

CIRCULAR NO. 20/2015

Sub: Reports of the C&AG – Effective utilization of recurrent defects in C&AG reports in assessment for revenue augmentation and reduction of number of paras in C&AG reports – Reg.

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The Public Accounts Committee has expressed serious concern over the recurrent defects included in the C&AG Reports during the last meeting held on February 2015. It is the fact that almost all the defects are rectified by the assessing authorities by completing the assessment in line with the audit queries. This underlined the serious lapses/ignorance on the part of the assessing authorities in daily scrutiny of assessment records/system based scrutiny. In the circumstances the recurrent defects contained in the C&AG reports are bunched below for the strict utilization in avoiding recurrence of such short levy in assessments.

1. Absence of cross verification of external data such as information obtained from Controller General of Patents and Trade Marks, Customs Department with the returns of the dealer .
2. Not checking the turnover difference between audited accounts and returns.
3. Misclassification of the items such as margarine, soap/safety matches (machine made & hand made), digital printers (Margarine taxable @ 14.5% - Entry 64(8) of notified list of SRO No.82/2006, Soap – Detergent – is taxable @ 14.5% as per entry 27 of notified list of SRO 82/06, safety matches - machine made - taxable @ 5% as per entry 110 of 3rd schedule to KVAT Act, Digital printer is taxable @ 14.5%)
4. Irregular claim of exemption in the guise of works contract in erection of airconditioners, plant & machinery, motor bodies on chasis of motor vehicles, tyre retreading etc.
5. Escapement of turnover due to non reckoning of income received due to price variation, royalty, video rights, warranty charges, DEPB licence etc.
6. Irregular claim of input tax and turnover escapment in cases of discount received (sec 11 of KVAT Act).
7. Turnover escapment due to direct expenses such as transporting charge. If the seller is under obligation to transport goods to the place of the buyer, any incidental or transportation expenses charged will form part of the sales consideration Exln.III(i) to sec.2(lii) of KVAT Act 2003.
8. Application of incorrect rate of tax in case of works contractors who have cancelled CST registration in violation of provision under section 7(5) of CST Act.
9. Irregular claim of IPT/special rebate in stock transfer/exempted transfer of rubber goods (out)/sale on subsidy/ sales to SEZ/ damaged goods/ sale of 1st schedule goods/ compounding etc.
10. Irregular grant of compounding in cases coming under negative list viz. electrical contracts, refrigeration and airconditioning contracts etc.

11. Incorrect computation of compounded tax of metal crusher units where the actual size and number of machines are concealed.
12. Incorrect computation of compounded tax in case of hotels/ bar and gold dealers (sec.8 of KVAT Act).
13. Omission of levy of surcharge under section 3(1A) of Surcharge Act.
14. In works contract the taxable turnover arrived under Rule 10(2)(a) of KVAT Rules is less than the cost of goods transferred in the execution of works contract then the taxable turnover will be cost of goods transferred together with the profit.
15. Turnover escapement detected from check post details in KVATIS.
16. Payment made by the dealer incorrectly appropriates first towards the principal outstanding instead of the interest (sec.91 of KVAT Act, sec.55(c) of KGST Act).
17. Medicine dealer availed irregular exemption for sales turnover of medicine out of interstate purchase (sec.8 of the KVAT Act).
18. IPT availed in excess of actual due in lieu of computing error, purchase return misclassification etc.
19. Incorrect compounding rate of Govt. Contractors holding CST registration @ 4% instead of 5%.
20. Special rebate availed in excess of 6(2) purchase tax paid.
21. Fixed asset sales turnover is omitted to include in the return.
22. Compounded works contractor dealer failed to remit the 6(2) tax due.
23. Sales turnover conceded is less than stock transfer receipt.
24. Consignment sales turnover is not conceded but consignment commission is shown in the P&L Account.
25. Lease rent received is not assessed as transfer of right to use envisaged u/s 6(1)(c) of the KVAT Act.
26. Turnover difference between return and purchase/ sales statement uploaded in KVATIS.
27. No proof for purchase/ sales return.
28. Under valuation of rubber/cashew based on the price rate of Rubber Board/ Cashew Development Board.
29. Sale price conceded is less than that reckoned for advance tax.
30. In works contract, transfer of goods involved in execution of works contract, where the transfer not in the form of goods but in some other form is assessed @ 5% instead of the correct rate @ 14.5%.
31. Interstate purchase/ stock transfer conceded is less than as per the issue register of C/F forms submitted by the assessee to the department.
32. Dealer in motor vehicles conceded the turnover of motor vehicles as used vehicles.
33. Excise duty is not taken as the part of sales turnover (sec.2(xliv)).
34. IPT availed on purchase of building materials and fixtures used in construction activity as capital goods. (SRO 324/05)

35. Freshly compounded dealer is not reversing the IPT taken in the previous year for the purchase of goods held as stock at the end of the previous year.

All assessing authorities of the department are directed to examine the above aspects meticulously while scrutinizing the returns/ records and utilize the same in assessment if warranted.

All supervisory officers are directed to ensure that the instructions are scrupulously followed by the officers.

Sd/-

COMMISSIONER

To

All concerned.