
Chapter IV

Revenue Sector

**CHAPTER IV
REVENUE SECTOR**

4.1 Trend of revenue receipts

4.1.1 The Tax and Non-tax revenue raised by the Government of Manipur during the year 2017-18, the State's share of net proceeds of divisible Union taxes and duties assigned to States and Grants-in-Aid received from Government of India during the year and the corresponding figures for the preceding four years are mentioned in the following table.

Table No. 4.1.1 Trends of revenue receipts

(₹ in crore)

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	Revenue raised by the State Government					
	• Tax revenue	472.73	516.83	550.44	586.67	790.94
	• Non-tax revenue	260.67	183.73	149.48	164.80	174.07
	Total	733.40	700.56	699.92	751.47	965.01
2	Receipts from the Government of India					
	• State's share of net proceeds of divisible Union taxes and duties ¹²⁶	1,438.79	1,526.89	3,142.42	3,757.12	4,154.33
	• Grants-in-aid	5,110.60	5,770.82	4,437.76	4,620.52	5,238.49
	Total	6,549.39	7,297.71	7,580.18	8,377.64	9,392.82
3	Total receipts of State Government (1 & 2)	7,282.79	7,998.27	8,280.10	9,129.12	10,357.83
	Percentage of 1 to 3	10	9	8	8	9

Source: Finance Accounts.

The above table indicates that during the year 2017-18, the revenue raised by the State Government (₹ 965.01 crore) was nine *per cent* of the total revenue receipts of ₹ 10,357.83 crore. The balance 91 *per cent* of receipts of ₹ 10,357.83 crore during 2017-18 was received from the Government of India, as State's share of net proceeds of divisible Union taxes and duties and Grants-in-aid.

¹²⁶ Includes only the amount booked under the Minor Head 901 - share of net proceeds assigned to the State, booked under the Major Heads 0005 – Central Goods and Services Tax, 0008 – Integrated Goods and Services Tax, 0020 - Corporation tax, 0021-Taxes on income other than corporation tax, 0032 - Taxes on wealth, 0037 – Customs, 0038- Union excise duty, 0044 - Service tax.

4.1.2 The details of Budget and actual realisation of Tax revenue raised during the period 2013-14 to 2017-18 are given in the following table.

Table No. 4.1.2 Details of Tax revenue raised

Sl. No.	Head of revenue	2013-14		2014-15		2015-16		2016-17		2017-18		Percentage of Tax revenue in 2017-18 vis-a-vis 2016-17 {increase (+)/decrease (-)}
		BE [#]	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
1	Taxes on sales, trade etc.	385.88	395.74	500.00	433.33	570.00	466.51	570.00	499.65	700.00	385.58	(-) 22.83
2	Goods and Services Tax ¹²⁷	NA	NA	NA	NA	NA	NA	NA	NA	-	301.53	NA
3	Motor Vehicles Tax	19.57	18.73	22.31	20.77	25.43	23.29	27.00	25.04	40.00	36.14	(+) 44.33
4	Stamps and Registration Fees	6.26	7.90	7.14	7.76	10.27	10.45	11.00	10.03	30.00	13.98	(+) 39.38
5	State Excise	12.74	9.20	14.52	9.32	11.96	8.78	12.00	9.32	12.00	9.37	(+) 0.54
6	Land Revenue	1.09	1.12	1.24	1.42	1.45	2.59	2.50	1.91	5.00	1.44	(-) 24.61
7	Taxes on duties on electricity	0.44	0.05	0.50	-	0.06	-	0.06	0.01	0.06	-	-
8	Others	65.89	39.99	75.12	44.25	51.98	38.82	44.64	40.73	44.81	42.89	(+) 5.30
	Total	491.87	472.73	620.83	516.85	671.15	550.44	667.20	586.69	831.87	790.94	(+) 34.81

Source: Annual Financial Statement and Finance Accounts.

[#]BE: Budget Estimate

Despite being requested by Audit (July 2018 and January 2019), the Departments did not furnish (May 2019) reasons for variation in receipts from that of the previous year.

4.1.3 The details of Budget estimates and actual realisation of Non-tax revenue raised during the period 2013-14 to 2017-18 are indicated in the following table.

Table No. 4.1.3 Details of Non-tax revenue raised

Sl. No.	Head of revenue	2013-14		2014-15		2015-16		2016-17		2017-18		Percentage of Non-tax revenue in 2017-18 vis-a-vis 2016-17 {increase (+)/decrease (-)}
		BE [#]	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
1	Miscellaneous General Services	167.38	110.83	184.12	132.48	129.27	106.09	129.27	118.61	150.00	114.39	(-) 3.56
2	Interest receipts	30.47	33.10	33.52	30.60	38.61	27.43	38.61	19.73	40.54	19.27	(-) 2.33
3	Forestry and Wild Life	4.18	3.71	4.18	4.62	4.33	3.65	4.33	6.46	35.00	23.61	(+) 265.48
4	Major and Medium Irrigation	10.42	2.42	11.46	2.04	12.38	0.64	2.00	1.58	2.10	0.27	(-) 82.91
5	Public Works	18.31	1.81	20.14	2.90	2.11	1.26	2.11	0.90	2.22	1.87	(+) 107.78
6	Other Administrative Services	3.49	1.18	3.84	1.01	1.38	0.99	1.38	6.43	1.45	2.34	(-) 63.61
7	Police	1.08	1.03	1.19	0.79	1.20	0.72	1.20	1.38	1.26	0.91	(-) 34.06
8	Medical and Public Health	0.12	0.29	0.13	0.34	0.33	0.25	0.33	0.50	0.35	1.16	(+)132.00
9	Co-operation	0.31	0.22	0.34	0.49	0.26	0.37	0.26	0.14	0.27	0.34	(+)142.86

¹²⁷ Goods and Services Tax came into effect on 22 June 2017.

Sl. No.	Head of revenue	2013-14		2014-15		2015-16		2016-17		2017-18		Percentage of Non-tax revenue in 2017-18 vis-a-vis 2016-17 {increase (+)/decrease (-)}
		BE [#]	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
10	Other Non-tax receipts	194.01	106.08	25.14	8.46	29.55	8.06	11.73	9.07	12.31	9.91	(+)9.26
Total		429.77	260.67	284.06	183.73	219.42	149.48	191.21	164.80	245.50	174.07	(+) 5.62

Source: Annual Financial Statement and Finance Accounts.

[#] BE: Budget Estimate

Reasons for variations reported by some of the Departments are given below:

Cooperation Department stated (August 2018) that the increase in revenue was due to auditing of large number of co-operative societies by the Department during 2017-18.

Public Works Department stated (July 2018) that increase in revenue during 2017-18 over the previous year was due to increase in collection of registration fees.

Water Resources Department stated (August 2018) that less collection of revenue in respect of Major and Medium Irrigation was due to collection of less water tax, hire charges of machinery etc.

Forest Department stated (August 2018) that deployment of more staff at revenue stations resulted in increase in collection of revenue.

The other Departments, despite being requested (July 2018 and January 2019) did not furnish reasons for variation in their receipts as compared to the previous year (May 2019).

4.2 Response of the Departments/Government towards Audit

The Principal Accountant General (Audit), Manipur {PAG (Audit)} conducts periodical audit of the Government Departments to test check transactions and verify the maintenance of important accounts and other records as prescribed in the relevant 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 higher authorities for taking corrective action. The heads of the offices/ Governments are required to promptly comply with the observations contained in the IRs, rectify the irregularities and omissions and report compliance to the PAG (Audit) within one month from the date of issue of IRs. Serious financial irregularities are also separately referred to the heads of the Department and the Government.

Inspection Reports issued up to March 2018 disclosed that 866 paragraphs involving financial implications of ₹ 206.38 crore relating to 275 IRs remained outstanding at the end of June 2018 which required prompt and appropriate action on the audit findings. The position of pending IRs is depicted in the following table along with the corresponding figures for the preceding two years.

Table No. 4.2.1 Details of pending Inspection Reports

	June 2016	June 2017	June 2018
Number of pending IRs	255	273	275
Number of outstanding audit observations	770	858	866
Amount involved (₹ in crore)	143.90	181.00	206.38

Source: Records of the Principal Accountant General (Audit), Manipur.

4.2.1 The Department-wise details of IRs and audit observations outstanding as on 30 June 2018 and their financial implications are mentioned in the following table.

Table No. 4.2.2 Department wise details of Inspection Reports

(₹ in crore)

Sl. No.	Name of Department	Nature of receipts	No. of outstanding IRs	No. of outstanding audit observations	Money value involved
1	Finance	Taxes on sales, trade etc.	59	246	125.55
		Passenger & Goods Tax (PGT)	Nil	Nil	Nil
		Other Taxes & Duties on commodities and services (OTD)	Nil	Nil	Nil
		Entertainment & luxury tax etc.	Nil	Nil	Nil
2	Excise	State Excise	11	36	5.78
3	Revenue	Land revenue	116	307	30.65
4	Transport	Taxes on Motor Vehicles	74	223	41.40
5	Stamp and Registration	Stamp & Registration Fees	15	54	3.00
Total			275	866	206.38

Source: Records of the Principal Accountant General (Audit), Manipur.

Out of 10 IRs issued during 2017-18, Audit did not receive even the first replies from the head of the offices within the prescribed one month from the date of issue of the IRs in none of these cases. Large pendency of 275 IRs due to non-receipt of replies is indicative of the fact that the head of offices and the Departments did not initiate action to rectify the omissions and irregularities pointed out by the Audit.

The Government may, therefore, consider having an effective monitoring system for taking prompt and appropriate action on the audit findings.

4.2.2 Departmental Audit Committee Meetings

The Government has set up Audit Committees to monitor and expedite progress of the settlement of IRs and paragraphs in the IRs. No Departmental Audit Committee meeting was held during 2017-18.

In view of the large pendency of IRs, the Government may ensure that Audit Committees meetings are conducted regularly on quarterly basis to expedite clearance and settlement of outstanding audit observations.

4.2.3 Non-production of records to Audit for scrutiny

The programme for local audit of Tax revenue/Non-tax revenue offices is drawn up sufficiently in advance and intimations are issued, usually one month

before the commencement of audit, to the Departments to enable them to keep the relevant records ready for audit scrutiny.

During the year 2017-18, as many as three cases were noticed where records such as sanction letters, files related to policy matters, registers, challans *etc.*, were not produced to Audit. Tax amount involved in respect of the records not produced could not be ascertained. Break up of these cases are given in the following table.

Table No. 4.2.3 Details of non-production of records

Name of the office/Department	Year in which it was to be audited	Number of cases not audited	Tax amount
Transport	2017-18	Three DDOs	Not Available

Source: Records of the Principal Accountant General (Audit), Manipur.

Details are shown in *Appendix 4.1*.

As the records were not produced for scrutiny, Audit was unable to vouchsafe the genuineness of the underlying transactions and therefore, possibilities of fraud and unhealthy practices taking place in those offices could not be ruled out. It is, thus, recommended that disciplinary action may be initiated against officers who failed to produce records to Audit even after sufficient notices were given to them.

4.2.4 Response of the Departments to the draft audit paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are forwarded by the Principal Accountant General (Audit) to the Principal Secretary/Secretaries of the concerned Departments, drawing their attention to audit findings and requesting them to send their response within four to six weeks. The fact of non-receipt of the replies from the Departments/ Government is invariably indicated at the end of such paragraphs included in the Audit Report of the CAG.

Seven draft paragraphs were sent to the Principal Secretaries of the respective departments by name between July 2018 to October 2018. The responses received from the Departments have been incorporated in the Audit Report appropriately.

4.2.5 Follow up on Audit Reports

The internal working system of the Public Accounts Committee (PAC), notified in December 2002 laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall *suo moto* initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling of the Report in the State Legislature for consideration by the Committee. In spite of these provisions, the explanatory notes on Audit Paragraphs were being delayed inordinately. 67 paragraphs (including five performance audits) included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Manipur for the years ended 31 March 2008, 2009, 2010, 2011, 2012, 2013,

2014, 2015, 2016 and 2017 were placed before the State Legislature Assembly between 19 March 2009 and 23 July 2018. Action taken explanatory notes in respect of 35 paragraphs/reviews from four Departments under the Revenue Sector (Revenue, Taxation, Transport and Home) had not been received for the Audit Reports for the years ended 31 March 2011, 2012, 2013, 2014, 2015, 2016 and 2017 till date (February 2019).

The PAC discussed 28 selected paragraphs/reviews pertaining to the Audit Reports on the Revenue Sector for the years 2011, 2012, 2013, 2014, 2015 and 2016 and its recommendations on 20 paragraphs were incorporated in their 38th, 40th, 45th, 47th and 49th Reports except for the Audit Report for the year 2015 for which the PAC Report containing recommendations was yet to be published. However, Action taken Notes (ATNs) were not received in respect of 19 recommendations of the PAC from the Departments concerned as mentioned in the following table.

Table No. 4.2.4 Position of Outstanding ATNs

Year *	Name of Department	No. of Recommendations
2011	Transport	3
2012	Transport	1
	Taxation	4
2013	Taxation	3
	Tourism	1
	Transport	1
2014	Revenue	1
	Taxation	4
2016	Revenue	1
Total		19

Source: Records of the Principal Accountant General (Audit), Manipur.

** The PAC Report on its recommendations for Audit Report for the year 2015 was yet to be published.*

4.3 Analysis of the mechanism for dealing with the issues raised by Audit

To analyse the system of addressing the issues highlighted in the Inspection Reports/ Audit Reports by the Departments/ Government, the action taken on the paragraphs and performance audits included in the Audit Reports of the last 10 years for one Department *i.e.*, Land Revenue Department was evaluated and included in this Audit Report.

The succeeding paragraphs 4.3.1 and 4.3.2 analyse the performance of Land Revenue Department under revenue Major Head 0029. Cases detected in the course of local audit during the last ten years and the cases included in the Audit Reports for the years 2007-08 to 2016-17 were also analyzed.

4.3.1 Position of Inspection Reports

The summarised position of the Inspection Reports (IRs) issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2018 with respect to the Land Revenue Department are shown in the following table.

Table No. 4.3.1 Position of Inspection Reports with respect to Land Revenue Department

Sl. No.	Year	Opening Balance			Addition during the year			Clearance during the year			Closing Balance during the year		
		IRs	Paras	Money Value (₹ in crore)	IRs	Paras	Money Value (₹ in crore)	IRs	Paras	Money Value (₹ in crore)	IRs	Paras	Money Value (₹ in crore)
1	2008-09	46	115	8.16	7	24	1.81	0	9	0.12	53	130	9.85
2	2009-10	53	130	9.85	14	50	5.91	1	6	0.03	66	174	15.73
3	2010-11	66	174	15.73	10	24	2.90	1	8	0.01	75	190	18.62
4	2011-12	75	190	18.62	12	21	2.04	7	14	1.14	80	197	19.52
5	2012-13	80	197	19.52	8	23	3.04	1	4	0.05	87	216	22.51
6	2013-14	87	216	22.51	6	28	3.07	1	6	0.02	92	238	25.56
7	2014-15	92	238	25.56	16	99	11.04	0	7	0.14	108	330	36.46
8	2015-16	108	330	36.46	9	69	55.06	1	14	2.14	116	385	89.38
9	2016-17	116	385	89.38	20	111	50.93	0	2	0.01	136	494	140.30
10	2017-18	136	494	140.30	10	44	1.52	3	39	9.93	143	499	131.89

Source: Records of the Principal Accountant General (Audit), Manipur.

The Government arranges *ad hoc* Committee meetings between the Department and PAG (Audit) to settle the old paragraphs. As would be evident from the above table, against 46 outstanding IRs with 115 paragraphs at the beginning of 2008-09, the number of outstanding IRs increased to 143 with 499 paragraphs at the end of 2017-18. This was indicative of the fact that adequate steps needed to be taken by the Department in this regard to reduce the number of outstanding IRs and paragraphs.

4.3.2 Recovery in accepted cases

The position of audit paragraphs of Land Revenue Department included in the Audit Reports of the last 10 years, those accepted by the Department and the amount recovered are mentioned in the following table.

Table No. 4.3.2 Position of Paragraphs accepted by the Departments

(₹ in crore)

Year of Audit Report	No. of paragraphs included	Money value of the paragraphs	No. of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases
2007-08	Nil	Nil	Nil	Nil	Nil	Nil
2008-09	Nil	Nil	Nil	Nil	Nil	Nil
2009-10	1	0.06	1	0.06	Nil	Nil
2010-11	Nil	Nil	Nil	Nil	Nil	Nil
2011-12	1	0.03	1	0.03	Nil	Nil
2012-13	Nil	Nil	Nil	Nil	Nil	Nil
2013-14	1	0.32	Nil	Nil	Nil	Nil
2014-15	Nil	Nil	Nil	Nil	Nil	Nil
2015-16	Nil	Nil	Nil	Nil	Nil	Nil
2016-17	Nil	Nil	Nil	Nil	Nil	Nil
Total	3	0.41	2	0.09	Nil	Nil

Source: Records of the Principal Accountant General (Audit), Manipur.

From the above table, it may be observed that recovery was not made even in accepted cases during the last ten years as pointed out by Audit. The recovery in accepted cases was to be pursued as arrears recoverable from the parties concerned. No mechanism for pursuance of the accepted cases was put in place

by the Department/Government. Further, the arrear cases including accepted audit observations were not available with the office of the Sub-Registrar, Land Revenue Department. In the absence of a suitable mechanism, the Department could not monitor the recovery even in cases which were accepted by the Department.

As such, it is recommended that the Department may take immediate action to pursue and monitor prompt recovery of the dues involved in accepted cases.

4.3.3 Action taken on the recommendations accepted by the Departments/ Government

The draft reports of the Performance Audits conducted by the office of the PAG (Audit), Manipur are forwarded to the Department concerned/ Government for their information with a request to furnish their replies. These Performance Audit reports are also discussed in an exit conference and the Department's/Government's views are included while finalizing the Audit Reports.

The following Performance Audits on the Taxation and Transport Departments were featured in the Audit Reports of the last five years. The details of recommendations and their status are given in the following table.

Table No. 4.3.3 Status of Recommendations of Performance Audits

Year of Audit Report	Name of the Performance Audit	No. of recommendations	Details of the recommendations	Status
2014-15	Performance Audit on "Admissibility of Input Tax Credit"	4	<p>For effective implementation of Input Tax Credit:</p> <ul style="list-style-type: none"> • The Department should bring automation in assessment and encourage online filing of returns, grievance redressal <i>etc.</i>; • The deficiencies of the Input Tax Credit system pointed out with respect to record maintenance, filing and scrutiny of returns, enforcement, <i>etc.</i>, be addressed through appropriate notifications; • The Department should place a system of cross verification of tax invoices in support of Input Tax Credit claims with details available with selling dealers; and • System for selection of dealers and planning for Tax Audit and Audit Assessment should be evolved and implemented at an early date. 	<p>Compliance to audit observations and recommendations has not been intimated to Audit. (January 2019)</p>
2014-15	Implementation of Smart Card Project for Driving License and Registration Certificate	4	<p>The Government may consider the following to ensure effective implementation of the Smart Card project:</p> <ul style="list-style-type: none"> • Prepare a plan indicating target dates of completion of the project in all districts of the State for timely issue of Registration Certificates and Driving Licenses, and vigorously monitor implementation; • Instructions may be issued to ensure that no Registration Certificates or Driving Licenses are issued in manual form; • Prepare an action plan to convert all backlog Registration Certificates and Driving Licenses into Smart Card within a specific time frame and declare them invalid after a prescribed time limit; and 	<p>Compliance to audit observations and recommendations has not been intimated to Audit. (January 2019)</p>

Year of Audit Report	Name of the Performance Audit	No. of recommendations	Details of the recommendations	Status
			<ul style="list-style-type: none"> Involve Dealers and Driving schools in the process of issuing of certificates and make it incumbent upon them to obtain only Smart Cards as is the practice in some States. 	
2016-17	Performance Audit on System of Assessment under Value Added Tax	4	<p>The Department may consider the following:</p> <ul style="list-style-type: none"> Establish a system of scrutiny with proper guidelines, checklist with in-built method of screening for further scrutiny; In view of lapses noticed in the Value Added Tax regime, reorganise the tax collection structure to use all types of assessments and audits as provided in the Manipur Goods and Services Tax Act for safeguarding the interest of government revenue; Establish monitoring system through system of control registers or Management Information System, periodic reporting, prescribed checks and review <i>etc</i>; and Ensure that tax manuals are prepared for standardising the entire processes with the Goods and Services Tax regime. 	Performance Audit was yet to be discussed by the Public Accounts Committee. (January 2019)

Source: Records of the Principal Accountant General (Audit), Manipur.

4.4 Audit Planning

The unit offices under various Departments are categorized into high, medium and low risk units based on their revenue position, money value, past trends of audit observations and other parameters. The annual audit 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 2017-18, there were 60 auditable units. The audit of 12 units (20 per cent) was planned and conducted.

4.5 Results of Audit

Position of local audit conducted during the year

Test check of the records of Taxation Department, Transport Department and Land Revenue Department conducted during the year 2017-18 showed under assessment/short levy/loss of revenue aggregating to ₹ 27.55 crore in 38 cases. During the course of the year, no reply was furnished by the Departments with respect to the under-assessment and other deficiencies which were pointed out in audit during 2017-18. The Departments had recovered ₹ 31.39 lakh in 863 cases during 2017-18 pertaining to the audit findings of the previous year.

4.6 Coverage of this Report

This Report contains seven compliance audit paragraphs involving financial effect of ₹ 24.72 crore¹²⁸.

Out of the seven compliance audit paragraphs¹²⁹, the Departments/ Government accepted the audit observations involving ₹ 8.26 crore, of which ₹ 1.01 crore had been recovered. These audit observations are discussed in the succeeding paragraphs.

¹²⁸ Tax – ₹ 9.01 crore and Penalty/ Interest - ₹ 15.71 crore.

¹²⁹ Except for paragraph 4.10, all audit observations were admitted/ partially admitted.

COMPLIANCE AUDIT

TAXATION DEPARTMENT

4.7 Evasion of tax

Failure of the Assessing Authority to assess the sales figure of a dealer as per MVAT Act led to non-detection of suppression of sale and consequent evasion of tax of ₹ 79.70 lakh with recoverable penalty of ₹ 1.59 crore.

As per Section 36 (6) of the Manipur Value Added Tax (MVAT) Act, 2004, if any dealer has either not furnished or furnished incomplete and incorrect returns in respect of any period, the Commissioner of Taxes shall assess to the best of his judgment, the amount of tax due from such dealer. Section 36 (7) of the Act further provides that if a dealer, in order to evade or avoid payment of tax has failed, without any reasonable cause, to furnish returns in respect of any period by the prescribed date or has furnished incomplete or incorrect returns for any period, he shall be liable to pay by way of penalty a sum equal to twice the amount of additional tax assessed.

Test check of assessment files (January 2018) of the Taxation Department revealed that a dealer M/s Santosh Sanitary (TIN-14310234184) under Zone-II had purchased goods attracting VAT @ 13.5 *per cent* through inter-state purchase during the three-year period from quarter ending June 2014 to March 2017. The self-assessed returns filed by the dealer from time to time were accepted by the Department and assessment orders had been issued for the period based on such returns filed.

Analysis of data during the period of three years from quarter ending June 2014 to March 2017 revealed that the dealer had purchased goods attracting VAT @ 13.5 *per cent* for a total amount of ₹ 9.14 crore. Against this, the total value of sale as declared by the dealer was only ₹ 3.24 crore during the period. Thus, there was a difference of ₹ 5.90 crore (₹ 9.14 crore - ₹ 3.24 crore) between the inter-state goods purchased and the sales figure during these three years. Details are shown in *Appendix 4.2*.

As there was a significant difference between value of inter-state goods purchased and sales figure which was *prima-facie* unrealistic, the possibility of suppression of sales figure by ₹ 5.90 crore resulting in evasion of tax of ₹ 79.70 lakh (13.5 *per cent* of ₹ 5.90 crore) could not be ruled out. It was also noticed (January 2018) that the dealer had not filed returns for the quarter ending June 2017 and no information in this regard had been intimated to Audit as on December 2018. The Department should have invoked the provision of Section 36(6) *ibid*; to assess to the best of his judgment the amount of tax due instead of solely relying on the returns filed by the dealer.

Thus, failure of the Department to assess the sales figure of the dealer as per Section 36 (6) *ibid*, led to non-detection of a suppression of sale and consequent evasion of tax of ₹ 79.70 lakh. Besides, penalty of ₹ 1.59 crore was also leviable under Section 36 (7) of MVAT Act, 2004.

On this being pointed out, the Commissioner stated (March 2018) that assessment would be made as per the MVAT Act. It was further intimated

(January 2019) that the assessee has agreed to pay ₹ 30.45 lakh in four installments before March 2019. Recovery of revenue made, if any, had not been intimated to Audit (May 2019).

Regarding the remaining tax amounting to ₹ 49.25 lakh (₹ 79.70 lakh - ₹ 30.45 lakh), the Department stated that it was not payable due to the following reasons:

- the assessee claimed damage/breakage of stock for ₹ 82.85 lakh.
- some of the goods also attract VAT at the rate of 5 *per cent* and not solely at 13.5 *per cent* as pointed out by Audit.

The reply was not acceptable as the Department had not furnished any records to justify damage/breakage of stock for ₹ 82.85 lakh. It was a simple statement claimed by the assessee as the details in support of damage/breakage were not intimated by the assessee with proper justification. Regarding the application of VAT rate, the reply was not acceptable as the goods considered by Audit were those which attracted VAT @ 13.5 *per cent*.

Besides, the reply of the Department was also silent on the provision of payment of penalty, which should have been imposed as declaration of sales in lower volume appeared to had been willfully done by the assessee.

Accepting the returns of the assessee by the Department without any verification was dereliction of duty on the part of Assessing Officer and even when it was admitted that the amount would be recovered by March 2019, no action had been taken as of May 2019. Thus, responsibility on account of failure of assessing officer needs to be fixed and necessary action for the recovery of revenue from the dealer concerned may be taken on priority.

4.8 Irregular claim for VAT exemption

Irregular claim by a dealer for exemption of payable tax resulted in loss of Government revenue amounting to ₹ 87.97 lakh, out of which ₹ 10 lakh had been paid by the dealer.

Section 36 (6) of the Manipur Value Added Tax (MVAT) Act, 2004 states that if any dealer has either not furnished or furnished incomplete and incorrect returns in respect of any period, the Commissioner of Taxes shall assess to the best of his judgement the amount of tax due from such dealer. Section 36 (7) of the Act further provides that, if a dealer, in order to evade or avoid payment of tax has failed, without any reasonable cause, to furnish returns in respect of any period by the prescribed date or has furnished incomplete or incorrect returns for any period, he shall be liable to pay by way of penalty a sum equal to twice the amount of additional tax assessed.

Further, as per the Government Notification¹³⁰ (June 2016), all Industrial Units *w.e.f.* 1 April 2013, were entitled for the exemption of 99 *per cent* of tax payable under the MVAT Act for seven years from the date of commencement of commercial production provided that such Industrial Units are certified by the Green Channel Committee constituted under the Industrial and Investment

¹³⁰ Finance Department, Government of Manipur notification No. 5/6/2002-FD(TAX)Pt.1 dated 8 June 2016.

Policy of Manipur, 2013 and have filed returns in a timely manner and submitted audit report required under the MVAT Act.

Audit scrutiny of records (January 2018) of the office of the Commissioner of Taxes, Government of Manipur revealed that the Green Channel Committee had certified (March 2017) an assessee¹³¹, who had started commercial production with effect from 24 April 2009, eligible for tax exemption as per the Notification *ibid*. As such, exemption of 99 per cent of tax payable under the MVAT Act was entitled to him for seven years from the date of commercial production *i.e.*, upto 23 April 2016. It was, however, noticed that the assessee filed self-assessed returns for the quarters ending September 2016 to June 2017 claiming 99 per cent tax exemption on the total tax payable. Thus, the assessee made payment of VAT calculated at the rate of one per cent of total tax payable beyond the period of tax exemption allowed to him.

This irregular claim for exemption of payable tax resulted in loss of Government Revenue amounting to ₹ 87.97 lakh, as shown in **Appendix 4.3**. Besides, penalty of ₹ 1.76 crore was also leviable on the assessee for this irregular claim under Section 36(7) for furnishing incomplete/ incorrect returns. The assessing authority had, however, failed to detect this irregularity.

On this being pointed out, the Department stated (March 2018) that the assessee had filed for extension of exemption of 99 per cent of VAT upto June 2017.

As per the Industrial and Investment Policy *ibid*, exemption of 99 per cent of tax payable was allowed for seven years from the date of commencement of commercial production. Since the commercial production of the assessee had started in 24 April 2009, the exemption of 99 per cent of tax payable expired on 23 April 2016. Further, the policy did not have any provision to grant extension of tax exemption beyond the period of seven years. As the assessee was aware of the period of exemption, thus, the date of expiry of the exemption of tax was also known to the assessee. Despite this, incorrect returns were filed, which could not be detected by the Department while doing the assessment.

On the above being pointed out in audit, the Department stated (January 2019) that the assessee had agreed to pay the outstanding tax liability of ₹ 87.97 lakh. As on January 2019, ₹ 10 lakh had been paid as first instalment and the remaining amount of ₹ 77.97 lakh would be paid @ ₹ three lakh per month. The reply of the Department was, however, silent on the provision of payment of penalty, which should have been imposed. Further recovery in this regard had not been made (May 2019).

Thus, the progress of recovery (along with progressive total of the tax recovery) may be watched and ensured on a monthly basis by the Commissioner of Taxes. The Department should not allow any further time extension to the assessee for the payment of tax, besides ensuring imposition of penalty on the assessee under the provision of Section 36 (7) of MVAT Act, 2004.

¹³¹ M/s Satyam Industries (TIN-14010638166, Zone-I).

4.9 Non-realization of Government revenue

Failure to assess tax liability of nine dealers who had stopped filing returns but had huge stock balances, led to non-realization of revenue to the tune of ₹ 5.35 crore and penalty amounting to ₹ 10.70 crore, of which tax amounting to ₹ 78.38 lakh only had been paid by four dealers.

As per Section 36 (6) of Manipur Value Added Tax (MVAT) Act, 2004 read with Rule 24 (1) (b) of the MVAT (First Amendment) Rules, 2012, the tax due from a dealer, having annual turnover exceeding ₹ 40 lakh who had not furnished returns within twenty days from the end of a month, shall be assessed departmentally on best judgement basis. Such dealer is also liable to be levied a penalty equal to twice the amount of tax assessed as per Section 36 (7) of the Act *ibid*.

Further, as per Rule 27 (3) of the MVAT Rules, 2005, the Assessing Authority (AA) shall serve a notice of demand¹³² to the dealer to make the payment of the amount of tax assessed on provisional assessment and penalty imposed, if any, within thirty days from the date of service of such notice. Also, under Section 42 (6) read with Section 32 of the MVAT Rules, 2005, the amount that remains unpaid after the due date of payment shall be recovered as arrears of land revenue by issuing a recovery certificate through District Collector concerned.

Scrutiny of records (January 2018) of the Commissioner of Taxes, Government of Manipur revealed that nine dealers who previously had filed the tax returns, had stopped filing their returns. The position of filing returns of the last quarter and their respective stock balance is shown in the following table.

Table No. 4.9.1 List of Dealers who had stopped filing returns

(₹ in crore)

Name of the Trader (TIN No.)	Quarter endings up to which returns were filed	Stock balance till the last returns filed
M/s Mona Tyres (14010593104) M/s Manipur Tyres (14921034191)	December 2014	3.23 (1.96 + 1.27)
M/s City Tyres (14920547171)* M/s Sairam Tyre Sales and Services (14920011146)	March 2015	2.46 (0.47 + 1.99)
M/s Amp e-Service Private Limited (14921852126)* M/s D.K. Enterprises (14923769187)* M/s R.P. Enterprises (14922909123)*	December 2016	35.06 (34.30 + 0.57 + 0.19)
M/s Raj Electronics (14921741180)* M/s K.G. & sons (14710328165)*	March 2017	7.85 (3.60 + 4.25)
Total		48.60

Source: Departmental Records.

* These six dealers purchased goods after filing of their last returns.

It was further noticed as per C-forms and e-way bills that six out of the above nine dealers had purchased goods amounting to ₹ 32.17 crore¹³³ during January 2017 to June 2017 after they had stopped filing their returns. Thus, they had a stock balance of taxable goods of ₹ 80.77 crore (₹ 48.60 crore + ₹ 32.17 crore) as of February 2018.

¹³² in Form 8.

¹³³ As per C-Form and e-way bills.

As having a stock balance of ₹ 80.77 crore without any transaction/sales during the seven months (July 2017 to January 2018) to 37 months (January 2015 to January 2018) period by the dealers was unlikely and the dealers had stopped filing returns for 10 months (April 2017 to January 2018) to 37 months (January 2015 to January 2018), the possibility of evasion of tax by these defaulting dealers thus, could not be ruled out. As such, the AAs should have invoked the provisions of Section 36 (6) of the Act *ibid*, to assess the tax departmentally on best judgement basis. Besides, the penalty provision under Section 36 (7) should also have been invoked since non-filing of returns was done without any valid reason by the dealers at default. Accordingly, notice of demand as per Rule 27 (3) *ibid*; for tax amounting to ₹ 5.35 crore and penalty of ₹ 10.70 crore as worked out in **Appendix 4.4** should have been served to the defaulting dealers by the Department.

On the above being pointed out, the Department intimated (December 2018 and January 2019) that a total amount of ₹ 78.38 lakh was recovered from the four dealers¹³⁴, and six dealers¹³⁵ were served notices for payment of tax and penalty due. Two dealers¹³⁶ had assured that the remaining outstanding amount would be paid by February 2019. Department also stated that 'Recovery Certificates' had been issued to the Deputy Commissioners to recover the taxes and penalties due as arrears of land revenue in respect of five¹³⁷ dealers.

Thus, failure to assess tax in a timely manner and to serve demand notice by the Department led to non-realization of revenue to the tune of ₹ 5.35 crore and penalty amounting to ₹ 10.70 crore, of which tax amounting to ₹ 78.38 lakh had been paid by four dealers (May 2019).

In all the cases of similar nature where the dealers with huge outstanding stock had stopped filing returns, the Department should ensure scrutiny of all such cases to rule out the possibilities of evasion of taxes by the dealers concerned by putting a system in place.

4.10 Non-recovery of revenue

Failure of the Department to take timely steps to realize outstanding tax from a dealer resulted in non-recovery of tax revenue amounting to ₹ 25.51 lakh in addition to interest of ₹ 23.31 lakh.

Section 9 of the Central Sales Tax (CST) Act, 1956 empowers authorities¹³⁸ of the State Government to assess, collect and enforce payment of any CST payable by a dealer on behalf of the Government of India. As per Section 9A(2A) of the Act *ibid*, all the provisions relating to offences, interest and

¹³⁴ M/s Mona Tyres (TIN-14010593104), M/s Manipur Tyres (14921034191), M/s Amp e-Service (14921852126) and M/s R.P. Enterprises (TIN-14922909123).

¹³⁵ M/s Mona Tyres (TIN-14010593104), M/s Manipur Tyres (14921034191), M/S City Tyres (14920547171), M/s Sairam Tyre Sales and Services (TIN-14920011146), M/s Raj Electronics (TIN-14921741180) and M/S K.G. & sons (TIN-14710328165).

¹³⁶ M/s Mona Tyres (TIN-14010593104) and M/s Manipur Tyres (14921034191).

¹³⁷ M/s Manipur Tyres (14921034191), M/s Sairam Tyre Sales and Services (TIN-14920011146), M/s D.K. Enterprises (14923769187), M/s Raj Electronics (TIN-14921741180) and M/s K.G. & sons (TIN-14710328165).

¹³⁸ Authorities empowered to assess, collect and enforce payment of any tax under the general sales tax law of the State.

penalties of the general sales tax law of the State shall be applicable and that includes interest chargeable @ 2 per cent of the outstanding amount of tax per month¹³⁹. In case of filing of incomplete/incorrect returns, the Manipur Value Added Tax Act, 2004 (MVAT) empowers the Commissioner of Taxes to assess the returns as per his best judgment {Section 36 (6) of MVAT Act, 2004} and serve notice of demand to such dealer {Section 29 (3) of MVAT Act}.

Scrutiny of records (January 2018) of the Commissioner of Taxes revealed that a dealer *i.e.*, M/s Satyam Industries (TIN-14010638166) under Zone-I had sold the steel worth ₹ 12.76 crore during the period from quarter ending June 2014 to quarter ending March 2015 and this inter-state sale was attracting CST payable @ 2 per cent by the dealer. As per the returns filed for those period, the dealer had not paid any CST. Non-payment of tax ranged from 1259 days to 1533 days as on September 2018, on which interest @ 2 per cent was also required to be levied on the outstanding amount. As on September 2018, CST amounting to ₹ 25.51 lakh and interest of ₹ 23.31 lakh which were required to be paid were outstanding as shown in detail in *Appendix 4.5*.

On the above being pointed out, the Department stated (January 2019) that as per Green Channel Certificate¹⁴⁰, the assessee was entitled to 99 per cent tax exemption. The reply was not acceptable as the said certificate allowed tax exemption of 99 per cent amount of VAT payable and not the CST.

Thus, failure of the Assessing Authority to take timely action to realize the outstanding tax from the dealer, resulted in non-recovery of tax revenue amounting to ₹ 25.51 lakh for more than three years in addition to interest amount of ₹ 23.31 lakh. It is recommended that besides instituting departmental enquiry to fix the responsibility of the officials responsible for such failure which led to the non-recovery of the above tax revenue, the Department should ensure scrutiny of all the cases of similar nature across the State to rule out any possibility of evasion of tax revenue on account of CST, as noticed in this case by Audit.

4.11 Non-recovery of tax and penalty

Failure of the Department to detect non-submission of returns and to make best judgment on assessment of tax as per the Manipur Value Added Tax Act/Rules, resulted in non-recovery of tax amounting to ₹ 1.57 crore and penalty of ₹ 3.14 crore from five dealers, of which tax amounting to ₹ 12.65 lakh had been paid by one dealer.

As per Section 35 of the Manipur Value Added Tax (MVAT) Act, 2004 read with Rule 27 of MVAT Rules 2005, the Commissioner of Taxes shall serve a notice on such registered dealer(s) who fail to furnish return in respect of any tax period within the prescribed time. Thereafter, the assessing authority shall assess to the best of their judgement, the amount of tax payable by the dealer in respect of that period and serve a notice, fixing a date not less than thirty days from the date of serving of such notice, to make payment of the tax assessed and penalty imposed under Section 36 (7) of the Act. Further, Section 36 (7) of

¹³⁹ Section 42 (5) of Manipur Value Added Tax.

¹⁴⁰ Issued by Directorate of Trade, commerce & Industries vide certificate No.1(P)-16/IND/2016 dated 16 March 2017.

the Act *ibid*; stipulates that, if any dealer has failed to furnish without any reasonable cause, returns in respect of any period by the prescribed date, the Commissioner shall after giving reasonable opportunity of being heard, direct that the dealer shall pay, by way of penalty a sum equal to twice the amount of additional tax assessed.

Scrutiny of records (February 2018) of the Commissioner of Taxes revealed that five dealers did not furnish any returns with effect from the quarter ending June 2014 up to the quarter ending June 2017. However, scrutiny of e-way bills and C-Forms revealed that the five dealers purchased various types of goods during June 2014 to June 2017. The goods were valued at ₹ 25.34 crore and attracted VAT @ 5 per cent and 13.5 per cent. The total outstanding tax payable by the dealers as worked out by Audit amounted to ₹ 1.57 crore as shown in **Appendix 4.6**. Penalty of ₹ 3.14 crore was also leviable for non-furnishing of returns by the dealers. However, the Department failed to detect the non-furnishing of returns by the dealers and resultantly, did not issue notices to the dealers as required under Section 35 of MVAT Act. The Department also did not make best judgement for assessment of tax from sources such as e-way way bills and C-Forms.

On being pointed out, the Commissioner of Taxes stated (March 2018) that notices had been served and assessment would be made as per the MVAT Act. It was further stated (October 2018) in respect of an assessee *viz.*, M/s J&J Agency that the partial recovery amounting to ₹ 12.65 lakh had been made from the dealer. Information with regard to the status of recovery in respect of other dealers and reasons for non-furnishing of returns by the dealers were sought from the Department; but their reply was awaited (May 2019).

Thus, failure of the Department to detect non-submission of returns and to make best judgment for assessment of tax as per the Act/Rules *ibid*, resulted in non-recovery of tax amounting to ₹ 1.57 crore and penalty amounting to ₹ 3.14 crore from the five dealers, of which tax amounting to ₹ 12.65 lakh had been paid by one dealer (May 2019).

The Department, besides effecting the recoveries from the dealers concerned, review all such cases across the State where the dealers had failed to file their returns and necessary steps taken to rule out any such other instances taking place.

TRANSPORT DEPARTMENT

4.12 Loss of revenue

Due to failure of the District Transport Officer, Thoubal to initiate action for collection of Professional Tax, an amount of ₹ 4.71 lakh and penalty not exceeding ₹ 4.71 lakh were remaining outstanding from the permit holders of 141 vehicles, leading to loss of revenue to that extent.

As per Section 3 (1) read with Section 3 (4) of the Manipur Professions, Trades, Callings and Employments Taxation (PT) Act, 1981, every person who carries on a trade or who follows a profession is liable to pay Professional Tax (PT) as per the rates specified in the Schedule of the Act. As per Section 3 (2)

ibid, such tax shall be deducted at source¹⁴¹. As per Section 7 of the Act *ibid*, Returns¹⁴² had to be filed to the Assessing Authority¹⁴³ who shall verify the same with the Certificate issued under Section 6 (A).

The Schedule¹⁴⁴ of the PT Act *ibid*, specifies that Maxi Cab¹⁴⁵, Light Truck¹⁴⁶, Mid Truck¹⁴⁷ and Heavy Truck¹⁴⁸ operators are required to pay Professional Tax at the rate of ₹ 1,100, ₹ 1,500, ₹ 2,000 and ₹ 2,500 *per annum* respectively. Further, as per Section 20 (2) of the Act, defaulters of payment of tax shall be levied a sum not exceeding the amount of tax as penalty.

Scrutiny of records (June 2016) of the Office of the District Transport Officer, Thoubal (DTO) revealed that 141 permit holders of Maxi Cab/Light Truck/Mid Truck/ Heavy Truck did not pay PT amounting to ₹ 4.71 lakh for different periods during 2012-13 to 2015-16. Such details have been shown in **Appendix 4.7**. Of these, 16 permit holders¹⁴⁹ had not paid any PT during this period of four years, 37 permit holders¹⁵⁰ for three years, 27¹⁵¹ for two years and 61¹⁵² for one year. Audit noticed that the DTO¹⁵³, Thoubal had neither issued any notice to the defaulters nor any action was taken to recover the outstanding PT. The DTO also did not submit any Returns to the Assessing Authority (AA) *i.e.*, Taxation Department, as required under the Act. The AA also did not take any action regarding non-submission of Returns. Consequently, penalty not exceeding ₹ 4.71 lakh as required under the provisions of the PT Act till June 2018 was also not levied. There was no record to justify the inaction on the part of the Departments on the systemic failure like non-issuing of notice and non-filing of returns.

When the matter was referred to the Department (July 2018), DTO, Thoubal stated (September 2018) that notices have been served to 27 defaulters. However, status of action taken in respect of the remaining 114 vehicle operators was not intimated to Audit. Also, recovery of any due amount of tax made, if any, had not been furnished (January 2019).

Thus, failure of the DTO, Thoubal to collect Professional Tax amounting to ₹ 4.71 lakh and non-imposition of penalty not exceeding ₹ 4.71 lakh from permit holders of the vehicles till October 2018, resulted in loss of revenue to the exchequer.

A close watch needs to be maintained at the level of Administrative Head of the Department on collection of Professional Tax. Filing of proper returns

¹⁴¹ The PT in respect of vehicles is to be collected at source by the Transport Department.

¹⁴² The District Transport Officer will file the return to the Assessing Authority *i.e.*, Taxation Department.

¹⁴³ Taxation Department is the Assessing Authority.

¹⁴⁴ Schedule 2(F) (iv), (vii), (viii) and (ix) of the PT Act¹⁴⁴ (Eighth Amendment of the Act, 1981 which came into effect in November 2012).

¹⁴⁵ Vehicles that have 7 to 12 seats.

¹⁴⁶ Goods vehicle weight does not exceed 7,500 kg.

¹⁴⁷ Goods vehicle weight lies between 7,500 kg and 12,000 kg.

¹⁴⁸ Goods vehicle weight exceeds 12,000 kg.

¹⁴⁹ Sl. No. 1 to 16 of the Appendix, amounting to ₹ 1.05 lakh.

¹⁵⁰ Sl. No. 17 to 53 of the Appendix, amounting to ₹ 1.79 lakh.

¹⁵¹ Sl. No. 54 to 80 of the Appendix, amounting to ₹ 0.89 lakh.

¹⁵² Sl. No. 81 to 141 of the Appendix, amounting to ₹ 0.98 lakh.

¹⁵³ Shri Simon Keishing (from 01.04.2012 to 01.10.2012); Shri R.K. Jayantakumar Singh (from 01.01.2012 to 31.03.2016).

needs to be ensured for an effective watch over the arrears of payment of Professional Tax.

The Transport Department should take necessary steps directing all DTOs across the state to review all such cases where permits were issued to the beneficiaries without the receipt of PT as was required and necessary recoveries effected besides ensuring filing of returns to the Assessing Authority by them.

4.13 Non realisation of tax

Failure of the Tax Authorities to realise tax resulted in non-realisation of tax to the tune of ₹ 11.74 lakh, of which tax amounting to ₹ 0.38 lakh had been recovered from 12 vehicles.

As per Section 3 of the Manipur Motor Vehicles Taxation Act, 1998 (MMVTA), tax shall be levied on all motor vehicles used or kept for use in the State. The rates of tax to be levied for different types of vehicles are prescribed in the First Schedule of the Act. As per Section 5 of the Act, such tax shall be payable in advance on annual or quarterly basis.

Further, Section 14 of the Act states that whoever uses, or keeps for use a motor vehicle without payment of tax or additional tax in respect of such vehicle, shall be punishable with a fine which may extend to a sum equal to the annual tax payable.

Scrutiny of records (June 2017) of the District Transport Office (DTO), Churachandpur revealed that the owners of 13 types of vehicles (117 Goods and Passenger vehicles) were required to pay tax at rate ranging from ₹ 75 per vehicle per quarter (*Auto Rickshaw - three seater*) to ₹ 2,540 per vehicle per quarter (*Oil Tanker*). Though the owners of the vehicles were required to pay tax in advance, tax for the period ranging from one to 29 quarters amounting to ₹ 11.74 lakh had not been paid as detailed in the *Appendix 4.8*. There was no record to show that steps had been taken to recover the above dues from the defaulters and the vehicles continued to ply on the road since the registration certificates in respect of the defaulting vehicles had not been surrendered. There was also no specific mechanism for monitoring non-payment of tax payable by the vehicle owners. Thus, failure of the Tax Authorities to take any action to realise the tax resulted in non-realisation of tax amounting to ₹ 11.74 lakh due to the systemic failure of non-monitoring and identification of vehicles who had not paid taxes.

While admitting the audit observation, the Department stated (September 2018 and January 2019) that eight vehicle owners had cleared all the outstanding tax while four vehicle owners had partly cleared the outstanding tax. The amount recovered from these vehicle owners was ₹ 38,072. However, the challan copies and collection register of the vehicles were not produced to substantiate the claims of the Department.

In respect of the remaining 105 vehicles, the Department stated that demand notices have been served to the respective owners of vehicles. Thus, tax amounting to ₹ 11.36 lakh (₹ 11.74 lakh - ₹ 0.38 lakh) was yet to be recovered (May 2019).

Thus, Department besides ensuring collection of tax from the owners of remaining 105 vehicles, may instruct all the DTOs across the State to review all such cases and effect recoveries, wherever taxes from the owners of vehicles remained unrecovered.