that authority may allow such declaration to be furnished within such further time as that authority may permit. In the case of Kirloskar Brothers Ltd Vs State of Tamil Nadu (1999) 113 STC 496 (Mad), it was held that original assessment made by the assessing authority was final for all practical purposes and relief sought for, by the dealer as relatable to forms filed subsequent to the original order of assessment could not be granted.

3.9.2 In **Rajasthan** during test check of the assessment records of six AAs we noticed that while finalizing the assessment, the AAs had accepted 14 cases of 'C' and eight cases of 'F' forms which were submitted after the end of the prescribed period of three months with delays ranging from four to 606 days, without recording the cause for delay. This resulted in irregular concession/exemption of tax to dealers for ₹ 58.07 crore. Besides, interest of ₹ 20.93 crore was also leviable. We further noticed in 18 AAs that in 103 cases demand of ₹ 18.52 crore (tax of ₹ 14.34 crore and interest of ₹ 4.18 crore) was reduced on submission of declaration forms by 92 assesses after assessment, without recording the cause for delay in submitting the forms.

3.9.3 In **Meghalaya** we noticed during test check of 'C' forms that in four field offices 78 dealers sold goods valued at ₹ 291.04 crore between 2006-07 and 2009-10 and submitted 2600 'C' forms belatedly. The period of delay in submission of forms ranged between 9 months and 40 months. We found that in most of the cases the delay arose as the dealers submitted the forms only at the time of finalizing the assessment which was well beyond the period of three months.

3.9.4 Similarly, in ST Nongpoh and Jowai, seven dealers made inter-state stock transfer of goods valued at ₹ 192.85 crore to their agents/principals between 2006-07 and 2009-10 by utilizing 219 'F' forms. In these cases also, the dealers submitted the 'F' forms belatedly ranging between 9 months and 40 months.

3.9.5 In the above cases, the AAs accepted the 'C' and 'F' forms beyond the prescribed period of three months without any recorded reasons, which was in contravention of the Rules.

3.9.6 The delayed submission of forms is fraught with the risk of evasion and escapement of taxable turnover; besides, the flaws/irregularities/incomplete forms/fake forms cannot be detected timely. Belated rectification results in loss of revenue particularly in case of closure of businesses by the dealers.

3.10 CONCESSIONS/EXEMPTIONS ALLOWED WITHOUT FORMS

3.10.1 While completing the CST assessments, the assessing authority is required to ensure that concessional rate of tax is allowed only on the basis of genuine and valid statutory forms issued by the respective assessing authority of the issuing state. Under Section 8(4) (1) (a) read with Section 8(1) of the CST Act, the selling dealer shall not be entitled to avail tax at concessional rate unless he furnishes 'C'/'F' form duly filled and signed by the purchasing dealer/agent containing the prescribed particulars.

3.10.2 In Kerala we observed that in 17 units in case of 80 assessees that inter-state sales turnover amounting to ₹ 545.82 crore was assessed at concessional rate of tax without production of 'C' forms. Short levy of tax in this regard worked out to ₹ 92.91 crore including interest and penalty. Further, in respect of 15 offices in case of 53 assessees, inter-state transfer of goods amounting to ₹ 799 crore was exempted without production of 'F' forms. Short levy in this regard worked out to ₹ 123.38 crore including interest and penalty.

3.10.3 In **Delhi** we noticed during the test check of the dealer files that in the following 1221 cases, for the assessment years 2008-09, the dealers claimed exemption/concessional rate of tax on \gtrless 17844.90 crore on account of branch transfer/consignment sale/concessional rate of tax of two *per cent*. Our scrutiny indicated that the dealers had not submitted the required statutory forms by the dates prescribed by the Department for the said cases. We also noticed that some of the dealers had sought extension for submission of the statutory forms. However, even after expiry of the extended date the dealers failed to submit the forms. The Department has not taken action to assess these dealers and disallow the exemption sought by them. This had resulted in irregular exemption of tax of \gtrless 1255.64 crore. Besides, interest and penalty was also leviable for irregular claims. The details are given in the following table:

Transaction details	Number of cases	Transaction value (₹ in crore)	Tax payable (₹ in crore)
In 84 wards the dealers did not submit prescribed 'F' forms in support of branch transfer/ consignment sale.	457	12011.35	925.35
In 97 wards the dealers did not submit prescribed 'C' forms.	764	5833.55	330.29

3.10.4 In **Punjab** we found that while finalizing the assessments during 2010-11 of three dealers for the assessment years 2005-06 to 2008-09 and as per the annual statements of two dealers for the years 2006-07 and 2008-09, the AAs allowed deduction on account of branch transfer of ₹ 33.84 crore without production of prescribed declarations in form 'F'. Grant of deduction without the support of declaration forms resulted in non-levy of tax of ₹ 4.23 crore. Similarly, while finalizing the assessments of 10 dealers between April 2009 and March 2011 for the assessment years 2001-02 and 2004-05 to 2008-09, the assessing authorities assessed inter-state sale of ₹ 97.14 crore at concessional rate of CST without the support of prescribed declarations in form 'C'. This resulted in short levy of tax of ₹ 8.31 crore.

3.10.5 Under the provision of Rule 12 (7) of the CST Rules, the declaration in form 'C' and 'F' shall be furnished to the prescribed authority within three months after the end of the period to which the declaration relates, to substantiate the claim of concession/exemption. In **Bihar** the CCT issued (August 2006) a circular directing all the assessing officers to levy tax along with interest wherever the dealer did not submit the prescribed declarations in form 'C' and 'F' within the prescribed time limit of three months. However, in 17 circles we observed that 48 dealers had availed of exemptions/concession on account of inter-state stock transfer/sales of various goods worth ₹ 108.51 crore during the period 2006-10 without supporting the claims with the prescribed declaration in forms 'C'/'F'. The AAs were required to scrutinize the returns to ascertain that the deductions/concessions were substantiated by the relevant 'C' and 'F' forms. Failure of the AAs in disallowing these unsubstantiated claims resulted in non-levy of tax of ₹ 5.23 crore under the CST Act. This was also in contravention to the aforesaid instruction of the CCT. Besides, the dealers were also liable to pay interest.

3.10.6 In Patliputra circle we observed that seven dealers had availed of exemptions/ concession on account of inter-state stock transfer/sales of various goods worth ₹ 133.41 crore during the period 2007-09 without supporting the claims with the prescribed declaration in form 'C' and 'F'. These claims were liable to be disallowed by the AA and tax of ₹ 6.24 crore was leviable in these cases.

3.10.7 In Meghalaya we noticed in ST, Nongpoh that 14 industrial units sold goods valued at $\overline{\mathbf{x}}$ 120.95 crore in course of inter-state trade. However, there was nothing on record to show that inter-state sales were supported by any declaration forms/documentary evidence. As such the exemption of $\overline{\mathbf{x}}$ 10.91 crore allowed by STs while finalizing the assessments could not be verified by us. Similarly, in ST Williamnagar, we noticed in January 2011 that two dealers sold coal valued at $\overline{\mathbf{x}}$ 15.99 crore in course of inter-state trade between January 2008 and September 2009 and claimed payment of tax at concessional rate. The AA assessed the dealers accordingly between April 2008 and December 2009. However, the forms were not found on record as such their correctness could not be ascertained.

3.10.8 In **Tamil Nadu** we noticed during scrutiny of assessment records in FTAC-II, Coimbatore and Egmore II assessment circles that in respect of two dealers, the sales turnover of ₹ 13.24 crore was not covered by declarations in form 'C'. However, the above sales turnover was allowed concessional rate of tax which resulted in short levy of tax of ₹ 80.42 lakh.

3.10.9 In **Chhattisgarh** we found in the test check of the records of AC, Rajnandgaon that three dealers engaged in manufacture and sale of edible oil, sodium nitrate, ferro alloys and mining machineries were assessed between April 2007 and June 2009 for the period from April 2004 to March 2007. These dealers had availed concessional rate of tax on the sale of ₹ 10.53 crore. During scrutiny, no declaration forms were found in the case records and despite this, the AAs allowed concessional rate of tax in these cases. This resulted in non-levy of tax of ₹ 1.02 crore.

3.10.10 In **Jharkhand** we noticed in case of four dealers in three Commercial taxes circles that the AAs while finalizing the assessments between March 2008 and April 2009 for the period 2003-07 allowed exemption from payment of tax on stock transfer outside the State valued at ₹ 11.50 crore though the transactions were not supported by declarations in form 'F'. This resulted in incorrect allowance of exemption and consequent non-levy of tax of ₹ 1.34 crore.
3.10.11 In **Odisha** in three circles, we noticed that although two dealers did not furnish declarations in Form C' and two dealers were assessed *ex-parte* in respect of inter-state sales of goods valued at ₹ 1.55 crore relating to the tax periods between 1 April 2005 and 31 March 2007, the AAs allowed (March and November 2009) concessional rates of tax. This resulted in short levy of tax of ₹ 7.26 lakh. Besides, penalty of ₹ 7.35 lakh was also leviable.

3.10.12 In **Sikkim** four cardamom dealers were assessed under the CST Act for the years 2004-05 and 2006-07 to 2008-09 during 2007-08 to 2009-10 for a gross turnover of \gtrless 1.84 crore and taxes levied accordingly. However, while verifying the assessment records of the dealers, it was seen that no 'C' forms were available in support of their inter-state transactions for \gtrless 80.45 lakh. In the absence of 'C' forms, the dealers were liable to be assessed at the rate of 10 *per cent* and four *per cent* for the year 2004-05 and 2006-07 to 2008-09 respectively.

3.10.13 Under the provisions of the CST Act, industrial units eligible for exemption under the **Himachal Pradesh** Sales Tax Concession Scheme may claim exemption from payment of tax on their inter-state sales provided that the sales are made to registered dealers and are supported by declarations in form 'C'. Our scrutiny of assessment records of AETCs, Mandi and Sirmour revealed that while finalizing assessments for the years 2003-04 to 2006-07 of four industrial units, which were exempted from payment of tax within the State under the Himachal Pradesh Sales Tax/VAT concession scheme, the industrial units were allowed exemption from payment of tax on inter-state sale valued at ₹ 53.03 crore though the transactions were not supported with 'C' forms as required under the CST Act. Thus, allowance of exemption without declaration forms was irregular and resulted in non-levy of tax of ₹ 11.05 crore including interest of ₹ 4.75 crore.

3.10.14 In **Andhra Pradesh** we noticed during test check of the assessment files of 17 circles that in 26 cases though inter-state sales valued at ₹ 37.96 crore were not supported by declarations in the prescribed 'C' forms, the AAs while finalizing the assessments between September 2007 and March 2010 for the years 2004-05 to 2008-09, levied tax at concessional rates. This resulted in short levy of tax of ₹ 83.48 lakh.

3.10.15 In **West Bengal** we noticed that in a case of a dealer, the AA allowed stock transfer of ₹ 1475.55 crore against ₹ 1367.88. crore allowable on the basis of 'F' forms furnished. This resulted in excess allowance of stock transfer of ₹ 107.67 crore not supported by 'F' forms involving short levy of tax of ₹ 8.61 crore.

3.10.16 In **Assam** concessional rate of tax was allowed on inter-state sale of ₹ 3.74 crore by four assessing authorities to nine dealers during the period 2005-06 to 2007-08 without supporting 'C' forms. This resulted in non-levy of tax and interest of ₹ 37 lakh. Similarly, five AAs allowed the claim of branch transfer of goods valued at ₹ 42.86 crore without form 'F' to seven dealers during the period 2004-05 to 2008-09 resulting in non-levy of tax and interest of ₹ 7.06 crore.

3.10.17 In Jammu and Kashmir we noticed that in three circles, 13 dealers had not furnished 'C' and 'F' forms for goods valued at ₹ 33.95 crore but had availed exemption from payment of tax. This resulted in incorrect grant of exemption/concession having tax effect of ₹ 8.29 crore including interest. Besides, in two circles (G & I Jammu), two dealers had not submitted the declaration forms for sales valued at ₹ 33.40 lakh during 2005-07 which were assessed in

2008-10. However, exemption was claimed and allowed by the AAs incorrectly resulting in nonrealization of tax of ₹ 8.84 lakh. We further noticed in Commercial Tax Circles ('C' and 'G') of Jammu that exemption from payment of tax had been allowed to two dealers who had not produced 'F' forms in support of their stock transfer of goods valued at ₹ 2.25 crore during 2005-07. The AAs while finalizing the assessments between June 2008 and March 2010 had allowed exemption without obtaining the declaration forms. This resulted in incorrect grant of exemption having tax effect of ₹ 44.16 lakh, including interest.

3.11 EXEMPTION ALLOWED WITHOUT EVIDENCE OF DISPATCH OF GOODS

3.11.1 Under section 6A of the CST Act, 1956, the burden of proving that the movement of goods was occasioned by reason of transfer of such goods to any other place of his business or to his agent or principal, as the case may be and not by reason of sale, for availment of tax exemption, shall be on the dealer. For this purpose he may furnish to the AA, within the prescribed time, a declaration in form 'F' duly filled and signed by the principal officer of the other place of business along with the evidence of dispatch of such goods and if the dealer fails to furnish such declaration, then the movement of such goods shall be deemed for all purposes of this Act to have been occasioned as a result of sale.

3.11.2 In **Rajasthan** we observed that it was a general practice not to submit proof of dispatch with 'F' forms and no instructions were issued to the AAs to disallow the exemption in case of violation of the provisions. Our scrutiny of 65 'F' forms submitted by one assessee to Circle Special-III Kota revealed that evidences of dispatch of goods of ₹ 186.09 crore were not enclosed with the forms. The AA, however, while finalizing the assessment of the dealer for the relevant year, irregularly accepted these forms. The tax exemption allowed in these cases was ₹ 23.26 crore, which requires investigation.

3.11.3 In **Himachal Pradesh** we found in two AA charges (Shimla and Solan) that in two cases, two dealers availed exemption on stock transfer worth ₹ 127.51 crore on the basis of incomplete 'F' forms. Our scrutiny revealed that required details such as name and address of the selling dealer and RC number, number and date of railway receipt or postal receipt or goods receipt with trip sheet of lorry or any other document indicating the means of transport, or date on which the delivery was taken by the transferee was not mentioned. In one case in Shimla, the dealer erased and rewrote the months and address of the transferor shown in the 'F' forms with ball pen by using correction fluid so as to cover the transactions made during the year 2008-09. In the absence of the above details, these forms were *prima-facie* liable to be rejected and stock transfers of ₹ 127.51 crore taxed as per the provisions of the Act. Improper scrutiny of these forms by the AAs resulted in non-levy of tax ₹ 27.77 crore including interest of ₹ 11.85 crore.

3.12 EVASION OF TAX

3.12.1 One of the effective means for ensuring that no leakage of revenue takes place in the course of inter-state trade is to have a robust checkpost system. In **Tamil Nadu** we undertook a study on the adequacy and effectiveness of the system for monitoring the inter-state transaction of major oil companies, in order to safeguard the revenue interest of the State.

We cross verified the inter-state sale of petroleum products effected by two major oil companies during the years from 2007-08 to 2009-10 to the purchasing dealers in Puducherry with the records maintained in the Commercial Taxes check posts situated at the border of the Union Territory of Puducherry to ascertain the actual movement of petroleum products out of this State.

We noticed from the details captured in the automated check post module and the movement registers maintained at the check posts that except for a few transactions, all other transactions relating to inter-state sale of petroleum products declared to have been transported to the Union Territory of Puducherry had not been recorded in the check post registers in evidence of the movement of the vehicles, suggesting that the entire quantum of goods had not moved out of the State.

The information regarding the consignment of petroleum products to the Union Territory of Puducherry and the number of movements recorded in the check posts in respect of the two oil companies for the years from 2007-08 to 2009-10 are given in the following table:

Name of the company		of goods to the UT uducherry	Entries as per check post records		
	Nos.	Value (₹ in crore)	Nos.	Value (₹ in crore)	
M/s Indian Oil Corporation Limited	30,862	1,170.64	383	14.63	
M/s Bharat Petroleum Corporation Limited	17,491	754.26	753	102.09	

We drew the attention of the Government to the possibility of the goods having been sold within Tamil Nadu and the local sales camouflaged as inter-state sales, taking advantage of the huge difference in tax rates of petroleum products prevailing in Tamil Nadu and in the UT of Puducherry, which were as follows:

Commodity	Tamil Nadu		Puducherry		
	Period	Rate	Period	Rate	
Diesel Oil	1.4.2007 to 5.6.2008	23.43 %	1.4.2007 to 6.11.2009	12.5 %	
	From 6.6.2008	21.43 %	From 7.11.2009	14 %	
Petrol	Petrol From 1.4.2007 30 %		1.4.2007 to 6.11.2009	12.5 %	
			From 7.11.2009	15 %	

The Enforcement Wing of the Commercial Taxes Department, in pursuance of our audit observation and based on the instructions of the Principal Secretary and the Commissioner of Commercial Taxes, undertook surprise checks on the movement of oil tankers bound for Puducherry during October/November 2010 and found that out of 26 oil tankers that were transporting diesel/motor spirits, 24 vehicles had not crossed the border check posts of Tamil Nadu. The Enforcement Wing also collected, by way of tax and compounding fee, a sum of ₹ 14.28 lakh during surprise checks undertaken by them, apart from noticing instances of book stock exceeding tank capacity and cases of abnormal daily sales figures in the daily sales records maintained at the outlets located in the UT of Puducherry.

After we pointed this out, the Tamil Nadu Government accepting (May 2011) our observation regarding the diversionary trade practices indulged in by the petroleum dealers, stated that a proposal for amendment to the Tamil Nadu Value Added Tax Act, to bring in the system of "Transit Pass" for petroleum products so as to curb the menace of mid-dropping, is under consideration of the Government.

3.12.2 In **Haryana** we noticed during cross verification of the assessment records of a selling dealer with the utilization account of declaration forms of inter-state purchase by a dealer of Tamil Nadu that the dealer had claimed and was allowed (February 2010) concessional rate of CST in 2009-10 for assessment year 2006-07 amounting to ₹ 1.33 crore whereas the purchasing dealer of Tamil Nadu had shown purchases of ₹ 4.21 crore against the same form. Thus, sale of ₹ 2.88 crore was suppressed by the selling dealer. Non-verification of the declaration form by the Department resulted in underassessment of tax amounting to ₹ 23.09 lakh based on the presumption that these goods have been sold locally in the State. Besides, penalty was also leviable under the Act. The Excise and Taxation Department admitted the facts.

3.13 SHORT ACCOUNTING OF INTER-STATE SALES

3.13.1 In Karnataka in five assessment charges we noticed from the returns that the inter-State sales mentioned by 11 dealers in the declaration forms 'C' filed by them in support of their inter-state sale was in excess of the turnover declared by them in their Monthly and Annual Returns for the years 2005-06 to 2007-08 by ₹ 1.20 crore. This indicates that the concerned AAs while accepting and raising the demands on the basis of returns between 2008-09 and 2009-10 did not reconcile the figures mentioned in the declaration forms with the returns filed by the dealers. Thus sales valued at ₹ 1.20 crore involving tax of ₹ 4.46 lakh for the periods from 2005-06 and 2007-08 escaped assessment. Besides, as the dealers had suppressed the sales in their returns, interest and penalty was also leviable.

OTHER MISTAKES IN ASSESSMENT

3.14 APPLICATION OF INCORRECT RATE OF TAX

3.14.1 In **Jharkhand** we noticed in case of 15 dealers in six commercial taxes circles that the AAs while finalizing the assessments between February 2008 and April 2010 for the period 2006-08 disallowed concessional rate of tax on taxable turnover of ₹ 579.30 crore due to non-furnishing of declarations in form 'C' but incorrectly levied tax of ₹ 23.24 crore instead of ₹ 47.22 crore. This resulted in short levy of tax of ₹ 23.98 crore.

3.14.2 In **Meghalaya** we noticed during scrutiny of the records of ST, Williamnagar that two dealers sold coal valued at ₹ 3.33 crore between April and May 2008 in course of interstate trade and furnished declarations in form 'C' in support of their sales. The ST while assessing the dealers in July 2008 however erroneously calculated the tax to be paid by them at the rate of two *per cent* instead of three *per cent* due to which tax of ₹ 3.33 lakh was underassessed.

3.14.3 In **Rajasthan** we noticed in Special circle, Alwar that a dealer sold goods of ₹ 3.25 crore in course of inter-state trade without submitting 'C' forms in support of the aforesaid sales. However, the AA while finalizing (March 2010) the assessment charged the differential tax @ one *per cent* against the correct rate of difference of tax of 9.5 *per cent*. Thus, irregular assessment at the concessional rate of tax on sales, not supported by 'C' forms, resulted in underassessment of tax of ₹ 27.59 lakh besides interest of ₹ 9.38 lakh. When we pointed this out demand of ₹ 37.52 lakh including interest was raised.

3.14.4 In another case in Commercial Taxes Officer, Circle B, Bhiwadi for the period 2009-10, we noticed that a dealer (M/s Swastik Oil Mills, Bhiwadi) made inter-state sale of ₹ 10.33 crore of *Vanaspati Ghee* at the rate of one *per cent* against declaration forms 'C' during the year 2007-08. While finalizing (March 2010) the assessment, the AA levied differential tax at the rate of one *per cent* for non-submission of declaration forms against the applicable difference of tax of three *per cent*. This resulted in short levy of tax of ₹ 20.65 lakh and interest of ₹ 5.91 lakh. After we pointed this out a demand of ₹ 27.40 lakh pertaining to tax and interest thereon was raised.

3.14.5 In **Uttar Pradesh** in DC-5 CT Ghaziabad, we observed that during the year 2003-04, a dealer had transferred stock of medicine worth \gtrless 1.51 crore to his Mumbai depot against declarations in form-'F'. The dealer was not entitled for exemption for the transaction made during the year 2003-04 as his registration certificate under the CST Act was obtained on 2 June 2004. The AA did not examine this fact while finalizing the assessment in March 2006 and allowed the exemption. This resulted in irregular exemption of tax amounting to \gtrless 15.15 lakh.

3.14.6 In another case in DC Kanpur, we observed that during the year 2006-07, a dealer made inter-state sale of import license worth ₹ 4.31 crore which was not covered by declaration in form 'C'. Therefore the dealer was liable to pay tax of ₹ 43.10 lakh. The AA, while finalizing the assessment in March 2009, did not levy the tax.

3.15 NON-LEVY OF INTEREST/PENALTY

3.15.1 In **Jharkhand** we noticed in four Commercial taxes circles that 13 dealers, engaged in the business of coal and iron insert, returned inter-state sale of ₹ 1481.10 crore during the period 2006-08 at a concessional rate of tax of ₹ 57.50 crore. As the dealers did not furnish declarations in form 'C' at the time of assessment, the AAs while finalizing the assessments between March 2009 and April 2010, levied tax of ₹ 120.89 crore accordingly. Though tax at full rate was levied, the AAs did not levy interest and penalty on the balance amount of ₹ 63.39 crore. This resulted in non-levy of interest and penalty of ₹ 53.17 crore.

3.15.2 In **West Bengal** we found in the Corporate Division (CD 2012) that while assessing a dealer in June 2007 for the assessment period 2004-05, the AA detected claim of transfer of goods worth ₹ 12.79 crore against fake 'F' form and taxed the transaction at the rate of 10 *per cent* treating it as an inter-state sale. The AA found that the goods were sold before it reached the destination State. The relation between the transferor and transferee was not like principal and agent, but like seller and buyer. Though the AA explained these facts in the assessment orders to prove that the intention of the dealer was to evade tax, he neither levied minimum penalty of ₹ 1.92 crore nor recorded any reason for not doing so.

3.15.3 In **Andhra Pradesh** we noticed that though four dealers had submitted fake forms and deliberately tried to evade tax, penalty leviable for the years 2005-06 and 2006-07 was not levied. This resulted in non-levy of penalty of ₹ 49.13 crore.

3.15.4 In **Karnataka** we noticed during test check of CST assessments in ACCT, LVO-035, Bangalore that while concluding the scrutiny assessment of a dealer for the years 2005-06 and 2006-07 the AA levied tax of ₹ 1.24 crore for non-filing of 'C' forms and the demand notice issued in Form VAT 180. However, the AA omitted to demand and levy interest and penalty thereon. This resulted in non-levy of interest and penalty of ₹ 69.32 lakh.

Chapter - IV Assessments of purchasing dealers





CHAPTER - IV ASSESSMENTS OF PURCHASING DEALERS

4.1. In this Chapter we present some selected cases where inherent weaknesses in the system, such as non-monitoring of the submission of returns/utilization certificates by the dealers and not conducting cross-verification with the CTDs of the States where the selling dealers were based, were exploited by purchasing dealers to evade tax.

4.2 FAKE FORMS

4.2.1 We detected cases where inter-state purchases were made by using declarations forms which the concerned CTDs confirmed to us that these had not been issued by them. Thus, fake forms were used by unscrupulous dealers to effect inter-state purchases which remained undetected by the CTDs.

4.2.2 In Maharashtra, in Nagpur Division, on cross-verification of data collected from the STDs of six States (Goa, Jammu and Kashmir, Karnataka, Odisha, Rajasthan and Tamil Nadu) we found that 39 dealers of Maharashtra in 68 cases had purchased goods valued at ₹ 15.94 crore during the period 2004-05 to 2009-10. The inter-state purchases were made on the basis of 68 'C' forms provided to the selling dealers by the purchasing dealers of Maharashtra. We verified the details of these purchases from the Stock Register and the related files maintained by the Central Repository in the Divisional offices at Aurangabad, Dhule, Nagpur and Nashik that these 'C' forms and found were not issued by the STD of this State. This fact was confirmed by the respective divisions also. This indicated that the purchases were not made on authentic 'C' forms by the dealers in this State. The purchases made on the basis of these fake forms need to be thoroughly investigated.

We detail some more cases in the following paragraphs.

4.2.3 In **Jharkhand** we noticed that 25 dealers registered in 13 Commercial taxes circles received goods from 20 manufacturers of edible oil, motor parts, lubricants, medicine, food products, electronic goods, etc. between 2006-09 against 42 forms 'C' and 17 forms 'F'. We verified from the ledgers maintained in the respective commercial taxes circles that these forms were not issued to these dealers. The AAs also could not detect these erring dealers while finalizing assessments between June 2008 and March 2011 as there was no provision for mandatory furnishing of declaration forms along with the returns as pointed out in Para 2.3. This resulted in turnover of ₹ 10.38 crore escaping assessment and consequent non-levy of tax of ₹ 1.42 crore including mandatory penalty of ₹ 0.95 crore.

4.2.4 We also noticed that 21 dealers registered in nine Commercial taxes circles received edible oil, marble and cement clinker during 2003-06 from 19 manufacturers of three States

(Andhra Pradesh, Odisha and Rajasthan) against 53 'C' forms and four 'F' forms. We verified from ledgers maintained in the respective commercial taxes circles that these forms were not issued to these dealers. The AAs could not detect these erring dealers while finalizing the assessments between September 2004 and March 2009. This resulted in turnover of ₹ 18.16 crore escaping assessment and consequent non-levy of tax of ₹ 3.46 crore including mandatory penalty of ₹ 2.53 crore.

4.2.5 In another case we noticed that a dealer registered in Hazaribag Commercial taxes circle purchased rice valued at \gtrless 1.81 lakh from Odisha during 2006-07 on the strength of one fake 'C' form. The assessment was finalized in July 2009. Since rice was exempted from levy of tax in Jharkhand the loss of revenue could not be quantified.

4.2.6 In **Rajasthan** our cross-verification of 'C' and 'F' forms pertaining of inter-state sale/transfer by dealers /agent of Rajasthan with utilization account of declaration forms received through inter-state purchase/transfer by the dealers of six States (Chhattisgarh, Maharashtra, Nagaland, Punjab, Uttar Pradesh and West Bengal) revealed that ten dealers/agent had claimed and were allowed exemption/concessional rate of CST in 16 forms (15 'C' forms and one 'F' form) amounting to ₹ 1.67 crore against fake forms, which were not issued to the dealers. This resulted in short levy of CST of ₹ 2.15 lakh. Besides, penalty of ₹ 8.08 lakh was also leviable.

4.2.7 In **Nagaland** the CoT vide notification of 16.7.2001 declared 3,95,783 'C' forms as obsolete and invalid effective from 11.06.2001, and the notification was endorsed to the Taxation Departments in other States for compliance.

4.2.8 Our cross verification of declaration forms with other States revealed that a registered dealer based in Nagaland utilized four 'C' forms for importing goods valued at ₹ 10.80 crore from Jharkhand during the period 2007-08. Our scrutiny further revealed that these 'C' forms utilized by the dealer were fake as the original forms were not issued to any dealer and were instead surrendered by the ST, Wokha to the Commissioner of Taxes, Nagaland (December 2000). Thus, the dealer concealed purchase turnover of ₹ 10.80 crore by utilizing four fake 'C' forms and evaded tax payment of ₹ 1.35 crore. Besides, penalty of ₹ 4.05 crore was also leviable on the dealer.

4.3 EVASION OF TAX DUE TO MISUSE OF DECLARATION FORMS

4.3.1 We detected several cases where goods were imported by firms other than those in whose names the forms were issued or where the goods imported by the dealer were not declared for the purpose of taxation. This remained unnoticed by the CTD either because production of the utilization certificates was not insisted upon or the assessments were not taken up for detailed scrutiny.

We highlight certain cases below:

4.3.2 In **Arunachal Pradesh**, as stated earlier in Para 2.10.23 of this Report, the Department could not furnish basic information such as the number of forms printed or the opening stock of forms, implying thereby that the controls in the CTD were weak. Consequently we noticed several cases in Arunachal Pradesh where there was evasion of tax. We cite some examples in the following paragraphs.

4.3.3 We noticed that two dealers, M/s. Chakban Crushing Unit and M/s. Tezam Enterprises registered under the CST Act in Khonsa Unit Office, procured declarations in form 'C' from the AA to purchase goods from outside the State. The dealers did not submit any utilization certificate in support of the declaration forms used. During cross verification of declaration forms received from Assam, we noticed that by utilizing four 'C' forms issued to these dealers, cement valued at ₹ 2.49 crore during 2003-04 and 2004-05 was imported from M/s. Lafarge India (P) Limited, a Guwahati based dealer. As per records of M/s. Lafarge India (P) Limited, two forms issued to M/s. Chakban Crushing Unit were utilized by another firm, M/s. N. T. Enterprise while two forms issued to M/s. Tezam Enterprises were utilized by M/s. T.J. Enterprise for purchase of cement valued at ₹ 1.81 crore and ₹ 67.22 lakh respectively. The ST, Khonsa intimated that both the dealers in whose names the forms were utilized were not registered. The fraudulent method adopted by M/s. Chakban Crushing Unit and M/s. Tezam Enterprises to evade tax escaped the notice of the CTD. The dealers, thus, concealed turnover of ₹ 2.49 crore and evaded tax of ₹ 19.89 lakh payable under the Arunachal Pradesh Sales Tax Act. Besides, interest of ₹ 27.83 lakh was also leviable.

4.3.4 In one unit we noticed a case where a dealer, registered under the CST Act, was issued 11 'F' forms for import of goods. The dealer neither applied for registration under the Arunachal Pradesh Goods Act nor did the Department initiate any action to get him registered. We noticed that the dealer imported butter valued at ₹ 3.40 crore during 2005-06 by utilizing two 'F' forms from a dealer of Uttar Pradesh which escaped the notice of the AA. As the dealer was not registered under the State Taxation Act he did not submit any return along with payment of admitted tax on the aforesaid import of butter. This resulted in evasion of tax of ₹ 42.53 lakh. Besides, interest of ₹ 51.04 lakh and penalty of ₹ one lakh was also leviable.

4.3.5 We also noticed during test check of records of the Superintendent of Taxes, Zone–II, Itanagar, that a dealer was registered under both the APGT and CST Act and 'F' forms were issued to the dealer for import of goods into the State. The dealer had not furnished the statement of the forms utilized till the date of audit (May 2010). We cross-verified the records of the aforesaid dealer with one Assam-based dealer and found that 'F' forms issued to him were utilized in the name of an unregistered dealer and taxable goods valued at ₹ 1.85 crore were imported between 2006-07 and 2007-08. In order to evade the liability to pay tax, the dealer imported the goods in the name of an unregistered dealer and concealed the entire turnover of ₹ 1.85 crore. Such misutilization of 'F' Forms resulted in evasion of tax of at least ₹ 7.40 lakh. Besides, interest of ₹ 4.30 lakh and penalty of ₹ 14.80 lakh was also leviable.

4.3.6 Similarly, we received information from the Audit office, Assam, Guwahati regarding purchase of taxable goods valued at ₹ 82.65 lakh by two dealers under the jurisdiction of ST, Tezu, from two Assam-based dealers during 2006-07 and 2007-08 by utilizing five declarations in form 'C'. We cross-verified the records of ST, Tezu, and found that the aforesaid two purchasing dealers were not registered there. On further scrutiny of the 'C' form Issue Register, we noticed that the 'C' forms were issued to four different dealers registered under the jurisdiction of ST, Tezu. Thus, these four registered dealers misused the declaration forms and imported taxable goods valued at ₹ 82.65 lakh in the name of unregistered dealers. This resulted in evasion of tax of ₹ 10.33 lakh and interest of ₹ 5.69 lakh. Besides, penalty of ₹ 20.66 lakh was also leviable.

4.3.7 In Nagaland, our cross-check of the declaration forms submitted to the assessing officer of Sikkim by a dealer registered in NE Charge circle, Sikkim revealed that two purchasing dealers, M/s Kyong Hardware registered under ST, Wokha and M/s Zhimomi Enterprise registered under ACT, Dimapur imported goods worth ₹ 2.62 crore by utilizing 25 'F' forms during 2007-09. On cross verification it was revealed that the forms used were declared obsolete by the Department in June 2001 (as mentioned in Para 2.10.18 earlier). The Department also stated (November 2011) that the forms were not issued to these dealers. Thus, use of obsolete forms resulted in irregular import of goods worth ₹ 2.62 crore by two dealers. The dealers had not accounted for these imports in their records, hence, an amount of ₹ 32.81 lakh towards Nagaland VAT was also evaded.

4.3.8 In **Meghalaya** we noticed a case during test check of records of the ST, Circle-I, Shillong that a dealer was registered for sale and purchase of vegetables, fruits, onion, tea leaves, pulses, edible oil, under both the Meghalaya VAT Act and CST Act. Our cross-verification of 'C' form issued by the dealer with the records of another dealer registered in Tezpur Sales Tax Unit office, Assam revealed that the dealer had purchased cement valued at ₹ 18.96 lakh from the Tezpur-based dealer between January 2007 and March 2008 by utilizing two declarations in form 'C'. However this sale was not disclosed by the dealer and consequently no tax was paid. This concealment of turnover of ₹ 18.96 lakh resulted in evasion of tax of ₹ 2.37 lakh. Besides, he was also liable to pay interest of ₹ 1.58 lakh and penalty of ₹ 4.74 lakh for willful concealment of sale.

4.3.9 In **Jharkhand** we noticed in Hazaribag and Palamu Commercial taxes circles that six dealers utilized 11 numbers of form 'C' to purchase edible oil worth ₹ 3.32 crore during the period from 2005-06 and 2007-08, but the AAs stated that the dealers were not registered in the circle and the forms were not issued to them. Thus, the forms were *prima facie* fake. This resulted in non-levy of tax amounting to ₹ 33.15 lakh including maximum penalty of ₹ 19.89 lakh.

4.3.10 In **Tamil Nadu** we noticed during verification of the details of five 'C' forms and 45 'F' forms used for the purchase of goods at concessional rate/receipt of goods on stock transfer from other States, by 18 dealers registered in 15 assessment circles that the declaration forms were not issued to the concerned dealers. Thus, purchase of goods had been made by the dealers using invalid declaration forms.

4.3.11 In Jammu and Kashmir as per data of declaration forms collected by us from four States (Goa, Gujarat, Rajasthan and Uttar Pradesh) four dealers registered in four circles of the State had made inter-state purchase of goods in 2005-06 and 2007-09 valued at ₹ 7.70 crore on the basis of seven 'C' forms issued by the purchasing dealers. Our cross-verification of these declaration forms with the consumption statements furnished by the dealers to the concerned AA revealed that the forms had been issued for ₹ 7.62 crore in the name of dealers other than those mentioned in the declaration form.

4.3.12 The possibility of tax evasion by the purchasing dealers on such purchases needs to be investigated.

4.4 PURCHASE OF GOODS NOT COVERED BY REGISTRATION CERTIFICATE

4.4.1 Under Section 7(4) of the CST Act, the Registration Certificate (RC) can be amended when the registered dealer files an application for inclusion of additional items in the RC to the registering authority. As per Section 10(C) of the Act, if any registered dealer falsely represents when purchasing any class of goods that goods of such class are covered by his RC, he is liable to pay penalty of a sum not exceeding one and a half times the tax which would have been levied under Section 8(2) of the Act. Every registered dealer is required to submit utilization certificates in respect of the 'C' forms supplied to them showing the value and the kind of goods purchased by them. It has also been judicially upheld in the case of State of Tamil Nadu Vs Akhtar (1998) 108 STC 510 (Madras High Court DB) that purchase against 'C' forms of goods not mentioned in registration certificate is an offence and penalty can be imposed.

Some illustrative cases are given in the following paragraphs:

4.4.2 In Meghalaya we noticed that 21 dealers in STs, Shillong, Jowai, Nongpoh and Tura, imported taxable goods (motor vehicles, building materials etc.) valued at ₹ 7.47 crore during 2005-06 to 2009-10 by utilizing 194 'C' forms. On cross-verification of the utilization statements of the 'C' forms furnished by the dealers, we noticed that the goods purchased were not included in the RCs of the purchasing dealers of the State. The dealers were able to misutilize the 'C' forms since furnishing of utilization statements was not insisted upon by the assessing authorities.

4.4.3 In **Tamil Nadu** in Thiruthuraipoondi assessment circle, during 2007-08, a dealer had purchased from a dealer in Goa, optical fibre cables amounting to ₹ 51.05 lakh by using 'C' forms though the commodity was not included in the registration certificate. Hence the assessee was not eligible to purchase the goods against issue of 'C' form declarations. For misuse of declaration forms, penalty of ₹ 3.06 lakh was leviable.

4.4.4 In **Uttar Pradesh** we observed that during the years 2005-06 to 2007-08 (upto December 2007), 10 dealers purchased goods valued at \gtrless 2.19 crore against declarations in form 'C' which were not covered by their certificates of registration. The AAs while finalizing the assessments between January 2009 and March 2010 did not impose maximum penalty of \gtrless 30.42 lakh.

4.5 DEFICIENT SCRUTINY OF RETURNS

4.5.1 The CST Act/Rules or departmental instructions in most of the States require that the dealers have to submit the utilization statement of declaration forms issued earlier while applying for issue of fresh declaration forms. Such utilization statements are to be maintained in the case records for verification at the time of scrutiny of returns/assessments by the assessing authorities.

4.5.2 In Nagaland during the course of our regular audit by in June 2011 we observed from the records of a dealer M/s Kim Hyundai, Kohima registered in Kohima, Nagaland dealing in medium motor vehicles, chassis of motor vehicles, spare parts and accessories etc., that the Commercial Tax Department of Meghalaya had intimated in January 2008 that during the year 2004-05, goods valued at ₹ 8.10 crore were transferred by M/s. Kim Hyundai from Meghalaya as stock transfer. We pointed out that these transactions were not accounted for in the accounts of 2004-05 (June 2011), in response to which, the Department issued demand notice of ₹ 97.27 lakh to the dealer in July 2011.

During cross check of declaration forms for the present performance audit we observed from the assessment records of M/s Kim Hyundai, Meghalaya that 10 "F" forms were issued by M/s. Kim Hyundai, Kohima, Nagaland for importing vehicles worth ₹ 8.11 crore from M/s Kim Hyundai, Meghalaya. Scrutiny of the assessment records and returns of this dealer revealed that this amount was not shown in the accounts of the dealer. The assessing officer assessed the tax payable as per the return filed by the dealer in 2004-05 without cross verifying the utilization statements and declaration forms.

Failure of the Assessing Officer to cross verify the utilization of the declaration forms while accepting the dealer's returns resulted in concealment of turnover of \gtrless 8.11 crore by the dealer resulting in evasion of tax of \gtrless 1.01 crore. Besides, penalty of \gtrless 3.04 crore was also leviable.

When we pointed this out (September 2011), the Department in contradiction of its earlier action stated that the forms were not utilized by the dealer and therefore the Department declared all the 51 "F" forms issued to M/s Kim Hyundai, Kohima since its registration in April 2004 till May 2009 obsolete and invalid from the date of their issuance on the ground of preventing their misuse. The reply of the Department is not correct as the original copies of the declaration forms obtained by audit during cross verification showed that the forms were issued by M/s Kim Hyundai, Kohima.

The Department's action of raising demand on the one hand and declaring the "F" forms already issued to and utilized by the dealer obsolete and invalid on the other, was nothing but an effort to cover up the misconduct of the dealer. The Department neither called for the utilization certificates nor asked the dealer to return the forms.

4.5.3 Under the provision of Section 25 of the **Bihar** VAT Act and rules made thereunder, the assessing authority shall scrutinize the returns furnished by the dealer as per the checklist prescribed therein within the expiry of the due date for the purpose of ascertaining that the deductions claimed therein are substantiated in the manner and form prescribed under the Act or under any other law for the time being in force.

4.5.4 We observed that there is no system/checklist prescribed for verifying the utilization statements of the declaration forms while scrutinizing the returns. This is fraught with the risk of non/short accounting of the goods by the dealers which they imported by using declarations in form 'C' and 'F' as pointed out in Para 2.33.5 of Chapter II. It becomes all the more important as there is no provision for regular/mandatory assessment of the dealer under the Bihar VAT Act.

4.5.5 In **Kerala**, consequent to introduction of VAT, the Central Sales Tax (Registration and Turnover) Rules, 1957 was amended to fix a time limit of three months after the end of the period to which the declaration or the certificate relates for furnishing the declarations in forms 'C' and 'F' along with the returns. Under the KVAT Rules, as amended from 24 April 2007, dealers are required to furnish along with the annual return, a statement on details of statutory forms issued during the return period.

4.5.6 The utilization statements of the declaration forms were not found in the files produced to us, though audit was conducted one to two years after the end of the assessment year. This indicated that there was no system to promptly verify utilization certificates at the time of scrutiny of returns/ conducting tax audits.

4.5.7 In **Assam** we observed that scrutiny of returns/assessments was being done purely on the basis of the returns submitted by the purchasing dealers without checking the utilization statements. This violates the system put in place by the Department for ensuring such verification and also results in non/short levy of local tax. For instance we noticed that 18 dealers disclosed turnover of ₹ 241.62 crore in their annual returns for various periods falling between 2005-06 and 2008-09 which were accepted by assessing authorities during scrutiny of returns/assessments. Our verification of the statements of the declaration forms utilized by these dealers revealed that they had actually purchased goods worth ₹ 260.36 crore. Thus, there was concealment of purchase turnover of ₹ 18.74 crore which the assessing authorities could have detected if they had verified the utilization statements. This resulted in short levy of tax and interest of ₹ 2.46 crore.

4.5.8 During cross check of declaration forms it was seen that 11 'F' forms by two dealers and three 'C' forms by three dealers registered in **Nagaland** were utilized for importing goods worth ₹ 9.16 crore. Scrutiny of the assessment records and returns of these five dealers revealed that an amount of ₹ 9.16 crore was not shown in the accounts of the dealers. The assessing officers assessed the tax payable as per the returns filed by the dealers during 2004-05 to 2008-09 without cross verifying the utilization statements and declaration forms.

4.5.9 Failure of the AAs to cross verify the utilization of the declaration forms while accepting the dealers returns resulted in concealment of turnover of ₹ 9.16 crore by these five dealers resulting in evasion of tax of ₹ 1.17 crore. Besides, penalty of ₹ 3.51 crore was also leviable.

4.5.10 Rule 4 of the CST (**Delhi**) Rules, 2005 provides that every dealer effecting sales in the course of inter-state trade or commerce shall furnish a reconciliation return with the prescribed statutory forms in form DVAT-51 within three months after the end of each quarter. Test check of the records revealed that the AAs had been extending the dates for submission of DVAT-51 and statutory forms from time to time as a matter of routine as detailed in the following table:

Period	Quarter	Due date	Extended date
	1 st	30-09-2005	30-04-2007
2005-06	2 nd	31-12-2005	50-04-2007
2003-00	3 rd	31-03-2006	19-02-2008
	4^{th}	30-06-2006	19-02-2008
	1 st	30-09-2006	· · · · · · · · · · ·
2006-07	2 nd	31-12-2006	30-04-2007
2000-07	3 rd	31-03-2007	
	4 th	30-06-2007	15-03-2008
	1 st	30-09-2007	05-09-2008
2007-08	2 nd	31-12-2007	03-09-2008
2007-00	3 rd	31-03-2008	20-12-2008
	4^{th}	30-06-2008	05-01-2009
	1^{st}	30-09-2008	
2008-09	2 nd	31-12-2008	31-12-2009
2000-09	3 rd	31-03-2009	51-12-2009
	4^{th}	30-06-2009	
	1 st	30-09-2009	
2009-10	2 nd	31-12-2009	31-12-2010
2009-10	3 rd	31-03-2010	51 12 2010
	4 th	30-06-2010	

This extension is against the spirit and provisions of the Act and also delays the process of assessment under the CST Act.

4.6 NON/SHORT ACCOUNTING OF GOODS PURCHASED BY ISSUE OF DECLARATION FORMS

4.6.1 During cross-verification we came across several cases where the goods purchased were either not accounted for or were short accounted but these cases could not be noticed by the CTD. For example, in **Jammu and Kashmir** we cross-verified data of 'C' forms received from four States (Bihar, Delhi, Goa and Rajasthan) with the assessment records of the dealers and found that two dealers in the State had purchased goods valued at ₹ 36.96 lakh on the basis of four 'C' forms but these purchases were not accounted for in the accounts (purchase statements) of the dealers.

4.6.2 In Nagaland cross verification of the declaration forms revealed that goods valued at \gtrless 27.91 lakh was imported from Assam and Rajasthan by two dealers by utilizing two 'C' forms. We found that the dealers did not disclose in their accounts the import of goods by utilizing these two 'C' forms which were declared invalid by the Department in June 2001, which resulted in concealment of purchase turnover of \gtrless 27.91 lakh and evasion of tax of \gtrless 3.49 lakh. Besides, penalty of \gtrless 10.47 lakh was also leviable on these two dealers. The registration certificate of one of the dealers had also been cancelled in 2007.

4.6.3 In **Haryana** cross verification of assessment records of a purchasing dealer with the assessment records of a selling dealer of Rajasthan revealed that the dealer under the control of DETC, Faridabad (West) had not accounted for his purchase of ₹ 4.01 crore in his books of accounts thereby concealing purchases worth ₹ 4.33 crore (after adding eight *per cent* profit during 2007-2008 to 2009-10 as done for assessment year 2007-08). Failure of the AA to cross verify the information with other States resulted in underassessment of tax of ₹ 2.16 crore (including penalty of ₹ 1.62 crore) under the Act. After we pointed out the case in June 2011, the AA reassessed the case and created additional demand of tax of ₹ 2.10 crore in July 2011.

4.6.4 In **Gujarat** our cross verification revealed that 12 purchasing dealers of Gujarat purchased goods from dealers valued at ₹ 2.70 crore on the basis of 22 'C' forms issued to them by the Department. However, these dealers had shown inter-state purchases of ₹ 67.56 lakh only in their books of accounts. Thus, the dealers had shown lesser inter-state purchases of ₹ 2.02 crore. This was verified from the utilization certificates, Issue Register of the Department and counter foil of 'C' forms available with the purchasing dealers. As such, the purchasing dealers had suppressed the turnover to that extent. The mistake remained unnoticed by the Department as it had not conducted cross-verification of the forms. The suppression of sales by the dealers resulted in short levy of tax to the tune of ₹ 8.08 lakh.



Chapter - V Conclusion and recommendations





CHAPTER - V CONCLUSION AND RECOMMENDATIONS

5.1 CONCLUSION

5.1.1 Our study on "Utilization of declaration forms in inter-state trade" revealed the following deficiencies:

- ≈ The State governments were not aware of the extent of tax expenditure on account of concessions/exemptions availed by selling dealers and the consequent loss of revenue to the State as mechanisms had not been framed which would have enabled the quantification of these benefits.
- ≈ Some States were not preparing separate budget estimates for CST receipts which was not in consonance with good budgeting practices.
- ≈ In some States there were inconsistencies between the CST Act and the State CST rules or between the VAT Act and the CST rules.
- ≈ Dealers found indulging in malpractices were not blacklisted and a database of such dealers was not created which would have enabled better monitoring of the activities of such high-risk assessees.
- ≈ The Commercial Tax Departments did not maintain samples of the statutory forms of other States which would have enabled them to detect fake forms.
- ≈ Planning for printing of forms was deficient in some States as forms were got printed in bulk without assessing the actual requirements. Consequently, huge stocks of forms were accumulated, which made them vulnerable to theft and misuse as well as destruction due to natural causes. With the impending arrival of GST and the consequent abolition of CST, these forms would also be rendered defunct.
- ≈ Physical verification of the stock of forms was not conducted and there were weaknesses in the manner in which the forms were stored, with the concomitant risk of their misuse.
- ≈ Forms were found to have been (a) issued by the assessing authorities though utilization certificates of forms taken earlier were not submitted; (b) not issued chronologically thereby rendering it difficult to account for the forms correctly; (c) issued to dealers whose registration certificates had been cancelled or issued for goods in which the dealers were not entitled to trade as these commodities were not mentioned in their registration certificates.

- ≈ Unused declaration forms were not taken back after cancellation of the registration certificate with the consequent risk of goods imported by using these forms escaping the rigors of taxation. In some States where automated issue of forms had started, the printed forms issued earlier were not recalled thereby leaving scope for their misuse.
- ≈ The Commercial Tax Departments did not circulate the samples of invalid or obsolete forms thereby making it difficult for other States to detect these forms. In some cases, notifications regarding defective, lost or stolen forms were not issued.
- ≈ TINXSYS has not delivered the envisaged benefits as there were huge backlogs in data entry in most States. Consequently, it could not be used as a central repository of registered dealers and provide a quick and easy mechanism for the assessing authorities to verify the details of forms issued to and utilized by dealers in interstate transactions while finalizing the assessments. Information of cancelled dealers was also not uploaded on TINXSYS. Usage of the system was found to be extremely low in many States.
- ≈ Alternative mechanisms for cross-verification such as an Enforcement Wing/Verification Cell/Investigation Bureau were not created in many States. Where such mechanisms were in place, their functioning left scope for improvement.
- \approx The consequences of non-verification had a resultant impact in terms of a large number of cases where concessions were allowed against fake forms, there was variation between the figures of purchases furnished by the purchasing dealers and sales exhibited by the selling dealers or variation in the nature of commodity sold.
- ≈ There were several instances of misuse of forms by utilizing those issued to other dealers and manipulation of forms by overwriting, erasing/inserting figures, etc.
- ≈ The assessing authorities did not exercise due diligence as in many cases concessions/exemptions were allowed against obsolete/defective or duplicate forms. Concessions/exemptions were also found to have been granted although the forms covered transactions of more than the prescribed periods or there was no evidence of dispatch of the goods. In several cases, the concessions were allowed although the forms were not produced or were submitted belatedly. Deterrent measures, such as interest and penalty, were not levied in cases where these were warranted, which could send a wrong message to the offenders.

5.2 **RECOMMENDATIONS**

5.2.1 The weaknesses in the internal control mechanisms which are being exploited by unscrupulous dealers need to be plugged immediately to prevent leakage of Government revenues. We recommend that the State Governments may consider implementing the following steps in the interest of revenue of their States:

- pprox maintain a database of dealers involved in inter-state trade and commerce;
- ≈ prepare a profile of dubious dealers to keep a watch over their activities and blacklist those who are found utilizing fake forms in inter-state transactions;

- \approx print declaration forms after carefully assessing the requirement taking into account the pace of issue of declaration forms;
- pprox maintain proper records of declaration forms printed, issued and closing stock;
- ≈ ensure issue of declaration forms to the dealers only after receipt of details of utilization of declaration forms issued earlier;
- pprox issue declaration forms chronologically and not randomly to have a track of declaration forms;
- ≈ introduce on-line issue of statutory forms immediately;
- ≈ upload dealer's details and particulars of statutory forms issued promptly in the TINXSYS website;
- ≈ install a system of verification of the declaration forms submitted by the dealers with the database available in the TINXSYS website before allowing exemption/concession of tax;
- \approx strengthen the inter-state transaction investigation mechanism wherever these have been set up and monitor their functioning;
- ≈ establish a system of picking up a sample of declaration forms for further verification with the concerned States;
- ≈ ensure submission of CST returns by every dealer and assess all dealers involved in interstate trade and commerce; and
- ≈ put in place an effective internal control mechanism to avoid extension of irregular exemption on account of deficient/incomplete forms at the time of completion of assessment.

5.3 FOLLOW UP ACTION TAKEN BY STATE GOVERNMENTS

5.3.1 As a consequence of our performance audit some of the State Governments acted on our recommendations and took certain positive steps towards tightening the internal control mechanism in the Commercial Tax Department.

5.3.2 In **Tripura**, to avoid misuse of form 'C' by the dealers, the CTD has issued instructions (October 2011) that only filled up forms are to be issued in place of blank forms.

5.3.3 In **Bihar** the Government issued detailed instructions in December 2011 which inter alia included constitution of a Form Verification Cell under the Bureau of Investigation for verification of central forms, scrutinizing the quarterly returns of the dealers in which exemptions/concessions have been claimed, by the last date of the following quarter, to levy tax on claims not supported by declaration forms, verifying the TINXSYS website before allowing exemption/concession, uploading information regarding declaration forms issued on the TINXYSYS website in time, verification of stock of forms and their proper accounting.

5.3.4 In **Jharkhand** the Government stated that following the audit observation, a new Rule 4A had been inserted in CST (Jharkhand) Rules in July 2011 for furnishing of CST forms for each quarter on or before the 20th day of the month after the end of the succeeding respective quarter.

New Delhi Date: 29 Oct. 2012

Aheyn Jas (Atreyee Das) Principal Director

Countersigned

Vilen

(Vinod Rai) **Comptroller and Auditor General of India**

New Delhi Date: 30 Oct. 2012

ANNEXES



ANNEX A

State-wise CST collection from 2006-07 to 2010-11

(refer Para 1.5.4.)

(₹ in crore)

State	2006-07	2007-08	Percentage of increase (+)/ decrease (-) over previous year	2008-09	Percentage of increase (+)/ decrease (-) over previous year	2009-10	Percentage of increase (+)/ decrease (-) over previous year	2010-11	Percentage of increase (+)/ decrease (-) over previous year
Andhra Pradesh	1,244.41	1,433.08	(+) 15.2	1,255.19	(-)12.4	1,362.07	(+) 8.52	1701.61	(+)24.9
Assam		Not available		341.75		309.32	(-9)	Not av	ailable
Bihar	70.06	44.28	(-) 36.8	37.05	-16.3	1227.80		29.58	9.5
Chhattisgarh	702.34	521	(-) 25.8	664.16	(+) 27.5	681	(+) 2.5	745.83	(+) 9.5
Delhi	1058.10	1017.72	(-) 3.8	967.46	(-) 4.9	1050.80	8.6	Not av	ailable
Goa	61.54	59.62	(-) 3.1	59.49	(-) .2	78.05	(+) 31.2	97.36	(+) 24.7
Gujarat	2520.11	1905.50	(-)24.4	1666.79	(-12.5)	2548.59	(+) 52.9	4666.68	(+) 83.1
Haryana	15.41	13.57	(-) 11.9	11.20	(-) 17.5	10.90	(-) 2.7	12.64	(+) 16
Himachal Pradesh	93.29	113.18	(+) 21.3	139.32	(+) 23.1	199.29	(+) 43.1	295.80	(+) 48.4
Jammu and Kashmir	Not available								
Jharkhand	614.14	636.09	(+) 3.6	570.58	(-) 10.3	647.41	(+) 13.5	792.29	(+) 22.4
Karnataka	1498.87	1262.09	(-) 15.8	1048.77	(-) 16.9	936.96	(-) 10.7	874.10	(-) 6.71
Kerala	339.66	1016.21	(+) 199.2	425.38	(-) 58.1	292.94	(-) 31.2	310.42	(+) 6

Madhya					1		1		
Pradesh	565.84	556.93	(-) 1.6	519.77	(-) 6.7	569.99	(+) 9.7	682.72	(+) 19.8
Maharashtra	2547.66	2384.58	(-) 6.4	2875.23	(+) 20.6	2505.32	(-) 12.9	3548.25	(+) 41.6
Manipur	2.69	0.43	(-) 84.01	5.50	(+) 946.51	23.29	(+) 324	13.50	(-42.03)
Meghalaya	28.04	18.01	(-)35.8	10.76	(-)40.3	22.96	(+) 113.4	85.11	(+) 270.7
Mizoram	.01	.007	(-30)	.01	(+) 42.86	.008	(-)20	.01	(+) 25
Nagaland	3.52	3.27	(-) 7.1	4.37	33.63	5.36	22.65	5.43	1.49
Odisha	722.48	551.27	(-)23.7	534.61	(-)3	493.77	(-) 7.64	585.52	(+) 18.6
Punjab	319.21	328.45	(+) 2.9	269.17	(-) 8	313.18	(+) 16.35	374.49	(+) 16.4
Rajasthan	448.56	404.90	(-) 9.7	462.48	(+) 14.2	482.15	(+) 4.3	738.35	(+) 53.1
Sikkim	4.67	5.99	(+) 28.3	4.55	(-) 24	7.65	(+) 68.1	8.50	(+) 11.1
Tamil Nadu	2261.91	1722.24	(-) 23.9	1645.65	(-) 4.4	1675.78	(+) 1.8	2250.67	(+) 34.3
Tripura	2.45	2.28	(-) 6.9	1.82	(-) 20.2	2.45	(+) 34.6	3.51	(+) 43.4
Uttar Pradesh	688.99	1384.97	(+) 101	1438.05	(+) 3.8	1397 <u>.</u> 53	(-) 2.8	1967.80	(+) 40.8
Uttarakhand	142.37	132.63	(-) 6.84	168.24	(+) 26.9	262.51	(+) 56	316.63	(+) 20.6
West Bengal	799.20	797.54	(-).2	821.02	(+) 3	862.21	(+) 5	1059.19	(+) 22.8

ANNEX B

(refer Para 2.25.2)

Γ

	TINXSYS Connectivity with State CTD Headquarters (as on 18.1.2012)						
SI. No.	State Name	Connectivity Status	Last activity date				
1	Andhra Pradesh	Connected	13/01/2012				
2	Arunachal Pradesh	Connected	28/09/2011				
3	Assam	Connected	12/01/2012				
4	Bihar	Connected	27/09/2011				
5	Chandigarh	Connected	29/12/2011				
6	Chhattisgarh	Connected	28/09/2011				
7	Dadra and Nagar Haveli	Connected	17/08/2011				
8	Daman and Diu	Connected	17/08/2011				
9	Delhi	Connected	06/12/2011				
10	Goa	Connected	15/08/2011				
11	Gujarat	Connected	17/08/2011				
12	Haryana	Connected	22/09/2011				
13	Himachal Pradesh	Not Started	NA				
14	Jammu and Kashmir	Not Started	NA				
15	Jharkhand	Connected	28/09/2011				
16	Karnataka	Connected	15/08/2011				
17	Kerala	Connected	12/01/2012				
18	Madhya Pradesh	Connected	17/08/2011				
19	Maharashtra	Connected	17/08/2011				
20	Manipur	Connected	28/09/2011				

21	Meghalaya	Connected	28/09/2011
22	Mizoram	Connected	28/09/2011
23	Nagaland	Connected	28/09/2011
24	Odisha	Connected	18/01/2012
25	Puducherry	Connected	13/01/2012
26	Punjab	Connected	06/12/2011
27	Rajasthan	Connected	29/12/2011
28	Sikkim	Connected	28/09/2011
29	Tamil Nadu	Connected	01/08/2011
30	Tripura	Connected	28/09/2011
31	Uttar Pradesh	Connected	27/09/2011
32	Uttarakhand	Connected	27/09/2011
33	West Bengal	Connected	28/09/2011

ANNEX C

Last updation of data on dealers and statutory forms on TINXYSYS

(position as on 18.1.2012)

(refer Para 2.26.2)

SI No	State	Dealer Master data	C fo	rms	F fo	rms
NO		uata	Issue	Utilization	Issue	Utilization
1	Andhra Pradesh	16.1.2012	16.1.2012	16.1.2012	16.1.2012	16.1.2012
2	Arunachal Pradesh		12.10.2010	No data available	No data available	No data available
3	Assam	5.1.2012	5.1.2012	4.10.2011	5.1.2012	29.8.2011
4	Bihar	11.8.2011	11.8.2011	11.8.2011	11.8.2011	11.8.2011
5	Chhattisgarh	11.8.2011	10.8.2011	No data available	10.8.2011	No data available
6	Delhi	9.1.2012	9.1.2012	9.1.2012	11.1.2012	10.1.2012
7	Goa	6.9.2011	12.9.2011	12.9.2011	12.9.2011	12.9.2011
8	Gujarat	4.1.2012	5.1.2012	5.1.2012	5.1.2012	5.1.2012
9	Haryana	21.9.2011	8.11.2011	No data available	8.11.2011	No data available
10	Himachal Pradesh	16.12.2011	4.7.2009	29.6.2009	19.2.2009	No data available
11	Jammu and Kashmir		No data available	No data available	No data available	No data available
12	Jharkhand	12.12.2011	No data available	No data available	No data available	No data available
13	Karnataka	11.8.2011	11.8.2011	30.11.2011	13.8.2011	No data available
14	Kerala	16.1.2012	16.1.2012	16.1.2012	16.1.2012	16.1.2012
15	Madhya Pradesh	17.1.2012	17.1.2012	5.1.2012	17.1.2012	No data available
16	Maharashtra	6.1.2012	13.1.2012	13.1.2012	6.1.2012	6.1.2012
17	Manipur	21.10.2012	21.1.2010	28.9.2010	21.1.2012	No data available

18	Meghalaya	16.1.2012	16.1.2012	16.1.2012	No data available	No data available
19	Mizoram		8.11.2010	8.11.2010	No data available	No data available
20	Nagaland		1.4.2011	28.7.2009	1.4.2011	No data available
21	Odisha	30.8.2011	2.9.2011	2.9.2011	2.9.2011	7.9.2011
22	Puducherry	13.1.2012	13.1.2012	13.1.2012	13.1.2012	13.1.2012
23	Punjab	9.11.2011	1.11.2011	31.10.2011	1.11.2011	4.11.2011
24	Rajasthan	16.1.2012	16.1.2012	5.10.2011	16.1.2012	10.10.2011
25	Sikkim	11.1.2011	11.1.2011	11.1.2011	No data available	No data available
26	Tamil Nadu	31.8.2011	5.9.2011	12.9.2011	6.9.2011	13.9.2011
27	Tripura	2.2.2011	2.2.2011	No data available	2.2.2011	No data available
28	Uttar Pradesh		No data available	No data available	No data available	No data available
29	Uttarakhand	5.5.2008	24.10.2008	No data available	No data available	No data available
30	West Bengal	14.9.2011	6.1.2012	10.1.2012	5.1.2012	5.1.2012

ANNEX D

(Refer Para 2.28.1)

TINXSYS usage by state CTD officials Data for the period from 1.4.2006 to 18.1.2012					
SI. No.	State Name	No. of visits	Time Spent		
			(in Hrs)		
1	Andhra Pradesh	1378	2775		
2	Arunachal Pradesh	28	3		
3	Assam	1331	492		
4	Bihar	764	304		
5	Chandigarh	113	344		
6	Chhattisgarh	601	1319		
7	Dadra and Nagar Haveli	29	4		
8	Daman and Diu	46	2		
9	Delhi	348	298		
10	Goa	575	2320		
11	Gujarat	542	1662		
12	Haryana	1117	2862		
13	Himachal Pradesh	657	1601		
14	Jammu and Kashmir	1829	3154		
15	Jharkhand	168	320		
16	Karnataka	1369	5122		
17	Kerala	970	1248		
18	Madhya Pradesh	3975	23788		
19	Maharashtra	6831	19640		
20	Manipur	9	0		
21	Meghalaya	116	14		
22	Mizoram	45	9		
23	Nagaland	39	3		
24	Odisha	1359	2955		

25	Puducherry	523	856
26	Punjab	410	1139
27	Rajasthan	928	2106
28	Sikkim	10	0
29	Tamil Nadu	38519	165793
30	Tripura	6	0
31	Uttar Pradesh	430	549
32	Uttarakhand	153	493
33	West Bengal	2090	7686

ANNEX E

FAKE FORMS DETECTED THROUGH CROSS VERIFICATION

(refer Para 3.2.2)

Sl. No	State	No. of dealers	No. of forms	Irregular claim of exemption/concession	States where the purchasing dealers/consignee were located
1.	Andhra Pradesh	4	136 'F' forms	239.45 crore	Chhattisgarh, Gujarat, Jharkhand, Maharashtra, Tamil Nadu and West Bengal
		14	30 'C' forms	1.47 crore	Chhattisgarh, Delhi, Gujarat, Maharashtra and West Bengal
2.	Assam	10	33 C/F forms	9.30 crore	Arunachal Pradesh, Delhi, Maharashtra, Meghalaya and West Bengal
3.	Bihar	4	6 C/F forms	1.55 crore	Chhattisgarh, Madhya Pradesh, Maharashtra and Uttar Pradesh
		9	14 C/F forms	1.47 crore	Chhattisgarh, Haryana, Jharkhand, Nagaland, Rajasthan and Sikkim
4.	Chhattisgarh	20	51 C forms	4.77 crore	Andhra Pradesh, New Delhi, Madhya Pradesh, Maharashtra, Odisha Uttarakhand, Uttar Pradesh and West Bengal
		5	39 F forms	11.96 crore	Haryana, Maharashtra, New Delhi, Punjab and Uttar Pradesh
5.	Delhi	4	6 C forms	55.13 lakh	Madhya Pradesh, Uttarakhand and Uttar Pradesh
		1	4 F forms	35.60 lakh	Maharashtra
6.	Gujarat	40	50 C forms	6.39 crore	Andhra Pradesh, Bihar, Chhattisgarh, Madhya Pradesh, Tamil Nadu and Uttar Pradesh
7.	Haryana	4	9 C/F forms	3.57 crore	Arunachal Pradesh, Bihar, Chhattisgarh and Uttar Pradesh
		6	36 C/F forms	12.15 crore	Delhi
		1	1 F form	49.98 lakh	Delhi
8.	Himachal Pradesh	4	4 C forms	36.81 lakh	Uttarakhand, Uttar Pradesh and U.T. Chandigarh

9.	J&K	12	46 C forms	26.88 crore	Delhi, Haryana, Madhya Pradesh, Maharashtra, Punjab and Uttar Pradesh
10.	Karnataka	9	31 C forms	57.46 lakh	Maharashtra
11.	Madhya Pradesh	2	4 C forms	1.60 crore	Chhattisgarh, Delhi and Haryana
12.	Maharashtra	3	3 C forms	1.46 crore	Madhya Pradesh and Delhi
		4	5 C forms	10.41 crore	Arunachal Pradesh, Chhattisgarh and Uttar Pradesh
		1	12 F forms	5.11 crore	Andhra Pradesh
13.	Manipur	1	1 C form	5.77 lakh	Maharashtra
14.	Meghalaya	2	5 C forms	1.51 crore	Manipur
		1	11 F forms	2.39 crore	Mizoram
		3	12 C forms	1.86 crore	Mizoram
15.	Odisha	11	11 C and 7 F forms	51.67 lakh	Chhattisgarh
16.	Punjab	3	7 F forms	94.38 lakh	Delhi
		1	1 C form	18.00 lakh	Delhi
17.	Rajasthan	8	15 C and 1 F forms	1.67 crore	Chhattisgarh, Maharashtra, Nagaland, Punjab, Uttar Pradesh and West Bengal
18.	Tamil Nadu	4	5 F forms	3.31 crore	Maharashtra, West Bengal, Andhra Pradesh and
		15	28 C forms	17.67 crore	Maharashtra
		1	2 F forms	57.85 lakh	Andhra Pradesh Andhra Pradesh
19.	Uttar Pradesh	1	5 F forms	1.27 crore	Madhya Pradesh
		1	2 C forms	34.88 crore	Madhya Pradesh
20.	West Bengal	4	4 C forms	35.08 lakh	Chhattisgarh, Jharkhand, Rajasthan and Sikkim

ANNEX F

MISUTILIZATION OF FORMS

(refer Para 3.3.2)

State	No. of dealers	No. of forms	Irregular claim of exemption/concession	State from which issued	Nature of defect
Bihar	8	25 C/F	9.29 crore	Delhi, Meghalaya, Nagaland, Tamil Nadu, Uttar Pradesh, West Bengal	Either issued from the concerned circles to other dealers of that State or the dealers to whom the declaration forms were issued from the circle had shown in their utilization certificate that the forms were issued to some other dealer.
Delhi	6	7 C	1.45 crore	Assam, Odisha, Uttar Pradesh	Forms had not been issued to the dealers who had claimed the concessional rate of tax but had been issued to some other dealers.
Haryana	6	13C/F	6.56 crore	Delhi, Odisha	Used by dealers other than those to whom they were shown as issued
Himachal Pradesh	2	2 C	93.13 lakh	Meghalaya, Punjab	Forms were issued to other dealers and not to the dealers who availed concessions on interstate sales
	2	4 F	67.67 lakh	Delhi, Punjab	Issued to other dealers and not to the dealers who had availed exemption
	4	4 C	36.81 lakh	Uttar Pradesh, Uttarakhand, U.T. Chandigarh	Dealers involved in these transactions were either non-existent or the forms were not issued to them
Jammu and Kashmir	6	16 C	10.23 crore	Delhi, Gujarat, Himachal Pradesh, Madhya Pradesh, Uttar Pradesh, Dadra & Nagar	Names mentioned in the 'C' forms on the basis of which concession was granted to the selling dealers did not tally with

				Haveli, West Bengal	the names shown by the purchasing dealers in their records
	5	25 F	40.79 crore	Punjab, U.T. Chandigarh	Forms were not issued in the name of consignees by the Department but were shown to have been issued to other consignees.
Madhya Pradesh	1	1 C	0.09 lakh	Himachal Pradesh	The form was issued to dealer other than those who had used the form.
Meghalaya	2	9 F	23.81 crore	West Bengal	Issued to other dealers
Odisha	6	8 C	3.72 crore	Andhra Pradesh, Arunachal Pradesh, Assam, Madhya Pradesh, West Bengal	Issued to dealers other than purchasing dealers or the purchasing dealer had issued the form to a selling dealer other than the dealer claiming concessional rate of tax/mentioned in the respective 'C' forms
Rajasthan	19	29 C/F	10.29 crore	Chhattisgarh, Delhi, Jammu and Kashmir, West Bengal	Issued to dealers other than the actual purchasing dealer to whom the sale was shown by the selling dealer.
Uttar Pradesh	2	2 C/F	1.97 crore	Delhi, Uttarakhand	Issued by the CTDs of those States to other dealers and not to the dealers of UP who had claimed and were allowed concessional rates of tax or exemption from tax

ANNEX G

MANIPULATION OF FORM

(Refer Para 3.4.2)

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(Densel : wights over wome pre-sectors) (a) its only only or, book is argue form offerential for for only in forg (Annel - miller emission) to the projection of authority in accordingly with the cyber hermed under eacher (3(4) (c)		amount.
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Manipulated form submitted by the selling dealer

Amount. Dele Bill.No. Ouliolor 1.84, 3061-2812 These weeks 2811 3200 11 (41,05 1.47,344)-. 11 (11,00 1.41,471/-3397 3398 colulos 1, c1, 753/-3507 Colulos 53,019/-ealulos 1,27,104/-3586 3601 e6/12/06 1,48,961/-38.04 azlielos 1,23,818/-3854. eolie/06 1,06,016/-4051 1374,074/-

For, Szahil Organics Pvt. Mc. M.

The reverse side of the C form submitted by the selling dealer to claim concessional rate of tax. The numeral '1' has been prefixed to the sale amounts at ten places to claim sales of ₹ 13.74 lakh in place of ₹ 3.74 lakh.

	plen II Ala	14		604 234 (L6)	
Saghi	F Organics PVLLtd.	1.7			
astr	FIN NO.24074600169			100	
CSTT	NN NO 24574600169				
	"C" forms paid List				
Sr No.	Party Name	"C" Forms No.	Amount Year		
1	Pashabhai B. Patel & Co.	6503878	201000 2005-06		
ż	Hitesh Enterprises	5503877	19906 2005-06		
3	Hitesh Enterprises	5500878	23010 2305-08	1	
4	R.S.Enterprise	5500679	40400 2005-08		
5	R.S.Enterprise	5500680	84060 2005-08		
4 7	Ultima Chemicals Ultima Chemicals	\$500881	8470 2005-06		
8	Ultima Chemicais	5500882	4160 2005-06		
9	Ultima Chemicais	5500883	30415 2006-07 72617 2006-07		
10	Grand Organics Pvt Ltd.	5500885	72817 2006-07		
11	Grand Organics Pvt Ltd.	5500888	150351 2006-07		
12	Grand Organics Pvt Ltd.	5500887	125659 2008-07		
13	Sri Balaji Industries	5500888	168898 2008-07		
14	Hitesh Enterprises	5500889	47362 2006-07		
15	R.S.Enterprise	5500890	84000 2006-07		SL No 2
16	Mata Polymers Pvt.Ltd.	5500891	242585 2007-08		
17	Srinivas Chemical Industries P.Ltd	5500892	40828 2008-07		clearly
\$6	Soah Traders	5500893	22538 2006-07		indicat
19	Enteem Industries Pvi Ltd.	5506894	and the second se	Y	that
20	Indo Minerals Suuply Agency	5500895	60797 2006 07		purcha
21	Chemex Chemicals	5500896	23317 2005-06		were n
22 23	Esteem Industries Pvt.Ltd.	5500897/	374074 2008-07	2	for
24	Grand Organics PVLLtd Rado Colour Industries	5500898 5500899	15965 2006-07 1607 2006-07		₹3,74,0
25	Time Mauser Industries Pvt Ltd.	5500900	7 19774 2005-06		
26	Esteem industries Pvt Ltd.	5500901,	162181 2006-07		from th
27	Nova Chem Industries	5500902	4056 2008-07		Goa-ba
	Nova Chem Industries	5500903	3994 2008-07		dealer.
29	Boisure Chemicals Pvt.Ltd.	5500904	22682 2008-07		
30	Boisure Chemicals Pvt.Ltd.	5500905	9073 2006-07		
	Bolsure Chemicals Pvt Ltd	5500906	9073 2006-07		
1000	Bolsure Chemicals Pvt.Ltd. Karmah Impex	5500907	18158 2006-07		
	and we have a provident of the second s	5500908	276860 2005-06		
and the second	Karmah Impex	5500909	121070 2005-08		
	Karmah Impos Nehavish Pharma	5500910	54000 2005-08		
		5500911	716270 2005-06		
100000000000000000000000000000000000000	Shreeji Dye Chem	5500912	567300 2005-06		
	Shreeji Dye Chem	5500913	315360 2005-06		
	Shreeji Cal Chem Pvt.Ltd.	5500914	1188564 2005-06		
and the second	Sri Ganesh Industries Shreeji Dye Chem	5500915	132072 2007-08		
12021	Shreeji Gal Chem Pyt Ltd.	5500916 5500917	534125 2005-06		
the second se	Shipeji Cal Chem Pvt Ltd.	5500918	1221110.2005-08		
	Shreeji Oye Chem	5500910	100500 2008-07		
the states	Spectra Specialities *	5500920	24135 2004-05		
46	Spectra Specialities	5500921	20323-2005-08	.0/	
	Manali Petrochemicals Ltd.	6500922	40992 "104-05	Maria	
	Mata Polymers Pvt.Ltd.	5500923	45298 5 2 .07-08		
	Mata Polymers Pvt Ltd	5500924	31363 5 2007-06	~	
50	Archie Dye Chem	5500925	37820 2008-07		
-	Total		8508258		

The utilization certificate submitted by the purchasing dealer.

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