

LOK SABHA DEBATES

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LOK SABHA

Friday, April 11, 1986/Chaitra 21;
1908 (Saka)

The Lok Sabha met at Eleven of
the Clock.

[MR. DEPUTY SPEAKER *in the Chair.*]

ORAL ANSWERS TO QUESTIONS

[English]

Effect of MODVAT Scheme on Prices
of Finished Products

*659. PROF. MADHU DANDAVATE :
Will the Minister of FINANCE be pleased
to state :

(a) whether it is a fact that the implementation of MODVAT scheme has posed a number of problems leading to unexpected increase in the prices of finished products to which the scheme is applied; and

(b) if so, the steps taken to work out the details of the scheme so that the implementation of scheme will not lead to inordinate increase in the prices of finished products ?

THE MINISTER OF STATE IN THE
MINISTRY OF FINANCE (SHRI
JANARDHANA POOJARY) : (a) and (b).
A Statement is given below.

Statement

(a) and (b). The MODVATE scheme allows credit of the excise duty and additional duty of customs paid on various inputs used in the manufacture of final products,

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Therefore, the implementation of the scheme is not likely to result in increase in the prices of the final products. Steps have also been taken to clarify the salient features of the MODVAT scheme with a view to removing any difficulties in availing of the credit under the scheme.

2. The Government has also issued a number of notifications/orders simplifying the procedures specially for the small scale units as well as exempting manufactured on job-work basis and goods manufactured and captively consumed within the factory of production.

PROF. MADHU DANDAVATE : As far as the statement that has been laid on the Table of the House is concerned, it is too inadequate. In fact, probably the purpose of the statement seems to be to provoke more supplementaries. Hardly anything has been stated there. There are two or three questions that will arise.

Firstly, though this particular device or the scheme has been introduced to prevent the cascading effect of the increase in the duties on the inputs, which ultimately lead to increase in the prices of finished products, in reality is it not a fact that in the recent Budget whatever has been the increase in the excise duties, those rates are far higher than whatever has been offset in terms of the duties on the inputs on the basis of MODVAT? If so, how is this anomaly going to be curbed in the final implementation of the scheme?

SARI JANARDHANA POOJARY : I have made it very clear earlier also that MODVAT scheme as such is not responsible for the increase in prices. We have imposed duty on finished goods and it is a conscious decision. This step has been taken as a measure for resource mobilization also,

At some places, as stated by me on the floor of this House, because of this increase in duty, the prices have gone up in some cases. Where we have not increased the prices, MODVAT as such was not responsible for that. The price has not been increased. For example, laundry soaps and so many items...

SHRI JAGANNATH RAO : What about automobiles ?

SHRI JANARDHANA POOJARY : Regarding automobiles also, I bring to the hon. member's consideration that it is because of the conscious decision of the Government that we have raised the duty in some places. That is why the prices has been increased.

PROF. MADHU DANDEVATE : Before I put the next question, because it is a very serious matter, I will ask a clarification. I will ask the second question afterwards. This will help me and the Government also

Mine is a very constructive supplementary which may help the Government, of course, if it wants to be helped. Therefore, I will seek the clarification. Probably, you have not followed my question at all. In the last Budget, you have increased certain duties. Now according to the MODVAT scheme, if there is a certain amount of duty formerly imposed on the inputs, that is now supposed to be deducted or supposed to be adjusted in the finished products. That is where the scheme is good. But that is not actually happening. Actually the increase that you have effected in the Budget is far more than what has been given. It does not off-set the reliefs that have been given through MODVAT. About that point what have you to say before I come to the second supplementary ? Please clarify.

SHRI JANARDHANA POOJARY : I have stated earlier and I have made it very clear...

PROF. MADHU DANDEVATE : I hope I have not confused you.

SHRI JANARDHANA POOJARY : I will just give an example also. Here in

the case of machinery items, the general rate was 12 per cent. With a credit in this MODVAT, the rate was fixed at 15 per cent. That was rounded off, and it has come to the nearest figure after the rounding off. Now as I have stated earlier, also, this is not the only way. We have deliberately done it. That means it is a conscious decision which we have taken. In some finished goods we have increased the duty in order to neutralise the benefits that have been given, because we have given some benefits and thereby so many items have been covered. This is a new name that has been given. As I said, earlier also this scheme was in existence and the name was changed to MODVAT now. Earlier it was called Proforma Credit on Duty under 56-A of Tariff. Now we extended the scope. I am just bringing to the hon. member's kind notice that as is stated, at some places we have rounded off and some places in some items we have increased the duty. It is a conscious decision. In order to mobilise more resources also, we have increased the duty on some commodities. There are 2000 items which we have covered. So for that purpose, my answer would be that while refixing the rates of duties with the introduction of MODVAT, because of the duty imposed on the final products, the prices of some products have gone down and the prices of some other products have marginally gone up. There were a large number of items covered by the MODVAT scheme and it was not possible to fix the rate in such a way that duties do not change at all.

PROF. MADHU DANDEVATE : Not satisfied about the first reply. Anyway, does not matter, leave it at that. The second question will consist of two parts. How is proforma credit scheme under rule 56-A of the Central Excise Rules 1944 different from the MODVAT scheme that you have introduced ? Secondly, as far as the new complication that has arisen, is concerned, are you conscious of it ?

The complication is like this. I will take a concrete instance so that the reply will be clear. Take the question of motor vehicles. Tyre is used as an input and therefore according to your scheme whatever was the duty on the tyre in the final

motor vehicle's duty, that would be excluded. So that relief will be there and that credit will be given. I would like to know from you whether you have taken note of the fact that tyre itself might be a finished product, but itself becomes an input for the vehicle. So, for tyre some other chemicals are an input. There was a duty on them and now that will go. As far as tyre is concerned MODVAT scheme will be applied to tyre. Tyre which is a finished product itself becomes an input for the motor vehicle, and therefore again that is to be applied to tyre also. Have you taken note of these complications that some inputs become the finished product for the final finished product, and as a result of that, a lot of complication is there, and therefore, in spite of MODVAT scheme, the prices of certain commodities like motor vehicles are going up? Is it not a fact that you have not done your adequate home work, because the idea of MODVAT scheme was first propounded at the time of long term fiscal policy and it was finalised during Budget? In between you did not do home work; did not make all the adjustments.

MR. DEPUTY SPEAKER : He has accepted that their prices have been increased in certain products.

PROF. MADHU DANDAVATE : I want to know whether as a result of that, all the changes are taking place; and whether you will apply your mind and try to remove anomalies. (Interruptions) But he must listen (Interruptions) If you allow me, I can speak for 45 minutes like college class room.

AN HON. MEMBER : He will allow you, but we may not allow you. (Interruptions).

SHRI JANARDHANA POOJARY : This scheme is not a new scheme. The new name has been given to it. Earlier, as I stated, this scheme was called "The proforma credit of duty scheme under 56A" Earlier, it was extended to 66 items. Now, this has been extended to 37 chapters; and now we are having the commodity rules consisting of about 2000 items. This system was there for the last 15 years; and

there is no ambiguity; nothing of the sort. Now this scope has been widened; and also earlier it was restrictive in approach. Now, this has been extended to a number of commodities and also some simplified procedure was adopted. Earlier, whenever this system was to be adopted, the manufacturer had to intimate to the authority, saying that he had to declare that he was going to adopt this system, please come. When the product came there, he had to wait for the arrival of the officials, this Inspector for verification; he had to wait for 24 hours earlier. Now, this has been done away with. He need not wait. If he intimates, it is sufficient, that I am adopting this system; this wait for the officials and for checking also, this is not at all there. The trade and industry knew this scheme. Now, what is happening is because of the MODVAT scheme, nobody can suppress the documents, those duty paid documents today. Nobody can suppress this payment of the duty. (Interruptions) I will come to that. After all, you are helping us; I know your spirit. You want to help the government. That is why I am telling like this. (Interruptions) Nobody can suppress the payment of octroi duty, sale tax, income tax, it is a measure against the blackmoney. Some people do not want to pay the duty.

PROF. MADHU DANDAVATE : Please come to my question.

MR. DEPUTY-SPEAKER : He wants to explain to you also.

THE MINISTER OF PARLIAMENTARY AFFAIRS AND TOURISM (SHRI H. K. L. BHAGAT) : He is trying to explain him because he seems to be a knowledgeable person.

SHRI JANARDHANA POOJARY : I am just telling him because he has stated that we have not done any home work. Trade and industry knew the scheme. Now, they do not want to understand it because they have to pay duty. Under it, there is no evasion of any duty or payment of income tax or sales tax. Now, it is a measure against blackmoney. Now, we have done home work. Even trade and industry knew it. Everything is there. On the contrary, we have simplified the pro-

cedure already. But some people do not want to understand it. In such cases, we have been telling them that we are prepared ...*(Interruptions)*.

PROF. MADHU DANDAVATE : You are contradicting your Cabinet Minister. He had admitted last time that some more details are to be worked out. He told me. Why do you contradict your own Minister ?

SHRI JANARDHANA POOJARY : I am not contradicting. What I am just telling you is because you have stated that I have not done my home work. I am just telling you that everything is known to everybody. Some people do not want to understand it with some purpose to defraud tax payment. Now, that is not possible. This is the procedure, where we can see that the duty and income tax and other tax is paid. Here, it is a method for an honest tax payer. Automatically, there will be a credit, there will be no difficulty for him. That is the method adopted. So, there is no ambiguity.

PROF. MADHU DANDAVATE : Please protect me, Sir. I have asked a concrete question. This is like one by-product becoming an input for the next one. Please explain that, Mr. Minister.

MR. DEPUTY-SPEAKER : Wait, wait. You have now asked the last supplementary. No more supplementaries now.

SHRI JANARDHANA POOJARY : Sir, here MODVAT is applicable. When the duty has been paid, here also for that buyer also, this MODVAT is applicable. There are also arrangements for this.

MR. DEPUTY-SPEAKER : Nobody is putting questions. Professor, thank you.

PROF. MADHU DANDAVATE : You may put some supplementary from the Chair.

MR. DEPUTY-SPEAKER : On behalf of me you put all the questions. Now, next question. Shri Kali Prasad Pandey. The hon. Member is absent.

Prof. K. V. Thomas.

'Tube Money' from Indians Abroad.

*661. **PROF. K. V. THOMAS :** Will the Minister of FINANCE be pleased to state :

(a) whether Government are aware that some Indians abroad are sending money to India in the form of 'tube money';

(b) the amount of money that arrives in India in this form; and

(c) the effective steps taken to prevent it ?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI JANARDHANA POOJARY) : (a) to (c). A statement is given below.

Statement

(a) Yes, Sir.

(b) No precise estimate of illegal remittances are available with the Government.

(c) The Foreign Exchange Regulation Act contains adequate provisions to deal with persons who make or receive such unauthorised compensatory payments. The Enforcement Directorate, which remain vigilant in this regard, have detected a number of cases of such unauthorised transactions and have taken/are taking appropriate action under the Foreign Exchange Regulation Act and also for preventive detention under the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act. The drive against such unauthorised transactions is a continuous process and the matter is constantly kept under review for taking appropriate measures for curbing the same. However, the Government of India have devised various schemes to encourage flow of funds from non-resident Indians through normal banking channel.

PROF. K. V. THOMAS : When we go through the answer given by the hon. Minister, it is very clear that the Government