

## CHAPTER-IV

### REVENUE RECEIPTS

#### 4.1 Trend of revenue receipts

4.1.1 The tax and non-tax revenue raised by Government of Goa during the year 2009-10, the State's share of net proceeds of divisible Union taxes and duties assigned to States and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

(₹ in crore)

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1	<b>Revenue raised by the State Government</b>					
	• Tax revenue	1096.49	1291.54	1358.91	1693.55	1762.34
	• Non-tax revenue	761.16	917.62	1042.82	1236.16	1731.20
	<b>Total</b>	<b>1857.65</b>	<b>2209.16</b>	<b>2401.73</b>	<b>2929.71</b>	<b>3493.54</b>
2	<b>Receipts from the Government of India</b>					
	• Share of net proceeds of divisible Union taxes and duties	244.70	312.11	393.72	415.44	427.42
	• Grants-in-aid	66.52	88.49	148.45	183.12	179.31
	<b>Total</b>	<b>311.22</b>	<b>400.60</b>	<b>542.17</b>	<b>598.56</b>	<b>606.73</b>
3	<b>Total revenue receipts of the State Government (1 and 2)</b>	<b>2168.87</b>	<b>2609.76</b>	<b>2943.90</b>	<b>3528.27</b>	<b>4100.27</b>
4	<b>Percentage of 1 to 3</b>	<b>86</b>	<b>85</b>	<b>82</b>	<b>83</b>	<b>85</b>

The above table indicates that during the year 2009-10, the revenue raised by the State Government (₹ 3,494 crore) was 85 per cent of the total revenue receipts against 83 per cent in the preceding year. The balance 15 per cent of receipts during 2009-10 was from the Government of India.

4.1.2 The following table presents the details of tax revenue raised during the period from 2005-06 to 2009-10:

(₹ in crore)

Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of increase (+) or decrease (-) in 2009-10 over 2008-09
1	Sales tax/Central sales tax/VAT	743.31	844.82	879.28	1131.64	1142.13	(+) 0.93
2	State excise	55.35	57.23	75.94	88.70	104.46	(+) 17.77
3	<b>Stamp duty and registration fees</b>						
	Stamps Judicial	0.98	1.08	1.29	1.18	1.28	(+) 8.47
	Stamps Non-Judicial	40.61	66.50	65.90	67.11	67.66	(+) 0.82
	Registration fees	18.90	48.34	50.40	47.08	42.31	(-) 10.13
	<b>Total</b>	<b>60.49</b>	<b>115.92</b>	<b>117.59</b>	<b>115.37</b>	<b>111.25</b>	(-) 3.57
4	Luxury tax	29.92	42.73	66.94	66.32	65.33	(-) 1.49
5	Taxes on vehicles	63.84	74.56	81.96	90.15	105.12	(+) 16.61
6	Entertainment tax	5.18	5.09	11.17	19.65	33.56	(+) 70.79

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7	Land revenue	5.08	6.23	7.19	9.39	10.61	(+) 12.99
8	Taxes on goods and passengers	7.41	8.66	8.50	9.80	10.37	(+) 5.82
9	Entry Tax	123.39	129.36	104.22	147.65	150.36	(+) 1.84
10	Other taxes and duties on commodities and services	2.52	6.94	6.12	14.88	29.15	(+) 95.90
<b>Total</b>		<b>1096.49</b>	<b>1291.54</b>	<b>1358.91</b>	<b>1693.55</b>	<b>1762.34</b>	<b>(+) 4.06</b>

The following reasons for variation were reported by the concerned departments:

**Sales tax/Central sales tax/VAT:** The increase was due to more receipts under Central sales tax.

**State excise:** The increase was mainly due to more receipts under Malt liquor, Indian Made Foreign liquor, spirits and licenses.

**Taxes on vehicles:** The increase was mainly due to more tax collection under the Indian Motor Vehicles Act and State Motor Vehicles Taxation Act.

**Entertainment tax:** The increase was mainly due to more receipts under entertainment tax.

**4.1.3** The following table presents the details of the major non-tax revenue raised during the period 2005-06 to 2009-10:

*(₹ in crore)*

Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of increase (+) or decrease (-) in 2009-10 over 2008-09
1	Power	594.91	681.67	796.26	986.70	941.30	(-) 4.60
2	Non-ferrous mining and metallurgical industries	27.15	34.30	36.40	36.35	292.25	(+) 703.99
3	Water Supply and Sanitation	57.25	58.09	61.23	65.76	70.38	(+) 7.03
4	Interest receipts	12.95	15.60	16.70	20.45	13.64	(-) 33.30
5	Major and Medium Irrigation	10.32	2.93	3.56	8.51	10.57	(+) 24.21
6	Minor Irrigation	1.48	0.78	0.58	7.54	6.69	(-) 11.27
7	Medical and public health	12.67	9.06	8.33	8.30	5.98	(-) 27.95
8	Ports and Light houses	14.30	16.85	14.39	16.04	20.13	(+) 25.50
9	Misc. General Services	--	0.06	40.38	--	259.88	(+) 259.88
10	Other Administrative services	5.52	62.68	22.16	37.46	40.50	(+) 8.12
11	Education, sports, art and culture	4.78	10.57	9.40	9.24	10.96	(+) 18.61
12	Others	19.83	25.03	33.43	39.81	58.92	(+) 48.00
<b>Total</b>		<b>761.16</b>	<b>917.62</b>	<b>1042.82</b>	<b>1236.16</b>	<b>1731.20</b>	<b>(+) 40.05</b>

The following reasons for variation were reported by the concerned departments:

**Power:** The decrease was due to less receipt under “other receipts”.

**Non-ferrous and metallurgical industries:** The increase was mainly due to more receipts collected under mineral concession fees and royalties.

**Interest receipts:** The decrease was mainly due to less interest receipt from investment of cash balances.

**Water supply and sanitation:** The increase was mainly due to more receipts under rural water supply scheme.

**Ports and light houses:** The increase was mainly due to more receipts under other receipts.

**Medical and public health:** The decrease was mainly due to less receipts from Employees State Insurance Scheme.

#### 4.1.4 Variation between the budget estimates and actual receipts

The variation between the budget estimates of revenue receipts and the actual receipts under the principal heads of tax and non-tax revenue for the year 2009-10 is mentioned below:

(₹ in crore)

Sl. No.	Revenue head	Budget estimates	Actual receipts	Variations increase (+) shortfall (-)	Percentage
<b>• Tax revenue</b>					
1	Sales tax/VAT	1257.70	1142.13	(-) 115.57	(-) 9.19
2	State excise	88.00	104.46	(+) 16.46	(+) 18.70
3	Stamp duty and registration fees	112.97	111.25	(-) 1.72	(-) 1.52
4	Taxes on vehicles	103.21	105.12	(+) 1.91	(+) 1.85
5	Entertainment tax	15.00	33.56	(+) 18.56	(+) 123.73
6	Land revenue	6.97	10.61	(+) 3.64	(+) 52.22
7	Luxury tax	75.00	65.33	(-) 9.67	(-) 12.89
8	Taxes on goods and passengers	12.00	10.37	(-) 1.63	(-) 13.58
9	Entry tax	100.00	150.36	(+) 50.36	(+) 50.36
<b>• Non-tax revenue</b>					
1	Non-ferrous mining and metallurgical industries	29.60	292.25	(+) 262.65	(+) 887.33
2	Power	1069.24	941.30	(-) 127.94	(-) 11.97
3	Water supply and sanitation	115.53	70.38	(-) 45.15	(-) 39.08

The following reasons for variation were reported by the concerned departments:

**State Excise:** Due to issue of additional foreign liquor licenses on the existing licensed premises, re-structuring/upward revision of excise duties on IMFL, beer and wines based on the MRPs and re-structuring/upward revision of levies for recording of labels/renewal of labels of various brand of liquors.

**Sales Tax/VAT:** Due to reduction in the price of furnace oil, naphtha, petrol etc., closure of steel industries and recession in sale of commercial vehicles from April 2009 to November 2009.

**Taxes on goods and passengers:** Mainly due to non-payment of tax by public transport owners due to non-use of vehicles for particular periods during the year.

**Non-ferrous and metallurgical industries:** Mainly due to shifting of royalty collection rates from unit basis to ad-valorem basis and increase in export of minerals.

**Power:** Mainly due to less receipt of unscheduled interchange charges.

The reasons for variation are awaited from other departments (October 2010).

#### **4.1.5 Cost of collection**

The gross collection of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2007-08 to 2009-10 alongwith the relevant all-India average percentage of expenditure on collection to gross collections for 2008-09 are mentioned below.

*(₹ in crore)*

Sl. No.	Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage for the year 2008-09
1	Sales tax/VAT	2007-08	879.28	4.63	0.53	0.88
		2008-09	1131.64	5.82	0.51	
		2009-10	1142.13	7.15	0.63	
2	State excise	2007-08	75.94	3.76	4.95	3.66
		2008-09	88.70	5.85	6.60	
		2009-10	104.46	8.17	7.82	
3	Stamp duty and registration fees	2007-08	117.59	3.34	2.84	2.77
		2008-09	115.37	3.51	3.04	
		2009-10	111.25	4.45	4.00	
4	Taxes on vehicles	2007-08	81.96	1.30	1.59	2.93
		2008-09	90.15	1.75	1.94	
		2009-10	105.12	2.21	2.10	

**The percentage of expenditure to gross collection was higher than the all India average in respect of State excise and Stamp duty and registration fees. The Government may explore possibilities for reduction in the collection charges.**

#### 4.1.6 Failure of senior officials to enforce accountability and protect the interest of the State Government

The Accountant General, Goa (AG) conducts periodical inspection of the Government departments to test-check the transactions and verify the maintenance of the important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the inspection reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The heads of the offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the AG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the departments and the Government.

A review of inspection reports issued upto December 2009 disclosed that 154 paragraphs involving ₹ 13.98 crore relating to 73 IRs remained outstanding at the end of June 2010 as mentioned below along with the corresponding figures for the preceding two years.

	June 2008	June 2009	June 2010
Number of outstanding IRs	69	90	73
Number of outstanding Audit observations	184	274	154
Amount involved (₹ in crore)	28.30	30.20	13.98

The department-wise details of the IRs and audit observations outstanding as on 30 June 2010 and the amounts involved are mentioned below.

(₹ in crore)

Sl. No.	Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1	Finance	Sales tax/VAT	13	34	3.62
		Entry tax	4	18	0.14
		Luxury tax	5	14	1.05
		Entertainment tax	9	13	0.24
2	Excise	State excise	20	33	1.12
3	Revenue	Land revenue	6	13	0.17
4	Transport	Taxes on motor vehicles	7	13	0.39
5	Stamps and registration	Stamp duty & registration fee	9	16	7.25
<b>Total</b>			<b>73</b>	<b>154</b>	<b>13.98</b>

Even the first replies required to be received from the heads of offices within one month from the date of issue of the IRs were not received for 27 IRs

issued upto December 2009. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and heads of the departments failed to initiate action to rectify the defects, omissions and irregularities pointed out by the AG in the IRs.

**It is recommended that the Government takes suitable steps to install an effective procedure for prompt and appropriate response to audit observations as well as taking action against officials/officers who fail to send replies to the IRs/paragraphs as per the prescribed time schedules and also fail to take action to recover loss/outstanding demand in a time-bound manner.**

#### **4.1.7 Departmental audit committee meetings**

The details of the audit committee meetings held during the year 2009-10 and the paragraphs settled are mentioned below:

*(₹ in lakh)*

Department	Number of meetings held	Number of paragraphs settled		Amount
		IRs	Paras	
State excise	1	5	9	2.00
Taxes on vehicles	1	1	7	8.00
<b>Total</b>	<b>2</b>	<b>6</b>	<b>16</b>	<b>10.00</b>

#### **4.1.8 Response of the departments to the draft audit paragraphs**

The draft paragraphs/reviews proposed for inclusion in the Audit Report are forwarded by the AG to Secretaries of the concerned departments through demi-official letters. All departments are required to furnish their remarks on the draft paragraphs/reviews within six weeks of their receipt. The fact of non-receipt of replies from the Government is invariably indicated at the end of each such paragraph included in the Audit Report.

Five paragraphs and one review proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Receipts Chapter) for the year ended 31 March 2010 were forwarded to the concerned Secretaries during March-July 2010.

Reply to one paragraph was received and considered while finalising the Report (September 2010). The remaining cases have been included in this Report without receiving the reply of the Government.

#### **4.1.9 Follow up on Audit Reports – summarised position**

According to the instruction issued by the Goa Legislature Secretariat in July 2004, administrative departments are required to furnish explanatory memoranda (EMs), vetted by the Office of the Accountant General, Goa, within three months from the date of tabling of the Audit Report in the State Legislature in respect of the paragraphs included in the Audit Reports. EMs

were not received as of August 2010 in respect of 13 paragraphs from the administrative departments, as shown below:

Department	Year of Audit Report	Date of presentation to the Legislature	Last date by which departmental notes were due	Number of paragraphs for which departmental notes were due	Delay (months)
Public Works Department	2006-07	August 2008	November 2008	1	21
Finance	2007-08	March 2009	June 2009	5	14
Transport	2007-08	March 2009	June 2009	1	14
Revenue	2007-08	March 2009	June 2009	1	14
Finance	2008-09	March 2010	June 2010	3	2
Transport	2008-09	March 2010	June 2010	1	2
Revenue	2008-09	March 2010	June 2010	1	2

#### 4.1.10 Compliance with the earlier Audit Reports

In the Audit Reports 2004-05 to 2008-09, 1,296 cases of non-assessments, non/short levy of taxes etc., were included involving ₹ 157.74 crore. Of these, as of June 2010, the departments concerned have accepted 243 cases involving ₹ 22.34 crore and recovered ₹ 62.58 lakh in 239 cases. Audit Report-wise details of cases accepted and amounts recovered are as under:

(₹ in lakh)

Audit Report	Included in the Audit Report		Accepted by the Department		Recovered	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2004-05	1	111.96	-	-	-	-
2005-06	5	469.30	3	55.16	3	55.16
2006-07	8	3391.63	3	37.69	-	-
2007-08	184	2509.11	1	2134.00	-	-
2008-09	1098	9291.83	236	7.42	236	7.42
<b>Total</b>	<b>1296</b>	<b>15773.83</b>	<b>243</b>	<b>2234.27</b>	<b>239</b>	<b>62.58</b>

#### 4.1.11 Analysis of the mechanism for dealing with the issues raised by Audit

In order to analyse the system of addressing the issues highlighted in the Inspection Reports/Audit Reports by the Department/Government, the action taken on the paragraphs and reviews included in the Audit Reports of the last five years in respect of **one Department** is evaluated and included in each Audit Report.

The succeeding paragraphs 4.1.12 to 4.1.13.2 discusses the performance of the **Transport Department** to deal with the cases detected in the course of local audit conducted during the last five years and also the cases included in the Audit Reports for the years 1999-2000 to 2008-09.

#### **4.1.12 Position of Inspection Reports**

The summarised position of inspection reports issued during the last five years, paragraphs included in these reports and their status as on 31 March 2010 are tabulated below:

*(₹ in lakh)*

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance during the year		
	IRs	Paragraphs	Money value	IRs	Paragraphs	Money value	IRs	Paragraphs	Money value	IRs	Paragraphs	Money value
2005-06	4	4	4.09	-	-	-	-	-	-	4	4	4.09
2006-07	4	4	4.09	5	8	109.65	-	-	-	9	12	113.74
2007-08	9	12	113.74	5	25	27.28	6	8	29.58	8	29	111.44
2008-09	8	29	111.44	-	-	-	-	-	-	8	29	111.44
2009-10	8	29	111.44	7	16	38.28	6	28	109.95	9	17	39.77

During the year one Audit Committee meeting was held in which one IR and seven paras were discussed and settled.

#### **4.1.13 Assurances given by the Department/Government on the issues highlighted in the Audit Report**

##### **4.1.13.1 Recovery of accepted cases**

The position of paragraphs included in the Audit Reports of the last 10 years, those accepted by the Department and the amount recovered are mentioned below:

*(₹ in lakh)*

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted including money value	Money value of accepted paragraphs	Amount recovered	Cumulative position of recovery of accepted cases
2001-02	1	122.00	1	122.00	122.00	122.00
2002-03	-	-	-	-	-	122.00
2003-04	-	-	-	-	-	122.00
2004-05	-	-	-	-	-	122.00
2005-06	-	-	-	-	-	122.00
2006-07	-	-	-	-	-	122.00
2007-08	1	43.50	-	-	-	122.00
2008-09	-	-	-	-	-	122.00
<b>Total</b>	<b>2</b>	<b>165.50</b>	<b>1</b>	<b>122.00</b>	<b>122.00</b>	<b>122.00</b>

Periodical reminders were issued to the Secretary (Legislature/Finance) for the compliance of paragraphs appeared in the Audit Reports and for Action Taken Reports wherein there are Public Accounts Committee recommendations.

##### **4.1.13.2 Action taken on the recommendations accepted by the Department/Government**

The draft performance reviews conducted by the AG are forwarded to the concerned department/Government for their information with a request to furnish their replies. These reviews are also discussed in an exit conference and the department's/Government's views are included while finalising the reviews for the Audit Reports.



The following paragraphs discuss the issues highlighted in the reviews on the Transport department featured in the last 10 Audit Reports including the recommendations and action taken by the department on the recommendations accepted by it as well as the Government.

Year of Audit Report	Name of the review	Number of recommendations	Details of the recommendations accepted
2007-08	Working of e-RTA and e-Transport software in Transport Department	Six	Replies awaited
2008-09	Receipt of Transport Department	Four	Replies awaited

#### 4.1.14 Audit Planning

The unit offices under various departments are categorised into high, medium and low risk units according to their revenue position, past trends of audit observations and other parameters. The annual plan is prepared on the basis of risk analysis which *inter alia* include critical issues in government revenues and tax administration i.e. Budget speech, White Paper on state finances, reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings during the past five years, features of the tax administration, audit coverage and its impact during the past five years etc.

During the year 2009-10, the audit universe comprised of 143 auditable units, of which 54 units were planned and audited during the year 2009-10 which is 38 per cent of the total auditable units.

Besides the compliance audit mentioned above, one performance review on Transition from Sales Tax to Value Added Tax was taken up to examine the efficacy of the tax administration of these receipts.

#### 4.1.15 Arrears in assessments

There were no arrears in VAT assessments at the end of 2009-10 as informed by the Commercial Taxes Department.

#### 4.1.16 Arrears in appeals

According to the information furnished by the Commercial Taxes Department, the number of pending appeals at the beginning of the year 2009-10, number of appeals filed and disposed of and number of cases pending with appellate authorities as on 31 March 2010 are as mentioned below:

Opening balance	No. of appeals filed during 2009-10	Total	No. of appeals disposed of during the year	Balance as on 31 March 2010	Percentage of cases disposed of to total number of cases
830	457	1287	265	1022	21

The Department needs to take proactive steps to reduce the pendency in appeals.

#### **4.1.17 Frauds and evasion**

The Commissionerate of Commercial Taxes and Director of Transport reported that there were no cases of frauds and evasion detected during the year.

The number of cases booked for the year 2009-10, cases finalised and additional tax raised during the year as reported by the Commissionerate of Excise are as follows:

*(₹ in lakh)*

	Number of cases	Additional demand raised
A. (i) Cases pending as on 1 April 2009	18	-
(ii) Cases detected during the year 2009-10	327	1.63
B. Cases in which investigations/assessments were completed during the year	319	1.49
C. Cases pending as on 31 March 2010	26	-

#### **4.1.18 Internal audit**

Internal audit is an effective tool in the hands of the management of an organisation to assure itself that the organisation is functioning in an efficient manner and in terms of its stated objectives and the financial and administrative systems and control procedures are functioning effectively.

Internal audit of all the departments and offices in the State is the responsibility of the internal inspection cell (IIC) under the administrative control of the Director of Accounts. The Government, in August 1996, decided that major departments, having a post of Senior Accounts Officer/Accounts Officer would be responsible for internal inspection of their subordinate offices.

The details of the number of offices due for audit and number of offices audited during the year 2009-10 are as mentioned below:

Department	No. of offices due for audit	No. of offices audited	Shortfall	Reasons for shortfall
Transport	7 Offices & 4 Check posts	7 Offices & 4 Check posts	-	-
Registration	13	11	2	Shortage of time
Excise	3	3	-	-

The details of observations made by internal audit and their clearance upto the end of 2009-10 are as follows:

(₹ in lakh)

Department	Observations relating to the year	Observations pending settlement/made during the year		Observations settled during 2009-10		Observations pending at the end of 2009-10	
		Number	Amount	Number	Amount	Number	Amount
Registration	Upto 2008-09	--	--	--	--	--	--
	2009-10	70	-- <sup>♦</sup>	27	-- <sup>♦</sup>	43	-- <sup>♦</sup>
	<b>Total</b>	<b>70</b>	<b>--</b>	<b>27</b>	<b>--</b>	<b>43</b>	<b>--</b>
Excise	Upto 2008-09	1	1.50	--	--	1	1.50
	2009-10	--	--	1	1.50	--	--
	<b>Total</b>	<b>1</b>	<b>1.50</b>	<b>1</b>	<b>1.50</b>	<b>--</b>	<b>--</b>
Transport	Upto 2008-09	2	780 <sup>¥</sup>	2	780 <sup>¥</sup>	--	--
	2009-10	1	580 <sup>£</sup>	1	580 <sup>£</sup>	--	--
	<b>Total</b>	<b>3</b>	<b>1360</b>	<b>3</b>	<b>1360</b>	<b>--</b>	<b>--</b>

The Commissionerate of Commercial Taxes have stated that no internal audits were conducted by the department. No observations were pending in respect of Transport Department.

#### 4.1.19 Position of local audit conducted during the year

Test-check of records of Sales Tax/VAT, Land Revenue, State Excise, Motor Vehicles Tax and Stamps and Registration Fees conducted during 2009-10 revealed under assessment/short levy/loss of revenue amounting to ₹ 4.45 crore in 116 cases. The Department accepted under assessment of ₹ 30 lakh in 28 cases pointed out in earlier years and short assessment of ₹ 14 lakh in 17 cases pointed out during the year and recovered ₹ 44 lakh as of June 2010 in 45 cases. No replies have been received in respect of the remaining cases.

#### 4.1.20 This Report

This report contains four paragraphs (selected from the audit detections made during the local audit referred to above and during earlier years which could not be included in earlier reports) and one performance review on Transition from Sales Tax to Value Added Tax. The Departments have accepted audit observations involving ₹ 86.20 lakh out of which ₹ 2.69 lakh has been recovered.

<sup>♦</sup> Information awaited.

<sup>¥</sup> ₹ 780.

<sup>£</sup> ₹ 580.

## CHAPTER-IV

### FINANCE DEPARTMENT

#### 4.2 Review of transition from sales tax to value added tax

##### Highlights

- There was a delay of two years in computerisation after implementation of Value Added Tax.

*(Paragraph 4.2.7.3)*

- In the absence of staff, check posts were not operational though notified in March 2005.

*(Paragraph 4.2.7.4)*

- Delay in completion of assessments under the repealed Act delayed assessments under VAT.

*(Paragraph 4.2.7.6)*

- Delay in submission of returns was rampant. There was no mechanism for monitoring timely submission of returns in the initial years.

*(Paragraph 4.2.9.1)*

- The Goa Value Added Tax Act did not provide for submission of any supporting documents for claims for input tax credit as deduction from tax payable and claims were accepted as submitted by the dealer except in cases selected for detailed assessment.

*(Paragraph 4.2.9.5)*

- In the absence of provisions laying down minimum number of cases to be selected for tax audit, only 2.19 *per cent* of total number of dealers were selected.

*(Paragraph 4.2.10.1)*

##### 4.2.1 Introduction

The Government of India, Ministry of Finance, 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 in January 2005 defining the basic designs of the 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:

- ❖ 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 the second year will be refunded to the dealers.

- ❖ The dealers will submit self assessment returns declaring their tax liability under the 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 the prescribed period.
- ❖ Audit of books of accounts of the dealer will be de-linked from tax collection wing to remove any bias.
- ❖ The existing incentives 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 Central Sales Tax (CST) would also be phased out.

The Goa Value Added Tax (GVAT) Act, 2005 was passed by the Legislative Assembly of Goa on 13 January 2005 and assented by the President of India on 31 March 2005. The Act was published in the Official Gazette dated 31 March 2005 and was implemented in the State of Goa with effect from 1 April 2005 repealing the Goa Sales Tax Act, 1964.

Some of the differences between the GVAT Act and the repealed Act were:

- ❖ While VAT is a multipoint taxation system, the repealed Act had a single point taxation system.
- ❖ The VAT system relies more on the dealers to pay tax willingly and submit self assessed returns and no supporting documents need be produced, whereas under the repealed Act, supporting documents were required to be produced along with the returns.
- ❖ The GVAT Act provided for selection of 'upto 20 per cent' of the total number of dealers for tax audit, whereas under the repealed Act hundred per cent dealers were required to be assessed.

Levy and collection of VAT in the state of Goa is governed by GVAT Act, 2005 and the Goa Value Added Tax Rules, 2005 (GVATR) made thereunder. Under the GVAT Act, tax is levied on the turnover of sales of goods as per rates specified in the Schedules referred to in Section 5 of the Act.

The rates of tax prescribed were:

- In respect of goods specified in Schedule 'A', one paise in a rupee.
- In respect of goods specified in Schedule 'B', four paise in a rupee.
- In respect of goods specified in Schedule 'C', the rates varied from 15 paise to 22 paise in a rupee.
- Goods specified in Schedule 'D' were exempt from tax, and all other goods were chargeable at 12.5 paise in a rupee.

Section 7 of the GVAT Act also provided a reduced rate of tax, as composition, to dealers whose turnover did not exceed a specified limit at the

rates specified in Schedule 'E'. The original turnover limit of ₹ 40 lakh has been increased to ₹ 50 lakh in April 2006 and ₹ 80 lakh in July 2009.

All the existing dealers under the Sales Tax Act were automatically registered under the VAT Act and provided with Tax Identification Number (TIN).

#### **4.2.2 Organisational set-up**

There is no separate department to administer the VAT Act in the State. The Commissioner of Commercial Taxes who heads the Commercial Taxes Department administers the GVAT Act, alongwith other taxes such as luxury tax, entertainment tax and entry tax. He is assisted by an Additional Commissioner and six Assistant Commissioners, 19 Commercial Tax Officers and 27 Assistant Commercial Tax Officers. There are seven wards headed by Commercial Tax Officers, located at different talukas of Goa, for registering the dealers, levying, assessing and collecting the tax.

#### **4.2.3 Audit objectives**

This review aimed to ascertain whether

- ❖ planning for implementation and transition from the Sales tax Act to the GVAT Act was effected timely and efficiently;
- ❖ the organisational structure was adequate and effective;
- ❖ the provisions of the GVAT Act and Rules made thereunder were adequate and enforced properly to safeguard the revenue of the State; and
- ❖ an internal control mechanism existed in the Department and was adequate and effective to prevent leakage of revenue.

#### **4.2.4 Scope and methodology of audit**

The review covered the period from 2005-06 to 2009-10 and was conducted between January and June 2010. During the review, audit verified the preparedness of the Department for the process of transition from Sales Tax to VAT, including steps taken to raise public awareness, training for staff, computerisation of procedures, etc. Assessment of returns for only 2005-06 and 2006-07 were completed by the Department by 31 March 2010. Therefore the review was mainly conducted with reference to the files and records pertaining to assessments for 2005-06 and 2006-07. The records maintained at the office of the Commissioner of Commercial Taxes and all the seven wards\* were test checked.

The average number of live dealers in all the seven wards of the State during the years 2005-07 was 17,228. During the field audit a sample of 10 *per cent* of assessment files of all live dealers was examined. For this, the list of live dealers was obtained from the assessing authorities and every tenth file in the list was examined irrespective of the turnover or tax paid.

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\* Bicholim, Curchorem, Mapusa, Margao, Panaji, Ponda and Vasco.

The criteria adopted for audit were the GVAT Act, GVAT Rules and notifications/circulars/orders issued under the said Act and Rules.

The review revealed a number of systems and compliance deficiencies which are discussed in the subsequent paragraphs.

#### 4.2.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the Commissioner and all the officers and staff of the Department of Commercial Taxes in providing information and records for audit.

Though a formal Entry conference could not be held, the methodology of the review was discussed with the Commissioner of Commercial Taxes at the time of commencement of the review. The review was forwarded to the Government on 13 July 2010. An Exit conference was held on 16 August 2010 in which audit findings and recommendations were discussed.

#### Audit findings

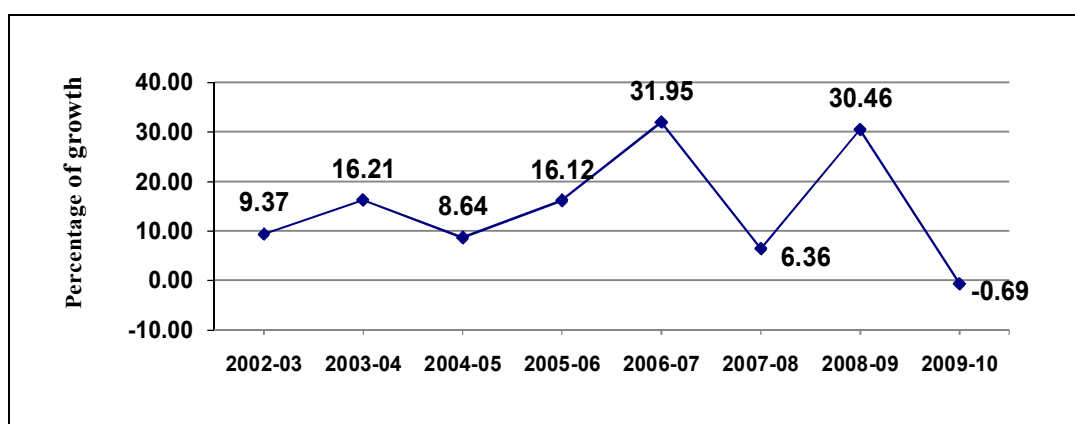
#### 4.2.6 Pre-VAT and post-VAT tax collection

The comparative position of pre-VAT sales tax collection (2002-03 to 2004-05) and post-VAT (2005-06 to 2008-09) tax collection and growth rate in each of the years compared to the previous year is furnished below:

(₹ in crore)

Pre-VAT			Post-VAT		
Year	Actuals	Growth per cent over previous year	Year	Actuals	Growth per cent over previous year
2002-03	396.16	9.37	2005-06	580.81	16.12
2003-04	460.41	16.21	2006-07	766.36	31.95
2004-05	500.20	8.64	2007-08	815.08	6.36
			2008-09	1063.37	30.46
			2009-10	1055.93	(-) 0.69

(Source: Finance Accounts for the respective years.)



The average growth rate during 2002-03 to 2004-05 was 11.41 per cent while the average growth rate for 2005-06 to 2008-09 was 21.22 per cent. Thus, the

average growth rate in the post-VAT period registered an increase of 9.81 per cent. The Department attributed the decrease in growth rate during the year 2007-08 to rebates offered in the rates of VAT on petroleum products at the instance of the Government of India so as to reduce the burden of the public due to increase in prices of petroleum products. Further ₹ 66 crore was refunded to a fertilizer manufacturing company during the year for exports.

For these years, the average collection per dealer was as given in the following table:

Year	Actual collection (₹ in crore)	No. of registered dealers	Collection per dealer (₹ in crore)
2002-03	396.16	24268	0.016
2003-04	460.41	26085	0.018
2004-05	500.20	26959	0.019
2005-06	580.81	16708	0.035
2006-07	766.36	17747	0.043
2007-08	815.08	20225	0.040
2008-09	1063.37	22249	0.048

(Source: Information furnished by the Department)

Though the number of registered dealers reduced considerably in the first year after introduction of VAT, it gradually increased in the subsequent years. However, the total number of registered dealers under VAT is still less (22,249 as on 31 March 2009) than the total number of registered dealers (26,959 as on 31 March 2005) under the Sales tax regime.

#### **4.2.7 Preparedness and transitional process**

##### **4.2.7.1 Planning for implementation of VAT**

The GVAT Act, 2005 was implemented with effect from 1 April 2005 replacing the Goa Sales Tax Act, 1964.

The GVAT Rules, 2005 were prepared and notified by the State Government on 31 March 2005.

The Government had also issued notification (March 2005) for establishment of six check posts<sup>♦</sup> at the various entry/exit points of the State to prevent tax evasion.

##### **4.2.7.2 Creation of awareness among stakeholders**

During the initial period before and after introduction of the GVAT Act, the State Government publicised the contents and intents of the Act in local newspapers and held seminars for generating awareness among the stakeholders.

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<sup>♦</sup> Anjunem, Dodamarg, Molem, Naibag, Patradevi and Pollem.



#### **4.2.7.3 Computerisation**

The Empowered Committee of State Finance Ministers through the White Paper had stressed the need for computerisation and pointed out that this was extremely important for document-based verification and integration with the Taxation Information Exchange System as well as with information of the Central Excise and Income Tax Systems.

As a part of planning for introduction of VAT in Goa the Commercial Taxes Department had entered into an agreement in August 2003 with a Pune-based private company for design, development and implementation of IT solutions for VAT using the iCOMITRAX application developed by the agency. This work should have been completed within 18 months of execution of the agreement i.e. by March 2005. However, the work was not completed within the scheduled time and most of the modules were found not functioning. As the agency could not rectify the defects, the contract with the agency was foreclosed. Besides delaying computerisation, the expenditure of ₹ 50.68 lakh incurred in payments made to the agency thus became infructuous. Thereafter the National Informatics Centre, Goa (NIC) was entrusted with the work of implementation of the VATSoft programme developed for the state of Karnataka, in Goa (October 2007). NIC started the work in April 2008 and completed the same within the prescribed period. Due to delay in implementation of computerisation, assessments for the initial two years (2005-06 and 2006-07) were completed without the aid of computerised information. The Department stated (August 2010) that all modules have been completed and are in operation.

#### **4.2.7.4 Manpower management and training for staff**

The same staff deployed for implementation of sales tax were entrusted the work of implementation of VAT in the State. No additional staff were sanctioned specifically for implementation of VAT except for two programmers on contract basis.

Audit observed that although the Government had notified establishment of check posts in March 2005, the same have not been established so far due to want of manpower. The Commissioner stated (May 2010) that the proposal for creation of required posts was pending with the Government.

Training programmes for administration of VAT including the VATSoft package were conducted for the staff to adapt to the VAT regime. The department schedules programmes regularly for this purpose.

#### **4.2.7.5 Compilation of manuals**

For effective implementation of VAT, necessary guidelines were required to be laid down by publication of a manual of instructions for the staff. The Department did not prepare a manual for the guidance of the officials administering VAT in the State.

**4.2.7.6 Completion of assessments under the repealed Act**

As on 31 March 2005, 46,859 cases under the Goa Sales Tax Act were pending assessment. Assessment of these continued upto 31 December 2006 thereby delaying assessment of returns under VAT for 2005-06. The assessment for 2005-06 due to be completed by 31 March 2008 continued upto 31 March 2009 and resulted in delay in assessments of subsequent years. The assessments for the year 2006-07 were completed by 31 March 2010. There are 130 assessments pending as on 28 February 2010. The delay in computerisation affected the timely completion of assessments/scrutiny of VAT returns.

**4.2.7.7 Collection of arrears under the repealed Act**

As on 31 March 2005 tax arrears on account of Local Sales tax and Central Sales tax had accumulated to ₹ 173.63 crore. To speed up recovery of the arrears of tax, the State Government enacted the Goa (Recovery of arrears through Settlement) Act, 2009 in August 2009. Applications under this Scheme were accepted upto 25 November 2009. As per the Scheme:

- i) In case of arrears on account of any order of assessment relating to the specified period and where no review/appeal/revision was preferred against the said order on the date of commencement of the Act, 50 *per cent* of tax in arrears and 50 *per cent* of interest were only to be paid. The balance and penalty in full was waived.
- ii) In case arrears arising on account of any order of assessment relating to the specified period, was disputed either in review or in appeal or in revision or in any other suit or in a writ petition, filed before any court of law on the date of commencement of the Act, such arrears would be settled at the rate of 50 *per cent* of the arrears of tax and 25 *per cent* of the interest only and penalty levied thereof would be waived fully.
- iii) In case arrears arising out of post assessment interest and penalty, the applicant would pay 50 *per cent* of the post assessment interest and the penalty levied thereof would be waived fully.
- iv) Where the arrears had arisen due to non-receipt of declaration forms or certificates, such arrears would be settled at the rate of 50 *per cent* of the arrears of tax only and no interest and penalty would be payable.

Audit observed that out of the total sales tax arrears of ₹ 173.63 crore as on 31 March 2005, ₹ 8.66 crore was settled (₹ 3.45 crore received and ₹ 5.21 crore waived) under the Scheme.

The accumulation of arrears could be attributed to non pursuance of recoveries in time by the department. By waiving off 50 *per cent* of the tax due by introduction of the settlement scheme the defaulting dealers got the benefit of retention of sales tax recovered from the consumers. The scheme therefore served as an incentive for non-payment of tax in time and would be considered as a disincentive for dealers paying taxes in time. Further, the success of the

settlement scheme was doubtful in view of the poor settlement of the arrears (4.99 per cent).

#### **4.2.8 Registration and database of dealers**

Rule 14 of the GVAT Rules, 2005 laid down the procedure for registration of dealers. The fees payable for registration and renewal of registration were specified in the Schedule appended to the Rules.

Rule 17 of the GVAT Rules laid down the procedure for cancellation of Registration certificate of dealers.

##### **4.2.8.1 Creation of database of dealers**

The Commercial Taxes Department has maintained a database of registered dealers in VATSoft. However, unused TIN were not identified and deleted resulting in inflated number of dealers, without returns.

Audit observed that out of 16,708 dealers registered as on 31 March 2006, no VAT returns were filed by 8,590 dealers as they were not liable to pay VAT on account of falling in the exempted category.

##### **4.2.8.2 Registration and survey of dealers**

Section 18 of the GVAT Act, 2005 provided that no dealer would, while being liable to pay tax under Section 3 or under sub Section (6) of Section 19, be engaged in business as a dealer, unless he possessed a valid certificate of registration as provided in the Act.

As provided in the White Paper all the existing dealers under the Sales Tax Act were automatically registered under the VAT Act and provided with TIN.

Section 76 of the Act provided that with a view to identifying dealers who were liable to pay tax under the Act, but remained unregistered, the Commissioner would from time to time cause a survey of unregistered dealers to be taken. However, audit observed that no targets were fixed by the Commissioner for such surveys. Further, the wards did not maintain any records to indicate details of surveys, if any, conducted.

##### **4.2.8.3 Database of dubious/risky dealers**

The Department had not maintained a database of dubious/risky dealers nor created any database of the dealers having unsatisfactory track records regarding compliance of the requirements of the repealed Act as well as the GVAT Act.

##### **4.2.8.4 Non-registration of casual dealers**

Section 18 read with Section 3(4) of the VAT Act provided that casual dealers with annual turnover more than ₹ 10,000 were also required to be registered under the Act. Audit observed that no casual dealers were registered in any of the wards, although collection of tax proceeds from such dealers were indicated in the departmental records.

#### **4.2.8.5 Non-renewal of registration**

Rule 15 (4) of the GVAT Rules, 2005 provided that the registration initially issued would be valid for a period of three years except for registration certificate issued to a person making application under sub Section (3) of Section 18, which would be valid for the year for which it was granted or for such further period not exceeding one year and was required to be renewed before its expiry by payment of the prescribed fees (ranging from ₹ 1,000 to ₹ 10,000).

Audit observed that as against 16,708 dealers registered as on 31 March 2006, 5008 dealers had not renewed their registration by paying the necessary fees. Though registration certificates were not renewed, returns for subsequent years were also filed by such dealers. Calculated at the minimum rate of ₹ 1,000 the amount recoverable on this account worked out to ₹ 50.08 lakh.

This had also resulted in such dealers carrying on business without having a valid registration certificate and amounted to unauthorised collection of tax attracting penalty under Section 57.

The Department stated (August 2010) that all the renewals would be taken up on priority and it would be ensured that all the pending renewals were completed in a time bound manner shortly.

#### **4.2.9 Deficiencies in the Act and the Rules**

The review revealed a number of deficiencies in the provisions of the VAT Act and the Rules. Some of the important deficiencies are discussed below:

##### **4.2.9.1 Mechanism to monitor filing of returns**

Section 24 of the GVAT Act provided that every registered dealer should file a correct and complete quarterly return in such form, by such date and to such authorities as may be prescribed.

Rule 23 of the GVAT Rules provided that a return to be filed by a registered dealer under Section 24 of the Act, other than those who opted for composition of tax under Section 7 of the Act, should be in Form VAT-III and should be filed within 30 days from the end of each quarter.

Audit observed that there was no mechanism to monitor timely filing of returns. Out of 1,731 cases test checked, in 1,029 cases all or many of the returns were filed late.

Section 46(1) of the GVAT Act provides that a person who failed to file a return or other documents as required by the Act or the Rules made thereunder, was guilty of an offence and liable on conviction to a fine not exceeding ₹ 25,000 or to imprisonment for a term not exceeding three months, or both. No action was initiated for obtaining conviction. The only action taken by the Department in such cases was levy of penalty under Section 55 of the GVAT Act at the time of final assessment/scrutiny. The penalty for delay in filing of returns was only ₹ 500 per quarter (increased to ₹ 1,000 w.e.f.

August 2008) irrespective of the delay. No timely notices were sent to the defaulting dealers to file their returns.

#### **4.2.9.2 Scrutiny and verification of returns**

The White Paper prescribed that every return furnished by the dealer should be scrutinised expeditiously within the prescribed time limit from the date of filing the return. However, no time limit was seen prescribed in the GVAT Act or Rules for completion of scrutiny of returns. Further in the absence of supporting documents, such as copies of accounts and statement of invoices for claims of Input Tax Credit (ITC), the scrutiny of returns was restricted to mere check of arithmetical accuracy leaving no scope to detect evasion of tax, if any.

Audit observed that scrutiny of returns were done only at the time of final verification/assessments and not immediately on submission of each return.

#### **4.2.9.3 Inadequacy of documentation to be given along with the returns**

Section 72 of the GVAT Act required that every person registered under the Act and every dealer or other person liable to get himself registered under the Act should keep and maintain true and correct accounts and such other records, as may be specified by the Commissioner.

Rule 43 of the GVAT Rules specified the records to be maintained by the registered dealers which *inter alia*, includes annual accounts with trading, profit & loss account and balance sheet with schedules.

Though accounts as above were required to be maintained by all dealers, Section 70 of the GVAT Act required only dealers with turnover of over ₹ one crore in a year or whose input tax credit exceeded ₹ 10 lakh in a year to submit their accounts to the assessing authority. A provision for submission of accounts along with an annual return by all dealers would have ensured transparency as envisaged by the Empowered Committee in their White Paper besides facilitating cross verification of details furnished in the returns. In the absence of accounts, miscellaneous income such as sale proceeds of capital assets which are to be included in total turnover may escape VAT.

#### **4.2.9.4 Delay in remittance of tax**

Rule 24 of the GVAT Rules provided that every registered dealer having monthly tax liability exceeding ₹ one lakh, other than those who opted for composition of tax under Section 7 should pay the tax payable under the Act for every month within 20 days of expiry of each month; and in respect of those having monthly tax liability upto ₹ one lakh, the payment should be made within 30 days from the expiry of each month.

Audit observed that out of 1,731 cases test checked, in 544 cases, payments were not made monthly but quarterly/yearly or otherwise.

#### **4.2.9.5 Input Tax Credit**

Section 9 of the GVAT Act provided that subject to such conditions and restrictions as may be prescribed ITC, either partially or wholly, would be allowed for the tax paid during the tax period in respect of goods including capital goods purchased and/or taken on hire or leased to a dealer within Goa, other than those specified in Schedule 'G' and/or such other goods as may be notified by the Government, provided the goods purchased were for sale in Goa or for sale in course of inter-state trade or in course of export outside the territory of India or used by him as raw material/capital goods in the manufacture or processing of taxable goods in Goa or for sale by transfer of right to use.

Audit observed that though the conditions for claiming ITC were prescribed, the Act did not specify any documents to be submitted along with the returns for supporting ITC claims made by the dealers. Out of 1,731 cases test checked, in 459 cases ITC claims were seen accepted without any verification.

#### **4.2.10 Assessments**

##### **4.2.10.1 Tax audit**

Section 29 of the VAT Act provided that the returns submitted by a dealer would be accepted as self assessed. However, the Commissioner may select upto 20 *per cent* of the total number of cases in a year for detailed assessment or the Government may notify a percentage for detailed assessment from time to time.

Audit observed that the Government had not notified any percentage and out of 16,708 live dealers registered as on 31 March 2006 in the State, only 366 cases constituting 2.19 *per cent* were selected for tax audit by the Commissioner. Such low numbers of cases selected for detailed assessment could be attributed to non-provision of a minimum number/percentage in the Act.

Further, as per the prescribed time schedule for completion of assessments, the assessment for 2005-06 should have been completed by March 2008. Audit however observed that out of 366 dealers selected for detailed assessments under Section 29, 94 cases were selected in August/September 2008 and the balance 272 cases in January/February 2009, barely a month prior to the extended time limit for completion of assessments for 2005-06.

The Empowered Committee in its White Paper had stated that a certain percentage of the dealers would be taken up for audit every year on a scientific basis. The Department had not adopted any scientific method for selection of cases for audit. Audit observed that 142 dealers selected for audit of cases pertaining to 2005-06 were again selected for 2006-07. Further, none of the cases of one ward (Bicholim) was selected for audit for 2005-06.

Audit further observed that consequent to tax audit of the selected 366 cases pertaining to the year 2005-06 the department issued demand notices for ₹ 14.94 crore.

#### ***4.2.10.2 Acceptance of self assessed cases***

Section 29(3) of the VAT Act provided that no assessment under the Section for any year would be made after a period of two years from the end of the year to which the return under Section 24 was submitted by a dealer. Further, the Commissioner may, if it is considered necessary by him so to do, by notification published in the Official Gazette, extend the period specified by a further period not exceeding one year.

Rule 27 of the GVAT Rules provided that if a registered dealer furnished the return in respect of any tax period within the specified time and the return so furnished was found to be in order, it would be accepted as self-assessed subject to adjustment of any arithmetical mistake apparent on the face of the said return. For ascertaining the correctness of the returns it was necessary that each return be scrutinised and accepted.

In Ponda ward, audit observed that even though the time limit for assessments of returns pertaining to 2005-06 ended on 31 March 2009 (prescribed time extended by one year), out of 40 cases test checked, in the case of 11 dealers, even though the dealer had submitted all the four quarterly returns, either some or all the returns were submitted late. However these cases were not scrutinised and penalty levied. This indicated that assessments for 2005-06 were not completed within the prescribed time. The CTO, Ponda stated that all the four returns were accepted as self-assessed. However there was no indication in the file indicating that the returns were accepted.

#### ***4.2.10.3 Non-recovery of interest for delayed payments***

Section 56 of the VAT Act provides for payment of interest @ 15 per cent if the amount demanded after assessment/scrutiny are not paid within 60 days from the date of service of such notices. Audit observed that no such interest was being recovered. Out of 55 cases test checked, in two cases in the Vasco ward, interest not recovered was ₹ 1.01 lakh. The CTO issued demand notices on being pointed out by audit.

#### ***4.2.10.4 Rush of assessments***

Audit observed that even though three years were provided for scrutiny/assessments of dealers for 2005-06, a significant number of assessments were done in March 2009.

As against 16,708 dealers for the year 2005-06, assessment/scrutiny of 3,461 cases constituting 20.71 per cent of the total number of scrutiny/assessments done, were done in March 2009. This indicated lack of planning and non-fixation of monthly targets for assessments/scrutiny.

#### **4.2.10.5 Arrears of revenue**

The arrears of revenue pertaining to VAT as on 31 March 2009 was ₹ 64.95 crore.

Rule 41(1) of the GVAT Rules, 2005 provided that when a dealer or a person, from whom any amount of tax or penalty had been demanded by issue of a notice or order, failed to pay the demanded amount within the time specified in the notice or order, or on expiry of extended time, if any, granted for making such payment, the Appropriate Assessing Authority would issue for the purpose of recovery of the arrears from the defaulter or other person responsible for the payment, a certificate for recovery of the amount due in Form VAT-XXIII. The Government of Goa under a notification dated 16 July 2005 had designated the Assistant Commissioners of Commercial Taxes as recovery officers under the Goa Land Revenue Code, 1968 for effecting recoveries under the Act.

This certificate shall be the basis to proceed to recover the amount due as arrears of land revenue, in case such recovery is to be effected by the officer authorised by the Government under Section 64 of the GVAT Act. However, it was observed that Revenue Recovery Certificates were not issued resulting in tax dues remaining unrecovered indefinitely.

#### **4.2.11 Acceptance and disposal of appeal cases**

Sub Section(1) of Section 35 of the GVAT Act, 2005 provided that any person objecting to an order affecting him passed under the provisions of the Act by an authority may appeal to the Appellate Authority as may be prescribed within 60 days from the date of receipt of the order by him.

As per Sub Section(6), after considering the appeal and after affording an opportunity of hearing, the Appellate Authority may allow it in whole or part and amend the assessment or remand it for fresh disposal or dismiss the appeal or enhance the assessment of penalty or other amount.

Audit observed that no time limit was prescribed in the Act for disposal of appeal cases by the Appellate Authorities. As per information obtained from the Appellate Authorities, out of 113 appeals involving ₹ two crore pertaining to VAT filed upto 31 March 2009, 62 cases involving ₹ 63.94 lakh only were disposed of leaving a balance of 51 cases involving ₹ 1.36 crore undisposed for over an year.

#### **4.2.12 Deterrent measures**

Sections 54 to 59 of the GVAT Act, 2005 prescribed the penalties to be levied for various offences. However Section 54 (failure to apply for registration), Section 57 (collection of tax in contravention of provisions of the Act) and Section 58 (failure to maintain proper records in accordance with the provisions of the Act) did not specify any minimum penalty to be levied. This facilitated levying of penalty at the discretion of the assessing authority and, therefore, was not in conformity with the principle of transparency envisaged in the White Paper.



#### **4.2.13 Internal control**

The VAT Act or Rules did not prescribe any registers to be maintained by the Assessing Authorities for monitoring registration, timely submission of returns, timely assessments, details of arrears, etc. Therefore no standard registers were maintained. The computer based monitoring of the above was also not done due to delay in implementation of VATSoft. In the absence of such monitoring records, internal control mechanisms were lacking in the department.

#### **4.2.14 Internal audit**

Internal audit is one of the most vital tools of the internal control mechanism. It is intended to help the management by evaluating the efficiency and effectiveness of the mechanism by independent appraisal of the activities of the organisation/department.

Audit observed that no Internal Audits were conducted in the Department indicating that a very vital component of internal control had not been utilised. The Commissioner of Commercial Taxes stated (March 2010) that due to paucity of adequate trained personnel, the internal audit was not carried out. It was also stated in August 2010 that the proposal to create an Internal audit cell has been recommended to the Government.

#### **4.2.15 Conclusion**

The transition from the Goa Sales Tax to Value Added Tax regime was hampered by lack of systems for control and monitoring. The backlog of assessments pending under the Goa Sales Tax Act further hindered the transition process. While the growth in revenue under VAT and self-assessment by dealers are positive trends in VAT administration, there is an urgent need for closer monitoring of returns and enforcement of penal provisions. Deficiencies in the Act/Rules and its administration indicate need for further strengthening of provisions whereby tax officials can check assessments with access to dealer records. The implementation of all modules of VATSoft is critical for the efficient functioning of VAT administration. Emphasis must be given to sufficient tax audits, better monitoring of returns and payment of taxes and computerisation to realise the full potential and revenue gains under VAT in Goa.

#### **4.2.16 Recommendations**

The Government may consider the following steps for effective implementation of the VAT system:

- ❖ Introduce procedures for effective monitoring of timely submission of quarterly returns and prescribe a time limit for scrutiny of such returns.
- ❖ Amend the GVAT Act to make it mandatory for all dealers to submit an annual return along with final accounts for the year.
- ❖ Select cases for tax audit in a manner so that all the dealers are subjected to audit scrutiny within a specified number of years. To

attain this, a minimum percentage of cases for selection for tax audit is required to be prescribed.

- ❖ Monthly remittance of tax collected may lead to avoidable difficulties in the case of very small dealers. To relieve them of this, monthly remittances may be insisted only for dealers who have a tax liability of over ₹ 1,000 per month.
- ❖ Make provision in the Act for submission of verifiable information along with the returns for supporting claims for Input Tax Credit.

## FINANCE DEPARTMENT

### 4.3 Short levy of value added tax due to incorrect application of rate

**Incorrect application of rate by Assessing Authority resulted in short levy of value added tax of ₹ 54.50 lakh.**

Under the Goa Value Added Tax Act, 2005 (GVAT) mobile phones, CDs and DVDs were taxable at 12.5 *per cent* of turnover upto July 2005 and at four *per cent* for the subsequent period as these were included in Schedule 'B' of the GVAT by notification dated 1 August 2005. The Commissioner of Commercial Taxes further clarified (September and November 2005) that mobile phones, CDs and DVDs were taxable at 12.5 *per cent* upto 31 July 2005 and at four *per cent* from 1 August 2005.

Scrutiny of the records (August 2009) of the Commercial Tax officer, Panaji revealed that two dealers<sup>1</sup> of mobiles phones, CDs and DVDs were assessed for the entire year 2005-06 at four *per cent* instead of at 12.5 *per cent* upto July 2005 and four *per cent* from August 2005. This resulted in short levy of value added tax of ₹ 54.50 lakh.

The Department stated (February 2010) that a re-assessment order was passed in September 2009 demanding ₹ 52.18 lakh from one dealer and the dealer has filed an appeal against the assessment and the other dealer was called for re-assessment.

The matter was referred to the Government (April 2010) and their reply is awaited (September 2010).

### 4.4 Short levy of luxury tax due to incorrect grant of exemption

**Incorrect grant of exemption resulted in short levy of luxury tax of ₹ 8.06 lakh.**

Under the provisions of Section 21 of the Goa Tax on Luxuries Act, (GTLA) 1988, the State Government issued notification (March 2004), exempting luxury tax in excess of three paise in a rupee for luxuries provided in a hotel during the months from March to November every year with effect from 1 April 2004, subject to the condition that the hotelier holds a valid registration certificate/renewal of registration certificate, pays all the taxes in time and clears all undisputed arrears and other dues.

Scrutiny of the assessment records of the Luxury Tax Officer, (LTO) Mapusa, in October 2009 indicated that exemption was allowed to four assessees during the years 2005-06 to 2006-07 though payment of tax was delayed by

<sup>1</sup> Nokia India Pvt. Ltd. and Salora International Limited.

them. This resulted in incorrect grant of exemption and short levy of luxury tax of ₹ 8.06 lakh.

On this being pointed out the LTO, stated that interest was demanded for delayed payment while doing the assessment. It was further stated that since the registration certificates were found received hence the rate applicable during off season was applied. The fact, however remains that exemption was available only to the hoteliers who paid the tax in time and cleared the dues.

The matter was referred to the Government (April 2010) and their reply is awaited (September 2010).

## **REVENUE DEPARTMENT**

### **4.5 Short levy of stamp duty and registration fees**

#### **Undervaluation of land resulted in short levy of stamp duty and registration fees of ₹ 11.75 lakh.**

In exercise of the powers conferred under Rule 4(4)(b) of the Goa Stamp (Determination of true market value of property) Rules 2003, Revenue Department notified (January 2009) taluka-wise minimum land rates (base value) depending upon the settlement zone and area involved.

Scrutiny (January 2010) of records at Civil Registrar-cum-Sub-Registrar, Sanguem indicated that a sale deed was registered in July 2009 in respect of land admeasuring 2,93,725 sq. mtrs. situated at Dharbandora village. This land was valued at the rate of ₹ 25 per sq. mtr. for stamp duty purpose instead of ₹ 100 per sq. mtr. (50 *per cent* less than the base value) as notified. This resulted in undervaluation of land and resultant short levy of stamp duty and registration fees amounting to ₹ 11.75 lakh.

When the matter was referred to the Government (April 2010), the Department (May 2010) stated that the matter was referred to the Collector for recovery of the deficit stamp duty and registration fees.

Further report is awaited (September 2010).

### **4.6 Short levy of stamp duty due to non-application of revised rates**

#### **Failure of the Department to apply revised rates of stamp duty resulted in short levy of ₹ 22.27 lakh.**

By a notification issued on 8 August 2008, the Government revised the stamp duty on conveyance of immovable properties as under:-

- (a) Where the amount or value of the consideration for such conveyance as set forth therein exceeds ₹ 600 but does not exceed ₹ 1,000 the stamp

duty shall be ₹ 20 and for every ₹ 1,000 or part thereof in excess of ₹ 1,000 upto ₹ 50 lakh, the stamp duty shall be ₹ 20.

- (b) Where the amount or the value of the consideration for such conveyance as set forth therein exceeds ₹ 50 lakh, for every ₹ 1,000 or part thereof upto ₹ one crore, the stamp duty shall be ₹ 25.
- (c) Where the amount or value of the consideration for such conveyance as set forth therein exceeds ₹ one crore, for every ₹ 1,000 or part thereof, the stamp duty shall be ₹ 30.

Scrutiny of the records at four<sup>2</sup> Civil Registrar cum Sub Registrar offices between June 2009 and October 2009 revealed that in 16 immovable properties registered on or after 8 August 2008, the Department failed to apply the revised rates of stamp duty resulting in short levy of stamp duty of ₹ 22.27 lakh.

On this being pointed out the Department recovered ₹ 2.69 lakh in four cases and the recovery details in the remaining cases were awaited.

The matter was referred to the Government (March 2010) and their reply is awaited (September 2010).

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<sup>2</sup> Bardez, Ilhas, Mormugao and Salcete.