

**THIRTEENTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC ACCOUNTS  
(2011-2014)**

**THIRTIETH REPORT**

(Presented on 9th July, 2013)



SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2013

THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE  
ON  
PUBLIC ACCOUNTS  
(2011-2014)**

**THIRTIETH REPORT**

**On**

**Paragraphs relating to Taxes Department contained in the Report  
of the Comptroller and Auditor General of India  
for the year ended 31st March, 2010 (RR).**

1045/2013.

## CONTENTS

	<i>Page</i>
Composition of the Committee ..	v
Introduction ..	vii
Report ..	1-13
Appendices :	
I. Summary of Main Conclusion/Recommendation ..	14-16
II. Notes furnished by Government ..	17-54

COMMITTEE ON PUBLIC ACCOUNTS (2011-2014)

*Chairman:*

Dr. T. M. Thomas Isaac

*Members:*

Shri Kodiyeri Balakrishnan

” Benny Behanan

” C. Divakaran

„ C. Mammotty

” C. P. Mohammed

” C. K. Nanu

” K. Radhakrishnan

„ Roshy Augustine

„ M. V. Sreyams Kumar

” M. Ummer.

*Legislature Secretariat :*

Shri P. D. Sarangadharan, Secretary

„ K. Mohandas, Special Secretary

Smt. M. R. Maheswari, Deputy Secretary

Shri G. P. Unnikrishnan, Under Secretary.

## INTRODUCTION

I, the Chairman, Committee on Public Accounts, having been authorised by the Committee to present this Report, on their behalf present the Thirtieth Report on paragraphs relating to Taxes Department contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2010 (RR).

The Report of the Comptroller and Auditor General of India for the year ended 31st March, 2010 (RR) was laid on the Table of the House on 28th June, 2011.

The Committee considered and finalised this Report at the meeting held on 2nd July, 2013.

The Committee place on records their appreciation of the assistance rendered to them by the Accountant General in the examination of the Audit Report.

Thiruvananthapuram,  
9th July, 2013.

DR. T. M. THOMAS ISAAC,  
*Chairman,*  
*Committee on Public Accounts.*

**REPORT**  
**TAXES DEPARTMENT**  
**(TAXES ON AGRICULTURAL INCOME)**

AUDIT PARAGRAPH

**Tax administration**

The Department of Commercial Taxes is under the control of Principal Secretary, Taxes at the Government level and collection of tax under Kerala Agricultural Income Tax (KAIT) Act is administered by the Commissioner of Commercial Taxes (CCT). The KAIT Act governs the levy and collection of tax on agricultural income.

**Trend of receipts**

Actual receipts from Agricultural Income Tax during the last five years (2005-06 to 2009-10) along with the budget estimates during the same period are exhibited in the following table and graph:

*(Rupees in crore)*

<i>Year</i>	<i>Budget estimates</i>	<i>Actual receipts</i>	<i>Variation excess(+)/shortfall(-)</i>	<i>Percentage of variation</i>	<i>Total tax receipts of the State</i>	<i>Percentage of actual receipts vis-à-vis total tax receipts</i>
2005-06	10.90	6.15	(-)4.75	(-)43.58	9,778.62	0.06
2006-07	6.24	9.63	(+)3.39	(+)54.33	11,941.82	0.08
2007-08	6.56	22.05	(+)15.49	(+)236.13	13,668.95	0.16
2008-09	7.39	11.97	(+)4.58	(+)61.98	15,990.18	0.07
2009-10	8.52	27.73	(+)19.21	(+)225.47	17,625.02	0.16

The large variations between budget estimates and actual receipts indicate the need for streamlining the budgeting process to make the budget estimates realistic.

[Audit Paragraph 3.2 contained in the Report of Comptroller and Auditor General of India for the year ended 31<sup>st</sup> March, 2010 (Revenue Receipts)]

Notes furnished by Government on the above audit paragraph is included as Appendix II.

The Committee remarked that the Accountant General commented adversely on the poor mechanism adopted by the department in the preparation of budget as there was variation in the Budget estimates and actual receipts. The witness, Secretary, Taxes Department clarified that the hike in the actual receipts during 2009-10 was due to the introduction of Amnesty Scheme. He added that during 2011-12 the aggregate tax collection came up to ₹ 43 crore. Then the Committee admitted the contention of the Secretary and opined that the department should formulate steps to prepare more realistic budget estimates matching with the current financial situation.

#### **Conclusion/Recommendation**

**2. While going through the audit paragraph relating to trends of receipts the Committee finds that from 2005-06 to 2009-10 there is a huge variation between the Budget Estimates and actual receipts in Agricultural Income Tax. The Committee realises that with the introduction of Amnesty scheme, the arrears towards the collection of Agricultural Income Tax could have been settled to a large extent. The Committee suggests that at present budget estimates regarding Agricultural Income Tax should be prepared in a more realistic manner and directs that the department should chalk out steps to prepare budget estimates matching with the current financial situation of the State as a whole.**

#### AUDIT PARAGRAPH

##### **Arrears in AIT assessment**

The department furnished the position of arrears in assessment under agricultural income tax which is as shown below:

		<i>(No. of cases)</i>
Opening balance	..	6,998
Addition during 2009-10 including remanded cases	..	2,992
Total	..	9,990
No. of assessments completed	..	3,676
Arrear cases	..	2,346
Current cases	..	1,330
Closing balance	..	6,314

The above table shows that the department completed only 36.80 per cent of the assessment due for completion under agricultural income tax during 2009-10.

[Audit paragraph 3.3 contained in the Report of Comptroller and Auditor General of India for the year ended 31st March, 2010 (Revenue Receipts)]

Notes furnished by Government on the above audit paragraph is included as Appendix II.

3. Regarding the audit para, the witness, Secretary, Taxes Department brought to the notice of the Committee that by the end of March, 2011 the department was able to reduce the closing balance of cases from 6314 to 4723 and the Committee accepted the explanation.

#### **Conclusion/Recommendation**

#### **4. No comments**

AUDIT PARAGRAPH

#### **Impact of audit**

##### *Revenue impact*

During the last three years, we pointed out inadmissible expenses, income escaping assessment, incorrect computation of income, under assessment due to assignment of incorrect status etc., with revenue implication of ₹ 36.96 crore in 160 paragraphs. Of these, the department/Government accepted audit observations involving ₹ 2.19 crore and had since recovered ₹ 35 lakh. The details are shown in the following table:

*(Rupees in crore)*

<i>Year of Audit Report</i>	<i>Paragraphs included</i>		<i>Paragraphs accepted</i>		<i>Amount recovered</i>	
	<i>No.</i>	<i>Amount</i>	<i>No.</i>	<i>Amount</i>	<i>No.</i>	<i>Amount</i>
2006-07	50	4.61	29	1.72	8	0.24
2007-08	43	3.69	17	0.35	10	..
2008-09 Vol. I	67	28.66	9	0.12	4	0.11
Total	160	36.96	55	2.19	22	0.35

We noticed that the Government failed to recover even the amount it has accepted.

We recommend that the Government may revamp the recovery mechanism to ensure that at least the amount involved in accepted cases are promptly recovered.



[Audit paragraph 3.4 contained in the Report of Comptroller and Auditor General of India for the year ended 31<sup>st</sup> March, 2010 (Revenue Receipts)]

Notes furnished by Government on the above audit paragraph is included as Appendix II.

5. The Committee pointed out that the arrears on account of Agricultural Income Tax in so many cases were non-recoverable and the department would not take necessary steps to write off it due to fear of political allegation. The Committee observed that it would cause a demoralizing effect upon the tax machinery. The Committee also noted that usually such a situation occurs due to the death of the assessee or by any other genuine reasons. The Committee urged the department to sort out the recoverable and non-recoverable arrears. The Committee opined that once the concerned District Collector reported that the RR could not be effected in a particular case, it would not be rationale to carry over such cases as pending over years. Therefore the Committee suggested to formulate transparent procedures for the writing off of the non-recoverable arrears on Agricultural Income Tax. The Committee also suggested that the department should give more importance for clearing arrears by initiating RR proceedings immediately and proposed that the department should examine the feasibility of introducing one-time settlement scheme for clearing the arrears.

#### **Conclusion/Recommendation**

**6. The Committee observes that the non-recovery of loan in so many cases will cause a demoralising effect upon the tax machinery of the State and opines that if a case was reported by the District Collector as non-recoverable it is not essential to carry over such arrears as pending for years. Therefore the Committee urges the department to sort out the recoverable and non-recoverable arrears. The Committee also suggests that the department should codify transparent procedures for writing off the arrears in deserving cases through a bi-partisan agreement.**

**7. The Committee wants the department to be more cautious towards accumulation of arrears and proposes that the department should formulate steps for clearing off the arrears, on a priority basis.**

**8. The Committee recommends that the department should clear the arrears by initiating Revenue Recovery Proceedings as and when required and should examine the viability of introducing one time settlement scheme in this regard. The Committee also recommends to introduce an effective monitoring mechanism like submission of annual review statement after**

**reconciliation by the District Collector to the Government towards collection of arrears on Agricultural Income Tax and Revenue Recovery proceedings initiated from time to time.**

AUDIT PARAGRAPH

**Working of internal audit wing**

The internal audit wing (IAW) in the Commercial Taxes Department was constituted in May 2009. The wing is administered by a Deputy Commissioner and assisted by three Assistant Commissioners and four Commercial Tax Officers. The IAW commenced functioning from 1st June, 2009. The department has not prepared a separate internal audit manual. IAW covered eight out of 14 districts during June 2009 to February 2010. However, as the reports were not finalised, we are unable to make any comment about the effectiveness of their performance.

[Audit paragraph 3.5 contained in the Report of Comptroller and Auditor General of India for the year ended 31<sup>st</sup> March, 2010 (Revenue Receipts)]

Notes furnished by Government on the above audit Paragraph is included as Appendix II of this Report.

9. The Committee expressed its disappointment towards the functioning of the Internal Audit Wing in the Commercial Taxes Department. While going through the reply furnished by the department that they had unearthed tax suppression to the tune of ₹ 73,033 lakh, the officials from the Accountant General's Office pointed out that the details of the findings of the Internal Audit Wing was not available with the department. To this, the witness informed that the split up data was not available at the Commissionerate but now steps had been taken to make it more realistic.

10. The Committee opined that had the Internal Audit Wing of the department performed properly, then the audit objection could have been avoided. The Committee suggested that necessary steps should be taken to revitalize the Internal Audit Wing of the department which should be headed by an officer deputed from Accountant General's Office so that it could function more efficiently and independently.

**Conclusion/Recommendation**

**11. The Committee expresses its dismay over the functioning of the Internal Audit Wing of the Commercial Taxes Department. It suggests that for the efficient and independent functioning of the Internal Audit Wing, necessary steps should be taken to depute an Officer from the Accountant General's Office as the head of the Internal Audit Wing of the department.**

## AUDIT PARAGRAPH

**Results of Audit**

We test checked the records of 18 units relating to agricultural income tax. We noticed under assessment of tax and other irregularities involving ₹ 5.57 crore in 39 cases which fall under the following categories:

<i>(Rupees in crore)</i>			
<i>Sl. No.</i>	<i>Categories</i>	<i>No. of cases</i>	<i>Amount</i>
1	Inadmissible expenses	15	2.80
2	Income escaping assessment	13	1.79
3	Other lapses	11	0.98
	Total	39	5.57

During the course of the year, the department accepted under assessment and other deficiencies of ₹ 53.72 lakh in 16 cases, pointed out in earlier years. The department realised an amount of ₹ 11.92 lakh in 11 cases during the year 2009-10. A few illustrative audit observations involving ₹ 1.04 crore are mentioned in the succeeding paragraphs.

[Audit Paragraph 3.6 contained in the Report of Comptroller and Auditor General of India for the year ended 31st March, 2010 (Revenue Receipts)]

Notes furnished by Government on the above audit Paragraph is included as Appendix II of this report.

12. To the query of the Committee regarding the audit paragraph the witness, Secretary, Taxes Department assured that the reply would be furnished later.

**Conclusion/Recommendation**

13. **The Committee observes that details of cases of under assessment and other components pointed out by the Audit were not furnished till date even though the department officials have promised to do so at the time of witness examination. The Committee expresses its displeasure over the inertia exhibited by the officials in not taking timely action on cases pointed by Audit and recommends that responsibility should be fixed in case of failure of timely initiation by the officials in rectifying procedures on the observations of the Accountant General, if any found in future. It also directs that the details of amount realised out of the 39 cases should be furnished to it at the earliest.**

## AUDIT PARAGRAPH

**Non-Observance of Provisions of Act/Rules**

The KAIT Act and Rules made thereunder provide for completing assessments observing the following aspects:

- (i) *levy of tax at the prescribed rate on the agricultural income derived by the assessee;*
- (ii) *allowance of deductions on income derived subject to certain conditions; and*
- (iii) *levy of interest on the balance tax payable.*

*We observed that the AAs while finalising the assessments, did not observe some of the provisions of the Act/Rules resulting in short levy of tax and interest of ₹ 1.04 crore as mentioned in the following paragraphs:*

**Income escaped assessment**

We noticed that while finalising the assessment of a public limited company for the assessment year 2006-07, the department did not consider, for arriving at the taxable income, an amount of ₹ 82.36 lakh relating to reversal of the excess provision for gratuity which was credited to P & L account for 2005-06. The AA already allowed this amount as deduction during the previous year and hence the amount should have been treated as deemed income. The omission to assess the amount as deemed income resulted in escape of income and consequent short levy of tax of ₹ 41.18 lakh.

After we pointed out the case in January 2010, the assessing authority stated that the short or excess provision of gratuity subsequently adjusted had no significance while computing the assessable income. The reply of department is not tenable in view of the provision in the Act.

We reported the matter to Government in March 2010. We have not received further information from them (December 2010).

The AA finalised the assessment of a public limited company for the year 2006-07 fixing net income of ₹ 4.28 crore without considering an amount of ₹ 43.75 lakh received by the assessee on account of excess tax paid in plantation tax assessment for the period from 1989-90 to 1997-98. The omission to consider the amount in assessment resulted in escape of income of ₹ 43.75 lakh and consequent short levy of tax of ₹ 21.88 lakh.

After we pointed out the omission in January 2010, the AA stated that notice has been issued under Section 41 in December 2009. The notice stated to be issued was not applicable to the case as the same related to disallowance of re-plantation allowance. The department stated that assessee had not received refund of excess payment of plantation tax but only decided to adjust the amount against future liability. The remarks of the department are not tenable as the assessee had found that the plantation tax claimed in earlier years was in excess of the actual and hence there was surplus fund available with the assessee to the extent of ₹ 43.75 lakh, which can be treated as deemed income.

We pointed out the matter to Government in March 2010; we have not received further information (December 2010).

We noticed that the AA finalised the assessment of a charitable trust for the assessment years 2004-05 to 2007-08 recording the demand as nil accepting the loss of ₹ 11.80 lakh returned by the assessee. We found that the assessment was finalised without considering the net income of ₹ 21.64 lakh from sale of rubber even though the assessee filed the details of agricultural income along with the statement of computation of income. The omission to include the net income of ₹ 21.64 lakh in taxable income resulted in escape of income from the assessment. After deducting the net loss of ₹ 11.80 lakh, the tax and surcharge (due on the escaped income of ₹ 9.84 lakh) works out to ₹ 2.39 lakh.

After we pointed out the matter in July 2009, the department stated that the assessment had been revised. We have not received a report on recovery from the department (December 2010).

We reported the matter to Government in March 2010. We have not received further information from them (December 2010).

#### **Short levy due to inadmissible deductions**

The AA finalised the assessment of a domestic company for the assessment year 2006-07, without assessing to tax the income derived from pepper for ₹ 29.82 lakh in 2006-07. The omission to reckon the income from pepper had resulted in short levy of tax of ₹ 14.91 lakh. After we pointed out the omission, the AA replied that though there was income from pepper during the period, it was kept as closing stock and hence could not be taken into account owing to the fact that the assessee was following cash system of accounting wherein expense incurred would be allowed and receipts would be taken into account as and when it is realised. The remark of the AA was not tenable as the dealer had a closing

stock of pepper for ₹ 12.18 lakh in 2004-05 and ₹ 29.82 lakh in 2005-06 and the accounts indicated that there had been no sale of pepper since 2003-04. The reasoning that the entire quantity is kept on stock lacks conviction as normally any 'hill produce' would perish after keeping it for long period.

Further, the closing stock of pepper had been increasing from 2003-04 onwards steadily and the assessee was showing loss in the accounts every year. If the value of closing stock was also considered, there would have been profit, which was assessable to tax.

After we pointed out the matter to Government in March 2010 we have not received any further information (December 2010).

We noticed that the AA assessed a public limited company for the assessment year 1999-2000, fixing a net income of ₹ 14.88 lakh. The AA disallowed an amount of ₹ 17.92 lakh as the amount of bonus was not actually paid. On the basis of an appellate order, assessment was revised by fixing net loss of ₹ 81.48 lakh. While revising the assessment (October 2008) on the basis of the appellate order, the AA allowed full amount of ₹ 30 lakh pertaining to bonus as deduction even though the assessee did not pay ₹ 17.92 lakh as bonus during the year as stated in the original assessment order. The inadmissible deduction allowed resulted in excess computation of loss of ₹ 17.92 lakh with potential tax of ₹ 10.75 lakh.

After we pointed out the matter in July 2009 the department revised the assessment (August 2009). We have not received further development on the matter (December 2010).

We reported the matter to Government in March 2010. We have not received further information from them (December 2010).

We noticed that the department finalised the assessment of a domestic company for the year 2000-01 allowing a claim of ₹ 21.50 lakh under gratuity. Our scrutiny revealed that the assessee had claimed exemption on a provision for gratuity of ₹ 15.85 lakh and actual payment of ₹ 5.65 lakh. As per the Act either the amount incurred or provision made was allowable. As the assessee claimed the actual expenditure, the provision should have been disallowed. The allowance of expense in excess of the actual payment resulted in short levy of tax of ₹ 9.51 lakh.

After we pointed out the matter in March 2009 the assessing authority revised the assessment creating an additional demand of ₹ 9.51 lakh. We have not received a report on recovery (December 2010).

We reported the matter to the Government in March 2010. We have not received further information from them (December 2010).

**Excess carry forward of loss**

We noticed that the AA allowed inadmissible deductions in respect of charitable trust in excess of agricultural income derived in the assessments from 2006-07 to 2008-09 resulting in excess carry forward loss of ₹ 39.44 lakh having potential tax effect of ₹ 12.79 lakh.

After we pointed out the matter, the AA revised the assessments fixing the carry forward loss as nil as against the excess carry forward loss of ₹ 39.44 lakh pointed out.

We reported the matter to the Government in March 2010. We have not received any further information from them (December 2010).

We noticed that while revising the original assessment of a domestic company for the year 1997-98, the AA allowed re-plantation allowance of ₹ 15.53 lakh. The AA overlooked the re-plantation allowance of ₹ 9.16 lakh granted in the revised assessment for 1996-97 and did not limit the allowance to ₹ 6.37 lakh (₹ 15.53 lakh – ₹ 9.16 lakh). The allowance of expense twice resulted in computation of loss to the extent of ₹ 9.16 lakh with potential tax effect of ₹ 5.95 lakh.

After we pointed out the case in July 2009, the department stated that AA revised the assessment (August 2009) assessing the escaped income of ₹ 9.16 lakh. We have not received a report on recovery from the department (December 2010).

We reported the matter to Government in March 2010. We have not received further information from them (December 2010).

[Audit Paragraph 3.8 contained in the Report of Comptroller and Auditor General of India for the year ended 31<sup>st</sup> March, 2010 (Revenue Receipts)]

Notes furnished by Government on the above audit paragraph is included as Appendix II of this Report.

14. The Committee pointed out the Accountant General's observation that the department was not following the provisions of the relevant Act and Rules and remarked that the assessee having 5 hectare or more cultivable land only were liable to pay Agricultural Income Tax. In addition to this if there occurred a fall in price of the commodities then the tax would also be exempted. Meanwhile the Commissioner, Commercial Taxes submitted that agricultural

income set apart for charitable purpose was also exempted, as per Section 16 of the KAIT Act, if the charitable organisation submit a certificate to the effect that the income had been fully utilised for charitable purpose. Then the Committee decided to recommend that all the relevant statutory provisions should strictly be followed in giving tax exemptions in future.

15. Regarding the income escaped assessment and the disagreement of the department with the audit paragraph, the witness, Secretary, Taxes Department explained that the case was related to Oil Palm Ltd. and the tax assessment of the firm was set-aside by the Hon'ble High Court.

16. The witness, Commissioner of Commercial Taxes stated that the entire income of the firm up to 2004-05 was zoned as Agricultural Income and tax calculated accordingly. But as per the Income Tax Authority Rules 2004, the income from industrial activities should be treated and charged as industrial income. The assessee went to court and the court's verdict was to reassess the tax according to the source of income. Considering the verdict, the department had to revise the whole assessment and from the year 2005-06 onwards the whole income from crude palm oil was deducted from the total income of the firm for the calculation of Agricultural Income Tax. He submitted before the Committee that as per the instruction of the Hon'ble High Court to recalculate the amount, the department had revised the assessment from 2005-06 to till date in the formula 60 per cent of the income as Income Tax and the remaining 40 per cent as Agricultural Income Tax.

17. In the meantime officials from the Accountant General's Office interfered to inform that audit objection was related to the omission of ₹ 82.36 lakh relating to reversal of excess provision for gratuity, which was credited to P & L account for 2005-06 as deduction during the previous year treating it as deemed income, which resulted in short levy of ₹ 41.18 lakh. The witness, Secretary, Taxes Department agreed with the audit findings and explained that during 2005-06 provision for ₹ 8.2 lakh had been made, which was the difference between the actual expenditure and the provision. Original assessment was in accordance with the provisions of the Act, but on re-assessment the miscalculation occurred. The Committee urged the Taxes Department to rectify the mistake.

18. Regarding the audit paragraph 'Income escaped assessment' the Secretary, Taxes Department stood firm on the agreement that an amount worth ₹ 43.75 lakh was only an adjustment where no cash was received by the assessee and so the amount was not to be included in the taxable income. The Deputy Accountant General pointed out that the law provided that whatever be



get refunded to the assessee either in cash or in kind should had to be accounted as income. Meanwhile the witness informed that in this case the assessee was following cash system of accounting and an amount of ₹ 43.75 lakh was received by the assessee on account of excess tax paid in plantation tax assessment for the period from 1989-90 to 1997-98. Out of which ₹ 2 lakh was adjusted against ₹ 43 lakh paid as excess tax in the same year itself and the remaining amount to the tune of ₹ 41 lakh was adjusted against Plantation Tax.

19. The Commissioner, Commercial Taxes pointed out that the whole thing was reassessed by the RDO and found that the company had paid excess amount to the tune of ₹ 43 lakh as plantation tax. He submitted that the company had decided to adjust the excess tax paid towards future plantation tax liability. The Committee was not convinced with the contention of the department. It reiterated the points put forth by the audit and urged the Taxes Department to reconsider the whole procedure and report to the Committee at the earliest.

20. Disagreed with the audit findings on short levy due to inadmissible deductions, the witness, Commissioner of Commercial Taxes deposed that the case was related to the stock of pepper kept in excess. He added that as the company was following cash system of accounting, the income from pepper held in stock could be considered for assessment only when it was sold. Pepper being an item having great value fluctuation and the farmers used to keep it for years for getting better price. Then the official from the office of the Accountant General interfered to inform that in the year 2005-06, a huge amount of pepper was shown as stock in the closing account. Though it was accumulated for four years, its turnover was not accounted yet. In this case the real issue was whether there was pepper stock or not. Then the Committee opined that the turnover of the company should be in proportionate to the stock and directed the department to recheck the whole matter and report.

21. The audit noticed that during the assessment years 2006-07 and 2008-09 the assessee had deducted more amount than Agricultural Income for charitable purpose and the donation obtained was carried forward to the next year's assessment. The Commissioner, Commercial Taxes stated that the error had been rectified vide order issued on 9-12-2009. Even then there was no revenue implication as the whole amount had been utilised for charitable purposes. When the Committee enquired about the charitable activities for which the amount was utilized, the witness stated that according to the statute, the assessee should bring a certificate to the effect that income received was fully utilized for charitable purpose.

22. The Committee concluded that the Internal Audit Wing should pursue with some level of independence so that they could make a remarkable impact,

and suggested that the Internal Audit Wing should preferably be headed by an officer deputed from the Accountant General's Office. The Committee suggested that the Taxes Department should take necessary steps to write off the non-recoverable arrears through a bi-partisan agreement. The department should be more vigilant in not accumulating arrears in future. The Committee also wanted the department to clear all the pending cases in a time bound manner.

#### **Conclusion/Recommendation**

23. **The Committee understood that the failure of the department in complying the provisions in the KAIT and the rules made thereunder resulted in short levy of tax and interest which tantamounts huge loss to the exchequer. Therefore the Committee recommends that the department should strictly follow the relevant statutory provisions in the assessment of Agricultural Income Tax. Towards the omission of ₹ 82.36 lakh and consequent short levy of ₹ 41.18 lakh, the Committee accepts the argument put forth by the witness that the short levy was due to a mistake occurred during re-assessment of tax made as per the direction of the Honourable High Court and urges the department to rectify the defect and reports to the Committee at the earliest.**

24. **With respect to the short levy of tax of ₹ 21.88 lakh of a Public Limited Company the Committee reiterates the observation put forth by the audit that the remarks of the department are not tenable as the assessee had found that the plantation tax claimed in earlier years was in excess of the actual and hence there was surplus fund available with the assessee to the extend of ₹ 43.75 lakh, which can be treated as deemed income. Hence the Committee directs the department to reconsider the whole procedure and report to the Committee at the earliest.**

25. **Towards the short levy due to inadmissible deductions, the Committee insists that the turnover of a Company should be in proportion to the stock. The Committee demands that the whole issue should be re-examined and report it before the Committee. At the time of witness examination, the department heads agreed to furnish the required details at the earliest. But the same has not been complied with so far and the Committee expresses its displeasure over it.**

Thiruvananthapuram,  
9th July 2013.

DR. T. M. THOMAS ISAAC,  
*Chairman,*  
*Committee on Public Accounts.*

## APPENDIX I

## SUMMARY OF MAIN CONCLUSION/RECOMMENDATION

<i>Sl. No.</i>	<i>Paragraph No.</i>	<i>Department Concerned</i>	<i>Conclusion/Recommendation</i>
(1)	(2)	(3)	(4)
1	2	Taxes	While going through the audit paragraph relating to trends of receipts the Committee finds that from 2005-2006 to 2009-2010 there is a huge variation between the Budget Estimates and actual receipts in Agricultural Income Tax. The Committee realises that with the introduction of Amnesty Scheme, the arrears towards the collection of Agricultural Income Tax could have been settled to a large extent. The Committee suggests that at present budget estimates regarding Agricultural Income Tax should be prepared in a more realistic manner and directs that the department should chalk out steps to prepare budget estimate matching with the current financial situation of the State as a whole.
2	6	„	The Committee observes that the non-recovery of loan in so many cases will cause a demoralising effect upon the tax machinery of the State and opines that if a case was reported by the District Collector as non-recoverable it is not essential to carry over such arrears as pending for years. Therefore the Committee urges the department to sort out the recoverable and non-recoverable arrears . The Committee also suggests that the department should codify transparent procedures for writing off the arrears in deserving cases through a bi-partisan agreement.
3	7	„	The Committee wants the department to be more cautious towards accumulation of arrears and proposes that the department should formulate steps for clearing off the arrears, on a priority basis.

(1)	(2)	(3)	(4)
4	8	Taxes	The Committee recommends that the department should clear the arrears by initiating Revenue Recovery Proceedings as and when required and should examine the viability of introducing one time settlement scheme in this regard. The Committee also recommends to introduce an effective monitoring mechanism like submission of annual review statement after reconciliation by the District Collector to the Government towards collection of arrears on Agricultural Income Tax and Revenue Recovery proceedings initiated from time to time.
5	11	„	The Committee expresses its dismay over the functioning of the Internal Audit Wing of the Commercial Taxes Department. It suggests that for the efficient and independent functioning of the Internal Audit Wing, necessary steps should be taken to depute an Officer from the Accountant General's Office as the head of the internal audit wing of the department.
6	13	„	The Committee observes that details of cases of under assessment and other components pointed out by the Audit were not furnished till date even though the department officials have promised to do so at the time of witness examination. The Committee expresses its displeasure over the inertia exhibited by the officials in not taking timely action on cases pointed by Audit and recommends that responsibility should be fixed in case of failure of timely initiation by the officials in rectifying procedures on the observations of the Accountant General, if any found in future. It also directs that the details of amount realised out of the 39 cases should be furnished to it at the earliest.

(1)	(2)	(3)	(4)
7	23	Taxes	The Committee understood that the failure of the department in complying the provisions in the KAIT and the rules made thereunder resulted in short levy of tax and interest which tantamounts huge loss to the exchequer. Therefore the Committee recommends that the department should strictly follow the relevant statutory provisions in the assessment of Agricultural Income Tax. Towards the omission of ₹ 82.36 lakh and consequent short levy of ₹ 41.18 lakh, the Committee accepts the argument put forth by the witness that the short levy was due to a mistake occurred during re-assessment of tax made as per the direction of the Honourable High Court and urges the department to rectify the defect and reports to the Committee at the earliest.
8	24	„	With respect to the short levy of tax of ₹ 21.88 lakh of a Public Limited Company, the Committee re-iterates the observation put forth by the audit that the remarks of the department are not tenable as the assessee had found that the plantation tax claimed in earlier years was in excess of the actual and hence there was surplus fund available with the assessee to the extend of ₹ 43.75 lakh, which can be treated as deemed income. Hence the Committee directs the department to reconsider the whole procedure and report to the Committee at the earliest .
9	25	„	Towards the short levy due to inadmissible deductions, the Committee insists that the turnover of a Company should be in proportion to the stock. The Committee demands that the whole issue should be re-examined and report it before the Committee. At the time of witness examination, the department heads agreed to furnish the required details at the earliest. But the same had not been complied with so far and the Committee expresses its displeasure over it.