

FOURTEENTH REPORT
PUBLIC ACCOUNTS COMMITTEE
(1985-86)

(EIGHTH LOK SABHA)

**UNION EXCISE DUTIES—EXEMPTION OF
GOODS FALLING UNDER TARIFF ITEM 68**

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

**[Action taken on the 180th Report of the
Public Accounts Committee (7th Lok Sabha)]**



Presented in the Lok Sabha on 28 August, 1985

Laid in Rajya Sabha on 28 August, 1985

LOK SABHA SECRETARIAT
NEW DELHI

August, 1985/Sravana 1907, (Saka)

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CORRIGENDA TO 14TH REPORT OF THE
PUBLIC ACCOUNTS COMMITTEE (8th LOK SABHA)

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PUBLIC ACCOUNTS COMMITTEE

(1985-86)

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1. Shri N. N. Mehra—*Joint Secretary*
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3. Shri Brahmanand—*Senior Financial Committee Officer.*

INTRODUCTION

1, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this 14th Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 180th Report (Seventh Lok Sabha) relating to Union Excise Duties—Exemption of goods falling under Tariff Item 68.

2. In their earlier Report, the Committee had recommended that as the registration of small scale units was essential for proper monitoring of the growth of this sector as well as to undertake any effective measures for its development, it was necessary that the maximum possible number of small scale units should be registered and registration also made a precondition to grant of excise duty concessions. According to the Government legislation providing for registration of small scale units with the authorities concerned before becoming eligible to incentives|concessions is under consideration. The Committee have expressed the hope that Government will move quickly in this matter for it is of the utmost importance and urgency that the industrial units already in existence in this sector will be required by law to register themselves and furnish all relevant information.

3. The Committee have also reiterated their earlier recommendation that a census of the small industries should be carried out immediately, and thereafter at regular intervals. The Committee have been satisfied that the data and the information that the census would make available, would enable sound future planning of this sector.

4. The Report was considered and adopted by the Public Accounts Committee at their sitting held on 16th August, 1985. Minutes of the sitting form Part II of the Report.

5. For facility of reference and convenience, the recommendations and conclusions of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in the Appendix to the Report.

(vi)

6. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI;
August 16, 1985

Sravana 25, 1907 (*Saka*)

E. AYYAPU REDDY,
Chairman,
Public Accounts Committee.

CHAPTER I

REPORT

1.1 This Report of the Committee deals with the action taken by Government on Committee's recommendations and observations contained in their 180th Report (Seventh Lok Sabha) on Paragraph 2.08 of the Report of the C&AG of India for the year 1980-81, Union Government (Civil) Revenue Receipts Vol. I—Indirect Taxes relating to exemption of goods falling under Tariff item 68.

1.2 The 180th Report which was presented to Lok Sabha on 11th April, 1984 contained 9 recommendations. Action taken notes have been received in respect of all the recommendations|observations and these have been broadly categorised as follows:

(i) Recommendations and observations which have been accepted by Government:—

Sl. Nos. 1 to 7.

(ii) Recommendations and observations which the Committee do not desire to pursue in the light of the replies received from Government:—

Nil

(iii) Recommendations and observations replies to which have not been accepted by the Committee and which require reiteration:—

Sl. Nos. 3 and 9.

(iv) Recommendations and observations in respect of which Government have furnished interim replies:

NIL

1.3 The Committee will now deal with the action taken by Government on some of their recommendations.

*Comprehensive census of small scale units
(Serial No 8—Para 1.55)*

1.4 Stressing the need for conducting a comprehensive census of small scale units and for conducting an indepth study to find out how far the present schemes of exemptions|concessions have been

able to achieve their objectives, the Committee had in Paragraph 1.55 of their 180th Report recommended as follows:

“The Committee are surprised to note that although the scheme for exemptions|concessional rate of duty has been in operation for a number of years, no study has been conducted by the Central Board of Excise & Customs to determine how far the scheme of exemption|concessions in the excise duty has contributed to the growth of small scale sector in the country and to what extent the objectives of the scheme have been achieved. What is even more surprising is that the office of the Development Commissioner of Small Scale Industries is not maintaining even such basic data as the number of small scale units closed down in each of the States in each of the last five years, number of persons employed in small sector in each State, etc. It is beyond comprehension how any concrete measures for the development of small scale sector can be taken by the office of the Development Commissioner of Small Scale Industries in the absence of such basic data relating to small scale industries. While it is true that it is the duty of the State Registering Authority to conduct periodical inspections and keep on their registers only live and functioning units, it should not be difficult for the Development Commissioner of Small Scale Industries to collect information from State Governments and keep all India figures about the number of units in small scale industries, production therein, number of units closed down in each State, number of persons employed in small scale units in each State. The Committee recommend that a comprehensive census of small scale units in the country should be conducted at an early date and comprehensive data about these units collected. Measures should also be taken to collect periodical returns from States to ensure that the data is periodically updated. The Committee further recommend that the Ministry of Finance (Department of Revenue) should in consultation with the office of the Development Commissioner of Small Scale Industries, conduct an indepth study to find out how far the present schemes of exemptions|concessions have been able to achieve their objectives and what changes are necessary to make the schemes more effective. This study is all the more necessary in view of the fact that any exemption|concession involves loss of revenue to the public exchequer which can be justified only if the objectives are

achieved. The Committee regret to note that the information pressed during evidence regarding proportion of duty paid by small scale sector in total revenue has not been furnished. The Committee desire that in the Annual report of the Ministry of Finance the share of the small scale sector in regard to the production of total goods and duty realised from them should be shown separately for specified goods and goods falling under tariff item 68."

1.5 In their action taken note dated the 15th March, 1985, the Ministry of Finance (Department of Revenue) have stated as follows:-

"Development Commissioner (Small Scale Industries) has stated that the first systematic efforts to collect detailed data on various aspects of small scale sector was made by the Small Industry Development Organisation (SIDO) in 1973-74 when it undertook the census of small scale industries units registered with the State Director of industries and falling under the purview of SIDO. Among other details, the report of the census indicated that the percentage of closed and non-traceable units was 12 per cent and 26 per cent respectively. In order to update the census data, a sample survey of small scale units has been undertaken as part of the Sixth Plan and the summary results are expected by the middle of this year. The survey is expected to provide the data as suggested by Public Accounts Committee. Since the Sample Survey is an annual feature, these data will become available on a regular basis if the survey is conducted during the Seventh Plan.

As regards a comprehensive census of small scale units in the country, Development Commissioner, Small Scale Industries has stated that in the meeting of the Standing Committee for improvement of data base for decentralised sector, held on 2nd November, 1983 under the Chairmanship of Prof. A. M. Khusro, Member, Planning Commission, the representative of the Development Commissioner (Small Scale Industries) pleaded for conducting the census of small scale industrial units on the lines of the provisional census undertaken in 1973-74. The Committee have, however, felt that the previous census of 1973-74 has already provided a basic framework on which further improvement could be made by the 20 per cent sample survey which was in progress. In the deliberations of

the 9th sub-group of Small scale Industries for the 7th Plan 1985—90, it was stated that the sample survey of small units being undertaken with 20 per cent sampling fraction under the 6th plan may not be able to provide detailed information regarding product-wise estimate of capacities production and other important characteristics. It was, therefore, suggested that for this purpose, a complete census of small scale units may be carried out once in 10 years but this proposal was not agreed to by the sub-group. Now, in view of the recommendations of the Public Accounts Committee, it is proposed to move a proposal for census of small scale units covering both registered and unregistered sectors, to be carried out after every five years to the Main Working Group of Small Scale Industries (Seventh Plan, 1985-90) and also to Standing Committee of the Planning Commission.

The Technical Study Group set up by the Government, is *inter-alia*, entrusted with the task of conducting an in-depth study to find out how far the present schemes of exemptions|concessions have been able to achieve their objectives and what changes are necessary to make the schemes more effective.

As a very large number of small scale units producing specified goods and also goods falling under item 68 of the Central Excise Tariff are outside licensing control on account of the low value of clearances it would not be administratively feasible for the Department of Revenue to collect data relating to their production and duty payment and furnish the same in the Annual Report of the Ministry of Finance.”

1.6 The Committee appreciate that 20 per cent sample survey of the small scale industry carried out annually will help in updating the data base already made available by the comprehensive census carried out by Small Industry Development Organisation (SIDO) in 1973-74. They do not, however, consider that this is a satisfactory substitute for a comprehensive census. The Committee are unable to understand, why the Standing Committee of the Planning Commission for improvement of data base for decentralised sector has turned down the proposal even though SIDO who are directly concerned with the development of small scale industries were keen to carry out such a census. The Committee are satisfied that the data and the information that the census would make available would

enable sound future planning of this sector. The Committee, therefore, reiterate their earlier recommendation that a census of the small industries should be carried out immediately, and thereafter at regular interval.

1.7 The Committee hope further that in pursuance of their earlier recommendation the Technical Study Group set up by the Government which has been inter-alia entrusted with the task of undertaking an indepth study to find out how far the present schemes of exemptions/concessions have been able to achieve their objectives and what changes are necessary to make them more effective will complete its study and come up with its findings.

Registration of small scale units

(Serial No. 9—Para 1.56)

1.3 Emphasizing the need for registration of maximum possible number of small scale units, the Committee had in Paragraph 1.56 of their 180th Report recommended as follows:—

“The Committee have informed that in 1981-82 for which the latest figures were made available, there were 9.61 lakhs units in the small scale sector out of which 5.22 lakhs were registered units and 4.39 lakhs unregistered units. However, no information has been collected as to how many of the registered and unregistered units held excise licence. The Committee are surprised to note that although a registered unit is entitled to a number of concessions, duty exemptions etc. as many as 45 per cent of the units in the country have not cared to get themselves registered. This clearly shows that either the procedure for registration is cumbersome or the concessions offered to registered units are so unattractive that the small scale units do not care to get themselves registered. As the registration of small scale units is essential for proper monitoring of the growth of this sector as well as to undertake any effective measures for its development, it is necessary that the maximum possible number of small scale units should be registered and registration also made a precondition to grant of excise duty concessions. The Committee recommend that the reasons why units in the small scale sector are not getting themselves registered should be looked into and remedial measures taken to ensure that the maximum number of units get themselves registered.”

1.9 The action taken note dated 15 March, 1985 furnished by the Ministry of Finance (Department of Revenue) reads as follows:—

“As regards registration of small scale units, the Development Commissioner (Small Scale Industries), has stated that with the establishment of District Industries Centres and other measures undertaken by various agencies, there has been an increase in the number of small scale industrial units seeking registration with the concerned authorities as compared to the total units in the sector. While 39 per cent of the small scale units were registered in 1973-74, 59 per cent (provisional) of the small scale units were registered in 1983-84. Further in the proposed legislation for small scale industries, a provision has been made for registration with the State Director of Industries or an authority designated for this purpose, before the small scale units become eligible to receive various incentives/concessions. The proposed legislation is under consideration of the Government. In this connection it may also be mentioned that there is a point of view that registration of small scale units should not be made compulsory as there has been phenomenal growth in the recent past and also because of the fact that this sector is completely free from the regulatory control.

It is proposed to ask the Technical Study Group to examine whether registration should be made a pre-condition to grant excise duty concessions to small scale units.”

1.10 It is clear that the small scale units are, by and large, not over anxious to get themselves registered. A large number of them are even today not registered with the authorities concerned. In this context the Committee had desired that the Government should look into the reasons for the small scale units not getting themselves registered. Government's reply is silent on this point. The Committee wish to reiterate their earlier recommendation that Government should examine the reasons for the small scale units not getting themselves registered and in the light of their findings take such steps as be necessary to ensure that the small scale units get themselves registered in future.

1.11 The Committee note that legislation providing for registration of small scale units with the authorities concerned before becoming eligible to incentives/concessions is under consideration of Gov

ernment. The Committee hope that Government will move quickly in this matter for it is of the utmost importance and urgency that the industrial units already in existence in this sector will be required by law to register themselves and furnish all relevant information.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendations

Para 1.48. Under Notification No. 176/77-CF dated 18-6-77, small scale manufacturers of goods falling under tariff item 68 were exempt from duty provided the total value of all excisable goods cleared by or on behalf of the manufacturer in the preceding financial year had not exceeded Rs. 30 lakhs and the total value of the capital investment made from time to time on plant and machinery installed in the industrial unit in which the said goods were produced was not more than Rs. 10 lakhs. By another notification issued on 1 March, 1979, the aforesaid goods were totally exempt from duty upto Rs. 15 lakhs and leviable to duty at 4 per cent ad valorem on clearances after the first clearance of Rs. 15 lakhs during the year 1979-80 subject to the condition notified earlier.

Para 1.49. M/s Bayaram Metal Works, Billimora, manufacturing Heat Exchanger's Distillation Columns' etc. falling under tariff item 68 claimed exemption from duty under notification No. 176/77-CF, dated 18-6-77 on the ground that the total value of all excisable goods cleared during the year 1977-78 was Rs. 29.86 lakhs. However, the value of supervision and erection charges of goods recovered by the assessee (Rs. 76,000) conversion charges. (Rs. 40,500) and value of scrap (Rs. 85,579) were not included in the total value of clearance which was contrary to Board's instructions of 9 September, 1977. This resulted in loss of duty amounting to Rs. 2.49 lakhs. The objection raised by audit was accepted by the Collector in Feb., 1981 and a show cause-cum-demand notice was issued on 16-12-81. It was withdrawn by the Assistant Collector of Central Excise Division III, Surat by his order dated 29th Dec., 1981 on the ground that the same was barred by limitation. Later the Collector passed order on 10-6-83 in revision setting aside the order of the Assistant Collector and confirming the demand of Rs. 2.49 lakhs.

[S]. Nos. 1 and 2 (Paras 1.48 and 1.49) of Appendix VI to 180th Report of the PAC (7th Lok Sabha)]

Action Taken

No. **Action Taken** Note required as these paras are simply narrative.

[Ministry of Finance (Deptt. of Revenue) letter No.
234/1/84-CX 7 dated 15-3-1985]

Recommendations

The Committee would like the Department to investigate the circumstances in which conflicting views have been taken by the concerned authorities in the matter. In case it is found that the conflicting views were taken because of ambiguity in the relevant notification or any lacuna in law, the committee would like the Department to take immediate remedial steps to remove the ambiguity in the notification or plug the lacuna in law to eliminate the recurrence of such instances in future. The Committee would also like to be apprised of the outcome of the case and in the case and in the event of there being no ambiguity in the relevant notification or lacuna in law the circumstances in which conflicting views were taken.

[Sl. No. 3 Para 1.50 of Appendix VI to 18th Report
of the PAC (7th Lok Sabha)]

Action Taken

The conflicting views taken by the concerned authorities was not on account of any ambiguity in the relevant notification (i.e notification 176/77 dated 18-6-77) or a lacuna in law but it was on account of an interpretation of the notification by the assessing officer and the Internal Audit Party that only those goods which were cleared from the factory were to be assessed to duty and the value of supervision, erection and commissioning etc. which was incurred after clearance of the goods was of the nature of post manufacturing expenses and was not required to be included in the value of the goods. The value of bought out components was also excluded for assessments as these were duty paid and were cleared from the subject factory without any further manufacturing operation or without being attached to any manufactured goods as their component parts. The notification 176/77 dated 18-6-77 has since been superseded by Notification No. 89/79 dated 1-3-79. Notification No. 105/80 dated 19-6-80 and notification No. 77/83 dated 1-3-83.

As regards further development of the case, it is reported that pursuant to the Collector's order dated 10-6-83 setting aside the Assistant Collector's order and confirming the demand of Rs. 2.49 lakhs

excisable goods worth Rs. 2,64,000 of the party were detained on 29-9-83, for the recovery of duty amounting to Rs. 2,49,262.70. The assessee being aggrieved by the Collector's order filed an appeal to Customs and Central Excise and Gold (Control) Appellate Tribunal, New Delhi and obtained stay order No. 231/84-B dated 29-3-84. In view of the stay order, the party has furnished Bank Guarantee of Rs. 1,25,000/- dated 16-4-84 and on request from the party the detained goods have been released.

[Ministry of Finance (Deptt. of Revenue) letter No. 234/1/84-CX 7 dated 15-3-1985]

Recommendations

In another case, M/s Vidarbha Ceramics (P) Ltd., Nagpur manufacturing refractories and other goods falling under tariff item 58 availed of exemption on clearances upto Rs. 15 lakhs and concessional rate of duty at 4 percent during 1979-80 on clearances upto Rs. 30 lakhs even though the value of capital investment on plant and machinery exceeded Rs. 10 lakhs. This resulted in under assessment of duty amounting to Rs. 1.64 lakhs in clearances from April, 1979 to Feb. 1980. A show cause notice was issued to the party on 14th July 1980 demanding duty amounting to Rs. 2.30 lakhs. On the appeal of the party a demand for Rs. 86,486 was confirmed on clearances for the period from 14 January, 1980 to 18 June 1980 as the demand for the earlier period from 1 April, 1979 to 13 January 1980 was barred by limitation. The assessee filed an appeal with the Board against the orders of the Collector which (Appeal) was rejected *vide* Board's letter dated 13-3-1981 and against which a revision application was filed by the assessee before Government. The Committee would like to be informed of the final decision on the revision application. The Committee would also like to be informed of the circumstances in which the exemption was granted in spite of the fact that the manufacturer did not satisfy an essential condition for the grant of exemption. The Committee would also like to be informed if the responsibility for the lapse has been fixed.

[S. No. 4 (Para 1.51) of Appendix VI to 180th Report of the PAC 7th Lok Sabha]

Action Taken

In the case of M/s Vidarbha Ceramics Pvt. Ltd. Nagpur, the lower officers are reported to have granted benefit of exemption taking a view that in arriving at the value of capital investment for determining eligibility to duty concession under notification No. 89/79 dated 1-3-79, the cost of dismantled equipment should be excluded. In this case the demolition of used kilns and their removal had taken place before the factory became a Central Excise licensee in May, 1979. The Collector of Central Excise, Nagpur has expressed a view that the action of the lower officers in granting the

exemption provided by the above notification could be taken as a bonafide mis-interpretation. The explanation to Notification 89/79 dt. 1-3-79, had provided that for the purpose of determining the value of any capital investment only the face value of such investment at the time when such investment was made shall be taken into account. It did not expressly lay down that if some equipment had been destroyed or dismantled, its value should not be excluded in arriving at the value of investment. The subsequent notification No. 105/80 dated 19-6-80 contained a specific provision in that regard. The concerned party i.e. M/s Vidharba Ceramics have also contended that the specific provision in the subsequent notification (105/80 dated 19-6-80) for exclusion of the value of investment made in plant and machinery which has been removed permanently from the industrial unit or rendered unfit for any use while determining the sum total of the capital investment is only a guideline for interpretation and does not mean as if a new concession has been introduced by way of explanation and that the explanation does not enlarge the scope of the original clause which it explains but only makes the meaning clear beyond dispute.

2. As regards further developments of this case, the revision application filed by the party is reported to have since been transferred over to the CFGAT and is pending decision there.

[Ministry of Finance (Deptt. of Revenue) letter No. 234/1/84-CX.
7 dated 15-3-1985]

Recommendations

In order to broad base the entrepreneurships in the economy and to promote the growth of small scale sector, a number of measures have been taken by Government. One of the measures taken in this regard is differential taxation representing a number of concession exemptions in excise duty on goods manufactured in small scale sector. There are at present three main schemes for concessional rates of duty for small scale sector, one for specified goods (numbering about 70), another for goods falling under tariff item 68 and the third for non-specified goods. The exemption in the case of specified goods is limited to clearances upto a value of Rs. 15 lakhs in a financial year. The specified group comprises a wide range of disparate commodities but in the interest of uniformity as well as simplicity a uniform cut-off point of Rs. 15 lakhs was prescribed (since increased to Rs. 25 lakhs in 1983-84 budget). In the case of goods falling under tariff item 68, the limit on clearance

for exemption purposes was Rs. 30 lakhs (in the budget of 1983-84, the eligibility criterion has been increased from Rs. 30 lakhs to Rs. 40 lakhs while maintaining the exemption limit at the earlier limit of Rs. 30 lakhs). In the case of non-specified goods, the limit on clearances by small scale manufacturers for the purpose of excise duty concession vary from commodity to commodity. For instance in the case of some electronic goods (tape-recorders, etc.) the cut off point for eligibility for duty concession is Rs. 50 lakhs in the preceding financial year and the quantum of clearances eligible for concessional rate of duty is Rs. 25 lakhs in a financial year. In the case of radios and transistors, the corresponding limits are Rs. one crore and Rs. 50 lakhs. The position becomes complicated by too many changes in duty rates by too frequent notifications. The Committee observe that since 1-3-1978 as many as 19 notifications were issued in respect of specified goods. As many as 3 notifications were issued in one month alone, i.e. March, 1978. As regards goods falling under tariff item 68 as many as 10 notifications have been issued since 18-6-1977. In regard to tape recorders etc. (falling under tariff item 37AA) 7 notifications were issued between 18-6-1977 and 28-2-1982. The Committee have a feeling that such large number of notifications leads to unnecessary confusion. The Committee urge that for the sake of simplification, the Central Board of Excise and Customs should review the whole position and, if necessary issue comprehensive and consolidated notifications for different categories of goods. The Committee decide that in future also, as far as possible too many changes at too frequent intervals may be avoided.

[Sl. No. 5 (Para 1.52 of Appendix VI) to 180th Report of the PAC
7th Lok Sabha]

Action Taken

The recommendation of the Committee have been noted.

[Ministry of Finance (Deptt. of Revenue) letter No. 234/1/84-CX.
7 dated 15-3-1985]

Recommendations

1.53. A major lacuna noticed in the scheme of excise concessions to small scale sector is that there is little incentive for the units in the sector to increase their production. The moment a unit crosses even marginally the maximum clearance limit viz Rs. 15 lakhs in the case of specified goods (now Rs. 25 lakhs) or Rs. 30 lakhs in the case of tariff item 68 goods, the unit has to pay excise duty not only

on the goods in excess of the maximum limit but on their entire production. This may quite often lead to a situation where the excise duty paid may be more than the value of excess production. This situation compels the manufacturers to keep their production below the prescribed limit which runs counter to the declared policy of Government to increase production in the country. The Committee have been furnished statistical information regarding small scale units in three Collectorates only. From this statistical information the Committee find that less than 1.5 percent of the small scale manufacturers increased their clearances to above the duty free exemption limit in the three years 1978-79 to 1980-81. Further less than 0.4 percent of the small scale manufacturers increased their production to go to the level of 100 percent duty payment. Similar tendency has been noticed in the case of manufacturers of both specified goods and tariff item 68 goods. These facts fortify the apprehension of the Committee that manufacturers in the small scale sector near the maximum clearance limit eligible for duty concession have a propensity not to cross the limit.

1.54. The Committee note that in the light of the discussion with the Committee, in the budget of 1983-84 some changes have been introduced by which exemption limits have been increased which will provide some incentive to increase production. While these changes are welcome, the Committee feel that these are not enough particularly if the impact of inflation since 1978 to date is taken into account. A basic reason why a small unit does not want to cross the maximum clearance limit entitled for tax concession is that the benefit to be derived thereby may be more than counter balanced by the excise duty to be paid. In view of this, the Committee feel that the proper solution would be to introduce slab system where small scale units should be subject to graded rates of duty i.e. upto a limit there should be no duty and beyond that limit goods should be subject to graduated rates of duty, the next slab bearing a slightly higher rate of duty than the previous one. This, would remove the existing propensity of small scale manufacturers to keep their production within the exempted limit and would help small scale sector to increase their production. In doing so, Government should ensure that the concession is awaited of by small sector only.

[Sl. Nos. 6 & 7 (Paras 1.53 and 1.54) of Appendix VI to 180th Report of the PAC (7th Lok Sabha)]

Action Taken

The recommendations have been taken note of and would be kept in mind while reviewing the existing schemes of Excise duty concessions to the small scale units.

[Ministry of Finance (Deptt. of Revenue) letter No. 234/1/84-CX.
7 dated 15-3-1985]

CHAPTER III

**RECOMMENDATIONS AND OBSERVATIONS WHICH THE
COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT
OF THE REPLIES RECEIVED FROM GOVERNMENT**

—NIL—

CHAPTER IV

RECOMMENDATIONS AND OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation

The Committee are surprised to note that although the scheme for exemptions|concessional rate of duty has been in operation for a number of years, no study has been conducted by the Central Board of Excise & Customs to determine how far the scheme of exemption|concessions in the excise duty has contributed to the growth of small scale sector in the country and to what extent the objectives of the scheme have been achieved. What is even more surprising is that the office of the Development Commissioner of Small Scale Industries is not maintaining even such basic data as the number of small scale units closed down in each of the states in each of the last five years, number of persons employed in small sector in each State, etc. It is beyond comprehension how any concrete measures for the development of small scale sector can be taken by the office of the Development Commissioner of Small Scale Industries in the absence of such basic data relating to small scale industries. While it is true that it is the duty of the State Registering Authority to conduct periodical inspections and keep on their registers only live and functioning units, it should not be difficult for the Development Commissioner of Small Scale Industries to collect information from State Governments and keep all India figures about the number of units in small scale industries, production therein, number of units closed down in each State, number of persons employed in small scale units in each State. The Committee recommend that a comprehensive census of small scale units in the country should be conducted at an early date and comprehensive data about these units collected. Measures should also be taken to collect periodical returns from States to ensure that the data is periodically updated. The Committee further recommend that the Ministry of Finance (Department of Revenue) should in consultation with the office of the Development Commissioner of Small Scale Industries, conduct an indepth study to find out how far the present schemes of exemptions|concessions have been able to achieve their objectives and what changes are necessary to make the schemes more effective. This study is all the more necessary

in view of the fact that any exemption|concession involves loss of revenue to the public ex-chequer which can be justified only if the objectives are achieved. The Committee regret to note that the information pressed during evidence regarding proportion of duty paid by small scale sector in total revenue has not been furnished. The Committee desire that in the Annual report of the Ministry of Finance the share of the small scale sector in regard to the production of total goods and duty realised from them should be shown separately for specified goods and goods falling under tariff item 68.

[Serial No. 8 (Para 1.55) of Appendix VI to 180th Report of the PAC
(7th Lok Sabha)]

Action Taken

Development Commissioner (Small Scale Industries) has stated that the first systematic efforts to collect detailed data on various aspects of small scale sector was made by the Small Industry Development Organisation (SIDO) in 1973-74 when it undertook the census of small scale industries units registered with the State Director of Industries and falling under the purview of SIDO. Among other details, the report of the census indicated that the percentage of closed and non-traceable units was 12 per cent and 26 per cent respectively. In order to update the census data, a sample survey of small scale units has been undertaken as part of the Sixth Plan and the summary results are expected by the middle of this year. The survey is expected to provide the data as suggested by Public Accounts Committee. Since the Sample Survey is an annual feature, these data will become available on a regular basis if the survey is conducted during the Seventh Plan.

2. As regards a comprehensive census of small scale units in the country, Development Commissioner, Small Scale Industries has stated that in the meeting of the Standing Committee for improvement of data base for decentralised sector held on 2nd November, 1983 under the Chairmanship of Prof. A.M. Khusro, Member, Planning Commission, the representatives of the Development Commissioner (Small Scale Industries) pleaded for conducting the census of small scale industrial units on the lines of the provisional census undertaken in 1973-74. The Committee have, however, felt that the previous census of 1973-74 has already provided a basic framework on which further improvement could be made by the 20 per cent sample survey which was in progress. In the deliberations of the 9th sub-group of Small Scale Industries for the 7th Plan 1985-90, it was stated that the sample survey of small units being undertaken

with 20 per cent sampling fraction under the 6th plan may not be able to provide detailed information regarding product-wise estimate of capacities production and other important characteristics. It was, therefore, suggested that for this purpose, a complete census of small scale units may be carried out once in 10 years but this proposal was not agreed to by the sub-group. Now, in view of the recommendations of the Public Accounts Committee, it is proposed to move a proposal for census of small scale units covering both registered and unregistered sectors, to be carried out after every five years to the Main Working Group of Small Scale Industries (Seventh Plan, 1985—90) and also to standing Committee of the Planning Commission.

3. The Technical Study Group set up by the Government, is *inter alia* entrusted with the task of conducting an indepth study to find out how far the present schemes of exemptions|concessions have been able to achieve their objectives and what changes are necessary to make the schemes more effective.

4. As a very large number of small scale units producing specified goods and also goods falling under item 68 of the Central Excise Tariff are outside licensing control on account of the low value of clearances it would not be administratively feasible for the Department of Revenue to collect data relating to their production and duty payment and furnish the same in the Annual Report of the Ministry of Finance.

[Ministry of Finance (Deptt. of Revenue) letter No. 234/1/84-CX 7 dated 15-3-1985]

Recommendation

The Committee have been informed that in 1981-82 which the latest figures were made available, there were 3.61 lakhs units in the small scale sector out of which 5.22 lakhs were registered units and 4.39 lakhs unregistered units. However, no information has been collected as to how many of the registered and unregistered units hold excise licence. The Committee are surprised to note that although a registered unit is entitled to a number of concessions, duty exemptions etc. as many as 45 per cent of the units in the country have not cared to get themselves registered. This clearly shows that either the procedure for registration is cumbersome or the concessions offered to registered units are so unattractive that the small scale units do not care to get themselves registered. As the registration of small scale units is essential for proper monitoring of the growth of this sector as well as to undertake any effective measures for its development, it is necessary that the maximum possible num-

ber of small scale units should be registered and registration also made a precondition to grant of excise duty concessions. The Committee recommend that the reasons why units in the small scale sector are not getting themselves registered should be looked into and remedial measures taken to ensure that the maximum number of units get themselves registered.

[Sl. No. 9 (Para 1.56 of Appendix VI) to 180th Report of the PAC
(7th Lok Sabha)]

Action Taken

As regards registration of small scale units, the Development Commissioner (Small Scale Industries), has stated that with the establishment of District Industries Centres and other measures undertaken by various agencies, there has been an increase in the number of small scale industrial units seeking registration with the concerned authorities as compared to the total units in the sector. While 39 per cent of the small scale units were registered in 1973-74, 59 per cent (provisional) of the small scale units were registered in 1983-84. Further, in the proposed legislation for small scale industries, a provision has been made for registration with the State Director of Industries or an authority designated for this purpose, before the small scale units become eligible to receive various incentives/concessions. The proposed legislation is under consideration of the Government. In this connection it may also be mentioned that there is a point of view that registration of small scale units should not be made compulsory as there has been phenomenal growth in the recent past and also because of the fact that this sector is completely free from the regulatory control.

2. It is proposed to ask the Technical Study Group to examine whether registration should be made a pre-condition to grant excise duty concessions to small scale units.

[Ministry of Finance (Deptt. of Revenue) letter No. 234/1/84-CX.
7 dated 15-3-1985]

CHAPTER V

**RECOMMENDATIONS AND OBSERVATIONS IN RESPECT OF
WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES**

—NIL—

NEW DELHI;
August 16, 1985

Sravana 25, 1907 (Saka)

E. AYYAPU REDDY,
Chairman,

Public Accounts Committee.

APPENDIX

Conclusions and Recommendations

| Sl. No. | Para No. | Ministry/Department Concerned | Conclusion/Recommendation |
|---------|----------|---------------------------------|---|
| 1 | 2 | 3 | 4 |
| 1. | 1.6 | Finance (Department of Revenue) | The Committee appreciate that 20 per cent sample survey of the small scale industry carried out annually will help in updating the data base already made available by the comprehensive census carried out by Small Industry Development Organisation (SIDO) in 1973-74. They do not, however, consider that this is a satisfactory substitute for a comprehensive census. The Committee are unable to understand, why the Standing Committee of the Planning Commission for improvement of data base for decentralised sector has turned down the proposal even though SIDO who are directly concerned with the development of small scale industries were keen to carry out such a census. The Committee are satisfied that the data and the information that the census would make available would enable sound future planning of this sector. The Committee, therefore, reiterate their earlier recommendation that a census of the small industries should be carried out immediately, and thereafter at regular interval. |

1

2

3

4

2. 1.7 Finance (Department of
Revenue)

The Committee hope further that in pursuance of their earlier recommendation the Technical Study Group set up by the Government which has been *inter-alia* entrusted with the task of undertaking an indepth study to find out how far the present schemes of exemptions|concessions have been able to achieve their objectives and what changes are necessary to make them more effective will complete its study and come up with its findings.

3. 1.10 -do-

It is clear that the small scale units are, by and large, not over-anxious to get themselves registered. A large number of them are even today not registered with the authorities concerned. In this context the Committee had desired that the Government should look into the reasons for the small scale units not getting themselves registered. Government's reply is silent on this point. The Committee wish to reiterate their earlier recommendation that Government should examine the reasons for the small scale units not getting themselves registered and in the light of their findings take such steps as be necessary to ensure that the small scale units get themselves registered in future.

22

4. 1.11 -do-

The Committee note that legislation providing for registration of small scale units with the authorities concerned before becoming eligible to incentives|concessions is under consideration of Government. The Committee hope that Government will move quickly in this matter for it is of the utmost importance and urgency that

the industrial units already in existence in this sector will be required by law to register themselves and furnish all relevant information.

Part II

MINUTES OF THE NINTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (1985-86) HELD ON 16 AUGUST, 1985

The Committee sat from 0930 hrs. to 1030 hrs. in Committee Room 'C', Parliament House Annexe, New Delhi.

PRESENT

Shri E. Ayyapu Reddy—*Chairman*

MEMBERS

2. Shri J. Chokka Rao
3. Shri Ranjit Singh Gaekwad
4. Shri Raj Mangal Pandey
5. Shri H. M. Patel
6. Shri Nirmal Chatterjee
7. Shri Ghulam Rasool Kar

SECRETARIAT

1. Shri K. H. Chhaya—*Chief Financial Committee Officer.*
2. Shri R. C. Anand—*Senior Financial Committee Officer.*
3. Shri Brahmanand—*Senior Financial Committee Officer.*

2. The Committee considered the following draft Action Taken Reports and adopted the same with certain modifications/amendments as shown in *Annexures I to III respectively:

- (i) Draft Report on action taken on 180th Report of PAC (7 L.S.) relating to Union Excise Duties—Exemption of goods falling under Tariff Item 68.
- (ii) Draft Report on action taken on 216th Report of PAC (7 L.S.) relating to Drawback Payments.
- (iii) Draft Report on action taken on 227th Report of PAC (7 L.S.) relating to Delhi Sales Tax-Survey, Registration and Declaration Forms.

3. The Committee authorised the Chairman to present the reports to the house.

The Committee then adjourned.

*Annexures II and III not printed.

ANNEXURE-I

Modifications/Amendments made by the Public Accounts Committee in the Draft Report on Action Taken on the 180th Report of the Public Accounts Committee (7th Lok Sabha) Relating to Union Excise Duties - Exemption Of Goods Falling Under Tariff item 68, at their Sitting Held on 16th August, 1985 in Committee Room No. 'C' Parliament House Annexe, N. Delhi

| Page | Para | For | Read |
|------|------|---|--|
| 5-6 | 1.6 | The Committee..... hence forward be carried out periodically. | The Committee appreciate that 20 percent sample survey of the small scale industry carried out annually will help in updating the data base already made available by the comprehensive census carried out by Small Industry Development Organisation (SIDO) in 1973-74. They do not, however, consider that this is a satisfactory substitute for a comprehensive census. The Committee are unable to understand why the Standing Committee of the Planning Commission for improvement of data base for decentralised sector has turned down the proposal even though SIDO who are directly concerned with the development of small scale industries were keen to carry out such a census. The Committee are satisfied that the data and the information that the census would make available would enable sound future planning of this sector. The Committee, therefore, reiterate their earlier recommendation that a census of the small industries should be carried out immediately, and thereafter at regular intervals. |
| 6 | 1.7 | The Committee..... Group on this aspect of the matter. | The Committee hope further that in pursuance of their earlier recommendation the Technical Study Group set up by the Government which has been <i>inter-alia</i> entrusted with the task of undertaking an indepth study to find out how far the present schemes of exemptions/concessions have been able to achieve their objectives and what changes are necessary to make them more effective will complete its study and come up with its findings. |
| 9 | 1.10 | An indication of reluctance on..... themselves registered | It is clear that the small scale units are, by and large, not over anxious to get themselves registered. A large number of them are even today not registered with the authorities concerned. In this context Committee had desired that the Government should look into the reasons |

| Page | Para | For | Read |
|------|------|---|--|
| 10 | 1-11 | The Committee note that . . . they hope that an early decision will be taken in the matter. | <p>for the small scale units not getting themselves registered. Government's reply is silent on this point. The Committee wish to reiterate their earlier recommendation that Government should examine the reasons for the small scale units not getting themselves registered and in the light of their findings take such steps as be necessary to ensure that the small scale units get themselves registered in future.</p> <p>The Committee note that legislation providing for registration of small scale units with the authorities concerned before becoming eligible to incentives/ concessions is under consideration of Government. The Committee hope that Government will move quickly in this matter for it is of the utmost importance and urgency that the industrial units already in existence in this sector will be required by law to register themselves and furnish relevant information.</p> |

