

SEVENTIETH REPORT

PUBLIC ACCOUNTS COMMITTEE (1993-94)

(TENTH LOK SABHA)

ASSESSMENT OF SMALL SCALE INDUSTRIAL UNDERTAKINGS

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)



**PARLIAMENT LIBRARY
DIGITIZED**

*(Action Taken on 32nd Report of Public Accounts Committee
(10th Lok Sabha)*

*Presented to Lok Sabha on 27 April, 1994
Laid in Rajya Sabha on 27 April, 1994*

LOK SABHA SECRETARIAT
NEW DELHI

April, 1994/Chaitra, 1916 (Saka)

P.A.C. No. 1397

Price: Rs. 11.00

© 1994 BY LOK SABHA SECRETARIAT

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Seventh Edition) and Printed by the Manager, P.L. Unit, Government of India Press, Minto Road, New Delhi.

CORRIGENDA TO 70TH REPORT OF THE PUBLIC ACCOUNTS
COMMITTEE (10TH LOK SABHA)

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
(ii)		8 (from bottom)	pursuse	pursue
(ii)		7 (from bottom)	Government s	Government
(v)		7	attentions	attention
2		9	2093000	209300
3		last line	action	sections

CONTENTS

	PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (1993-94)	(iii)
INTRODUCTION	(v)
CHAPTER I Report	1
CHAPTER II Recommendations/Observations which have been accepted by Government	10
CHAPTER III Recommendations/Observations which the Committee do not desire to pursue in the light of the replies received from Government	18
CHAPTER IV Recommendations/Observations which the Committee do not desire to pursue in the light of the replies received from Governments	24
CHAPTER V Recommendations/Observations in respect of which Government have furnished interim replies	28
APPENDIX Conclusions and Recommendations	39
PART II Minutes of the sitting of Public Accounts Committee (1993-94) held on 13.4.1994	43

PUBLIC ACCOUNTS COMMITTEE

(1993-94)

CHAIRMAN

Shri Bhagwan Shankar Rawat

MEMBERS

Lok Sabha

2. Shri Nirmal Kanti Chatterjee
3. Dr. K.V.R. Chowdary
4. Shri Bandaru Dattatraya
5. Shri Sharad Dighe
6. Shri Jagat Veer Singh Drona
7. Shri Srikanta Jena
8. Smt. Krishnendra Kaur
9. Shri Rama Krishna Konathala
10. Smt. Geeta Mukherjee
11. Shri. D.K. Naikar
12. Shri Mrutyunjaya Nayak
13. Shri Motilal Singh
14. Shri S. B. Thorat
15. Shri Satya Pal Singh Yadav

Rajya Sabha

16. Shri S. S. Ahluwalia
17. Shri Somappa R. Bommai
18. Shri Anant Ram Jaiswal
- *19. Miss Saroj Khaparde
20. Shri Murasoli Maran
21. Smt. Jayanthi Natarajan
22. Shri Viren J. Shah

SECRETARIAT

1. Shri G.L. Batra — *Additional Secretary*
2. Shri S. C. Gupta — *Joint Secretary*
3. Shri R. K. Chatterjee — *Deputy Secretary*
4. Shri P. Sreedharan — *Under Secretary*

* Ceased to be a Member of the Committee on completion of her tenure in Rajya Sabha w.e.f. 2 April, 1994.

INTRODUCTION

1. The Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Seventieth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 32nd Report (10th Lok Sabha) on Assessment of Small Scale Industrial Undertakings.

2. In their earlier Report while drawing attentions of Government to the lack of co-ordination among various Ministries/Departments of the Government in dealing with Small Scale Sector and in extending various concessions, the Committee had recommended for setting up of an inter-Ministerial monitoring agency so as to monitor the administration of concessions, review the progress of policy/programmes and identify the bottlenecks requiring remedial/corrective action, In this Report the Committee have been unhappy to note that despite the lapse of more than 19 months since the presentation of their Original Report, Government have not taken any concrete action in this regard. They have desired that the recommendation made in their earlier Report should be expeditiously implemented with a view to ensuring effective implementation of the policies and programmes drawn by various Ministries/Departments for the growth of Small Scale Sector.

3. The Committee in their earlier Report had observed that certain concessions to the small scale sector under Sections 32A, 80HH & 80HHA of the Income Tax Act, 1961 were withdrawn w.e.f. the assessment year 1991-92. The withdrawal of the concessions, in fact was coupled with an announcement by the then Finance Minister in his budget speech in April, 1990 that Central Investment Subsidy was being reintroduced for small scale units in rural areas and backward regions. Since the proposed Investment Subsidy Schemes had failed to take off even after a period of two years of the announcement in the House, the Committee in their earlier Report had recommended that the Ministry of Finance should review the whole matter afresh keeping in view the special requirements of the small scale sector. In this Report the Committee have been constrained to point out that the action taken note of the Ministry is completely silent about either the reintroduction of the Central Investment Subsidy Scheme or of any alternative proposals, for providing the desired incentives to the small scale sector. Since the withdrawal of the concessions and non-introduction of the Central Investment Subsidy Scheme have adversely affected the policy of dispersal of small scale industries in rural and backward areas, the Committee have reiterated their earlier recommendation.

4. Emphasising the need for generating data on the quantum of revenue sacrificed through tax concessions extended to the small scale sector under Direct Tax laws, the Committee in their original Report had recommended that on the lines of Central Excise Department, data relating to Direct Tax should be computerised expeditiously after demarcating small scale industries as a separate taxable entity to enable proper financial planning. The Committee have noted with regret that the Ministry of Finance have not accepted the recommendation on the plea that such a task would require a substantial increase in the work of Directorate of Research, Statistics & Publications in order to process and monitor the data required. The Committee have not accepted it as a valid explanation in this case. In the opinion of the Committee the data relating to the income and the revenue foregone on account of tax concessions have an important bearing in assessing the growth of the Small Scale Industries Sector and have, therefore, reiterated their earlier recommendation regarding computerisation of data relating to Direct Taxes and demarcating small scale sector as a separate taxable entity.

5. This Report was considered and adopted by the Public Accounts Committee at their sitting held on 13 April, 1994. Minutes of the sitting form Part II of the Report.

6. For facility of reference and convenience the 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 appendix to the Report.

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

NEW DELHI;
18 April, 1994
28 Chaitra, 1916 (Saka)

BHAGWAN SHANKAR RAWAT,
Chairman,
Public Accounts Committee.

CHAPTER I

REPORT

1. This Report of the Committee deals with action taken by the Government on the Committee's recommendations and observations contained in their 32nd Report (Tenth Lok Sabha) on paragraphs 2.03 & 1.03 of the Reports of Comptroller and Auditor General of India for the year ended 31 March, 1990 (No. 5 & 4 of 1991) on Union Government relating to 'Revenue Receipts—Direct Taxes' and 'Revenue Receipts—Indirect Taxes' respectively.

2. The 32nd Report which was presented to Lok Sabha on 8 August, 1992 contained 28 recommendations. Action Taken Notes have been received in respect of all the recommendations/observations and these have been categorised as follows:—

(i) Recommendations/Observations that have been accepted by the Government:

Sl. Nos. 1, to 4, 7 to 9, 12, 14, 15, 19, 20, 24.

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

Sl. Nos. 5, 6, 17, 21, 22, and 25.

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

Sl. Nos. 10, 11, 13 and 18.

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

Sl. Nos. 16, 23, 26, 27 and 28.

3. A period of more than one and half years has elapsed since the 32nd Report of the Committee was presented to Parliament but the Government have failed to furnish final action taken notes on a number of recommendations of the Committee contained in the Report. The Committee are unhappy over the same and desire that the final action taken notes on all the recommendations in respect of which Government have submitted interim replies so far should be furnished expeditiously.

4. In the succeeding paragraphs the Committee will deal with the action taken on some of their recommendations and observations.

Role of SSI Sector

Small Scale Industries (SSI) sector has a vital role to play in the process of economic development through vast employment generation, promotion of exports, dispersal of industrial and economic activities and mitigation of regional imbalances. The phenomenal growth of the small sector can be seen from the fact that the number of small scale units have increased from 5.46 lakhs in 1975-76 to 22.35 lakhs in 1992-93 generating employment to 134.06 lakhs in 1992-93. In value terms, production from the SSI sector has increased from Rs. 11000 crores in 1975-76 to Rs. 2093000 crores in 1992-93 (at current prices). SSI sector accounts for 35 per cent to the value added by the entire manufacturing sector, 6.9 per cent of the net domestic product and 30% of the country's exports.

Fiscal concessions to SSI units

5. In order to enable Small Scale Units to become economically viable, Government from time to time have been extending a host of fiscal concessions in income-tax, wealth-tax, customs, central excise duties etc. and other supportive facilities.

6. In their earlier Report, the Committee had examined two systems appraisal paragraphs of the Reports of the C&AG for the year ended 31 March, 1990, viz. para 2.03 of Report No. 5 of 1991, Direct Taxes and para 1.03 of Report No. 4 of 1991, Indirect Taxes on "Assessment of Small Scale Industrial Undertakings" by Income-tax Department and "Exemption to Small Scale Industries" from levy of central excise duty respectively.

Setting up of Inter-Ministerial Monitoring Agency

(Sl. No. 10—Paragraph No. 122)

7. Commenting on the disjointed approach of the various Ministries/Department of the Government in dealing with Small Scale Sector, the Committee in Paragraph 122 of their 32nd Report (10th Lok Sabha) had observed as follows:—

"In order to enable the Small Scale Industrial Undertakings to become economically viable and to help them face stiff competition from the large scale sector, a host of tax concessions, excise duty concessions as also other supportive facilities/incentives are extended to them by the Government from time to time. These concessions/incentives no doubt have contributed largely to the growth of the Small Scale Sector. Nevertheless, the Committee cannot help expressing their regret over the disjointed approach of the various Ministries/Departments of the Government in dealing with Small Scale Sector and there is no evidence of their having made a cohesive effort in extending various concessions. No effective co-ordination amongst the Ministries seems to exist. In these circumstances the Committee feel that an inter-Ministerial Monitoring Agency is the only solution

to ensure effective and efficient implementation of policies and programmes drawn by various Ministries for the development of small scale sector. Such an Agency will be able to monitor the administration of concessions, review the progress of policy/programmes and identify the bottlenecks requiring correctives. The committee hope that necessary steps would be initiated by the Department of Small Scale Industries and Agro and Rural Industries in this direction."

In their action taken note, the Ministry of Finance (Department of revenue) have stated as follows:—

"The issue of implementing of this recommendation is under consideration in the Department. A view is that there already exist both informal and formal mechanism of inter-Ministerial coordination. The department is guided by the SSI (BD) as Appex Advisory Committee in framing the policies for the SSI sector. The policy framework is prepared in consultation with the concerned Ministry/Department such as Ministry of Finance, Deptt. of Industrial Development, Ministry of Commerce, and Planning Commission etc. The SSI (BD) functions through Standing Committee that are set up in various areas. The Standing Committee on policies and programmes which have members drawn from various concerned Ministries can be assigned the task of monitoring the administration of concessions etc. A final view in this regard is yet to be taken."

This Action Taken Note issues with the approval of the Secretary, Department of SSI, Agro and Rural Industries.

9. In their earlier report, the Committee had drawn attention of Government to the lack of effective co-ordination among various Ministries/Departments of the Government in dealing with Small Scale Sector and in extending various concessions. The Committee had recommended setting up of an inter-Ministerial monitoring agency so as to monitor the administration of concessions, review the progress of policy/programmes and identify the bottlenecks requiring remedial/corrective action. The Committee are unhappy to note that despite the lapse of more than 19 months since the presentation of their Original Report, Government have not taken any concrete action in this regard. The Ministry of Finance have in their action taken note merely stated that the recommendation is under consideration and that a final view is yet to be taken. The Committee desire that the recommendation should be expeditiously implemented with a view to ensuring effective implementation of the policies and programmes drawn by various Ministries/Departments for the growth of Small Scale Sector. The Committee would like to be informed of the conclusive action taken in the matter.

Incentives for setting up of SSI Units in rural and backward areas
(Sl. No. 11—Paragraph 123)

10. Referring to the withdrawal of certain concessions under action 32A,

80 HHA of the Income-tax Act, 1961 w.e.f. the assessment year 1991-92 in regard to Small Scale Units in rural and backward areas, the Committee in Para 123 of their 32nd Report had recommended as follows:—

“The Committee note that notwithstanding the protests registered by the Office of Development Commissioner (SSI), tax concessions available under sections 32A, 80HH and 80HHA of the income-tax Act, 1961 were withdrawn w.e.f. the assessment year 1991-92 as a measure of rationalisation of tax structure. In April, 1990 the then finance Minister in his Budget speech, had also announced that the Central Investment subsidy was being reintroduced for small scale units in rural areas and backward regions. The Committee view with concern that while the tax concessions as aforementioned were desired to small scale sector, the promised Central Investment Subsidy is nowhere in sight even after 2 years of the announcement in the House. The withdrawal of concessions especially those for rural and backward areas militates against the policy of dispersal of industries in such areas. The Committee would like the Department of Revenue to review the whole matter afresh in view of the promised Central Investment subsidy Scheme not having been introduced and keeping in view the special requirement of the Small Scale Sector.

11. In their action note the Ministry of Finance (Department of Revenue) have stated as under:—

“As part of a package, sections 80HH and 80HHA of the Income-tax Act were withdrawn alongwith the reduction in the tax rates. The issue of restoration of sections 32A, 80HHA in the Income-tax Act has been reviewed a number of time and it has been found that withdrawal of the said sections was desirable. The Tax Reforms Committee in its report has recommended that for better tax administration, it is important to withdraw certain tax concessions and reduce tax rates.”

12. In their earlier report, the Committee had observed that certain concessions to the small scale sector under Sections 32A, 80HH & 80HHA of the Income Tax Act 1961 were withdrawn w.e.f. the assessment year 1991-92. These concessions were earlier introduced with the objective of encouraging setting up of small scale units in rural and backward areas and also for the removal of regional imbalances. The withdrawal of the concessions, in fact was coupled with an announcement by the then Finance Minister in his budget speech in April 1990 that Central Investment Subsidy was being reintroduced for small scale units in rural areas and backward regions. Since the proposed Investment Subsidy Scheme had failed to take off even after a period of two years of the announcement in the House, the Committee had recommended that the Ministry of Finance should review the whole matter afresh keeping in view the special requirements of the

small scale sector. The Ministry of Finance have in their action taken note simply stated that the issue of restoration of Sections 32A, 80HHA of the Income Tax Act had been reviewed a number of times and it has been found that withdrawal of the said Sections was desirable. In this connection, they have also quoted the recommendation of the tax Reforms Committee that for better tax administration it was important to withdraw certain tax concessions and reduce tax rates. The Committee are constrained to point out that the action taken note is completely silent about either the reintroduction of the Central Investment Subsidy Scheme or of any alternative proposals for providing the desired incentives to the small scale sector. Since the withdrawal of the concessions and non-introduction of the Central Investment Subsidy Scheme have adversely affected the policy of dispersal of small scale industries in rural and backward areas, the Committee reiterate their earlier recommendation and would like to be informed of the further action taken in the matter.

*Quantification of Direct Tax Concessions to small scale sector
(Sl. No. 13—Paragraph 125)*

13. Emphasizing the need of quantification of the money sacrificed through the fiscal concessions, particularly under the Direct Tax Laws and its overall impact on the growth of small scale industries, the Committee in Para 125 of their 32nd Report had recommended as follows:—

“The Committee have been informed that no data regarding Small Scale Industrial Undertakings filing returns under the Direct Tax laws or the extent of concessions granted to them is available with the Department of Revenue. According to the Department of Revenue, this data is not compiled as under the Income-tax Act, the small scale industries are not a separate taxable entity and therefore their cases are not identifiable as small scale industrial undertakings. In the absence of data with the Finance Ministry relating to potential tax payers or revenue sacrificed, the Committee are unable to comprehend as to how technically to entire range of fiscal concessions is annually reviewed before the Budget and changes introduced based on the impact such concessions have made on the intended sector. The Committee are, therefore, inclined to believe that such changes at the time of the Budget are based on the subjective assessments of the Ministry of Finance and the concerned administrative Ministry/Department and not solely based on any rationale. The Committee are also unhappy to note that the Finance Ministry which manages the resources of the economy have not made any serious efforts to quantify the revenue sacrificed through the tax concessions extended to small scale sector under the Direct Tax Laws. They desire that on the lines of Central Excise data relating to Direct Taxes should be computerized expeditiously after demarcating small scale industries as a

separate taxable entity to enable proper financial planning. The Committee would like to be apprised of the action taken by the Ministry of Finance in this regard."

14. In their action taken note furnished to the Committee, the Ministry of Finance (Department of Revenue) stated:

"The returns of income do not require an assessee to mention whether it is a small scale industrial undertaking or not. For instance, industrial undertaking may claim deduction under Section 80-IA without mentioning that it is a small scale industrial undertaking. Similarly, a small scale industrial undertaking even if it has commenced operation before 1.4.1990, will not be able to claim deduction under section 80HHA if it has not been set up in rural areas. There is, thus, no way to find out whether an assessee is running a small-scale-industrial-undertaking unless separate Questionnaire are sent to each assessee earning income from an industrial undertaking. Such a task would require a substantial increase in the work of Directorate of Research, Statistics and Publications in order to process and monitor the data required by the Public Accounts Committee."

15. In their earlier Report the Committee had noted with surprise that the Ministry of Finance on the Direct Taxes side did not possess the data relating to either the potential tax payers in the small scale sector or the extent of revenue sacrificed on account of concessions granted to SSI sector. This had led the committee to conclude that the budgetary changes effected every year are based on the subjective assessments of the Ministry of Finance and the concerned Administrative Ministry/Department and not strictly based on any rationale. Emphasising the need for generating data on the quantum of revenue sacrificed through tax concessions extended to the small scale sector under Direct Tax laws, the Committee had recommended that on the lines of Central Excise Department, data relating to Direct Tax should be computerised expeditiously after demarcating small scale industries as a separate taxable entity to enable proper financial planning. The Committee regret to note that the Ministry of Finance have not accepted the recommendation on the plea that such a task would require a substantial increase in the work of Directorate of Research, Statistics & Publications in order to process and monitor the data required. The Committee cannot accept it as a valid explanation in this case. Since the data relating to the income and the revenue foregone on account of tax concessions have an important bearing in assessing the growth of the Small Scale Industries sector, the Committee reiterate their earlier recommendation regarding computerisation of data relating to Direct taxes and demarcating small scale sector as a separate taxable entity. They would like to be informed of the conclusive action taken in the matter.

16. The proposals contained in the Union Budget 1994-95 relating to SSI

Sector has evoked adverse reactions from the Sector. These reactions reinforce the views of the Committee that the authorities concerned should be possessed with more details relating to the SSI Sector.

Evaluation of impact of concessions

(Sl. No. 14—Paragraph 126)

17. Stressing the need for undertaking a detailed evaluation of the impact of concessions extended to the small scale sector so as to enable the Department to assess the efficacy of such incentives in terms of growth of the small scale sector, the Committee in paragraph 126 of the Report had recommended:—

“The Committee further note that no serious attempt has ever been made by any Ministry or Department concerned to evaluate the impact of concessions, incentives, etc. extended to the small scale sector by them from time to time. The Committee need hardly emphasise that extension of any incentive or concession should be followed up with a detailed evaluation to enable to Department to assess the efficacy of such incentives in terms of growth of the sector. This becomes all the more relevant where fiscal concessions are involved as the balancing is between the growth of the sector and the likely revenue loss that is to accrue to the exchequer. The Committee need hardly point out that this feedback will form a vital input in the formulation of any effective strategy for programme/policy support contemplated to promote the growth of the small scale sector. The Committee desire that necessary steps may be taken by the Ministry of Finance/Department of Small Scale, Agro and Rural Industries to get such an evaluation conducted and apprise the Committee of the outcome alongwith the action taken thereon.”

18. The Ministry of Finance (Department of Revenue) have in their action taken note stated:—

“The recommendation of the Committee to take up a detailed evaluation of the small scale sector with reference to the fiscal concessions available to them has been carefully considered. It is felt that any detailed evaluation of the small scale sector can be more appropriately undertaken by the Department of Small Scale Industries and Agro and Rural Industries which is the administrative Department concerned. That department has already written to the National Institute of Public Finance and policy to take up this study and work out a detailed proposal in this regard.”

19. The Committee note that in pursuance of their recommendation, Government have entrusted the National Institute of Public Finance and policy to undertake a detailed evaluation of the impact of concessions, incentives etc. extended to the small scale sector. The Committee desire that the study should be taken up urgently and completed expeditiously. They would also like to emphasise the need for proper follow-up action so as to ensure that the concessions actually lead to the growth of the sector.

Need for undertaking joint surveys

(Sl. No. 18—Paragraph 130)

20. While Observing that a large number of Small Scale Units registered with the District Industries Centres were not on the registers of Income-tax Department, the committee in paragraph 130 of the Report had recommended:—

“According to Para 2.03 of the Audit Report (Direct Taxes) for 1989-90, a large number of Small Scale Units registered with the District Industries Centres were not on the registers of Income tax Department. In Gujarat Circle, the number of registered units during the period 1980-88 was 58,565 but the number of units assessed to Income-tax was stated to be negligible. In the case of Uttar Pradesh, only 1.95% of the registered units were reported to have been assessed to Income tax during 1988-89. Similarly, in Punjab Circle, out of 1620 Small Scale Units, 1342 units were not submitting income tax returns. The Audit have, on further verification, informed that in Punjab Circle 240 units out of 1342 were actually borne on income tax records; 999 units were petty ones having no justification for being on income tax records and 103 units were found to be potential income tax assesseees to whom notices had been issued in the matter. The Committee had in their 116th Report (8th Lok Sabha) recommended that the department of Revenue intensify the tempo of surveys by further strengthening the investigating machinery of the Department so that persons having taxable income, were taxed. In response to that recommendation, the Committee were informed that vigorous and sustained efforts in this direction would be continued. Considering the facts brought out by the Audit, the Committee feel that much remains to be done in the matter to bring tax evaders to book. In this connection, the Committee feel that the Central Information Branches functioning under the control and supervision of Directors of Income tax needs to be activated to identify potential tax payers in Small Scale Sector. The Committee are of the view that the surveys of industrial complexes housing small scale units if undertaken jointly by the Central Excise Department and the Income Tax Department would be more effective and result oriented in terms of revenue that may accrue to the exchequer. The Committee, therefore, recommend that both the Departments should take necessary steps and chalk out a joint strategy to deal effectively with the potential tax payers and tax evaders.”

21. In their action taken reply, the Ministry of Finance (Department of Revenue) have stated:—

“The Committee’s suggestion that surveys of Industrial complexes housing Small Scale Units may be undertaken jointly by the Central Excise Department and Income Tax Department so as to make the surveys more effective and result-oriented is noted. The Central

Board of Excise and Customs has informed that the Income Tax authorities may approach the jurisdictional Asstt. Collectors for help in conducting surveys of Industrial Complexes housing Small Scale Units. The field formations have been directed to take further necessary steps to work out a joint approach in this regard.”

22. In their earlier report, the Committee had observed that a large number of small scale units registered with the District Industries Centres were not on the registers of Income Tax Department. Emphasising the need for dealing effectively with the potential tax payers and tax evaders, the committee had recommended that the Central Excise and Income Tax departments should chalk out a joint strategy for undertaking surveys of industrial complexes housing small scale units. In their action taken note, the Ministry of Finance have stated that the Income tax authorities may approach the jurisdictional Assistant Collectors for help in conducting surveys and that the field formations have been directed to take further necessary steps in this regard. From the reply of the Ministry it is evident that instructions have been issued in a rather routine manner without either the Ministry or the Board having made any serious efforts at their level for formulating a joint strategy and guiding the field formations accordingly. The Committee cannot but express their unhappiness over this casual approach. They therefore desire that the Ministry of Finance should further look into the matter and ensure that effective steps are taken by the two divisions-viz. Central Excise and Income-tax in concert for having proper surveys of small scale units.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

Small Scale Industries play a vital role in the process of economic development through vast employment generation promotion of exports, dispersal of industrial and economic activities and mitigation of regional imbalances. The phenomenal growth of the small scale sector can be seen from the fact that the number of small scale units have increased from 5.46 lakhs in 1975-76 to 19.38 lakhs in 1990-91 generating additional employment to the tune of 78.40 lakh persons during the same period. In value terms production from the small scale sector has increased from Rs. 110 crores in 1975-76 to Rs. 1553.4 crores in 1990-91. At the end of the Seventh Five Year Plan, this sector accounted for nearly 30% of the gross value of output in the manufacturing sector and over 40% of the total exports besides creating jobs for 12 million people.

The Small Industries Development Organisation headed by the Development Commissioner (Small Scale Industries) under the Department of Small Scale Agro & Rural Industries is an apex body and nodal agency for formulating, coordinating and monitoring policies and programmes for promotion and development of small scale industries. According to the information furnished to the Committee, the Department of Small Scale Agro and Rural Industries maintains close liaison with other concerned departments like Department of Industrial Development, DGTD, Ministry of Finance, Planning Commission etc. and very often inter-ministerial meetings are held to resolve issue connected with the small scale sector.

The Industrial Policy Statement of July, 1991, stated that "Government will provide enhanced support to the small scale sector so that it flourished in an environment of economic efficiency and continuous technology upgradation." The thinking of the Government on the "Policy Measures for promoting and strengthening small, tiny and village industries" was spelt out in greater detail in the statement made in the Lok Sabha in August, 1991. The main features of the policy are enumerated below:

- (i) De-regulation, de-bureaucratisation and simplification of statutes, regulations and procedures;
- (ii) Increase in the investment limit in plant and machinery of tiny enterprises from Rs. 2 lakh to Rs. 5 lakhs, irrespective of the location of the unit;

- (iii) Inclusion of industry-related services and business enterprises, irrespective of their location, as small scale industries;
- (iv) Ensuring both adequate flow of credit on a normative basis and quality of its delivery for viable operation of the SSI sector;
- (v) Setting up of a special monitoring agency to oversee the genuine credit needs of the small scale sector;
- (vi) Introduction of suitable legislation to ensure prompt payment of small industries bills;
- (vii) Introduction of a scheme of Integrated infrastructural development (including technological back-up services) for Small Scale Industries;
- (viii) Setting up of a Technology Development Cell in the Small Industries Development Organisation;
- (ix) Market promotion of SSI products through co-operative/public sector institutions, other specialised professional/marketing agencies and the consortia approach;
- (x) Setting up of an Export Development Centre in the Small Industries Development Organisation.

[Sl. Nos. 1 to 3 (Para Nos. 113, 114 & 115) of Appendix VII to 32nd Report of PAC (10th Lok Sabha)]

Action Taken

There are no specific recommendations in these paras. The paragraphs are factual statements.

The Action Taken Note issues with the approval of Secretary, Department of SSI, Agro and Rural Industries.

Ministry of Finance (Deptt. of Revenue) F.No. 241/4/92-A&PAC. II 2(2)
(1)/91-SSI Bd. dated 29.3.1993]

Recommendation

The Committee are of the firm view that urgent and effective implementation of the above measures to promote the growth of the small scale sector is essential in view of the note of caution contained in the Economic Survey 1991-92 that "the growth of the Sector during 1990-91 was relatively low because of the adverse impact of certain factors like import restrictions, credit squeeze and hike in interest rates. The combined adverse effects of these factors are likely to aggravate further during the current year. Production in the Small Scale Sector is expected to go up

only by about 3 per cent this year as against 8.5 per cent in 1990-91. The growth in employment is also likely to be only marginal." The Committee would like to be apprised of the follow up action taken by the Government on the initiative suggested in the policy statement of August, 1991.

[Sl. No. 4 (Para No. 116) of Appendix VII to 32nd Report of PAC (10th Lok Sabha)]

Action Taken

These are constantly being monitored in the department. Some of the Sections include enhancing the investment limit for tiny units to Rs. 5 lakhs, inclusion of service and design enterprises recognised as tiny enterprises issue of ordinance to ensure prompt payment of SSI bills and a bill introduced to this effect on 23.9.1992. Submission of report of the RBI committee on credit needs of SSI sector as Bill for limited Partnership Act under formulation. Scheme for infrastructural development is being formulated. Proposal to set up 10 entrepreneur development institution under consideration. The steps taken to simplify rules and procedures include ban on manufacture of certain items in SSI sector withdrawn prior approval by a number of committees for manufacture of electronic items has been disbanned, specific proposal on simplification of various major laws submitted to Ministry of Labour.

This Action Taken Note issues with the approval of Secretary, Department of SSI, Agro and Rural Industries.

[Ministry of Finance (Deptt. of Revenue) F. No. 241/4/92-A&PAC II F.No.2 (2) (1)/91-SSI Bd. dated 29.3.1993]

Recommendation

The Committee note that registration of a Small Scale Unit is a prerequisite for availing excise duty concessions while it is not so in respect of tax concessions under the Direct Tax laws. It is strange that despite the fact that both the Central Board of Direct Taxes and the Central Board of Excise and Customs function under the same Department of Revenue, separate procedures and followed by them in the matter of extending concessions to Small Scale Industries. The Committee therefore, desire that, as in the case of Central Excise duty concessions, the income tax concessions should also be available only to the registered small scale units. This would help the Ministry in having definite information of not only the potential tax payers in the Small Scale Sector but also enable an assessment of the impact of the fiscal concessions on the growth of Small Scale Sector.

[Sl. No. 7 (Para 119) of Appendix VII to 32nd Report of PAC (10th Lok Sabha)]

Action taken

Taking into account the point raised by the PAC, the definition of the term Small Scale Industrial Undertaking has been modified in section 80IA of the Income-tax Act, 1961. Accordingly, small scale industrial undertaking now means an industrial undertaking which is regarded as small scale industrial undertaking u/s 11B of the Industrial (Development & Regulation) Act. The provision in the Industrial (Development & Regulation) Act stipulates registration of small scale industrial undertakings.

[Ministry of Finance (Deptt. of Revenue) F. No. 241/4/92-A&PAC II
F. No. 154/10/92-TPL. dated 11.6.1993]

Recommendation

The Committee note that there is no system in the Department of Central Excise for verification of the validity of the registration certificate subsequent to its issue by the Director of Industries when the unit makes changes in its location, constitution of factory or makes addition to the plant and machinery beyond the prescribed limits. According to the Department of Revenue, the registration certificate is sufficient evidence to grant exemption to small scale units and no verification is made by them in the matter. The Committee have been informed during evidence that a system for such verification exists in the Directorate of Industries/DC (SSI). However, the test check conducted by Audit, disclosed 178 cases in 26 collectorates involving irregular exemptions of the order of Rs. 9.44 crores. Out of these, 102 cases in 21 collectorates accounted for excise duty concessions amounting to over Rs. 5.31 crores irregularly availed as the registration certificate on which reliance was placed had already ceased to be valid. In the remaining case, the requirement of registration were found to have not been fulfilled.

Considering the extent of loss that has occurred to the exchequer through such irregular concessions, the Committee feel it imperative that there should be proper verification of the unit before registration and once registered, reviewed on a regular basis and the unit deregistered, if it crosses the prescribed limit by the Directorate of Industries or the District Industries centre, as the case may be.

[Sl. No. 8&9 (Para No. 120 & 121) of Appendix VII to 32nd Report of PAC (10th Lok Sabha)]

Action taken

The Department agrees that only the genuine SSI units should be eligible for fiscal concessions and there is need for verification on a regular basis to eliminate the non-entitled units. As the number of units having investment in plant and machinery beyond Rs. 35 lakhs is not more than 1% of the total registered SSI units it should be possible for Directorate of Industries and the DTC to conduct unit to unit survey for verification on a regular basis. We shall be writing to the concerned Directorate of

Industries and the DIC to do the needful. It may be appropriate if an official from the local Central Excise Department is also associated in the verification while conducting such survey.

The Action Taken Note issues with the approval of Secretary, Department of SSI, Agro and Rural Industries.

[Ministry of Finance (Deptt. of Revenue) F.No.241/5/92-A&PAC II
F.No.2(2) (1)/91-SSI Bd. dated 11.6.1993]

Recommendation

The Committee note that the industrial policy statement of July, 1991 envisages liberalisation of policies in various areas like Industrial Licensing, Foreign Investment, Foreign Technology Agreements, Public Sector and MRTP Act. The Committee desire the Government to act cautiously while implementing the above policy so that the process of liberalisation does not have any adverse effect on the Small Sector which deserves to be nurtured and protected in view of its vital role in the process of economic development

[Sl.No. 12 (Para No. 124) of Appendix VII to 32nd Report of PAC(10th Lok Sabha.)]

Action taken

The policy announcement relating to small and tiny sector of August 1991 provides adequate protective measures by not allowing more than 24% equity participation both by medium and foreign companies. These companies are scrutinised in the Department of Industrial Development in which officers of our Department are also associated.

The Action Taken Note issues with the approval of the Secretary, Department of SSI, Agro and Rural Industries.

[Ministry of Finance (Deptt. of Revenue) F.No.241/4/92-A&PAC II
F.No.2(2)(1)/91-SSI Bd. dated 11.6.1993]

Recommendation

The Committee further note that no serious attempt has ever been made by any Ministry or Department concerned to evaluate the impact of concessions, incentives, etc. extended to the small scale sector by them from time to time. The Committee need hardly emphasise that extension of any incentive or concession should be followed up with a detailed evaluation to enable the Department to assess the efficacy of such incentives in terms of growth of the sector. This becomes all the more relevant where fiscal concessions are involved as the balancing is between the growth of the sector and the likely revenue loss that is to accrue to the exchequer. The Committee need hardly point out that this feedback will form a vital input in the formulation of any effective strategy for programmes/policy support contemplated to promote the growth of the small scale sector. The Committee desire that necessary steps may be

ken by the Ministry of Finance/Department of Small Scale, Agro and Rural Industries to get such an evaluation conducted and apprise the committee of the outcome alongwith the action taken thereon.

Sl. No. 14 (Para No. 126) of Appendix VII to the 32nd Report of PAC
(10th Lok Sabha)

Action Taken

The recommendation of the Committee to take up a detailed evaluation of the small scale sector with reference to the fiscal concessions available to them has been carefully considered. It is felt that any detailed evaluation of the small scale sector can be more appropriately undertaken by the Department of Small Scale Industries and Agro and Rural Industries which is the Administrative Department concerned. That department has already written to the National Institute of Public Finance and Policy to take up this study and work out a detailed proposal in this regard.

This issues with the approval of the Finance Minister.

[Ministry of Finance (Deptt. of Revenue) F.No.342/4/92—TRU
F.No.241/4/92—A&PAC II dated 11.6.1993]

Recommendation

The Committee note that delayed payments to the small scale sector is one of the crucial problems being faced by the units in this sector. Apart from setting up factoring services through Small Industry Development Bank of India, the Ministry was to introduce suitable legislation to ensure prompt payment to the units in the small scale sector. The Committee regret to note the delay in this regard and desire that the proposed bill may be expedited to mitigate the problem of delayed payment to small scale units.

[Sl. No. 15 (Para 127) of Appendix VII to 32nd Report of PAC (10th Lok Sabha)]

Action Taken

An ordinance to this effect has already been issued and a bill has also been introduced in the current session of the Parliament.

The Action Taken Note issues with the approval of Secretary, Department of SSI, Agro and Rural Industries.

[Ministry of Finance (Deptt. of Revenue) F.No.241/4/92—A&PAC—II
F.No.2(2) (1)/91—SSI Bd. dated 11.6.1993]

Recommendation

The Committee are distressed to find from the audit para that the concessions were allowed in Direct Taxes to Small Scale Units by the Assessing Officers without taking into account all the relevant factors governing such concessions and the possibility of detection of such errors

was remote due to the Summary Assessment procedure being followed by the Income-tax Department. In fact, the Audit para has highlighted that the total number of mistakes that had been noticed in test check came to as many as 101 with tax effect of Rs. 4.23 crores. The Department of Revenue has, however, clarified that the Summary Assessment Scheme was introduced mainly with the object of managing the increasing workload and prior to 1.4.1989 arithmetical errors etc. were allowed to be rectified. However, w.e.f. 1.4.1989, a new Section 143(1) (a) was introduced in the Income-tax Act, 1961 providing that returns would be processed and prima facie adjustments as prescribed under the Section would be made. The Committee, however, note that the mistakes had occurred even in cases where assessments were completed after scrutiny.

[Sl. No. 19 (Para 131) of Appendix VII to 32nd Report of PAC (10th Lok Sabha)]

Action Taken

There is not specific recommendation in this para but the Committee has observed that mistakes have occurred even in scrutiny assessments. The point has been noted.

[Ministry of Finance (Deptt. of Revenue) F.No.241/4/92-A&PAC—II
F.No.228/12/92—ITA—II dated 11.6.1993]

Recommendation

As a sequel to the recommendations made by PAC in their 173rd report (8th Lok Sabha) and in consultation with C&AG, the Department of Revenue have decided that the Audit by Internal Audit of scrutiny cases having income of Rs. 2 lakhs to 5 lakhs in non-company cases and Rs. 50,000 to Rs. 5 lakhs in company cases will be increased from 50% to 100% with a consequent reduction of audit in non-scrutiny cases of this category from 50% to 10%. The Committee note that the Action Plan for 1991-92 drawn by the CBDT laid down that all cases of returned income/loss of Rs. 5 lakhs and above would be compulsorily scrutinised and out of the remaining cases selection would be made for scrutiny of such cases as involve refund exceeding Rs. 1 crore or where information was received from CIB, survey or other sources or are glaring cases of tax evasion etc. The Committee hope that with the changes brought about in the procedures and exercise of greater care by the Assessing Officers, the scope for errors such as those pointed out in the Audit para, will be minimised.

[Sl. No. 20 (Para No. 132) of Appendix VII to 32nd Report of PAC (10th Lok Sabha)]

Action Taken

The recommendations of the Committee have been noted.

[Ministry of Finance (Deptt. of Revenue) F.No.241/4/92—A&PAC—II
F.No.228/12/92—ITA—II dated 11.6.93]

Recommendation

The Committee note that irregular grant of both MODVAT credit and SSI exemption under Notification No. 175/86—CE dated 1.3.1986 simultaneously resulted in loss of revenue to the extent of Rs. 46.1 lakhs in 12 Collectorates test checked by Audit. This should not have happened given the clear instructions and clarifications made in the matter by the Ministry of Finance (Deptt. of Revenue). Had a little more care been exercised at the time of grant of exemptions, the loss in revenue could have been avoided. The Committee hope that the enforcing agencies would be more careful in future in this regard.

[Sl. No. 24 (Para No. 136) of Appendix VII to 32nd Report of PAC (10th
Lok Sabha)]

Action Taken

It has been found that in some cases the exemption was correctly availed of and the relevant objections were not correct. In the remaining cases corrective actions have been taken for recovering the duty. The field formations have, once again, been directed to scrupulously follow the instructions issued, *vide* circular No.9/93—CX.8 dated 24.8.1993.

This issues with the approval of Additional Secretary to the Government of India.

[Ministry of Finance (Deptt. of Revenue) F.No.241/4/92—PAC II F.No.
234/5/92—CX-7 dated 14.10.1993]

CHAPTER III

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

Recommendation

The Committee note that the term 'Small Scale Industrial Undertaking/Concern' has been defined in three statutes namely, the Income-tax Act, 1961, the Industries (Development and Regulation) Act, 1951 and the Banking Regulation Act, 1949. Prior to the amendment to the Income-tax Act, 1961 introduced through the Finance Bill, 1992, all these definitions were at variance with each other. It was only when the Committee took up examination of the audit paragraph and examined the Finance Secretary on the subject that the Department of Revenue realised the need for bringing about uniformity in the definitions and incorporated suitable amendment to the relevant provisions of the Income-tax Act, 1961 in the Finance Bill, 1992 thereby adopting the same definition as for the purpose of Industries (Development and Regulation) Act, 1951. In the case of the Banking Regulation Act, 1949, the Committee are informed that the decision to amend the definition of the term 'Small Scale Industrial Concern' has been kept in abeyance in the wake of recommendation made by the Narasimham Committee to the effect that the Small Scale Sector except tiny sector might be excluded from the priority sector. During evidence, the Secretary (Economic Affairs) had also expressed apprehensions that in case the existing level of investment limit (*i.e.* Rs. 35 lakhs for Small Scale Units and Rs. 45 lakhs for ancillary units etc.) was also raised to Rs. 60 lakhs and Rs. 75 lakhs under the Banking Regulation Act, 1949 as has been done for the purpose of Industries (Development and Regulation) Act, 1951 the larger units in small scale sector being more credit worthy would have greater access to banks than the smaller units which might be deprived of the needed support. The Committee agree that the small units in the Small Scale Sector need protection from the onslaught of larger units in that sector in availing credit facilities. They are, however, unable to agree to the view that priority sector lending should be restricted only to the tiny sector and recommend that the existing level of investment limits *i.e.* Rs. 35 lakhs for small scale units and Rs. 45 lakhs for ancillary units be retained for lending under the Priority Sector. Preference may of course be

given to meeting the requirements of tiny sector and a separate data may be maintained in respect of lending to tiny sector to monitor the credit flow to this sector.

[Sl. No. 5 (Para No. 117) of Appendix VII to 32nd Report of PAC
(10th Lok Sabha)]

Action taken

Government of India issued a notification on 2nd April, 1991 raising ceiling limit for investment in plant and machinery for being recognised as a SSI unit and an ancillary unit from Rs. 35 lakhs and Rs. 45 lakhs respectively to Rs. 60 lakhs and Rs. 75 lakhs respectively. In this connection, it may be stated that one of the recommendations of the Narasimham Committee relates to redefining of the Priority Sector. Pending a decision on the definition of Priority Sector, RBI advised banks that SSI classification under Priority Sector should be given only in respect of those units whose investment in plant and machinery does not exceed Rs. 35 lakhs (Rs. 45 lakhs in the case of ancillary undertakings). However, there is no objection to the banks financing units with investment in plant and machinery exceeding the aforesaid limit. Such lending, however, will be outside the purview of the priority sector.

This Action Taken Note issues with the approval of Additional Secretary (Banking).

[Ministry of Finance (Deptt. of Revenue) F.No.241/4/92-A&PAC.II 21-1/
92-IF.II/Vol.II Dated 29.3.1993]

Recommendation

The Committee note with surprise that although the excise duty concessions are extended to the Small Scale Industrial Units by the Deptt. of Central Excise, the term 'Small Scale Industrial undertaking' is nowhere defined in the Central Excise and Salt Act, 1944 or Rules made thereunder. The Committee desire that the Central Excise and Salt Act, 1944 or Rules should be amended to incorporate therein the definition of the term 'Small Scale Industrial Undertaking' on the same lines as in the Industries (Development & Regulation) Act, 1951.

[Sl. No. 6 (Para No. 118) of Appendix VII to the 32nd Report of PAC
(10th Lok Sabha)]

Action Taken

The Department of Small Scale Industries and Agro and Rural Industries is the department concerned with all aspects of development of small scale industries and legislation in this regard. The Industries

(Development and Regulation) Act, 1951 already contains the definition of 'small scale industrial undertaking' and the Central Excise exemption notification No. 1/93—Central Excises dated 28.2.1993 (which came into force on 1.4.1993) lays down that full exemption from duty for clearances upto Rs. 30 lakhs and concessional rates of duty upto Rs. 75 lakhs shall be applicable to a factory which is an undertaking registered with the Director of Industries in any State or the Development Commissioner (Small Scale Industries) as a small-scale industry under the provisions of the Industries (Development and Regulation) Act, 1951.

Besides, if a definition of small-scale industrial undertakings is incorporated in the Central Excise and Salt Act, 1944 or Rules made thereunder, it would necessitate the determination of value of plant and machinery in such undertakings. This is likely to give rise to disputes and litigation. Moreover, the Department has no such expertise.

The objective of having minimum contact which the small-sector units in particular, would also get diluted.

In view of the foregoing, it is felt that it may not be necessary to incorporate the definition of small scale industrial undertakings in the Central Excises and Salt Act, 1944 or Rules made thereunder.

This issues with the approval of the Finance Minister.

[Ministry of Finance (Deptt. of Revenue) F. No. 241/4/92-A&PAC II,
F. No. 342/4/92-TRU dated 11.6.1993]

Recommendation

The Committee note that the benefits of deductions under the provisions of Income-tax Act, 1961 are availed of by the profit making industrial undertakings and the large number of sick units which are running into losses, are in no way benefitted therefrom. Obviously, this is on account of deductions being linked with the profits and there being no provisions for carry forward of losses. The Committee feel that sick units deserve sympathetic treatment. They, therefore, desire the department of Revenue to thoroughly examine the matter and make suitable provisions in law for the benefit of sick units.

[Sl. No. 17 (Para No. 129) of Appendix VII to 32nd Report of PAC,
(10th Lok Sabha)]

Action taken

Since Income-tax is levied on income, the incentive under the Income-tax Act, can be linked only with the income and may only be availed by profit making units. The sick units which are running into losses would

even otherwise not normally be liable to pay tax. Further there are provisions to set off and carry forward the losses under the Income-tax Act.

[Ministry of Finance (Deptt. of Revenue) F. No. 241/4/92-A&PAC II,
F. No. 154/10/92-TPL dated 11.6.1993]

Recommendation

The audit have also pointed out that the Assessing Officers have allowed the grant of incentives and concessions admissible under the various rules of the Income-tax without verifying whether all the pre-conditions viz. number of workers employed, cost of plant and machinery installed, location of unit and production of audit certificate, for the grant of such concessions were fulfilled. According to the Ministry the mistakes have occurred on account of non-application or incorrect application of the provisions of law by the officers concerned. To avoid such errors the Central Board of Direct Taxes have issued a circular in January, 1991 drawing attention to the provisions under Chapter VI-A of the Income Tax Act and have summarised the nature of mistakes that have normally been committed by the Assessing Officers on the basis of the objections raised by Audit in the audit para. The Assessing Officers have also been directed to acquaint themselves with legal provisions as clarified from time to time through legal pronouncements and Board's instructions before they allow any deduction under Chapter VI-A while computing the taxable income of the assesseees. The Committee hope that the above instructions will be strictly followed by the Assessing Officers in letter and spirit. The Committee, however, desire the Ministry to evolve a proforma which the assesseees may be required to file alongwith their returns indicating therein the deductions claimed and the satisfaction of all the conditions required for claiming deductions with supporting evidence so as to ensure fulfilment of the prescribed conditions.

[Sl. No. 21 (Para No. 133) of Appendix VII to the 32nd Report of PAC
(10th Lok Sabha)]

Action taken

The matter for prescribing a proforma to be attached with the return of income has been examined in great detail. Prescribing a proforma for all assesseees to be attached to the return about the deductions claimed and the satisfaction of the prescribed conditions, it is submitted, may add to the complexity of the return.

Adequate safeguards have been provided under the Income-tax Act to prevent allowance of wrong claims of deductions made by the assesseees. If an assesseee has claimed a deduction without fulfilling the statutory requirements, the Assessing Officer can disallow the deduction claimed. Further, for claiming deductions provided under Section 80 HHA (deduction in respect of profits and gains from newly established small scale

industrial undertakings in certain areas), 80-IA (deduction in respect of profits and gains from industrial undertakings) etc. an assessee, other than a company or a co-operative society, has to furnish alongwith the return of income the report of audit of his accounts, duly signed and verified by an accountant. In case of companies and co-operative societies, they have to get their accounts audited under the laws governing them. Therefore, adding a performa to the return as suggested by the Public Accounts Committee will only add to its complexity.

In view of the above, it has been decided not to effect any change in the income-tax return Forms.

This issues with the approval of the Finance Minister.

[Ministry of Finance (Deptt. of Revenue) F. No. 241/4/92-A&PAC II,
F. No. 142/23/92-TPL dated 11.6.1993]

Recommendation

The Audit Para (Direct Taxes) has made a mention of three cases in which large units are reported to have availed of concessions intended for small scale units by projecting themselves as Small Scale Units. These cases relate to units engaged in the manufacture of domestic electrical appliances, alcohol spirit and soft drink. The Ministry of Finance (Department of Revenue) have not accepted the audit objections in these cases on the basis of judicial pronouncements on similar issues and interpretation of legal terms. The Committee however, feel that there is need to make the law clearer to avoid any misinterpretation or ambiguity thereabout. They, therefore, desire that the Department of Revenue should undertake an exercise in consultation with Audit and the Ministry of Law and the lacunae, if any, in the Law be plugged.

[Sl. No. 22 (Para No. 134) of Appendix VII to 32nd Report of PAC
(10th Lok Sabha)]

Action Taken

As definition of the terms "Small Scale Industrial Undertaking" has been adopted from Industrial (Development and Regulation) Act, 1951, on the recommendation of the Committee the problem raised above will not arise in future.

[Ministry of Finance (Deptt. of Revenue) F. No. 241/4/92-A&PAC II,
F. No. 154/10/92-TPL dated 11.6.1993]

Recommendation

The Committee note that in order to enable the Small Scale Units to maintain competitiveness of their goods in the market, a scheme of higher national credit of the duty paid on the inputs was incorporated in the SSI exemption scheme whereby a manufacturer who procures the goods (inputs) from a Small Scale manufacturer can take credit of an amount higher than the duty actually paid on the inputs even though the Small unit

pays the duty at a concessional rate. The extent of higher notional credit allowed is 5% at present. The audit has noticed certain irregularities in the availment of higher notional credit during the course of test checks in 10 Collectorates involving an amount of duty of the order of over Rs. 2.08 crores. This is indicative of the lack of vigilance on the part of the assessing officers while granting higher notional credit. The Committee also note from the information supplied by the Ministry that every year a sizeable amount in the form of higher notional credit is allowed. During the years 1987-88, 1988-89 and 1989-90 the estimated amounts of such allowance were of the order of Rs. 225 crores, Rs. 135 crores and Rs. 140-150 crores, respectively. Considering the quantum of allowance made annually under the above scheme, the Committee consider it imperative that the field formations should be suitably alerted to be extra vigilant while dealing with cases involving grant of higher notional credit.

[Sl. No. 25 (Para No. 137) of Appendix VII to 32nd Report of PAC
(10th Lok Sabha)]

Action Taken

The facility of notional higher credit has since been withdrawn w.e.f. 1.4.1993, *vide* Notification No. 1/93-CE(NT) datd 28.2.1993.

This issues with the approval of the Additional Secretary to the Government of India.

[Ministry of Finance (Deptt. of Revenue) F. No. 241/4/92-A&PAC II,
F. No. 234/5/92-CX-7 dated 14.10.1993]

CHAPTER IV

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

Recommendation

In order to enable the Small Scale Industrial Undertakings to become economically viable and to help them face stiff competition from the large scale sector a host of tax concession, excise duty concessions as also other supportive facilities/incentives are extended to them by the Government from time to time. These concessions/incentives no doubt have contributed largely to the growth of the Small Scale Sector. Nevertheless, the Committee cannot help expressing their regret over the disjointed approach of the various Ministries/Departments of the Government in dealing with Small Scale Sector and there is no evidence of their having made a cohesive effort in extending various concessions. No effective coordination amongst the Ministries seems to exist. In these circumstances the Committee feel that an inter-Ministerial Monitoring Agency is the only solution to ensure effective and efficient implementation of policies and programmes drawn by various Ministries for the development of Small scale Sector. Such an Agency will be able to monitor the administration of concessions, review the progress of policy/programmes and identify the bottlenecks requiring correctives. The Committee hope that necessary steps would be initiated by the Department of Small Scale Industries and Agro and Rural Industries in this direction.

[Sl. No. 10 (Para No. 122) of Appendix VII to 32nd Report of PAC
(10th Lok Sabha)]

Action Taken

The issue of implementing of this recommendation is under consideration in the Department. A view is that there already exist both informal and formal mechanism of inter-Ministerial coordination. The Department is guided by the SSI (BD) as Appex Advisory Committee in framing the policies for the SSI sector. The policy framework is prepared in consultation with the concerned Ministry/Department such as Ministry of Finance, Deptt. of Industrial Development, Ministry of Commerce, and Planning Commission etc. The SSI (BD) functions through Standing Committees that are set up in various areas. The Standing Committee on policies and programmes which have members drawn from various

concerned Ministries can be assigned the task of monitoring the administration of concessions etc. A final view in this regard is yet to be taken.

This Action Taken Note issues with the approval of the Secretary, Department of SSI, Agro and Rural Industries.

[Ministry of Finance (Deptt. of Revenue) F. No. 241/4/92-A&PAC II,
F. No. 2(2)(1)/91-SSI Bd. dated 11.6.1993]

Recommendation

The Committee note that notwithstanding the protests registered by the Office of development Commissioner (SSI), tax concessions available under section 32A, 80HH and 80HHA of the Income-tax Act 1961 were withdrawn *w.e.f.* the assessment year 1991-92 as a measure of rationalisation of tax structure. In April, 1990, the then Finance Minister in his Budget speech, had also announced that the Central Investment subsidy was being reintroduced for small scale units in rural areas and backward regions. The Committee view with concern that while the tax concessions as aforementioned were denied to Small Scale Sector, the promised Central Investment Subsidy is nowhere in sight even after 2 years of the announcement in the House. The withdrawal of concessions especially those for rural and backward areas militates against the policy of dispersal of industries in such areas. The Committee would like the Department of Revenue to review the whole matter afresh in view of the promised Central Investment Subsidy Scheme not having been introduced and keeping in view the special requirement of the Small Scale Sector.

[Sl. No. 11 (Para No. 123) of Appendix VII to 32nd Report of PAC
(10th Lok Sabha)]

Action Taken

As part of a package, sections 80HH and 80HHA of the Income-tax Act were withdrawn alongwith the reduction in the tax rates. The issue of restoration of sections 32A, 80HHA in the Income-tax Act has been reviewed a number of time and it has been found that withdrawal of the said sections was desirable. The Tax Reforms Committee in its report has recommended that for better tax administration, it is important to withdraw certain tax concessions and reduce tax rates.

[Ministry of Finance (Deptt. of Revenue) F. No 241/4/92-A&PAC II,
F. No. 154/10/92-TPL dated 11.6.1993]

Recommendation

The Committee have been informed that no data regarding Small Scale Industrial Undertakings filing returns under the Direct tax laws or the

extent of concessions granted to them is available with the department of Revenue. According to the Department of Revenue, this data is not compiled as under the Income-tax Act, the small scale Industries are not a separate taxable entity and therefore their cases are not identifiable as small scale industrial undertakings. In the absence of data with the Finance Ministry relating to potential tax payers or revenue sacrificed, the Committee are unable to comprehend as to how technically the entire range of fiscal concessions is annually reviewed before the Budget and changes introduced based on the impact such concessions have made on the intended sector. The Committee are, therefore, inclined to believe that such changes at the time of the Budget are based on the subjective assessments of the Ministry of Finance and the concerned administrative Ministry/Department and not strictly based on any rationale. The Committee are also unhappy to note that the Finance Ministry which manages the resources of the economy have not made any serious efforts to quantify the revenue sacrificed through the tax concessions extended to small scale sector under the Direct Tax Laws. They desire that on the lines of Central Excise data relating to Direct Taxes should be computerised expeditiously after demarcating small scale industries as a separate taxable entity to enable proper financial planning. The Committee would like to be apprised of the action taken by the Ministry of Finance in this regard.

[Sl. No. 13 (Para No. 125) of Appendix to 32nd Report of PAC
(10th Lok Sabha)]

Action Taken

The returns of income do not require an assessee to mention whether it is a small scale industrial undertaking or not. For instance, industrial undertaking may claim deduction under Section 80-IA without mentioning that it is a small scale industrial undertaking. Similarly, a small scale industrial undertaking even if it has commenced operation before 1.4.1990, will not be able to claim deduction under section 80 HHA if it has not been set up in rural area. There is, thus, no way to find out whether an assessee is running a small-scale-industrial-undertaking unless separate Questionnaire are sent to each assessee earning income from an industrial undertaking. Such a task would require a substantial increase in the work of Directorate of Research, Statistics and Publications in order to process and monitor the data required by the Public Accounts Committee.

[Ministry of Finance (Deptt. of Revenue) F. No. 241/4/92-A&PAC II,
F. No. 154/10/92-TPL dated 11.6.1993]

Recommendation

According to Para 2.03 of the Audit Report (Direct Taxes) for 1989-90, a large number of Small Scale Units registered with the District Industries Centres were not on the registers of Income Tax Department. In Gujarat Circle, the number of registered units during the period 1987-88 was 58,565 but the number of units assessed to Income-tax was stated to be negligible.

In the case of Uttar Pradesh, only 1.95% of the registered units were reported to have been assessed to Income tax during 1988-89. Similarly, in Punjab Circle, out of 1620 Small Scale Units, 1342 units were not submitting income tax returns. The Audit have on further verification informed that in Punjab Circle 240 units out of 1342 were actually borne on income tax records; 999 units were petty ones having no justification for being on income tax records and 103 units were found to be potential income tax assesseees to whom notices had been issued in the matter. The Committee had in their 116th Report (8th Lok Sabha) recommended that the Department of Revenue intensify the tempo of surveys by further strengthening the investigating machinery of the Department so that persons having taxable income, were taxed. In response to that recommendations, the Committee were informed that vigorous and sustained efforts in this direction would be continued. Considering the facts brought out by the Audit, the Committee feel that much remains to be done in the matter to bring tax evaders to book. In this connection, the Committee feel that the Central Information Branches functioning under the control and supervision of Directors of Income tax needs to be activated to identify potential tax payers in Small Scale Sector. The Committee are of the view that the surveys of industrial complexes housing small scale units if undertaken jointly by the Central Excise Department and the Income Tax Department, would be more effective and result oriented in terms of revenue that may accrue to the exchequer. The Committee, therefore, recommend that both the Departments should take necessary steps and chalk out a joint strategy to deal effectively with the potential tax payers and tax evaders.

[Sl. No. 18 (Para No. 130) of Appendix VII to 32nd Report of PAC
(10th Lok Sabha)]

Action Taken

The Committee's suggestion that surveys of Industrial complexes housing Small Scale Units may be undertaken jointly by the Central Excise Department and Income Tax Department so as to make the surveys more effective and result-oriented is noted. The Central Board of Excise and Customs has informed that the Income Tax authorities may approach the jurisdictional Asstt. Collectors for help in conducting surveys of Industrial Complexes housing Small Scale Units. The field formations have been directed to take further necessary steps to work out a joint approach in this regard.

[Ministry of Finance (Deptt. of Revenue) F. No. 241/4/92-A&PAC II,
F. No. 411/4/92-IT (INV. I) dated 11.6.1993]

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES

Recommendation

The Committee note with concern the acute problem of sickness which the Small Scale Sector has been facing over the years as is obvious from the fact that 2.24 lakh units were sick with an amount of Rs. 2610.87 crores locked up therein at the end of September, 1990 as against 1.86 lakh sick units with an out-standing amount of Rs. 2243.31 crores at the end of September, 1989. Considering the high incidence of sickness the Committee feel that the measures taken by the Reserve Bank of India to rehabilitate the potentially viable sick units have not met with much success. With this background in view, it seems, the Reserve Bank of India has constituted a Committee for Small Scale Industries to examine whether any revision is required in the present RBI guidelines for rehabilitation of sick small scale Industrial units apart from the question of credit needs of the sector. The above mentioned Committee was expected to submit its report by the end of June, 1992. The Committee desire that they be apprised of the recommendations made by the said Committee alongwith action taken thereon by Government.

[Sl. No. 16 (Para No. 128) of Appendix VII to 32nd Report of PAC
(10th Lok Sabha)]

Action Taken

Reserve Bank of India (RBI) had appointed a Committee in December, 1991 under the Chairmanship of Sh. P.R. Nayak, to review the arrangements for meeting the working capital requirements of the SSI Sector, review the guidelines for the rehabilitation of sick SSI units and examine any other related matters. The Committee has submitted its report on 15th September, 1992. The report of the Committee contains findings on adequacy and flow of institutional credit provided to the SSI sector, Tandon/Chere Committee norms for inventory levels, rehabilitation of sick SSI units and other related aspects. The recommendations of the Committee are being examined by the Reserve Bank of India. However, a summary of the major recommendations of the Committee in so far as they relate to rehabilitation of sick SSI units are furnished in Annexure 'A'.

[Ministry of Finance (Deptt. of Revenue) F. No. 241/4/92-A&PAC-II F.
No. 21-1-92-IF.II/Vol. II-Banking Division dated 11.6.1993]

Rehabilitation of sick SSI Units—Summary of major recommendations

The Committee looked into the existing RBI guidelines on sick SSI units and the changes suggested with a view to their improvement. Difficulties were expressed in regard to (i) the definition of a 'sick' SSI units, (ii) the definition of viability, (iii) the extent of concession/reliefs to be granted as part of the rehabilitation package and (iv) the means available for the proper redressal of the grievances of sick SSI units. The measures recommended are as follows:

1. An SSI may be classified as sick when (a) any of its borrowal accounts has become a 'doubtful', advance, *i.e.*, principal or interest in respect of any of its borrowal accounts has remained overdue for periods exceeding 2½ years, and (b) there is erosion in the net worth due to accumulated cash losses to the extent of 50 percent or more of its peak net worth during the preceding two accounting years.

2. When any advance to an SSI has to be rated down from the 'standard' to 'sub-standard' category as per RBI norms, the bank branch should go on the alert and make a full enquiry into the financial health of the unit, its operations, etc., and report its findings to the higher authorities. Such reports should pinpoint the factors which have led to default and also indicate whether there are signs of incipient sickness in the unit. The progress of the unit should be kept under close watch and, wherever necessary, additional finance may be provided, if such a course is warranted.

3. As soon as an advance comes under the category 'doubtful' the position relating to all the advances granted to the concerned unit should be reviewed and the unit classified as 'sick' if it satisfied the conditions relating to erosion in net worth.

4. Instructions issued by RBI, which require that viability studies/nursing programmes should be taken up within 3 months and 6 months, respectively, from the date of identification of the unit as sick, should be strictly followed.

5. In all matters relating to the decision on viability of a sick unit, the commerial judgement of the bank and/or the SFC as the case may be, will have to be accepted and there is no need to provide for a forum for intervention in the case of disputes regarding the viability or otherwise of the sick units. There should, however, be a proper system, within the banks, for review of such decisions by higher level officials, on an appeal being made by aggrieved borrowers.

6. RBI should ensure that separate cells to deal with sick SSI units are set up by banks at the regional centres without further loss of time, wherever, the same has not been done so far.

7. RBI has since issued revised instructions which are in line with the existing norms regarding concessions in interest rates which can be considered as part of rehabilitation packages. Banks have been allowed freedom to grant higher level of reliefs in deserving cases. No change is considered necessary in this matter except in the case of Working Capital Term loan in respect of which the rate should be 1.5 to 3 percentage points below the prevailing fixed rate/minimum lending rate wherever applicable, but not more than the lowest interest rate (at present 11.5%) for village industries and the smaller tiny industries and not more than 5 percentage points below the minimum lending rate in the case of advances over Rs. 2 lakhs for other SSIs.

8. Units becoming sick on account of wilful mismanagement/managerial inefficiency, unauthorised diversion of funds, disputes among partners/promoters etc., should not be treated in the same manner as other cases where sickness is caused by factors beyond the control of a unit. SSI associations should play an active role in ensuring that the bank's dues are repaid in such cases without delay and without the bank having to go to court.

9. Sacrifices for rehabilitation of sick units should be borne equitably by all the concerned agencies. The Commercial banks and/or SFCs alone cannot be expected to bear the brunt of rehabilitation.

10. Of late, some of the State Governments have come forward with packages of reliefs to sick SSI units for their revival. These packages include exemption/deferment of sales tax/purchase tax, exemption from electricity duty and re-schedulement of arrears of sales tax/purchase tax and electricity charges. All State Governments/UT administrations should be induced to extend similar concessions.

11. State level tribunals on the BIFR pattern under a common central legislation should be set up expeditiously to deal with the cases of sick SSI units. Initially, fundbased working capital limits and term loans aggregating Rs. 25 lakhs or more may be taken as the cut-off point for these tribunals. After gaining experience of one or two years, the cut-off point may be lowered suitably.

12. SLIICs should be revitalised with the active involvement of the State Govt. and should function as a committee of the State Govt. SIDBI is best fitted to act as the convenor of this committee.

13. It will be essential to have some forum at the district level which can look into grievances regarding delays in rehabilitation, inadequate financing, etc., arising particularly, from the village industries and the smaller tiny industries. The District Industries Centre (DIC) is a readymade nucleus

nucleus around which the district forum can be built with the lead Bank officer as the banks's representative. The nomination of an officer of SIDBI on these forums will be essential for this purpose.

14. The Zilla Udyog Mitra model of Maharashtra which is a functioning arrangement could be adopted by other State Govts. also with necessary modifications to suit their conditions.

15. A proposal for 'smooth exit policy' for unviable units suggests that when a unit decides to close down, there should be a one-time settlement of its dues to the commercial banks involving a suitable scaling down of the debt. Commercial banks are not development finance institutions and a bank will have the ultimate right to decide on the basis of sound business practices, whether writing-off a debt, fully or partially, is required and desirable. It will be inappropriate to circumscribe the authority of banks in this regard.

16. Only 16 State Governments have so far passed the necessary legislation as suggested by the Talwar Committee on State Enactments having a bearing on commercial banks' lending to agriculture. The remaining State Govts. should also enact the necessary legislation without any further delay.

17. There is urgent need for setting up special courts for dealing with recovery suits of banks. Utilising the 'Lok Adalats' has been suggested to the Committee in this regard. The 'Lok Adalats' may not, however, be a substitute for special courts.

Recommendation

The Audit Para has reported cases in Bombay circle where deductions under Section 80HH and 80-I of the Income-tax Act 1961 were said to have been irregularly allowed in respect of profits/gains of industrial undertakings/units. In these cases the amounts of deductions under both the Sections 80HH and 80-I were arrived at separately for being allowed from the gross total income. The Audit has objected to the method adopted by the Income tax Department in these cases and has stated that the deduction under Section 80-I is to be computed after reducing the deduction allowed under Section 80HH. The Ministry have not accepted the audit view contending that the deductions had been allowed as per provisions of law. The Committee desire that the issue be settled in consultation with the Ministry of Law and suitable amendments made in the law wherever required.

[Sl. No. 23 (Para No. 135) of Appendix VII to the 32nd Report of PAC
(10th Lok Sabha)]

Action Taken

The recommendation of the Committee is under consideration of the Ministry. The matter will be settled with the Revenue Audit in consultation with the Ministry of Law.

[Ministry of Finance (Deptt. of Revenue) F. No. 241/4/92-A&PAC II
dated 14-10-1993]

Recommendation

Under Section 2(f) of the Central Excise & Salt Act, 1944, the term 'manufacturer' includes not only a person who employs hired labour in the production of manufacture of any exciseable goods but also any person engaged in the production or manufacture of any exciseable goods on his account. The Department of Revenue in consultation with law Ministry had clarified vide circular No. 50/88, dated 20-9-88 that if the raw materials (inputs) were supplied by the Principal manufacturers for the manufacture of goods on job work basis, the concession under SSI exemption notification No. 175/86-CE dated 1.3.86 would not be available if the Principal Manufacturer himself was not entitled to such concession. A test check in audit revealed 64 cases where the aforesaid considerations were disregarded in 16 Collectorates leading to loss of revenue to the tune of Rs. 532 lakhs. Subsequently, in the light of Supreme Courts orders dated 12 March, 1990 that circular was modified (vide circular No. 49/90 dated 23.7.1990) clarifying that if the relationship between the raw material supplier and the job worker is one of the principal to principal then the job worker will be the actual manufacturer and the benefit of SSI exemption will be applicable. This circular has led to misuse of concessions by the manufacturers who get the goods manufactured on their account by supply of raw materials and specifications etc. The Committee were informed that the Ministry of law was not consulted before the issue of modified circular.

The Committee are of the view that the circular (Circular No. 49/90) should have clearly defined terms such as raw materials supplier/job worker and their relationship and should have been legally vetted. The Committee desire that the said circular should be modified taking into consideration the deficiencies noticed and referred to the law Ministry for vetting with a view to eliminating any ambiguity and scope for mis-interpretation which may not only involve the Department in legal wrangles but also affect revenue collection.

[Sl. Nos. 26&27 (Para Nos. 138 & 139) of Appendix VII to the 32nd Report of PAC (10th Lok Sabha)]

Action Taken

Matter is being examined in consultation with the Ministry of Law, as recommended by the Committee.

This issues with the approval of the Additional Secretary to the Government of India.

[Ministry of Finance (Deptt. of Revenue) F. No. 241/4/92-A&PAC II
F. No. 234/5/92-CX-7 dated 14.10.1993]

Recommendation

The Audit Para (Indirect Taxes) has also mentioned several other cases of irregular availment of Central Excise Exemption involving misinterpretation of the small scale concessions. These mainly relate to misclassification of goods with a view to availing concessions (Short levy involved Rs. 9.26 lakhs), irregular duty-free clearance in excess of prescribed limites (Levy involved Rs. 22.83 lakhs), availment of concession under new SSI Scheme before its application (Duty involved Rs. 14.91 lakhs), clearance of goods from SSI units belonging to Central/State Governments (Duty involved Rs. 5.90 lakhs) and other irregularities in the implementation of the scheme for SSI concession (Rs. 1.50 crores). The Committee desire that all these cases should be examined in detail and the lacunae, if any found in the law or the existing procedures be plugged to avoid recurrence of similar nature of irregularities. The Committee would like to be apprised of the results of the examination.

[Sl. No. 28 (Para No. 140) of Appendix VII to the 32nd Report of PAC
(10th Lok Sabha)]

Action Taken

A revised notification has since been issued on 1.3.1993 (Annexure) covering the discrepancies noticed in the earlier exemption notifications.

As regards specific cases pointed out in the PAC's report, the Director General of Inspection and Audit has been asked to make indepth study of these for suitable remedial action.

This issues with the approval of Additional Secretary to the Government of India.

[Ministry of Finance (Deptt. of Revenue) F. No. 241/4/92-A&PAC II
F. No. 234/5/92-CX-7 dated 14.10.1993]

NEW DELHI;

BHAGWAN SHANKAR RAWAT

18 April, 1994

Chairman

Public Accounts Committee

28 Chaitra, 1916 (Saka)

ENCLOSURE TO ACTION TAKEN NOTE—140

E-12 Exemption of Small Scale Units

In exercise of the powers conferred by sub section (1) of section 5A of the Central Excises and Salt Act, 1944 (1 of 1944) (hereinafter referred to as the said Act), the Central Government being satisfied that it is necessary in the public interest so to do, hereby exempts the excisable goods of the description specified in the Annexure below and falling under the Schedule to the Central Excise Tariff Act, 1985 (5 of 1986), (hereinafter referred to as the "specified goods"), and cleared for home consumption on or after the 1st day of April in any financial year, by a manufacturer from:—

- (1) a factory, which is an undertaking registered with the Director of Industries in any State or the Development Commissioner (Small Scale Industries) as a small scale industry under the provisions of the Industries (Development and Regulations) Act, 1951 (65 of 1951),—
 - (a) in the case of first clearances of the specified goods upto an aggregate value not exceeding rupees thirty lakhs.-
 - (i) in a case where a manufacturer avails of the credit of the duty paid on inputs used in the manufacture of the specified goods cleared for home consumption under rule 57A of the Central Excise Rule, 1994 (hereinafter referred to as the said Rules), from so much of the duty of excise leviable thereon which is specified in the said Schedule [read with any relevant notification issued under sub rule (1) of rule 8 of the said Rules or sub section (1) of section 5A of the said Act, and in force for the time being] as is equivalent to an amount calculated at the rate of 10 per cent *ad valorem*;
 - (ii) in any other case from the whole of the duty of excise leviable thereon.
 - (b) in the case of clearances, being the clearances of the specified goods of an aggregate value not exceeding rupees twenty lakhs, immediately following the said clearances of the value specified in sub-clause (a) under this clause, from so much of the duty of excise leviable thereon which is specified in the said Schedule [read with any relevant notification issued under sub rule (1) of rule 8 of the said Rules or sub section (1) of section 5A of the said Act, and in force for the time being], as is equivalent to an amount calculated at the rate of 10 per cent *ad valorem*; and

- (c) in the case of clearances, being the clearances of the specified goods of an aggregate value not exceeding rupees twenty five lakhs, immediately following the said clearances of the value specified in sub-clause (b) under this clause from so much of the duty of excise leviable thereon which is specified in the said Schedule [read with any relevant notification issued under sub rule (1) of rule 8 of the said Rules or sub section (1) of section 5A of the said Act, and in force for the time being], as is equivalent to an amount calculated at the rate of 5 per cent *ad valorem*:

Provided that the amount of the duty of excise payable on the specified goods under item (i) of sub-clause (a) or sub-clause (b), or sub-clause (c), shall not be less than an amount calculated at the rate of 5 per cent *ad valorem*:

Provided further that the aggregate value of clearances for the specified goods in terms of sub-clauses (a), (b) and (c) taken together, shall not exceed rupees seventy five lakhs.

(2) a factory, other than a factory,-

- (a) which is specified in clause (1) of this paragraph, or
- (b) which is registered with Directorate General of Technical Development under the provisions of the Industries (Development and Regulation) Act, 1951 (65 of 1951),-

in the case of first clearances of the specified goods upto an aggregate value not exceeding rupees thirty lakhs from whole of the duty of excise leviable thereon.

2. The aggregate value of clearances of the specified goods for home consumption in a financial year-

- (a) by a manufacturer from one or more factories; or
- (b) from a factory by one or more manufacturers,-
 - (i) under sub-clause (a) of clause (1) and clause(2) of paragraph 1 taken together shall not exceed rupees thirty lakhs;
 - (ii) under sub-clause (b) and (c) of clause (1) shall not exceed rupees twenty lakhs and twenty-five lakhs respectively; and
 - (iii) under sub-clause (2) shall not exceed rupees ten lakhs.

3. Nothing contained in this notification shall apply if the aggregate value of clearances of all excisable goods for home consumption,-

- (a) by a manufacturer, from one or more factories, or
 - (b) from any factory, by one or more manufacturers,
- had exceeded rupees two hundred lakhs in the preceding financial year.

4. The exemption contained in this notification shall not apply to the

specified goods where a manufacturer affixes the specified goods with a brand name or trade name (registered or not) of another person who is not eligible for the grant of exemption under this notification:

Provided that nothing contained in this paragraph shall be applicable to the specified goods which are component part of any machinery or equipment or appliances and cleared from a factory for use as original equipment in the manufacture of the said machinery or equipment or appliances and the procedure set out in Chapter X of the said rules is followed:

Provided further nothing contained in this paragraph shall be applicable to the specified goods where a manufacturer affixes the specified goods with a brand name or trade name (registered or not) of the Khadi and Village Industries Commission the State Khadi and Village Industries Board, the National Small Industries Corporation or the State Small Industries Development Corporation.

Explanation I—For the purposes of this notification, the expression 'value' means either the value as determined in accordance with the provisions of section 4 of the said Act, or, as the case may be, according to the tariff values fixed or altered under section 3 of the said Act.

Explanation II—For the purposes of computing the aggregate value of clearances under this notification, the clearances of any excisable goods, which are chargeable to nil rate of duty or, which are exempted from the whole of duty of excise leviable thereon by any other notification (not being a notification where exemption from the whole of duty of excise leviable thereon is granted based upon the value or quantity of clearances made in a financial year) issued under sub-rule (1) of rule 8 of the said Rule or sub-section (1) of section 5A of the said Act, shall not be taken into account.

Explanation III—For the purpose of computing the aggregate value of clearances under paragraph 1, 2 or 3, the clearances of any excisable goods where a manufacturer affixes the specified goods with a brand name or a trade name (registered or not) of another person who is not eligible for the grant of exemption under this notification, shall not be taken into account.

Explanation IV—For the purposes of determining of the value of clearances under this notification, in respect of Chinaware or Porcelainware or both, where a manufacturer gets such Chinaware or Porcelainware or both fired in a kiln belonging to or maintained by a Pottery Development Centre run by the Central Government or a State Government or by the Khadi and Village Industries Commission, the value of the Chinaware or Porcelainware or both, belonging to the said manufacturer and fired in such a kiln, shall be taken into account.

Explanation V— For the purpose of this notification, clearances for home consumption shall also include clearances for export to Bhutan or Nepal.

Explanation VI— Where any specified goods (hereinafter referred to as inputs) are used for further, manufacture of specified goods within the factory of production of inputs, the clearances of such inputs for such used shall not be taken, into account for the proposes of calculating the aggregate value of clearances under this notification.

Explanation VII— For the purposes of determining the aggregate value of clearances under this notification, in respect of the specified goods, namely, sacks and bags made of polymers of ethylenes or propylene, the value of clearances of strips of plastics used within the factory of production for weaving of fabrics or manufacture of the said sacks and bags shall not be taken into account.

Explanation VIII— For the purposes of this notification, where the specified goods are manufactured in a factory, belonging to or maintained by the Central government or by a State government, or by a State Industries Corporation, or by a State Small Industries Corporation or by the Khadi and Village Industries Commission, then the value of excisable goods cleared from such factory alone shall be taken into account.

Explanation IX—“Brand name” or “trade name” shall mean a brand name or trade name, whether registered or not that is to say a name or a mark, such as symbol, monogram, label, signature or invented word or writing which is used in relation to such specified goods for the purpose of indicating, or so as to indicate a connection in the course of trade between such specified goods and some person using such name or mark with or without any indication of the identity of that person.

Explanation X—For the purposes of this notification, where the specified goods manufactured by a manufacturer, are affixed with a brand name (registered or not) of another manufacturer or trade, such specified goods shall not, merely be reason of that fact, be deemed to have been manufactured by such other manufacturer or trader.

Explanation XI— For the purposes of this notification, the expression “powered cycle” or “powered cycle-rickshaw” means a mechanically propelled cycle or as the case may be, mechanically propelled cycle-rickshaw, which may also be pedalled, if any necessity arises for so doing.

(1) All goods falling under Heading No. 56.02, 73.07, 73.08, 73.09, 73.10, 73.11, 73.12, 73.13, 73.14, 73.15, 73.16, 73.17, 73.18, 73.19, 73.20, 73.21, 73.22, 73.23, 73.24, 73.26, 74.08, 74.12, 74.13, 74.14, 74.15, 74.16, 74.17, 74.18, or 74.19 of the said Schedule.

(2) All goods falling under sub-heading No. 0901.20, 0901.90, 0902.11, 0902.12, 0903.10, 5102.90, 5105.00, 5108.00, 5301.10, 5303.10, 5304.00, 5308.00, 5601.00, 5603.00, 5604.00, 5605.90, 5607.90, 5608.00, 5903.11, 5903.21, 5903.91, 5904.20, 5907.00, 5909.00, 6202.00, 6301.00, 7216.50, 7301.20 or 7302.90 of the said Schedule.

(3) Rubber solution or vulcanizing solution; powered cycles and powered cycle rickshaws; side cars of motor cycles (including scooters); evaporative type of coolers and parts of such coolers; and flat rolled products of iron or steel clad.

(4) All other goods specified in the said Schedule other than the following namely:—

(i) all goods falling under Chapter 9, 24, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 72, 73 or 74;

(ii) all goods falling under Heading No. 21.06, 25.04, 33.04, 33.05, 36.05, 37.01, 37.02, 37.05, 37.06, 40.05, 40.11, 40.13, 84.71, 85.21, 85.28, 87.01, 87.02, 87.03, 87.04, 87.05, 87.06, 87.11, 91.01, 91.02, or 96.13;

(iii) All goods falling under sub-heading No. 2101.10, 2101.20, 2829.10, 3307.10, 3307.20, 3307.30, 3307.90, 3703.10, 4006.10, 4008.21 or 9605.10.

(iv) sandalwood oil; strips of plastics intended for weaving of fabrics or sacks; polyurethane foam and articles of polyurethane form; rods (including wire rods) of aluminium; and refrigerating and air-conditioning appliances and machinery and parts and accessories thereof falling under Chapter 84.85 or 90.

5. This notification shall come into force on the 1st day of April, 1993.

Notifin. 1/28.2.1993 as amended by 81/93, 84/93.

APPENDIX

Conclusions and Recommendations

Sl. No.	Para No.	Ministry/ Deptt.	Conclusions/Recommendations
1	2	3	4
1.	3	Ministry of Finance (Deptt. of Revenue)	A period of more than one and half years has elapsed since the 32nd Report of the Committee was presented to Parliament but the Government have failed to furnish final action taken notes on a number of recommendations of the Committee contained in the Report. The Committee are unhappy over the same and desire that the final action taken notes on all the recommendations in respect of which Government have submitted interim replies so far should be furnished expeditiously.
2.	9.	-do-	In their earlier report, the Committee had drawn attention of Government to the lack of effective co-ordination among various Ministries/Departments of the Government in dealing with Small Scale Sector and in extending various concessions. The Committee had recommended setting up of an inter-Ministerial monitoring agency so as to monitor the administration of concessions, review the progress of policy programmes and identify the bottlenecks requiring remedial/corrective action. The Committee are unhappy to note that despite the lapse of more than 19 months since the presentation of their Original Report, Government have not taken any concrete action in this regard. The Ministry of Finance have in their action taken note merely stated that the recommendation is under consideration and that a final view is yet to be taken. The Committee desire that the recommendation should be expeditiously implemented with a view to ensuring effective implementation of the policies and programmes drawn by various Ministries/Departments for the growth of Small Scale Sectors. The Committee would like to be informed of the conclusive action taken in the matter.

1	2	3
---	---	---

4

3. 12. Ministry of Finance (Deptt. of Revenue) In their earlier report, the Committee had observed that certain concessions to the small scale sector under Sections 32A, 80HH & 80HHA of the Income Tax Act, 1961 were withdrawn *w.e.f.* the assessment year 1991-92. These concessions were earlier introduced with the objective of encouraging setting up of small scale units in rural and backward areas and also for the removal of regional imbalances. The Withdrawal of the concessions, in fact was coupled with an announcement by the then Finance Minister in his budget speech in April, 1990 that Central Investment Subsidy was being reintroduced for small scale units in rural areas and backward regions. Since the proposed Investment Subsidy Scheme had failed to take of even after a period of two years of the announcement in the House, the Committee had recommended that the Ministry of Finance should review the whole matter afresh keeping in view the special requirements of the small scale sector. The Ministry of Finance have in their action taken note simply stated that the issue of restoration of Sections 32A, 80HHA of the Income Tax Act had been reviewed a number of times and it has been found that withdrawal of the said Sections was desirable. In this connection, they have also quoted the recommendation of the Tax Reforms Committee that for better tax administration it was important to withdraw certain tax concessions and reduce tax rates. The Committee are constrained to point out that the action taken note is completely silent about either the reintroduction of the Central Investment Subsidy Scheme or of any alternative proposals for providing the desired incentives to the small scale sector. Since the withdrawal of the concessions and non-introduction of the Central Investment Subsidy Scheme have adversely affected the policy of dispersal of small scale industries in rural and backward areas, the Committee reiterate their earlier recommendation and would like to be informed of the further action taken in the matter.
-

1	2	3	4
4.	15	Ministry of Finance (Deptt. of Revenue)	<p>In their earlier Report the Committee had noted with surprise that the Ministry of Finance on the Direct Taxes side did not possess the data relating to either the potential tax payers in the small scale sector or the extent of revenue sacrificed on account of concessions granted to SSI sector. This had led the Committee to conclude that the budgetary changes effected every year are based on the subjective assessments of the Ministry of Finance and the concerned Administrative Ministry/Department and not strictly based on any rationale. Emphasising the need for generating data on the quantum of revenue sacrificed through tax concessions extended to the small scale sector under Direct Tax laws, the Committee had recommended that on the lines of Central Excise Department, data relating to Direct Tax should be computerised expeditiously after demarcating small scale industries as a separate taxable entity to enable proper financial planning. The Committee regret to note that the Ministry of Finance have not accepted the recommendation on the plea that such a task would require a substantial increase in the work of Directorate of Research, Statistics & Publications in order to process and monitor the data required. The Committee cannot accept it as a valid explanation in this case. Since the data relating to the income and the revenue foregone on account of tax concessions have an important bearing in assessing the growth of the Small Scale Industries sector, the Committee reiterate their earlier recommendation regarding computerisation of data relating to Direct taxes and demarcating small scale sector as a separate taxable entity. They would like to be informed of the conclusive action taken in the matter.</p>
5.	16	-do-	<p>The proposals contained in the Union Budget 1994-95 relating to SSI Sector has evoked adverse reactions from the Sector. These reactions reinforce the views of the Committee that the authorities concerned should be possessed with more details relating to the SSI Sector.</p>
6.	19	-do-	<p>The Committee note that in pursuance of their recommendation, Government have entrusted the</p>

1 2 3

4

National Institute of Public Finance and policy to undertake a detailed evaluation of the impact of concessions, incentives etc. extended to the small scale sector. The Committee desire that the study should be taken up urgently and completed expeditiously. They would also like to emphasise the need for proper follow-up action so as to ensure that the concessions actually lead to the growth of the sector.

7. 22 Ministry of Finance (Deptt. of Revenue)
- In their earlier report, the Committee had observed that a large number of small scale units registered with the District Industries Centres were not on the registers of Income Tax Department. Emphasising the need for dealing effectively with the potential tax payers and tax evaders, the Committee had recommended that the Central Excise and Income tax departments should chalk out a joint strategy for undertaking surveys of industrial complexes housing small scale units. In their action taken note, the Ministry of Finance have stated that the Income tax authorities may approach the jurisdictional Assistant Collectors for help in conducting surveys and that the field formations have been directed to take further necessary steps in this regard. From the reply of the Ministry it is evident that instructions have been issued in a rather routine manner without either the Ministry or the Board having made any serious efforts at their level for formulating a joint strategy and guiding the field formations accordingly. The Committee cannot but express their unhappiness over this casual approach. They therefore desire that the Ministry of Finance should further look into the matter and ensure that effective steps are taken by the two divisions — viz. Central Excise and Income-tax in concert for having proper surveys of small scale units.

PART II

MINUTES OF THE 21ST SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON 13 APRIL, 1994

The Committee sat from 1500 hrs. to 1545 hrs. on 13 April, 1994 in Committee Room No. 'D', Parliament House Annexe.

PRESENT

CHAIRMAN

Shri Bhagwan Shankar Rawat

MEMBERS

2. Shri Nirmal Kanti Chatterjee
3. Dr. K.V.R. Chowdary
4. Shri Bandaru Dattatraya
5. Shri Jagat Veer Singh Drona
6. Smt. Geeta Mukherjee
7. Shri Motilal Singh
8. Shri Anant Ram Jaiswal

SECRETARIAT

1. Shri S.C. Gupta — *Joint Secretary.*
2. Shri R.K. Chatterjee — *Deputy Secretary*
3. Shri P. Sreedharan — *Under Secretary*

REPRESENTATIVES OF AUDIT

1. Shri Ramesh Chandra — Addl. Deputy C & AG
2. Shri S.H. Manghani — Addl. Deputy C & AG
3. Shri Vikram Chandra — Pr. Director (Reports)
4. Shri Kulvinder Singh — Director (Direct Taxes)
5. Shri Adya Prasad — Director of Audit (Indirect Taxes)

2. The Committee considered the following draft Reports and adopted the same subject to certain modifications and amendments as shown in Annexures I* & II respectively:

(i)

*** *** ***

(ii) Assessment of Small Scale Industrial Undertakings Action Taken on 32nd Report of PAC (10th Lok Sabha).

3. The Committee authorised the Chairman to present these Reports to House after finalising them in the light of changes suggested by some Members and also those arising out of factual verification by Audit and

clearance of Report relating to production of Armoured Vehicle 'Z' its Gun and Ammunition, from the security angle by the Ministry of Defence (DP & S).

4. The Committee then decided to hold next sitting on 21 April, 1994.

The Committee then adjourned.

AMENDMENTS/MODIFICATIONS MADE BY THE PUBLIC ACCOUNTS COMMITTEE IN THEIR DRAFT REPORT ON ACTION TAKEN ON 32ND REPORT (10TH LOK SABHA) RELATING TO ASSESSMENT OF SMALL SCALE INDUSTRIAL UNDERTAKINGS

<i>Page</i>	<i>Para</i>	<i>Line</i>	<i>Amendments / Modifications</i>
7	12	8 from bottom	<i>Substitute 'the alternative proposals if any' by "any alternative proposals"</i>
10		Add a new paragraph after paragraph No. 15	<i>"16. The proposals contained in the Union Budget 1994-95 relating to SSI Sector, has evoked adverse reactions from the sector. These reactions reinforce the views of the Committee that the authorities concerned should be possessed with more details relating to the SSI Sector."</i>

*Not appended.