

PUBLIC ACCOUNTS COMMITTEE
1964-65

TWENTY-SEVENTH REPORT

(THIRD LOK SABHA)

[Audit Report (Civil) on Revenue Receipts, 1964]

Chapter I—Revenue position and main heads of revenue

Chapter II—Customs

Chapter III—Union Excise Duties



LOK SABHA SECRETARIAT
NEW DELHI

September, 1964
Bhadra, 1886 (Saka)

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Proceedings of the 14th sitting held on 25-7-64.

Proceedings of the 20th sitting held on 25-9-64

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(1964-65)

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Shri R. M. Bhargava—Under Secretary

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Twenty-seventh Report on the Audit Report (Civil) on Revenue Receipts, 1964. In this Report the Committee have dealt with (i) Revenue Position and Main Heads of Revenue, (ii) Customs and (iii) Union Excise Duties (Chapters I to III of the said Audit Report). They propose to deal with (i) Income-Tax and (ii) Other Revenue Receipts (Chapters IV and V of the said Audit Report) in a separate Report.

2. The Committee considered the Audit Report (Chapters I to III) at their sittings held on the 21st to the 25th July, 1964. A brief record of the proceedings of each sitting has been maintained and forms part of the Report (Part II*).

3. The Committee considered and finalised the Report at their sitting held on the 25th September, 1964.

4. The Committee place on record their appreciation of the assistance rendered to them in their examination of these accounts by the Comptroller and Auditor General of India.

They would also like to express their thanks to the Officers of the Ministry of Finance (Department of Revenue and Company Law, and Department of Economic Affairs)/Central Board of Excise and Customs, and Central Board of Direct Taxes for the co-operation extended by them in giving information to the Committee during the course of evidence.

NEW DELHI;
September 25, 1964.
Asvina 3, 1886 (Saka).

R. R. MORARKA,
Chairman.
Public Accounts Committee.

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REVENUE POSITION AND MAIN HEADS OF REVENUE

Variations between Budget Estimates, Revised Estimates and Actuals *—Revenue Receipts—Paras 1 and 2, page 1*

The total revenue receipts of the Government of India for the year 1962-63 amounted to Rs. 1585·30 crores against an anticipated revenue of Rs. 1380·93 crores, showing an excess of Rs. 204·37 crores over the Budget Estimates. The total revenue realisation this year is more than double of the total revenue receipts in 1957-58 when the amount realised was Rs. 728·12 crores. The revenue receipts rose sharply from 1960-61. The total receipts for 1962-63 have registered an increase of Rs. 613·53 crores over that in 1960-61, i.e. about 63 per cent. This sharp increase has been partly due to the additional collection of taxes in the wake of the Emergency. An analysis of the actuals by major heads for the year 1962-63 and two preceding years is given in Appendix I.

2. Out of the total receipts of Rs. 1585·30 crores for 1962-63, Rs. 1180·89 crores represent tax revenues—receipts under Customs, Union Excise, Corporation tax, Income tax, Estate Duty, Wealth tax, Expenditure tax, Gift tax, Land Revenue, State Excise duties, Taxes on Vehicles, Sales tax and other taxes and duties—and the balance represents receipts from non-tax heads. The bulk of the variation of Rs. 204·37 crores between the Actuals and Budget Estimates in 1962-63 occurred under the four major heads of tax revenue, viz. Customs, Union Excise, Corporation and Income taxes. The receipts under these heads exceeded the Estimates by Rs. 176·99 crores.

As a matter of interest, a comparative statement of the budget estimates, the revised estimates and the actuals for the years 1951-52 to 1962-63 and the variations between (i) the budget estimates and the actuals, and (ii) the revised estimates and the actuals, in respect of—

- (a) Customs
- (b) Excise
- (c) Corporation Tax and
- (d) Taxes on income etc.

is given below:—

(In lakhs of Rupees)

Year	Tax	Budget Estimates	Revised Estimates	Actuals	Variation between (3) & (5)	Variation between (4) & (5)	Remarks
1	2	3	4	5	6	7	8
1951-52	(a)	15,604	23,200	23,169	+7,565 (48.4%)	-31 (-0.13%)	A list of new items brought under Central Excise levy each year is given in Appendix II.
	(b)	7,962	8,430	8,578	+616 (7.73%)	+148 (1.76%)	
	(c)	3,273	3,755	4,141	+868 (26.50%)	+386 (10%)	
	(d)	13,222	13,745	14,619	+1,397 (10%)	+874 (6%)	
TOTAL		40,061	49,130	50,507			
1952-53	(a)	16,500	17,700	17,375	+875 (5.4%)	-325 (-1.8%)	
	(b)	8,600	8,000	8,303	-297 (-3.45%)	+303 (3.79%)	
	(c)	3,053	3,983	4,380	+1,327 (43%)	+397 (10%)	
	(d)	12,447	13,017	14,143	+1,696 (13.60%)	+1,126 (8%)	
TOTAL		40,600	42,700	44,201			

1953-54	(a)	17,000	16,000	15,871	-1,129 (-6.6%)	-129 (-0.8%)
	(b)	9,400	9,355	9,498	+98 (1.04%)	+143 (1.53%)
	(c)	3,662	3,840	4,154	+492 (11.84%)	+314 (7.56%)
	(d)	12,256	12,660	12,284	+28 (0.23%)	-376 (-3%)
TOTAL		42,318	41,855	41,807		
1954-55	(a)	17,500	18,000	18,486	+986 (5.6%)	+486 (2.7%)
	(b)	10,330	10,365	10,822	+492 (4.76%)	+457 (4.40%)
	(c)	3,835	3,841	3,733	-102 (-0.27%)	-108 (-2.9%)
	(d)	12,665	12,659	12,226	-439 (-3.59%)	-433 (-3.54%)
TOTAL		44,330	44,865	45,267		
1955-56	(a)	16,450	16,500	16,669	+219(1.3%)	+169(1.02%)
	(b)	13,227	14,000	14,525	+1,298(9.81%)	+525(3.75%)
	(c)	3,977	3,984	3,704	-273(-7%)	-280(-7%)
	(d)	13,393	13,386	13,136	-257(-2%)	-250(-2%)
TOTAL		47,047	47,870	48,034		

1	2	3	4	5	6	7	8
1956-57 . . .	(a)	15,000	17,100	17,323	+2,323(15.5%)	+223(1.3%)	
	(b)	17,035	18,873	19,043	+2,008(11.78%)	+170(0.90%)	
	(c)	4,824	4,824	5,118	+294(6%)	+294(6%)	
	(d)	14,136	14,136	15,174	+1,038(7%)	+1,038(7%)	
	TOTAL	50,995	54,933	56,658			
1957-58 . . .	(a)	16,670	18,300	17,999	+1,239(7.4%)	-301(-1.6%)	
	(b)	25,957	26,455	27,378	+1,421(5.5%)	+923(3.5%)	
	(c)	5,050	5,050	5,613	+563(11%)	+563(11%)	
	(d)	15,590	15,590	16,370	+780(5%)	+780(5%)	
	TOTAL	63,357	65,395	67,360			
1958-59 . . .	(a)	17,000	13,600	13,829	-3,171(-18.6%)	+229(1.7%)	
	(b)	30,476	30,115	31,294	+818(2.7%)	+1,179(3.9%)	
	(c)	5,500	5,600	5,433	-67(2%)	-167(-3%)	
	(d)	16,150	16,250	17,201	+1,051(7%)	-951(6%)	
	TOTAL	68,126	65,565	67,757			

1959-60	(a)	13,277	16,000	15,611	+2,334(17.6%)	-389(-2.4%)
	(b)	32,432	35,082	36,064	+3,632(11.2%)	+982(2.8%)
	(c)	5,875	7,800	10,656	+4,781(81%)	+2,856(37%)
	(d)	16,625	15,200	14,885	-1,740(-10%)	-315(-2%)
	TOTAL	68,409	74,082	77,216		
1960-61	(a)	16,250	16,300	17,003	+753(4.6%)	+703(4.3%)
	(b)	38,001	39,498	41,635	+3,634(9.6%)	+2,137(5.4%)
	(c)	13,500	13,750	11,105	-2,395(-18%)	-2,645(-19%)
	(d)	10,500	12,750	16,873	+6,373(59%)	+4,123(32%)
	TOTAL	78,251	82,298	86,616		
1961-62	(a)	18,964	19,960	21,225	+2,261(11.9%)	+1,265(6.3%)
	(b)	43,462	47,095	48,931	+5,469(12.6%)	+1,836(4%)
	(c)	14,100	16,000	16,081	+1,981(14%)	+81(1%)
	(d)	13,300	14,200	16,104	+2,804(21%)	+1,904(13%)
	TOTAL	89,826	87,255	1,02,341		

1	2	3	4	5	6	7	8
1962-63	(a)	20,782	23,165	24,596	+3,816(18.3%)	+1,431(6.2%)	
	(b)	52,507	55,369	59,883	+7,376(14.05%)	+4,514(8.15%)	
	(c)	17,845	18,750	22,006	+4,161(23%)	+3,256(17%)	
	(d)	16,335	17,250	18,740	+2,405(15%)	+1,490(9%)	
	TOTAL	1,07,469	1,14,534	1,25,225			

NOTE.— In columns 6 and 7, the figures within brackets indicate the percentage variation.

The Committee enquired from the representatives of the Department of Revenue and Expenditure about (i) the factors responsible for the persistence of large variations between budget estimates and actual realisations of revenue, and (ii) the steps taken to improve the budgeting technique.

The Secretary, Revenue, Expenditure and Company Law, explained that the observation of the Public Accounts Committee regarding conservatism on the part of the officers in the preparation of estimates of revenues had been taken note of, and the estimates received from the recovery officers were now being re-scrutinised and stepped up in the light of (i) past experience and (ii) the information available from other sources such as the Ministry of Industry, the Department of Technical Development, the Chief Economic Adviser etc. The estimates were based now not only on the rates of taxes but also on higher collections due to administrative efficiency and stricter enforcement of the provisions of Law, mainly in respect of direct taxes, particularly income tax and corporation tax. Similarly, in the matter of expenditure, the estimates were being analysed on receipt from the concerned authorities, and a less provision made wherever necessary.

Explaining the statistical basis of the Budget Estimates, the witness stated that in regard to commodities liable to excise duties, the main factor taken into consideration was the growth of the concerned industry during a particular year. It was ascertained from the Ministry of Industry, the Department of Technical Development, the Planning Commission etc. how the production of goods would grow over the period. On the basis of the figures obtained from these "knowledgeable" sources, the figures of clearances for consumption available with the Ministry of Finance were revised. Different correctives were applied to different items. At the time of framing the Budget, the Ministry of Finance has figures of the clearances during the previous year and those up to October or sometimes November of the year in progress. In the light of the available data and past experience, the estimates were arrived at. In extenuation of the variations, the representative of the Ministry of Finance stated that when targets of production fell short of or exceeded the anticipations, the calculations were upset. A variation of even two months in the date of commencement of production of some units made a big difference to the total production. He further informed the Committee that in order to help in framing the estimates correctly, surveys were carried out and data collected in advance regarding commodities likely to attract excise.

In respect of customs, the witness stated that they took into account (i) the licensing policy which had been pursued in different years, the prospects of its being tightened up or liberalised and its effects on the movement of foreign exchange and (ii) certain items where the imports had to be at a particular level to sustain the industrial production at a certain minimum level.

From the explanations offered by the representative of the Department of Revenue and Expenditure, the Committee note that certain correctives are applied to the revenue estimates received from the subordinate offices. This does not, however, minimise the need for bringing about a reorientation in the approach of the local officers on whom rests the responsibility for furnishing the initial estimates to avoid undue conservatism in preparation of estimates. The Committee trust that necessary steps in this regard, if not already taken, would be taken now.

In regard to the statistical basis of the Budget Estimates, while the Committee note that some co-ordination does exist between the Finance Ministry and the administrative Ministries on the one hand and the specialised agencies of Government like the Department of Technical Development, Planning Commission etc. on the other, they feel that the machinery for collecting statistics in the Ministry of Finance should be strengthened, in order to enable it to assess more accurately the growth of production in the country and its impact on the collection of taxes. Revenue receipts depend upon the overall economic growth in the country and estimates of revenue receipts can be more accurate, if statistical data on the overall production in the country is adequate, reliable and up-to-date. The Committee, therefore, feel that effective steps should be taken to fill up the deficiency in collection of reliable statistics of economic growth, so that estimates of revenue are prepared on a realistic basis.

3. In reply to a question whether there was any direct relationship between the estimated increase in revenue due to the increased taxes and the percentage of variation from year to year, the Secretary, Revenue, Expenditure and Company Law explained that the variation was dependent on a number of variables. He added that apart from unforeseen factors such as a bad agricultural year, large-scale movement of population, merger of Indian States, boom due to Korean war etc. in different years, the variations generally occurred due to (i) increased taxation and (ii) new commodities being brought under excise or taxation. In the opinion of the witness, it was not

possible to lay down a percentage of variation which could be considered "normal". He added that there were particularly difficult factors in India as compared to other countries, and these factors adversely affected the process of making a correct estimate of revenues; moreover, the margin of variation would depend upon the circumstances of each year. The Committee find it difficult to fully subscribe to this view. Ours is a planned economy, and therefore, it should be possible with a certain amount of effort and vigilance, to collect timely data which would make due allowance for the various factors affecting the estimates of revenue. Hence, the Committee would reiterate their view stated in paras 2 to 4 of their Ninth Report (Third Lok Sabha) that variations exceeding 3 to 4 per cent should be regarded as a matter for concern requiring special remedial measures. The Committee are aware that their first Report on the subject of Revenue Receipts was presented in January 1963 and the second one in July 1964, and therefore there had not been sufficient time for the results of the action taken on the Committee's recommendations being reflected in the accounts for the year 1962-63. They hope that the margin of variation indicated above would be constantly kept in view and continuous efforts made to reduce the variation to this limit.

The Committee were informed by the Secretary, Revenue, Expenditure and Company Law that Government had initiated action on the recommendations of the P.A.C. and individual variations in respect of Customs, Excise and Income-tax would be much lower and the over-all variation in respect of direct and indirect taxes, both inclusive, would be less than 10 per cent in 1964-65.

4. Adverting to the large excess of actual receipts over the budget estimate, the Committee enquired whether the public were not unconsciously being taxed more than was necessary, as the estimates of revenue receipts were correlated to the anticipated expenditure of Government. The Secretary, Revenue, Expenditure and Company Law explained that taxation had to be viewed in the light of the economic conditions and the overall financial position of the country and not merely in relation to the revenue gap. Even so, it cannot be denied that the estimates of revenue, the estimates of expenditure and the fresh taxation proposals are closely inter-linked; and that the former two serve as some indicators for the quantum of fresh taxation effort necessary. The importance of arriving at accurate budget estimates cannot, therefore, be overstressed so as to avoid the risk of the public being taxed unconsciously more than necessary.

(A) *Tax Revenues—Para 2, page 1.*

5. The figures showing the Budget Estimates and the Actuals under tax revenue heads for the past three years are indicated below:—

(Rupees in crores)

Year	Budget	Actuals	Variations	Percentage
1960-61	747·53	801·55	54·02	7·25
1961-62	835·05	951·97	116·92	14·00
1962-63	998·75	1180·89	182·14	18·24

The variation of Actuals from Budget Estimates during the year 1962-63 is the highest ever recorded over the past ten years.

The variation of 18·24 per cent during 1962-63 was attributed by the Secretary, Revenue, Expenditure and Company Law during evidence to (i) the consequences of the Chinese aggression on India in October 1962 and (ii) a heavy Budget in February 1963. Due to the need to raise taxes for meeting the increased defence expenditure and the appeals made in this behalf, there were higher collections on account of large clearances of excise goods commencing from November 1962. February 1963 was reported to have witnessed very large clearances on account of the emergency.

While the Committee are glad to note the spurt in the collection of taxes due to the emergency in 1962-63, they find from a detailed examination of Customs, Excise and Income-tax (*vide* Chapters II, III of this Report and Chapter I of the Twenty-eighth Report) that the Emergency alone does not explain this large overall variation and that other factors also have contributed to it. However, the Committee hope that as a result of the steps stated to have been taken to improve the technique of budgeting, there will be a marked reduction in the percentage of variations next year.

(B) *Non-tax Revenues,—Paras 2 and 4, page 2*

6. The figures showing the budget estimates and the Actuals under non-tax revenue heads for the past three years are indicated below:

(Rupees in crores)

Year	Budget	Actuals	Variations	Percentage
1960-61	1,72·13	1,70·22	—1·91	—1·10
1961-62	1,82·90	1,84·77	1·87	1·02
1962-63	3,82·18	4,04·41	22·23	5·82

During evidence, the representative of the Ministry of Finance (Department of Economic Affairs) stated that the biggest variation had occurred in respect of (i) Surcharge on Iron and Steel (ii) Grants received from the U.S.A. under P.L. 480 and (iii) Recovery of interest from State Governments. In extenuation of the variation, the witness pointed out that the estimates were prepared 16 to 18 months in

advance of the year to which they related. They were based on (i) figures of the previous year's actuals and the progressive actuals of the current year; and (ii) information that was available to the Ministry of Finance or to the Departments administering the items concerned.

A statement showing the estimated receipts and actuals for the year 1962-63 in respect of those major heads of receipts which mainly contributed to the net variation of Rs. 22.23 crores (5.82 per cent) in the estimates of non-tax revenues for 1962-63 furnished to the Committee by the Ministry of Finance (Department of Economic Affairs), is given in Appendix III. An explanatory note furnished by Ministry of Finance at the instance of the Committee, showing the detailed reasons for these variations is given in the annexure to Appendix III.

Even though the overall variation in respect of non-tax revenues was only 5.82 per cent, the Committee find from the statement (Appendix II) supplied by the Ministry of Finance (Department of Economic Affairs) that the variations under certain major heads are much larger, namely, Interest Rs. 14.28 crores (-8.4 per cent), Currency and Coinage Rs. 15.92 crores (-23.2 per cent), and Extraordinary Receipts Rs. 14.86 crores (35 per cent). These variations are very much on the high side. The Committee were given to understand that as compared to tax revenue heads, Government had better information with regard to non-tax revenue heads and that the subjective element in their case was much less. The Committee, therefore, hope that the estimates in regard to non-tax revenues would be framed with greater precision.

Cost of collection—Para 12, pages 7-8

7. The figures of expenditure during the year 1962-63 incurred in collecting some of the principal items of revenue receipts together with the corresponding figures for 1961-62 are shown below:—

(In crores of rupees)

Heads of Revenue	1961-62		Percentage of expenditure on the revenue collected	1962-63		Percentage of expenditure on the revenue collected
	Gross collections	Expenditure incurred on collections		Gross Collections	Expenditure incurred on collections	
1	2	3	4	5	6	7
Customs	212.25	3.57	1.7	245.96	4.19	1.7
Union Excise	489.31	7.45	1.5	598.83	8.33	1.4
Income-tax and Corporation Tax	321.88	5.72	1.8	407.45	6.27	1.5
Estate Duty	4.21	0.09	2.2	3.94	0.09	2.3
Wealth Tax	8.26	0.18	2.2	9.54	0.20	2.1
Gift Tax	1.01	0.02	2	0.97	0.02	2.1

In reply to a question by the Committee as to how the expenditure on collection was distributed among the different taxes, the representative of the Central Board of Direct Taxes explained that they had only one Department to administer all the direct taxes, except in the case of estate duty where, apart from the Commissioner's establishment, there was a Deputy Controller and an Assistant Controller for looking after the work of estate duty. The expenditure incurred on collection was allocated according to a formula approved in consultation with audit as explained in a note submitted to the Committee by the Central Board of Direct Taxes (Appendix IV). It is observed from this note that the Comptroller and Auditor General desired that a study should be conducted to examine whether the percentages fixed for Corporation tax and Estate duty need revision. The Committee hope that this study would be taken in hand soon, and in the light of the findings thereof, the necessary revision would be made in the relevant percentages.

8. Asked whether there was any scope for reduction in the overall cost of collection, the representative of the Ministry stated that actually they needed more staff to cope with the work. He, however, added that as the revenue rose, the percentage of cost of collection would go down. The Committee would, in this connection, like to point out that though the percentage of expenditure incurred on collections has shown a fall, the actual amount incurred on establishment has increased by about Rs. 62.33 lakhs under Customs, about Rs. 88 lakhs under Union Excise and about Rs. 54.19 lakhs under Income Tax and Corporation Tax as compared to 1961-62. While the Committee are not against the augmentation of the staff to cope with the increasing volume of work, particularly when it is matched by a significant increase in the total collections, they would like to reiterate their view, stated in para 3 of their Twenty-first Report (Third Lok Sabha), that with greater drive and initiative on the part of the officers it should be possible for the Ministry to effect larger collections and reduce further the percentage of collection charges.

II CUSTOMS

Para 13, page 9.

9. The receipts during the period from 1960-61 to 1962-63 are indicated below:

(In crores of rupees)

1960-61	1961-62	1962-63	Total increase during 3 years	Percentage
1	2	3	4	5
170·03	212·25	245·96	75·93	45

This increase has been registered almost wholly under Sea Customs—imports which account for an excess of Rs. 83.31 crores over that realised in 1960-61, partly offset by a fall in the receipts under other minor heads and increased payments of refunds and drawbacks to the extent of Rs. 7.88 crores.

Asked to explain the reason for increased payments of refunds and drawbacks during 1962-63 (Actuals Rs. 9.56 crores as against a budget estimate of Rs. 6.00 crores), the representative of the Central Board of Excise and Customs explained that the figures in this respect were fixed on an *ad hoc* basis, and the increased payments were mainly attributable to the increase in the number of articles which became eligible for drawbacks.

Variations between Budget Estimates and Actuals, para 14, pages 9—11.

10. As compared to Budget Estimates of Rs. 207.82 crores, actuals under this major head were Rs. 245.96 crores for the year 1962-63 giving a variation of Rs. 38.14 crores (18.35 per cent). The corresponding figures for 1961-62 were—

(In crores of rupees)

Budget Estimates	Actuals	Variation	Percentages
189·64	212·25	22·61	about 12

The Committee enquired about the reasons for the continuous increase in the variation between Budget Estimates and Actuals—from 4·6 per cent in 1960-61 to about 12 per cent in 1961-62 and to 18·35 per cent in 1962-63. The Member, Central Board of Excise and Customs, explained that two factors were common to the variation which occurred in all the three years, *viz.*, (i) changes in import policy of which they were not aware in advance, and (ii) variations in the rate of duty. Dealing specifically with the variation of 18·35 per cent in 1962-63, the witness stated that it was more due to changes in the general import policy than to variation in the rates of duty. Nearly Rs. 29 crores out of the total variation of Rs. 38·14 crores was caused by larger imports of (i) kerosene oil and motor spirit (Rs. 5·33 crores), (ii) H.S.D. and vaporising oil (Rs. 13·14 crores) and (iii) machinery (Rs. 10·84 crores) to meet industrial needs. The witness further explained that, in regard to fuel products in particular, their estimates both at the beginning and at the stage of revision were prepared in consultation with the Ministry of Mines and Fuel and even that Ministry could not foresee fully the needs of industry etc. It was admitted by the witness that they did not conduct any research or investigation of their own, but they were guided by the figures given by the administrative Ministries in charge of licensing and foreign exchange.

The Committee enquired why the revised estimate was only Rs. 231·65 crores for the year 1962-63 whereas the actuals came to Rs. 245·96 crores (a difference of Rs. 14·31 crores). The Secretary, Revenue, Expenditure and Company Law explained that this difference was due to the upward revision of the duties in the 1963-64 Budget and the consequent larger collections during the month of March, 1963. While revising the estimates, even though the Ministry might know about the revision of the duties, they could not take into account the increased receipts for March, as (i) the basis of taxation could not be disclosed before the Budget speech was made and (ii) they could not assume that that basis would ultimately stand.

The industrial production and the industrial needs in respect of important items like machinery and fuel oils are well-known to the Government and yet for two years in succession the same reason has been advanced for the variations, *viz.*, larger imports of machinery and fuel oils required to meet industrial needs (*vide* Explanatory Memorandum on the Budget of the Central Government, 1963-64, page 10 and *ibid.* 1964-65, page 15). The percentage of variations has increased from 11·9 in 1961-62 to 18·35 in 1962-63. The Committee view this trend of rise in percentage variations from year to year

with concern. They feel that this persistent under-estimating of revenues is primarily due to defective budgeting which requires special remedial measures. The Committee desire that the Finance Ministry who are the guardians of the Centre's finances and on whom lies the overall responsibility for framing the Central Government's budget accurately, should supplement the statistical information received from Administrative Ministries with their own independent investigations and researches in order to be able to better assess the industrial and economic trends, movement of foreign exchange etc. and thereby to arrive at more precise estimates. The Committee hope that efforts will be made to improve the budget estimates of customs revenues. The Committee would like to be informed of the steps, if any, taken already or proposed to be taken hereafter in this direction.

11. A break-up of Budget Estimates and the Actuals in respect of the minor heads where large variations have been noticed for 1962-63 are set out below:—

SEA CUSTOMS—IMPORTS

(In lakhs of rupees)

Name of the commodity	1961-62				1962-63			
	Budget	Actuals	Variation	Percentage	Budget	Actuals	Variation	Percentage
<i>Revenue Duties</i>								
1. Kerosene oil and motor spirit	15,40	21,36	5,96	38	18,60	23,93	5,33	28
2. H. S. D. and vaporising oil.	..	11,83	[11,83	..	15,00	24,14	13,14	119
3. Machinery	24,76	28,16	3,40	13	28,50	35,34	10,84	38
4. All other commodities	1,11,75	1,15,44	3,69	3	1,19,37	1,30,47	11,10	9
Total revenue duties	1,51,91	1,76,79	24,88	16	1,77,47	2,17,88	40,41	22
<i>Protective Duties</i>								
Total productive duties	23,31	21,43	-1,88	-8	20,00	20,54	54	2
Total import duties	1,75,22	1,98,22	23,00	13	1,97,47	2,38,42	40,95	20

SEA CUSTOMS—EXPORTS

(In lakhs of rupees)

Name of the commodity	1961-62				1962-63			
	Budget	Actuals	Variation	Percentage	Budget	Actuals	Variation	Percentage
Total Export Duties.	11,72	12,69	97	8	9,15	9,60	45	4
<i>Other minor heads</i>								
Total other minor heads.	7,20	7,82	62	8	7,20	7,50	30	4
Total gross revenues.	1,94,14	2,18,73	24,59	12	2,13,82	2,55,52	41,70	19
<i>Deduct—Refunds and Drawbacks.</i>	4,50	6,48	1,98	44	6,00	9,56	3,56	59
Total net revenue	1,89,64	2,12,25	22,61	11	2,07,82	2,45,96	38,14	18

The Committee examined some of the items where variations were very high. These are dealt with below:

Machinery: Explaining the provision of only Rs. 38 crores in the Budget for 1963-64 for machinery, whereas the actuals for 1962-63 were Rs. 39.34 crores (as against an original estimate of Rs. 28.50 crores and a revised estimate of Rs. 36 crores), the representative of the Central Board of Excise and Customs stated that in 1962, when the Budget for 1963-64 was being framed, there was a 50 per cent cut on all imports due to emergency. Strictly according to that policy, the Ministry should have provided only 50 per cent of the revised estimate which would have come to Rs. 18 crores, but in view of the industrial growth of the country, they allowed a margin in the case of machinery and made a budget provision of Rs. 38 crores for 1963-64.

At the time of making the budget, the witness stated, they did not know how many licences would be issued and how much machinery would be imported. The import policy merely mentioned the items that could not be imported. Actual imports were tied up with various *ad hoc* projects under consideration by the Director-General of Technical Development or the Ministries of Transport, Irrigation and Power etc. Some of the projects were financed with foreign aid and negotiations might be in progress with various countries. As

soon as the aid agreements were signed, licenses would be issued and machinery would start arriving. They could not forecast how much of these would materialise, even though, in the case of machinery, they were less conservative and made an allowance for more machinery coming with the industrial growth.

H.S.D. and Vaporising Oil.—Explaining the reasons why, when the actuals for 1961-62 were Rs. 11·83 crores, they budgeted for a lower figure of Rs. 11·00 crores for 1962-63 and ultimately the actuals turned out to be Rs. 24·14 crores (an under-estimate of 119 per cent), the Member, Central Board of Excise and Customs stated that (i) the effective rate of duty had been reduced to the extent of Rs. 20 per kilo litre and (ii) indigenous production was going up. In October, 1962, when they revised the budget estimate to Rs. 21·50 crores they were guided by the advice of the Ministry of Mines and Fuel; but even this figure was exceeded and the actuals were Rs. 24·14 crores due to larger imports than were anticipated.

Kerosene oil and motor spirit.—Here again, while the actuals for 1961-62 were higher (Rs. 21·36 crores), a lower budget provision (Rs. 18·60 crores) was made for the year 1962-63 and ultimately the actuals turned out to be Rs. 23·93 crores. The Member, Central Board of Excise and Customs explained that a reduced provision was made on account of indigenous production going up considerably (8,83,000 tons in 1960; 9,58,200 tons in 1961 and 11,07,000 tons in 1962) together with their anticipation that whatever increase there might be in consumption would be met by the increase in indigenous production. There was no change in the duty on kerosene oil during 1962-63 and the variation was actually due to more imports than was anticipated.

All other commodities: The Committee pointed out that the variation under "All Other Commodities" had increased from 3% in 1961-62 to 9% in 1962-63, with wide fluctuations under some individual items as detailed below:

Item	Budget Estimates	1962-63	
		Actuals	Variation
		(In lakhs of rupees)	
Iron and Steel	16.70	14.84	-11%
Railway plant and rolling stock	70	2.49	+256%
Heavy chemicals (Protective Duty)	1.20	2.67	+123%
Motor cars, cycles, scooters etc. etc.	1.83	3.48	+89%
Pneumatic rubber tyres and tubes	1.30	42	-68%

The Member, Central Board of Excise and Customs, explained that the variations were due to two factors: (i) Sometimes, against licenses issued in the previous year the imports took place during the current year; and (ii) sometimes due to change in import policy the parties themselves did not import even though they had the license. Partly, the variation was because of larger collections on account of increase in duty that came into effect from 1st March, 1963 which itself accounted for about Rs. 8 crores.

In respect of railway plant and machinery, the Committee enquired why the estimates could not be precise, as only one single Department was concerned. The Member, Central Board of Excise and Customs, admitted that, at the time of revising the budget estimates they did not consult the Railway Ministry and went by their own estimate of the trends during the coming year. It was, however, possible that since most of these items went under "note pass" system, the increase was due to delayed adjustments on account of the orders placed in the previous year having been received in 1962-63. As regards heavy chemicals, the witness explained that the increase was probably due to change in import policy.

Protective Duties: The Committee enquired why the variation under this head, which included several items, was—8% in 1961-62 and 2% in 1962-63. A note subsequently furnished to the Committee explaining this variation is at Appendix V.

From the detailed examination of the variations in respect of some minor heads carried out above, the Committee find that while the overall variation under the head "Customs" is 18.35 per cent which itself is very high, the variations under some of the individual items are disproportionately large (e.g. H.S.D. and vaporising oil, 119 per cent; Machinery, 38 per cent; Kerosene and Motor Spirit, 28 per cent; Railway Plant and Rolling Stock, 256 per cent; Heavy Chemicals (Protective Duty), 123 per cent; Motor cars, Cycles etc., 89 per cent and Pneumatic Rubber Tubes and Tyres, —68 per cent). The Committee also notice that the Government budgeted for a lower figure than the actuals of the previous year in some cases, (Kerosene oil and motor spirit, H.S.D. and Vaporising oil) and ultimately the actuals exceeded both the budget estimates and the revised estimates. From the foregoing, it is obvious that there is scope for considerable improvement in the preparation of estimates of customs revenue. The Committee trust that the cases involving heavy variations will be examined thoroughly by the Ministry of Finance and that suitable remedial measures would be taken, so that the estimates are framed more realistically.

The Committee regret that in one case (Railways), there was no consultation between the Ministry of Finance and the administrative Ministry. The Committee hope that this is an isolated instance. They consider it to be of the utmost importance that timely consultations and discussions are held between the Finance Ministry and other administrative Ministries concerned, at the time of framing original as well as revised estimates.

Results of test audit—Para 15, page 11

12. In the course of test audit of the various Customs stations, short levy of duty to the extent of Rs. 4,23,414 and excess levy of duty to the extent of Rs. 3,97,269 were noticed. Of the amount of Rs. 4,23,414, Rs. 61,384 represents non-assessment of duty on ships' stores separately dealt with in paragraph 28 under "Other topics of interest". The rest of the amount of short levy of duty had occurred on account of the following reasons:

Nature of short levy	Amount
	Rs.
I. Incorrect determination of assessable values	65,088
II. Wrong classification of goods under Customs tariff	88,918
III. Application of lower rates of duty than those prescribed	72,669
IV. Non-levy of countervailing duty	108,028
V. Wrong exemption of duty on imported goods	7,748
VI. Mistakes in calculations	19,129

During evidence, the Member, Central Board of Excise and Customs stated that the defects pointed out by audit were due to (i) purely human errors arising out of carelessness or negligence of an individual at a particular moment and (ii) disputes of classification or valuation between the Appraising Department on the one hand and the Auditor-General's staff (Customs Revenue Audit) on the other. He added, in regard to item (i) that every year, nearly 5 lakh bills of entry had to be checked and some of them contained a large number of items like machinery etc., there was, therefore, a lot of pressure of work and with the best will in the world, mistakes happened.

In the Internal Audit Department there was a hundred per cent check and quite a number of mistakes were reported to have been detected by them. Five to twenty-five per cent of the cases went to

the Deputy Superintendent and some percentage went up to the Assistant Collector in charge of audit, working directly under the Collector of Customs. The scrutiny by Customs Revenue Audit was over and above all this checking.

In the case of disputes about classification etc. the witness stated that much could be said on both sides. Certain points raised by audit were not accepted by the Department and audit themselves dropped their objections after going through the rulings, interpretations etc. In the case of obvious mistakes which had been pointed out by external audit, the witness admitted that the fact that they were not detected even though the cases had gone through the normal processes, showed that there was room for improvement in the system of internal checks. It was stated by the witness that on the whole the present system of internal checks was adequate to safeguard public revenues.

While noting that every year nearly 5 lakh bills of entry have to be checked and the work has to be done under pressure, the Committee find it difficult to condone mistakes on the ground that they were 'human errors'. Effective steps should be taken to reduce the chances of such mistakes creeping in. The Committee regret that some mistakes in calculations have even gone undetected by the Internal Audit. This indicates that the nature of the check exercised by the Internal Audit is perfunctory. The Committee feel that Internal Audit should be more effective. Towards this end, the Committee suggest that there should be better supervision; and the strength of the appraising staff and the Internal Audit staff should be reviewed and augmented, if necessary. The Committee are glad to be informed that a number of mistakes are detected by the Internal Audit Department. At the same time, a careful note should be taken of the type of mistakes which are pointed out by external audit and suitable instructions issued to prevent a recurrence of the same. Efforts should also be made to resolve disputes in classification quickly by mutual discussion between the Appraising Department and the Internal Audit Department.

The Committee would also like to reiterate their views given in paragraphs 7 and 8 of their Twenty-first Report (Third Lok Sabha) in this connection.

13. In reply to a question, the Committee were informed that mistakes due to application of lower rates of duty than those prescribed occurred mostly in "Note Pass" system cases where the goods had been allowed to be cleared and assessments were made much later when the documents were presented. Due to the complexity of assessment, some 4000 bills of entry were still pending in Note Pass

cases. While the Committee appreciate the difficulties in making assessments of machinery imported and allowed to be cleared long ago under the Note Pass system which applies to government departments and public undertakings, they feel concerned that there should be as many as 4000 bills of entry still pending assessment. They hope that energetic steps will be taken to clear the arrears.

The Committee were informed during evidence that another type of mistake was in regard to levy of countervailing duty. Previously, countervailing duty used to be written in the item itself along with the Customs Duty. When the number of items under Central Excise became very large, an amendment to the Tariff Act was made levying countervailing duty on all goods on which customs duty was leviable. In the beginning when this new amendment came into force, numerous mistakes were stated to have been committed, because while assessing an item under a particular customs tariff it was not realised that there was a separate item by which a Central Excise Duty was also leviable. **The Committee would like this matter to be examined by Government and an effective system evolved in which there will be no scope for omission to levy countervailing duty.***

Incorrect determination of assessable values—Para 16, pages 11-12
Sub-para (a)

14. A company imported goods on behalf of a group of associated concerns in India, through their Home Office at London. A buying commission was paid to the Home Branch on the invoice value of the goods. This buying commission which should have been added to the assessable value of the goods was not so added by the Collector. On the matter being pointed out, the Central Board of Revenue reviewed the order passed by the Collector and decided that the invoice value of the imports by the company concerned should be enhanced by 2½ per cent. on account of buying commission with effect from 19th April, 1960. As a result of this, a sum of Rs. 16,200 had been recovered.

Explaining the background of the case, the representatives of the Central Board of Excise and Customs informed the Committee that Audit raised the objection in March, 1957, and the Collector, after considering it, informed Audit in July, 1960 that he was not convinced that it was buying commission and passed orders that the addition was not justified. The delay of more than three years was explained as being due to the detailed scrutiny of past accounts, remittances etc. which had to be done by the Collector. Audit differed

*In this connection, please see also paragraph 22.

from the Collector and brought the matter to the notice of the Board in March, 1961. The Board agreed with the audit view and after calling for the party's explanation, documents etc. passed orders in July, 1962 reviewing the Collector's order of July, 1960 and giving retrospective effect up to three months from the date of the Collector's order. They could not go back beyond this date, as the time for recovery was three months under the old Act, which applied to this case. The total amount foregone prior to 19th April, 1960 was stated to be about Rs. 6,000. The Committee were further informed that the party's point of view was that it was only a payment for services rendered and not buying commission, and the party had since filed a revision petition which was pending.

The Committee would await the outcome of the revision petition.

Sub-para (b)

15. In one Customs Collectorate, machinery imported for the manufacture of viscose filament rayon yarn and its related equipment in September, 1962 was assessed to duty under tariff item 72(3) on a net F.O.B. value of £26,154 plus freight and insurance and landing charges.

It was noticed from the invoice that the real F.O.B. value was £29,060 and the difference between this amount and £26,154 represented an advance payment (in part) to the supplier. On the mistake being pointed out, the consignment was re-assessed to duty on the correct assessable value and the short levy of Rs. 5,848 was recovered.

The Member, Central Board of Excise and Customs, informed the Committee during evidence that this was a pure mistake, as the officer concerned had mistaken what was described as cash-down payment as cash-discount.

The Committee hope that such mistakes will be avoided in future. They also regret to find that this mistake was not detected in Internal Audit.

Wrong classification of goods under Customs Tariff—Para 17, Page 12

Sub-para (a)

16. In a certain Custom House, rubber insulated cable was assessed to duty in December, 1962 at 15 per cent *ad valorem* plus 5 per cent, countervailing duty under tariff item 72(d), read with 73(21) of the Indian Customs Tariff. As rubber-insulated cable is specifically mentioned under 73(6) of the Indian Customs Tariff, the

assessment should have been made at 35 per cent *ad valorem* plus 5 per cent countervailing duty. On this being pointed out, the Custom House realised the short duty of Rs. 35,997 from the importer.

The Member, Central Board of Excise and Customs, explained during evidence that these cables were specifically mentioned under 73(6) but they had to be of a special core. These cables were also generally transmission lines which were assessable under 72(d) and presumably the assessing officer treated them as transmission lines under 72(d), which he should not have done. The witness informed the Committee that the Board had been told by the Collector of Customs recently that action had been initiated against the officer concerned, but they did not have the details.

The Committee would like to be informed how the Customs Officer failed to classify the goods properly where there was no scope for any ambiguity. In the opinion of the Committee, this is a clear case of wrong classification, and they would like to be informed of the action taken against officers responsible for this lapse.

Sub-Para (b):

17. A Platform car imported in one of the Customs ports was assessed to duty at 10 per cent *ad valorem* under tariff item 72(3) treating it as a component part of machinery. It was pointed out that Platform cars came under tariff item 75 and should be assessed at 35 per cent *ad valorem*. The short levy of duty on account of this amounted to Rs. 17,635. The Custom House has since recovered this amount from the importer.

During evidence, the Committee were informed that the Customs Officer had owned the mistake and the duty had been recovered.

The Committee are given to understand that there was a ruling by the Central Board of Revenue issued in 1954 that items such as Truck platform (under which category platform cars fall) were assessable under Tariff Item 75 (conveyances not otherwise specified). If the Assessing Officer had followed this circular the under-assessment would not have occurred. Such failure to follow the C.B.R.'s ruling and circulars was noticed in the previous year also and the Committee had commented adversely on the same (*vide* para 9, Twenty First Report, Third Lok Sabha). The Committee view the persistence of such mistakes with concern and hope that suitable measures would be taken to ensure that the Board's rulings and circulars are strictly adhered to.

**Application of lower rates of duty than those prescribed—Para 18,
Pages 12-13**

Sub-para (a)

18. Under the Finance Act of 1963, the basic rate of duty specified under item 73(1) of the Indian Customs Tariff Act was enhanced from 50 per cent *ad valorem* to 60 per cent *ad valorem* with effect from the 1st March, 1963. A consignment of Telecommunication Cable valued at Rs. 3,55,867, imported at the port of Calcutta after 1st March, 1963, was assessed at the lower rate of 50 per cent which was effective prior to 1st March 1963. On the mistake being pointed out, the under-assessment of Rs. 41,103 was rectified and the amount recovered.

During evidence, the Member, Central Board of Excise and Customs explained that the bill of entry was assessed on the 8th March, 1963, and information regarding the new rates had reached the Customs House by that time. The Appraiser missed it and charged at the old rate. The officer had been warned and an entry had been made in his confidential roll.

The Committee are surprised to learn that the customs officer failed to apply the current rate of duty as passed by the Finance Act, 1963, in respect of a bill of entry filed on 7th March, 1963. The Committee note that information regarding the new rates had reached the Custom House by that time. While noting that the mistake had been traced, and rectified, the Committee are surprised to find that the mistake escaped the notice of the Internal Audit who conduct a 100 per cent check. Such lapses betray the perfunctory nature of checks made by Internal Audit Department. The Committee recommend that such lapses in internal audit should be viewed seriously in future.

The Committee were given to understand that soon after the Budget, when the number of changes introduced was very large, there were mistakes of over-assessment or under-assessment in the first few days, but these were detected in time because the staff were stated to be over-careful immediately after the new changes. The Committee trust the utmost vigilance would be exercised at this period to see that the correct rates are applied and there is no evasion.

Para 18, Sub-para (b)

19. One consignment of "Capacitor Tissue" and two consignments of paper condensers imported in February and March, 1962.

were assessable to duty under item 44 ICT at 50 per cent *ad valorem* plus 50 nP. per Kilo, being the countervailing duty. However, these were assessed at 40 per cent *ad valorem* plus 50 nP. per Kilo, thereby levying duty at 10 per cent below the prescribed rate. The short amount of Rs. 15,117 was recovered.

The Committee were informed, during evidence, that this was a "Note Pass" case. There were no *mala fides*, and the mistake had been committed due to inadvertent oversight on the part of the assessing officer. He had been cautioned to be more careful in future.

The Committee find that this was a clear case of negligence on the part of the assessing officer, for which he has been given a warning. What surprises the Committee is that the Internal Audit Department also did not detect this simple mistake. The Committee suggest that similar action should be taken against the audit staff responsible for not carrying out the check properly.

20. The Committee enquired about the timely supply of the consolidated printed tariff giving the latest rates, to the Appraising and Audit staff. The Chairman, Central Board of Excise and Customs, admitted that there was a time-lag in the supply of the printed publication. The Committee were informed that part of the delay was due to the work being centralised "for traditional reasons" in the Ministry of Commerce, who were responsible for the publication. Till the latest tariff was supplied, the Appraisers had to work with the help of manuscript corrections made in their old copy. The Committee were informed that the tariff book for the current year (1964) had just been published (in the fourth week of July) whereas the Budget was passed at the end of April. The witness admitted that the machinery required streamlining. He added that the Board had since been able to get a small press of their own for urgent work where a limited number of copies were being printed. For the future, the Board were thinking of having a loose-leaf system, so that only the pages in which there were changes and not the whole book would have to be re-printed. The details of this system were being worked out.

The Committee note that the work of bringing out the re-print of the Tariff Book incorporating the latest changes in the rates of duty is centralised in another Ministry for what was described as "traditional reasons", and that according to the Chairman, Central Board of Excise and Customs, this is responsible for part of the delay in the publication of the reprint. The Committee hope that, by better co-ordination between the Board and the Ministry of Commerce and by streamlining the machinery that deals with this

publication, the existing delays will be eliminated and the book will be published within as short a time as possible after the Budget has been presented. The Committee would suggest that the advantages of continuing the present system may also be examined with a view to see if the position is likely to improve substantially by the Board themselves undertaking this work. The Committee note that a scheme is being worked out by the Board to introduce a loose-leaf system so that only those pages where there are changes, need be reprinted and not the whole book. The Committee hope that the scheme would be finalised at an early date.

21. While on the subject of mistakes due to applying lower rates than those prescribed, the Committee enquired whether it was checked up if some of the cases were not due to corruption. The Member, Central Board of Excise and Customs, stated that when any case of under-assessment occurred, they kept a watch to find out if there were *mala fides*. According to the witness, there had been some cases where the persons had been prosecuted or departmental action was taken against them.

The Committee desired to be furnished with a statement showing the number of under-assessment cases in which the officers/staff were suspected of *mala fides* and in which they were prosecuted or dealt with departmentally during each of the years 1960-61, 1961-62 and 1962-63. The Committee were informed that there were no cases of under-assessment detected in audit where *mala fide* was suspected during the relevant period in any of the Customs Houses. It was, however, added that during the calendar years 1960, 1961 and 1962, 110, 65 and 70 cases respectively of lapses suspected to have a vigilance angle were investigated and different punishments ranging from censure to dismissal were awarded in 37, 60 and 44 cases respectively, to Gazetted and non-gazetted staff of different Customs Houses.

The Committee suggest that a continuous and careful watch should be kept over cases of under-assessments, and lapses suspected to have a vigilance angle should be examined promptly and suitable action taken against the persons concerned.

Non-levy of countervailing duty—Para 19, page 13

Sub-para (a)

22. A consignment of "National Portable Transistor Radios" of non-U.K. origin imported in June, 1962, was assessed to duty by the local Customs House at the standard rate of 50 per cent *ad valorem*

under item 73(4)ICT. However, under a new Tariff item 73(4A), countervailing duty had to be charged on imported sets. This countervailing duty was leviable at 20 per cent *ad valorem* or Rs. 100 per set, whichever is lower. In assessing the imported transistor radio sets, the Customs authorities overlooked the levy of countervailing duty amounting to Rs. 41,919. On this being pointed out the amount was recovered.

During evidence, the Committee were informed by the representative of the Central Board of Excise and Customs that the mistake had arisen on account of practical difficulties experienced in this and other cases in levying countervailing duty on account of a new system introduced by them.

Such mistakes of non-levy of countervailing duty were noticed last year, and the Committee had expressed the hope that they would not arise in future (vide para 12, Twenty-first Report, Third Lok Sabha). The Committee were informed, during evidence, that with a view to avoiding such mistakes in future, Government had introduced a Bill in February 1963 removing all references to countervailing duties from the Indian Tariff items and adding a new provision to the Indian Tariff Act, 1934, saying that wherever there was a countervailing duty leviable under the Central Excise Tariff, it would automatically be added to the item in the Indian Customs Tariff in respect of the Customs duty. The Committee were given to understand that this had led to another complication. The Committee desire that this matter should be re-examined and a proper system should be devised by which there will be no room for countervailing duty escaping levy. The Committee would like to be furnished with a detailed note indicating the steps taken in this regard to overcome the difficulties.

Sub-para (b)

23. Countervailing duty was not charged on certain imports of Printing papers, Rotors, Ceramic Condensers and Mobile Crane assessable to duty under items 44, 72 (14), (b), 73(11) and 75 of the Indian Customs Tariff respectively. In some other cases of import of "Cold Rolled Steel strips" assessable under item 63(14) correct rates of countervailing duty were not levied. On the mistake being pointed out, the Customs Collectorate concerned levied and collected the duty which was short-charged to the extent of Rs. 35,248.

During evidence, the representative of the Central Board of Excise and Customs stated that the mistake was due to a slip. He added

that some practical difficulties had been experienced in levying countervailing duty on certain items, and recently necessary instructions had been issued to remove doubts.

The Committee hope that after the issue of clarificatory instructions, such mistakes would not be repeated.

Wrong exemption of duty on imported goods—Para 20, page 13

24. Aeroplane parts and aeroplane engines and engine parts were exempted from import duty by a notification issued on 10th May, 1958. In February 1962, the P & F (Mov.) Unit Air Force imported tools, grey elastic, nylon and cotton fabrics by air and these articles were allowed clearance free of customs duty on the ground that they were aeroplane parts. It was pointed out that the said articles could not come within the exemption. The customs authorities took action to recover the short levy of Rs. 7,748.

The Member, Central Board of Excise and Customs, explained during evidence that the Customs authorities were liberal in their interpretation and there was no inspection as these were stores imported by a Government Department. In reply to a question whether these nylon and cotton fabrics could be put to personal use, the witness stated that they were of a special type and according to the bill of entry they were for the use of the Air Force.

The Committee fail to appreciate why, simply because these goods were imported by a Government Department, the rules should have been relaxed and a wrong exemption granted in respect of the goods which were otherwise dutiable. They hope that recurrence of such mistakes will be avoided in future. It has been stated that the customs authorities took action to recover the short levy. The Committee would like to be informed whether the amount of Rs. 7,748 has actually been recovered since.

Cases of over-assessment—Para 21, page 14

25. In the course of test-audit, cases of over-assessment also came to notice. Two such cases involving an excess assessment of Rs. 2,98,278 are mentioned in the following paragraphs.

The Committee enquired whether Internal Audit also detected such cases of over assessment or they were brought to notice only by the Customs Revenue Audit. The Member, Central Board of Excise and Customs stated that quite a large number of over-assessments were detected by Internal Audit. In reply to a question, the witness stated that administrative orders had been issued that if any cases of

over-assessments were discovered *suo motu*, refund should be given without an application by the party, provided it was within the prescribed period of six months.

Dealing with the delay in granting refunds, the witness stated that once the decision to give a refund was taken, the time-lag in issuing the cheque was between a week and a fortnight. The time taken to come to a decision depended upon the merits of the case, and often the delay was in the production of documents by the importers, which was beyond the control of the Department. In rare cases, it was stated, a long time was taken.

The Committee drew the attention of the witness to the observations made by the Customs Re-organisation Committee (*Vide* Para 8, Chapter XIX, Report of the Customs Re-organisation Committee) in regard to heavy accumulation of refund claims in Customs and enquired about (i) the steps taken to improve the position and (ii) the progress made in clearing the arrears since the publication of the Report of the said Committee.

A note promised to be supplied to the Committee on this subject is awaited.

Over-assessment is as much an irregularity as under-assessment, and it causes undue hardship to the public for no fault of their own. Over-assessment also results from the same type of failures and mistakes as are responsible for under-assessments. The Committee have been given to understand that in all the cases of over-assessment noticed in audit, the reasons have been wrong classification, levy of countervailing duty where none was leviable, non-application of correct rates etc. The Committee trust that the Department would profit by the mistakes pointed out by audit, and take suitable remedial measures to avoid a recurrence of the same in future.

The Committee have been informed that once a decision to give refund is taken, the time-lag in making payment is between a week and a fortnight. They, however, learn that refund cases sometimes do take a long time, mainly due to delay in production of documents by importers, before they are finally settled. The Committee desire that the procedure should be simplified, all avoidable delays should be eliminated, and the time taken for arriving at a decision should be reduced to the minimum.

Wherever over-assessments are detected *suo motu* by the Department, or are pointed out by Audit, refunds should be granted expeditiously on the initiative of the Department itself without an application by the party. Special care should be taken to see that such

cases do not become time-barred and the public are not deprived of the refund due to departmental delays.

Sub-para (a):

26. A Custom House, while working out the duty at 15 per cent *ad valorem* on a consignment, imported on account of the Eastern Railway in March, 1962, wrongly took the assessable value thereof at Rs. 21,38,349, instead of Rs. 2,02,733. This resulted in an excess levy of Rs. 2,90,342. On this being pointed out, the amount was refunded.

The Member, Central Board of Excise and Customs, informed the Committee during evidence that the Eastern Railway had themselves committed a mistake. On the bill of entry they gave the value in German Deutsche marks and while converting the same into Indian rupees, they had made the conversion wrongly and given this high value. The Customs authorities accepted the conversion and levied duty accordingly. It was the C.R.A. that pointed out that the conversion was wrong.

In a note furnished at the instance of the Committee by the Ministry of Railways (Appendix VI) the mistake has been accepted by the Railway concerned. In reply to the question whether there were any checks or scrutiny of the charges or duties paid by the Railway authorities for their imports and what was the percentage of checks exercised by the Controlling Officers in this regard, the Committee were informed that the procedure of checks or scrutiny of customs charges or duties, had not been uniform on the Indian Government Railways. The Railway Board now propose to introduce a uniform procedure, under which debits for duty over a certain value will be checked 100 per cent in the Accounts Office also, debits for duty below that value being checked at percentages varying with the value.

The Committee hope that as a result of the uniform procedure proposed to be introduced on all the Indian Government Railways, mistakes of the kind pointed out in this case will not recur. The Committee regret that the internal audit in the Customs House failed to detect the error in conversion, and it was left for the Customs Revenue Audit to point it out.

Sub-para (b):

27. The customs duty in respect of certain instruments and component parts of milling machines imported was assessed at the rates in force on the date of the assessment, instead of at the rates prevalent on the date on which the Bills of entry were delivered to the

Customs Collector. On the date on which the bill of entry was delivered to the Customs Collector, the rate of duty was 5 per cent less than the rate of duty prevailing on the date of assessment. Thus, an overcharge had occurred, which was to the extent of Rs. 7,936.

During evidence, the Committee were informed that these goods had been imported on 7-2-1961 under "Note Pass" procedure for a Government of India concern (HMT). Due to a slip, the Appraiser applied the rates prevalent in 1962 when he made the assessment on 17-9-1962.

The Committee regret the carelessness on the part of the assessing officer in the matter of the application of the rates. They are also surprised that the Internal Audit did not detect the mistake. Suitable measures should be adopted to avoid recurrence of such cases.

Other topics of interest—Para 22, pages 14-15

Sub-para (a) (i): Non-assessment of Customs duty on Ship's Stores under the Customs Act, 1878, and delay in assessment.

28. In the case of vessels engaged exclusively in coastal trade, it was observed that the practice at a customs port was to charge duty only on the unconsumed portion of the oil bunkered by such vessels at an intermediate foreign port on the ground that the part of the oil consumed on the high seas could not be deemed to have been imported into a customs port in India as defined under Section 3(d) of the Sea Customs Act, 1878. It was, however, noticed in as many as 80 cases that the quantity of oil on board the vessels on their arrival at the Indian port was higher than the quantity bunkered at the foreign port, thereby indicating that even at the time of uplifting the oil at the foreign port the vessels had sufficient stock of duty paid oil to last for the coastal run to the Indian Customs Port via the foreign port. It was, therefore, pointed out to the Central Board of Revenue that the contention that the portion of the oil taken at the foreign port was consumed by the vessels on the voyage to the Indian Port was not tenable. The Board agreed with the Audit view and issued instructions for levy of duty in the above-mentioned 80 cases on the full quantity of oil uplifted at the foreign ports. As a result, customs duty amounting to Rs. 61,834 has fallen due for recovery, out of which an amount of Rs. 14,753 has so far been collected.

The Committee enquired how a vessel was classified as one "engaged exclusively in coastal trade". The Chairman, Central Board of Excise and Customs, explained that where, by and large,

a ship operated between Indian ports which were customs ports, and the bulk of its cargo, if not 100 per cent, was booked between these customs ports, then it was classified as a vessel engaged exclusively in coastal trade. The Committee enquired (i) how by visiting a foreign port on the way (Colombo), a vessel plying between Calcutta and Bombay or *vice versa*, although engaged exclusively in coastal trade, could claim concession permissible to foreign vessels in respect of oil consumed on the high seas and (ii) whether by adopting this procedure a clever shipping company could not evade duty. It was admitted, during evidence, that the position was anomalous. It was explained that under the old Act, a coastal vessel which touched a foreign port on its way could still be treated as a coastal vessel, but under the new Act, if a vessel touched a foreign port it ceased to be a coastal vessel and had to be treated as a foreign vessel and given the concession.

The Comptroller and Auditor General pointed out that the audit para referred to cases which had been dealt with in respect of voyages performed under the old Act. As regards the position under the new Act, there had been a reference from one of the Collectors and Audit had recently taken up the matter with the Central Board of Excise and Customs. The Board was considering the matter, in consultation with the Ministry of Law.

The Committee note that the cases referred to in the audit para are those in respect of voyages performed under the old Act, under which, as explained during evidence, a coastal vessel which touched a foreign port on its way to an Indian port, e.g. from Calcutta to Bombay or from Bombay to Calcutta *via* Colombo could still be treated as a coastal vessel. Therefore, there was no justification for the customs port to adopt a different practice and not charge duty on the full quantity of oil bunkered at the intermediate foreign port. The short assessment in these 80 cases would not have arisen if the Central Board of Revenue had issued proper instructions in this regard prior to Audit pointing out the matter. Out of a total amount of Rs. 61,834 due for recovery, only a sum of Rs. 14,753 is stated to have been collected so far. The Committee may be informed of the position regarding the recovery of the balance of Rs. 47,081.

The Committee were given to understand that the present position in this respect was anomalous, in as much as under the new Act, if a coastal vessel touched a foreign port it ceased to be a coastal vessel, and that the matter was being reviewed by the Central Board of Excise and Customs, in consultation with the Ministry of Law. The Committee would like to be informed of the result of this review.

Sub-para (a) (ii): Want of uniform procedure in regard to levy of customs duty on Ship's Stores

29. It was noticed that import duty on all the ships' stores brought by the coasting vessels from the foreign ports was not being levied regularly from 1954 onwards. Only 30 demands for Rs. 4,73,522 relating to the years 1955-1960 had been raised up to March, 1962, out of 98 cases pending for the period 1954-62. The delay in raising the demands was pointed out, as a result of which the Department raised 68 demands for Rs. 11,03,621 for the period 1954-62. Out of the total demands of Rs. 15.77 lakhs in respect of the 98 cases (relating to the entire period from 1954 to September, 1962), a sum of Rs. 12.53 lakhs has been recovered and the balance of Rs. 3.24 lakhs is pending realisation.

The Committee enquired (i) what were the reasons for the delay extending to four or five years, and in some cases even nine years, in the filing of bills of entry by the steamer agents and (ii) what were the difficulties in ascertaining the dutiable element of the ships' stores. It was explained, during evidence, by the representative of the Central Board of Excise and Customs that the export manifest was permitted to be filed upto 5 days after the ship had left. The store list was available with the export manifest, but from the store list the Custom House had to make the classification as to which stores were liable to duty and at what rate. Thereafter the steamer agent was asked to prepare a bill of entry and file it. It was stated that they could not recover the duty on the export manifest but had to wait for the bill of entry. Since the amounts involved were petty, there had been a general attitude of liberality and the steamer agents had been shown a certain amount of indulgence. It was admitted that in these particular cases there had been inordinate delay, and that the delay was indefensible. There were eight ships in respect of which details of stores consumed were not yet available. The Collector of Customs had been asked to call upon the steamer agents to show cause why they should not be penalised.

In reply to a question whether there was any system by which the Customs Collector and the Central Board of Excise and Customs automatically came to know of such cases of delay, the witness stated that there was a separate Department in the Custom Houses known as the Manifest Clearance Department, whose duty it was to inform the Collector about delay in the completion of all ships' papers. In addition, there was a Directorate of Inspection which reported such arrears to the Board every month. It was admitted by the witness that the Board was not aware of these cases until they were specifically brought to notice by Audit.

The Committee are surprised to learn that there has been a delay of four to five years, and in some cases even nine years, in the filing of bills of entry by steamer agents in respect of ships' stores, whereas the time allowed for the purpose is three months. No convincing reasons have been advanced to explain such abnormal delay; on the other hand, there is an admission by the representatives of the Central Board of Excise and Customs that the delay is indefensible. From a note furnished at the instance of the Committee (Appendix VII) it is observed that the Board has asked the Director of Inspection (Customs and Central Excise) to investigate in detail the circumstances in which this delay occurred. The Committee regret that until these cases were brought to the notice of the Board specifically by Audit, the Board were not even aware of them. This is a case in which there seems to have been a failure of machinery all along the line. It reveals the ineffectiveness if not the absence of a system of following up cases of dutiable stores for the purpose of levy of duty. The fact that the amounts involved were petty is hardly a justification either for the Department's showing indulgence to the Steamer Agents in spite of their persistent failure to file the bill of entry, or for the Department's acquiescence in the chronic delay in doing so.

The Committee desire that (i) action should be initiated forthwith if it had not already been done, against the defaulting steamer agents; (ii) effective steps should be taken to ensure that duty on ships' stores is levied in all cases promptly and properly; (iii) the feasibility of raising the demand on the basis of the stores list furnished with the Export manifest should be examined; (iv) the investigation reported to have been ordered by the Board should be conducted expeditiously and responsibility for the delay fixed, so that suitable action may be taken against those at fault; and (v) an effective system should be devised whereby the Collectors of Customs and the Central Board of Excise and Customs would automatically come to know of such delayed cases.

30. Besides the 98 cases referred to in the preceding paragraph, there were 39 more cases relating to the period prior to 1958 in respect of which the Department has not yet ascertained the particulars of stores uplifted at the foreign ports for determining the demands to be raised.

In a note furnished at the instance of the Committee (Appendix VII) it has been explained that out of the 39 cases, no bunkers had been lifted by the vessels concerned at Colombo in 14 cases and in those cases the question of issue of demands did not arise. With regard to another 13 cases, the total levy involved is stated to be

Rs. 2,00,291·71 nP* and demands for this amount are also reported to have been issued by the Customs authorities. In respect of the remaining 12 cases, it has been stated that the particulars of bunkers lifted by the concerned vessels at Colombo have not yet been furnished by the steamer companies, and the amount of duty in these cases has, therefore, still to be ascertained. From a note giving further information required by them (Appendix VII), the Committee find that in these 12 cases it is proposed to issue demands on the basis of the declaration made in the ships' store lists. The Committee would like to be informed (i) of the progress of collection of the demands amounting to Rs. 2,00,291·71 np* raised already in 13 cases and (ii) of the amount of demands raised in the 12 remaining cases on the basis of the declaration made in the ships' store lists and the progress of collection.

Arrears—para 23, page 16

31. The total amount of customs duty remaining as unrealised as on 31st October, 1963 was Rs. 103·63 lakhs, as against Rs. 80·12 lakhs, for the corresponding period last year. Out of this amount Rs. 72·43 lakhs have been outstanding for more than one year.

According to two statements furnished at the instance of the Committee (Appendices VIII and IX) the amount of customs duty outstanding on 31-10-1963 for more than two years was Rs. 43·99 lakhs, out of which Rs. 4·09 lakhs were due from Government Departments and Rs. 39·89 lakhs from private parties. The latest figure of arrears in respect of demands raised upto 31-3-1963 but pending realisation as on 31-10-1963 was Rs. 106·82 lakhs, out of which Rs. 35·37 lakhs were due from Government Departments and Rs. 71·45 lakhs from private parties. During evidence, the Secretary, Revenue Expenditure and Company Law, explaining how there were arrears of Customs duty from "private parties", informed the Committee that the amount of Rs. 71·75 lakhs on 31-10-63 due from private parties included some amount due under the "Note Pass" system from public sector undertakings who were treated as "Private Parties". The Member, Central Board of Excise and Customs, further explained that these were not arrears in the ordinary sense. For instance, there was no duty on a tractor imported for agricultural purposes but at the time of import they did not know whether it was for agricultural purposes. Therefore, to safeguard public revenue, a demand against such items was raised and it was cancelled if proof was subsequently produced that that particular item had been put to the specified use.

*According to Audit, the correct figure is Rs. 2,01,643·44 nP.

The amount remained an arrear only till the position became clear beyond doubt.

The Committee note that out of total arrears of Rs. 103.63 lakhs as on 31st October, 1963, a sum of Rs. 72.43 lakhs is outstanding for more than one year. The Committee also view with concern the rise in arrears of customs duty from Rs. 80.12 lakhs to Rs. 103.63 lakhs. Since the arrears are partly attributed to pending "Note Pass" cases, the Committee would reiterate their recommendation contained in para 20 of their 21st Report (Third Lok Sabha) that the finalisation of the outstanding Note Pass cases should be vigorously pursued. The Committee hope that "Note Pass" is a dying system and greater use would be made of the alternative of the special procedure for provisional collection of duty and other measures in order to reduce the quantum of arrears in future.

Write off—para 24, page 16

32. The total amount of customs revenue remitted, written off or abandoned for the year 1962-63 is Rs. 54,82,573. These writes-off mainly consist of amounts of penalty imposed for violation of the provisions of the Customs Act or the Foreign Exchange Regulations Act. Two interesting cases where such penalties have been written off are given below:

- (a) Two foreigners, who were proceeding to a foreign land by the overland route, were found by the customs authorities to have been in possession of Indian and foreign currency to the extent of several lakhs, hidden in a secret chamber above the petrol tank behind the hind seat of their car. They were also found in possession of other contraband goods, such as arms, live cartridges and pocket radio, and all these goods were confiscated together with the car. The Collector in his adjudication order dated July, 1957 imposed a personal penalty of Rs. 25 lakhs each on both the parties. The offenders were also prosecuted in a court of law. After the completion of their term of conviction, they left India for their own countries. But the personal penalty of Rs. 50 lakhs imposed on them remained unrealised, as these persons had no assets in India. The amount of Rs. 50 lakhs was finally written off by the Collector in January, 1963.

- (b) Another foreigner, who alighted at an airport in India, was found in possession of 14 bars of contraband gold weighing 1640 tolas. As this gold was admittedly smuggled, the gold was confiscated and personal penalties to the extent of Rs. 3 lakhs were imposed. As the party had no assets in India, the penalty levied was written off in June, 1962.

The Committee enquired about the circumstances under which the penalties to the extent of Rs. 25 lakhs and Rs. 3 lakhs were imposed on foreigners. The Chairman, Central Board of Excise and Customs, explained that Section 168 of the Sea Customs Act empowered a Collector not only to confiscate the smuggled goods but also to impose personal penalty not exceeding three times the value of the smuggled goods. The Collector had explained that although he knew that the amounts might be unrealisable, still judging by the type of offence, he felt that the punishment imposed was a fit one.

The Secretary, Revenue, Expenditure and Company Law explained that when imposing penalty it was not desirable to go into the question of the means of the party concerned. Penalty served a number of purposes. The party might be poor, but he might carry goods on a number of occasions, and the goods he was likely to carry could also be seized later on. It was stated that if for the same offence two persons were penalised in two different ways, it might have other repercussions. Therefore, the witness stated that whatever the means of the party, penalty should remain. In reply to a question, the Committee were informed that some Indian nationals were also involved and a sum of about Rs. 1 lakh pertained to them. It was explained that some of them had died and others had no means to pay. The State Governments were approached to recover the dues as arrears of land revenue and only when they found that this could not be done the amount was written off.

The Committee hope that all efforts would be made to realise the arrears of Customs revenue before any amount is written off.

Preventive and punitive action taken by the Department in the case of import of contraband goods—Para 25, pages 16—17.

33. The Customs Act empowers the Customs authorities to seize and confiscate goods the import of which is prohibited under the Law and to launch prosecution or impose penalties in such cases. The following is a statement showing seizures of smuggled goods

for the period from 1st October, 1962 to 30th September, 1963 and the punishment meted out to the offenders:

(i) (a) Total value of the goods seized as a result of the preventive and anti-smuggling activities of the Customs Departments	Rs. 4,72,88,000
(b) Total value of goods confiscated as a result of seizures	Rs. 2,74,90,000
(ii) Total number of prosecutions launched in respect of the offences mentioned in (i) above	141 (cases)
(iii) (a) Total amount of penalties imposed under the Customs Act	Rs. 8,24,000
(b) Total amount of fines imposed	Rs. 57,91,000
(iv) Total number of convictions Obtained where prosecutions had been launched	38 (persons)

During evidence, the Member, Central Board of Excise and Customs, gave the following latest information regarding prosecutions:—

	1962-63 Opening balance (all-India) 318 cases	Opening balance (Delhi) on 1-10-62 93 cases
Cases sent for prosecution	296	28
" decided by courts	290	49
" which resulted in conviction	213	46 (persons)
" which resulted in acquittal	77	14 (persons)
" which have not yet been decided	324	72 cases

[Figures regarding Delhi, furnished by Government subsequently at the instance of the Committee, relate to the period 1.10.62 to 30.9.63].

The Committee are glad to note that the percentage of convictions secured (all-India) is not unsatisfactory viz. 73% (290 cases decided and 213 cases which resulted in the conviction). They hope that efforts will be made to improve the percentage further.

34. The Committee enquired about the steps taken to streamline the machinery for preventive and punitive action against smugglers. The Chairman, Central Board of Excise and Customs, informed the Committee that it had been decided to set up a new wing called the Economic Offences Division in the Central Bureau of Investigation. In the Central Board of Excise and Customs, they had a Directorate of Revenue Intelligence. This Directorate in collaboration with the Collectors had been developing intelligence techniques. The witness stated that attempts at smuggling by individuals was something which could not be totally prevented. Their main target of attack was organised gangs who looked upon smuggling as a profession. The witness claimed that there had been decided improvement with regard to gold. Smuggled consumer goods were less freely available than they used to be sometime ago. A detailed note showing the measures adopted to prevent smuggling of gold furnished at the instance of the Committee is given in Appendix X.

According to a statement furnished at the instance of the Committee, the major commodity-wise break-up of the seizures of smuggled goods during the period October, 1962 to September, 1963 is as follows:

	<i>Value</i>
	<i>(In thousands of rupees)</i>
Gold	1,51,48
Silver	77
Precious Stones	26,49
Jewellery	12,71
Currency	22,87
Textiles	10,45
Others	2,48,11
Total	<u>4,72,88</u>

Information with regard to the port-wise break-up of contraband goods seized, during October, 1962 to September, 1963, furnished at the instance of the Committee is given in Appendix XI. The

quantity of gold seized as smuggled during the years 1954 to 1963 and its value are stated to be as under:

Year	Quantity Seized (Kgs.)	Value (Rs.)]
1954	1174	62,91,000
1955	1241	66,54,000
1956	1375	73,68,000
1957	2375	1,27,29,000
1958	1236	66,17,000]
1959	537	28,72,000
1960	1064	56,95,000
1961	2288	1,22,54,000
1962	2617	1,40,22,000]
1963	964	51,65,000

Note.—The value has been worked out at the international rate of Rs. 5.36 per gram (Rs. 53.58 per ten grammes).

(Figures of 1963 do not include seizures under the Gold Control).

In reply to a question regarding the approximate quantity of gold smuggled into the country every year, the Secretary, Revenue, Expenditure and Company Law stated that in terms of the Indian price it was of the order of Rs. 35 to 40 crores. Explaining why only Rs. 1.5 crores worth of gold had been seized during the period October, 1962 to September, 1963, the witness stated that this was the most critical period in respect of gold. Due to the Gold Control Order promulgated on 9th January, 1963 there were international indications that smuggling of gold into India had come down. He claimed that in 1963-64, they had done a fairly large amount of seizures. He admitted that the seizure of smuggled gold was less than 10 per cent and if they succeeded in seizing 20 to 25 per cent it would be regarded as a great success.

Giving an idea of the steps taken to deal with smuggling rackets, the witness explained that they used scientific instruments for detecting gold concealed in consignments. In some cases, where smugglers used faster vessels, they took the help of the naval vessels

in addition to their own yachts, boats etc. and in a number of cases they were able to succeed. In reply to a question whether any Government officers were also involved, the Committee were informed that in one case in Bombay and another in Calcutta, there were indications that some officers were involved. They were immediately suspended and investigations were in progress.

In reply to another question whether there was any lacuna in the law due to which the smuggled goods alone were seized and the smugglers went scot-free, the witness stated that they had not come across any serious lacuna in the new Act. In all cases where goods were seized and the persons were known, there was either departmental adjudication and the person was fined, or there was prosecution. Where the goods had been abandoned and the persons disappeared, the Department was helpless.

The Committee note that in terms of the Indian price the approximate quantity of gold smuggled into the country every year is estimated to be of the order of Rs. 35 to 40 crores as accepted by the witness. As against this, the quantity seized during the period October, 1962 to September, 1963 was worth only Rs. 1.5 crores (3-3/4 to 4 per cent).

The Committee feel that there is greater scope for tightening anti-smuggling measures as the percentage of seizures is very low at present. They hope that with various steps which Government are reported to have taken, the percentage of seizures would show a marked improvement. They also suggest that Government should adopt scientific and up-to-date methods of intelligence and detection to fight against the evil of smuggling.

III

UNION EXCISE DUTIES

Para 26, page 18

35. The receipts under Union Excise Duties during the three years from 1960-61 are as follows:—

(In crores of rupees)

1960-61	1961-62	1962-63	Total increase during the three years	Percentage increase
416·35	489·31	598·83	182·48	44

The break-up of this sum of Rs. 598·83 crores under basic duties, additional excise duties and cesses on commodities in the nature of duties is given below:—

(a) Basic Duties	Rs.	548·68 crores
(b) Additional Excise Duties	Rs.	44·75 „
(c) Cesses in the nature of Excise Duty	Rs.	5·40 „

Variations of Actuals from Budget Estimates—Para 27, pages 13 to 21

36. The total Budget Estimates under the head “II—Union Excise Duties” were Rs. 525·07 crores. Against this, the Actuals came to Rs. 598·83 crores, registering an increase of Rs. 73·76 crores (14 per cent) Last year (1961-62), the excess of Actuals over Estimates was Rs. 54·69 crores, working out to 13 per cent.

The excess of receipts, over estimates of Rs. 73·76 crores is analysed as under:—

(In crores of rupees)

	Budget Estimates	Actuals	Excess	Percentage
(a) Increase of Actuals over Estimates in respect of Additional Excise Duties	42·53	44·75	2·22	About 5%
(b) Increase of Actuals over Estimates in respect of duty levied on new commodities during the year 1962-63	14·39	38·92	24·53	About 171%
(c) Increase of Actuals over Estimates in respect of existing commodities	468·15	515·16	47·01	About 10%

It will be seen that the variation is abnormally high under new commodities. A statement furnished at the instance of the Committee, showing the Budget Estimates, Revised Estimates, Actuals and Variations in respect of the years 1960-61, 1961-62, 1962-63 and 1963-64, is given in Appendix XII. Another statement, also furnished at the instance of the Committee showing the break-up of the variations during the years 1960-61, 1961-62, 1962-63 and 1963-64, is given in Appendix XIII.

The Committee enquired, during evidence, (i) what were the general reasons which were responsible for the increasing variations between the budget estimates and the actuals (9·5 per cent in 1960-61; 13 per cent in 1961-62 and 14 per cent in 1962-63) apart from factors which influenced the variations in respect of specific commodities; and (ii) whether they disclosed any major trend.

The Secretary, Revenue, Expenditure and Company Law explained that with a view to finding out whether there was a definite rising trend they had carried out a study of Excise Duties. They had taken the years 1959-60, 1960-61, 1961-62, 1962-63 and also 1963-64 and compared the percentage of clearances for the period December—February (when the production of a large number of commodities went up) with the percentage of clearances for the 11 months April—February (so as to exclude the effect of the Budget in the

month of March). This comparison showed that while the percentage of clearance during December—February of these years was 28·8 per cent on the average, it was very much more (31·4 per cent) during the same period in the year 1962-63. The witness pointed out that if there was a rising trend, the figure for 1963-64 should have been higher, but it was less (29·6 per cent). According to a note furnished at the instance of Committee giving some additional information on this subject (Appendix XIV), the variation in the case of new excises levied in 1962-63 comes to Rs. 11·93 crores which is about 84 per cent of the Budget Estimates. [The total realisation under "Iron and Steel Products" has been taken by Audit as pertaining to new items, whereas the collection on account of ingot duty (which under a change in the technique in collection was now paid along with the duty on Iron and Steel products) has been deducted by the Ministry]. The factors responsible for the large variation in the new excise duties are stated to be non-availability of dependable data and the need for secrecy. In respect of existing excises, it has been stated that but for the Emergency the variation would have been slightly less than in the previous years.

Explaining how the revenue from Union Excise duties was estimated, the witness stated that the actuals of the first six months of the previous years and the actuals of the first eight months of the running year were taken. Against this, they put the expectations of the local officers. They took the increase in industrial production as given by the Ministry of Industry, Department of Technical Development etc. They also got the clearances of production expected by technical Ministries like the Ministry of Petroleum and Chemicals, and in respect of sugar from the Ministry of Food and Agriculture. They again revised the figures in the light of developments which they expected. A number of statistical books were compared and the Ministry tallied the figure with the trend in industrial production which had taken place in previous years. In reply to the Committee's question whether the machinery for collecting statistics was defective as the estimates went wrong, the witness stated that they had various checks and counter-checks, graphs etc. and in their opinion the statistics about excise duties were adequate.

Asked to explain whether the reasons for variations in respect of 1961-62 and 1962-63 were similar or different, the witness stated that in 1961-62 a large part of the variation was due to a number of new commodities brought under excise. There was also a change in the excise duties in the month of September 1961. As regards 1962-63, one primary reason was stated to be the increased collection in March 1963 on account of the budget increases. Another reason was the

large clearances between November, 1962—February, 1963 on account of the Emergency, which they could not foresee. Explaining why out of a total variation of Rs. 73·76 crores, the variation on new items (eleven) was only Rs. 11·64 crores whereas on old items it was Rs. 62·12 crores, the witness stated that the increase was on account of the higher excise in respect of old commodities also.

The Committee note that due to large clearances of excise goods between November 1962 and February 1963, and the increase in rates of excise duties in the Budget of 1963, resulting in higher collections from them during March 1963, the overall variation in respect of Union Excise duties has been of the order of 14 per cent. The Committee have been informed that the statistics regarding Union Excise are adequate and yet one of the reasons advanced for the large variation of 84 per cent under new commodities has also been stated to be the non-availability of dependable data. It had been stated at an earlier stage (*vide para 2 supra*) that statistics were being collected in advance regarding commodities likely to attract excise in order to help in framing estimates correctly. The Committee trust that as a result of the steps which Government are already taking and the further steps which they would be taking to implement the recommendations of the Committee, the variation which has been showing a tendency to increase year after year would show a decline.

Para 27 (Statement), pages 20-21

37. The Minor Heads where large variations have occurred are set out on p. 46 for the years 1961-62 and 1962-63.

(In lakhs of Rupees)

Commodities	1961-62	Actuals	Variation	Percentage	1962-63	Actuals	Variations	Percentage
	Budget Estimates				Budget Estimates			
I	2	3	4	5	6	7	8	9
(1) Sugar	46,20	47,23	1,03	2.2	46,10	60,18	14,08	30.54
(2) Motor Spirit	39,10	45,51	6,41	16.4	46,68	51,56	4,88	9.46
(3) Diesel Oil	5,83	6,08	25	4.3	7,78	9,76	1,98	25.4
(4) Cotton Fabrics	42,81	47,51	4,70	11	52,50	58,37	5,87	11.2
(5) Rayon and Synthetic Fabrics	4,39	5,58	1,19	27	7,35	9,71	2,36	32
(6) Cement	17,50	18,32	82	4.7	19,00	21,38	2,38	12.5
(7) Iron & Steel Products . . . . .	..	..	..	..	5,51	24,29	18,78	341
(8) Coal and Coke	5.43	9,98	4,55	83.8	7,00	12,26	5,26	75
Other Items Collectively	237,02	273,46	36,44	..	295,12	311,97	16,85	..
TOTAL	398,28	453,67	55,39	..	487,04	559,48	72,44	..
Additional Excise Duties	40,34	38,95	-1,89	4.6	42,53	44,75	2,22	5.2
TOTAL	439,12	492,62	53,50	..	529,57	604,23	74,66	..
Deduct-Refunds & Drawbacks	4,50	3,31	1,19	..	4,50	540	90	..
Net Revenue	434,62	489,31	54,69	13	525,07	598,83	73,76	14

The reason attributed for the variations in respect of the commodities listed above is that there was all-round improvement in production and clearance. A few of the commodities where large variations occurred are given below:—

Sugar (item 1).

38. Explaining the variation of 30·54 per cent, the Secretary, Revenue, Expenditure and Company Law explained that the sugar policy was controlled by the Ministry of Food and Agriculture and the estimates were based on the figures received from that Ministry. The Chairman, Central Board of Excise and Customs, explained that in 1961-62 the production of sugar was 28 lakh tons but in 1962-63 it was only 25 lakh tons. As against this fall in production, the clearance of sugar for home consumption registered a sudden increase from 22·28 lakh tons in 1961-62 to 26·97 lakh tons in 1962-63. This was a totally unforeseeable factor.

The Committee feel that since the duty on sugar had been imposed as far back as 1934, the Excise Department should have enough knowledge and experience about its growth, seasonal variations etc. They hope that the trends would be assessed better after frequent consultations with the Ministry of Food and Agriculture and the estimates framed more realistically.

Motor Spirit (item 2)

39. The Committee pointed out that in this case the actuals of 1961-62 were Rs. 45·51 crores, the Budget Estimate for 1962-63 was Rs. 46·68 crores and the actuals turned out to be Rs. 51·56 crores. It was explained, during evidence, that the actuals of the previous year would be available after the end of March, whereas their Budget Estimate was based on the trends in November. In this particular case, because of the levy of special excise duty, it was stated that there was an additional receipt of Rs. 1·4 crores (out of the total difference of Rs. 4·88 crores between the Budget Estimate and the actuals). Even after deducting this additional receipt of Rs. 1·4 crores, the difference in the actuals and the budget figure comes to Rs. 3·48 crores. This would indicate that adequate allowance was not made for the normal increase in production as well as consumption of this excisable commodity. The Committee hope that when framing the Budget Estimate on the basis of previous year's actuals, due allowance will be made for such normal increase of production and consumption which is obvious.

Diesel Oil (item 3)

40. The Committee were informed that the variation of 25.4 per cent related to diesel oil not otherwise specified. The variation was ascribed to sudden rise in clearance, probably due to the Emergency, which was not foreseeable. The production increased by 9 per cent (which they had taken into account in the Budget), but in regard to clearance they had proceeded by the figure of 8.3 per cent during 1961-62, but actually the clearance rose to 16 per cent during the second half of 1962-63.

Iron and Steel Products (Item 7)

The Committee pointed out that there was a large variation (34. per cent) between the Budget Estimate for 1962-63 (Rs. 5.51 crores) and the Actuals (Rs. 24.29 crores) in respect of Iron and Steel Products. Similarly, taking steel ingots alone, the Budget Estimate for the year 1962-63 was Rs. 17.50 crores, the Revised Estimate was Rs. 6.3 crores and the Actuals were Rs. 4.61 crores (showing a variation of—63 per cent between the Budget Estimate and the Actuals and—27 per cent between the Revised Estimate and the Actuals). The Chairman, Central Board of Excise and Customs explained that the ingot duty got merged in the product duty in the case of composite mills, and this was mainly the reason for a steep rise in the receipts against Iron and Steel Products and a drop in the receipts against Steel ingots. The receipts of Rs. 4.61 crores related to duty on those ingots which were cleared as ingots from the major producers and went to other rollers for conversion.

Coal and Coke (Item 8)

41. In regard to the variation of 75 per cent, the Committee were informed that the cess was administered by the Department of Mines, who maintained the accounts, prepared the estimates and passed on the same directly to the Budget Section, Department of Economic Affairs, and, therefore, the Department of Revenue did not come into the picture.

Since this item is a revenue receipt and the Audit Report had dealt with the variation with regard to it, the Committee would have liked the reasons for the variation to have been furnished to the Committee by the witnesses appearing on behalf of the Department of Revenue, by having necessary co-ordination with the concerned Ministry. They hope that this would be done in future.

Rubber Products

42. In a note furnished to the Committee subsequently (Appendix XV), it has been explained that the budget estimate (Rs. 59 lakhs) was based on information contained in the Monthly Statistics of Production of Selected Industries of India for 1960 (which alone was then available), published by the Department of Statistics, Central Statistical Organisation, Calcutta. However, it was found later that the production in the organised sector had increased to some extent since 1960. Besides, a number of small units (for which no information was available while framing the budget estimate) were also brought under excise. Based on the actual collection during the first six months, the revised estimate was put at Rs. 75 lakhs. The collection on actual clearances during the year as per departmental returns came to Rs. 76 lakhs (as against the Accounts figure which shows the actuals as Rs. 1.58 crores). However, total deposits (part of which is intended to cover future clearances) was Rs. 107 lakhs. There was a discrepancy of Rs. 50 lakhs between this figure and the Accounts figure. The Committee would like the discrepancy to be reconciled in consultation with Audit and the correct position intimated as soon as possible.

Jute Goods

43. Explaining the actuals of Rs. 5.28 crores as against a budget estimate of Rs. 2.93 crores, the Chairman, Central Board of Excise and Customs stated during evidence that they had taken a production figure of 11 lakh tons, but the actual production came to 12.66 lakh tons. They could not anticipate this. While calculating the distribution between home consumption and exports, they had taken the figure of 220 lakh tons of sacking and 15,000 tons of hessian for home consumption, whereas the actuals came to 2.85 lakh tons of sacking and 25,000 tons of hessian. The witness stated that they could not be more exact, as this was a new item. It has been stated in a note furnished at the instance of the Committee (Appendix XV) that the year 1962-63 witnessed a sudden improvement in the production of jute manufactures, and the clearances for the internal market also went up, much of the increase being during the latter half of the year.

The jute industry is a well-organised one, units of production are limited and the figures of export and home consumption are readily available. In the circumstances, the Committee are surprised that the estimate could not be framed more realistically. They trust that the future estimate would be more precise.

44. The Committee view with concern large variations under some minor heads particularly 30.54 per cent under sugar, 25.4 per cent under diesel oil, 341 per cent under Iron and Steel Products. They feel that determined efforts are necessary to check this trend of under-estimating of revenue of excise duties under different minor heads. They suggest that machinery for collecting statistics of production and consumption of commodities liable to excise duties should be strengthened so that estimates are based on a more realistic data.

Results of test audit—para 28, page 21

45. It was noticed during test audit of the documents and records maintained in the offices of the Chief Accounts Officers and 997 out of 1918 Central Excise ranges, that under-assessments to the extent of Rs. 45,47,549 had occurred. The more important of the cases are given commodity-wise in the following paras. A few cases involving loss of revenue to Government to the extent of Rs. 4,79,617 (excluding the items noted under 'Other Topics of Interest' Rs. 25,84,594) were also noticed.

During evidence, the Committee invited the attention of the witnesses to the observations made on the subject of internal audit by the Central Excise Reorganisation Committee, *inter alia*, to the following effect [*vide* para 15, (page 115) and para 19 (page 116) of the Report of the Central Excise Reorganisation Committee]:—

- (i) That the Audit procedure prescribed in 1949 was out-moded and required thorough revision;
- (ii) that the time of the organisation was taken in routine accounting to the detriment of its real role of ensuring that revenue laws were correctly applied, assessments had been correctly made, and recoveries had been promptly effected and brought to account;
- (iii) that the organisation was deficient quantitatively and qualitatively for discharging its primary functions;
- (iv) that the Central Excise Department as it had remained had no proper organisation or even arrangements for a proper audit of its transactions.

The Committee enquired (i) what steps had been taken (a) to remove the defects pointed out by the Central Excise Reorganisation Committee and (b) to reorganise the internal audit both qualitatively and quantitatively and (ii) what was the improvement, if any, that had been made in the internal audit system after the above report was submitted.

In a note furnished subsequently, it has been stated that the matter is under consideration, that the observations of the Central Excise Reorganisation Committee have been noted and they would be taken into account when Government finalise their proposals for the reorganisation of the internal audit set-up in the Central Excise Department.

The Committee pointed out that the Examiner of Central Excise Accounts was required to carry out an inspection of all the ranges and circles only once in two years, and enquired whether this frequency was adequate to ensure that the accounts were maintained properly. The Chairman, Central Board of Excise and Customs, stated that as far as inspection by the Examiner of Central Excise Accounts was concerned, this frequency was found adequate. The primary responsibility was not that of Examiner's office but that of the direct supervisory staff who had to inspect the accounts much more frequently. The witness further stated that right up to 1953, there was hardly any internal audit. They started with an experimental audit department in 1953-54 and they were gradually building it up. The witness admitted that whereas a Central Excise Collectorate employed more than 1,000 assessing officers, the strength of the audit staff was a very small fraction.

On his attention being invited to an observation of the Central Excise Reorganisation Committee that "the personnel resources of the Chief Accounts Officer were so slender that audit sections were even unable to cope with the physical work of sorting out documents in time, much less auditing them", the witness admitted that there was need for strengthening the internal audit.

In reply to a question whether, apart from under-assessments to the extent of Rs. 45,47,549 and cases involving loss of revenue to the extent of Rs. 4,76,917, test audit had brought to light cases of over-assessments also, the Secretary, Revenue, Expenditure and Company Law stated that there had been cases of over-assessment and a number of assesseees had come up for revision.

The Committee are alarmed at the extremely inadequate internal audit organisation existing in the Central Excise Department, as revealed by the Report of the Central Excise Reorganisation Committee and as admitted by the representative of the Central Board of Excise and Customs during evidence and also as disclosed by the varied nature of mistakes that escaped the scrutiny of the internal audit. The Committee cannot view with equanimity under-assessments to the extent of Rs. 45,47,549 and cases involving loss of revenue to the extent of Rs. 4,79,617, detected as a result of only a

"test audit", the total under-assessments and losses being necessarily of a much higher order. The Committee appreciate that as compared to Custom Houses, the Central Excise ranges and circles are spread all over the country. At the same time, the present situation where even a basic minimum number of internal audit staff appears to be lacking, calls for expeditious action to strengthen the internal audit organisation as a whole. The Committee trust that Government would lose no time in strengthening internal audit organisation in Central Excise Department in the light of the recommendations of the Central Excise Reorganisation Committee, 1963, so that adequate safeguards are provided against leakages of public revenues.

Sugar (Tariff Item 1): Clearance of excess quantity of sugar at concessional rates of duty—Rs. 2,40,509: para 29, page 21

46. According to the Government of India, Ministry of Finance, Notification issued in May 1961, a concessional rate of excise duty of Rs. 11.08 per quintal is leviable (as against the standard rate of Rs. 22.15 per quintal) on sugar produced in excess of the basic production (calculated in accordance with a prescribed formula) during the year commencing on the 1st November, 1960 in factories which went into production in 1958-59 or thereafter. According to the formula prescribed by the Government, the basic production is dependent on the licensed capacity of the factory.

In three cases, it was noticed that while calculating the basic production of sugar for the year 1960-61, the licensed capacity of the factory was incorrectly taken by the Central Excise authorities resulting in the concessional rate of duty being allowed in respect of sugar in excess of the quantity entitled to clearance at that rate. The total amount of duty short-levied in these three cases works out to Rs. 2,40,509.

During evidence, the Committee were informed that in one case where the licensed capacity was indicated in the license, say, 800—1000 tons per day, the lower figure was taken. In another case the licensed figure mentioned in the import license was taken as the licensed capacity. In the latter case in which the I.T.C. license figure was taken, the Collector revised the duty on receipt of the audit objection. The matter was now pending before a court of law.

The Committee were informed that one of the three cases is *sub-judice*. They would like to know the result thereof. They would also like to be informed of the latest position in the other two cases with particular reference to the recovery of the amounts involved.

Vegetable non-essential oil (Tariff Item 12): Short-assessment of Vegetable non-essential oils—Rs. 2,81,283: para 30, pages 21-22

47. Vegetable non-essential oils are assessable to duty under Item 12 of the Central Excise Tariff. In a certain Collectorate, it was noticed that refiners of vegetable non-essential oils who produced raw oils were allowed a flat rate refining loss at 8 per cent on the raw oil produced. This concession was, according to Audit, unauthorised by law and had resulted in loss of revenue to the extent of Rs. 2,57,498 for the period 1st March, 1959 to 30th July, 1959. This practice was stopped in July, 1959 when the Board issued instructions that such flat rate allowance should not be given. However, even after the issue of these instructions, a few cases of short levy of duty amounting to Rs. 23,785 had occurred.

During evidence, the Committee were informed that the Board's instructions referred to cases where Vanaspati manufacturers were manufacturing their own oil and did not relate to cases where a person cleared refined oil as refined oil. The cases referred to in this paragraph were of the latter category. One of the cases came up in revision and Government found that the assessment made by the Collector at the instance of audit was not sustainable in law and the amount collected had to be refunded. Two more cases might also come up for revision similarly. The witness stated that, in the circumstances explained, there was no loss of revenue.

The Committee enquired why a particular Collector had not carried out the revised instructions of the Board and whether there were adequate reasons for his not doing so. The Chairman, Central Board of Excise and Customs admitted that the Collector's action was not correct. There were standing instructions that if there was a doubt, the Collector should first raise the demand and then make a reference to Government. In this particular case, this instruction was not borne in mind by the Collector. The witness submitted that it was a case of misinterpretation and not defiance of the Board's orders.

The Committee are of the opinion that the orders of the Board should have been more specific. They take a serious view of a Collector not complying with the Board's orders and proceeding on the basis of his own interpretation. The Board's orders should be scrupulously carried out, and not circumvented by the exercise of discretionary powers. The Committee note that there are standing instructions by the Board that in cases of doubt, the demand should be raised first and then the matter should be referred to Government. Serious notice should be taken of cases where these instructions are not observed.

Synthetic organic dyestuffs (Tarrif Item 14 D)—Levy of duty at the incorrect stage in respect of dyes—Rs. 75,697: Para 31, page 22.

48. Coal tar dyes and derivatives became assessable to duty from the 1st March, 1961. However, in respect of certain specified dyes Government allowed exemption from payment of duty from 23rd November, 1961, if and only if such dyes were manufactured from dyes on which excise duty or countervailing customs duty had already been paid. In one Collectorate it was noticed that some of the specified dyes were being manufactured from dyes which were produced prior to 1st March 1961, on which no excise duty was paid as no such duty was leviable. On the licensee volunteering to pay duty on such pre-excise stock, the specified dyes manufactured therefrom were allowed exemption with effect from the 23rd November, 1961. Since the dyes produced prior to 1st March 1961 were not liable to duty under the Central Excises and Salt Act, the department should not have accepted the duty voluntarily tendered by the licensee on these dyes and should have assessed the final dyes manufactured therefrom at the higher rates of duty applicable. The loss of revenue due to acceptance of duty at the incorrect stage by the department was Rs. 15,697 (May 1963). Out of about 5006 kilograms of the initial dyes on which the licensee paid the duty voluntarily, 4006 kilograms of the dyes are still lying with the factory for future utilisation and there is likely to be a further loss of about Rs. 60,000 to Government on this account.

The Ministry had replied that the Collector was being asked to raise demand and recover the duty under Rule 10-A, if possible (otherwise, realise the amounts which were not time-barred, under Rule 10) and that the Collector was also being asked not to grant such concessions without consulting the Central Board of Revenue in future.

During evidence, the Chairman, Central Board of Excise and Customs, explained that the Collector had admitted that it was an unauthorised concession and he was trying to recover the duty. While Government thought that there had been technically an excess of jurisdiction on the part of the Collector, they were satisfied that there had been no motivation behind it. The Collector originally collected Rs. 14,000. The demand raised as a result of the Audit objection was Rs. 2,10,000. The first demand was raised in October, 1963 and it had become due now. The second was raised in November, 1963 and the third and fourth in January, 1964. The party had not honoured the demand and the Collector, it was stated, would be taking action.

The Committee are far from happy to note the manner in which this case has been dealt with by the Collector. It is very unfortunate that the Collector could not appreciate the revenue implications of the voluntary payment offered by the assessee in this case. While they have been assured by Government that there had been only an excess of jurisdiction by the Collector and no motivation behind it, the Committee take a serious view of the incorrect action on the part of the Collector in granting an unauthorised concession. The Committee desire that strict instructions should be issued in this behalf, and cases where the subordinate officers are found to exceed the jurisdiction should be taken serious notice of. The Committee would like to be informed of the progress of realisation of the demands raised in this case.

Patent or proprietary medicines (Tariff Item 14-E): Para 32, pages 23-24.

Sub-para (i): Non-levy of duty on samples of medicines at appropriate rate—Rs. 27,837.

49. Under the existing orders of the Government of India, the manufacturers of medicines are allowed to clear samples for distribution to medical practitioners without payment of duty up to a quantity not exceeding 5 per cent by value of the "duty paid" medicines cleared during the preceding month. In the course of audit scrutiny, it was noticed that in the cases of some of the manufacturers sample packings were priced at rates much lower than the rates fixed for their normal trade packings. This resulted not only in excess clearance of samples over the permissible limit without payment of duty, but also in under-valuation and consequent under-assessment of samples cleared on payment of duty.

On this being pointed out in July 1962, demands for Rs. 27,837 were raised against the parties in October, 1962.

The Ministry had stated that the error pointed out in this para had arisen as a result of lack of experience on the part of the staff administering the relatively complicated excise duty on Patent or Proprietary Medicines and that the Assessing and Supervisory Officers had been cautioned to exercise necessary checks to guard against recurrence of such errors.

During evidence, the Committee were informed that in cases involving deliberate under-valuation, Government had censured quite a number of officers, and it had been done in this case also. The entire amount of Rs. 27,837 had since been recovered.

The Committee note that the officers responsible for the failure to detect the deliberate under-valuation have been censured and that the entire amount has since been realised. The Committee suggest that in cases where the manufacturers deliberately under-value the samples with a view to avoiding payment of Central Excise duty, Government should proceed against them under Section 9(C) of the Central Excises and Salt Act, 1944, for supplying wrong information.

*Gases (Tariff Item 14-H): Non-levy of duty on sulphur-dioxide—
Rs. 3 lakhs: Para 33, page 24.*

50. Sulphur dioxide, a refrigerant gas, was subjected to Central Excise duty from 24th April, 1962 under item 14(H) (v) of the Tariff. It was ruled by the Central Board of Revenue on 24th May, 1962 that sulphur dioxide would attract duty only if it was of refrigerant quality and was ordinarily sold for that purpose. On this basis, sulphur dioxide produced in a factory and intended for purposes other than refrigeration is being cleared free of duty. On a reference made by Audit, the Ministry of Finance (Revenue Department) stated that the tariff item 'refrigerant gases not otherwise specified, has the effect of levy of duty on gases used for purposes of refrigeration only'. This contention does not, however, follow from the language of the tariff item as passed by Parliament, as it does not make the end-use the criterion for application of the rate of duty prescribed. There is also no notification of the Government of India exempting from duty sulphur dioxide used for purposes other than refrigeration. In the circumstances, the action of the Department in exempting sulphur dioxide on the basis of the end-use of the product according to Audit, is not correct in law. The loss of revenue involved on account of duty-free clearances of sulphur dioxide in the said factory from 24th April, 1962 to 25th October, 1963 worked out to over 3 lakhs.

During evidence, the Secretary, Revenue, Expenditure and Company Law stated that they had both types of items, viz. those in which the criterion for assessment was end-use of the product and those in which the criterion was the description of the product as given in the tariff. In respect of refrigerant gases, a gas had to be of refrigerant quality before it became liable to duty. In this particular case, the sulphur dioxide manufactured by this factory did not come up to the standards laid down by the I.S.I. for refrigerant gases.

The Committee enquired whether this factory's product was referred to the I.S.I. in order to find out whether it was or was not upto the standard of a refrigerant gas. The witness stated that the analysis had been received from the producers themselves. Since the producers were a public sector concern, Government had no reason to doubt the statement.

The Comptroller and Auditor General pointed out that some quantity of the sulphur-dioxide produced in this factory had been sold for refrigerant purposes and this indicated that it could be used for that purpose. The witness explained that the total production was 1,851 tons out of which 1 ton was used for refrigerant purposes. The Chairman, Central Board of Excise and Customs added that they had to go by the normal use. Occasional abnormal use did not determine the classification. According to I.S.I. standards for refrigerant gases, the gas produced by this firm was of a different quality. The fact that the bulk of its production was sold for other purposes corroborated this. The Secretary, Revenue, Expenditure and Company Law, further pointed out that no producer would sell a higher quality product as a lower quality one and it stood to reason, therefore, that the production of this factory was of a lower quality.

As the matter is not free from doubt, the Committee suggest that a sample of the gas may be analysed by the Chief Chemist attached to the Central Board of Excise and Customs, and an authoritative opinion obtained whether the gas is of refrigerant quality or not.

The Committee also recommend that when new commodities are added to the Tariff List, the technical specifications should be properly defined so as to remove all doubts.

*Tyres (Tariff Item 16) Less Collection of duty on Stock Shortage—
Rs. 15,63,010. Para 34—Page 25*

51. In a factory manufacturing tyres and tubes, variations between book balances and actual balances were noticed during monthly stock challenges conducted during April, 1958 to May, 1961. Variations were noticed in 34 cases. The explanation of the factory that these variations were due to 'human error', 'shipping error' and 'warehousing error' was accepted by the Department and the variations were not considered as abnormal and no fraudulent intention was suspected. It was suggested in audit that the variations in monthly stock challenges deserved to be investigated before acceptance, as otherwise the purpose of stock challenges

would not be served. A special stock-taking was conducted by the department subsequently and an attempt was made to correlate tyres and tubes moulded, scrapped and cleared from 1st November, 1955 to 1st January, 1963, which disclosed large shortages. A sum of Rs. 15,63,010 had since been recovered as Central Excise duty on these shortages.

During evidence, the Committee were informed by the Comptroller and Auditor General that the Excise Duty on shortages was about Rs. 16.77 lakhs less the amount on shortages during the stock-taking from 1956 to 1961. The amount recoverable was Rs. 16,19,350; the amount of duty already paid was Rs. 15,63,010 and the balance was still to be recovered.

The Committee were informed by the Member, Central Board of Excise and Customs that the basis on which the figure of 98,000 tyres involved in this case had been computed was being disputed and was the subject of appeal by the manufacturer. The basis adopted was that the number of times a mould was used for making tyres was taken to be the number of tyres made. According to the manufacturers, the same tyre might be put into the same mould (to rectify defects) more than once and there would really be one tyre manufactured. This system of counting the number of times a mould was used as the number of tyres manufactured had not been accepted even under the executive instructions issued by the Board. The Central Board of Revenue had ruled in 1944 that for purposes of accounting the tyres to determine the liability of the manufacturer, the number of tyres finally finished and deposited in the store room should be reckoned as the production. This basis was altered by local Officers in 1955 in some cases without reference to the Board. In this case, the Excise Officers in the factory proceeded according to Audit advice as in Audit's view there had been loss of revenue. By way of abundant caution they took up the matter. The manufacturers were called upon by the Assistant Collector to show cause why this demand should not be made. Having heard the party, the Assistant Collector confirmed the demand. The manufacturer paid the amount but had come in appeal before the Collector.

The Committee enquired how the Company put forward different pleas at different times: viz. when variations were noticed in respect of the period from April, 1958 to May, 1961, the explanation of the factory was that they were due to 'human error', 'shipping error' and 'warehousing error' whereas now they were raising the argument about the mould.

The Committee desired to be furnished with a copy of the report of the special stock taking conducted as a result of the audit objection. This report is still awaited. In the meanwhile, in a note furnished to the Committee (Appendix XVI) it has been stated that at the appeal stage of the case, the Collector had carried out a re-check of the figures in respect of a few varieties of tyres and tubes and this re-check revealed glaring mistakes and therefore the Collector has ordered a fresh stock taking report to be compiled. It has been stated that it is only after this has been done that the true picture would be known.

As the matter is under appeal, the Committee would await the final outcome thereof. They would like to be furnished with a copy of (i) the report of the special stock taking conducted as a result of the audit objection; (ii) the report of the re-check ordered by the Collector at the appeal stage and (iii) the outcome of the appeal. The Committee would also like that the present system of keeping the account of tyres manufactured by tyre companies should be examined with a view to ascertaining whether it is adequate or not.

Paper (Tariff Item 17): Para 35, page 25: Sub-para (a): Loss of revenue owing to misclassification—Rs. 40,583.

52. Label Printing Paper manufactured by a factory was described by the Chemical Examiner, in 1959 as 'coloured printing paper (one side glazed)'. According to the definitions, given in the 'Paper Manual', this variety of paper was to be treated as poster paper which was classifiable as "Packing and Wrapping Paper" from 8-5-1957. This paper was, however, classified by the Department as "Writing and Printing Paper" instead of "Packing and Wrapping Paper". This misclassification did not affect the revenue upto 28-2-1961 as the rate on both the varieties was the same (i.e. 22 nP. per Kg.). From 1-3-1961, the rate of duty on "Packing and Wrapping Paper" was enhanced to 35 nP. per kg., but the Department continued to assess this variety of paper at the lower rate.

In September, 1961, the Collector issued a general circular to the effect that unbleached paper containing any dyes or colouring materials should be assessed as "Packing and Wrapping" paper. In pursuance of the above order, a sample of the paper was again sent to the Chemical Examiner who then declared the paper as poster paper. Accordingly, duty at enhanced rate was being realised from the manufacturer from 9-9-1961. No action was, however, taken to realise the differential duty for the period from 1-3-1961 to 8-9-1961 on the ground that 'the revised classification was effective from September, 1961, i.e., the date of the issue of Collector's order'.

As the paper was *ab initio* classifiable as 'poster paper' and as the Collector's circular letter had no bearing on the question of assessment of 'poster paper', the action of the department in not raising demand for the period from 1-3-1961 had resulted in a loss of revenue amounting to Rs. 40,583.

During evidence, the Committee were informed that the officer concerned should have acted on the instructions much earlier. It was stated that he had been formally censured for the lapse. As regards non-raising of demand to realise the differential duty amounting to Rs. 40,583 for the period 1-3-1961 to 8-9-1961, the Committee were informed that the demand had become time-barred under the rule of limitation. The Comptroller and Auditor General pointed out that the period of limitation was only three months and since the Collector issued the revised order in September 1961, revenue could have been realised from July onwards. The witness admitted the mistake.

A similar lapse was noticed last year (vide para 27, Twenty-first Report, Third Lok Sabha). Prompt action should have been taken in the present case to send the manufactured article for test, the moment the duty on packing paper was raised. The Committee find that since the Collector issued the revised order in September 1961, the revenue could have been realised from July onwards but they regret that this was not done. The Committee hope that such lapses will be scrupulously avoided in future.

Cotton yarn (Tariff Item 18A): Wrong determination of pre-excise stock of yarn and consequent excess clearance of duty-free yarn—Rs. 36,840: Para 36, page 28.

53. Central Excise duty was for the first time levied on Cotton Yarn with effect from 1-3-1961. Accordingly, all stocks of yarn fully manufactured and ready for delivery on 1-3-1961 constituted pre-excise stock and consequently were exempted from duty. In some mills in the Central Excise Collectorates at Bombay and Poona, yarn in process in the departments like Winding, Dyeing, Sizing, Mercerizing etc. and other loose yarn lying in these departments on 1-3-1961 was allowed to be cleared out of the Mills without payment of duty. When it was pointed out that such yarn could not be considered as ready for delivery and would thus attract Central excise duty, past clearances of such yarn were reviewed and Central excise duty amounting to Rs. 36,840 was recovered.

During evidence, the Committee were informed that this was clearly a mistake committed by certain officers and that 12 of them had been charge-sheeted for it.

The Committee note that there was no question of any ambiguity in the order and that this was a case of a clear failure on the part of the officers for which disciplinary proceedings have already been instituted. The Committee would like to be informed of the outcome of the disciplinary proceedings.

Sub-para (b): Non-levy of surcharge on processing of cotton fabrics which had been bleached without the aid of power and consequent loss of revenue—Rs. 4,06,261.

54. With effect from 24-4-1962, processing surcharge is leviable on grey cotton fabrics when they undergo any of the processes of bleaching, dyeing or printing. It was noticed that one Collector of Central Excise issued instructions in July 1962 that no processing surcharge need be levied on printed or dyed fabrics manufactured from fabrics which had been bleached without the aid of power. This practice of not levying the processing surcharge in such cases continued up to 16-6-1963 when orders were issued by the Central Board of Revenue pointing out the irregularity. The total revenue foregone from 20-4-62 to 16-6-63 in five units in the Collectorate came to Rs. 4,06,261.

The Committee were informed, during evidence, that even before the Audit pointed out the mistake, the matter had come to the notice of the successor Collector.

After checking up the position from other Collectorates, the Board passed orders on 1-4-63 that the interpretation put by the earlier officers was wrong and that the demand must be raised and enforced. The Committee were informed that so far nothing had been realised. The trade was resisting; but instructions had been issued that whatever amount was not time-barred should be realised. As regards action taken against the officials concerned, the Committee were informed that disciplinary proceedings were in progress. A special inquiry had been ordered and according to the preliminary investigation, there had been a failure of machinery. Charge-sheets against officers were under issue. An Inquiry Officer would be appointed and the matter would be dealt with as expeditiously as possible.

The Committee feel concerned at the wide discretionary powers which subordinate officers seem to possess and exercise. They take a serious view of the failure to raise demands and realise the surcharge even after the Board's orders. The outcome of the disciplinary proceedings and the progress regarding collection of the demands made may be intimated to the Committee.

Copper and Copper Alloys (Tariff Item 26A): Non-levy of duty on copper and copper alloys—Rs. 20,520: Para, 38, pages 27-28.

55. With effect from the 24th April, 1962, copper and copper alloys (containing not less than 50 per cent. by weight of copper) in any crude form including ingots, bars, blocks, slabs, billets, shots and pellets were assessable to Central Excise duty at Rs. 100 per metric tonne. The Government of India, however, exempted the above commodities from payment of the whole of excise duty if these were manufactured out of old scrap of copper or copper alloy or scrap obtained from virgin metal on which appropriate excise duty had been paid.

In one factory, it was noticed that bars, billets etc., manufactured out of copper ingots on which no excise duty had been paid, were cleared without payment of duty. On this being pointed out in September 1962, demands for Rs. 20,520 were raised against the party and the amount had also been realised.

During evidence, the Committee were informed that, according to the advice of the Law Ministry, no extra duty was chargeable if copper was converted from one crude form to another in the same sub item of the tariff, e.g., from ingots to billets. In this case, the duty had not been paid at the original stage, and when this was pointed out, the demand was raised and the amount also realised.

The Committee find this to be a clear case of under-assessment of duty. They are glad that the demand was raised and the amount also collected. They hope that such errors will be avoided in future.

Cycles Parts of Cycles (Tariff Item 35): Incorrect levy at concessional rates resulting in loss of revenue—Rs. 12,25,934—Para 39, Pages 28-29.

56. Under the existing rules and notifications, a manufacturer of cycle tyres and tubes is allowed the benefit of assessment at certain concessional rates on the successive slabs of tyres and tubes produced in a financial year. Likewise, a manufacturer of cycle rims is also allowed the benefit of concessional rates of duty on the basis of the quantity of rims produced within a financial year. But this concession was further limited only to those manufacturers whose annual production of rims in any immediately preceding three financial years did not exceed 10 lakhs of rims. Thus, the concession in the rates of duty as regards tyres and tubes and rims was given to a manufacturer on the basis of the quantity of the articles produced in his factory.

A company had been manufacturing tyres and tubes as well as rims in its factory not only on its own account but also for two other companies which had separate stores rooms within the premises of the same factory. The benefit of assessment at concessional rates had been allowed to the three companies treating them as separate manufacturing units even though there was only one manufacturer and one factory. This irregular concession given to the two companies by the Department (which were not manufacturers within the meaning of the Central Excise law) resulted in a loss of revenue of Rs. 7,44,564 in respect of tyres and tubes during the period 1st March, 1960 to 31st August, 1963 and Rs. 4,81,370 in respect of cycle rims for the period 1st March, 1961 to 27th December, 1962. The Ministry replied that the concession given to the two companies had been withdrawn from 1st January, 1963 for rims and from 1st January, 1964 for tyres and that the original practice of allowing them the concession arose because separate licences happened to have been issued to them. The issue of separate licences to the two manufacturing companies was irregular and had this been noticed earlier the loss of revenue would not have occurred.

Explaining the circumstances under which three separate licences had been issued even though there was only one manufacturing company, the representative of the Central Board of Excise and Customs admitted, during evidence, that it was an oversight. The decision to issue three licences treating them as three manufacturers had been taken by the C.B.R. in 1944 and it had been continuing unnoticed till 1963. The premises were the same and the product was also the same; but the three companies had separate godowns within the same premises and in that way there was a variation. The witness further added in extenuation that there was also some ambiguity in the definition of the word "manufacturer" as the wording was "... whether by himself or by hired labour": The Board came to know of the matter only when in another case in 1962 a Collector pointed out that another factory was claiming a double concession. The position was then checked up and it was found that there were three licences for one plant. As the licensing period was from January to December, Government could not cancel the licences in mid-term. There was no alternative but to allow the concession to run for the full period of the validity of the licences. Thereafter, when the licences had to be renewed, the mistake was rectified.

In reply to a question whether a similar concession had been given to any other parties who were not actually manufacturers, the witness stated that this practice was prevalent in a factory manufacturing patent and proprietary medicines. It had now been decided, as a general rule, that licence would be given for Central

Excise purposes only to one manufacturer for a factory and not on any agency basis.

The Committee regret to note that the irregularity of issuing three separate licences, though there was only one manufacturing company, had been continuing for 19 years (from 1944 to 1963). This resulted in an unintended concession, as pointed out in the Audit para. It is obvious that the concession was intended to benefit comparatively small manufacturers. It is strange that the device adopted in this case to extend this benefit to two companies which in no way could be regarded as actual manufacturers went unnoticed. The Board came to know of this irregularity only when a Collector pointed out in 1962 that another factory was claiming a double concession on the same analogy. The Committee suggest that a system should be introduced whereby all old orders of C.B.R. are reviewed at regular intervals to guard against a repetition of such a contingency. Besides this the need for an amendment of the definition of "manufacturer" may be examined and suitable action taken in the light thereof.

Losses of Revenue—Rs. 4,79,617: Para 40, pages 29—31.

Sub-para (i):

57. Under the compounded levy scheme, vegetable non-essential oil manufacturers are allowed a concessional rate of duty provided they opt for the scheme and satisfy the conditions laid down in this regard. One of such conditions is that the manufacturer should not have any proprietary interest in any other concern producing oil on the said date.

Two partnership firms having the same set of common partners are to be treated as a single manufacturer for the purpose of deciding the eligibility for coming under the compounded levy scheme. In one Collectorate, a partnership firm having an oil expeller was allowed to work under the compound levy scheme while another partnership having the same set of partners was owing an oil mill in the same place. This lapse was discovered in November, 1961, and action was taken to withdraw the permission to work under the compounded levy. A demand notice was also issued in January 1962 for Rs. 40,285 being the duty recoverable on the basis of the normal rates. But at the time the demand notice was issued, Rs. 36,781 of the demand of Rs. 40,285 had become time-barred. Therefore, a revised demand notice was issued for Rs. 3,505 only. The licensee, it is stated, has refused to pay even the reduced claim of Rs. 3,505 on some technical grounds. Thus, a loss of revenue of Rs. 40,285 had occurred in this case.

During evidence, the Committee were informed that prior to the issuing of the licence, no specific enquiries had been made to find out whether the two firms had the same set of partners. Only subsequently it came to light that one of the partners had an interest in another. Disciplinary proceedings were stated to have been initiated against the officers concerned.

The representative of the Central Board of Excise and Customs pointed out that in one case referred to in the audit paragraph, and two other similar cases, Rs. 14,671 were still within the time-limit out of the total demand of Rs. 81,548. One of three mills had paid Rs. 1,927 and the other two had protested against the demand. This is a case of serious irregularity, and a loss of revenue has occurred because Central Excise officers were not sufficiently vigilant. **The Committee would like to be informed of the outcome of the disciplinary proceedings initiated against the officers concerned, and the progress of collection of the demands raised in regard to the three mills.**

Sub-para (iii):

58. Poster paper manufactured by a certain mill was being classified as "wrapping and packing paper" under the existing orders of the Board. From February 1961, this paper was being assessed as "printing and writing" paper without any approval or orders from the competent authority. With effect from 1st March, 1961 the rate of duty on "packing and wrapping" paper was increased from 22 nP. to 35 nP. per kilogram. However, poster paper was continued to be misclassified as printing paper for which the duty leviable was of a lower rate. In August, 1961, the wrong classification came to light and two demands covering the losses were raised and recovered from the party. Subsequently on 25th June 1962, a sum of Rs. 1,82,376 relating to the claim for the period 1st March 1961 to 10th May 1961 was refunded to the party as the same was time-barred. This Ministry had stated that investigations were being made with a view to fixing the responsibility in the matter (December, 1963).

During evidence, the Committee were informed that the Superintendent of Excise concerned with this case had been formally censured.

The Committee were also informed that the affected mill had appealed to the Supreme Court. Although the Board's view was that "Poster paper" was wrapping and packing paper, no final opinion could be pronounced till the Supreme Court decided the matter.

The Comptroller & Auditor General pointed out that, besides the legal aspect, there was an administrative aspect, viz. that until January, 1961 this paper was being classified as wrapping and packing paper without protest from the manufacturers and suddenly in February, 1961 the lower officer changed the classification without the approval of the Assistant Collector and in March, 1961 the duty on this very paper was raised. This action of the lower officer appeared to be curious. The Chairman, Central Board of Excise and Customs stated that the investigations had not so far revealed any *mala fides*.

As the case is in appeal before the Supreme Court, the Committee would await the outcome thereof. The Committee would like the Central Board of Excise and Customs to examine in detail the exact circumstances in which the classification was changed in February 1961 shortly before the duty on this very item was raised, with a view to satisfy itself that no *mala fides* were involved.

Sub-para (iv):

59. In 1955, the cotton mill upgraded the production of the average count of certain varieties of fabrics from medium to fine qualities. Notwithstanding the above change, clearances of fine varieties were allowed at the lower rate prescribed for the medium variety. The mistake was detected by the excise authorities in 1959 and a demand for Rs. 7,632 was raised against the party. In March, 1962, the department had to withdraw the demand as the claim was time-barred. It was stated by the Collector in April, 1963 that disciplinary action was in progress against the defaulting officers.

During evidence, the Committee were informed that the Assistant Collector and the Collector had given the benefit of the doubt to the officer concerned.

This case points to the need for greater vigilance and solicitude for public revenues on the part of the Central Excise officers. The Committee are unhappy to note that when rectification was sought to be done, the claim had become time-barred. They hope that such mistakes would not be repeated. Also the Committee cannot appreciate the undue delay in initiating and completing the departmental action.

Sub-para (v):

60. Duty on glass and glassware and china and porcelainwares was levied with effect from 1st March, 1961. Accordingly, such

goods which were not fully manufactured on 1st March, 1961 were chargeable to duty. In two factories, glass and glassware and china and porcelainware which were not fully manufactured and ready for delivery were cleared duty-free as pre-excite stock. This mistake was detected by the authorities only in April, 1962 by which date a demand for the clearances from 25th January, 1962 alone non-levy of duty on the clearances from 1st March, 1961 to 24th Central Excise rules. The amount of revenue lost on account of non-levy of duty on the clearances from 1st March, 1961 to 24th January, 1962 was Rs. 1,56,000 (approx.) in respect of glass and glassware and Rs. 59,800 (approx.) in respect of china and porcelainwares.

During evidence, it was admitted that this was a clear case of error. This case was stated to be under adjudication and the indications were that there was a failure of machinery but the amount involved might be substantially less.

The Committee would like to be informed of the result of the adjudication proceedings and the amount involved and actually realised. The Committee hope that departmental action will be taken to fix responsibility for the failure of machinery and steps taken to avoid a recurrence in future.

Other topics of interest: Para 41, pages 31—33, Sub-para (ii)

Lower fixation of tariff values on motor vehicles

61. Central Excise duty on motor vehicles not otherwise specified, is leviable at Rs. 2,500 each or 12½ per cent *ad valorem* whichever is higher. The wholesale price of medium type of motor vehicles produced by a particular manufacturing company, as approved by the Central Excise Collectorate, varied from Rs. 24,237 to Rs. 36,406. The Government of India, however, fixed the tariff value for medium category of vehicles only at Rs. 24,350 upto 31st October, 1961 and at Rs. 24,650 thereafter. This tariff value was far less than the wholesale price of many vehicles in this category manufactured by the above-mentioned company. It is not obligatory under the law to fix tariff values and if duty had been levied on the basis of the wholesale prices, Government would have gained Rs. 30.45 lakhs over the period 1-7-1960 to 31-3-1962 in respect of the vehicles manufactured by the concern.

The Ministry had stated that the tariff value was fixed taking into account the overall production in the country and the all India

weighted average price and that the loss to the revenue in respect of this concern was compensated by a gain in respect of other manufacturing concerns. It was, however observed that the gain made in the other units of production amounted to Rs. 18.94 lakhs only resulting in a net loss of Rs. 11.51 lakhs due to the lower fixation of tariff values.

The Committee enquired why, when Parliament had approved of an excise duty of Rs. 2,500 or 12½ per cent *ad valorem*, whichever was higher, the Government resorted to an average. The Committee, further, pointed out that if, for example, a truck costs Rs. 36,000, the excise duty on the basis approved by Parliament would come to Rs. 4,500 whereas as a result of the fixation of the tariff value under executive orders, the duty would come to only Rs. 3,000.

The Chairman, Central Board of Excise and Customs explained that this was inherent in the system of tariff values. Tariff values were fixed over a wide range of commodities, and it was a practice sanctioned by law, (the Central Excises and Salt Act). The witness pleaded that the whole concept of averaging was that where the differences were minor in the long run, it was both convenient to the trade as well as to Government that tariff values were fixed. These tariff values were generally fixed in consultation with the representatives of the manufacturers—those who had to pay more and those who had to pay less—and it was as a result of joint consultation that the value was arrived at. It was urged that in judging this matter, the impact on the total production of a particular factory had to be seen. According to the witness, it might be that on one particular model, a manufacturer got a concession but over the total production that he marketed, the difference would not be more than ½ percent or 1 per cent.

The Committee desired to know what were the difficulties in assessing each vehicle according to its wholesale value. The witness explained that in the same factory on the same model of vehicle, in some a cab might be placed; in some only the chassis might be there; in some there might be a small body and so on. There would have to be a differential assessment of all these, because in each case the value would be different. That is why they consulted the industry and the Development Wing of the Ministry of Commerce and Industry. The view of the Development Wing was that it would be far better to have a flat rate of excise duty on vehicles instead of at *ad valorem* rate, because the price of the same vehicle was likely to change from time to time for many reasons.

The Committee enquired how many types of medium vehicles were produced by this company. The witness stated that there were 8 types. According to the Comptroller and Auditor General, there were 13 types on the basis of price. Explaining the difficulty of fixing the actual price in respect of these 13 types, the Secretary, Revenue, Expenditure and Company Law, stated that there were 13 types in a particular factory, but within those thirteen types, the condition in which the vehicle was cleared might vary. Actually, it would have meant fixing different prices for different types of vehicles in different factories. That would go against the law, because tariff value by implication meant the value for a class. Each producer resorted to a variety of types of vehicles. If the tax varied considerably, then the competitive capacity would be affected in a different way, whereas if the tax was added on a uniform tariff value, the competitive capacity would be maintained.

The Committee pointed out that the Ministry had explained to Audit that the loss of revenue in respect of this concern was compensated by a gain in respect of other concerns. They desired to be furnished with a statement showing the loss or gain to each concern during the last three years as a result of tariff valuation. The witness promised to supply the information to the extent it was available. He added that one had to consider it over a long enough period. In one average, it might be loss; in another it might be gain. The producers in this line were well-organised and well-informed. If over a period of years, they were losing they would have made a representation, but none of them had done so, so far.

In a note submitted to the Committee subsequently it has been stated that information regarding the actual amount of loss or gain accruing to each of the units of production as a result of the tariff valuation during the years 1960-61 to 1962-63 is being collected and will be supplied later.

The Committee are not convinced by the arguments put forward in justification of the fixation of a tariff value in this particular case. There were only 13 types of vehicles in this category and the assessment of each vehicle according to its wholesale price should not have involved any difficulty. Whereas Parliament had approved of an excise duty of Rs. 2,500 per vehicle or 12½ per cent. *ad valorem*, whichever is higher, Government fixed a tariff value which was far less than the wholesale price of many vehicles in this category. Apart from the loss of revenue suffered, this also amounted to circumventing the Parliament's intention by executive fiat, which the Committee cannot view with equanimity. Had the duty been levied on the basis of actual wholesale prices, Government would

have gained Rs. 30.45 lakhs over the period 1st July, 1960 to 31st March, 1962 in respect of vehicles manufactured by this concern. The net gain to Government would have been Rs. 11.51 lakhs more in respect of all units over this period. The Committee regret that Government's action has resulted in loss of revenue of this high order. Also, the argument put forward by the Ministry that the loss to the revenue in respect of this concern was compensated (partly) by a gain in respect of other manufacturing concerns makes the position worse. It is inequitable that the burden of tax should thus be shifted by an executive order from one party to another, thus frustrating the declared intention of Parliament.

In this connection, the Committee would also like to draw attention to the following pertinent observations of the Central Excise Re-organisation Committee, 1963 (page 31, para 25 of their Report).

“Under the present scheme, Parliament has delegated to Government the power to fix tariff value for goods assessable *ad valorem*. It has been represented to us that, by doing so, Parliament has divested itself unwittingly of its financial authority, and has not provided any mechanism for keeping itself informed of the results of the exercise of such delegated powers. The determination of tariff values is fraught with difficulties more particularly where large and small scale producers are involved in the same industry. An average rate would hit the small producers and give a larger margin of profit to the bigger producers. A tariff value economical to small scale producers would only inflate the profit of large producers and give them the opportunity to lower their prices and squeeze out the smaller units. This influences us to suggest that tariff values should be determined with great circumspection. In any case it seems to us that the Act itself requires amendment since Section 4 thereof which prescribes the method of valuation to be adopted in determining *ad valorem* duties is unfortunately placed immediately after Section 3(2) which authorises Government to determine tariff values. Following the example provided by the recent Customs Act it should be made clear that the provision of Section 4 are not to override or affect the exercise of Government's powers under Section 3(2)”.

The Committee are also in agreement with another observation of the Central Excise Re-organisation Committee, 1963 made elsewhere (para 8, page 27 of their Report) that it is not wholly correct to dilute parliamentary authority in the field of taxation by executive fiats, however, desirable the purpose.

In view of the anomalies brought out in the Audit para under consideration, and in the light of their observations thereon, the Committee strongly desire that Government should give their early attention to this question and take necessary remedial action under advice to the Committee.

Sub-para (iii)—Arrears of Union Excise Duties

62. The total amount of demands outstanding as on 1st April 1963 in respect of Union Excise duties was Rs. 565.16 lakhs as given below: (In Lakhs of Rupees)

Commodity	pending for more than one year	Pending for more than one month but not more than one year	Total
Unmanufactured tobacco	180.21	56.39	236.60
Vegetable products	30.35	.89	31.24
V.N.E. Oils	36.34	2.17	38.51
Soap	19.74	.12	19.86
Other Commodities	116.69	122.26	238.95
Total	383.33	181.83	565.16

In so far as unmanufactured tobacco is concerned, the arrears have been coming over the past several years and the following table gives a break-up of the outstandings in respect of the years to which they pertain.

Year	Amount (in lakhs of rupees)
1957—58	75.45
1958—59	16.79
1959—60	27.66
1960—61	23.82
1961—62	36.49
1962—63	56.39
	236.60

During evidence, the Committee were informed that in regard to unmanufactured tobacco, the total amount outstanding at the end of March, 1964 was Rs. 2.88 crores as against Rs. 2.36 crores at the end of March, 1963. This amount was stated to include recent assessments which were expected to be paid in the near future. Out of the total amount, a little over Rs. 1 crore was pending with district authorities for being realised as arrears of land revenue. The arrears were realisable in a substantial number of cases from small

cultivators, and the Administration gave them as much indulgence as possible. During 1963, a sum of Rs. 12.31 lakhs had been realised on account of the certificates issued prior to that period. Rs. 1.71 lakhs had to be written off because the district authorities certified that the demands were irrecoverable. Rs. 19,000 were written off after the excise officers themselves had verified that there were no recoverable assets.

In regard to the amount of Rs. 238.95 lakhs outstanding under "Other commodities" the witness explained that Rs. 82 lakhs related to demands on items which the Excise Department had considered to be liable to duty. This was challenged subsequently and the Supreme Court decision (in May 1963) went against the Department. Consequently, many of the demands had been cancelled or withdrawn. The Committee were also informed that an amount of Rs. 37 lakhs was accounted for by demands raised against oil companies pending production of some proofs.

The Committee had expressed their concern last year (*vide para 34, Twenty-first Report, Third Lok Sabha*) about the lack of any perceptible improvement in the recovery of arrears in respect of unmanufactured tobacco, and old arrears pending for the last several years. The Committee find that not much progress has since been made in this matter. They desire that vigorous steps should be taken to recover the dues wherever possible and to write off the irrecoverable arrears. Similar action should be taken with regard to the arrears under other heads.

NEW DELHI;

R. R. MORARKA.

September 25, 1964.

Asvina 3, 1886 (Saka).

Chairman,

Public Accounts Committee.

APPENDICES

APPENDIX I

(Vide Para 1 of the Report)

Analysis of Actuals of tax and non-Tax Revenues by Major Heads for the year 1962-63 and two preceding Years

Major Head	1960-61	1961-62	1962-63	Total increase/ decrease | during 3 years
1	2	3	4	5
(In crores of rupees) |				
(A) Tax Revenue				
I. Customs	170.03	212.25	245.96	75.93
II. Union Excise Duties	416.35	489.31	598.83	182.48
III. Corporation Tax	109.70	160.81	220.06	110.36
IV. Taxes on income other than Corporation Tax	81.37	67.19	92.13	10.76
V. Estate Duty	0.17	0.33	0.06	(-)0.11
VI. Taxes on Wealth	8.15	8.26	9.54	1.39
VII. Expenditure Tax	0.91	0.84	0.20	(-)0.71
VIII. Gift Tax	0.88	1.01	0.97	0.09
X. State Excise Duties	1.83	2.02	2.26	0.43
XII. Sales Tax	5.19	5.99	6.65	1.46
XIII. Other Taxes and Duties	3.75	2.80	2.96	(-)0.79
Other items	3.21	1.15	1.27	(-)1.94
(B) Non Tax Revenues				
XIV. Stamps	3.57	3.92	4.84	1.27
XVI. Interest	14.82	12.22	153.23	138.41
XX. Supplies & Disposals	1.74	2.01	4.03	2.29
XXI. Miscellaneous De- partments	3.09	3.54	1.70	(-)1.39
XXV. Agriculture	1.25	1.34	1.55	0.30
XXIX. Industries	34.79	28.53	35.04	0.25
XXX. Broadcasting	2.80	4.07	4.01	1.21

	1	2	3	4	5
XXXII. Miscellaneous Social and Develop- mental organisations	1·56	1·55	4·63	3·07	
XXXVII. Public Works	3·27	3·87	3·75	0·48	
XLI. Light Houses and Lightships	0·74	0·92	1·01	0·27	
XLII. Aviation	1·16	1·29	1·55	0·39	
XLIV. Overseas Com- munications Service	2·22	2·19	2·51	0·29	
XLV. Currency and Coinage	57·88	54·23	53·46	(—)4·42	
XLVIII. Contributions and Recoveries to- ward pensions and other retirement benefits	1·57	1·46	1·95	0·38	
L. Opium	5·04	5·00	3·57	(—)1·47	
LI. Forest	3·84	4·25	4·42	0·58	
LII. Miscellaneous	14·23	13·65	17·18	2·95	
LIII. Contribution from Railways	4·77	20·66	20·37	15·60	
LIV. Contribution from P. & T.	0·46	0·77	0·77	0·31	
LVIII. Dividends etc. from commercial and other undertakings	3·20	0·80	3·74	0·54	
LX. Extraordinary Receipts	3·69	13·96	54·86	51·17	
LXI. Receipts connected with the National Emergency 1962	..	..	19·25	19·25	
Other Items	4·54	4·55	6·99	2·45	
TOTAL RECEIPTS	971·77	1136·74.	1585·30	613·53	

APPENDIX II

(Vide Para 2 of the Report)

Statement showing levy of new excises in each year since 1951-52.

1-3-54

Soap.
Rayon or Artificial Silk Fabrics.
Cement.
Footwear.

1-3-55

Paints and Varnishes
Paper.
Woollen Fabrics.
Electric Batteries and Parts thereof.
Electric lighting Bulbs and Fluorescent Tubes.
Electric Fans.

1-3-56

Refined Diesel oil and Vaporising oil.
Diesel Oil, not otherwise specified.
Furnace Oil.
Vegetable non-essential oil.

1-12-56

Rayon and Synthetic Fabrics and Yarn.
Motor Vehicles (Motor cars).

1-7-59

Asphalt, Bitumen and Tar.

1-3-60

Silk Fabrics.
Pig Iron.
Aluminium.

Tin plate and Tinned sheets including Tin Taggers and cuttings of such plates, sheets or taggers.

Internal Combustion Engines, Electric Motors all sorts.

Cycles, parts of cycles, other than Motor Cycles.

Cinematograph Films, exposed.

Motor Vehicles.

1-3-61

Soda Ash.

Caustic Soda.

Glycerine.

Synthetic Organic Dyestuffs.

Patent or Proprietary Medicines.

Cosmetics and Toilet Preparations.

Plastics, all sorts.

Cellophane.

Cotton Yarn.

Woollen Yarn.

Glass and Glassware.

Chinaware and Porcelainware.

Copper and Copper alloys.

Zinc.

Refrigerating and Air-conditioned Appliances and Machinery.

Wireless receiving sets.

24-4-62

Petroleum products, N.O.S.

Acids.

Gases.

Rubber products.

Plywood.

Jute manufacturers.

Asbestos Cement products.

Iron or steel products.

Electric Wires and Cables.

Gramophones and parts thereof.

APPENDIX III

(Vide Para 6 of the Report)

MINISTRY OF FINANCE

Department of Economic Affairs]

[Points on which the Public Accounts Committee desire to be furnished with further information.]

Statement showing the variations in the estimates of non-tax Revenue during 1962-63

(Figures in crores of Rs.)

Serial No.	Major Head	Budget Estimates 1962-63	Actuals 1962-63	Variations	
				(+)	(-)
1	2	3	4	5	6
1	XIV. Stamps	3.95	4.84	0.89	
2	XVI. Interest	167.51	153.23		14.28
3	XX. Supplies & Disposals	3.52	4.30	0.51	
4	XXIX. Industries	25.53	35.04	9.51	
5	XXX. Broadcasting	3.59	4.01	0.42	
6	XXXII. Miscellaneous Social and Developmental Organisations	2.88	4.63	1.75	
7	XLV. Currency and Coinage	69.38	53.46		15.92
8	XLVI-A. Kolar Gold Mines	..	0.54	0.54	
9	XLVIII. Contributions and Recovery towards pensions and other retirement benefits	0.68	1.95	1.27	
10	L. Opium.	5.01	3.57		1.44
11	LII. Miscellaneous	13.77	17.18	3.41	
12	LVIII. Dividends etc. from Commercial and Other Undertakings	2.58	3.74	1.16	

1	2	3	4	5	6
13	LX. Extraordinary Receipts .	40.00	54.86	14.86	
14	LXI-A. Receipts connected with the National Emergency, 1962 .	..	19.25	19.25	
15	Other Heads .	43.78	44.08	0.30	
	Total	382.18	404.41	53.87	31.64
					+22.23

ANNEXURE

No. F.8(22)-B/64

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(Department of Economic Affairs)

New Delhi, the 25th August, 1964.

A statement showing the estimated receipts and the actuals for 1962-63 in respect of those Major Heads of Receipts which mainly contributed to the net variation of Rs. 22.23 crores in the estimates of non-tax revenues is given in (Appendix II). The broad reasons for the variations are given below:—

(i) XIV—Stamps:

This head includes the receipts of the India Security Press and those relating to the sale of stamps in the Union Territories. The increase was due to larger receipts of the India Security Press which amounted to Rs. 3.56 crores as against the estimated receipts of Rs. 2.76 crores, due mainly to increased demand for postal stationery and Excise Duty Stamps following improvement in postal traffic and larger requirements of match excise banderols. The actual receipts under these two items alone amounted to Rs. 2.14 crores and Rs. 58.93 lakhs respectively.

(ii) XVI—Interest:

The details are as under:

(In crores of Rs.)

Description	Budget Estimates 1962-63	Actuals 1962-63	Variation Actuals more(+) less (-)
(a) Interest on Loans to State Governments	80.00	68.52	(-)11.48
(b) Interest recovered from Railways	60.82	60.89	(+)0.07
(c) Interest recovered from P. & T. Deptt.	4.78	4.90	(+)0.12
(d) Interest recovered from other parties	21.91	18.92	(-)2.99
TOTAL	167.51	153.23	(-)14.28

The estimates in respect of interest on loans to State Governments are framed mainly on the basis of estimates proposed by the Accountants General who maintain the detailed accounts of individual loans advanced from time to time. The Accountants General, however, are not in a position to take into account interest on the loans to be given during the year itself for which an *ad hoc* addition has to be made in the Finance Ministry on the basis of past trends and the likely extent of loans to be advanced. Thus, for 1962-63, the Accountants General had proposed an estimate of Rs. 65 crores but the estimate of total interest receipts from State Governments was placed at Rs. 80 crores including some provision for arrears of interest to be recovered from the States. The actual interest receipts during 1962-63, however, amounted to Rs. 68.52 crores only. The shortfall was attributable partly to the non-payment in time of the interest recoverable from the State Governments and partly to unanticipated delay in fixing the terms and conditions of certain loans advanced in 1961-62. A part of the shortfall was also due to the interest payable on the 31st March, 1963 being recovered on the following day as 31st March, 1963 was a Sunday with the result that the credit was adjusted in the accounts for the following year.

The slight increase in the interest from Railways and P. & T. Departments is due partly to an increase in the capital outlay during the year and partly to increase in the average rate of interest, at which recovery from commercial Departments is adjusted. The interest rate is determined on the basis of the debt service charges payable on the outstanding rupee public debt and is liable to vary if the loans floated during the year carry higher interest than originally anticipated.

The shortfall of Rs. 2.99 crores in the interest recovery from other parties was mainly due to non-recovery of interest on loans advanced to the Indian Iron and Steel Co. and the Tata Iron and Steel Co. A provision of Rs. 1 crore was included in the original estimates on the assumption that the retention price to be fixed as a result of the Tariff Commission's recommendations would include an element of interest. As this expectation did not materialise, no recovery could be effected during 1962-63 which accounts for a shortfall of Rs. 1 crore. The balance of the shortfall was due to less recovery than anticipated of interest (i) on loans advanced to the National Coal Development Corporation, the Fertilizers Corporation and the Khadi and Village Industries Commission and (ii) on investments from the Cash Balance of the High Commission for India in United Kingdom as a result of encashment of part of sterling securities.

(iii) *XX—Supplies and Disposals:*

The increase in the receipts is mainly due to more work undertaken by the Government Test House, Alipore and larger purchases on behalf of Defence and Railway Departments. A Department-wise break-up of the estimates and actuals of 1962-63 is not readily available.

(iv) *XXIX—Industries.*

The chief item under this head was Surcharge on Iron and Steel representing the difference between the equalised selling price and the retention price allowed to main producers and marginal re-rollers of steel. The surcharge was treated as a revenue receipt but simultaneously an equivalent amount was transferred to the Steel Equalisation Fund by provision in the expenditure estimates. There was thus no net effect on the revenue budget. The Fund was utilised for subsidising the imports of steel, for freight equalisation and for making certain payments to marginal producer re-rollers.

A provision of Rs. 24.5 crores was made in the original budget as the likely receipts of the surcharge on Iron and Steel during the year. The estimates took into account the increase likely to be made in the retention price with retrospective effect from 1st April, 1960 following the Tariff Commission's recommendations. But as the retention price was not increased to the extent originally estimated the actual amount of surcharge recovered during the year amounted to Rs. 34.26 crores showing an increase of Rs. 9.70 crores over the budget estimates.

(v) *XXX—Broadcasting.*

The receipts under this head mainly comprise radio licence fees. The Budget Estimates for 1962-63 were fixed at 3.59 crores mainly on the basis of the trend of actuals available at the time of finalisation of the estimates viz., the actuals for 1960-61 which amounted to Rs. 2.81 crores and the Revised Estimates for 1961-62, which were placed at Rs. 3.33 crores. The final actuals of Rs. 4.07 crores for 1961-62 to which the Committee has referred were not available at the time the budget estimates for 1962-63 were framed. The improvement in receipts during 1962-63 is attributable to unanticipated increase in radio licence fees.

(vi) *XXXII—Miscellaneous, Social and Developmental Organisations.*

Larger receipts from Import Licence Fees and of the Films Division, the Indian Bureau of Mines, the Geological Survey and the Survey of India account for the increase under this head. The main increases are explained below.

Following the increase in external assistance for financing the development plans, the total imports were higher than those originally anticipated resulting in larger receipts from Import Licence Fee (Rs. 60 lakhs).

The receipts of the Films Division referred mainly the rentals of films produced by it and charges recovered for printing and production of films on behalf of paying Departments. The increased activities of the Films Division mainly account for the increase (Rs. 18 lakhs).

The increased receipts of the Survey of India, Indian Bureau of Mines and the Geological Survey are mainly attributable to the recovery of the arrears for work done by these organisations on behalf of Public Sector Undertakings, other Governments, etc. (Rs. 68 lakhs).

The estimates under this head cover numerous other items also. Moreover, some of them, like import licence fees, are not capable of being precisely estimated in advance as they depend upon the extent of foreign assistance being made available and import policies of Government which are liable to change. It would thus be observed that there was no element of incorrect estimation to which the Lok Sabha Secretariat are referring. The large increase between the actuals of 1961-62 and 1962-63 under this head, however, was due to certain accounting changes brought about in 1962-63. Prior to 1962-63 the items accommodated under the major head XXXII—Miscellaneous, Social and Developmental Organisations formed part of the major head XXI—Miscellaneous Departments. Excluding the special factors responsible for the large increases explained above, the actuals under the two heads taken together for the years 1961-62 and 1962-63 do not show any wide variation.

(vii) *XLV—Currency and Coinage.*

The receipts under this head include surplus profits of Reserve Bank which accrue to Government, profits from circulation of small coins, receipts of Currency Note Press and transfer to Revenue of a part of the outstanding balance of accumulated profits on coinage outstanding under suspense which is treated as a Deficit Neutralisation Reserve.

The original estimates included a provision of Rs. 15 crores on account of the likely transfer to Revenue from the Reserve but as there was no revenue deficit in this year it was not necessary to draw upon this Reserve which explains a decrease of Rs. 15 crores in the receipts under this Head. The rest of the decrease is mainly due to less receipts of the Currency Note Press following a decline in the demand from the Reserve Bank for currency and bank notes.

(viii) *XLVI-A—Kolar Gold Mines.*

This head was opened with effect from 1st December, 1962 to record the receipts of the Kolar Gold Mines which were taken over by the Central Government from the Government of Mysore from that date. The value of the gold produced at these mines at the International Monetary Fund rate of Rs. 53.58 per 10 grammes is adjusted under this Head as a receipt of the undertaking, the corresponding amount being debited to the capital head "177—Capital Outlay on Currency and Coinage" as the cost of the gold acquired by Government. The post budget decision to take over the gold mines accounts for the absence of any provision in the original estimates and the consequent variation under this Head.

(ix) *XLVIII—Contributions and Recovery towards Pensions and other retirement benefits.*

The estimates under this head are proposed by the various Accounts Officers who watch the recovery of these contributions. The actuals turned out to be more partly due to an increase in the number of Government servants who were deputed for service in public sector undertakings and partly to the adjustment of the arrears of pension contribution for earlier years in respect of the employees of the Overseas Communication Service.

(x) *L—Opium.*

Due to lesser demand from foreign countries, the export of opium fell from 600 tons in 1961-62 to 350 tons in 1962-63 which accounts for the decrease in the receipts under this Head.

(xi) *LII—Miscellaneous.*

The receipts in the Union Territories of Goa, Daman and Diu and Pondicherry, the sale proceeds of evacuee properties and other miscellaneous receipts of the various Civil Departments are adjusted under this Head. The increase is due mainly to larger sale of evacuee property than anticipated at the time the original estimates were framed. Certain evacuee land had been transferred to Rajasthan and Punjab Governments for the rehabilitation of displaced persons in those States. As the terms and conditions for the transfer of the land to the State Governments had not been settled, no provision on this account was included in the original estimates. The Punjab Government, however, paid during 1962-63 Rs. 1.37 crores towards the cost of the land, while the value of the land transferred to the Rajasthan Government (Rs. 1 crore) was adjusted as a loan to that State, thus accounting for an increase of Rs. 2.37 crores. The balance of the increase is due mainly to larger sale proceeds from other evacuee properties (Rs. 76 lakhs), transfer to Revenue of pre-merger cash balance (Rs. 32 lakhs) in Dadra and Nagar Haveli, recoveries on account of troops deputed for U.N. duties (Rs. 21 lakhs) and refunds by the Industrial Finance Corporation of subvention in respect of guaranteed dividend (Rs. 18 lakhs) none of which was originally anticipated. These increases were partly counter-balanced by a shortfall in other receipts and adjusted under this head.

(xii) *LVIII-A—Dividends etc. from Commercial and other undertakings.*

The increase under this head is attributable to the adjustment during 1962-63 of the receipt of Rs. 1.58 crores representing the

profits of the L.I.C. accruing to Government following the biennial valuation for the year ending 1961. As the valuation was completed towards the end of 1963 no provision could be included in the original estimates. The increase, however, was partly counter-balanced by lesser dividend received from the Oil India Limited.

(xiii) *LX—Extraordinary Receipts.*

The grant portion of the assistance made available by the American authorities from P. L. 480 counterpart funds is adjusted under this head as a revenue receipt but simultaneously the amount is transferred by credit to the Special Development Fund by debit to the expenditure estimates. This is again an item which has no effect on the revenue budget as a whole. The original Budget estimates had provided for likely receipts of Rs. 40 crores as grants from P. L. 480 funds. As a result, however, of the efforts made to speed up the procedure for the release of these grants from U.S. authorities, the actual grants received amounted to Rs. 54.43 crores which largely accounts for the increase under this head.

(xiv) *LXI-A—Receipts connected with the National Emergency, 1962.*

The head was opened during the year to accommodate receipts in respect of the schemes undertaken in connection with the National Emergency declared in October, 1962. No provision in this regard could, therefore, be included in the original estimates for 1962-63. Of the total receipts of Rs. 19.25 crores adjusted under this head, Rs. 11.12 crores represent the premium received under the Emergency Risks (Goods) Insurance Act and the Emergency Risks (Factories) Insurance Act. The balance of Rs. 8 crores represents the cost of defence equipment etc. from the donations received by the National Defence Fund credit for which was provided under this Head by Contra debit to the Fund.

APPENDIX IV

(Vide Para 7 of the Report)

[Point on which the Public Accounts Committee desired to be furnished with further information].

MINISTRY OF FINANCE

(Department of Revenue and Company Law)

F. No. 3/31/64-Ad. VII

F. No. 3/31764-Ad. VII.

Central Board of Direct Taxes Ad. VII Section

The Income-tax Department administers the following taxes/
Duty:—

- (i) Income-tax
- (ii) Corporation Tax
- (iii) Estate Duty
- (iv) Wealth Tax
- (v) Expenditure Tax
- (vi) Gift Tax

No separate staff is employed on the work relating to each of the aforesaid tax/Duty and therefore it is not possible to find out directly the expenditure incurred on the collection of each tax. As such, the cost of collection of each tax is arrived at on the basis of the method prescribed with the approval of the Comptroller and Auditor General of India. The method is explained below:—

The cost of collection of Corporation Tax is taken as 0·29 per cent of the Corporation Tax receipts and that of Estate Duty as 2·038 per cent of Estate Duty receipts. These percentages were arrived at taking 1952-53 as the basic year for Corporation Tax and 1954-55 as the basic year for Estate Duty. The cost of collection of Corporation Tax was worked out by taking the Company Circles (i.e. the Circles where the Corporation Tax collections exceeded 25 per cent of the total collections) as the criterion and thus finding out the direct and indirect expenditure attributable to those circles. The entire expenditure incurred on the I.T.O.'s office in the Company Circle was taken as the direct expenditure incurred on the collection of Corporation Tax. The expenditure incurred on the offices of the Inspecting Assistant Commissioner, Appellate Assistant Commissioner, Commissioner, Directorates, Income-tax Appellate Tribunal and Central Board of Revenue (45 per cent of the total expenditure) was treated as in-

direct expenditure. A portion of the indirect expenditure was allotted to Company Circles in proportion to the number of Income-tax Officers employed in those circles. On the basis of the figures of expenditure collected in pursuance of above method, which were test-checked by the audit, the percentage for Corporation Tax was arrived at 0.29 per cent of the Corporation Tax receipts.

As for Estate Duty, information similar to the one collected for the Corporation in 1952-53 was collected in respect of the year 1954-55. The expenditure, both direct and indirect, and revenue from the Company Circles as deducted from the total expenditure and total revenue respectively of the whole Department and from the balance the share of cost of Estate Duty was calculated in proportion to the Estate Duty Collection. The cost thus worked out was expressed as a percentage of the total Estate Duty collections of the Department. It worked out to 2.38 per cent.

In regard to the cost of collection of other direct taxes, after deducting from the total expenditure the share of Corporation Tax and Estate Duty worked out on the basis of the above percentages, the balance of the expenditure is distributed over the remaining taxes in proportion to the revenue receipts from each tax.

The above formula of allocation of expenditure amongst the various taxes had been in operation so long. Some time back, the Comptroller and Auditor General of India took up the question of revising it and after consideration of the various possibilities he has now again suggested the continuance of the existing formula and has also desired that a similar study as was made for Corporation Tax in 1952-53 and for Estate Duty in 1954-55 should be conducted to examine whether the percentages for these two items need any revision.

APPENDIX V

(Vide para 11 of the Report)

Information required by the Public Accounts Committee on para 14, page 10 of the Audit Report (Civil)—1964

MINISTRY OF FINANCE

(Department of Revenue & Company Law)

Variations between Budget Estimates and actuals; Protective Duties—para 14, page 10 (Statement).

[Point on which the additional information is required]

What are the reasons for the change in the trend of variation from —8% in 1961-62 to +2% in 1962-63?

Information

During 1961-62, the difference between Budget Estimates for protective duties and actual collections was Rs. 190 lakhs, i.e. about 8% of the Budget Estimates. The shortfall is mainly attributed to the collections under the sub-head "Heavy Chemicals" which showed a decrease of Rs. 177 lakhs from the estimates, i.e. about 7.6% of the total estimates. This shortfall was partly due to the opening of a new sub-head "Heavy Chemicals" under Revenue Duties from 1st April, 1961 (by removing certain tariff item from Protective Head to Revenue Head), the duty collected under the Revenue sub-head amounting to Rs. 34 lakhs, and partly due to fall in imports of caustic soda and soda ash (which comprise bulk of the protective item) which came to be locally manufactured on an appreciable scale.

Two new sub-heads, viz., "Dues derived from coal-tar derivatives" and "Motor vehicle parts" were created by removing some of the tariff items from the sub-head "All other articles" w.e.f. 1st April, 1961. There was a shortfall of about Rs. 100 lakhs in the duties collected under these three sub-heads taken together. As the two new sub-heads were created only from 1st April, 1961 and since the sub-head "All other articles" appearing in the Budget Estimates is a residuary one, the variation, both plus and minus spread over a large number tariff items covered by the general heading "all other articles".

There was increase in the collections under the sub-heads "Metals other than Iron and Steel" (Rs. 23 lakhs) and "Machinery other than sewing machines" (Rs. 52 lakhs). In the former case, there were larger imports due to liberalisation of Import Trade Control policy and in the latter case, the increase was due to larger imports of plants and machinery for new projects and also increased *ad hoc* licensing for some of the machinery items covered by this sub-head, viz., 'Ring frames and looms'.

The cumulative effect of all these variations came to —8%.

So far as 1962-63 is concerned, the total increase is Rs. 54 lakhs and this works out to 2.7% of the Budget Estimates for protective duties. Heavy Chemicals (Rs. 147 lakhs), Metals other than Iron and Steel (Rs. 26 lakhs), Machinery other than sewing machines (Rs. 16 lakhs) and All other articles (Rs. 12 lakhs) registered increase in duties collected, while Cycles other than Motor Cycles and parts thereof (Rs. 85 lakhs), Dyes derived from coal-tar derivatives (Rs. 28 lakhs) and Motor vehicles parts (Rs. 31 lakhs) contributed to lesser collection of duties to the extent indicated in brackets.

In the case of Heavy Chemicals, there were larger imports of soda ash and caustic soda, for which licences of large value were granted to the State Trading Corporation. For 'Metals other than Iron and Steel', the increase was due to larger imports as Actual Users Licence were issued specially for aluminium ingots for the manufacture of 'All aluminium conductors'. For Machinery other than sewing machines, the increase was due to larger imports. For Cycles other than Motor Cycles and parts thereof, the decrease was due to virtual ban on imports imposed by the Licensing Authorities. For Dyes derived from coal-tar derivatives, there was lesser imports, mainly due to cut imposed on established importers' licences. For Motor vehicles parts, the variation is not significant in comparison with the Budget Estimates. As regards 'All other Articles' this being a residuary heading, the variation, both plus and minus, is spread over a large number of tariff items covered by this heading.

Sd/- D. P. ANAND.

Joint Secretary to the Government of India.

[F. No. 1/7/64-Cus-V]

APPENDIX VI

(Vide Para 26 of the Report)

MINISTRY OF RAILWAYS

Reply to the point arising from para 21(a) of the Audit Report (Civil), on Revenue Receipts, 1964.

It is understood that the Eastern Railway had paid more duty due to mistake in calculation of the assessable value had not claimed any refund. It may please be intimated for the information of the Public Accounts Committee whether there are any checks or scrutiny of the charges or duties paid by the Railway authorities for their imports and what is the percentage of checks exercised by the Controlling Officers in this regard.

Reply.

Before dealing with the specific point raised about the check or scrutiny of customs duties paid by the Railway authorities for the imports, the circumstances in which this particular mistake arose, are briefly indicated below.

A consignment of 3 cases of Ignitron Tubes from Germany arrived at Calcutta Port in March 1962. The Customs bill of entry for these was prepared by the Eastern Railway and assessed by the Customs Department in July, 1962. For customs purposes, the value of the consignment was 1,76,783.61 Deutsch Marks. In converting this into Indian Currency at the rate of DM 87.20=Rs. 100, the value in rupees was wrongly calculated as 21,38,349 instead of 2,02,733. As a result of this arithmetical error, the customs duty @15% of the value was worked out as Rs. 3,20,752 (instead of Rs. 30,410, the correct figure). The customs duty was taken in the books of the Customs Department in August 1962 and the debit for it was received through the Accountant General, West Bengal, and adjusted by the Eastern Railway in March 1963. .

Under the procedure obtaining on the Eastern Railway, the customs duty vouchers which are sent by the Accountant General, West Bengal along with the debit are, on receipt, subjected to a 100% check in the Office of the Controller of Stores, and the mistake

would have been detected in the normal course at that time. But early in September 1962, i.e., about six months before the debit and the vouchers were received on the Eastern Railway in March 1963, this mistake was detected by the customs revenue audit.

The procedure of checks or scrutiny of customs charges or duties, has not been uniform on the Indian Government Railways. A 100% check is being exercised on the Central Railway by the Stores Department as well as by the Accounts Department, while on the Eastern Railway the Stores Department exercises a 100% check and the Accounts Department confines itself to a percentage check only. In view, however, of the importance of this matter, the Board propose to introduce a uniform procedure, under which debits for duty over a certain value will be checked 100% in the Accounts Office also, debits for duty below that value being checked at percentages varying with the value.

APPENDIX VII

(Vide Para 29 of the Report)

MINISTRY OF FINANCE

(Department of Revenue & Company Law)

- (a) [Page 15—para 22(a) (ii) of the Audit Report (Civil) on Revenue Receipts 1964—Want of uniform procedure in regard to levy of Customs Duty on ships' stores].

The following *additional* information has been asked for, for the information of the Public Accounts Committee:—

- (i) As regards non-filing of bills of entry for several years by ship's agents, a note may be furnished showing the action taken at various levels, including the C. B. R., with a view to expediting the filing of the bills of entry.

* * * *

[S. No. 22(a) (ii) of the Audit Report (Civil) on Revenue Receipts 1964].

Action taken

Reply:

- (i) In the instant case the question of non-assessment to Customs duty of ships' stores in respect of the coastal vessels touching an intermediate foreign port came to notice in 1960 and the Superintendent of Central Excise, Tuticorin called upon the Steamer Agents concerned to file bills of entry. The work of assessment and issue of demand was taken up thereafter. In certain cases only relevant particulars were furnished by the Steamer Agents on the basis of which action was initiated to issue demands. In respect of the twelve cases where Bills of Entry have not so far been filed by the Steamer Agents, the Superintendent propose to issue demands on the basis of the declaration made in the ships' store-lists.

The Collector of Central Excise, Madras who is having administrative jurisdiction of the Tuticorin Port has been issuing suitable instructions towards expeditious collection of arrears and has been watching the progress made in this direction.

The Tuticorin Custom House was last inspected by an Assistant Director of Inspection (Customs & Central Excise) early in 1962. In his inspection report, he had brought out the position on the pendency of the Import/Export General Manifests. The report was sent to the Collector of Central Excise, Madras for his comments and the Collector had stated that the arrears had been reduced and that the pendency would be liquidated soon.

On the part of the Board suitable instructions have been issued to the Collector to see that recoveries of amounts, wherever found due, are effected speedily and that demands, which are yet to issue, are issued expeditiously. Progress made in the collection of arrears is being watched periodically. The Board has further asked the Collector to consider the question of taking suitable action under the provisions of Sea Customs Act/Customs Act against the Steamer Companies who are not furnishing the details promptly enough. The Board has further asked the Director of Inspection (Customs & Central Excise) to investigate in detail the circumstances in which these delays occurred at Tuticorin and further suitable action will be taken on his report.

* * * *

(D. P. ANAND)

*Joint Secretary to the Government
of India.*

U.O. F. No. 55/6/64-Cus. IV dated the 14th August, 1964.

(b) (Page 15, para 22(a) (ii) of the Audit Report (Civil) on Revenue Receipts 1964—Non-assessment of customs duty on ship's stores).

The following additional information has been asked for, for the information of the Public Accounts Committee:—

“In the Audit Report, it is stated that in 39 more cases relating to the periods prior to 1958, the Department has not yet ascertained the particulars of stores uplifted at the foreign ports for determining the demands to be raised. The exact amount involve in respect of these 39 cases may be furnished now, if ascertained.”

Reply: It has been ascertained from the Tuticorin Customs authorities that out of the 39 cases referred to above, no bunkers had been lifted by the vessels concerned at Colombo in 14 cases; hence the question of issue of demands did not arise in those cases. With regard another 13 cases, the total duty involved is Rs. 2,01,643. 44nP. and demands for this amount have been issued by the Customs authorities. In respect of the remaining 12 cases, the particulars of bunkers lifted by the concerned vessels at Colombo have not yet been furnished by the steamer companies. The amount of duty in these cases has therefore still to be ascertained.

(D. P. ANAND)

Joint Secretary to the Government of India.
(U.O. Note No. 55/6/64-Cus. IV dated the 8th July 1964)

APPENDIX VIII

(Vide Para 31 of the Report)

MINISTRY OF FINANCE

(Department of Revenue and Company Law)

[(Further information desired by the P.A.C. on Para 23 of Audit Report (Civil) on Revenue Receipts, 1964)].

Statement showing the amount of Customs Duty outstanding on 31-10-63 for more than two years

S. No.	Name of Collectorate Custom House	Arrears outstanding on 31-10-63 for more than two years.		Total
		Government Departments	Private Parties	
		Rs.	Rs.		Rs.
1.	*Calcutta Custom House	3,77,426 00	33,40,339 00	37,17,765 00
2.	Collectorate of Central Excise, West Bengal	..	2,95,502 56	2,95,502 56
3.	Bombay Custom House	13,243 35	14,774 53	28,017 88
4.	Baroda Central Excise Collectorate	..	43,084 18	43,084 18
5.	Delhi Central Excise Collectorate	16,069 72	92,846 05	1,08,915 77
6.	Madras Custom House (including Visakhapatnam and Pondicherry Custom Houses, but excluding Madras Central Excise Collectorate)	3,000 00	26,762 28	29,762 28
7.	Madras Central Excise Collectorate.	..	1,76,307 70	1,76,307 70
TOTAL		4,09,739 07	39,89,616 30	43,99,355 37

*Note.—The arrears position in Calcutta Custom House has improved still further since. Arrears outstanding on 31-7-64 for more than two years in Calcutta Custom House were:

Government Departments	Rs.	2,19,958
Private Parties	Rs.	9,13,000
TOTAL		11,32,958

APPENDIX IX

(Vide para 31 of the Report)
[Additional information desired by P.A.C.]

Statement regarding arrears of customs duty representing demands issued upto 31-3-63 but pending realisation till 31st October, 1963.

Sl. No.	Name of Collectorates Customs Houses	Arrears due from			Amount sub-sequently realised or with-drawn	Balance of arrears outstanding	Amount of penalties or fines if any, levied under the Customs Act and included in the amount shown in col. 3
		Govt. Deptts.	Private parties	Total			
1	2	3	4	5	6	7	8
1	Calcutta Custom House	10,35,357	45,51,357	55,86,714	23,09,179	32,77,535	Not included
2	Collectorate of Central Excise, West Bengal		2,97,417	2,97,417	1,647	2,95,770	Do.

1	2	3	4	5	6	7	8
3	Bombay Custom House	7,62,421	3,53,199	11,15,620	3,91,392	7,24,229	Do.
4	Baroda C.E. Collectorate . . . . .	..	3,24,561	3,24,561	2,18,486	1,06,075	Do.
5	Delhi C.E. Collectorate	89,612	2,45,504	3,35,116	66,519	2,68,597	Do.
6	Madras Custom House (including Vishakhapatnam and Pondicherry C.Hs. but excluding Madras Central Excise Collectorate)	16,50,224	1,64,688	18,14,912	17,97,781	17,131	Do.
6A	Madras C.E. Collectorate . . . . .	..	12,09,144	12,09,144	6,17,342	5,91,802	Do.
	TOTAL]	35,37,614	71,45,870	106,83,484	54,02,346	52,81,139	80

APPENDIX X

(Vide Para 34 of the Report)

MINISTRY OF FINANCE

(Department of Revenue and Company Law)

Statement showing the measures adopted for preventing the smuggling of gold.

1. Customs examination of passengers is undertaken at all Customs stations and aerodromes. Passengers are asked to declare whether they have in their baggage any gold, jewellery etc. In suspected cases a thorough search of persons and baggage is conducted. Surprise checks are also made from time to time.
2. Regular examination is carried out of letter mail and postal articles passing through the Foreign Post Offices to examine whether they contain gold.
3. All cargo imported or exported by air or sea into or out of India is subjected to a percentage customs examination.
4. Customs Preventive Officers are employed at all the air and sea ports. Jeep and launch patrols are conducted at vulnerable points.
5. Suspected vessels and aircraft are rummaged and specially guarded.
6. Customs intelligence staff are employed for collecting information.
7. The history sheets of smugglers are maintained and every effort made to expand sources of information.
8. Surveillance is maintained in bazars, round the railway stations and on main roads, by plain clothed Customs and Central Excise Officers.

9. A scientific instrument known as "Gold Detector", which indicates the presence of any metal concealed either in any object or inside the human body has been invented by the National Physical Laboratory, New Delhi. As these instruments have had fair success, a number of them have been supplied to all the Collectorate for detection of gold.

10. On the Land frontiers physical guarding of the entire border line in a really effective manner is not very practicable. Anti-smuggling operations have essentially to be based therefore, on

- (a) an organised and effective intelligence system;
- (b) Co-ordinated customs efforts along with security staff employed on such borders for guarding; and
- (c) continuous and surprise checks made by custom flying squads, independently operated, as a second line of defence.

Steps are being progressively taken to make this pattern increasingly efficient.

11. To overcome the shortage of man power and also with a view to economising in expenditure, Border Police personnel have been invested with certain customs power in the matter of search, arrest & seizure.

12. In order to improve intelligence work on an all-India basis, an organisation designated as the "Directorate of Revenue Intelligence" was constituted in 1957.

13. Training of staff in detection work has been arranged for in a much greater measure.

14. Co-operation of State Government staff is increasingly sought through periodical conferences and consultations. Similar co-operation is maintained with other Central Government Departments like the Directorate of Enforcement and the Intelligence Bureau.

15. Fast sea going launches have been put in commission with the co-operation of the Navy, on the Konkan coast.

16. Under Section 115(1) (a) of the Customs Act, 1962, vessels, air-crafts adapted for the purpose of concealing contraband are liable to confiscation. In suspicious cases the onus of proof of bona-fide possession of specified goods (including gold) has been transferred to the suspect concerned. Powers have also been acquired to seize suspicious documents and to summon witnesses whenever necessary and to launch prosecutions in cases where fraudulent attempts to evade duty or import restrictions are discovered.

17. Prosecutions are launched and heavy penalties are imposed, including the confiscation of the gold etc. so that punishment is deterrent.

18. The Customs Act, 1962, is designed to enable the Customs authorities to deal with smuggling more effectively than in the past. The Act provides for a minimum sentence of six months and a maximum sentence of 5 years imprisonment and fine in cases where the value of the smuggled goods exceeds Rs. 1 lakhs.

19. Serious cases of smuggling can also be dealt with under the Defence of India Rules, with a penalty of imprisonment for a term which may extend to 7 years or with fine, or with both.

(F. No. 24/8 64—Cus. III).

APPENDIX XI

(Vide para 34 of the Report).

CUSTOMS SEIZURES

Statement showing the value of goods seized during October, 1962 to September, 1963.

Collectorate	Gold		Silver		Precious Stones Value Rs. (000)	Jewellery Value Rs. (000)	Currency Value Rs. (000)	Textiles Value Rs. (000)	Other Value Rs. (000)	Total Value Rs. (000)
	Qty. Grams	Value Rs. (000)	Qty. Grams	Value Rs. (000)						
I	2	3	4	5	6	7	8	9	10	11
Customs Bombay . . .	334043	2107	N.A.	1	1025	864	1139	420	8729	14275
Customs Calcutta . . .	22364	169	..	..	730	62	160	117	890	2128
Customs Madras . . .	103982	579	..	..	266	213	85	331	2084	3558
Customs Cochin . . .	164	1	..	..	..	..	13	..	126	140
Customs Kandla . . .	..	..	..	..	..	..	..	..	5	5

Customs Pondicherry	165	165
Central Excise Bombay	1068497	10753	..	..	167	1	15	44	1657	12637
Central Excise Madras	18800	100	..	..	..	23	9	51	1662	1845
Central Excise Delhi (excluding Jaipur unit)	87125	896	41658	13	82	2	443	67	5777	7280	
Central Excise Baroda	4736	26	59793	15	147	41	189	2	593	1013	
Central Excise Hyderabad	1750	9	..	..	..	..	..	..	169	178
Central Excise Poona	2460	21	..	..	..	..	..	..	145	166
Central Excise Patna	2404	13	..	..	..	..	..	..	234	247
Central Excise Shillong	491	4	40883	7	5	2	182	2	433	635	
Central Excise West Bengal	6084	36	161811	35	161	62	43	1	1593	1931	
Central Excise Nagpur	..	..	..	..	..	..	..	..	138	138
Central Excise Bangalore	76755	430	..	..	..	..	..	..	155	585
Central Excise Allahabad	..	..	..	..	..	..	..	..	14	14
Central Excise Cochin	..	..	..	..	..	..	1	..	33	34
Central Excise Jaipur Unit	857	4	24679	6	66	1	18	10	209	314	
TOTAL	1730512	15148	328824	77	2649	1271	2287	1045	24811	47288	

APPENDIX XII
(Vide Para 36 of the Report)

MINISTRY OF FINANCE
(Department of Revenue & Company Law)

(Point on which P.A.C. desired to be furnished with further information).
* * *

Variations between Actuals and Budget Estimates page 18—para 27.

Statement showing the Budget Estimates, Revised Estimates, Actuals & Variations.

(In crores of rupees)

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Year	Particulars	Budget Estimates	Revised Estimates	Actuals	Excess		Percentage of variation	
					Over Budget Estimates	Over Revised Estimates	Over Budget Estimates	Over Revised Estimates
1	2	3	4	5	6	7	8	9
1960-61	(a) Increase of Actuals over Estimates in respect of Additional Excise Duties	41.20	40.69	34.92*	(-) 6.28	(-) 5.77	(-) 15.2	(-) 11.7

	(b)	Increase of Actuals over Estimates in respect of duty levied on new commodities during the year 1960-61	13.22	16.95	15.56	2.34	(-) <u>1.39</u>	17.7	(-) <u>8.2</u>
	(c)	Increase of Actuals over Estimates in respect of existing commodities	325.59	337.34	365.87	40.28	28.53	12.4	8.4
			<u>380.01</u>	<u>394.98</u>	<u>416.35</u>	<u>36.34</u>	<u>21.37</u>		
1961-62	(a)	Increase of Actuals over Estimates in respect of Additional Excise Duties	40.84	41.98	38.96	(-) <u>1.88</u>	(-) <u>3.02</u>	(-) <u>4.6</u>	(-) <u>7.2</u>
	(b)	Increase of Actuals over Estimates in respect of duty levied on new commodities during the year 1961-62	10.56	21.34	22.65	12.09	1.31	114.5	6.1
	(c)	Increase of Actuals over Estimates in respect of existing commodities	383.22	407.63	427.70	44.48	20.07	11.6	4.9
			<u>434.62</u>	<u>470.95</u>	<u>489.31</u>	<u>54.69</u>	<u>18.36</u>		
1962-63	(a)	Increase of Actuals over Estimates in respect of Additional Excise Duties	42.53	46.23	44.75	2.22	(-) <u>1.48</u>	5.2	(-) <u>3.2</u>

*As per Finance Account.

	1	2	3	4	5	6	7	8	9
(b) Increase of Actuals over Estimates in respect of duty levied on new commodities during the year 1962-63			14.14	29.35	38.96	11.93**	9.61	84.3	32.7
(c) Increase of Actuals over Estimates in respect of existing commodities			468.40	478.11	515.12	59.61	37.01	12.8	7.7
			525.07	553.69	598.83	73.76	45.14		

The Revenue from Steel Ingots was budgetted separately but greater part of it was collected as duty on Iron and Steel Products. The following are the figures for the two items :—

	Steel Ingots	Iron & Steel Products	Total
		(In crores of Rs).	
Budget Estimates	17.50	5.51	23.01
Revised Estimates	6.30	19.00	25.30
Actuals (Accounts)	4.61	24.29	28.90
1963-64 (a) Increase of Actuals over Estimates in respect of Additional Excise Duties	47.86	45.55	43.44
			(-)4.42
			(-)2.11
			(-) 9.2
			(-)4.6

(b) Increase of Actuals over Estimates in respect of duty levied on new commodities during the year 1963-64.

(c) Increase of Actuals over Estimates in respect of existing commodities

639.83	644.44	662.51	22.68	18.07	3.5	2.5
687.69	689.99	705.95	18.26	15.96		

**after making allowance for realisation of Steel Ingots. (without making this allowance the variation would be Rs. 24.82 crores).

N. B.— (i) Figures for 1963-64 are exclusive of Cesses.
(ii) The Actuals are based on Departmental Figures.

APPENDIX XIII

(Vide Para 36 of the Report)

MINISTRY OF FINANCE

(Department of Revenue and Company Law)

[Points on which P.A.C. desired to be furnished with further information.]

* * * * *

Variation between Actuals and Budget Estimates—Page 18, para 27—

*Statement showing the breakup of variations during the years 1960-61
to 1963-64*

1960-61	(Rs. crores)
(1) On account of new imposts and changes in the rates of duty made from 1-3-1961—	
Basic duty	2 92
(2) On account of Cesses	1 73
(3) On account of new excises of 1960-61	2 34
(4) On account of the existing excises—	
(i) Basic duty	35 63
(ii) Addl. Excise duty	6 28 (—)
	29 35
TOTAL	36 34
1961-62	
	Rs.
(1) On account of mid year changes made in the rates of additional excise duty on Mineral Oils	7 86
(2) On account of Cesses	4 67
(3) On account of new excises of 1961-62	12 09
(4) On account of the existing excises—	
(i) Basic duty	31 95
(ii) Addl. Excise duty	(—) 1 88
	30 07
TOTAL	54 69

(Rs. crores)

1962-63

(1) On account of new imposts and changes in the rates of duty made from 1-3-1963		
(i) Basic duty	4 58	
(ii) Special Excise duty	3 13	
		<hr/>
(2) On account of Cesses		7 71
		5 40
(3) On account of new excises of 1962-63		11 93
(4) On account of existing excises—		
(i) Basic duty	46 50	
(ii) Addl. Excise duty	2 22	
		<hr/>
		48 72
		<hr/>
	TOTAL	73 76

1963-64

Budget Estimates excluding Cesses	687 69
Actual realisations excluding Cesses as per Departmental figures	705 95
Variation	18 26

Break-up of variation —

(1) On account of new imposts and changes in the rates of duty made from 1-3-1964		
(i) Basic duty	2 18	
(ii) Special Excise duty	(—) 15	
		<hr/>
		2 03
(2) On account of existing excises —		
(i) Basic duty	27 06	
(ii) Addl. Excise duty	(—) 4 42	
(iii) Spl Excise duty	(—) 6 41	
		<hr/>
		16 23
		<hr/>
	TOTAL	18 26

APPENDIX XIV

(Vide 36 of the Report)

MINISTRY OF FINANCE

(Department of Revenue and Company Law)

[Point Arising out of Audit Report (Civil) on Revenue Receipts, 1964 on which Additional Information is required by the PAC.]

Page 18, para. 27—Variations of actuals from Budget Estimates.—

Out of the total variation of Rs. 73·76 crores, Rs. 24·53 crores represent excess of actuals over Budget Estimates as respects new commodities and Rs. 47·01 crores as respects existing commodities. How much of this variation is attributable to—

- (i) estimates in regard to the existing items going wrong,
- (ii) difficulty in estimating revenue on new items on account of reasons of secrecy.
- (iii) the effect of the budget on new items in the month of March, and
- (iv) new duties being levied during the year on certain items.

Have any special steps been taken to improve the technique of budgeting of Central Excise receipts so as to reduce the variation which is showing a tendency to increase year after year?

Reply

The break-up of the variations of 73·76 crores in 1962-63 is given below:—

(In crores of rupees)

(1) On account of new imposts and changes in the rates of duty made from 1-3-1963	
(i) Basic duty	5·91
(ii) Special excise duty	3·13
	9·04
(2) On account of cesses	5·40
(3) On account of new excises of 1962-63	11·93*
(4) On account of existing excises —	
(i) Basic duty	45·17
(ii) Additional excise duties	2·22
	73·76
TOTAL	

*Vide Statement appended hereto.

The Audit report puts the variation in the case of new excises levied in 1962-63 as Rs. 24.53 (against the Budget estimates of Rs. 14.39) or 171 per cent. It appears the Audit have taken the total realisation under 'Iron and Steel' Products as pertaining to the new items. This is not correct, for alongwith the levy of duty on Iron and Steel products, the technique of collection was also changed so that the Ingot duty was also paid alongwith the Product duty. Deducting the collection on account of ingot duty, the net variation in respect of new excises comes to Rs. 11.93 crores only which is about 84 per cent of the Budget estimates. Although this variation is large enough, it is much less than the variation of *114 per cent in 1961-62 in respect of the new excises levied then. The factors responsible for large variation in the case of new excises, e.g. need for secrecy and non-availability of dependable data were explained earlier to the Comptroller and Auditor General and Public Accounts Committee. Nevertheless the fall in variation from 114 per cent in 1961-62 to 84 per cent in 1962-63 itself shows that efforts have been made to improve the estimation of potential revenue on new items.

6. The variation of Rs. 47.39 crores (Rs. 45.17 crores basic duty Rs. 2.22 crores additional duty) in respect of the existing excises is nearly 9 per cent of the sanctioned budget Estimates of Rs. 525.07 crores for the year. This is somewhat higher than the variation noticed in the previous two years. This apparent increase in variation was due primarily to the increase in clearances during December, 1962 to February 1963 by conditions created on the declaration of emergency. The following figures will show that whereas in other years, the collection during the three months December to February represented approximately 29 per cent of the total collection during the period of 11 months April to February, in 1962-63 it was 31.4 per cent.

Year	Realisa- tion during April to February	Realisa- tion during December to February	Percent- age of Col. (3) to Col.(2)
1	2	3	4
(Crores of rupees)			
1959-60	324.22	96.66	29.8%
1960-61	368.58	105.20	28.5%
1961-62	434.93	123.58	28.4%
1962-63	531.41	167.21	31.4%
1963-64	642.92	190.4	29.6%

*Budget Estimates on 16 commodities brought within the ambit of Central Excise for the first time = Rs. 10.56 crores. Actual realisations = Rs. 22.65 crores. Difference = Rs. 12.09 crores. [p. 3/Audit Report on Revenue Receipts, 1963].

The Emergency was an unforeseen factor; but for it, the realisation during the three months and during the year would have been lower by about Rs. 13 crores. In that case the variation in respect of existing excises would have been only about Rs. 34 crores or about 6.5 per cent of the sanctioned Budget estimates. Thus but for the Emergency the variation would have been slightly less than in the previous years.

7. It has been explained by us on previous occasions that every effort is made to have as realistic an estimate as is possible. But in a state of rapid development there are so many varying factors that it becomes difficult to make an accurate forecast of the trend of production, consumption and clearances during the next 12 months or so. Nevertheless, we have taken note of the observations made by the Public Accounts Committee in their 6th, 9th and 21st Reports and have been trying to do as best as we can in the existing circumstances.

Statement showing Commodity-wise variations between S.B.E. and actual realisations in respect of new levies imposed during 1962-63

(Rs. in lakhs)

Commodity	Budget	Actual
1. All products derived from refining of crude petroleum or shale not otherwise specified	25	62
2. Nitric, Hydrochloric and Sulphuric Acids	73	90
3. Gases	80	170
4. Rubber products	59	157
5. Plywood	57	98
6. Jute manufactures	293	524
7. Asbestos-Cement products	71	89
8. Electric wires and cables	178	257
9. Gramophones and gramophone records	27	20
	<hr/>	<hr/>
Iron and Steel products	863	1467
	551	1140*
	<hr/>	<hr/>
TOTAL	1414	2607

Difference is Rs. 11,93 lakhs.

Percentage is 84.3 %.

*Most of the ingot duty was realised at the finished stage as product duty. But for the new levy, the realisation of ingot duty would have been at least Rs. 17.50 lakhs. Hence the maximum realisation under the product head would be (2890—1750) - Rs. 1140 lakhs. The figure of Rs. 2890 represent the actual collections from the following commodities:—

Iron and Steel Products	Rs.
Steel Ingots	2429
	461
	<hr/>
TOTAL	2890
	<hr/>

APPENDIX XV

(Vide Paras 42 and 43 of the Report)

Points on which P.A.C. desired to be furnished with further information.

MINISTRY OF FINANCE

(Department of Revenue and Company Law)

The variation in these cases is explained below:—

(Rs. in lakhs)

Rubber products

Budget Estimates	59
Revised Estimates	75
Actuals—	
(a) as per Accounts	1,57
(b) as per Departmental figures—	
(i) 0.50	1,07
(ii) Ex. 6	76

The Budget Estimates were framed on the basis of the published information for 1960 (which alone was then available) as contained in the Monthly Statistics of Production of Selected Industries of India, published by the Department of Statistics, Central Statistical Organisation, Calcutta. According to this the total production of latex foam sponge in 1960 was nearly 1.5 mn. Kg. and that of Camelback was nearly 5 mn. kg. Taking the effective rates of duty for the two products as Rs. 1.25 and 80 nP. per kg. respectively, the revenue was estimated at Rs. 19 lakhs for latex foam and Rs. 40 lakhs for camelback, or a total of Rs. 59 lakhs. However, as was found later, production in the Organised sector had increased to some extent since 1960. Besides a number of small units (for which no information was available while framing the Budget Estimates) were also brought under excise. Based on the actual collection of Rs. 37 lakhs during the first six months, the revised estimates were put at Rs. 75 lakhs, the collection on actual clearances during the year as per Departmental returns Ex. 6 came to Rs. 76 lakhs only. However total deposits (part of which is intended to cover future clearances)

as per 0.50 was Rs. 107 lakhs. There is a discrepancy of Rs. 50 lakhs between this figure and the Accounts figure which may perhaps be due to misclassification.

(Rs in lakhs)

<i>Jute Manufacture</i>	
Budget Estimates	293
Revised Estimates	390
Actuals—	
(a) as per Accounts	524 (excluding Rs. 4 lakhs as Special Excise duty)
(b) as per Departmental figures—	
(i) 0.50	517
(ii) Ex. 6	503

The Budget Estimates for 1962-63 were based on the Statistics of production upto the year 1960 and the available information about exports. During the years 1958 to 1960 the production varied between 10.50 and 10.85 lakh tonnes. The exports during the 12 months ending December, 1959 and March, 1961 were approximately 8.61 and 7.98 lakh tonnes respectively. On this basis it was assumed that on an average nearly 20% of the production was available for home market, but the proportion in the case of hessian was much smaller. Thus taking the total availability for home consumption at about 2 to 2.5 lakh tonnes the estimate for a whole year was put at Rs. 3.12 crores. Making a proportionate deduction for 23 days of April (the duty was levied from 24th April) the estimates for the year 1962-63 were put at Rs. 2.93 lakhs.

However, the year 1962-63 witnessed a sudden improvement in the production of jute manufacture which went up to 12.66 lakh tonnes as against 10.68 lakh tonnes in 1960 and 9.68 lakh tonnes in 1961). The clearances for the internal market also went up to 3.43 lakh tonnes. much of the increase being during the latter half of the year.

On the basis of the actual collection of Rs. 176 lakhs in the first six months, the revised estimates were put at Rs. 390 lakhs. But as mentioned above the clearances were much higher in the latter half

of the year (as shown below) which resulted in a much higher collection than estimated.

Total clearance in the 5 months—May to September, 1962		1.17 lakh tonnes
Average monthly clearance during the period		23.4 thousand tonnes
Total clearance in the 6 months October 1962 to March, 1963		2.26 lakh tonnes
Average monthly clearance during the period		37.6 thousand tonnes
<i>Refined Diesel Oil and Vaporising oils</i>		(Rupees in lakhs)
Budget Estimates		45.69
Revised Estimates		40.00
Actual—		
(a) as per Account		46.60 (excluding Rs 39 lakhs Special Excise)
(b) as per departmental figure—		
0.50		45.85

The enhancement in the rate of duty from 1st March, 1963 as part of the Budget proposals for 1963-64 accounts for nearly Rs. 97 lakhs. Thus but for this change the collection would have been nearly Rs. 45.63 crores.

The original estimates for R.D.O. and Vap. oil were fixed at Rs. 45.69 crores. But in view of the poor clearances in the first six months of the year the revised estimates were reduced to Rs. 40.00 crores. The revenue collected during the first six months was only Rs. 19.31 crores. This downward tendency continued almost upto November. It was only from December, 1962 that clearances picked up and the original Budget Estimates could be reached. The following are figures of clearances during the two halves of the year—

	(Mn. Kiloliter)
(i) April to September	60.72
(ii) October to March	76.97
(iii) Ratio of (ii) to (i)	127%

The trend this year was different from the experience in the past years when the difference between the clearances during the two halves of the year was not so marked. The corresponding figures for 1961-62 were—

	(Mn. Kiloliter)
(i) April to September	68.58
(ii) October to March	64.46
(iii) Ratio of (ii) to (i)	94%

APPENDIX XVI

(Vide Para 51 of the Report)

[POINTS ON WHICH THE PUBLIC ACCOUNTS COMMITTEE
DESIRED FURTHER INFORMATION TO BE FURNISHED]

MINISTRY OF FINANCE

(Department of Revenue and Company Law)

Tyres: Less collection of duty on stock shortages—Para 34, page 23

“A copy of the report of the special stock-taking conducted as a result of the audit objection may be furnished.”

Reply

Documents relating to the special stock-taking undertaken in respect of tyres and tubes manufactured by the factory are forwarded herewith. It will be observed therefrom that—

- (i) the Dy. Superintendent of Central Excise concerned in his letter dated the 28th January, 1963 intimated the Assistant Collector of Central Excise, Bombay, concerned that the duty element in respect of shortages worked out to Rs. 25,32,942.92 P, in support of which he forwarded the following documents:—
 - (a) a broad-sheet showing opening balance plus the quantity cured less scrapped (Exh. 'A');
 - (b) a broad-sheet showing the quantity cleared plus ending inventory (stocks on floor) (Exh. 'B'); and
 - (c) a statement (Exh. 'C') showing the excesses and shortages in different types/varieties of tyres and tubes; and a summary (Exh. 'D') thereof;
- (ii) the Dy. Superintendent of Central Excise concerned in his letter dated the 16th March, 1963, intimated the Assistant Collector of Central Excise, Bombay, concerned that as a result of the re-check of the previous figures of duty element worked out to Rs. 16,21,066.04 P the difference being accounted for by certain omissions and mistakes in R.G.—I cards and in the original work sheet in support of which he forwarded revised work-sheets with a summary thereof (Exh. 'G');

he also intimated that a demand for duty for Rs. 15,63,009.71 P (Exh. 'F') had been raised and served on the Company; this amount representing the net amount payable after giving a set-off Rs. 58,056.33 P already recovered as a result of stock-takings conducted during the period from 1956-61, in support of which he also forwarded a summary (Exh. 'E') showing sub-triff-wise break-up of the shortages; and

he also intimated that the Inspector of Central Excise concerned had been directed to adjust the amount of demand in the Personal Ledger Account of the Company should the management fail to lead any evidence to rebut the same.

2. In this connection it will kindly be recalled that the factory had filed an appeal with the Collector of Central Excise, against the demand of Rs. 15,63,009.71 P. At the appeal stage of the case the Collector carried out a re-check of the figures in respect of a few varieties of tyres and tubes with a view to come to the conclusion as to which of the two sets of figures—one forwarded by the Dy. Superintendent under his letter dated the 28th January, 1963, and the other forwarded by him under his letter dated the 16th March, 1963—was to be relied upon. This check is reported to have revealed glaring mistakes and therefore, the Collector has ordered a fresh stock-taking report to be compiled. This work is in progress and is likely to be finalised within the next few weeks. It is only after this had been done that a true picture will become known.

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APPENDIX XVII

Summary of main conclusions/Recommendations

Sl. No.	Para No. of Report	Ministry/Department concerned	Conclusion/Recommendation
1	2	3	4
1	2	Finance (Deptt. of Revenue and Company Law)	(i) From the explanations offered by the representative of the Department of Revenue and Expenditure, the Committee note that certain correctives are applied to the revenue estimates received from the subordinate offices. This does not, however minimise the need for bringing about a reorientation in the approach of the local officers on whom rests the responsibility for furnishing the initial estimates, to avoid undue conservatism in preparation of estimates. The Committee trust that necessary steps in this regard, if not already taken, would be taken now. (ii) In regard to the statistical basis of the Budget Estimates, while the Committee note that some co-ordination does exist between the Finance Ministry and the

administrative Ministries on the one hand and the specialised agencies of Government like the Department of Technical Development, Planning Commission etc. on the other, they feel that the machinery for collecting statistics in the Ministry of Finance should be strengthened, in order to enable it to assess more accurately the growth of production in the country and its impact on the collection of taxes. Revenue receipts depend upon the overall economic growth in the country and estimates of revenue receipts can be more accurate, if statistical data on the overall production in the country is adequate, reliable and up-to-date. The Committee, therefore, feel that effective steps should be taken to fill up the deficiency in collection of reliable statistics of economic growth, so that estimates of revenue are prepared on a realistic basis.

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Finance
(Deptt. of Revenue and
Company Law)

In the opinion of the witness, it was not possible to lay down a percentage of variation which could be considered "normal". He added that there were particularly difficult factors in India as compared to other countries, and these factors adversely affected the process of making a correct estimate of revenues; moreover, the margin of variation would depend upon the circumstances of each year. The Committee find it difficult to fully subscribe to this view. Ours is a planned economy, and therefore, it should be possible with a certain amount of effort and vigilance, to collect timely data which would make due allowance

for the various factors affecting the estimates of revenue. Hence the Committee would reiterate their view stated in paras 2 to 4 of their Ninth Report (Third Lok Sabha) that variations exceeding 3 to 4 per cent should be regarded as a matter for concern requiring special remedial measures. The Committee are aware that their first Report on the subject of Revenue Receipts was presented in January 1963 and the second one in July 1964, and therefore there had not been sufficient time for the results of the action taken on the Committee's recommendations being reflected in the accounts for the year 1962-63. They hope that the margin of variation indicated above would be constantly kept in view and continuous efforts made to reduce the variation to this limit.

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4

Finance
(Deptt. of Revenue and
Company Law)

The Secretary, Revenue, Expenditure and Company Law explained that taxation had to be viewed in the light of the economic conditions and the overall financial position of the country and not merely in relation to the revenue gap. Even so, it cannot be denied that the estimates of revenue, the estimates of expenditure and the fresh taxation proposals are closely inter-linked, and that the former two serve as some indicators for the quantum of fresh taxation effort necessary. The importance of arriving at accurate budget estimates cannot, therefore, be overstressed so as to avoid the risk of the public being taxed unconsciously more than necessary.

While the Committee are glad to note the spurt in the collection of taxes due to the emergency in 1962-63, they find from a detailed examination of Customs, Excise and Income-tax (*vide* Chapters II, III of this Report and Chapter I of the Twenty Eighth Report) that the Emergency alone does not explain this large overall variation and that other factors also have contributed to it.

However, the Committee hope that as a result of the steps stated to have been taken to improve the technique of budgeting, there will be a marked reduction in the percentage of variations next year.

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6

Finance
(Deptt. of Bco.
Affairs)

Even though the overall variation in respect of non-tax revenues was only 5.82 per cent, the Committee find from the statement (Appendix II) supplied by the Ministry of Finance (Department of Economic Affairs) that the variations under certain major heads are much larger, namely, Interest—Rs. 14.28 crores, (—8.4 per cent), Currency and Coinage—Rs. 15.92 crores, (—23.2 per cent) and Extraordinary Receipts. Rs. 14.88 crores (35 per cent). These variations are very much on the high side. The Committee were given to understand that as compared to tax revenue heads, Government had better information with regard to non-tax revenue heads and that the subjective element in their case was much less. The Committee, therefore, hope that the estimates in regard to non-tax revenues would be framed with greater precision.

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7

Finance
(Deptt. of Revenue and
Company Law)

The expenditure incurred on collection was allocated according to a formula approved in consultation with audit as explained in a note submitted to the Committee by the Central Board of Direct Taxes (Appendix IV). It is observed from this note that the Comptroller and Auditor General desired that a study should be conducted to examine whether the percentages fixed for Corporation tax and Estate duty need revision. The Committee hope that this study would be taken in hand soon, and in the light of the findings thereof, the necessary revision would be made in the relevant percentages.

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8

Finance
(Deptt. of Revenue and
Company Law)

The Committee would like to point out that though the percentage of expenditure incurred on collections has shown a fall, the actual amount incurred on establishment has increased by about Rs. 62.33 lakhs under Customs, about Rs. 88 lakhs under Union Excise and about Rs. 54.19 lakhs under Income Tax and Corporation Tax as compared to 1961-62. While the Committees are not against the augmentation of the staff to cope with the increasing volume of work, particularly when it is matched by a significant increase in the total collections, they would like to reiterate their view, stated in para 3 of their Twenty-first Report (Third Lok Sabha), that with greater drive and initiative on the part of the officers it should be possible for the Ministry to effect larger collections and reduce further the percentage of collection charges.

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10

Finance
(Deptt. of Revenue &
Company Law)

The industrial production and the industrial needs in respect of important items like machinery and fuel oils are well known to the Government and yet for two years in succession the same reason has been advanced for the variations, viz., larger imports of machinery and fuel oils required to meet industrial needs (*vide* Explanatory Memorandum on the Budget of the Central Government, 1963-64, page 10 and *ibid* 1964-65, page 15). The percentage of variations has increased from 11.9 in 1961-62 to 18.35 in 1962-63. The Committee view this trend of rise in percentage variations from year to year with concern. They feel that this persistent under-estimating of revenues is primarily due to defective budgeting which requires special remedial measures. The Committee desire that the Finance Ministry who are the guardians of the Centre's finances and on whom lies the overall responsibility for framing the Central Government's budget accurately, should supplement the statistical information received from Administrative Ministries with their own independent investigations and researches in order to be able to better assess the industrial and economic trends, movement of foreign exchange etc.

123

and thereby to arrive at more precise estimates. The Committee hope that efforts will be made to improve the budget estimates of customs revenues. The Committee would like to be informed of the steps, if any, taken already or proposed to be taken hereafter in this direction.

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Finance (Deptt. of Rev. and Company Law)

(i) From the detailed examination of the variations in respect of some minor heads the Committee find that while the overall variation under the head "Customs" is 18.35% which itself is very high, the variations under some of the individual items are disproportionately large (e.g. H.S.D. and vaporising oil, 119%; Machinery, 38%; Kerosene and Motor Spirit, 28%; Railway Plant and Rolling Stock, 256%; Heavy Chemicals (Protective Duty), 123%; Motor Cars, Cycles etc., 89% and Pneumatic Rubber Tubes and Tyres, -68%). The Committee also notice that the Government budgeted for a lower figure than the actuals of the previous year in some cases, (Kerosene oil and motor spirit, L.S.D. and Vaporising oil) and ultimately the actuals exceeded both the budget estimates and the revised estimates. From the foregoing, it is obvious that there is scope for considerable improvement in the preparation of estimate of customs revenue. The Committee trust that the cases involving heavy variations will be examined thoroughly by the Ministry of Finance and that suitable remedial measures would be taken, so that the estimates are framed more realistically.

Finance

Railways

All other Ministries

(ii) The Committee regret that in one case (Railways), there was no consultation between the Ministry of Finance and the administrative Ministry. The Committee hope that this is an isolate instance. They consider it to be of the utmost importance that timely consultations and discussions are held between the Finance

Ministry and other administrative Ministries concerned, at the time of framing original as well as revised estimates.

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12

Finance
(Deptt. of Rev. and Com-
pany Law)

While noting that every year nearly 5 lakh bills of entry have to be checked and the work has to be done under pressure, the Committee find it difficult to condone mistakes on the ground that they were 'human errors'. Effective steps should be taken to reduce the chances of such mistakes creeping in. The Committee regret that some mistakes in calculations have even gone undetected by the Internal Audit. This indicates that the nature of the check exercised by the Internal Audit is perfunctory. The Committee feel that Internal Audit should be more effective. Towards this end, the Committee suggest that there should be better supervision; and the strength of the appraising staff and the Internal Audit staff should be reviewed and augmented, if necessary. The Committee are glad to be informed that a number of mistakes are detected by the Internal Audit Department. At the same time a careful note should be taken of the type of mistakes which are pointed out by external audit and suitable instructions issued to prevent recurrence of the same. Efforts should also be made to resolve disputes in classification quickly by mutual discussion between the Appraising Department and the Internal Audit Department.

The Committee would also like to reiterate their views given in paragraphs 7 and 8 of their Twenty-First-Report (Third Lok Sabha) in this connection.

10

13

Do.

(i) While the Committee appreciate the difficulties in making assessments of machinery imported and allowed to be cleared long ago under the Note Pass system which applies to Government departments and public undertakings, they feel concerned that there should be as many as 4000 bills of entry still pending assessment. They hope that energetic steps will be taken to clear the arrears

1	2	3	4
10	13	Finance (Deptt. of Rev. and Company Law).	(ii) The Committee would like this matter relating to mistakes in regard to levy of countervailing duty to be examined by Government and an effective system evolved in which there will be no scope for omission to levy countervailing duty.
11	14	Do.	The Committee would await the outcome of the revision petition.
12	15	Do.	The Committee hope that mistakes of the type pointed out in the Audit para will be avoided in future. They also regret to find that this mistake was not detected in Internal Audit.
13	16	Do.	The Committee would like to be informed how the Custom Officer failed to classify the goods properly where there was no scope for any ambiguity. In the opinion of the Committee, this is a clear case of wrong classification, and they would like to be informed of the action taken against officers responsible for this lapse.
14	17	Do.	The Committee are given to understand that there was a ruling by the Central Board of Revenue issued in 1954 that items such as Truck platform (under which category platform cars fall) were assessable under Tariff Item 75 (conveyances not otherwise specified). If the Assessing Officer had followed this circular the under-assessment would not have occurred. Such failure to follow the C.B.R.'s ruling and circulars was noticed in the previous year also and the Committee had commented adversely on the same (vide para 9, Twenty-First Report, Third Lok Sabha). The Committee view the persistence of such mistakes with concern and hope that suitable measures would be taken to ensure that the Board's rulings and circulars are strictly adhered to.

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18

Finance
(Deptt. of Rev. and
Company Law).

The Committee are surprised to learn that the customs officer failed to apply the current rate of duty as passed by the Finance Act, 1963, in respect of a bill of entry filed on 7th March, 1963. The Committee note that information regarding the new rates had reached the Custom House by that time. While noting that the mistake had been traced, and rectified, the Committee are surprised to find that the mistake escaped the notice of the Internal Audit who conduct a 100% check. Such lapses betray the perfunctory nature of checks made by Internal Audit Department. The Committee recommend that such lapses in internal audit should be viewed seriously in future.

The Committee were given to understand that soon after the Budget, when the number of changes introduced was very large, there were mistakes of over-assessment or under-assessment in the first few days, but these were detected in time because the staff were stated to be over-careful immediately after the new changes. The Committee trust that utmost vigilance would be exercised at this period to see that the correct rates are applied and there is no evasion.

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19

Do.

The Committee find that this was a clear case of negligence on the part of the assessing officer, for which he has been given a warning. What surprises the Committee is that the Internal Audit Department also did not detect this simple mistake. The Committee suggest that similar action should be taken against the audit staff responsible for not carrying out the check properly.

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20

Do.

The Committee note that the work of bringing out the re-print of the Tariff Book incorporating the latest changes in the rates of duty is centralised in another Ministry for what was described as "traditional reasons", and that according to the Chairman

Central Board of Excise and Customs, this is responsible for part of the delay in the publication of the reprint. The Committee hope that, by better co-ordination between the Board and the Ministry of Commerce and by streamlining the machinery that deals with this publication, the existing delays will be eliminated and the book will be published within as short a time as possible after the Budget has been presented. The Committee would suggest that the advantages of continuing the present system may also be examined with a view to see if the position is likely to improve substantially by the Board themselves undertaking this work. The Committee note that a scheme is being worked out by the Board to introduce a loose-leaf system so that only those pages where there are changes, need be reprinted and not the whole book. The Committee hope that the scheme would be finalised at an early date.

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21

Finance
(Deptt. of Rev. & Company Law).

The Committee suggest that a continuous and careful watch should be kept over cases of under-assessments, and lapses suspected to have a vigilance angle should be examined promptly and suitable action taken against the persons concerned.

11

22

Do.

Mistakes of non-levy of countervailing duty were noticed last year, and the Committee had expressed the hope that they would not arise in future (*vide* para 12, 'Twenty-First Report, Third Lok Sabha). The Committee were informed, during evidence, that with a view to avoiding such mistakes in future, Government had introduced a Bill in February, 1963 removing all references to countervailing duties from the Indian Tariff items and adding a new provision to the Indian Tariff Act, 1934, saying that

wherever there was a countervailing duty leviable under the Central Excise Tariff, it would automatically be added to the item in the Indian Customs Tariff in respect of the Customs duty.

The Committee were given to understand that this had led to another complication. The Committee desire that this matter should be re-examined and a proper system should be devised by which there will be no room for countervailing duty escaping levy. The Committee would like to be furnished with a detailed note indicating the steps taken in this regard to overcome the difficulties.

20	23	Finance (Deptt. of Rev. & Company Law).	The Committee hope that after the issue of clarificatory instructions, such mistakes in levies countervailing duty would not be repeated.
21	24	Do.	The Committee fail to appreciate why, simply because these goods were imported by a Government Department the rules should have been relaxed and a wrong exemption granted in respect of the goods which were otherwise dutiable. They hope that recurrence of such mistakes will be avoided in future. It has been stated that the customs authorities took action to recover the short levy. The Committee would like to be informed whether the amount of Rs. 7,748 has actually been recovered since.
22	25	Do.	A note promised to be supplied to the Committee on this subject is awaited.

Over-assessment is as much an irregularity as under-assessment, and it causes undue hardship to the public for no fault of their own. Over-assessment also results from the same type of failures

and mistakes as are responsible for under-assessments. The Committee have been given to understand that in all the cases of over-assessment noticed in audit, the reasons have been wrong classification, levy of countervailing duty where none was leviable, non-application of correct rates etc. The Committee trust that the Department would profit by the mistakes pointed out by audit, and take suitable remedial measures to avoid a recurrence of the same in future.

(ii) The Committee have been informed that once a decision to give refund is taken, the time-lag in making payment is between a week and a fortnight. They however, learn that refund cases sometimes do take a long time, mainly due to delay in production of documents by importers, before they are finally settled. The Committee desire that the procedure should be simplified, all avoidable delays should be eliminated, and the time taken for arriving at a decision should be reduced to the minimum.

(iii) Wherever over-assessments are detected *suo motu* by the Department, or are pointed out by Audit, refunds should be granted expeditiously on the initiative of the Department itself without an application by the party. Special care should be taken to see that such cases do not become time-barred and the public are not deprived of the refund due to departmental delays.

recur. The Committee regret that the internal audit in the Customs House failed to detect the error in conversion, and it was left for the Custom Revenue Audit to point it out.

24 27 Do. . The Committee regret the carelessness on the part of the assessing officer in the matter of the application of the rates. They are also surprised that the Internal Audit did not detect the mistake. Suitable measures should be adopted to avoid recurrence of such cases.

25 28 Do. The Committee note that the cases referred to in the audit para are those in respect of voyages performed under the old Act, under which, as explained during evidence, a coastal vessel which touched a foreign port on its way to an Indian port, e.g. from Calcutta to Bormay or from Bombay to Calcutta *via* Colombo could still be treated as coastal vessel. Therefore, there was no justification for the customs port to adopt a different practice and not charge duty on the full quantity of oil bankered at the intermediate foreign port. The short assessment in these 80 cases would not have arisen if the Central Board of Revenue had issued proper instructions in this regard prior to Audit pointing out the matter. Out of a total amount of Rs. 61,834 due for recovery, only a sum of Rs. 14,753 is stated to have been collected so far. The Committee may be informed of the position regarding the recovery of the balance of Rs. 47,081.

Do.

Law

(ii) The Committee were given to understand that the present position in this respect was anomalous, in as much as under the new Act, if a coastal vessel touched a foreign port it ceased to be a coastal vessel, and that the matter was being reviewed by the Central Board of Exise and Customs, in consultation with the Ministry

of Law. The Committee would like to be informed of the result of this review.

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29

Finance (Deptt. of Revenue & Company Law)

The Committee are surprised to learn that there has been a delay of four to five years, and in some cases even nine years, in the filing of bills of entry by steamer agents in respect of ships' stores, whereas the time allowed for the purpose is three months. No convincing reasons have been advanced to explain such abnormal delay ; on the other hand, there is an admission by the representatives of the Central Board of Excise and Customs that the delay is indefensible. From a note furnished at the instance of the Committee (Appendix VII) it is observed that the Board has asked the Director of Inspection (Customs and Central Excise) to investigate in detail the circumstances in which this delay occurred. The Committee regret that until these cases were brought to the notice of the Board specifically by Audit, the Board were not even aware of them. This is a case in which there seems to have been a failure of machinery all along the line. It reveals the ineffectiveness if not the absence of a system of following up cases of dutiable stores for the purpose of levy of duty. The fact that the amounts involved were petty is hardly a justification either for the Department's showing indulgence to the Steamer Agents in spite of their persistent failure to file the bill, of entry, or for the Department's acquiescence in the chronic delay in doing so.

The Committee desire that (i) action should be initiated forthwith if it had not already been done, against the defaulting steamer agents (ii) effective steps should be taken to ensure that duty

on ships' stores is levied in all cases promptly and properly ;
 (iii) the feasibility of raising the demand on the basis of the stores list furnished with the Export manifest should be examined ;
 (iv) the investigation reported to have been ordered by the Board should be conducted expeditiously and responsibility for the delay fixed, so that suitable action may be taken against those at fault and (v) an effective system should be devised whereby the Collectors's of Customs and the Central Board of Excise and Customs would automatically come to know of such delayed cases.

- | | | | |
|-----|----|--|---|
| 27. | 30 | Finance (Deptt. of Rev. & Company Law) | The Committee would like to be informed (i) of the progress of collection of the demands amounting to Rs. 2,00,291.71* raised already in 13 cases and (ii) of the amount of demands raised in the 12 remaining cases on the basis of the declaration made in the ships' store lists and the progress of collection. |
| 28. | 31 | Do. | The Committee note that out of total arrears of customs duty of Rs. 103.63 lakhs as on 31-10-1963, a sum of Rs. 72.43 is outstanding for more than one year. The Committee also view with concern the rise in arrears of customs duty from Rs. 80.12 lakhs to Rs. 103.63 lakhs. Since the arrears are partly attributed to pending "Note Pass" cases, the Committee would re-iterate their recommendation contained in para 20 of their 21st Report (Third Lok Sabha) that the finalisation of the outstanding Note Pass cases should be vigorously pursued. The Committee hope that "Note Pass" is a dying system and greater use would be made of the alternative of the special procedure for provisional collection of duty and other measures in order to reduce the quantum of arrears in future. |
| 29. | 32 | Do. | The Committee hope that all efforts would be made to realise the arrears of Customs, revenue, before any amount is written off |

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*According to Audit the correct figure is Rs. 2,01,643.44 nP.

1	2	3	4
30	33	Finance (Deptt. of Rev. & Company Law)	The Committee are glad to note that the percentage of convictions secured (all-India) is not unsatisfactory viz., 73% (290 cases decided and 213 cases which resulted in the conviction). They hope that efforts will be made to improve the percentage further.
31	34	Do.	The Committee note that in terms of the Indian price the approximate quantity gold smuggled into the country every year is estimated to be of the order of Rs. 35 to 40 crores as accepted by the witness. As against this, the quantity seized during the period October, 1962 to September, 1963 was worth only Rs. 1.5 crores (3-3/4 to 4%). The Committee feel that there is greater scope for tightening anti-smuggling measures as percentage of seizures is very low at present. They hope that with various steps which Government are reported to have taken, the percentage of seizures would show a marked improvement. They also suggest that Government should adopt scientific and upto-date methods of intelligence and detection to fight against the evil of smuggling.
32	36	Do.	The Committee note that due to large clearances of excise goods between November 1962 and February 1963, and the increase in rates of excise duties in the Budget of 1963, resulting in higher collections from them during March 1963, the overall variation in respect of Union Excise duties has been of the order of 14%. The Committee have been informed that the statistics regarding Union Excise are adequate and yet one of the reasons advanced for the large variation of 84% under new commodities has also been stated to be the non-availability of dependable data. It

had been stated at an earlier stage (*vide* para 2 *supra*) that statistics were being collected in advance regarding commodities likely to attract excise in order to help in framing estimates correctly. The Committee trust that as a result of the steps which Government are already taking and the further steps which they would be taking to implement the recommendations of the Committee the variation which has been showing a tendency to increase year after year would show a decline.

37

Do.

The Committee feel that since the duty on sugar had been imposed as far back as 1934, the Excise Department should have enough knowledge and experience about its growth, seasonal variations etc. They hope that the trends would be assessed better after frequent consultations with the Ministry of Food & Agriculture and the estimates framed more realistically.

34

39

Do.

The Committee hope that when framing the Budget Estimate on the basis of previous year's actuals due allowance will be made for such normal increase of production and consumption of motor spirit which is obvious.

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Do.
Steel & Mines

Since this item (cess on coal & coke) is a revenue receipt and the Audit Report had dealt with the variation with regard to it, the Committee would have liked the reasons for the variation to have been furnished to the Committee by the witnesses appearing on behalf of the Department of Revenue, by having necessary co-ordination with the concerned Ministry. They hope that this would be done in future.

36

42

Finance (Deptt. of Rev.
and Company Law)

Committee would like the discrepancy to be reconciled in consultation with Audit and the correct position intimated as soon as possible.

1	2	3	4
37	43	Finance (Deptt. of Revenue and Company Law)	The jute industry is a well-organised one, units of production are limited and the figures of export and home consumption are readily available. In the circumstances, the Committee are surprised that the estimate could not be framed more realistically. They trust that the future estimate would be more precise.
38	44	Do.	The Committee view with concern large variations under some minor heads particularly 30.54% under sugar, 25.4% under diesel oil, 34.1% under Iron and Steel Products. They feel that determined efforts are necessary to check this trend of under-estimating of revenue of excise duties under different minor heads. They suggest that machinery for collecting statistics of production and consumption of commodities liable to excise duties should be strengthened so that estimates are based on a more realistic data.
39	45	Do.	The Committee are alarmed at the extremely inadequate internal audit organisation existing, in the Central Excise Department as revealed by the Report of the Central Excise Reorganisation Committee and as admitted by the representative of the Central Board of Excise and Customs during evidence and also as disclosed by the varied nature of mistakes that escaped the scrutiny of the internal audit. The Committee cannot view with equanimity under-assessments to the extent of Rs. 45,47,549 and cases involving loss of revenue to the extent of Rs. 4,76,917, detected as a result of only a "test audit", the total under-assessments and losses being necessarily of a much higher order. The Committee appreciate that as compared to Custom Houses, the Central Excise ranges and circles are spread all over the country.

At the same time, the present situation where even a basic minimum number of internal audit staff appears to be lacking, calls for expeditious action to strengthen the internal audit organisation as a whole. The Committee trust that Government would lose no time in strengthening internal audit organisation in Central Excise Department in the light of the recommendations of the Central Excise Reorganisation Committee, 1963, so that adequate safeguards are provided against leakages of public revenues.

- | | | | |
|----|----|-----|---|
| 40 | 46 | Do. | The Committee were informed that one of the three cases is <i>sub judice</i> . They would like to know the result thereof. They would also like to be informed of the latest position in the other two cases with particular reference to the recovery of the amounts involved. |
| 41 | 47 | Do. | The Committee are of the opinion that the orders of the Board should have been more specific. They take a serious view of a Collector not complying with the Board's orders and proceeding on the basis of his own interpretation. The Board's orders should be scrupulously carried out, and not circumvented by the exercise of discretionary powers. The Committee note that there are standing instructions by the Board that in cases of doubt, the demand should be raised first and then the matter should be referred to Government. Serious notice should be taken of cases where these instructions are not observed. |
| 42 | 48 | Do. | The Committee are far from happy to note the manner in which this case has been dealt with by the Collector. It is very unfortunate that the Collector could not appreciate the revenue implications of the voluntary payment offered by the assessee in this case. While they have been assured by Government that there had been only an excess of jurisdiction by the Collector |

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			<p>and no motivation behind it, the Committee take a serious view of the incorrect action on the part of the Collector in granting an unauthorised concession. The Committee desire that strict instructions should be issued in this behalf, and cases where the subordinate officers are found to exceed the jurisdiction should be taken serious notice of. The Committee would like to be informed of the progress of realisation of the demands raised in this case.</p>
43	49	Finance (Department of Revenue and Company Law)	<p>The Committee note that the officers responsible for the failure to detect the deliberate under-valuation have been censured and that the entire amount has since been realised. The Committee suggest that in cases where the manufacturers deliberately under-value the samples with a view to avoiding payment of Central Excise duty, Government should proceed against them under Section 9(C) of the Central Excises and Salt Act, 1944, for supplying wrong information.</p>
44	50	Do.	<p>(i) As the matter is not free from doubt, the Committee suggest that a sample of the gas may be analysed by the Chief Chemist attached to the Central Board of Excise and Customs, and an authoritative opinion obtained whether the gas is of refrigerant quality or not.</p> <p>(ii) The Committee also recommend that when new commodities are added to the Tariff List, the technical specifications should be properly defined so as to remove all doubts.</p>

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| 45 | 51 | Do. | As the matter is under appeal, the Committee would await the final outcome thereof. They would like to be furnished with a copy of (i) the report of the special stock taking conducted as a result of the audit objection ; (ii) the report of the re-check ordered by the Collector at the appeal stage; and (iii) the outcome of the appeal. The Committee would also like that the present system of keeping the accounts of tyres manufactured by tyre companies should be examined with a view to ascertaining whether it is adequate or not. |
| 46 | 52 | Do | A similar lapse was noticed last year (<i>vide</i> para 27, Twenty-first Report, Third Lok Sabha). Prompt action should have been taken in the present case to send the manufactured article for test, the moment the duty on packing paper was raised. The Committee find that since the Collector issued the revised order in September 1961, the revenue could have been realised from July onwards but they regret that this was not done. The Committee hope that such lapses will be scrupulously avoided in future. |
| 47 | 53 | Do. | The Committee note that there was no question of any ambiguity in the order and that this was a case of a clear failure on the part of the officers for which disciplinary proceedings have already been instituted. The Committee would like to be informed of the outcome of the disciplinary proceedings. |
| 48 | 54 | Do. | The Committee feel concerned at the wide discretionary powers which subordinate officers seem to possess and exercise. They take a serious view of the failure to raise demands and realise the surcharge even after the Board's orders. The outcome of the disciplinary proceedings and the progress regarding collection of the demands made may be intimated to the Committee. |

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Finance—
Department of Revenue
and Company Law

The Committee find this to be a clear case of under-assessment of duty. They are glad that the demand was raised and the amount also collected. They hope that such errors will be avoided in future.

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The Committee regret to note that the irregularity of issuing three separate licences, though there was only one manufacturing company, had been continuing for 19 years (from 1944 to 1963). This resulted in an unintended concession, as pointed out in the Audit para. It is obvious that the concession was intended to benefit comparatively small manufacturers. It is strange that the device adopted in this case to extend this benefit to two companies which in no way could be regarded as actual manufacturers went unnoticed. The Board came to know of this irregularity only when a Collector pointed out in 1962 that another factory was claiming a double concession on the same analogy. The Committee suggest that a system should be introduced whereby all old orders of C. B. R. are reviewed at regular intervals to guard against a repetition of such a contingency. Besides this, the need for an amendment of the definition of "manufacturer" may be examined and suitable action taken in the light thereof.

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The Committee would like to be informed of the outcome of the disciplinary proceedings initiated against the officers concerned, and the progress of collection of the demands raised in regard to the three mills.

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As the case is in appeal before the Supreme Court, the Committee would await the outcome thereof. The Committee would like

the Central Board of Excise and Customs to examine in detail the exact circumstances in which the classification was changed in February 1961 shortly before the duty on this very item was raised, with a view to satisfy itself that no *mala fides* were involved.

- 53 59 Do This case points to the need for greater vigilance and solicitude for public revenues on the part of the Central Excise officers. The Committee are unhappy to note that when rectification was sought to be done, the claim had become time-barred. They hope that such mistakes would not be repeated. Also, the Committee cannot appreciate the undue delay in initiating and completing the departmental action.
- 54 60 Do The Committee would like to be informed of the result of the adjudication proceedings and the amount involved and actually realised. The Committee hope that departmental action will be taken to fix responsibility for the failure of machinery and steps taken to avoid a recurrence in future.
- 55 61 Do The Committee are not convinced by the arguments put forward in justification of the fixation of a tariff value in this particular case. There were only 13 types of vehicles in this category and the assessment of each vehicle according to its wholesale price should not have involved any difficulty. Whereas Parliament had approved of an excise duty of Rs. 2,500 per vehicle or 12½ per cent *ad valorem*, whichever is higher, Government fixed a tariff value which was far less than the wholesale price of many vehicles in this category. Apart from the loss of revenue suffered, this also amounted to circumventing the Parliament's intention by executive fiat, which the Committee cannot view with equanimity. Had the duty been levied on the basis of actual wholesale prices, Government would have

gained Rs. 30.45 lakhs over the period 1-7-60 to 31-3-1962 in respect of vehicles manufactured by this concern. The net gain to Government should have been Rs. 11.51 lakhs more in respect of all units over this period. The Committee regret that Government's action has resulted in loss of revenue of this high order. Also, the argument put forward by the Ministry that the loss to the revenue in respect of this concern was compensated (partly) by a gain in respect of other manufacturing concerns, makes the position worse. It is inequitable that the burden of tax should thus be shifted by an executive order from one party to another, this frustrating the declared intention of Parliament.

In this connection, the Committee would like to draw attention to the following pertinent observations of the Central Excise Reorganisation Committee, 1963 (page 31, para 25 of their Report).

“ Under the present scheme, Parliament has delegated to Government the power to fix tariff values for goods assessable *ad valorem*. It has been represented to us that, by doing so, Parliament has divested itself unwittingly of its financial authority, and has not provided any mechanism for keeping itself informed of the results of the exercise of such delegated powers. The determination of tariff values is fraught with difficulties more particularly where large and small scale producers are involved in the same industry. An average rate would hit the small producers and give a larger margin of profit to the bigger producers. A tariff value economical to small scale producers would only inflate the profit of large producers and give them the opportunity to lower their

prices and squeeze out the smaller units. This influences us to suggest that tariff values should be determined with great circumspection. In any case, it seems to us that the Act itself requires amendment since Section 4 thereof which prescribes the method of valuation to be adopted in determining *ad valorem* duties is unfortunately placed immediately after Section 3 (2) which authorise Government to determine tariff values. Following the example provided by the recent Customs Act, it should be made clear that the provisions of Section 4 are not to override or affect the exercise of Government's powers under Section 3(2)".

The Committee are also in agreement with another observation of the Central Excise Reorganisation Committee, 1963 made elsewhere (para 8, page 27 of their Report) that it is not wholly correct to dilute parliamentary authority in the field of taxation by executive fiats, however desirable the purpose.

In view of the anomalies brought out in the Audit para under consideration, and in the light of their observations thereon, the Committee strongly desire that Government should give their early attention to this question and take necessary remedial action under advice to the Committee.

The Committee had expressed their concern last year (*vide* para 34, Twenty-first Report, Third Lok Sabha) about the lack of any perceptible improvement in the recovery of arrears in respect of unmanufactured tobacco and old arrears pending for the last several years. The Committee find that not much progress has since been made in this matter. They desire that vigorous steps should be taken to recover the dues wherever possible and to write off the irrecoverable arrears. Similar action should be taken with regard to the arrears under other heads.

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