

**HUNDRED AND EIGHTIETH
REPORT**

**PUBLIC ACCOUNTS COMMITTEE
(1983-84)**

(SEVENTH LOK SABHA)

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

**MINISTRY OF FINANCE
DEPARTMENT OF REVENUE)**



Presented in Lok Sabha on.
Laid in Rajya Sabha on.

**LOK SABHA SECRETARIAT
NEW DELHI**

February, 1984 Phalguna, 1905 (S)

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CORRIGENDA TO 180TH REPORT OF THE
P.A.C. (7TH LOK SABHA)

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CONTENTS

	PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE	(iii)
INTRODUCTION	(v)
REPORT	I
APPENDICES	
I Statement showing the analysis of the data in respect of small scale units	31
II Statement showing the details of small scale manufacturers of specified goods who increased production to dutiable level	36
III Statement showing the details of increase in small scale manufacturers of specified goods who came under licensing control	37
IV Statement showing the details of small scale manufacturers of T.I. 68 goods who increased production to dutiable limits	38
V Statement showing the details of increase in small manufacturers of T.I. 63 goods who came under licensing control.	39
VI Conclusions/Recommendations	40

*PART II

Minutes of the sittings of P.A.C. held on 14-12-1982 (FN) and 13-2-1984 (AN).

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P.A.C. 1982-83
64630/4
25/1/84

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(1983-84)

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INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this 180th Report 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.

2. The Report of the C&AG of India for the year 1980-81, Union Government (Civil) Revenue Receipts Vol. I Indirect Taxes was laid on the Table of the House on the 31 March, 1982. The Public Accounts Committee examined the Audit Paragraph at their sitting held on 14 December, 1982. The Committee considered and finalised the Report at the sitting held on 13 February, 1984. The Minutes of the sitting of the Committee form Part II* of the Report.

3. In order to promote the growth of small scale sector, one of the measures taken by Government is differential taxation representing a number of concessions/exemptions in excise duty on goods manufactured in small scale sector. The Committee have noted a major lacunae in the scheme. The moment a unit crosses even marginally the maximum clearance limit, it is required to pay excise duty not only on the goods in excess of the maximum limit but on their entire production. This often leads to a situation where the excise duty paid may be more than the value of excess production. As a result, there is a propensity on the part of small scale 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 accordingly recommended the introduction of a 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.

4. The Committee have also viewed with disapproval too many changes in duty rates by too frequent notifications, resulting in unneces-

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sary confusion. The Committee have urged 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 have desired that in future also, as far as possible, too many changes in duty rates at too frequent intervals may be avoided.

5. For facility of reference and convenience, the observations and recommendations 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.

6. The Committee place on record their appreciation of the commendable work done by the Public Accounts Committee (1982-83) in taking evidence and obtaining information for the report.

7. The Committee would like to express their thanks to the Ministry of Finance (Department of Revenue) for the co-operation extended by them in giving information to the Committee.

8. The Committee also place on record their appreciation of the assistance rendered to them in the matter by the Office of the C&AG of India.

NEW DELHI;
February 22, 1984
Phalguna 3, 1905 (Saka).

SUNIL MAITRA.
Chairman.
Public Accounts Committee.

REPORT

EXEMPTION OF GOODS FALLING UNDER TARIFF ITEM 68

Audit Paragraph

1.1 Under a notification dated 18 June 1977 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 if 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. Further the exemption applied only to the first clearances for home consumption upto a value not exceeding rupees thirty lakhs during a financial year subsequent to 1977-78 and upto a value not exceeding Rs. 24 lakhs during the period 18 June, 1977 to 31 March, 1978. 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 clearances of Rs. 15 lakhs during the year 1979-80 subject to the conditions notified earlier.

1.2 In a collectorate, a unit manufacturing 'Heat-Exchangers, distillation columns' etc., falling under tariff item 68 declared the total value of all excisable goods cleared by it during the preceding financial year 1977-78 as Rs. 29.86 lakhs and availed of exemption from duty in respect of goods falling under tariff item 68 cleared during 1978-79 upto the value of Rs. 30 lakhs. However, while computing the value of clearances for the purpose of exemption the licensee did not take into account the supervision and erection charges recovered which would form part of assessable value as per Board's clarification dated 9 September 1977, job charges dutiable under notification of 30 April 1975 and the value of the scrap which is excisable. When these values were included, the total value of clearances of all excisable goods during 1977-78 worked out to Rs. 31.88 lakhs resulting in the assessee becoming ineligible for the exemption completely for the year 1978-79 and partially for the year 1977-78. The non-levy of duty due to incorrect application of the exemption notification amounted to Rs. 2.50 lakhs (subsequently revised to Rs. 2.49 lakhs) for the years 1977-78 and 1978-79.

1.3 On this being pointed out the department accepted the objection (February 1981).

1.4 While admitting the objection, the Ministry of Finance have stated (August 1981) that a show cause-cum demand notice for Rs. 2,49,263 has been issued and is under the process of adjudication.

1.5 (b) An industrial unit manufacturing goods falling under tariff item 68 availed of exemption as well as concessional rate of duty under the notification dated 1 March 1979 even though the sum total of capital investment made from time to time on plant and machinery was more than Rs. 10 lakhs. This resulted in under-assessment of duty amounting to Rs. 1.64 lakhs for the period April 1979 to February 1980.

1.6 On this being pointed out in audit (April 1980) the department issued (July 1980) show cause notice to the manufacturer demanding duty of Rs. 2.30 lakhs for the period during which exemption was allowed.

1.7 While admitting the audit objection, the Ministry of Finance have stated (July 1981) that out of the demand of Rs. 2.30 lakhs the jurisdictional Assistant Collector had confirmed the demand for Rs. 86,486 for the period 14 January 1980 to 18 June 1980 and the remaining demand for the period from 1 April, 1979 to 13 January 1980 had become time barred. Subsequently the Ministry have stated (November 1981) that the assessee has filed a revision application before the Government which is pending decision.

[Paragraph 2.08 of the Report of the Comptroller and Auditor General of India for the year 1980-81, Union Government (Civil) Revenue Receipts, Volume-I, Indirect Taxes].

1.8 According to Audit, the facts of the case referred to in sub-para (a) of Audit Paragraph 2.08 are as follows:—

“M/s Dayaram Metal Works, Bilimora manufacturing ‘Heat Exchangers’ ‘Distillation Columns’ etc. falling under tariff item 68 claimed exemption from duty under notification 176/77 dated 18-6-77 on the ground that the total value of all excisable goods cleared during the year 1977-78 was Rs. 29.857 lakhs and availed of exemption during 1978-79 upto the value of Rs. 30 lakhs allowed under the notification to small scale manufacturers with annual turnover not exceeding Rs. 30 lakhs (In respect of goods falling under tariff item 68 so much of the duty leviable as is in excess of duty leviable on value as per invoice is exempted provided the invoice value is not defective or wrong). 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 manufacturer which was contrary to Board's instructions of 9 September, 1977. This resulted in loss of duty amounting to Rs. 2,49,263 during the years 1977-78 and 1978-79. The objection was accepted by the Collector in February, 1981 and by the Ministry of Finance in August, 1981 and show cause-*cum*-demand notice was issued on 16th December, 1981. It was withdrawn by the Assistant Collector of Central Excise Division III, Surat by his order dated 29 December, 1981, because it was barred by limitation."

1.9 The facts of the case referred to in sub-para (b) of the Audit Paragraph are as follows:--

"M/s Vidarbha Ceramics (P) Ltd., Nagpur, manufacturing refractories and other goods falling under tariff item 68 availed of exemption on clearances upto 15 lakhs and concessional rate of duty at 4 per cent during 1979-80 on clearances upto Rs. 30 lakhs even though the value of capital investment on plant and machinery exceeded Rs. 10 lakhs and the condition to this effect to qualify as small scale Industry was not fulfilled. This resulted in under-assessment of duty amounting to Rs. 1.64 lakhs on clearances from April, 1979 to February, 1980.

On the mistake being pointed out in audit the Superintendent Central Excise, MOR III Nagpur issued show cause notice on 14 July, 1980 demanding duty amounting to Rs. 2,30,000. The party filed an appeal with the Collector of Central Excise, Nagpur, who in his order dated 7 October, 1980 directed the Assistant Collector Nagpur, to determine the amount as per law. As a result demand for Rs. 86,486 was confirmed on clearances for the period 14 January, 1980 to 18 June, 1980. 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 but the same was rejected *vide* Board's order dated 13 March, 1981.

Revision application filed by the assessee before the Government is pending decision."

1.10 The Committee desired to know the reasons for the mistakes not being detected by excise officers before Audit pointed out the mistakes. In a written reply the Ministry of Finance (Department of Revenue) stated as follows:—

"In so far as the Baroda Collectorate is concerned, CCE, Baroda has reported that the assessing officers interpreted the notification to mean that only the goods which are cleared from the factory are to be assessed and the value of supervision, erection and commissioning, etc. which is incurred after the clearance of the goods is a post-manufacturing expense and is not required to be included in the value of the goods. They also excluded the value of the bought-out components in assessment as the bought-out components were duty-paid and cleared from the factory, as such, without any manufacturing operation or without being attached with any manufactured goods for being its component part. In view of this, the assessing office wrongly calculated the value of clearance below Rs. 30 lakhs and allowed the exemption. The assessee involved is M/s Dayaram Metal Works, Billimoria falling under Division III Surat.

As regards the Nagpur Collectorate, CCE Nagpur has stated that the lower officers had granted the benefit of exemption taking the view that in arriving at the value of capital equipment for determining eligibility of duty concession benefit under Notification No. 89/79 dated 1-3-1979, 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. This interpretation of the lower officers was that the value of the demolished kilns need not be taken into account for computing the capital investment in plant and machinery. CCE, Nagpur has expressed the view that the action of the lower officers in granting the exemption provided by Notification can be taken as a *bonafide* misinterpretation. The assessee involved is M/s. Vidarbha Ceramics (P) Ltd., Nagpur 18."

1.11 The Committee wanted to know the latest position of the two cases referred to in the Audit Paragraph. In a note submitted

on 4-7-1983, the Ministry of Finance (Department of Revenue) have informed as under:—

“The Collector of Central Excise Baroda has reported that Collector has passed order in revision in the case of M/s. Dayaram Metal Works (P) Ltd. Billimoria setting aside the order of the Assistant Collector, Central Excise Division III, Surat and confirming the demand of Rs. 2,49,262.70. The said order has been issued on 10-6-1982.”

1.12. As regards the case of M/s. Vidharbha Ceramics Private Ltd., Nagpur, the Ministry have intimated in a note dated 27-6-1982 that there has been no change in the position relating to this case.

1.13. The Committee enquired about the policy of Government in regard to fixation of limits of production of various excisable goods in the small scale sector, beyond which exemption or concession in excise duties would not be admissible. In reply, the Ministry of Finance (Department of Revenue) have stated in a note as follows:—

“There are a number of exemptions from excise duty applicable to manufacturers of various excisable goods in the small scale sector. These exemptions are available on clearances (not production) of excisable goods up to prescribed value limits during a financial year. Clearances beyond such limits are not entitled to exemption from excise duties. These limits are prescribed with the object of providing a fiscal advantage to small-scale manufacturers *vis-a-vis* large manufacturers. This is in pursuance of Government's policy of promoting broad-based entrepreneurship.”

1.14 The Committee wanted to know the details of the various schemes in vogue for grant of exemption/concession of excise duty applicable to the small scale sector during the last 5 years. In a note the Ministry of Finance (Deptt. of Revenue) have furnished the following information:—

“*Specified goods*

Vide notification No. 71/78-CE, dated 1-3-1978, a general exemption scheme for small manufacturers of 69 specified commodities was introduced. This replaced the earlier exemptions applicable to individual commodities. Under this notification, exemption was granted to the

first clearances of specified goods upto the value of Rs. 5 lakhs in a financial year provided the total clearances of the said goods during the preceding financial year did not exceed Rs. 15 lakhs. The single eligibility criterion *i.e.* value of clearances thus replaced the earlier diverse criteria like value of clearances, value of investment in plant and machinery, number of workers employed etc. This was done in pursuance of the recommendations made by the Indirect Taxation Enquiry Committee (Jha Committee).

This notification was amended by notification No. 91/78-CE, dated 31-3-1978. An important change made *vide* this amendment was to introduce a condition of eligibility in respect of new manufacturers or those manufacturers who had produced specified goods on or after first day of August in the previous year. Exemption in the case of such manufacturers was made subject to their giving an undertaking that their value of clearances of specified goods during the year was not likely to exceed Rs. 15 lakhs and that the clearances in fact did not exceed Rs. 15 lakhs. This condition was introduced with a view to debar larger manufacturers from availing themselves of this exemption, though they may have had clearances below Rs. 15 lakhs during the preceding financial year, having started production on or after 1st August in that year.

Another important change in this scheme was introduced by notification No. 141/79-CE, dated 30-3-1979 when another eligibility condition was introduced *i.e.* the value of all excisable goods cleared during the preceding financial year should not have exceeded Rs. 20 lakhs. This was in addition to the earlier condition that the clearances of specified goods should not have exceeded Rs. 15 lakhs in the preceding financial year. This condition was introduced to debar larger manufacturers from availing themselves of the benefit of this exemption, since it was observed that some larger manufacturers having a large turnover were otherwise eligible for this exemption, since the value of clearances of specified goods by them did not exceed Rs. 15 lakhs in the preceding year.

The exemption available under this scheme was liberalised *Vide* notification No. 80/80-CE, dated 19-6-1980 when in

addition to the full exemption from duty on first clearances upto Rs. 5 lakhs, 25 per cent concession in duty on the further clearances worth Rs. 10 lakhs was granted. This was done with a view to improve the competitive position of small scale manufacturers *vis-a-vis* the larger manufacturers in pursuance of the Government's policy of widening entrepreneurial base of the economy.

Vide notification No. 123/80-CE, dated 18-7-1980, it was provided that for computing the value of clearances for the purpose of this exemption scheme, the value, of specified goods cleared for use as inputs within the factory of production for the manufacture of other specified goods falling under the same tariff item would not be taken into consideration. This change was made with a view to removing the disability suffered by integrated manufacturers since, in their case, the value of clearance was being inflated by computing the value of clearances of inputs used captively as also the value of clearances of the finished products.

This exemption scheme was further liberalised *vide* notification No. 60/81-CE, dated 1-3-1981, when the full exemption available under this scheme was made applicable to clearances upto Rs. 7.5 lakhs, as against the earlier limit of Rs. 5 lakhs. This liberalisation was done with a view to promoting the growth of small scale industry in pursuance of the government's policy of broad-basing entrepreneurship.

Vide notification No. 73/81-CE, dated 25-3-1981, it was provided that the value of clearances effected by a manufacturer on behalf of others for whom he is acting as loan licensee, should also be computed for determining the value of clearances for the purpose of this exemption. This amendment was made with a view to debarring larger manufacturers from taking advantage of this exemption by making clearances in the name of benami manufacturers."

1.15 The Ministry of Finance (Department of Revenue) have further started:—

"Tariff Item 68 goods

Small scale manufacturers of T. I. 68 goods were granted exemption on their first clearances of such goods upto

Rs. 30 lakhs in a year *vide* notification No. 176/177-CE, dated 18-6-1977, This was subject to the conditions that value of investment in plant and machinery in the factory of production did not exceed Rs. 10 lakhs and the value of clearances of all excisable goods during the preceding financial year did not exceed Rs. 30 lakhs.

Vide notification No. 246/77-CE, dated 15-7-1977, it was **provided that value of goods cleared for use in the factory of production shall not be taken into account for the purpose of determining the value of clearances under this scheme.** This change was introduced to remove the disability suffered by integrated manufacturers, since otherwise even their clearances of inputs being taken into account along with the clearances of finished goods.

This scheme was amended *vide* notification No. 89/79-CE dated 1-3-1979. For the purpose of determining the value of clearances entitling a manufacturer to the benefit of the concession, it was provided that the value of clearances of goods other than T. I. 68 goods shall not be taken into account. It was also provided that the value of goods cleared for export shall not be taken into account, with a view to encouraging the export effort made by small scale sector. As a consequence of this liberalisation, as also keeping in view the enhanced rate of duty (the duty rate was raised from 5 per cent to 8 per cent *ad valorem*), the full exemption limit was curtailed from Rs. 30 lakhs to Rs. 15 lakhs the clearances between Rs. 15 lakhs to Rs. 30 lakhs were to pay duty at the concessional rate of 4 per cent *ad valorem*.

Vide Notification No. 4/80-CE, dated 1-2-1980, it was provided that the value of goods cleared under full exemption and the partial exemption from any factory in a year shall not exceed Rs. 15 lakhs and Rs. 30 lakhs respectively, in cases where the factory is run by different manufacturers at different times in a financial year. This change was effected with a view to debarring manufacturers from taking unintended benefit under this scheme by leasing out the factory in different manufacturer's names—each manufacturer availing himself of the exemption separately.

This exemption was liberalised *vide* notification No. 105/80-CE, dated 19-6-1980, when full exemption from excise

duty on clearances upto Rs. 30 lakhs was restored. This was done with a view to improving the competitive position of the small scale sector *vis-a-vis* the large manufacturers in pursuance of the Government's policy of widening the entrepreneurial base of the economy.

The limit on investment in plant and machinery for the purpose of this exemption was raised to Rs. 20 lakhs, as against the earlier Rs. 10 lakhs, *vide* notification No. 48/81-CE, dated 1-3-1981. This change was made in pursuance of the change in Government's industrial policy regarding the investment criterion for small scale sector.

Vide notification No. 72/81-CE, dated 25-3-1981, it was provided that the value of clearances effected by a manufacturer on behalf of others, for whom he is acting as loan licensee should also be computed for determining the value of clearances for the purpose of this exemption. This amendment was made with a view to debarring larger manufacturers from taking advantage of this exemption for making clearances in the name of benami manufacturers.

Non-specified goods

15 per cent concession in the effective rate of duty for tape recorders (T.I. 37AA) was granted to small scale manufacturers on their first clearances of such goods upto the value of Rs. 25 lakhs in a year, *vide* notification No. 160/77-CE, dated 18-6-1977. This was subject to the criteria that the investment made in plant and machinery in the factory of production should not exceed Rs. 10 lakhs and that the value of clearances of such goods in the preceding financial year should not have exceeded Rs. 50 lakhs.

An important change was made in this scheme *vide* notification No. 69/81-CE, dated 25-3-1981, when the investment limit was raised to Rs. 20 lakhs for the purpose of claiming the exemption. This change was made in pursuance of the change in the industrial policy of the Government with regard to the investment criteria for the small scale sector. It was also provided that the value of

clearances effected by a manufacturer on behalf of other for whom he is acting as loan licensee, should also be computed for determining the value of clearances for the purpose of this exemption. This amendment was made with a view to debarring larger manufacturers from taking advantage of this exemption by making clearances in the name of benami manufacturers.

Vide Notification No. 96/81-CE, dated 28-2-82, a new eligibility condition was introduced i.e. the value of clearances of all excisable goods in the preceding financial year should not have exceeded Rs. 2 crores. This condition was introduced with a view to debarring larger manufacturers from availing themselves of the benefit of this exemption, since it was observed that otherwise manufacturers having a large turnover were able to have this benefit, the value of clearances of such goods by them being within Rs. 50 lakhs.

Similar changes as discussed above were introduced in the exemption schemes applicable to the small scale sector in respect of record players (T.I. 37A), musical system (T.I. 33F) and wireless receiving sets (T.I. 33A)."

1.16 The Committee wanted to know the details of the changes made in the last five years in the schemes for duty concessions affecting small scale sector in relation to T.I. 68 goods, specified goods and non-specified goods. In reply, the Ministry of Finance have stated in a note:—

"A number of changes have been made during the last 5 years in the scheme of excise duty concessions applicable to small scale sector in respect of T.I. 68 goods, specified goods and non-specified goods. A list of notifications is given below:—

1. List of notifications relating to specified goods

Sl No.	Notification No.	Dated
1.	71/78—CE	1-3-1978
2.	88/78—CE	30-3-1978
3.	91/78—CE	31-3-1978
4.	99/79—CE	1-3-1979
5.	100/79—CE	1-3-1979
6.	123/79—CE	16-3-1979

Sl. No.	Notification No.	Dated
7.	130/79--CE	22-3-1979
8.	141/79--CE	30-3-1979
9.	149/79--CE	29-3-1979
10.	237/79--CE	30-7-1979
11.	80/80--CE	19-6-1980
12.	123/80--CE	18-7-1980
13.	50/81--CE	1-3-1981
14.	62/81--CE	25-3-1981
15.	73/81--CE	25-3-1981
16.	106/82--CE	28-2-1982
17.	107/82--CE	28-2-1982
18.	147/82--CE	22-4-1982
19.	183/82--CE	11-5-1982
<i>II. List of notifications relating to T.I. 68 goods</i>		
1.	176/77--CE	18-6-1977
2.	246/77--CE	15-7-1977
3.	89/79--CE	1-3-79
4.	147/79--CE	30-3-1979
5.	228/79--CE	17-7-1979
6.	41/80--CE	1-2-1980
7.	105/80--CE	19-6-1980
8.	48/81--CE	1-3-1981
9.	72/81--CE	25-3-1981
10.	127/81--CE	8-6-1981
<i>III. List of notifications relating to tape-recorders etc. T.I. 37 AA)</i>		
1.	160/77--CE	18-6-1977
2.	25/79--CE	1-3-1979
3.	107/80--CE	19-6-1980
4.	62/81--CE	25-3-1981
5.	69/81--CE	25-3-1981
6.	83/81--CE	31-3-1981
7.	96/82--CE	28-2-1981

1.17 The Committee desired to know the purpose of three-fold distinction among specified, non-specified and T.I. 68 goods for the purpose of grant of exemption/concession in excise duty. In reply, the Ministry of Finance (Department of Revenue) in a note stated as under:

“The exemption in the case of small manufacturers of 70 specified commodity groups is limited to clearances upto the value of Rs. 15 lakhs in a financial year. The limit of Rs. 15 lakhs has been prescribed because it was considered that a manufacturer having turnover within this limit could be taken to be a small scale manufacturers. This group comprises a wide range of disparate commodities and, in the interest of uniformity as well as simplicity of administration, a uniform cut-off point of Rs. 15 lakhs was prescribed.

In the case of goods falling under Item No. 68 the limit on clearances for exemption proposed is Rs. 30 lakhs. This limit was prescribed keeping in view the general nature of the levy as also the comparatively low rate of duty for this item.

In the case of other goods the limit on clearances by a small-scale manufacturer for the purposes of excise duty exemption varies from commodity to commodity. Different limits have been fixed taking into account the peculiar nature of each commodity. In the case of some electronic goods [tape recorders etc. (T.I. 37AA) and record players etc. (T.I. 37A)] 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 radio [including transistor sets (T.I. 33A) and musical system (T.I. 33F)], the corresponding limits are Rs. 1 crore and Rs. 50 lakhs. These higher limits have been fixed with a view to encouraging the indigenous production of these items. It may, however, be mentioned that in these cases, unlike in the case of the general exemption scheme for specified goods and the scheme for T.I. 68 goods, there is no complete exemption from duty: only a duty reduction of 15 per cent *ad valorem* has been provided for as a measure of tariff incentive to small-scale manufacturers *vis-a-vis* those in the organised sector.”

1.18 The Committee wanted to know whether any study had been carried out regarding the price differentials in respect of goods where duty concessions are granted to small scale manufacturers with a view to ascertain whether the duty concession as had been passed on to the consumer. In a written note, the Ministry of Finance (Department of Revenue) stated as under:

“There is no provision in the Central Excise law to compel small-scale manufacturers, who avail themselves of excise duty concession, to pass on the benefit of the duty concession to the consumer. No studies have been carried out, regarding the price differentials, if any, in respect of goods where duty concessions have been granted to small-scale manufacturers. It may, however, be stated that the objective of providing tariff assistance to small-scale manufacturers is partly to off-set their cost disadvantage owing to lack of economies of scale and partly to enable them to price their products at prices lower than those of the organised sector units. The fact that the small scale sector has generally registered growth over the years would tend to show that these objectives have been by and large achieved.”

1.19 The Committee desired to know the rationale for limiting the concession to small scale units whose production in the previous financial year did not exceed a certain figure. In a written note the Ministry of Finance (Department of Revenue) have stated as under:

“The exemptions to small-scale sector are subject to the criterion, *inter alia*, of clearances (not production) of excisable goods not having exceeded a certain figure in the preceding financial year. This condition is imposed so as to restrict the scope of the exemption to the genuine small-scale manufacturers, and to keep out the larger manufacturers from its purview. It may be added that this criterion is based on the recommendation made by the Indirect Taxation Enquiry Committee (popularly known as Jha Committee). In a number of earlier exemption schemes for small manufacturers of various excisable goods, exemption from duty in a financial year was provided if the clearances of such goods did not exceed specified limits in that year. The Committee observed that this came in the way of higher production because the moment the clearances exceeded the specified limits, the

concessions were withdrawn not only in respect of future production, but in most cases, also in respect of what might have been produced earlier in the same financial year. The Committee further observed that this not only caused hardship to genuine producers but also encouraged the tendency to suppress production and to have recourse to fragmentation in order to avail of the benefits. The Committee, therefore, recommended *inter-alia* that such exemptions should be linked to previous year's performance."

1.20 The Committee desired to know how the excise officers exercised control over compliance with the conditions which entitled manufacturer to exemption from taking out excise licence. In a written note, the Ministry of Finance (Department of Revenue) stated as under:

1. "Compliances with conditions attached to exemptions from taking out excise licence are watched by the Central Excise officers in the following manner:
 - (1) Under Notification Nos. 111/78 dated 9-5-1978 and 2/81-CE, dated 17-1-1981, manufacturers were exempted from licensing control in respect of the following classes of the goods, so long as they remain exempt from the whole of the duty of excise leviable thereon in terms of notification or notifications issued from time to time under rule 8 of the Central Excise Rules, 1944, namely:
 - (a) All goods that are exempt from the whole of the duty of excise leviable thereon unconditionally;
 - (b) All goods where exemption from the whole of the duty of excise leviable thereon is granted—
 - (i) based on the value of the goods; or
 - (ii) depending on the process of manufacture of the goods; or
 - (iii) on the ground that proper duty of excise has been paid in respect of such of the raw materials as have been used in the manufacture of such goods; or
 - (iv) based on the value of clearances made in a financial year.

- (2) In respect of units enjoying exemption based on the value of clearances made in a financial year, this benefit would be available provided the aggregate value of the said goods cleared by them or on their behalf from one or more factories, either for export or for home consumption does not exceed 80 per cent of the exemption limit specified in the relevant exemption notification issued under rule 8 of the Central Excise Rules, 1944.
- (3) A manufacturer claiming exemption for the first time under these notifications has to make a declaration while claiming the exemption for the first time and thereafter, before the 15th April in each financial year. The declaration contains information which enables an officer to see whether the manufacturer/factory is still entitled to exemption from licensing control.
- (4) An exempted manufacturer is also required to intimate any change in the information in the declaration as well as to apply for central excise licence if he becomes disentitled to the exemption from licensing control.
- (5) The exempted units are to be registered with the 'Central Registry' at the Collectorate Hqs. The 'Central Registry' tabulates necessary information received from the Ranges and Divisions relating to these units in the form of 'cardex' and also allots a Central Code No. to each unit. The work is undertaken by the Central Preventive Branch of each Collectorate which functions as the key control centre of activity for all these exempted units.
- (6) Such of those marginal exempted units which are nearing the critical limit are visited by departmental officers to see that they have taken Central Excise licence and are complying with other central excise formalities.
- (7) Exempted units are required to clear goods on serially numbered delivery challans/bills/invoices or other relevant documents which should bear the code No. allotted to the unit. They are also required to maintain simple account of production and clearance of the goods.

2. Compliance with various requirements and formalities is checked by surprise visit to the units and also by survey operations by the anti-evasion staff of the collectorates as well as by the Directorate of Anti-Evasion, Headquarters and regional units."

1.21 The Committee desired to know the type of returns required to be submitted by such exempt licences to excise officers. In a written note, the Ministry of Finance (Department of Revenue) have stated as under:

"Exempted units are not required to submit any return to the Department, except the declaration to be submitted by the 15th of April each year, indicating the location of their premises, the excisable goods produced by them during the preceding financial year and the goods estimated to be cleared in the current financial year and other relevant particulars."

1.22 The Committee wanted to know whether the excise control will be affected adversely if limits prescribed on clearances for purposes of concessional duty were removed. In a written note, the Ministry of Finance (Department of Revenue) have stated as under:

"No limit on production of goods by these units is imposed by the Government. The duty exemption is related to clearances of goods from these units. If duty exemption is not based on the value of clearances, the excise control will depend on the form of duty exemption. It is, therefore, difficult to say at this stage whether excise control will be adversely affected if duty exemption is not based on limits of production (clearance)."

1.23 The Committee wanted to know whether the department collected statistics in respect of small scale units which have limited production to the level beyond which exemption or concessional duty is not admissible. The Ministry of Finance (Department of Revenue) have informed as under in a written note:

"No statistics regarding the number of units which have limited their production to the level beyond which exemption from excise duty or concessional duty is not admissible, have been collected. It may, however, be stated that a general survey carried out prior to the 1982

Budget revealed that of the total 18442 units falling within the cut-off point of Rs. 15 lakhs in respect of 70 odd specified group of commodities as many as 92.6 per cent were having a turnover below Rs. 6 lakhs. This would indicate that within the cut-off point there is ample scope for the small manufacturers to grow even while continuing to enjoy the benefits of the duty concessions scheme."

1.24 As to the reasons which prevented the collection of such statistics, the Ministry of Finance (Department of Revenue) have stated in a written note:

"It is not possible to collect such information because it cannot be ascertained as to why the production of a manufacturer has not gone above a particular limit. The factor which may limit his production are numerous and would include:

- (i) his efficiency,
- (ii) his financial resources,
- (iii) the machinery employed,
- (iv) labour position,
- (v) marketing facilities,
- (vi) power position, etc."

1.25 The Committee pointed out that the exemption limit in respect of T.I. 68 items was 30 lakhs and if it was exceeded even marginally, the manufacturer would have to pay duty on the entire production in a year as also in the next year. They wanted to know whether a slab system upto Rs. 50 or 75 lakhs would not be beneficial to the department as also to the producers. In reply, the Member (Excise) stated in evidence:

"So long as you have a limit, there has to be a cut of point. Unless you have the income-tax pattern, this problem is bound to be there."

1.26 The Chairman, Central Board of Excise and Customs supplemented as follows:

"If I may attempt to answer this question, the slab system would appear to be more equitable provided we have

the situation of the kind that we have on the income tax side. Here we are calling certain industries, Small Scale Industries whose general production is not more than 7.5 lakhs. In the case of item 68, we have gone upto Rs. 30 lakhs. Now the burden is sought to be equalised by the slab system. Even now the duty rates are 20 to 30 per cent, the average upto Rs. 7.5 lakhs it is exempt. Beyond that, you pay only 75 per cent of the tax upto Rs. 15 lakhs. Beyond that you have to pay full. Now the relief that he gets is almost the same as the relief that a Small Scale Sector man operating under item 68 gets at Rs. 30 lakhs limits. The other point is whether we should give basic exemption to everybody regardless of whether he is small or big and thereafter adopt a certain graduated scale.....According to the Committees thinking there should be a certain group of people who should not get even the basic exemption because they are covered under MRTP Act. But we have to put some limit somewhere and in own wisdom we have put the limit of Rs. 30 lakhs."

1.27 In a subsequent written note submitted in April, 1983 the Ministry of Finance (Department of Revenue) have stated as follows:

"Having regard to the trend of thinking of the Committee during the oral evidence the Government has further liberalised the scheme in the following respects:

- (i) For 'specified goods' greater elbow room has been provided for growth of small producers. From the existing ceilings of Rs. 15 lakhs and 20 lakhs, one enlarged ceiling has been provided at Rs. 25 lakhs. Therefore, now the producers would be eligible for full exemption upto Rs. 5 lakhs clearance in a financial year and for the remaining Rs. 20 lakhs they would be eligible for 25 per cent concession in excise duty. Apart from this, the scheme has also been liberalised in computing the ceiling of Rs. 25 lakhs. Previously, value of completely exempted goods was to be taken into account to compute the ceiling of Rs. 20 lakhs. New value of such goods would not be taken into account in calculating the ceiling of Rs. 25 lakhs.

- (ii) In respect of the scheme for goods falling under item 68, previously there was no elbow room for growth of small producers. Both the eligibility limit and exemption limit coincided at Rs. 30 lakhs. This lacuna has now been removed by providing a greater elbow room to small producers. 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."

1.28 At the instance of the Committee, the Ministry of Finance (Department of Revenue) furnished the following information:

- (i) Collectorate-wise and year-wise figures for the years 1975-76 to 1981-82 in respect of value of excisable goods cleared and the duty collected separately for specified goods, T.I. 68 goods and unspecified goods; and
- (ii) the share of the small scale manufactures in respect of data in (i).

1.29 The Committee pointed out that according to the above information furnished by the Ministry of Finance (Department of Revenue), the share of duty paid by the small scale sector was much higher (67.88 per cent) than their share of the total value of production (52 per cent) and enquired if the position was correct. In reply, the Member (Excise) stated:

"This information is partly incomplete because of communication gap. There is inaccuracy. I am not in a position to answer or reconcile what the Member has very rightly observed."

1.30 Enquired why the figures supplied were inaccurate, the Finance Secretary replied:

"If the Committee permits us, I must be frank to say that we will correct all the collectorate figures for the unspecified goods and for specified goods. We go back to the Collectorate and get explanation. That we will do. We will have to do it anyway."

1.31 In reply to another question, the Finance Secretary stated:

“If you permit me we will collect and supply figures from a couple of Collectorates where the small scale industries are large and where they are active *vis-a-vis* the organised sector. This we will be able to do much more quickly rather than going to all the Collectorates.”

1.32 Subsequently, the Ministry of Finance (Department of Revenue) have furnished information in respect of some Collectorates, *i.e.*, under item No. 68. The information has been furnished for the years 1977-78 to 1981-82 and in respect of small scale units producing specified goods covered under notification Nos. 71/78 and 80/80 for the period 1978-79 to 1981-82 in respect of Baroda, Cochin and Meerut Collectorates. An analysis of above data as made by the Ministry is at Appendix I.

1.33 A reading of Appendix II to IV would indicate that (i) less than 1.5 per cent of the small scale manufacturers increased their clearances to above the duty free exemption limit so as to go to the level of 75 per cent duty payment in the three years, 1978-79 to 1980-81 in three collectorates. Further, less than 0.4 per cent of the small scale manufacturers increased their production to go to the level of 100 per cent duty payment. Even out of around one per cent of the small scale manufacturers whose production was just below the exemption limit, less than 33 per cent increased their production to go above the duty free limit and hardly any manufacturer increased his production to go to the full duty liability level.

(ii) In three collectorates during the same three years the number of manufacturers who were eligible for exemption from excise licence control and who increased their production to the level that they would become subject to licencing control was less than 1.7 per cent of the number of small scale manufacturers producing specified goods who were not required to take excise licence.

(iii) The number of small scale manufacturers of T.I. 68 goods who increased their clearances to levels above the exemption limit in three collectorates during the four years 1977-78 to 1980-81 was less than 3 per cent. Even out of around two per cent of small scale manufacturers of T.I. 68 goods whose production was just below the exemption limit, less than 66 per cent increased their production to above the exemption limit so as to come into the dutiable range.

(iv) In the three collectorates during the same four years less than 3 per cent of the small scale manufacturers who were eligible

for exemption from excise licence control, increased their production to such a level that they would become subject to excise licence control.

1.34 The committee wanted to know the total number of industrial units in the small scale sector—registered and unregistered—and the figures of their production and export. In reply, the Development Commissioner, Small Scale Industries stated in evidence:

“In 1977-78, the registered units were about 3 lakhs and unregistered were 3,74,000. The total is 6,70,000. Production of these units was of Rs. 14,300 crores and the export figures was of Rs. 854 crores. In 1981-82, the number of registered units was 5.22 lakhs and unregistered were 4.39 lakhs making a total of 9.61 lakhs. Production was of Rs. 32,600 crores and exports Rs. 1,686 crores. . . . We do have a sample survey and the indication we are getting is that the units have to cross this limit with a determined effort or keep away, otherwise they would certainly attract a huge amount of duty.”

1.35. As to the basis of the above observation, the witness replied:

“I am in touch with various units and various associations have represented if we could have duty levied on incremental basis it would help in smooth growth of the industry.”

1.36. The Committee desired to know if any annual bulletin is issued to bring out the problems faced by the small sector units, the number of such units being closed down and the number of them not functioning. The witness stated during evidence:

“Whatever statistical data is available, that is published every year. We have published this year also. . . . The figures I gave are for the units which are in the live register. Every year, the Director of Industries of each State Government keeps on making constant effort to review whatever that ceased to exist and bring all records of units that exist. We have the net figures every year.”

1.37. When asked about mortality rate of the units in the small scale sector, Member (Excise) in the Central Board of Excise & Customs stated:

“I do not have the data in this regard.”

1.38. The Committee wanted to know the advantages of registration as well as non-registration. In reply, the witness stated in evidence:

“There are many reasons for the non-registration. Probably they are facing difficulties in getting their units registered, but whenever the unit does get Registered it is entitled to have some facilities of getting concessions, duty exemptions, etc.”

1.39. Asked as to why the units remained unregistered when they were entitled to such facilities, the witness replied:

“Registration is done by the State Director of Industries. There are many areas where the units had violated certain norms say regarding land use. They were not being given registration because of these reasons. Sometimes, the units may find that they are situated far-away from the registration point. For these reasons, they are not coming forward for registration. Earlier more than 50 per cent of the units were unregistered. Now the trend is gradually reversing. But still there are problems in registration. Many State Directors of Industries are not in a position to give registration either on account of land-use not being correct or various approvals are pending.

1.40. Enquired if it was not desirable that the units should get registered to enable them to enjoy more facilities, the witness deposed:

“Our idea is that all the units should get registered. If nothing else, it should give a better data base and better service could be given to these units so that whatever facilities are made available, we can get a better account of what is going on and where. We have been taking steps to simplify the registration procedures and thereby bringing more and more units in the registered category.”

1.41. The Committee desired to know whether the registration was a difficult process and it took years to get the registration done. In reply, the witness stated:

“The process of registration spreads over two stages. The first stage is called provisional registration. It enables the party to get subsequent approval like power, land, water, etc. The direction is that it should be given forthwith, within 7 days of the application made. Thereafter the unit has to complete the formalities and take action

for installation of machinery etc. and they apply to permanent registration. Before granting permanent registration, this unit is inspected to see that the facilities are ready for production and then they are given permanent registration. . . . We have asked all the States to see that permanent registration is also given promptly. These decisions have been taken by the Small Scale Industries Board and their advice has been given to Government. We have asked all the States to take necessary action."

1.42. The Committee desired to be furnished with details of industrial units which were showing constant figures of production below Rs. 7.5 lakhs for the last 3 to 5 years and the number of years for which their production had been constant. In reply, the Ministry of Industry (Office of the Development Commissioner, Small Scale Industries) have stated in a note:

"Unit-wise data on production is not available for small scale sector after 1973-74 when census of small scale industrial units was carried out. Hence, information on total number of units showing production below Rs. 7.5 lakhs consistently for the last 3 to 5 years is not available."

1.43. Similar reply was furnished by the Ministry of Industry in regard to information asked for by the Committee relating to the total number of small units in each State in the last five years which have been producing/clearing in all goods valuing less than Rs. 5 lakhs, Rs. 7.5 lakhs, Rs. 15 lakhs and Rs. 30 lakhs.

1.44. The Committee desired to be furnished with the number of small scale units closed down in each of the States in each of the past four years. In reply, the Office of the Development Commissioner, Small Scale Industries have stated in a note as follows:

"It is the duty of the State Registering Authority to conduct periodical inspections, review the working of the unit and keep on their registers only live and functioning units. Information in respect of closed units is hence not available with this office."

1.45. The Committee asked for the number of persons employed in small scale units in each of the States in each of the last 5 years.

In reply, the office of the Development Commissioner, Small Scale Industries have furnished the following note:

“The estimated number of persons employed in the small scale units both registered and unregistered is given below for 5 years 1977—1981:

<i>Year</i>	<i>Estimated Employment (Lakhs)</i>
1977	54.00
1978	63.80
1979	67.00
1980	71.00
1981	75.00

The Statewise break-up of employment data is not available.”

1.46. In a note on Small Scale Sector in Excise furnished in April, 1983, the Central Board of Excise and Customs have stated, *inter alia*, as follows:

“It would be observed from all the three statements that there has been a substantial growth in the number of small scale units which were in existence in 1977-78 and those which were in existence in 1981-82. The growth has taken place not only in the total number of units over this period but also in various slabs of clearances. Similarly, there has been an upward growth of individual units as well. Starting from a lower slab production, many of them have gradually increased their production to higher slabs. It is, however, difficult to say whether individual units have kept themselves deliberately below the cut-off point relating to licensing control and the cut-off point relating to exemption from duty.”

It has been further stated in the note that

“It may not be possible for anyone to claim that the scheme of concession in excise duty to small scale units as it existed before presentation of the Budget on 28th February, 1983 were ideal one. . . . It may be added that the schemes are continuously kept under review. Any attempts at evasion of duty by exploiting loopholes in the law or any hardships caused by the provisions of the

law under these schemes are taken care of, after proper examination, as and when such points come to the notice of the Government.”

1.47. The Ministry of Finance (Department of Revenue) have also stated in the note as follows:

“Methods adopted for promoting the growth of small scale sector of industry are several-fold:

- (1) restricting the volume of production in the large scale sector
- (2) by different taxation
- (3) by direct subsidy
- (4) by extension services
- (5) by offering marketing facilities at preferential prices, etc.

The object is to concentrate on measures designed to improve the competitive strength of the small scale sector. It will, therefore, be observed that fiscal concessions relating to excise duty is one of the several measures for achieving growth of small scale sector. Any study regarding growth of small scale sector of industry *vis-a-vis* only the excise concession is difficult to carry out because growth is dependent upon number of factors. To isolate the impact of excise duty concessions from a number of other simultaneously acting factors may not be quite appropriate in itself.”

1.48 Under notification No. 176/77-C.E. dated 18-6-1977, 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 conditions notified earlier.

1.49. M/s. Dayaram Metal Works, Billimora, manufacturing Heat Exchangers, Distillation Columns etc. falling under tariff item 68 claimed exemption from duty under notification No. 176/77-C.E.

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 clearances, 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 February 1981 and a show cause-cum-demand notice was issued on 16-12-1981. It was withdrawn by the Assistant Collector of Central Excise Division III, Surat by his order dated 29 Decemehr, 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.

1.50. 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 event of there being no ambiguity in the relevant notification or lacuna in law the circumstances in which conflicting views were taken.

1.51. In another case, M/s. Vidarbha Ceramics (P) Ltd., Nagpur manufacturing refractories an other goods falling under tariff item 68 availed of exemption on clearances upto Rs. 15 lakhs and concessional rate of duty at 4 per cent 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 February 1980. A show cause notice was issued to the party on 14 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.

1.52 In order to broad-base the enterpreneurships 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 concessions/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 limits 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 radio 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 desire that in future also, as far as possible, too many changes at too frequent intervals may be avoided.

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 per cent 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 per cent of the small scale manufacturers increased their production to go to the level of 100 per cent 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 discussions 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 counterbalanced 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, Govt. should ensure that this concession is availed of by Small Sector only.

1.55 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 and Customs to determine how far the scheme of exemptions/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 T.I. 68.

1.56 The Committee have been informed that in 1981-82 for 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 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.

NEW DELHI;
February 22, 1984
Phalguna 3, 1905 (Saka)

SUNIL MAITRA,
Chairman
Public Accounts Committee.

APPENDIX I

Statement showing the analysis of the data in respect of Small Scale units

An analysis of the information furnished by these three Collecto- rates reveals the following trends in the growth of small scale units exempted from duty under Item 68 from 1977-78 to 1981-82:—

Baroda Collectorate

(a) At the end of 1977-78 there were 481 units in the range of annual clearances upto Rs. 5 lakhs. This number grew to 903 units at the end of 1981-82 showing thereby an increase of over 80 per cent. In Rs. 5 to 7.5 lakhs range the number of 208 units at the end of 1977-78 increased to 308 units indicating the growth of slightly less than 50 per cent. In Rs. 7.5 lakhs to 10 lakhs range from 139 units the number of units increased to 246 showing a growth of over 70 per cent. In Rs. 10 to 15 lakhs range 96 units increased to 261 units showing an increase of 160 per cent. In Rs. 15 lakhs to 20 lakhs range the number of units increased from 30 to 159 during the said period showing an increase of over 400 per cent. In Rs. 20 to 24 lakhs range from 15 units at the end of 1977-78 there were 136 units at the end of 1981-82 thereby indicating an increase of over 800 per cent. In the important range of Rs. 24 to 30 lakhs, number of units increased from 10 at the end of 1977-78 to 50 indicating an increase of over 400 per cent.

(b) 46 units in the range of upto Rs. 5 lakhs worth annual clearances have shown a growth in various higher ranges. These figures are on the basis of actual survey made by the field staff. Similarly, 20 units in the range of Rs. 5 to 7.5 lakhs worth annual clearances at the end of 1977-78 were found to have shown a growth in higher ranges. 18 units in the 7.5 to 10 lakhs range were found to have shown a growth in higher ranges. 11 units in Rs. 10 to 15 lakhs range showed a growth in higher ranges. 7 units in 15 to 20 lakhs range were found on actual survey to have grown to clearances in higher ranges. 1 unit in 20 to 24 lakhs range showed a growth above duty exemption limit of Rs. 30 lakhs.

Cochin Collectorate

(i) At the end of 1977-78 there were 782 units in the annual clearances up to Rs. 5 lakhs range. These units increased to 915 showing an increase of about 15 per cent. In Rs. 5 to 7.5 lakhs range 69 units increased to 81 units again showing an increase of about 15 per cent. In Rs. 7.5 to 10 lakhs range 18 units increased to 40 units showing a growth of 120 per cent. In Rs. 10 to 15 lakhs range 26 units increased to 49 units showing an increase of over 90 per cent. In Rs. 15 to 20 lakhs range 8 units increased to 21 units showing an increase of over 160 per cent. In Rs. 20 to 24 lakhs range there was no unit at the end of 1977-78 whereas there were 8 units at the end of 1981-82. Similarly, there was no units in the range of 24 to 30 lakhs but there were 3 units at the end of 1981-82.

(ii) On the basis of actual survey, it was found that during 1981-82, 21 units in the range of upto Rs. 5 lakhs showed a growth in higher ranges. Similarly 12 units in 5 to 7.5 lakhs range showed growth in higher ranges. Again 12 units in Rs. 7.5 to 10 lakhs range showed a growth in higher ranges. 7 units in 10 to 15 lakhs range were found to have indicated growth in various higher ranges. No unit in 15 to 20 lakhs range was found to have shown any growth. In the 2 subsequent ranges there were no units at the end of 1977-78 hence the question of any growth of such units at the end of the 1981-82 does not arise.

Meerut Collectorate

(a) At the end of 1977-78 there were 133 small sector units whose annual clearances were upto Rs. 5 lakhs. Number of such units grew over the years to 159 at the end of 1978-79, 193 at the end of 1979-80, 219 at the end of 1980-81 and 257 at the end of 1981-82. In other words, there has been a growth of over 90 per cent in the number of such units. Similarly, there has been a growth of over 33 per cent in the number of units within the range of annual clearances of Rs. 5 to 7.5 lakhs increasing from 37 units to 50 units at the end of 1981-82. In the range of Rs. 7.5 to 10 lakhs there has been an increase of 66 per cent in the number of such units. In the range of 10 to 15 lakhs there has been a growth of over 66 per cent from 30 units to 52 units. In the range of 15 to 20 lakhs there has been a growth of over 300 per cent from 8 units to 36 units. In the 20 to 24 lakhs range, there has been a growth of 700 per cent. In the important range of 24 to 30 lakhs when the units have to work under excise licensing control, there has been a growth of 375 per cent from 4 units at the end of 1977-78 to 19 units at the end of 1981-82. In

short, there has been an overall growth of over 100 per cent in the number of such units from 238 at the end of 1977-78 to 483 units at the end of 1981-82.

(b) A study of part II of statement No. I of the Meerut Collectorate shows that 51 units in the range of upto Rs. 5 lakhs worth annual clearances have shown a growth in various ranges upto Rs. 30 lakhs. 21 units at the end of 1977-78 in 5 to 7.5 lakhs worth annual clearances have shown a growth upto 30 lakhs, in various ranges of annual clearances. 11 units in the range of 7.5 to 10 lakhs at the end of 1977-78 have shown a growth of annual clearances in the higher ranges. 18 units in 10 to 15 lakhs range have shown a growth in higher ranges. 4 units in the 15 to 20 lakhs range at the end of 1977-78 have shown a growth in annual clearances in higher ranges. One unit in 20 to 24 lakhs range has shown a growth going beyond the duty exemption limit and has started paying. One unit in 24 to 30 lakhs has crossed into the higher range, thereby coming within the duty paying sector.

4. A study of the information furnished by the aforesaid Collectorates reveals the following trend in the growth of small scale units producing goods (specified goods) covered by notification Nos. 71/78 and 80/80 during the period 1978-79 to 1981-82.

Baroda Collectorate.

(a) 450 units in the range of annual clearances upto Rs. 1 lakh at the end of 1978-79 grew to 585 units showing a growth of about 30 per cent. In Rs. 1 to 2 lakhs range number of units increased from 163 to 242 showing a growth of slightly less than 50 per cent. In Rs. 2 to 3 lakhs range 110 units increased to 202 units showing a growth of about 80 per cent. In Rs. 3 to 4 lakhs range 152 units increased to 185 units showing an increase of above 20 per cent. In Rs. 4 to 5 lakhs 55 units increased to 138 units showing an increase of about 150 per cent. In Rs. 5 to 6 lakhs range 18 units increased to 227 units showing a phenomenal increase of 1150 per cent. In Rs. 6 to 7.5 lakhs range 4 units increased to 45 units showing a heavy increase of 1000 per cent. In Rs. 7.5 to 15 lakhs range 17 units increased to 44 units showing an increase of over 150 per cent. In Rs. 15 to 20 lakhs range 8 units increased to 19 units showing an increase of about 140 per cent.

(b) On actual survey 52 units at the end of 1978-79 upto Rs. 1 lakh range were found to have shown a growth in higher ranges at the end of 1981-82. Similarly, 31 units in the range of Rs. 1 to 2 lakhs showed the growth. 32 units in the range of Rs. 2 to 3 lakhs indicated the growth in higher ranges. 23 units in Rs. 3 to 4 lakhs

showed the growth in higher ranges. 16 units in Rs. 4 to 5 lakhs range were found to have grown in various higher ranges. One unit in Rs. 5 to 6 lakhs range was found to have shown a growth in the next higher range. One unit in Rs. 6 to 7.5 lakhs range was found to have grown to the next higher range of Rs. 7.5 to 15 lakhs. 2 units in the range of 7.5 to 15 lakhs out of 17 units were found to have crossed the duty exemption limit of Rs. 15 lakhs. No growth in any unit in Rs. 15 to 20 lakhs range was noticed.

Cochin Collectorate

(a) 377 units in the range of annual clearances upto Rs. 1 lakh at the end of 1978-79 increased to 405 units at the end of 1981-82 showing thereby an increase of about 10 per cent. In Rs. 1 to 2 lakhs range 82 units increased to 126 units showing an increase of over 50 per cent. In Rs. 2 to 3 lakhs range 50 units increased to 93 units showing an increase of 86 per cent. In Rs. 3 to 4 lakhs range 32 units increased to 64 units indicating 100 per cent growth. In Rs. 4 to 5 lakhs range 4 units increased 34 units giving a 705 per cent increase. In Rs. 5 to 6 lakhs range one unit increased to 29 units giving phenomenal increase of 2800 per cent. In Rs. 6 to 7.5 lakhs range there were no units at the end of 1978-79. However, there were 4 units in this range at the end of 1981-82. In Rs. 7.5 to 15 lakhs range also there were no units at the end of 1978-79 while there were 5 units in this range at the end of 1981-82. There have been no units in the Rs. 15 to 20 lakhs range during the entire period of 1978-79 to 1981-82 in Cochin Collectorate.

(b) An actual survey of some units existing at the end of 1978-79 was taken up in order to see the growth of such units as regards their annual clearances at the end of 1981-82. On the basis of this survey it is observed that 44 units in Rs. 1 to 2 lakhs range, 6 units in Rs. 2 to 3 lakhs range, 5 units in Rs. 3 to 4 lakhs range and 3 units in 4 to 5 lakhs range have shown growth in various higher ranges. No unit in the range of Rs. 5 to 6 lakhs was noticed in the survey to have grown to a higher range. Question of growth of any unit in subsequent ranges, namely Rs. 6 to 7.5 lakhs, Rs. 7.5 to 15 lakhs and Rs. 15 to 20 lakhs does not arise because there were no units in these ranges at the end of 1978-79.

Meerut Collectorate

(a) 249 units in the range of annual clearances upto Rs. 1 lakh at the end of 1978-79 grew to 328 units at the end of 1981-82 showing a percentage growth of slightly less than 50 per cent. Similarly 110 units in the range of Rs. 1 to 2 lakhs grew to 150 units showing about 35 per cent growth. In Rs. 2 to 3 lakhs range 50 units grew

to 75 units showing a 50 per cent growth. In Rs. 3 to 4 lakhs range, 26 units grew to 46 units showing growth of about 85 per cent. In Rs. 4 to 5 lakhs range there was 400 per cent growth from 9 units to 45 units. In Rs. 5 to 6 lakhs range there has been a growth of 766 per cent from 3 units to 26 units. In Rs. 6 to 7.5 lakhs range there has been 166 per cent growth from 3 units at end of 1978-79 to 8 units at the end of 1981-82. In Rs. 7.5 lakhs to 15 lakhs range, there has been a 66 per cent growth from 5 units at the end of 1978-79 to 8 units at the end of 1981-82.

(b) A study of part II of statement No. 2 of Meerut Collectorate shows that 55 units at the end of 1978-79 in Rs. 1 lakh range of annual clearances have shown a growth in higher ranges. In Rs. 1 to 2 lakh range 41 units at the end of 1978-79 showed a growth of clearances in higher ranges at the end of 1981-82. In Rs. 2 to 3 lakhs range, 30 units at the end of 1978-79 have shown a growth of clearances in higher ranges. In Rs. 3 to 4 lakhs range, 14 at the end of 1978-79 showed a growth of clearances in higher ranges at the end of 1981-82. In Rs. 4 to 5 lakhs ranges, no unit showed a growth during the aforesaid period. In Rs. 5 to 6 lakh range, 1 unit 3 at the end of 1978-79 *i.e.* has shown a growth of clearances in a higher range. In Rs. 6 to 7.5 lakh range, 2 units have shown a growth of clearance in higher ranges at the end of 1981-82. In Rs. 7.5 lakhs to 15 lakhs range, 1 unit has shown a growth going beyond the eligibility limit for duty exemption under notification No. 80/80.

APPENDIX-II

Statement showing the details of Small scale manufacturers of specified goods who increased production to dutiable level

Year	Number of manufacturers having clearances upto Rs. 7.5 lakhs	Number of manufacturers who increased their clearances to between Rs. 7.5 lakhs and Rs. 15 lakhs during the period upto 1981-82.	Number of manufacturers who increased their clearances to beyond Rs. 15 lakhs during the period upto 1981-82	Number of manufacturers having clearances between Rs. 6 to Rs. 7.5 lakhs	Number of manufacturers who increased their clearances to between Rs. 7.5 lakhs & 15 lakhs during the period upto 1981-82	Number of manufacturers who increased clearances to beyond Rs. 15 lakhs during the period upto 1981-82
BARODA COLLECTORATES						
1978-79	946	5 (0.5%)	2 (0.2%)	4	1 (0.25%)	Nil
1979-80	1168	15 (1.2%)	nil (nil)	18	2 (11.1%)	Nil
1980-81	1478	22 (1.5%)	6 (0.4%)	21	5 (24%)	Nil
COCHIN COLLECTORATES						
1978-79	546	1 (0.2%)	Nil (Nil)	Nil	Nil	Nil
1979-80	627	2 (0.3%)	Nil (0%)	1	Nil	Nil
1980-81	702	1 (0.10%)	1 (0.1%)	2	Nil	Nil
MEERUT COLLECTORATES						
1978-79	450	4 (0.9%)	4 (0.9%)	3	1 (33.3%)	1 (33.3%)
1979-80	475	3 (0.6%)	Nil (Nil)	1	Nil	Nil
1980-81	566	6 (1%)	Nil (Nil)	1	Nil	Nil

APPENDIX III

Statement showing the details of increase in small scale manufacturers of specified Goods who came under licensing control.

Year	Number of manufacturers having clearances upto Rs. 4 lakhs and eligible for exemption from licensing control	Number of manufacturers who crossed the limit of Rs. 6 lakhs during the period upto 1981-82 and were brought under licensing control
Baroda Collectorate		
1978-79	875	11 (1.3%)
1979-80	1046	18 (1.7%)
1980-81	1291	21 (1.6%)
Cochin Collectorate		
1978-79	541	Nil (nil)
1979-80	616	2 (0.3%)
1980-81	677	4 (0.6%)
Meerut Collectorate		
1978-79	435	3 (0.7%)
1979-80	453	6 (1.3%)
1980-81	533	6 (1.1%)

APPENDIX IV

Statement showing the details of small scale manufacturers of T.I. 68 goods who increased production to dutiable levels.

Year	Number of manufacturers having clearances upto Rs. 30 lakhs	Number of manufacturers who increased clearances to beyond Rs. 30 lakhs during the period upto 1981-82	Number of manufacturers having clearances between Rs. 24 lakhs and Rs. 30 lakhs	Number of manufacturers who increased clearances to beyond Rs. 30 lakhs during the period upto 1981-82
<i>Baroda Collectorate</i>				
1977-78	979	9 (1%)	10	Nil (nil)
1978-79	1139	11 (1%)	21	3 (14.3%)
1979-80	1382	16 (0.1%)	26	5 (19.2%)
1980-81	1684	17 (0.1%)	43	2 (4.6%)
<i>Cochin Collectorate</i>				
1977-78	903	Nil (Nil)	Nil	Nil (Nil)
1978-79	941	1 (0.1%)	1	1 (100%)
1979-80	984	1 (0.1%)	2	1 (50%)
1980-81	1068	1 (0.1%)	3	1 (33.3%)
<i>Meerut Collectorate</i>				
1977-78	238	6 (2.5%)	4	1 (25%)
1978-79	291	7 (2.4%)	7	3 (43%)
1979-80	345	7 (2%)	3	2 (66.6%)
1980-81	413	13 (3.1%)	8	1 (12.5%)

APPENDIX V

Statement showing the details of increase in small scale manufacturers of T.I. 68 goods who came under licensing control.

Year	Number of manufacturers having clearances upto Rs. 24 lakhs.	Number of manufacturers who crossed the limit of Rs. 30 lakhs during the period upto 1981-82 and came under licensing control.
<i>Baroda Collectorate</i>		
1977-78	969	9 (1%)
1978-79	1118	8 (0.7%)
1979-80	1356	11 (0.8%)
1980-81	1641	15 (0.9%)
<i>Cochin Collectorate</i>		
1977-78	234	nil
1978-79	940	nil
1979-80	982	nil
1980-81	1065	nil
<i>Meerut Collectorate</i>		
1977-78	234	5 (2.1%)
1978-79	284	4 (1.4%)
1979-80	342	1 (0.3%)
1980-81	405	12 (3%)

APPENDIX VI

Conclusions/Recommendations

S. No.	Para No.	Ministry/Deptt. Concerned	Conclusion/Recommendation
1	2	3	4
1	1.48	M/o Finance (Deptt. of Revenue)	Under notification No. 176/77-C.E. dated 18-6-1977, 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 <i>ad valorem</i> on clearances after the first clearance of Rs. 15 lakhs during the year 1979-80 subject to the conditions notified earlier.
2	1.49		M/s. Dayaram Metal Works, Billimora, manufacturing 'Heat Exchangers', 'Distillation Columns' etc. falling under tariff item 68 claimed exemption from duty under notification No. 176/77-C.E. 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 clearances, 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 February 1981 and a show cause-cum-demand notice was issued on 16-12-1981. It was withdrawn by the Assistant Collector of Central Excise Division III, Surat by his order dated 29 December, 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.

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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 event of there being no ambiguity in the relevant notification or lacuna in law the circumstances in which conflicting views were taken.

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In another case, M/s. Vidarbha Ceramics (P) Ltd., Nagpur manufacturing refractories and other goods falling under tariff item

68 availed of exemption on clearances upto Rs. 15 lakhs and concessional rate of duty at 4 per cent 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 February 1980. A show cause notice was issued to the party on 14 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.

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have been taken by Government. One of the measures taken in this regard is differential taxation representing a number of concessions| 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 limits 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.

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M/o Finance (Deptt.
of Revenue)

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 pres-

cribed 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 per cent 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 per cent of the small scale manufacturers increased their production to go to the level of 100 per cent 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.

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The Committee note that in the light of the discussions 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 counterbalanced 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, Govt. should ensure that the concession is awaited of by small sector only.

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Min. of Finance (Deptt.
of Revenue)

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 and 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 T.I.68.

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1.56 Min. of Finance (Deptt. of Revenue)

The Committee have been informed that in 1981-82 for 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 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.

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