

C6-62381/03/CT

Office of the Commissioner
Commercial Taxes
Thiruvananthapuram
Dated: 26.02.05

CIRCULAR.NO.2/2005

Sub:- KGST Act 1963 – Irregularities in the closing stock reported – instructions to plug leakage of revenue – reg.

It has brought to the notice of the undersigned that there are cases in which either the dealers reported stoppage of business or conceded nominal turnover for the sake of continuing the registration, and in such cases a considerable amount of taxable closing stock was left unnoticed by the assessing authorities without any action. It is also noticed that even if admitted tax was not paid, assessing authorities issued C Forms, Form 18 etc. during the period of default which is highly detrimental to revenue. When the accounts are subject to scrutiny after a long period, the dealers produced cooked up closing stock in books of accounts and claimed as damaged stock of taxable goods. In certain cases reported at the instance of a supervisory officer, an over check was done which revealed that most of the goods shown in the closing stock were not covered by any purchase bills. Even in the case of accounted stock, the difference between the opening stock and closing stock represents shortage of more than twice the sales turnover conceded the during period. In another case, the assessing authority could have collected a tax of more than 10 times of the tax already paid but for the cross check of the details furnished.

Confidential information gathered reveals that the above practice is being followed by several dealers in many offices especially in special circles of all Districts, and the officers are seldom doing any cross check and physical verification of closing stock.

All assessing authorities are directed to ensure a scrutiny of the trading and profit and loss accounts of major dealers of all evasion prone commodities and to make a comparison of item wise closing stock with reference to the cost of previous purchases. If the result of verification shows inflated value, the inference will be that there are unaccounted sales.

In the context of introduction of VAT, the above aspects become a serious concern for collecting the legitimate tax on the stock not physically available under KGST Act and also for safe guarding the revenue by restricting the wrong input tax claim on the sale of goods available in the opening stock, both under taxable and tax suffered

goods. So, all assessing authorities shall personally look into this aspect and identify such cases for further follow up at their level through the Intelligence Wing and Investigation Branch of the Department. The District Deputy Commissioners and all Deputy Commissioner (Int)s will monitor this item of work in a time bound programme with the assistance of both Assessment wing and Intelligence wing and collect the tax legitimate due under the KGST Act before 31.03.05. Any laxity in adhering the directions of the undersigned at the level of both assessing authorities and supervisory officers will be dealt with seriously for taking disciplinary action. Receipt of this circular shall be acknowledged by all officers.

Sd/-
COMMISSIONER