



# Government of Karnataka

Supporting Documentation for implementation of Ease of Doing Business Reforms in the State of Karnataka

<b>Concerned Department</b>	Commercial Tax Department
<b>Area</b>	<b>8(c): Tax enablers</b>
<b>DIPP Recommendation No.</b>	<b>208:</b> Introduce a system for risk based audit related to tax compliance
<b>Response</b>	Yes
<b>Compliance Report</b>	
<b>URL*</b>	<a href="http://ctax.kar.nic.in/">http://ctax.kar.nic.in/</a>
G.O./Notification/ Act	No. Adcom (I&C) IDC (AI)/ CR-79/2015-16 ,Commissioner of Commercial Taxes Circular Nos: 20/2015-16 dt 18.01.2016
Screenshots	Attached Annexures
Compliance Reform	The Commercial Tax Department has initiated comprehensive audit system (CAS),wherein the total number of registered dealer cases for a year are been allotted to the audit officers of the division electronically. Based on above circular instructions and risk parameters mentioned in the said circular, cases will be chosen for assignment for audit purpose. Accordingly, the assigned cases will be taken for scrutiny and after verification of books of accounts, demand if any to be raised and will be collected later as per law.

*\*If the link does not open directly (when clicked), please copy paste the URL into browser address bar.*

***Step 1: Department has identified certain risk parameters (12 nos. for the year 2013-14). Once the dealer uploads the returns electronically, to which parameters the dealer comes will be identified by the system. The said risk parameters are inter-departmental in nature and cannot be made available in public domain. Moreover, internal departmental circulars to the departmental officers to choose the cases for audit based on the said system identified risk parameters are being issued and are also to be not made available to the public domain. However, under each officer password and by footing specific TIN nos, for what risk parameters the cases are selected for audit will be displayed. Therefore, in this regard the circulars cannot be made available to the public domain.***

**Annexure: Government Notification regarding application of risk parameters as a compliance measure**



GOVERNMENT OF KARNATAKA  
(Commercial Taxes Department)

No. Adcom (I&C)/DC (A1)/CR-79/2015-16      Office of the  
Commissioner of Commercial Taxes,  
Gandhi Nagar, Kalidasa Road,  
Bengaluru – 560009, Dt: 18-01-2016.

Commissioner of Commercial Taxes Circular No: 20/2015-16

Sub: Scrutiny of cases on the basis of risk parameters for  
the years 2013-14 – reg.

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◀ The officers are aware that audit cases have been allotted to all audit officers in the state on the basis of risk parameters for scrutiny and selection for audit for the year 2013-14. It is observed that many of the audit offices simply select cases for audit without scrutinizing and without mentioning the risk parameters involved in such cases. This would result in large number of requests for audit assignments, which may lead to substantial pendency of assignments for audit. Therefore, there is a necessity to issue certain guidelines for scrutiny and selection of cases for audit by the audit officers, so that a reasonable number of requests for audit assignments are made. This also results in completion of audit proceedings within a short span of time with creation of sustainable additional demand. The points to be verified in each of the 12 risk parameters are explained in the following paragraphs.

The risk parameters are as under:

**(1) Carry forward of more than Rs. One lakh continuously for three or more months:-** The carry forward of excess input tax over output tax in any month may be due to the following reasons –

- a. Goods sold in the course of interstate trade against 'C' forms, the purchase of which was within the state against payment of VAT, resulting in carry forward of excess input tax credit;
- b. In the case of seasonal business like that of crackers, woolen goods, agriculture produce etc., the purchase of goods would be high in the months preceding the start of the season resulting in carry forward of excess input tax credit in those months.



- c. In the case of some manufacturers inputs are at higher rate and the finished product is at lower rate, resulting in carry forward of excess input tax credit.

In all the above cases, there may be excess input tax over output tax in particular month, continuously for more than one tax period. If such ITC carried forward is more than Rs.1.00 lakh and if the same is carried forward continuously for three months, such cases may be selected after detailed verification of the data in the dealer file.

**(2) Claim of input tax credit with no output tax liability in an entire year:-** Such situation arises when –

- a. a dealer purchases taxable goods and manufactures exempt goods on which no output tax is payable. In such cases, input tax has to be restricted as per Section 11(a)(1) of the KVAT Act 2003.
- b. An exporter exports the goods on which no output tax is payable. Documentary evidence for actual export of goods is required to be verified in such cases.
- c. Purchases are made locally paying input tax and stock transfer is effected to another state. In such cases tax paid on inputs is to be restricted as per Section 11(a)(5) read with Section 14.

Therefore, all cases falling under this risk parameter have to be scrutinized and selected for audit.

**(3) Output tax to input tax ratio being less than 1 for the entire year whose total turnover exceeds Rs.50.00 lakhs:-** Under this risk parameter, the system has picked up even those cases where output tax ratio is less than one in only one month. The dealer dealing in seasonal goods may effect more purchases during peak season, resulting in more input tax and less output tax resulting in output/input ratio of less than 1. Such dealer may sell such goods in the subsequent months with more output tax than input tax. Therefore, instead of considering cases for audit on the basis of the ratio of output to input tax being less than 1 in any one month of a year, it is suggested to consider those cases where such ratio is less than 1 in at least three months in a year.

**(4) Detection of additional tax liability exceeding Rs.25,000.00 during the previous audits:-** Under this parameter, it is important to verify the facts on the basis of which additional tax liability exceeding Rs.25,000 has been created during the previous audit. This additional tax liability might be on account of stock difference.



documents found at the time of inspection of the business premises of the dealer by the enforcement officers. Such enforcement activity may not be there in the subsequent year for which scrutiny is taken up. Such cases do not merit a detailed audit. If the additional tax liability is created in the previous year on account of misclassification of an taxable transaction or wrong claims of exemptions which are detected at the time of verification of books of accounts, such cases are required to be audited for the subsequent year as the possibility of committing the same mistake is there in the subsequent year also. Therefore, it is suggested to select only those cases where additional demand is created due to a detailed previous audit, after going through the connected audit order.

**(5) E-Sugam local turnover more by 15% than declared local turnover for the entire year:-** The cases under this risk parameter are picked up by the system mainly due to the reason that tax element is included in the value of goods in e-Sugam whereas in the return only the net amount is shown. Sometimes, it may be due to repeated generation of e-Sugam for the same transaction, more than once, because of extraneous reasons. In some cases, it may be due to raising of e-Sugam for purchases on the last day of the month, whereas accounting the same in the next month. Hence, before selecting the case for audit, these possibilities have to be examined. If the difference is more than 15% between the turnovers as per return and that of e-Sugam, such cases are required to be chosen for audit.

**(6) Decrease of tax payments by more than 10% when compared to previous year (2012-13) for the dealers with local turnover of more than Rs.50 lakh in respect of LVOs of Bangalore City and for the dealers with local turnover of Rs.25.00 Lakh in respect of LVOs other than Bangalore City:-** Under this parameter, it may not be possible for the audit officers to identify the reasons for decrease in payment of tax when compared to previous year on the basis of data available in the dealer file. Therefore, all cases referred under this parameter may be taken up for audit.

**(7) Claims of any refunds exceeding Rs.50,000.00 with no transaction under the CST Act:-** Two types of dealers may fall under this category:

- a. A dealer engaged in the business of simple trading may keep on claiming refunds by declaring purchases of goods taxable at higher rate and sales of goods taxable at a lower rate. There may be cases of purchases always being more than the sales. Such cases are required to be taken up for audit compulsorily.



- b. There may be dealers who are engaged in manufacture of goods taxable at lower rate of tax out of inputs taxable at standard rate of tax. In such cases the audit officer is required to verify the audit orders passed for the previous years and if no discrepancies are noticed in those orders such cases may not be taken up for audit. However, if a dealer has taken cash refund in any of the cases falling under this category, such case has to be compulsorily taken up for audit.

**(8) Interstate stock transfer from out of locally purchased taxable goods, without restriction of ineligible input tax credit:-** When a dealer declares interstate stock transfer turnover in Box 3.2, input tax shall not be deducted in calculating the net tax payable, except as provided in Section 14. Such dealer, while submitting Form 100, has to self-assess and restrict the non-deductible input tax in Box 10.3 of Form VAT 100. If such restriction is not shown in Box 10.3, then such cases have to be necessarily selected for Audit.

**(9) Cases where the exempted turnover in Box 2.1 is more than 50% of the total turnover shown in Box 2 of Form VAT 100, for the dealers having total turnover of more than Rs.1.00 crore for the year:-** Where the total turnover of a dealer is more than Rs.1.00 crore and if the claim of the exempted turnover under Box 2.1 is more than 50% when compared to that of turnover in Box 2, all such cases shall be selected for audit to analyze the claim of exemption and to discuss the same in the assessment order.

**(10) Cases where the turnover declared in Box 2.2 of Form VAT 120 is less than 15% of the total turnover in Box 2.1, for dealers having total turnover of more than Rs.1.00 crore for the year:-** Where the total turnover of a dealer is more than Rs.1.00 crore but URD purchases liable to tax under Section 3(2) is less than 15%, then such cases shall be selected for audit to find out the correctness of the declared URD purchases. Normally, this situation arises in the case of works contractors.

**(11) Cases where the tax liability declared in a financial year is less than what is declared in Form VAT 240:-** The dealers, whose turnover in any financial year is more than Rs. 1.00 crore, are required to submit Form VAT 240, within 9 months from the end of such financial year. While submitting the same, there may be cases, where the tax declared in the Form VAT 240 is substantially low when compared to the tax



declared for such financial year. Such cases may be selected for audit. If the difference is marginal, there is no need to select such cases, unless it is covered under any other risk parameter.

**(12) Cases where the turnover of dealers is more than Rs.1.00 crore in a financial year, but have not filed Form VAT 240:-** As per Section 31(4) read with Rule 34(3), every dealer whose total turnover in a financial year exceeds Rs.1.00 crore, is required to have his accounts audited by a Chartered Accountant or Cost Accountant or Sales Tax Practitioner and submit Form VAT 240. If the dealers do not comply with this provision, such cases may be selected for audit.

2. The requests for assignments should be submitted after verification of the above mentioned issues involved in all the risk parameters. The JCCTs of DVOs are instructed to re-verify the requests for assignments already submitted by the audit officers and pending with them and submit only those cases which are fit for audit, based on the observations made in this circular. Such a verification is required in the cases kept on hold in CCT Office and hence, lists of such cases are being sent to the concerned JCCT-DVO for verification and identification of fit cases for audit once again. On the basis of reports received from the JCCT-DVO, suitable action will be taken by the Head Office in such cases.

3. The above instructions are to be scrupulously followed by all the officers concerned.



(RITVIK PANDEY)

Commissioner of Commercial Taxes  
Karnataka, Bengaluru.  
Commissioner of Commercial Ta  
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To:

All the officers in the State.