

## OVERVIEW

This Report contains 14 paragraphs including one Performance Audit and one Thematic Audit. Observations relating to non/short levy of tax, interest, penalty, revenue foregone, etc. amounted to ₹ 311.58 crore. Some of the major findings are mentioned below:

### I General

Total revenue receipts of the State Government for the year 2016-17 amounted to ₹ 1,33,213.79 crore against ₹ 1,18,817.31 crore for the previous year. 67 per cent of this was raised by the State through tax revenue (₹ 82,956.13 crore) and non-tax revenue (₹ 5,794.53 crore). The balance 33 per cent was received from the Government of India as State's share of divisible Union taxes (₹ 28,759.94 crore) and grants-in-aid (₹ 15,703.19 crore).

(Paragraph 1.1)

A total of 2,282 Inspection Reports, containing 5,527 observations, involving money value of ₹ 2,010.14 crore, were pending with the Departments for settlement at the end of June 2017.

(Paragraph 1.5)

Test check of the records of 377 units of Value Added Tax, State Excise, Taxes on Motor Vehicles, Stamps and Registration Fee, Land Revenue and other Departmental offices conducted during the year 2016-17 revealed under-assessment/short levy/loss of revenue aggregating ₹ 440.95 crore in cases pointed out through 1,245 paragraphs.

(Paragraph 1.8)

### II Taxes/VAT on Sales, Trade, etc.

#### Paragraphs

Works contract consideration of ₹ 201.27 crore, received by 54 dealers from the Karnataka Residential Educational Institutions Society during 2012-13 to 2015-16, was not declared by these dealers in their returns, which resulted in non-levy of tax of ₹ 13.81 crore.

(Paragraph 2.4)

Short levy of tax on sale of liquor by 96 Bars and Restaurants situated in urban areas for the period from March 2014 to March 2016 amounted to ₹ 11.62 crore.

(Paragraph 2.5)

Non-levy of penalty under Section 72 (1) of the KVAT Act, for delay in payment of tax by 274 assessees, amounted to ₹ 6.81 crore.

(Paragraph 2.6)

Additional tax of ₹ 3.67 crore, determined by the Auditors in the audited statement of accounts, was not paid by 24 dealers.

(Paragraph 2.7)

Tax of ₹ 3.55 crore, declared in 399 returns filed by 178 assesseees, was not paid.

**(Paragraph 2.8)**

Non/short levy of interest under Section 36 (2) of the KVAT Act, for delay in payment of tax by 81 dealers, amounted to ₹ 5.08 crore.

**(Paragraph 2.9)**

### **III State Excise**

#### **Performance Audit on “Regulation and Control over Manufacture, Possession, Transportation, Distribution and Sale of Alcoholic Products in the State of Karnataka”**

Delay in revision of norms regarding yield of Rectified Spirit caused potential minimum revenue loss of ₹ 64.84 crore to the Government by 12 distilleries during the period from April 2012 and September 2015.

**(Paragraph No.3.4.8)**

Norms prescribed by the Department did not factor technological advancements and efficiencies designed for the fermentation plants which provided enough “margin” to the distillers to work to their advantage to make additional yield of Rectified Spirit. Audit analysis revealed a “margin” of about 2.19 crore to 4.23 crore Bulk Litres of Rectified Spirit which works out to minimum revenue between ₹ 633.32 crore and ₹ 1,222.62 crore, if converted to potable alcohol.

**(Paragraphs 3.4.9.1 and 3.4.9.2)**

Deficient performance of Distillery Officers led to control lapses which resulted in:

- Non-accounting for 19,555 MT of molasses purchased by three distilleries in the State between May 2012 and April 2014 with minimum revenue impact of ₹ 124.97 crore;
- Shortfall in chemical analysis of samples of molasses in the range of 96.72 *per cent* to 99.33 *per cent* prevented the Department in estimating actual output; and
- Excess storage loss claimed by four distilleries for the period from April 2012 to March 2017 worked out to 1,119.241 MTs on which penalty of ₹ 7.60 crore was not levied.

**(Paragraph 3.4.10)**

Database relating to Excise Adhesive Labels was not interlinked with the database of M/s Karnataka State Beverages Corporation Limited (KSBCL), the wholesale liquor channelising agency, which resulted in release of liquor from KSBCL with unauthorised labels.

**(Paragraph 3.4.11)**

Violations of licence conditions and the sale of potable liquor by non-licencees were substantial and the enforcement action of the Department did not seem effective enough to control such illegal activities.

**(Paragraph 3.4.12)**

## **IV Stamp Duty and Registration Fee**

### **Paragraphs**

Non-fixation of specific rate in the guidance market value for Prestige Tech Park-III led to loss of Stamp Duty and Registration Fee of ₹ 17.25 crore.

**(Paragraph 4.4)**

Suppression of facts and figures in 21 sale deeds and three sale agreements resulted in short levy of Stamp Duty and Registration Fee amounting to ₹ 1.60 crore.

**(Paragraph 4.5)**

Undervaluation of properties in respect of 19 sale deeds due to adoption of incorrect rates of market value guidelines resulted in short levy of Stamp Duty of ₹ 1.27 crore and Registration Fee of ₹ 0.24 crore.

**(Paragraph 4.6)**

## **V Mines and Geology**

### **Thematic Audit on “Deduction of royalty on minor minerals by works executing departments/agencies”**

Only 21 to 26 *per cent* of the quantity of minor minerals was directly assessed based on pit measurement against which royalty was demanded from the legal quarry lease/licence holders by DMG on minor minerals. Rest of the quantity of minor minerals were transported without Mineral Despatch Permits and royalty in turn was levied by the works executing departments/agencies without ascertaining the source of quarrying. This indicated high likelihood of illegal quarrying in the State which needs to be investigated by DMG.

**(Paragraph 5.4.2)**

Out of ten Districts test checked, Nirmithi Kendras of seven Districts and M/s. Karnataka Rural Infrastructure Development Limited (KRIDL) in all the ten Districts were not deducting royalty. Four out of seven Nirmithi Kendras and six out of ten offices of KRIDL were not maintaining any account of minor minerals utilised in the works executed by them. Total non-levy of royalty under Nirmithi Kendras and KRIDL along with seven other defaulting WEDAs worked out to ₹ 3.66 crore.

**(Paragraph 5.4.3.1)**

Out of 87 WEDAs test checked:

- 19 WEDAs in ten Districts were not deducting royalty on the minor minerals obtained at the work site and utilised in the works (captive consumption) which resulted in non-deduction of royalty amounting to ₹ 39.56 crore.
- Nine WEDAs in seven Districts, had extracted 40.06 lakh cum of murrum during the course of execution of works. Usage/removal of the murrum extracted attracted a potential royalty of ₹ 12.02 crore, however, usage reports were not available with WEDAs or DMG and
- 12 WEDAs in seven Districts had collected royalty at pre-revised rates which resulted in short levy of royalty of ₹ 2.38 crore.

**(Paragraphs 5.4.3.2 and 5.4.4)**

DMG failed to impose the condition of collection of penalty through WEDAs for transportation of minor minerals without the required Mineral Despatch Permits. Sources of minor minerals consumed at WEDAs were also not identified which indicated towards possibilities of illegal quarrying and unrestricted transportation of minor minerals without Mineral Despatch Permits.

**(Paragraph 5.4.6)**

#### **Paragraph**

Penalty for transportation of minor minerals without obtaining Mineral Despatch Permits amounting to ₹ 51.45 crore was not demanded from the quarry lease holders.

**(Paragraph 5.6)**

## **VI Land Revenue**

#### **Paragraph**

Compounding amount, for unauthorised diversion of agricultural lands for non-agricultural purposes, of ₹ 1.11 crore was not/short levied in 13 cases.

**(Paragraph 6.4)**