

CHAPTER III

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CHAPTER – III

REVENUE RECEIPTS

GENERAL

3.1 TREND OF REVENUE RECEIPTS

3.1.1 The tax and non-tax revenue raised by the Government of Mizoram during the year 2008-09, the State's share of divisible Union taxes and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are given below.

Table: 3.1

(Rupees in crore)

Particulars of revenue receipts	2004-05	2005-06	2006-07	2007-08	2008-09
I. Revenue raised by the State Government					
• Tax revenue	39.55	55.05	67.59	71.96	94.62
• Non-tax revenue	75.60	120.09	133.38	130.30	158.67
Total	115.15	175.14	200.97	202.26	253.29
II. Receipt from the Government of India					
• State's share of divisible Union taxes	155.79	225.83	288.08	368.92	383.39
• Grants-in-aid	1,230.92	1,252.68	1,479.90	1,468.56	2,016.45
Total	1,386.71	1,478.51	1,767.98	1,837.48	2,399.84
III. Total receipts of the State	1,501.86	1,653.65	1,968.95	2,039.74	2,653.13
IV. Percentage of I to III	7.66	10.59	10.21	9.92	9.55

The above table indicates that during the year 2008-09, the revenue raised by the State Government was 9.55 *per cent* of the total revenue receipts (Rs.2,653.13 crore) against 9.92 *per cent* in the preceding year. The balance 90.45 *per cent* of the receipts during 2008-09 was from the Government of India.

3.1.2 The following table presents the details of tax revenue raised during the period 2004-05 to 2008-09.

Table: 3.2

(Rupees in crore)

Sl. No.	Head of revenue	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage of increase (+) or decrease (-) in 2008-09 over 2007-08
1.	Sales tax/VAT	28.08	41.59	53.72	62.04	77.51	(+) 25
2.	State excise	1.40	1.46	1.65	1.69	1.87	(+) 11
3.	Stamp duty and registration fee	0.10	0.17	0.21	0.23	0.46	(+) 100
4.	Taxes on vehicles	3.80	4.35	5.01	5.37	5.50	(+) 2
5.	Taxes on goods and passengers	0.69	0.99	0.98	1.07	1.43	(+) 34
6.	Other taxes on income and expenditure, tax on professions, trades, callings and employment	4.37	4.53	4.99	0.08	6.22	(+) 7,675
7.	Land revenue	0.86	1.59	0.73	1.48	1.63	(+) 10
Total		39.30	54.68	67.29	71.96	94.62	

The concerned Departments did not inform (November 2009) the reasons for variation despite being requested (October 2009).

3.1.3 The following table presents the details of the non-tax revenue raised during the period 2004-05 to 2008-09.

Table: 3.3

(Rupees in crore)

Sl. No.	Head of revenue	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage of increase (+) or decrease (-) in 2008-09 over 2007-08
1.	Interest receipts	3.66	6.94	8.76	15.60	32.91	(+) 111
2.	Other non-tax receipts	11.52	15.42	17.56	22.59	18.98	(-) 16
3.	Forestry and wild life	2.74	4.15	4.06	2.98	2.20	(-) 26
4.	Miscellaneous general services (including lottery receipts)	9.03	6.45	44.29	1.53	3.01	(+) 97
5.	Power	40.81	81.80	51.79	83.60	93.40	(+) 12
6.	Medical and public health	0.46	0.47	0.56	0.66	0.55	(-) 17
7.	Co-operation	2.01	0.67	0.02	0.02	0.02	--
8.	Public works	2.90	1.04	2.02	0.45	2.02	(+) 349
9.	Police	0.22	0.38	0.35	0.34	3.56	(+) 947
10.	Other administrative services	2.25	2.77	3.97	2.53	2.02	(-) 20
Total		75.60	120.09	133.38	130.30	158.67	

The concerned Departments did not inform (November 2009) the reasons for variation despite being requested (October 2009).

3.1.4 Variations between the budget estimates and the actuals

The variations between the budget estimates and the actuals of revenue receipts for the year 2008-09 in respect of the principal heads of tax and non-tax revenue are mentioned below.

Table: 3.4

(Rupees in crore)

Sl. No.	Head of revenue	Budget estimates	Actual revenue	Variations excess (+) shortfall (-)	Percentage of variation
Tax revenue					
1.	Sales tax/VAT	60.00	77.51	(+) 17.51	(+) 29
2.	State excise	1.70	1.87	(+) 0.17	(+) 10
3.	Taxes on vehicles	5.00	5.50	(+) 0.50	(+) 10
4.	Taxes on goods and passengers	1.00	1.43	(+) 0.43	(+) 43
5.	Land revenue	1.20	1.63	(+) 0.43	(+) 36
Non-tax revenue					
1.	Interest receipts	6.25	32.91	(+) 26.66	(+) 427
2.	Forestry and wild life	3.20	2.20	(-) 1.00	(-) 31
3.	Medical and public health	0.50	0.55	(+) 0.05	(+) 10
4.	Miscellaneous general services	3.00	3.01	(+) 0.01	--
5.	Power	80.00	93.40	(+) 13.40	(+) 17

The concerned Departments did not inform (November 2009) the reasons for variation despite being requested (October 2009).

3.1.5 Cost of collection

The gross collection in respect of the principal receipt heads, expenditure incurred on the collection and the percentage of such expenditure to the gross collection during the years 2006-07 to 2008-09 along with the all India average percentage of expenditure on collection for the year 2007-08 are given below.

Table: 3.5

(Rupees in crore)

Sl. No.	Head of revenue	Year	Collection ¹	Expenditure on collection of revenue ²	Percentage of expenditure on collection	All India average percentage for 2007-08
1.	Sales tax/ VAT	2006-07	53.72	3.77	7.02	0.83
		2007-08	62.04	4.63	7.46	
		2008-09	77.51	2.06	2.66	
2.	Taxes on vehicles	2006-07	5.01	2.31	46.11	2.58
		2007-08	5.37	2.66	49.53	
		2008-09	5.50	3.31	60.18	

The percentage of expenditure on collection during the year 2008-09 reflected an upward trend in respect of taxes on vehicles while it came down drastically in respect of sales tax/VAT. **However, in both the cases the percentage of expenditure on collection was substantially higher than the corresponding all India average for the year 2007-08. The Government needs to take appropriate measures to bring down the cost of collection.**

3.1.6 Arrears in assessment

The details of the assessments pending at the beginning of the year 2008-09, cases due for assessment during the year, cases disposed during the year and the cases pending finalisation at the end of the year as furnished by the Departments are mentioned below.

Table: 3.6

Name of tax	Opening balance	Cases due for assessment during the year	Total	Cases finalised during the year	Balance at the close of the year	Arrears as percentage of total cases
Sales tax/ central sales tax/VAT	3,833	1,241	5,074	658	4,416	87
Motor spirit tax	115	40	155	27	128	83
Total	3,948	1,281	5,229	685	4,544	87

¹ Figures as per Finance Accounts

² Figures as Furnished by the department

Thus, the percentage of pending cases at the end of the year 2008-09 was 87 per cent. **The Government has not fixed any norm prescribing the number of assessments to be completed by each assessing officer during a specified period. Immediate action needs to be taken to finalise the pending assessment cases.**

3.1.7 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2009 in respect of some principal heads of revenue amounted to Rs.2.01 crore as mentioned below.

Table: 3.7

(Rupees in lakh)

Sl. No.	Head of revenue	Amount outstanding as on 31 March 2009
1.	Sales tax/VAT	179.71
2.	Forest	21.48
	Total	201.19

3.1.8 Failure to enforce accountability and protect interest of the Government

The Accountant General (Audit), Mizoram, Aizawl conducts periodical inspection of various offices of the Government/Departments to test check the correctness of the assessments, levy and collection of the tax receipts and the non-tax receipts and verify the accuracy in maintenance of the accounts and the records as per the Acts, Rules and the procedures prescribed by the Government/Departments from time to time. These inspections are followed by the Inspection Reports (IRs) issued to the heads of the offices inspected with copies to the next higher authorities. Serious irregularities noticed in audit are also brought to the notice of the Government/heads of the Departments by the Office of the Accountant General (Audit), Mizoram, Aizawl.

IRs issued upto December 2008 pertaining to the offices under sales tax, state excise, land revenue, motor vehicle tax and forest Departments disclosed that 288 observations relating to 96 IRs involving revenue of Rs.35.10 crore remained outstanding at the end of June 2009. Of these, 78 IRs containing 217 observations involving revenue of Rs.19.87 crore had not been settled for more than three years. The year wise position of old outstanding IRs and paragraphs is detailed in Appendix - 3.1.

In respect of 48 paragraphs relating to 15 IRs involving revenue of Rs.7.77 crore issued upto June 2009, even the first reply from the Department/ Government has not been received (November 2009).

The Government may prescribe a time schedule for expeditious submission of replies to the IRs/paragraphs for their settlement.

3.1.9 Follow up on Audit Reports - summarised position

With a view to ensuring the accountability of the executive in respect of all the issues dealt with in various Audit Reports, the Public Accounts Committee (PAC), issued (May 2000) instructions for submission of *suo moto* replies on all the paragraphs and the reviews featured in the Audit Reports within three months of its presentation to the Legislature. For submission of the action taken notes (ATNs) on the recommendations of the PAC, the committee has specified the time frame as six months.

Review of the follow up on the submission of *suo moto* replies and of the ATNs as of 31 October 2009 on the paragraphs included in the Reports of the Comptroller and Auditor General of India disclosed that the Departments of the State Government had not submitted *suo moto* replies on three out of 11 paragraphs featured in the Audit Report for the year 2007-08 in respect of the revenue receipts.

3.1.10 Audit committee meetings

In order to expedite the settlement of the outstanding audit observations contained in the IRs, departmental audit committee meetings are constituted by the Government. These committees are chaired by the Secretaries of the concerned Administrative Departments and attended by the concerned officers of the State Government and the officers of the Accountant General (Audit).

In order to expedite clearance of the outstanding audit observations, it is necessary that the audit committees meet regularly. During the year 2008-09, no Departmental audit committee meeting was held. Thus, the concerned Departments failed to take the advantage of the audit committee set up.

The Government needs to look into this aspect and ensure that the audit committee meetings are regularly held to expedite settlement of the audit paragraphs.

3.1.11 Results of audit

Test check of the records of sales tax, state excise, motor vehicles tax, land revenue, forest and other tax receipts conducted during 2008-09 revealed under assessments/short/non-levy/loss of revenue amounting to Rs.2.31 crore in 8 cases.

This report contains a review on 'Transition from sales tax to VAT in Mizoram' and six paragraphs involving money value of Rs.6.44 crore. The Departments/Government accepted audit observations raised in four cases involving revenue of Rs.4.49 crore, of

which Rs.1.06 lakh has been recovered. The concerned Departments have not accepted two cases involving Rs.94.25 lakh and these cases have been included in the chapter with the departmental reply and audit's view. No reply has been received in respect of the remaining cases (November 2009). These are discussed in the succeeding paragraphs 3.2 to 3.8.

PERFORMANCE REVIEW

TAXATION DEPARTMENT

3.2 Transition from Sales Tax Regime to Value Added Tax (VAT) System in Mizoram

Highlights

As compared to the average growth rate of 44.43 *per cent* during (2002-05) MST regime, the average growth rate was 29.42 *per cent* during (2005-09) post-MVAT period. Also, the growth rate has been decreasing year after year during the post-VAT period except in 2008-09. In view of the eight fold increase in the numbers of dealers registered in 2008-09 against those in the MST regime (2004-05), it is a matter of serious concern for the State Government.

(Paragraph - 3.2.6)

There were substantial numbers of the dealers who did not submit the returns and there was high pendency in scrutiny of the returns. However, due to lack of a monitoring mechanism, the Commissioner could not effectively monitor the shortfall in receipt and scrutiny of the returns.

(Paragraph - 3.2.8)

In case of assessment of three registered dealers, the assessing officers underassessed the total turnover by Rs.84.66 lakh which resulted in short levy of tax of Rs.7.75 lakh.

(Paragraph - 3.2.11)

There is no provision for deduction of tax at source in the MVAT Act.

(Paragraph - 3.2.13)

3.2.1 Introduction

The Union Government in Ministry of Finance had constituted an Empowered Committee of State Finance Ministers to resolve the variations in the State Sales Tax Acts and to introduce State level Value Added Tax (VAT). The empowered committee had issued a white paper (January 2005) defining the basic design of State level VAT. The white paper, however, allowed the States to adopt appropriate variations in their VAT Acts consistent with the basic design. The major designs put forth in the white paper were as follows:

- The manufacturers and traders (dealers) will be given input tax credit for purchase of inputs - including that on capital goods - meant for use in manufacture or resale.
- Input tax credit, remaining unadjusted till the end of second year; and also on exports will be refunded to the dealers.
- The dealers will submit self assessment returns declaring their tax liability under State level VAT. The Government will consider these self assessment returns as deemed assessment, except where the notice for audit of books of accounts of the dealer was issued within prescribed period.
- Audit of books of accounts of the dealer will be delinked from tax collection wing to remove any bias.
- The existing incentive schemes will be continued in a manner deemed appropriate by the State, after ensuring that the VAT chain is not affected.
- Taxes such as turnover tax, surcharge, additional surcharge and special additional tax would be abolished.

The Government of Mizoram repealed the Mizoram Sales Tax (MST) Act, 1989 and enacted the Mizoram Value Added Tax (MVAT) Act, 2005 from 1 April 2005. Some of the differences between the existing MVAT Act and the Sales Tax Act were as under:

- MVAT is a multipoint tax system while sales tax was a single point tax system.
- MVAT system relies more on the dealers to pay the tax willfully and submit the returns and there is deemed self assessment in the MVAT; while supporting documents were required along with the returns in the MST;
- Percentage check is provided in MVAT Acts while in the MST Act, cent *per cent* cases were assessed; and
- Reduced control of the executive on the dealers in the MVAT compared to the MST.

The transition from sales tax to VAT in Mizoram was reviewed by audit which revealed a number of deficiencies mentioned in the succeeding paragraphs.

3.2.2 Organisational set up

The Department of Taxes which administers the levy and collection of tax under the MVAT Act, is headed by the Secretary, Taxes at the Government level and the Commissioner of Taxes

at the Departmental level. The Commissioner of Taxes is assisted by four³ Zonal Assistant Commissioner of Taxes and Six Circles⁴. Besides, there are Superintendents of Taxes and Inspectors of Taxes to help him in discharging the day to day functioning.

3.2.3 Audit objectives

The review aimed to ascertain whether the

- planning for implementation and the transition from the MST Act to MVAT Act was effected timely and efficiently;
- the provisions of the MVAT Act and the Rules made thereunder were adequate and enforced properly to safeguard the revenues of the State;
- internal control mechanism existed in the Department and was adequate and effective to prevent leakage of revenue; and
- system which has been in place for three years is performing efficiently.

3.2.4 Scope and methodology of audit

Before taking up the audit, questionnaires were issued to the Circles, Zones through the Commissioner of Taxes. The audit was conducted during May – July 2009 through test check of the records of the Commissioner of Taxes, three Zonal Officers (Aizawl South, Aizawl North and Aizawl Central) and one Circle (Kolasib) out of four Zones and six Circles respectively covering MST period (2004-05) and MVAT period (2005-09). The units were selected based on random sampling methodology.

3.2.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the Taxation Department in providing necessary information and records for audit. Before taking up the audit, the Department/Government was informed about the audit of the transitional process to MVAT in April 2009. The findings of the audit were forwarded to the Department/Government in September 2009. An exit conference was held in November 2009 in which the results of audit and the recommendations were discussed. The Commissioner of Taxes attended the meeting. The replies of the Department furnished during the exit conference and at other points of time have been suitably incorporated in the respective paragraphs. Replies of the Government have not been received (November 2009).

³ Four zones: Aizawl South, Aizawl North, Aizawl Central and Lunglei

⁴ Six circles: Champhai, Kolasib, Saiha, Serchhip, Mamit and Lawngtlai

Audit findings

3.2.6 Pre-MVAT and Post-MVAT tax collection

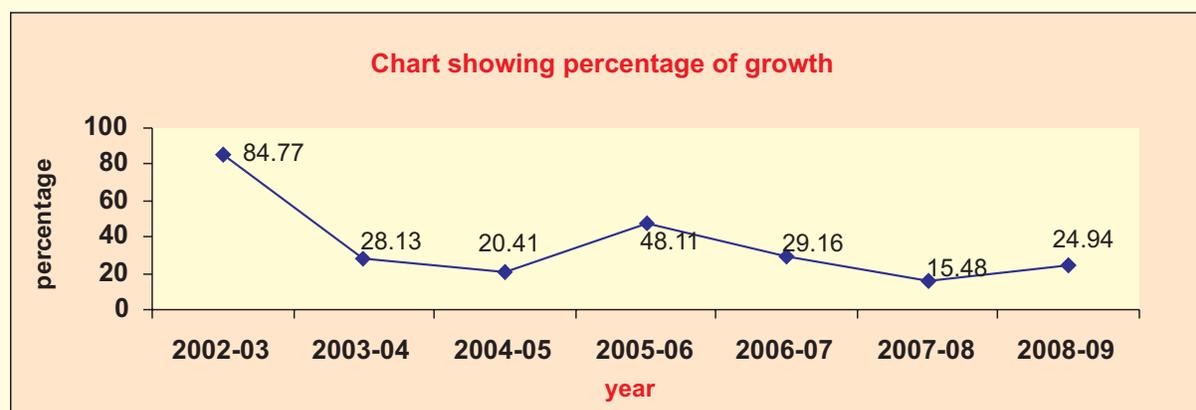
The comparative position of pre-MVAT sales tax collection (2002-03 to 2004-05) and post-MVAT (2005-06 to 2008-09) tax collection including MVAT and the growth rate in each of the years is furnished below in the following table and chart:

Table: 3.9

(Rupees in crore)

Pre-MVAT			Post-MVAT		
Year	Actual collection (Rs. in crore)	Percentage of growth	Year	Actual collection (Rs. in crore)	Percentage of growth
2001-02	9.85	--	2005-06	41.59	48.11
2002-03	18.20	84.77	2006-07	53.72	29.16
2003-04	23.32	28.13	2007-08	62.04	15.48
2004-05	28.08	20.41	2008-09	77.51	24.94
Average		44.43	Average		29.42

Source: Audit Reports and departmental records for 2008-09.



The average growth rate during 2002-03 to 2004-05 was 44.43 *per cent* while the average growth rate for 2005-06 to 2008-09 was 29.42 *per cent*. Also, after MVAT implementation, the growth rate has been decreasing year after year and after declining to the level of 15.48 *per cent* in 2007-08, it again went up to 24.94 *per cent* in 2008-09. This is a matter of serious concern especially when viewed against over eight fold increase in the number of dealers registered in 2008-09 against the number in 2004-05 in the MST regime. **The Government needs to investigate the possibility of leakage of revenue and take effective steps to arrest the decline.**

3.2.7 Registration and database of the dealers

3.2.7.1 Creation of database of the dealers

The database records of the registered dealers are available in the VAT and CST Management Systems (VCMS) in respect of all the Zones and Circles in the State.

3.2.7.2 Registration of the new dealers

The position of registration of the dealers during (2004-05) MST regime and new dealers during post-MVAT period (2005-09) are given below:

Table: 3.10

Name of Zone/Circle	Position during 2004-05 MST regime	Year wise position of the registered dealers under MVAT regime			
	No. of dealer	2005-06	2006-07	2007-08	2008-09
1. Aizawl South	180	860	917	1,205	1,088
2. Aizawl North	230	594	760	901	1,120
3. Aizawl Central	----	----	----	----	1,012
4. Champhai	29	195	255	283	323
5. Kolasib	21	87	102	116	161
6. Lunglei	77	289	342	297	462
7. Mamit	----	----	38	45	45
8. Saiha	----	74	88	96	108
9. Serchhip	----	39	56	79	81
10. Lawngtlai	----	65	100	129	182
Total	537	2,203	2,568	3,151	4,582

Source: Departmental records.

Thus, the number of registered dealers (537 Nos.) in MST regime (2004-05) increased by 310 per cent to 2,203 in 2005-06 i.e. on the first year of transition from MST to MVAT. This has further increased to 4,582 in 2008-09.

3.2.7.3 Analysis of increase in collection vis-à-vis increase in number of dealers

The number of registered dealers during the period from 2004-05 to 2008-09 vis-à-vis receipt per dealer is tabulated below:

Period	Number of dealers	Percentage increase (+)/decrease(-) of dealers with reference to the previous year	Actual receipts (Rupees in crore)	Receipts per dealer (Rupees in lakh)
2004-05	537	--	28.08	5.23
2005-06	2,203	(+) 310	41.59	1.89
2006-07	2,568	(+) 16.57	53.72	2.09
2007-08	3,151	(+) 22.70	62.04	1.97
2008-09	4,582	(+) 45.41	56.22	1.22

Thus, after implementation of the MVAT Act, though there was an increase in the VAT receipts, the receipts per dealer has gone down substantially. The collection per dealer has also been decreasing consistently since 2006-07, despite the fact that most of the goods sold within the State were taxable at the first point of sale under the MST Act while under the MVAT Act, it is taxed at multipoints.

The Government needs to analyse the reasons for such dip in the collection per dealer despite the fact that most of the goods sold within the State are now taxable at multipoints and take effective measures to plug the loop holes to reduce the scope of leakage of revenue.

3.2.7.4 Detection of unregistered dealers through surveys/raids

The Act provides for compulsory registration of the dealers and no dealer shall carry on business as a dealer unless he has been registered and possesses a certificate of registration. Further, if a dealer while being liable to pay tax fails to get himself registered, he may be imposed by way of penalty a sum, not less than five thousand rupees and not exceeding ten thousand rupees, for each month of default under Section 22(1) of the Act.

Scrutiny of the information/records of the Zonal and Circle level taxation offices revealed that almost all the dealers registered under the MVAT Regime had voluntarily come forward and got themselves registered. **The Department has, however, not installed (July 2009) any procedure/system for checking the runaway dealer. The Commissioner of Taxes has also not prescribed any system for monitoring the progress of surveys/raids and registration of unregistered dealers.** The taxation officials had carried out only 80 surveys/

raids⁵ (in three Zones and Circles during 2005-09) to detect unregistered dealers. The other Zonal and Circle officers⁶ intimated (June 2009) that they had not carried out any survey or raid during 2005-09.

Instances of evasion of tax by unregistered dealers have been pointed out in paragraph 3.5.

The Commissioner of Taxes stated (November 2009) that the surveys were mostly carried out and the increase in number of registered dealers year after year was the result of such survey and detection drives. The reply is not tenable since the concerned Zonal and Circle officers have intimated that they did not undertake such survey and raid.

The Government may consider fixing specific targets for carrying out surveys/raids to detect unregistered dealers and bring them under the tax net. They may also prescribe a monitoring mechanism at the Commissionerate for effective monitoring of the progress in this regard.

3.2.8 Scrutiny of the returns

Under Section 27 of the MVAT Rules, each and every return in relation to any tax period furnished by a registered dealer shall be subject to scrutiny by the assessing officer to verify the correctness of the calculation, application of the rate of tax/interest, input tax credit claimed therein and full payment of the tax and interest payable by the dealer during such period. Further, Section 24(c)(iii) provides that if the dealer fails to furnish the return, the tax payable for the period for which he has failed to furnish return is at the rate of two *per cent* per month from the date the tax payable had become due to the date of his payment or to the date of order of assessment, whichever is earlier.

- Scrutiny of the information furnished by the Champhai Circle revealed that during 2005-09 most of the dealer's returns remained unscrutinised as per details given below.

⁵ South Zone – 49 nos., Mamit Circle – 21 nos. and Lawngtlai circle – 10 nos. = Total **80**

⁶ Central Zone, North Zone, Champhai Circle, Kolasib Circle, Lunglei Circle, Saiha Circle, Serchhip Circle

Table: 3.11

Year	No. of registered dealer	Position of submission of returns				No. of dealers completed with scrutiny	No. of dealers left with scrutiny
		No. of dealers submitted timely	No. of dealers not submitted in time	No. of dealers levied with interest for delay in submission	No. of dealers not levied with interest		
2005-06	195	120	75	Nil	75	130	65
2006-07	255	87	168	02	166	80	175
2007-08	283	138	145	10	135	128	155
2008-09	323	110	213	Nil	213	91	232
Total	1,056	455	601	12	589	429	627

Source: Departmental records.

Besides the shortfall in scrutiny of 627 annual returns, the assessing officer had not levied any interest (at two *per cent*) on the dealers concerned with the 601 returns submitted late except in 12 cases, on the tax payable for the period for which the dealers have failed to furnish returns. Thus, due to non-compliance of the provisions of the Act, the Government has suffered loss of substantial amount of revenue by way of interest. Since this unit was not selected for the detailed audit, loss of revenue could not be quantified.

The Commissioner of Taxes stated (November 2009) that efforts were being made to complete all scrutiny including entry into the VCMS during 2009-10 and additional revenue recovered in the form of interest as a result of scrutiny will be intimated to audit. Further report has not been received (November 2009).

The Government may consider strengthening the monitoring mechanism for the receipt and scrutiny of the returns in the Circles and Zones. They may also consider prescribing guidelines for scrutiny of the returns to ensure that the returns are scrutinised properly to detect evasion of tax.

3.2.9 Tax audit

The Department of taxation has not carried out any tax audit case in respect of the dealers during 2005-09 as provided under Section 28 of the MVAT Act, 2005.

The Commissioner of Taxes has accepted (November 2009) the facts.

3.2.10 Audit assessment

The assessing officers are required to conduct audit assessment in accordance with the provisions under Section 31 of the MVAT Rules, 2005 in respect of the dealers selected by the Commissioner on the basis of criteria/parameters being adopted for the purpose.

Scrutiny of the records/information furnished by the assessing officers in respect of four zones⁷ and four circles⁸ revealed that for the year 2005-06 to 2007-08, out of 8,446 dealers (with annual turnover exceeding Rs.20 lakh) only 766 dealers (nine *per cent*) were covered with audit assessment. This resulted in non-coverage of 91 *per cent* under the audit assessment. The Zone/Circle wise position of the dealers and turnover assessed are given below.

Table: 3.12

(Rupees in crore)

Name of Zone/ Circle	Year	No. of regd. dealers	No. of dealers actually covered with audit assessment	Position of turnover after audit assessment			
				Turnover returned	Turnover assessed	Increase in turnover	Percentage of increase
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. Aizawl South	2005-06	835	Nil	Nil	Nil	Nil	Nil
	2006-07	891	05	0.31	0.91	0.60	194
	2007-08	1,178	07	0.61	0.99	0.38	62
2. Aizawl Central	2005-06	604	56	2.57	5.60	3.03	118
	2006-07	744	39	0.12	3.39	3.27	2,725
	2007-08	827	02	0.28	0.57	0.29	104
3. Aizawl North	2005-06	332	102	6.60	13.51	6.91	105
	2006-07	362	77	2.80	13.33	10.53	376
	2007-08	358	55	3.35	2.90	(-) 0.45	Nil

⁷ Aizawl South, Aizawl Central, Aizawl North and Lunglei

⁸ Champhai, Kolasib, Mamit and Serchhip

4. Lunglei	2005-06	289	Nil	Nil	Nil	Nil	Nil
	2006-07	342	75	1.88	2.59	0.71	38
	2007-08	397	10	1.31	1.56	0.25	19
5. Champhai	2005-06	193	87	1.99	3.82	1.83	92
	2006-07	253	59	1.95	4.25	2.30	118
	2007-08	281	31	2.36	3.78	1.42	60
6. Mamit	2005-06	Nil	Nil	Nil	Nil	Nil	Nil
	2006-07	37	09	0.10	0.31	0.21	210
	2007-08	44	07	0.39	0.66	0.27	69
7. Serchhip	2005-06	39	20	0.14	0.36	0.22	157
	2006-07	56	20	0.72	1.05	0.33	46
	2007-08	79	18	0.34	1.20	0.86	253
8. Kolasib	2005-06	87	Nil	Nil	Nil	Nil	Nil
	2006-07	102	42	2.43	4.48	2.05	84
	2007-08	116	45	3.26	6.45	3.19	98
Total	2005-08	8,446	766	33.51	71.71	38.20	114

Source: Departmental records.

Thus, the turnover of Rs.33.51 crore returned by the 766 dealers was found to be incorrect and on further audit assessment this was raised to Rs.71.71 crore i.e. 114 *per cent* which reveals that the evasion of tax per dealer was Rs.4.99 lakh. Thus, had the audit assessment of the remaining 7,680 dealers been initiated, substantial amount of revenue could have been generated.

While accepting the facts of large arrears in assessment as observed in audit, the Commissioner of Taxes stated (November 2009) that efforts were being made to prevent loss of revenue for not taking up assessments within the permissible time limit.

3.2.11 Underassessment of tax detected by audit

Where a dealer has been underassessed, the amount of tax due from the dealer may be re-assessed, in respect of such underassessed turnover in terms of provisions under Section 34(1)(e) of the Act.

Scrutiny of the assessment orders in respect of the registered dealers revealed that in respect of following dealers the tax due was underassessed and, therefore, it required reassessment for determining actual tax due from them.

- While assessing a registered dealer under South Zone, Aizawl the assessing officer determined the stock of goods (opening stock plus purchases) during the period

2005-08 as Rs.201.47 lakh instead of the correct stock valued at Rs.226.86 lakh. This short determination of stock by Rs.26.40 lakh resulted in short levy of tax of Rs.2.72 lakh.

The Commissioner of Taxes stated (November 2009) that in the light of the audit observation, show cause notice has been served upon the dealer on 14 October 2008. Further development had not been reported (November 2009).

- A dealer under Central Zone, Aizawl filed his returns for the year 2005-06 with total purchase turnover of Rs.419.02 lakh, but while assessing the dealer, the assessing officer had determined the total purchase turnover as Rs.387.28 lakh only. This resulted in underassessment of turnover by Rs.31.74 lakh with consequent short levy of tax of Rs.3.97 lakh.

The Commissioner of Taxes stated (November 2009) that the tax was levied on the dealer's taxable turnover of sales and not on the taxable purchase made by him. The difference in the amount of purchases made by the dealer need not necessarily lead to increase in taxable turnover of sales. Hence, there was no underassessment with a consequential short levy of Rs.3.97 lakh as observed by audit.

The reply is not tenable as the reduction of returned purchase turnover i.e. Rs.419.02 lakh to Rs.387.28 lakh resulted in either reduction of the closing balance or the sales turnover for the respective year by Rs.31.74 lakh with consequential tax effect of Rs.3.97 lakh. Further reply has not been received (November 2009).

- As per the information furnished by the assessing officer under North Zone Aizawl, the total purchase turnover in respect of a register dealer (TIN – 15110242088) for the year 2006-07 was Rs.244.26 lakh (including opening stock). But, while assessing the dealer, the assessing officer had determined the total purchase turnover as Rs.217.74 lakh only, which resulted in underassessment of turnover by Rs.26.52 lakh with consequent short levy of tax by Rs.1.06 lakh.

The Commissioner of Taxes stated (November 2009) that the concerned dealer had deposited (November 2009) the balance tax of Rs.1.06 lakh at the instance of audit.

The Government may consider increasing the percentage of audit assessments to be taken up to prevent leakage of revenue.

3.2.12 Documentation

Audit scrutiny revealed that like in MST Act, supporting documents were not submitted by the registered dealers while filing their returns, as the MVAT Act and Rules do not

contain any system or provision for the same. As a result, all the assessing officers returned the dealer's documents as soon as the assessments were completed. Thus, the audit scrutiny was mainly based on the assessment orders of the assessing officers. In absence of the dealer's documents, no fruitful audit scrutiny of the correctness of the dealer's claims in the returns etc. could be conducted.

The Commissioner of Taxes stated (November 2009) that the retention of supporting of documents along with the returns in the office of the assessing officers had not been categorically provided in the Act because of certain problems in storing and preserving such large number of documents in the office due to space problem. However, these documents could be examined and scrutinised by audit if and when required by them in course of their audit. The reply is not tenable as during the pre-VAT period, all the supporting documents along with the returns were being preserved and moreover the number of documents to be enclosed with the returns under the MVAT Act are less as compared to those under the MST Act. Besides, no meaningful scrutiny of the returns can be conducted without the supporting documents.

The Government/Department may consider reviewing the provision in view of the fact that retention of the documents in the case records would facilitate further scrutiny/verification, if needed.

3.2.13 Provisions governing tax deducted at source

Section 85 of the Act does not allow any Government Department to place supply order with, or make purchases of any goods from, any dealer or make any payment to such dealer for such purchases, until the Commissioner of Taxes certifies that such dealer has no liability to pay the tax or has not defaulted in furnishing any return.

Scrutiny of the records/information collected from the Directorate of Horticulture, Mizoram revealed that the Department in contravention of the above provision placed supply orders on eleven different suppliers for supply of 15,740 quintals of galvanised iron wire at a total cost of Rs.7.77 crore and the payments were also released during 2006-07 without deducting tax at source as the MVAT Act/Rules did not provide for such deduction. Further verification revealed that two out of the 11 dealers were not registered. Out of the remaining nine dealers, five dealers were not registered for dealing in galvanized iron wire. Thus, due to non-deduction of the tax at source, there was minimum loss of revenue of Rs.20.72 lakh calculated at the rate of four *per cent* on the turnover of Rs.5.18 crore pertaining to these seven unregistered dealers only. Besides, minimum penalty of Rs.41.44 lakh was also leviable. The Department also needs to verify from the records available with the dealers whether the remaining dealers who were registered had included the aforesaid amount and take appropriate action to determine whether

any tax is leviable. **Evasion of tax by the dealers, could have been avoided had the MVAT Act/Rules provided for deduction of tax at source by the drawing and disbursing officers of the Government Departments while releasing the payments to the dealers.**

The Commissioner of Taxes stated (November 2009) that the cases will be pursued and tax, if due, would be realised and the fact would be communicated. Further report has not been received (November 2009).

The Government may consider amending the Act/Rules providing necessary provision for tax deduction at source to prevent evasion of tax by unregistered dealers.

3.2.14 Internal audit

Internal audit is one of the most vital tools of the internal control mechanism and functions as the 'eyes' and 'ears' of the management and evaluates the efficiency and effectiveness of the mechanism. It also independently appraises whether the activities of the organisation/ Department are being conducted efficiently and effectively.

It was noticed that the Department does not have an internal audit wing of its own. The records and the accounts of the Department in respect of implementation of MST and MVAT were not test audited by the Examiner of Local Accounts (Directorate of Accounts and Treasuries, Mizoram) during the period covered under review.

The Commissioner of Taxes intimated (November 2009) that a proposal is underway for creation of an Audit Wing and implementation of VAT Audit Manual.

The Government may consider creating an internal audit wing to examine the functioning of the Department.

3.2.15 Conclusion

Though the overall revenue in absolute terms has all along the years from 2001-02 to 2008-09, showed an increasing trend, the percentage of revenue growth decreased consistently except in 2008-09. This is a matter of serious concern especially when viewed against over eight fold increase in the number of dealers registered in 2008-09 against the number in 2004-05 in the MST regime. The coverage of tax audit/assessment in respect of the dealers with annual turnover upto Rs.20 lakh was poor. Non-detection of concealment of turnover by the dealers and underassessment of tax by the assessing officers proves that the assessments were not carried out in an effective and efficient manner by them. Internal controls were weak as evidenced by the mistakes in the assessments as mentioned above and also the fact that there was no internal audit wing in the Department due to which the loop holes and the lacunae in the system could not be detected by the Department some of which have been pointed out in this review.

3.2.16 Summary of recommendations

The State Government may consider implementing the recommendations mentioned under the respective paragraphs in this review with special attention to the following.

- prescribe system for survey and raid to detect the unregistered dealers;
- strengthen the management information system for effective monitoring of the submission and scrutiny of the returns;
- increase the number of dealers to be taken up for audit assessments;
- review the provision regarding retention of the documents in the case records after completion of the assessments;
- amend the Act and Rules to provide for deduction of tax at source from the supplier's bills by the drawing and disbursing officers of various Departments of the Government and also provide for penal measures for failure to do so; and
- establish an internal audit wing to examine the functioning of the Department.

PARAGRAPHS

ENVIRONMENT AND FOREST DEPARTMENT

3.3 Non-realisation of monopoly fee

Monopoly fee of Rs. 90.28 lakh was not realised on transportation of 90.28 lakh bamboo through 411 permits.

The Principal Chief Conservator of Forests (PCCF), Mizoram vide his circular of July 1989 clarified that the Monopoly Fee (MF) is to be realised when permits are issued without auction giving monopoly to the permit holders and directed that in all cases where permits are issued to the individual applicants, MF at the rate of 100 *per cent* of the existing royalty on all forest produces shall be levied and realised. The Government of Mizoram, Environment and Forest Department on 6 August 2001, fixed the rate of royalty of *Mautak*⁹ species of bamboo at Rupee one per bamboo for sale outside Mizoram for commercial purposes.

Test check of the records of DFO, Kolasib in March 2007 revealed that in 411 cases of permits issued without auction, 90.28 lakh bamboos were transported outside the state for commercial purposes between April 2004 and February 2007 by realising royalty of Rs.90.28 lakh without realising MF as stipulated by the PCCF. This resulted in non-levy of the MF of Rs.90.28 lakh being 100 *per cent* of the royalty.

After this was pointed out, the PCCF replied (June 2009) that realisation of the MF is not applicable in case of selling of bamboos on permit system. The reply is however not tenable since the Planning Officer of PCCF's office had clarified (August 2006) that 100 *per cent* MF was realisable on bamboo sold on permit system.

The case was reported to the Government in May 2007 and May 2009; their reply has not been received (November 2009).

3.4 Loss of revenue due to illegal removal of timber

Loss of revenue of Rs.19.82 lakh due to illicit felling and removal of 460.283 cum of timber from reserved forest.

Under the Mizoram Forest Act (MF Act) 1955, felling of trees and removal of forest produce from a reserve forest area without valid pass is prohibited. Forest produce felled/removed illegally

⁹ Melaconna Baciferra.

are to be seized, confiscated and brought to safer places/forest designated depots and reported to the appropriate court of law prior to their disposal. To prevent illegal felling/removal of the forest produce, deployment of the Forest Protection Force and erection of forest check gates at all the vital points is the primary responsibility of the Forest Department. In Mizoram, royalty rate of A II and B II species of round logs varies between Rs.7,413 and Rs.530 per cum.

Test check of the records of the Divisional Forest Office, Kolasib in March 2007 revealed that in 38 cases, 460.283 cum of timber of various valuable species (Teak, Gomari etc.) were illegally removed from the State Reserve Forest. Illegal removal of such large volumes of timber from the state reserve forest indicates inadequate surveillance and enforcement of the protection measures. This also resulted in loss of revenue of Rs.19.82 lakh.

While accepting the fact of illicit felling and removal of timber from the reserve forest, the Principal Chief Conservator of Forests, Mizoram stated (June 2009) that due to paucity of staff, engagement of staff for strict vigilance and efficient enforcement of protection measures in the entire vast forest area was a difficult task.

The matter was reported to the Government in May 2007 and May 2009; their reply has not been received (November 2009).

TAXATION DEPARTMENT

3.5 Non-realisation of tax and penalty

The Taxation Department failed to realise balance tax of Rs.9.16 lakh from 211 unregistered dealers with minimum penalty of Rs.3.62 crore.

As per provisions of the Mizoram Value Added Tax (MVAT) Act, no dealer shall carry on business as a dealer, unless he has been registered and possesses a certificate of registration. If the dealer fails to get himself registered within two months from the date from which he is liable to pay the tax, he is liable to pay by way of penalty, a sum not less than Rs.5,000 for each month of default, under Section 22(1) of the MVAT Act. Further, as provided in Section 85(1) of the MVAT Act, no Government department shall place order with, or make any payment to such dealer for purchases, unless the commissioner certifies that the dealer has no liability to pay tax and issue a clearance certificate to that effect.

Scrutiny of the records of the Superintendent of Taxes, Kolasib Circle in March 2009 revealed that two Government Departments in Kolasib purchased goods worth Rs.4.58 crore during

2005-07 from 211 unregistered dealers in contravention of provisions of the MVAT Act. These dealers were required to pay Rs.19.32 lakh tax at the minimum rate of four *per cent*, against which the Departments deducted Rs.9.16 lakh only at source as per the details given below.

Table: 3.13

(Rupees in lakh)

Name of department	Year	No. of unregistered dealers	Gross value of goods supplied	Tax deposited into the Government account	Month of deposit	Penalty to be levied for default upto March 09
Executive Engineer, PHE WATSON, Kolasib Division	2005-06	127 Nos.	224.66	4.49	March 2006	222.25 ¹⁰
Executive Engineer, Kolasib Power Division	2005-06	65 Nos.	141.28	2.83	March 2006	113.75 ¹¹
	2006-07	19 Nos.	92.21	1.84	August to November 2006	25.65 ¹²
Total		211 Nos.	458.15	9.16	---	361.65

The Taxation Department, however, had neither taken (March 2009) any action to realise the balance tax of Rs.10.16 lakh from all the unregistered dealers nor initiated any penal action against the dealers for carrying out business without registration. A minimum penalty of Rs.3.62 crore was leviable for the period from May 2006 to March 2009 against these 211 dealers in default, which was not levied.

The Commissioner of taxes while accepting the fact stated (July 2009) that necessary steps were being are taken for recovery of the balance tax and the outcome was awaited (November 2009).

The matter was reported to the Government in April 2009; their reply has not been received (November 2009).

Calculation of penalty :-

¹⁰ May 2006 to March 2009 = 35 months X 127 Nos. X Rs. 5,000 = Rs. 222.25 lakh

¹¹ May 2006 to March 2009 = 35 months X 65 Nos. X Rs. 5,000 = Rs. 113.75 lakh

¹² January 2007 to March 2009 = 27 months X 19 Nos. X Rs. 5,000 = Rs. 25.65 lakh

3.6 Concealment of turnover/short realisation of tax

A registered dealer concealed turnover of Rs.5.70 crore during 2005-07 for which he was liable to pay penalty of Rs.45.56 lakh, besides payment of underassessed balance tax of Rs.9.39 lakh.

Under Section 31(7)(b) of the MVAT Act, if a dealer has furnished incorrect and incomplete returns for any period to evade payment of tax, he shall be liable to pay by way of penalty, a sum not exceeding twice the amount of the tax assessed. Further, Section 8(2)(c) of the MVAT Act provides that in determining the taxable contractual transfer price of a dealer liable to pay tax, a deduction of 30 *per cent* on account of labour and non-material cost is allowable as deduction from the gross turnover *i.e.* from the aggregate of the amount received or receivable by the dealer for transfer of properties in relation to a works contract. No deduction is, however, applicable from the aggregate price of material purchase.

Test check of the records of the Superintendent of Taxes, Kolasib Circle in March 2009 revealed that a registered dealer¹³ in relation to his works contract disclosed the aggregate turnover of material purchases as Rs.7.33 crore during 2005-07 (2005-06 = Rs.3.46 crore and 2006-07 = Rs.3.87 crore). The assessing officer, however, in course of his assessment (September 2007 and April 2008) rejected the turnover and enhanced it to Rs.13.03 crore (2005-06 = Rs.8.28 crore and 2006-07 = Rs.4.77 crore) on the basis of accounts and records produced by the dealer. Thus, the dealer had deliberately concealed a turnover of Rs.5.70 crore during 2005-06 to 2006-07 to evade the liability of payment of tax of Rs.22.78 lakh, for which he was liable to pay penalty not exceeding Rs.45.56 lakh, which was not levied.

Further scrutiny revealed that while determining the taxable turnover, the assessing officer had irregularly allowed a 30 *per cent* deduction of Rs.3.91 crore (2005-06 = Rs.2.10 crore and 2006-07 = Rs.1.81 crore) from the aggregate turnover of the material purchases reducing the taxable turnover to Rs.9.12 crore (Rs.13.03 crore – Rs.3.91 crore). Since the deduction of 30 *per cent* is applicable only from the gross turnover *i.e.* aggregate of amount received or receivable by a dealer from his works contract, the allowance of such deduction from the aggregate turnover of material purchases was incorrect. The dealer was liable to pay tax of Rs.52.12 lakh during 2005-07 on the gross turnover of purchases of Rs.13.03 crore, against which only Rs.42.73 lakh was paid by him during 2005-07. Thus, the dealer is liable to pay balance tax of Rs.9.39 lakh (Rs.52.12 lakh – Rs.42.73 lakh).

¹³ M/s Patel Engineering Ltd

The Commissioner of Taxes while accepting the facts stated (July 2009) that steps were being taken to recover the balance tax. A report on recovery has not been received (November 2009).

The matter was reported to the Government in April 2009; their reply has not been received (November 2009).

TRANSPORT DEPARTMENT

3.7 Outstanding permit fees with penalty

In 181 cases of all Mizoram maxi cabs, the permit fees of Rs.20.75 lakh was outstanding with penalty of Rs.5.05 lakh.

The State Transport Authority (STA), Mizoram under their notification dated 27 November 2006 reduced the authorisation permit fee for All Mizoram Maxi Cab (AMMC) from the existing rate of Rs.5,000 per annum to Rs.4,000 per annum from the date of issue of the notification. Further, as per the notification issued on 2 December 2005, the STA is to collect penalty fee for non-renewal of the transport vehicle permits at the following specified rates from the date of the issue of the notification –

- | | |
|---------------------------------------|--|
| (i) For each month upto 3 months | Rs.200 pm subject to maximum of Rs.500. |
| (ii) More than 3 months upto 6 months | Rs.200 pm subject to maximum of Rs.800. |
| (iii) More than 6 months | Rs.1,000 per year and Rs.200 for every additional month. |

Test check of the records of the STA, Mizoram in June 2009 revealed that 181 maxi cabs had not renewed their authorisation permits during the period from September 2003 to March 2009. All the motor vehicles were deemed to be kept for use as none of the registered owner of the AMMCs intimated the STA/RTAs in writing that the motor vehicles shall not be used after expiry of the period for which authorisation permit fees had already been paid. Thus, authorisation permit fees to the tune of Rs.20.75 lakh remained outstanding in respect of all the 181 AMMCs for the period from September 2003 to March 2009. In addition, a penalty of Rs.5.05 lakh was also recoverable for the delay in renewal.

The matter was reported to the Department and the Government in July 2009, their reply has not been received (November 2009).

3.8 Short realisation of composite fees

In 126 cases, composite fees of Rs.8.10 lakh was realised by the respective States instead of Rs.19.68 lakh which led to short realisation of composite fees of Rs.11.58 lakh.

The Government of Mizoram, Transport Department under their Notification dated 21 March 1995 decided that from 1 April 1995 onwards, the maxi cabs (7-13 seaters) and the mini buses (14-35 seaters) registered in any of the States or Union Territories of India will be authorised to ply in the State of Mizoram on payment of the composite fee at the rate of Rs.12,000 and Rs.48,000 respectively per annum through the respective STAs, under which the tourist permits were granted.

Test check of the records of the Secretary, State Transport Authority (STA), Mizoram in June 2009 revealed that in 117 cases of maxi cabs (7-13 seaters), composite fee for plying in the State of Mizoram was realised by the States of Assam and Meghalaya at Rs.6,000 per vehicle per annum instead of Rs.12,000 per vehicle per annum and remitted to the Secretary, STA, Mizoram. Similarly, in nine cases of mini buses (14-35 seaters) of Assam and Meghalaya, composite fee was realised and remitted at the rate of Rs.24,000 instead of Rs.48,000 per vehicle per annum during the same period. This resulted in short realisation of composite fee of Rs.11.58 lakh, as per the details given in the table below.

Table: 3.14

(Rupees in lakh)

Sl. No.	Type of vehicle	Composite Fee Realisable				Amount realised	Balance
		No. of vehicles	Due for the year	Rate per year	Total		
1.	Maxi Cab	107	2007-08	0.12	12.84	6.42	6.42
		2	2007-08	0.12	0.24	Nil	0.24
		5	2006-08	0.12	1.20	0.30	0.90
		3	2005-08	0.12	1.08	0.18	0.90
Sub total		117	----	----	15.36	6.90	8.46
2.	Mini Bus	4	2007-08	0.48	1.92	Nil	1.92
		5	2006-08	0.48	2.40	1.20	1.20
Sub total		9	----	----	4.32	1.20	3.12
Grand total		126	----	----	19.68	8.10	11.58

It was further observed that the matter was not pursued by the STA, Mizoram with their counterparts in Assam and Meghalaya for realisation of the balance amount.

The matter was reported to the Department and the Government in July 2009, their reply has not been received (November 2009).