



*News alert*

*Octroi fraud in  
India*

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## ***Non compliance with octroi laws can lead to reputational damage and penalties***

Octroi is a tax collected by local municipal authorities on goods brought into the local limits of a city for use, consumption or sale therein. Each of the municipal corporations in Maharashtra are primarily responsible for the levy and collection of octroi in the respective cities. The octroi rate varies depending on the jurisdiction of the municipal authorities and the nature of goods prescribed under the octroi schedules. The amount of octroi is determined and calculated based on a self declaration made by the consignee of goods.

### **Octroi process<sup>1</sup>**

When goods enter the municipal limits of a city, they pass through octroi check posts. At the time of entry of goods into city limits, octroi officials verify the self declaration and classification of goods made by the consignee with the original documents such as invoices, waybills, etc and review them in line with the octroi rules and schedules. Based on such verification, the octroi official determines the amount of octroi to be paid by the consignee. After depositing the octroi through cash, cheque or bankers' cheque, goods are allowed to enter the city.

At times, companies appoint octroi agents to assist them in the octroi process.

### **Octroi fraud**

Recently, companies in India have faced a situation wherein octroi agents have issued bogus receipts without depositing the octroi with the authorities. In such instances, the octroi authorities have issued notices to companies to make payment of octroi along with penalty.

Further, the petitions filed by companies in the high court and Supreme Court have been dismissed on the grounds of availability of alternative remedy of appellate proceedings.

In addition to the payment of heavy penalty, companies have taken recourse to filing a case of cheating against octroi agents with the Economic Offences Wing (EOW) of the police.

### **Scenarios**

Since companies seek the assistance of third-party agents for octroi payments, they exercise little control over the activities of these agents. Lack of supervision and controls give rise to fraudulent activities:

- The agents create fake octroi receipts and claim reimbursement of such amounts from the company.
- Since the octroi form is to be filled by the agents or the consigner, the agent claims a lower assessable value for the goods entering into the state and evades octroi.
- The agent may also collude with octroi officials (government employees) and engage in malpractices.

### **Issues**

The abovementioned scenarios propel companies to face several issues:

- Non-compliance with octroi laws
- Reputational damage
- Penalties (vary between five and ten times of the octroi amount)

<sup>1</sup> The Government of Maharashtra is planning to replace Octroi with Local Body Tax (LBT) in a phased manner. Presently LBT has been introduced in certain cities in Maharashtra with a plan to cover all cities by October 2013.

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## Act NOW than later

In the wake of recent media reports on octroi fraud, companies are now proactively scrutinising their octroi payments, making an assessment and quantification of the octroi interest and penalties payable. On completion of such assessment and quantification, certain companies are making a voluntary disclosure to relevant authorities before the latter come knocking on their doors.

**Assessing third-party relationships:** In order to mitigate such frauds, companies must also proactively conduct enhanced integrity checks either prior to contracting agents or consultants or conduct timely checks at the time of renewal of contracts.

### How PwC can assist

- Review of the procedures adopted by the company to ensure compliance with octroi rules and regulations and documents maintained.
- Forensic review of the octroi receipts to identify any apparent characteristics of fraud or tampering.
- Review of the octroi receipts paid by the company to identify potential instances of fraudulent payments.
- Review of the declared value and quantity of goods to the octroi authority with supporting documents to identify potential instances of undervaluation of goods.
- Review of invoices of octroi agents to identify unsupported payments which may indicate potential inappropriate payments.
- Quantification of the actual octroi due for goods based on the octroi rate prevalent at the time of the receipt and also calculate the interest and/or penalty, if any, due to non payment of octroi.
- Representation of the company before the octroi authority and assistance in litigation, if any.
- Conducting integrity checks to ascertain the background and other details of the agents/consultants appointed.

**To know more about octroi frauds and how to mitigate such frauds, please contact us:**

#### **Vidya Rajarao**

Leader, Forensic Services

+91 80 4079 7002

[vidya.rajarao@in.pwc.com](mailto:vidya.rajarao@in.pwc.com)

#### **Darshan Patel**

Executive Director, Forensic Services

+91 22 6689 1670

[darshan.patel@in.pwc.com](mailto:darshan.patel@in.pwc.com)

#### **Dharmesh Panchal**

Executive Director, Indirect Tax

+91 22 6689 1255

[dharmesh.panchal@in.pwc.com](mailto:dharmesh.panchal@in.pwc.com)