Manual for System Based Scrutiny of Returns
Under VAT, CST and OET
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1. Introduction

1.1. Background

The introduction of self-assessment in VAT, in 2005, was a defining moment for the Indian taxation system as the primary onus of assessment was conferred upon the taxpayer and the system of compulsory assessment by the department was done away with. The introduction of self-assessment underscored the need for a strong compliance verification mechanism leading to a robust risk assessment program. Such a mechanism has three important elements:

- Scrutiny of returns;
- Audit; and
- Enforcement

A key imperative of self-assessment is to put in place an effective system of scrutiny of returns, which forms a strong foundation for selection of cases for audit and subsequent enforcement activities. The success of the outcome of an audit or enforcement case largely depends on the proper selection of the case.

The importance of scrutiny of returns was also highlighted by Dr. Vijay Kelkar, in his report on indirect taxation.¹ The observation made in the context of Central excise which is also relevant to VAT, is reproduced below:

“It is the view that the assessment should be the primary function of the Central Excise Officers. Self assessment on the part of the taxpayer is only a facility and cannot and must not be treated as a dilution of the statutory responsibility of the Central Excise Officers in ensuring correctness of duty payment. No doubt, audit and anti-evasion have their roles to play but assessment or confirmation of assessment should remain the primary responsibility of the Central Excise Officers.”

Historically, the compliance monitoring system has been manual in nature and required visits to the taxpayer’s business premises for physical audits. However, with increasing availability of registration and returns data online, it is possible to replace the manual compliance monitoring system with an online system, which is not only efficient but also effective. Modern online scrutiny and monitoring systems are useful not only for regular checks related to correctness, completeness and timeliness of data; they can also be used for advanced analysis of data for accurate assessment of tax liability of the taxpayer, thereby reducing the requirement for field visits to the taxpayer’s business premises significantly.

The advantages of an online scrutiny and monitoring system are as follows:

- An online scrutiny system can provide results instantaneously, as opposed to the manual scrutiny process, which can be tedious and prone to inertia.

¹ Report of the Task Force on Indirect Taxation 2002, Central Board of Excise and Service Tax, Government of India
• Since the results of an online scrutiny can be communicated instantly to taxpayers, it also helps in impressing upon the taxpayer that they are being closely monitored by the tax administration. This increases the care and diligence on the part of the taxpayer in submitting the VAT returns.
• It reduces the scope of collusion between the tax administration and taxpayers.
• It is also independent of the variations in quality of tax administration staff, thereby making the process more reliable and consistent.
• Verification of input tax credit claims can be done by matching the dealer-wise and/or invoice-wise details of sellers and buyers. Indeed the systems for the GST Network (GSTN) are being designed for this purpose.

A good starting point for laying the foundation for an efficient online returns scrutiny process is to have a robust process for capturing data on registration of dealers and VAT returns, which is reliable and consistent. Not many states in India have historically done much about online scrutiny of returns because they did not have methods to capture registration and returns data with high degree of reliability and consistency. The OCTD has undertaken significant initiatives towards online filing of returns which can pave the way for an efficient online return scrutiny process.

The purpose of this manual is to explore how an effective online scrutiny process will be implemented at OCTD. It is useful to note that the effectiveness of online scrutiny system is dependent on the quality of data available. While the online data capture processes will evolve over time, a number of initiatives can be undertaken based on the current data available in the VATIS. Initially, the online scrutiny system will start as a modest program, which would mature over time. Indeed, even a modest program can yield rich dividends in the short term.

In online returns scrutiny, additional information about taxpayer profile is important. The elements of a successful implementation of online returns scrutiny process are:

• Updated registration file for proper identification of taxpayer and commodity classification
• Availability of historical returns data captured in the IT system
• Mechanical accuracy and consistency of registration and returns data
• Business rule based verification built into the IT system as part of the online scrutiny process

1.2. Purpose and scope of scrutiny of returns

The purpose of scrutiny of returns is to ensure correctness of self-assessment made in the return by the taxpayer. The process for scrutiny of VAT returns is to put into place a three part system of scrutiny of returns which includes:

• Arithmetic Consistencies and calculation mistakes covering all the returns
• Preliminary scrutiny system covering all the returns and
Detailed scrutiny system covering a few returns selected on the basis of risk parameters drawn from the information furnished by taxpayers in the return forms

The scrutiny effort has been visualized as a three–stage process. In the first stage, preemptive check is made by way of building validation checks into the system so that no arithmetical/calculation mistakes can occur. In the second stage, preliminary scrutiny is envisaged to cover all returns. This process is automated and would cover core checks like timeliness in filing returns and payment of taxes. The third stage is designed to select certain percent of the total returns for detailed scrutiny, also to be done online.

Facilitating online preliminary scrutiny enhances efficiency and releases manpower for detailed electronic scrutiny, which could then become the core function of the Range/ Circle offices.

The purpose of preliminary scrutiny is to ensure:

- Timely submission of the return (Was the return filed within the stipulated time period?)
- Timely and full payment of taxes including interest for late payment (Was the tax payment made on or before due date?)
- Correct payment of Tax (Was the total tax paid less than the total tax payable?)
- Identification of non-filers and nil filers

The purpose of detailed scrutiny is to:

- Establish the validity and correctness of the information furnished in the tax return, such as verification of purchases on which input tax credit (ITC) has been claimed, cross checking with the other available information from waybills, statutory forms and other sources.
- In case, where there seem to be discrepancies on basis of available information to take further appropriate action.
- Ensure correctness of classification of commodities and appropriateness of effective rate of tax
- Ensure correct availment of ITC on inputs, capital goods and others
- Ensure overall consistency of the returns filed by the tax payers over a period of time

The detailed scrutiny program performs two important functions:

- It helps to cover a large number of units, requires lower skill levels and resolves assessment in a timely and cost effective manner. It also provides an opportunity to the tax administration to advise the tax payers on proper filing of returns and being compliant at all times. It typically provides inputs for the audit program, which requires more time to complete as pre- audit procedures have to be followed on the cases selected.
- It also serves as a ‘workload development’ function by initiating referrals for audit/ enforcement.
1.3. Legal framework for Scrutiny of returns

The legal framework of the scrutiny of return is already provided in the OVAT Act.

- Section 38 of the Odisha Value Added Tax Act mandates compulsory scrutiny of each and every return filed u/s 33.
- The scrutiny of returns may be system based or manual (Rule 40 OVAT rules 2004). There is also provision for issuing notice in Form VAT-209 asking the dealer to make payment of the balance amount of the tax along with the interest in cases where tax paid is found to be less than the tax payable amount for the tax period for which the return was scrutinized.

1.4. Audit and Returns scrutiny

Scrutiny of returns and audit are two distinct but inter-related activities of the compliance verification system. The purpose of returns scrutiny is to ensure correctness of self-assessment made by the taxpayer in the return. On the other hand the scope of audit goes beyond the data provided on tax returns. It entails further inspection of the financial records of a dealer for a period to identify non-compliance issues and to evaluate the internal control system followed by the taxpayer.

Thus the fundamental difference between audit and returns scrutiny is that in audit there is a physical interface between the taxpayer and the tax administration and it is conducted generally at the business premises of the taxpayer. As opposed to this, in the scrutiny of returns, the assessing Officer is not allowed to visit the business premise of the dealer and can only call for information and financial records to verify the correctness of the information furnished in the return. Financial records are required to validate the information furnished by the taxpayer in the tax return. Therefore in returns’ scrutiny, the assessing Officer may refer to the same financial record for the limited purpose of validating the correctness of the VAT return. However, on basis of detailed scrutiny, in case it is felt that further detailed enquiry needs to be made, the case should be recommended to the Commissioner, Commercial taxes for tasking up for audit or assessment.

With the increasing availability of VAT returns data in digitized format through online submission of VAT returns, the role of online scrutiny of returns has assumed great significance. Further, as data quality improves over time, the quality of online scrutiny also improves through intelligent analysis of information using business intelligence tools, leading to accurate selection of cases for audit. With increasing use of business intelligence tools, it is possible that the scope of online scrutiny of returns increases over a period of time, while the scope of audit and enforcement becomes more focused to deal effectively with serious offenders.
2. Process for System Based Scrutiny of Returns

The process for scrutiny of VAT returns and analysis in the ONLINE SCRUTINY MODULE has three levels which include:

- Verification of arithmetical inconsistencies covering all the returns
- Preliminary scrutiny covering all the returns and
- Detailed scrutiny covering selective returns chose on the basis of risk parameters drawn from the information furnished by taxpayers in the return forms

2.1. LEVEL 1: Scrutiny for arithmetical and calculation errors and identification of non filers and stop filers: (SYSTEM BASED)

The first step of scrutiny of returns begins with the filing of returns by dealer himself/herself. This scrutiny of returns for verification of any arithmetical or calculation error has been built into the system. A dealer will not be able to file returns which have arithmetical/calculation mistakes. There are many validation checks built into the system to catch such errors. With filing of annexure to the VAT returns made mandatory, auto filing of main forms from annexure is possible. This has resulted in the entire first level of scrutiny to become automatic, system based and pre-emptive in nature as it will not allow the dealer to enter wrong calculations in the returns for VAT. No follow up action is required on this. To ensure this validity the Commercial Tax Department is building in-house capacity to make validation checks on a monthly basis.

Regarding non filers and stop filers instructions has already been issued previously through circulars and these should be followed.

2.2. LEVEL 2: Preliminary Scrutiny of Returns

The second level of scrutiny is Preliminary Scrutiny. The purpose of preliminary scrutiny is to ensure:

1) Timely submission of the return (Whether the return has been filed within the prescribed time period)

2) Timely payment of tax (Whether the tax payment is as has been admitted)

3) Correct payment of Tax (Whether payable amount of tax has been paid by the dealer)
4) Timely payment of interest (whether the interest is paid along with the tax, where the tax is paid beyond stipulated period.)

The system will check these aspects of the return filed and then automatically send by way of email and SMS to the dealer about the discrepancies, if any, found in the return.

The system will on 5th day of the next month, generate a circle wise report of dealer with discrepancies on any of the above three criteria. Around the 15th day of the month, the circle in charge can send notices to the dealers who have not taken necessary action as per the intimation on 5th day of the month to make good the interest payment or penalty as per law.

The format of report which will be generated through the system is given at Annexure II

2.3. LEVEL 3: Detailed Scrutiny of Returns

The third step of Scrutiny is detail scrutiny. For detail scrutiny selection of dealer will be made based on certain parameters. The information furnished in returns filed by a dealer under different Acts (OVAT, CST & OET) for specific tax periods have been interlinked for automatic cross matching across twenty fields. Further five fields have also been added to the algorithm. The algorithm will run on all the returns on the basis of the chosen parameters. For each parameter the dealer will be assessed as “Yes” or “No”. “Yes” denotes score of “1” and “No” denotes score of “0”. Based on the total score, dealers will be arranged in descending order with those dealers on top who show discrepancies on maximum number of parameters. Out of the monthly dealers 2% and in case of quarterly dealers 0.5% of the dealers from top of the list will be selected for detail scrutiny.

2.3.1. Guidelines for selection of returns for detailed scrutiny

The guidelines are designed to select certain percentage of returns based on risk parameters extracted from the information furnished in the return and some other parameters. The selection process would be centralized and system-based.

- The first category of parameters would be obtained from a cross checking of the ET, VAT and CST returns filed by the dealer. The parameters are given below with their logic:
<table>
<thead>
<tr>
<th>S.No</th>
<th>Description</th>
<th>Fields and Logic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Goods purchase and Sale Details within VAT, CST and ET</td>
<td>Mismatch between Sl. No. 4 of VAT 201 and Sl. No. 5 &amp; 17 of E3</td>
</tr>
<tr>
<td>2</td>
<td>ITC carried forward and brought forward mismatch from last return</td>
<td>Mismatch between Sl. No. 5 of current Tax period and Sl.No. 55 of previous tax period of VAT 201</td>
</tr>
<tr>
<td>3</td>
<td>Value of inter-state purchase, purchase in course of import, stock receipt by way of transfer &amp; consignment sale, capital goods purchased from outside the State and transfer of goods for right to use from outside the State and check gate data</td>
<td>Mismatch between outside purchase of VAT 201 and check gate data</td>
</tr>
<tr>
<td>4</td>
<td>Total value of goods purchased under VAT and under ET</td>
<td>Mismatch between Sl. No. 19 of VAT 201 and Sl. No. 5 of E3</td>
</tr>
<tr>
<td>5</td>
<td>Non-creditable amount of ITC on account of branch transfer / consignment sale</td>
<td>S.No 1 of Annexure-I = S.No.31 of VAT return = S.No 5(a)+5(b). S.No. 9+21 of ET &lt;= S.No 31 of VAT</td>
</tr>
<tr>
<td>6</td>
<td>Reduction of ITC in excess of CST payable</td>
<td>Sl no.1(VIII)(b) of Annexure-II = Sl no.30(iii) of VAT return = Sl no. 6(a) of CST return</td>
</tr>
<tr>
<td>7</td>
<td>Reduction of ITC when sale price is less than purchase price</td>
<td>Sl no. 7 + 8(i)+8(ii)+9(A)(iii)+9(B)(i)+9(B)(ii) &gt; Sl no.33(vii) of VAT return</td>
</tr>
<tr>
<td>8</td>
<td>Decrease of ITC &amp; increase of ITC due to receipt of credit note &amp; receipt of debit note respectively</td>
<td>Mismatch between Sl.No. 24 and Annexure V of VAT 201.</td>
</tr>
<tr>
<td>9</td>
<td>ITC on capital goods</td>
<td>Mismatch between Sl.No. 17(i) and Annexure III of VAT 201.</td>
</tr>
<tr>
<td>10</td>
<td>ITC on transfer of right to use of goods</td>
<td>Mismatch between S.No. 17(ii) and Annexure IIIA of VAT 201.</td>
</tr>
<tr>
<td>11</td>
<td>Sale in course of export - VAT and ET</td>
<td>Mismatch between Sl. No. 30(i) of VAT 201 and Sl. No. 20 of E3</td>
</tr>
<tr>
<td>12</td>
<td>Sale in course of import+ Export under VAT with under CST</td>
<td>Mismatch between Sl. No. 30(i) + 30(ii) of VAT 201 and Sl. No.6(b) of CST return</td>
</tr>
<tr>
<td>13</td>
<td>Sale in course of inter-state trade or commerce under VAT and CST</td>
<td>Mismatch between Sl. No. 30(iii) of VAT 201 and Sl. No.6(a) of CST return</td>
</tr>
<tr>
<td>14</td>
<td>Sale to a dealer under SEZ / STP / EHT</td>
<td>Mismatch between Sl. No. 30(iv) of VAT 201 and Sl. No.6(f) of CST return</td>
</tr>
<tr>
<td>15</td>
<td>Despatch of goods to outside the State on branch transfer / consignment sale</td>
<td>Mismatch between 30(iii) + 31 and check gate data</td>
</tr>
</tbody>
</table>
| 16   | Decrease of output tax due to issue of credit note & increase of output tax due to issue of debit note | (i) Mismatch between Sl.No. 43 of VAT 201 and S.No 4(x) of Table IV of Annexure V  
(ii) Mismatch between Sl.No. 44 of VAT 201 and Sl.No 6(x) of Table IV of Annexure V |
| 17   | Mismatch between interest and payment amount                                 | Mismatch between interest and payment amount                                     |
| 18   | ITC adjusted against CST payable                                             | Sl.No 50 <= Sld. No.49 and Sl no. 50 = Sl no.13 of                             |
Besides the above list, the following risk parameters are incorporated in the algorithm:

21) Does the dealer claim more input tax than output tax?

22) Are the sales of the dealer less than 1.05 times the purchases?

23) Is the dealer having sales less (under 13.5% category) than purchase?

24) Is the % of exempted goods over the last return increase by more than 10%?

25) Is there an increase in ITC utilization to total tax payment over the last return?

In case the dealer has been selected for audit during the current financial year, then the details may be sent to the team carrying out the scrutiny and detailed scrutiny need not be taken up. Further, to avoid repetition, if a dealer has been selected for detailed scrutiny once during the current financial year, then it need not be picked up for detailed scrutiny again during the current year.

2.3.2. Administrative Arrangements

The CTOs in charge of audit will carry out detail scrutiny of returns with the assistance of the ACTOs assigned the work. The CTOs / ACTOs will be able to generate a list of dealers on the basis of the risk parameters for their circle for detail scrutiny. For purpose of carrying out detail scrutiny the following steps should be adhered to:

a) Analysis of the discrepancies noticed in different fields/ parameters and the logic involved therein.

b) Analysis of the history and antecedents of the dealer, his/her nature of business and his/her tax liability and compliance over the periods and correlation with the discrepancies shown.

c) Cross verification of data available on issue and utilization of statutory forms like C forms, F forms, H Forms and Waybills in the system in VATIS and TINXSYS.
d) Analysis of dealer watch register showing total turnover and tax compliance of the dealer over the period in respect of output tax, ITC claimed, application of correct rate of tax and full payment of tax and interest payable by a dealer for a particular period.

e) Going through the ITC ledger for the dealer available in the system and analyse the discrepancies if any shown or noticed.

Such scrutiny can lead to any of the following recourses/ measures:

a) In case where the discrepancy pointed out can be explained to a reasonable degree of satisfaction, it may be recommended by the ACTO to the assessing officer “that no further action is required”.

b) In case where the discrepancy is not satisfactorily explained, then a report highlighting the specific issues pertaining to law and facts involved will be entered in the online scrutiny platform and forwarded to assessing authority for appropriate action.

c) On receipt of the report and on basis of further analysis, the assessing officer may come to a conclusion that no further action is required and indicate the same in the scrutiny module or, the assessing authority may forward the issues involving questions of fact and law to the dealer by email, along with a SMS notification asking for a response within 30 days. Thereafter, the dealer may file a revised return or give a reply stating therein the correct position along with reasons of occurrence of such mistake to the assessing authority, and if such authority is satisfied with the action taken/response then he may conclude that “no further action is required”. In cases where it appears that the discrepancies are not satisfactorily explained or reconciled and further enquiry is required, then a detailed report to that effect may be prepared and the case be referred to the CCT (O) for inclusion of the same in the audit programme u/s 41 of OVAT Act for the next financial year or the ensuing year. The report will be examined by the EIU (Economic Intelligence Unit) at the CCT (O) for obtaining approval of the CCT(O) to that effect.

2.3.3. Feedback

It should be noted that the system is evolving and more functionalities will be added in the next few months to make it more robust and easier (to find fraud). Some of the above functionalities are already available in the system and new functionalities will be rolled out soon. It is encouraged for all users (ACTOs and above) to provide feedback on the system available and/or any new functionalities which
they feel is necessary in the system to improve it. The feedback will help in improving the system further in coming months.

Some illustrative important conceptual and statutory issues during detailed scrutiny are given in Annexure V.
3. Annexure I: Process flow for Scrutiny of Returns

Scrubiny of Returns

**Deatre (Arithmetic Scrutiny)**
- Start
  - Dealer files return after login to the portal
  - Is there any arithmetical mistake?
    - Yes: Dealer asked to correct return and try filing again
    - No: System scrutinizes on 2nd of every month for timely submission, timely payment and correct payment of tax
  - System flags the returns which fails in any of the three criteria
  - System Sends Email to the dealer to rectify the discrepancies

**VATIS**
- Accept Return with first level scrutiny on Arithmetical checks completed
- System scrutinizes on 2nd of every month for timely submission, timely payment and correct payment of tax
- System flags the returns which fails in any of the three criteria
- System Sends Email to the dealer to rectify the discrepancies

**ACTOs/Circle Authority**
- Preliminary Scrutiny
  - Generate circle wise list of discrepancies on 7th day of month
  - Circle in charge sends email/sms to dealer to correct the discrepancy
  - Has the Discrepancies been rectified?
    - Yes: Send Notices to the dealer and follow up for interest and penalties
    - No: Send Notices to the dealer and follow up for interest and penalties

**ACTOs/Circle Authority**
- Detailed Scrutiny
  - A list of dealers is generated who have failed in most of the parameters. Top 2% dealers are selected from this list for detailed scrutiny
  - ACTOs to conduct detailed scrutiny on each of the returns in the list. Detailed scrutiny checklist as well as information available in system can be used to scrutinize returns
  - Document the result of the scrutiny/actions to be taken
  - Circle authority can ask for books of accounts if required/ refer case to audit
  - Stop
4. Annexure II: Sample result of Preliminary Scrutiny

OFFICE OF THE COMMISSIONER OF COMMERCIAL TAXES
Barniyakar Bhawan, Cuttack-753001

2. Dealer’s not filed in stipulated Tax Period
8. Total Tax Payable by Dealer’s more than tax paid
9. Tax Payable not paid in due date.

<table>
<thead>
<tr>
<th>TIN</th>
<th>DealerName</th>
<th>OfficeName</th>
<th>Mismatch Point</th>
</tr>
</thead>
<tbody>
<tr>
<td>21631118988</td>
<td>S.L. TRADERS</td>
<td>BHUBANESWAR I</td>
<td>2.9</td>
</tr>
<tr>
<td>21282801045</td>
<td>BHATTIBHUMI INFRATECH PVT.LTD.</td>
<td>BHUBANESWAR I</td>
<td>2</td>
</tr>
<tr>
<td>21561100398</td>
<td>M.S. PREMA TOOLS &amp; MILLS STORES</td>
<td>BHUBANESWAR I</td>
<td>2,8,9</td>
</tr>
<tr>
<td>21771106248</td>
<td>M.S. J.K. TRADING CORPORATION</td>
<td>BHUBANESWAR I</td>
<td>2</td>
</tr>
<tr>
<td>21951120742</td>
<td>BHURJABAGRO PRIVATE LIMITED</td>
<td>BHUBANESWAR I</td>
<td>2</td>
</tr>
<tr>
<td>21871102119</td>
<td>M.S INDUSTRIAL SUPPLY SYNDICATE</td>
<td>BHUBANESWAR I</td>
<td>2</td>
</tr>
<tr>
<td>21650801362</td>
<td>RAKESH ENGINEERING CO.</td>
<td>BHUBANESWAR I</td>
<td>2</td>
</tr>
<tr>
<td>21371101327</td>
<td>M.S SHRREE MAHAUR TRADERS</td>
<td>BHUBANESWAR I</td>
<td>2</td>
</tr>
<tr>
<td>21631118922</td>
<td>SWITCHING AVO ELECTRO POWER LTD.</td>
<td>BHUBANESWAR I</td>
<td>2,9</td>
</tr>
<tr>
<td>21991111710</td>
<td>AUROSHREE ENTERPRISES PVT. LTD.</td>
<td>BHUBANESWAR I</td>
<td>2</td>
</tr>
<tr>
<td>21901104573</td>
<td>M/s Recon Oil Industries Ltd.</td>
<td>BHUBANESWAR I</td>
<td>2</td>
</tr>
<tr>
<td>21701101000</td>
<td>M/s Keshoreela Motor</td>
<td>BHUBANESWAR I</td>
<td>2</td>
</tr>
<tr>
<td>21351118804</td>
<td>ABHAY KUMAR RAHUL KUMAR</td>
<td>BHUBANESWAR I</td>
<td>2</td>
</tr>
<tr>
<td>21521100120</td>
<td>M/S VARSHA ENTERPRISES</td>
<td>BHUBANESWAR I</td>
<td>2,9</td>
</tr>
<tr>
<td>214811100442</td>
<td>ESSAR BAKERY</td>
<td>BHUBANESWAR I</td>
<td>2</td>
</tr>
<tr>
<td>21331100573</td>
<td>M/S RAJHANI SALES</td>
<td>BHUBANESWAR I</td>
<td>2</td>
</tr>
<tr>
<td>21981118306</td>
<td>MAYUR PLY INDUSTRIES PVT LTD</td>
<td>BHUBANESWAR I</td>
<td>2,9</td>
</tr>
<tr>
<td>218911101914</td>
<td>M/S ESSAR ELECTRONICS</td>
<td>BHUBANESWAR I</td>
<td>2</td>
</tr>
</tbody>
</table>
Sample list of dealers who have failed risk parameters are as below:

In the above screen, top 5% of dealers failing in the risk parameters are provided for Bhubaneswar III Circle. The Screen shows the TIN number of the Dealer as well as the count of the Mismatch of the total
risk parameters and the number corresponding to the risk parameter on which discrepancies were found.

A circle officer can click on the TIN number of the dealer in the list generated to get more details about the mismatch found as shown in the image on the following page:

The screen will show the values corresponding to each figure under various acts like VAT, CST and ET. The ACTOs should use this information along with information available in VATIS to scrutinize these returns further.

Also, the officer will be able to click the TIN number of the dealer to see a dashboard containing various reports on the dealer like – Watch Register, ITC mismatch, Assessment records, Dealer Information, Waybills Statutory forms, Purchase/sale information. Each report is accessible by clicking the corresponding link.
<table>
<thead>
<tr>
<th>Serial No</th>
<th>Description</th>
<th>VAT</th>
<th>CST</th>
<th>ET</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Mismatch between Sl. No. 3 of Statement (a) and Sl. No. 5 of summary (b) of Turnover. OTO issued to the creditor - (CST No. 8) for the period and brought forward from the preceding period.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Mismatch between outside purchase and sale of goods, services or immovable property, purchase receipt by way of transfer &amp; consignment outside the State and check gateway.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Sl. no. 1(VIII) of Answer- II</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Sl. no. 6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Mismatch between Sl. No. 17과 (i)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Mismatch between Sl. No. 35(a) of VAT 201 and Sl. No. 20 of E3 (Sale in course of export under VAT and ET)</td>
<td>Sl. No 20 218862</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Mismatch between Sl. No. 35(a) of VAT 201 and Sl. No. 6(b) of CST return (Sale in course of inter-state trade or commerce under VAT and ET)</td>
<td>Sl. No 6(b) 218862</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Sample of a report generated on clicking watch register:

![Sample report](image1)

Sample of report generated on clicking dealer information (Dealer certificate will be displayed)

![Sample report](image2)
Sample of report generated on clicking purchase/sales:

The circle authority can anytime look at the corresponding description of the serial number of the mismatch as depicted below:
### 6. Annexure IV: Criteria/parameters for detailed scrutiny

<table>
<thead>
<tr>
<th>Sl</th>
<th>Items</th>
<th>Description</th>
<th>Logic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>NoPurchaseNoSale</strong></td>
<td>Mismatch between Sl. No. 4 of VAT 201 and Sl. No. 5 &amp; 17 of E3 (If there is no purchase and no sale in VAT 201, sl no. 5, 17 of ET return &amp; sl no.6(c) of CST return should also be nil)</td>
<td>If sl no. 4 of VAT is null then sl no. 5, 17 of ET return &amp; sl no.6(c) of CST return should also be nil</td>
</tr>
<tr>
<td>2</td>
<td><strong>OpeningITC foraTaxPeriod</strong></td>
<td>Mismatch between Sl. No. 5 of current Tax period and Sl.No. 55 of previous tax period of VAT 201. (ITC carried forward and brought forward mismatch from last return)</td>
<td>Sl no. 5 should match with Sl no. 55 of VAT return of previous tax period.</td>
</tr>
<tr>
<td>3</td>
<td><strong>ValueOfInterstatePurchase</strong></td>
<td>Mismatch between outside purchase declared by the dealer in VAT 201 and check gate data (Value of inter-state purchase, purchase in course of import, stock receipt by way of transfer &amp; consignment sale, capital goods purchased from outside the State and transfer of goods for right to use from outside the State and check gate data)</td>
<td>Sum total of Sl no.12,14,15,18(i) &amp; 18(ii) should match with the check gate/railway/airport data of the same tax period.</td>
</tr>
<tr>
<td>4</td>
<td><strong>TotalVauleOfGoodsPurchasesWithinOrOutsideState</strong></td>
<td>Mismatch between Sl. No. 19 of VAT 201 and Sl. No. 5 of E3 (Total value of goods purchased under VAT and under ET)</td>
<td>Sl no. 5 of ET Return &gt;= Sl no. 19 of VAT return.</td>
</tr>
<tr>
<td>5</td>
<td><strong>NonCreditableITCAmt</strong></td>
<td>Sl no. 1 of Annexure-I =Sl No.31 of VAT return= Sl.no 5(a)+5(b).Sl no.9+21 of ET&lt;=sl no 31 of VAT(Non-creditable amount of ITC on account of branch transfer /</td>
<td>Sl no. 1 of Annexure-I =Sl No.31 of VAT return= Sl.no 5(a)+5(b).Sl no.9+21 of ET&lt;=sl no 31 of VAT</td>
</tr>
<tr>
<td>Sl No</td>
<td>Description</td>
<td>Calculation</td>
<td>Notes</td>
</tr>
<tr>
<td>-------</td>
<td>-------------</td>
<td>-------------</td>
<td>-------</td>
</tr>
<tr>
<td>6</td>
<td>Reduction Of ITC in Excess of CST Payable</td>
<td>SL no. 1(VIII)(b) of Annexure-II = SL no. 30(iii) of VAT return = SL no. 6(a) of CST return. (Reduction of ITC in excess of CST payable)</td>
<td>SL no. 1(VIII)(b) of Annexure-II = SL no. 30(iii) of VAT return = SL no. 6(a) of CST return.</td>
</tr>
<tr>
<td>7</td>
<td>Reduction Of ITC Sale Price Less than Purchase</td>
<td>SL no. 7 + 8(i) + 8(iii) + 9(A)(iii) + 9(B)(i) + 9(B)(ii) = SL no. 33(vii) of VAT return. (Reduction of ITC when sale price is less than purchase price)</td>
<td>SL no. 7 + 8(i) + 8(iii) + 9(A)(iii) + 9(B)(i) + 9(B)(ii) = SL no. 33(vii) of VAT return.</td>
</tr>
<tr>
<td>8</td>
<td>Decrease Increase ITC</td>
<td>Mismatch between SL No. 24 and Annexure V of VAT 201. (Decrease of ITC &amp; increase of ITC due to receipt of credit note &amp; receipt of debit note respectively.)</td>
<td>SL no. 24 of VAT = SL no. 4(VIII) of table II of Annexure-V.</td>
</tr>
<tr>
<td>9</td>
<td>ITC on Capital Goods</td>
<td>Mismatch between SL No. 17(i) and Annexure III of VAT 201. (ITC on capital goods)</td>
<td>Column 5(A) of Annexure-II should match with SL no. 17(i) of VAT return.</td>
</tr>
<tr>
<td>10</td>
<td>ITC on Transfer of Goods</td>
<td>Mismatch between SL No. 17(ii) and Annexure IIIA of VAT 201. (ITC on transfer of right to use of goods)</td>
<td>Column 2(V)(A) of Annexure-III should match with SL no. 17(ii) of VAT return.</td>
</tr>
<tr>
<td>11</td>
<td>Sale in Export</td>
<td>Mismatch between SL No. 30(i) of VAT 201 and SL No. 20 of E3 (Sale in course of export - VAT and ET)</td>
<td>SL no. 20 of ET &lt;= SL no. 30(i) of VAT.</td>
</tr>
<tr>
<td>12</td>
<td>Sale in Import</td>
<td>Mismatch between SL No. 30(i) + 30(ii) of VAT 201 and SL No. 6(b) of CST return (Sale in course of import + Export under VAT with under CST)</td>
<td>SL No. 30 (i) + 30(ii) of VAT = SL no. 6 (b) of CST.</td>
</tr>
<tr>
<td>S.No.</td>
<td>Description</td>
<td>Condition</td>
<td>Notes</td>
</tr>
<tr>
<td>-------</td>
<td>--------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>13</td>
<td>Sale in Interstate Trade</td>
<td>Mismatch between Sl. No. 30(iii) of VAT 201 and Sl. No. 6(a) of CST return</td>
<td>Sl. No. 19 of ET = = Sl no. 30(iii) of VAT and Sl no 30(iii) of VAT = Sl no. 6(a) of CST.</td>
</tr>
<tr>
<td>14</td>
<td>Sale to Dealer under SEZ/STP/EHTP</td>
<td>Mismatch between Sl. No. 30(iv) of VAT 201 and Sl. No. 6(f) of CST return</td>
<td>Sl. no 8(f) of CST &lt;= Sl no. 30(iv) of VAT.</td>
</tr>
<tr>
<td>15</td>
<td>Despatch of Goods to Outside State</td>
<td>Mismatch between 30(iii) + 31 and check gate data</td>
<td>Sl no. 30(iii) and 31 = +10% of the value of checkgate statement for a tax period.</td>
</tr>
</tbody>
</table>
| 16    | Output Tax Decrease Due                          | (i) Mismatch between Sl. No. 43 of VAT 201 and Sl. No 4(x) of Table IV of Annexure V  
(ii) Mismatch between Sl. No. 44 of VAT 201 and Sl. No 6(x) of Table IV of Annexure V (Decrease of output tax due to issue of credit note & increase of output tax due to issue of debit note) | Sl no.43 = 4x4 of Anexure-V and sl no. 44 = 4x6 of Anexuer-V |
<p>| 17    | Interest Payable by Dealer                       | Mismatch between interest declared by Dealer and interest calculated by the system (Mismatch between interest and payment amount) | Mismatch between interest declared by Dealer and interest calculated by the system |
| 18    | ITC Adjustment Against CST Payable               | Sl. No 50 &lt;= Sl. No. 49 and Sl no. 50 = Sl no.13 (ITC adjusted against CST payable) | Sl. No 50 &lt;= Sl. No. 49 and Sl no. 50 = Sl no.13 |
| 19    | Refund As Rule 65                                | Sl no. 52(i) &lt;= Sl no 51 of VAT Return. (Refund as per Rule 65)           | Sl no. 52(i) &lt;= Sl no 51 of VAT Return.                               |
| 20    | Refund As Rule 66                                | Sl no. 52(ii) &lt;= Sl no 51 of VAT Return. (Refund as per Rule 66)           | Sl no. 52(ii) &lt;= Sl no 51 of VAT Return.                               |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>More InputTax Claim</td>
<td>Does the dealer claim more input tax than output tax? (Is 29&gt;45)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>If Col 45 of VAT 201&lt; 29 of VAT 201 then flag.</td>
</tr>
<tr>
<td>22</td>
<td>More PurchaseThan Sale</td>
<td>Are the sales of the dealer less than 1.05 times the purchases?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>if SI 40 of VAT 201&lt; 1.5 times of SI 19 of VAT 201 then flag.</td>
</tr>
<tr>
<td>23</td>
<td>Mis-ClassificationOfGoods under 13.5 Category</td>
<td>Is the dealer having less sale under 13.5% category than purchase</td>
</tr>
<tr>
<td></td>
<td></td>
<td>if SI 33(iv)+38(ii)&lt; SI 9(V) then flag</td>
</tr>
<tr>
<td>24</td>
<td>ExemptedGoodsIncrement</td>
<td>Is the % of exempted goods over the last return increase by more than 10%?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>if SI 6 of current return&gt;10% of previous return then flag</td>
</tr>
<tr>
<td>25</td>
<td>More ITCClaim Wrt TotalTax Payable</td>
<td>Is there an increase in ITC utilization to total tax payment over the last return? (ITC Utilization = 29-55)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Current sl (29-55) &gt; previous tax period sl(29-55) then flag</td>
</tr>
</tbody>
</table>
The return required to be filed u/s 33 provides the necessary mechanism to the dealers to self-assess one’s tax liability under the Act. It also provides lots of information on the business transacted during the tax period including one’s claims for Input Tax Credit (ITC) and other such claims affecting the overall Tax liability. Any erroneous information furnished or erroneous claim made in the return will persist until it is detected, rectified and reconciled. Therefore, scrutiny of return is the essence of all subsequent proceedings provided in the statute.

Return scrutiny is an in-house exercise whereby the officer undertaking scrutiny can form a reasonably fair idea on the business transactions of the dealer and on his tax compliance. The scrutiny exercise will also throw light on other grey areas where there is likelihood of tax evasion. After identifying such grey areas the officer concerned may make strategic planning to check such evasions through audit or investigation. Even in some cases, some unintentional errors and omissions renders the information furnished in the return as not trustworthy. Such errors and omissions can well be reconciled by issuing notice in Form VAT-305 under Rule 48. Such a step would be very much like a stitch in time to restore accuracy of the information furnished in the return for all future references.

Under the VAT law, tax is essentially levied on value additions at the hands of a given dealer for the goods sold in a given tax period and the dealer is required to assess his tax liability net of input tax. This entails a very complex procedure for which manual scrutiny of return is not always easy. Therefore, there is provision in the VATIS to undertake system based scrutiny. Of course the scrutiny report generated by the system requires proper application of mind for analysis and useful application of the report. Therefore, there is need to properly supplement the system based scrutiny so as to make the return scrutiny exercise meaningful.

Before going for the actual detailed scrutiny of the Return it is necessary to understand the common modus operandi adopted for tax evasion and some related conceptual issues for a meaningful exercise. Some such issues are explained below:

1. **ITC B/F** - Comparing the ITC brought forward at sl. No.5 with ITC carried forward at sl. No.55 of the preceding tax return. If sl. No.55 is left blank, see if the dealer has excess ITC to be carried forward at sl. No.49 and subsequent adjustment, if any, at sl. No.50 to 54. In such cases, compute the ITC to be actually carried forward and compare the same with ITC brought forward.
2. **Purchases (inside the state)** – ITC accrues from the purchases on Tax-Invoice inside the state. The purchases shown at Sl-7, 8 and 9 are purchases from registered dealers only against tax invoices. Such information can be compared with the information furnished at Sl-57 and also in the Entry Tax Return (Information on purchases of scheduled goods within the state on payment of entry tax). In doubtful cases of ITC claim against purchase from doubtful dealers, profile of the selling dealers can be checked and/or, reference can be made to the ITC mismatch ledger.

3. **Implication of interstate purchase on input tax and output tax** – The interstate purchases do not have any ITC element. The CST paid is not input tax and hence not to be set off against output tax. As a result when such goods are resold **full output tax is due to the State**.

4. **Common modus operandi on tax evasion** – Understatement of sale-turnover and tax group-wise misclassification are common methods adopted by dealers to understate tax compliance. Generally turnover of goods with higher tax rates are understated by way of suppression or misclassification in the lower tax group. This can be known by comparing with the sale turnover reported in Part-C with the purchases reported in part-B. In case of continuous mismatch i.e. sale turnover falling short of total purchases or comparatively lower sale turnover of high tax rate items vis-à-vis purchase the dealer can be short-listed for audit.

5. **Reversal of ITC** – Checking the accuracy of ITC reversal is an important exercise in the process of return scrutiny though with limited scope. Annexure have been provided in the Returns to calculate the amount of tax to be reversed on account branch-transfer (Annexure-I), CST sale (Annexure-ii), sale price less than purchase price (Annexure-VI) and others (Annexure-VII). Filling up of annexure in VAT form is made mandatory from May 2013 onwards.
6. **Effect of Credit Note and Debit Note on Input Tax and Out-put Tax** - All the credit & debit Notes issued by any selling dealer and received by any purchasing dealer do not impact tax liability. Adjustment of input tax as a consequence of receipt of credit note or debit note is governed by the provisions in Sec- 22 and Sec- 23 of the OVAT Act and Rule-7 of the OVAT Rules. As provided there-in, only those credit notes will impact tax liabilities which are issued as a consequence of downward variation of sale price or on account of return of goods. Likewise, only those debit notes which are issued for upward variation of sale price will have impact on the output tax liability of selling dealer and also input tax claim of the purchasing dealer.

There is also a time bar in this context. Credit note or Debit note must be issued within 3 months from the Tax period within which the original sale has taken place (See Rule 7(2)).

Credit notes or Debit notes issued on any other account like sale incentive, cash discount or reimbursement of any cost etc. do not qualify for adjustment of ITC u/s 22. As it is proviso to Sec-22 clearly forbids adjustment of ITC on the strength of the credit note issued as a consequence of cash discount or sale incentive.

Experience of audit teams shows that even big companies make large scale misuse of this provision. Even some big dealers reduce the sale turnover of the tax period by the amount for which credit notes are issued. Such reduction of sale turnover is very much unauthorized and illegal. The adjustment mechanism of input tax is provided in S.No. 24 & 25( applicable to the purchasing dealer only) and adjustment mechanism of output tax is provided in S.No. 43 &44 (applicable to the selling dealer only)

If credit note or debit note details are furnished in Annexure- V the same can be cross checked with the purchase or sale furnished at Sl. No. 57 of the relevant tax period.
7. **ITC on account of capital goods, goods for sale by way of transfer of right to use and on closing stock**: On this account ITC is added to the net input tax (i.e. ITC B/F + ITC accrued – ITC reversed) and the detail calculation is made in Annexure-III and Annexure III-A. ITC on closing stock has to be crossed checked with the ITC allowed in Form VAT-608-A on the date of conversion from SRIN to TIN.

After that the total creditable input tax is worked out which is allowed to be set off against the total output tax so as to calculate the output tax payable.

**Note** – In the present return the total creditable input tax is computed at sl. No.29 which is allowed to be deducted at sl. No.46 to work out the net tax payable or the excess ITC at sl. No.49 if output tax is less than total creditable input tax.

8. **Zero rated sale** – Export, sale in the course of import, interstate sale, sale to SEZ / STP / EHTP and sale to EOU.

   (a) Interstate sale can be cross checked with CST return and waybill utilization statement.

   (b) Deemed export or the penultimate sale / purchase preceding the actual export can be cross checked with the accounts of H-Forms.

   (c) In case of direct export or sale to SEZ, STP, EHTP and EOU the dealer may claim refund of excess ITC to the extent relatable to the aforesaid transactions u/s 58(1)(a). Therefore, when such transaction(s) is/are reported in the return it would be worthwhile to see whether the said dealer has claimed refund of excess ITC at Sl-49

**Note** – Refund permissible u/s 58(1) (a) is the amount of input tax relatable to the said transaction(s) only and not the whole amount of excess ITC. If a dealer is found to have applied for the whole amount of excess input tax as at sl. No.49 despite having other sale transaction, such claim may be taken as over stated prima-facie.

9. **Branch transfer** – The treatment of ITC in case of branch transfer is a tricky area which is to be handled with care. Any dealer reporting branch transfer / consignment sale should have reversed either the whole or a part of the ITC relatable to the goods sent by the BT / consignment sale. In cases where branch transfer is reported without corresponding reversal of non-creditable input tax, the return is prima facie erroneous resulting in lower tax compliance.
Note – In case of branch transfer input tax up to 4% should be reversed and input tax in excess of 4%, if any, need not be reversed. The detail calculation is made in Annexure-I. Therefore, ensure that the dealer has furnished details in Annexure-I and made reversal of input tax in the return form.

10. **Sale of tax exempt goods** – Sale of tax exempt goods does not have any bearing on output tax for which officers tend to ignore it. But it is used as a safe medium for tax evasion by overstating the sale turnover of exempt goods. Therefore, compare the sale of exempt goods with the purchase of such goods from all sources. If there is any mismatch, it is a suspect case for follow up action.

11. **Sale of taxable goods** – Sale turnover of taxable goods is the main area of interest in as much it generates output tax. At present goods other than those listed in Schedule-C are subject to tax @1%, 5% and 13.5%. In case of some goods like medicine and fertilizer tax is realized on maximum retail price (MRP). In the present return sale of all taxable goods, tax group-wise, are to be reported at sl. No.33.
   
   Since arithmetical checks on percentage and addition are no more needed, sale should be compared with the corresponding purchase (tax group-wise). Dealers tend to understate the sale turnover of high tax item by maneuvering the turnover of tax exempt goods and low tax items.

12. **Levy of tax u/s 12** – The statute provides for levy of tax on the purchase value of goods purchased / procured in a manner whereby tax is not levied at the time of purchase. Such levy is subject to other conditions prescribed in Section 12. Experience shows that manufacturing companies make purchase of different construction items, housekeeping equipments and materials and such other items which are never used in the manufacturing process. Such cases attract levy of tax u/s-12. Therefore, where no such tax is admitted by the manufacturing concerns, there is every reason to check the correctness of the return filed.
13. **Sale of Schedule-C goods** – Goods listed in Schedule-C are treated differently under the statute. Unlike other goods tax on goods listed in Schedule-C is levied only once at the first point in the series of sales. Therefore, only that part of the turnover of sale of Schedule-C goods will be taxable which represents sale at the first point. Accordingly, in the present return format first point turnover and subsequent turnover are captured separately. Output tax is due on sale at the first point. On the other hand, subsequent sale of Schedule-C goods should be compared with purchase of such goods.

14. **Sale of MRP goods** – As per the special provisions made in the statute, dealers dealing in medicine, fertilizers and pesticides can opt for paying tax on the MRP value notwithstanding the actual sale value being less than MRP. In view of such special provision the return captures the sale turnover as per actual sale value and the notional sale turn over at MRP. **Output tax is computed on MRP.** Therefore, irrespective of the actual sale price, **tax is computed on MRP only.** In the present return format the sale turn over as per MRP is captured at sl. no.38 on which the output tax is computed. On the other hand the sale turnover at actual sale price is captured at sl. No.37 only for the sake of record. Similarly, the turnover at actual sale value goes into the total value of sale and dispatch where as the sale value on MRP goes into the taxable turnover for the simple reason that tax is levied on MRP and not on the actual sale value.

15. **Other checks** –
   a. The statute provides for adjustment of excess ITC against CST payable. Therefore, if any such adjustment is made it should be cross checked with the return filed under the CST Act.
   b. In case of refund claims, refund application filed, if any, should be referred to.

16. **ITC carried forward** – The accuracy of ITC carried forward to the next tax period should be doubly ensured to rule out any error because this will be the starting point of assessing the tax liability of the dealer in the next tax period.

17. As per provisions of the statute, every dealer must furnish proof of payment of the tax payable. In the present system of online Return and online payment the dealers are no more required to
produce proof of deposit. They are merely giving the Transaction ID or at best a DD number. In the changed circumstance cross-checking the authenticity of the payment ID in the IOTMS portal is the only way out.

Secondly, the total payment made should be equal to the amount payable. In case of any less payment notice in VAT-209 is to be issued asking the dealer to make payment.

In case of any excess payment it will be carried forward and adjusted in the payment segment of the next return.