



**PART-II
REVENUE**



Chapter I

Chapter-I

General

1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Karnataka during the year 2019-20, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grants-in-aid received from the Government of India during the year together with the corresponding figures for the preceding four years are mentioned in **Table 1.1.1**.

Table 1.1.1
Trend of revenue receipts

(₹ in crore)

Sl. No.	Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
1.	Revenue raised by the State Government					
	• Tax revenue	75,550.18	82,956.13	87,130.38	96,829.71	1,02,362.79
	• Non-tax revenue	5,355.04	5,794.53	6,476.53	6,772.87	7,681.47
	Total	80,905.22	88,750.66	93,606.91	1,03,602.58	1,10,044.26
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties ¹	23,983.34	28,759.94	31,751.96	35,894.83	30,919.00
	• Grants-in-aid	13,928.75	15,703.19	21,640.78	25,481.25	34,479.53
	Total	37,912.09	44,463.13	53,392.74	61,376.08	65,398.53
3.	Total revenue receipts of the State Government (1 and 2)	1,18,817.31	1,33,213.79	1,46,999.65	1,64,978.66	1,75,442.79
4.	Percentage of total revenue raised by the State Government to total revenue receipts (1 to 3)	68	67	64	63	63

Source: State Finance Accounts 2019-20

The above table indicates that during the year 2019-20, the revenue raised by the State Government (₹ 1,10,044.26 crore) was 63 per cent of the total revenue receipts. The balance 37 per cent of the receipts during 2019-20 came from the Government of India.

¹ Figures under the major heads of account 0005-Central Goods and Service Tax, 0008-Integrated Goods and Services Tax, 0020-Corporation Tax, 0021-Taxes on Income other than Corporation Tax, 0028-Other Taxes on Income and Expenditure-Minor head-901, 0032-Taxes on Wealth, 0037-Customs, 0038-Union Excise Duties, 0044-Service Tax and 0045-Other taxes and Duties on Commodities and Services - Minor head-901, as share of net proceeds assigned to States booked in the Finance Accounts of the Government of Karnataka for 2019-20, under 'A-Tax Revenue' have been excluded from the revenue raised by the State Government and included in the State's share of divisible Union taxes.

1.1.2 The details of the tax revenue raised during the period 2015-16 to 2019-20 are given in **Table 1.1.2**.

Table 1.1.2
Details of Tax Revenue

(₹ in crore)

Sl. No.	Head of revenue	2015-16		2016-17		2017-18		2018-19		2019-20		Percentage of increase (+)/decrease (-) in 2019-20 over 2018-19	
		BE	Actual	BE	Actual	BE/RE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Taxes on sales, trade etc.	41,329.00	40,448.63	46,504.10	46,105.17	24,485.68	25,093.16	13,532.05	14,003.06	15,149.00	16,424.32	11.94	17.29
2.	State Goods and Services Tax (SGST)	---	---	---	---	24,087.53	24,182.18	41,649.95	41,956.03	42,748.00	42,147.23 ²	2.63	0.45
3.	State Excise	15,200.00	15,332.88	16,510.00	16,483.75	18,050.00	17,948.51	19,750.00	19,943.93	20,950.00	21,583.95	6.07	8.22
4.	Stamp Duty and Registration Fee	8,200.00	8,214.71	9,100.00	7,805.98	9,000.00	9,023.68	10,400.00	10,774.69	11,828.00	11,308.34	13.73	4.95
5.	Taxes on Vehicles	4,800.00	5,001.69	5,160.00	5,594.39	6,006.00	6,208.57	6,656.42	6,567.67	7,100.00	6,762.58	6.66	2.96
6.	Others	6,916.39	6,552.27	6,590.34	6,966.84	4,300.55	4,674.28	3,832.37	3,584.33	3,938.98	4,136.37	2.78	15.40
Total		76,445.39	75,550.18	83,864.44	82,956.13	85,929.76	87,130.38	95,820.79	96,829.71	1,01,713.98	1,02,362.79	6.15	5.71

Source: State Finance Accounts 2019-20

As could be seen from the table above, the increase in collection under VAT which is restricted to goods not brought under GST and arrears for the earlier period has been significant compared to the previous year. The collection under 'others' has also showed significant increase owing to increase in collection under Electricity-tax.

1.1.3 The details of the non-tax revenue raised during the period 2015-16 to 2019-20 are indicated in **Table 1.1.3**.

Table 1.1.3
Details of Non-Tax Revenue

(₹ in crore)

Sl. No.	Head of revenue	2015-16		2016-17		2017-18		2018-19		2019-20		Percentage of increase (+)/decrease (-) in 2019-20 over 2018-19	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Non-ferrous mining and metallurgical Industries	2,048.15	2,003.80	2,402.83	2,419.43	2,667.65	2,746.80	3,000.00	3,026.58	3,550.00	3,629.03	18.33	19.90
2.	Other ³ Non-tax receipts	3,158.02	3,351.24	3,817.62	3,375.10	4,276.97	3,729.73	5,180.94	3,746.29	4,505.41	4,052.44	(-) 13.03	8.17
Total		5,206.17	5,355.04	6,220.45	5,794.53	6,944.62	6,476.53	8,180.94	6,772.87	8,055.41	7,681.47	(-) 1.53	13.41

Source: State Finance Accounts 2019-20

² Includes interest (₹ 106.28 crore), penalty (₹ 35.69 crore), fee (₹ 163.31 crore), input tax credit cross-utilization of SGST and IGST (₹14,809.94 crore), apportionment of IGST-transfer-in of tax component to SGST (₹ 2,053.18 crore) and advance apportionment from IGST (₹ 330.72 crore).

³ Other Non-tax receipts include Interest receipts, Dividends and Profits and other receipts from General, Social and Economic Services.

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2020 on some principal heads of revenue amounted to ₹ 19,549.97 crore as detailed in **Table 1.2**.

Table 1.2
Arrears of revenue

		(₹ in crore)	
Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2020	Replies of Department
1.	0039 (State Excise)	761.73	Out of the total arrears, ₹ 95.26 crore was stayed by courts and ₹ 341.24 crore was covered by Revenue Recovery Certificates. The remaining amount of ₹ 325.23 was at various other stages.
2.	0040 (Taxes on sales, trade etc.)	18,626.74	Out of the total arrears, ₹ 3,338.98 crore was stayed by courts, ₹ 806.65 crore was before BIFR ⁴ /AAIFR ⁵ , ₹ 835.79 crore was under liquidation process, ₹ 141.15 crore was covered by Revenue Recovery Certificates, ₹ 13,412.00 crore was under Court and Departmental recovery, write off proposals were made for ₹ 52.82 crore and payments of ₹ 39.35 crore received were under verification.
3.	0030 (Stamp and Registration)	161.50	Not Furnished
Total		19,549.97	

Source: Information received from the Departments concerned.

Details of arrears of revenue, if any, from Energy, Transport and Revenue Department though called for (December 2020) were not received (May 2021).

1.3 Evasion of tax detected by the Departments

The details of cases of evasion of tax detected by the State Excise Department, Commercial Taxes Department (CTD) and Department of Stamps and Registration are given in **Table 1.3**.

Table 1.3
Evasion of tax

		(₹ in crore)					
Sl. No.	Head of revenue	Cases pending as on 31 March 2019	Cases detected during 2019-20	Total	Number of cases in which assessment/investigation completed and additional demand with penalty etc. raised		Number of cases pending for finalisation as on 31 March 2020
					Number of cases	Amount of demand	
1.	0039 (State Excise)	02	01	03	00	00	03
2.	0040 (Taxes on sales, trade etc.)	5678	13083	18761	12054	1423.24	6707
3.	0030 (Stamp and Registration)	09	01	10	00	00	10

Source: Information received from the Departments concerned.

⁴ Board for Industrial and Financial Reconstruction.

⁵ Appellate Authority for Industrial and Financial Reconstruction.

As could be seen from the table above, there have been no disposal of cases in respect of Department of Stamps and Registration and State Excise Department. In case of Commercial Taxes Department 36 *per cent* of cases are pending for disposal. Early action may be taken to settle these cases in the interest of revenue.

1.4 Pendency of refund cases

The number of refund cases pending at the beginning of the year, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2019-20 as reported by the Commercial Taxes Department, Department of Stamps and Registration and State Excise Departments are given in **Table 1.4**.

Table 1.4
Details of pendency of refund cases

Sl. No.	Particulars	Sales Tax/VAT		State Excise		Stamps & Registration	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	2,316	433.70	00	00	1799	9.16
2.	Claims received during the year	12,240	3,843.73	NF	35.68	3445	18.42
3.	Refunds made during the year	12,671	3,888.50	NF	35.68	2522	11.64
4.	Balance outstanding at the end of the year	1,885	388.93	00	00	2722	15.94

NF-Not furnished.

Source: Information received from the Departments concerned.

While the State Excise Department did not furnish the number of cases, the Commercial Taxes Department were able to settle 87 *per cent* of the refund cases compared to 48 *per cent* by the Department of Stamps and Registration.

1.5 Response of the Government/Departments towards Audit

Principal Accountant General (Audit-I) 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 inspections and those not settled on the spot 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 Principal Accountant General

within one month from the date of issue of IRs. Serious financial irregularities are reported to the heads of the departments and the Government.

4,831 paragraphs involving ₹ 2,782.82 crore contained in 1,652 IRs (issued upto December 2019), remained outstanding at the end of June 2020. The details along with the corresponding figures for the preceding two years are given in the **Table 1.5**.

Table 1.5
Details of pending Inspection Reports

	As of June 2018	As of June 2019	As of June 2020
Number of IRs pending for settlement	1,385	1,359	1,652
Number of outstanding audit observations	4,099	3,802	4,831
Amount of revenue involved (₹ in crore)	1,467.14	1,822.98	2,782.82

1.5.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2020 and the amounts involved are given in **Table 1.5.1**.

Table 1.5.1
Department-wise details of IRs

Sl. No	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	(₹ in crore)
					Money value involved
1.	Finance	Commercial Taxes	681	2,551	1,105.14
2.		State Excise	71	91	15.63
3.	Revenue	Land Revenue	209	453	254.28
4.		Stamps and Registration fees	417	1,096	388.32
5.	Transport	Taxes on motor vehicles	182	420	46.55
6.	Commerce and Industries	Non-ferrous mining and metallurgical industries	82	206	969.34
7.	Energy	Electricity tax	10	14	3.56
Total			1,652	4,831	2,782.82

Audit did not receive even the first replies (required to be received from the heads of offices within one month from the date of issue of the IRs) for 140 IRs out of 254 IRs issued during 2019-20. This large pendency of the IRs due to non-receipt of the replies indicated that the Heads of Offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the Principal Accountant General in the IRs.

1.5.2 Departmental Audit Committee meetings

The Government issued (March 1968) instructions to constitute 'Ad hoc Committees' in the Secretariat of all the Departments to expedite the clearance of audit observations contained in the Inspection Reports (IRs). These Committees are to be headed by the Secretaries of the Administrative

Departments concerned and attended by the designated officers of the State Government and a nominee of the Principal Accountant General. These Committees are to meet periodically and, in any case, at least once in a quarter. The Department-wise number of ad hoc committee meetings held and paragraphs settled during the year 2019-20 were as under **Table 1.5.2**.

Table 1.5.2
Departmental Audit Committee meetings
(₹ in crore)

Sl. No	Department	No. of meetings held	No. of paragraphs settled	Money value
1.	Commercial Taxes	7	70	13.99
2.	State Excise	1	22	8.35
3.	Transport	1	65	6.08
	Total	9	157	28.42

Ad hoc committee meetings were not convened by the Department of Stamps and Registration, Department of Mines and Geology and Revenue Department. The Government may pass suitable instructions to the Department for the conduct of Audit Committee Meetings and action may be taken by the Department to convene Departmental Audit Committee meetings for clearance of outstanding IRs and audit observations.

1.5.3 Non-production of records to Audit for scrutiny

The programme for local audit of Tax Revenue/Non-tax Revenue offices is drawn up and intimations sent sufficiently in advance, to enable them to keep the relevant records ready for audit.

During 2019-20, 254 offices under Finance, Revenue, Transport and Commerce and Industries Departments were taken up for audit. Out of these, in three offices, the records/files mentioned below were not produced to audit. Hence, the correctness of the assessments made and taxes levied or revenue collected could not be ensured in the cases mentioned below in **Table 1.5.3**.

Table 1.5.3
Details of non-production of records

Sl. No.	Name of the Office/ Department		No. of Offices	Number of records not produced to audit
1.	Finance Department	Commercial Taxes	1	5 Refund files pertaining to four dealers in one Office
2.	Revenue Department	Stamps and Registration Fee	2	Remittance challans in two Offices
	Total		3	

1.5.4 Response of the Departments to the Draft Audit Paragraphs

Draft Paragraphs proposed for inclusion in the Audit Report are forwarded by the Principal Accountant General to Additional Chief Secretary/Principal Secretaries/ Secretaries of the Departments concerned through demi-official letters. According to the instructions issued (April 1952) by the Government, all Departments are required to furnish their remarks on the Draft Paragraphs 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.

Fourteen observations contained in 16 draft paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Sector) for the year ended 31 March 2020 were forwarded to the Additional Chief Secretary/Principal Secretaries to the Government and copies endorsed to the heads of Departments concerned between December 2020 and February 2021.

In case of 11 draft paragraphs relating to Commercial Taxes Department, replies have been received from the Department, out of which replies for three have been endorsed by the Government.

In case of five draft paragraphs relating to Department of Stamps and Registration, general replies have been received from the Department for all five draft paragraphs. However, case-wise replies have not been received either from the Department or the Government (March 2021).

1.5.5 Follow-up on the Audit Reports-Summarised position

According to the Rules of Procedure (Internal Working) of the Committee of Public Accounts (PAC), the Departments of Government are to furnish detailed explanations (Departmental Notes) on the audit paragraphs to the Karnataka Legislative Assembly Secretariat within four months of an Audit Report being laid on the Table of the Legislature. The Rules further require that before such submission, Departmental Notes are to be vetted by the Principal Accountant General.

94 paragraphs (including Performance Audits) were included in six⁶ Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Karnataka which got placed before the State Legislature between March 2016 and December 2020.

As of April 2021, out of 94 paragraphs, Departmental Notes have been received for 73 paragraphs. Out of 73 paragraphs, Departmental Notes for 72 paragraphs were received belatedly, with an average delay of six to 20 months. However, Departmental Notes for the remaining 21 paragraphs from three Departments (Commercial Taxes, Stamps and Registration and Mines and Geology) have not been received yet.

⁶ 1. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended 31 March 2015.
 2. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended March 2016.
 3. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended March 2017.
 4. Report of the Comptroller and Auditor General of India-Grant, Lease, Eviction of Encroachment and Regularisation of Unauthorised Occupation of Government Lands.
 5. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended March 2018.
 6. Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended March 2019.

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

To analyse the system of compliance by the Department/Government to the issues highlighted in the Inspection Reports/Audit Reports, action taken on the paragraphs and Performance Audits included in the Audit Reports of the last ten years for one Department is evaluated and included in this Audit Report.

The succeeding paragraphs 1.6.1 and 1.6.2 discuss the performance of the State Excise Department⁷ in respect of the cases detected in the course of local audit during the last ten years and also the cases included in the Audit Reports for the years 2009-10 to 2018-19.

1.6.1 Position of Inspection Reports

The summarised position of the Inspection Reports (IRs) issued during the last ten years, paragraphs included in these reports and their status as on 31 March 2020 are tabulated below in **Table 1.6.1**.

Table 1.6.1
Position of Inspection Reports

(₹ in crore)

Sl. No.	Year	Opening Balance			Addition during the Year			Clearance during the Year			Closing Balance		
		IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
1.	2010-11	954	1307	356.20	15	49	21.00	0	10	0.29	969	1346	376.91
2.	2011-12	969	1346	376.91	1	1	0.01	0	0	0	970	1347	376.92
3.	2012-13	970	1347	376.92	25	63	58.67	7	24	2.13	988	1386	433.46
4.	2013-14	988	1386	433.46	18	230	13.18	12	90	56.42	994	1526	390.22
5.	2014-15	994	1526	390.22	38	103	21.67	23	200	21.83	1009	1429	390.06
6.	2015-16	1009	1429	390.06	31	66	9.40	38	85	11.72	1002	1410	387.74
7.	2016-17	1002	1410	387.74	30	29	7.07	15	46	17.01	1017	1393	377.80
8.	2017-18	1017	1393	377.80	27	36	4.39	819	707	316.48	225	722	65.71
9.	2018-19	225	722	65.71	55	20	2.75	5	28	7.46	275	714	61.00
10.	2019-20	275	714	61.00	10	16	1.94	6	33	12.49	279	697	50.45

During the above period, two Departmental Audit Committee meetings were held, one each in 2017-18 and 2019-20, by the State Excise for settlement of IRs/paragraphs.

During regular inspection of Offices, the pending IRs/paragraphs are reviewed on the spot after obtaining compliance. Settlements of IRs/paragraphs are also made on receipt of compliance from the Department.

1.6.2 Recovery in 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 in **Table 1.6.2**.

⁷ Under the Revenue head-0039.

Table 1.6.2
Recovery in accepted cases

Sl. No.	Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	₹ in crore)	
						Amount recovered during the year 2019-20	Cumulative position of recovery of accepted cases as of 31-03-2020
1.	2009-10	1	1.02	1	1.02	-	-
2.	2010-11	1 PA	181.68	-	9.19	-	0.15
3.	2011-12	-	-	-	-	-	-
4.	2012-13	2	3.09	2	3.09	-	0.17
5.	2013-14	1	2.14	1	2.14	-	2.14
6.	2014-15	4	10.57	3	10.37	-	9.62
7.	2015-16	-	-	-	-	-	-
8.	2016-17	1 PA	132.57				
9.	2017-18	-	-	-	-	-	-
10.	2018-19	-	-	-	-	-	-
	Total	10	331.07	7	25.81		12.08

As seen from the table above, the percentage of recovery by the State Excise Department in accepted cases for the years 2009-10 to 2018-19 was only 46.80 *per cent*. Therefore, the Department must take immediate action to pursue recovery of the dues involved in accepted cases.

1.7 Audit Planning

The Auditable Units under various Departments are categorised into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which *inter-alia* includes critical issues in Government revenues, the 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, factors of the tax administration, audit coverage and its impact during past five years, etc.

During the year 2019-20, there were 974 auditable units, of which 254 units were planned and audited, which was 26 *per cent* of the total auditable units. The details are shown in **Table 1.7.1**.

Table 1.7.1
Details of units audited

Sl. No	Department	Number of units		
		Auditable Units during the year 2019-20	Units planned for audit during 2019-20	Units audited during 2019-20
1.	Commercial Taxes	430	134	134
2.	Stamps and Registration	285	58	59
3.	State Excise	134	19	18
4.	Mines and Geology	34	11	11
5.	Transport	91	32	32
	Total	974	254	254

1.8 Results of Audit

Position of local audit conducted during the year

Test-check of the records of 254 units of Sales Tax/Value Added Tax, Stamps and Registration Fee, State Excise, Taxes on Motor Vehicles, and Mines and Geology conducted during the year 2019-20 showed under assessment/short-levy/loss of revenue aggregating ₹ 2,491.66 crore in respect of cases pointed out through 1,189 paragraphs. During the course of the year, the Departments concerned accepted under assessment and other deficiencies of ₹ 128.96 crore raised through 190 paragraphs during 2019-20. The Departments collected ₹ 72.10 crore pointed out in 564 paragraphs pertaining to the audit findings of previous years during 2019-20.

1.9 Coverage of Part II of this Report

Part II of this Report contains 14 paragraphs selected from the audit observations made during the local audit referred to above and during earlier years, (which could not be included in earlier reports) involving financial effect of ₹ 106.69 crore.

The Departments/Government had accepted audit observations in 515 cases relating to 14 paragraphs involving ₹ 53.98 crore, out of which ₹ 0.89 crore had been recovered in 26 cases. The replies in the remaining cases had not been received (April 2021). These are discussed in succeeding Chapters II and III.